Bridging with Finesse

MFS' GUIDE TO COVID-19 AND THE UK PROPERTY MARKET

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Coronavirus, or COVID-19, is posing one of the most significant social and economic challenges faced by the UK since World War Two.

At this time, it is important not to let speculative media commentary distract from the facts. COVID-19 is a serious issue and, for investors and businesses involved in the property market, there needs to be an informed understanding of how the virus could impact house prices, lenders, and overall levels of investment into bricks and mortar. To this end, there are lessons to be learned from the Global Financial Crisis (GFC), particularly when it comes to house price recovery.

This report provides an overview of how COVID-19 is impacting the property market by reviewing key government measures relevant to UK homebuyers and looking to past events to identify what trends are likely to unfold over the coming months. The report also includes advice for those seeking to complete on a property transaction in 2020, and the financial options available to them.

COVID-19 IN THE UK: THE FACTS

To minimise the economic impact of COVID-19, Chancellor Rishi Sunak has been offering financial relief to businesses, investors and consumers. Totalling £350 billion, the Government's coronavirus package consists of £330 billion in loans and £20 billion in the form of business rates holidays and targeted grants for retailers affected by the quarantine lockdown. A multibillion-pound bailout has also been announced to compensate the UK's self-employed workers, totalling over 2 million people.

UK GOVERNMENT SUPPORT FOR BUSINESSES AFFECTED BY COVID-19

£330 billion worth of government loan guarantees to businesses

Support for liquidity amongst large firms, with a major new scheme being launched by the Bank of England to address disruption to cash flows through loans

The creation of the Coronavirus Business Interruption Loan Scheme where businesses can access up to £5 million, with the Government covering the first six months of interest payments

£20 billion worth of business rates support and grant funding

RELIEF FOR BORROWERS

Three-month mortgage payment holidays being offered by long-term lenders

Bank of England has lowered interest rates to 0.10%

On Thursday 19th March, the Bank of England announced that interest rates would be cut from 0.25% to 0.10% – an unprecedented and historic low. The move has been designed to stimulate the economy and encourage renewed consumer spending, and while no further cuts have been announced, there is a chance of additional cuts being made in the immediate future.

The interest rate cut only benefits a handful of borrowers. Only 11% of borrowers are currently on tracker mortgages, while the overwhelming majority of people are on fixed-rate mortgages, according to UK Finance. Nonetheless, low rates mean that prospective borrowers, particularly first-time buyers and investors, could be able to secure financing with relatively low interest payments.

THE UK PROPERTY MARKET IN 2020

The rate of COVID-19 cases recorded in the UK has been increasing at an exponential rate, which is to be expected during a pandemic. As such, it is difficult to know just what direct and indirect impact the virus is having on the property market. However, recent data shows there is clear pent-up demand for UK real estate.

With demand outpacing supply, house price growth has been resoundingly strong even during times of economic and political uncertainty. Boris Johnson's resounding victory in December 2019's General Election sparked a surge of demand for UK property, resulting in a sharp rise in house prices.

THE STATE OF THE UK PROPERTY MARKET IN 2020

House prices rose at their fastest pace in the three months before February 2020 since 2015 (Halifax)

The average UK house price increased by 2.3% year on year in February – the highest growth rate in 18 months (Nationwide)

The average listing price of London-based property rose by 5.1% in the 12 months leading to February 2020 (Rightmove)

In January and February, the number of properties coming onto the market in London increased by 31% (Chesterton's)

The surge in demand for UK property, dubbed the 'Boris Bounce', is also pushing up demand for new builds. One of the UK's largest construction firms, Taylor Wimpey, announced at the beginning of the year that their forward order book was up by 22% in value terms and 17% in unit terms. Galliard also announced that their sales enquiries are up by 26%.

Although COVID-19 poses short-term complications, it is important not to let this distort the bigger picture and the opportunities available to UK businesses. The results posted by Taylor Wimpey and Galliard Homes demonstrate there is clear long-term demand for real estate that will need to be addressed at some point in the future.

HOW WILL COVID-19 IMPACT THE UK PROPERTY MARKET?

The question now is whether the current rate of house price growth can be maintained or if the gains made in the opening months of 2020 will eventually be reversed. Historically, real estate has proven to be a resilient asset. This is because in times of market turbulence, real estate is able to hold its value or recover quickly from volatile conditions, and deliver competitive returns when compared to the capital growth on offer from other tangible and non-tangible assets.

The stocks and shares markets have already suffered heavy losses as a direct and indirect consequence of the COVID-19 pandemic. Yet given the resilience of property as an asset class able to hold or recover its value in stressed markets, there is no reason to consider a similar downturn. In reality, investors are likely to rally to real estate as a safe haven asset. For international investors, the Government's decision to add a further Stamp Duty Land Tax surcharge of 2% for foreign buyers of UK real estate in April 2021 is also likely to spur demand for real estate over the coming 12 months.

While demand for property could slow down in the immediate future, we are likely to also see a change in the supply. In other words, there will still be an imbalance between supply and demand, though it will not be as pronounced as it currently is. Importantly, unlike liquid assets like shares and bonds, UK property investors will never be forced to sell their assets in unfavourable market conditions.

Global real estate firm Savills has also announced that it will not be revising its five-year forecasts for the housing market. Whilst acknowledging that there will be unpredictable price movements, Savills has said they are confident that property will be able to recover over the long-term – and result in consistent investor demand for real estate as a safe haven asset.

You can read Savills' full analysis by visiting their website: *https://www.savills.co.uk/blog/article/297216/residential-property/what-might-covid-19-mean-for-the-housing-market.aspx.*

UK PROPERTY MARKET PROJECTIONS

15.3% five-year compound growth for UK residential property (Savills)

4% five-year compound growth for London residential property (Savills)

London and Manchester to register house price growth of 17.1% between 2020 and 2025 (JLL)

House prices for England and Wales to increase by 5.9% in the three months leading to June 2020 (ReallyMoving)

LEARNING FROM THE PAST

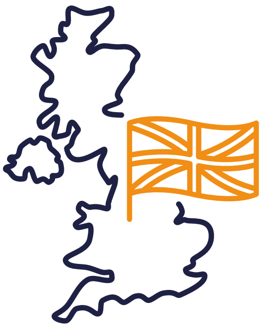
One way of anticipating how the property market will react to the fallout of COVID-19 is by assessing the performance of real estate when faced with similar circumstances.

The GFC is a helpful example. The US's subprime mortgage crisis triggered a series of events that resulted in a global recession. In the UK, house prices fell by 20% in 16 months and transaction levels which had previously averaged 1.65 million per year fell to 730,000 in the 12 months leading to the end of June 2009.

In the immediate aftermath of the GFC, banks adhered to stringent lending measures to minimise their risk. This paved the way for the rise of the alternative finance industry – non-traditional lenders like MFS filled the void by offering bespoke specialist loans to businesses and investors in need of access to capital.

As part of the recovery of the property market, the average price of a home reached its pre-GFC level in May 2014. By March 2017, house prices had increased by an impressive 18% over the course of the decade. Of particular note was the recovery of the London market where, according to the Savills Repeat Sales Index, house prices increased on average by 78% during the same ten-year window.

BETWEEN 2007 AND 2017:



UK house prices increased by 18%

London house prices grew by 78%

The above example shows that while house prices were negatively affected by the immediate economic implications of the GFC, property was able to recover impressively in the years that followed. There are many factors for this, including an imbalance between supply and demand, as well as the UK's attractiveness as a global hub for foreign investment.

There are interesting parallels that can be drawn from the GFC and the COVID-19 pandemic. If house prices do drop, they are likely to recover over the long-term and post impressive rates of capital growth afterwards. Some investors, as they did 12 years ago, will be keen to find opportunities if the property market does experience a dip, given its historic performance.

It is also important to recognise that the GFC was an economic crisis, whereas COVID-19 is a health issue that is having economic ramifications. This means the property market could recover quicker once the virus has been contained.

BUSINESS AS USUAL AT MFS

For those in the middle of completing on a property transaction, the uncertainty surrounding COVID-19 presents a significant challenge. This problem may be exacerbated as more traditional banks, who place an emphasis on their physical high-street presence, feel the impact of social distancing measures for both meeting logistics and the cost of maintaining their empty commercial properties.

Importantly, the bridging market is still thriving. At MFS, we are experiencing a surge in demand for our products. With delays to long-term mortgage completion timelines, borrowers involved in property transactions are leveraging the advantages on offer from short-term specialist finance loans.

Since 2006, MFS has remained devoted to the needs of our clients and brokers, providing them with the support, guidance and commitment to ensure they can carry on with their investment plans with minimal disruption. This is something we experienced first-hand during the GFC and is one of the reasons why we are one of the UK's leading bridging lenders. We are now on hand to quickly receive enquiries, process applications and deploy bridging loans in a matter of days.

Our sector has historically been resilient in times of international crises, and we are confident that the innovation of individuals will facilitate a continued recovery in the market. MFS is committed to being part of that.

Already we have seen reports of estate agents co-ordinating remote house viewings to ensure their continued work through this pandemic, fuelling hope that both buyers and sellers will persevere with their transactions over the coming months.

MFS is leading by example with our underwriters on hand to address all enquiries. During this challenging time, our aim is to keep deals moving with fast finance loans. That is why we are doing all we can to support residential and commercial property transactions in the UK. Get in touch with the MFS team to find out more about our services and products. Email info@mfsuk.com for more information about our bridging loans.

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