moneyworks

WINTER
2019

The next big thing for the housing market

Modular homes could help solve the UK housing shortage – making build-to-rent an interesting investment option.

Keeping it in the family

It's a typical British trait that we don't like to talk about money, but planning your long-term future with your family could offer significant benefits.

The growing significance of the Bank of Mum and Dad

As more would-be homebuyers need support, it's vital parents don't neglect their own financial future.

What next for Help to Buy?

Changes are afoot to the government's Help to Buy scheme, which could impact the UK property market.

PORTFOLIO
WEALTH MANAGEMENT

Welcome

As another year draws to a close, a very warm welcome to the latest edition of **moneyworks** and the chance to address a number of issues that could well have a major impact on your finances both now, and in the future.

We take a look at the growing significance of the Bank of Mum and Dad with new figures revealing how young adults are now heavily reliant on the financial support of their parents. In 2018, parents gifted £24,100, on average, to their offspring – a rise of £6,000 compared to a year earlier, making them the 10th biggest mortgage lender in the UK.

We highlight the potential pitfalls of doing so and why its vital parents don't neglect their own financial future.

Staying with the property market, we also take a look at the growing appeal of modular homes and why they could be the answer to the UK housing shortage. Typically costing significant less than new builds, we ask whether they are a good investment opportunity and why such mass-produced housing could fill a gap in the market.

Meanwhile with the number of people getting their foot the property ladder now at its highest level since 2007, we report on the success of the Government's Help to Buy mortgage scheme and what impact their proposed changes could have on home buyers.

Finally, we look at the importance of talking about financial issues with our families and why despite our reluctance to talk about money, neglecting to do so could have huge implications in later life. Talking through your goals, concerns and needs with family members now and discussing how best to utilise your savings with a financial advisor could save you considerably in the long run.

Please get in touch if there is any subject you would like us to address in upcoming issues and we look forward to bringing you more financial news and views over the coming months.

Best wishes

The **moneyworks** team

This newsletter is for information purposes only and does not constitute advice or a personalised recommendation.

Contents

The News in Brief

A round up of the current financial stories.

A costly gap to fill

The state pension is a valuable benefit for millions of people – but on its own, it falls significantly short of funding a typical retiree lifestyle.

August 2019 figures from Just Group found that, on average, a single pensioner spends £13,265 annually. But with the full state pension currently paying £8,767.20, it means an average annual shortfall of £4,498 that needs to be plugged. Retired couples must find an extra £8,710 a year.

Just Group calculates that – if you are a single pensioner, have no other retirement savings and lived the average retiree lifestyle – in a calendar year, you would run out of money by 28 August and three days later for couples. This would leave a shortfall of over four months.

https://bit.ly/2Jet3xj (Just)

Boost for five-year mortgages

With economic uncertainty about Brexit hanging over the UK, it could be a good time for mortgage borrowers to secure a longer-term fixed rate deal.

September 2019 research has found the number of five-year fixed rate mortgages available has almost doubled over the past five years. Whereas in September 2014 there were 796 products on the market, there were 1,542 available this September.

Moneyfacts added this greater competition has also resulted in five-year rates falling, with the average rate standing at 2.739% in September 2019. A five-year deal might be suitable if you're looking for stability over your repayments and don't plan to move for a few years.

https://bit.ly/2JemBXa (Moneyfacts)
https://bit.ly/2pGsvth (Moneyfacts)

Savers continue to miss out

The Bank of England has indicated another interest rate cut is becoming more likely – which would spell more bad news for careful savers. Base rate currently stands at 0.75%, but economic uncertainty and the US-China trade war fall-out could push rates down within the next 12 months.

September 2019 research by This is Money has found the majority of available savings accounts are paying interest below the rate of inflation. It calculates savers will collectively miss out on £1 billion this year because of rates failing to keep pace with the rising cost of living.

https://bit.ly/2kNEK5c (The Guardian)
https://bit.ly/2N3Zpfk (This is Money)
https://bit.ly/2BA9n2P (This is Money)

The financial cost of procrastination

For many of us it's human nature to leave things to the last minute, but August 2019 research by Nationwide has found procrastination costs us an average of £449 a year, or £29,200 over a lifetime.

Nationwide's survey revealed nearly two in three (63%) admit to procrastinating. 57% have been caught out by financially leaving things to the last minute. Common money dallying activity includes leaving it late to find gifts (50% of us state we're guilty of this), not putting money into a savings account (38%) and last-minute holiday planning (30%).

Men are the biggest procrastinators, costing them an average of £571 a year compared to £325 for women.

https://bit.ly/2MCwdwW (Nationwide)

Your home may be repossessed if you do not keep up repayments on your mortgage.

What next for Help to Buy?

Changes are afoot to the government's Help to Buy scheme, which could impact the UK property market.

Changes are afoot to the government's Help to Buy Equity Loan scheme, which could impact the UK property market.

The number of people getting onto the property ladder is now at its highest since 2007 according to August 2019 research from Yorkshire Building Society.[1]

The upturn in numbers comes after the government's efforts to help first time home buyers. with its Help to Buy Equity Loans.

According to figures from the Ministry of Housing, Communities and Local Government, Help to Buy equity loans resulted in 183,947 properties being bought in England since April 2013.[2]

The scheme sees the government provide a loan of up to 20% of a new-build property's value (or 40% in London which in turn allows buyers to purchase a home with a 5% deposit and 75% mortgage (or 55% in London).

However, Help to Buy Equity Loans are not proving entirely successful in supporting the government's intentions. According to the government's own watchdog,[3] more than half of the scheme users admit they could have afforded to buy a home without state support while almost one in five borrowers weren't first time buyers either.[4]

With critics arguing the scheme has pushed up average UK house prices and helped rich buyers[5] purchase more expensive homes, the government has announced key adjustments.

So what's changing?

The current Help to Buy Equity Loan scheme will close in March 2021 and it will be replaced by a new scheme, running from April 2021 until March 2023 – with two key differences.

The new proposals will mean it will only be available to first-time buyers and there will also be regional property price caps in an effort to make sure the scheme helps those who need it most. The cap is 1.5 times the average first-time buyer price in each region.

But the cap idea has already received criticism, as it is predicted there will be too few new build properties that will meet the criteria. Hamptons gave the example of the North East, where 53% of new build homes would be too expensive for Help to Buy if the caps were brought in now – never mind in two years' time.[6]

Data from reallymoving.com[7] shows 38% of people who used Help to Buy Equity Loans in 2018 would be ineligible for the new scheme and suggests the revised scheme will be less popular as a consequence.

How will the housing market be impacted?

If the revised scheme sees fewer people enter the housing market, the effects are likely to be felt even further up the property ladder. Any slowdown in house purchases would likely see property prices stagnate or even fall.

Further Reallymoving.com research suggests first time buyers pay 8% more for new homes[8] through Help to Buy, compared to first time buyers who don't use the scheme. As a result, if fewer people go down this route, it will impact on new build and other house prices.

The National Audit Office has warned the government that its next challenge will be "weaning the property market off the scheme."[9] With the current scheme not due to end until March 2021 – if you plan to move home in the near future – it might be a good time to consider your options. An adviser can help you secure a mortgage deal that's right for your individual circumstances.

Your home may be repossessed if you do not keep up repayments on your mortgage.

1 https://bit.ly/32H5Zii (Mortgage Strategy)
2 https://bit.ly/2N4jqT5 (New Statesman America)
3 https://bit.ly/2ReQx85 (The Guardian)
4 https://bit.ly/2NOzwDP (Independent)
5 https://bit.ly/2BChqMk (The Sun)
6 https://bit.ly/2MCRiHB (Which)
7 https://bit.ly/35YQlkr (Really Moving)
8 https://bit.ly/2MCzRqC (Really Moving)
9 https://bit.ly/2Obycrt (ITV)

The next big thing for the housing market

Modular homes could help solve the UK housing shortage – making build-to-rent an interesting investment option.

The UK is currently embroiled in a housing crisis which is making it increasingly difficult for people to get on the housing ladder. A combination of rising population numbers, a relative lack of house-building and soaring property prices is leading to a lack of affordable homes to buy or rent.

UK house prices have risen by 160% in real terms since 1996[1] whilst broadly over the same period the number of people renting has doubled.[2] The government has pledged to start building 300,000 homes a year by the mid-2020s[3], but some experts warn this won't be enough on its own.[4]

Whereas previous generations have almost taken home ownership for granted, millennials are increasingly accepting a different reality with 60% of people aged between 18 to 35 believing they're destined to rent forever.[5]

October 2019 figures from the Ministry of Housing, Communities and Local Government show the number of new homes being built is in decline[6], suggesting the government is not on track to achieve its 300,000-a-year new build target. The expense and time involved in building new homes, coupled with the issues of land and skilled labour shortages,[7] means there is an urgent gap to fill.

Fresh ideas

A new type of house is springing up around the UK, which could ease the crisis. Modular homes typically start at around £25,000 each - 11% of the UK's average house price,[8] and are much quicker to build.

Typically, they are constructed indoors in a factory-type setting, before being transported and erected on suitable locations. Modular homes can be built to individual specifications and can take just a week to produce.

Currently, around 15,000 modular homes[9] are built every year – and a number of developers[10] are entering the market by setting up factories. They vary in style and size, with some of the top end modular homes 25% bigger than the average new-build house.[11] Another advantage is that they're also more environmentally friendly.

A good investment opportunity?

As modular homes look to become more established over the next few years, many believe they could play a significant role in the UK housing market and help alleviate the renting crisis that is building up,[12] caused by property shortages.

Modular homes represent an interesting investment opportunity if you're thinking about buy-to-let (or, in this case, build-to-rent). This would involve securing a piece of land and arranging for a modular to be built and installed.

There are risks with modular build-to-rents though and because they are not yet commonplace in people's minds, attracting renters might not be as easy as a buy-to-let house. The set-up costs of building the homes are also likely to be higher, plus there will be legal costs to consider with construction.

However, there are potentially big advantages. It's quicker to get the property up and running, with the quality just as high – potentially saving maintenance costs in the long-term while development loans can be lower cost due to shorter timeframes.

Finally, with demand for affordable housing and renting only growing, modular homes could significantly take off in popularity over the next few years. Not least for their green credentials in these eco-conscious times.

If you're interested in the possibility of build-to-rent, it's certainly important you do your homework. An adviser will be able to talk you through the key considerations and provide personalised recommendations.

Your home or property may be repossessed if you do not keep up repayments on your mortgage.

The Financial Conduct Authority does not regulate some aspects of buy to let mortgages and development loans.

1 https://bit.ly/2Oto7Xa (Independent)
2 https://bit.ly/2KFzDha (Buy Association)
3 https://bit.ly/336Udxk (GOV.UK)
4 https://bit.ly/2D8q0TG (LSE)
5 https://bit.ly/2Oc9cSp (This is Money)
6 https://bit.ly/37l8J7X (This is Money)
7 https://bit.ly/2D1gWA6 (Independent)
8 https://bit.ly/2OxsuAv (The Sun)
9 https://bit.ly/3459kse (The Guardian)
10 https://bit.ly/37r3y6w (Metro)
11 https://bit.ly/37r3y6w (Metro)
12 https://bit.ly/2OrkD7m (This is Money)

Keeping it in the family

It's a typical British trait that we don't like to talk about money, but planning your long-term future with your family could offer significant benefits.

When it comes to your family and friends, there aren't too many topics of conversation that are out of bounds – but money is one area that millions of Brits still avoid discussing.

April 2019 research by Lowell[1] found most of us are more comfortable talking about our weight, mental health and family dramas than we are about our personal finances.

Even when the conversation does turn to money, a March 2019[2] study by Lloyds discovered a quarter of adults have lied to family and friends about their personal finances. Of those 23% have misled their partner, leading to 37% having arguments.

Not being open about personal finance matters can lead to family members storing up problems – when their nearest and dearest might be able to help. For example, according to Money Advice Service figures published in November 2018,[3] the average UK hidden debt is £4,164 with 47% of those in the red admitting that their friends and family have no idea about their debt.

The urgent need to talk

This worrying trend of family financial secrets comes at a time when younger generations in particular need more support than ever.

The so-called Bank of Mum and Dad is now unofficially the UK's 10th-biggest mortgage lender,[4] according to Legal & General (L&G). With university tuition fees now costing an average of £9,250 a year;[5] people living longer;[6] care home fees spiralling,[7] and inheritance tax revenue at a record high,[8] there are no guarantees older people can pass on as strong of a legacy.

Planning together

To address these and other potential issues, there's a real benefit to sitting down as a family to talk openly about your finances and work together to achieve your individual goals.

Many financial advisers offer an inter-generational wealth management service that helps loved ones discuss the current status of their finances and plan ahead together. Whilst each member of the family has their own priorities, it allows everyone to share these objectives and make decisions as a collective.

It could be your family wealth can more collaboratively support one another, rather than you each operating in isolation. For example, if younger generations are looking to get onto the property ladder and probably need some financial support, you can collectively look at what that means and work together. At the other end of the scale, it also allows you to plan how assets are passed down the family, by discussing wills and other ways of transferring wealth whilst paying less tax.

By being open and more transparent with each other, there's a real opportunity to be stronger financially as a family. And with an adviser providing tailored recommendations, everyone can look forwards with greater confidence.

The value of your investment can go down as well as up and you may not get back the full amount invested.

The Financial Conduct Authority does not regulate Will writing and taxation and trust advice.

1 https://bit.ly/2p5Q1Qj (i News)
2 https://bit.ly/31JGVpT (Independent)
3 https://bit.ly/2PbwMiX (The Money Advice Service)
4 https://bbc.in/2ZpQ9pT (BBC)
5 https://bbc.in/2MH1ejj (BBC)
6 https://bit.ly/2OxKFVc (Office for National Statistics)
7 https://bit.ly/2DAVLaR (The Guardian)
8 https://bit.ly/2JfLdP5 (Express)

The growing significance of the Bank of Mum and Dad

As more would-be homebuyers need support, it's vital parents don't neglect their own financial future.

Buying a first home is one of the life's biggest milestones. But when it comes to achieving this level of independence, young adults are heavily relying on the financial support of their parents.

August 2019 research by Legal & General has found that, during 2018, UK parents collectively provided a whopping £6.3 billion to get their children onto the property ladder. This meant the so-called Bank of Mum and Dad was effectively ranked the 10th biggest mortgage lender in the UK[1].

On average, parents gifted £24,100 to their offspring – a rise of £6,000 compared to a year earlier. More than half of parents surveyed used cash to help their children. Others were withdrawing money from their pensions – or would consider using equity release from their homes.

A leg up the ladder

Such parental financial support is proving vital for young people. According to July 2019 research by Santander, a third of first-time buyers state the biggest barrier to home ownership is raising enough money for a deposit[2]. Whilst nine in 10 of non-homeowners, aged 18-40, want to get onto the property ladder, the research concludes that – by 2026 – just one in four under 34s will achieve this ambition.

So a financial gift from mum and dad could be vital. January 2019 research by London and Country discovered four out of five first-time buyers expect their parents to contribute towards a deposit[3]. And 22% are hoping the Bank of Mum and Dad will cough up more than half the money needed.

In the meantime, a growing number of young adults are continuing to live in the family home rather than move out. December 2018 figures from Skipton Building Society show 2.7 million parents currently have grown up children living at home – 40% of whom aren't contributing anything financially[4].

The situation is putting parents under significant pressure. Day-to-day living expenses are increased by having to support grown up children. Whilst rising house prices – the Santander research also found house price inflation has outstripped wage inflation by 47% to 18% over the past decade – make it very difficult for young people to flee the nest[2].

Long-term financial implications

It's perfectly understandable that if parents feel they can financially help their children, they will gift money. However, it's really important you consider the long-term ramifications before making any final decisions.

Going back to the L&G survey, a quarter of parents who have given money to their kids admit they're not confident they have enough money to last through their retirement. 15% have already accepted a lower standard of living, as the price of helping out[1].

If you have children you expect to support buying property, it's advisable to give yourself as much time to prepare as possible. That way you don't necessarily have to risk damaging your own financial future by making too big a sacrifice.

By seeking financial advice, you can have a better understanding of the options available to you. An adviser will help you establish when you might want to provide financial assistance, to see if you can build up your provisions. They can also assist you in building up a clearer picture of your long-term financial needs, so you can make informed decisions.

The value of your investment can go down as well as up and you may not get back the full amount invested. Investments do not include the same security of capital which is afforded with a deposit account.

[1] https://bbc.in/349AgqU (BBC)
[2] https://bit.ly/335lAry (Mortgage Introducer)
[3] https://bit.ly/2QFDfDm (L&C)
[4] https://bit.ly/2Xz1mVX (Independent)

And finally...

Annuity rates plummet to new lows

If you're looking for a stable income in retirement, using your pension to purchase an annuity can provide security for the rest of your life. But if you don't make a considered decision, you might fail to find sufficient value.

According to Hargreaves Lansdown figures for September 2019, annuity rates for the average 65-year-old have dropped by 14% this year. You can get a guaranteed annual income of £4,654 from a £100,000 pension pot – £759 less than at the start of 2019.

There are currently 116 investment funds that pay a higher income than average annuity rate available – although investing comes with risk. When it comes to funding your retirement, it's really important to speak to a financial adviser to explore your options.

https://bit.ly/2P9bNgy (Moneywise)

The value of your pension can go down as well as up and you may get back less than has been paid in.

Accessing pension benefits early may impact on levels of retirement income and your entitlement to certain means tested benefits.

Accessing pension benefits is not suitable for everyone. You should seek advice to understand your options at retirement.

Portfolio Wealth Management

Unit 2 Langdon House, Langdon Road, Swansea, SA1 8QY

01792 483 860

info@portfolio.org.uk

www.portfolio.org.uk