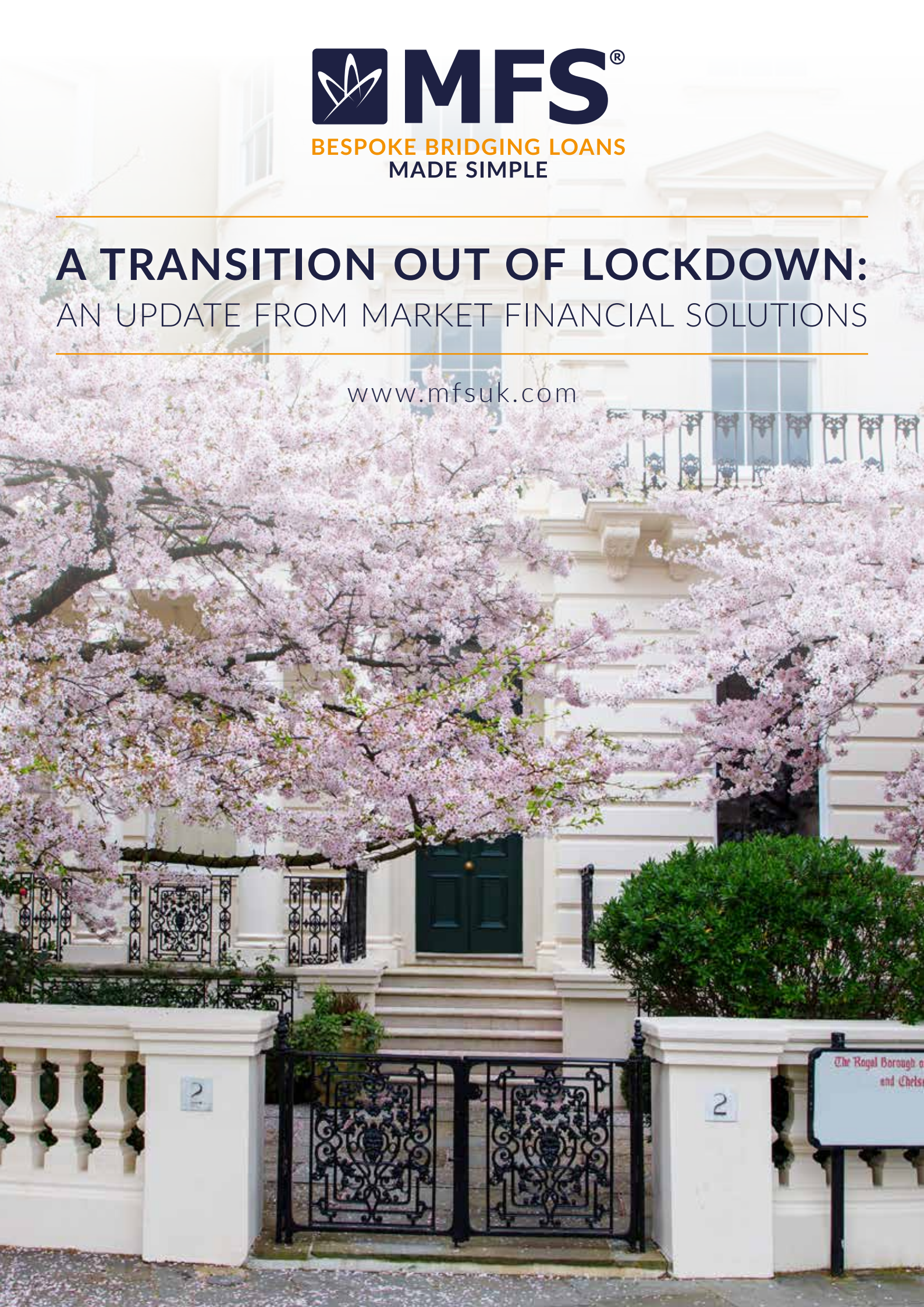




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A TRANSITION OUT OF LOCKDOWN: AN UPDATE FROM MARKET FINANCIAL SOLUTIONS

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A TRANSITION OUT OF LOCKDOWN: AN UPDATE FROM MFS

After more than three months in lockdown, Boris Johnson declared on Tuesday 23rd June that the national hibernation is beginning to come to an end. In an attempt to reignite national productivity, social distancing measures are slowly being lifted so that more non-essential businesses are able to get back up and running at their full operational capacity.

While there is good reason to be optimistic, the transition out of the lockdown will be a delicate process – one that poses several significant challenges. Most notably, should the lifting of social distancing measures result in a second spike of coronavirus cases, there is the very real possibility of the UK entering another lockdown period. For this reason, businesses and investors must ensure they are adequately prepared for the best and worst case scenarios.

If we look to the financial markets, it seems there is a similar degree of hesitancy. Gains are being made on the FTSE 100 and Dow Jones as investors return to the stock market, though there are also concerns a second outbreak of infections could result in these gains quickly being lost. What's more, the Bank of England has not yet ruled out the introduction of negative interest rates to encourage people to spend and invest money that is currently sat in savings accounts.

To ensure our clients, brokers and prospective property buyers are fully aware of the current conditions, Market Financial Solutions' team of expert underwriters have drawn from their experiences to provide an update on the real estate and lending markets. This report offers a timely update on the state of the property market, and the avenues of finance available, amidst this period of transition out of lockdown.



REAL ESTATE REMAINS A RESILIENT AND POPULAR ASSET

Even during the volatile and uncertain lockdown period, investor demand for bricks and mortar has resulted in transactions still taking place. As mentioned in our last update, the Government moved early to 're-start' England's property market by relaxing certain lockdown rules; since 13th May, buyers and renters have been allowed to once again move properties. Estate agencies and valuers have also been able to arrange onsite property viewings.



Relaxing these measures resulted in an immediate increase in buyer interest on online property portals. More importantly, the ending of the lockdown freeze for estate agents has translated into sales. According to latest figures from HMRC, 48,450 homes were sold in May – a 16% increase on April's figures. While this is still 50% lower than transactions recorded in April 2019, industry commentators are optimistic that momentum will continue to build over the coming months as buyer confidence returns to the market.

In turn, the negative rate of house price growth is also slowing down. Halifax's House Price Index for May revealed that house prices had dropped month-on-month by 0.2%. In normal circumstances, this would be a concern. However, in light of the obstacles that buyers have faced as a result of the lockdown, the data is not as negative as it first appears.



With mortgage providers retreating from the market, it has been difficult for prospective homebuyers to complete on property transactions. Nonetheless, buyer demand has resulted in house prices remaining stable. This has been shown by the relative decline of house price growth since April, which has been nowhere near as damaging as initially feared at the beginning of the pandemic.

Looking to the coming months, the majority of real estate commentators are optimistic the UK property market will quickly recover. House price projections from Zoopla anticipate a 2% to 3% increase in house prices over the next quarter. This will come about as a result of surging demand and limited supply.



"At the beginning of the year, we witnessed surge in buyer demand for UK property. COVID-19 put an abrupt halt to this momentum, but there is nothing to say that domestic and international buyers will not return to the market. Transactions are still occurring and if we have indeed entered the beginning of a post-pandemic recovery, I am confident house prices will quickly bounce back."

Paresh Raja, CEO, MFS



THE STATE OF THE LENDING MARKET

On our streets, things may be returning to relative normality, but many of the big banks and mortgage providers who initially retreated from the market are taking a more cautious approach. When lockdown measures were first introduced, a significant number of mortgage products were taken off the market. This was a result of some lenders seeking to reduce their risk exposure, while others were simply unable to operate as usual because of social distancing measures.

The withdrawal of mortgage products from the market put a significant number of existing property transactions at risk of falling through. Buyers were faced with either the possibility of a mortgage approved in principle being rescinded or delays in the mortgage being deployed.

In response, specialist finance providers like MFS have stepped up to fill the void. With property chains at risk of collapsing and deposits being lost, demand for flexible finance that can be deployed within days of an application being submitted have risen significantly. As a result, we have deployed over £27 million worth of loans since the introduction of lockdown measures.

The COVID-19 pandemic has demonstrated which lenders have the expertise, flexibility and in-house funds to quickly deploy loans, no matter how complex a case might be. Brokers have formed new relationships with lenders, and there is a growing awareness of which are able to follow through on their commitment to arrange finance in difficult times.

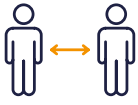
While mortgage providers are slowly returning to the market, the number of products they offer is limited. In some cases, deposit requirements have risen to 10%, with lenders withdrawing their 95% and 90% loan-to-value mortgages for now. Only as greater certainty returns to the market can we expect more mortgage products being put back on the market. In the meantime, we should expect demand for specialist finance to rise during the transition out of lockdown.

“Lenders need to both adapt to new market conditions while also ensuring they can readily adapt should a second spike in cases occur. Client preferences are changing, and the market has now become fully aware of all the finance solutions that exist beyond the high street. Established bridging lenders like MFS have remained committed to their brokers and clients, thinking creatively so that property transactions can continue unabated. In the end, this will ultimately benefit brokers and borrowers, ensuring they have access to market-leading products.”

Paresh Raja, CEO, Market Financial Solutions



RETURNING TO THE NEW NORMAL



Over the coming weeks, non-essential businesses will be opening their doors again, with employees making their return back into the workplace. The UK Government is optimistic that the number of COVID-19 cases will not rise, and society can quickly return back to a relative state of normality. While there is good reason to share this optimism, we should also recognise the possibility of a second wave of coronavirus cases, and what this will mean for the property market.



Most notably, if a second lockdown period is initiated, businesses and investors will enter into it with far greater knowledge than they had in March. Lenders ought to be better placed to guarantee business continuity, while property buyers and brokers will have a clearer understanding of where they can turn for loans.



In these defining times, MFS remains committed to delivering the same high level of professional service to our clients and brokers. By being able to respond to cases quickly, our access to in-house funding lines means that we can deploy finance within a matter of days, no matter how complicated a case is.

To find out more about MFS' bridging loans or how we are preparing for the transition out of the coronavirus lockdown, be sure to get in touch with a member of the team today.



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