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GAZUMPED BRITAIN I: UK PROPERTY BUYERS PIPPED TO THE POST

2017

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Gazumped Britain: UK Property Buyers Pipped to the Post

The UK is globally renowned for its dynamic property market, boasting some of the world's leading residential opportunities and commercial developments across both established cities and emerging regional centres. Over the course of 2017, it is anticipated that UK property investment will exceed £50 billion – spurred in no small part by a rising volume of foreign capital from international investors, and increasing domestic demand. Looking ahead, real estate service provider Savills predicts that average UK house prices will increase by 2% in 2018 and 5.5% in 2019 to a total of 13% by the end of 2021.

Despite these positive growth forecasts, prospective and seasoned property investors in the UK are being disadvantaged by a flawed and protracted high street loan system that is increasingly at odds with the fast-paced dynamism of the nation's evolving real estate market. For Britain's asset rich, recent research by Market Financial Solutions (MFS) revealed the acute disconnect between wealth and banking credit scores, demonstrating that the wealthiest still face difficulties when trying to secure a mortgage, second mortgage, or loan. Moreover, the same research showed that 31% of the UK public feel that excessive red tape and bureaucracy mar Britain's current credit system.

Delving specifically into this point, MFS has launched a timely new report – Gazumped Britain: UK Property Buyers Pipped to the Post. Having surveyed a nationally representative sample of over 2,000 UK adults, this report uncovers the key reasons why investors are commonly inhibited in their attempts to purchase a property at the critical closing stages, and the broader challenges this poses for the future of Britain's property investors.

Demand Outpacing Traditional Loan Market

As a consequence of high foreign and domestic demand for residential and commercial real estate, Britain's property market is fiercely competitive and fast-paced. The Office of National Statistics found that over the past decade, the average cost of a residential property in the UK has risen by 50%. The longevity of such dynamism was initially brought into question last year following a series of profound political and economic announcements – Britain's decision to leave the European Union in June, the appointment of a new Prime Minister and Cabinet, and the Bank of England setting interest rates to a record low 0.25%.

However, while 2016 may have been a year dominated by pivotal events, the UK property market proved resilient. In the fourth quarter of 2016, demand for residential property increased by 6.5% year-on-year, passing initial market projections of a 5.8% increase. With rising demand, and a limited supply of available properties currently on the market, 2017 is set to be another year of growth – the average asking price for property in the UK broke the £300,000 barrier in December 2016, supported by a 5% year-on-year increase in property demand, according to RightMove.

Despite the marked increases in property demand in Q3 and Q4 2016, mortgage approval rates slowed remarkably in the six months leading into 2017. For example, approximately 28,100 loans were issued to home movers in October – a year-on-year decrease of 20%. Moreover, in the same month home movers borrowed £5.9 billion, down 18% on October 2015 figures. A reluctance to lend risks hampering the prospects of British investors seeking to expand their property portfolio, despite rising property prices and robust demand. Worryingly, this trend looks set to continue – in the opening weeks of 2017, the total number of buy-to-let mortgages declined by 5%, marking the steepest decline since the banking crises. This is particularly concerning to note given the high level of demand for property in the UK.

Key breakdown of research statistics

We asked British adults about their experiences when attempting to purchase a property in the UK, revealing:

- 2.57 million British adults have lost out on a property purchase despite having an offer accepted because another buyer came in at the last minute with a more attractive offer
- More than 1 million UK adults admitted to gazumping other property buyers by bidding on properties soon to change hands, while the same number said they would do so in 2017
- 15% of Londoners have been gazumped at the closing stages of a property purchase
- 3% of British adults have lost money on fees to intermediaries because they have been pipped to the post at the last minute, equating to 1.54 million people who have lost a combined £4.4 billion
- Londoners are three times as likely as the national average to see a property purchase fall through because of an inability to get funds quickly enough

Gazumped Britain

To understand specifically why British investors are missing out on lucrative property-led opportunities, we asked a sample of over 2,000 UK adults why they were not able to successfully complete a property purchase. From this survey, we found the inability to access fast loans from British banks has led to many Britons being gazumped – beaten to a property purchase at the last minute.

At present, real estate deals made in England and Wales are only binding once the contracts have been exchanged. For investors applying for a mortgage from a traditional high-street lender, the average processing time of six weeks places them at a significant disadvantage, particularly when competing with buyers with large cash deposits. Our research revealed that the process of being gazumped is a widespread issue currently entrenched within the UK property market. Specifically, our data highlights that this year 1.03 million Britons are planning to make strategic last-minute bids on properties that have already had offers accepted on them in the hope of beating other buyers and quickly completing a property purchase. Moreover, just over 1 million UK adults admitted to gazumping another property buyer in the past by purchasing a home that already had an offer accepted on it.

Government Attempts to Address the Issue

This issue has not gone unnoticed – in the 2016 Spring Budget in March last year, former-Chancellor George Osborne pledged that the Government would address the issue of gazumping, stating: “We will publish a call for evidence on how to make the process better value for money and more consumer friendly.” In the ensuing months, it was reported that policymakers at the Department for Business Innovation and Skills (BIS) conducted a private meeting with senior figures at the National Association of Estate Agents to determine what measures were best suited to prevent the practice of gazumping in Britain. Yet despite these initial movements by government and industry bodies in 2016, little progress has been made towards addressing this structural flaw of the UK property market.

Property Buyers Pipped to the Post

Last year, it was revealed that gazumping had been a major contributing factor to approximately 200,000 transactions collapsing each year – equating to 18% of annual residential house sales. Disconcertingly, our research found that despite having an initial offer accepted, 2.57 million Brits have lost out on a property purchase because another buyer was able to present a more attractive offer. While this proved to be a prevalent problem across the nation, the issue holds particular resonance for London investors, with 15% of the capital's population being gazumped despite already having an offer accepted in principle – equating to 1 million Londoners. For the next generation of property owners, the findings are notably concerning, with 8% of 18 to 34 year olds having been gazumped.

Britain boasts world-leading real estate opportunities spanning across both residential and commercial developments, with London recently crowned the most desirable city in the world to purchase a prime property. Despite this, gazumping has undermined the ability of investors to take advantage of these offerings. In total, 1.54 million Britons have missed out on their "dream home" or a highly desirable property despite already having an initial offer accepted.

Not only is gazumping a cause for frustration and disappointment; it also can incur significant costs to the prospective buyer who has missed out on a property at the final stages. Our research found that 3% of UK adults (1.54 million people), and 9% of Londoners, have lost out on fees to intermediaries such as solicitors, surveyors and/or valuators because they were pipped to the post during a property purchase. Which? has revealed that property buyers lose on average £2,899 in fees on a failed purchase, meaning that across the nation the cost of being gazumped totals more than £4.4 billion.

Delayed Access to Finance

With a significant proportion of the British population missing out on property deals at the critical moments of closure, the lack of access to fast finance has continued to inhibit prospective property buyers. Our research showed that 3% of the UK adults have lost out on a property purchase despite having an offer accepted because of delays in selling their current house in a timely manner. This number rises to 10% when focusing specifically on the capital, reflecting the highly competitive nature of London's dynamic real estate market. The capital's average house price is now 14.2 times the annual average earnings in the city, the highest ratio on record and the biggest multiple of anywhere in the UK, according to the Hometrack UK Cities Index for October 2016.

Furthermore, our research showed that 1.54 million UK adults have not been able to complete a property purchase because they were not able to access the funds in time. With the average mortgage approval time taking just under three weeks, the traditional mortgage lending market is failing to provide the fluidity and responsiveness required for investors to take advantage of the real estate opportunities on offer. Delayed access to finance is a particular problem for 18 to 34 year olds, with 7% stating that their inability to acquire funds in a timely manner has resulted in them losing out on a property. This falls into the broader issue facing the younger generation of prospective property owners missing out on real estate opportunities. Research from the Office of National Statistics shows that from the 1980s until the early 2000s there were typically between 400,000 and 600,000 loans to first time buyers. Since then, there has been a noticeable decline in the total number of loans issued to first time buyers, equating to approximately 300,000 at the close of 2015.

Millennials were also found to be more at risk than older generations when it comes to being pipped to the post in the property market. Of those aged between 18 and 34, 1.18 million said they had lost out to rival buyers after having an offer accepted; 1.03 million had seen a deal fall through because they could not access funds in time; and 738,000 had lost money on intermediaries' fees after being gazumped. To effectively compete in a property market renowned for its ruthless competiveness, a growing number of millennials are willing to gazump as part of their property strategy – 442,800 18 to 34 year olds admitted to gazumping in 2016, while 590,400 millennials are considering the practice in 2017.

To address this issue, there have been calls for the property market to embrace modern technological developments and changing market trends. Mark Hayward, managing director at the National Association of Estate Agents, noted last year that the English real estate market is "an archaic system which doesn't allow for modern technology". He added: "It needs updating to allow for as much work to be done before the point of offer as possible."

Evidently, the rise in alternative finance options as viable sources of credit from 2007 onwards has resulted in an expanding number of non-traditional loan opportunities. For instance, the Council of Mortgage Lenders estimates that the total amount of loans issued by a bridging providers has expanded from less than £1 billion in 2007 to over £220 billion in 2015.

London's Competitive Property Market

London's diverse collection of traditional and new-build properties has made it a leading destination for foreign and domestic investors. According to the Nationwide House Price Index, the average house price in London grew by 3.7% in 2016, reaching a total of £473,073 – more than double the UK average of £217,000. Moreover, the City of London resident earns almost double what the average UK resident earns in a year. London also ranks second in the world for foreign property investment, with £18.8 billion worth of property bought by overseas buyers in the year to June 2016, according to Knight Frank's Global Cities report. The result is a huge amount of buying power that increases the likelihood of Londoners losing out on property purchases at the last minute. As a consequence, our research showed that 6% of Londoners would consider making last-minute bids on properties that have already had offers accepted on them with the hope of beating the other buyer to complete the deal.

The competitive nature of the London market is reflected in our research, with Londoners more likely to miss out on a potential property investment than any other region. Londoners are three times as likely as the national average to see a property purchase fall through because of an inability to get funds quickly enough. The influx of foreign capital from investors seeking to take advantage of a weaker pound is also set to enhance market competiveness in 2017, and access to fast loans is vital for domestic investors to compete on a level playing field.

Looking to 2017

With the annual house price growth stabilising in Q4 2016, the UK property market has clearly adjusted to the EU referendum result, and record-low interest rates have no doubt played their role in stimulating demand for property. Despite this, a significant proportion of property buyers are still missing out at the last minute. Our research has demonstrated that while Britain's real estate market is booming, investors are not able to capitalise on available opportunities, with delays in accessing finance cited as one of the main reasons why.

In London – where demand for properties is among the highest in the world – the problems become even more acute, with a greater proportion of property buyers finding themselves gazumped by rival bidders. Furthermore, MFS's research has illustrated that there are substantial costs attached to the issue of losing out on a property purchase at an advanced stage, placing even greater emphasis on the need for lending solutions that are better aligned with the fast-paced nature of the UK property market.

At present, the highly competitive nature of the property market is leading to a degree of reticence among some buyers; over 1 million UK adults said that deals falling through at the last minute has dissuaded them from trying to buy a different property. The long-term implications this poses for property investors is particularly concerning, with real estate contributing over £94 billion to the UK economy. The statistics show that as mortgage lenders implement greater regulation, getting finance promptly will continue to be an increasingly common challenge. This is one of the main reasons the bridging industry has significantly risen in popularity among property buyers and investors over recent years – in such a competitive industry, speed is everything and alternative lending options such as bridging provide the flexibility required to meet the demands of the fast-paced market.

The 2017 Spring Budget announcement on 8 March is an ideal time for Chancellor Philip Hammond to implement reforms that ensure more Britons are able to take advantage of the growing number of real estate opportunities on offer. Quicker and easier access to capital is one such route, and alternative finance instruments such as bridging opens investors to new ways of securing funding in a fast and effective manner. Education and knowledge is key though; in a survey of 2,000 UK adults in Q4 2016, MFS uncovered that 55% of potential property buyers do not know enough about alternative finance to explore such funding options. This knowledge gap risks acting as a glass ceiling on the future growth of the property and bridging industries in what is a critical time for Britain's economic development; something that will need to be addressed in 2017 and beyond.

MFS will play its role to ensure investors are made aware of alternative lending and are no longer at such a high risk of being gazumped. By addressing this pertinent issue, British investors will be able to take full advantage of the wealth of property opportunities on offer.

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