

Estate and Letting Agents Survey

DECEMBER 2007

This is the 3rd survey of estate and letting agents operating in NewcastleGateshead that BNG has commissioned. DTZ were appointed to engage with these key stakeholders to give BNG a deeper understanding of current and predicted trends and their drivers, within the housing market. The findings help to enhance the evidence base underpinning BNG's housing market renewal activity.

Market Context

There are several factors currently influencing and shaping the housing market nationally.

- First, changes in the global economy and the resulting 'credit crunch' have led to unwillingness by lenders to lend at high loan to value ratios and/or to higher risk lenders.
- Second, the introduction of Home Information Packs (HIPs) for three and four bedroom properties in Autumn 2007 created a dip in transactional activity, while vendors and agents get to grips with the preparation of the documentation.
- Third, interest rates have risen since Summer 2006 and, although rates now look set to decrease slightly, these factors together mean that market activity looks to be slowing with slower growth and the possibility of prices dropping in the future.

RESULTS
EVIDENCED BASED
MARKET RENEWAL

Key points

- After several years of house price growth, prices have begun to level off and even to fall in some sectors of the market.
- The Pathfinder neighbourhoods remain key market areas for first time buyers.
- Investor purchases are becoming less common as there are fewer remaining properties at the lowest end of the market with potential for large capital growth.
- The investment/rental market may pick up as high prices mean more young couples and singles look to rent for longer.
- Agents predict some slowing in the market in the next 12 to 18 months.
- The low prices in the Pathfinder area are expected to sustain market activity in the short to medium term.
- Exemption from stamp duty for properties purchased for £150,000 or less in regeneration areas was seen to make a big difference in the marketability of both the properties and the pathfinder area.

Overview of Findings by Market Sector

The survey asked specific questions about the perceptions and behaviours of key groups purchasing and renting property in NewcastleGateshead. A summary by purchaser type follows:

First and Second Time Buyers

- Pathfinder neighbourhoods were reported to be key market areas for first time buyers, with most agents estimating that they accounted for around 60-75% of purchasers in the area. However, over the past few months agents felt that first time buyers were beginning to wait longer to access the market, even in the more affordable Pathfinder areas, and living with family or renting for longer in order to save the required deposits.
- First time buyers searching for homes in the area were seen to be increasingly looking for properties needing little work and were viewing large numbers of properties, reflecting their limited funds and lack of spare cash even to undertake cosmetic work on properties.
- Around one quarter of purchasers in the Pathfinder area were thought to be second time buyers, with agents feeling that they (frequently young families) were more likely to move out of the Pathfinder neighbourhoods, using equity from their first home to meet their housing aspirations elsewhere; pointing to a lack of aspirational housing within the Pathfinder area.

Investors and the Buy to Let Market

- Agents' experience with investor purchasers varied across areas and neighbourhoods, with some agents having limited dealings with investors and others feeling that this constituted the vast majority of purchases in their area.
- Most interviewees reported competition between investors and first time buyers for properties, particularly those priced below £150,000.
- Overall, investor purchasers were becoming less common with fewer properties available with the potential for refurbishment, rental income and significant capital growth.
- Agents had mixed views on the future of the buy to let market. Several thought that the investment/rental market might pick up as young couples and singles look to rent for longer whilst they save deposits and also wait to see what happens with the market generally.
- Others felt that right to buy and large-scale investment property portfolios may become less attractive as the ability to profit from capital growth diminishes as prices level out and buy to let mortgages become more costly.

Emerging Markets

One development since the last survey was the increasing movement of economic migrants from recent EU accession states, such as Poland and Romania, into BNG neighbourhoods. There were varying views on the size and significance of the impact of this market, although most agents were aware of emerging demand from this group, for both lettings and purchases.

Land Agents and Developers

- Discussions with housebuilders and developers found that, although the housing market was starting to show signs of slowing, the land market remained strong due to limited supply in the Pathfinder.

- Although developers were aware of the work of BNG and the significance of Housing Market Renewal, a few also felt that land was slow to come to the market, as a result of the time taken to clear areas.
- Land values in the area have increased over the last 12 months, predominantly caused by under supply and increased competition when sites do become available, rather than the prevailing conditions of local property markets.

Findings By Area

Gateshead Overview

Areas in the Pathfinder in Gateshead have seen large numbers of investors buying property. There is also some in migration of owner occupiers from Newcastle, as property is relatively more affordable and the areas are viewed as providing better value for money. Despite the emerging supply of new build apartments and houses on the riverside and in the Town Centre, agents felt that the 'top level' of the property ladder was missing from the Pathfinder areas with a lack of aspirational properties that allow people to progress their housing careers without needing to leave the area.

Landlords were still seen to be purchasing in Bensham, Dunston, Deckham and Felling in order to invest in the rental market and, generally, levels of private renting were seen to be particularly high in Gateshead. The area remains a relatively local market, with some small movement between the neighbourhoods inside the BNG boundary.

Newcastle Overview

The buoyancy of the markets around central and inner Newcastle were viewed as being highly dependant on price and location. The apartment market is currently seen as saturated, particularly in the city centre. Areas on the outskirts of the city centre were more active with a large number of units on offer, albeit at lower prices. Investors wishing to buy to let are now often buying in the city centre, where apartments in some of the older developments are considered to be more reasonably priced, with more potential for higher returns, than older properties in the inner city areas.

Fenham was highlighted as a popular area, particularly for renting. In Benwell and Scotswood there is very little transactional activity. Family and social ties generally drive moves in these areas and also in Walker, Byker and Elswick. Walker and Byker were the most affordable areas, whereas Walkergate is becoming less affordable as it catches up with neighbouring Walkerville and Walkerdene.

Other key findings

Stamp Duty Exemptions

Exemption from stamp duty on properties purchased for under £150,000 in regeneration areas was seen to make a significant difference in the marketability of both properties and the pathfinder area generally. However, most agents were surprised by how few people were aware of the exemption and felt that awareness needed to be raised to enhance the marketability of these areas.

Rising Repossessions

Throughout the consultation, the issue of the rising number of repossessions was raised. Repossessions were seen to be a result of owners having overstretched themselves on the initial purchase and now suffering the repercussions of interest rate rises, particularly those without fixed term/rate mortgages. The rise in repossessions was also reflected in the rising number of properties in the BNG areas appearing at auction.

Future Predictions

In terms of the future of the markets in the BNG area, all of the agents interviewed expected to see at least some tightening and slowing in the market in the next 12 to 18 months. There is currently a less set pattern to the behaviour of buyers, vendors and renters than in previous years and people have more options in terms of selling or letting, moving areas, renting or moving back with family, for example, to save a larger deposit or to wait for more certainty on interest rate changes and the availability of finance.

The relatively low prices in the Pathfinder area were expected to sustain market activity in the short to medium term. More difficulties were foreseen for higher priced areas, where properties were already staying on the market for longer than at this time in 2006.

Key Recommendations

In light of the survey findings, among other recommendations, DTZ advised BNG and partners to:

- Broaden the range of homes available by introducing a wider housing product range through redevelopment sites.
- Respond to changing demand patterns by bringing forward new development and refurbishment as soon as possible.
- Continue to monitor and support standards in the private rented sector.
- Monitor the number and price of properties sold at auction in the Pathfinder as a measure of market stability and possible changes to the ownership/ tenure mix in some areas.
- Promote the fact that, in pathfinder areas, properties sold for under £150,000 are exempt from Stamp Duty.
- Work to combat stigma and negative perceptions of the Pathfinder area.
- Communicate more effectively with estate and letting agents. Agents were keen to be involved in regeneration proposals and their knowledge and influence will continue to be invaluable during a time of market instability.

Further information

The study was carried out by DTZ between August and November 2007.

Findings from other studies are available on Bridging NewcastleGateshead's website: www.bridgingng.org.uk.