

RISE IN RATES

RISE IN RATES The Bank of England's Monetary Policy Committee (MPC) met behind closed doors again, as they are discussing the various aspects of the UK economy and preparing to decide what to do about interest rates. All over the country homeowners and property investors alike are waiting to see if they will be hit with a further interest rate rise, be it by an increment of 0.25 per cent as this would take the rate to 5.5 per cent. Experts have formed different groups to discuss the rate whether to indeed increase the rates of interest with the MPC not averse to splitting down the middle, as it was done when it voted 5-4 for the last hike in January. Most analysts expect this hold to be temporary, simply delaying the rise until May. But whatever the outcome is, the evidence so far shows that British buy-to-let market has brushed aside the effects of the three rate hikes imposed since August. Buy-to-let borrowers are increasing in number, and the Paragon's latest figures show that this form of lending is up by 30 per cent since last year, when interest rates stood at 4.5 per cent and the first rise was months away. Nor has there been any falling away detected recently. John Heron, Easier Paragon's managing director, was quoted as saying "Across the board, the intermediaries through whom we originate around 95 per cent of our lending are generating good volumes of business, which is reflected both in our own mortgage completions and those of the industry in total." Further more he added that, " Suggesting that buy-to-let activity is influenced by fluctuations in interest rates with business going up when rates fall and going down when rates rise is unfounded." Similar news was provided by the Council of Mortgage Lenders (CML), in the form of figures which showed that buy-to-let buying was 19.4 per cent higher in the second half of 2006 than the first, despite two sudden rate rises. Paragon's chief executive Nigel Terrington, said that the "short term" trends of interest rates were being influenced by the more significant and long-term factors of "underlying trends of supply and demand in the market place." The demand for new homes is growing faster than the number of homes being built. Immigration from Eastern Europe has been one of the most important factors for this increased demand. In addition, there has been a new trend of smaller households. More and more people are living alone as single, divorced or widowed- hence the need for more homes are also increasing Simon Tyler of Chase De Vere stated that the influx from behind the former iron curtain is a particular factor. He also commented that there has been a considerable extra demand for rented homes. In a whole he expects that UK will fall well short of building enough homes for a population that is expected to grow to 65 million by 2020. In such a situation, the buy-to-let market appears to offer a strong long-term prospect. Interest rates may or may not go up this month, in May, or any other month. But the evidence is that the market will be able to withstand it and, more importantly, do so through the knowledge that the long term factors in its favour are more relevant than the ephemeral factors that Mervyn King and his colleagues are required to address.

About the Author

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