

TheObserver

Climbing off the property ladder 'was the wisest move we ever made'

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With tumbling prices and rising uncertainty, ex-homeowners tell **Huma Qureshi** why, for the moment, they are sold on renting

Moving from owning a home to renting was once considered a backwards step, but many ex-homeowners who sold at the top of the market are now sitting pretty as they consider taking advantage of the property slump and buying again at bargain prices.

As the property market continues to crumble with the average house price down 17% compared to this time last year, people who sold their homes before the credit crunch and opted not to buy again are now enjoying a mortgage-free, flexible lifestyle compared to those homeowners struggling with hefty mortgages and worrying about negative equity.

Jo Eccles, director of Sourcing Property, a property search company, says she has seen a substantial increase in the number of clients who sold their homes at the top of the market and who could afford to buy again, but have decided to live long-term in rental properties instead.

"With the added uncertainty in the market and people worried about their jobs and whether or not they can pay the mortgage, renting is no longer considered a stepping stone for ex-homeowners," she says. "They are taking a long-term view and considering a rental property to be their home."

Eccles says that 65% of her clients are looking for long-term rentals, whereas two years ago 85% of them only wanted a short-term let.

"People who are struggling to sell their property are now putting it on the rental market, so there is a lot more choice for tenants," she says. "Instead of moving into a standard buy-to-let property, tenants can move into a loved home and make it their own instead."

Gemma Ward, an account manager in Dorset, sold her one-bedroom garden flat in Bournemouth last March for £162,500 after buying it for £130,000 three years ago.

Ward and her husband, Peter, were about to complete on their next property purchase, a run-down house that needed renovation, but pulled out two days before the sale because they were worried about the market.

"It was the wisest move we ever made," she says. "I was so worried that we would end up in negative equity, and as soon as we pulled out of the purchase, I felt as if a weight had been lifted off my shoulders."

The couple have been renting ever since, paying £900 a month for a two-bedroom garden apartment close to the beach. They are now looking for a larger family home - not to buy, but to rent long-term. Ward estimates that a mortgage on the same property would cost them around £1,250 a month: "The extra money lets us have a little more cash to do things which we would not otherwise be able to afford had we been tied into a mortgage, such as taking holidays."

Peter Orr, managing director of a mobile marketing company, sold his one-bedroom Georgian property in Edinburgh two years ago for £230,000 when he moved to London for work.

He opted to rent as a quick solution to finding somewhere to live - but two years on, he's still renting, paying £1,650 a month for a two-bedroom roof-terrace apartment off the King's Road in London.

"I'd always intended to buy when I moved to London, but it became clear at that time that prices were still way too high," he says. "For me, paying rent is not dead money, it's just another living expense. Besides, I doubt I'd find a place as nice as the one I'm currently in to buy."

Research from Abbey to be published tomorrow shows that for first-time buyers planning to put down a 15% deposit on a home, it is still cheaper to rent than to buy in every region of the country.

The research concludes that in the East Midlands, for example, a typical first-time buyer property bought with a 15% deposit using an Abbey mortgage would cost £900 a year more than the average rent in that region. However, if the buyer put down a 25% deposit, based on these assumptions, it would be around £400 cheaper to buy.

But in the wake of the Bank of England's decision to cut the base rate by a further 0.5%, some commentators are suggesting that ex-homeowners would be better off putting their deposits from house sales into property again, rather than leaving the money to earn minimal interest in savings accounts.

David Smith, senior partner at Dreweatt Neate estate agents, says: "People who have sold and are now renting are increasingly finding that the interest on the money in the bank is no longer covering their rent. As a result, they are slowly beginning to re-enter the market, knowing that prices are sharply lower than a year ago and that now could be an excellent opportunity in the medium to long term."

Steven Smith, an electrical maintenance manager in Plymouth, has decided now is the time to buy. He sold his three-bed terrace in September 2007 for £141,000, after buying it in 1998 for £49,000.

Since then, Smith has been renting a three-storey, new-build family home for £800 a month and he is about to buy a three-bedroom semi for his sons, aged 20 and 19, who will pay him every month to cover the mortgage. The sellers were originally asking for £160,000; Smith has just had his offer of £135,000 accepted.

"The money has just been sitting in the bank and I think now is the time to move it out of our savings, where it's only getting about 3% interest, and back into property," he says.

James Wright, another renter, has started trying to get back on the ladder. He sold his London house in November 2007, started renting and shifted the money from the house sale into a savings account.

"A year ago that deposit was earning about 5% but now it's earning next to nothing so I see this as a good time to buy," he says.

Richard Mason, managing director of financial site Moneyextra.com, says ex-homeowners in a similar scenario to Wright are in a strong negotiating position. But he recommends waiting for at least another six months before buying as he predicts prices will drop further.

"Say you have £40,000 as a deposit from a previous house sale lined up and the price of the £200,000 house you want to buy drops 5% in the next six months," he says. "You'll have saved £10,000 - which makes up for the fact that you've lost out on six months of interest in a low-paying account."

For some ex-homeowners like Orr, renting remains the more attractive option, regardless of where prices go. "For me, the excitement of property ownership has dissipated, if not disappeared," he says.