

Buy to Let and Landlording in 2020

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Agenda

1. How is the market performing currently?
2. How will economics influence buy to let investment?
3. What are the forecasters predicting?
4. What impact will the new government have on buy to let and landlords?
5. Top tips for BTL investors and landlords in 2020.

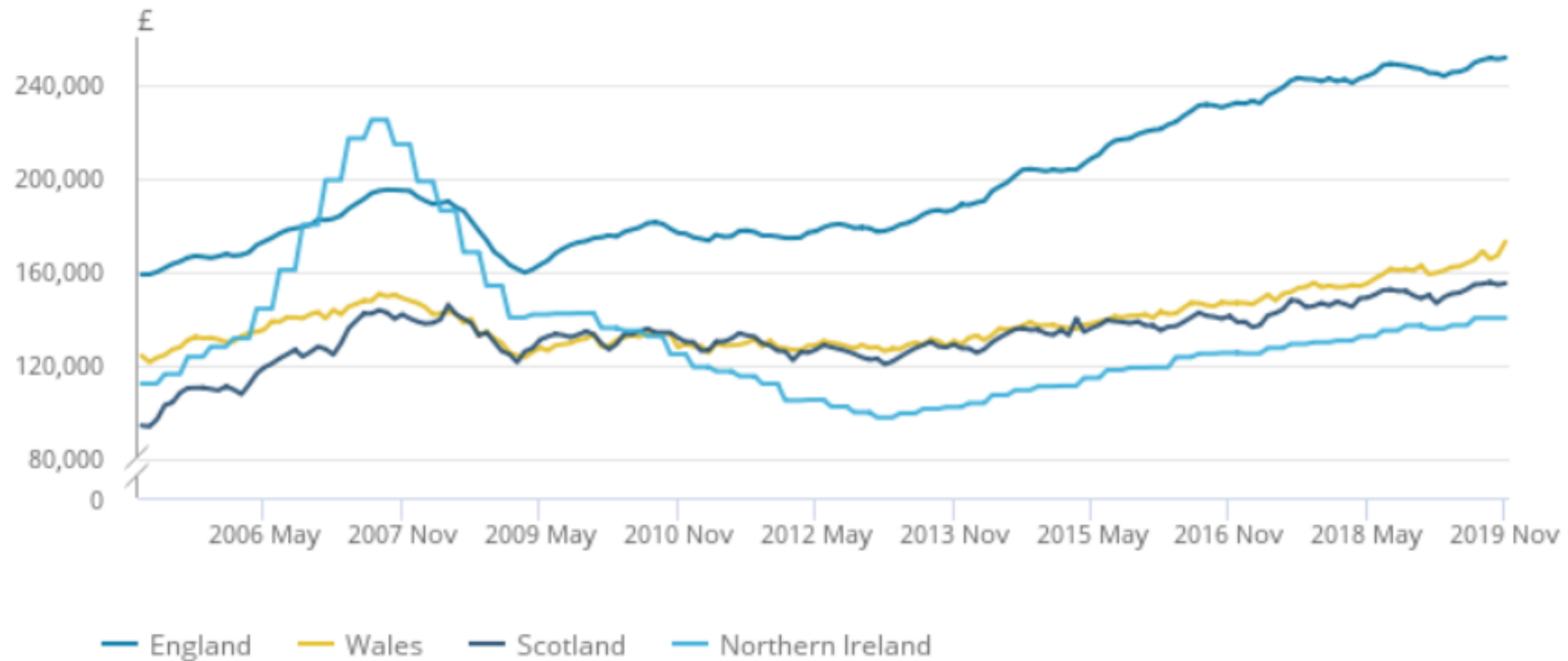
Buy to let investment 'secrets to success'

Purchase – sale price – tax = profit

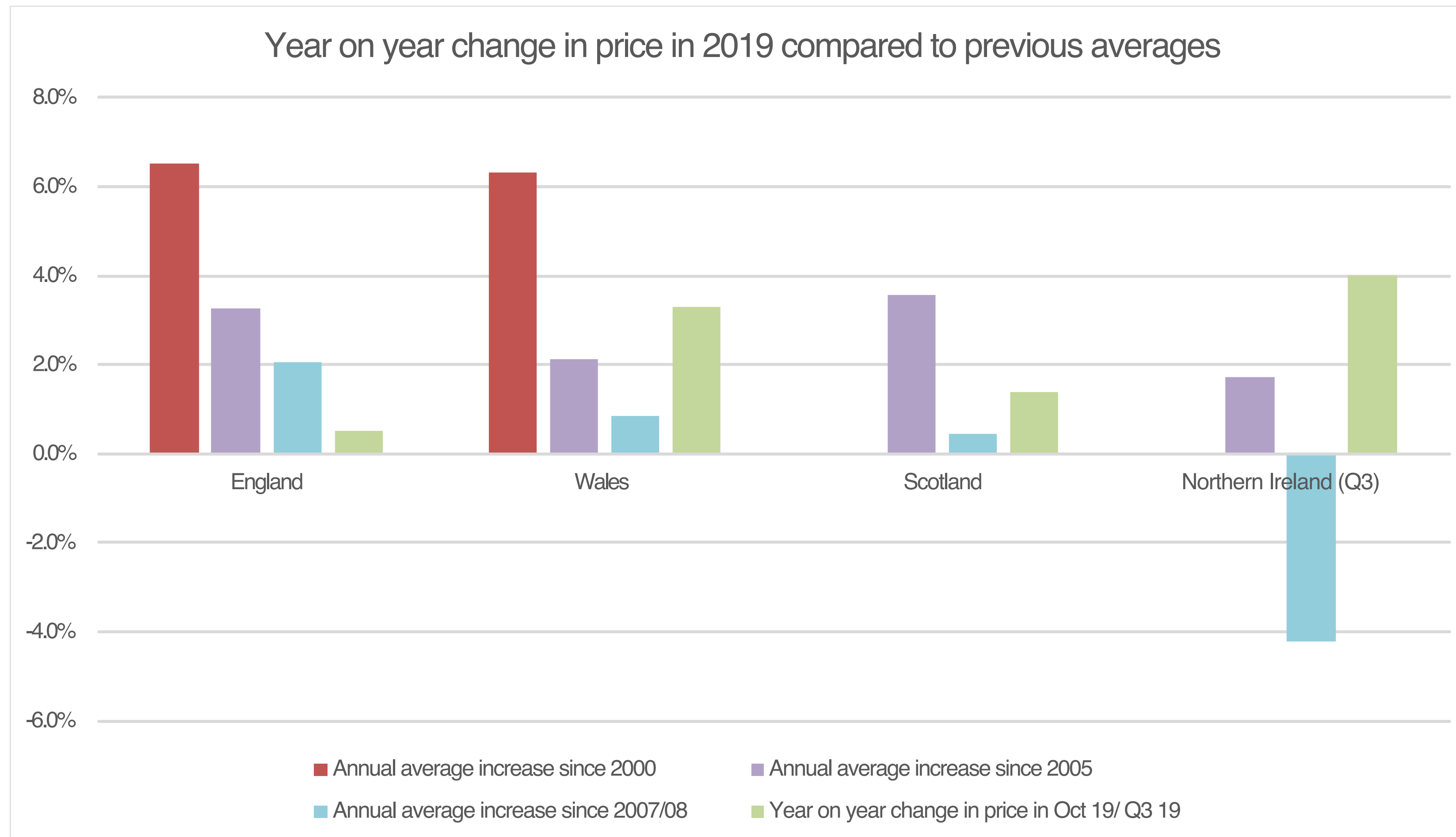
Rent – costs – tax = profit



How are prices performing?

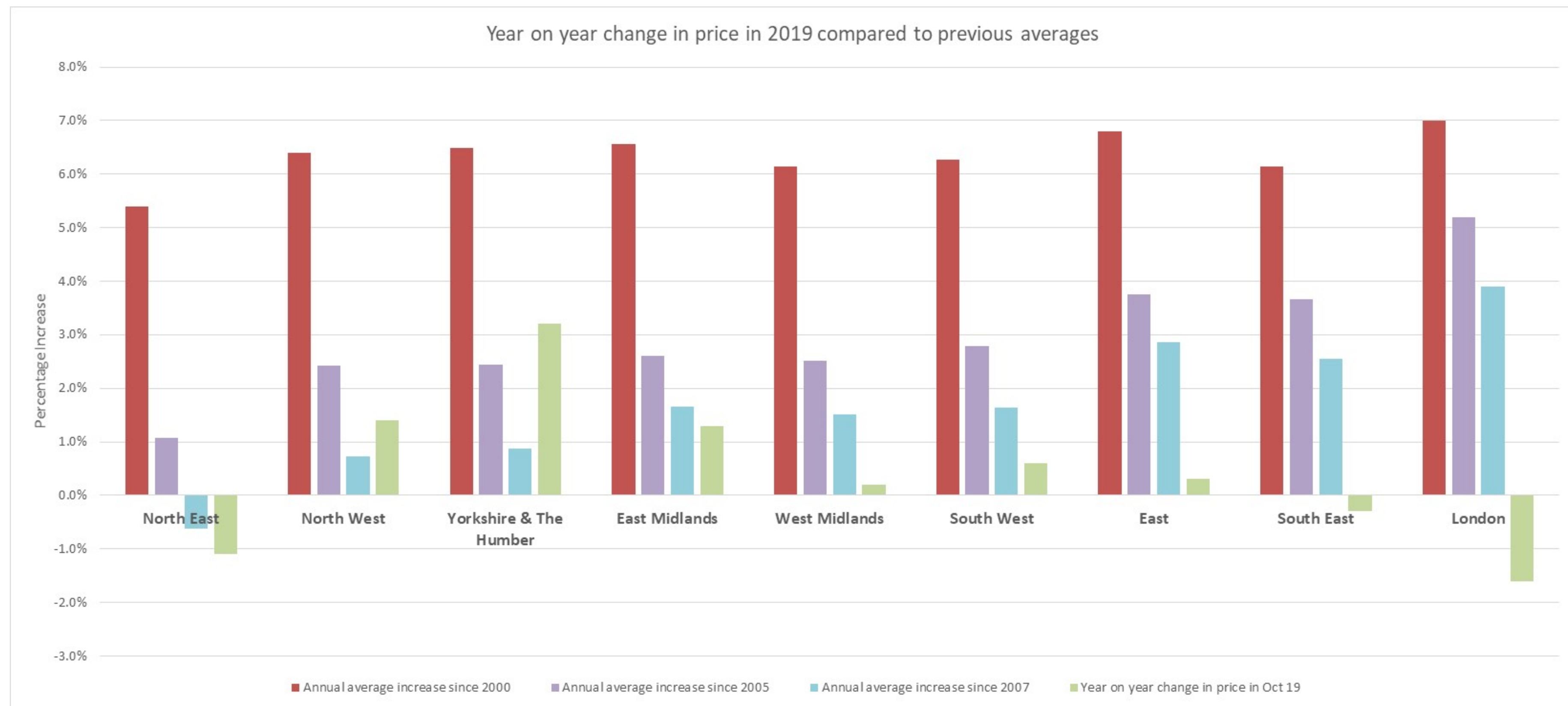


Capital growth: Needs to be built in



Source: HM Land Registry and www.propertychecklists.co.uk

Does 'the North' really give great returns vs London?



Rents: Rising in excess of prices?

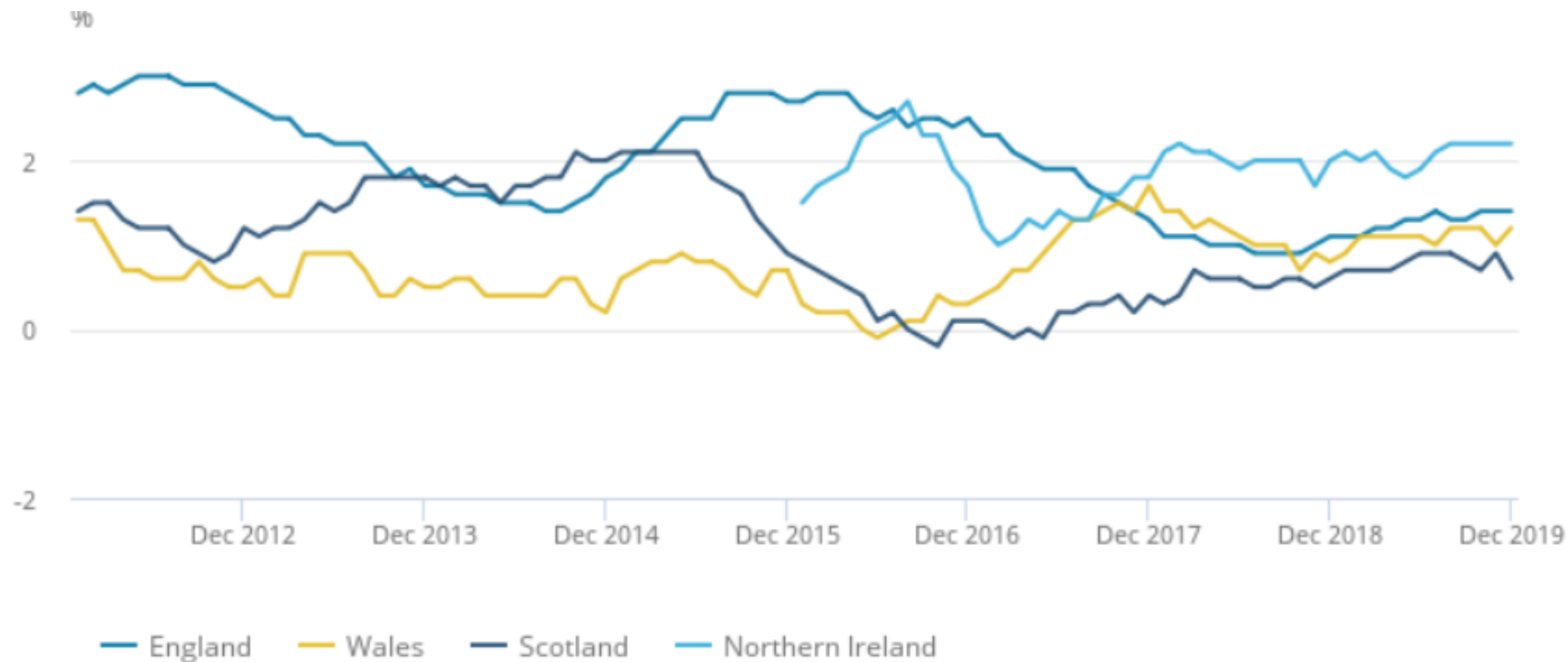


Figure 3: The annual rental growth in Scotland was lower than in other countries of the UK

Index of Private Housing Rental Prices percentage change over 12 months for countries of the UK, January 2012 to December 2019

No 'extortionate' or 'sky rocketing' rents

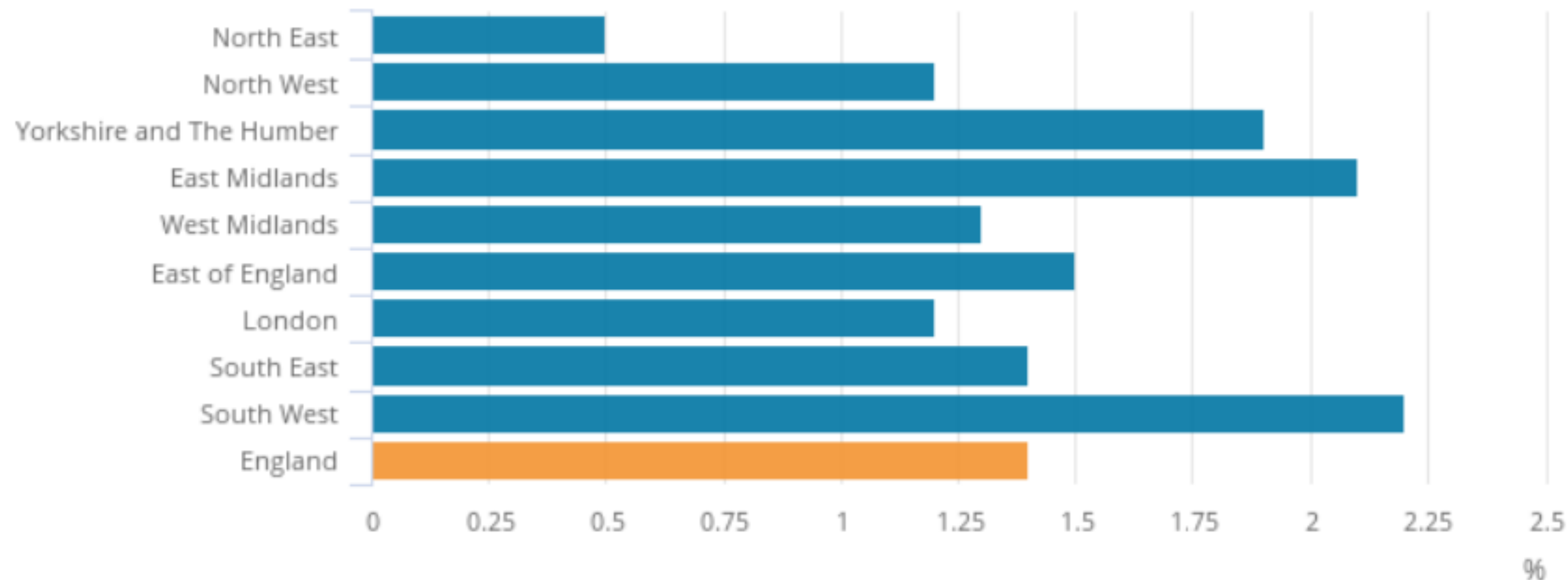


Figure 5: Strongest annual rental price growth in the South West

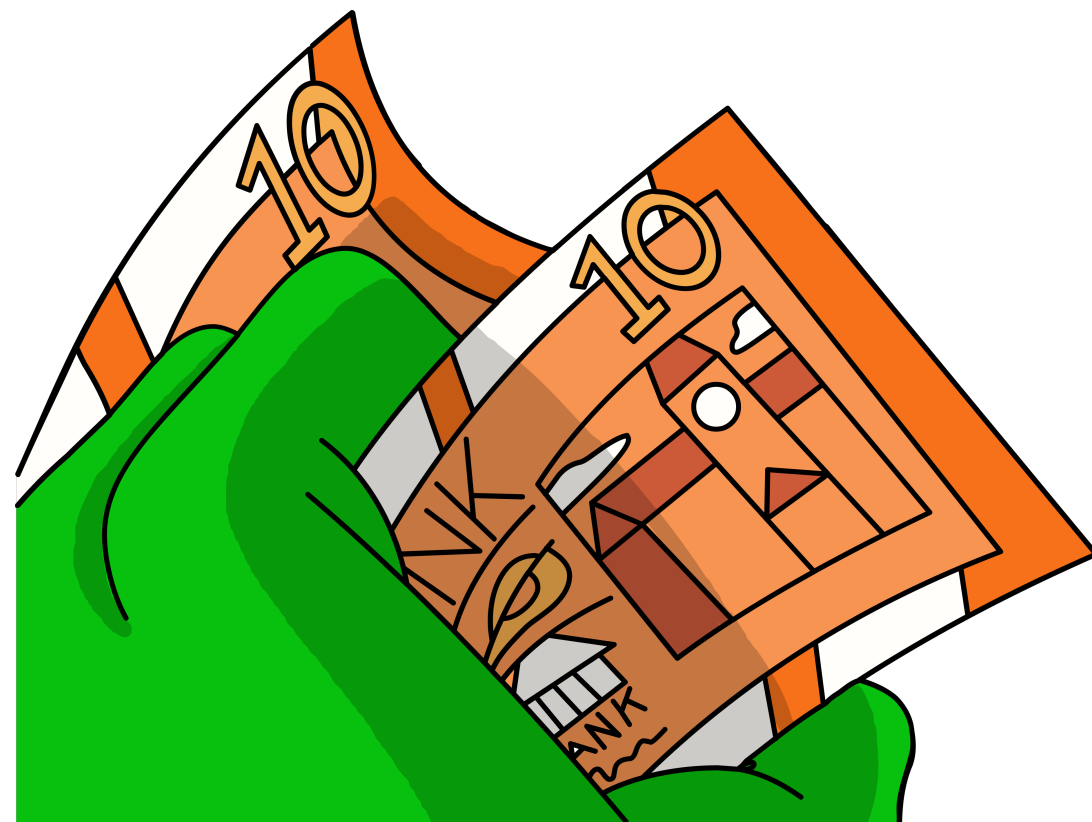
Index of Private Housing Rental Prices percentage change over the 12 months to December 2019, by English region



Why you should
welcome rent
controls

Rent controls: Helpful to Landlords?

Scotland: rent cap will be *at least* consumer price index (CPI) plus 1%




Rent pressure zones

Local councils can apply to Scottish Ministers to have an area designated as a 'rent pressure zone' (RPZ) if they can prove that:

- rents in the area are rising too much
- the rent rises are causing problems for the tenants
- the local council is coming under pressure to provide housing or subsidise the cost of housing as a result

A rent pressure zone will only apply to rent increases for tenants with a [private residential tenancy](#). Rent increases for tenants with a short assured or assured tenancy will not be affected.

If an area is [designated as an RPZ](#) , a cap (maximum limit) is set on how much rents are allowed to increase for existing tenants with a private residential tenancy each year in that area.

Scottish Ministers must consult landlords' and tenants' representatives before they make any area a rent pressure zone.

Zoopla Rental Index

- From 2007 to 2018 rents have risen by 18%
 - Average annual rise of: 1.52%
 - £486 to £574
- 2007 to 2018 inflation has risen by 2.9% per year

What would goods and services costing

£ 486 in 2007 cost in 2018 ?

Show amount

£662.39

Inflation averaged 2.9% a year.

- At 3.9% average rents would be £740 per month
- Rent controls: 29% higher than current average rents

Summary of the current market

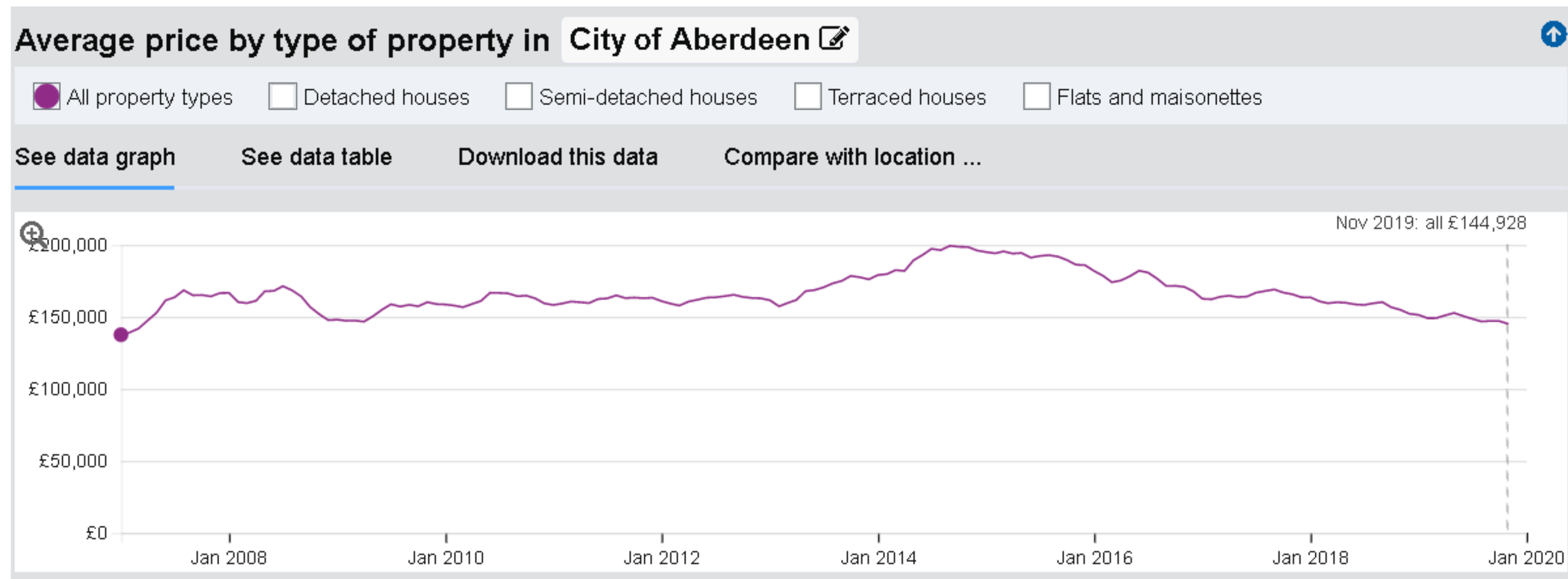
- Not in a 'boom' or 'bust'
 - Steady
- Good news for existing landlords
 - Tenants stay put
 - Rents rising in line with inflation
- Bad news is it's difficult to secure a 'bargain'
 - Little 'natural' capital growth





How the
economy
influences
your market

Aberdeen property prices



Property prices have fallen by 6.4% since 2007

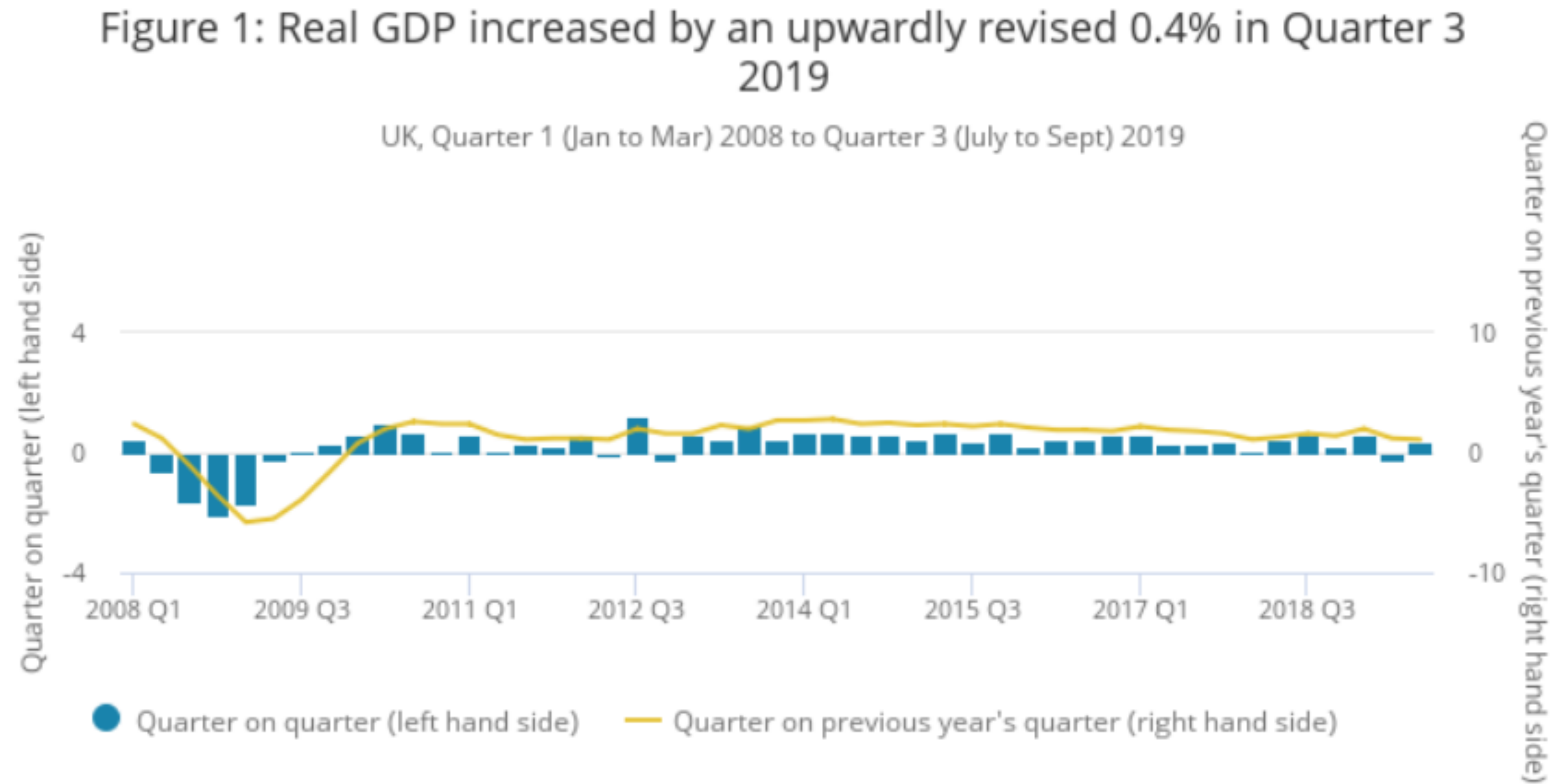
Aberdeen rents

| Beds ▲ | Average Rent ▲ | Rent Change 1yr ▲ | Rent Change 5yrs ▲ | Rent Change 10yrs ▲ | Av. TTL (days) ▲ | TTL Change YoY ▲ | Let within a week ▲ | Let within a month ▲ |
|--------|----------------|-------------------|--------------------|---------------------|------------------|------------------|---------------------|----------------------|
| 1 bed | £454 | -4.0% | -34.2% | -15.9% | 47 | 5 | 9% | 39% |
| 2 bed | £648 | -5.1% | -35.5% | -15.1% | 47 | 1 | 7% | 37% |
| 3 bed | £968 | -6.9% | -29.4% | -17.2% | 51 | 2 | 8% | 36% |
| 4 bed | £1,425 | -0.8% | -30.0% | -6.5% | 52 | 9 | 6% | 30% |
| Total | £716 | -3.9% | -32.9% | -13.7% | 48 | 3 | 8% | 37% |

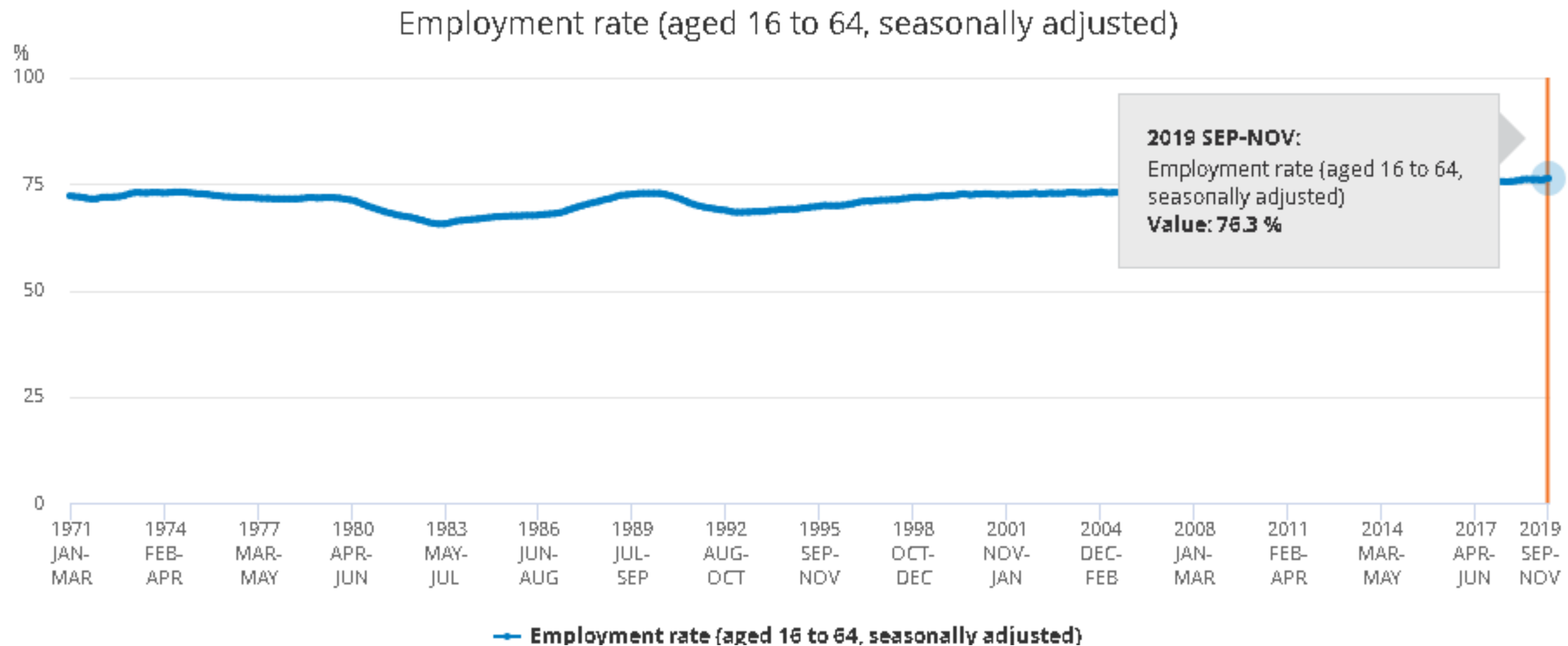
Which is
the next
town likely
to suffer?



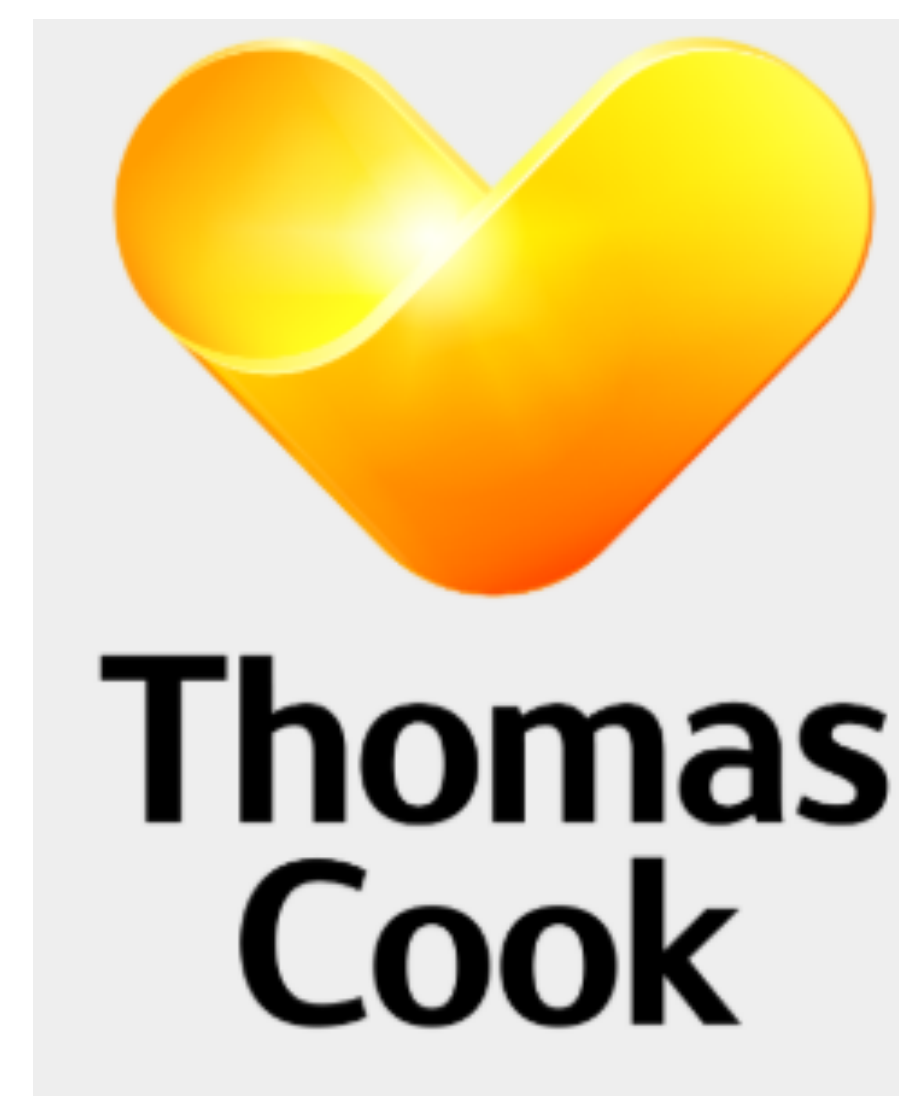
Growing economy = jobs = wages rise



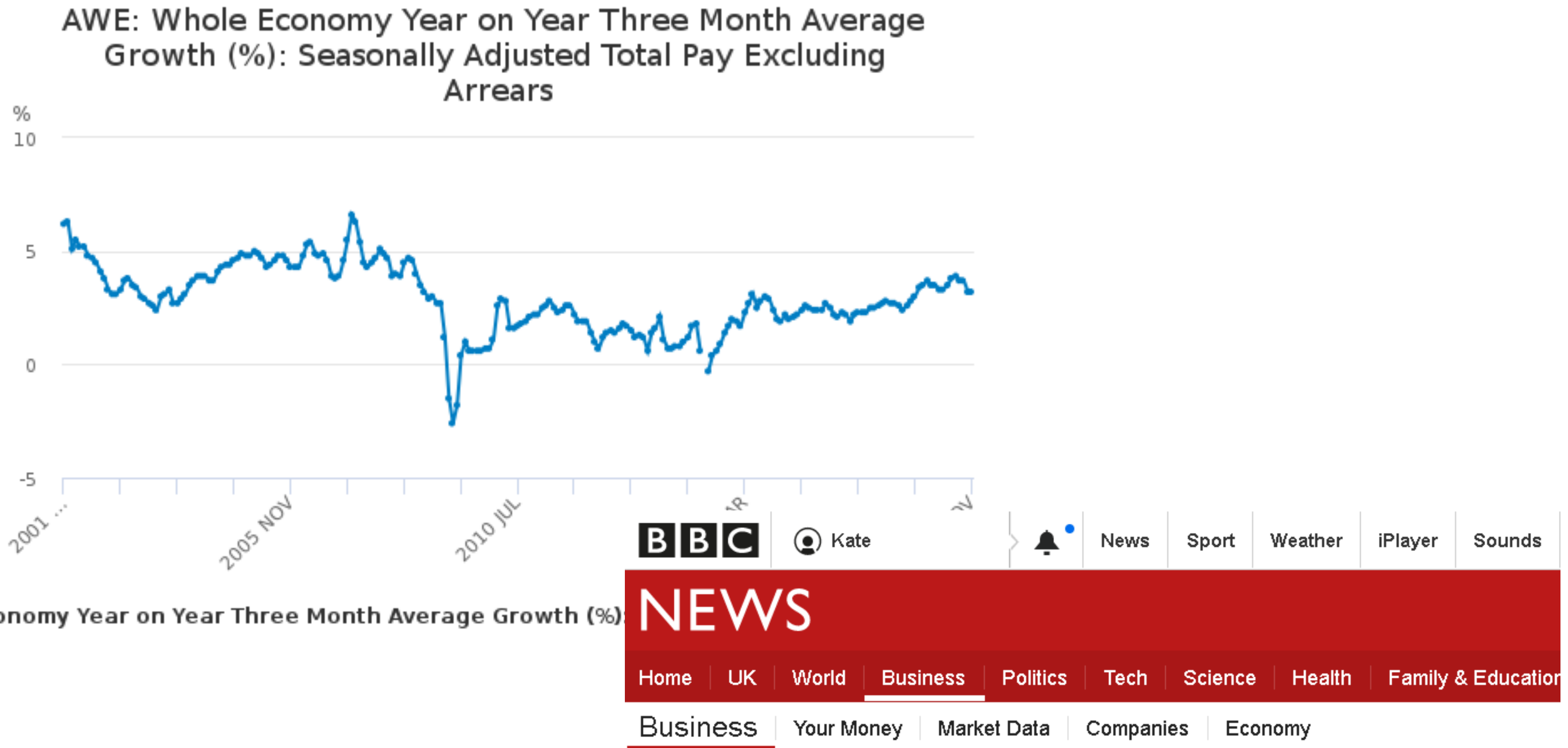
Jobs: actual and 'fear'



Fear of job losses lowers confidence



Wages: on the up!



<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/timeseries/kac3/lms>

National living wage to rise by 6.2% in April

31 December 2019

What are the forecasters predicting?





















Bank of England economic forecasts

Table 1.A Forecast summary ^{(a)(b)}

| | Projections | | | |
|--|-------------|---------|---------|---------|
| | 2019 Q4 | 2020 Q4 | 2021 Q4 | 2022 Q4 |
| GDP ^(c) | 1.0 | 1.6 | 1.8 | 2.1 |
| CPI inflation ^(d) | 1.4 | 1.5 | 2.0 | 2.2 |
| LFS unemployment rate | 3.9 | 4.0 | 3.8 | 3.5 |
| Excess supply/Excess demand ^(e) | -¼ | 0 | +¾ | +1¼ |
| Bank Rate ^(f) | 0.7 | 0.5 | 0.5 | 0.5 |

What are the forecasters predicting?

Incomes and rents on the rise

| Mainstream rental forecasts | | | | | | 5-year compound growth |
|-----------------------------|---|---|---|---|---|------------------------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | |
| UK |  2.0% |  3.0% |  3.5% |  3.0% |  3.0% | 15.4% |
| London |  2.0% |  4.0% |  4.0% |  4.0% |  3.5% | 18.8% |
| UK (excluding London) |  2.0% |  2.5% |  3.0% |  2.5% |  2.5% | 13.1% |
| Income growth (UK) |  2.6% |  3.0% |  3.0% |  3.0% |  3.0% | 15.6% |

<https://www.bankofengland.co.uk/monetary-policy-report/2019/november-2019/the-economic-outlook> and <https://www.savills.co.uk/insight-and-opinion/research-consultancy/residential-market-forecasts.aspx>

What are the forecasters predicting?

Property price forecasts

| Property Price Forecasts | Savills 2020 | Savills 5 Yr compound growth | | Knight Frank 2020 | Knight Frank 5 Yr Forecast | | JLL 2020 | JLL 5Yr cumulative growth | PwC 2020 | PwC 2021-2022 (average) |
|-----------------------------------|-----------------|------------------------------------|--|----------------------|-------------------------------|--|-------------|---------------------------------|-------------|-------------------------------|
| <i>Date of publication/source</i> | (Nov 19) | (Nov 19) | | (Nov 18) | (Nov 18) | | (Nov 19) | (Nov 19) | (Jul 19) | (Jul 19) |
| UK | 1.0% | 15.3% | | 1.0% | 10.3% | | 1.0% | 14.8% | 2.1% | 3.0% |
| London | -2.0% | 4.0% | | 1.0% | 9.2% | | 1.0% | 17.0% | 1.0% | 3.2% |
| South East | 0.0% | 10.9% | | 1.0% | 9.2% | | 0.5% | 14.8% | 0.4% | 3.1% |
| South West | 0.5% | 13.1% | | 1.0% | 7.6% | | 1.0% | 15.3% | 1.7% | 3.1% |
| East of England | 0.0% | 10.9% | | 0.0% | 7.1% | | 0.5% | 16.4% | 0.9% | 2.4% |
| East Midlands | 3.0% | 18.2% | | 0.0% | 8.1% | | 0.5% | 14.2% | 3.4% | 3.2% |
| West Midlands | 3.0% | 18.2% | | 0.5% | 10.8% | | 0.5% | 12.0% | 4.1% | 3.2% |
| North East | 1.5% | 19.9% | | 2.5% | 13.6% | | 0.0% | 9.8% | 1.8% | 3.0% |
| North West | 2.5% | 24.0% | | 1.5% | 11.4% | | 1.5% | 16.5% | 3.8% | 4.2% |
| Yorks & Humber | 2.0% | 21.6% | | 1.0% | 12.0% | | 1.5% | 15.4% | 3.1% | 3.7% |
| Wales | 2.0% | 18.1% | | 0.5% | 9.8% | | 0.5% | 11.5% | 4.2% | 4.0% |
| Scotland | 2.0% | 19.9% | | 0.5% | 10.3% | | 2.0% | 14.2% | 2.4% | 4.7% |

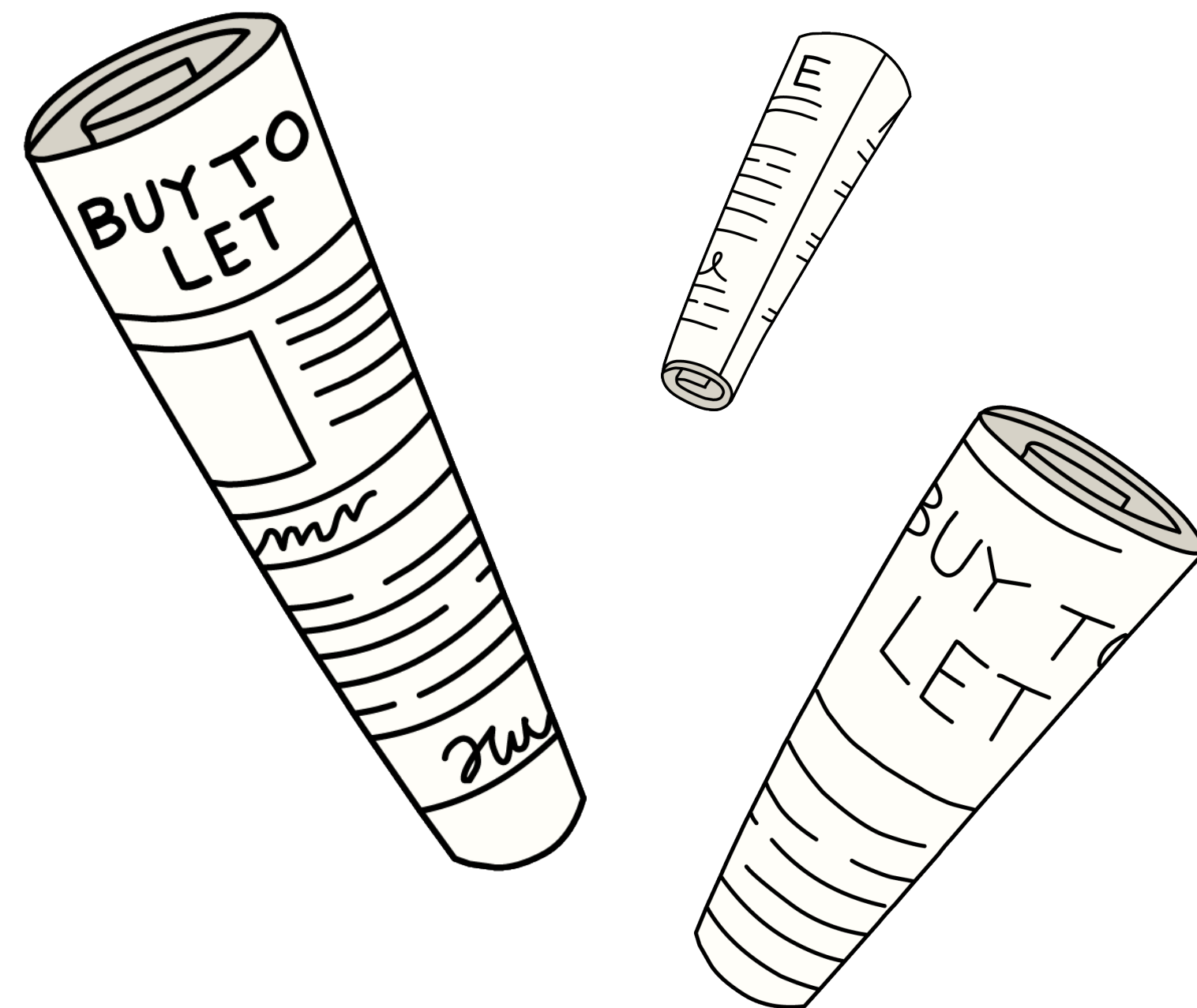
Impact of the new government: following the manifesto

- Based on their manifesto / Queens Speech
 - Improving energy performance
 - Raise home ownership
 - Improve home buying and selling process
 - Introduce the New Homes Ombudsman
 - Some developers will be in trouble!
 - Possible stamp duty change 11th March
 - Improve rights of renters
 - Lifetime deposits
 - S21 banned
 - Infrastructure changes
 - HS2, go or not?



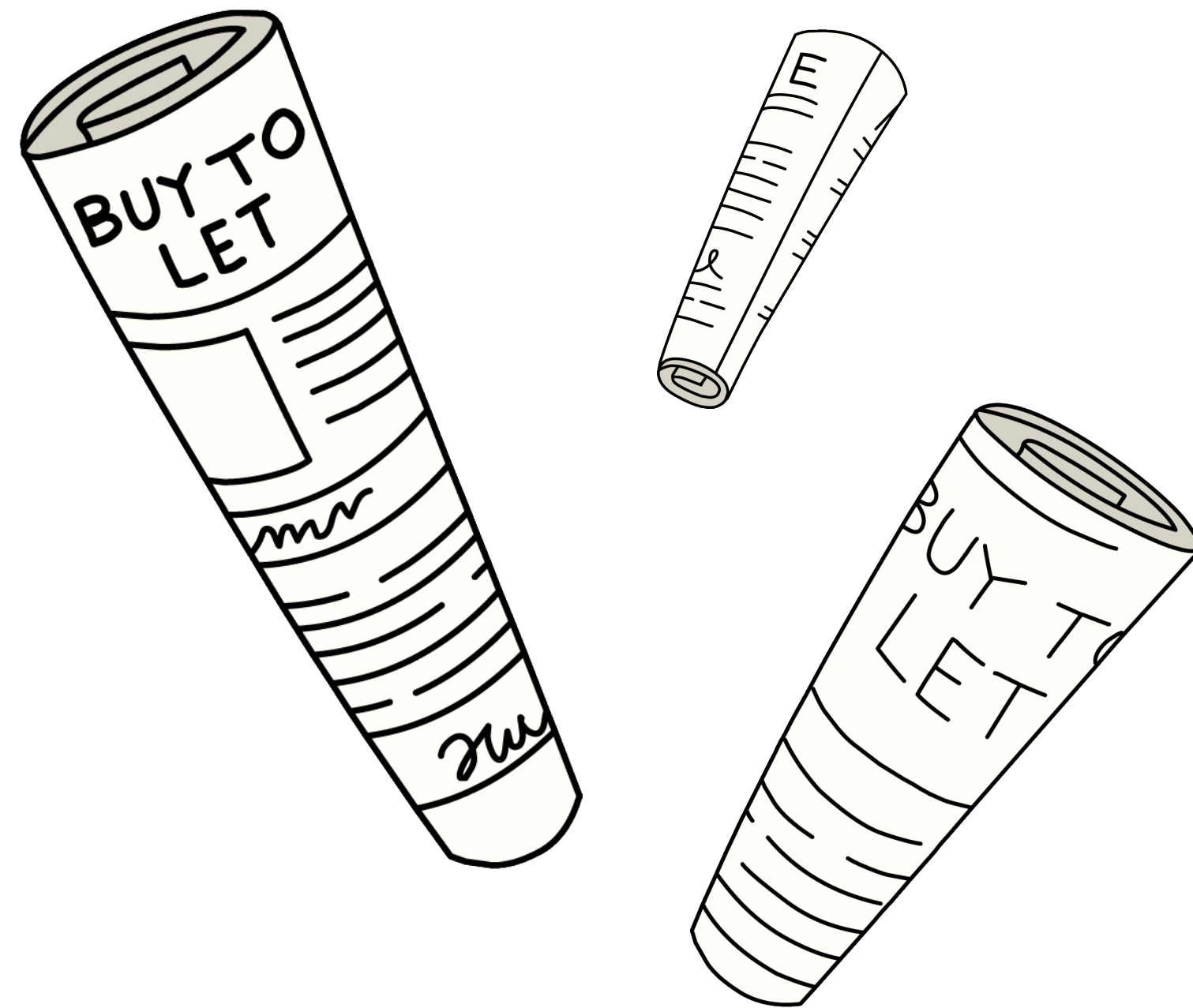
Legislation changes

- Already in place
 - Extension of Homes (Fitness for Human Habitation) Act
 - Minimum Energy Efficiency Standards: £3,500 cap
 - Capital Gains Tax changes
 - Compulsory CMP for agents
 - Extension of Tenant Fees Act



Legislation Changes

- On it's way
 - Section 21 being scrapped
 - Electrical safety 5 year checks
 - EPCs to level 'C'
 - Letting agent regulation
 - Renting Homes (Wales) Act
- Landlord registration?



Not all
bad news



Home Buying and Selling Group

The Lettings Industry Council

- Property MOT
- Reservation agreements
- Buying and Selling Property Information (BASPI)
- Property Information Packs
- Leasehold, better rules
- Improved education
 - For the industry and consumers
- Find ways to ‘encourage’ the industry to work better
 - Enable cross sector learning

Top tips for BTL investors and landlords

ARMCHAIR INVESTORS to
PROFESSIONAL
LANDLORDS

- Really understand your ROI
 - Compare versus other financial investments
 - Is holding with cash the right thing to do?
- Ensure you are charging market rent
 - Reduce risk from rent controls
- Regularly review your finances including mortgages
 - Lenders change their products every three months
- Do your properties meet the 400+ rules and regulations to let?
 - Keep up to date with the rules
- Get your electrics signed off NOW
- Consider rent guarantee insurance
- Plan your renovations to meet future expectations
 - Rental properties should be 'C'
- Know your entry and exit strategy



Summary

- Market
 - Good for rental, harder for capital growth
- Economy
 - Good wage growth, need to protect yourself vs unemployment
- Politics
 - Let up on BTL attack?
 - Continued changes to legislation
 - Tenants rights improved

