The PROPERTY Hub Magazine

Making sense of property investment

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PROBLEM SOLVING
Who will solve the UK's housing crisis?

CASE STUDY
The Great Wight Way – holiday lets on the Isle of Wight

LOCATION
Cardiff's property market under the spotlight

LETTINGS
Could putting a lid on security deposits backfire?

BEFORE AND AFTER

How buy-to-let has changed since the credit crunch

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Contents

Regulars

Rob Bence runs RMP Property, a property investment company that sources buy-to-let investments on behalf of clients. He has ten years' experience working in the property sector.

Rob Dix is proud to call himself a complete and utter property geek.

He has written extensively on investment, and his books include Property Investment for Beginners and Beyond the Bricks. He also runs a personal blog, Property Geek.

Welcome

The events of 2017 have left us feeling a bit uncertain about where the UK is heading, but one thing's for sure: how fortunate we are not to be in the uneasy position of ten years ago.

The 2007 run on Northern Rock shook the financial world and gave property markets a nasty case of the jitters. Indeed, unless you're Vince Cable (and if you are, thanks for reading, Sir!), you were most likely ill-prepared for the unsettling effects that rippled outward.

To mark the occasion, Stephanie Spicer looks back at how the crisis developed on page 18. She considers how landlords have fared over the ensuing decade and asks – crucially – whether they're now in a better place.

And while we're taking a close look at the fate of investors since the credit crunch, on page 28 you'll find Leah Milner casting an eye over the wider property market to discover how we can solve the housing crisis.

At such an interesting time for the property market, do you ever wonder what those people setting the pace get up to? To find out, we spend a day in the life of a policy maker at the Residential Landlords Association (page 8).

Meanwhile, if you're starting to think about what to do with your property business when you retire, you'll want to head to page 46 to learn how best to plan an exit strategy.

And, to coin a phrase from a fairly popular TV show, *winter is coming* – so check out our top five tips for winter-proofing your rental home just in time for the cold weather.

See you next time!

Rob Bence & Rob Dix

News

MARKET FOCUS

The latest news and developments from the property industry.

BREXIT SCHMEXIT! JUST STOP WITH THE TAX

The country may be in no man's land when it comes to our exit from the European Union, but landlords aren't worried – at least not according to the latest research.

A survey by Direct Line sought to find out what's currently weighing on property investors' minds, and Brexit barely made an appearance. Taxation and economic uncertainty were far greater near-term worries.

Regulation is another key issue, with 40% of landlords expressing concern about higher penalties and increased risks of prosecution. Under the 2016 Immigration Act, landlords who fail to check a tenant's right to rent can face criminal prosecution with unlimited fines and up to five years in prison.

On a happier note, landlords are more optimistic about short-term improvements in house prices, with 31% calling house price rises the most significant short-term positive for the industry.

Most investors express confidence that interest rates will remain low for the near future. Indeed, almost a third (32%) of landlords intend to remortgage in the coming months, while 58% are planning minor renovations to their properties.

Christina Dimitrov, business manager at Direct Line for Business says: "Landlords' resilience in the ever-changing property marketplace is great to see, and it's really positive that they don't appear to be worried about Brexit's impact on demand."

"The continued low interest rate environment can only benefit landlords and tenants," adds Christina. "However, experts are predicting an interest rate rise in the future, and the Prudential Regulation Authority's tougher underwriting rules for buy-to-let mortgage lenders may bring some challenges for landlords wanting to expand their portfolios."

THE ROAD TO NOWHERE?

It seems the government has made good on its promise to spend the cash raised from Vehicle Excise Duty on the country's crumbling roads. Transport Secretary Chris Grayling has announced plans for a £1 billion fund to improve or replace A-roads and bypasses across the UK.

According to reports, the move will relieve bottlenecks and provide better connections between towns and cities – a big plus for property investors, given the impact new transport links can have on house prices.

Councils won't be able to access the fund until 2020, however – by which time our government could look very different, if the past few months are anything to go by. Is it a case of too little too late?

LOOKING NORTH

There was a setback for the Northern Powerhouse initiative recently when transport secretary Chris Grayling's announcement that planned electrification of railway lines is to be replaced by "bi-mode trains" instead.

But it's full steam ahead for the Institution of Civil Engineers (ICE), which has launched a report entitled "Delivering a Northern Infrastructure Strategy" in order to "recommend a clear way forward for planning and delivering high performing infrastructure alongside regional coordination and an ambitious investment programme".

The report outlines infrastructure's crucial role in unlocking the North's potential, increasing productivity and improving quality of life. It features 12 recommendations for improving leadership and setting strategic investment objectives for the North, including the development of a Northern Infrastructure Strategy and the creation of a Northern Spatial Plan to guide and coordinate integrated infrastructure development.

The ICE says the plan will "drive economic growth and improve quality of life – creating a true Northern Powerhouse".

THE END OF THE OWNERSHIP DREAM?

Ever since mortgage lenders tightened their lending criteria to demand larger deposits and impose stricter affordability checks, there have been rumblings about the death of homeownership. "Generation rent" has become a familiar term as would-be buyers find themselves priced out of the market and struggling to get finance. So are we really facing a time when homeownership won't be the norm?

A new survey by GoCompare Mortgages suggests that's not an impossible scenario, revealing that 31% of tenants in rented accommodation cannot imagine ever owning their own home.

And those who are renting now have to worry about rental stock. According to the survey, more than a fifth (21%) of renters think that the removal of mortgage interest tax relief on buy-to-let properties, which came into force in April 2017, will reduce the supply of rented properties in their area.

Some tenants also reported concerns that they'll face rent hikes as buy-to-let landlords pass on the higher costs. Of those surveyed, 6% said that their landlord had already increased – or given notice of increases – as a direct result of the tax changes.

Matt Sanders from GoCompare Mortgages says, "Our research reveals that half of all tenants are in rental accommodation because they can't afford to buy their own home. It now looks like many have given up all hope of ever owning a home, and – for some – the changes to buy-to-let regulations are likely to make renting more expensive. In turn, that makes saving for a mortgage even harder."

TO BAN OR NOT TO BAN

It's been 12 months since Chancellor Philip Hammond announced a ban on letting fees in his first and last Autumn Statement, and the lettings industry is still waiting for some clarity on the issue.

In his speech, Mr Hammond suggested scrapping all fees for tenants, and the proposals were laid out this year in the Draft Tenants' Fees Bill during the Queen's Speech, along with the surprise addition of a cap on security deposits.

The issue has divided opinion, but a recent debate in the House of Commons on the topic shows Housing Minister Alok Sharma standing firmly with his party on this one. Noting the 4.5 million households that make up England's private rented sector, Mr Sharma describes the government objective as seeing that "all tenants are receiving good and affordable service from their landlord and letting agents," and providing "greater transparency about the true cost of renting".

The good news for many investors in all this, as Mr Sharma revealed, is that the proposed ban wouldn't apply to holding deposits.

Mr Sharma explains that the exemption of holding deposits from the ban means landlords won't be forced to absorb the cost of reference checks for tenants who withdraw after checks have been undertaken. He adds that the exemption "will also act as a deterrent to tenants from registering in multiple or unsuitable properties".

> "Landlords won't be forced to absorb the cost of reference checks for tenants who withdraw after checks have been undertaken."

A DAY IN THE LIFE

YES MINISTER

As director of policy at the Residential Landlords Association, David Smith is responsible for persuading the government to listen to the views of its 30,000 members. He describes a typical day to Jane Cameron.

06:30

Wake and check the iPad for emails and news. To cover both sides of the political spectrum, David gets a digest from the Times and the Guardian. As director of the Residential Landlords Association (RLA) for two days a week, plus a partner at law firm Anthony Gold (where he specialises in tenant law), and a landlord himself, David certainly keeps himself busy with all things property-related. Yet he still makes time for exercise, setting off for a two-mile run to Woking station. On the train, he has a breakfast bar and does a bit of reading.

08:30

Shower at the office, near the Shard at London Bridge. The office is well placed for David's RLA work, most of which consists of holding meetings with government ministers or officials – about three or four a year with the former and 50 annually with the latter.
"Getting a meeting with a minister is to be treasured," says David. "It's not easy to achieve, but a ministerial nod is a big nod. Civil servant meetings are valuable, too, in terms of exchanging information and getting things done on a day-to-day basis. But their job is to implement the wishes of the minister."
"At the moment, the government is on shaky ground and trying to rustle up support," he adds, "which makes my life a bit easier."

10:30

Today, he's secured a meeting with Caroline Dinenage, recently appointed under secretary for Family Support, Housing and Child Maintenance. Universal Credit is the topic of discussion, specifically direct payments.
"Direct payment is a big concern for us," says David. "Not all tenants are great at passing on the money, and it causes a lot of unhappiness for both social landlords and tenants.
"Obviously the aim is to make tenants more responsible for their finances, but we need to be realistic, and there are some people for whom direct payment is the only solution."
He concludes the meeting was very useful: "They're not going to reverse their decision, but the change in tone after the election was clear, and she accepted there were issues around direct payment."
In addition, David gained useful information on the government's Housing Confident scheme to train Universal Credit work coaches in housing issues. He said this would be passed on to RLA members and will provide a useful guide to the latest terminology adopted by the public sector. For example, direct payment is now referred to as "Alternative Payment Arrangements", or "APA".

12:00

Time for a phone call with the RLA's researcher – a recent PhD graduate based in Manchester, where the RLA has its headquarters. Research also falls into David's remit, and he explains why it's important:
"We're increasingly keen to do quality research because our sector isn't generally well researched. Some of the research will fall within our budget, while some will be part-funded with partners."
He explains that they recently undertook research with Sheffield Hallam University into the attitudes of landlords to tenants aged under 35, in a climate where landlords face increasing taxation and regulation.
"We found that landlords aren't so much leaving the sector, but changing their letting strategy in response to financial pressure," he says, "They're increasingly reluctant to rent to under-35s on benefits. Unfortunately, measures taken by the government can sometimes be counter-productive, as they're not terribly good at looking at the effects of policy further down the road."

12:30

David swims two kilometres in half an hour at the gym next door. He doesn't always manage a swim, but – as a participant in the Ironman triathlon – he's eager to take exercise whenever he can. His Fitbit tells him he's averaging 12,000 steps a day.
"I find exercise very therapeutic," he acknowledges. "Depending on how my day's looking, I'll also run back from the station at the end of the day."

14:00

David has a meeting with an official at the neighbouring offices of the Greater London Authority (GLA). He says it's vital to keep the lines of communication with the mayor of London open.
"With two million private sector tenants, London is far and away the biggest letting centre in the country. It's therefore influential in what happens elsewhere. The mayor is influential in what each local authority does."
David was pleased to receive early information about the forthcoming Mayor's Housing Policy at this meeting. The hope is that the RLA will make a positive comment about it when it's announced to the public.
The RLA and GLA aren't always in agreement, David explains. A particular RLA concern is the proposed database of criminal landlords, which they don't believe should be made public.
"We understand there's a case to check if landlords have been prosecuted, but we're concerned that when landlords are named and shamed publicly, the names may get mixed up – especially on

social media – involving someone who doesn't deserve it."

But the mayor's office doesn't agree, and it's important to move on. What they do agree on, he says, is the importance of enforcing existing law and raising landlord standards – something the RLA works hard towards, through extensive training courses and work on the Private Rented Sector Code.

They also agree, he says, that mortgage lender restrictions are discouraging landlords from taking on tenants in receipt of benefits, creating another barrier to housing access. The civil servant revealed the GLA was in talks with the secretary of state for Communities and Local Government, Sajid Javid, about it.

16:30

David takes a call from a Daily Mail business journalist about some recent research. David does a lot of public speaking and regularly handles questions from the media.

"It's important to present the landlords' position in the press," he says, "They don't always get a good press – sometimes unfairly, other times fairly.

"Politicians get a lot of their ideas from what they read in the newspaper, and it's still the closest thing we have to communicate information in a relatively fair and unbiased way. I tend to say what I mean; you can't be too mealy-mouthed."

17:30

Although David is usually on the train home by 6pm at the latest, he and his wife, a shipping arbitration lawyer, like to meet in town to go to the theatre, opera or other cultural event. Tonight, they're off to an art exhibition at the Royal Academy. He explains they have widely differing tastes – he's for Rothko, she's for Michelangelo. They'll no doubt conduct a balanced debate on the merits of each.

LOCATION FOCUS

Ca
A

Cardiff is one of the UK's hidden treasures when it comes to property investments.
By Neil Cumins.

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Cardiff is arguably the middle child of Britain's capital cities. Edinburgh draws the crowds with its festivals and historic buildings, and London is a global centre for commerce and finance. Yet while its Scottish and English siblings claim most of the headlines, Cardiff could be the smartest choice for property investments.

Cardiff is a compact city, and it's going to stay that way. The M4 and Severn Estuary form hard borders to the north and south, while the A4232 delineates west end suburbs from the Vale of Glamorgan. Across town, the red brick estates of St Mellons abutt Newport County Council's boundaries. It's easy to see why these geographic constraints – and a lack of undeveloped land within the city limits – could support strong price growth in the long term.

The price is right

Michael Jones has a unique insight into the Welsh capital's property market. A former president of the National Association of Estate Agents, Michael has been a director of Cardiff-based Michael Jones & Company for over 40 years. He's well aware of the imbalance between supply and demand: "Cardiff is restricted for development, so the cost of land in particular has risen because of strong demand. There's a shortage of property, and house prices have risen quite significantly over the last 18 months. Investment-wise, I think it's probably one of the best cities in the UK at the moment."

That sentiment is echoed by Rhodri Morgan, managing partner at Morgans Residential: "The Cardiff market has remained buoyant throughout the past year. The appetite for property has been exceptionally high, and we've seen prices rising gradually. Supply, however, is an entirely different story. We've experienced a tangible shortage of stock throughout most areas of the city, and certain types of property are very hard to come by."

Family values

Cardiff's property market is fairly conventional, both architecturally and demographically. As Rhodri points out, "The mass-market family home in Cardiff is a three-bedroom semi-detached house – exactly the demographic experiencing a drought and the highest level of demand. As a result, this type of home is being snapped up, often within days of being listed. Prices achieved are frequently at the asking price, and at times substantially higher." Rents are also strong for three-bedroom villas, with traditional bay-fronted semis letting for between £900 and £1,000 a month in popular areas like Penylan and Rhiwbina.

Oliver Hill is the head of sales and lettings at James Douglas. He identifies Roath and Penylan as particularly sought-after areas, as they host "a mixture of young renting professionals and owner-occupier families. The housing stock here is a mixture of flat conversions and terraced Victorian houses with small front courtyards and small rear gardens. The majority of young first-time buyers tend to purchase purpose-built apartments located in Cardiff Bay, as they want access to the surrounding restaurants and nightlife."

"The Cardiff market has remained buoyant throughout the past year. The appetite for property has been exceptionally high, and we've seen prices rising gradually. Supply, however, is an entirely different story."

On the waterfront

Cardiff Bay is a classic example of waterside regeneration. Its mixture of mid-rise apartment buildings and industrial premises is mirrored in cities across the UK. Michael has seen huge changes here, with swathes of post-millennial development followed by a 50% price crash in the late Noughties. He cites short-term rental website Airbnb as a key driver behind the Bay's recent recovery, while sounding a note of caution: "There have been a few problems with the management of those multi-storey blocks, and a lot went into social housing when they couldn't sell or rent to the normal market." That hasn't stopped developers planning the next phase of construction, which Michael believes "might be more of a negative than a positive. There are enough apartments to go around several times already."

Rhodri is also concerned that Cardiff Bay could become oversubscribed with flats: "I fear that if all the projected developments go ahead, we're likely to see an oversupply of modern one and two-bedroom high-rise apartments. In truth, it's not where I'd spend money. I see far more room for growth in traditional family housing among areas offering good schooling and easy commutability – which are usually freehold as opposed to leasehold."

Bridge over troubled waters

Cardiff's growth prospects have historically been hampered by road tolls on the Severn Bridge. Happily, these unpopular tolls are scheduled for abolition by the end of next year. According to Claire Turner, a residential development sales manager at Savills Cardiff, the effect has been pretty much immediate: "We're already seeing an impact on our housing market this side of the bridge, with house prices set to rise. We believe this will continue over the coming years."

Average property prices in Cardiff are £80,000 lower than in Bristol, just 40 miles away. Claire believes this disparity will encourage businesses to relocate: "Many first-time buyers have been priced out of Bristol, and could be tempted to look across the bridge to get on the property ladder now that tolls won't be part of their commute. We expect to see further population growth as businesses see the benefits of relocating. More businesses coming into the capital will bring great employment opportunities and support more people moving to the area."

Rental potential

One of Cardiff's strengths from an investment perspective involves the achievable rental yields across a city Rhodri describes as "phenomenally buoyant". Market research earlier this year indicated that the CF10 postcode (incorporating Butetown and part of the city centre) achieved the highest BTL yield in the whole of Wales, averaging an impressive 7.39%. Oliver Hill cites Penylan, Splott and Adamsdown as key areas for tracking down bargains and BTLs, while rental yields across the city range from 4% to 8%, depending on the location. Oliver recently sourced a commercial property on Splott Road for £50,000, now letting at £600pcm to deliver a return of 14%. Such opportunities might be rare, but they do exist.

SITES FOR SORE EYES

- **Plasdŵr**. Described as a "garden city", this 20-year masterplan will repurpose around 900 acres of land between Radyr and Pentrebane, three miles northwest of central Cardiff. Redrow received planning permission earlier this year for 630 homes, with the first phase of 126 executive properties already being built and marketed.
- **Central Square**. Six landmark buildings are being developed between Cardiff Central train station and the Principality (Millennium) Stadium. This £400 million mixed-use scheme is well underway, with a Foster + Partners-designed transport interchange replacing St David's House. The final office buildings should be completed by 2020.
- **Cardiff Bay**. Thirty years after the Cardiff Bay Development Corporation was set up, swathes of derelict brownfield land continue to be reborn. Current developments include flats and affordable homes at Schooner Way, while ABP's controversial Dolffin Quay site would host 200 apartments above retail units and a small park.
- **Dumballs Road**. Another contentious site involves industrial land between the Bay and central Cardiff, owned by various parties including Cardiff City Council and IKEA's parent company. This Butetown site has permission for over 2,000 homes, representing one of the city's last large-scale brownfield development opportunities.

SPG laying down the law

One area with less potential, however, is the student market. Despite hosting 75,000 students across three universities, the Welsh capital is cracking down on residential conversions for student accommodation. Cardiff is already home to a third of all the licenced HMOs in Wales – many within the "golden triangle" student district centred on the Victorian villas of Cathays – but in January, the city council unveiled a Supplementary Planning Guidance document restricting future rental activity. According to the new guidelines, if more than 20% of properties within a 50-metre radius of a proposed HMO in Cathays or Plasnewydd are already registered as HMOs, development will be considered unacceptable. In other city wards, this threshold has been set at 10%. The council admits, however, that HMO applications involving brownfield sites "may be viewed more favourably", since they won't "result in the loss of family dwellings".

Nevertheless, existing student accommodation in the golden triangle can still achieve returns of 8% or more. As Rhodri points out, "Larger houses split into HMOs rule the roost in Cathays, although more recently many large modern blocks have been built, mainly targeting the highly lucrative foreign student sector."

The final word

Cardiff's population is projected to grow by more than a quarter over the next 20 years. Given the chronic lack of expansion potential, and the dwindling number of brownfield sites, this will exert upward pressure on prices. Rhodri sees a bright future for the Welsh capital: "Cardiff is absolutely booming, and commercial property demand is at an all-time high throughout the capital. There is undoubtedly plenty of room for values to grow within all boroughs of the city, as our population grows and demand for housing increases.

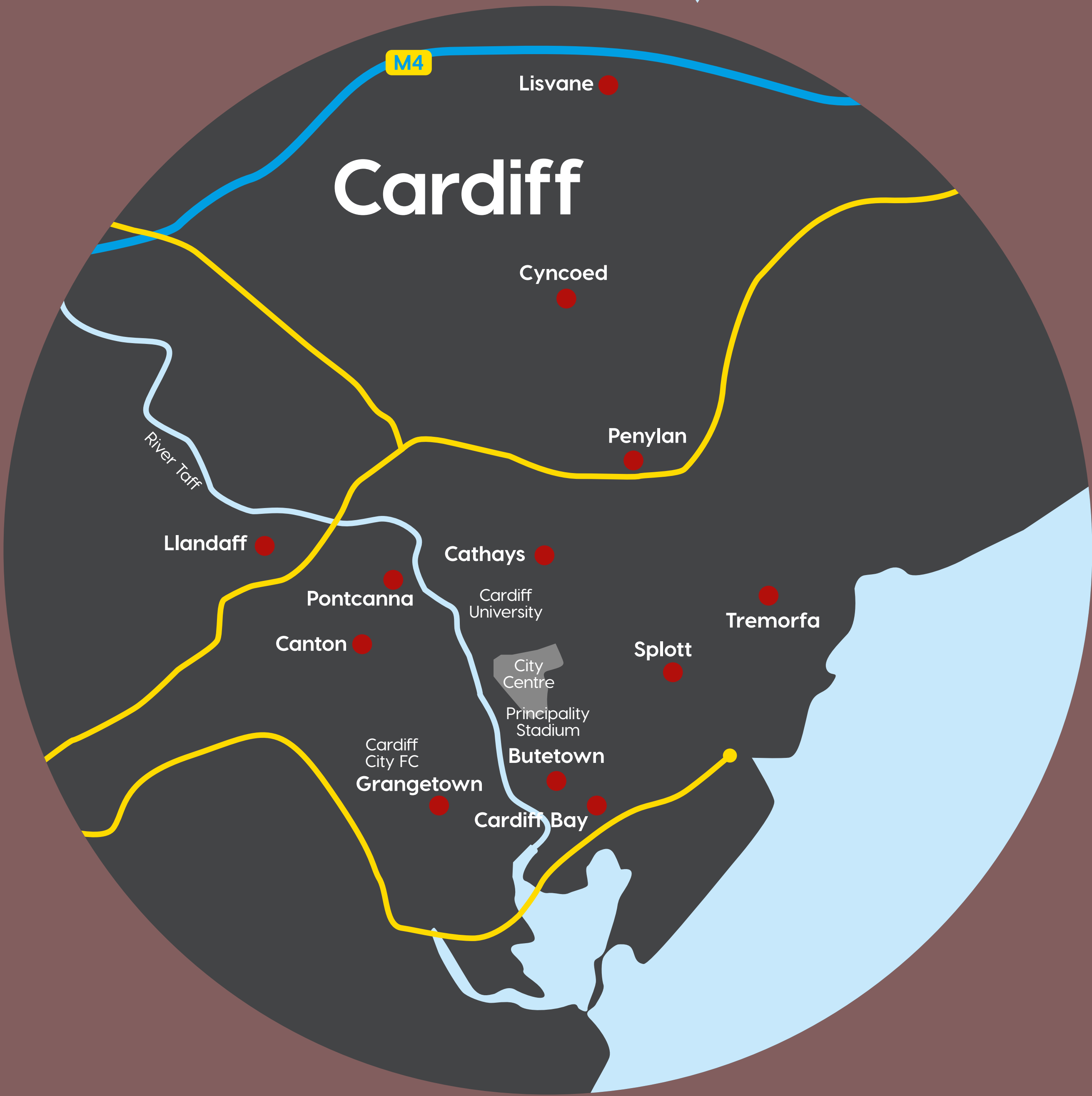
"Cardiff is up there with the best yields available in the UK," Rhodri concludes. "We experience exceptionally low vacant periods within the rental sector, and there is no forecast that demand will dwindle in the future."

Cardiff Millenium Centre.

The best places to invest in

CARDIFF

- Best for city workers: **Pontcanna, Canton**
- Best for character: **Lisvane, Penylan**
- Best for students: **Cathays**
- Best for parents: **Cyncoed, Llandaff**
- Best for a bargain: **Cardiff Bay**
- Best for capital appreciation: **Butetown, Splott**
- Best avoided: **Grangetown, Tremorfa**



CASE STUDY

Great Wight

An unconventional approach to property development drew a Surrey-based film set designer to the Isle of Wight's holiday rental market. Neil Cumins reports.

"I've always had a bit of an obsession with property," admits Justin Richards. As a film set designer based in the Home Counties, and the host of The Property Hub's Epsom meetups, his obsession would eventually lead to a successful (if unexpected) career remodelling traditional holiday homes on the Isle of Wight.

Justin's investment adventure began after purchasing his first property in Tottenham, aged just 19. Within six months, he'd acquired another local flat and moved into a Barnet property owned by a builder. "The landlord had a few houses, and he encouraged me to get more involved in property. It was the era of credit card debt, so I made use of my Visa to raise the deposit on an off-plan flat in Royston, Hertfordshire."

Having acquired four properties in quick succession, Justin soon discovered one of the drawbacks of being a landlord: "I had a bad tenant in one of my Tottenham flats and needed to get him evicted, which took about eight months and cost me a small fortune. I decided to sell my flats in Tottenham and spent a few years travelling around Europe with the proceeds."

When he returned, Justin sold the Hertfordshire house and bought a flat in Mill Hill – a good bargain, he says, because the flat was on a short lease. "I spent £23,000 extending the lease, renovated the flat, then rented it out and bought a house in Stevenage."

Southern comfort

After meeting his future wife, Justin relocated from north London to Surrey: "We fell in love with the area and bought a house here. We'd used all our savings to buy the house, so I had to sell my flat in Mill Hill. Although I made a good profit, I never really wanted to sell it. I realised the one thing I'd always made good money at was property, but I'd always done it on a wing and prayer without advice or education, and I could have made better decisions with more knowledge."

Justin began reading every property book he could find, attending local meetups and listening to The Property Hub's very own Property Podcast. A chance encounter with a fellow developer revealed a temptingly priced property going to auction on the Isle of Wight. Despite never having visited the island, Justin submitted a proxy bid. He also sent a friend to bid on his behalf. The friend and the proxy bid ended up competing, pushing the price £2,000 higher than it needed to be, but the property was his.

Let it be

"The initial plan was to refurbish the house and sell it on," Justin explains. "I coordinated the work from the mainland using video conferencing and WhatsApp, so it was quite a challenge! Our initial builder was sacked after five weeks, but his cousin was a good all-rounder with high standards. As the property took shape, we decided to keep it and try it as a holiday let. This meant spending a further £5,000 on interior furnishings, but the end result and transformation was amazing."

"Despite never having visited the island, Justin submitted a proxy bid. He also sent a friend to bid on his behalf. The friend and the proxy bid ended up competing, pushing the price £2,000 higher than it needed to be..."

The purchase, refurbishments and furnishings cost Justin £95,000, and it was subsequently valued at £125,000. This allowed him to get a 75% LTV mortgage and pull some cash back out, leaving the property generating a 100% return on capital invested (ROCI). Having been purchased in April 2015, it was ready for holiday rentals by August.

"The island's rental market is strong all year round," says Justin. "In the summer, you get weeklong bookings, but even in winter, almost every weekend is full. There's so much to do here – the Isle of Wight has more family attractions per square mile than anywhere else in Europe!"

Tailor made

Justin's preferred property location is Ventnor, on the island's southern side. This Victorian seaside resort is steeped in history, and many of its properties date back to the 19th century. While he favours older buildings for their greater character, Justin recognises the additional problems they can bring – a lesson learnt all too well from the purchase of a two-bedroom cottage with a large garden, which had been untouched for over 30 years. Initially marketed at £125,000, Justin eventually bought it for £97,000 cash in March 2016.

The projected £30,000 development budget quickly spiralled, as problems with the cottage became apparent. The original stone and lime mortar had been crudely covered with cement render, preventing the lime from breathing and allowing condensation to form within the walls. "We started to restore the house back to how it should be, removing 30 bags of rubble from the living room floor and revealing original stone and brickwork," recalls Justin. "We removed the chimney stack and gutted the interior before rewiring, raising the main bedroom's ceiling, adding central heating, a new kitchen and bathroom..."

Tailor's Cottage renovation.

Issues also surfaced outside: "While digging out the old fencepost, we discovered that the mains water pipes were so old that they just crumbled away. We had to dig up the courtyard and the new bathroom to replace the mains supply from the pavement into the property."

Replacing the fence brought another set of challenges, admits Justin, who found that – even with additional costs for ferries and fuel – it was cheaper to bring in contractors and materials from the mainland than to work with locals on the island. "Mainland companies often charge extra for delivery, and it takes longer. The island does have good tradesmen, but you need to do your homework: some of them can be unreliable and expensive."

Research revealed the cottage was built by stonemasons in the 1800s and occupied by a family of tailors. That inspired its new name of Tailor's Cottage, and underpinned an appropriate decorative theme. Next year, the original accommodation will be augmented with a cabin or lodge in the rear garden, which could sleep up to four people separate to the main building, "bringing in additional income that will greatly increase the ROCI", says Justin.

A bit of all Wight

Such is his love for the Isle of Wight that Justin launched thewightplace.com, which features information on the Isle of Wight and details of his available holiday properties.

TAILOR'S COTTAGE FINANCIAL SUMMARY

Purchase price in March 2016: £97,000

Legal fees: £1,500

Refurb costs: £55,000

Total spend: £153,500

End valuation: £165,000

Remortgaged at 65% LTV, removing £104,000

Capital left in: £49,500

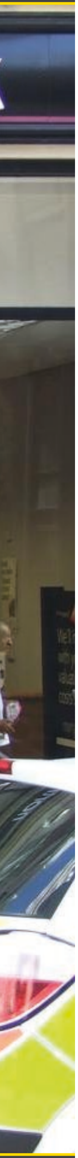
Net annual profit: £7,000-8,000

Annual return on capital invested (ROCI): 14-16%

Monthly profit: £490

If you have an interesting property case study (good or bad!), we'd love to feature your story. Email us with some information and photos, and we'll get right back to you: **hello@thepropertyhub.net**

Many property investors survived the 2007 credit crunch and the subsequent unravelling of the housing market. But will they also survive what some see as governmental attempts to restrict their future in property? Stephanie Spicer reviews the challenges, past and future, for buy-to-let investors.



What a difference a decade makes

For many property investors and those in the buy-to-let market, the credit crunch of 2007 hit less hard than for owner-occupiers and prospective homebuyers. Most were positioned to survive, and a fair share managed to do well and grow their portfolios. However, new tax changes and regulations directed at the buy-to-let market look set to make life a bit more difficult from here on in.

Almost with a sense of nostalgia did the nation remember 9 August 2017 as the ten-year anniversary of the day that French bank BNP Paribas announced how it would be unable to pay its investors. It was at that point that the extreme ramifications of the subprime folly began to unfold. Closer to home, we witnessed Northern Rock ask the government for emergency funding after it became unable to fund its mortgage lending – leading to a run on the bank as panicked savers attempted to withdraw funds en masse.

There were repercussions for banks and financial institutions across the globe. It became clear that in the US, where irresponsible subprime lending was rife, the crash hit families tragically hard. With low introductory rates expiring and interest rates spiralling upwards, borrowers who couldn't pay rising mortgage premiums lost their homes to foreclosure, and home values plummeted as more and more houses were let go.

Arguably, much of the buy-to-let sector was immune to the impact of such restrictions. Interest rates fell rapidly, making borrowing more attractive than saving; as a result, property seemed a good place to invest for those who could raise the funds.

According to Hometrack, the housing market intelligence analysts, the stock of private rented homes has grown by 1.1m (31%) since the global financial crisis. Demand for rented housing has also grown, but the impact on rents varies widely, and rents actually fell between 6% and 12% during the worst years of the crisis, as accidental landlords (those who inherited homes and chose to rent them out, for example) boosted supply while falling employment weakened demand. Since 2010, rental growth at a national level, outside London, has largely tracked the growth in average earnings, with growth in rents averaging 2.7% per annum.

David Hollingworth, associate director at mortgage broker L&C Mortgages, says: "One interesting aspect of the changes in the market following the financial crisis was how the demand for buy-to-let remained strong, even if the motivation may have fluctuated over time. Existing landlords did not dump stock onto the market as predicted by some. This underlined the fact that the majority of landlords had purchased for the longer term and were less susceptible to short-term ups and downs."

He adds: "The plummeting Bank of England base rate meant that some found themselves with ultra-low mortgage costs and consequently in a stronger position. That same reduction in the base rate meant bad news for savers, and increasingly, investors started to look for the better returns available from buy-to-let. In other words, the prime motive became one of income generation rather than a focus on capital appreciation, given the slower market. Of course, house price inflation picked up significant momentum and saw further desire from investors to tap into the growth opportunity, particularly in London."

While demand for rental property increased, however, the number of techniques and tactics used

> "It's become easy to lay blame on the private rented sector for a lack of affordable accommodation."

THE MORE THINGS CHANGE, THE MORE THEY STAY THEY SAME

While regulation may have shifted considerably since 2007, *reputation*, it seems, has not: the last decade hasn't really done much to improve the way property investors are perceived. Just as in the pre-crunch days, there's a certain suspicion around buy-to-let investors – with plenty of stories about rogue landlords, and a general sense that even those who aren't too dodgy are still cashing in somehow.

Chris Norris agrees: "Regrettably, the perception of buy-to-let landlords does tend to be negative. The financial crisis, wage stagnation, and a decline in housebuilding have all contributed to higher costs of living for many. Given such circumstances, it's become easy to lay blame on the private rented sector for a lack of affordable accommodation.

"However, landlords play a vital role in providing quality housing for those who need it. With so many people now relying on the private sector for accommodation, the work of landlords not only needs to be recognised, but supported, too."

Paul Darwin, director of intermediary lending at Skipton Building Society, a buy-to-let lender, takes a slightly different view. "Politically, the mood seems to have softened towards buy-to-let, with the recognition that a healthy private rental sector is needed to run alongside a home ownership regime," says Paul. "High house prices coupled with low wage inflation has put the dream of homeownership outside the grasp of many. Those who can afford a large deposit usually have access to other sources of finance – notably the bank of mum and dad. Rental properties are going to be very much in demand as new builds fail to reach the annual target needed to meet demand."

by property investors when buying property shrank considerably. In the mortgage market, the crash heralded a new regime of tighter lending: interest-only loans, 100% mortgages, self-certification and same-day mortgages fizzled away – essentially, landlords' tool boxes were raided.

When the going gets tough

A decade on, however, it seems the government thought that property investors – having survived the credit crunch – might be up for another challenge. To which end there's been an increase in stamp duty on the purchase of rental property of 3% on top of normal stamp duty; a change in deductibility for mortgage interest; a restriction in the 10% tax relief on fully furnished properties to relief only on actual costs incurred; and the exclusion of residential properties from the reduction in capital gain tax rates.

Solutions to the mortgage interest restrictions include operating through a corporate structure, falling below the threshold for paying income tax, and transferring the property to a spouse who doesn't pay tax. For many, however, the options are limited to raising rents or pulling out of the market altogether.

Chris Norris, head of policy, public affairs and research at the National Landlords Association, says: "The tax changes have had a considerable impact on the confidence of landlords. With the possibility that they may lose income through greater taxation, some plan to sell their properties, while others have incorporated as a limited company, or are considering doing so."

CASE STUDY: A PENSION PLAN

Jeff Vincent, a plumbing and heating engineer in his mid-fifties, began investing property with his wife over 15 years ago. They have seven properties – five in Gainsborough and two in Basingstoke.

"We went to a seminar on buy-to-let investing back in 2000, and it made a lot of sense. I had recently run some figures past a financial adviser to see what I would need to invest to achieve a decent pension, and it just wasn't feasible. So that's when we started looking at property as a pension.

"By 2007, we owned six properties and had two going through. The credit crunch hit, and overnight, we lost a mortgage offer. So we completed on one of those two houses and then stopped."

Just as the couple were looking to invest again, section 24 of the Finance Bill 2015 (which removes landlords' ability to deduct costs from their taxable income) came in; "I just can't see the rationale for it," Jeff says.

Jeff and his wife were equally concerned about their mortgage lender – who they were hoping would help them remortgage two properties in order to free up funds for further property investment. "According to our broker, all was looking positive," says Jeff, "but then the lender announced that it would want £10,000 in arrangement fees. Just because it could get away with it in my view." Now, the couple are talking to the National Landlords Association and looking at other lenders. What is encouraging, Jeff says, is that there are more buy-to-let companies to deal with than before 2008.

As for his pension plans, Jeff says that investing in property was a good route to go down. "We've weathered the storms, but it seems government legislation continues to thwart the buy-to-let investor. These properties are our pension – why would they want to prevent that?" he as ks. "But they want to hit every other form of pension – why stop at buy-to-let?"

"Some landlords plan to sell their properties, while others have incorporated as a limited company, or are considering doing so."

In addition to all these changes, the Prudential Regulation Authority (PRA) – which oversees banks, building societies, insurers, and investment firms – has been making its mark on the sector.

In January the body introduced phase one of its buy-to-let underwriting standards, requiring lenders to implement tougher stress tests on their landlord clients to ensure they could meet their mortgage repayments if interest rates were to rise

The second set of rules, brought in at the end of September, insist that all landlords with four or more mortgaged properties undergo stricter underwriting considerations to prevent too much risk exposure.

The reasoning behind the new regulations is that they'll improve the long-term capital sustainability of the buy-to-let sector. And they may well do so, but the move could also freeze investors out – either because they don't want the extra administration (some lenders, such as OneSavings Bank, which incorporates Kent Reliance and InterBay, require all new applications to be supported by a business plan, assets and liabilities statement, and cash flow statement) or due to failure to meet the test criteria. It might also send investors down the route of cheaper properties, or it could mean that only those able to put more equity into the property will be able to meet the stricter criteria.

Finding funding

While the changes for portfolio landlords are expected to be minimal (see page 34) the first phase of regulations have seen lenders get tougher. According to Chris Norris, many landlords feel that credit is already becoming harder to obtain, with 53% of his members saying that, in the past six months, they've had to supply more evidence when applying for finance. Meanwhile, 43% say that actually getting finance has become more difficult.

This is a time for shrewd tactics, says David Hollingworth. "Landlords find the changes from the PRA tightening up the availability of mortgage finance, largely resulting in the need for a bigger rental income to support the same level of borrowing.

"Having said that, lenders have been quick to layer their approach to criteria rather than adopt a tougher 'one size fits all' approach. As a result, those landlords seeking to take advantage of low interest rates may find the requirements for a like-for-like remortgage to be more flexible than for a new purchase. Shopping around will be important to get the most of buy-to-let against the backdrop of higher tax bills."

For the future – who knows?

By all accounts, we may be entering an era of greater need for private rental housing matched by regulations that result in landlords needing to either raise rents or withdraw from the market entirely.

As Chris Norris says: "With more people relying on the private rental sector for accommodation, punitive tax measures have the potential to negatively impact renters, too, as landlords look to recoup costs. This could involve raising rents, spending less on property maintenance, and prioritising tenants deemed more able to make regular rental payments – thus potentially impacting the most vulnerable in society."

This will also impact those wanting to move out of the rented sector and onto the mortgage ladder. David Hollingworth adds: "If the supply of affordable housing for first-time buyers doesn't improve, higher rents will in turn make it harder for aspiring homebuyers already struggling to save for a large deposit."

CASE STUDY: HOLDING ON AND CUTTING BACK

Bristol-based property developer Jon Morris sees problems ahead for private landlords and has acted to partially divest from the market. Jon had five properties, all four-bedroom HMOs, providing accommodation to young professionals earning around £24,000 per year. "If they were to buy or rent flats or houses in the Bristol area, much of their income would disappear," says Jon. "But for £450 per month all in, they can live in a nicely presented house."

Section 24, however, prompted Jon to sell one of his houses last year. He's selling another this year, and then he'll pay down the mortgages on his other properties – leaving two mortgage-free and one with about £60,000 outstanding.

He explains: "As a self-employed sole trader, all my mortgages were interest-only, and the cost of finance could be offset. But if interest rates were to rise, I'd just end up paying more money to a lender – more cost on less income. I can see property prices falling, so this is a good time to sell and if other landlords feel they have to do the same, there will be more sales ahead.

"I'm just trying to make a living in a fair way. But there seems to be a targeted government campaign against private landlords with the range of tax restrictions and regulations to either add costs or reduce the ability to offset costs.

"It's a difficult time to be a landlord. I'll lose income – I estimate about £2–3k a year – by doing what I'm doing, but I'll also lose tax liability, reduce my risk and be better insulated."

"What hasn't radically changed is the belief in rental property as a long-term opportunity."

Silver linings

Rob Bence, co-founder, The Property Hub

I'd be a brave man to claim landlords are in a better place today than they were in the pre-credit crunch years. Those of us operating in those halcyon days will know that all too well. However, the harbingers of doom at the national press do seem unwilling to acknowledge any silver linings of the changes we've experienced over the last decade, so allow me to do so.

The new buy-to-let landscape has meant that people are now paying more attention to tax planning and are better for it, having learnt in some cases that they should already have pursued a limited company option.

The amateur and lazy property investors will be forced out, leaving more opportunities for those who stay in.

Education will be key, which means we'll come out the other side with a much more knowledgeable and well-prepared investor community. (The fact that you're reading this suggests you'll be fine!)

And, of course, the factors that underpin property price rises are still in place and aren't going away. Demand still outstrips supply. Times have changed, but opportunities prevail.

In retrospect, the years immediately following the credit crunch almost seem like the good ones. Now we are fast approaching an impasse: landlords leaving the market, and rental properties becoming less available or unaffordable. For those able to invest mortgage-free, there could be opportunities to buy surplus stock and provide for a market suffering a dearth of new and affordable homes. As David Hollingworth says: "What hasn't radically changed is the belief in rental property as a long-term opportunity." If you can get into or stay in the market and reduce your costs – the returns will be there. Here's to the next decade.

A career in review

Rob Dix, co-founder, The Property Hub

When I started writing about property in 2012, the memory of the 2008 crash was extremely fresh. Prices were flatlining, and although people were very still interested in property, they needed a lot of encouragement that it would continue to perform in future.

Over the next few years, prices steadily rose – and investor confidence increased along with them. In London, prices didn't just recover – they passed their previous peak. Across the UK, rising rents and the continuing imbalance between supply and demand reassured investors that property was still a good long-term bet, and they flooded back into the market. It seemed like the last four or five years had just been a blip, and we were right back to the familiar story of property prices marching relentlessly upwards and investors happily cashing in. Then... plot twist!

In 2015, the new Conservative government announced their first budget – including a measure that spelled disaster for a certain type of landlord, and showed that property investors were squarely in their crosshairs. As it turned out, that was just the beginning of a series of events and policies that would cast doubt on the viability of buy-to-let.

The enthusiasm from investors was still there, but tempered with doubt and caution. Among all the other questions, one that I'd never previously been asked became one of the most common: is property investment still a good idea? So, is it? Well, clearly I don't think it's total doom and gloom, or I'd have shut down Property Geek and started up Gold Geek or Under The Mattress Geek by now. But it feels like we're at an inflection point – almost the end of an era and the start of a new one. Not all current investors will stick it out, and not all those who were preparing to enter the market will (or should) still do so. But for those who are educated and prepared, the opportunities will be there. What's more, I think the next couple of years will create the conditions to give us more opportunity than ever.

CASE STUDY

Friends *in all* places

Jemal Mazlum outside his newly refurbished house.

Refurbs are rarely plain sailing, but a development project in Jemal Mazlum's hometown seems to have weathered more than its fair share of squalls. Jane Cameron reports.

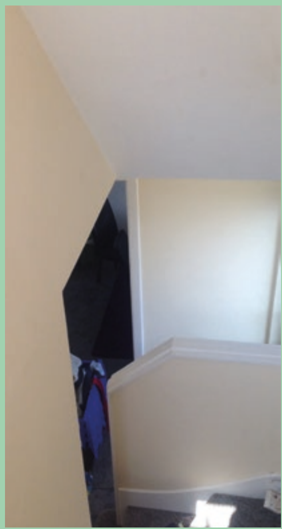
It all began when 30-year-old Nottingham native Jemal was still working as a chemical processor. Already managing a portfolio of more than half a dozen HMOs and single lets in addition to his full-time job, he heard through the grapevine that a house on a corner plot was listed for sale at £100,000 in the area where he grew up. Although the property didn't fit in with his regular strategy (letting to local housing authority tenants), Jemal just couldn't pass up the two-bed semi-detached with its generous garden.

"It's a corner plot, and the land attracted me," says Jemal. "I liked the road, the gardens were well kept and the neighbour, who I know, said it was a lovely street." Jemal's first bid on the property – "a cheeky offer of £85,000" – was rejected. "But in a couple of days, they reduced the price to £90,000. The numbers stacked, up so I gave them their asking price with a view to applying for planning permission."

The purchase, funded initially by a £67,000 mortgage, was completed in January 2016, with its tenants already lined up. "As soon as we got the keys, the couple came round to the house with their young son and were very excited. I explained I would do a quality refurbishment, putting in a new bathroom, kitchen and so on – and I said I could do the work very quickly. They checked out as good, long-term tenants, so everything seemed like it was going well."

If you have an interesting property case study (good or bad!), we'd love to feature your story. Email us with some information and photos, and we'll get right back to you: **hello@thepropertyhub.net**

HARD WORK AND A LITTLE HELP...



Moving fast

The prospective tenants promptly gave notice on their existing home. With the clock ticking, Jemal began by bringing in an electrician to rewire the house. At the same time, he ripped out the bathroom suite and then the kitchen, which he sold via classified ads website Gumtree for £100.

However, a persistent gas smell he'd noticed on his first viewing pervaded the house, and Jemal was unhappy with the look and location of the meter. He wasted no more time in calling his girlfriend's cousin – a gas engineer – who promptly called National Grid, which immediately condemned the supply and locked down the house for three days. "I was kicking myself that I hadn't followed my instinct," says Jemal, "but I trusted the estate agent. On the bright side, though, a new meter was fitted for free. I was going to move it anyway, so it saved me £600!"

But that wasn't the end of his troubles. Jemal, embroiled in the tricky refurb of a five-unit HMO, took his eye off the new semi. The next thing he knew, his eager tenants (who hadn't yet moved in) were on the phone to say they'd peeked through the window and seen water pouring from the kitchen ceiling. Begging his boss to let him leave work right away, Jemal rushed to the scene.

"My heart sank," he recalls. "The ceiling was hanging down. It was my fault – I must have disrupted the valve on the old-style water tank when I was ripping the bathroom out. The kitchen walls were soaked, and it was probably an inch deep in water. I was saying 'please, let there be no internal damage'." But when Jemal jumped into the loft, he stepped right through the ceiling. It seemed like everything was going wrong.

With a little help from my friends

Luckily, he was able to dry out the house with dehumidifiers, while a plasterer reboarded and skimmed the ceiling. Relieved, he returned to his troublesome HMO project, having left his chemical processing job to focus on property full-time. But it wasn't long before he got another call from his anxious tenants, reminding him they were just three weeks away from moving in.

Determined to keep his word despite the seemingly impossible deadline, Jemal began to call in favours from his wide circle of skilled friends and relatives.

"It was my fault the tenants had handed in their notice, and I couldn't let them down," he says, "so it was all guns blazing. I was begging people to help. I said 'If you have other jobs, put them on hold.'" Jemal's hastily assembled team of friends and family leapt into action to see that his tenants could move in on schedule.

THE SUMS

Purchase price: £90,000 with a 25% deposit

Development cost: £7,780

Total project cost: £98,780 approx

Cash: £31,580

Interest-only mortgage: £67,200 (inc £1,999 arrangement fee)

Interest rate: 2.69%

Payments: £176 pcm

Rent: £600 pcm

Profit after costs: £300 pcm

New valuation: £130,000

He paid family members to strip the walls before bringing in the plasterer, a family friend he'd worked with before. He called on a good friend and plumber to install a new boiler, bathroom suite and radiators, and found an excellent tiler on Gumtree. An old school friend, who runs a kitchen company, generously supplied high-quality kitchen appliances – including a wine cooler – at cost. Another friend, a joiner, fixed skirting boards and doors. Most worked at 50% of the going rate.

"I've become friends with many tradespeople due to our work, so I knew pretty much everyone working on the house – except the tiler and the painter," says Jemal. "I'm 100% aware of the importance of tradespeople and I refer a lot of business their way – and they were generous enough to repay the favour (and then some!) by working long hours and evenings for me."

The tenants moved their boxes in as the carpet was being laid, and they're delighted with their home. They're even happy about recently approved plans for a two-bed house in their garden, which is too big for them to manage. Jemal has since remortgaged the house, based on a new valuation of £130,000, enabling him to pull out £19,000 thanks to the uplift.

So, it was a close shave with a happy outcome – but will Jemal do anything differently next time? "I'll be more hands-on, now that I'm full-time," he replies, "and I'm also considering the use of bridging loans."

As for the hands-on work of refurbishments, "I'll probably still take out the bath myself in future – although I'll keep a closer eye on those tricky valves from now on!"

How to solve the housing crisis

There were high hopes that the government's plans to fix the housing crisis would pay off, but its latest paper fell flat. Nine months on Leah Milner looks at the root causes of Britain's housing shortage and what needs to be done to solve it.

It's no secret that we're in the midst of a pretty serious housing crisis. There's a massive lack of supply – particularly of affordable homes – and thousands of aspiring homeowners are being priced out of the market as successive governments continue to fail to meet house-building targets.

At the beginning of 2017, there was a great deal of optimism that the government's white paper, Fixing our Broken Housing Market, would do just that. It ended up being a bit of a flop: while it asked the right questions, many felt it didn't provide the answers. "There was so much hype about it, but it's just been watered down to the point where it's not actually worth the time and money it took to put together," says Rob Bence, co-founder of The Property Hub. "It won't even scratch the surface of the problem."

THE SCALE OF THE PROBLEM

The ratio of average house prices to earnings has more than doubled since 1998, thanks to decades of undersupply. "Soaring prices and rising rents caused by a shortage of the right homes in the right places has slammed the door of the housing market in the face of a whole generation," admits Communities Secretary Sajid Javid. The causes are threefold: local authorities' poor planning for the houses they need, "sluggish" housebuilding that hasn't kept pace with a growing population, and the domination of the construction industry by a handful of large players.

Mr Javid's observations about lack of supply are hardly new. More than a decade ago, economist Kate Barker reviewed the issue of housing supply and said we needed to be building 250,000 homes a year to keep up with demand – a level we haven't achieved since 1980. Successive years of underbuilding have only widened the gap between supply and demand. While a cross-party lords committee argues that we now need to be building 300,000 homes per year to get back on track, and the government consensus view is that we need to build 225,000–275,000 new homes each year, only 140,000 new build homes were completed last year.

"All in all, the government has made around £7bn in spending commitments over recent months, all aimed at boosting the supply of affordable homes. However, much of this money has simply been pooled from previous announcements and re-badged."

MOVING THE GOALPOSTS ON AFFORDABLE HOUSING

Back in their election manifesto of 2015, the Tories announced the Starter Homes scheme, which aimed to build 200,000 starter homes by 2020. These homes were to be made available to first-time buyers aged between 23 and 40, with a minimum discount of 20% of the market price. This new government white paper, however, has caused controversy by backtracking on that pledge somewhat. It states: "We will change our focus from starter homes to a wider range of affordable housing" – i.e. a larger category that's more open to interpretation.

The government insists it will still help 200,000 people become homeowners by the end of parliament, through tenures like shared ownership, Help to Buy and Right to Buy. All in all, the government has made around £7bn in spending commitments over recent months, all aimed at boosting the supply of affordable homes. However, much of this money has simply been pooled from previous announcements and re-badged.

Furthermore, the white paper reduced the 20% starter homes requirement on large sites to 10%.

> **"Not all greenbelt is equal. I do understand the need to protect the green belt, but it's not all like the Lake District. There's scrubland, too, particularly around London, that isn't being used by anyone. If we used just a fraction of this, it would help to solve the problem."**

Paula Higgins, chief executive of HomeOwners Alliance, says: "Smoke and mirrors are at play in here. While providing a diverse range of homes on sites is welcome, this reduction makes little sense, and the government seems to have backtracked under pressure from developers."

DO WE NEED TO GIVE WAY ON THE GREEN BELT?

The white paper promised a relaxation of planning rules, increased building on brownfield sites and more public sector land freed up for developments. Yet despite rumours to the contrary, the paper stopped short of suggesting any building on greenbelt land. The protections were introduced in 1947 as a constraint on urban sprawl, but as Rob Bence points out, "Not all greenbelt is equal. I do understand the need to protect the green belt, but it's not all like the Lake District. There's scrubland, too, particularly around London, that isn't being used by anyone. If we used just a fraction of this, it would help to solve the problem."

PUTTING A STOP TO LAND BANKING

The way that eight large developers control 50% of housebuilding has been described as "oligopolistic" by a cross-party group of peers. The House of Lords economic affairs committee, in its report on the economics of the housing market, says the business model of these eight giants is "to restrict the volume of housebuilding to maximise their profit margin." Government figures from July 2016 show that while detailed planning permission was granted on 684,000 homes, building work had started on just 349,000 homes. The lords want local authorities to have the power to levy council tax on developments that aren't completed within a set time period.

The government has so far only said it will "improve transparency" over the ownership of land. It's also considering a move to empower local planning authorities to issue completion notices to housebuilders who have allowed development to stall on sites where planning permission has been granted. In simple terms, these are a command to "use it or lose it". The timeframe within which developers are expected to start work after receiving planning permission may be cut from three years to two.

So far, the government hasn't proposed any change to taxation of such sites to penalise landowners for taking too much time to build.

DIVERSIFYING CONSTRUCTION

Under plans announced this year, local authorities will be able to access a share of £25m of new funding to plan for new homes. If they fail to make a suitable plan by 2018, the government will step in by setting a national baseline.

The government wants to help small developers to have a greater role in delivering housing, particularly where they can make use of smaller plots that aren't of commercial interest to the housebuilding giants. One of the spending commitments that forms part of the total £7bn Affordable Housing Programme is a £3bn Home Building Fund launched last October. Of this, £1bn will be targeted at short-term finance for SMEs, custom-builders and "innovators" to deliver up to 25,000 homes this parliament. The remaining £2bn is to fund infrastructure and large sites. But the lords committee wants the government to go further and allow local authorities to borrow in order to build more social housing.

REFORMING THE RENTAL MARKET

There was a notable change in rhetoric when Sajid Javid presented his housing white paper to parliament in February. Ministers have long waved the possibility of homeownership in front of voters as an achievable goal, but Mr Javid's speech seemed more like an exercise in managing expectations. Labour's Shadow Housing Minister John Healey has accused the Tory Party of "giving up on home ownership", calling the white paper more of a "white flag" that "waters down the promise of help for those who need it to get a first foot in the housing market".

Rob Bence agrees that the government is moving away from talk of home ownership for all. He says: "They understand that they can't solve the housing crisis, so they've accepted that renting is the way of the future, and the proportion of people who rent will only increase over time." Following the announcement of a ban on letting fees (see page 38), the paper goes on to look at additional protections for tenants. It promises to crack down on rogue landlords, giving councils the ability to bring fines and prosecutions. The government also says it will work with industry bodies to bring about longer-term tenancies, in a bid to give renters more stability.

WHAT ABOUT RENT CAPS?

Some commentators like Dan Wilson Craw of Generation Rent, the tenant campaign group, recommend considering more extreme measures to improve the affordability of lets. Rent stabilisation – or rent caps – would link rises to a measure such as inflation or average wage increases. "When a new tenancy starts, the rent is set by the market, but the tenant is then protected from unaffordable rent increases at a future date, which is common in Europe," reasons Dan. He argues that costs don't tend to rise for landlords, and many might prefer having more stable long-term tenancies to seeking the highest rents possible at any opportunity. Such measures are unlikely to be popular with landlords already feeling pressure from tougher mortgage underwriting, tax relief cuts and the stamp duty hike to 3% on second homes.

CURTAILING RIGHT TO BUY

Exacerbating the crisis, according to critics, is the government's failure to deliver on its promise to replace council homes on a one-for-one basis under Right to Buy. Last year, work started on only one in six replacement homes for those taken out of the system through Right to Buy. Now that Right to Buy has been expanded to include housing association tenants, the erosion of stock will accelerate – unless the government can find a way of keeping its one-for-one promise.

REDEVELOPING VACANT PROPERTIES

Empty housing has reached a 20-year high, nearly doubling from 800,000 in 1996 to 1.4 million in 2015, according to the latest available figures. Former Royal Institution of Chartered Surveyors (RICS) chairman and North London estate agent Jeremy Leaf points out: "Up to 150% council tax can be charged on homes that are empty for more than two years, though it seems that too few penalties are imposed or enforced. Rather than rely on new building alone, it's more cost-effective and quicker to make better use of these buildings. The added benefit is that you can remove some of the anti-social behaviour associated with empty properties."

AS GOOD AS IT GETS

Despite the government's best PR efforts, critics feel it has failed to provide a clear road map out of the housing crisis. Naomi Heaton, chief executive of London Central Property Portfolio concludes: "The government is a long way off the target of providing the million new homes David Cameron promised by 2020. Not only do we have a housing crisis to meet right now, we'll need to find homes for the 1.8 million new households that are expected to be created by the end of this parliament. Currently, the government isn't even standing still," she warns.

With Brexit firmly at the top of the government's priority list, closely followed, it seems, by infighting and leadership tussles, one wonders whether this year's damp squib white paper is as good as we're going to get for some time.

"Affordability is at the heart of the new regulations. Under the rules introduced in January, stricter affordability assessments must be conducted that take into account the borrower's costs."

The mortgage market has undergone yet another adjustment as a result of the second round of Prudential Regulation Authority changes and this time it's portfolio landlords in the firing line, as David Cookson explains.

ALL CHANGE

The Bank of England hasn't exactly held back in criticising the buy-to-let market over the past couple of years: most memorably they referred to buy-to-let as the next big threat to the UK's financial stability back in 2015. Unfounded though they may be, it's clear the bank has concerns about "risky" borrowing in buy-to-let.

As a result, the Prudential Regulation Authority – the division of the Bank of England that's responsible for supervising banks, building societies and lenders – issued two key new buy-to-let underwriting standards last autumn. The new rules, it said, would be introduced over the course of 2017, with the more straightforward changes being implemented on 1 January and the remainder coming into play on 30 September.

The current state of play

Affordability is at the heart of the new regulations. Under the rules introduced in January, stricter affordability assessments must be conducted that take into account the borrower's costs – including tax liabilities, verified personal income and possible future interest rate increases.

The second (and more complex) phase of PRA changes occurred in September and focused on portfolio landlords. A portfolio landlord for these purposes is defined as someone with four or more mortgages on buy-to-let properties. In order to make sure landlords aren't overexposed, lenders will look at a borrower's entire portfolio when making a lending decision, rather than just consider the property at hand.

As part of the decision-making process, the lender will want to see proof of the the total amount of a landlord's mortgage borrowing across all properties, details of their other assets and liabilities, a detailed business plan, cashflow projections, and details of their income away from property.

Depending on the information provided by the landlord, lenders may then require more information. For example, Aldermore now separates landlords into two categories: standard assessment and enhanced assessment. Landlords with 11 or more properties

will fall into the enhanced assessment category and will require more documentation when applying for mortgage, including a 12-month cashflow forecast and a statement of assets and liabilities. They'll also be required to have a face-to-face interview with the lender.

Should portfolio landlords be concerned?

Most lenders have done their best to reassure portfolio landlords that they're still welcome. In many cases, the number of mortgaged properties a landlord will be allowed to hold remains unchanged; the only difference will be in the level of information they require at the start.

Let's take a look at some of the biggest names in the business:

- **BM Solutions** will accept landlords with up to ten mortgaged properties, although no more than three properties (or £2m lending) can be with Lloyds Banking Group brands.
- **Accord Mortgages** will accept a landlord with three properties mortgaged by itself or its parent company Yorkshire Building Society (at a total borrowing of £1m). Landlords can have a maximum of 15 properties in their portfolio, although only ten can be mortgaged.
- **The Mortgage Works (TMW)**, part of the Nationwide group, says it will continue to accept portfolios of all sizes, with no limit to the number of properties.
- **NatWest** has actually increased the total number of buy-to-let properties it will allow a landlord customer to own (from four to ten), although this total will include non-mortgaged properties and those mortgaged with another lender.
- **Paragon** continues to have no limits on the number mortgaged properties a landlord can have in their portfolio, or the number of properties a landlord will be able to have mortgaged with Paragon.

Panic over

If you believe what the national press has to say, then you've probably already sold up by now! There's nothing the newspapers love more than a good scare story. But the fact is there's no reason at all for landlords to sell up.

Mortgage applications will take a little longer as the changes bed in, so you may need to look to other options, such as bridging loans, in the first instance if you need to move quickly. But as long as you can prove you're not overexposed and financially overstretched, you shouldn't encounter too many difficulties when accessing finance.

CONTACT TC FINANCIAL SOLUTIONS

To discuss your property investment needs and find the right mortgage product for you, contact David Cookson and the team at **0161 959 0166**
tcfinancialsolutions.co.uk

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.
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In it for the short haul

Kevin Wright explores the secrets of financing short-term lets.

Serviced apartments are becoming increasingly popular with property investors, thanks in no small part to the likes of Airbnb and Booking.com. Savvy investors are starting to recognise the potential for earning much more from letting your property on a night-by-night basis than on long-term tenancies.

I spend a lot of time travelling around the country delivering my property investment seminars – the Ninja Investor Workshops and Ninja Networking Blitz events – and I book serviced apartments, as opposed to hotel stays, wherever possible. I like the privacy and independence a one- or two-bedroom apartment gives me: I can eat what I want, when I want, and it's great for meetings, too. Most of the apartments I've booked have been nicely decorated and furnished, making them comfortable and attractive places to stay.

Unfortunately, financing a serviced apartment isn't as simple as getting a buy-to-let mortgage, or even setting up an HMO. With those types of lettings, mortgage lenders are looking for tenancy agreements of at least six months to ensure the property can generate reliable income – but serviced apartments are not normal.

As far as lenders are concerned, lets with long-term tenants are safe bets because they can expect rent to be paid into the investor's bank account every month, providing a steady flow of income to keep

"Financing a serviced apartment isn't as simple as getting a buy-to-let mortgage, or even setting up an HMO. With those types of lettings, mortgage lenders are looking for tenancy agreements of at least six months to ensure the property can generate reliable income – but serviced apartments are not normal."

up with mortgage payments. A serviced apartment doesn't have that security: there's no guarantee that it will occupied for enough nights to make it a viable proposition. It could be fully booked one week and empty for the rest of month.

For decades, commercial mortgages have been offered on short-term lets for hotels, guest houses, B&Bs, and even businesses like kennels and catteries that operate on the same short-term-occupancy system. However, before they'll lend on properties for short-term lets, lenders want to see a proven track record – either yours as a short-term let landlord, or a history of use as a short-term let for the property you're planning to purchase. Without some evidence that the investment will earn enough to pay the mortgage, lenders aren't likely to be interested.

What boxes do you need to tick?

Commercial lenders need reassurance: you need to tick their boxes to give them confidence in your ability to keep up with the mortgage payments on the property. If you've operated other short-term lets successfully, you can use successful occupancy as evidence of your competency for this type of investment. Alternatively, if you're buying an apartment that's already operating as a short-term let, you can provide occupancy rates for the previous 12 months as proof that the property will generate enough income to keep the mortgage up-to-date.

But if you've got neither form of evidence – because you're just getting into serviced apartments as an investment strategy, and the property hasn't yet been run as such – you'll run into a brick wall when asking lenders to finance your project. Without experience as a landlord for this kind of short-term let, a mortgage finance application to convert a property to serviced apartments will almost certainly be declined.

New to serviced apartments?

OK, you can't tick the boxes. Now what? You've got to get creative – there are other ways to get your serviced apartment project off the starting blocks.

One option is to set up a joint venture with someone who does have the experience, which means finding someone who's currently operating – or has recently run – a similar property, whether it's serviced apartments, a guesthouse or B&B. Their track record will satisfy the lender that there's someone in the equation who knows what they're doing. Just remember that sharing your earnings with a partner will dilute your profits, so you'll need to factor that into the equation.

If you've got some money in the bank, you could become a cash buyer and thumb your nose at the lenders. Haven't got enough to finance the purchase alone? You could also borrow funds from someone else in return for giving them a share of the profits – at least until you've built up a 12-month track record. Again, this makes you a cash buyer with no need for a mortgage.

But if you're not flush with cash, the simplest way to get started in short-term lets without having to share your profits is to get bridging finance for a 12-month period. A bridging loan will allow you to get the property set up as a serviced apartment (or more than one if it's a property with multiple residences). You can run it over the 12 months of the bridging loan, building a track record of sustainable occupancy and income to satisfy the lender's requirements for a commercial mortgage.

It's fair to say that the costs of a bridging loan will eat up a sizeable chunk of the profits you make during this period, but this should be viewed as the cost of earning your "spurs" in the short-term letting game. In fact, even if you just break even during this period, you're still positioning yourself for your short-term letting career.

If you haven't run a serviced apartment before, bear in mind that you'll need to factor in things like cleaning, furnishing, providing fresh linens and – perhaps – basics like milk, tea, coffee, sugar, etc. in the kitchen for each new tenant. There's also, of course, the cost of utility bills – which would normally be the tenants' responsibility in a long-term let. These will all need to be offset against the income per let in order to produce accurate profit figures for your lender.

You might also consider the cost and benefit of offering additional perks with your lets, like local guides, holiday package discounts or specialty accommodations and services. Part of being a successful short-term landlord is building a reputation for giving your tenants a great experience. This means they'll not only book again, but will also tell their friends. Having positive reviews will only add fuel to your application for a mortgage when the time comes.

CONTACT POSITIVE PROPERTY FINANCE

Kevin Wright advises investors how to buy property intelligently using non-standard funding models, through Positive Property Finance he mentors clients through their deals.. He can be contacted on **01206 586586**, or at **inspireme@thinkpositively.co.uk**.

PROPERTY GeeK

Coming 'round again

Glance at the data, and the boom in property prices seems to be over. But Property Geek Rob Dix digs a little below the surface and explains that the seeds of the next boom are quietly being sown.

2017 hasn't been kind to house prices. The most recent data show that they've fallen for five months in a row, with London dropping 1.4% in July alone (Acadata, September 2017). You'd be forgiven for thinking that this could be the beginning of the end for runaway house prices: after years of rising faster than wages, they've hit their limit and will now drift gradually downwards until they reach a more "affordable" point.

And maybe that's the case. But for devotees of the 18-year property cycle, the phase we're in now looks a heck of a lot like the mid-cycle dip. And after the dip, we all know what comes next...

I'll admit: I've been wavering. Real wages are lower than they were ten years ago, consumer debt is higher than it was before the last crash, and the economy is still limping along despite interventions to prop it up at a scale never seen before. Against that backdrop, how can we possibly be set for a period of rapid house price inflation?

Yet over the last couple of months, my confidence in the cycle has been renewed. You need to look carefully, but if you do, signs of what might drive the next phase of growth are starting to appear...

How quickly we forget

I've written in previous issues about how I think the availability and pricing of credit is the most influential factor in forming house prices. This is a big reason why I couldn't see where the next boom would come from: buy-to-let lending is controlled far more tightly than it was last time around, and residential mortgages are being underwritten more sensibly too.

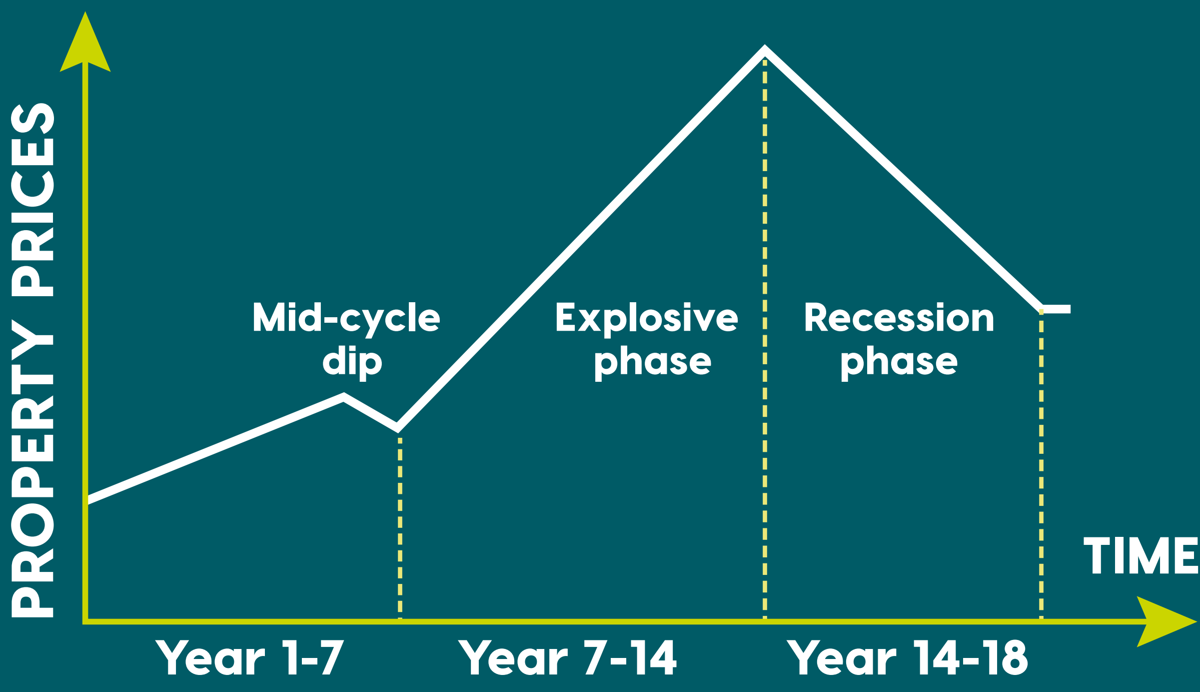
But the funny thing about the cycle is that it's just long enough for everyone to forget the lessons from last time when it comes back around again. In the mortgage trade press, articles have started to appear suggesting that 100% mortgages aren't really all that risky – and a ratings agency has said that self-certified ("liar") loans aren't as bad as everyone thinks either. The type of lending that's still considered the most risky and is most tightly restricted is to borrowers with adverse credit – but many of the CCJs and bankruptcies from last time are now dropping off credit files, so fewer borrowers will be credit-impaired in the coming years.

There are still more regulations than there were before – like the Bank of England's recommendation that no more than 15% of mortgages should be made at an income multiple of above 4.5. Nevertheless, the indication is that lenders really want to lend – and they'll find whatever leeway they can within the rules to make that happen.

Extending the horizon

Staying with mortgages, lenders are also finding a way to make payments more affordable: extending the mortgage term. Over 15% of new mortgages are now taken out for a period of 35 years or more, compared to just 2.7% in 2005 (Bank of England, June 2017).

Because capital repayments are spread over a longer period, the month-to-month cost of property



ownership is cheaper. This has the same effect as an interest rate cut: as long as they can afford the deposit, people can bid the price of housing up further than before while still being able to afford the repayments.

Affording the deposit is the obstacle for most people, but the Help to Buy equity loan scheme is due to run until 2021 – and if there's a perception that prices are rising again, there'll be plenty of parents willing to gift deposits to make sure their children get "on the ladder".

Letting in the Golden Years

When pension freedoms were first brought in, it was predicted that if they didn't blow it on a Lamborghini, pensioners would lump their pot into buy-to-let instead. That never emerged on a meaningful scale, but it's still a possibility for the future: a recent survey of over-50s who are yet to retire found that 13% plan to invest in property during retirement (Retirement Advantage, September 2017). Extrapolated out, that could mean 1.3 million new landlords.

Outside in

Pensioners aren't the only ones (potentially) flowing into the property market: we also have all those overseas investors.

Amazingly, investors from Asia accounted for 28% of UK property transactions in 2016 (JLL, April 2017) – perhaps attracted by the fall in sterling. Increasingly, they're looking outside London to areas like Sheffield, Manchester and Liverpool: in one Manchester development, 93% of units were sold to overseas buyers.

While I don't wholly buy into the supply/demand imbalance, overseas buyers will push up the price of city centre developments – which will then ripple out, and feed the perception that prices are taking off again. From there, market psychology kicks in: more people will rush to buy before prices go up further, which will bring about the rapid increase the cycle predicts.

Once more, with feeling

I still believe that growth in the run-up to the peak won't be as aggressive as last time – largely due to already-inflated asset prices and the impact of new lending measures. But even if the magnitude is going to be smaller, the factors that will support another bull run are falling into place. I can also see there being some kind of government intervention to boost prices and make everyone feel richer before the next election in 2020: perhaps a cut in stamp duty to encourage transactions, which are now falling for the first time since the crisis.

It's worth being aware that an unwavering faith in a particular model means you risk unconsciously filtering out data that doesn't fit – and exaggerating evidence that does. The 18-year cycle has been uncannily accurate for the last 200 years, though – and I'm going to keep the faith for another few years yet.

Next steps

- The Property Hub has a free video course about the 18-year property cycle: **thepropertyhub.net/courses**

Letting (deposits) go

Property market insiders say government efforts to ease the financial burdens of tenancies may have unexpected results. By John Fitzsimons.

CASE STUDY: OLIE MITCHELL

After buying his first investment property in 2014, Olie Mitchell became a full-time landlord this year. Olie, who has a small portfolio of properties across the South West, isn't too worried about the effects of the government's proposal on his investments.

"My properties are fairly high-end, and my tenant type is predominantly young professionals – teachers, solicitors, doctors, engineers and the like," says Olie, who says he enjoys a respectful relationship with most of his tenants – a few of whom are pet owners. "Of course, attracting this type of tenant doesn't guarantee my property won't be trashed," he admits, "so a cap would still increase financial risks for me."

To mitigate those risks, Olie sets aside a portion of each month's rent for maintenance to "help soften the blow" when his property needs renovation due to damages. He also carefully vets each tenant and says that reference checks and due diligence will take on greater emphasis in the event the government follows through with the proposed changes.

The biggest concern, as Olie sees it, is the potential impact on the social housing sector, where the housing crisis may deepen if landlords choose to offload lower-tier property investments "because it just won't be worth the hassle anymore".

"Research from Citizens Advice finds that as many as 42% of renters have been forced to borrow money in order to pay administrative, renewal and referencing fees – amounting to hundreds of pounds in some cases."

Ever since Chancellor Philip Hammond's 2016 announcement of government plans to reduce or eliminate unfairly burdensome charges to tenants, property markets have been abuzz with speculation about the possible effects of the changes. Hailing the measures as a "testament to the power of renters when we get organised", groups like Generation Rent immediately started advocating for speedy implementation. Sceptics, however, have raised a number of issues with the draft tenants' fees bill, including concerns for the very tenants the initiative aims to help.

In addition to the controversial ban on letting fees (see Issue 10 for our full report), background briefing documents from the Queen's Speech indicate that other provisions of the draft tenants' fees bill include caps on default fees and the establishment of firm limits on refundable deposits. Under the proposed guidelines, holding deposits must not exceed the equivalent of one week's rent, and security deposits cannot amount to more than one month's rent.

Property investors are understandably uneasy about the effects of the proposed legislation on the hassles and risks of taking on new tenants. But when it comes to plans for capping refundable deposits, investors aren't the only ones with cause for concern.

The root of the problem

For a growing number of tenants, the cost of establishing or renewing a lease is prohibitive. Research from Citizens Advice finds that as many as 42% of renters have been forced to borrow money in order to pay administrative, renewal and referencing fees – amounting to hundreds of pounds in some cases.

According to figures released by the Deposit Protection Service earlier this year, the average tenancy deposit across the UK now stands at £967.84. This UK average disguises the regional variation, however. In London, for example, deposits average a whopping £1,756, while in Sunderland, tenants are charged an average of only £467.32 – one-third of what their counterparts in the capital pay.

Although the majority of deposits are equal to one month's rent, the National Landlords Association reports that 40% are actually higher than that – some significantly so. Tenants who are statistically associated with higher risks than others – including workers with irregular incomes, those with insufficient or spotty rental histories, and owners of animals that might damage the property – tend to be charged higher deposits.

Get Living East Village
Welcome office.

“Some landlords are looking to move away from charging deposits entirely. Get Living, a corporate landlord that owns more than 1,500 properties in east London, stopped asking tenants for deposits earlier this year, instead relying on referencing and guarantors.”

CASE STUDY: PAUL NICHOLSON

Paul Nicholson, director of Luxor Estates, a large landlord based in the North West, says his firm is among those moving towards scrapping deposits altogether.

“As a practice, we’ve stopped taking deposits from tenants who can produce a solid guarantor,” says Paul, a move he sees as making properties more attractive and affordable. “A deposit really doesn’t cover a whole lot in the grand scheme of things,” he points out, but having a strong guarantor gives his firm the means to collect payment for damages or unpaid rents if it comes to that.

Who stands to lose?

Critics of the government’s plan warn that – by increasing landlords’ exposure to the costs of property damage and missed rent payments – the measures may inadvertently do their intended beneficiaries more harm than good. Prohibitions against collecting higher deposits could backfire if investors, leery of taking on higher-risk tenants, choose instead to avoid them.

David Cox, chief executive of professional letting agent body ARLA Propertymark, explained that a lot of the time a single month’s rent is simply not sufficient as a deposit, as landlords need to ensure they enjoy some level of security over both missed rent payments and potential damages to the property.

He says: “The government’s plans to cap security deposits to just one month’s rent will reduce the likelihood of ‘high-risk tenants’ being offered tenancy agreements; this includes people on zero-hours contracts. Tenants with pets will also find it more difficult to find a property, as generally landlords take a higher deposit to mitigate any potential damages from animals, and if they aren’t able to do this, many won’t accept pets.”

Exploring other options

Some landlords are looking to move away from charging deposits entirely. Get Living, a corporate landlord that owns more than 1,500 properties in east London, stopped asking tenants for deposits earlier this year, instead relying on referencing and guarantors.

Neil Young, the firm’s CEO, explains: “We launched Get Living four years ago this month, and in that time, our average deduction from deposits has been just a few days’ rent, with the majority of our residents getting their deposits returned in full. We have great relationships with our residents, and – given they’re taking such good care of our homes – why

DEPOSIT PROTECTION SCHEME

All landlords are required to keep their tenants' deposits in a specialist tenancy deposit-protection scheme. These schemes ensure that tenants will get their money back, so long as they meet the terms of the tenancy agreement, don't damage the property and keep up with rent payments.

If the property is based in England or Wales, the deposit can be placed in one of the following schemes:

- Deposit Protection Scheme
- MyDeposits
- Tenancy Deposit Scheme

Separate schemes are in place in Scotland and Northern Ireland.

If you don't put the deposit into one of these recognised schemes, you could be taken to court and ordered to repay tenants up to three times the original deposit.

should we hold six weeks' rent? We can do this at Get Living because we have the scale and track record to know it will work."

For smaller landlords who lack such scale, however, this is unlikely to be a feasible option. What's more, those high-risk tenants who would previously have been charged a larger deposit are unlikely to be approved by an organisation like Get Living.

Another alternative is offered by tech startup Reposit: rather than paying a deposit, tenants are instead charged the equivalent of a week's rent, which is non-refundable. Reposit then provides the equivalent of six weeks' worth of cover to the landlord, in order to cover damage, unpaid rent and cleaning costs.

Curran McKay, co-founder and CEO of Reposit, explains: "For many renters, paying agency fees plus a six-week deposit in addition to a month's rent in advance is one of the largest financial outlays they'll make. Yet almost all – 97% – of deposits are returned in full, only to be re-registered once a tenant moves again. The system is an administrative burden for landlords and letting agents alike."

While the tenants' fees bill may not be the ideal solution to address lettings market woes, the plan to restrict deposits may come with a silver lining. If the proposed caps become law, property investors' need to mitigate the risks associated with lettings could pave the way for a whole new crop of financial back-stop solutions like Reposit. Legislators could also be compelled to take a long, hard look at the the unique challenges of managing lettings and tenancies to address the housing crisis.

CASE STUDY: MARC VON GRUNDHERR

London property investor and Benham & Reeves Residential Lettings director Marc Von Grundherr doesn't mince words in his criticism of the move towards capping security deposits: "Stopping agents from asking for deposits equal to three months' rent, which is a lot of money, sounds fair, but the cap is an utter joke," he says. "Landlords are entitled to protect themselves. In London, four weeks' rent at £2,000 might not even cover the cost of the sofa."

While tenants who can easily pass referencing checks may be relatively unaffected by the proposed limits, Marc worries that the move may actually hurt first-time renters, who could end up being forced to pay more over the long term without the option of paying a higher deposit to establish tenancy. "At the moment, the referencing agency may say we need to ask a particular tenant for a larger deposit or charge higher rent. This cap just ensures they'll have to pay more rent, which may not be affordable."

Next steps

- Find out more about deposits, maintenance and running a successful tenancy in Rob D's book, How To Be A Landlord:
  propmag.uk/landlord
- Rob & Rob discuss lettings law you need to know (including the laws around deposits) on The Property Podcast:
  propmag.uk/lettingslaw

London falling

The London lettings market is hitting some unexpected turbulence. Neil Cumins investigates whether to buckle up or bail out.

For the last few years, investing in the London property market has represented a fairly surefire path to prosperity. Even historically unfashionable areas like Havering and Croydon have enjoyed wide popularity alongside better-known northern and western boroughs, thanks to double-digit price increases and competition among tenants. In 2016, the area saw average rent increases of over 2%.

However, last January's ONS data heralded some early warnings of a possible downturn. Despite that healthy 2% rise, London's rental rises were outperformed by Great Britain as a whole. Members of the Royal Institution of Chartered Surveyors (RICS) expressed concern that prices would fall rather than increase as 2017 wore on. The fact that the UK had started outperforming London was a major factor in this concern, since it indicated something was very wrong in the capital. A recent raft of reports suggest that the market is going into reverse, while Property Hub members are beginning to see falling rents and lengthening void periods. So what's causing this, and should we be worried?

What goes up...

After years of healthy growth underpinned by enormous demand, it's surprising to see rents in London beginning to drop. HomeLet reported three successive months of falls in rental values between May and July, compared to the same period last year. Even the perennially optimistic Foxtons declared in August that "average rental prices have experienced downward pressure" during Q2 2017. Their data showed properties in TfL Zones 3 to 6 experiencing drops in average rental prices of 5.2% compared to the same period last year, while Zones 1 and 2 fell by 1.6% and 1.2% respectively.

The London lettings sector hasn't been helped by a lack of affordability while wage rises lag behind inflation, leaving many tenants unable or unwilling to match rent increases. While the effects of Brexit remain hotly debated, the growing number of EU nationals leaving the UK has disproportionately affected the rental sector compared to the resale market. Economic confidence remains low across the UK, following a snap general election and a messy coalition. And the global outlook can best be described as mixed.

Prime suspect

Even prime central London (PCL) is beginning to feel the pinch. The superheated city core saw the number of buy-to-let investors fall by a third in Q2 this year, compared to 2016. The average price paid for a BTL property in PCL has dropped by over a quarter (admittedly to the still-stratospheric £816,429), with only trophy addresses seeing significant price growth. And sales of new builds halved between April and June compared to last year's data, with 79% of buyers hailing from India, the Middle East and Far East.

This heavy exposure to Chinese investment makes it uniquely susceptible to events in Beijing. Ratings agency S&P downgraded China's sovereign credit rating in September for the first time this century, following prolonged debt growth and persistent threats of recession. The Chinese government denies that mushrooming consumer debt is a concern, repeatedly launching short-term stabilising measures. Yet a new state directive restricting overseas investment in real estate and hotels will have a disproportionate impact on London, where everything from the Walkie Talkie building to Nine Elms Square is under Chinese or Hong Kong-based ownership.

Stop the press

With a steady flow of negative newspaper headlines, tenants are sensing a shift in the balance of power. Yellow Lettings launched in London earlier this year, and general manager Lynne Rees has already seen a change in attitudes among her clients: "We've become very aware that tenants have a lot of choice. They don't feel pressured into moving quickly, like they did in the past."

Lynne believes tenants are becoming less willing to accept optimistic rental values: "We've found that well-presented and realistically priced properties don't stay on the market long, but the phone just doesn't ring if the rent is pitched too high for the area. Landlords may find it difficult to accept a lower rent than they had for their previous tenancy, but ultimately, they need to listen to what the market is saying."

Taking ownership of the situation

So how should landlords and investors respond? As Lynne points out, denial is not an option. Long-term investors will accept modest rental falls as part of natural market fluctuations. After all, house prices in Hackney are currently 17 times higher than local average salaries, and a three-bedroom property in Fulham typically rents for almost £4,000 a month. A financial correction is probably overdue, and basing rental rates on comparable properties remains important even as average prices begin to decline.

Fortunately, pent-up demand should prevent yields from falling significantly and keep void periods in check. In Haringey, a total of ten new council homes were completed in 2015–16, while the population increased by almost 4,000 in the same period. With average property prices standing at £557,000 in June, Haringey's thriving private rental market fills the affordable-housing gap for those who won't get into social housing any time soon.

Where it's at

Investors with money to spend should remember that desirable areas suffer less in downturns. Amid its largely negative Q2 data, Foxtons recorded rent rises for studio and two-bedroom flats in Zone 2. London remains a thriving global city with a growing population, where even formerly deprived boroughs like Newham are reaping the benefits of infrastructure improvements and large-scale housebuilding. For all the talk of the Northern Powerhouse, the capital will always remain the dominant force within Britain's economy.

And for anyone willing to look outside the M25 for their next BTL purchase or renovation project, the ripples of London's post-millennial property price boom lap at the shores of counties like Hertfordshire. LendInvest reported in June that Luton and Stevenage are now the UK's best places for BTL investments, based on factors including capital gains, yield and rental price growth. If you're tired of London, you don't have to venture far beyond the city limits to find lucrative investment opportunities...

Expert's view with Rob B: THE FUNDAMENTALS

Whether you're new to the property game or a dab hand at investment, you need to get the fundamentals right before you make any new purchase. Rob B explains.

Rob Bence
© Barney Walters

If you're a regular listener of The Property Podcast, you'll no doubt be used to me banging on about the "fundamentals". There's a good reason for that. If the fundamentals – from essential infrastructure to jobs and schools – aren't the first things you check when looking for a new buy-to-let property, you may as well just go through the listings with your eyes closed and hope for the best. The presence (or lack!) of these basic services and amenities can mean the difference between an area bursting with capital growth potential and an investor's nightmare.

So what exactly are these fundamentals?

EMPLOYMENT

As important as they are, surprisingly few landlords consider jobs and employers when sourcing rental properties. Unless you're especially keen to have your property sitting empty, it makes sense to assess what job opportunities might lure tenants to the location. If there's a big employer in the area – or one on its way in the not-too-distant future – the need for workers will help drive rental demand.

Take a look at some of the areas experiencing strong growth from a business point of view. Growth tends to mean employment opportunities, and those employees will need homes. Warrington, which property specialist JLL calls "a hotspot for expansion, growth and development", is brimming with potential. Indeed, as a result of the Northern Powerhouse initiative, much of the North West is ripe for employer investment, which should put it on property investors' radars, too.

Also consider commuter towns, particularly those with enhancements to rail services underway. Areas that may not have been within commuter distance of London, for example, will see tenant demand soar as travel times shorten.

TRANSPORT

Transport links are crucial. Trains, planes and automobiles – prospective tenants will want to know they can get around.

And remember that when we talk about the fundamentals, we don't just mean those already in place; you should also consider those under development. Think about the impact of projects like HS2, which is well underway, on towns along its route.

AMENITIES

Most house hunters will have amenities on their must-have list when searching for a property, but it's a common mistake to consider the city or town itself without thinking about the micro location. Having a town centre brimming with pubs, shops and restaurants is all very well, but it loses some of its appeal if you have to trek ten miles to get a pint of milk.

Have a look at pedestrian routes, too. Are foot paths and greenways accessible, or do walkers, joggers and cyclists share the road with vehicle traffic at their peril?

EDUCATION

If you're looking to let a family home, there's no overstating the importance of schools. In districts with high-performing schools, you can bet families will be queuing up to move into their catchment areas. Indeed, a study by Savills found 42% of couples with children are willing to pay more rent to be near a good school. Ofsted reports can be viewed online, so do your research.

At the other end of the market, university towns can make for great investments. Aside from the obvious demand for student housing, such cities tend to see more development in terms of city centre facilities and amenities too. What's more, many graduates stay on in the location where they've studied – Manchester's a great example of this – providing a highly skilled workforce and greater demand for housing.

My emphasis on the fundamentals may seem to border on fixation, but I've got good reason to obsess a bit. The availability of these vital infrastructure links and amenities can make or break an investment, so make sure you check them before your property search even begins.

Our top five

Winter is coming – so it's time to weatherproof like a pro

IT MAY SEEM LIKE NO TIME AT ALL SINCE WE WERE BRINGING OUT THE BARBECUE AND LOOKING FORWARD TO SUMMER, BUT THOSE SUNNY DAYS ARE LONG BEHIND US (ALL THREE OF THEM – THANKS, BRITISH SUMMER TIME!), AND THE COLDER MONTHS HAVE ARRIVED. IT'S TIME TO MAKE SURE YOUR PROPERTY IS READY FOR WHATEVER OLD MAN WINTER HAS IN STORE.

1 GET THE BOILER SERVICED

At any other time of year, a broken boiler is a nuisance, but during the winter months it's an outright catastrophe. To avoid frantic calls from tenants who've got no hot water (and minimise the risk of frozen pipes), have your boiler serviced before the weather turns. Servicing usually costs between £50 and £70.

2 FILL THOSE GAPS

If your property is so poorly insulated that all the heat escapes, there's little point in making sure your boiler is in good working order! Wherever possible, insert cavity wall insulation and ensure there are no cracks or joins letting the hot air out. Aside from keeping your tenants toasty (and avoiding their wrath when it's time to pay the heating bill), maintaining a higher energy rating will soon become a legal requirement. As of April next year, an Energy Performance Certificate (EPC) rating better than F or G will be required for a property to be let, so if you've got a drafty old structure that has only a passing acquaintance with energy efficiency, you'll need to step up.

3 MIND THAT ROOF

It's not uncommon for storms to damage roofs, and if you've got a good insurance policy, you may think you're covered for such destruction. The policy will only pay out, however, if the property has been well maintained to begin with. Look for and repair or replace any loose tiles. And clear out the gutters while you're up there.

4 KEEP MOULD IN CHECK

During the winter months, mould and damp problems can worsen as tenants have the heating on and windows closed against drafts – making them even more difficult to get rid of. Get on the case right away: experts suggest using a solution of one part chlorine bleach or detergent to three parts water to remove mould, using a stiff brush. For larger areas or recurring problems, you'll need to call in a specialist.

5 REMEMBER THE RADIATORS

To operate at peak efficiency, radiators must be bled from time to time. And consider installing thermostatic valves, which will allow the temperature in each room to be controlled individually (this is particularly useful if a property is let to more than one household).

TOP TIPS

HOW TO... PLAN AN EXIT STRATEGY

If you're just getting into the property business, you may not be inclined to give much thought to how you'll leave it. But exit strategies should be in your sight, say the experts. Jane Cameron reports.

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The good news about exit strategies is that there are options – from total sell-offs to not exiting at all – and they are reasonably easy to understand. Tax issues may cause slightly more furrowed brows, but the key for property investors is to understand the choices on offer so they can picture their ideal outcome.

Never let go!

For investors like The Property Hub’s own Rob Bence, the importance of having something to pass on to the next generation outweighs the potential hassle of managing properties later in life.

“One of the main drivers for me is that legacy,” says Rob. “If the mortgage has been paid down, you can extract money from the rent and pass the property on.”

But you don’t need to have the mortgage paid to consider this option. With longer mortgages now available, it’s possible to hold onto mortgages that extend well into your advanced years – in some cases, into your nineties. And if the properties are held in a company, they can be passed across to another director.

You have to decide whether the hassle of holding property is worth it to you, adds Rob Dix (the other Rob of The Property Hub). “You may not want to be worried about interest rates in later life – that puts some people off. On the other hand, you may have handed control of the portfolio over to a child anyway by this stage – especially if you’ve adopted the popular limited company model.

“So, you don’t have to know exactly how things are going to end when you’re a long way from it happening, but it’s worth knowing that not exiting at all is an option.”

OK, sell some

The second option would be a partial sell: dispose of enough properties to pay off the mortgage balances on other properties in the portfolio, which would then be held for income and legacy. Capital gains tax would be payable.

“This option is something that gets downplayed a lot when talking about property long-term,” says Rob Dix, “If you’re looking at holding a property for 20 years or more, by end of that period, the mortgage remaining will actually be worth less in real terms due to inflation.

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It's a sell-out

For those wanting to call time on their happy relationship with property before it sours in old age, there is the option of liquidation and investment in other asset classes.

"The big advantage here is that you're going to get chunks of cash," says Rob Bence. "If you're sensible, you'll use it to diversify across a portfolio of investments that will hopefully see you through retirement and allow you to pass it on as well. Or you might just buy a yacht."

Tax, however, becomes a major consideration if you choose to follow this path.

"Where there was a bit of tax with the other options, you'll have to pay a lot of tax with this one, because you're selling everything. So while the thought of large bundles of cash is tempting, the tax bill and loss of property assets to hand down may not be worth it."

All of the above

This option – favoured by Rob Dix – would see property owners sell one property to pay down outstanding mortgages, dispose of others for lump sums to invest in non-property assets and keep the rest for income with minimal or no mortgage. A variation on this would be to re-invest the cash into different types of properties. For example, investors approaching retirement may focus on properties with high income rather than growth potential, or shift to properties that are easier to maintain or closer to home.

Rob Dix recommends the a-bit-of-everything approach for investors with portfolios of five to ten properties, explaining: "While you'd take a tax hit on the sales, you'd have a diversified portfolio with some low-maintenance property investments and little or no debt to worry you."

He adds, "Maybe I just want to have my cake and eat it, too, but this is what I'd be looking at doing."

More about that tax

In addition to the complexities of capital gains tax, accountants are flagging up the tax legislation brought in this year to significantly impact rental income for residential landlords.

Once fully phased in by 2020, mortgage interest relief for taxpayers will be restricted to 20% of the interest payments. Buy-to-let investors will be liable for more tax and may find HMRC collecting even when there are no profits.

"The changes may mean it's simply not viable for some to hold properties," warns John McCaffery, tax partner with accountancy firm Alexander & Co. "When planning exit strategies, it's more important than ever to look at tax-efficient management, rather than – for example – gross cash figures. Otherwise, you may find that your investment isn't as good as it seemed."

Alternatives to selling up may include handing property over to a low- or non-earning spouse, increasing pension contributions or incorporation.

John points out that landlords should always keep records of any capital enhancements made and of other capital gains tax deductibles, such as stamp duty, legal and estate agency fees, in case they need to opt for disposal of some or all of their properties.

"Unfortunately, there are no catch-all solutions, and investors should work through their personal circumstances with a tax accountant who is up to the job," adds John.

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Next steps

- Learn more about the best exit strategies for property investment with the Property Podcast: **propmag.uk/exit**
- Read the chapter on Exits in Rob's book, The Complete Guide to Property Investment

In a town near you *(every month)*

Property Hub Meetups are the UK's biggest FREE network of property events, with 40 held each month. They're open to everyone – from the greenest newbies to the grizzliest tycoons!

These aren't traditional networking events. There are no sales pitches or "upsells" – just a relaxed and informal get-together of likeminded people, with a more friendly and supportive atmosphere than you'll find at any other event. Meetups are held on the **first Thursday of every month**, and they're completely free to attend. All we ask is that you register in advance.

Visit thepropertyhub.net/meetups for full details and registration information.

We currently hold meetups in the following locations:

ABERDEEN
The Village Hotel, Kingswells, AB15 8PJ.
Meetup leaders: Scott Wilson and Dale Williamson

GLASGOW
Dram!, G3 6ND.
Meetup leaders: Tony Ng, Nelson Wan, Luis Guarin

EDINBURGH
The Grosvenor Casino, EH12 8NE.
Meetup leaders: Bill McWilliam and Caryn Simpson

NEWCASTLE UPON TYNE
The Town Wall, NE1 5HX.
Meetup leader: Al Robinson

CHORLEY
The Lock and Quay, PR6 9AE.
Meetup leader: André Simm

LIVERPOOL
The Pumphouse, L3 4AF.
Meetup leader: Silvio Orlando

MANCHESTER
The Kaz Bar at Tiger Tiger, M4 2BS.
Meetup leader: Mark Morris

LEEDS
The Crowd of Favours, LS2 7EA.
Meetup leader: Andy Norman

SHEFFIELD
Ink & Water, S1 4JB.
Meetup leaders: Rhys Jackson and Alice Lacey

DONCASTER
Regent Hotel, DN1 2DS.
Meetup leader: Helen Elworthy

DERBY
The Tap, DE1 2ED.
Meetup leader: Ryan Slater

NOTTINGHAM
The Lion at Basford, NG7 7FQ.
Meetup leader: Jonathan Challis

LEICESTER
Heathley Park – Fayre & Square, LE3 9QE.
Meetup leader: Mark Barnes

BIRMINGHAM
M Club, B3 1JJ.
Meetup leader: Kevin Cooper

LEAMINGTON SPA
The Fat Pug, CV32 5BZ.
Meetup leader: Carol Duckfield

MILTON KEYNES
Ye Olde Swan, MK6 3BS.
Meetup leader: Jason Smith

CHELTENHAM
The Swan, GL50 1DX.
Meetup leader: Joanna Surowiec

CARDIFF
Holiday Inn Cardiff North, CF15 7LH.
Meetup leaders: Carl Matthews and Luise L

BRISTOL
Channings Hotel and Bar, BS8 3BB.
Meetup leader: Jon Hulatt

SWINDON
Blunsdon Hotel, SN26 7AS.
Meetup leaders: Yann Guillery and Shirley Hensher

READING
Grosvenor Casino, RG2 0SN.
Meetup leader: Adam Vickers

ST ALBANS
The Beech House, AL1 3EG.
Meetup leader: Chris Ryder

COLCHESTER
The Church Street Tavern, CO1 1NF.
Meetup leader: Diana Bond-Smith

SOUTH ESSEX
The Paul Pry, Rayleigh, SS6 7AA.
Meetup leaders: Joanne Dron and Larry Solomons

LONDON KING'S CROSS
The Somers Town Coffee House, NW1 1HS.
Meetup leader: Gavin Lloyd

LONDON WATERLOO
All Bar One, SE1 7PY.
Meetup leader: Matt Newman

RICHMOND UPON THAMES
The Cricketers, TW9 1LX.
Meetup leader: Roxane Brazeau

EPSOM
The Albion, KT19 8BT.
Meetup leaders: Justin Richards and Andy Garnett

FARNHAM
The Wheatsheaf, GU9 7DR.
Meetup leaders: Andre and Elise Brink

BRIGHTON & HOVE
The Poet's Corner, BN3 5BF.
Meetup leader: Phil Leppard

SOUTHAMPTON
The Social, SO15 2EH.
Meetup leader: Sarah Smith

BOURNEMOUTH
Ludo Lounge, BH6 3RS.
Meetup leader: Nic Scudamore

EXETER
The Ley Arms, Kenn, EX6 7UN.
Meetup leader: Tony van Bergen

JERSEY
Coming soon

STOCKHOLM
Melt Bar, Malmskillnadsgaten 45, 111 38.
Meetup leader: Tim Franzén

DUBAI
The Scene, Dubai Marina Mall.
Meetup leader: Chris Battle

HONG KONG
Classified, Exchange Square.
Meetup leaders: Kevin Isaacs and Emma Bryan

NO GROUP CURRENTLY IN YOUR AREA?

We're always on the lookout for people to establish meetups in different parts of the UK.

Stepping up and leading your local meetup is a fantastic opportunity to build your reputation in your area. As the leader, you'll get to know absolutely everyone who attends your local event – and you'll have a great excuse to reach out to other investors and property professionals locally to invite them along. We'd love to hear from you if you're interested: just email **hello@thepropertyhub.net**