PropertyHub Magazine

Making sense of property investment

AS EASY AS EPC?

Navigating the government's energy efficiency rules

propertyhub.net

Issue 32 January/February 2022 | £5

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Welcome

Happy New Year. It's become a tradition of ours to make predictions for the year ahead on The Property Podcast in January, but how do our projections compare to those of experts from the fields of property finance, tax, conveyancing, sourcing and sales? Head to page 34 to find out. *Spoiler alert* energy efficiency will be high on the agenda.

COP26 left the world with a climate to-do list, and there's much to be done in the private rental sector if we are to meet the government's net zero target by 2050. Our cover story takes a closer look at what rules and regulations will apply to you and your properties.

Our case studies this issue spotlight three investors at different stages in their property journey: one just starting out, one swapping strategy and one developing complex, mixed-use projects.

Elsewhere, we dig behind the headlines to find out why there's been a rise in high-profile property fraud, home in on what makes Birmingham a hotspot, and explain how you can protect your portfolio against interest rate rises.

Happy reading,

Rob & Rob

Rob Bence has over a decade's experience sourcing prime property investments on behalf of clients, and now oversees Property Hub's own developments too.

Rob Dix has written extensively about property investment for the past seven years. His books, including The Complete Guide To Property Investment and How To Be A Landlord, are Amazon best-sellers with hundreds of five-star reviews.

Inside the hub

A roundup of what's going on across our hubber channels

ON SCREEN

Is the property market about to crash? What happens when we reach the top of the market? Is now a good time to buy? The Rob's answer all of these questions and more in their YouTube video: Things you should do when the property market crashes. Visit our channel, subscribe and hit the notification bell to make sure you get alerted when new content goes live.
youtube.com/propertyhubuk

ON LINE

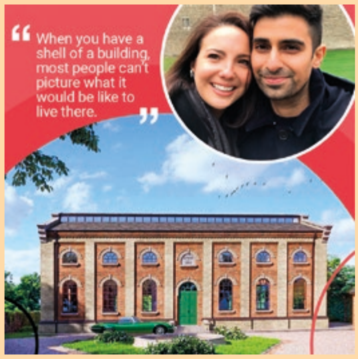
Inflation may sound boring, but it can supercharge your wealth if you learn how to harness it. The latest article in the 'free education' section of our website explains what causes inflation, the devastating effect it can have on your savings, and how you can turn it into a valuable wealth-generation tool.
propertyhub.net/education

HUB CHAT

Is buying a house with a downstairs bathroom a bad idea? Hubber Seamus asked this question on the Forum and got some smart advice from his fellow investors. You can find the thread in the 'advice' section, within the 'refurbs & developing' category if you'd like to share your own experience or see what others have to say.
propertyhub.net/forum

ON AIR

Got big plans to make 2022 your best year yet? Then you'll want to tune in to The Property Podcast throughout January and February. The Robs will be dedicating an episode to helping you get the most out of the next 12 months, sharing their predictions for the year ahead and revealing their 2022 buy-to-let hotspots.
Propertyhub.net/podcast



We've been sharing some of the more unusual property strategies of investors we've covered in this magazine over on our social channels. Strategies like that of Fahd and Catherine's, who buy run down properties, draw up amazing plans, then find a buyer to take on the project.

If you'd like to go back and read their full story you can find it in Issue 29 (pages 38-41). Just log in to your magazine account via our website and download the digital edition.

As a subscriber to Property Hub Magazine you get digital access to all our back issues, that's over 1,500 pages of content for you to enjoy at your leisure.

If you have an interesting or unusual strategy you'd like to share, get in touch at magazine@propertyhub.net

Market focus

The latest news and developments from the property industry

NEED TO KNOW

Alarm call

Carbon monoxide alarms will soon be legally required in all private rental properties with fixed appliances, such as gas boilers or fires.

Previously they were only required in properties that burned solid fuels, such as coal or firewood.

The new legislation states carbon monoxide alarms must be fitted when new gas appliances are installed and that landlords, or managing agents acting on their behalf, must repair or replace smoke and carbon monoxide alarms once they are informed they are faulty.

The cost of the new requirements to install and maintain alarms falls to property owners.

Guidance relating to where to fit alarms and making sure they meet the relevant standards is available on the government website.

The rules also make smoke alarms mandatory in social rented housing, which they haven't been until now.

The reforms follow a two-month consultation and changes will be brought forward through the Smoke and Carbon Monoxide Alarm (England) Regulations 2015 and the statutory guidance (Approved Document J) supporting Part J of the Building Regulations.

CLADDING SCANDAL

Pressing pause

Housing Secretary Michael Gove has said he is pressing "pause" on leaseholders paying to remove cladding to make their buildings safe.

Gove made the announcement at a Housing, Communities and Local Government Committee meeting in November.

According to a report by The i Newspaper, he said he wants to take time to review plans for a loans system for leaseholders to repay the costs for remediation work, and questioned why cladding victims have to pay "at all".

Giles Grover, from campaign group End Our Cladding Scandal, told i: "These positive noises must be taken with a caveat – there have been four different [housing] secretaries in as many years, with Mr Gove's predecessors all having broken promises that the innocent homeowner will not be held liable for the failings of others.

"Mr Gove's statement on pausing the forced loans scheme is a step in the right direction; however, we must see this unfair attempt at a solution consigned to history rather than simply paused."

NEWS

LICENSING UPDATE

Liverpool licensing scheme approved

A new landlord licensing scheme covering around 80% of privately rented properties in Liverpool has been approved.

The scheme targets 16 wards in the city where at least one in five homes is owned by a private landlord. These are: Central, Riverside, Greenbank, Kensington, Picton, Tuebrook and Stoneycroft, County, Anfield, St Michael's, Princes Park, Kirkdale, Old Swan, Warbreck, Wavertree, Fazakerley and Everton.

Around 45,000 of the 55,000 properties from the original city-wide scheme – which ran from 2015-2020 – are included, giving the council additional powers to drive up standards and keep vulnerable tenants safe, such as tackling fire and electrical safety hazards, excess cold and damp.

The scheme will be introduced from April 2022 and will run for five years.

Cabinet member for Neighbourhoods, councillor Abdul Qadir, said: "Our new scheme will be one of the largest in the country, covering the vast majority of properties under the original programme, ensuring landlords meet their obligations, such as putting in smoke detectors and fire doors as required by law."

Details on the fee for landlords are yet to be revealed.

DEVELOPMENT

Brownfield fund

A further £11m from the Brownfield Land Release Fund (BLRF) has been released to support 23 redevelopment schemes across 15 councils in the UK.

The £400m fund was set up to help local authorities develop brownfield land into good quality housing.

Its ambition is to release land for more than 6,800 homes by March 2024 and create more than 21,000 jobs in the housing and construction sectors and wider economy as part of the government's mission to level up communities across the UK.

The latest funds will support projects including: the redevelopment of a derelict former cattle market in Gloucester to create 180 new homes, improving the roads, infrastructure and utilities for the Marina Village development in Barrow-in-Furness releasing land for 315 new homes, and the conversion of derelict site in Chorley into a mixed-use scheme incorporating residential, retail and leisure space.

The first tranche of the BLRF was released in October, with £58m allocated to 53 councils, of which up to £25m was made available to self and custom build projects.

The great property swindle

With high-profile property fraud cases in the news, Neil Cumins investigates how everything from your identity to your home can potentially be stolen – and how to fight back against the fraudsters

Every now and then, a story reaches the news which is so extraordinary, it stops you in your tracks. In November, your correspondent could be found with spoon hovering midway between cereal bowl and mouth, trying to make sense of a story in which someone effectively had his mid-terraced house stolen from under his nose.

Even in today's climate of online identity fraud and well-publicised scams, this sounded like the most brazen example of criminality the UK's property market has seen. It also raises a question of whether the threat of property fraud should be taken more seriously, and by extension, what can be done to minimise the chances of becoming tomorrow's news?

Divine intervention

For anyone who missed this remarkable story at the time, the Reverend Mike Hall returned home from a trip to North Wales to find the locks had been changed on his Luton mid-terrace. A builder opened the door, revealing the entire interior of the house had been cleared out and stripped in preparation for refurbishment. When the Reverend tried to walk into what he still regarded as his family home, the builder accused him of trespassing and ordered him to leave.

It subsequently transpired that Reverend Hall's house had been sold after a cloned driving licence was used to set up a bank account in his name. The builder had paid £131,000 to legally acquire title of the property from the 'seller' through a reputable solicitor, and when this transaction was confirmed by HM Land Registry, the police informed Reverend Hall they were unable to assist in what they termed "a civil matter".

Needless to say, this advice was swiftly countermanded, and a man was arrested a few days later on suspicion of fraud by false representation. A successful conviction could result in a ten-year prison sentence, though penalties for an isolated case like this are usually far lower.

Don't panic

Before we outline the various kinds of property fraud currently in circulation, and explain how to protect yourself against them, it's important to note that such events are rare. Indeed, that's why the Reverend Hall's case attracted media attention from as far afield as India and Iran.

A similar case occurred in 2018, when a conveyancing firm failed to perform due diligence and outsourced document checking to a third party, but these are isolated incidents. According to figures provided to Property Hub by HM Land Registry (HMLR), fraudulent transactions average just 0.001% of the applications it receives each year.

“Fraud in the property industry as a whole should not be considered a huge problem,” says Beth Rudolf, Director of Delivery at the Conveyancing Association. “The last data I saw from HMLR involved 1,250 identified frauds which were mostly inter-familial frauds, such as spouses mortgaging property by forging their partner’s signature.” Nonetheless, she acknowledges this will be of little comfort to anyone affected by property fraud: “The ramifications are huge and the losses can run into hundreds of thousands of pounds.”

Deception by design

It’s often assumed that your risk of property fraud varies depending on the property in question and your relationship with it. The expat owner of a multimillion-pound country estate might be seen as a higher risk than the owner of one rental property with a sitting tenant. Yet these assumptions aren’t necessarily accurate, according to Beth: “While it used to be the case that some house types or owner demographics were more at risk of property fraud, such as mortgage-free sole owners living somewhere other than a high-value property they own, we would encourage everyone to take this very seriously.”

She cites the example of fraudsters changing their name by deed poll to match an existing homeowner’s details, before requesting official documents in that name and using them to sell the property: “Previously we only saw this relating to very expensive properties, but it’s become a risk in more mainstream cases.”

If you haven’t heard of this particular scam, it’s one of several (often convoluted and long-term) methods of property fraud which are designed to deceive the unwary:

1 **Fund misdirection frauds**. A consumer or a cashier is led into sending money to the fraudster, using sophisticated social engineering that usually invokes a sense of urgency regarding the transfer of monies for a house purchase.

2 **Home hijacking** sees a legitimate tenant move in before impersonating the owner and requesting documents to that address. Once a mass of paperwork has been built up, the home is sold and the criminal flees before the buyer or landlord realise what’s happened.

3 **Hacking and malware** can lead to infiltration of corporate computer systems by fraudsters, who can then manipulate records using ransomware. Alternatively, they could wait until a payment is about to be made and intercept it, redirecting it to their own bank account.

4 **So-called ‘Friday afternoon fraud’** sees a conveyancer’s cashier being duped by a fake email from a senior member of the law firm instructing them to send money somewhere. Happily, this form of property fraud is being minimised through enhanced staff training.

5 **Seller impersonation** sees a fraudster obtain an official identity document in the name of the registered proprietor, enabling them to pass themselves off as the seller. This was the method used in the Reverend Hall’s case.

6 **Empty homes fraud**. Unoccupied or unused properties without mortgages could be accessed by a criminal who requests documentation is sent to that address (or uses a postal redirect), building a seemingly legitimate profile which is then used to sell the property or sublet it.

Don't be rushed. Criminals don't want due diligence, so they add urgency to their communications and actions. Never act in haste, and always investigate strange claims

Other notable types of fraud

A particular scourge among landlords is illegal subletting, which occurs when an authorised tenant rents out rooms or space in a property without the landlord's permission. It's more common in larger properties in bigger cities, and has involved as many as ten people sharing a small double bedroom.

Estimates suggest 17% of tenants have previously sublet a property to someone whose name hasn't appeared on the tenancy agreement, either through failure to notify the landlord or by deliberate deception. There is evidence of tenants renting out individual rooms and even entire properties on Airbnb.

We could dedicate an entire article to property investment scams, which are often well-established yet subtly evolving. These usually involve overseas developments which will never be built or are sold multiple times over, sometimes including fictional buy-to-let opportunities. It's much harder to undertake due diligence on foreign sites, or companies operating in territories with less rigorous legal frameworks than the UK. Be particularly suspicious of transactions conducted across auction platforms, which are often not legally owned by the seller.

How can you stay safe?

"The Conveyancing Association's Cyber and Fraud Protocol provides recommendations for conveyancers and individuals," says Beth. "However, the key is for property owners to register for Property Alerts at the Land Registry, so they're notified if someone tries to sell or mortgage their property."

It's possible to monitor up to ten properties at a time free of charge, receiving notifications if any searches or applications are received against each address. "For the 15% of properties which are not yet registered at HMLR," Beth continues, "we would recommend they apply for voluntary registration to enable as much protection as possible." Unregistered land is at particular risk of fraudulent activity, but a solicitor can help you to apply for first registration.

Beth also points out that fraud is becoming more sophisticated as criminals identify the industry's red flags. "The current weaknesses in the system are where entities accept certified copies of paper documents as proof of identity. Digital identity looks far deeper into the provenance of the identity, so it's far more likely to identify any issue. For example, if there are two identities with the same name with a relationship with the property, it's much more likely to be identified by a digital identification process than by relying on paper documents." A UK government digital identity trust framework is currently being developed, but remains at the prototype stage at the time of writing.

Putting a restriction (also known as an entry) on your title limits the power of a registered owner (including limited companies and private individuals) to deal with or dispose of a property. This is especially useful in cases of identity fraud, because the conveyancer has to certify that a disposal is being made by the legitimate owner. It's free for businesses and individuals unless you live at the property, in which case a £40 charge is applicable.

Overseas property owners are advised to complete the UK government's RQ application form, since it's far easier for fraud to take place while you're out of the country than when you're in the vicinity and can keep an eye out for unusual activity. If Reverend Hall had noticed locksmith vans and builder's skips appearing outside the property he owned, the criminals' deception would have come to light much sooner, resulting in less damage both literally and metaphorically.

TEN PROPERTY FRAUD TAKEAWAYS

1. Property fraud is rare, with only one in 100,000 Land Registry transactions identified as deceitful. Be vigilant, but don't automatically assume you're going to become a victim.

2. Properties bought or mortgaged before 1998 may not be included on HM Land Registry database, so it's vital to check if an older address is listed.

3. Ensure the Land Registry has your current contact details – it's easier to impersonate someone using out-of-date information such as a former postal address.

4. Don't be rushed. Criminals don't want due diligence, so they add urgency to their communications and actions. Never act in haste, and always investigate strange claims.

5. Employ reputable solicitors and ask what their due diligence consists of. Conveyancers acting for seller and buyer are both equally liable for protecting a client's rightful interests.

6. The Land Registry's state guarantee protects homeowners if they become victims of registration fraud, which should ensure you're not significantly out of pocket.

7. Long-term unoccupied homes carry particular risk, with no resident or sitting tenant to report suspicious mail arriving, or attempted entry by a third party.

8. Put a restriction on your title, requiring a conveyancer or solicitor to certify that any application to sell a property or obtain a mortgage has been made by a legitimate owner.

9. Register for Land Registry Property Alerts, so you're automatically notified if anything changes regarding properties you hold title over.

10. Be patient. It can take 18 months to rectify the title of a property to the rightful owner, but the process will eventually be sorted out if fraud can be proved.

Fighting the fraudsters

This table lists the number of fraudulent applications stopped by HMLR each year, alongside their annual value. It's interesting to note that while the number has decreased, the value has risen. This is partly due to rising property prices, but also reflects a growing focus on high-end properties with bigger potential gains for the criminals.

Financial year	Number of fraudulent applications stopped	Total estimated property value
2016/17	50	£24,930,500
2017/18	25	£15,684,000
2018/19	47	£17,361,755
2019/20	35	£28,918,000
2020/21	39	£ 28,124,000
TOTAL	**196**	**£115,018,255**

HELP IS AT HAND

These are some of the organisations you can contact for more advice and information, or to report a suspected instance of property fraud:

- Citizens Advice: citizensadvice.org.uk (Scotland and Northern Ireland have local branches, rather than national helplines)
- Action Fraud: actionfraud.police.uk
- HM Land Registry property fraud team: gov.uk/protect-land-property-from-fraud
- Solicitor authentication lists are held by the Law Society and the Council for Licensed Conveyancers: lawsociety.org.uk and clc-uk.org

From busking to buy-to-lets

Musician turned investor Paul Hanafin charts his progress from buying his first two-bed terrace in Darlington to owning a seven-figure property portfolio

What led you to invest in property?

Necessity is the mother of invention. For ten years, I was singing at weddings, pubs and bars. I was a regular busker and a resident musician in all the local pubs throughout my 20s. But by the time I hit my 30s, I realised I didn't have anything permanent to show for it: no pension, no assets and no residual income.

I had a growing family too, so needed something that could cater for these needs. I watched a video by Robert Kiyosaki and it just clicked, I realised investing was for me. It gave me the opportunity to be independent and generate a passive income stream for the future which appealed to my nature. I was hooked and began investing in things such as hire equipment, until I eventually settled on property due to it's relative stability and potential to appreciate.

What was your goal when you first started out?

It was always to generate steady income up to a figure I could live off. Longer term this would be paired with the accumulation of assets to provide me with a pension and generational wealth to pass onto my children.

What was your first deal?

A two-bedroom terrace house in my home town of Darlington. I used the profits generated from the hire equipment business to finance it and purposefully chose something simple to cut my teeth and build my confidence. I didn't want to take on too much too soon and potentially deter myself from going forward afterwards, as there were elements of apprehension lurking at this early stage.

Tell us how you scaled up from this deal to where you are now?

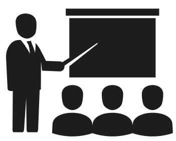
For my second deal I took on a refurbishment and gradually increased the challenge level from there. I aimed to buy around one property every three months back then and increased the frequency once the system could handle it. We then went on to buy HMOs, flips and – more recently – blocks of flats and commercial properties.

What's the biggest risk you've made and what did you learn from it?

Without a doubt buying two commercial properties at auction without seeing them. I trusted a solicitor to read the auction pack for me – they failed to notice the part that mentioned the extra fees. Having said that, it taught me a great lesson on doing proper due diligence. As long as mistakes aren't fatal, they can act like an immunity. Exposure to them can make you more resistant to similar errors in the future and hence, improves practices.

PAUL'S TIMELINE

March 2015
Attended property education seminar



July 2015
Buys first BTL in Darlington

Paul Hanafin

INVESTOR FACT FILE

Name:
Paul Hanafin

Age:
39

Lives:
Darlington, Co. Durham

Invests in:
Darlington, Middlesbrough, Tyneside

Occupation:
Property investor

Years investing:
Six

Strategy:
Buy-to-Lets, HMOs, commercial and flips

Portfolio size:
26

Goal:
To create more freedom through investment income

What's been your best property decision?

Buying my first property. That was the biggest hurdle as everything was new and I had lots of beginners apprehension and anxiety. I was questioning: can I do this? Do I know what I'm doing? Once I'd bought it and moved forward it gave me an element of confidence – the monkey was off my back.

Where are you now in relation to your original goal?

I passed my original numerical goal a few years ago. I thought I would be satisfied when I got there as it would mean all my basic expenses would be covered. However, I quickly realised that it's easy to get used to having a higher income and then the numerical goal just increases.

The problem with my original goal is that it was just numerical. Beyond a certain point, chasing increasing income for its own sake can be hollow and often comes at the expense of other elements in life, such as free-time, presence of mind, hobbies, etc. Income is essential and vital but awareness of other social and personal needs is too. Now I'm in a different place to when I conceived my original goal and have a more holistic view on goal setting.

What motivates you?

Providing financial stability for myself and my family, both now and for the future. Having more choice regarding how I spend my time and being less limited by finance, which enables more varied experience and travel. On top of this I do get a kick out of doing a good deal.

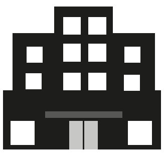
What advice would you give to someone hoping to follow in your footsteps?

I'd encourage them to think about why they want to do it. What is it they want to achieve? If they have a numerical goal in mind, as many do, I'd ask them to elaborate on that. Why do they want money? What would it allow them to do: secure their family's future? Travel? Have more time to do the things they enjoy?

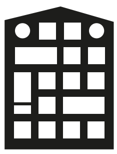
If they keep this reason in mind and have strong ambition, they will have the vision and motivation needed to do the hard yards. I'd also recommend reading books, educating themselves and perhaps finding a mentor. This will all be vital on executing their plan to achieve their goal.

December 2016
Buys seven-bed HMO

October 2020
Buys first commercial property



June 2021
Buys first building containing flats



Birmingham Bullring © West Midlands Growth Company

LOCATION FOCUS

PLACES

Let the Games begin

Birmingham continues to offer a unique combination of amenities, affordability and accessibility. As the Commonwealth Games prepare to shine a light on the city, Neil Cumins investigates its enduring appeal

Back in 2015, Property Hub profiled the Birmingham property market in one of our first Location Focus features. We extolled the virtues of this underappreciated city, acknowledging its burgeoning employment prospects, and discussing the potential benefits of the proposed HS2 network.

Seven years later, we're circling back to a city which still remains under the radar for many investors. As Birmingham gears up to host this year's Commonwealth Games, we take a look at what's been happening since our last visit, and why should investors who've stayed away from Birmingham until now consider investing there?

Out of the ashes

It's commonly assumed that Birmingham's growth can be attributed to its extensive canal network, but the city was actually founded along the River Rea in the 7th century. Since then, it's undergone a series of spasmodic reinventions, not least following extensive bomb damage during World War II.

Central Birmingham is often described as dull and even ugly, and it certainly has little of the architectural heritage of other British cities. Yet Birmingham's collection of post-war architecture extends from grand civic buildings to stylish residential estates, with wealthy inner suburbs like Edgbaston and affluent outer districts such as Sutton Coldfield offering high-end housing a dozen miles apart.

In truth, these aren't the areas investors and landlords will typically be looking at. James Forrester, managing director at Barrows & Forrester estate agents, recommends looking further down the property ladder: "The B7 postcode is the most affordable, with the average property costing just £149,525, while the B35 (£154,595) and B2 (£166,374) postcodes also offer an outstanding level of affordability."

As a result, competition for homes is fierce: "We brought a property to market recently with an open house on the first Saturday after listing. We had 24 viewings in six hours, with the seller accepting a same-day offer for £20,000 over the asking price."

Centre of excellence?

House prices have spiked over the past year across Birmingham, with detached homes increasing in value by 10.1% in the most recent data. Even flats, which suffer from a relative lack of outside space and may face cladding issues, have seen prices rise by almost 9% in the past year.

Average property prices city-wide now stand at £209,176, representing a 27% increase over the past five years, while the presence of five universities ensures demand for student accommodation remains undimmed.


Birmingham Centenary Square © West Midlands Growth Company

There is some disagreement about the merits of investing in central Birmingham. Kirsty Cove is the sales and lettings director for FleetMilne, an agency dealing in leasehold apartments. She says an ongoing lack of stock has impacted on rental pricing: "The biggest challenge in the city remains low stock. The Covid-effect saw some people relocating to the suburbs, but many others moved into central Birmingham from more expensive areas such as London, aiming to benefit from 'more for their money' after working from home became more of a permanent arrangement."

By contrast, Rice Chamberlains' senior lettings consultant Hannah Gardner reports oversupply in the ever-expanding city centre: "Surprisingly, properties in or near the city centre have become our biggest void period. I would advise at the moment not going for city centre properties, instead buying within walking distance to a suburban train station."

She cites Moseley and Bournville as offering minimal void periods, adding that Kings Norton and Stirchley have also become really popular areas for tenants this year.

> As a rule, properties where the landlord regularly invests in quality will perform best. Both investors and owner-occupiers are showing great interest in new, more expensive schemes which offer an array of facilities such as gyms, meeting rooms, landscaped gardens and business centre spaces

Tenant's extra

Local disputes aside, Birmingham's winning blend of affordability and desirability is reflected in its thriving rental market. "Not only are rental values the strongest in the region at £743 per month," says James, "but the average rental yield available to buy-to-let investors is the joint highest in the county at 4.3%."

Hannah agrees: "People are offering higher rents to try and secure properties, along with paying 12 months' rent upfront. This has pushed prices up. We are yet to see a slowdown, even though the market would usually become slower in the winter months."

Some recent rental fees have become exceptional by Birmingham standards. "A 300sqft studio in the city core recently achieved £900pcm after a three-day void period, resulting in a 7.4% gross rental yield," recalls Kirsty.

However, she sounds a note of caution: "Some neighbourhoods perform better than others, but even within a micro-location, separate schemes perform differently. As a rule, properties where the landlord regularly invests in quality will perform best. Both investors and owner-occupiers are showing great interest in new, more expensive schemes which offer an array of facilities such as gyms, meeting rooms, landscaped gardens and business centre spaces."

SITES FOR SORE EYES

These are some of the current or forthcoming schemes to watch out for across Birmingham:

- **Smithfield**
  A projected budget of £1.5bn will create a mixed-use masterplan bordering New Street Station. Two thousand homes will join 300,000sqm of floorspace, retail markets, cultural buildings and public squares over the next 15 years.
- **Belgrave Village**
  Birmingham-based Wavensmere Homes are about to launch a new site in the heart of the city. Comprising over 430 units, it'll intersperse landmark buildings and linear parks, with on-site amenities including gyms, a cinema room and workspaces.
- **Paradise**
  A former brownfield site in Solihull will see 67 acres of unused land beside the M42 repurposed into an urban village. It will deliver 5,000 new homes to the market, serviced by new schools, hotels, restaurants and over 375,000sqft of commercial space.
- **Paradise**
  This extravagantly-named scheme will add ten buildings to the Paradise Street skyline, surrounding three public squares and bordering the iconic Town Hall. A total of 370 : build-to-rent homes will be constructed in this £700m project, alongside office, retail and leisure spaces.

THE PRICE IS RIGHT

These are three examples of properties currently for sale in Birmingham at different budgets:

Sold with tenants in situ, this one-bedroom maisonette stands on the banks of the Dragonfly Pool, offering scope for modernisation but suitable for renting out.

Requiring modernisation and upgrading throughout, this three-bedroom mid-terrace in Washwood Heath offers potential for expansion like its neighbours on this tree-lined avenue.

Overlooking landscaped residential gardens, this modern mid-terraced townhouse in Erdington offers four bedrooms and two bathrooms in an area with exceptional transport links.

Search conducted via Rightmove in October 2021

These sentiments are echoed by Donna Smith, the sales director at Birmingham-based Wavensmere Homes. "We've seen a real surge in demand for residential investment property in the Midlands in recent months, with investors wanting to acquire high-quality, high-specification new build investment properties.

"Despite the capital growth that Birmingham has enjoyed in recent months, we are still seeing strong yields being achieved. Today's discerning buyers now look for much more than just a home – they seek community, lifestyle, sustainability and amenities, and buying decisions focus on these elements."

Train of thought

HS2's eastern leg may have been controversially canned, but the western leg will eventually slash journey times between the new Curzon Street Station and London Euston to just 45 minutes.

Birmingham Airport services 140 global destinations, and the city's exceptional roads network needs no introduction. However, it's the prospect of rapid rail links which has attracted many new residents, according to Hannah: "We are seeing a large number of tenants coming from London and other areas. HS2 is playing a role in this, as the commute to London will be achievable and the tenants won't be paying London rental prices."

The Eastside area bordering Curzon Street is expected to see particular growth and prosperity, in tandem with a £450m canal side regeneration scheme.

Tenants have noticed Birmingham's allure, and so have employers. "Birmingham has successfully attracted a multitude of companies to the city centre," says Kirsty. "Goldman Sachs and BT are two employers currently placing a heavy demand on city accommodation, and as their employees tend to have high standards, the better properties are always the first to go. Older units are starting to fall behind in terms of both quality of tenant and rental pricing, so improvements are becoming an absolute necessity."

Forward facing

It comes as no surprise our experts are unanimous in proclaiming a bright future for Birmingham's property market, and the city as a whole. "The city centre residential neighbourhood footprint continues to expand, bringing in areas such as the Gun Quarter and more of Digbeth," says Kirsty. "Years of planned regeneration are coming to fruition, and offering a wider choice of location and product to the market will suit a variety of budgets and requirements."

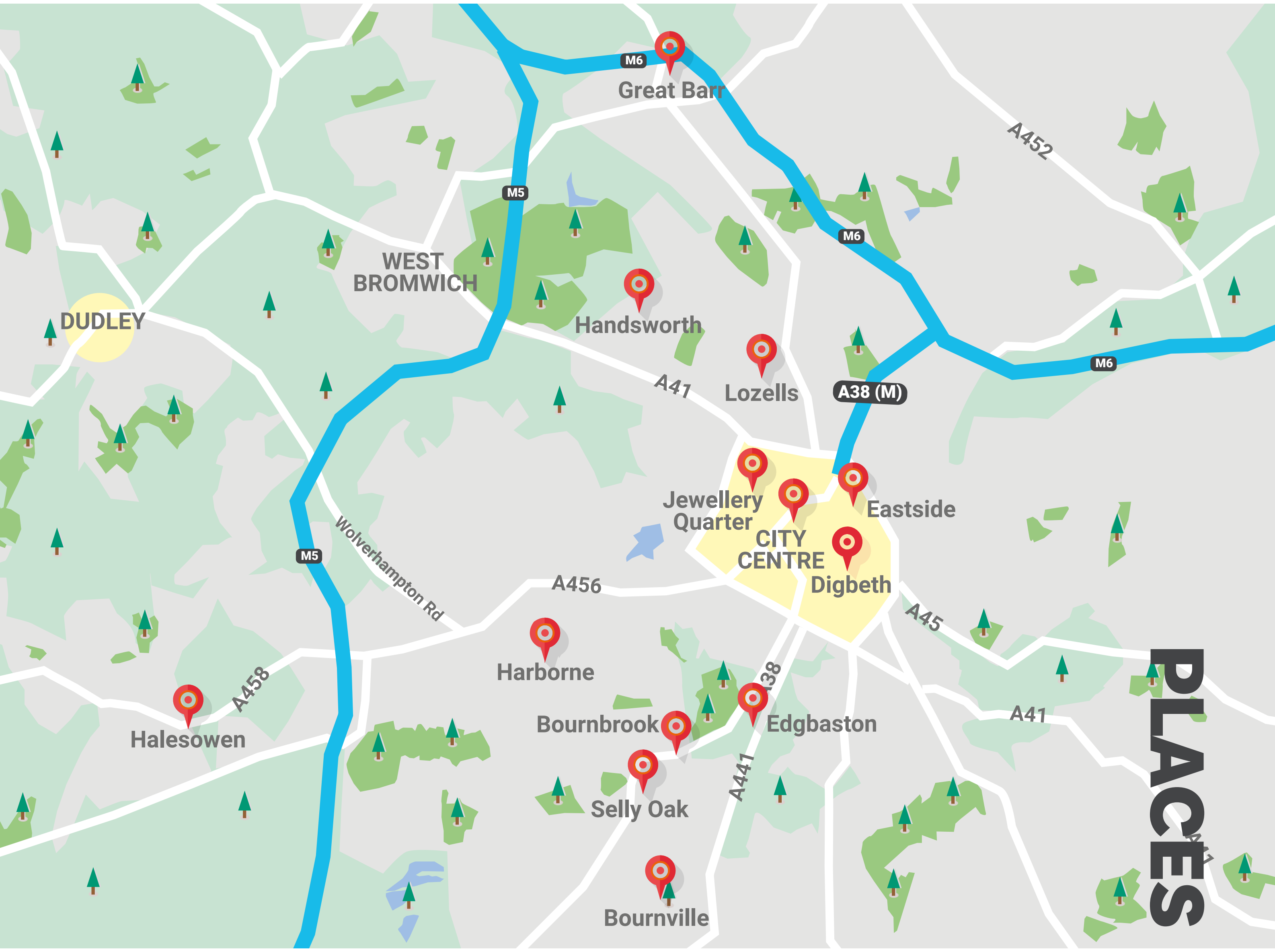
The final word goes to James: "It's fair to say that the Birmingham property market is thriving and the city continues to attract investment, business and people to the West Midlands. Long may it continue."

Postcode lottery

These are the key suburbs and districts that landlords and investors should be aware of:

- Best for families: Bournville (B30), Halesowen (B32)
- Best for young professionals: Jewellery Quarter (B1), Edgbaston (B15)
- Best for students: Harborne (B15), Bournbrook (B29)
- Best for transport links: city centre (B3), Great Barr (B42)
- Best for yields: Digbeth (B5), Selly Oak (B29)
- Best for capital growth: Eastside (B4), Digbeth (B5)
- Best avoided: Handsworth (B21), Lozells (B19)

Regency Wharf © West Midlands Growth Company




The refurbished kitchen in Laura's Droylsden property

Furlough first inve

Being put on furlough was the catalyst that kick-started Laura Ackers' investment journey. Noora Ismail finds out how she accomplished her first refurbishment project


Laura Ackers

Droylsden property exterior

INVESTOR FACT FILE

Name:
Laura Ackers

Age:
35

Lives:
Manchester

Invests in:
Manchester

Occupation:
Sales

Years investing:
One

Strategy:
Buy, refurbish, refinance and HMOs

Portfolio size:
One

Goal:
A secure retirement and generational wealth

n to

estment

When Covid-19 hit and lockdown began, Laura – like many others – was placed on furlough. Her role as a haircare sales account manager covering north Wales, the Midlands, and northern England meant pre-pandemic she was busy travelling to different places and always on the road. “It was a really demanding job,” she says. Her husband Daniel was equally as busy as a sales director for a cloud tech company in Manchester.

With time on her hands, and unsure when she would be asked to return to work Laura, 35, occupied herself with long walks and plenty of podcasts, which is how she came across The Property Podcast.

She and Daniel, also 35, had always wanted to invest in property, but didn’t know quite how or where. The pair met when they were 19 and bought their first home in Manchester aged 20. They renovated it together then sold it, moving to their current home where they have added a kitchen extension and converted the loft and cellar. “We would have done something eventually, but I don’t think it would have been as tactical and not this side of 40. We just put it off,” explains Laura.

Change of plan

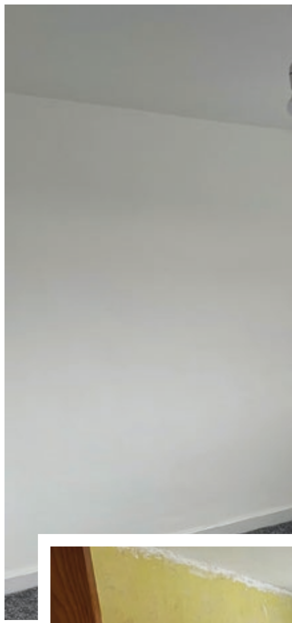
Their initial plan was to invest in a city centre apartment that could be converted into an Airbnb. They found an apartment they liked in Manchester and made an offer, but after doing her due diligence Laura realised it was riddled with issues.

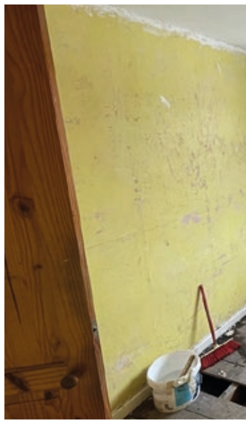
“I found a Facebook group for the building full of complaints on the roof leaking, issues with parking, car park flooding, windows being broken – there was so much. I quickly retracted my offer and walked away.

“It was definitely an eye opener. It made me more nervous to do something in an area that I don’t know,” she says.

After observing the effects lockdown was having on the city, they switched tactics. “The longer the lockdowns went on for, I saw that the city centre was getting

Above and right: the bathroom before and after refurbishment





Above and below: one of the bedrooms before and after refurbishment

quieter and quieter. I was concerned for the long term and how profitable an Airbnb might be so I decided to focus on houses in an area that I knew," she says.

They searched specifically for a three-bed house with a garden, having identified they were in short supply for renters, and focused their search in East Manchester, where they knew they could get what they wanted for their budget. They viewed 15 properties before they found the one they were looking for: a three-bed home in a quiet cul-de-sac in Droylsden.

The seller was asking for £125,000 and Laura offered £128,500 to secure the deal as market demand was high. Some way into the conveyancing process they discovered the property hadn't completed probate, which meant the sale was likely to take longer than they had anticipated. Rather than pull out of the deal, Laura used her sales skills to negotiate a lower price of £126,000, as compensation for their time and loss of rental income.

Time to renovate

As soon as they got the keys they started work on the house. Almost everything needed to be stripped out and redone: "We put in a new central heating system, a full rewire, new kitchen and bathroom, removed an old fireplace with a back boiler in it, replastered everywhere, revamped the front garden, repointed the front of the house, and repointed the chimney stack which was leaking, painted everywhere, put in new internal doors, a new patio at the back, and new flooring," lists Laura.

They set themselves a budget of £20,000 from their savings to get it all done. Luckily, they were able to call upon the experience of Daniel's dad, Colin, who has his own building company. "He has taught me things along the way about renovation and how to stretch money a bit further," Laura explains.

They also planned to convert the front garden into a driveway, but discovered they would have to pay £4,500 to get permission from the leaseholder

and cover the legal fees to do so. "I would still consider leaseholds in the future, but I would be savvier with understanding them before I got too deep into the process," Laura reflects.

The renovation took five months in total, from May to October 2021, during which time Laura was pregnant with their first child. "It could have been quicker, but working while being pregnant on top of everything else made it take longer," she says. They finished the project having only gone slightly over-budget, spending £22,844.

A father and daughter secured their tenancy in October before renovations were complete after discovering the property via word of mouth. They visited the house, paid the deposit, and moved in shortly after.

Becoming a landlord

Laura also gave birth to their son at the end of October. Despite having a lot on, she still wanted to self-manage the property. "More because I want to learn that side of things," she explains. "If I was paying someone else to do it, I wouldn't know what to expect from an agent at the moment. I need to do it myself for now and if I decide to use an agent later on, I'll know how I want it done."

She admits she felt "a bit overwhelmed" by all the paperwork, credit checks and transferring the deposit into the holding site, so she joined the National Residential Landlords Association and used its resources and helpline a couple of times.

She also discovered a female-only mentorship program which she signed up for. "It has been great having someone to check in with and hold me accountable for achieving my goals. I know if I have a call with my mentor in two weeks, I need to pull my finger out and get the work done."

RUNNING THE NUMBERS

This is how Laura and Daniel's three-bed house in Droylsden stacks up financially:

Purchase price: **£126,000**

Deposit: **£31,500**

Purchase costs: **£5,272**

Finance method: **interest only mortgage over 25 years at 3.75%**

Amount borrowed: **£94,500**

Renovation costs: **£22,844**

Project duration: **five months**

Done up value: **£175,000**

Total personal investment: **£59,616**

Monthly rent: **£850**

Monthly expenses: **£308.93**

Monthly net profit: **£541.07**

Looking to the future

Laura and Daniel are already in the process of securing their second investment in Audenshaw. "It's currently a large three-bed terrace but I am hoping to turn it into a five-bed HMO by reconfiguring the space and going up into the loft," Laura says. And they'll be refinancing their Droylsden property to fund this latest project: "The done up value is in the region of £175,000 so I'm in the process of pulling out £35,000," Laura explains.

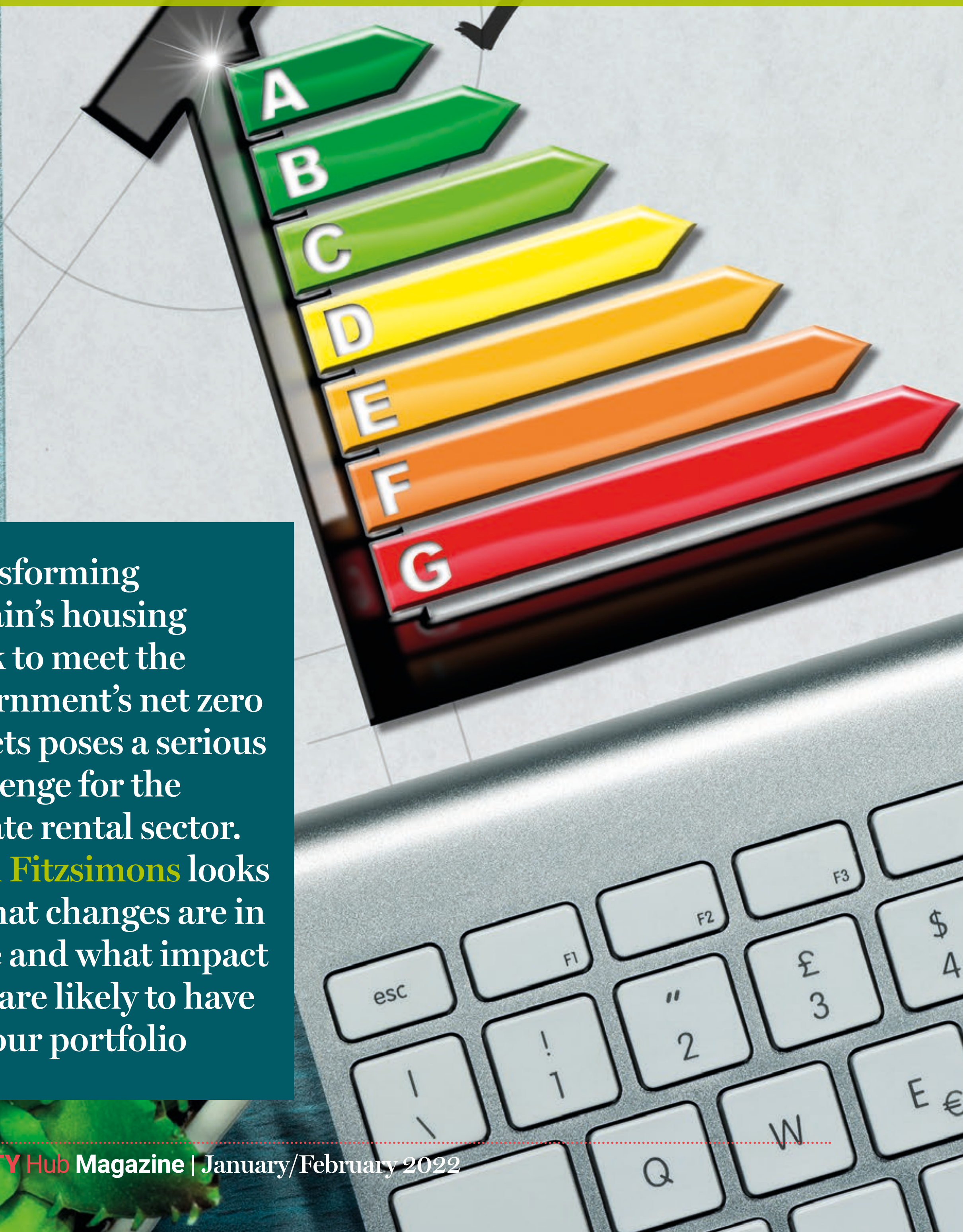
While the second property has come quickly, Laura ultimately wants to build up a secure retirement for her and her husband and a safe future for their son, all while learning, growing, and being hands-on.

"I'm not in any mad rush to build our portfolio. Slow and steady wins the race," she says. "I want to take my time and know that each property we buy is a sound long-term investment."

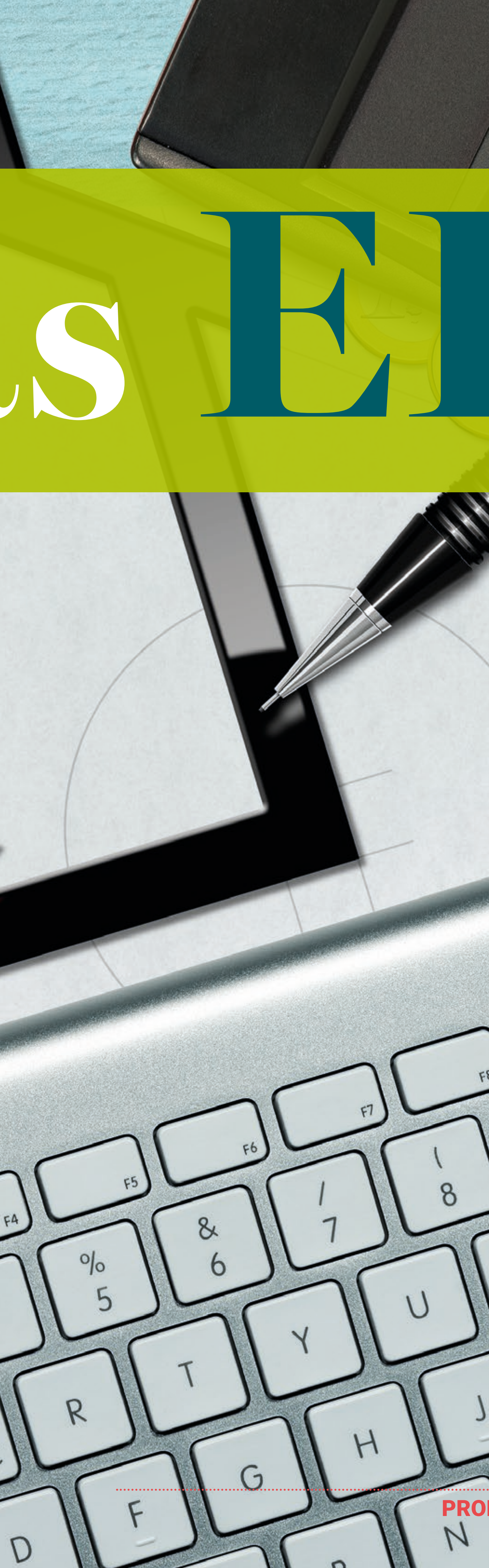
If you have an interesting property case study (good or bad) we'd love to share your story. Email us with some information and photos and we'll get right back to you: magazine@propertyhub.net

COVER STORY

As easy a



Transforming Britain's housing stock to meet the government's net zero targets poses a serious challenge for the private rental sector. John Fitzsimons looks at what changes are in store and what impact they are likely to have on your portfolio



s EPC?

The issue of energy efficiency, and the measures we can take to protect our planet, have been at the top of the news agenda of late. This isn't just down to the fact that the UK hosted the COP26 conference in Glasgow towards the end of last year, but more a reflection of how important environmental issues are becoming to people across the country.

The UK's official climate advisers have warned the national housing stock — which is among the least energy efficient in Europe — is generally "unfit". Buildings are the second-largest source of emissions in the UK (behind transport), while 90% of homes in England use fossil fuels for heating, cooking and hot water.

If the government is to deliver on its 2050 net zero carbon target, carbon emissions from residential and commercial buildings will need to be largely eliminated over the next twenty years.

Landlords are particularly impacted on this front, with a host of new rules and regulations applying directly and indirectly to rental properties on the horizon.

Improving EPC ratings

Property investors of all stripes will already be well aware of the importance of a property's Energy Performance Certificate (EPC) rating. Since 2018 all new tenancies have required the property to have at least an E rating, with this particular rule expanded to existing tenancies in 2020.

The government is going further though in the bid to improve the green credentials of the UK's housing stock. From 2025 all rental properties for new tenancies – irrespective of their age or location – will need to have a C rating on the EPC, with these rules then applying to existing tenancies from 2028.

Failing to meet these standards will make the tenancy illegal, while not having a valid EPC will incur far more substantial penalties, with the size of the fine jumping from £5,000 to £30,000 from 2025.

Retrofitting rentals

There have been warnings this new benchmark is too high, with the potential costs of carrying out the required work pushing investors out of the industry.

Hamptons estate agents has estimated it will cost a total of £16bn to get the existing rental stock in England up to band C, with the average cost per property coming to around half a year's rental income.

Crucially, that will vary sharply by region. In London for example, landlords would end up paying around a quarter of the rental income for those renovations, but in the North East the costs would account for a massive 83% of the region's yearly rental income.

Perhaps then it's not surprising a significant number of landlords are worried about meeting the existing deadline. A study by lender The Mortgage Works found 35% of landlords were not confident about their chances of improving their portfolio to this level in time, with some saying the upfront costs are enough to make them reconsider their investments.

A spokesperson for the National Residential Landlords Association (NRLA) argues the government needs to recognise the "unique challenges" facing the rental market, particularly the fact it accounts for a higher proportion of older housing stock.

"A clear strategy, improved system of recording measures undertaken, and a comprehensive support package for those landlords who need to fund works is vital to achieving the government's ambitions," they said.

The NRLA has also called for the replacement of EPCs with "building renovation passports", which would provide homeowners with accurate information about the measures already taken to improve the energy efficiency of properties as well as what further works could be made in the long term.

Watered down rules

Rob Dix suggests changes to the rules may be required. He notes that of the two million rental properties which would be impacted by the new threshold, many simply could not be retrofitted to reach a C rating without "ripping them back to brick and starting again".

"You could potentially have hundreds of thousands of properties all suddenly becoming unrentable at the same time, meaning the owners would have no choice but to evict and sell to an owner-occupier, who themselves would only have seven more years to meet the same standard according to current plans. They would also become unmortgageable, so I imagine lenders would have something to say about it too," he says.

You could potentially have hundreds of thousands of properties all suddenly becoming unrentable at the same time, meaning the owners would have no choice but to evict and sell to an owner-occupier, who themselves would only have seven more years to meet the same standard according to current plans

He believes it's more likely there will end up being a requirement for landlords to demonstrate they cannot economically make the improvements needed to hit the standard.

The switch away from gas

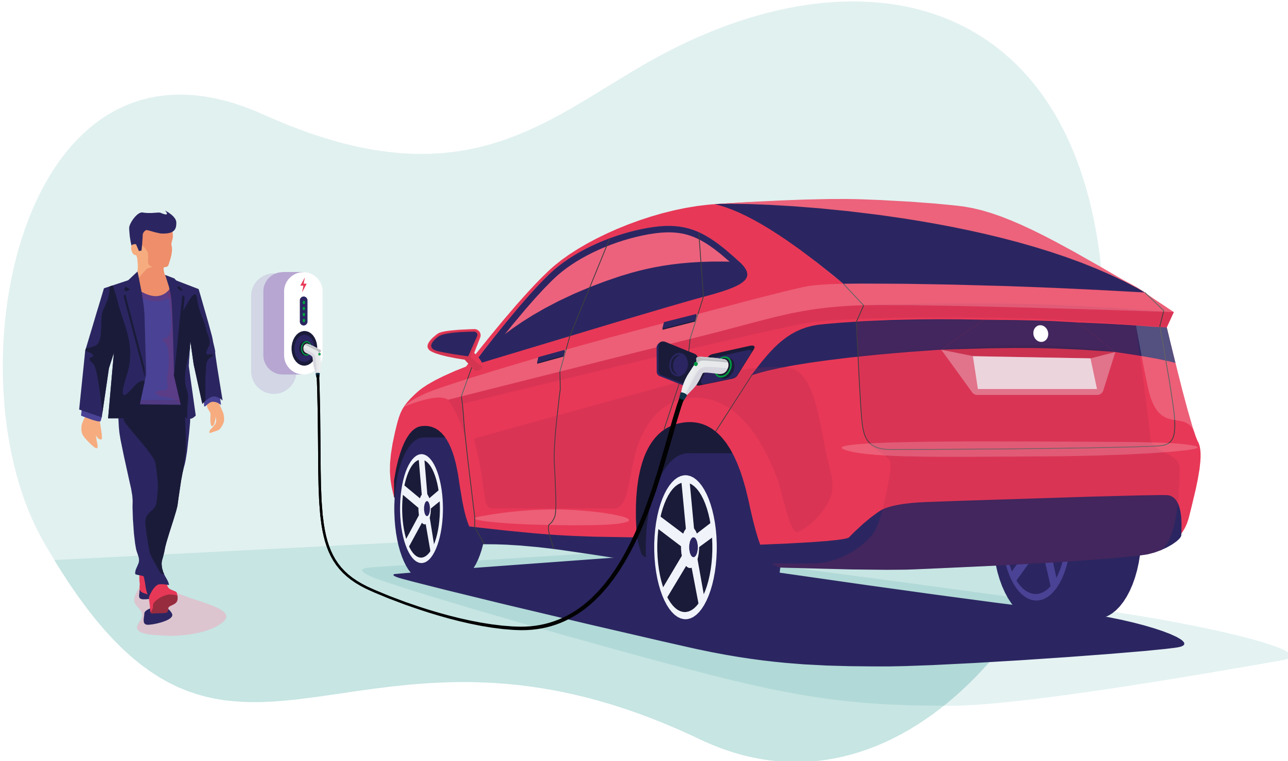
While the headline EPC rating has understandably garnered much of the attention, there are individual aspects to rental homes worth focusing on.

The way homes are heated is a big contributor to the emissions levels of the UK, accounting for around 15% of our annual total. As a result, finding greener ways to do that, as opposed to relying on burning fossil fuels, is of crucial importance.

As part of the Future Homes Standard introduced by the government, all new homes will have to meet certain standards from 2025 which will cut their emissions, which includes not being connected to the existing gas network. Instead they will be heated by low-carbon sources, like heat pumps.

There had been speculation the government would announce an outright ban on gas boilers for the nation's existing housing stock as well, but it hasn't materialised.

In its Heat and Buildings Strategy document, published in October, the government instead states it wants to "phase out" the installation of new gas



boilers from 2035. The idea is that, by then, the cost of low-carbon alternatives will have dropped from their current levels, making them a more viable option for homeowners and landlords alike.

There has been much talk of the impact heat pumps could make to property emission levels, but having one installed will set you back a significant amount. According to the Energy Saving Trust, the cost of a typical air source heat pump can range from £6,000 to £8,000, while you'll have to stump up between £10,000 and £18,000 for a ground source heat pump to be installed.

Going green with our cars

One of the key elements in hitting net zero will be adapting our approach to vehicles, particularly moving away from petrol and diesel cars. The government has announced a ban on the sale of new petrol and diesel cars from 2030, with drivers instead using hybrid or purely electric vehicles.

Interestingly, this shift already appears to be taking place, with motorists opting for greener vehicles in their droves. Figures from the Society of Motor Manufacturers and Traders show that for 2021 as a whole, plug-in vehicles and hybrids accounted for around a quarter of sales of new cars, while sales of used plug-in and hybrid cars have also surged of late.

October's petrol shortage will no doubt have focused some motorists' minds on the benefits of green vehicles – there is no need to worry about shortages and queues at the pump when you fill up your car from a charger at home.

That relies on the presence of a charger at the property though. Recent data from property portal Rightmove shows the number of properties with access to electric car charge points has rocketed, increasing by a whopping 541% in 2021.

This is only likely to continue, particularly with the government announcing plans for new build homes to be required to come with an electric charge point from 2022.

Currently, home charging points cost around £800 to get installed. Landlords looking to get one fitted could benefit from the government's Electric Vehicle Homecharge scheme. The initiative provides grant funding of up to 75% towards the cost of installing electric vehicle charge points at domestic properties across the UK.

A grant cap is set at £350, including VAT, per installation with the main requirement being that a person owns, leases, or has ordered a qualifying vehicle and has dedicated off-street parking at their property.

Green mortgages

In its net zero strategy document, the government identified green mortgages as one of its priorities towards improving the energy efficiency of the nation's housing stock. It said it was "working with mortgage lenders to support homeowners to improve the energy performance of their properties".

The idea here is to ensure that homes across the country have an efficiency rating of C by pushing lenders to target an average of a C rating across their mortgage books by 2030. Quite how it might happen is still

The message is pretty clear. Tenants don't just expect their rental properties to be environmentally friendly, they are willing to pay more to ensure that's the case, and will walk away from properties that fail to meet the standard

yet to be clarified, though it may mean those borrowing in order to purchase a property will be encouraged to take out extra money in order to pay for the required improvements.

It's worth noting there is already a form of green mortgage available, where borrowers are offered a financial boost based on the emissions status of the property they are borrowing against.

These can vary significantly depending on the lender, with incentives ranging from more competitive interest rates and lower fees to higher rates of cashback, or even a combination of them all. These incentives are offered so long as a property meets a certain energy efficiency threshold, with deals available to both residential and landlord purchasers.

These mortgages obviously add to the appeal of purchasing a property already at the requisite efficiency level, but what about homes that need some work before hitting the standard? Some lenders offer additional discounts should investors transition from an initial short-term bridging loan to a green buy-to-let (BTL) loan with them on that property.

While green mortgages remain somewhat niche, it's clear they are likely to become far more common within the BTL sector. A recent study by broker Mortgages for Business found just shy of two-thirds of landlords (62%) said they were interested in green mortgages. This represents a massive sea change from a decade ago, when a paltry one in 10 landlords said they would consider one.

Meeting tenant demand

It's important to bear in mind this demand for greener properties across the private rented sector is not simply coming from the authorities; it's coming from the tenants too.

Roadmap to net zero

2021 Green mortgages, delivering lower rates for energy efficient homes, becoming more prevalent.

2022 New build homes will be required to have electric vehicle charge points.

2025 Rental properties for new tenancies required to have an EPC rating of at least C. In addition, new build homes will no longer be connected to the gas network.

2028 Rental properties for existing tenancies will also now have to have a minimum C rating on their EPC.

2030 Ban on the sale of new petrol and diesel cars will come into force. Government wants lenders to have an average EPC rating of C on the properties they lend against.

2035 Government plans to phase out gas boilers from this point.

2050 Government aims to reach Net Zero status.

A recent study by renting portal LettingaProperty.com reported green credentials are becoming a far bigger driver for tenants when considering what sort of property they want to rent. A whopping 98% of tenants surveyed said they would prefer to let out a property that was optimised in order to boost its energy efficiency, cut energy bill costs and minimise its impact on the environment.

Of course, preferring a green property is all well and good, but are tenants willing to pay a little more for properties that meet the criteria? The research suggests so, with 53% saying they would willingly pay more. Of those, more than half (52%) said they would happily stump up an additional 10% on the rent, with a third saying they would accept a 5% hike. Notably, almost one in 10 (8%) said they could stomach a whopping 20% increase in the size of the rent if it meant securing an energy efficient home.

It's not just that tenants are keen on green homes though; they are actively turned off by properties which fall short on the efficiency front. The LettingaProperty.com research found more than 90% of tenants are discouraged from renting properties with outdated heating systems, while almost three quarters (71%) said they were put off properties with a low EPC rating. Similar numbers of tenants were discouraged from renting homes with drafts, open chimneys and limited insulation.

The message is pretty clear. Tenants don't just expect their rental properties to be environmentally friendly, they are willing to pay more to ensure that's the case, and will walk away from properties that fail to meet the standard.

It's not easy being green

Improving the energy efficiency of rental properties makes sense for landlords who want to not only do the right thing for the planet, but also attract the required standard of tenants. With renters increasingly likely to ask questions about a property's green credentials, having a 'green' property will help your portfolio stand out from the competition.

But there's no avoiding the costs associated with meeting these standards. Only time will tell whether the rules are watered down, or whether more help is provided for landlords with older properties.

WHAT YOU THINK

We asked landlords on Instagram for their take on the environmental requirements, and what impact it may have on investors' attitudes towards property in the future. Here's a selection of what you had to say:

"As I invest in newer stock, I didn't bat an eyelid until my broker told me there were EPC A-C products which had better rates than D and below. Sign of things to come? Upgrades will be expensive for a lot of stock.

As I invest in newer stock, I didn't bat an eyelid until my broker told me there were EPC A-C products which had better rates than D and below. Sign of things to come? Upgrades will be expensive for a lot of stock."

ALT STREET PROPERTY

KeithFirminProperty

"If there is [an exodus of landlords] it wouldn't be a bad thing."

WeBuyCornishProperties

"It's not a problem, however the way that the EPC tests and ratings are carried out needs to be standardised and overhauled to give a fair way to rate buildings. The other thing that needs to be taken into consideration is the age of buildings and their grading if listed. How can you expect to get a A-C rating on a building with the way testing is carried out at present? For instance if you cannot change the single glazed windows on that building due to its listing. It is all very well putting these ratings on paper by people who don't understand them and another being able to meet them"

Flip it th revers

INVESTOR STORY

After years spent flipping properties, Matthew West has changed tack and is now building a rental portfolio. Mark Rocks tells his story

Matthew West and partner Laura

'Start as you mean to go on' is a widely accepted mantra, however – as Matthew West's investment journey has proven – you don't always have to stick rigidly to your original plan.

For five years, Matt, 29, was strictly in the business of flipping the properties he purchased. He'd look for below market value deals that needed updating, renovate them, then sell them on for a profit.

It's a strategy that's served him well, but after doing four renovations back-to-back, he's switched tactics and is now using the capital he's raised to build his rental portfolio.

A flipping good start

Matt's journey into property investment began back in 2016. He spotted a mid-terrace house on the market for a competitive price in a good area of Redditch in Worcestershire, a town close to where he had grown up.

Combining its competitive asking price of £145,000 with the fact he had knowledge of the area that outsiders would lack, he knew it was a good deal, so he set out to make the purchase happen.

Left and centre: the refurbished exterior and kitchen diner in Matt's third flip

Above: the lounge in Matt's most recent flip

Right: Matt's first flip in Redditch

INVESTOR FACT FILE

Name:
Matthew West

Age:
29

Lives:
Studley, Warwickshire

Invests in:
Worcestershire

Occupation:
Medical Technology

Years investing:
Five

Strategy:
First flips, now buy-to-let

Portfolio size:
Three

Goal:
Freedom in the future

en
se it

The property in question was a traditional two-up, two-down. It wasn't exactly overflowing with fundamentals, but from his local expertise, Matt knew it would be highly sought after.

"There are some amazing schools nearby, so I figured young families who wanted to have their kids in the catchment area would see the house as a great property," he says.

But he also knew the house needed some work doing to it to make it desirable to those kinds of tenants: "I was very confident that I'd be able to carry out the work needed to bring it up to standard. And anything I couldn't do, I could get help with at the lowest cost possible."

Matt had £7,000 that he'd saved up, but he needed an extra £7,000 to put down the deposit. So, like many first-time investors before him, he "begged and borrowed" from relatives and family friends to get the funds together. All of which he paid back over the next two years, with interest.

"I'm glad that I did it, but to pay everyone back I basically continued living like a student for the two years after I graduated university," he jokes.

Six-week makeover

Once he secured the property, Matt set about renovating. But he was determined to carry out the work without bankrupting himself. "I set myself a budget of £5,000. And through a blend of craftiness, good relationships with suppliers and my own handiness, I'm proud to say I managed to achieve it. I may have run into my overdraft by a few hundred, however I had a student account with no fees so it was the cheapest money I could get my hands on," he says.

The walls, doors and skirting boards were all upgraded from their old, dark brown colours to a more modern, more palatable white. Matt found a cheap solution to give the kitchen tiles a lift: "I used a

Above: the refurbished bathroom in Matt's third flip
Right: the bedroom and kitchen in Matt's most recent flip

white grout pen to save money, and it worked!"

He did most of the work himself, but as expected, there were some things he needed help with. "It was frustrating when we realised that the boiler had to be replaced, but it had to be done, and even with that, we still kept it under £5,000 for the renovations," he explains.

It all came together in just six weeks.

Planting the seed

After putting the house back on the market, it sold for £170,000, netting Matt a £18,750 profit. And when he saw this return on his investment, he knew he had the bug.

"I remember thinking: 'If I can get this level of return with a good level of effort, then this could be seriously lucrative'."

Matt took on a bigger project for his second flip. "My second flip made me more of a profit than the first one, although it did take far more work."

Almost five years on, through flipping properties and other investments like cryptocurrency, Matt had amassed £240,000 in capital.

But during that time, he's come to realise flipping properties isn't necessarily a sustainable strategy for he and his partner Laura.

"One of the main ways I had such success with flipping properties was by utilising the tax advantages of renovating your main residence. Which worked from a financial point of view, but after a while you naturally get a little tired of living in a building site."

Switching strategy

With a healthy investment pot and plenty of property knowledge, Matt was ready to make his next move with regards to his strategy at the end of 2021.

"My friends and I are all really interested in property investment. We've all got our Rightmove alerts set up, and we're on mailing lists for agents in areas that we're attracted to."

Through building good relationships with local agents, Matt managed to secure his first two buy-to-lets in November. "One of the agents I had a good relationship with let me know about two apartments that were coming on the market in Worcester," he explains.

The agent told Matt the seller was motivated and wanted to sell both of his apartments in the same development, so Matt decided to use this to his advantage: "I told him that I'd be able to take both apartments off his hands at once, if he could give me a 10% discount on them."

And luckily for Matt, that's what was agreed. "The apartments were only renovated a couple months prior to me purchasing them. Not only that, but one was on the ground floor while the other was higher up, so I

RUNNING THE NUMBERS

This is how Matt's first flip in Redditch stacks up financially:

Purchase price:**£145,000**

Deposit: **£14,500**

Purchase costs: **£1,250**

Finance method: **Repayment mortgage over 35 years at 3.8%**

Amount borrowed: **£130,500**

Renovation costs: **£5,000**

Project duration: **six weeks**

Done up value: **£170,000**

Profit: **£18,750**

RUNNING THE NUMBERS

This is how Matt's two flats in Worcester stack up financially:

Purchase price: **£106,000 each**

Deposit: **£26,500 each**

Purchase costs: **£5,067 each**

Finance method: **75% LTV interest only mortgage at 2.8%**

Amount borrowed: **£159,000 total**

Renovation costs: **£1,000 each**

Done up value: **£120,000 each**

Monthly rent: **£650 each**

Monthly expenses: **£272 each**

Monthly net profit: **£378 each**

knew I'd be able to find two different kinds of tenants for both."

Shortly after, Matt secured his third BTL – a two-bed mid-terrace in Studley for £161,500.

Financial security

The move from flipping to BTLs has been good for Matt's personal life, as well as his sanity. His partner Laura was particularly relived to finally move on from living on building sites.

"I suppose you could say that in many ways our relationship has almost been simultaneously tracked by the property journey we've been on. We've lived in four different properties, all while they've been renovated and all the while knowing that they weren't going to be our permanent home.

"I'd promised her that by the time we finally moved into the home that we'd make our own I would begin thinking about our future more."

And Matt made good on that promise. When they got the keys to their current home, he proposed to Laura before they went through the front door.

As the pair embark on the next step in their relationship, Matt says his investments will give them the financial security to enjoy whatever life brings.

"My ultimate goal is to have security in my future," says Matt. "I'll have a family to support in the future and I want to know that my portfolio is performing well enough for me to not worry about how I'll do that.

"I'm lucky right now that my portfolio makes enough to cover the bills and mortgage. In the next five years it'll be able to cover my living expenses as well."

And for someone who's so focussed on the future, that's a big deal.

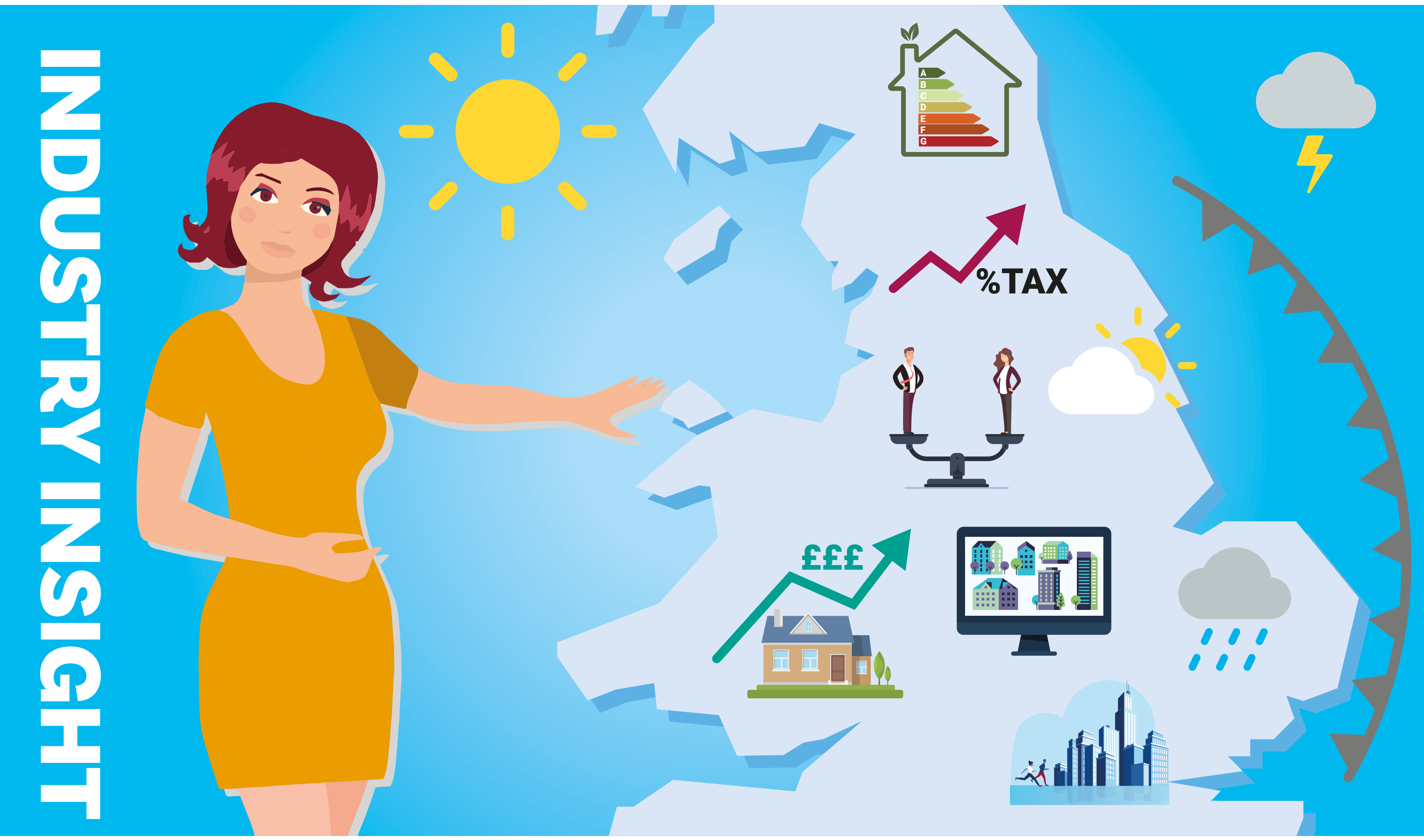
"If I'm ever in a situation in the future where either one of us has employment difficulties, or if Laura needs to take maternity leave, ideally we'll be financially secure enough that it won't impact us negatively."

With one eye on growing his portfolio, and another on the future for him and his family, Matt intends on making property investment work for him and provide him with freedom and options that he may not have had if he hadn't bought that first property in Redditch.

If you have an interesting property case study (good or bad) we'd love to share your story. Email us with some information and photos and we'll get right back to you: magazine@propertyhub.net

The 2022 property forecast

Staying one step ahead of the curve can make all the difference when it comes to property investing. So, what's in store for 2022? Natalie Thomas asks the experts



After a fast-paced 2021, there will be some hoping for a quieter 2022. Yet with the prospect of Bank of England base rate hikes, pressure mounting for landlords to go green and a property market that looks set to remain hot, the next twelve months have the potential to be just as eventful as the last.

True to tradition, The Robs will be making their predictions for the year ahead this month (January) on The Property Podcast. Here experts from the fields of property finance, tax, conveyancing, sourcing and sales share their projections for 2022.

Green is the word

If there's one thing that should be at the forefront of investors' minds in 2022, it is going green, says Steve Cox, chief commercial officer of buy-to-let mortgage lender Fleet Mortgages.

"The major topic of conversation at the moment is the green agenda and the requirements on landlords to ensure their properties are meeting the Energy Performance Certificate (EPC) regulations both now and when they change in a few years' time," he explains.

The new regulations mean that from April 2025, all newly rented properties will need to carry an EPC rating of C or above. Steve advises investors to start thinking about this now.

"This is likely to involve the regearing of portfolios in order to raise money for the works required to raise energy efficiency ratings. Both advisers and lenders clearly have a role to play in supporting landlords to meet those regulations and I think we will see far greater levels of support in this area," he adds.

Rob Wiggans, land buyer and property sourcing manager at Property Hub, anticipates the green trend will also start to filter through to the rental market in 2022.

"I believe the green trend will become bigger and be a driving factor in the market when choosing property," he says. "It won't be long before it is the norm that tenants are going on Rightmove to see if a property has an electric car charger and looking far more closely at how energy efficient the property is. Not only will things such as electric car charges enhance rentability but also appeal and value," he adds.

Upgrading housing stock is no mean feat, however. Ben Beadle, chief executive officer of the National Residential Landlords Association (NRLA) is hoping for some clarification from the government in the early part of 2022 as to what assistance it will offer landlords to make their properties more energy efficient.

"While it is vital that landlords begin early to ensure properties meet these required standards, the government needs also to be clear what support will be provided for the sector to achieve this goal. The rental market contains some of the hardest to improve

THE EXPERTS

Ben Beadle
Chief executive officer,
National Residential
Landlords Association

Steve Cox
Chief commercial officer,
Fleet Mortgages

Gráinne Gilmore
Head of research,
Zoopla

Miranda Khadr
Chief executive officer
and founder,
Pitch 4 Finance

Chris Williams
Director,
Calculated Ltd

Beth Rudolf
Director of delivery,
Conveyancing
Association

Rob Wiggans
Land buyer and property
sourcing manager,
Property Hub

The debate around the perceived demise of city centre living was a hot topic in 2021. Our experts, however, expect 2022 will be the year renters move back in

properties of any housing tenure and the government's plans need to recognise this fact," he adds.

Interest rate hikes

Lenders are anticipating The Bank of England will make a number of interest rate hikes in 2022 to tackle inflation.

"Subsequently, lending rates will change – to what extent who knows – but my view is this will have minimal impact on the housing market throughout 2022," says Rob.

"Potentially we could see another market surge if buyers think the only way is up for rates and don't want to miss the boat. My advice is to have a mortgage broker under your wing while you source property. This way you can get quick guidance on the latest rates for the particular property you are looking at based on your personal circumstance/position," he offers.

Gráinne Gilmore, head of research at Zoopla, believes while any increase to the Bank of England base rate and subsequently mortgage rates will be modest, it could still affect buyer sentiment, as it is likely to herald the beginning of a period of rate rises – something the market hasn't experienced for a long time.

"Remember, there have only been two interest rate rises in the 12 years since the financial crisis," she says.

She does however think today's borrowers are better protected against mortgage rate rises than they have been in the past.

"Over 80% of outstanding mortgages are on fixed rates, many for five years or more. With all new borrowers since 2014 having to prove to the lender that they can afford a mortgage rate of up to 7%, this provides additional resilience," she reassures.

Tax increases

Chris Williams, director at Calculated Ltd, suspects landlords are not yet out of the woods when it comes to a potential increase in Capital Gains Tax (CGT).

"CGT rates being brought into line with income tax rates was highly anticipated in the 2021 budget, but we were spared. Yet this doesn't mean it won't happen in this year's budget," he says.

"Currently, CGT rates for residential property disposals are 18% for basic rate taxpayers and 28% for higher rate taxpayers. If changes were introduced, it could mean a 20% CGT rate for basic rate taxpayers and 40% for higher rate taxpayers. Furthermore, this could increase to 45% for additional rate taxpayers," he explains.

If such changes come to fruition, more landlords are likely to want to move their properties into a limited company, but this isn't a clear-cut solution, says Chris: "The additional accountancy and mortgage costs involved mean investing through a limited company is not always an attractive proposition from a cashflow perspective."

Plus, there's the rise in corporation tax on the horizon to consider: "Corporation tax will increase to 25% from 1 April 2023 for companies with profits of over £250,000. Smaller companies with profits of over £50,000 will also be affected as they will be subject to an increase in corporation tax for profits between £50,000 and £250,000."

A return to city centres

The debate around the perceived demise of city centre living was a hot topic in 2021. Our experts, however, expect 2022 will be the year renters move back in.

"Geographically, there has been something of a shift away from London with landlords looking at regions outside the Capital in order to secure higher-yielding properties and that is likely to continue through 2022," says Steve.

Despite the move out of London, he thinks predictions about the end of wider city centre living are somewhat off the mark.

"Tenant demand is improving in cities, particularly as young professionals return in order to enjoy this type of lifestyle. In that sense, landlords should be able to tap into strong demand across the board," he predicts.

Ben agrees: "It is likely that as more people return to their offices, the trend that has seen tenants moving out of major cities is likely to be reversed. Already we are beginning to see some signs of demand in London picking up again," he observes.

Property prices on the up

Gráinne is convinced the market will be less frantic this year, but a lack of housing and strong demand will continue to push up prices.

In terms of house price growth, we expect average house price growth of 3% in 2022, easing from the current growth rate of 6.6%," she says.

"Primary drivers for activity in 2022 include the ongoing revaluation of housing needs, increased equity and moves in parts of the labour force to more hybrid working. Taken together, these factors will continue to bring buyers into the market. The scarcity of homes is also set to continue well into 2022, supporting headline house price inflation."

Some pockets of the UK have seen intense competition for investment properties over the past twelve months. Rob says this is likely to continue and advises investors to keep their cool.

"There's a huge amount of competition in the market right now particularly from investors – be it a new build off-plan in the city or a flip of a two-up two-down in suburbia. It's so important to know what your focus is and your objectives/goals in property and you need total discipline in sticking to them. Without this, combined with intense competition in a hot market, you risk stabbing in the dark and making a costly mistake," he warns.

A more efficient market

One positive outcome from last year's lockdown is the acceleration of the digitisation of the conveyancing process.

Beth Rudolf, director of delivery at the Conveyancing Association, is hoping this is a trend that will continue in the property market throughout 2022.

"Market pressures are becoming more normalised, however, the rate of digitisation of the conveyancing process increased over lockdown and it is hoped the improvements generated will be built upon and become more secure," she says.

"For example, the Land Registry work around digital signatures of deeds, its publication of the Safe Harbour identity standard and its recent announcement of the digital registration system being mandated from November 2022 to improve the quality and speed of registrations," she explains.

She highlights the work of The Home Buying and Selling Group to improve the buying and selling process as another example: "This will have a huge impact on the home moving process. The feedback from estate agents is very positive where sellers have instructed their conveyancers and prepared the information upfront, reducing transaction times by weeks and the cutting down significantly on the number of failed transactions."

As well as improvements happening behind the scenes, there is also likely to be a continuation of the move online that happened during lockdown. "Although most estate agents are high street based there are a growing number of online agencies and

Although most estate agents are high street based there are a growing number of online agencies and auction sites

auction sites," says Miranda Khadr, chief executive officer and founder of Pitch 4 Finance.

"The use of home selling and buying sites that list properties on agencies' books will continue to be an important way for landlords to appraise property investment," she adds.

Significant changes ahead

The next twelve months have the potential to bring about proposals which would mean some major long-term legislative changes for the market.

"We hope to see government deliver on its promise to deal with leasehold, making the system fairer and removing the risk adversity to properties which, although they are over a certain height, have no greater risk of fire and escape from it than the average freehold house," says Beth.

"If and when the government does deliver on the Law Commission enfranchisement report, which it has publicly supported, then the ability to remove onerous lease terms and doubling ground rents as well as extending short leases which would otherwise be unmarketable through a high-street lender, will be a great investor opportunity and reduce costs and outgoings for the private rental sector," she says.

Another significant development which has the potential to shake up the market is the publication of the government's long-awaited rental reform white paper.

"This will fundamentally change the way landlords can repossess properties," says the NRLA's Ben.

"We have worked closely with the government on this, and it is important it helps create a sector that is fair to tenants and responsible landlords," he says.

As well as the abolition of Section 21 evictions, the proposals could include plans for lifetime deposits for renters and a landlord register.

Ben advises investors: "With the sector set to face considerable change in the way it operates, landlords and investors need to ensure they keep abreast of what it means for them and how they let their properties."

Full of characte

Period property lover Greg Walters jumped at the chance to take on the renovation of a Grade-II listed former legal office, transforming it into a mixed-use commercial and residential premises. Marieke Mollitt tells his story

Above: Greg Walters

Left: refurbished bedroom in the Grade-II listed building

Bottom: exterior of the renovated property in Kidderminster

INVESTOR FACT FILE

Name:
Greg Walters

Age:
40

Lives:
Birmingham

Invests in:
Within 1.5 hours of Birmingham

Occupation:
Property developer

Years investing:
Five, going full time two years' ago

Strategy:
A range, including BTL and commercial to residential conversion

Portfolio size:
Eight

Goal:
To grow portfolio, and then sell later in life, or pass on to children

Greg has had a passion for period properties for as long as he can remember, although it wasn't until 2017 that he bought his first project after he sold his investment consultancy business to focus on building his personal portfolio.

It was a lucrative first acquisition. A one-bedroom flat within a 1930s, art-deco building in Birmingham city centre for £162,500. Very little work needed doing, but still it was a sound investment. In fact, it worked so well, just under four years later, he bought the apartment above it, expanding his portfolio at a price even more profitable than the first, at £147,000.

Fast forward to the present day and Greg, 40, now owns eight properties, having brought many of them back to life. It hasn't been easy, but he's pleased with his progress. "At least once a fortnight I think: what have I taken on? It can be too much every now and then, and you want to give up. Then you remind yourself why you started, and look at how far you've come," he says.

Legal update

Greg's most recent project was his most demanding yet, the conversion of a former solicitors' practice in Kidderminster, Worcester. Greg found the property listed online in October 2019. It was part of a deceased estate advertised at £200,000. The day after viewing it he put in an offer of £160,000 and had it accepted.

As well as fulfilling Greg's requirement of being a character property, he could see the potential in the numbers: two similar buildings in better condition on the same road had been sold for £400,000 and £700,000 respectively.

He knew its town centre location and proximity to the train station would make it an attractive prospect for young professionals. He did his research and found the rental stock in the area was of a relatively low standard, making his plans to transform it into a luxury HMO all the more exciting.

Shortly into the conveyancing process however, he realised it wasn't going to be a quick sale. One of the joint owners of the estate was attempting to prevent the purchase. A court order was obtained to force it through, but the complication added a year to the process.

To fund the purchase Greg arranged a bridging loan and had the property valued by the lender. They came back with a valuation of £130,000, so Greg was able to negotiate the vendor down on price a further £30,000. "The

Full of character

Top left: communal kitchen after renovation

Top right and bottom left: two of the bedrooms after refurbishment

Bottom left: what the rooms looked like before the renovation

Bottom centre and right: offices before removation

due diligence of the lender often goes over and above what you'd do as an individual – it's like a second set of eyes. It's a real benefit and worth paying the extra money for," he advises.

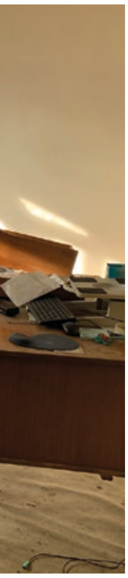
Greg finally got the keys in October 2020. Due to the listed status of the building, the local authority wanted to keep the front of the building as commercial, so plans were drawn up for a 500sqft commercial unit on the ground floor. To the rear of the same floor were the communal areas for the HMO; a kitchen area, lobby, lounge, with seven en-suite bedrooms on the upper levels and a second kitchen on the top floor. Greg also had to submit a robust heritage statement, including a measured survey in order to get consent to convert the building.

"I'd never done it before, but I'd get this survey on every project from now on. It scans the building, measuring every nook and cranny. It even detected a missing chimney breast, which wasn't picked up in an earlier, more basic survey," says Greg.

A change of plan

Before work started Greg changed architects because the planning application required expertise and detail the existing architect couldn't provide. After reviewing the plans and visiting the building, the new architect suggested removing the kitchen on the top floor and adding an eighth bedroom, which would potentially increase the value of the property by £60,000-£70,000. Increasing the number of bedrooms didn't mean losing the size, in fact, many of the rooms ended up around three times the size legally required for HMOs.

It did, however, delay the build, which was no small task. The four-storey building had fallen into severe disrepair and while the issues were not structural, it was in a bad way. A great deal of work was needed to convert it from a disused office full of old equipment and furniture, to a high-spec, luxury living and commercial space. It needed rewiring, replumbing, the old-fashioned suspended ceilings had to be removed and it was given a



RUNNING THE NUMBERS

This is how Greg's Kidderminster conversion stacks up financially:

Purchase price: **£130,000**

Deposit: **None, funds paid on day of completion**

Purchase costs: **£10,000 fees, £14,850 loan costs**

Finance method: **investor funds plus bridging loan**

Amount borrowed: **£424,850 for property and renovation costs**

Renovation costs: **£270,000**

Project duration: **12 months**

Done up value: **£560,000**

Monthly revenue: **£5,195**

Monthly expenses: **£3,000**

Monthly net profit: **£2,195**

fresh coat of plaster and redecorated. Greg enlisted the help of a contractor that specialises in hotel refurbishments for major chains.

In the end the development took almost a year. The building was finished in September 2021. The total bill for the refurbishment came in at £270,000, £20,000 over budget thanks to some unexpected steel work had to be added and the extra surveys that needed to be done. "I spent more than I thought, but we have an asset there that is worth a lot of money, for a relatively small investment, so it's worked really well," Greg reasons.

Greg managed the refurbishment project himself, but handed over the responsibility of finding tenants and managing the day-to-day running of the property to an agent once it was complete. "It's 45 minutes from where I live, so I passed the tenant finding and references to a local estate agent who I trust. Firstly, they know the area inside out, and I'm happy to pay others to do things like credit checks. It makes sense to give some parts of a project to those that can help," he says.

Getting the word out

To help generate interest in the property once it was finished Greg created a brand identity for the building, renaming it The Old Tailors Co Living and setting up its own social media accounts featuring photos, information and a video showing the transformation.

The effort clearly paid off. The commercial space was immediately let out to a reputable recruitment company on a six-year lease, with staff moving in straight away in September 2021. Less than a week into marketing, half of the bedrooms were leased, the biggest, most expensive rooms going first. The remaining rooms were let shortly after. The amount of profit per month based on full occupation, especially due to the commercial rental, has exceeded Greg's initial expectations.

Not one to sit around and wait, Greg already has three more projects in the pipeline. One is a large plot with several different buildings to refurbish and develop, including a Georgian house that he's planning to convert into five apartments.

He admits to pushing himself with the scale of this potential new venture: "It's a challenge, it's a bit uncomfortable – there's damp, there's rot...there's all sorts. But we'll take it in our stride!"

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

COMMENT

Property Geek

with Rob Dix

QE: the winners and the losers

It's easy to think the government has it in for landlords, but its monetary policy tells a different story, writes Rob Dix

In doing research for a new book, I recently spent a Sunday reading Bank of England reports from the early 2010s – a highly recommended activity if you don't want any follow-up questions when someone asks: "what have you been up to today?".

The hot topic from that time was Quantitative Easing (QE): basically, a fancy term for the Bank of England creating money out of thin air. It's a policy that had never been used in the UK before 2008, but was introduced to give the economy a boost in the aftermath of the financial crisis and has become a fixture of monetary policy ever since.

We've talked about QE on The Property Podcast extensively over the years, but why should a podcast about property concern itself with the arcane workings of the financial system?

The answer is because of the effect QE has turned out to have on asset prices, including house prices.

Over the past decade – a period in which the productive part of the economy has generally struggled to regain its momentum after the financial crisis – asset prices have exploded:

- The value of the FTSE All-Share has almost doubled
- House prices are up by 63%
- Gilts are up by 80%
- Gold is up by 180%

I'd always assumed that this was an unintended side-effect of monetary policy in general, and QE in particular. After all, would the government really want to push up house prices at a time when they're outwardly concerned about inequality in general and unaffordable housing in particular?

Well, as it turns out from reading those decade-old papers from the genesis of QE, it's been a core part of the mechanism all along.

Boosting asset prices

The stated purpose of QE was to help maintain the Bank of England's inflation target of 2% (as measured by the Consumer Price Index, or CPI), at a time when they thought it looked likely to under-shoot over the medium term. Having already cut the base rate of interest to almost nothing (which is the normal way of giving the economy a boost and getting inflation going), the Bank needed a new tool – and QE was it.

In theory, adding a load of extra money into the economy should produce inflation because you suddenly have more money chasing the same amount of goods and services. However, the mechanism of QE (which we don't need to get bogged down in now) meant that the new money ended up chasing financial assets rather than goods and services in the "real" economy.

Yet asset prices aren't included in CPI inflation figures – so even if the price of all assets goes up a bajillion percent, it doesn't help the Bank of England achieve its target.

Because QE had never been used prior to 2008 and operates through some pretty convoluted channels, I assumed it just hadn't worked out quite how the Bank

of England intended: they were shooting for consumer price inflation, but ended up with asset price inflation instead. But no!

The Quarterly Bulletin from Q2 2009 states: “Purchases of assets financed by central bank money should push up the prices of assets.” And goes on to say, as a result of the QE process: “Households and companies may be encouraged to switch into other types of asset [rather than gilts] in search of a higher return. That would push up on other asset prices as well.”

The intention seemed to be that boosting asset prices would make people wealthier, which would make them more inclined to spend, which would get the economy moving and produce the 2% inflation the Bank was shooting for.

The consequences

So, did this work? We know there was asset price inflation, but did it trickle down into consumer activity in the way the Bank intended?

It’s impossible to say for sure, because you can’t run a version of the economy where everything was exactly the same except QE didn’t happen. However, the Bank of England estimates that the first £375bn of new money it created with QE led to a 1.5% to 2% growth in GDP. If you do the maths, that means it created £23bn to £28bn of extra spending.

Is that a good enough result? The House of Lords’ Economic Affairs Select Committee wasn’t convinced in July 2021, when they wrote: “We conclude, on balance, that the evidence shows quantitative easing has had limited impact on growth and aggregate demand over the last decade.

“To stimulate economic growth and aggregate demand, quantitative easing is reliant on a series of transmission mechanisms that operate primarily in and through financial markets. There is limited evidence to suggest that these increase bank lending or investment, or boost consumer spending by wealthy asset holders.”

In other words, the effect on economic growth was negligible, but we’ve already seen that the effect on asset prices (paired with extremely low interest rates) has been extreme.

Punishing the poor

Clearly, this policy benefits the owners of assets – and disadvantages those who would like to own assets but can’t afford to. Asset owners see a boost in the value of their existing holdings – which they can often borrow against to buy more. As they buy more, this raises asset prices even further taking prices further out of reach of those who don’t own them yet.

Given that asset owners tend to be older than non-asset owners – which makes sense, because they’ve had more time to accumulate capital – you could say that QE has benefited the old over the young. In fact, I’d say that if you were trying to exacerbate generational inequality, you’d struggle to find a more effective way of doing it than QE. And this has happened via a mechanism that was entirely intentional and foreseen, not an unfortunate side-effect.

And, of course, property investors have benefited in particular: that 63% increase in house prices plus a moderate dose of leverage will have seen investors doing exceptionally well before even bothering to check that the rent’s been paid.

I understand not everyone shares my enthusiasm for studying central bank policy, but understanding the mechanisms of how the economy works can be hugely important for making the right investment decisions.

If you’d been listening to what politicians are saying and focusing on their publicly announced policies, you might have concluded that they’ve got it in for buy-to-let and it’s a bad time to start investing. But if you look at what’s actually happening in the financial system at a structural level, it tells a very different story.

And don’t worry: to be a successful investor you don’t have to spend your weekends reading Bank of England publications. Just stay subscribed to the magazine, and I’ll do it for you.

How to...

Protect your portfolio against rate rises

With the cost of borrowing on the rise, you might be concerned about your bottom line. Emma Lunn looks at what action you can take to protect your property portfolio against higher interest rates

HOW TO

A brief history of the base rate

Anyone who's been investing in property for a while will have experienced the ups and downs of UK interest rates. The Bank of England base rate reached a high of 5.75% in July 2007 before cuts were made in response to the global financial crisis in 2008.

In March 2009 the bank's Monetary Policy Committee (MPC) reduced the rate to 0.5%, and there it stayed for more than seven years. There were a few small adjustments, both up and down, between August 2016 and March 2020, when the coronavirus pandemic began.

On 11 March 2020 the base rate was lowered to 0.25%. It stayed there for just eight days before an emergency MPC meeting reduced it to 0.1% on 19 March 2020. The move was made to stimulate and support the economy during the pandemic – meaning mortgage borrowing rates hit an all-time low. While this was good news borrowers, we all knew the all-time low rate couldn't last forever.

Inflation on the up

The end of worldwide lockdowns and widespread global supply chain issues have pushed inflation to a record high of late. Central banks, such as the Bank of England, tend to increase rates when inflation rises above a target. The Bank of England's inflation target is 2%, but – at the time of writing – the rate was at 4.2%.

Banks raise interest rates when inflation is high to increase the cost of borrowing and subsequently reduce households' disposable income.

Rising interest rates have an impact on all types of borrowing, from mortgages, bridging loans and development finance to credit cards, personal loans and overdrafts. On the plus side, higher interest rates mean savings rate should go up too.

However, the base rate isn't the only influence on mortgage interest rates, there are other factors at play too. These include lenders' appetite to lend, 'swap' rates, and how fierce competition is between mortgage lenders.

What will the base rate do in the future?

After being at 0.1% for more than 18 months, *any* rate rise might seem like shock to homeowners and property investors. But it's important to understand that future increases in the base rate are likely to be gradual over the coming months. Experts generally expect incremental rises to bring the base rate back to 0.75%, the rate seen before the pandemic, at some point in 2022.

Mark Harris, chief executive of mortgage broker SPF Private Clients, says: "With inflation more than twice the Bank of England's target level of 2%, and showing no signs of falling anytime soon, the likely path of interest rates is upwards in the coming months.

"This is unlikely to mean lots of significant increases in rates as the economy is still in a fragile state as it recovers from a global pandemic and many borrowers simply couldn't cope with big rises in mortgage payments; rather it could mean two or three modest increments.

"The markets have priced in two or three 0.25% point rises in rates by the end of 2022. Given rates were reduced to 0.1% in March 2020, this is starting from a very low base. When you compare this with historical rates, it is far, far, lower than in the past where double-digit interest rates were not unheard of."

Will your mortgage be affected by rate rises?

Not every landlord will be affected by rises in interest rates.

If you have a tracker rate mortgage, the interest rate you pay will go up in line with the Bank of England base rate. If you are on your mortgage lender's standard variable rate (SVR), your interest rate could rise by more than the increase.

If you're on a fixed rate mortgage, you won't see any change in your monthly payments. However, at the end of the fix, most mortgages revert to the lender's SVR. All lenders will inevitably hike their SVR in the wake of a base rate rise, so bear this in mind if you are close to the end of your fixed rate. Unless you are thinking of selling up soon, it's usually best to switch to another fixed rate.

"More landlords are taking five-year fixes for longer-term security but also because many of the lenders offer them more money when they take five-year rates. Two-year deals are a better option if landlords are not sure if they want to sell the property over the shorter term," explains Aaron Strutt, communications director at Trinity Financial.

Fix early at lower rates

Nicholas Mendes, mortgage technical manager at John Charcol, suggests landlords whose current mortgage deal ends before May 2022 should look to secure a new fixed rate as soon as possible, since most mortgage offers are valid for six months.

"If you are looking at your mortgage with six months left on a fixed rate, and conscious you don't want to pay an early repayment charge to switch to a new deal, you can fix a deal six months in advance with most lenders," he says.

"If rates were to decrease between now and then you could look at switching to a lower rate in that time with the lender. But if rates continue to increase you have secured your rate and won't be effected by any impending rate increased in that time. A win-win in any outcome.

"With mortgage rates still close to all-time lows there is still time to secure a fixed rate which is likely to look cheap in a year's time. The question is not whether to fix but how long to fix for, and that will depend on individual circumstances."

Build a savings safety net

Every landlord or property investor should aim to have cash reserves to cover void periods, maintenance, repairs, rent arrears and so on.

Ideally the money should be saved in an easy access savings account, giving you quick access to your money when you need it. The base rate increasing means savings rates are going up too and we'll hopefully see the back of an era when finding an inflation-beating savings account was near-impossible.

You'll need to shop around for the best rates. Some savings accounts pay as little as 0.01% interest; on a balance of £50,000, this would earn just £5 a year. Best-buy easy access savings accounts typically pay about 0.6% – on a £50,000 balance, this would earn you £300 in interest each year.

Make the most of rising rents and capital growth

Despite rising rates, there are still plenty reasons to feel positive about investing in property right now. According to the Office for National Statistics, private rental prices paid by tenants rose by 1.5% in the 12 months to October 2021, up from 1.3% in the 12 months to September 2021. Landlords with properties outside London are seeing the biggest rent rises.

In November, Halifax said house prices had hit a new record high in October, climbing above an average of £270,000 for the first time. There is also an ongoing lack of affordable housing for purchase, which maintains demand in the rental market. Higher interest rates could also put off potential first-time buyers from taking their first step onto the property ladder – meaning they rent for longer.

Get professional advice

The base rate going up from all time-low of 0.1% has always been inevitable and some landlords will have been preparing for this moment for some time.

Higher rates aren't necessarily a bad things – they can be seen as a sign of the confidence the government has in the property market. House prices increased significantly during the pandemic and they're set to continue for some time yet, which means mortgage lenders will be keen to cash in and lend on property. Base rate movements may lead to initial product rate rises but, in time, many lenders are likely to reduce rates to stay competitive in the market.

As always, the right professional advice can help you prepare for, and react to, an interest rate rise. Have a chat with your mortgage broker to see what they suggest regarding your buy-to-let mortgages. A financial adviser can also take a holistic view of your finances to see if there are other ways to save your property business money.

Most importantly, don't panic. Interest rates are still well below historical averages and this, combined with a thriving rental market, makes it a great time to invest in property.

Have a financial plan in place

Now is a good time to forecast how you will deal with any future interest rate rises. A financial adviser or accountant can help you work out the impact – but there are also mortgage calculators online you can use to do some quick sums yourself.

As an example, the table below shows how much more you'd have to pay on a £100,000 and £200,000 interest-only mortgage payable over 20 years on a current rate of 2% if the rate increased in increments of 0.25% points.

	2%	2.25%	2.5%	3%	3.5%
Monthly payment on a £100,000 mortgage	£166.67	£187.50	£208.33	£250	£270.82
Monthly payment on a £200,000 mortgage	£333.33	£375	£416.67	£500	£583.33

Picking your own property hotspots

Identifying future property hotspots may seem complex, but it's just common sense, writes Rob Bence

Every January Rob and I pick our property hotspots for the year, and I'm happy to say we've built up a pretty good track record for picking places that have gone on to do well.

We highlighted both Manchester and Liverpool's potential way before other people started talking about them. More recently we picked out Nottingham and now that's performing really strongly.

So how do we do it? Well, it's not luck, it's not crystal balls and we certainly don't use some crazy algorithm that we plug into a supercomputer. It's just about applying some simple principles that you too can follow.

Look at the fundamentals: what are the transport links like? Are there good schools in the area? What are employment levels like? Is there any inward investment or major planning applications in the pipeline? If the general fundamentals aren't there, then it might do well, but it is less likely to.

Assess affordability: which areas can people live well in terms of their rent-to-income ratio? Derby and Liverpool both rank highly when it comes to affordability. If an area has all the fundamentals, is a major city like Liverpool or employment hub like Derby, and affordability is strong then it's ripe for growth in the not-too-distant future.

Take advantage of the ripple effect: what areas are primed for growth? In the north, Manchester went first, then places like Liverpool, Leeds and Greater Manchester all started to do well off the back of Manchester powering on. You don't even have to pick an area that hasn't started to move yet. If last year was a good year for an area, chances are that's the beginning of momentum. It's very rare for an area to just have one good year.

Picking a hotspot isn't about choosing just one of these principles, it's about a combination of them all. If you can find an area that ticks a few of these boxes, then you're on to a winner.

Hot or not?

Don't be seduced by a hotspot if your strategy is more hands on. Hotspots suit a more hands off strategy. Do you really want to be doing a refurb in an area 200 miles away from your home, just because it's a hotspot?

If you do like to be hands on, then it's worthwhile applying these principles to, say, a 50-mile radius of where you live. Maybe it won't do quite as well as if you'd picked the best area, but you'll be trading off more travel time and possibly more stress. I'm not saying don't do it, but it requires more thought.

The next big thing?

The important thing is to do your own research. If someone comes along telling you an area is going to be the "next big thing", don't just follow them blindly.

Similarly, don't just follow the crowd. If an areas has been going strong for a while has it got legs to continue? At some point – with any city or any asset class – when everybody starts talking about it, that's when you need to be more cautious. When the mass consensus is "this is the place to invest", then that's when I'm least interested.

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PROPERTY TALK

Top five ways to improve your energy efficiency

Making a property more energy efficient is a win-win situation for landlords and tenants. They benefit from lower energy bills and greater comfort, while you benefit from a lower carbon footprint. Here's five low-cost, big impact improvements you can make right now

1 BLEED THE RADIATORS

Bleeding a radiator generally only takes 20-30 minutes, and all you need to carry it out is a radiator key and some old rags. It works by releasing the air that gets trapped inside the radiators. Once the air is released, they'll work more efficiently, and your tenants will thank you for helping them save money on their heating bills. Experts recommend doing this twice a year.

2 UPGRADE TO LED LIGHT BULBS

On an inspection, an EPC assessor will check what percentage of your lights are energy efficient. LED lightbulbs are much more eco-friendly than their old halogen counterparts, and making this change is, well, as easy as changing a lightbulb! LEDs are often a little a bit more expensive than other bulbs, but they last much longer meaning far less bulb changes for your tenants.

3 INSTALL A SMART METER

One way of ensuring your tenants know how much energy they're using is to install a smart meter. They'll get regular updates on their energy usage, which means they'll be more likely to curb their consumption. It's a straightforward process to get one fitted, with many energy providers installing them at no extra cost.

4 FIT MOTION SENSOR LIGHTING

If you own a property with communal areas or outdoor space, then installing motion sensor lights will help cut down on any electricity being used unnecessarily. Outdoor sensor lights also double up as security lights, giving your tenants added peace of mind.

5 BLOCK UNUSED CHIMNEYS

Open chimneys can be a significant source of heat loss in a home. Draught proofing a chimney can be done quickly and cheaply. You don't need to hire a professional, you can buy chimney blocks quite easily online and install them yourself.


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What we've learned

Landlords and developers Steven and Carolyn Sparks have 55 years of joint experience in property. Here's what they've learned along the way

Steven & Carolyn Sparks

Work to your strengths: We have very defined roles within our business. We work with the things we are good at, which fortunately for us, are very different skills. Anything we don't have the expertise in, we contract out. To be successful in property you need to have a grasp of all the areas of this vast industry, but you're not superhuman; use professionals to fill those gaps.

Expect the unexpected: When our kids ask what we do all day, we normally reply by saying: "chase people up to do the jobs they have already agreed to do and come up with solutions to problems". Property rarely is a stress and problem free industry. The reality is, you learn so much from difficult situations. If you're relatively new to property, know that it's perfectly normal to experience issues. Every building is different, and therefore throws up different challenges. Embrace the issues, you will learn from them.

Don't compare yourself to others: Certainly don't compare yourself to what you see on social media. If you're new to property it can be disheartening to think everyone else having amazing successes so quickly. The reality is, property is not an easy get-rich-quick industry, so if anyone is muting that, be very suspicious. Your journey is your journey, don't let it be influenced by people that are possibly not even achieving what they say they are anyway.

Don't be invisible: We meet all our tenants via Zoom before they move in. We get so many comments from them about how nice it is that they get to know their landlords. They immediately know we have their best interests at heart. Even if you have a managing agent, it's still a good idea to introduce yourself. Having an online presence is also worthwhile. While we don't use is as a means to get business, it gives us credibility. Our tenants can see we care and buyers of our developments can see the passion we have for what we do.

Know your area and your market thoroughly: Whether you're a remote investor or not, it's essential to know your area and market. If you are remote, you can of course rely on agents to help you; but we would always recommend looking at actual sold prices rather than just agent valuations. If you can't personally visit the area, use Google Earth to look at the street. We've known new investors buy what they thought was a good renovation project, only to discover all the properties surrounding it needed work too. We invest within one-hour's drive of our office in East Sussex. Knowing our area thoroughly means we know our property resale prices and end user demographic intimately.

INVESTOR FACT FILE

Name:
Steven and Carolyn Sparks

Age:
53 and 41

Lives:
East Sussex

Invests in:
East Sussex

Occupation:
Property developers and landlords

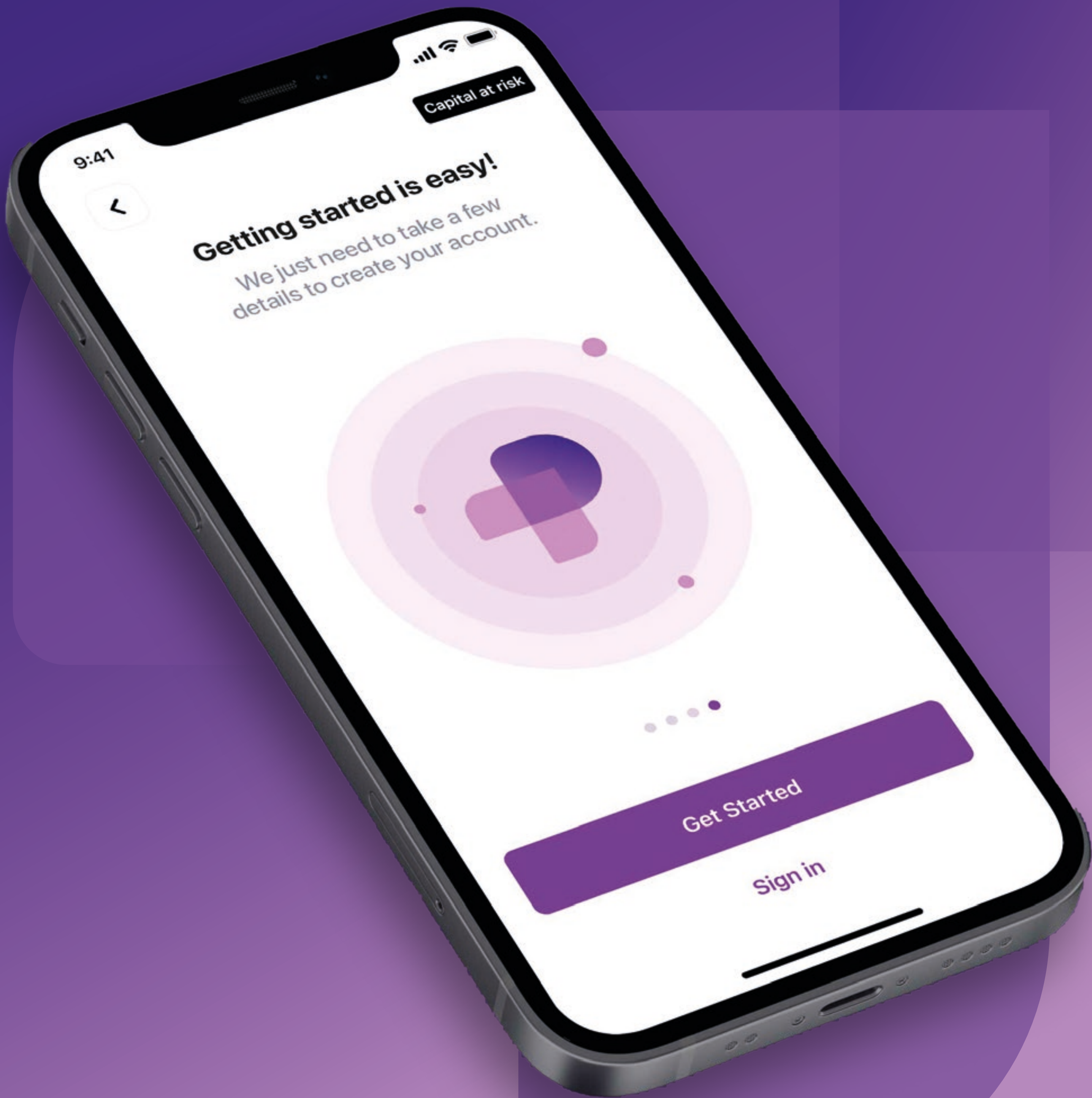
Years investing:
Steven 35 years, Carolyn 20

Strategy:
Has changed over the years but they are currently focused on developing properties they have a passion for such as period conversions and brownfield sites

Goal:
To continue as they are and spend more time in their beach hut

If you're a portfolio landlord and would like to share the lessons you've leaned, we'd love to hear from you. Email us at magazine@propertyhub.net and we'll get back to you

Portfolio



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