



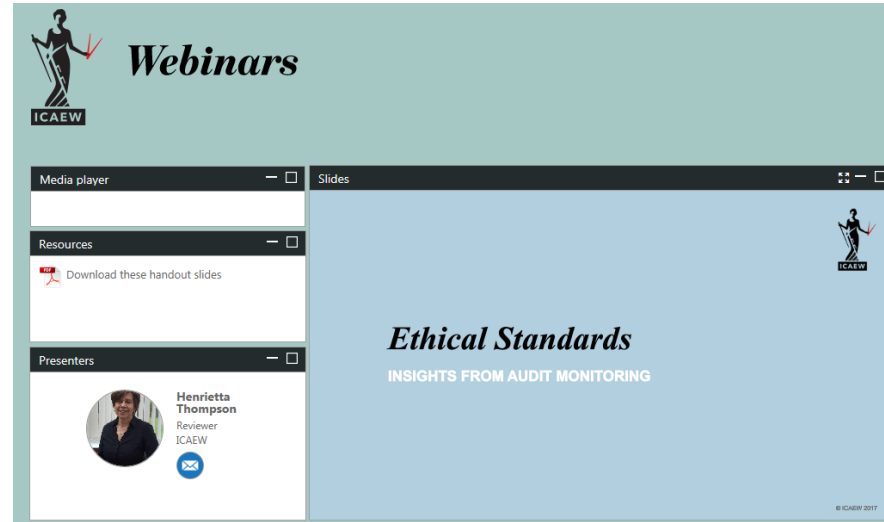
Covid-19 WealthCare Update: Property advice series Part III

Stepping-on and stepping-up the property ladder: Landlords and Renters

FACILITATED BY JOHN GASKELL, HEAD OF PERSONAL FINANCIAL PLANNING, ICAEW

Wednesday 1st July

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Today's speakers



KATE FAULKNER
MANAGING DIRECTOR
PROPERTY CHECKLISTS



JATIN PATEL
FOUNDING PARTNER
KINNISON LIMITED



KINNISON
PROPERTY FINANCE EXPERTS

Buy to Let finance update

Q&A with John Gaskell

Jatin Patel

1st July 2020

The Impact of COVID-19

Government/Regulator Reactions

- Cut in BoE interest rates to 0.1%
- Introduction of mortgage 'payment holidays' for landlords

Bank/Lender Reactions

- Information on websites on the process for claiming 'payment holidays'
- Creation of dedicated helplines for existing borrowers who wish to discuss their personal positions
- Since the easing of social distancing rules and the return of physical property valuations appetite to lend has improved

Mortgage payment holidays

- Introduced in March 2020 for an initial period of 3 months
- In June 2020 this period was extended by a further 3 months
- You have until end October 2020 to apply
- You **must** contact your lender **directly** if you think you may potentially experience payment difficulties as a result of difficulties your tenants may be experiencing due to COVID-19

Pros

- **Temporary** release of pressure on a your monthly finances/cashflow
- Release some of the personal stress that you may be feeling during this unprecedented time

Mortgage payment holidays

Cons

There are a number of important points to bear in mind:

- You will continue to incur interest on your mortgage balance
- You will still owe the amounts that have accrued during your payment holiday
- Future monthly mortgage payments may be higher as the lender may look to spread the deferred payments over the remaining mortgage term
- In order to reduce the impact on future payments the lender may offer to increase the length of your mortgage term

What impact could a payment holiday have on your future ability to get a mortgage?

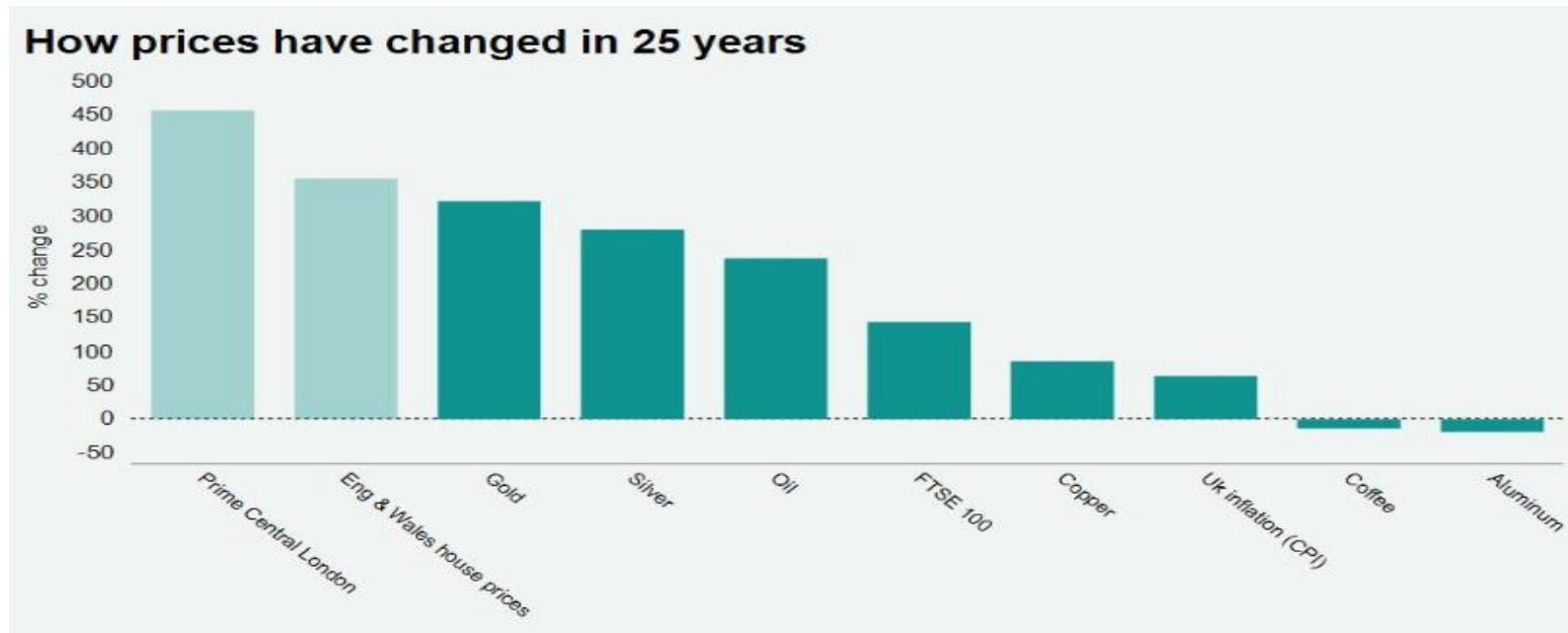
- The FCA have issued guidance requesting that lenders should ensure that taking a mortgage payment holiday **does not** affect your credit score
- For future mortgages/refinances a new lender may seek confirmation of whether you took a payment holiday and the circumstances
- A future lender may request additional information to ascertain your ability to service the debt during future rental income disruptions

Property investment 'headlines'

UK house prices grow nearly three times quicker than salaries since 2008

<https://www.cityam.com/house-prices-grow-nearly-three-times-quicker-than-salaries-since-2008/>

Property beats other investments over 25 years



<https://www.knightfrank.co.uk/research/article/2020-03-31-property-beats-other-investments-over-25-years>

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Does property really deliver great investment returns?

Prices doubling every 10 years
– out of date!



Property is NOT delivering as well as it has in the past

Lucian Cook, director of residential research at Savills:

“House price growth has dramatically increased the wealth of home owning households over the past 50 years, but the rate at which that wealth has been accumulated has slowed since the mid-noughties.”

Regulatory landscape

Prudential Regulatory Authority (PRA) introduced new stricter rules which took full effect in 2017:

- Regulations to ensure lenders are being prudent when assessing affordability
- Lenders applying the new rules to both refinances and new purchases
- Introduction of a definition of a portfolio/professional landlord

Portfolio/professional landlords

Borrowers with 4 or more distinct mortgaged buy to let properties (held in personal name or corporate):

- Lenders are required to carry out additional affordability checks on portfolio/professional landlords
- Up to date detailed information on current BTL portfolio
- Business plan so that lenders can understand investment strategy, now and in the future.

Lender landscape

- High street banks
- Building societies
- Regional building societies
- Specialist buy to let lenders (banks and non banks)
- Challenger banks
- 2nd Charge lenders (banks and non banks)
- Bridging specialists lenders
- Private banks (with or without AUM)
- Private funds

Cash investment in property is risky

Property Prices - Regions	Average price in 2005	Market low +/- versus market height	Latest month's data Mar-20	Changes since 2007 peak	Real Property prices vs inflation		Increase/Decrease %	Predictions Savills 2020-2024
North East	£111,474	-19.65%	£126,945	-9%	£	155,831	-£ 28,886	19.90%
North West	£118,939	-18.27%	£166,202	9%	£	166,267	-£ 65	24.10%
Yorkshire & The Humber	£118,923	-17.57%	£159,208	6%	£	166,244	-£ 7,036	21.10%
East Midlands	£135,281	-18.59%	£194,664	22%	£	189,111	£ 5,553	18.40%
West Midlands	£140,028	-17.39%	£195,917	18%	£	195,747	£ 170	18.30%
South West	£175,838	-19.42%	£263,360	24%	£	245,806	£ 17,554	12.90%
East	£175,323	-19.73%	£291,254	39%	£	245,087	£ 46,168	10.70%
South East	£195,620	-19.97%	£323,353	35%	£	273,460	£ 49,893	10.70%
London	£232,422	-17.83%	£485,794	63%	£	324,906	£ 160,888	4%

Property has typically delivered as an investment due to mortgages

Investing in cash is questionable, especially with increases in taxes

Individual property prices rule!

Apartment 243, Marco Island, Huntingdon Street, Nottingham, City Of Nottingham NG1 1AP

2 bed, flat

£92,500	24 Jun 2019	Leasehold
£90,500	15 Apr 2011	Leasehold
£136,000	7 Jul 2005 (New Build)	Leasehold



66, Cornwall Street, Hartlepool TS25 5SF

3 bed, terraced

£31,000	2 Mar 2020	Freehold
£35,000	17 Nov 2016	Freehold
£63,000	2 Dec 2005	Freehold
£37,950	1 Dec 2003	Freehold



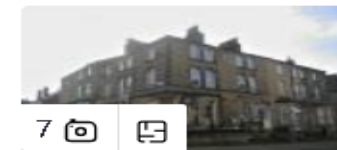
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Flat 2, Towering House, Cheltenham Mount, Harrogate, North Yorkshire HG1 1DW

1 bed, flat

£105,000	16 Aug 2019	Leasehold
£103,500	16 Feb 2018	Leasehold
£101,500	14 Feb 2006	Leasehold

+ 2 extra records



The search for profit

- Choice of geographical location can be crucial
- Type of asset - flats/houses/ex-local authority etc can affect tenant target market
- Type of tenant – standard AST(assured shorthold tenancy); student; HMO; holiday let; Air BnB
- Regular review of your debt finance
- Choice of property holding structure

The search for profit – finance issues to consider

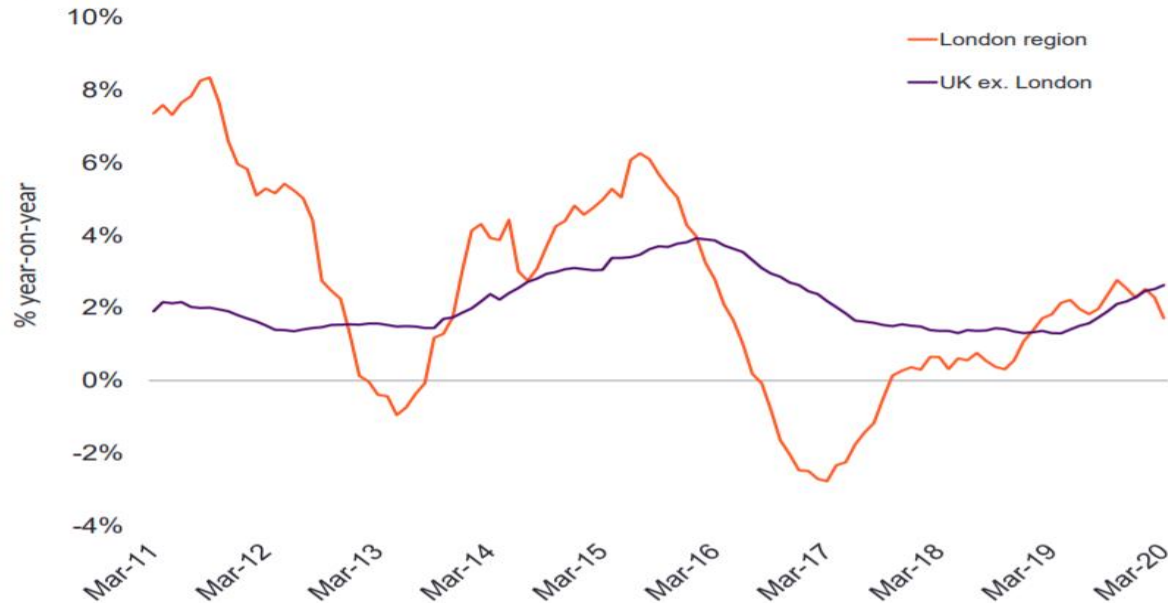
If you are considering moving away from standard AST tenancies you will need to consider the following:

- Not all lenders accept properties not let on standard AST contracts
- When considering HMOs/student accommodation, lenders may prefer borrowers who have had prior experience and can demonstrate knowledge of the rules and regulations
- Not all lenders will consider lending to corporate/trust structures
- With HMOs some lender may have a bedroom restriction
- Loan to Values could be lower and interest cost higher
- The lending market for holiday lets/Air bnb is extremely limited
- Lenders are likely to seek additional information to ascertain whether you have the financial resources to withstand void periods and dilapidation costs

What about income returns?

Rents move inline with wages

Fig.6 – Rental growth – London region and UK ex. London



Source: Zoopla Rental Index, powered by Hometrack, Zoopla Research, ONS AWE

Fig.7 – Rental affordability



Also means, rents are NOT rising in line with inflation

Landlords are essentially giving themselves a wage cut every year

Property investment needs investigating

- Investors
 - Need to visit an IFA
 - Understand the gap in their income/capital growth
 - Check property investment vs pensions
 - Potentially financial investments are better
 - Who will pay for the current government expenditure?
 - Capital Gains Tax likely to rise
 - Understand local price inflation post 2005
 - Not believe the 'averages'
 - Need to build in capital growth
 - Require a maintenance budget for lifetime of the BTL
 - Join NRLA (landlord association) or use ARLA/RICs member agent
 - 400 rules and regulations to let a property
 - Huge fines and even jail if fail



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Any questions?

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