

Buy to let economics

What *does* the future hold?

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Agenda

- What's happening in the economy at the moment?
- How does the economy affect buy to let?
- What's happening now in London?
- What's likely to happen to future?
- What can you do to protect and maximise your portfolio returns?

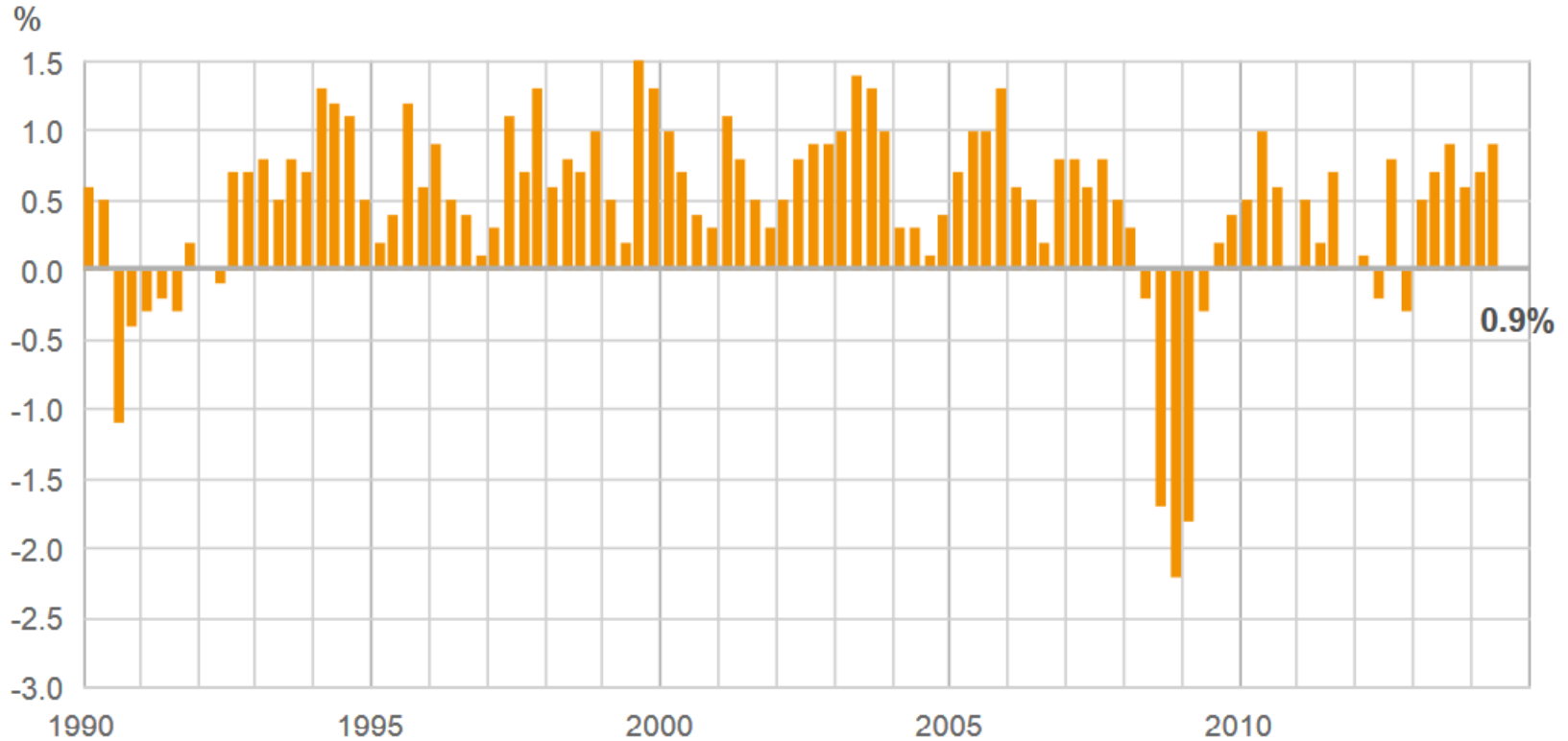
What's happening economically affects your BTL business

- Jobs & wages = determines rent levels
- Inflation = affects costs
- Interest rates = cost of borrowing
- Population changes = demand from tenants
- Households = type of home required

What's happening
in the economy?

Economic Tracker

UK GDP growth, quarter on previous quarter



Source: ONS

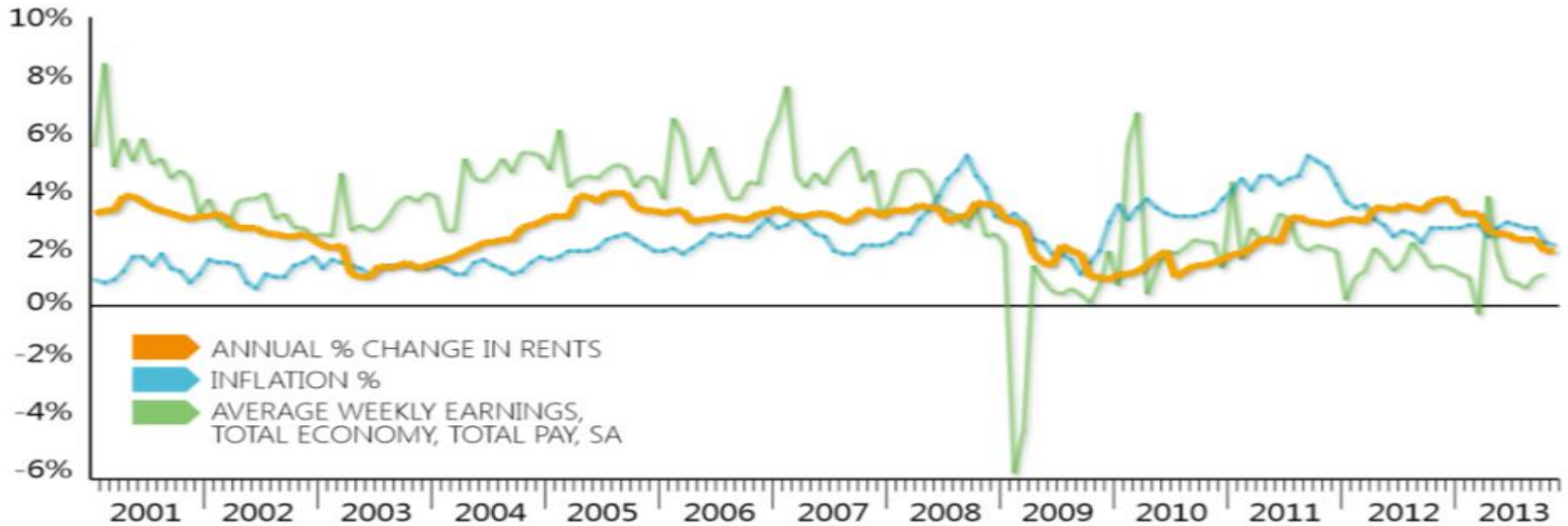
What we've learned from the recession

- During a recession tenants:-
 - Lose their jobs
 - Insurance essential
 - May look at trading down to cut costs or going home
 - Can mean handing in notice
 - Wages stagnant
 - Can't cope with increases in rent, even if demand > supply
 - If happy, tenants will stay longer
 - Average stay is 19 months (ARLA)

Inflation, wages and earnings

FIGURE 5

Annual UK rental growth, compared to inflation and earnings

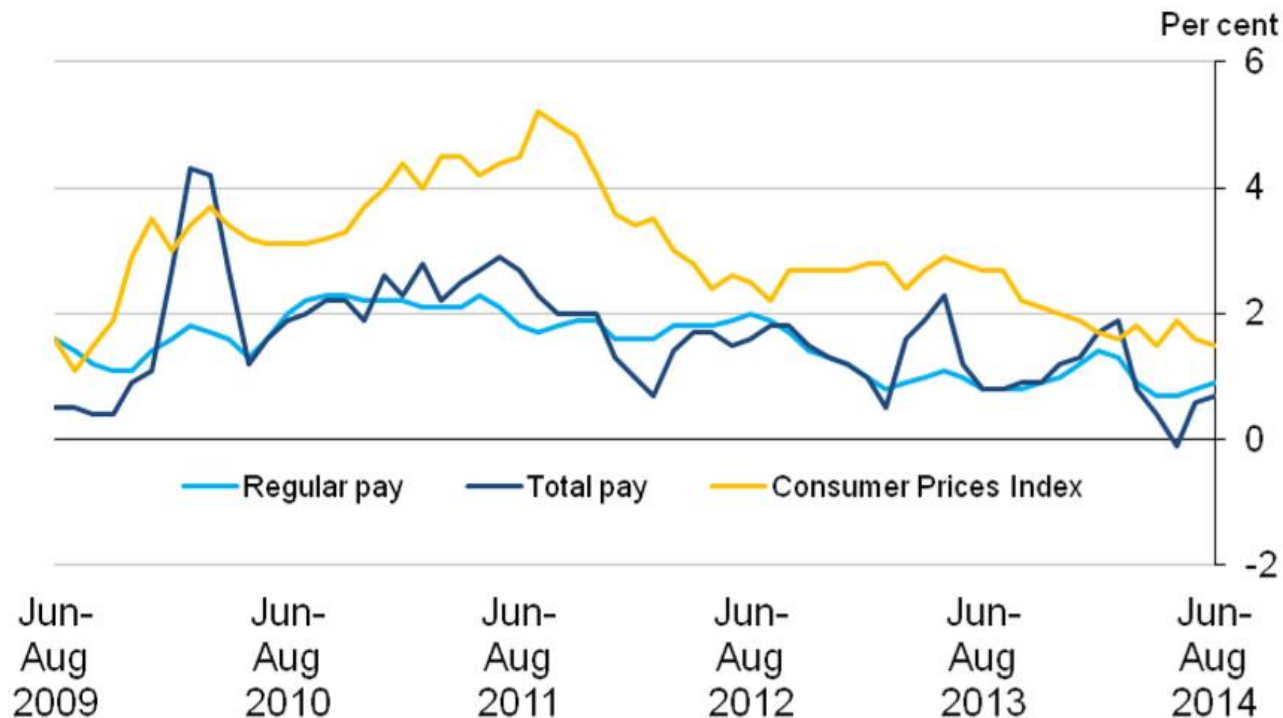


Source: Knight Frank Residential Research / Macrobond

What's happening currently?

- Bad news: wage growth still lower than inflation

Chart 6.1: Average earnings and consumer prices annual growth rates

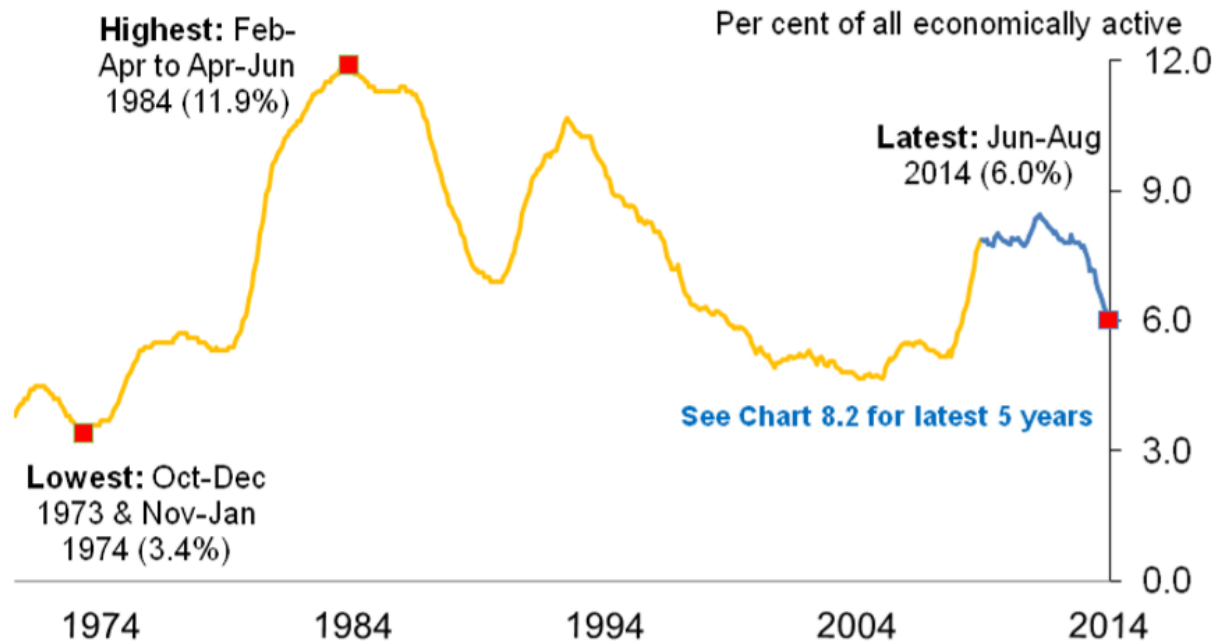


Source: Office for National Statistics

What's happening currently?

- Good news: more people are employed

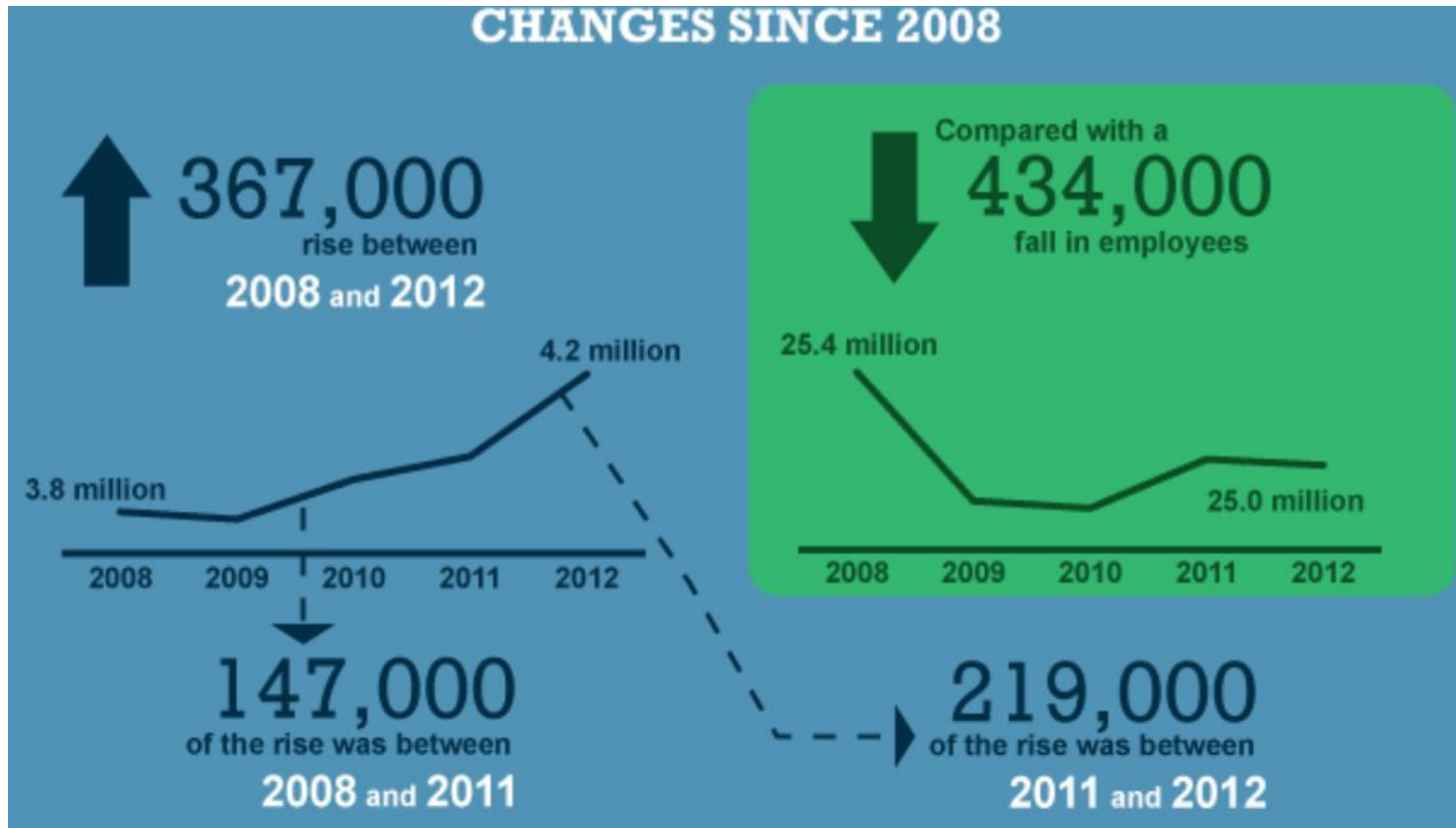
Chart 8.1: Unemployment rate (aged 16 and over) from January-March 1971 to June-August 2014, seasonally adjusted



Source: Labour Force Survey - Office for National Statistics

More interestingly.....

- Growth is in self-employment, check your contracts



How does this affect landlords?

- Stagnant wages make it hard to > rents
- More self-employed may mean need to check your contract
 - Beware of people running businesses at your address
 - Encourage a 'registered office' via an accountant
- Rent changes running behind inflation
 - Need to keep an eye on your costs
 - Don't always go for the cheapest service, right value
 - Cut costs with your most expensive cost first ie mortgage

How does this impact on your
BTL returns?

Buy to let economics matter

- What's happening economy
 - Make or break your property investment
- Inflation is approx +3% a year, careful with cash
- Since credit crunch house prices recovering
 - In London they have gone NUTS!
 - Or have they.....

Best performing Boroughs

Property Prices in London Land Registry data	Average price for September 2014*	Year on year change in price in September	Month on month change in price in September
Greater London average	£ 460,521	18.4%	-0.7%
Areas outperforming the Greater London average			
Lambeth	£ 533,828	28.6%	0.9%
Waltham Forest	£ 351,385	26.4%	1.1%
Lewisham	£ 378,625	26.2%	0.3%
Southwark	£ 540,265	26.0%	1.1%
Hammersmith and Fulham	£ 795,227	24.6%	1.3%

Based on Land Registry data: good for analysis not 'current market'

Best performing Boroughs

History is helpful.....

Property Prices in London Land Registry data	Kate's long term look at Property Price Changes in London			Land Registry Highest Yearly Average Increase Since 2000	
	Average price in 2000	Annual average increase	Is YoY change in price for September 14 higher or lower than annual average increase?	Date	% Increase
Greater London average	£ 161,086	7%	Higher	Apr-00	29%
Areas outperforming the Greater London average					
Lambeth	£ 153,573	8%	Higher	Jun-00	35%
Waltham Forest	£ 106,563	8%	Higher	Jun-00	31%
Lewisham	£ 115,405	8%	Higher	Jul-00	31%
Southwark	£ 152,692	9%	Higher	Jun-00	34%
Hammersmith and Fulham	£ 229,497	8%	Higher	Jun-00	32%

In this recession, so far prices have grown year on year by 24 to 28%

After the last recession, property prices in these areas rose by 31 to 35%

Credit Crunch tells us about risk

Property Prices in London Land Registry data	Kate's Credit Crunch analysis Highest price before CC 2007/8	Kate's Credit Crunch analysis Lowest price post CC 2009	What's the most prices in London have fallen?	Average price for September 2014*	How much higher are prices in September 2014 vs Height in 2007/8
Greater London average	£ 350,890	£ 293,464	-16%	£ 460,521	31%
Areas outperforming the Greater London average					
Lambeth	£ 353,568	£ 288,706	-18%	£ 533,828	51%
Waltham Forest	£ 268,300	£ 213,612	-20%	£ 351,385	31%
Lewisham	£ 285,065	£ 237,483	-17%	£ 378,625	33%
Southwark	£ 370,292	£ 310,349	-16%	£ 540,265	46%
Hammersmith and Fulham	£ 501,244	£ 402,716	-20%	£ 795,227	59%

Property prices rise and fall

As an investor you need to know the risk of price falls

Help you understand what deposit levels are required

London 'average' prices are dead

Property Prices in London Land Registry data	Average price for September 2014*	Year on year change in price in September	Month on month change in price in September	Annual average increase	Land Registry Highest Yearly Average Increase Since 2000	
					Date	% Increase
Greater London average	£ 460,521	18.4%	-0.7%	7%	Apr-00	29%
Enfield	£ 310,310	15.0%	0.3%	6%	Jul-00	26%
Redbridge	£ 342,534	13.0%	2.1%	7%	Feb-03	26%
Newham	£ 279,785	22.9%	1.9%	7%	Jul-00	33%
Bexley	£ 269,186	16.2%	1.0%	6%	Mar-03	27%
Havering	£ 297,786	14.5%	1.3%	6%	Feb-03	25%
Barking and Dagenham	£ 262,122	20.1%	1.3%	7%	Mar-03	33%

London 'average' prices are dead

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Greater London average	-16%	£ 460,521	31%
Enfield	-18%	£ 310,310	12%
Redbridge	-16%	£ 342,534	10%
Newham	-22%	£ 279,785	8%
Bexley	-17%	£ 269,186	7%
Havering	-16%	£ 297,786	6%
Barking and Dagenham	-22%	£ 262,122	3%

What's happened to rents?



What's the future
looking like for BTL?

Big question:

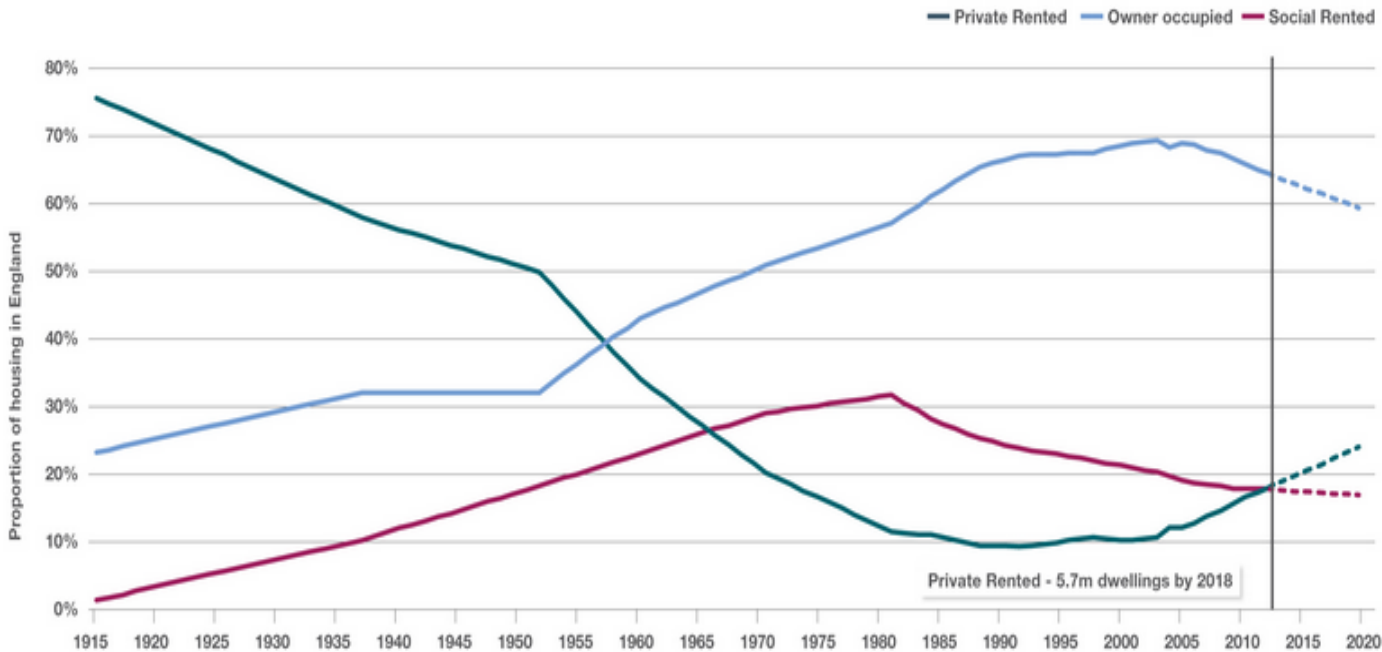
Can London prices/rents be held back?

- We know
 - Prices aren't growing at the previous rate
 - Prices are falling back in parts of London
- Bank of England has the power to restrict mortgage lending
 - Only likely to affect London
- Aim is to build 40-50,000 homes in London
 - Most will be affordable
- More importantly many will be 'build to rent'
 - At 80% of market rents
- New schemes
 - First time buyer discounted homes
 - Rent to buy at 80% of market rates

PRS only growing tenure

GRAPH 2

Shifting tenures: The growth of the private rented sector



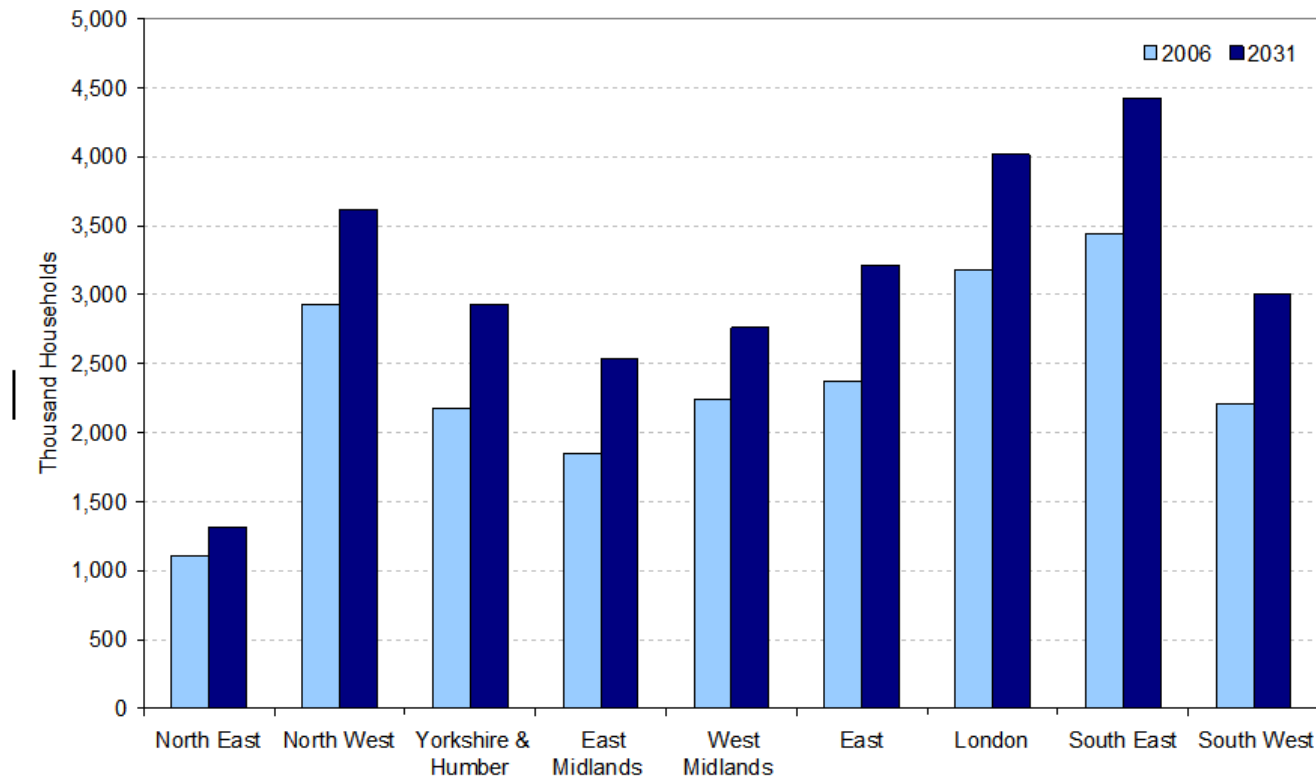
Source: Savills Research, DCLG, Survey of English Housing

Savills Forecast
By 2016 20%
of households will be
renting

By 2018
5.7 million
households in
England will be
renting

Population growing in London

Figure 2: Household projections by region, 2006 and 2031, thousands



Beware of capital growth versus yield

- London is really for capital growth
 - Investments should be geared
 - For income, need to specialist investment
- Where yields are 7% or less
 - Force yields up through property bargains eg cash, short lease
 - Beware with flats, service charges and especially major works
 - House will typically deliver better returns than flats
- If investing outside of London where yields are higher
 - Don't rely on natural capital growth
 - Force capital growth at purchase
 - Consider build to let

All about a property on a street

Sale Date	Property	Price Paid	Source
20 Aug 2014	Flat, Leasehold	£164,000	Land Registry
12 Jul 2007	Flat, Leasehold	£235,000	Land Registry

To maintain vs inflation: £285,000

69 Victoria Road, Barking, Greater London IG11 8PY

£232,000	Terraced, Freehold	11 Aug 2014	2 bedrooms
£156,000	Terraced, Freehold	12 Jun 2003	
£61,000	Terraced, Freehold	15 Apr 1999	



Achieved over a 9% return PA vs 7% for B&D

25 Fairway Gardens, Ilford, Greater London IG1 2QG

£250,000	Terraced, Freehold	17 Jan 2014	3 bedrooms
£200,000	Terraced, Freehold	27 Aug 2002	



Achieved a 2% return PA

Summary

- UK Economy will take years to recover
 - Good news that London has already recovered and will remain strong
- Demand for PRS will grow naturally
 - Expected to be the number one tenure in the future
- Need to protect your buy to let investment from:-
 - Inflation
 - Low capital growth or yields
 - Increased enforcement and regulation
 - Rising taxes
- There are always opportunities in property to make money
 - You need to be clear about the returns you want
 - Regularly review your portfolio to ensure it's meeting your needs
 - Keep up to date with the impact of BTL economics