

# 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 Milton Keynes/Bucks?
- What's likely to happen to future?
- What can you do to protect and maximise your portfolio returns?

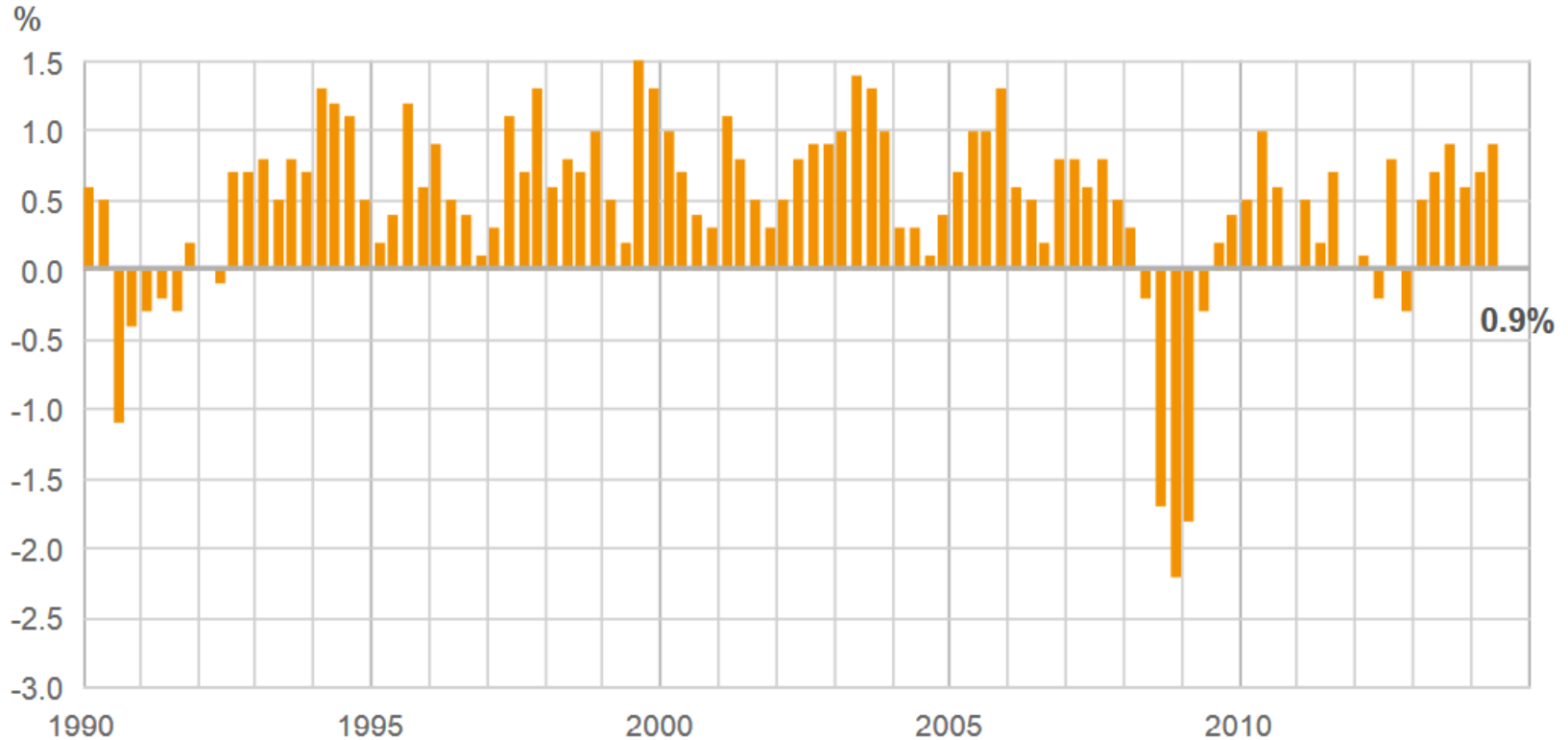
# What's happening economically affects your BTL business

- 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

Will our economy stagnate or continue to grow?

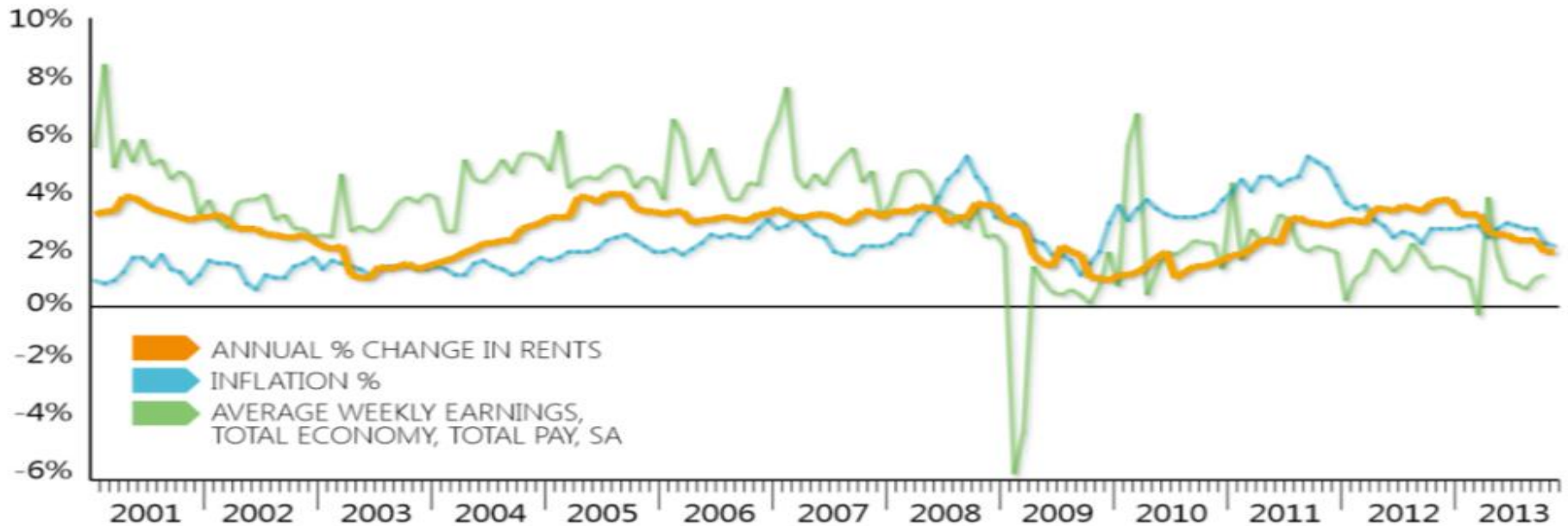
# What we've learned from the recession

- 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
  - If happy, tenants will stay longer
    - Average stay is 19 months (ARLA)
  - Wages stagnant
    - Can't cope with increases in rent, even if demand > supply

# Inflation, wages and rents

FIGURE 5

## Annual UK rental growth, compared to inflation and earnings

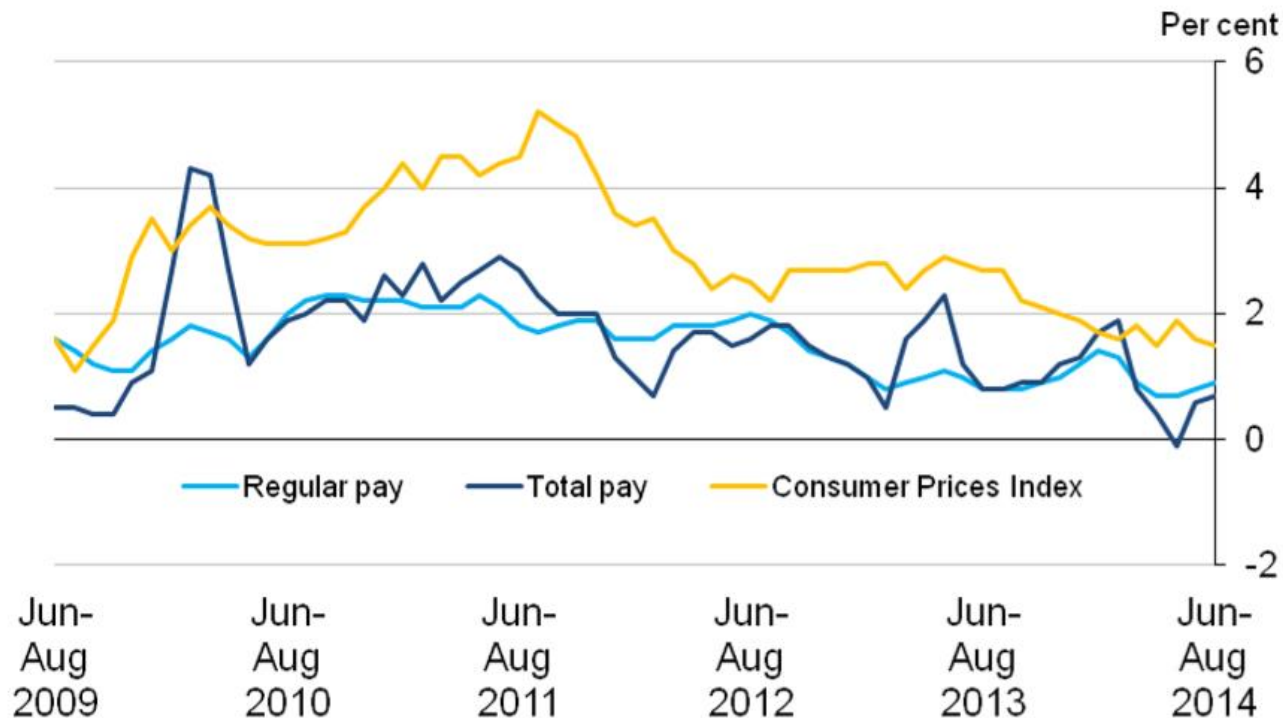


Source: Knight Frank Residential Research / Macrobond

# What's happening currently?

- Bad news: wage growth still lower than inflation

Chart 6.1: Average earnings and consumer prices annual growth rates



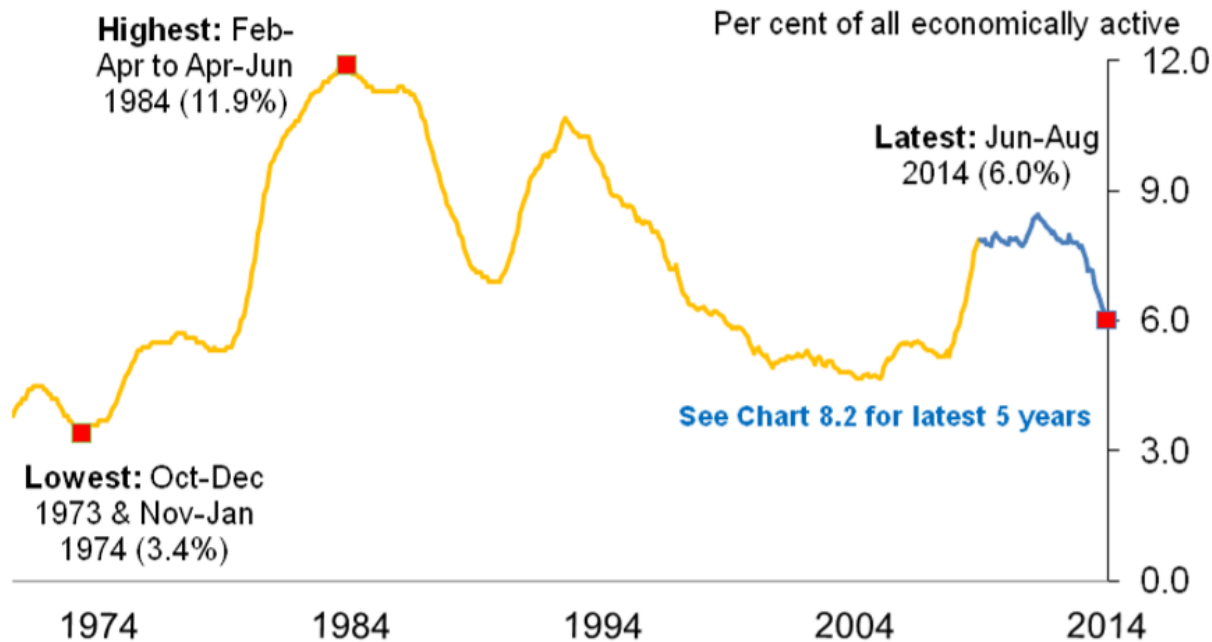
Source: Office for National Statistics



# What's happening currently?

- Good news: more people are employed

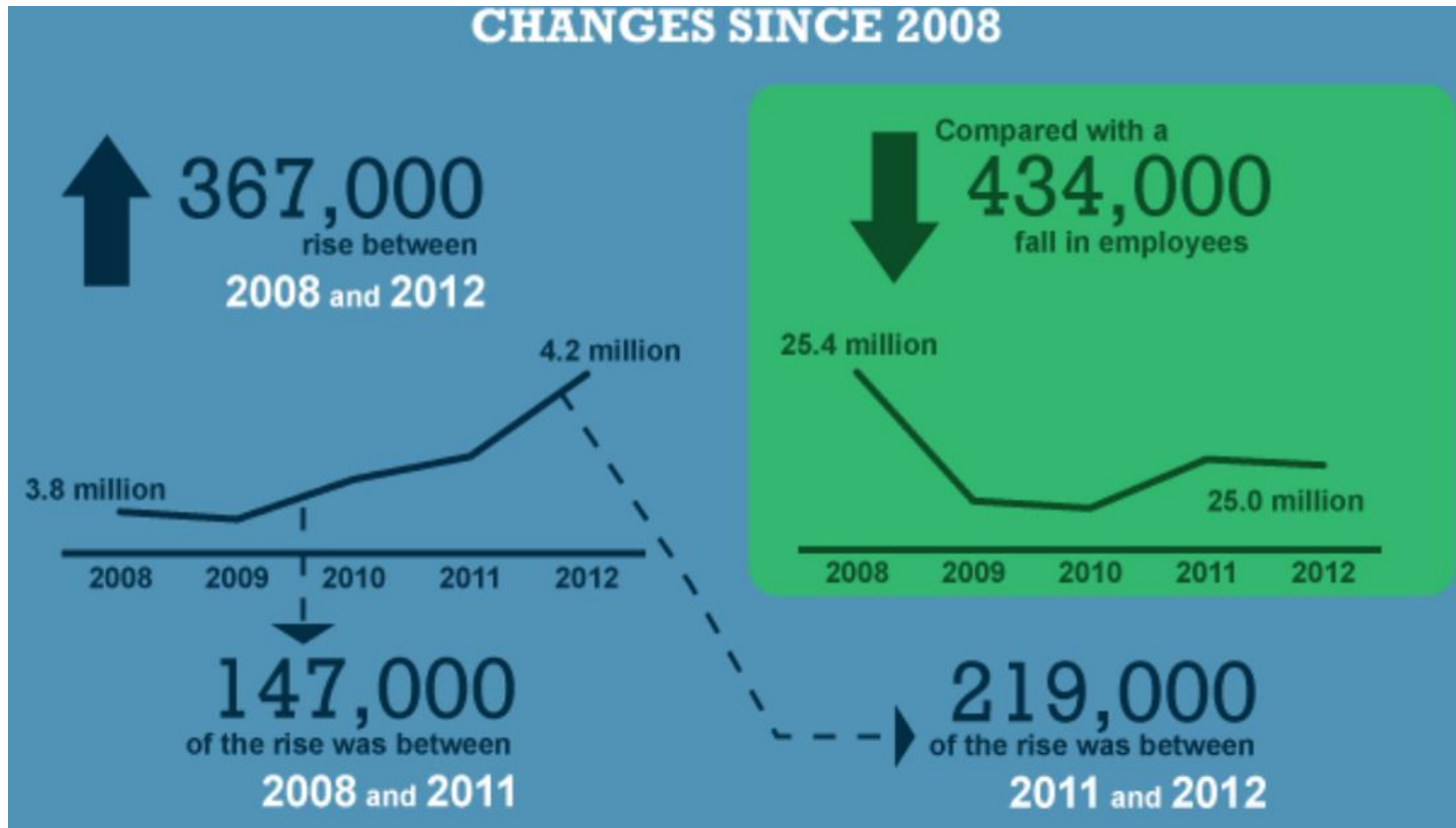
Chart 8.1: Unemployment rate (aged 16 and over) from January-March 1971 to June-August 2014, seasonally adjusted



Source: Labour Force Survey - Office for National Statistics

# More interestingly.....

- Growth is in self-employment, check your contracts



# How does this affect landlords?

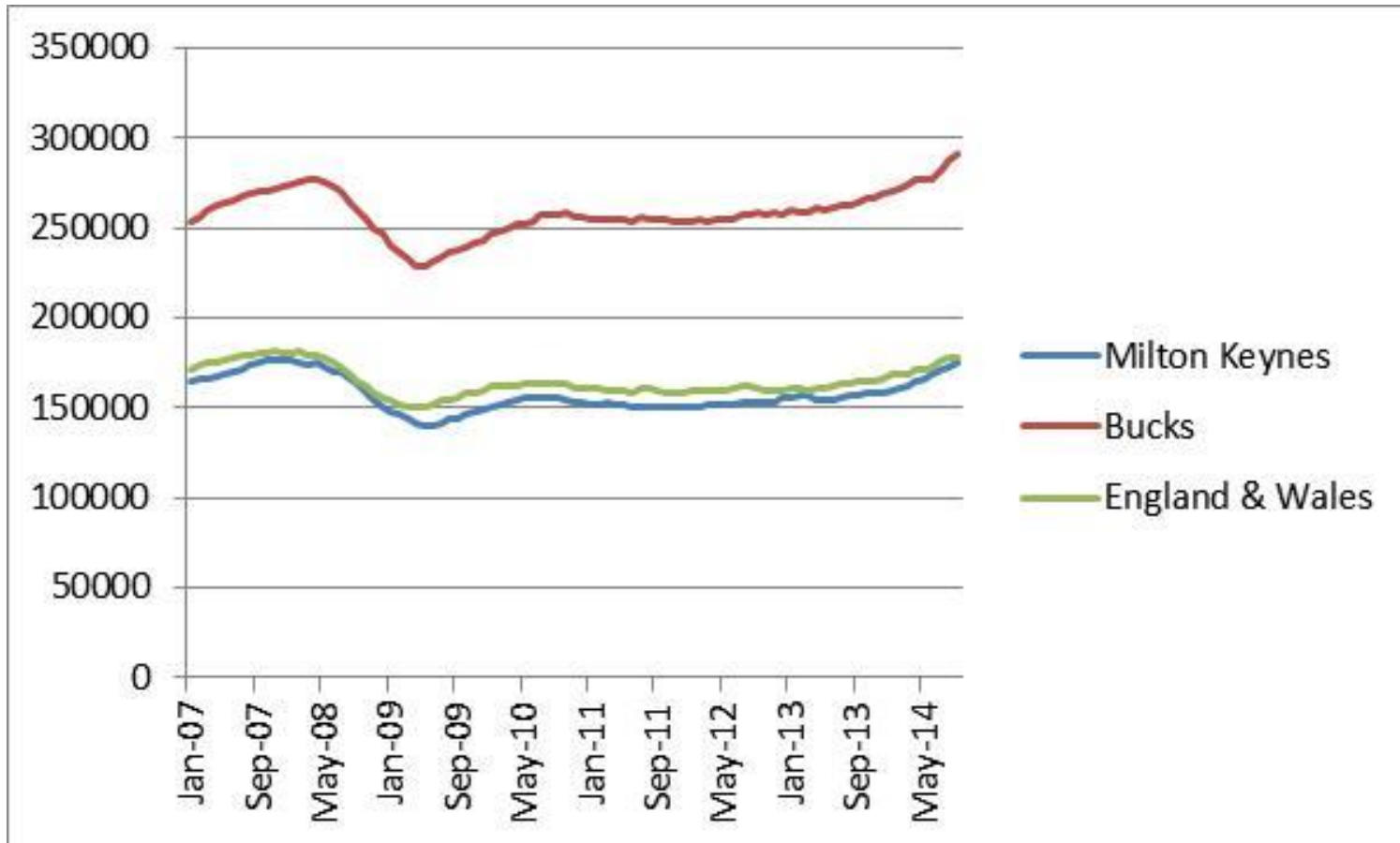
- Stagnant wages make it hard to > rents
- More self-employed may mean need to check your contract
  - Beware of people running businesses at your address
  - Encourage a 'registered office' via an accountant
- Rental growth running behind inflation
  - Need to keep an eye on your costs
  - Don't always 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.....

# What's happened to prices since the credit crunch?



# Measure the highs, lows and 'now'

## National Picture vs Buckinghamshire

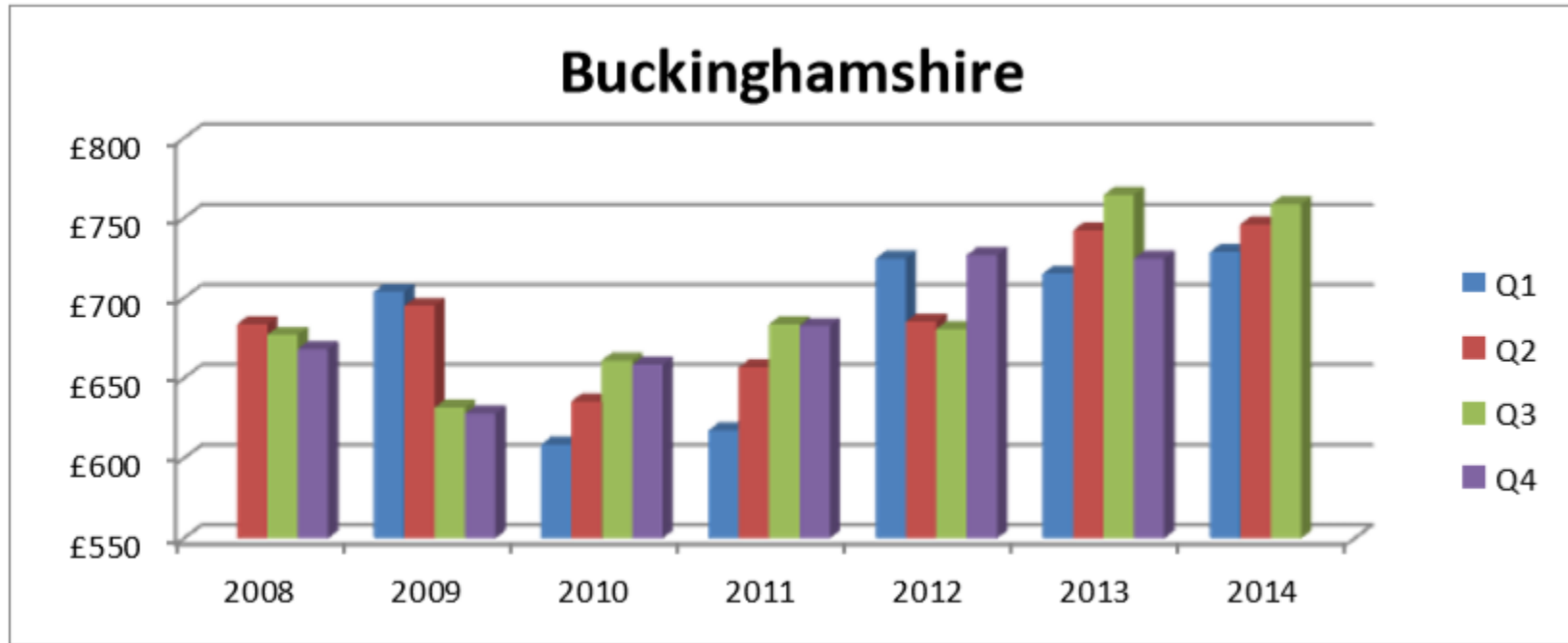
<i>Land Registry August 2014 data</i>	07/08 High	Date	09 Low	Date	Sep-14	Monthly Change	Annual Change	% Change v's 07/08 High
England & Wales	£ 183,622	Nov-07	£ 152,623	Apr-09	£ 177,299	1.0%	8.4%	-3.4%
South East	£ 227,106	Jan-08	£ 185,437	Mar-09	£ 238,119	1.7%	11.6%	4.8%
Buckinghamshire	£ 276,593	Dec-07	£ 228,369	Jun-09	£ 253,418	0.1%	4.4%	-8.4%
Milton Keynes	£ 176,658	Nov-07	£ 140,543	Jun-09	£ 174,713	0.1%	4.4%	-1.1%

Property prices rise and fall

Bucks registered a 17% fall in property prices

Milton Keynes saw 'on average' a 20% fall in property prices

# What's happened to rents?



<http://www.belvoir.co.uk/belvoir-rental-index>



What's the future  
looking like for BTL?

# Savills: PRS only growing tenure

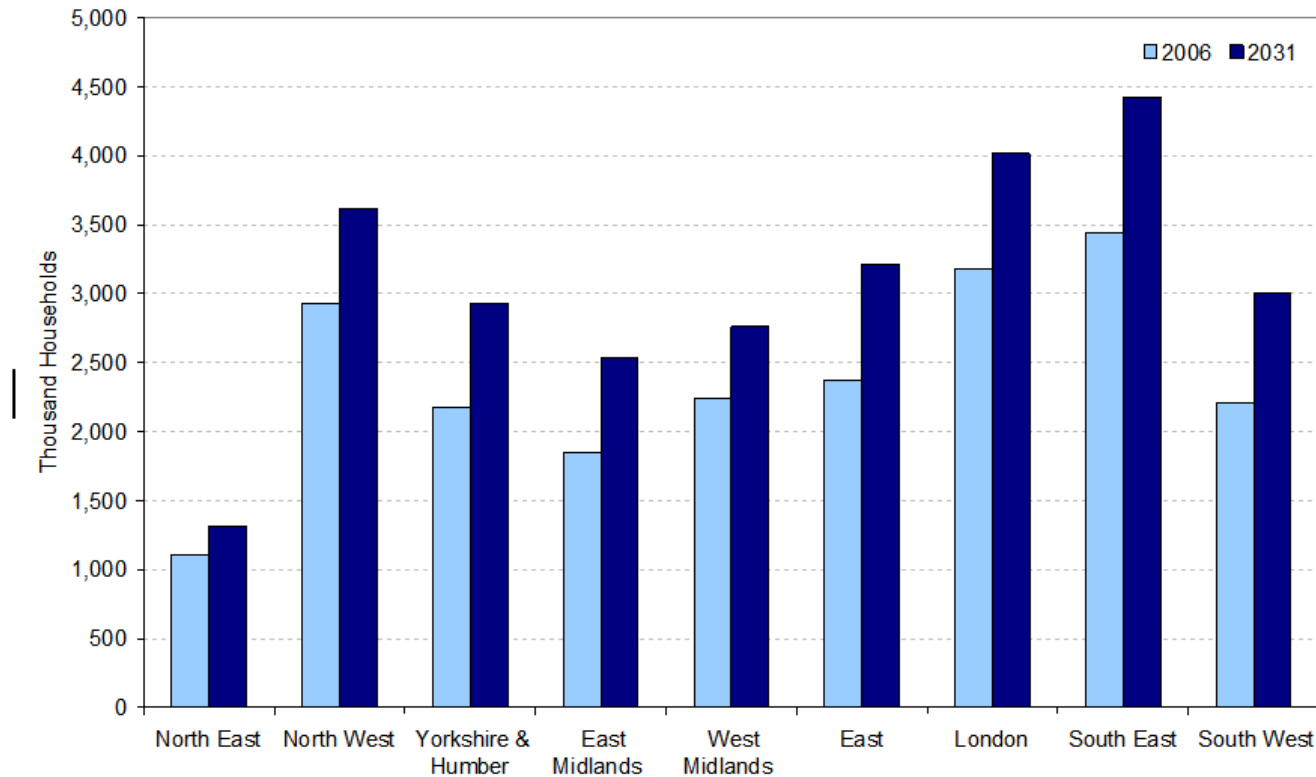
## TENURE FORECASTS TO 2019

Forecasts show large rise in Private Rented Sector households

	5-year forecast	No. of Households (Millions)		Forecast change		% of Households	
		2014	2019	Millions	%	2014	2019
ENGLAND & WALES	Owner Occupiers	14.87	14.67	-0.20	-1.4%	62%	59%
	Private Renters	4.86	6.04	+1.2	+24.3%	20%	24%
	Social Renters	4.09	4.04	-0.05	-1.1%	17%	16%
LONDON	Owner Occupiers	1.56	1.46	-0.10	-6.8%	47%	42%
	Private Renters	0.99	1.24	+0.25	+24.8%	30%	36%
	Social Renters	0.78	0.77	-0.01	-1.1%	23%	22%

# Population growing in South East – and Milton Keynes

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



# Specific to Milton Keynes

- Our population will reach 300,000 by 2026
- There will be more than twice as many people aged over 65
  - A further 28,000
- 1,000 people come to the Council for help with housing per mth
  - There are only 100 social rent vacancies per month;
- Target of 1,750 new homes built each year
  - Are they building to these levels? Where?
  - Are they for sale or rent?

# Big question:

## Can property 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
- 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

# Beware of capital growth versus yield

- 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 where yields are 7% or more
  - Don't rely on natural capital growth
  - Force capital growth at purchase
  - Consider build to let

# All about a property on a street

## 227 Granby Court, Bletchley, Milton Keynes, Milton Keynes MK1 1NQ

£48,000	Flat, Leasehold	30 May 2012
£53,500	Flat, Leasehold	15 Apr 2005



**To maintain value vs inflation: £67,650**

## 45 Byron Close, Bletchley, Milton Keynes, Milton Keynes MK3 5BD

£227,500	Semi-Detached, Freehold	12 Sep 2014	3 bedrooms
£180,000	Semi-Detached, Freehold	25 Jan 2007	
£100,500	Semi-Detached, Freehold	24 Jul 2000	



**Achieved over a 4% return PA vs 6% for MK**

## 33 Shenley Road, Bletchley, Milton Keynes, Milton Keynes MK3 6HA

£292,050	Semi-Detached, Freehold	08 Sep 2014	3 bedrooms
£86,500	Semi-Detached, Freehold	20 Sep 1999	



**Achieved a 8.45% return PA**

# Summary

- UK Economy will take years to recover
  - Good news that UK seems to be recovering at the moment
- 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