

# Buy to let economics

## What *does* the future hold in Colchester?

Kate Faulkner

BSc (Econ) MBA CIM DipM

[www.propertychecklists.co.uk](http://www.propertychecklists.co.uk)

[www.designsonproperty.co.uk](http://www.designsonproperty.co.uk)

# Agenda

- How the economy affects your property investment
- What we've learnt about property since the credit crunch
- What's been happening in Colchester?
- Will the growth continue?
- How to analyse your current and future investment

# Free copy of slides

<http://www.propertychecklists.co.uk/categories/presentations>

What's happening economy  
can make or break your property investment

# Five economic factors which affect your BTL business

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

# Local economy matters in Essex

- Slightly lower than average wages for the region
- The population of Essex is forecast to grow by 71,000 in the period up to 2021
- Create additional 33,000 jobs will need to be created by 2021
- Housing supply needs to increase, estimated 34,000 new homes by 2021
- University expansion
- Four growth areas:-
  - A120 Haven Gateway
  - A13/A127 Thames Gateway South
  - Essex A12
  - Great Eastern Mainline West Essex M11 (London-Stansted-Cambridge)
- Job creation in:-
  - Finance & business services
  - Construction
  - Manufacturing
  - Logistics
  - Tourism

# Local economy matters in Colchester

- Four regeneration areas:-
  - Cuckoo Farm
  - Colchester Garrison
  - Hythe and St Botolph's Quarter
- Building another 6,000 homes
- Planning on creating 6,000 new jobs in regeneration areas
- With 5,000 existing jobs retained at the new garrison
- A new research park at Essex University
- A new Visual Arts Facility which will attract half a million visitors a year
- A new community stadium
- Additional 350,000 square feet of retail space

# What we've learned from the recession

- Property prices go down

## National Picture vs East Anglia

<i>Land Registry December 2014 data</i>	07/08 High	Date	09 Low	Date	Falls
England & Wales	£ 183,622	Nov-07	£ 152,623	Apr-09	17%
East Anglia	£ 192,536	Oct-07	£ 157,383	Mar-09	18%
Essex	£ 208,451	Mar-08	£ 172,619	Jun-09	17%

- Colchester was no exception!

## 46 Rouse Way, Colchester, Essex CO1 2TT

<b>£295,000</b>	Terraced, Freehold	16 Jan 2015	4 bedrooms
£263,500	Terraced, Freehold	13 Jul 2012	
£236,500	Terraced, Freehold	13 Jul 2012	
£299,950	Terraced, Freehold	14 Mar 2008	
£292,950	Terraced, Freehold	05 Sep 2005	



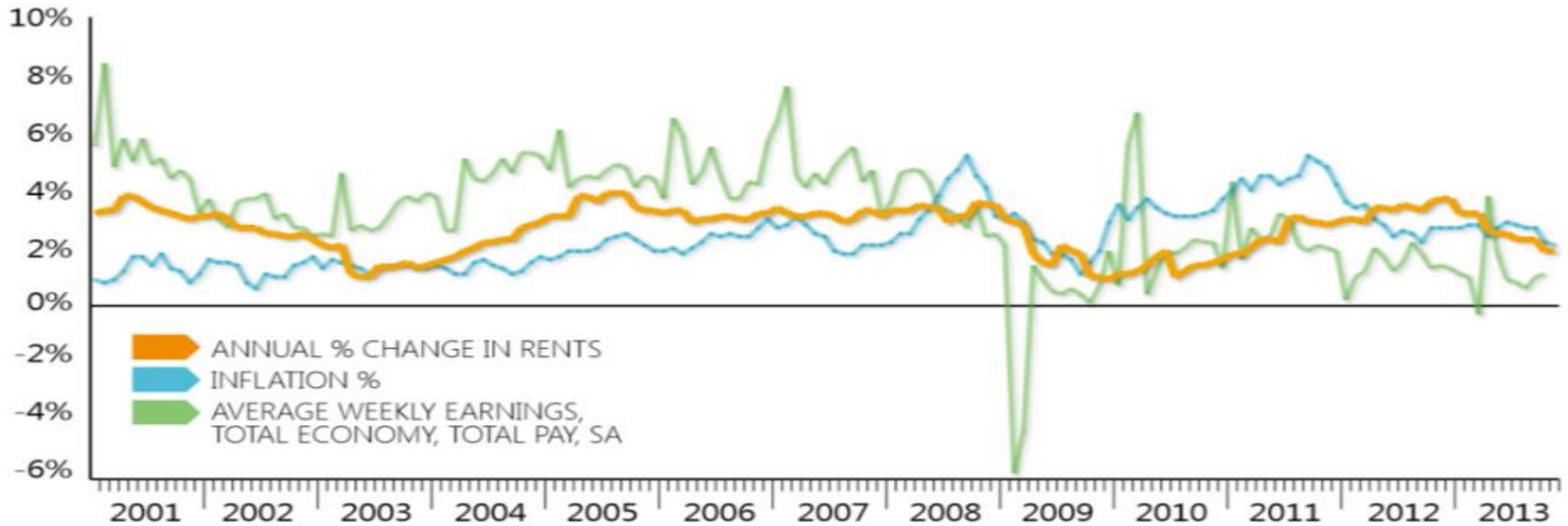
# What we've learned from the recession

- Sometimes economics can go in your favour
  - Interest rates fell to 0.5% and trackers/mortgage rates fell too
- Sometimes it can go against you:
  - Inflation rose to 4% at one point during the recession
  - Although it's now down to 1.5%
- Rents move in line with wages – not inflation

# Inflation, wages and rents

FIGURE 5

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



Source: Knight Frank Residential Research / Macrobond

# What we've learned from the recession

- From your tenants perspective:-
  - Wages stagnant
    - Can't cope with increases in rent, even if demand > supply
  - May look at trading down to cut costs or going home
    - Can mean handing in notice
  - Lose their jobs
    - Having the right Insurance is essential
  - If happy, tenants will stay longer
    - Average stay is 19 months (ARLA)
    - Agents reporting lack of stock due to tenants renting for longer

How can this information help  
your BTL returns?

# Understanding interest rates and impact on mortgage costs essential

- Follow CEBR and Capital Economics forecasters\*
  - <https://www.gov.uk/government/collections/data-forecasts>

January 5, 2015

The importance of reviewing mortgages now is great as homeowners across the UK could face a potential £1.1 billion total increase in mortgage repayments by the end of 2015.

*“Base rates may reach 1.25 percent by December 2015”*  
CEBR

*“By the end of 2016, we think that Bank Rate will have risen to only 1.25pc,”*  
Capital Economics

\*Rated in the Sunday Times forecasting Table

# What does that mean for your mortgages?

- On a £100,000 mortgage
  - Current BOE base rate = 0.5%
  - Predicted BOE base rate = 1.25%
  - Therefore, a rise of 0.75%
  - 0.75% interest on £100,000 mortgage = £750 per year
  - £62.50pm
- Variable rates may increase
- Fixed rates
  - Increase likely to be already built in
- Speak to a broker

# What's your break even?

- Add up costs except mortgage payment eg 30% or rent
- Isolate the cost of your mortgage eg 30%
- Rent: £1,000 pmth
- Costs: £ 300 pmth
- Mortgage: £ 300  
(Interest only; 2.5%; £150k mortgage on a £200k property)
- Maintenance: £ 100 pmth
- Net cash: £ 300 pmth

Break even = mortgage rate of 4.8%

# What's happening with inflation?

## CEBR predictions

January 13, 2015

Cebr predicts that inflation on the headline consumer price index (CPI) measure will drop into negative territory for the first time on record this year. Annual inflation is expected to stand at -0.2% by March.

## Capital Economics

Inflation and world trade are year average, market forecasts are end period

	Latest (22 <sup>nd</sup> Jan.)	Average 2001-2010	2011	2012	2013	2014e	Forecasts	
							2015	2016
UK	0.5	2.1	4.5	2.8	2.6	1.5	0.3	1.7

Average inflation over time is approx 3%

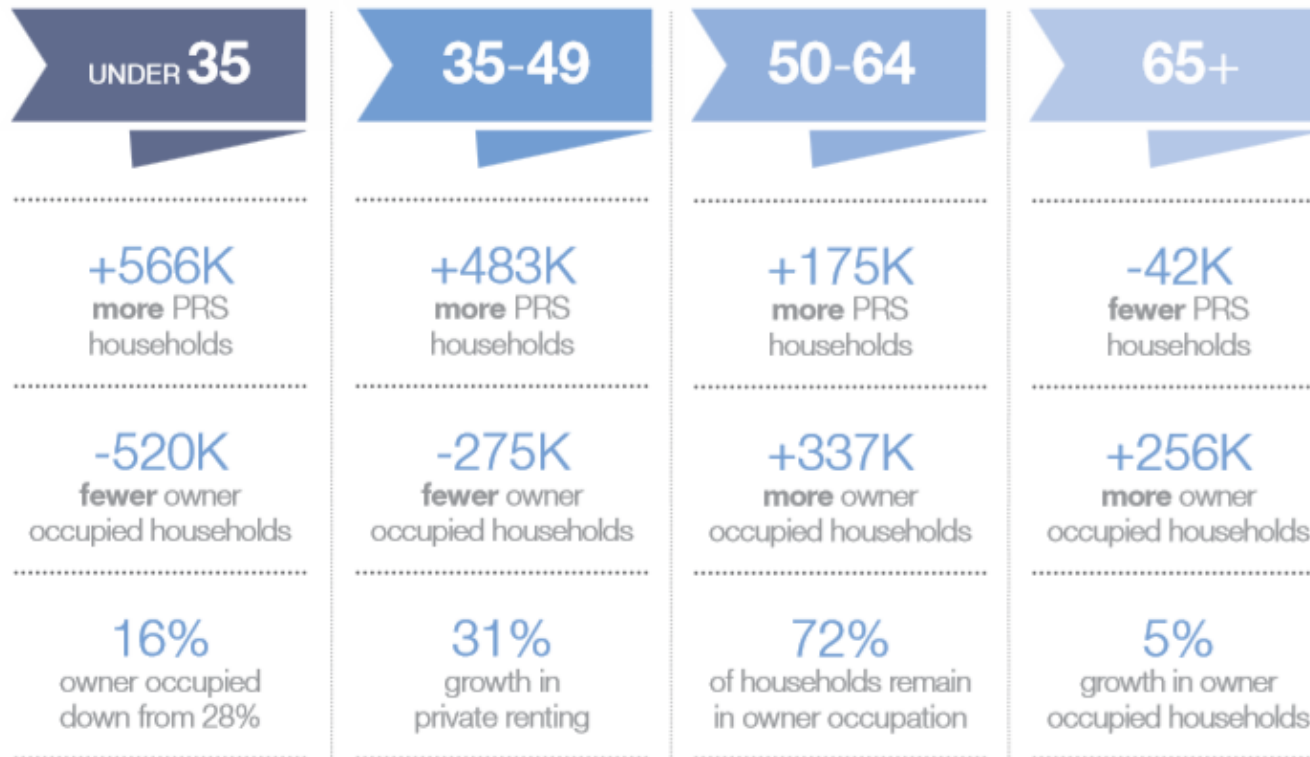


# Inflation reduces your 'real earnings'

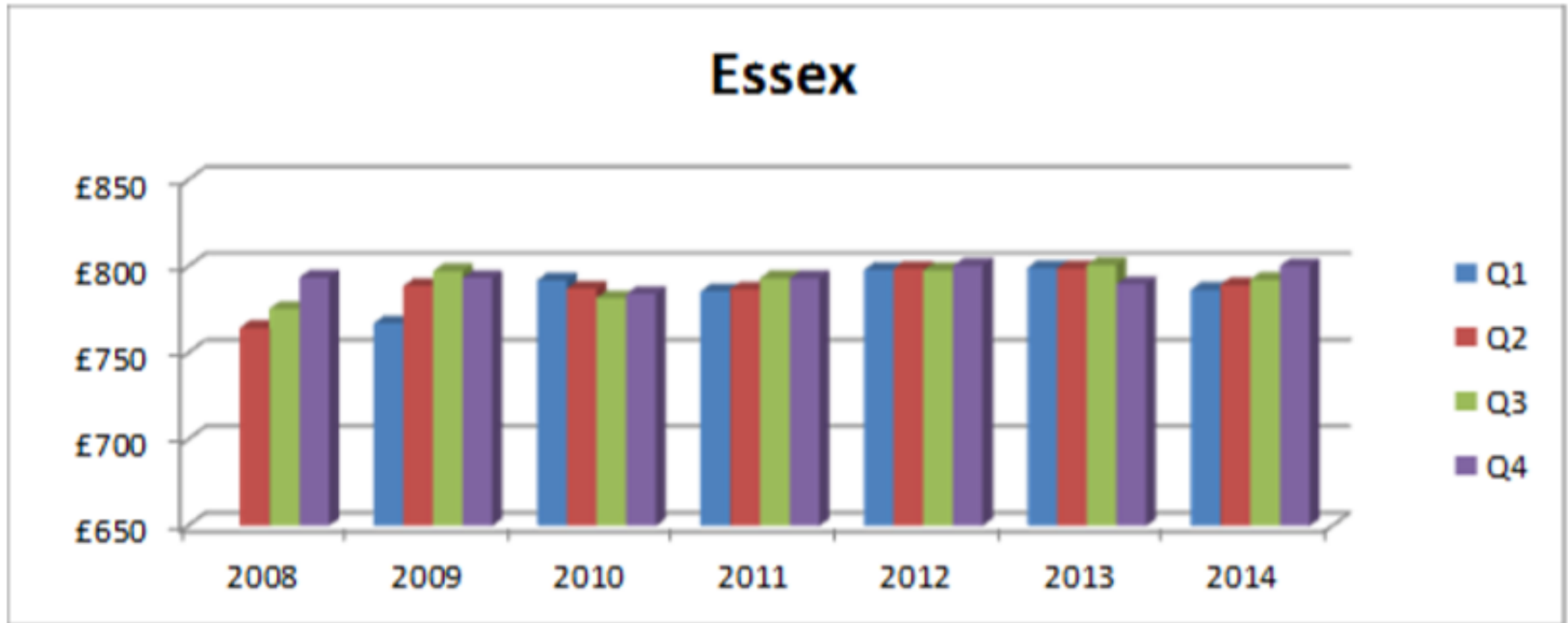
- Rent
  - £800 p mth in 2009
  - Average inflation since then is 4% p mth
  - Cumulative inflation 2009 to 2014 = approx 20%
  - Current rent needs to be £950
    - Or you needed to have reduced your costs by 20%
- Capital growth
  - Bought a property for cash in 2009: £170,000
  - Current value needs to be approx: £200,000
  - If you gear the investment, inflation has less impact

# Savills research shows increase in demand from tenants

Age band forecasts show generational divide widening in England & Wales  
Owner occupier levels: 16% for under 35s to 80% for 65+




























# What's happened to rents?



**Forecasts around 1.5% increase in rents in South East**

# Will rents keep up with inflation?

## RENTAL MARKETS: FIVE-YEAR FORECAST VALUES

	2015		2016		2017		2018		2019		5-year
Mainstream UK	 3.5%	 3.5%	 4.0%	 4.0%	 4.0%			20.5%			
Excluding London	 2.0%	 2.5%	 3.0%	 3.0%	 3.5%			14.8%			
Mainstream London	 5.0%	 5.0%	 5.5%	 5.5%	 5.5%			29.5%			
Prime London	 2.5%	 3.0%	 3.5%	 3.5%	 3.5%			17.1%			
Prime Commuter Zone	 2.5%	 2.5%	 3.0%	 3.5%	 3.5%			15.9%			

Source: Savills Research

NB: These forecasts apply to average rents in the second hand market. New build rental values may not move at the same rate

# What's happened to property prices?

## National Picture vs East Anglia

<i>Land Registry December 2014 data</i>	Average Price in 2000	Annual Average Increase	Highest Yearly Average Increase	
			Date	% Increase
England & Wales	£ 79,369	5.9%	Jan-03	24.7%
East Anglia	£ 85,538	6.2%	Feb-03	27.1%
Essex	£ 89,648	6.3%	Feb-03	27.3%

Average price increases annually are: 6.3% over the last 15 years

Biggest annual increase of 27%+ not likely to be repeated

Savills forecasts are 3% increase over the next 5 years

# Will property values grow more slowly than in the past?

- Savills predict approx 25% increase over the next five years

Property Price Forecasts	Savills	Savills	Knight Frank
	2015 (old forecast)	2015 (latest forecast)	2015 (latest forecast)
UK	5.00%	2.00%	3.50%
England & Wales			
London	6.00%	0.00%	3.50%
South East	6.50%	3.00%	5.00%
South West	6.00%	2.50%	4.00%
East of England	6.00%	3.00%	4.50%
East Midlands	5.00%	2.00%	3.50%
West Midlands	4.50%	2.00%	3.50%
North East	4.00%	1.00%	3.00%
North West	4.50%	1.00%	3.00%
Yorks & Humber	4.50%	1.50%	3.00%
Wales	4.00%	1.50%	3.00%
Scotland	4.50%	3.50%	3.50%

[www.propertychecklists.co.uk/articles/property-price-and-rental-forecasts-2015](http://www.propertychecklists.co.uk/articles/property-price-and-rental-forecasts-2015)

How can you use this information to help maximise your investment returns?

*How are your properties performing now  
and in the future?*



# Measure how property prices are doing versus the highs and lows – not month on month/year on year

## National Picture vs East Anglia

<i>Land Registry December 2014 data</i>	07/08 High		09 Low		Dec-14	Monthly	Annual	% Change v's	Where we are vs market height	
England & Wales	£	183,622	£	152,623	£	177,766	0.6%	7.0%	-3.2%	-3%
East Anglia	£	192,536	£	157,383	£	199,055	1.5%	10.3%	3.4%	3%
Essex	£	208,451	£	172,619	£	211,906	0.5%	9.6%	1.7%	2%

What was your property worth at the market height?

What did your property price fall to in 2009?

What is it worth now?

Has your property price recovered as fast as 'the average' property in Essex?

# Work out how your property performance

[www.propertychecklists.co.uk/articles/kate-faulkner-property-calculations](http://www.propertychecklists.co.uk/articles/kate-faulkner-property-calculations)

- Download the excel spreadsheet
- Pop in what your property was bought for
- Put in what it's worth now
- Check it's *BEATING* 6% 'average' growth for Surrey

What compound rate have I achieved?

	Enter Your Values
Bought for	£120,000
Sold for	£144,937
Years	9
Compound Annual Growth Rate	2.12%

# Work out how your property performance

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- Pop in the compound annual growth you have achieved eg 8%
- How many years you want to hold the property
- The calculator will tell you what it may be worth

How much will my property be worth ?

	Enter Your Values
Property Value	£157,000
Annual % Growth Rate	2.00%
No of Years	10
Value After 10 Years	£191,382

# Work out how your property performance

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- Pop in the compound annual growth you have achieved eg 8%
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**How many years do I need to hold?**

	Enter Your Values
Current Value	£157,000
Required value	£200,000
Annual return	2.25%
Years required	10.88

# 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 if the numbers stack up
    - Self Build and Renovation Centre

# Summary

- UK Economy will take time to recover
  - Good news that UK seems to be recovering well, especially in the South
  - Worrying that wages aren't recovering as that impacts on rental income
- Demand for PRS will grow naturally
  - Expected to be the number one tenure in London 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
  - Need good independent advice that you can trust
  - Regularly review your portfolio to ensure it's meeting your needs
  - Keep up to date with the impact of BTL economics