

Buy to let economics

What *does* the future hold in Nottingham?

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Agenda

- How the economy affects your property investment
- What we've learnt about property since the credit crunch
- What's happening now in Nottingham and Nottinghamshire?
- What do you need to be aware of if investing in the property in the future?
- Where to invest in Mansfield?
- Where to invest in Nottingham?

Five economic factors which affect 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 we've learned from the recession

- Property prices go down
 - A lot!



Apartment 707, Marco Island, Huntingdon Street, Nottingham, City Of Nottingham NG1 1AS

£62,950	Flat, Leasehold	27 Jan 2010	1 bedroom
£102,000	Flat, Leasehold	03 Mar 2006	

- Over-gearing a portfolio can be dangerous
- Prices don't double every 10 years

Apartment 519, Weekday Cross Building, Halifax Place, Nottingham, City Of Nottingham NG1 1QL

£149,995	Flat, Leasehold	21 Nov 2014	2 bedrooms
£203,950	Flat, Leasehold	28 Oct 2003	

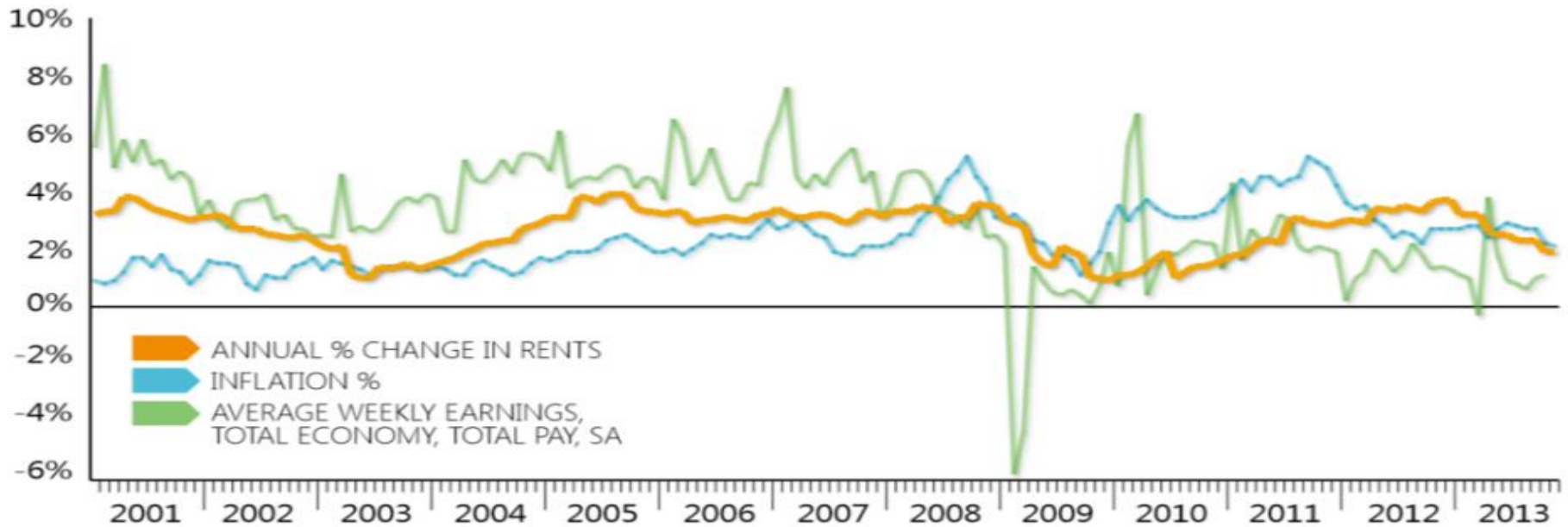
What we've learned from the recession

- Sometimes things can go in your favour
 - Interest rates fell to 0.5% and trackers/mortgage rates fell too
- Inflation
 - Leapt to 4% at one point, now down to 1.5%
- From a tenant perspective:-
 - 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 rents

FIGURE 5

Annual UK rental growth, compared to inflation and earnings



Source: Knight Frank Residential Research / Macrobond

How does this impact on your
BTL returns?

How does this affect you?

- Interest rate fall has reduced mortgage funding costs to an 'all time low'
- Inflation is approx +3% a year
 - Question whether it's makes any sense to invest with cash
- Rental growth runs 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
- Property values have fallen and are currently 'recovering'
- Stagnant wages make it hard to increase rents

Conclusion

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

What's happening to interest rates – mortgage rates?

- Follow CEBR and Capital Economics*
 - <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'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.

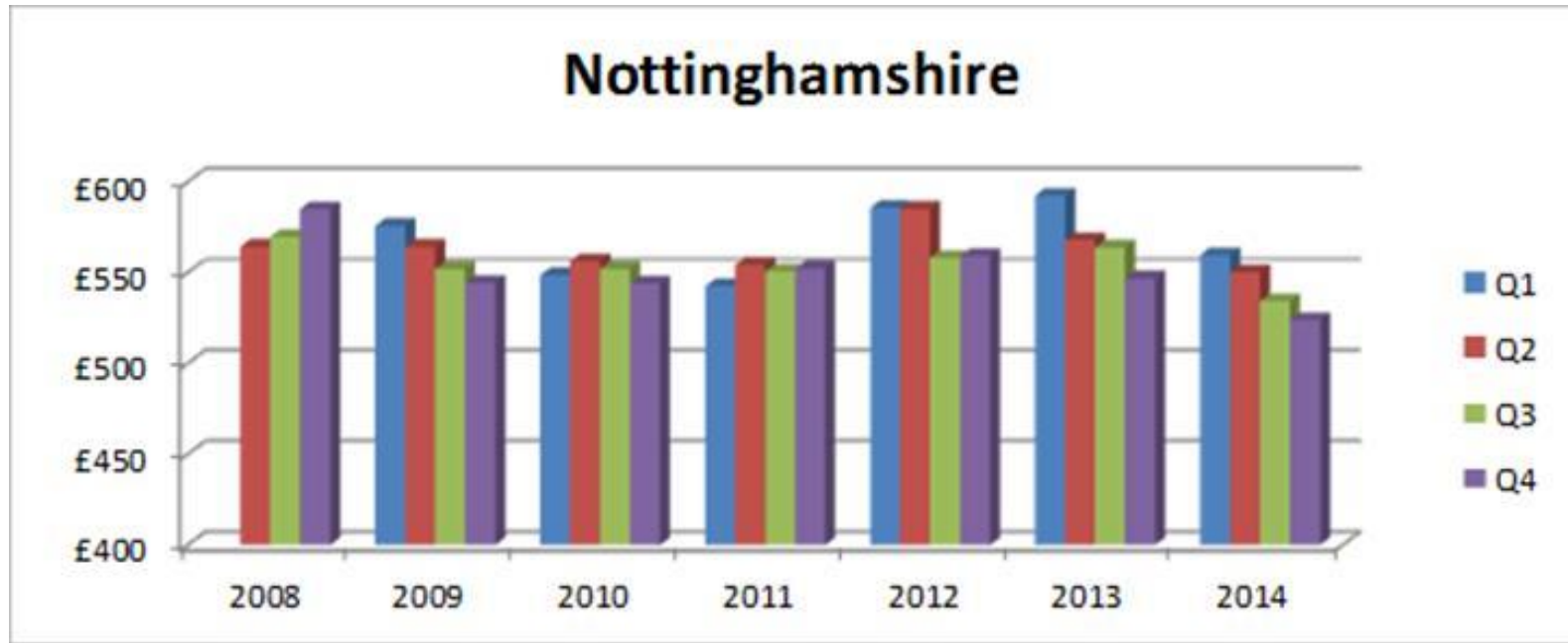
Capital Economics

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

	Latest (22 nd 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

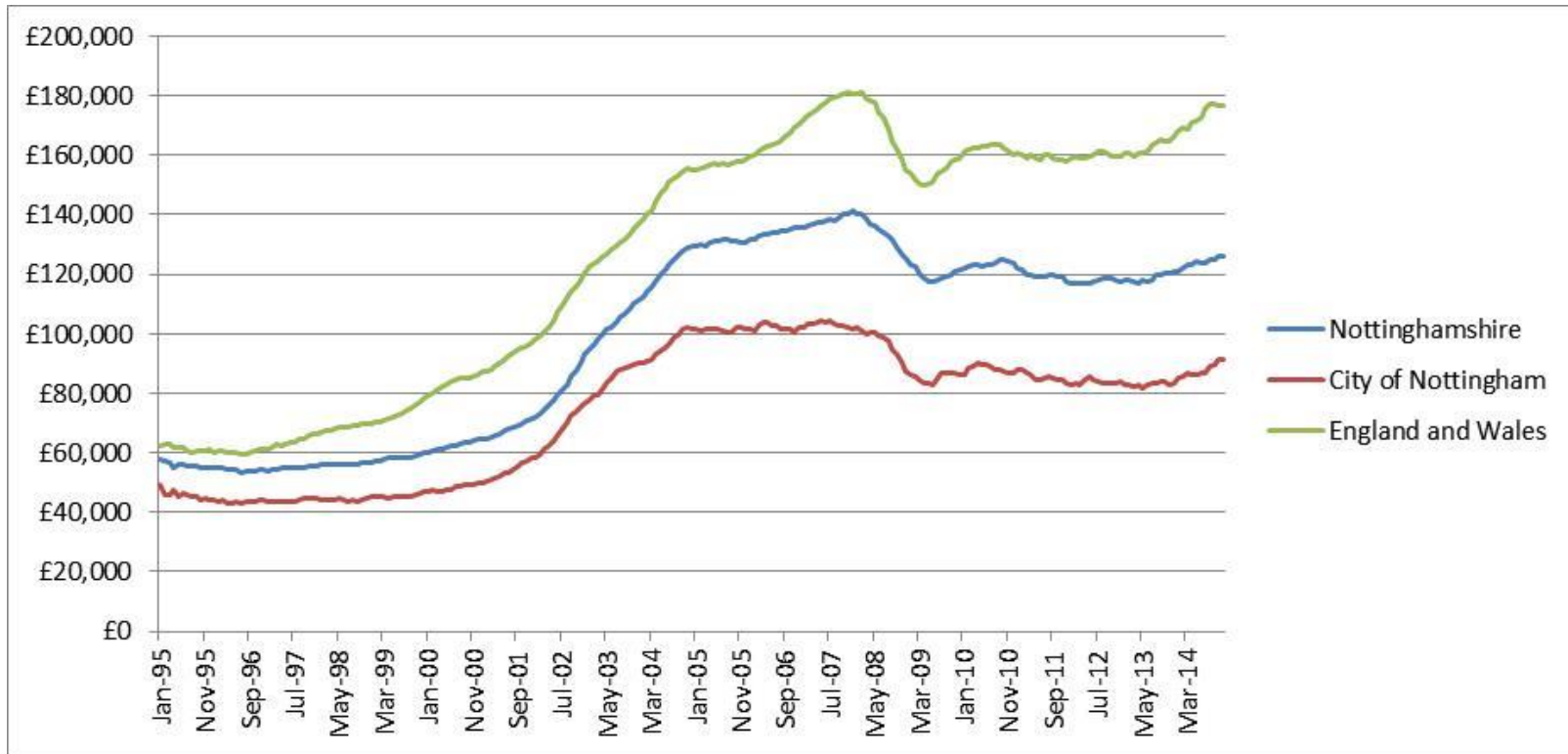
Average inflation over time is approx 3%

What's happening to rents?



Forecasts around 1.5% increase in rents in East Midlands

What's happened to prices since the credit crunch?



Nottingham City + 87%
Nottinghamshire + 118%
England & Wales + 184%

Individual property performance rules!

- Sutton-in-Ashfield; Dalestorth
Bought 1998 £55,500
Similar sold 2014 £142,500
157% capital growth; yearly growth: 6%
- Rain worth; Southwell Road East NG21
Bought 2000 £48,950
Similar sold 2014 £155,000
216% capital growth; yearly growth 8.6%
- Mansfield, Berry Hill
Heathfield Way NG18
Bought 2003 £159,995
Similar sold 2013 £178,000
11% capital growth; yearly growth: 1%



Nottingham: Bulwell and Sherwood

38 Clarges Street, Nottingham, City Of Nottingham NG6 9JF

£90,000	Terraced, Freehold	26 Sep 2014	2 bedrooms
£75,000	Semi-Detached, Freehold	14 May 2004	
£33,000	Semi-Detached, Freehold	26 May 2000	



7.43% annual growth and 200% growth

14 Bedale Road, Sherwood, Nottingham, City Of Nottingham NG5 3GH

£176,000	Semi-Detached, Freehold	31 Oct 2014	3 bedrooms
£148,500	Semi-Detached, Freehold	12 Mar 2007	
£68,500	Semi-Detached, Freehold	09 Jul 1999	



6.49% annual growth and 157% growth

88 Pavior Road, Nottingham, City Of Nottingham NG5 5UF

£67,000	Flat, Leasehold	20 Jun 2014	2 bedrooms
£119,950	Flat, Leasehold	02 Jun 2006	

54 Pavior Road, Nottingham, City Of Nottingham NG5 5UF

£77,000	Flat, Leasehold	30 Aug 2013	
£104,405	Flat, Leasehold	30 Jun 2006	

What's happening to wages? population and household formation?

Factors affecting investment	England	Mansfield	Ashfield 2011 to 2030	Nottingham to 2021
Population Growth	+18% <i>+100% for over 85s</i>	104k to 118k 6.5% increase	120k to 136k 7.2% increase	308k to 321k 10% increase Unusual as across all ages
Household Growth	+8%	4%	11%	17%
% homes in the rental market	17%	13.50%	12.50%	27%
Average Income	£25,115 (incl bonuses) +1.7%	£22,500 10% rise since 2012	£23,000 7% rise since 2010	£23,500 8% increase since 2012
Unemployment	5.80%	N/A	N/A	5.40%

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

1. Make sure you monitor how your property has performed versus local prices/rents

Measure the highs, lows and 'now'

- helps with risk/deposit levels

<i>Land Registry November 2014 data</i>	07/08 High	Date	09 Low	Date	Nov-14	Monthly Change	Annual Change	% Change v's 07/08 High
England & Wales	£ 183,622	Nov-07	£ 152,623	Apr-09	£ 176,581	-0.1%	7.1%	-3.8%
East Midlands	£ 147,541	Jul-07	£ 119,971	Mar-09	£ 131,610	0.0%	5.7%	-10.8%
Nottinghamshire	£ 142,870	Dec-07	£ 119,175	May-09	£ 126,255	0.3%	4.7%	-11.6%
City of Nottingham	£ 106,431	May-07	£ 85,514	Apr-09	£ 91,446	0.3%	10.2%	-14.1%

Property prices rise and fall, what's your risk?

Nottingham City registered a 22% fall in property prices

Nottinghamshire saw 'on average' a 17% fall in property prices

How well is the market vs your property?

<i>Land Registry November 2014 data</i>	Average Price in 2000		Annual Average Increase	Highest Yearly Average Increase Since 2000	
				Date	% Increase
England & Wales	£	79,369	5.9%	Jan-03	24.7%
East Midlands	£	61,223	5.6%	Jan-03	32.0%
Nottinghamshire	£	60,117	5.4%	Feb-03	32.2%
City of Nottingham	£	46,995	4.9%	Feb-03	33.9%

Average price increases annually are: 5-6% over the last 15 years

2014 average was 5-6% increase

Biggest annual increase of 30%+ not likely to be repeated

Forecast growth for East Midlands 2-3% over next 5 years

2. How are your properties performing from a yield perspective – what reduces your yield?

How do your properties compare from a yield perspective?

	Mansfield			Nottingham City			Nottingham Outskirts		
	Average Price	Av Rent PM	Yield	Average Price	Av Rent PM	Yield	Av Rent PM	Rent	Yield
One Bed Flat	£ 60,000	£ 380	7%	£ 70,000	500	8%	395	4,530	6%
Two Bed Flat	£ 90,000	£ 485	6%	£ 100,000	600	7%	495	5,677	6%
Two Bed House	£ 100,000	£ 500	6%	£ 110,000	550	6%	495	5,677	5%
Three Bed House	£ 120,000	£ 570	5%	£ 130,000	900	8%	695	7,971	6%
Four Bed House	£ 170,000	£ 750	5%	£ 180,000	900	6%	750	8,602	5%

Flats service charges can reduce yield by 1-2%

Securing a 10% discount of a property's value can increase yield by ½ to 1%

*3. Understand your local market economy
Work with those that really get BTL*

Local knowledge is key: Mansfield/Ashfield/Sutton

- Business parks
 - Sherwood, Millennium, Oakham, Castlewood, Lowmoor; Optima
 - Kingsmill Hospital
 - Great for rental accommodation
- Main employers:-
 - NHS, West Notts College, Linneys, Local Authorities
 - Need to be aware wages and budgets reliant on government under pressure
- Investment
 - *MARR route* £480m driven nearly 2,000 jobs along ‘Sherwood Way’
 - Up to 10,000 jobs could be created in total
 - New bus station
 - New Co-op local Skegby
 - Large Asda superstore Forest town
 - Large Tesco Extra Mansfield

What properties are in short supply?

Mansfield/Ashfield

- Short supply
 - Maisonette 1 bedroom
 - Terraced 2-3 bedroom
 - Detached 4 bedroom
- Over supplied
 - Flats (compared to current stock) and semis
- New build and refurbished
 - Flats/apartments for professionals, old and young
 - Three bed semis/terraces for single mums with kids
 - Areas like Berry Hill, Mansfield Town Centre, The Quarry

What/where to invest in Mansfield/Ashfield?

- Sutton in Ashfield

- Estates/areas/properties ripe for renovation/build
- Good access to places like Sports Direct
- New builds are very low yield: £120
- Average price: £80,000
- Average rent: £450 per month
- Estimated yield: 6.3%



What/where to invest in Mansfield/Ashfield?

- The Quarry Estate
Be very careful what you buy!~
- Good area, close to town/shops
- Quite hilly
- Average price: £150,000+
- Average rent: £950 per month
- Estimated yield: 7%+



Near Kingsmill Hospital

The Gillies



Annual growth of 5.88%

Rent for £495 = 6-7% yield

Last sale price: £97,500

Annual growth of < 1%

Rent for £495 = 6-7% yield

Last sale price: £82,000



Dalestorth Gardens, Skegby

- Sign of a good road, hardly any sales since 2000
- Seen good capital growth overtime +5.7%

*“It’s spotting
‘little niches’ that
makes investment
successful”*



Local knowledge is key: Nottingham and Bulwell

- Top 10 city for growth
- Key employment areas
 - City and University Hospital; Creative Quarter; Biocity
- Main employers:-
 - NHS, Experian, EON, Severn Trent, Universities
 - Need to be aware wages and budgets reliant on government under pressure
- Investment
 - Over £51 million business finance available
 - 60,000 graduates each year
 - Better investment for Nottingham as a city with train station, tram and A453
 - Bramcote to Clifton tramlink – how to trams affect prices?
 - Areas such as BioCity/east of Nottingham around the BBC
 - New health centres in Arnold and Bulwell, Academies, Costa, Lidl/Aldi

What properties are in short supply?

Nottingham and Bulwell

- Short supply
 - 1-2 bed flats for £500 to £600 per month in Nottingham
 - 2-3 bed semis for £500 per month Nottingham West
- Over supplied
 - 4-5 bed houses
- Popular places
 - NG6, Bulwell for single mums
 - NG5, Arnold for professionals/young families
 - NG3, Sneinton/St Anns for Polish families/workers

What and where to invest in Nottingham and Bulwell

- Grindon Crescent

- Average price: £60k
- Average rent: £450 per month
- Estimated yield: 8.5%



- Henrietta/Gual/Ockerby/Clargies Street

- Average price: £70-80k
- Average rent: £475 per month
- Estimated yield: 7%



Deansgate and Top Valley area

Deansgate estate

- Be careful which road!
- Some bargains to be had
- Good for NHS and DSS
- 4 bed property
- Average price: £130-140k
- Average rent: £695 per month
- Example yield: 6%

Top Valley

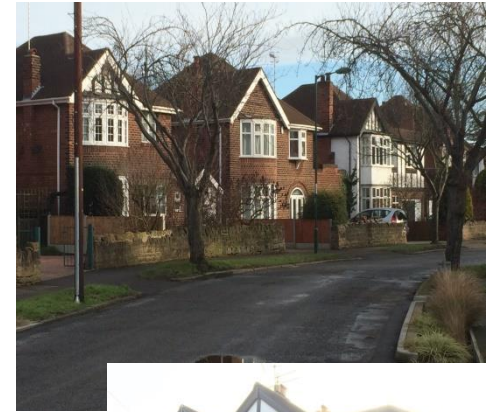
- One/two roads worthwhile
- Near to Tesco
- Popularity increased
- Average price: £130k, need a discount
- Average rent: £575 per month
- Example yield: 5%+



What and where to invest in Nottingham and Bulwell

- **Bedale, Emmersdale and Risdale Road, Sherwood**

- Property prices: £180k to £200k
 - Above average annual growth rates
- Average rent: £850 per month
- Example yield for home: 5%
- Yield for professional room rents: £3-400 per month, per room



- **About the area:**

- Very 'west bridgford'!
- Quiet
- Lots of cul-de-sacs
- Great schools
- Easy access to Nottingham



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, especially in Nottingham

Summary

- UK Economy will take time to recover
 - Good news that UK seems to be recovering well, Nottingham is a ‘core city’
 - 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 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