

Buy to let economics

What *does* the future hold in Basingstoke?

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Agenda

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

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

The recession reminded us of the risks

- Property prices go down
 - A lot!



340, Crown Heights, Alencon Link, Basingstoke, Hampshire RG21 7TS

£152,000	Flat, Leasehold	15 Jan 2015
£145,000	Flat, Leasehold	21 May 2014
£145,000	Flat, Leasehold	22 Feb 2008
£190,525	Flat, Leasehold	05 Mar 2004

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

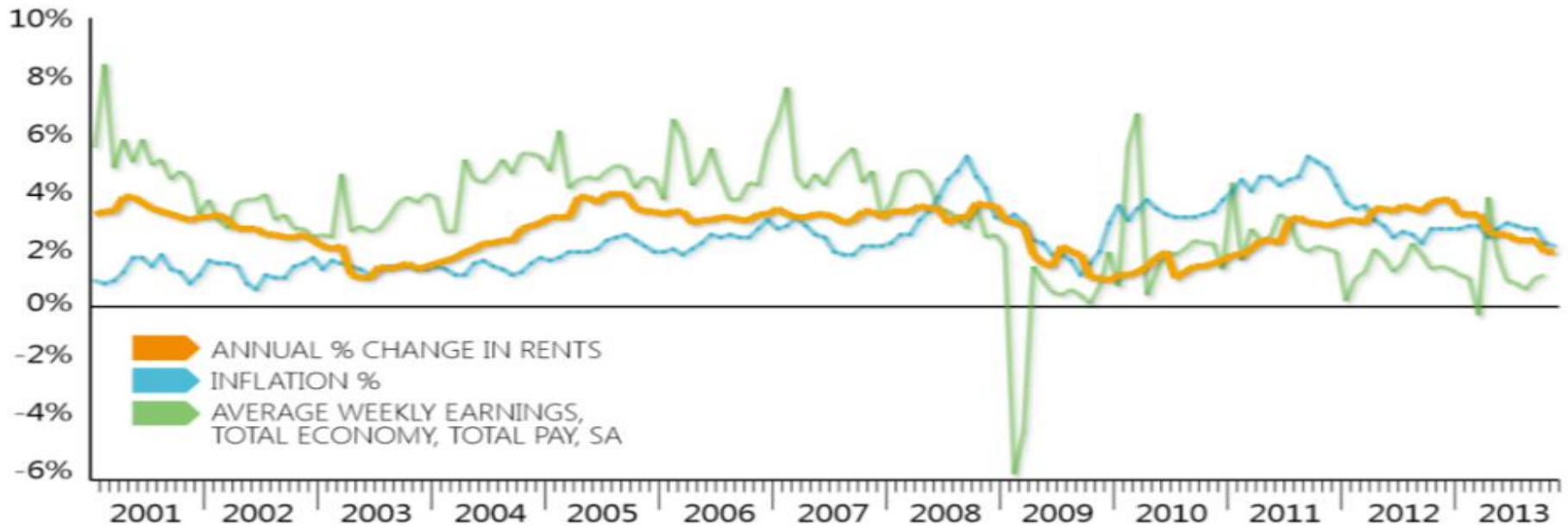
Flat 2, Greenbanks, 16 Cliddesden Road, Basingstoke, Hampshire RG21 3DU

£81,995	Flat, Leasehold	03 Feb 2015
£85,000	Flat, Leasehold	24 Sep 2010
£99,950	Flat, Leasehold	06 Dec 2004

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

- Interest rates can make or break investments
 - We were 'lucky' rates fell to 0.5%
- Inflation
 - Leapt to 4% at one point, now down to 0%
- Wages
 - Stagnation is bad news for rental income

Politicians and local authorities can affect BTL

- Conservatives
 - Happy with the status quo, but restricting lending
 - Backing building institutional investment
 - *Banning subletting clauses? Anti housing benefit?*
- Green Party
 - Want to take away tax deductible element of mortgage interest
- Labour
 - Rent controls, longer term tenancy guarantees
 - Licencing
 - Banning tenancy fees
- Lib Dems
 - 35% capital gains tax, reduce the allowance to £2,500
- LAs
 - Licencing, bedsits = new home = council tax

What's happening in politics and the 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

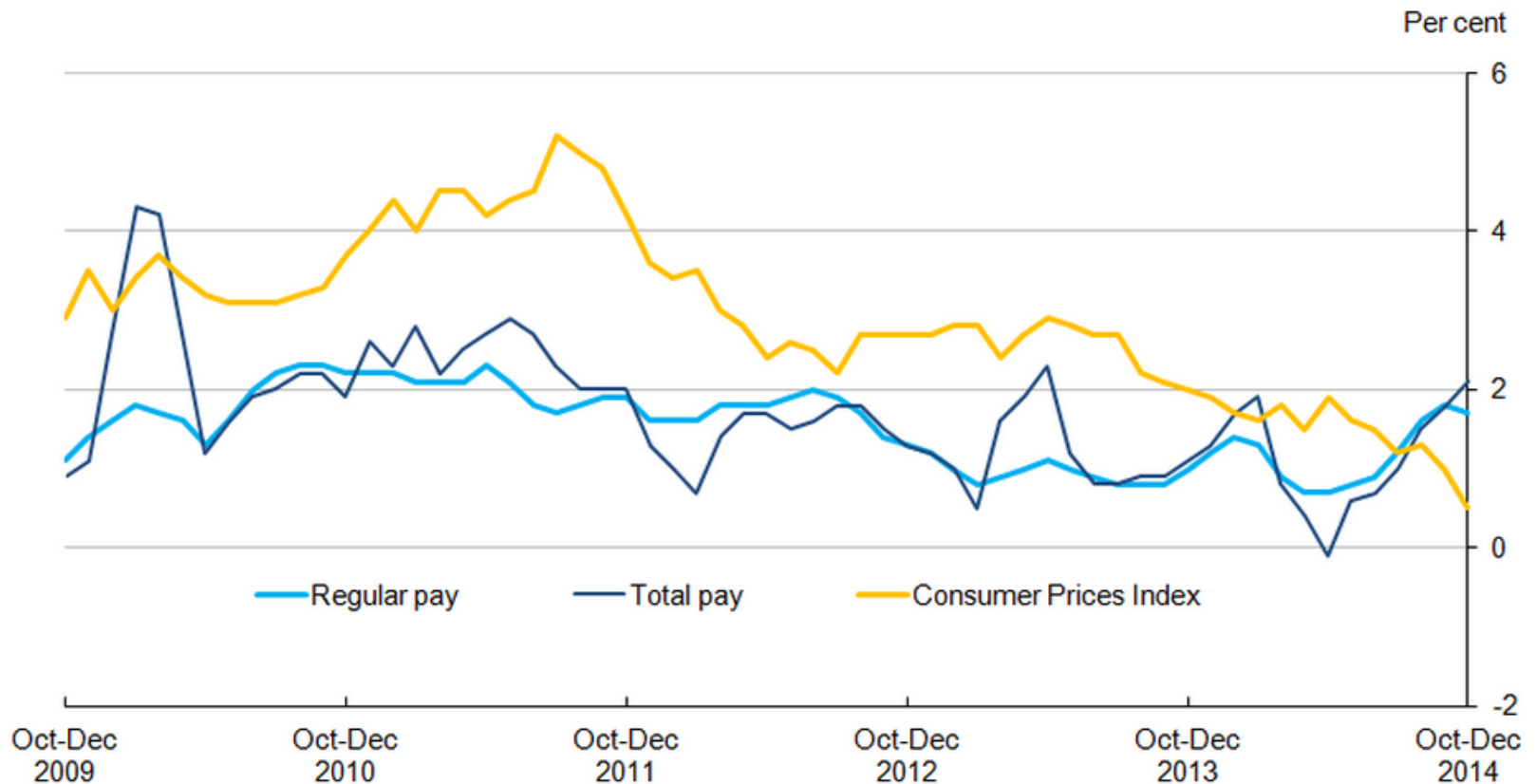
Inflation and world trade are year average, market forecasts are end period

	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 wages?

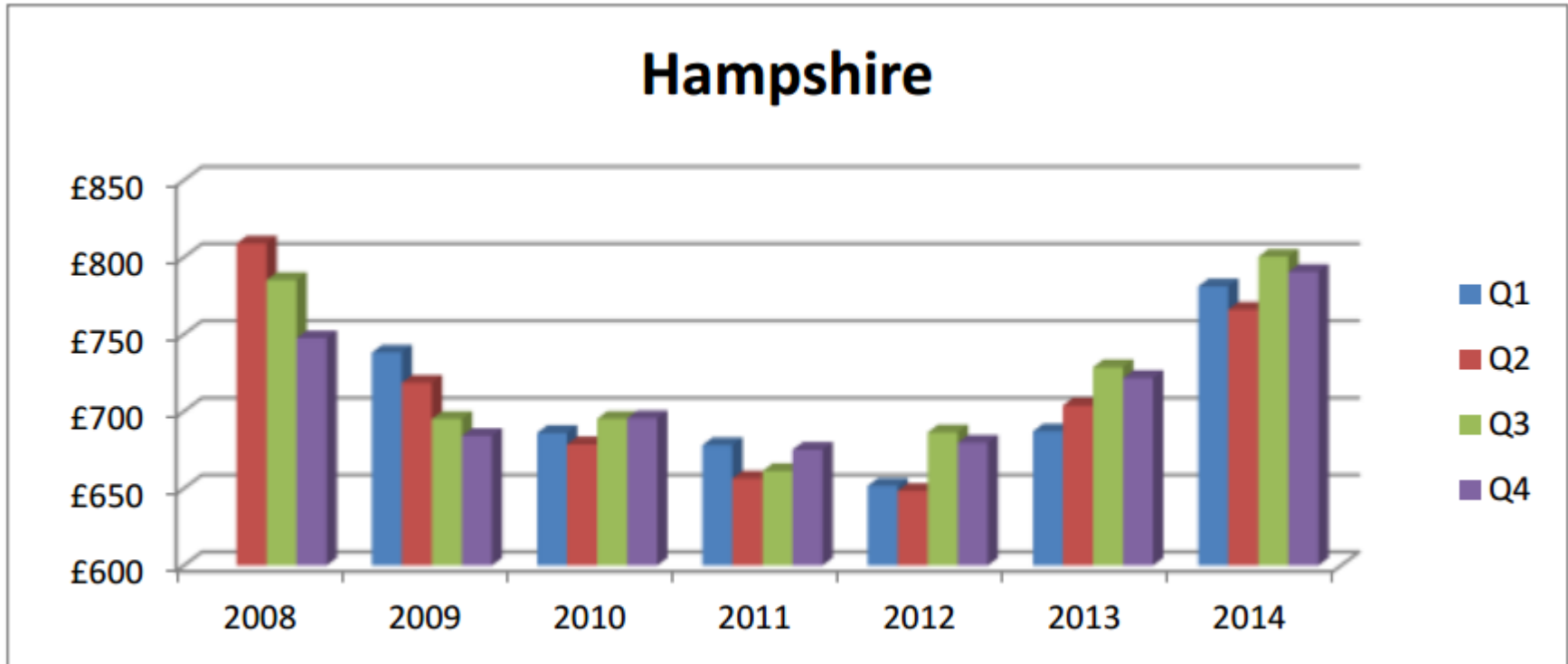
Chart 6.1: Average earnings and consumer prices annual growth rates



Source: Office for National Statistics

How is this affecting property prices and rents locally?

What's happening to rents?

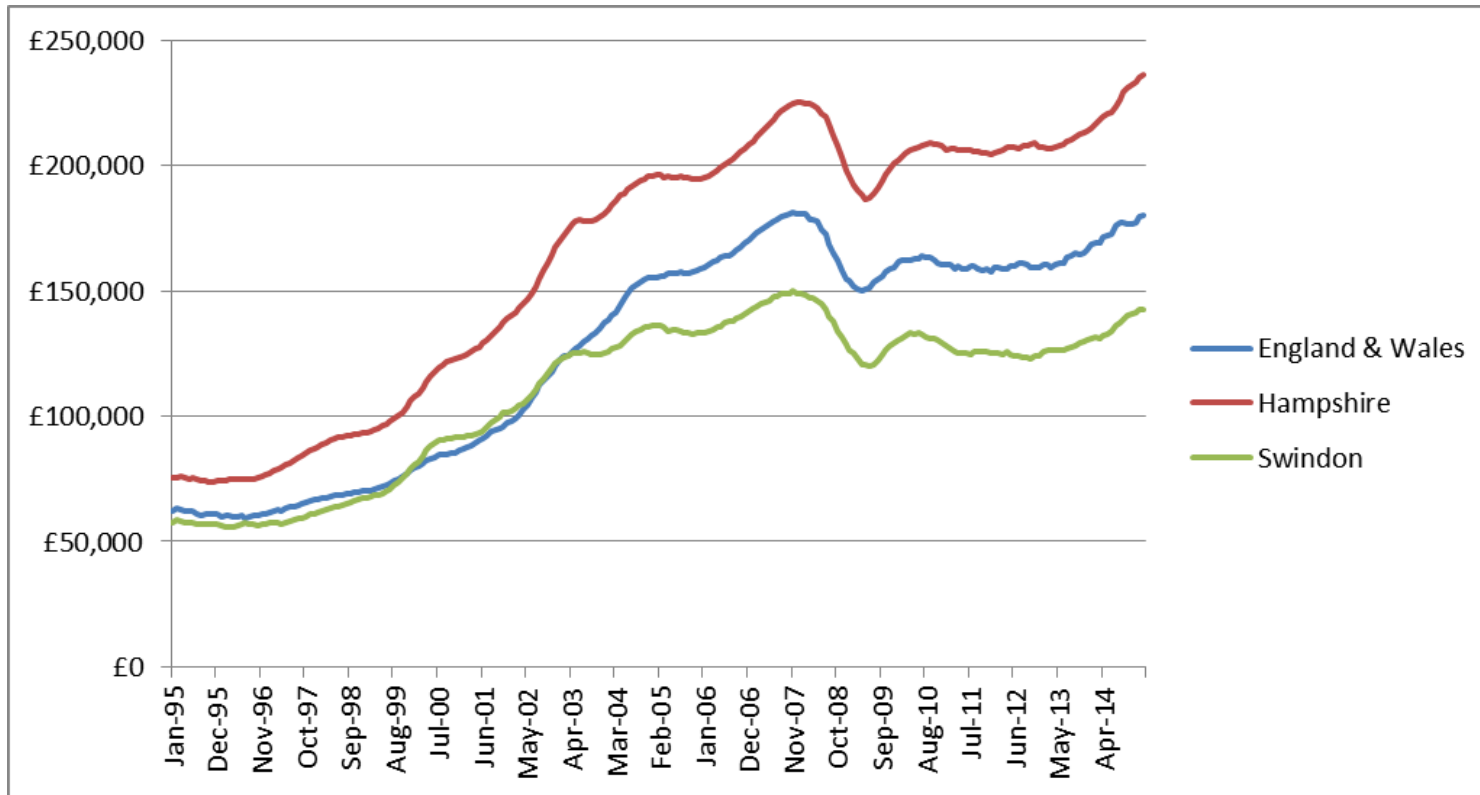


Popley: 3xbed ex-authority + 7.5%

Crown Heights: 2xbed flat +3-5%

Chineham: 2-3x large bed +5-7%

What's happened to prices since the credit crunch?



Hampshire +212%
England & Wales +190%
Swindon +148%

On average, long term:-

Property prices have risen 5% pa

Rental income has risen 2% pa

Individual property performance rules!

48 Warblington Close, Tadley, Hampshire RG26 3YW

£140,000	Terraced, Freehold	12 Jan 2015	1 bedroom
£140,000	Terraced, Freehold	17 Jul 2007	
£122,000	Terraced, Freehold	30 Jun 2004	
£85,500	Terraced, Freehold	10 May 2002	
£74,000	Terraced, Freehold	23 Nov 2000	
£49,500	Terraced, Freehold	28 Jan 1999	



+180% capital growth vs Hants 120%; Yearly growth: 7.6%

35 Winchester Road, Basingstoke, Hampshire RG21 8UL

£330,000	Semi-Detached, Freehold	20 Jun 2014	3 bedrooms
£290,000	Semi-Detached, Freehold	03 Aug 2007	
£100,000	Semi-Detached, Freehold	28 Jan 2000	



+230% capital growth vs Hants 120%; Yearly growth: 8%

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 February 2015 data</i>	07/08 High	Date	09 Low	Date	Fall in prices
England & Wales	£ 183,622	Nov-07	£ 152,623	Apr-09	-17%
South East	£ 227,106	Jan-08	£ 185,437	Mar-09	-18%
Hampshire	£225,127	Jan-08	£186,724	May-09	-17%

<i>Land Registry February 2015 data</i>	Feb-15	Monthly Change	Annual Change	% Change v's 07/08 High
England & Wales	£ 180,252	0.5%	6.5%	-1.8%
South East	£ 242,469	0.3%	9.0%	6.8%
Hampshire	£236,093	0.6%	9.1%	4.9%

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

Hampshire registered a 17% fall in property prices

Hampshire prices plateaued fast

How well is the market vs your property?

<i>Land Registry February 2015 data</i>	Average Price in 2000		Annual Average Increase	Highest Yearly Average Increase Since 2000	
				Date	% Increase
England & Wales	£	79,369	6.0%	Jan-03	24.7%
South East	£	107,783	6.0%	Feb-03	23.1%
Hampshire	£	107,529	5.4%	Apr-03	22.0%

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

Biggest annual increase in Hampshire of 22%+ not likely to be repeated

Forecast growth for Hampshire 3-5% p.a 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?

Flat	RG21		RG22		RG23/24		RG25/26	
	£	Yield	£	Yield	£	Yield	£	Yield
1 Bed	£ 150,000	6%	£ 125,000	6.0%	£125k-£135k	6.0%	£120k-£170k	5.0%
2 bed	£ 185,000	6%	£ 160,000	6.0%	£ 180,000	5.0%	£170k-£190k	5.0%
House								
1 bed	£ 160,000	5%	£ 160,000	5.0%	£135k-£160k	4.70%	£165k-£180k	4.0%
2 bed	£ 200,000	5%	£ 230,000	5.0%	£235k-£250k	4.0%	£250k-£310k	3.0%
3 bed+	£260-400k	4%	£280k-£365k	4.0%	£330k-400k	4.0%	£300k-£600k	4.0%

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 experts who understand the connection

How does your area compare to England?

Factors affecting investment	England	Basingstoke and Deane
Population Growth	+18% <i>+100% for over 85s</i>	+18% <i>+21.6% for over 65s</i>
Household Growth	+8%	+19%
% homes in the rental market	17%	12%
Average Income	£27,000	£30,600
Unemployment	5.70%	3.80%

Strong Economic Growth Planned

- Basingstoke has been ranked as the number one place in the UK for the digital economy (NIESR),
- Building an additional 13,400 homes.
- Basingstoke is 45 minutes from central London and Heathrow Airport
- By 2033 there will be 4,000 new jobs from the regeneration of Basing View
 - Significant new investment with a £50 million network rail regional campus
 - Employment is very balanced from science & technology to corporate management
- An additional £233 million GVA per annum as a result of economic growth
- Joint John Lewis at home and Waitrose scheme planned
- Viabes Business located between Junction 6 and 7 of the M3.
- Chineham Business Park
 - 90 acre business park on the A33 in Basingstoke.

Key employers

The logo for Shire, featuring a stylized blue swoosh above the word "Shire" in a bold, blue, sans-serif font.

*Basingstoke
and Deane*



Buy to let success requires buying property
in short supply, now and in the future

Don't just buy: compare!

70 Rockbourne Road, Sherfield On Loddon, Hook, Hampshire RG27 0SR

£439,950	Terraced, Freehold	02 Oct 2014	5 bedrooms
£399,950	Terraced, Freehold	26 Oct 2007	



Annual growth in price: 1.2% £1,750 pm 4% yield

28 Pakenham Road, Basingstoke, Hampshire RG21 8XT

£205,000	Terraced, Freehold	29 Jan 2015	3 bedrooms
£155,000	Terraced, Freehold	23 Oct 2007	
£140,000	Terraced, Freehold	14 Oct 2005	



Annual growth in price: 3.56% £875 pm 5% yield

Where to invest for income

- Winklebury

14 Arundel Gardens, Basingstoke, Hampshire RG23 8HQ

£183,000	Terraced, Freehold	28 Nov 2014	2 bedrooms
£145,000	Terraced, Freehold	22 May 2009	
£139,950	Terraced, Freehold	15 Jul 2004	



Average capital growth: 2.7%

Average yield: £795 / 5%

305 Kenilworth Road, Winklebury, Basingstoke, Hampshire RG23 8JW

£180,000	Terraced, Freehold	04 Aug 2014	3 bedrooms
£141,000	Terraced, Freehold	26 Aug 2005	
£138,000	Terraced, Freehold	16 Apr 2004	



Average capital growth: 2.7%

Average yield: £875 / 6%

Where to invest for capital growth

- Chineham? – be careful

74 Great Oaks Chase, Chineham, Basingstoke, Hampshire RG24 8WW

£207,000	Terraced, Freehold	08 Jan 2015	2 bedrooms
£180,000	Terraced, Freehold	25 Oct 2013	
£152,500	Terraced, Freehold	08 Dec 2011	
£159,950	Terraced, Freehold	07 Aug 2006	
£98,500	Terraced, Freehold	20 Sep 2000	



Average capital growth 5%

Average yield: £850 5% yield

- Limes Park / Sherfield
– Pick property carefully

Average capital growth 4%



How you get a bit of both

- Kempshott
 - Great for bungalows with land!
 - Sold for just over £300,000
 - Huge potential profit

- Also potentially very good for high quality HMOs
 - Rent to professionals
 - Must be a VERY high standard



Be aware 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 or custom build

Summary

- UK Economy will take time to recover
 - Good news that UK seems to be recovering well
 - Rents started to recover as soon as wage growth was higher than inflation
- Demand for PRS will grow naturally
- 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