

# Buy to let economics

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

Kate Faulkner

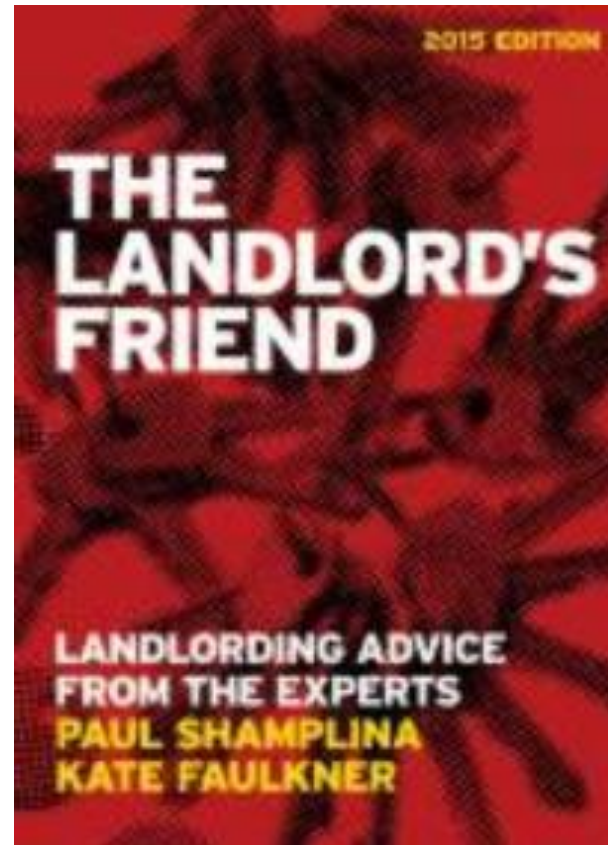
BSc (Econ) MBA CIM DipM

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

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

# CHANCE TO WIN A FREE BOOK!

- Worth £10
- Easy to read
- Two experts
  - Kate Faulkner
    - Investing in BTL
  - Paul Shamplina
    - Managing BTL
    - Dealing with evictions



WHAT DO YOU HAVE TO DO?

– Fill in your form



# Sign up for free copy of slides

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

# Agenda

- How the economy affects your property investment
- What we've learnt about property since the credit crunch
- What's been happening in the Southampton market
- How to analyse your current and future investment

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

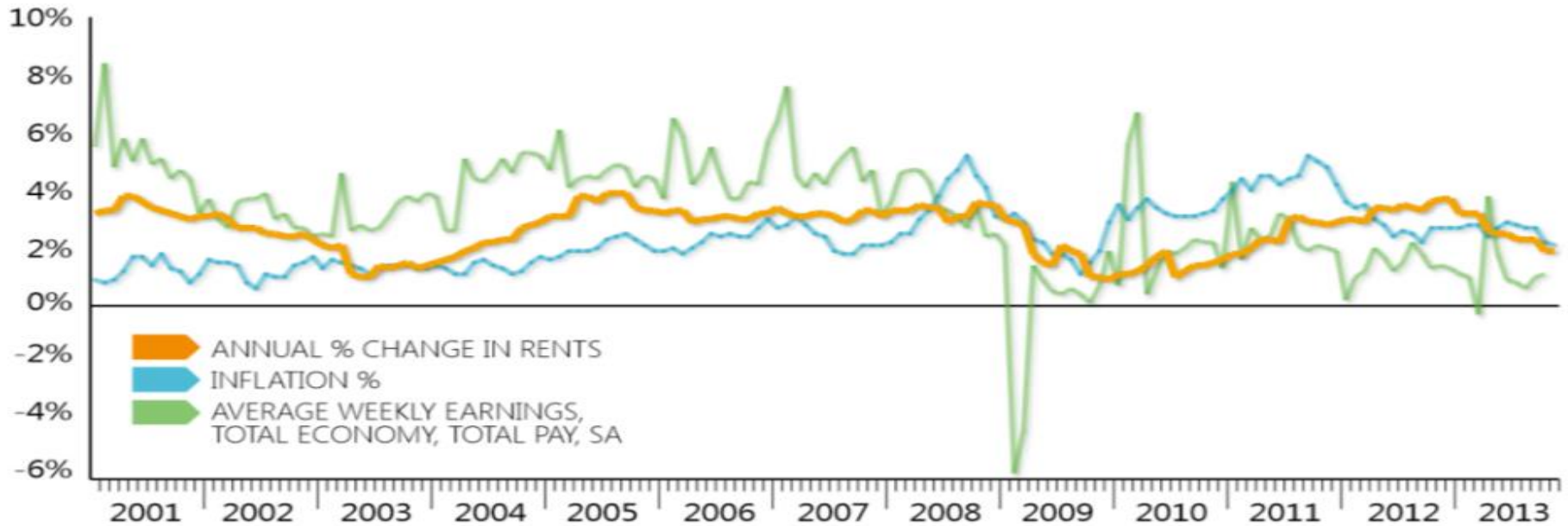
# What we've learned from the recession

- 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 0%
- Rents move in line with wages – not inflation

# Inflation, wages and rents

FIGURE 5

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

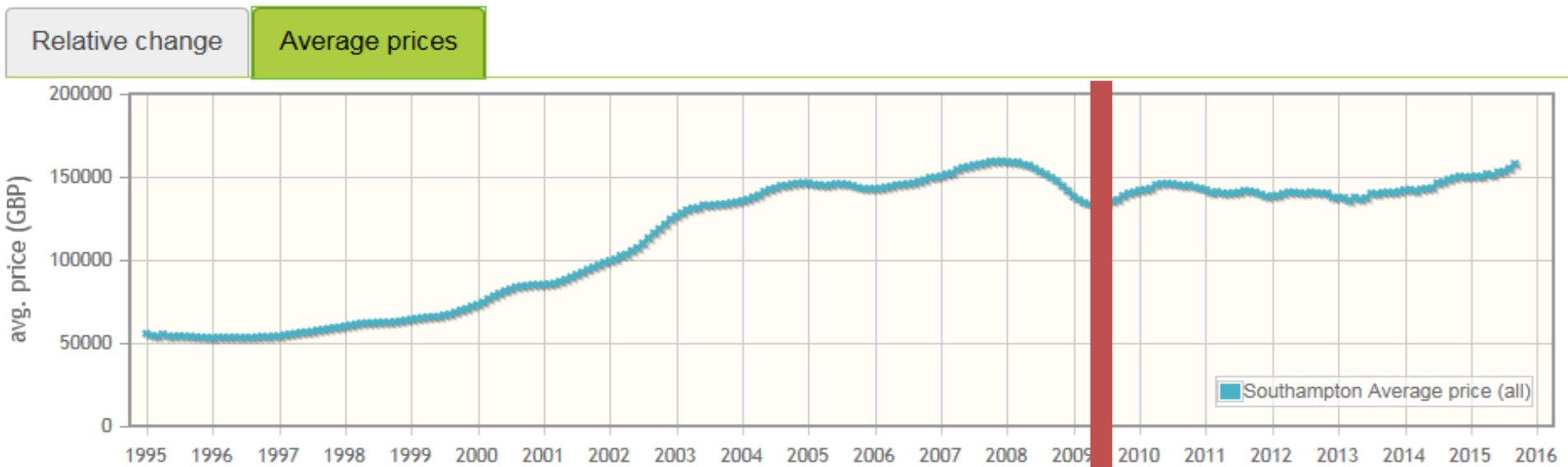


Source: Knight Frank Residential Research / Macrobond



# What we've learned from the recession

- Property prices go down:
- 17.5% fall during recession vs 17% nationally



# Which property you buy matters

## Flat 2, 201 Woodmill Lane, Southampton, Southampton SO18 2HU

<b>£178,000</b>	Flat, Leasehold	10 Aug 2015
<b>£162,500</b>	Flat, Leasehold	14 Oct 2009
<b>£184,950</b>	Flat, Leasehold	26 Aug 2004

## 184 Blackthorn Road, Southampton, Southampton SO19 7LQ

<b>£209,950</b>	Semi-Detached, Freehold	29 Jun 2015	4 bedrooms
<b>£157,000</b>	Semi-Detached, Freehold	22 Aug 2011	
<b>£143,000</b>	Semi-Detached, Freehold	08 Oct 2004	
<b>£59,950</b>	Semi-Detached, Freehold	22 Jan 1999	



What will happen in the future  
economically?

# 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.

UK interest rate rise unlikely until May 2016, CEBR forecasts

*“By the end of 2016 they will be 1pc;  
1.5% by end of 2017 “*

*Capital Economics*

\*Rated in the Sunday Times forecasting Table

# Latest from Mark Carney

- What happens in US matters

Janet Yellen reiterates expectations of 2015 rate rise - FT.com

[www.ft.com](http://www.ft.com) › GlobalEconomy ▼

6 days ago - The recent shortfall in US inflation is largely a result of fleeting factors such as falling energy and import prices, the Federal Reserve chair said, ...

## Carney indicates interest rates may rise at 'turn of year'

🕒 16 July 2015 | Business

In a speech he said that he expected rates to rise over the next three years, reaching "about half as high as historical averages", or about 2%.

# What's happening to your *REAL* earnings

# 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%  
currently 0%**

# Inflation reduces your 'real earnings'

- Rent
  - £800 p mth in 2009
  - Average inflation since then is 4% p year
  - 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, you can make more money



Is Southampton  
a good place to invest?

# What's happened to property prices?

## National Picture vs Southampton

*Land Registry September 2015 data*

	07/08 High	Sep-15	Monthly Change	Annual Change	% Change 07/08 High	Annual Average Increase	Highest Yearly Average Increase	
							Date	% Increase
England & Wales	£ 183,622	£ 186,553	1.0%	5.3%	1.6%	6.3%	Jan-03	24.7%
South East	£ 227,106	£ 256,737	0.7%	8.5%	13.0%	6.4%	Feb-03	23.1%
Southampton	£ 159,611	£ 157,914	1.8%	6.4%	-1.1%	5.7%	Feb-03	27.5%

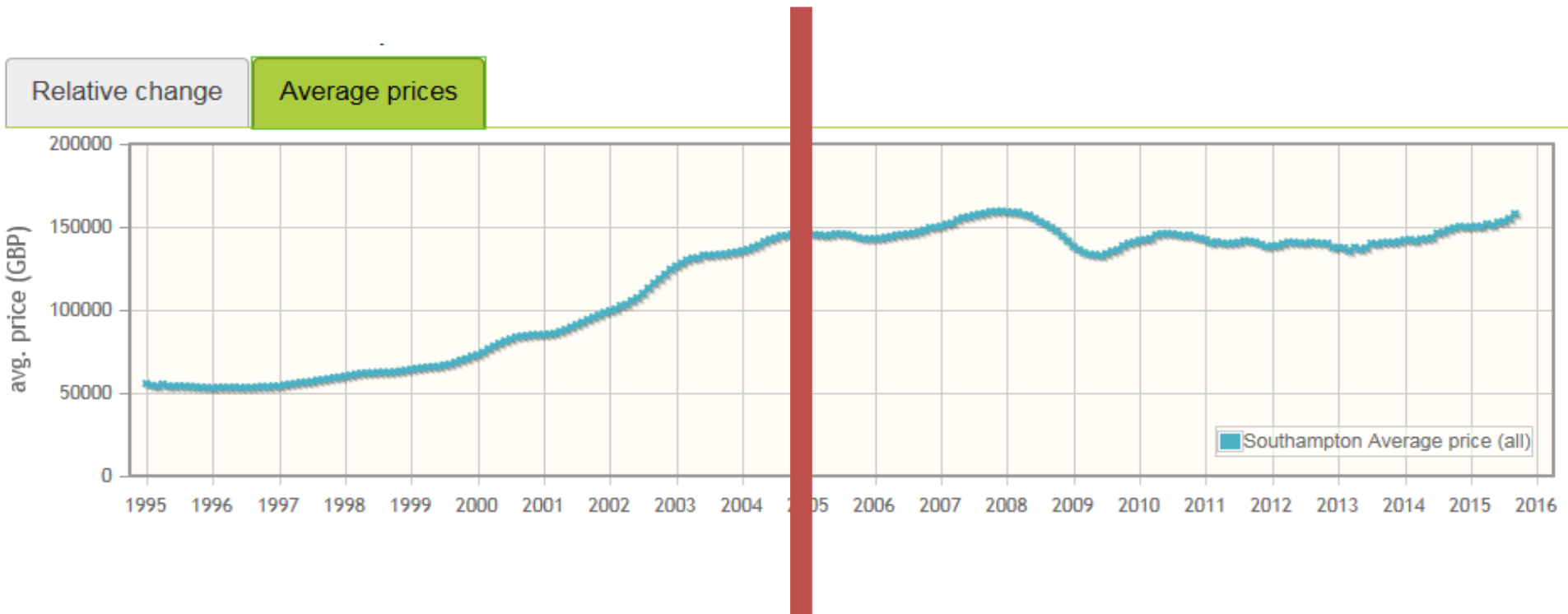
Average price increases annually are: 6% over the last 15 years

Biggest annual increase of 27.5%+

BUT not likely to repeated

# What we've learned from the recession

- Property prices grow at annual rate since 2005:
- Average price in 2005: £144,760 (same as June 2014)
- Average price in 2015: £157,914



# Be wary of flats if you can buy houses

- Need a solicitor/surveyor from ALEP
  - Lease determines your profitability
- Ideally look for share of freehold
- Only buy if there is a 'sinking fund'
- Still have a survey done
- Check as far back on service charges



# But they can be an opportunity

- Buy with cash, extend the lease



# Where we are now

Bit of an upswing in Southampton,  
need deals to make money

# Latest LR figures suggest an increase



Date	Index	Yearly change	Average price (all)		
September 2014	266.56	5.6	£148,448		
August 2014	263.78	5.1	£146,902		
July 2014	262.66	4.4	£146,275		
June 2014	257.6	4.4	£143,459		
May 2014	256.71	4.8	£142,965		
April 2014	256.28				
March 2014	253.92				
February 2014	255.81				
January 2014	255.27				
December 2013	253.64				
November 2013	252.44				
		Date	Index	Yearly change	Average price (all)
		September 2015	283.56	6.4	£157,914
		August 2015	278.42	5.6	£155,055
		July 2015	275.33	4.8	£153,332
		June 2015	274.56	6.6	£152,904
		May 2015	271.0	5.6	£150,920
		April 2015	272.68	6.4	£151,857
		March 2015	269.64	6.2	£150,165
		February 2015	270.17	5.6	£150,458
		January 2015	269.6	5.6	£150,144
		December 2014	269.29	6.2	£149,971
		November 2014	270.02	7.0	£150,374
		October 2014	268.39	6.1	£149,468

What are the forecasts?



# Savills property price forecasts

## MAINSTREAM MARKETS Five-year forecast values

	2015	2016	2017	2018	2019	5-year
UK	 2.0%	 5.0%	 5.0%	 3.0%	 3.0%	19.3%
London	 0.0%	 3.0%	 3.0%	 2.0%	 2.0%	10.4%
South East	 3.0%	 6.5%	 6.5%	 4.0%	 4.0%	26.4%
South West	 2.5%	 5.0%	 5.0%	 3.5%	 3.5%	21.1%
East of England	 3.0%	 6.0%	 6.0%	 4.0%	 4.0%	25.2%

# Savills rental forecasts

## MAINSTREAM RENTAL MARKETS Five-year forecast values

	2015	2016	2017	2018	2019	5-year
UK	 3.5%	 3.5%	 4.0%	 4.0%	 4.0%	20.5%
London	 5.0%	 5.0%	 5.5%	 5.5%	 5.5%	29.5%
UK excluding London	 2.0%	 2.5%	 3.0%	 3.0%	 3.5%	14.8%

Reliant on inflation, normally 3% per year

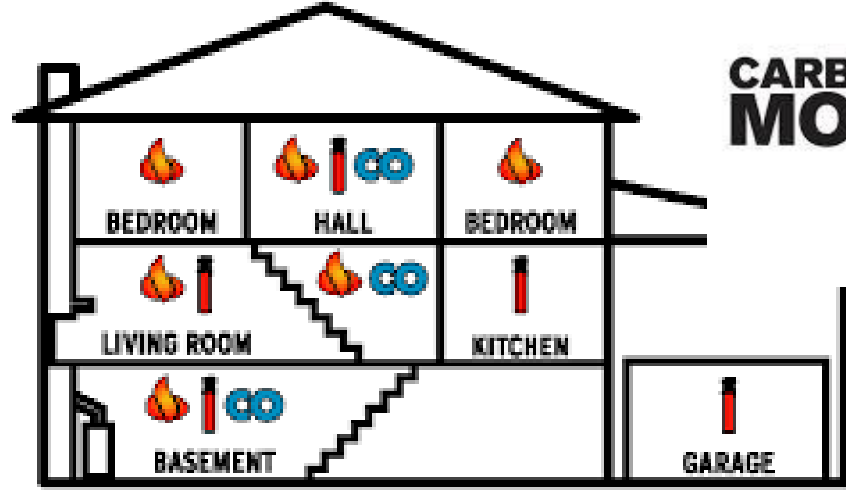
Analysis, deals, market forecasts are OK

BUT

keep up to date with politics, legals and tax!

# Please get legal and tax advice TODAY

## Recommended Locations



**CARBON MONOXIDE**  
~~**BE ALARMED!**~~

- Smoke Alarm
- Fire Extinguisher
- Carbon Monoxide Alarm



**How to rent**  
 ✓ The checklist for renting in England

This information is frequently updated. Search on GOV.UK for [How to rent](#)

June 2014

Energy Efficiency Rating		Current	Potential
Very energy efficient - lower running costs			
92-100	A		
81-91	B		
69-80	C		70
55-68	D		
39-54	E	52	
21-38	F		
1-20	G		
Not energy efficient - higher running costs			
UK 2005		Directive 2002/91/EC	



But what about *YOU* and *YOUR portfolio*?

# A flat in Reading...



## 1 Langdale Gardens, Earley, Reading, Wokingham RG6 5TU

£157,000	Flat, Leasehold	23 Apr 2014	2 bedrooms
£134,950	Flat, Leasehold	08 Jul 2004	

# Work out how your property performance

What compound rate have I achieved?		Enter Your Values
	Bought for	£120,000
	Sold for	£157,000
	Years	10
	Compound Annual Growth Rate	2.72%

[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* 5.4% 'average' growth for Reading

# Reading property price growth

Date	Yearly change	Average price (all)	
Jul-14	9.8	£	217,959
Jun-14	8.1	£	214,644
May-14	5.7	£	211,014
Apr-14	6.9	£	211,138
Mar-14	6.1	£	208,981
Feb-14	5.8	£	206,317
Jan-14	5.9	£	205,785

Date	Yearly change	Average price (all)	
Aug-15	14.6	£	254,932
Jul-15	14.2	£	248,836
Jun-15	14.8	£	246,306
May-15	13.6	£	239,697
Apr-15	12.7	£	237,866
Mar-15	13.3	£	236,824
Feb-15	13.9	£	235,047
Jan-15	13	£	232,462
Dec-14	11.8	£	227,853
Nov-14	12	£	226,893
Oct-14	12.1	£	225,520
Sep-14	12.9	£	224,274
Aug-14	12.3	£	222,412



# Work out how your property performance

How many years do I need to hold?			Enter Your Values
		Current Value	£155,000
		Required value	£175,000
		Annual return	12.00%
		Years required	1.07

- Pop in the compound annual growth you predict eg 12%
- How many years you want to hold the property
- The calculator will tell you what it may be worth

Important to be up to date with market and track your property performance vs other financial investments

# Summary

- UK Economy will take time to recover
  - Good news that UK seems to be recovering well but storms ahead?
- Demand for PRS will grow naturally
  - Will Manchester match population growth with housing supply
- 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