st david GROUP

Views from the rooftop

Property investment
in the United Kingdom

March 2020

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Ignore the distractions and focus on the opportunities

It is sometimes difficult to focus on investment decisions when real life issues distract us. Political unrest or uncertainty, demonstrations and coronavirus are recent examples.

The current crisis is clearly very serious, but the older you get the more you realise that there are always issues and distractions of some description.

Most of them have no effect on the available investment opportunities and the profit that can be derived from them.

If you want to take advantage of these, you have to ignore the distractions and not be 'fearful'.

As Warren Buffett said "Be fearful when others are greedy and greedy when others are fearful."

It isn't easy, but focusing now on the right opportunities is the profitable approach in these troubled times.

Re-mortgaging can be a profitable strategy

Investment 'gurus' advocate making an asset 'sweat', in other words, making it produce the maximum return possible.

Property is a great asset class, but many properties are not optimally geared/ mortgaged to produce the maximum net rental return for their owners. They are simply not 'sweating'.

This is usually as a result of the original mortgage having been paid off and the property being treated as a low risk investment.

Yes, it is low risk in one respect, but you can still enjoy a low risk investment and get a much better income stream by mortgaging it correctly.

As our long standing clients will know, the Global Financial Crisis of 2008/9 taught us all about the perils of borrowing money and has made us very risk adverse for ourselves and our clients.

Nevertheless, a conservative level of gearing which can easily be serviced from the rental income can be a safe and profitable strategy.

A typical example is a London rental property with a low or non existent mortgage. The rental income should be secure (although relatively low), and it could be re-mortgaged and the funds invested in another property.

Whilst the capital gain from two properties is an obvious benefit, **the real benefit is the considerably enhanced overall net rental income.**

Importantly, the property you invest the funds in must be in a sector with an attractive, ongoing rental demand to ensure you are able to service the debt component.

The affordable co-living/HMO sector is one such sector - its strong rental demand is not going to disappear in the foreseeable future, irrespective of issues such as Brexit or anything else. The ongoing and intractable housing shortage problem will see to that.

The good news is that this strategy, if implemented correctly, can produce a substantially increased income stream with minimum risk.

If you want to make your existing assets 'sweat' or build a property portfolio through astute gearing with a relatively low initial investment you may find the article below interesting.

Tony Davies
Managing Director

Some thoughts...

In this edition

The Budget

11th March

Find out what it means for property investors

See below 'Hot off the press 2'

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Remortgaging an existing property can be a profitable strategy

As we advised on the front page, remortgaging an existing property can be a low risk and profitable strategy for many investors.

The figures herein are an example of this.

Existing property	
Value of existing property	£500,000
Current mortgage (a)	£100,000
Net rental yield at 3%	£15,000
Interest cost	£3,500
Net income after interest	**£11,500**
Remortgaged sum (b)	£80,000
Interest	£2,800
Net income after interest on existing loan and remortgage	**£8,700**
Total loans (a+b)	£180,000
LTV on current value of £500,000	36%

Use the remortgage funds to acquire another property	
Total investment for new property	£160,000
Less remortgage funds (b)	£80,000
Less mortgage on new property	£80,000
Capital outlay needed for new property	**£0**
New property	
Net rental income at 7.5% net yield on total investment	£12,000
Less interest	£3,600
Net income	£8,400
Total net income from two properties	**£17,100**

Comparison	Existing property	With two properties
Net income after interest	**£11,500**	**£17,100**
Additional income from remortgaging and acquiring a second property	**£5,600**	
Percentage increase on existing income	**48.7%**	

These figures are indicative only and as they always say, ‘the devil is in the detail’.

Each investor will have his or her own particular situation in terms of current equity in their property, the interest rate they are paying etc.

A much more detailed analysis is required before the strategy may be implemented.

Nevertheless, we believe the potential increase in net rental income is such that investors should consider this strategy.

We can arrange everything from the remortgage through to acquisition of the new property, ensuring it is a trouble-free process.

If this is of interest, please contact us.

acol by st david

As for a suitable property to acquire with the remortgaged funds, we would recommend one of our **acol** (affordable co-living/HMO) properties.

The properties are freehold houses in greater Manchester which we totally refurbish.

The properties can be acquired ‘off-plan’ or with progress payments, with an investment level ranging from £90,000 through to £180,000. Mortgages are available to eligible clients.

We offer a master tenancy arrangement (with St David as the master tenant) and provide an ongoing letting and management service with fixed fees.

The expected net rental yield after all costs is between 7.5% and 10.5% p.a.

HOT
OFF THE PRESS

Price boost for homes, but beware of coronavirus

House prices have risen at their fastest rate for 18 months, but the coronavirus outbreak is expected to weigh down the property market.

The cost of the average home went up 2.3 % to £216,092 in the year to February, according to the Nationwide index.

Robert Gardner, the chief economist at Nationwide, says: "Overall, we expect the UK economy to continue to expand at a modest pace this year, with house prices likely to remain broadly flat as a whole."

Good news, but……..

Renters are getting older

People in their mid-thirties to mid-forties are three times more likely to be home renters than 20 years ago, according to the Office for National Statistics.

Figures published recently show a third of this age group were renting from a private landlord in 2017, compared with less than a tenth in 1997.

We are becoming a nation of renters rather than home owners

Mortgages

Monthly mortgage approvals rose to their highest level in nearly four years in January, in another sign that the property market started the year on a strong footing.

Bank of England figures show that approvals climbed to 70,800 in January, up from 67,930 in December and the most since February 2016.

With interest rate set to remain low this trend is likely to continue

Lenders repossess more homes

There was a 9% jump in mortgage repossessions in the last three months of 2019, with 1,149 homes taken back by lenders, according to figures from the Ministry of Justice.

Despite low interest rates some people are struggling to hold on to their homes

Landlords are leaving

The number of private landlords has hit a seven year low, with 222,570 leaving the sector since the government began to cut tax reliefs and increase the regulatory burden.

The exodus has reduced the number of privately rented homes by 156,410 since its peak of 5.29 million in 2017, according to Hamptons International.

The estate agency's numbers suggest that the majority who have left are so-called accidental landlords, with one property each.

The number of people renting is not going to drop, which means good news for landlords who remain

RICS is bullish on the residential sector

The housing market is regaining momentum amid renewed optimism in London and the southeast, according to a survey by the Royal Institution of Chartered Surveyors.

House prices across the country rose in January for the first time since July 2018, with buyer inquiries, agreed sales and new instructions also up as buyers responded to greater clarity since the general election.

A net balance of 19% of surveyors said that the number of homes being listed for sale had risen, up from 11% in December. A balance of 23% said that new buyer inquiries had risen, up from 19% the previous month, while the agreed sales balance rose to 21%.

"Going forward, respondents to the survey expect prices to rise both in the coming three months and over the year ahead," the report said.

Simon Rubinsohn, chief economist at the institution, said the improvement in market sentiment was "building on a noticeable pick-up in the immediate aftermath of the general election". He added: "The rise in new sales instructions coming onto the market is a noteworthy and much needed development, given the lack of fresh listings over the past few years had pushed stock levels to record lows."

An independent body, but not everyone agrees with its view

HOT OFF THE PRESS 2

The Budget
What it means for property investors

There was a lot of media speculation before the budget that the Chancellor, Mr Rishi Sunak, would look at introducing measures that would dramatically improve the prospects for the property market. Everything from planning through to stamp duty was under review.

As you might expect from the government (and the media) the actual changes are not that dramatic and will have little effect on the general market.

The principal change for overseas investors is the Non-UK resident Stamp Duty Land Tax (SDLT) surcharge. The government will introduce a 2% SDLT (stamp duty) surcharge on non-UK residents purchasing residential property in England and Northern Ireland from 1 April 2021.

Apparently, this will help to control house price inflation and support UK residents to get onto and move up the housing ladder. The money raised from the surcharge will be targeted to help address rough sleeping, or so we are told.

The buyer's residence status will be determined by a new SDLT only test. If the buyer is not present in the UK for 183 days during the year preceding the purchase he will have to pay the surcharge. However, it appears he can reclaim the surcharge if he subsequently spends 183 days in the UK in the year after the purchase.

Some agents in London will argue the surcharge is yet another 'nail in the coffin' for the market there. That remains to be seen. It should however, have less effect on the demand from overseas buyers looking to buy elsewhere in the country, particularly in the north of England where prices are considerably lower.

Mr. Sunak had this to say about providing more housing;

"Today I can make good our promise to extend the Affordable Homes Programme with a new, multi-year settlement of £12bn.

"To support local authorities to invest in their communities, I'm cutting interest rates on lending for social housing by one percentage point,

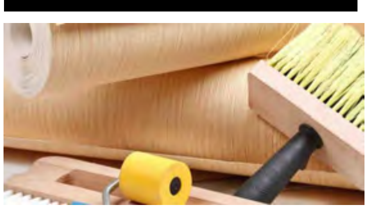
"I'm confirming nearly £1.1bn of allocations from the Housing Infrastructure Fund to build nearly 70,000 new homes in high demand areas across the country."

Many analysts and commentators are already dismissing this as totally inadequate.

As for the planning system, the government is releasing detailed reform proposals in the next few months. Apparently, the changes will benefit everyone from developers through to home-buyers - as government changes do.

In summary, the budget was a non-event for the property sector - good and bad depending on your view point.

The rental news



A problem we often find with properties that have been bought and decorated for the rental market is the poor quality of the interior decoration.

Some investors leave the existing wallpaper in place on the basis it looks presentable enough and they do not want to incur the cost of replacing it.

However, a newly skimmed/re-plastered and painted wall presents much better and is easier to clean and touch up than a wallpapered one.

Depending on the condition of the walls, we advocate skimming/replastering and painting every room.

It may cost a couple of thousand pounds depending on the size of the property, but It will certainly help maintain the visual appeal and financial performance of the property going forward.

The five rights of property investment

Invest in the <u>right</u> property in the <u>right</u> location at the <u>right</u> time for the <u>right</u> price from the <u>right</u> developer/adviser

Did you know?

23% of sales of homes in Westminster, central London, in the past year were for properties over £2m, compared with none in Hartlepool, Co Durham.

Almost 250,000 properties have been bought using the government's Help to Buy equity loan scheme since it was launched in April 2013.

For our younger readers it is the incomparable Audrey Hepburn. The song is from 'My Fair Lady'.

https://www.youtube.com/watch?v=q5fW7sERw7I

Something lighter

Thought of the month

When it comes to developing/refurbishing in the affordable co-living/HMO sector, every problem is solvable if you develop something people want.

The problem you can't overcome is if no-one wants to rent it due to its poor location or quality of the house

The ladies in our office recently had a team lunch to welcome Jenny to the team. A good time was had by all!

If you know anyone who might be interested in reading this newsletter, please forward it to them or forward us their email address. Your support will be greatly appreciated.

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