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THE OUTLOOK FOR BUY-TO-LET INVESTMENTS

Is now a good time to invest in buy-to-let?

Purchasing an additional residential property to let out usually offers a guaranteed income and the potential for capital growth from a single investment.

But this sector has declined in popularity in recent years, following the introduction of a raft of regulatory and tax changes which has forced many landlords to leave the sector as a result.

We remember those halcyon days a decade or so ago, when all you needed was a deposit for a buy-to-let mortgage and investing in these types of properties was at its peak.

The rental income from your additional property was often enough to repay the mortgage and provide a stable income. Many people were on the bandwagon.

With repayment mortgages, your tenants may even have bought you the property in 25 years, while house prices have skyrocketed in those years offering significant capital growth.

According to the Land Registry, for example, the average house price back in 1996 was around £60,000. In 2021, the average house price is more than £265,000.

It was so popular that buy-to-let was driving up house prices to the extent that first-time buyers were being priced out of the market. Recognising that, the Government removed some of the key incentives for landlords.

WHAT HAPPENED TO BUY-TO-LET?

Around the turn of the century and in an era before workplace pensions were the norm, becoming a residential landlord was seen as a genuine alternative to a pension.

The problem was that with so many buyers being investors taking out buy-to-let mortgages, it was almost too popular and the bubble simply had to burst.

That arrived in 2015, when then-Chancellor George Osborne announced his intention to scrap tax relief on mortgage interest payments for buy-to-let landlords.

This kicked in from April 2017, and at the same time, the 3% stamp duty surcharge took effect for all purchases of second homes. A typical second home that cost £300,000 in 2016/17 suddenly attracted an extra £9,000 in stamp duty.

Since then, many residential landlords have realised the numbers no longer stack up for them and they cashed in, reflected in rising capital gains tax receipts.

More recently, COVID-19 hit revenues and made it nigh on impossible to evict tenants. Further uncertainty over interest rates has made the outlook even worse, while Brexit served to reduce the number of EU residents looking to rent in the UK.

CURRENT MARKET SENTIMENT

Despite some rocky years of late, the National Residential Landlord Association (NRLA) reports confidence is returning to the buy-to-let sector and there are several reasons behind this.

Firstly, high property prices means there is significant demand for rental properties around the UK right now. The average house price went up by 10.6% in the last year, while some areas saw increases of more than 20%.

That could be homeowners selling up to downsize, those who are looking for a temporary place to live while they search for their forever home, or those hoping to take their first steps on the property ladder.

Secondly, with the base rate of interest remaining at a record low of 0.1%, taking out a fixed-rate mortgage right now is an attractive option due to the favourable rates on offer by providers. That extends to buy-to-let mortgages as well.

Another factor is the urban-to-rural shift among homeowners, most of whom are motivated to move out of UK cities in search of more open space. This potentially opens up urban investment opportunities, although landlords do face the double-edged sword of high property purchase prices.

The home-working trend that became the norm during the pandemic also potentially opens up more opportunities for buy-to-let investment outside of traditional urban hotspots. Investing in commuter towns or villages may let landlords benefit from ‘urban flight’, with property values in less densely-populated areas rising almost twice as fast as in urban hubs.

TAX CONSIDERATIONS IN 2021/22

The recent stamp duty land tax holiday in England and Northern Ireland served to rejuvenate the buy-to-let sector, reducing tax rates on additional property purchases completed on or before 30 June 2021 for £500,000 or less to just the 3% surcharge.

Between 1 July and 30 September 2021, the first £250,000 benefitted from the 3% rate. But for the rest of 2021/22 at least, the 3% rate only applies on purchases completed after 1 October 2021 worth £125,000 or less.

Above that, landlords face paying significantly more in stamp duty, with rates ranging from 5% to 15% depending on the price of the property being purchased. Stamp duty also needs to be paid and reported within 14 days of completion.

Any rental income arising from the tax year needs to be declared via self-assessment on or before midnight on 31 January each year if you operate as a sole trader. Income tax rates of 20%, 40% and 45% are in place.

Incorporated businesses will pay corporation tax at 19% on any profits arising in the 2021/22 tax year. They also continue to be able to benefit from mortgage interest relief.

Capital gains tax doesn’t come into the equation for landlords investing in property in 2021/22, although it is a considerable planning point when selling up.

All disposals of buy-to-let properties need to be reported within 30 days of completion and penalties apply for non-compliance.

The rate of capital gains tax you will pay on disposing of the additional property will depend on your income tax band, with rates of 18% (basic-rate) and 28% (higher and additional-rate) applying on the gain.

RETURN ON INVESTMENT

According to the Ministry of Housing, Communities and Local Government, 19% of households in England are in the private-rented sector. That represents a fairly sizable chunk of households to tap into.

Plenty of buy-to-let landlords still believe it’s possible to make money this way, but choosing the right location and securing the best mortgage deal is vital.

With current trends as they are, properties in university cities offer some of the best buy-to-let yields. For example, Nottingham currently has average yields of 11.99% and potential for the best capital growth.

By contrast, house prices in London are falling for the first time in many years. But they also remain very high and that means they might offer less in the way of capital growth.

HOW WE CAN HELP

We can help you secure the most attractive mortgage for your buy-to-let plans, sourcing deals that are not always advertised. This can help with the purchase price, paying tax, or with refurbishing a property before letting it out. Whatever your property plans, we are ready to help you put them into action.

Talk to us about your buy-to-let plans.