Landlords Advice with Regional Relevance

Wales

Tips and insights from property experts
Introduction

The rental property market can be notoriously difficult to predict. Fortunately, help is at hand. This eBook, which is a collaboration of property market experts, contains useful advice, key data snippets relevant to Wales and is packed with insights and analysis on important developments that are currently impacting on the sector.

From new buy-to-let lending rules to the fallout of the European Union referendum vote, it covers a range of hot topics.

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The importance of effective tenant referencing by Tom Entwistle from landlordzone.co.uk
Meet the industry experts

Ryan Bembridge
mortgageintroducer.com
Ryan Bembridge is Senior Reporter at Mortgage Introducer, a trade magazine catering for the mortgage intermediary market. He specialises in writing about political issues, having assessed the pros and cons of leaving the EU in March. He’s also worked at The Daily Express and, in his spare time, Ryan tries his hand at standup comedy.

Sarah Davidson
thisismoney.co.uk
Sarah has nine years’ of experience within retail financial services in the UK, both as a financial journalist and a media and communications specialist. She’s written extensively for private investors, financial advisers and consumers more generally at a range of national publications, including This is Money at the Mail Online, Financial Times Group, the Independent on Sunday and The Sunday Times.

Doug Hall
rla.org.uk
Doug Hall is from the Residential Landlords Association (RLA) where he’s Director of 3mc Mortgages, a specialist mortgage provider within the buy-to-let sector. 3mc have been established for over 15 years working with lenders, mortgage intermediaries and the RLA providing all types of buy-to-let mortgage solutions. The RLA has more than 20,000 members in England and Wales, offering important services to its members such as a 24/7 helpline. They’re also an influential campaigning organisation on behalf of all landlords.

David Lawrenson
lettingfocus.com
David’s the owner of www.LettingFocus.com and the author of “Successful Property Letting – How to Make Money in Buy to Let” and “Tenants’ Guide to Successful Renting”. He’s an independent adviser to investors in residential property and to organisations including banks, local authorities, housing associations, institutional investors and insurers. He helps them develop and improve their services and products for private landlords and tenants.

Henry Pryor
henrypryor.com
Henry’s a buying agent and property market commentator, who’s been described on both radio and TV as “the BBC’s favourite property expert,” having made over 500 appearances. He provides regular comment and analysis for shows such as BBC Breakfast, The News Channel, BBC’s Today Program and has written for numerous websites, newspapers and magazines including BBC Online, as well as providing contributions to the regular property roundtables held by MoneyWeek.

Tom Entwistle
landlordzone.co.uk
As an experienced landlord (managing his own residential and commercial property investments for over 30 years), Tom writes for several national property journals and has been a regular speaker at property events for over 14 years. He’s a director of LandlordZONE®, the first dedicated UK landlord website, founded in 1999, which is still one of the most-visited independent landlord portal websites in the UK.
Current market trends across Western UK

The latest HomeLet Rental Index reveals that, excluding Greater London, the average rental value across the country was £779pcm in the three months to April this year. Compared with the same period last year, this figure represents an increase of 2.3%. This was lower than the annual growth rate of 3.5% recorded in June and the 8.1% year-on-year growth in July 2015. The index also shows that average rental values rose in nine out of 12 UK regions in July, compared with the same month in 2015.

To provide you with a more in-depth picture of what’s happening in your region, this section includes a breakdown of statistics from Wales, including current trends in rental data.

Wales

The average rental value for new tenancies in Wales stood at £622 in July. This was up by 1.1% on the figure of £615 recorded in June and it was a rise of 2.5% compared with the same month last year, when average rental values stood at £606.

Average rents in Wales were the second lowest in the UK after the North East of England, which recorded a figure of £537 for July. Rental values in Northern Ireland were just slightly higher than Wales at £623.
Expert insights and current issues

In this section, we’ve teamed up with industry experts to bring you their insights and commentary into issues currently affecting the rental sector.

Current issue:
The effect of Brexit on the UK property market

Here, we hear from Ryan Bembridge, Senior Reporter at mortgageintroducer.com, who discusses the effect of Brexit on buy-to-let investments in the UK.

Property investors have their ears pricked for signs of danger after the UK voted to leave the European Union, but so far while the value of the pound has fallen to a 30-year low doomsday isn’t here yet.

House prices have been robust since the Brexit vote, mortgage brokers report being busy and lenders are still lending. What is more, investors can take advantage of even lower mortgage rates after the Bank of England voted to cut interest rates to 0.25%.

And yet some potential investors will back off.

The Leave vote did indeed prompt the economic shock Bank of England Governor Mark Carney predicted to a degree, and a wobbling economy provides property investors with yet another reason to think twice about taking the plunge. Landlords have already had to cope with the buy-to-let tax grab – the 3% stamp duty surcharge introduced in April – and the upcoming changes to mortgage tax relief from 2017 to 2020, so they are perhaps right to be cautious.

Amateur investors with only one or two properties, in particular, will think twice.

They can no longer expect to profit from the double-digit house price growth of the past two years, and with
the cost of consumer goods likely to increase later in the year because of the weaker pound, tenants can’t be expected to deal with rapid rent increases.

However landlords with larger portfolios, who already have skin in the game and look at property investment as a long-term strategy, are unlikely to be put off by the Brexit, which won’t happen until 2019 at the earliest.

They have the experience to see past the doomsday headlines. For all the pre-vote talk of a significant drop in house prices in the event of a Brexit, it seems unlikely, because there is still a lack of housing supply to meet demand and that hasn’t changed.

Savvy investors will see the vote as an opportunity, not a catastrophe, as they look to take advantage of nervousness about the economy to buy properties at a discount in cities like Manchester, Leeds, Liverpool and Cardiff.

But holding out for a lower price won’t be successful everywhere.

The situation in London and the South East is akin to a Mexican standoff. If investors hold out for a better deal, with demand being so high, the vendor can look to find another buyer instead and probably find one, especially as the weaker pound has incentivised more foreign investment in the capital.

The economic shock of Brexit will hinder property investment to an extent, which is unlikely to hit the heights of 2015 anytime soon. However interest rates are at rock bottom and there is good business to be had, so the likely outcome of Brexit is a shift in the profile of investors, from amateurs looking for a quick buck to professionals continuing to make smart purchases for the long haul.

Despite Brexit, I don’t expect any big reduction in the number of foreign workers coming from the EU to the UK. This means there should continue to be strong tenant demand.

David Lawrenson from lettingfocus.com

There is a market post-Brexit, it’s just different from the one we had before. Clearly uncertainty is now the biggest enemy and landlords need to heed the advice of their agents who will be able to advise not only on where rents are but where they are heading. Don’t be taken in by optimistic PR pushed out by firms looking for your business. The market is tougher now than it was on 23rd June and there is a gap between what letting agents are asking and what some tenants are prepared to pay. A good reliable tenant, who pays on time and looks after your property, is worth more than the monthly rent.

Henry Pryor, UK property expert
It’s no secret that the former Chancellor, George Osborne, was not the biggest advocate of buy-to-let; the Tories set out their stall in favour of first-time buyers. To that effect he set several wheels in motion to clamp down on private landlords.

The first has already hit the sector: from April 2016 landlords purchasing new properties have had to pay a 3% surcharge on the stamp duty already owed. The second – the removal of landlords’ wear and tear allowance – has also been introduced. Instead of being able to claim 10% of rental income to allow for wear and tear, landlords can now only reclaim expenses for actual costs.

The third is about to hit. From April 2017, mortgage interest tax reliefs afforded to landlords will begin to be removed. As it stands, landlords can claim tax relief on their mortgage repayments at the rate they pay income tax. For those paying the highest rate, that saves them a whopping 45% of their mortgage every month. But this is about to be a thing of the past. From 2017 the rate at which landlords can claim will reduce steadily, until 2021, to a maximum of 20%.

It is already beginning to bite: mortgage lenders, foreseeing the pressure on landlords’ pockets as a direct result of these changes, have raised their rental income ratios already – almost across the board.

A year ago, typically lenders insisted on rental income being equal to 125% of the mortgage payments. Now the majority of lenders are requiring that ratio to be 145%. Although some lenders have stuck at 125%, this is unlikely to last. The Bank of England has publicly expressed concern about the effect of buy-to-let on house prices. It has floated the idea of introducing caps to rental income ratios as a means of regulating the number of landlords in the sector.

The message is clear: there are still opportunities in buy-to-let, but with so many headwinds facing landlords, it is a good idea to seek professional financial advice to ensure the money stacks up before you invest.
New rules on lending, new rules on taxes and new regulations means that now, more than ever, it’s important that landlords take professional advice. Do you know your right-to-rent from your client money protection?

Overall, you should be proud to be part of the most important property sector, one that provides homes for one third of the population despite the red tape, frustrations and general buggeration-factors that sometimes seem to make it harder to let and rent a property than it feels it should be.

*Henry Pryor, UK property expert*

A word from the Residential Landlord’s Association:

As an industry we are waiting for clear line of sight regarding the potential changes to BTL criteria under the pending PRA consultation paper.

A number of mainstream Buy to Let lenders have altered their minimum rental requirements for individuals with a broad brush approach. The broad brush approach does not appear to take into consideration the differences between basic rate tax payers and higher rate taxpayers. What we have seen is the majority of lenders who lend to limited companies maintaining their minimum rental requirements at 125% and not increasing to 145% and where the same lender lends to both limited companies and individuals that they now have two different minimum rental stress tests.

We agree with Sarah that now is a good time to obtain professional financial advice both from your mortgage intermediary and also your accountant when assessing new Buy to Let purchases and refinancing of your existing properties.

*Doug Hall, rla.org.uk*
Screening and selecting tenants is perhaps the most important task any landlord or agent has. It’s both a skill and a routine that are well worth developing. The best way to avoid problems with bad tenants is to not take them on in the first place.

The successful landlord will eliminate 95% plus of all letting problems through the careful screening and referencing of tenants.

Landlords are always anxious when they have a property vacant and want to fill the vacancy as fast as possible, but always remember this: no tenant at all is 100 times better that a bad one!

You won’t know the full significance of this statement until you have experienced the grief of a really bad tenant for yourself.

In my experience of renting to scores of tenants over a 30-year period, probably 95% plus of residential tenants (working and professionals) are decent, clean living individuals who pay their rent on time, follow reasonable rules and look after your property. It’s just the other 5%, or less than one in 20, that cause landlords headaches and sleepless nights.

A detailed and systematic screening process will eliminate most of these problem tenants, but you must be disciplined in the way you apply your own rules - follow them to the letter with absolutely no exceptions. The first time you do make an exception for someone, sod’s law says you’ll regret it.

Credit checks and referencing should be one element, but a very important element, of a holistic and methodical screening process. Always use a reputable tenant reference agency to do your checks. This is even more important today than ever, with increasing incidents of identity fraud and the legal requirement to do Right-to-Rent checks.
A word from HomeLet:
Tenancy agreements and regular inspections

Aside from getting references, there are other steps you can take to mitigate the risks associated with letting out your property. For example, it’s important to make sure you have a written tenancy agreement in place. This formal contract clearly sets out the rights and responsibilities of both you and your tenant and it can avoid any unnecessary confusion. It’s also a good idea to conduct regular inspections, ensuring you give your tenants plenty of notice. Doing this will help you to pick up on and resolve any problems before they get out of hand.

We hope this eBook’s been helpful. If you’d like more information, including a full explanation of our tenant referencing service, visit our website.