PropertyHub Magazine

Making sense of property investment

THE ULTIMATE HANDS-OFF INVESTMENT

Are property funds about to disrupt the residential market?

propertyhub.net

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Welcome

Rob Bence (left) and Rob Dix (right)

What a difference a year can make. This time last year we were still in the depths of the Covid-19 crisis and restricted from doing some of the most basic things, like going back into the office and spending time with our loved ones.

When we made our predictions on The Property Podcast at the start of 2021, we thought we were being quite bold predicting a 4%+ rise in UK property prices by the end of the year, especially since other organisations were predicting a significant fall.

But by June, UK average annual house prices had risen by 13.2%, the highest annual growth rate since November 2004.

As we write this it's too early to tell what the final scores will be – annual growth had slowed to 10% in September. Even so, it's already clear 2021 has been a strong year for the property market, not just here in the UK, but across the globe, as Neil Cumins reports on page 8.

It's been a strong year for us too at Property Hub HQ. We promised exciting things and – we hope you'll agree – we have delivered. We launched a new podcast (Any Other Business) and our app Portfolio goes live this month.

As Rob D reveals on page 42, it's been an exhausting, often frustrating and expensive journey, but worth it – much like it has been for the investors featured in these pages, who are ending their year in a better place than where they began.

We hope you enjoy this issue.

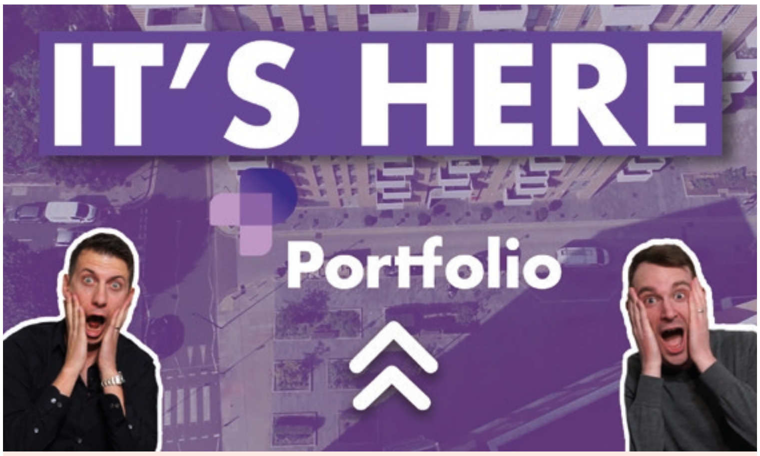
Rob & Rob

Rob Bence has over a decade's experience sourcing prime property investments on behalf of clients, and now oversees Property Hub's own developments too.

Rob Dix has written extensively about property investment for the past seven years. His books, including The Complete Guide To Property Investment and How To Be A Landlord, are Amazon best-sellers with hundreds of five-star reviews.

Inside the hub

A roundup of what's going on across our hubber channels



We're so proud to finally launch our new property investment app Portfolio, and so grateful for all the support you've shown us since it was announced. The response we've received across our social channels has been incredible and we've loved reading all your comments, so thank you! Property Hub wouldn't be where it is today without you.

You may have noticed that we've popped up in the press too: both This Is Money and City A.M ran pieces in October which you can read online.

If you'd like to find out more about Portfolio, visit **portfolio.co.uk**

ON SCREEN

More big institutions are buying up residential property than ever before. The build to rent sector has grown by 135% since 2017. The Robs will be delving what all this means for tenants and landlords in their next YouTube video. Visit our channel, subscribe and hit the notification bell to make sure you get alerted as soon as it's out.

youtube.com/propertyhubuk

HUB CHAT

Should you use an online tenancy agreement template to save yourself some cash? It's a question that has sparked a debate on the Forum. One Hubber wants to know whether it's a good idea, or if they should pay their letting agent's fee to provide a new one? Join the Forum to find out what other investors have to say and share your own thoughts and experiences.

propertyhub.net/forum

ON LINE

If this issue's cover story (page 27) has left your wanting to find out more about property funds, then we've got more resources online to help you further your knowledge. Plus, The Robs will be hosting a live webinar on the subject in November. Copy the link below into your browser to book your place.

propertyhub.net/webinar

ON AIR

As 2021 draws to a close, The Robs will be reflecting on the year that has been and reviewing the predictions they made back in January. They'll be rounding up their favourite Hub Extra recommendations and sharing what areas and types of property we're investing right now – so you can replicate what we're doing.

propertyhub.net/podcast

Market focus

The latest news and developments from the property industry

FULL HOUSE

Rental void times have fallen by 30% since the start of the year, new data from Arla Propertymark indicates.

According to the membership body, average void times in the UK now stand at two weeks for the first time in six years.

Since 2015, the average void time has been just over three weeks, costing landlords 74% of an average calendar month's rental income. This has now reduced to 49%.

Based on a rental income of £1,000 a month, this equates to a void loss of £490 rather than the previous average of £740.

Arla Propertymark president Maxine Fothergill said: "The decrease in void times won't come as a surprise to agents as it's a direct result of the increased demand, meaning properties that come back to market are letting incredibly quicky."

Extra time to go digital

The government has given landlords and other businesses an extra year to prepare for the digitisation of income tax.

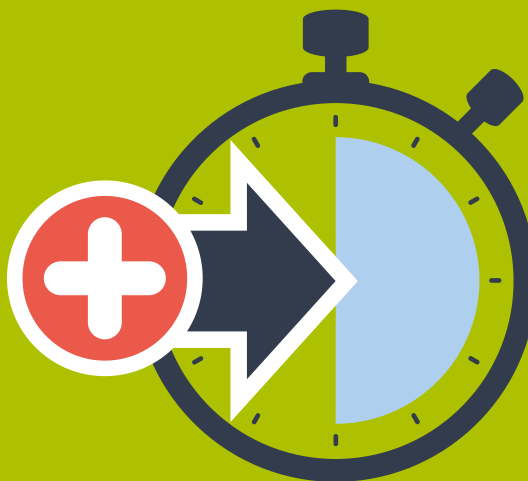
HMRC's Making Tax Digital (MTD) initiative was originally supposed to come into play for landlords who fill out their own self-assessment forms in the tax year beginning April 2023.

Now, they have until April 2024, when they will need to start submitting forms digitally.

HMRC says it will use the extra time to carry out additional customer testing.

Lucy Frazer, financial secretary to the Treasury, said: "The digital tax system we are building will be more efficient, make it easier for customers to get tax right, and bring wider benefits in increased productivity.

"But we recognise that, as we emerge from the pandemic, it's critical that everyone has enough time to prepare for the change, which is why we're giving people an extra year to do so."



HOLIDAY LET PRODUCTS DOUBLE

The number mortgage products specifically for holiday lets has more than doubled since August 2020.

Financial information company Moneyfacts found there are now 186 options available to those looking to borrow money to buy a holiday let, compared to just 74 last summer.

It also found there are 25 different brands in the market, versus 14 in August 2020, the majority of which are building societies.

Hamptons International reported there were 1,404 new holiday let incorporations in England, Scotland and Wales between January and the end of June 2021 – the highest number since their records began in 2007.

Rachel Springall, finance expert at Moneyfacts said: "It's positive to see a rise in holiday let product choice for landlords over the past few months, but the market is still relatively niche as there are less than 200 deals available."

BTL options available (fixed and variable)	Mar-20	Aug-20	Oct-20	Apr-21	Sep-21
Available to holiday let	162	74	103	149	186
Lenders offering holiday let deals	20	14	17	21	25
Average fixed rate available to holiday let	3.37%	3.53%	3.79%	3.95%	4.14%

Source: Moneyfacts.co.uk

SUB-1% BTL RATES

Landlords with large deposits can now bag themselves a buy-to-let (BTL) mortgage with interest lower than 1%.

Nationwide's BTL brand, The Mortgage Works (TMW), has launched a two-year fixed deal with a record-low rate of 0.99%, thought to be the lowest ever rate on a BTL mortgage.

Potential borrowers will need at least a 35% deposit to take advantage and there is a hefty fee, equivalent to 2% of the loan amount to pay.

The BTL arm of the Co-operative Bank, Platform, has also launched a 'premier' two-year fixed deal with a 1% rate available to landlords with deposits of at least 40% and with a household income of at least £60,000.

In addition, borrowers can only have a maximum of three BTL properties.

It comes with a fee of £2,450 and is only available on property purchases between £350,001 and £500,000.

Both TMW and Platform's products are available for both purchase and remortgage.

Global prop

The UK isn't alone in seeing property prices spiralling. Neil Cumins reports on how foreign markets are currently performing, and considers what impact this might have on the UK

It's been 400 years since the poet John Donne declared 'no man is an island', and the sentiment that we can't operate independently of the wider world is more relevant now than it's ever been.

In today's global society, where the internet supports frictionless international trade, national economies are interlinked to an unprecedented extent. And as a result, domestic economic trends are often mirrored globally.

This is particularly true in terms of the property market. Over the past couple of years, developed nations around the world have all experienced the twin economic shocks of the coronavirus pandemic, followed by meteoric house price growth. And while we routinely fret in the UK about high property prices, especially in the south-east of England, the situation is far more acute elsewhere.

So what's driving the rise in residential property prices around the world, and what effects might this have on our own housing market? Are there lessons to be learned from abroad about state intervention versus free market economics, and where is it all likely to end?

The price is right up

Firstly, it's important to recognise that the UK's property market is still in a boom phase. Despite slowing in September, Nationwide data shows annual house price growth is still in double digits. The average house price across the four home nations stood at just under £250,000 in September, with Wales seeing annual price growth of 15.3% and Northern Ireland only one percentage point behind.

This has directly impacted affordability, with the 20% deposit required for a typical first-time buyer's home now 113% of their gross average income. That's good news for landlords, but only if they can actually buy properties themselves in this ultra-competitive market. The average house price across London stands at over half a million pounds, while estate agents in rural counties are reporting frenzied bidding on almost anything.

Cornish properties valued at £400,000 are selling for £600,000, while buyers have been paid cash inducements to pull out of transactions by people even more desperate than they are. The Times recently recounted how one American buyer bid £650,000 over the odds for a Cotswolds house they hadn't even seen, exchanging contracts four days later.

A world of pain

Of course, buying internationally is nothing new, but many foreign investors are resorting to it because their own markets are superheated.

New Zealand has some of the world's most unaffordable homes, with average national house prices rising by 31% in the year to July, reaching around $1m (£500,000). Across the Tasman Sea, Australia is experiencing its highest annual house price growth since 2003, at 16.4%.

It isn't just developed nations experiencing this price boom. Prices in Turkey are up by 29.2% on summer 2020, and Slovaks will be paying almost a fifth more for a house today than they would have done a year ago.

Wherever you look, the picture is the same. Knight Frank reported in Q2 2021 that a third of global housing markets were seeing double-digit price growth. In a list of 55 nations, only India and Spain had seen price falls over the past year.

erty boom

The Dutch Lower House of Parliament recently passed a law which allows municipalities to ban buy-to-let sales in parts of cities, and there is expected to be widespread adoption of this law when it comes into effect on 1 January 2022

Bigger cities have performed particularly well, with Savills data showing the Chinese city of Hangzhou saw property price rises of over 13% between January and June. Little wonder that searches for British homes on Chinese property portal Juwai.com almost trebled during our stamp duty holiday earlier this year.

The bigger picture

This meteoric rise in global property prices is being caused by both global and domestic factors. Factors behind house prices in Istanbul rising by almost a third in the past year include mass immigration and spiralling construction costs, while property has long been a preferred investment vehicle among Turks compared to savings or stock markets. However, there are several wider factors underpinning house price rises across the world's major economies:

1. The Covid vaccination programme has seen many countries loosening restrictions, enabling property market activity to flourish after a lengthy period of relative stasis.
2. Socioeconomic factors have come into play post-lockdown, ranging from soaring divorce rates to investor flight to the safe haven of bricks and mortar.
3. Under pressure from governments, central banks have loosened the purse strings in an attempt to kick-start moribund economies and recoup lost taxation.

The UK's stamp duty holiday may have been unusual, but state reliance on property markets as an economic bulwark against the prospect of recession is commonplace. That's the situation in Canada, as Neil Sharma, editor-in-chief of Canadian Real Estate Wealth, points out: "The Bank of Canada plunged interest rates to historic lows in response to the Covid-19 pandemic, and it created a housing rush. The country's central bank could have initiated a much more responsible quantitative easing program, but instead it allowed asset-rich Canadians to leverage their wealth."

This resulted in record sales earlier this year, many to foreign investors. "Money from Mainland China has flooded Canada's real estate market. Vancouver is a Pacific Rim city, and it has high income taxes but low property taxes, making it ideal for getting money out of China," adds Neil.

While governments around the world have attempted to stimulate their property sectors, the consequences haven't always been entirely welcome. The snappily-titled US Secretary of Housing and Urban Development recently declared: "It's harder to find an affordable home in the United States than at any time since the 2008 financial crisis", despite rising asset prices being a key tool in paying down the country's eye-watering national debt of $28.4tn.

Indeed, in countries whose tax take and retail economies have been battered during the pandemic, the extra liquidity generated by house price growth is actually a welcome development. Don't expect Rishi Sunak to admit this publicly, though.

Continental selection

Despite the economic benefits of a healthy housing market, some countries are now attempting to tackle price growth with direct action. And as is often the case, private landlords are in the firing line, even though

Global property boom

Organisation for Economic Co-operation and Development (OECD) data suggests house prices are growing faster than rents in most countries.

In a city-wide referendum held in September, residents of Berlin voted to forcibly purchase 240,000 properties owned by private real-estate companies with more than 3,000 units in the city. Over a million people (59%) agreed that properties owned by commercial landlords should be expropriated to the state government instead.

However, the vote is non-binding, and compensation of up to €36bn may be required from the public purse if this initiative is to be implemented. The city's house price to income ratio of 9.27 may compare favourably to London's 14.4 (figures from cost of living database Numbeo), but it's still beyond the reach of many working Germans.

Across the border in the Netherlands, a combination of low interest rates and rising house prices (now over €400,000 nationally, for the first time) has led to an upcoming ban on private investors purchasing affordable or medium-priced homes. The Dutch Lower House of Parliament recently passed a law which allows municipalities to ban buy-to-let (BTL) sales in parts of cities, and there is expected to be widespread adoption of this law when it comes into effect on the 1 of January 2022.

From Groningen in the north to Eindhoven in the south, municipalities will be able to decide for themselves what qualifies as 'cheap' or 'medium-priced' housing. Amsterdam is going even further, with a plan to require people live nearby before they can purchase any real estate.

Closer to home, corporate property investors in the Republic of Ireland are commonly known as cuckoo funds, and have been attracting voluble criticism. Tánaiste Leo Varadkar shied away from an outright ban earlier this year, but public anger is growing about situations like the Co Kildare new-build estate where 135 of the 170 homes were snapped up by two investment funds for private rental. Renting is increasingly the only option for Irish citizens priced out of their residential market, with Central Statistics Office data showing an 8.6% price rise in the year to July 2021.

Banking on growth

In the UK, there are no such restrictions on who can buy property, or where they have to live. The schemes being proposed on the Continent are very unlikely to happen here, despite widespread public frustration with the limited availability of housing.

Most people recognise that our national housing shortage transcends ownership – whether a property is privately occupied, privately rented or publicly owned, it's still only one home. There is greater public pressure on councils to repurpose brownfield sites, and on housebuilders to minimise land banking.

The Local Government Association reported recently that 1.1 million homes approved for construction in the past decade have yet to be built, and Westminster is considering a crackdown on land banking by imposing time limits on planning approval.

Indeed, despite increasing red tape and lengthier eviction processes, the biggest challenge for domestic landlords and developers wishing to expand their portfolios is simply getting a foothold in today's ultra-competitive market.

The new-build sector represents an increasingly popular route to portfolio expansion; in a rising market, new-home depreciation is often offset by local price increases between off-plan reservation and final completion. There's also little risk of gazumping, which is anecdotally on the rise throughout the UK's resale sector.

Future perfect?

Critically, the economic building blocks of a successful property investment market remain in place. The UK is experiencing record low interest rates, healthy mortgage availability, high levels of demand and limited supply.

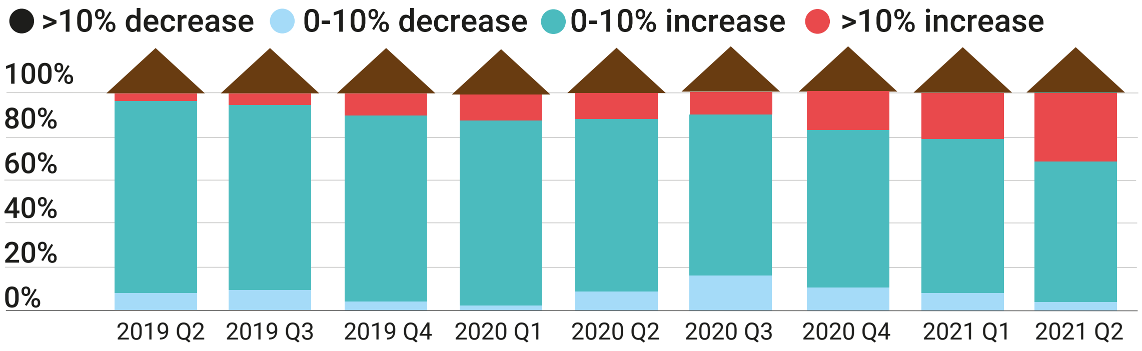
The Midlands saw private rental prices increase by 2.4% in the year to June, while the national increase

Eyes on the world

A key piece of advice for UK landlords wanting to predict future domestic house price trends is to look towards the US and China. The Global Financial Crisis was triggered by American banks over-lending in the volatile sub-prime market, while a recession affecting China's 1.4 billion-strong population would damage everything from global trade and investor confidence to inward investment in the UK. Many analysts predict the next global recession will be China-centric, for the first time. If you want to spot economic storms before they reach our shores, look both ways.

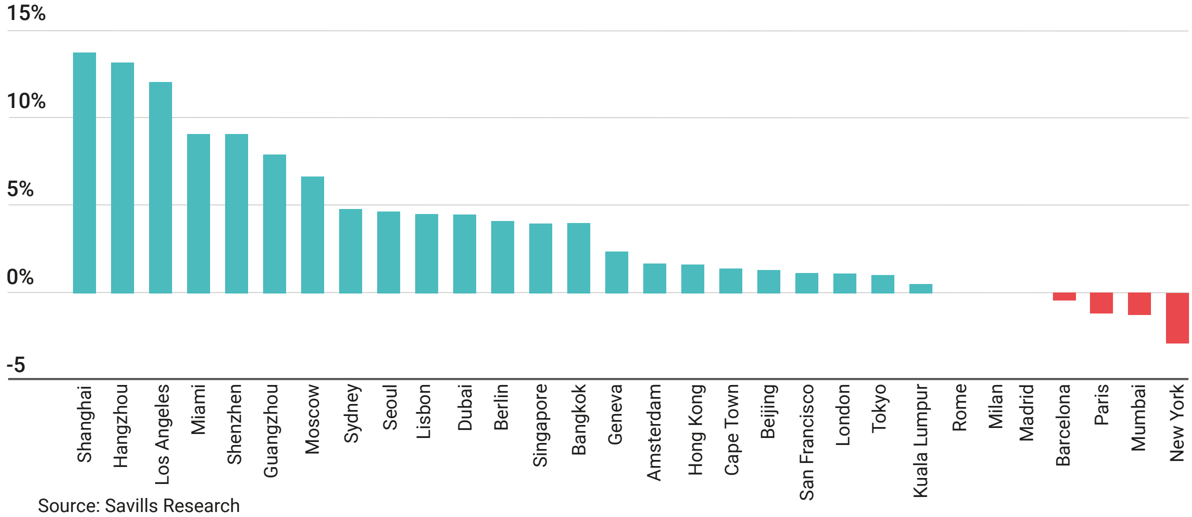
33% of international markets recorded 10%+ annual price growth

Proportion of countries/territories by annual price growth



Source: Knight Frank Research

Six-month capital value change to June 2021



Source: Savills Research

of 1.2% has remained remarkably stable over the past three years despite unprecedented social upheaval in the past 18 months. This is coupled with extremely affordable lending; at the time of writing, BTL mortgage lenders are offering two-year fixed-rate deals at less than 1%.

Collectively, this is breeding positivity among the UK's army of landlords and investors. Research published in September by Shawbrook Bank found more than a third of landlords were planning to expand their portfolios in the next year, with two-thirds expressing confidence about their prospects in the same period. And while outdoor space was revealed to be the top priority among landlords in Shawbrook's research, any lettable property is currently attracting interest.

In an ideal world, the volatility of the past 18 months would give way to slow yet steady price growth. We are five years away from the next anticipated downturn in the UK's 18-year property cycle, with 2026 expected to herald a rapid downturn in prices and market sentiment. We've just come through the traditional mid-cycle wobble, and prices are rising fast, yet that doesn't make this a bad time to invest. If you can find a property worth buying, at a price your financial calculations will support, there should be several years of capital appreciation and dependable rental income ahead.

Goals, on and o

Professional goalkeeper David Stockdale, got into property as a way of providing a better future for his family. He tells us how he went from owning one HMO, to buying an entire apartment block

Why did you decide to invest in property?

I'd been saving money in a normal rainy-day savings account. I'd heard of other people investing in property, but never thought it could be a reality for me. I went away and did some research on how to start, where to start and best ways to go about it. The more I learned, the more my interest grew. It took me a while to finally take the leap – I was being very cautious – but in 2017 I set up my property company with the help of my accountant Michael.

What was your goal when you first started?

I wanted to create another source of income. I set myself the target of owning five units.

What was your first deal?

It was a three-bed house in Birmingham that I bought for £130,000 and converted into a five-bedroom house in multiple occupation (HMO). I drew up all the plans myself and did a lot of the refurbishment work with help from friends. I put down the deposit using savings and took out a BTL mortgage for the rest. The refurb costs came out of my own pocket.

Tell us how you scaled up from this deal to where you are now?

I learned a lot from my first deal, especially the value of building strong relationships with contractors you can trust. Soon after it was tenanted, I got to work on my next project, this time buying two single buy-to-lets and renting them straight out. They were easier than the HMO, but the ROI is a little smaller.

I've kept up with this trend and added another HMO to my portfolio in 2018. Then, in 2019, I stumbled across a large building in Walsall for sale incorporating 20 apartments and one shop. I snapped it up and now have a total of 40 units in my portfolio.

What's the biggest risk you've made and what did you learn from it?

Definitely my latest deal. I bought the building at auction without physically seeing it myself, which I would normally tell others not to do. I knew it was a massive risk, but the numbers stacked up.

It came with tenants in situ and with very sketchy contracts – again another red flag – but I forged on with my vision.

It was only after completion that it dawned on me just how much work was involved. What limited experience I had was put to the test. Not to mention, everything needed to be done in the midst of lockdown restrictions.

It is by far the biggest risk I've taken in property, but it was a huge learning experience and taught me to think more broadly about deals in the future and not just focus on the numbers.

What's been your best property decision?

This also has to be my latest deal. Seeing my vision come to fruition and generating a good return feels great and makes all the hard work worthwhile.

How close are you now to your original goal?

Luckily, I set myself an achievable goal of owning five units, so I reached that once I'd converted my first property.

DAVID'S TIMELINE

January 2017
Sets up property company

February 2017
Buys three-bed house in Birmingham and converts into five-bed HMO

ff the pitch


David Stockdale

INVESTOR FACT FILE

Name:
David Stockdale

Age:
36

Lives:
Leeds

Invests in:
The Midlands

Occupation:
Goalkeeper for EFL League One club Wycombe Wanderers

Years investing:
Four

Strategy:
Adding value through refurbs and conversions

Portfolio size:
25

Goal:
To add to portfolio and move into developing land

I keep moving the goal posts as I go, setting myself new goals in realistic timeframes so that it doesn't spur me into making bad decisions.

If I've not met my goal within the timeframe I've set, I don't beat myself up about it. Sometimes you can be in front of your goals, sometimes behind, the important part is staying motivated and to keep reaching for those goals.

What motivates you?

Generational wealth. I was lucky to have parents that did their best to provide me with everything I needed growing up and worked hard all their lives.

I want to take that a step further and create wealth that will benefit my family two or three generations down the line.

When I say wealth, I don't just mean providing an inheritance. Wealth, for me, is also about knowledge. I want to teach people how to build their own wealth. As the saying goes: "give a man a fish he will eat for a day, show him how to fish he will eat for a lifetime".

It gives me a great feeling when I've given advice that has helped someone else on their journey and I'll continue to keep passing on the things I learn to others as well as topping up my own knowledge by learning from my peers.

What advice would you give to someone hoping to follow in your footsteps?

The first thing I'd say is never be afraid to ask questions, no matter how stupid or silly you may think it is, by not asking you're just as silly as you still don't know the answer.

Be proactive and do your research, even if you're not in a position to invest. Look through properties for sale, do the numbers see what deals add up and which don't, look through all different aspects of property. The more you do now will put you in a good place for when you're ready to make that jump into property investment.

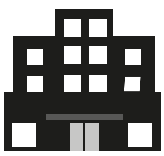
Set yourself small goals, celebrate when you achieve those goals, learn from the good and the bad deals. Be comfortable sharing what you've done and learn from speaking to others on their journey.

It's not always easy so don't be hard on yourself. When a risky property or risky move comes along, make sure your numbers and your vision add up – when the two don't align it's time to step away. And whatever you do, enjoy the journey of trying to better yourself and your family's future, there's no better feeling.

June 2017
Buys two single BTLs in Birmingham

March 2018
Buys second HMO in Birmingham

April 2019
Buys apartment block in Walsall



LOCATION FOCUS

Th
es

The Dugald Stewart monument on Carlton Hill, Edinburgh © VisitScotland/Kenny Lam

PLACES

he Forth
state

Neil Cumins reports from Edinburgh, where the property market is shrugging off tourism-related woes and experiencing high levels of demand among buyers and tenants alike

PLACES

Just as London's housing market has historically been treated as a separate entity to the wider English market, Edinburgh has always been an outlier in Scotland. Far more compact than its arch-rival Glasgow, and less oil-dependent than Aberdeen, Edinburgh's pre-pandemic house prices could have raised eyebrows even among Home Counties residents. Yet much has changed along the River Forth in the past 18 months – not least the disappearance of the tourists who historically supported high sale and rental prices.

The shore at Leith © VisitScotland/Kenny Lam

Home bargains

"This year has been very mixed," says Richard Burgoyne, a director at Cornerstone Letting Agents. "In the early part of the year when there was a drop in demand, we started to see an excess of properties listed, and we lowered prices accordingly to bring tenants in.

"Since the summer, this has flipped, with demand far outstripping supply. A property we listed around six weeks ago received a hundred enquiries over just one weekend. Prices have been rising purely due to demand, but I anticipate things will settle down over the coming months."

In terms of sales, buyers in the third quarter of 2021 consistently paid above the Home Report valuation required before any resale property can be marketed in Scotland. One-bedroom flats in working-class areas like Meadowbank were selling for 108% of Home Report valuation on average, with three-bed houses in affluent western boroughs like Balerno and Juniper Green going for 113% of their valuation.

Edinburgh's house prices averaged £316,608 in September according to Zoopla, and you'll get nothing for less than £100,000 within the city boundaries. Specifically, that means the wraparound A720 City Bypass that has constrained Edinburgh's growth and consequently inflated property prices.

Something Old, something New

So where should an investor look to spend their money in Edinburgh? Well, not in the city's Old Town or New Town. These UNESCO World Heritage sites face one another across Princes Square Gardens, with the Old Town's jumble of medieval wynds contrasting against the New Town's studied Georgian symmetry. Both areas are hugely expensive, with flats routinely selling for more than £1m, though prices have fallen in the past year as remote working enabled people to relocate to the suburbs. Proximity to Edinburgh's two main train stations (Haymarket and Waverley, a mile apart on the same line) is less valuable than it was.

Far better value lies outside the EH1 and EH2 postcodes, in suburbs where the absence of train stations is counterbalanced by excellent bus services. Don't go as far as the edge of Edinburgh, though; schemes like Wester Hailes and Niddrie contain some of Scotland's highest crime rates and most endemic poverty. Instead, focus on inner-outer suburbs including Liberton, Ravelston and Corstorphine. The latter is close to the A8 and M8, home to successful schools and plenty of local amenities, yet its sprawling estates of 1970s semis are often shunned by residents of Edinburgh's older housing stock. By Edinburgh standards, Corstorphine represents excellent value.

Rough and ready

Given the maturity of Edinburgh's property market, investors are often drawn to areas which are rough round the edges but offer potential for growth and gentrification. Historically, that meant Leith – a sprawling east-end melting pot of converted warehouses and Brutalist tower blocks. Yet even Leith now commands prices at odds with its enduring edginess, with an extensive selection of modern two-bed apartments priced between £200,000 and £350,000.

Leith has been a work in progress since the 1990s, with the Michelin-starred restaurants of the Waterfront facing onto the Ocean Terminal shopping complex a high-profile example of successful redevelopment.

> The ex-local authority areas tend to get strongest rental yields, perhaps with slower capital growth. The properties can come with issues, but many run smoothly, and in terms of demand from tenants they are always quick to go

Nowadays, investors increasingly look west to areas like Gorgie and Dalry, where prices for traditional stone tenement flats are more justifiable (though still high by Scottish standards). The architecture may be underwhelming compared to city centre buildings, but sale prices are lower, and yields are higher.

Citylets data shows one-bedroom flats in these areas achieved average gross rental yields of 5.4% throughout the second quarter of 2021, while east-end suburbs like Abbeyhill and Restalrig returned Edinburgh's best yields on two-bed flats at 4.8%.

The social network

A good long-term bet is Gilmerton, where extensive new-build activity is pulling up resale prices in a historically unappreciated suburb populated by swathes of 1980s cul-de-sacs and semi-detached council houses.

Social housing is often the only affordable way into the rental market, as Richard explains: "The ex-local authority areas tend to get strongest rental yields, perhaps with slower capital growth. The properties can come with issues, but many run smoothly, and in terms of demand from tenants they are always quick to go.

SITES FOR SORE EYES

These are some of the current or forthcoming schemes to watch out for across Edinburgh:

Edinburgh Park South

- **Edinburgh Park South**
  The expansion of the part-industrial part-residential Edinburgh Park district continues with a mixed-use office-led development valued at £500m. Covering 43 acres, it will feature 1,740 homes alongside offices, retail and a cinema.
- **Granton Waterfront**
  Dwarfing even Edinburgh Park, the £1.3bn plans for Granton's neglected waterfront encompass 3,500 homes and a coastal park. However, Granton's renaissance has seen many false dawns, and this scheme won't be completed til 2035.
- **Shawfair**
  Within the City Bypass boundaries, a new town is being created across 500 acres of greenfield land, retaining 160 acres of woodland and open space. Four thousand homes will join three schools and a train station, making Shawfair a great commuter location.

THE PRICE IS RIGHT

These are three examples of properties currently for sale in Edinburgh at different budgets:

For this money, you're limited to a three-room three-window ground floor flat in the outlying district of Gorgie. Tenement flats like these are enduringly popular across Edinburgh .

Set within large grounds, this well-presented mid-terrace in the sought-after Silverknowes district has the generous room sizes typical of pre-war Scottish council housing

Along a cobbled street within walking distance of the city centre, this listed building houses a two-bedroom second-floor flat requiring upgrading throughout, yet offering huge potential

Search conducted via Rightmove in October 2021

"Areas with one bed stock around Dalry and Leith have traditionally had high demand and affordable prices, and the rents have been growing steadily along with this. The properties around Edinburgh and Napier University campuses are always popular as well, but the demand from investors to pick these up has driven up the purchase prices."

Over at Cullen Property, marketing manager Scott Binnie also acknowledges the importance of Edinburgh's student market: "Student HMOs are typically higher yield, but with the Scottish Government's Private Residential Tenancy model settling in, the predictability of students moving in and out in specific months which was favoured previously is now a bit more uncertain."

However, professional property rentals remain strong. "All city centre and immediate periphery locations have been doing well. Leith is increasing too, and areas like Morningside and along the tram routes have seen good rental growth," adds Scott.

Long-delayed plans to extend Edinburgh's controversial tram network are inching forwards, but most affected areas have already seen sale price rises in anticipation, so further tram-related capital appreciation seems unlikely in the short-to-medium term.

Fringe benefits

Edinburgh's property prices have historically been underpinned by the rental yields achievable during tourism seasons, but the pandemic has demonstrated underlying resilience in the city's housing sector. In the absence of tourists, landlords have either modified their offerings to long-term lets or held firm and awaited the staycation boom.

"We did receive calls from owners of properties on short lets looking to use the long-term market to tide them over until things reopened," says Richard, "but from the landlords' own admissions, it was something they had been thinking of doing in any case due to the demands of being a host."

Scott sees an opportunity amid this ongoing shift: "Increasing regulation will likely see many landlords opt to let full-time. This could impact the Airbnb and tourism markets, or at least make such properties more expensive than previously for short term rentals."

With a full programme of events expected to take place in 2022, it seems the good times are returning to a city recently ranked as the world's fourth-best place to live. "It looked like people might be favouring properties out of the city for a period, but that appears to be coming to an end as things reopen.

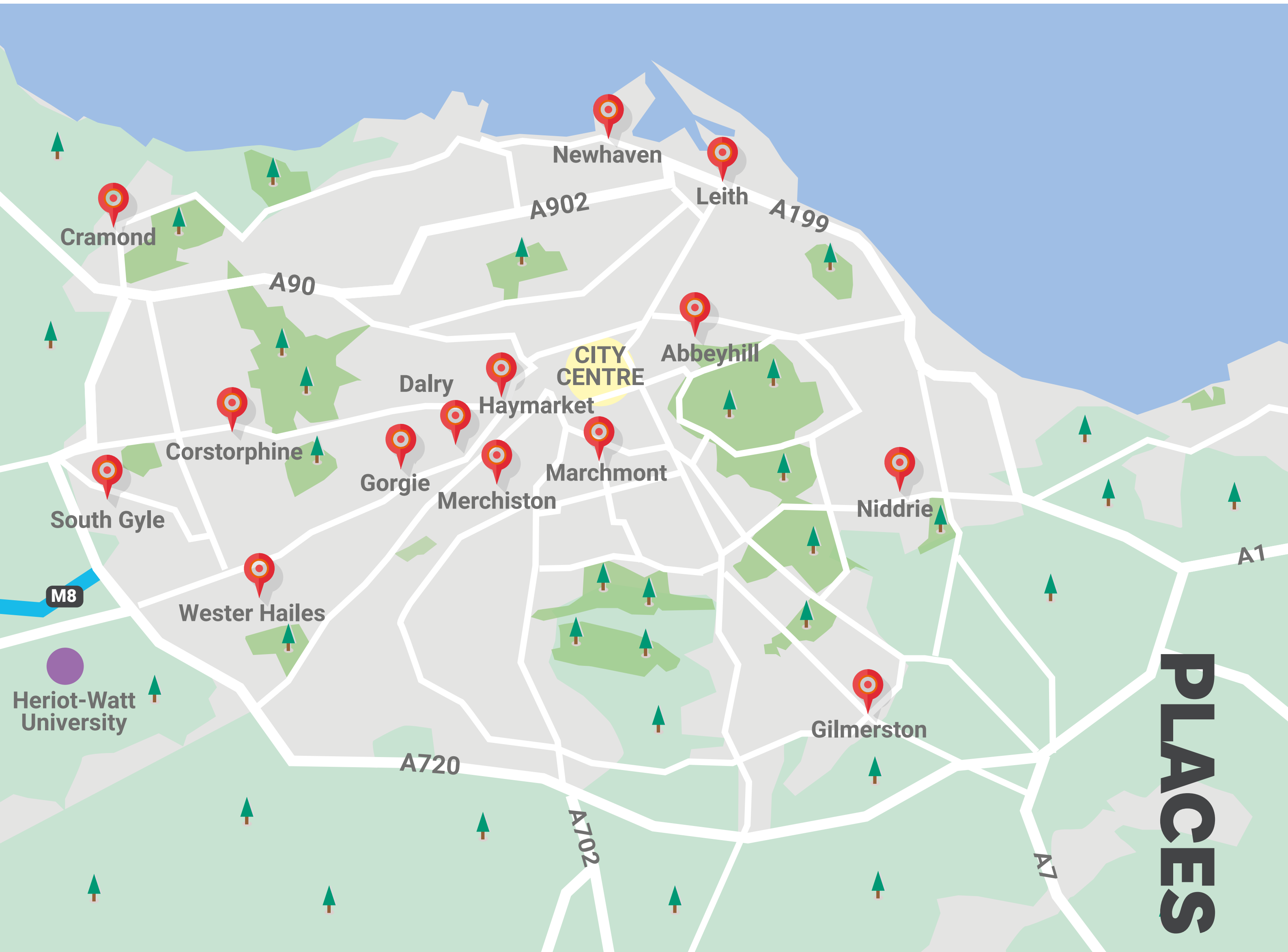
"Edinburgh has been receiving a lot of investment, the city is an attractive place to live now, and I can only see it continuing barring political meddling," concludes Richard.

Postcode lottery

These are the key suburbs and districts that landlords and investors should be aware of:

- Best for families: Corstorphine (EH12), Cramond (EH4)
- Best for young professionals: Newhaven (EH5), Leith (EH6)
- Best for students: Marchmont (EH9), Merchiston (EH10)
- Best for transport links: Haymarket (EH12), South Gyle (EH11)
- Best for yields: Dalry (EH11), Abbeyhill (EH8)
- Best for capital growth: Gorgie (EH11), Gilmerton (EH17)
- Best avoided: Wester Hailes (EH14), Niddrie (EH16))

Edinburgh's Royal Mile © VisitScotland/Kenny Lam



PLACES

Protecting your rent

Guaranteed rent, assured rent, and rent guarantee insurance all protect a landlord's rental income. The propositions can sound promising, but it's vital to know what you're signing up for, as Emma Lunn explains

Tenants who fall behind on the rent or, worse, stop paying it altogether are every landlord's biggest fear. You can very quickly find yourself in financial difficulty if the money stops coming in.

There are several ways to protect your rent. But which one is right for you?

What is 'guaranteed rent'?

With guaranteed rent, the landlord signs over their rental property to a third party in return for a set monthly rent, regardless of whether the property is let or if rental payments are made on time.

The third party is responsible for finding and referencing tenants, setting up a tenancy agreement, collecting rent, and dealing with maintenance issues. They make money by charging the tenant more in rent than they pay the landlord.

It's easy to see the appeal of guaranteed rent. These schemes offer landlords a hands-off management contract and financial surety – particularly attractive for those based overseas.

Who runs guaranteed rent schemes?

Guaranteed rent schemes are run by various bodies such as local authorities, housing associations (such as Notting Hill Genesis), and specialist letting agents (the best known one is Northwood).

Local authority guaranteed rent schemes, which let to council tenants, can often be a good bet. Properties need to meet certain standards to be accepted for this type of scheme.

In the London Borough of Greenwich, for example, landlords can lease their property to the council for three to five years and receive a guaranteed rental income. The council finds tenants, manages the tenancy, and deals with any issues, including eviction.

What to watch out for with guaranteed rent

Before you sign up for guaranteed rent, check how much you could achieve by directly letting your property and compare it to what the guaranteed rent operator is offering. Obviously, guaranteed rent schemes need to make money and they do this by offering a relatively low rental figure.

Next, you need to be sure your property is in the hands of a competent operator. Will the property be properly maintained? Will gas and health and safety checks be carried out and regulations met? Will tenants be comprehensively referenced?

It's important to understand that any 'guarantee' is only as good as the company, and financial backing, behind it. If the third party guaranteeing the rent doesn't have the cash to back up their promise, landlords may find the guarantee fails to pay out.

As always with property, the key to success is doing your due diligence into any company you are considering doing business with. How much money do they have? What is their track record like?

What is 'assured rent'?

Developers and builders often offer 'assured rent' or 'rental assurance' when they sell off-plan property to buy-to-let investors. The assured rent pays the investor a fixed return for a specified period of time from completion, regardless of whether the property is occupied or not.

The idea is that as well as encouraging people to invest in a development, the assured rent pays the landlord while the market stabilises and properties are let.

Assured rent is technically different from guaranteed rent, although they mean similar things. A rental 'guarantee' from a developer suggests there are ring-fenced funds in place to pay the landlord as agreed. 'Assured rent' is more akin to a contract where the developer becomes the 'tenant' for a specified period and agrees to pay a fixed rent in return.

Rent-to-rent: a word of warning

The past few years have seen an increase in individual 'rent-to-rent' operators where an individual rents a property from a landlord and pays a 'guaranteed rent'. This middleman then sublets the property, often on a per-room basis, for a higher rent. Done correctly, these schemes can work well for all concerned.

But rent-to-rent is a legal grey area with rooms often controversially let on licenses rather than assured shorthold tenancies. Several so-called 'experts' run property investment seminars teaching novice investors how to set up rent-to-rent businesses. Many people who attend these courses don't have experience letting property or enough money to pay the landlord if the tenant falls into arrears.

What is rent guarantee insurance?

Rent guarantee insurance is a very different proposition to guaranteed rent. Offered by insurance companies, this type of policy covers your monthly rental income if your tenants don't pay it. Some policies cover eviction and legal costs too.

Rent guarantee insurance can be worthwhile for many landlords; however, the cover must be in place before tenants move in and tenants must be fully credit checked and referenced to be accepted by the insurer.

Some tenant types, such as students or those on benefits, may be excluded from rent guarantee insurance policies.

What are the alternatives to guaranteeing your rent?

Guaranteed or assured rent schemes aren't for everyone. If you're happy managing your own property and want to keep costs to a minimum, guaranteed rent will only eat into your profits.

You could be better off stashing the money you'd spend on cover into a contingency fund for potential rent arrears and voids.

But, if you do decide to take out a protection policy, make sure you understand what you're committing to and the financial backing behind any 'guarantee'.

WHEN ASSURED RENT GOES WRONG

Dave Jones (not his real name) bought a two-bedroom flat in Liverpool off-plan through a well-known developer in December 2019 for £184,000. The developer offered 'assured rent' for one year with an 8% yield, with the property due to complete in July 2020.

However, completion of the property and the long-stop date, were continually pushed back. During this period Dave didn't receive any rent money at all.

He says: "I think I was overcharged in the beginning. The property is worth more like £140,000 than £184,000. Basically, you pay more for the property and then you get the money back in 'rent'. The marketing is all very slick until you sign the contract – then you're beholden to them. The developer advised me to use its recommended solicitor who later went out of business."

Dave wrote a scathing, but accurate, review of his experience on Trust Pilot. He eventually agreed to remove the review in a deal that saw the developer re-sell his property for a reduced fee.

"I was sold a lie and wanted out," he says.

Graham's three-bed terrace in Rotherham

INVESTOR STORY

The wa[...] game

Graham Smart

Seven years after first becoming a landlord Graham Smart decided to invest again, this time 65 miles from his family home. So did the wait pay off? Natalie Thomas finds out


Kitchen after refurbishment

iting

INVESTOR FACT FILE

Name:
Graham Smart

Age:
41

Lives:
Rothley, Leicestershire

Invests in:
Leicester city centre and Rotherham

Occupation:
Civil engineering surveyor

Years investing:
Eight

Strategy:
Buy, refurbish, refinance. Planning to move into the student HMO market

Portfolio size:
Two

Goal:
To buy one property a year for the next six years

Very few investors find the ideal investment opportunity on their doorstep and Graham Smart is no exception. After becoming somewhat of an accidental landlord through the purchase of a property back in 2006, Graham decided last November it was time to invest again.

Graham, 41, had his sights set on Rotherham, an area familiar to him from his university days in Sheffield. With two young boys aged eight and five and both he and his wife Nadia working full-time, sourcing and refurbishing a property over an hours' drive away from his home in Rothley, Leicestershire, was inevitably going to present challenges.

Luckily for Graham , the support of a former university friend and his father-in-law helped him on his way.

A good place to start

Neither Graham nor his brother Neil initially intended to rent out their first property when they bought it back in 2006. However, after living in it themselves for several years, they spotted an opportunity.

"We bought a two-bedroom terrace in Leicester city centre for £108,000, just before the crash. We didn't realise at the time that we were in negative equity for two of the years we lived there," explains Graham.

"When we wanted to move on in 2013, instead of selling we decided to rent it out. We could cover the cost and used the rental income to pay down the mortgage," he says.

In 2018, Neil was looking to raise funds to buy his own home, which resulted in Graham buying him out. By this point, there was only around £30,000 remaining on the mortgage, with the property now worth £145,000. This enabled Graham to remortgage his share and buy his brother out.

Around the same time, their tenants moved out, which gave Graham the opportunity to spend £4,500 refurbishing it – installing a new kitchen and bathroom – helping to take it to its £175,000 valuation today.

Taking its toll

After witnessing the success of his investment and seeing a colleague lose a large portion of their pension in the financial crash, Graham's mind turned to property investing to help him firm up his pension pot and provide another source of income.

The equity in his original property gave him something to work with. "I was originally looking local to home but realised the houses in my area had gone up quite a bit in recent years," he says.

Top left: living room after renovation
Top right: living room before renovation
Bottom left: bathroom after renovation
Bottom right: Graham with his son Enrico

He started to look at Rotherham, where prices were a lot cheaper. “My good friend James from university also lived in the area, so I was able to run things by him,” says Graham.

One area in particular – Wath Upon Dearne – caught his eye. “I knew it had good schools, train links and would be a good family location,” he says.

When it came to finding a property, Graham stuck to the traditional methods of looking on Rightmove and Zoopla. “I would ring estate agents on the Monday/Tuesday and book block viewings for the Saturday, looking at eight houses in a day,” he explains.

Travelling to Rotherham every weekend for around two months, understandably took its toll on family life. Graham would often take his youngest son Enrico along with him to viewings to help share childcare duties.

“He liked looking at the houses and always had a good chat with the vendors. It was a day trip out and the deal breaker for him coming was that I got him a McDonalds on the way home,” he quips.

The slow pace at which things moved at times was something Graham had to adapt to. “Property can be a numbers game; you have to look at a lot before you find the right deal, so you have to be willing to put the time in but also be patient, which is something The Property Podcast taught me,” he says.

“It has really helped with my understanding of how property works. There have been a few moments when I thought things weren’t moving fast enough but the podcasts have taught me it’s about not rushing in and instead getting to know the area and doing your due dilligence,” he adds.

His patience paid off and, after bidding on seven properties, Graham had an offer accepted on a three-bedroom terrace for £80,000 – down from the advertised £95,000.

Through a mixture of savings and refinancing his first property, he had enough cash to put down a £20,000 deposit.

Having worked as a civil engineering surveyor for 14 years, Graham was able to use his skills to map out what needed renovating and how much it should cost. "From the photos online I knew it needed quite a lot doing décor wise, but when I viewed it, I was able to look specifically at things such as the electrics. Because of my work I was able to cost it all up," he says.

After completing a full strip out, rewire, plastering, new bathroom, kitchen and boiler, his refurbishment costs came in at just under £15,0000 – roughly on budget.

Fortunately, Graham also had the help of James's father-in-law Roy. "Roy knew a few people in the trades who could help out. I also booked a few days off work and helped him fit the kitchen," he recalls.

On the road again

"During the refurbishment, I used to go up at the weekends on my own and do the ripping out. It took a lot longer than I thought.

"It was a bit of a juggling act and not an easy thing to do. It meant my wife was looking after the kids by herself, but we were just focused on the long-term goal," he says.

After buying the property in November 2020, Graham had hoped to rent it out three months later, but because of lockdown, the Christmas break and not being able to get trades quickly, it wasn't complete until the end of May this year, with the tenants moving in during the first week of June.

"All the agents wanted me to rent it out below £600 but due to its high spec, I wanted to try for £620," says Graham. And £620 he got: "It rented within two weeks."

While he doesn't have any regrets about buying the property so far from his home, it is something he advises others to think carefully about. "One of the main reasons I chose the area is because my friend lives up there and his father-in-law is local, so I have them on hand.

"For example, when one of the tenants moved in, they said the cooker wasn't working. Roy was able to do me a favour and went round and had a look and it transpired it was just a fuse in the plug that had gone.

"If I didn't know the area and have people nearby, I don't think I would have invested so far away, not on a refurbishment anyway, perhaps a new build," he says.

A faster pace

Graham says he won't be waiting another seven years before investing again. "The dream would be to do property investing full time, but I think with the kids, work and my career, I have come to realise it is a bit of a slow burner. My initial plan is to do a project a year for the next six years," he says.

Next time, he thinks he'll pick a location closer to home: "I would like to do a student house in multiple occupation (HMO) if I can get a good deal.

"From the management side of things, with a student HMO you have all the tenants on one Assured Shorthold Tenancy (AST), so it's less churn of people compared to say a professional let," he says.

He remains realistic about the road ahead: "Property is definitely not a get rich quick scheme, but if you do it right, there's no such thing as a bad deal – something my first property taught me.

Time is a good healer, if you don't sell, eventually you will reap the rewards," he says.

RUNNING THE NUMBERS

This is how Graham's three-bed terrace in Rotherham stacks up financially:

Purchase price: **£80,000**

Deposit: **£20,000**

Purchase costs: **£3,492**

Finance method: **two-year fixed BTL mortgage at 3.09%**

Amount borrowed:**£60,000**

Renovation costs: **£14,438**

Project duration: **five months**

Done up value: **£120,000**

Total personal investment: **£37,930**

Monthly rent: **£620**

Monthly expenses: **£244**

Monthly net profit: **£376**

If you have an interesting property case study (good or bad) we'd love to share your story. Email us with some information and photos and we'll get right back to you: magazine@propertyhub.net

barang/Shutterstock

COVER STORY

The ultimate hands-off investment

Investing through funds offers a way of profiting from property without the hassle of ownership, so what's the catch? Chantelle Dietz reports

COVER STORY

As anyone who has bought an investment property will testify, it can be hard work. Finding the right deal, working with agents and solicitors, securing finance, sourcing tenants and managing all the maintenance headaches requires lots of time and bags of patience. Sure, you can bring in experts to take some of the strain, but inevitably, the buck stops with you.

Still, for most investors, it's worth the effort, particularly in the current market. Property prices have risen by an average of 5% per year over the past 10 years, and rental growth has consistently outpaced inflation since the 1960s.

But there is another – less demanding – way of getting exposure to this booming market: investing via a property fund.

> **Even though you don't own the property you get the same two benefits: the properties generate a rental income, which you get your little share of, and hopefully they go up in value**

What is a property fund?

There are lots of different types of property funds, though they all essentially work in the same way. You pool your money with other investors for a stake in a ready-made property portfolio. Everyone who puts money in the fund gets a share of the property within it – equivalent to the amount they've invested – and any additional property the fund buys in the future. All that's left to do is collect your funds at an agreed point and enjoy whatever capital growth comes your way.

"Even though you don't own the property you get the same two benefits: the properties generate a rental income, which you get your little share of, and hopefully they go up in value.

The structure is different, the portfolio is different, and the experience is different, but the purpose is the same. It is the same rental income and capital growth that you would be pursuing if you were going down the buy-to-let (BTL) route," explains Rob Dix.

What types of property fund are there?

There are two broad categories of property funds: open-ended and closed-ended.

An open-ended property fund can issue an unlimited number of shares, which are priced daily based on the value of the properties held within the fund, less any liabilities (otherwise known as net asset value or NAV for short). Investors buy and sell these shares directly with the fund.

The appeal of these types of funds – in theory – is daily or weekly liquidity, meaning you can withdraw cash quickly. However, property isn't a liquid asset, so if the fund needs to sell stock to raise the cash to return to investors, it may need to temporarily block withdrawals. Several UK funds came under criticism for doing this last year, and some investors are still locked out from accessing their capital.

In contrast, a closed-ended fund has a fixed number of shares and investors trade these shares amongst themselves. The share price is determined by market supply and demand and can differ from the net asset value of the properties held within the fund. A Real Estate Investment Trust (REIT) is a type of closed-end fund.

Many closed-end funds use leverage (or gearing as it is known in this context) to increase the size of the fund's assets beyond the amount it raises from investors. Leverage magnifies the effects of changes in prices, so those that do will benefit more from any growth in the market that occurs, just like an individual with a mortgage would, but will suffer more if the market performs poorly.

What type of property can you invest in?

Billions of pounds are invested in property funds here in the UK every year. The majority of these funds are geared towards commercial property – offering shares in everything from shopping centres and office buildings to retirement homes and petrol stations – but there's a growing number specialising in residential property.

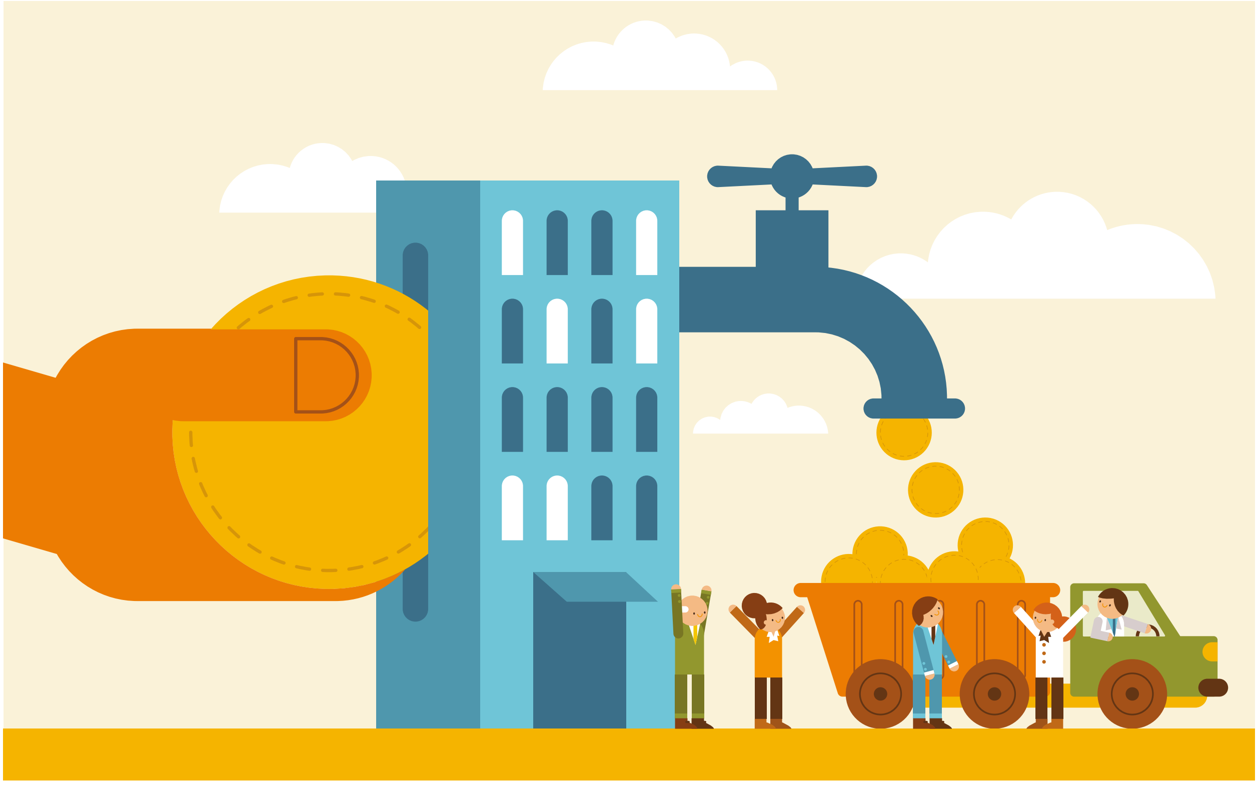
"People are starting to wake up to residential property as an institutional-style investment," says Rob. "It's happened already in the US, I don't fully understand why it's not been seen to the same extent in here the UK.

"I guess if you're a big organisation and you've got a lot of money that you need to deploy quickly, it's easier to go out and buy a huge office block, than go and buy 100 houses, all of which have individual tenants that need to be managed.

"Now, because of the way things are going, and because residential has performed so well, people are starting to get their heads around it and the benefits."

How do you choose a fund?

Which property fund you invest in depends on what type of property you want exposure to. "Even though



the fund is the vehicle you are investing through, it is all about the underlying asset," says Rob.

Some funds are extremely broad and incorporate several types of property, while others are much more niche. First, you need to pick your sector, suggests Rob, then when you get to the next level down, it's about picking the right assets within that sector.

"If you bought into a commercial fund that was exposed primarily to high street retail property or shopping centres, for example, no matter how tax efficient that structure is, it won't have done very well over the past few years because the retail sector has just been destroyed as a result of the pandemic. In contrast, if you'd been investing in a fund that was exposed to logistics and warehouses, you would have done really well," he explains.

Some funds are extremely broad and incorporate several types of property, while others are much more niche. First, you need to pick your sector, then when you get to the next level down, it's about picking the right assets within that sector

Why invest in a property fund?

Aside from the benefit of being a hands-off investment, property funds require investors to stump up far less cash. To purchase an average BTL you're going to need at least £30,000 to cover your deposit and fees, whereas you can own a stake in a fund from as little as £50 to £100.

Obviously, if you're only investing that much, you're not going to make life-changing returns – no matter how well the fund performs – but you've still got access and exposure to property that you perhaps wouldn't have otherwise been able to have, and it is generally easier to get your money back out of a fund than out of a house should you need to.

There are tax benefits too. You can hold some property funds in an ISA or a pension, which means you can benefit from tax breaks on your investments within your yearly ISA limit of £20,000.

"Like anything you put in an ISA, there's no tax to pay, and if you sell your shares in the future and make a gain then there's no capital gains tax to pay either, which is very different from BTL which is heavily taxed," says Rob. "REITs specifically don't have to pay corporation

tax, so the rental profits are not taxed before they get passed on to the shareholders."

People also like funds because they feel less risky. Rather than putting all your hard-earned cash into one or two properties, you're spreading the risk over a portfolio of potentially hundreds or thousands of properties.

"If you buy one property and if things don't go well – say you have void periods and maintenance issues – then it can cause you some serious problems. Whereas if you invest in a fund you are investing in multiple properties.

So, if one or two out of, say, 100 is void then you don't feel the pain because you're getting the income on the other 98. The same goes for maintenance issues," Rob reasons.

What's the catch?

There are, of course, many reasons why investing in a property fund wouldn't be the right option for you. First off, if you're in property to grow your money quickly, then there are better alternatives out there.

"On the podcast we talk about property as a long-term investment that produces an income and grows over time, so if you hold it for years then you end up doing really well. And if you hold property in a fund that's exactly the same, it doesn't make any difference. But if you are looking to grow your money as quickly as possible, then investing in a fund wouldn't be the thing to do, in exactly the same way investing in a BTL wouldn't be the thing to do," says Rob. "You'd potentially be better off doing a flip or buying a house in multiple occupation."

Although having visibility and liquidity is generally a good thing, you have to be aware of your own psychology a bit more and not do anything silly as a result

Similarly, if you enjoy owning a physical asset that you can see and touch and take pride in managing everything yourself and creating a home for people, then – chances are – investing in a typical property fund won't meet your needs.

The visibility of prices you get with a fund that you don't get with a traditional BTL can, for some people, be a drawback too. Share values are more volatile and can sometimes change from minute to minute. It can be quite stressful watching the value of your investment go up and down.

"Although having visibility and liquidity is generally a good thing, you have to be aware of your own psychology a bit more and not do anything silly as a result," says Rob.

"It is quite hard to panic sell a BTL, because you have to be panicking for quite a long time. Whereas it is possible to go: 'oh no, the market is down by 5%, I'm going to sell all my shares'. You can do that in a few seconds."

It's also important to bear in mind, if the property market is doing poorly, you might not be able to sell your shares if you want to get out. Or at least you might not be able to sell them at a price you'll be happy with.

Then there's the fees to consider. A fund has all the same property management costs you would as an individual, plus an extra layer of costs associated with running the vehicle itself – all of which are deducted from the profits that are returned to you.

"Some people would say: 'no way, I want to earn as much money as possible, and in any case, I enjoy being hands-on,' whereas others would say: 'sign me up, I'm happy to make a lower return but not have to do anything at all'. There is no right answer, it very much depends on the individual," says Rob.

Before investing in a fund

Even with this kind of hands-off investment, there is still work to be done. Before you consider putting any money into a fund you need to do your due diligence, just like you would with any investment.

It's important to establish what kind of properties you'll be investing in, where they are located, how big the fund is and who is managing it. Then review your findings using your knowledge of the property market to determine which one best suits your personal requirements.

You'll also want to look at the potential for capital growth and the yields too, but don't be totally guided by them – just like buying a BTL, the rental income is only part of the equation.

Rob recommends starting out by doing some desktop research: "Every fund will publish annual reports which are made public so you can have a look at the reports and get a feel for it.

They are obviously going to present everything in the best light, but by reading between the lines and making comparisons you'll start to get a feel for how they are run, what the assets are, where they are located.

"You're delegating your investment decisions to them, so you want to make sure their views match up with your own. If so, they're probably going to be making decisions you're happy with on the whole."

PROPERTY FUNDS

Pros

Hands-off investing
Deposit your money and the rest is taken care of for you

Less cash needed
You can own a stake in a fund for potentially as little as £50-£100

Liquidity
It's easier to get your cash out quickly

Tax benefits
No tax to pay if you package in an ISA or SIPP

Diversification
Spread the risk over multiple properties

Cons

Not a get-rich-quick scheme
Like BTL, it pays to be in it for the long-haul

No physical access to the assets
You don't get to do all the typical landlord things you would with a BTL

Visibility of share prices
Watching your shares go up and down in price can be stressful

Liquidity
It's easy to panic-sell

Extra fees
Being hands-off comes at a cost

If you'd like to find out more about property funds, watch our video Property Funds: what are they and who are they right for, at youtube.com/propertyhubuk

A scale polish

Most of us avoid visiting the dentist if we can, but when Lewis Perren got wind of a disused dental surgery in Derby, he saw it as an opportunity to create something special. Marieke Mollitt reports

Above: Lewis (right) with business partner Sam Elgie (left) outside the former dental surgery in Derby

Left: one of the studios

and

INVESTOR FACT FILE

Name:
Lewis Perren

Age:
29

Lives:
South London

Invests in:
Liverpool, North Wales, Derby, Yorkshire, South Wales, Surrey

Occupation:
Property investor

Years investing:
Two years, 10 months

Strategy:
BTLs, serviced accommodation and HMOs

Portfolio size:
Nine

Goal:
To have a £10m portfolio within the next year

Three years ago Lewis Perren, 29, made a complete lifestyle change, swapping a career in scaffolding to follow his dream of making a living from property.

Born into a family of scaffolders, he joined his father's business in South London straight from school. But after ten years in the trade, on a particularly rainy and muddy morning on site, he made the decision to help create homes in a different way – by investing and developing.

A decade working amongst professionals of all types; builders, plasterers and electricians, gave him the contacts needed to create a network that would help him to transform properties.

It was a desire to do something new, lucrative, and sustainable for his young family that led him to start educating himself.

Making the move

After making the decision to change career paths, Lewis immersed himself in all things property and stumbled upon The Property Podcast. "I listened to it and I was like: 'This is it'. I knew I'd be part of the same industry I'd spent a decade working within, building up connections...it helped me figure out how to get to the other side of building. I wanted to make my own way and create a better life," he reflects.

He listened to the whole back catalogue of episodes to build up his knowledge. After consuming all the information he could find, he made it his mission to meet people 'in the know' that could provide advice and share their experiences.

In 2018 he found his first property in North Wales, a two-bedroom terrace that would make the ideal serviced accommodation. In what was a high-risk move, he gained the funds to buy the property using money from a private investor, a family member, guaranteeing them a fixed return on their investment.

"They knew I was studying property and that I had done extensive research and found the right deal. Everything that we earned was then split 50/50. I just took action to make it happen," he explains.

By sharing and demonstrating his ability on social media, Lewis has attracted other investors, allowing him to broaden his portfolio to include nine properties located in the North West, Wales, Yorkshire and South West.

Each investor, whether friends, family, or a new contact, signs a personal guarantee or

A scale and polish

loan agreement created by a solicitor. There is also the option to offer an RX1, providing extra layer of security for all parties.

"Mine isn't a property strategy – it's a people strategy. I'm a people person. I build teams with people. I believe, the more you connect, the more you collect," says Lewis.

The dentist's surgery

Lewis's latest project was a joint venture with his business partner, Sam Elgie, a lifelong friend. The pair spotted an old dentist's surgery in the centre of Derby, just streets from where Sam lives, allowing him to effectively project manage.

Together, they studied the details and figures and decided it would make a good house in multiple occupation (HMO). Each of the six rooms were big enough to be converted into an independent studio with their own bathroom and kitchenette.

They bought the building for £160,000, directly from the vendor, and got the keys in March 2021.

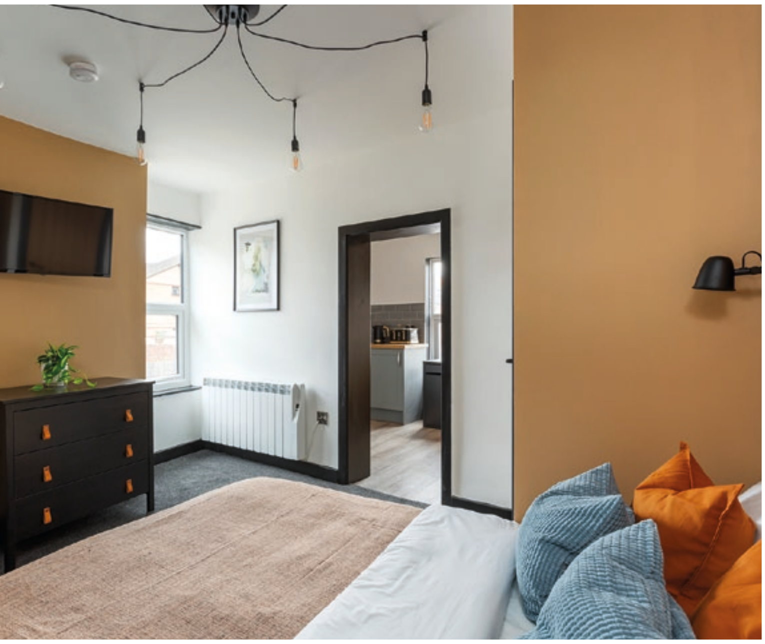
The building itself was in good shape, so no structural work was required, but with six bedrooms, kitchens and bathrooms to create, the inside needed a complete overhaul: rewiring, plumbing, plastering, a full set of new windows, decorating and furnishing. They budgeted £100,000.

The pair were able to call on their connections in the trade to get the work done, leaving them free to manage the project and handle the complicated process of changing the building's use from a commercial to a residential premises.

Lewis reflects: "The city centre location was incredible and the room sizes and layout were exactly what you would want. No extensions or structural works were needed. It wasn't a complicated build."

Taking the rough with the smooth

This didn't mean plain sailing, however. "Well, there was a global pandemic to contend with," Lewis points out. "This caused delays and lack of material availability – plaster was like gold dust.



Lewis and Sam created six high-spec studio rooms

"Also, later on, we found the kitchen tiles were placed on top of mud, there was no floor. We had to dig it all out, incurring a large cost."

Then, just as the project was nearing completion, Lewis and Sam had another setback. "We'd had all of our sash windows replaced the day before the Euro finals over the summer. Then someone threw a brick through them after England lost. We couldn't believe it. But there's always going to be something. If you can fix it or replace it, I try not to worry. You learn from every build," says Lewis.

The result was a £14,000 overspend. The project was completed in July 2021. The day after the builders left, all six rooms were occupied thanks to early marketing.

The end result was six high-spec studio rooms, two of which allowed double occupancy. Each of the rooms had its own kitchen and bathroom, apart from one which has access to a kitchen just outside of the bedroom.

The pair expected the post-project valuation to come in around £360,000, but it was valued £450,000, a healthy £90,000 more. This meant a profit of just over £165,000, with a monthly rental profit of £2,200, split between Lewis and Sam.

Giving back

One of the elements of Lewis's new-found career path he feels very strongly about is ensuring that others also benefit. The Derby dentist's surgery is let out via a charity for young people who may not otherwise have had the opportunity to move into their first home.

As each apartment is a self-contained studio, tenants can live in a new, modern, clean and self-sufficient space, while they save up for their first property purchase and at the same time gaining their independence.

RUNNING THE NUMBERS

This is how Lewis and Sam's six-bed HMO in Derby stacks up financially:

Purchase price: **£160,000**

Deposit: **£65,000**

Purchase costs: **£8,168.52**

Finance method: **12-month bridging loan and private development finance**

Amount borrowed: **£195,000**

Renovation costs: **£114,000**

Project duration: **seven months**

Done up value: **£440,000**

Total personal investment: **£0**

Monthly rent: **£3,900**

Monthly expenses: **£1,700**

Monthly net profit: **£2,200**

In addition, Lewis gives a donation to charity for each property he converts. "I've always done that – every house is connected to a different charity. I want to have a large charitable impact through what I do. It really drives me," he says.

The future

When considering what comes next, Lewis doesn't have a career end-date or retirement figure in mind. His interest is in continuing to expand and bring other people into his area of work, letting them discover the possibilities, whilst increasing his own network. He does this partly by coaching others in property development.

He already has his sights on his next project, a 46-studio development in Derby. "It's going through planning permission, so watch this space," he says.

If you have an interesting property case study (good or bad) we'd love to share your story. Email us with some information and photos and we'll get right back to you: **magazine@propertyhub.net**

Rocketing council tax bills

With reports of landlords seeing a sudden hike in council tax bills for their houses in multiple occupation, Natalie Thomas investigates what is happening and if there's a way to prevent it

When it comes to houses in multiple occupation (HMOs), most landlords work by the assumption that their property will be classed as one single dwelling for the purpose of council tax and for the most part, this has been the case – until now.

Although no new legislation has been introduced, some local authorities are starting to reclass each individual Assured Shorthold Tenancy (AST) within a HMO as a dwelling in itself, making it liable for council tax.

Why is it happening?

When it comes to the billing and collection of council tax, this responsibility falls upon the local authority. Sitting above local councils however is the government's Valuation Office Agency (VOA).

Unbeknown to most landlords and possibly even some councils – the VOA has the power to reclass an AST within a HMO as a dwelling.

"The VOA has always had such powers – since as far back as 1976 – but is becoming more aggressive in applying them," says Phil Turtle, compliance director at Landlord Licensing & Defence.

The most plausible explanation for this, he says, is the increase in revenue it provides. Another reason could also be that the VOA and local councils now have better technology which allows them to find HMOs.

"The council has lots of different databases and details about properties, meaning they can spot patterns in the data and HMOs," says Phil.

"We have also had a lot of cases come to us where a re-banding has followed a building regulations certificate after a landlord has carried out renovations," he adds.

Phil believes it is only a matter of time before the VOA come after all HMO landlords.

Checking her balance one day, she was shocked to discover that instead of debiting her account the usual £130 for her six-bedroom HMO, her local council had taken £130 per room

Emma's story

One landlord who has first-hand experience of the price hike is Emma Estill. Checking her balance one day, she was shocked to discover that instead of debiting her account the usual £130 for her six-bedroom HMO, her local council had taken £130 per room.

Worse still, they had backdated her payments, so in total, took £3,015 from her account, with no prior warning.

Instead of paying £1,344 a year per property, she now pays this annually per room.

After approaching her local council – whom she does not wish to name – she was told the decision had been made by the VOA and there was nothing they or she could do.

Unbelievably, Emma also owns HMOs on the other side of the street which have not been re-classed in this way.

She is now in a situation where a 6.5sqm room in her HMO is charged the same council tax as one of her three-bed houses with a garden. Further still, the council has directly billed each tenant in her HMO for the council tax.

"As you can imagine, this has caused a lot of distress, upset and concern amongst housemates. Especially since the bills have been backdated," she says.

"One tenant within the HMO pays rent of £350 a month which they can only just afford, how can I ask them to pay this on top?" she asks.

Under law it is the tenant who is responsible for paying the council tax – not the landlord, although many HMO tenancies do cover the cost of the council tax within the agreement.

A spokesperson for the VOA told us: "The VOA is responsible for assessing properties for council tax purposes and has a statutory duty to maintain an accurate list.

"We will only reassess a domestic property if we are notified of a change that we think could alter the rating – this could be by local authorities or other taxpayers.

"HMOs are assessed individually against the same principles as every other domestic property. There is no checklist of conditions which determine whether or not a property should be classed as an HMO, each case is assessed against factors such as the degrees of adaptation and/or communal living.

"Adaptations to properties which result in them being classified as a separate unit for valuation purposes can be minor, such as putting a lock on a bedroom door, or major, such as installing an en-suite bathroom and/or kitchen facilities."

How to fight it

So, what can HMO landlords do to prevent themselves from incurring extra charges?

One way is to rent a HMO on one joint tenancy, with all tenants on the same AST.

There is also good news for landlords of student HMOs. Students are exempt from council tax, so the tenants will not be liable, assuming they are all students.

Phil says while there is no way landlords can fight the bill itself, they can make a case for having the backdated payments become the responsibility of the tenant – a service his firm offers.

Perhaps the biggest glimmer of hope comes from the National Residential Landlords Association (NRLA). It is challenging the definition of what constitutes a HMO with the goal of having it recognised as a single unit for the purposes of council tax.

James Wood, policy manager at the NRLA, says: "Under most of the legal requirements that govern HMOs, landlords are incentivised to provide room-only tenancy agreements and make some adaptations to the property to make it easier for multiple households to live together in one home.

"However, for the purpose of council tax, even small changes to facilitate shared living can see the property re-banded into multiple dwellings for council tax. Something as small as offering a room-only tenancy on a six-month AST is sufficient to establish that the VOA can re-band it so there are multiple council tax charges."

He goes on to say: "We have suggested to the Law Commission that it looks at this issue for its 14th programme of law reform. We would like to see it recognised as one dwelling for the purposes of council tax."

If successful, it will not be a change that happens in the near future, but James reassures landlords: "It is certainly something we are aware of and trying to make a case for."

There seems little rhyme or reason to whom the VOA targets, but with the NRLA committed to fighting the cause, there's every reason to be optimistic.


Paul and Svetlana Scoble

The Midla
the Mi

Ex-pat investors Paul and Svetlana are building their UK property portfolio from 3,400 miles away in Dubai. Noora Ismail tells their story


Nottingham apartment block exterior

Investing far away from home, pouring your hard-earned cash into an area you haven't so much as visited, let alone created a trusted network in, may seem risky, complicated and stressful. Yet, Paul and Svetlana Scoble are proof that with the right knowledge, research and determination it can be done.

Starting from scratch

Paul first moved to Dubai for work in 2008. He met Svetlana, who is originally from Uzbekistan, while out there and the pair returned to the UK in 2016 with the intention of settling down. Paul was keen to get on the property ladder and they quickly purchased their first home for £265,000 in June 2017 – a two-bedroom apartment in an old Edwardian manor house in Ardingly, West Sussex.

"In hindsight I realised how lucky I got on the deal. The guy selling it was fed up, two previous buyers

Top: Sheffield apartment living room
Left: Nottingham apartment kitchen

nds via iddle East

INVESTOR FACT FILE

Name:
Paul and Svetlana Scoble

Age:
44 and 43

Lives:
Dubai

Invests in:
Nottingham, Sheffield, West Sussex

Occupation:
Paul is a sales consultant and Svetlana is a chartered accountant

Years investing:
Three

Strategy:
Long term, mixture of capital growth and yield, in city centres

Portfolio size:
Three

Goal:
To support their retirement and lifestyle if they return to the UK and to leave a legacy for their three children

fell through and I got it at the right price and he just wanted to move," says Paul.

Just 18 months later, Paul was offered another job back in Dubai. Rather than sell up they decided to let out their home, which had been revalued at £320,000. "We never would have bought it as a buy-to-let," explains Paul. "In terms of rental income, it's awful, it just about washes its face, but in terms of capital appreciation, it is the top earner out of all of our investments. It is such a unique building. I don't think I'll get that lucky again in that area."

Building a future

After moving back to Dubai, Paul and Svetlana married and had three children. With a family to support, they decided it was time to invest their money in their family's future, rather than succumbing to what Paul describes as a "consumerist way of life".

They chose to invest in the UK rather than Dubai, despite loving the region and the lifestyle it provides. "Dubai property prices are very turbulent," says Paul. "Between 2008 and 2009, properties there lost 70% of real estate value." Speaking directly with Dubai investors reinforced his decision to look westwards.

Svetlana was initially keen to invest in London or Scotland based on her experiences and knowledge of the area. She was more focused on income, whereas Paul was focused on capital growth. They compromised between the two and decided that the data, and whether they would be happy to live in the property, would guide them towards their next investment.

Getting the numbers right

The BBC had coincidentally published an article around the same time, illustrating the difference between the average mortgage payments and average

Left: Sheffield apartment kitchen
Right: Nottingham apartment living room

price of one, two and three-bed properties in the UK. The Scobles replicated this analysis over 15 UK cities while adding rental yield averages and the potential net profit which they then converted into a heat map.

Once they established the most profitable cities, they made the decision to focus on Nottingham and Sheffield. They furthered their desktop research by looking at available properties and speaking to friends. It was at this time Paul discovered The Property Podcast which confirmed his reasons and rationale for investing in the UK. He began listening regularly on his drive to and from work in Abu Dhabi.

The couple booked a trip back to the UK in 2019. They visited Nottingham and were lucky to find a local agent who they built a positive relationship with. "Despite the reputation [of estate agents], he was trustworthy," says Paul. The agent understood their strategy and made it clear when a property didn't fulfil their requirements.

> I'm a British citizen, I work for a British company, I just happen to work for that company abroad. Because I'm not in the UK, mortgage companies viewed me as being extremely high risk

Doubling the investment

They intended to only make one investment but were presented with two suitable deals: two one-bed apartments, one in Nottingham and another in Sheffield, a city they hadn't even visited. The numbers satisfied their projections and came in just on budget, so they put offers in on both. Then, at the last minute, their Nottingham agent told them a better apartment was due to come to the market and it was likely they would have an offer accepted at the same price. They held off and purchased the better model for £98,500. "Everything he said has come true," says Paul.

The conveyancing process was time consuming but straightforward enough. However, obtaining an expat mortgage was a "painstaking" experience. Paul found, being an expat, the pool of lenders he had to choose from was small and when he did find one, their rates were expensive.

"I'm a British citizen, I work for a British company. I just happen to work for that British company abroad. Because I'm not in the UK, mortgage companies viewed me as being high risk," he explains.

In the end he took out both mortgages with the same lender, saving himself some extra admin time and securing a small discount too.

It was January 2020 – five months later – before they completed on their Sheffield apartment and another month before they completed on the Nottingham property. Then Covid-19 struck.

RUNNING THE NUMBERS

This is how Paul and Svetlana's apartment in Sheffield stacks up financially:

Purchase price:**£93,000**

Deposit: **£23,250**

Purchase costs: **£7,550**

Finance method: five-year fixed rate at **3.29%**

Amount borrowed: **£69,750**

Renovation costs: **£2,225** to furnish the apartment

Total personal investment: **£33,025**

Monthly rent: **£650**

Monthly expenses: **£380**

Monthly net profit: **£270**

RUNNING THE NUMBERS

This is how Paul and Svetlana's apartment in Nottingham stacks up financially:

Purchase price: **£98,500**

Deposit: **£24,625**

Purchase costs: **£8,095**

Finance method: five-year fixed rate at **3.29%**

Amount borrowed: **£73,875**

Total personal investment: **£33,500**

Monthly rent: **£650**

Monthly expenses: **£400**

Monthly net profit: **£250**

Both apartments were ready to let straight aways and had similar fundamentals, although the lettings experience between the two couldn't have been more different. The Nottingham property came tenanted, but when the tenant had to move out soon after Paul took ownership, his local agent was quick to find a replacement, despite the restrictions imposed by the pandemic.

"We have a great tenant in Nottingham, we very rarely hear anything from them unless they have any small maintenance issues. Our letting agent has advised we could get more rent per month, but I don't want to put up the rent because he's a good tenant."

Meanwhile, the Sheffield apartment sat empty for four months while Paul struggled to get through to his appointed agent. Eventually he chose to look elsewhere. "If I was struggling to get in contact with the agent, how could my tenants?" he says.

He contacted five alternatives, all of whom responded immediately. His new agent swiftly let out his apartment to a young accountant after Paul took on their advice and spent £2,225 furnishing it to attract the target tenant.

Investing through the pandemic and beyond

Despite a tumultuous start to their investment journey, Paul says he and Svetlana still feel the same about investing in property in the UK. "What has happened over the past 18 months hasn't changed our sentiment – if anything it has been really frustrating not being able to buy.

"We were trying to buy our fourth property earlier this year, but it fell through because the mortgage lender wanted to see the ESW1 form the week before completion, even though they didn't need it."

Paul is excited about his next steps: "We are looking to buy early next year and have started speaking to a couple of agents, but the market is very hot at the moment."

Despite the tax changes in the UK, he's still confident his strategy focusing on one and two-bedroom apartments in city centre locations will help him achieve his long-term goals. Supporting his family and building a stable future for them are what keep him motivated.

On investing away from home, he says: "I think it's natural most people want to buy close to home. I always wanted to invest in Surrey where I grew up, but the numbers never worked."

For anyone wanting to follow in his footsteps, he advises: "Focus on educating yourself first, however, sometimes the best education is getting in and doing it yourself.

"Build sufficient knowledge to understand why you're doing certain things, but the best education comes from the experience of buying a property."

If you have an interesting property case study (good or bad) we'd love to share your story. Email us with some information and photos and we'll get right back to you: **magazine@propertyhub.net**

COMMENT

Property Geek

with Rob Dix

Shaking up the property sector

In a year admittedly not packed with stiff competition, announcing Portfolio and seeing the reaction from the Property Hub community has been one of the highlights of my year, writes Rob Dix

Portfolio is our new app that aims to give everyone the full experience of being a property investor from their phone. Investors can use the app to buy shares in a fund that holds a portfolio of prime rental homes, and will receive regular updates and video tours to replicate the experience of being a hands-on investor – without the effort.

The concept of allowing "fractional ownership" in property is one that Rob and I have had in our minds for years. In January 2020 we finally started seriously investigating how to make it happen – and from our very first call with a lawyer in this space, every person we spoke to, without exception, told us how hard it was going to be.

Due to obstacles like regulation, the complexity of setting up a new financial vehicle and the general uncertainties of doing something unlike anyone has done before, it quickly became clear that we were in for a challenge.

They weren't wrong. The past 18+ months have been exhausting, often frustrating, and extremely expensive. Along the way, we've received plenty of suggestions for adjustments that would make it easier – but all would have involved compromising on our vision to allow anyone to become a property investor. So we pushed on, and by the time you read this, hopefully the first users will be enjoying the app.

Fixed purpose

Our drive to push through the challenges and make Portfolio a reality comes from three strong beliefs that we both hold.

The first is a belief in residential property as an asset class. This shouldn't come as a shock: we wouldn't have recorded 450+ episodes of The Property Podcast if we weren't excited about property as a long-term investment. Increasingly, big institutions – who previously focused on commercial property, if any kind of property at all – have picked up on the advantages of the residential market and have been establishing themselves in the sector, giving us even more confidence in what future performance will look like.

The second is a belief that property is attractive to millions of people who aren't currently able to get into buy-to-let (BTL) or other strategies that involve direct ownership. Again, this didn't take much of a leap of faith: we're constantly hearing from people who'd love to get into property but don't have the money, time or expertise for it to be a realistic prospect. The barriers are getting higher too, as regulations are making property ownership more onerous, and taxes and rising prices are increasing the amount of cash needed to get started. For years we've said that the minimum investment needed to get into BTL is around £30,000, but in most of the

country that's now pushing up towards £50,000. For many, many people that's just not possible.

But what's to stop these people from just firing up a share trading platform and getting into property by buying a few shares in a property fund? That's where the third belief comes in: that people are attracted to property in large part because it's tangible and real, so technically being an investor by holding a few shares without feeling like an investor isn't going to cut it. Rather than just getting a factsheet once per quarter if you're lucky, we believed that people want to feel an emotional connection to their investments – and the excitement that's accompanied the announcement of Portfolio has borne that out.

Team effort

Like all the best ideas, in retrospect it seems obvious – and it also seemed like, without us knowing it, everything we'd done so far had been leading us to the perfect position to make this work. There aren't many teams with the depth of property knowledge we have, plus the necessary marketing and tech ability on top of that.

What we didn't know was the legal, practical and regulatory aspects of running a fund – so the past 18 months has involved making an immense investment in growing our team, hiring in outside expertise and doing a huge amount of learning at speed to be able to manage the project effectively.

That learning – along with working alongside some of the most talented and impressive people I've ever encountered – has been the most rewarding part of the journey for me. It feels like we've come a long way from just being a couple of guys with a podcast, and we're more than ready to continue being challenged as Portfolio grows into something truly significant.

And that significance is what I hope turns out to be the true reward with Portfolio: the satisfaction of turning tens of thousands of people into property investors who otherwise wouldn't have done it. It would have been far easier (and a lot cheaper) to set up Portfolio to be capped at a certain size, or available only to a certain type of investor – but we knew from the start that if we were going to do this, we'd only do it with the aim of disrupting the way people invest in property.

Whether we'll achieve that at the scale we've got in mind remains to be seen, but it'll be a lot of fun finding out.

It feels like we've come a long way from just being a couple of guys with a podcast, and we're more than ready to continue being challenged as Portfolio grows into something truly significant

To find out more visit portfolio.co.uk

How to...

Avoid the common tax traps

HOW TO

Make sure you don't pay the price for falling into any of these common property tax traps, writes Mark Rocks

Benjamin Franklin once famously said that only two things in life are certain; death and taxes.

It may sound dramatic, but it's still true. All of us have to pay our taxes, but keeping on top of them is critical it you're a property investor.

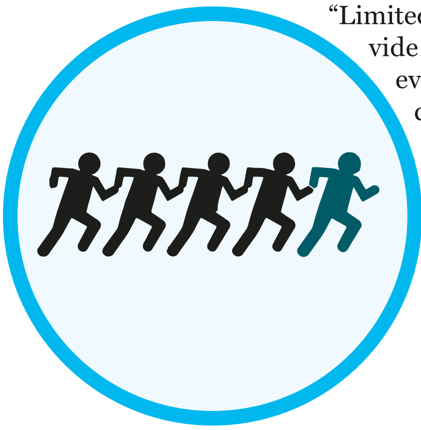
Between stamp duty, income tax, capital gains tax, corporation tax, and inheritance tax there are countless ways investors can get confused, and this confusion can lead to costly fines.

So, what are the most common tax traps that investors fall into, and what ways can these traps be avoided?

1 Following the crowd

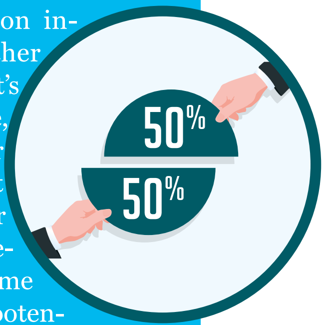
While it's good to get advice from other investors who have been there and done it before you, never assume you should just replicate their model without speaking to your accountant first.

"Lots of customers tell us that they've set up a limited company to buy property simply because they know some other investors who have benefitted from owning property within a company," says Nicole Pearson, tax accountant, at Calculated Ltd.



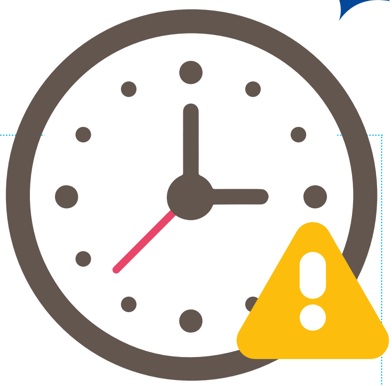
"Limited companies don't provide the same benefits to every investor. And especially when it comes to taxes, you can't just assume that you should follow someone else's lead. It depends on your personal circumstances."

2 Splitting everything down the middle



If you're planning on investing with another person, whether that's your husband or wife, business colleague or a friend, you might think it's only fair to divide your shares of the property 50/50, especially if you're contributing the same amount. But in doing this, you're potentially making one person pay more in taxes.

Before you start divvying up your deal, consider who is paying the higher tax rate. If one person is earning less than the other, and therefore paying less in taxes, it could work in your favour to give them more of a share. That way, there's less tax to pay overall and your investment will be more lucrative.



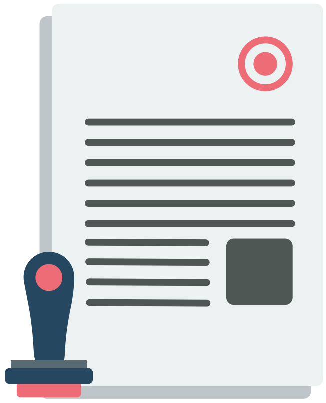
3 Getting the timing wrong

Fail to pay your tax bill on time and you could start to incur some hefty charges. HMRC charges £100 if you're a day late, then £10 for each additional day after that.

Similarly, if you carry out work on a property that qualifies for revenue expenditure and submit your claim late, you could end up not seeing the tax relief for almost two years, which is not a situation very many of us can afford to find ourselves in.

And if you're selling, you now need to report and pay your capital gains tax (CGT for short) within 30 days of completion. Property owners used to be able to submit their CGT along with the rest of their taxes on 31 of January each year, but the rule changed in April 2020.

Needless to say, it pays to be on time with taxes.



4 Confusing tax treatments

Many landlords are unaware that letting residential property to tenants has a different tax treatment to those purchasing a property to refurbish and sell.

If your intention from the beginning was to refurbish and flip the property (so sell it on for a profit), then this is classed as trading, and the profit you make is subject to income tax, which is charged at rates of up to 45%.

Conversely, if you buy a property to turn into a buy-to-let (BTL) this is regarded as an investment and is subject to CGT which is charged at 18% or 28% depending on your level of income.

If, for whatever reason, you can no longer use the property as a BTL and need to sell it, then you'll still be charged CGT, but you'll need to prove you originally bought it as a BTL.

5 Being stung by stamp duty

According to Jagrup Lewis, tax manager at Calculated Ltd, lots of people wrongly think that if they turn their old main residence into a BTL and buy a new main residence, then they don't have to pay the 3% second home surcharge.

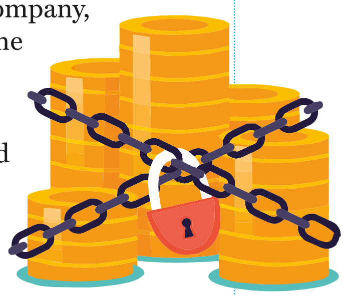
But that's not the case. However, there is a way you can claim for a refund.

"If you're planning on purchasing a new residence and you'd like to turn your old home into a BTL, this is one instance when we'd say it's useful to have a limited company to work with," explains Jagrup.

"You can transfer your old property into the limited company, and then you'll get your stamp duty allowance back," she adds.

6 Tying up cash in a company

If you're contemplating whether to own your property as an individual or within a limited company, then it's worth noting that any money your investments make belong to the limited company, not to you – even if you're the only shareholder.



This means you can't just take money out like you would out of your own personal account. There are specific procedures you'll need to follow and you'll be liable to pay corporation tax on any profits.

As you can see, it's easy to fall into any of these traps. Property tax is so complex and the numbers are so big, that's why you should always seek out advice from a professional.

To find out more about Property Hub Tax visit: **propertyhub.net/service/tax**

Happy birthday BTL

It's 25 years since the first buy-to-let mortgage was launched, giving more people the opportunity to create wealth through property and transforming the private rented sector, writes Rob Bence

Back in the mid-90s I wasn't paying much attention to the mortgage market. As a teenager, I was much more interested in playing football with my mates, hating school and trying to find a cure for spots.

My dad, on the other hand, had a handful of flats he rented out. He was one of those people that had invested before buy-to-let (BTL) kicked off. The flats were above shops in some dodgy parts of Liverpool – nothing to write home about – but it was all he could afford at the time. Had he been able to use leverage, he could have done so much more.

Reserved for the rich

Before BTL lending came about, investing in property was really only for the upper middle classes. So, when Paragon and Nat West launched the first BTL mortgage products in 1996, it opened up the market to a broader range of people, giving them the opportunity to access property investment for the first time.

Around the same time private pensions were starting to decline, so it was quite timely when BTL came along to offer financially savvy people an alternative.

The magic of leverage

Property as an asset class is probably as good as any other asset class, but it's when you introduce leverage that it becomes exciting. It allows you to use the power of someone else's money to make better gains for yourself. Thanks to leverage, millions of people have created real wealth for themselves; changing their lives, their family's lives and escaping the rat race.

Of course, you've got to be careful – lending has gone too far at certain points over the past 25 years with people being offered 95% loans without any stress testing. And while that might sound attractive to those who don't have the funds to invest right now, it led to a lot of irresponsible lending and landed a lot of people in trouble.

Moment in time

Looking back, 1996 was a pivotal moment in the history of the private rented sector. By allowing more people into the market, BTL lending helped to bring about more regulation.

Consequently, over the past 25 years, there has been an upward curve in the standards of accommodation for tenants. It has taken a long time to get here, but the quality of accommodation on offer has drastically improved since the Spice Girls were in the charts. And now with big institutions like banks and insurance providers waking up to the rewards of investing in residential property, standards will keep on being driven up.

Here and now

Today there's a nice balance in the BTL mortgage market. Loan to value (LTV) ratios are at a good level and there are stringent stress tests carried out to make sure people can keep up with their repayments.

Products are increasing all the time as competition heats up and I think we'll continue to see more products and better rates as the competition intensifies. After all, every lender wants a piece of the action, and if they're not competitive, they won't get it.

Looking further into the future I think we'll forget some of the lessons from 2005-2008, and lenders may be tempted to start cutting corners again and finding more ways to lend to people. They'll start to push the boundaries of what's sensible. I don't think that's a good thing, but that's what I believe will happen.

And while this could be good for those investors that understand what they're doing and are aware of the risks involved, there will be others that don't educate themselves and don't follow where the market is right now and could potentially end up being burned.

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PROPERTY TALK

Top five Hub Extra resources

We've featured a ton of great resources on The Property Podcast and in our Hub Extra emails this year, but which ones have been the most useful? Our team share their favourites

1 THIS IS MY ERA PLANNER

Our videographer Rob Ball credits this goal setting and productivity planner for keeping him on track this year. There's a section for your SMART goals, weekly and monthly review pages, a daily schedule and 'to do' list. "I love the This is My Era planner because it keeps me accountable on my daily and weekly tasks and keeps me motivated with daily inspirational quotes," says Rob. One for the Christmas list.
thisismyera.com

2 EMMA APP

This money management app has helped our community builder and content writer Mark streamline his finances. "Not only does it take all my outgoings into one app, but it sends me reminders of upcoming bills that I may have forgotten, and suggests subscriptions that I could remove if I'm not using them very often," he says.
emma-app.com

3 A MILLION MILES IN A THOUSAND YEARS

Recommended by Rob B, this book tells the story of author Donald Miller who – when approached by movie producers proposing to turn his memoir into a movie – discovers how to make a better life for himself. "This book is perfect for making you reflect, but also plan and feel inspired by the future. It made me question where in my life am I not living a good story?," he says.

4 OVERCAST

This clever podcast player has sped up the time it takes our magazine editor Chantelle to listen to her favourite shows. Rather than just applying a 1.5x or 2x speed increase across the entire episode, its Smart Speed tool shortens the silences in between speech without any distortion. "A handy feature if you're listening to the back catalogue of The Property Podcast," she says.
overcast.fm

5 CLASS CENTRAL

We've all been expanding our knowledge with this search engine, which helps you find all the free courses there are online – many of them from universities – on the subjects you're most interested in. The courses are all reviewed by other users and you can even get certificates for completing some.
classcentral.com

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What I've learned

Sarah Watt shares the lessons she and her husband have learned after a decade investing in property together


Sarah Watt

Your network is your net worth: Without a doubt, your network is key in the property game. From trades recommendations, to other investors and developers you can call on for advice when you get into a pickle – we wouldn't have grown as fast as we have if it wasn't for our network. Sometimes it's just nice to know you're not the only one and there are others in the same boat as you. It's not what you know, it's who you know. Get yourself around the right people.

Focus on the end game: What is the big, hairy audacious goal you are trying to achieve and why? (The BHAG for those who have read Jim Collins – Good to Great). Working backwards from the end game can help you focus and set short, medium and long term goals to keep you on track, especially during those really long refurbs when you're tired, have spent time away from family and friends and are asking yourself if it's still worth it. There will be difficult times, but having a solid goal and a strong reason why will get you through.

Balance is everything: This took me many years to master, but there is a sweet spot between work and play. Make sure you reward yourself for achieving those major goals or milestones. Finish first fix? Celebrate with a nice evening out. Fully tenanted your latest project? Go for that holiday with the family. Having my children has made me more focused, but also more determined to spend the time with them and cherish those spontaneous moments.

As you scale, diversify: Whether it be location, property type, strategy, method of finance – as you grow your portfolio, make sure it is diversified enough to withstand change if one income stream dries up. If Covid taught us anything, it's to have multiple streams of income. Make sure you master one before moving to another so you can achieve a good level and economies of scale. This applies to all investments, not just property.

Be persistent on the goal, but flexible on how you get there: The goal is what you want, but how you get there might adapt over time as circumstances change. Be open minded to what you don't know and don't be afraid to learn and fail. We would have taken 15 years to achieve our end goal if we continued on the same path as when we started. There's no doubt, buy-to-lets are a strong foundation for any investor, but as our goals morphed and grew, we had to be open to other strategies and areas too.

If you love what you do, you will never work another day in your life: I genuinely love property. I could happily work at 2am doing property related stuff and not even know it's that late. Life is too short to waste it on things you don't love doing, so find something you enjoy and work on making you happy!

INVESTOR FACT FILE

Name:
Sarah Watt

Age:
34

Lives:
Milton Keynes

Invests in:
Milton Keynes, Northampton and Sydney, Australia

Occupation:
Commercial accountant and property developer

Years investing:
10

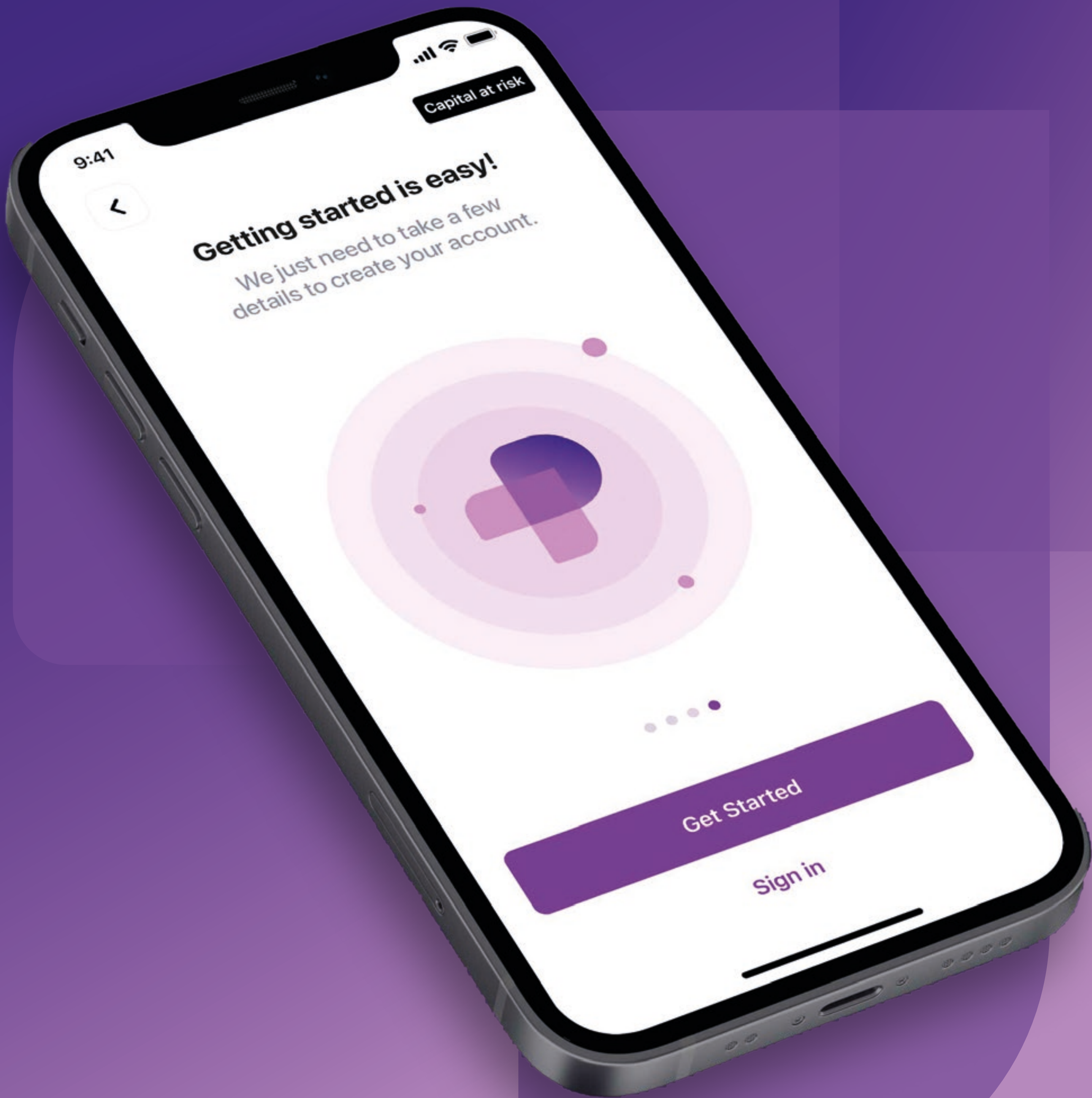
Strategy:
started with flips and progressed to BTLs and HMOs

Portfolio size:
10

Goal:
To grow her portfolio to £10m to pass onto future generations

If you're a portfolio landlord and would like to share the lessons you've leaned, we'd love to hear from you. Email us at magazine@propertyhub.net and we'll get back to you

Portfolio



Find out more at portfolio.co.uk