November
2015

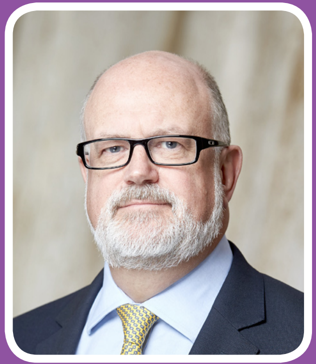
THE LANDLORD

Half of landlords expect tenant demand to increase in the next 12 months

paragon

HELLO

WELCOME TO THE LANDLORD



It has certainly been a busy few months for those operating in the Private Rented Sector (PRS) and the buy-to-let market following the Chancellor's Budget speech in the summer.

We are still looking into the detail of the changes, which will mean landlords will only be able to claim tax relief at the basic rate on their mortgage finance costs come 2017. On page three we give an overview of the changes announced by the Chancellor. We would really welcome your views on this so please do get in touch at thelandlord@paragon-group.co.uk

Other features in this edition include a piece looking at budgeting for interest rate rises and a feature on Selective Licencing – what it is and why it was introduced.

Turn to page 11 for some helpful information on the health and safety rules that as a landlord you need to adhere to and some useful hints and tips.

York is this edition's Hot Spot feature, and on page eight we give you a summary of the latest trends reported by our landlord panel in our latest survey.

I hope you enjoy the issue.

John Heron
Director of Mortgages

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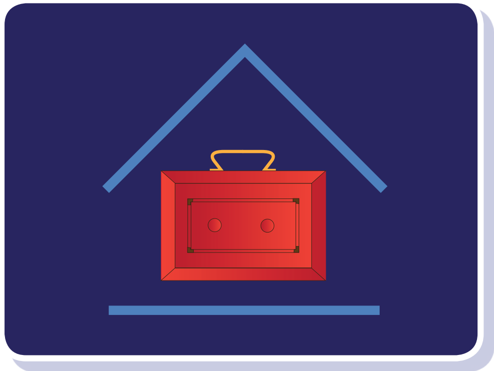
The Summer Budget and what it means for the PRS



Back in July the Chancellor delivered his Summer Budget and announced changes to the way landlords can claim tax relief on finance costs.

The changes will come into effect from April 2017 and will have a four year phasing in period, meaning landlords will only be able claim tax relief at the basic rate for their finance costs (mortgage interest) going forward.

We asked landlords in a recent survey what action they are likely to take following the news of these changes to tax relief, and 57% said they expected to increase rents to cover all or some of the additional cost.

Whilst some landlords may also take the decision to purchase less rental property in the future, it is unlikely these changes will mean we will see a surge of landlords exiting the buy-to-let market.

The UK's PRS is now home to 4.9 million people, having doubled in size since 2001 and more people than ever before are actively choosing to live in the sector because of the choice and flexibility it affords. Research by PwC predicts that by 2025 just under 25% of housing will be in the PRS. So with this continued growing demand from tenants for good quality rental homes, landlords are likely to see ongoing opportunities for investment in the sector.

Over the coming months we will be conducting further research on this topic as we are keen to hear your views. In the meantime, you can contact us by email on thelandlord@paragon-group.co.uk

The new measures

Tax

- Currently, landlords are able to deduct all finance costs from their rental income, with profits taxed at the landlord's marginal rate
- From April 2017 tax relief for finance costs will be restricted to a basic rate of tax
- The new changes will be phased in over a four year period

Wear and tear

- At the moment landlords of furnished properties can deduct 10% of their rental income from taxable profits to account for wear and tear, irrespective of actual expenditure
- From April 2016 only the actual cost of replacing furnishings in the tax year of replacement will be allowable for deduction

Insurance premium

- From November 2015 the standard rate of Insurance Premium Tax will increase from 6% to 9.5%. This will increase the costs of insurance for landlords, including building and rent guarantee insurance premiums

More information

If you would like more information on the new changes visit the Government website here

Interest rates - Planning for a rise

After much speculation Bank of England Governor, Mark Carney, has confirmed interest rates are likely to begin to rise in 2016, after remaining at a historic low of 0.5% for the past eight years.

In this article we look at how to manage the impact of rate increases with some careful planning.

Plan for void periods

It is important to appropriately stress-test your current financial position in terms of your portfolio. Could you manage a void period of a month or two if the interest on your buy-to-let mortgage increases? Keeping a contingency fund in place can help provide a cushion should you find yourself in between tenancies for longer than expected.

Whilst void periods have remained low for some time, not rising above three weeks since the end of 2010, it is still important to factor this into your financial planning.

The impact on affordability assessments

A rise in interest rates will also affect affordability assessments, an area which, according to the Bank of England, is comparatively more rigorous for owner-occupied applications than buy-to-let.

Could you manage a void period of a month or two if the interest on your buy-to-let mortgage increases?

Planning ahead for works and ensuring you have covered any expenses will help when interest rates rise.

Taking into account the fact that interest rates have been at a historic low for eight years, mortgage payments have remained affordable upon reversion - a statement that may not be entirely true when interest rates rise, particularly with SVR mortgages.

Therefore, it is imperative you conduct your own thorough assessment of your finances and ensure the property or portfolio can continue to operate in a profitable buy-to-let capacity during rate rises.

Additionally, if you are interested in taking out a new mortgage to remortgage a property or extend your portfolio, be prepared for the possibility of higher mortgage rates or alternatively a larger deposit for an affordable monthly mortgage payment.

Maintenance work

Now could be a good time to consider whether you plan to make any improvements or upgrades to your rental properties or whether you need to carry out any maintenance. Again, planning ahead for works and ensuring you have covered any expenses will help when interest rates rise.

FPC to be awarded powers over buy-to-let

In February, the Chancellor granted policymakers at the Bank of England (BoE) the power to limit the loan-to-value (LTV) and debt-to-income ratios on new owner-occupied mortgage lending.

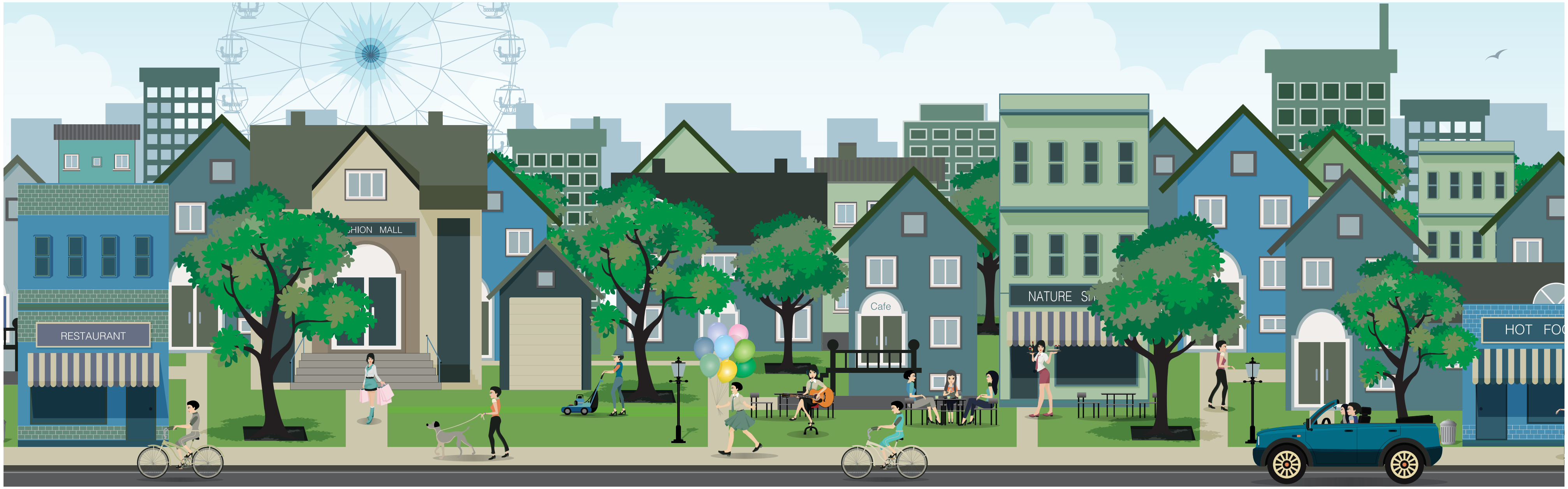
The measures were implemented after the Financial Policy Committee (FPC), an independent body set up by the Coalition Government in wake of the financial crisis, was asked to consider possible tools to contain any future financial crises.

The FPC suggested the Chancellor change the body's current powers of recommendation to powers of direction, allowing the body to enforce rather than propose recommended changes to lenders across the industry. The FPC believe the ability to restrict LTV and debt income ratios will safeguard the UK housing market from 'over-heating' and contain the risk of rising housing prices.

The body also requested their new powers of direction were applied more broadly across the housing industry, particularly to buy-to-let.

On 22 October the Chancellor confirmed to the Treasury Select Committee he was in the process of granting powers to the FPC. When he was asked by a member of the committee how his comments related to the Treasury's original plans for a consultation on the changes, he advised that the exchequer would be considering how the FPC have those powers. He also added that he hopes the FPC would be able to exercise its new abilities "as soon as possible".

The industry will be watching developments very closely over the coming weeks and months and assess any impacts accordingly.



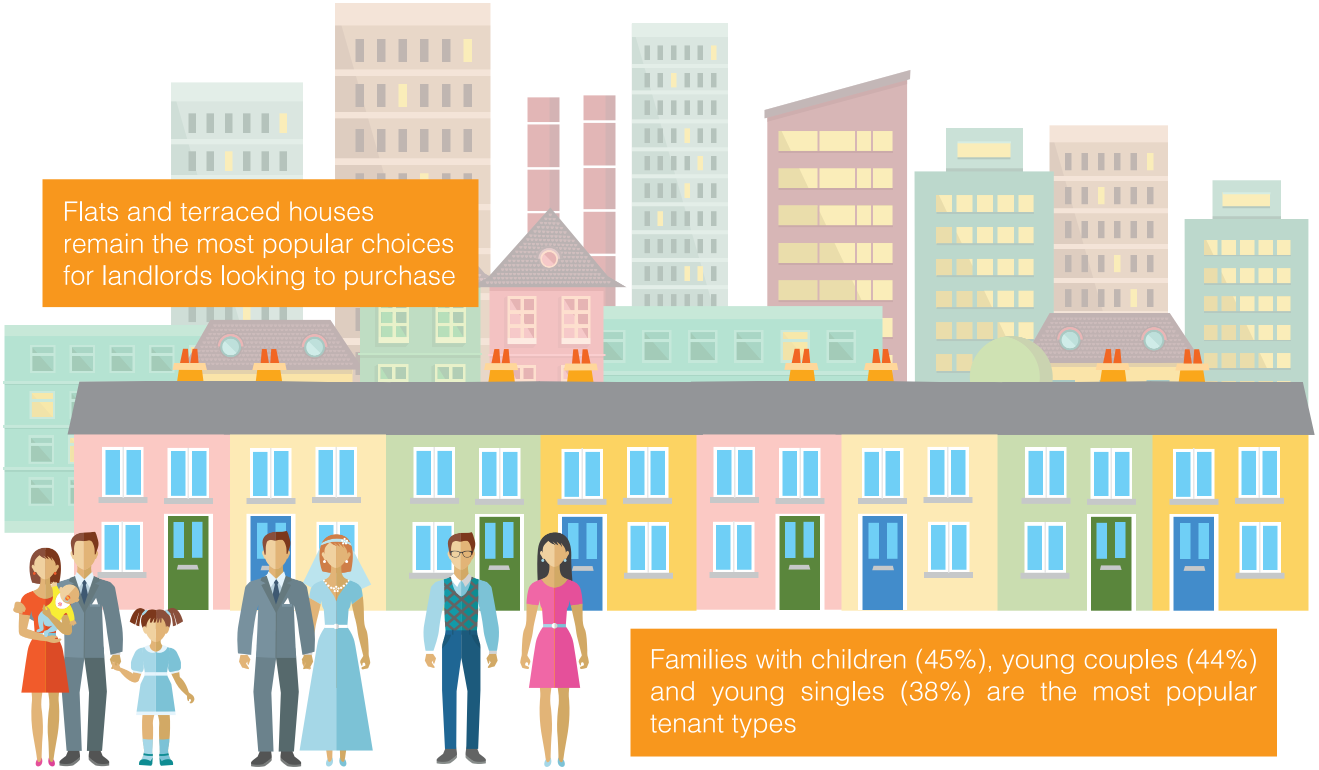
Market and landlord trends research

Here we include a summary of our latest landlord research for the third quarter, including landlords' views on tenant demand, property purchasing activity and yields.

2.6 weeks = average void period

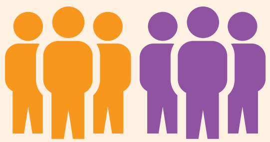
6.4% = average yield

38% of landlords said up to 10% of tenants had requested a tenancy term of longer than two years



41% of landlords said tenant demand was growing or booming and...

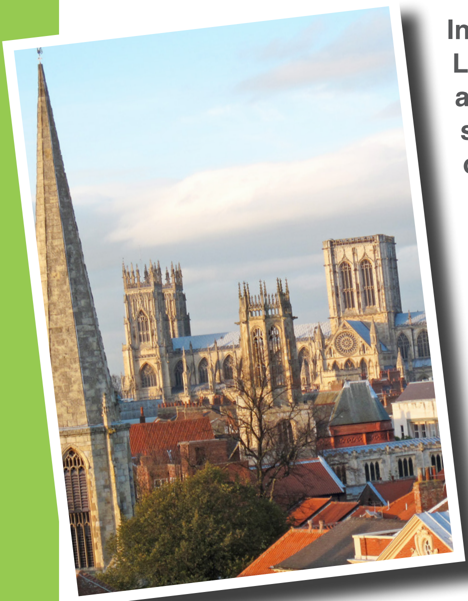
52% said it was stable



Half of landlords expect tenant demand to increase in the next 12 months

18% of landlords expect to buy rental property in Q4

Hotspot - York



In this edition of The Landlord we focus on another burgeoning 'hot spot', this time in the North of England - York.

Situated in the heart of Yorkshire, the city has the perfect balance of natural beauty, architecture and urban entertainment with its rich heritage, proximity to two national parks - the Yorkshire Dales and Yorkshire Moors - and the shopping centres of Leeds and Manchester.

The city has become a favoured destination for young professionals and graduates who take advantage of the city's great transport links between York and Leeds, whilst rail routes to Edinburgh, London and Manchester can all be reached in two hours or less. The city's close proximity to Leeds in particular, reported as the second largest economy in the UK by the Daily Telegraph - thanks to its thriving financial and legal district with the list of employees including Deloitte, KPMG, PwC and Irwin Mitchell - provides a great source of employment for young professionals in York. The latest figures from the ONS has reported the 20-24 age group as the fastest growing demographic in the city.

The historic walled city is also home to two universities; the University of York and York St John University. Combined, the universities have an enrolment in excess of 20,000 students, fuelling an annual turnover of tenant demand.

In addition to current tenant demand, research commissioned by Paragon and carried out by BDRC Continental, shows more than a third of landlords are reporting further growth in demand. Over two thirds (67%) of landlords stated they were happy with rental yields which were reported at an average of 6.1%, a 0.8% increase in comparison to the UK wide rental yield of 5.2%.

Real estate firm Savills reported a 9% rise in the value of prime property in York City centre, a statistic that drops slightly to 8% across the rest of the city according to Rightmove.co.uk. The average house price nevertheless is £224,226 compared to the national average of £183,861.

Landlord, Andrew Scott, said: "York is one point of the Yorkshire 'Golden' Triangle - the other two points being Harrogate and North Leeds, and is a beautiful, historic city with good links to London.

"The city is a desirable place to live and therefore house prices are relatively high. Buying property in York is out of reach for a lot of people so consequently the city has a very buoyant rental market and with two universities there is a large student base which further inflates the market."

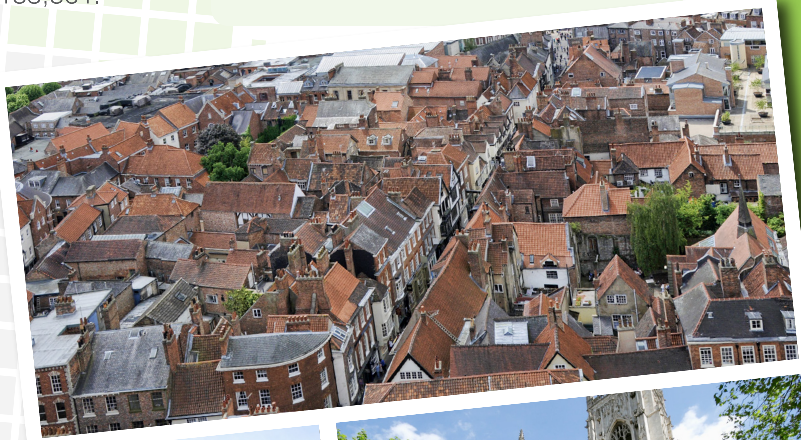
Quick facts

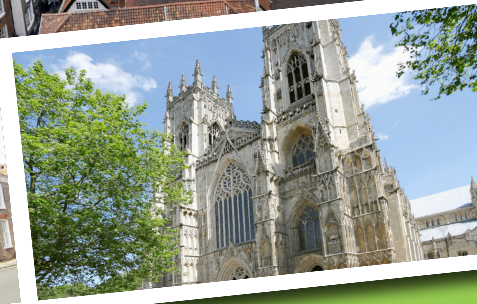
Population

200,018

House price increase of 8%

Average yield 6.1%





Top left: Cityscape of York
Right (clockwise from top): The rooftops of the city of York taken from York Minster; York Minster; Georgian terraced street, York.

* The BDRC research refers to the BDRC Landlords Panel Regional Snapshot, Yorkshire and the Humber Q2 2015 which was represented by sample of 63 NLA members.

Today’s Private Rented Sector

The housing market is changing and a key aspect of this change is the surge in those looking to rent privately. The UK’s Private Rented Sector (PRS) is now home to one in five households and has overtaken the social housing sector for the first time since the 1960s.

In our latest report “Today’s Private Rented Sector – A home for one in five households” we examine in detail the UK’s housing market and how it is developing and changing. We also look at how the buy-to-let market has been instrumental in helping landlords grow their rental portfolios and provide homes to the millions of tenants now looking to call the PRS home.

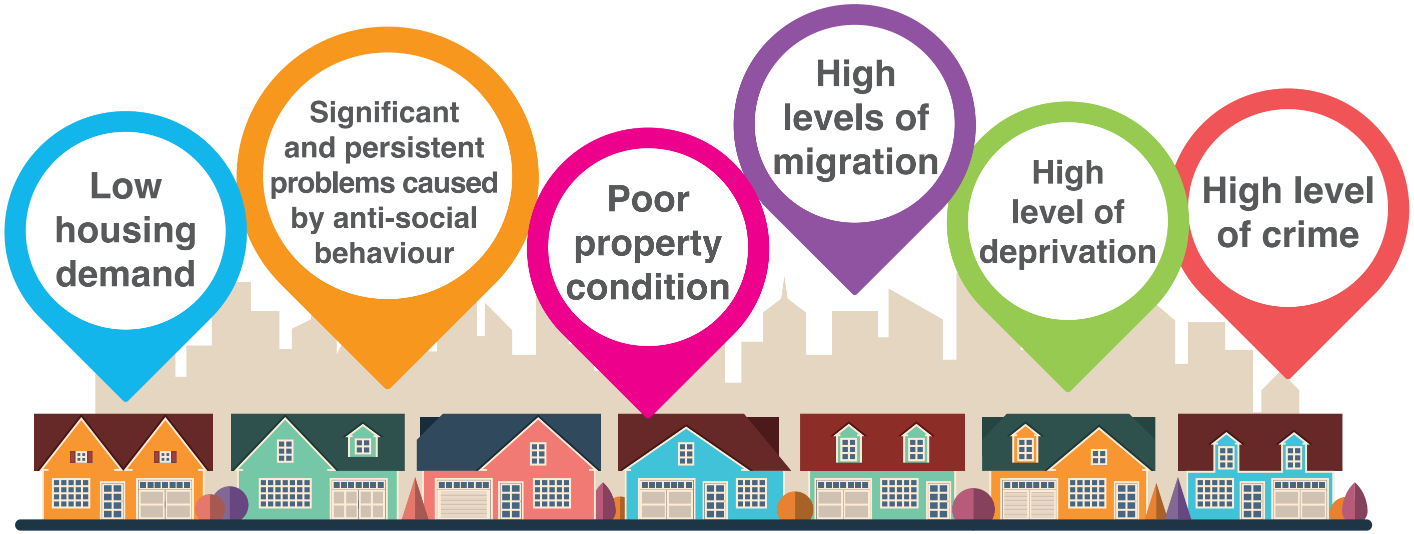
Download a copy of the report here.

Selective licencing

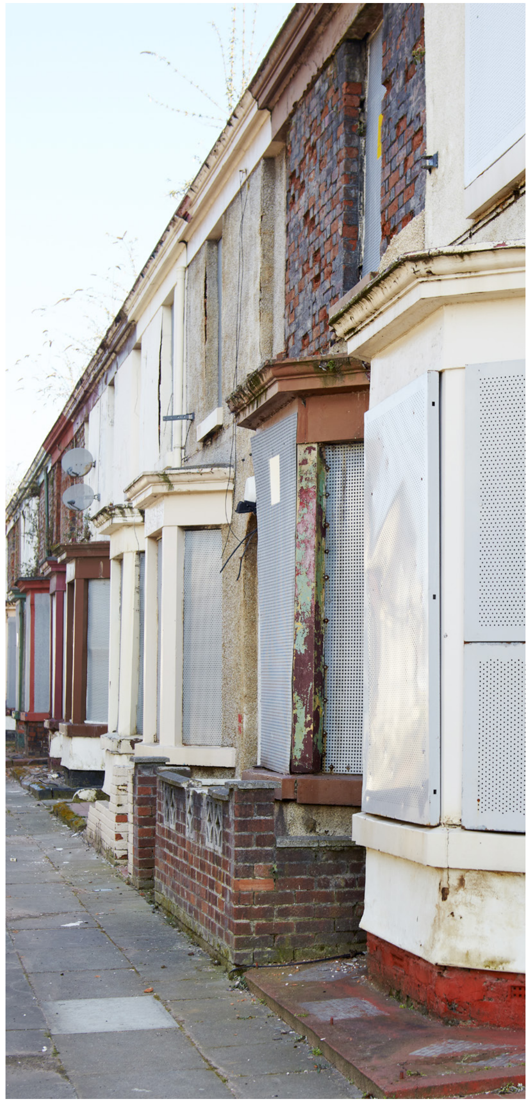
In January 2013 Newham Council announced a new scheme that would set a precedent for the letting landscape – selective licencing. The scheme, detailed in Part Three of the Housing Act 2004 (Section 80), allows a local authority to designate parts of its area to selective licencing of privately rented accommodation.

So, what is selective licencing and why was it introduced?

The scheme requires landlords of private rented accommodation in designated areas to apply and secure a licence from the local authority prior to letting their property. The ultimate aim of helping resolve one of the following issues:



By introducing a licence criteria, local authorities hoped to improve the standard and management of housing and force landlords to take a more stringent approach with anti-social tenants that will, in turn, make renting privately in the designated area a more desirable long-term option. Housing charity Shelter believe: "A more professional Private Rented Sector (PRS) would encourage landlords to let properties for a longer-term and tenants would receive a comprehensive tenancy management service"



Selective licencing

What is the latest on selective licencing?

Despite some initial resistance, mainly around the additional costs for landlords, and concern over the view that lenders would take in these areas, the decision by Newham London Borough Council in 2013 has been seen as effective; standards of housing improved and cases of anti-social behaviour fell. The scheme was considered a success and was adopted by other local authorities across the country.

However, some schemes became excessive and unnecessary with some local authorities proposing the introduction of five year licence fees costing £500 without sufficient evidence the scheme was required - a trend the Government has attempted to stop with the announcement of the new General Ruling in April 2015, whereby local authorities now need to apply to the Secretary of State for the right to exercise selective licencing on any 'scheme which would cover more than 20% of their geographical area or would affect more than 20% of privately rented homes in the local authority area.' Ultimately making blanket wide schemes like Newham London Borough Council's more difficult to enforce.

Further associated legislative changes include a new registration scheme for all landlords in Wales and the requirement for all managers of residential property to be licenced. The Government is also expected to introduce the Housing Bill later this year which will include some changes to the way in which landlords operate in England, again including the creation of a national register for landlords.

How does selective licencing help landlords?

According to Shelter the benefits to landlords include:

1. Responsible landlords will receive information and support
2. Licencing creates a level playing field, so decent landlords will not be undercut by an unscrupulous minority
3. Poorly performing landlords will receive support and training to improve
4. Improved rental income as areas improve
5. Improvement in the reputation of private landlords
6. Shorter void periods and reduced tenant turnover
7. They will have the option to join an accredited scheme for additional support and advice (which can extend to non-selective licencing areas)

What do you need to do?

Despite the new ruling, selective licencing still applies in some areas with Waltham Forest being the latest Council to designate their area as a "Private Rental Property Licence Area" (the new name for Selective Licencing). Therefore, it is important to check with the local authority in which your property is situated for the latest updates, fees and criteria to secure your licence.

For more details, click here to read the Department for Communities and Local Government guide on 'Selective licensing in the private rented sector.'

Assisting landlords – Health & Safety Laws

One of the most important laws landlords need to be up to date on is health and safety. This is an area that can be divided into four crucial elements: gas, electrical, fire and energy performance. In this article we look at the various laws and requirements you need to be aware of and the four certificates you need to secure before letting your property.

Landlord Gas Safety Certificate:

1. Check any gas equipment (especially gas boilers) are safely fitted and kept in good working order by a **Gas Safe registered engineer**
2. You must also check all appliances and flues **yearly** and give your tenants a copy of the gas safety check when they move in or within 28 days of the check

Good to have

A common concern among tenants and home owners alike is carbon monoxide. As a landlord, you can put those concerns to bed by installing a carbon monoxide monitor/detector. This is especially important if a boiler is in a tenant's bedroom, but it is good practice to install one in any event.

Energy Performance Certificate

You are also required by law to have your property rated on its energy efficiency. Failure to certify a property correctly could result in a fine from the local authority. However, not all types of property need an Energy Performance Certificate (EPC). Here's a breakdown of the circumstances in which you'll need an EPC:

Individual house or dwelling	One EPC
Self-contained flat	One EPC
Shared flat/house/accommodation	One EPC
A mixed property of self-contained flats and bedsits	One EPC for the self-contained flat only
Bedsits or room lets where each room has its own tenancy agreement	No EPC required

Landlord Electrical Safety Certificate:

The rules around electrics on rental properties are pretty clear. As a landlord, you are legally required to:

1. Check the electrical installation in your property is safe when tenants move in and are maintained in a safe condition **throughout the duration of the tenancy**
2. Conduct a periodic inspection (electrical condition report) of HMOs **every five years**.
3. Ensure any appliance provided is safe and has the **CE marking** (which is the manufacturer's claim that it meets all the requirements of European law) as a minimum

Good to have

Although a periodic inspection is only required for HMOs, it is a sensible idea to conduct an electrical condition report irrespective of property type.

Landlord Fire Safety Responsibilities:

Fire safety is possibly the most important safety factor for rental properties. The law is clear when it comes to what is required of landlords. As a landlord you must:

1. Conduct a fire safety assessment on your property
2. Ensure furniture complies with Furniture and Furnishings (Fire Safety) Regulations 1988/1989, 1993 and 2010
3. If your property is a HMO you must provide fire alarms and fire extinguishers

Good to have

Regardless of whether your property is a HMO or not, it's a good idea to provide smoke alarms in your property. Likewise, providing extinguishers and fire blankets can help keep tenants and your property safe.

For further information or a quotation for your Landlords Property Insurance, please contact us. Call **01926 439 502** or email us at **paragonteam@towergate.co.uk**

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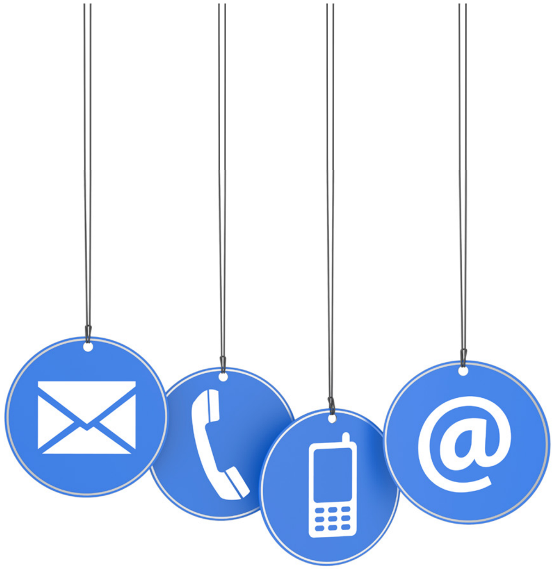

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We want to hear your views!

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