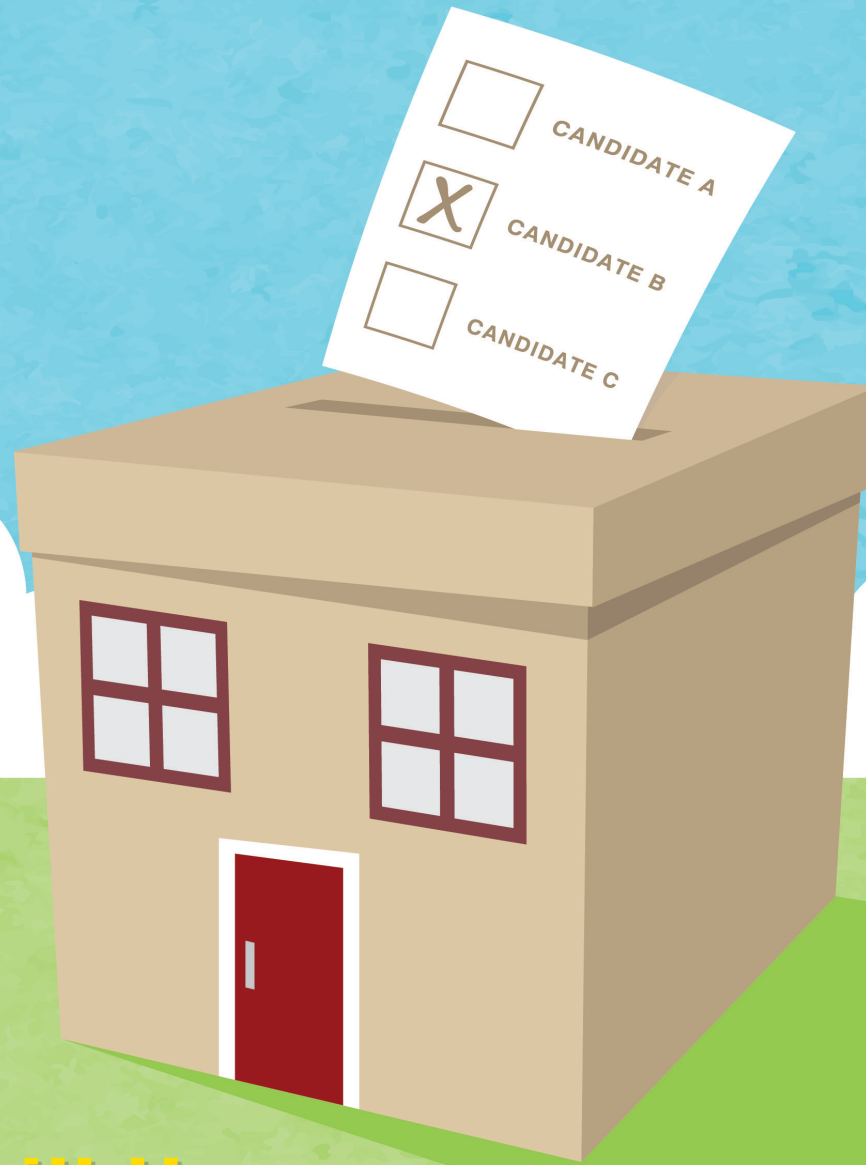


SPRING
2015

THE LANDLORD

paragon



How will the
GENERAL ELECTION
affect housing?

HELLO

WELCOME TO THE LANDLORD

In this edition of the magazine you will find a mix of news, features and top tips, along with links to more useful information.

Last year was a successful and progressive year for buy-to-let. Data from the Council of Mortgage Lenders shows in 2014 total lending market-wide reached £27.4 billion, this was a 23% increase on lending in 2013.

Buy-to-let is never far from the headlines, and we have seen an increase in communicators looking at the current market and the increase in landlord purchasing activity.

We have also seen recovery in the number of buy-to-let products available to landlords. In March 2014 data from Moneyfacts showed that there were 703 buy-to-let products available, this has increased by 22% to 855 live products in March 2015. Looking ahead, I believe we will see more products come to market from lenders, and hope to see more innovation too, with longer-term fixes and more LTV variety.

In this edition you will find a summary of our latest landlord research from the first quarter of 2015, looking at landlords' views on the current state of play in the market and key trends. We also include a feature on rental portfolio planning for retirement and in our regular Hot Spot feature we focus on Scotland.

I hope that you enjoy the magazine and don't forget if you have any ideas for features, or you would like to send me your views on any of the articles included, please email thelandlord@paragon-group.co.uk

Finally, if you know of any peers within your sector who are not currently registered to receive the new digital Landlord they can register at the above email address.

John Heron

Director of Mortgages



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Have your say!

General Election 2015 - what's the story?

Housing and in turn the Private Rented Sector, will be fundamental to each of the main political parties election campaigns this year.

At Paragon we want to see stability, flexibility and growth in the housing market and recognition of the contribution that private landlords make to the market.

There are five key themes we would like to see addressed and supported by the incoming Government to ensure we meet the needs of a growing population and a changing tenant dynamic.

Paragon General Election key themes:

- 1** Measures to boost housing supply and support house building needs to be firmly centre stage – to keep pace with population growth, it is anticipated that 290,000 homes will need to be built each year to meet the estimated population of 73.2 million in 2035
- 2** Gradually withdraw from state-backed mortgage finance support schemes as market conditions improve – these are short-term incentives and are not a long-term solution
- 3** Maintain buy-to-let mortgage finance within a business regulatory framework – it is vital we foster a regulatory environment that encourages continued investment from landlords and innovation by lenders
- 4** Balance between fairness and flexibility for tenants in the PRS needs to be maintained - we need to accommodate tenants that require longer-term tenancy agreements, whilst ensuring we still offer flexibility to those who don't
- 5** Allow flexibility at a local level to deal with rogue landlords – ensuring local councils are properly resourced to implement the powers already available to them



The three main political parties have published their housing policies, and below we give a brief summary of the main points.

CONSERVATIVES

- They will continue to focus on measures to increase home ownership including a new rent-to-buy scheme, a new Help to Buy scheme to get an extra 100,000 first-time buyers on the property ladder, and there has been some discussion around an extension of Rent to Build
- Housing supply is also seen as critical, a commitment to build 200,000 new starter homes has been announced
- In his last Budget, The Chancellor announced plans to launch a new Help to Buy ISA. The new Scheme will enable first time buyers to save for a deposit, with the Government topping up the savings pot

LABOUR

- Labour's policy on the PRS includes a ban on letting agent fees for tenants and making three year tenancies the 'norm'
- The party claims that the above measures would save renters at least £2.5 billion in total
- They have also committed to building 200,000 new homes a year by 2020

LIBERAL DEMOCRATS

- Private tenants will have greater protection, the party plan to introduce a right of appeal for tenants who receive eviction notices in retaliation for complaining about their property
- The Lib Dems have said they would build five to ten new garden cities on a new railway line between Oxford and Cambridge, creating 50,000 new homes in an area of high demand
- Broadly, they plan to build a total of 300,000 new homes a year

Quality speaks volumes



With demand for private rented property continuing to increase and the Private Rented Sector (PRS) becoming a tenure of choice for many, it is as important as ever for landlords to ensure the quality of their rental portfolios is maintained to a high and safe standard.

The quality of private rented housing has improved significantly over the past decade, with the majority of landlords providing well maintained, comfortable living conditions for tenants. This positive landlord behaviour is key to the continued popularity of the sector and is also something that the Government is keen to encourage going forward.

Data from the most recent English Housing Survey shows that there has been a significant increase in PRS homes in the highest energy efficiency bands (A/B/C), rising from 3% in 1996 to 23% in 2013. There has also been a significant decrease in the number of PRS homes in the lowest bands (F/G) over the same period, dropping from 39% in 1991 to 9% in 2013.

It is the landlords' responsibility to ensure the health and safety standards of a buy-to-let property are met. If standards are not met and a tenant suffers an injury or illness as a result of this, there is a high possibility that the landlord will be prosecuted.

As an example, the Housing Health and Safety Rating System (HHSRS) is used by local councils to ensure properties are of a quality standard for tenants to live in. Under the HHSRS, properties can be inspected for any potential hazards such as damp, inadequate insulation, uneven stairs, fire and electrical safety, and excess noise. Depending on the seriousness of hazards found, councils can prohibit the use of part or all of the property under inspection, therefore it is in the landlords' best interest to ensure quality standards throughout.

Accreditation

Keeping on top of current rules, standards and practices is a key priority for many landlords. Emphasis on landlord accreditation has increased significantly over recent years and is quickly becoming a key way in ensuring high standards of quality within the PRS. Firstly, accredited landlords are well informed about industry standards and the requirements needed to maintain quality portfolios. Also, landlord accreditation can often be a deciding factor for prospective tenants who are looking for assurance about the quality of the property and service provided.

For more information about accreditation visit www.landlords.org.uk

CASE STUDY: London Rental Standard

As part of the wider London Housing Strategy, the Mayor of London, Boris Johnson, introduced the London Rental Standard as a way to raise professional standards within the capital's PRS. This initiative sets out a voluntary set of minimum standards, providing accreditation schemes for both landlords and letting agents to help them to raise standards of housing across London.

Accreditation by the London Rental Standard is a sign that landlords within the area are fully compliant with housing laws and regulation, and offer a good standard of service and accommodation for their tenants. So far, since the initiative was implemented in May 2014, over 14,000 landlords have become accredited by the London Rental Standard.

For additional information about the London Rental Standard, visit the website here.

www.london.gov.uk/priorities/housing-land/renting-home/london-rental-standard



The 'behind the scenes' costs of property investment

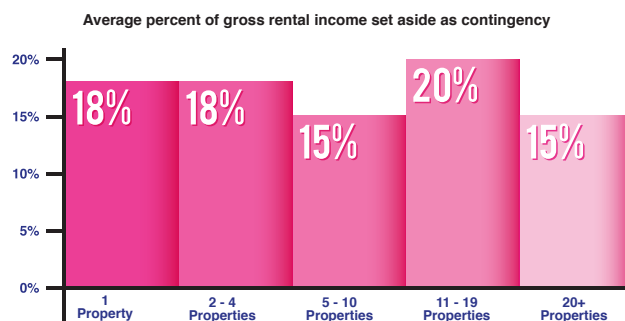
Investing in buy-to-let property is becoming increasingly popular as a way of creating a long-term income. However, there are many costs associated with property investment that are additional to the cost of the initial purchase.

The various 'behind the scenes' costs of property investment are part and parcel of being a landlord and, if these are not considered and planned for, could turn into costly overheads.

A survey of landlords by BDRC Continental in Q4 2014 shows that the average landlord sets aside 17% of their gross rental income as contingency for both planned and unexpected costs.

Voids and arrears

Void periods and arrears are a key factor to consider here as an extended period of time when money is not coming in has the potential to become a considerable expense.



BDRC Continental research suggests that almost half (48%) of landlords surveyed used income from other rental properties in their portfolio to cover financial shortfalls created by voids. Landlords with portfolios of up to four properties (28%) were more likely to rely on 'day job' earnings to cover this. Broadly, landlords will have factored in potential void periods into their financial planning.

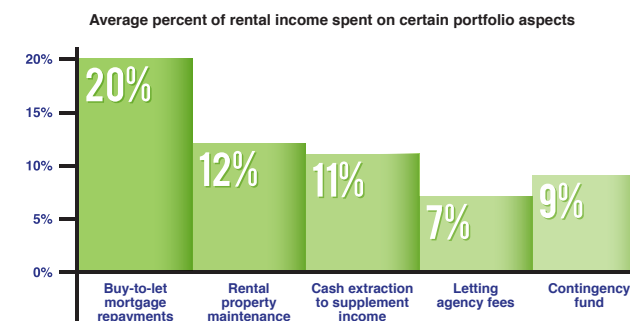
Property maintenance

Costs associated with property maintenance and improvements are also inevitable and are quickly becoming the second biggest outlay for landlords. The research also shows that landlords spend an average 12% of their rental income on property maintenance per year.

Maintenance and improvements can encompass anything from repairs and redecoration, to plumbing, electrical work and the replacement of fixtures and fittings. It is therefore important to remain aware of potential maintenance costs, both planned and unexpected, and account for these in your overall contingency budget.

Letting agency fees

Many landlords opt for using letting agents to support the management of their property portfolios. Letting agents offer a variety of services from finding tenants through to full property management and so,



depending on the type of services employed, this can incur various associated costs. Our research shows landlords spend an average £1,300 per property on letting agency fees each year and, in London, significantly more at £2,150 per property per year.

Contingency funds

Planning for these types of 'behind the scenes' costs helps to maintain financial awareness and also ensures landlords are prepared for any unexpected expenses that crop up. Weighing up standard costs, such as mortgage repayments, taxes, utilities and insurance, against monthly income generated can help in allocating a realistic contingency fund to use for additional costs each month.

Top tips – Rental portfolios and retirement

Deciding the future of your rental portfolio in your retirement years requires careful consideration and planning. In this feature experts at Ernst and Young LLP discuss the options available and key areas of planning.

Some individuals accumulate a personal rental property portfolio as part of their retirement plans, seeing the properties as providing an income backed by physical assets with potential for an increase in capital value, which can be passed down to the next generation.

The rental income is of course taxable, and should be declared to HMRC each year.

If any of the properties are sold at a profit, there will generally be a Capital Gains Tax (CGT) charge, based on the difference between the proceeds received and the original cost (or market value as at March 1982 if the purchase preceded that date) plus any additional enhancement expenditure - the 'base cost' for tax purposes. Generally, if properties are given away or sold for less than market value, the tax charge is calculated as if the proceeds were full market value, potentially leading to CGT needing to be paid – even though no money has changed hands.

Some individuals accumulate a personal rental property portfolio as part of their retirement plans...



Relief to prevent an upfront CGT charge on a gift may be available in some circumstances; however specialist advice should be taken in relation to this.

Each individual has an annual exempt amount of £11,000 (2014/15) which can be realised tax free, and gains exceeding this will be charged at the current CGT rates of 18% or 28% - depending on the extent of total income and gains in the relevant year. Whilst generally no CGT is charged if the property portfolio is transferred on death, the portfolio would ordinarily be subject to inheritance tax (IHT) to the extent its value exceeds the nil rate band (individuals have a nil-rate band of £325,000 (£650,000 in the case of a married couple)) and the properties would be inherited.

For these purposes, the value at the date of death for tax purposes is treated as the base cost.

Any outstanding borrowings will usually reduce the amount actually subject to IHT, though again specific advice should be taken as not all debts will reduce the amount subject to IHT.

Individuals considering withdrawing pension savings to fund a property portfolio, should note that the maximum tax free element of a lump sum is restricted to 25% of the relevant lifetime allowance (currently £1.25million unless specific elections have been historically been filed), and any excess will be taxed as income at marginal rates of up to 45%.

As an example, accessing total savings of £1million after 5 April 2015 may mean £250,000 as a tax free lump sum, and taxable income of £750,000 with income tax to pay of almost £324,000 to HMRC. This would leave just £676,000 to fund property purchases. In addition, the funds remaining within the pension undrawn at death may not be subject to tax on death and thus, in effect, benefit from a more favourable IHT treatment than the property portfolio which as outlined above would be subject to IHT.

Ernst & Young LLP(EY) can provide a cost effective tax service to landlords. If you have one property or several, if you need accounts as well as a tax return or just one off advice, EY can provide a tax service tailored to your individual requirements.

For a free, no obligation initial discussion and fee quote please email your contact details to [EY](mailto:ptccordinator@uk.ey.com)



Hot Spot: Scotland

To celebrate our re-launch into Scotland's buy-to-let mortgage market, in this edition of the Landlord we focus on how the Private Rented Sector has changed in recent years.

Renting privately in Scotland has more than doubled since 2001, and demand for rental property continues to grow.

Government statistics show that since 2001 households in the Private Rented Sector (PRS) have increased from 173,000 properties to 368,000 in 2013. Over the same time period, there has been a decline in social housing, resulting in a fall of almost 100,000 homes.

The structure of the housing market is changing and private landlords will be key in helping to facilitate further growth in the sector as demand from tenants continues to rise.

The Scottish Housing Survey in 2013 showed that the PRS was most popular with single adult households (23%), small adult households – those with two adults of working age – (22%), and single parent households (22%).

A recent report by LSL Property Services showed that during 2014 rents increased in Scotland, on average, by 1.2% and like the rest of the UK rental yields varied considerably across regions. In Edinburgh and the Lothians rental growth reached 4.5% and in Glasgow and Clyde rental growth was lower at 2.2%. John Heron, Managing Director of Paragon Mortgages, said: "Like many other areas of the UK, Scotland's PRS is thriving as more people turn to the sector to meet their housing needs. The perception of renting is changing too, gone are the days when the sector was only associated with low quality housing, we are now seeing a much more diverse sector and buy-to-let is helping to improve standards to the benefit of tenants."

If you would like more information on Scotland's PRS, [click here to download our market overview report.](#)

Left: View over the city of Edinburgh
Right (clockwise from top): Glasgow tenements;
Modern homes on the edge of North Berwick;
Charming cottages in Queensferry, near Edinburgh.

SCOTLAND



Market overview and PRS Trends

Here we take a look at the buy-to-let market's key statistics for 2014, based on data from the Council of Mortgage Lenders (CML), as well as summarising our latest landlord research for the first quarter of 2015.

Total lending for December 2014



The total number of buy-to-let loans in December 2014 was 18% up on December 2013, at 17,300

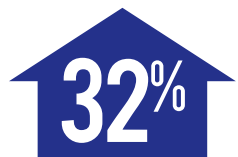


The total value of buy-to-let loans in December 2014 was up 32% compared to December 2013, at £2.5bn

Total lending for 2014 as a whole

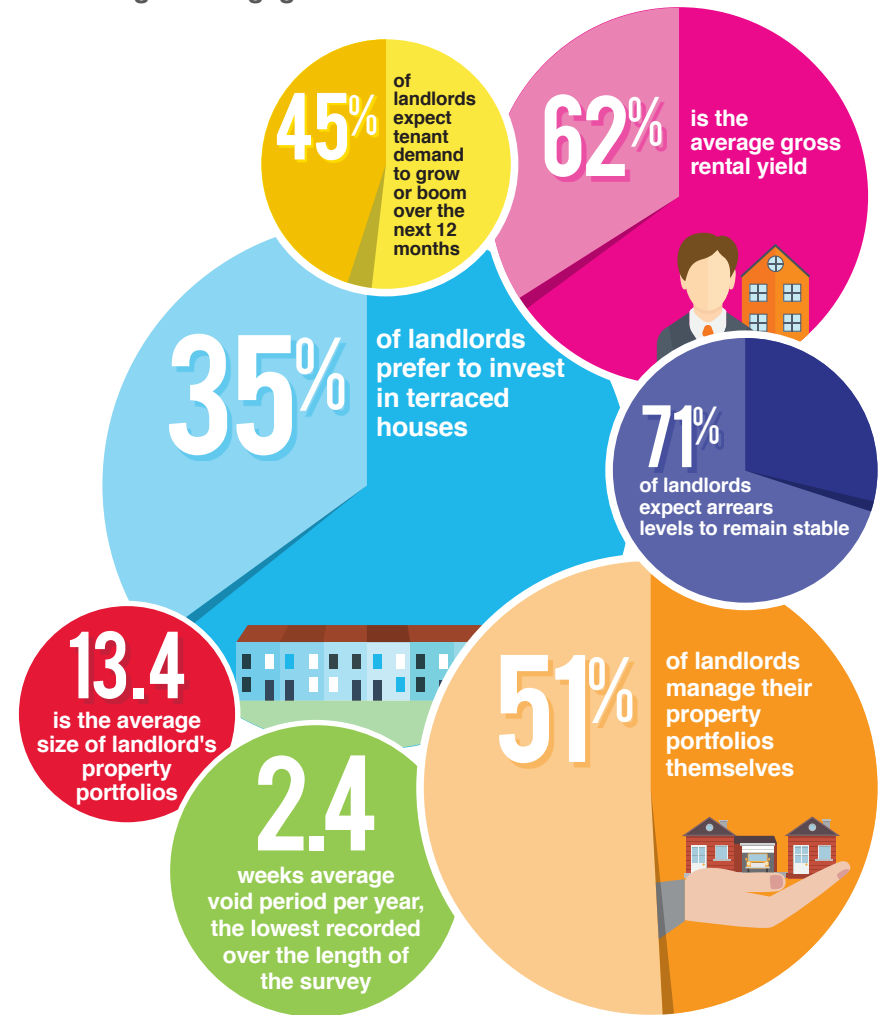


The gross volume of buy-to-let lending in 2014 totalled 197,700, up 23% compared to 2013



The total value of buy-to-let lending in 2014 was £27.4bn, representing a yearly increase of 32%

PRS Trends Q1 2015 - Independent research commissioned by Paragon Mortgages



Paragon's PRS Trends survey is a quarterly panel survey of around 200 landlords

Types of Tenants - A Landlord's Guide

As a landlord you can rent your property to many different types of tenants - from professionals and students, to DSS tenants and family members.

People today rent for many different reasons:

They may be saving for a deposit on a home or could be new to the area. They could be a student or renting a second property and some people simply don't want the commitment of buying.

Whatever the reasons for renting, tenants fall into different categories as stipulated in your landlord's insurance policy. It is important to understand the details of your policy, which categories your policy covers, and what risks each group may potentially pose.

Professionals

Letting to those in full-time employment with regular income is considered to be low risk as they are less likely to fall behind with rent payments.



DSS tenants

Tenants who are receiving housing benefits may face a similar discrimination as students. Some insurers will not include these groups within their

policy therefore it is important to be aware of what your policy permits at the outset, as a mistake could invalidate your policy.

Students

Whilst no two students' situations are the same the general assumption is that young students who have low incomes and only part-time employment may have more difficulty in making rent payments consistently. Some policies will automatically cover landlord insurance for students, while others may not.



Lodgers

If you have tenants who live in your house with you - in a spare room for example - you may not automatically be classed as a landlord under some insurers. To make sure you are covered, contact your standard home insurer and ask if you can have this arrangement noted on your current policy. This should avoid the need for taking out specialist landlord insurance.

Family members

Some insurers may not class renting to a family member as a typical landlord and tenant relationship. If there is no rental agreement, then a standard home policy may be sufficient and you can check this with your insurer.

Letting to those in full-time employment with regular income is considered to be low risk

It's important to always understand what cover your policy includes. Towergate's landlord insurance policies allow you to dictate who you rent to whether they are family, students or professionals and the policy can be flexible should the tenant group change.



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



Paragon Landlord Insurance is a trading style of Paragon Mortgages Limited (Registration Number 2337854). Paragon Mortgages Limited is an appointed representative of Mortgage Trust Services Plc which is authorised and regulated by the Financial Conduct Authority. Towergate Insurance is a trading name of Towergate Underwriting Group Limited. Registered Address: Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, Kent, ME14 3EN Authorised and regulated by the Financial Conduct Authority.

Contact us



Paragon Mortgages

t 0845 849 4040
f 0845 849 4041
e pmlenquiries@paragon-group.co.uk
w www.paragon-mortgages.co.uk

Mortgage Trust

t 0845 849 4055
f 0845 849 4051
e mtenquiries@paragon-group.co.uk
w www.mortgagetrust.co.uk

**We are interested to
hear your views!**

**Is there a town or city
that you would like
featured in Hot Spot?**

**Let us know by emailing
thelandlord@paragon-group.co.uk**

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Paragon Mortgages, 51 Homer Road, Solihull, West Midlands B91 3QJ.

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