# Buy to let is dead

Long live property investment….

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# Introduction

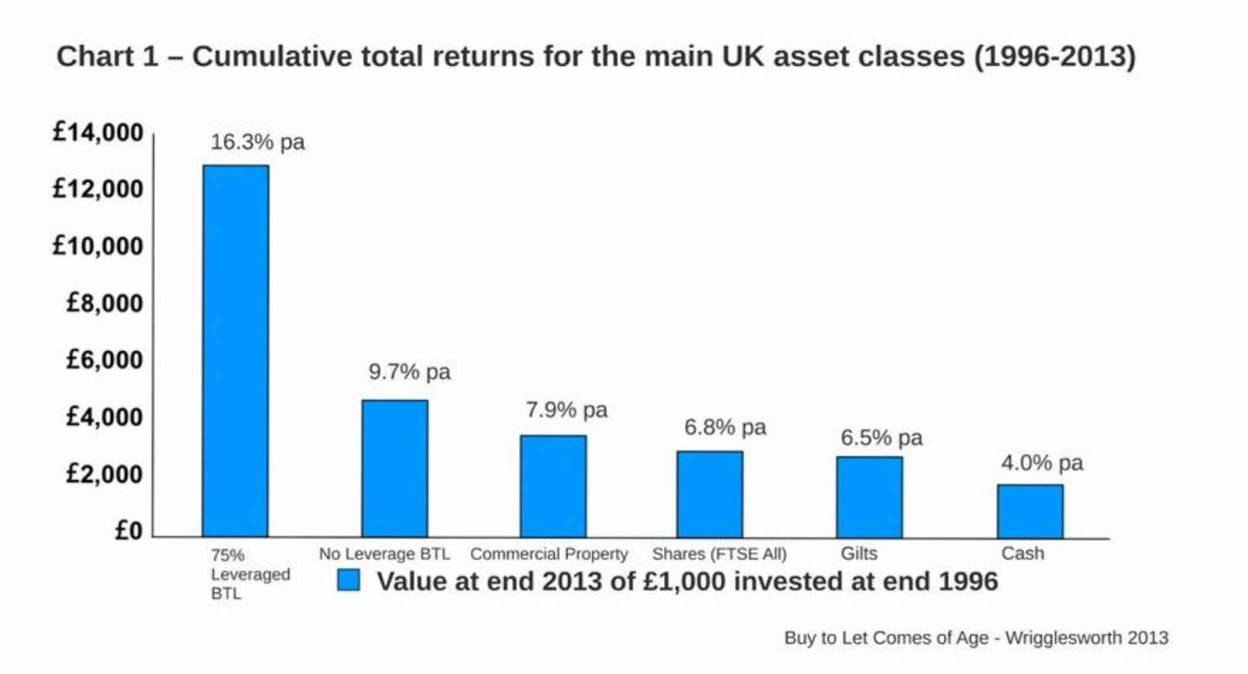
- Quick intro - my background:
- 2 x masters degree - academic angle
- Sports arbitrage trading
- Wealth Management
- Internal consultant - top 10 UK lender
- Multi business owner - some trading (minority), but focused on investment
- Focused on residential property for 95% of investment, bought >250 units in the last 9 years.

# The much heralded “Death of Buy to Let”

- First headlines suggesting this were in early 2017 - Telegraph, Guardian
- On what basis? (cited)
  - Section 24 of the finance act (2015) - Osborne
  - 3% Stamp Duty levy (April 1st 2016)
  - Increased regulations
- What other bases might there be?
  - London and South East bubble - top of the market mid-14 prime Central, early 2016 for wider London from land reg figures (differentials within boroughs of course)
  - Foreign investment - £100bn cash went in to the London property market from abroad between 2010 and 2016. The lack of control over this for the central bank was a concern for Mark Carney and the bank.
  - Resulting PRA changes 30/09/2017 - “portfolio landlord” changes

# Why did it need to be killed?

- BTL had done what shouldn't be possible - supernormal profit + risk/return



# Why did it need to be killed? (2)

- Growing PRS - great for landlords, but bad for politicians - votes!!!
- Continued failure to build homes needed - covering fire needed? Blame the LLs!
- Couldn’t get net migration down (without a recession) because of where and what jobs were being created
- Couldn’t get interest rates up without damaging the entire economy (overall feeling form the MPC)
- Something needed to wound the beast/stop the runaway train!
- Came along at a good time coinciding with the London Real Estate Bubble of 2010-2015/6 coming to an end

# Did it work? How much did it hurt?

- Reality of tax changes took a long time to sink in (still not sunk it yet, fully - April 2020!)
- Lots of surveys around with “the majority of landlords selling up”, NLA etc…..never sounded credible to me.
- Reality - people DID stop adding to portfolios at the same rate. Need, necessity - the balance tipped from supernormal to normal??
- Reality - people acted rationally in the main and looked at alternative investments:
    - Stocks
    - Bonds
- And more often than not - stayed put.

# But did it actually work? Is it dead?

- Let’s use a worked example as at 31st December 2019
  - £100k end value of property
  - £600 rent pcm
  - 7.2% gross yield
  - Purchased at auction, and refurbished - total investment £90k
  - Mortgaged at 3.5% to 75% LTV, at £100k valuation.
  - Mortgage circa £220 per month, other running costs including agent, insurance, gas safe, voids, maintenance sinking fund £180 per month (I would be looking to hit a lot lower, but should be accessible to anyone)
  - Net cash £200 per month, £2.4k per annum
  - Ignore rent rises etc - £15k left behind. Payback 6.25 years (6 years 3 months) - 16% ROCE (no capital growth allowed for).

# Did it used to be better?

Let’s look at 2015:

£600 adjusted backwards for 31st December 2014 would have been c. £550 (9.8% rise in rents in that time, ONS)

£100k end value would have been £82k

Purchased for £75k all in costs using the same standard (10% discount)

75% LTV mortgage £61.5k. Mortgage rate 5.5% or so. Mortgage £280 per month
Other costs £120 (lower compliance costs, lower cost of labour and materials) - cashflow £150

# So, did it used to be better?

- Cashflow £150 pcm
- Left behind £13.5k
- ROCE 13.33%
- Payback 7.5 years
- This leaves out taxation BUT consider:
- BTL landlord paying 40% in 2015 versus Ltd Co paying 19% in 2020…..
    - Depends what you do with the money! Because in the co it needs to come out…..
    - More expensive to run the company
    - Limited liability
- So - it wasn’t better in terms of ROCEs or even distributions necessarily - what’s going on???

# What? Why? Explain yourself!

- Behavioural traits/psychology of investment
  - It FEELS harder than it used to - BENCHMARKING
  - You have to take it more seriously these days - more effort, more headspace
  - Loss aversion - people are focusing on the BAD and forgetting the GOOD
  - Comfort zones - there has been a lot of disturbance, noise, things to get your head around
  - Who likes being victimized? No-one, many Landlords legitimately feel they have been!
- Hark back to 2015 - post-George Osborne - Go Big or Go Home
- Who has the better business model?
  - Housebuilder
  - Housing Association
  - Grainger PLC
- Capital growth outlook may have changed - but how? Food for thought….

# Thank you and Q and A

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