November 2023
Property Newsletter

Welcome to our monthly newsletter for property landlords. We hope you find this informative.

Expected house price falls in 2024

Two of the UK's major lenders have recently published house price surveys.

The Halifax House Price Index for September 2023 found that average house prices for the month were 4.7% lower than prices for the same month in 2022. Commenting on the results of the survey, Kim Kinnaird, Director of Halifax Mortgages said, "Against this backdrop, homeowners inevitably become more realistic about their target selling price, reflecting what has increasingly become a buyer's market." It is expected that high mortgage rates will continue to put downward pressure on house prices as we move into 2024.

The Nationwide House Price Index found that house price decline for the year to September 2023 was 5.3%. Robert Gardner, Nationwide's chief economist, commented: "There are signs that more buyers are looking towards smaller, less expensive properties, with transaction volumes for flats holding up better than other property types.''

Britain's best locations for student landlords

Analysis by Paragon Bank has found that yields achieved by landlords letting to students have steadily increased from an average of 5.63% recorded in September 2020 to 6.66% in August 2023.

The report cites lower house prices and less bespoke student accommodation as reasons for higher yields, in spite of these locations attracting lower student populations.

Charities' concerns over delays to Renters Reform Bill

The Renters Reform Bill was introduced to Parliament in May, but its second reading has been delayed. A group of 30 charities and not-for-profit organisations has written to the Prime Minister urging him to pass the bill.

There are concerns the bill will not have time to pass through Parliament before the next general election, with the charities warning that delays would risk causing "more avoidable hardship and suffering" and a "greater cost to the taxpayer".

This is because the bill proposes an end to "no-fault" evictions. Under current housing legislation, known as Section 21, landlords can evict tenants without giving a reason. After receiving a Section 21 notice, tenants have just two months before their landlord can apply for a court order to evict them.

Landlords who need to sell the property or use it to house close family members will be enabled to recover their property. Similarly, measures will allow landlords to recover their property if tenants willfully avoid paying rent, breach their tenancy agreement, or cause damage to the property.

The bill will also strengthen landlord powers to evict tenants who act anti-socially. The list of anti-social activities for eviction purposes will be broadened. The Government has said that the bill will resume progress in Parliament shortly.

Scotland: More Council Tax for large homes

In a consultation that closed in October, the Scottish Government is proposing to change council tax rates in a shake-up that further moves Scotland's tax system to that of the rest of the UK.

The proposals include changes to reflect the circumstances created by the cost crisis, and approaches to longer term reform of the system. The Scottish Government acknowledges the criticisms of the present council tax system, which is seen by some as unfair and regressive because it levies a higher tax rate on lower value properties, and a lower rate for higher value properties.

Council tax in Scotland has historically been lower than in England, but under the proposals this will no longer be the case for those with the highest-rate homes.

The pros and cons of buying a property through a limited company

A band H home in England pays twice the tax of a band D property, but in Scotland the ratio is set to rise to three times that level. The typical band H property in England will incur council tax of £4,130 per year, while its equivalent in Scotland will pay £4,253.
74% of the landlords who intend to buy property in the next year said that they would do so using a limited company structure. This record increase is shown in data for the recent Paragon Bank survey of 1,000 landlords.

Similarly, those who plan to buy in an individual name have fallen from 41% recorded in the final quarter of 2021 to 17% in the second quarter of this year.

The decision to buy property via a limited company structure isn't for everyone and it should be determined on a case-by-case basis. As a general guide, the pros and cons of buying property via a limited company are as follows:

Advantages:

Tax deductibility of mortgage interest – in 2015, measures were introduced that restricted the tax relief for mortgage interest on dwellings to 20% for individuals. Higher and additional rate taxpayers are unable to get relief at 40% or 45% for mortgage interest in respect of residential properties. This restriction does not apply to limited companies.

Corporation tax rate – profits from properties held in a limited company are subject to corporation tax, which is lower than the higher and additional rates of income tax. Whilst it is true that shareholders will be subject to income tax when dividends are taken out of the company, there are still opportunities for tax planning.

Succession planning – On a person's death, it is much simpler to pass property on to others if it is held in a limited company. There are also opportunities to reduce inheritance tax, stamp duty and capital gains tax.

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Disadvantages

Mortgage rates – whilst lenders typically require lower interest coverage ratios for companies than for individuals, most charge higher interest rates and fees to limited companies than they do to individuals.

Legal and administrative responsibilities - It's true that running a limited company involves more red tape – there are accounts and tax returns to file and the potential for penalties if deadlines are missed. In addition, the company may need to comply with the ATED (Annual Tax on Enveloped Dwellings) regime. Of course, these things can be dealt with by an accountant, but the associated costs must be factored in.

Be aware of tax avoidance schemes – there are schemes being marketed by accountants and lawyers that promise tax savings when individually-held properties are transferred into a limited company, but there are concerns that the schemes will result in mortgage default for the owner and minimal, if any, tax savings.

If you are considering keeping your property portfolio within a limited company structure, please talk to us.

Rocketing rents prediction

A build-up of long-term supply issues combined with soaring landlord costs is putting upward pressure on rents, say Hamptons Estate Agents in their most recent Market Insights Forecast. They predict that these pressures will not ease in the near future and that rents will continue to rise.

The research suggests that rents will rise at the alarming rate of 25% over the next four years; more than four times the rate of house price growth. It is predicted that the private rental market will be one of the most contentious housing issues in the next general election.

On a brighter note, Hamptons' report argues that we are not experiencing the property price market crash that doom-mongers predicted; we are in the midst of a "U-shaped slowdown" rather than a "V-shaped crash" like we saw in 2008.

Scotland: Rent controls may be increasing rents

In September 2022, the Scottish government froze rents and introduced an eviction ban, then capped in-tenancy rate increases at 3% until 31 March 2024. This 'temporary' legislation announced in September 2022 is set to be continued and expanded in proposals due to be put before Holyrood in the current legislative year.

In his article for the Scotsman, David Alexander, of DJ Alexander Sales & Lettings argues that due to rents increasing by 5.7% in the year to July 2023, the rent controls are not working, the situation is actually worsening for tenants and the freeze should not be extended.