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REGULATIONS AND REFORMS:

UK PROPERTY INVESTORS' SENTIMENT TOWARDS THE BUY-TO-LET MARKET

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In the UK, property has been a popular investment asset for decades. In the past, just as now, the ability to simultaneously achieve significant capital growth and rental income on one's real estate portfolio has given bricks and mortar investments a strong appeal.

Data from the Land Registry illustrates the high rate of house price growth in the UK over the past two decades, something that has been driven by an increasingly pronounced imbalance between high demand and limited supply. At the start of 1991, the average UK residential property value stood at £57,000; fast-forward 20 years and this figure had more than quadrupled, reaching £249,700.

Further, the average UK rental yield sits at approximately 3.5% at present, while many towns and cities are offering yields in excess of 5%. Real estate investors and landlords are therefore able to achieve a notable income from their property while the asset itself also increases in value.

However, the attractiveness of buy-to-let (BTL) investment has been tarnished over recent years as new tax reforms and market regulations have been introduced. It means traditional bricks and mortar investments come with added costs and complexity, which in turn is prompting some investors – retail, sophisticated and high net-worth alike – to question whether this is an avenue they wish to pursue.

To delve further into this potential turning of the tide, FJP Investment has commissioned an independent survey among UK-based property owners and investors. In late January 2021, more than 1,000 UK property owners – of which 344 owned multiple properties – were asked about their perspectives on the real estate investment market, as well as their own property investment plans for the coming year.

The findings of this survey are detailed in this report, which provides timely insight into the BTL sector and the changing appeal of bricks and mortar investment.

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KEY FINDINGS

Between 26th and 29th January 2021, an independent survey was conducted among 1,004 UK property owners. Of this sample, 344 owned two or more properties. This is what they said:

44% of property investors plan to buy one or more properties in 2021, yet the exact same number (44%) intend to sell one or more of their properties this year

Two thirds (67%) will consider alternative forms of property investment – such as loan notes and debt investments – in the future, rather than buying real estate outright

68% believe BTL and second home purchases have become less attractive investment opportunities over the past five years

55% expect UK house prices to rise in 2021, while 54% believe prices will increase by more than 10% in the coming five years

71% feel the Government has unfairly targeted the property investment space with tax reforms and new regulations

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APPEAL OF BTL IS WANING

The research delivered some stark findings with regard to the appeal of BTL investments. When asked if they thought that BTL and second home purchases had become a less attractive investment option over the past five years, the overwhelming majority (68%) said "yes".

Moreover, 71% of UK property investors feel the Government has unfairly targeted them in recent years by introducing new tax reforms and regulations.

Indeed, reforms in the BTL space have been plentiful of late. An additional 3% stamp duty surcharge, introduced in April 2016, was closely followed by the abolition of mortgage interest tax relief for landlords.

Further to this, reforms have been introduced to better protect renters – these include amends of Section 21 (concerning the eviction of tenants) and standards for houses in multiple occupation (HMOs). Today, property investors also face the threat of higher Capital Gains Tax when they come to selling properties that have increased in value under their ownership.

FJP Investment's research demonstrates how the combination of these various reforms has significantly diminished the allure of BTL investments. This, many would point out, was the very purpose of the Government's actions – to ensure fewer properties were bought by investors instead of genuine homebuyers, while also better serving the interests of renters. Yet, investors evidently feel unfairly targeted by the changes, which may drive some out of the BTL market.

It is telling, then, that two thirds (67%) of the property investors surveyed said they would consider alternative forms of property investment – such as loan notes and debt investments – in the future, rather than buying real estate outright. By pursuing property-backed investments without having to take ownership of the asset itself, investors can stand to benefit not only from the stability and strength of bricks and mortar but also eschew the increasing costs and complications of buying, renting out and selling property.

EXPECT HIGH LEVELS OF ACTIVITY

The diminished appeal of BTL investments was apparent when investors were asked about their intentions to buy or sell properties in 2021.

More than a third (44%) of the property investors surveyed said they plan to buy one or more properties in 2021. The exact same number (44%) intend to sell one or more of their properties this year; although, these are not mutually exclusive, and it is likely that some investors would both sell a property in their portfolio while also reinvesting in another.

These findings suggest two things. Firstly, there is evidently no clear consensus among property investors about whether it is best to expand or contract one's portfolio in the current climate. Secondly, whichever option is taken, the housing market seems set for a busy 12 months.

After a year of tough lockdown restrictions – including a four-month period from March to July 2020 when the market effectively ground to a halt – there is a palpable sense of there being pent-up demand within the housing market. FJP Investment's research underlines that a sizeable proportion of property investors are looking to buy or sell property this year; with the "sit tight" mentality, common during the early phases of the pandemic, giving way to a probable surge in transactional activity in 2021.

This trend had already begun to emerge in the final months of 2020. Data released by HMRC showed that approximately 129,400 UK residential transactions took place in December 2020, which was 31.5% higher than during December 2019.

While there is no sense that property investors are in agreement about whether to buy or sell in the midst of the current buzz of activity, it appears that few will remain inactive in the months ahead.

Nevertheless, it is important to note that there is a prevailing sense of optimism among property investors when it comes to house prices. The majority (55%) expect UK house prices to rise in 2021, even with the pandemic still very much at large, while a similar number (54%) believe prices will increase by more than 10% in the coming five years.

At a time when some market commentators suggest there could be a sharp dip in house prices, triggered by the end of the stamp duty holiday and on-going economic fallout from COVID-19, FJP Investment's research shows that these concerns are not shared by the majority of investors.

CALLING ON THE GOVERNMENT FOR ACTION

In July 2020, the Chancellor announced the stamp duty holiday, meaning no tax had to be paid on the first £500,000 of all property sales in England and Northern Ireland. Saving buyers as much as £15,000 on a property purchase, it was a move designed to reignite the market after months of inactivity due to the nationwide lockdown that had been introduced in late March.

The stamp duty holiday has had the desired effect – average house prices have risen sharply, despite the fact the UK economy entered a recession, while transaction figures (as highlighted above) have soared. However, the holiday is due to expire on 31 March 2021, which has fed into the aforementioned predictions of a market collapse soon after.

MPs continue to debate the merits of extending the holiday further, with figures from Rightmove suggesting that of the 613,000 property transactions already in the sales agreed pipeline, as many as 100,000 could miss out on the tax break by not completing in time. In the weeks ahead, there will be a rush to finalise property transactions up and down the country, but even still, there is a clear desire for the initiative to be continued for longer.

According to FJP Investment's research, over three quarters (78%) of UK property investors are in favour of the stamp duty holiday being extended. Yet there are further calls for reform from the Government when the 2021 Spring Budget is announced on 3 March.

Most notably, 67% of those surveyed said they would like to see stamp duty and Council Tax abolished and replaced with a property tax payable by the homeowner. It is a reform that has been touted in the past – such a dramatic overhaul of homebuying taxation seems unlikely in the throes of a global pandemic, but it is indicative of property investors' desires for more far-reaching changes to shake up the housing market.

For now, the focus will be on the stamp duty holiday and whether the Chancellor opts to extend the extremely popular policy. With the UK economy in a fragile position – and stamp duty tax receipts being such a significant source of income for the state – it will be a careful balancing act for the Government.

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A CRITICAL JUNCTURE FOR UK PROPERTY INVESTMENT

"The UK's love affair with property investment is well documented, with the staggering rise in house prices over many decades encouraging all manner of individuals to build property portfolios. Today, there are over 2.6 million private landlords across Britain.

"But we are at a critical juncture, not just for BTL landlords, but for real estate investors more generally – and our new research underlines the conflict taking place within the property investment space.

"Evidently, many property investors are frustrated and deterred by the steady flow of new regulations and tax reforms over recent years, which has eaten into their profits and made the process of investing in and renting out property more complex. No one would deny that renters require better protection, nor that the issue of supply and demand within the housing market must be addressed; however, investors clearly feel they are unfairly bearing much of the brunt of the Government's actions.

"In 2021, and indeed in the years to come, it seems likely that we will see more and more property investors downsize their portfolios. There are already 220,000 fewer landlords in Britain than there were in 2017.

"Instead, many investors have stated that they will pursue alternative channels for making money from real estate without having to go through the process of buying the asset then either letting it and/or waiting for it to increase in value. It is a trend that investors – and the market as a whole – must monitor closely.

"More pressing, however, is the question of what to do about the stamp duty holiday. The tax break has injected new life into all levels of the housing market in England and Northern Ireland, but many prospective buyers are worried they will not be able to complete their transaction in time, while others (including many MPs) are keen for the initiative to be extended, so successful has it been in inspiring people to buy and sell property.

"While the Government will be eager to achieve full value from its stamp duty tax receipts in the months to come, this must be weighed up against the wider benefits of higher levels of transactional activity. Estate agents, surveyors, solicitors, conveyancers, mortgage lenders, brokers, removal firms – these are just a few of the businesses that benefit as more people buy and sell properties.

"A reversal of the taxes and regulations that have been introduced in the BTL space over recent years will not happen. So, we must accept the new reality, with the appeal of BTL diminished from its status of decades past. However, the stamp duty holiday might yet inspire more people to invest in more property in the short-term.

"Quite how 2021 plays out, we will have to wait and see, but it will undoubtedly be an interesting and important year for the property market.**"**

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