"NOTHING IS SO PAINFUL TO THE HUMAN MIND AS A GREAT AND SUDDEN CHANGE"

GRAHAM KINNEAR

Landlords, as most people, are creatures of habit and often do not respond well to the need for change. But it is such inertia which will cause landlords pain and suffering if they fail to adapt and change in the face of an enormously fluctuating landscape.

The last twelve months have seen the introduction of some of the most significant changes for landlords in years; and a number of further measures have been announced which will be implemented throughout the remainder of the current parliament.

The principle area of change is in the use of financial leveraging when developing a property portfolio. It was considered sensible to use the eroding power of inflation in conjunction with the anticipation of rising house prices to procure more property with the use of interest only mortgages. Investors would typically release equity from one property to fund the deposit on the next.

Now, in addition to stamp duty increases, investors are faced with far more stringent buy-to-let (BTL) mortgage criteria which could result in the need for 40% deposits on each and every purchase. Additionally a general reluctance to interest only terms will mean maintaining the mortgage payment via the rent will also become more difficult. Furthermore landlords now face the prospect of not being able to fully offset mortgage payments as a cost of their BTL business. Indeed only a successful Judicial Review could stop this becoming law from April 2017.

But the changes don't just stop there. Historically a tenancy agreement and gas safety certificate were all that was required to get your tenant moved in. Now you need an EPC, How to Rent Guide, Right to Rent compliance, deposit legislation, inventory, and in all likelihood you will soon require an electrical fixed wiring test before you can hand over the keys. Indeed even at the end of the tenancy you cannot fail to have noticed the recently introduced forms that you are now obliged to use when bringing a tenancy to an end, meaning that your old Section 21 templates will have to go in the bin.

Some landlords have already made changes to their business models. Indeed a recent survey suggests that 65% of landlords will not be adding to their portfolios over the next twelve months and will instead seek to reduce outstanding debts.

Others are taking advantage of current buoyancy in the sales market and selling some properties to reduce debt levels on others. It appears that smaller low or no debt portfolios are now considered preferable to large, highly geared portfolios, especially amongst those who have been on the receiving end of some of the questionable actions of a number of the banks.

Many others have or intend to increase rents to cover the increased costs they are likely to have to absorb. Given the supply shortages in so many areas of the UK it is likely that the market will, at least in the short term, absorb these increases. Enhanced rental figures will assist with the new rental coverage levels required as well as improve the landlord's cash flow. That said, those looking to maintain or expand a mortgaged portfolio should have a plan for when interest rates eventually do rise.

Other landlords are busily looking at remortgaging mortgage products shortly due to expire in the hope of securing a loan-to-value (LTV) of 75% before lenders increase the rent coverage and therefore equity stake required. Some of my clients have also been considering the sustainability of their exiting tenant profiles. I have recently seen construction of additional university accommodation in some towns damaging the historically strong private student rental market. Additionally a couple of clients feel the prospect of Universal Credit may mean more landlords retreating from the housing benefit market.

Never has there been a more prudent time to review your property holdings, see what you want to achieve and assess the best way to achieve your goals in a changing environment.

Consider every aspect of your business and "Stress test" it against the changes that are coming down the line. Look at your property stock, your tenants, your rent levels, your borrowings, your knowledge of the new legislation and really examine how you will need to change your business to allow it to continue to flourish.

Those who successfully navigate these changes will be those who are able to embrace them. It may therefore be prudent to undertake further education and training to ensure your knowledge is up to date; alternatively it may be a sensible option to use a professional managing agent for some or all of your properties. It may also make sense to obtain a third party opinion on how you can best proceed as this will likely be more impartial than the results you reach on your own.

Just because you have been renting property for a number of years does not mean your knowledge is fully up to date nor that your existing business model will continue to work with the same level of success.

We can't avoid change – to succeed we must also change!

As always, I am happy to assist YPN investors with their plans to maximizing their portfolio performance and can be contacted on **0844 414 8659** or **graham@grahamkinnear.com**