THE PROSPECTS FOR BUY-TO-LET

By **Graham Kinnear**

Everyone involved in buy-to-let will be aware of the speed at which interest rates have been rising, and it is likely that the rate will hover around 5% for the next year or two. Accordingly, this means a significant increase in their monthly costs for most, which will lead some to the discovery that their portfolio is no longer cash positive.

Such a finding will increase the number of properties that are placed on the market for sale, which could have a further calming effect on prices as well as the obvious reduction in choice for tenants.

Rents have increased at an almost unprecedented rate and whilst I think this could continue to a degree, we must be getting close to a peak in terms of affordability for tenants.

As a result, many landlords content to remain in the market will be looking to reduce indebtedness and to thereby retain some of the profitability of their portfolio. This is no mean challenge given that the stress tests undertaken on commercial lending over recent years represent unattainable interest rates, and hence landlords are in a financial environment that they perhaps never hitherto considered.

The government have said that no official assistance will be made available for landlords facing increased costs; furthermore, more stringent legislation will doubtless arrive prior to the general election by way of the Renters Reform Bill.

In my opinion, the available rental stock will continue to fall and rents will continue to hold up to unprecedented levels. New entrants to buy-to-let will be at an all-time low, and more will leave the industry than join it.

Looking further into 2024, you should consider the possible impacts of a change in government. Whilst Labour have recently decreed that they do not currently plan to introduce rent controls, their historic approach to housing has been to try and improve social housing both in terms of numbers and condition. This will be a challenge given the current protracted nature of the planning system, and the fact that available funding for such projects is likely to be scarce and, where available, expensive. Increases in the requirement for developers to provide social housing as part of a planning application could be introduced, however there should still remain a safeguard to ensure that developments remain worthwhile undertaking.

Investment in infrastructure projects may provide a boost to capital values to some selected areas, but in the main I would not expect values to increase over the next couple of years. The absence of capital growth for the investor means a near total reliance on cashflow unless you are happy to subsidise your portfolio for greater gains further in the future.

My advice to you would be to reduce indebtedness where possible and to use a reduced loan-to-value figure to try and attract a better rate of mortgage interest. I would also suggest you review each of your mortgage offers and ensure there is a rainy-day fund, in case any of the lenders invoke clauses within your mortgages that allow them to review the loan, apply a further stress test or invoke a valuation clause. In securing new mortgage products, you should be mindful of what a flatter housing market could mean. Remortgaging to 75% and then adding a 5% product fee to the loan could seem like the answer, but in the absence of house price growth or your ability to pay down the loan, you will need an 80% remortgage once the product expires in two years. That could be impossible to achieve.

I also suggest that you be mindful of the likely requirement to improve the EPC score to a C grade. Doing so can give you access to preferential rates and mortgage products, so undertaking a programme of upgrading now might save the panic and expense of trying to improve the whole portfolio in one go, at a time when contractors are likely to be thin on the ground.

My aim is not to scare you. It is doubtless the case that banks are better capitalised than in 2008, therefore there is far less justification for them to seek to shrink their loan books. That said, their security will be seriously impaired in the event that properties are no longer producing a positive cashflow, and that endless increases in capital values can no longer be relied on.

Your challenge this month is to review your existing mortgages and establish a plan in terms of how you can improve your financial position and better face the storm that is likely to encircle us for the foreseeable future.

As always, I am happy to assist YPN readers and can be contacted on 01843 583000 or graham@grahamkinnear.com