



Renting as an investment

Kennedy Foster

CML Policy Consultant, Scotland

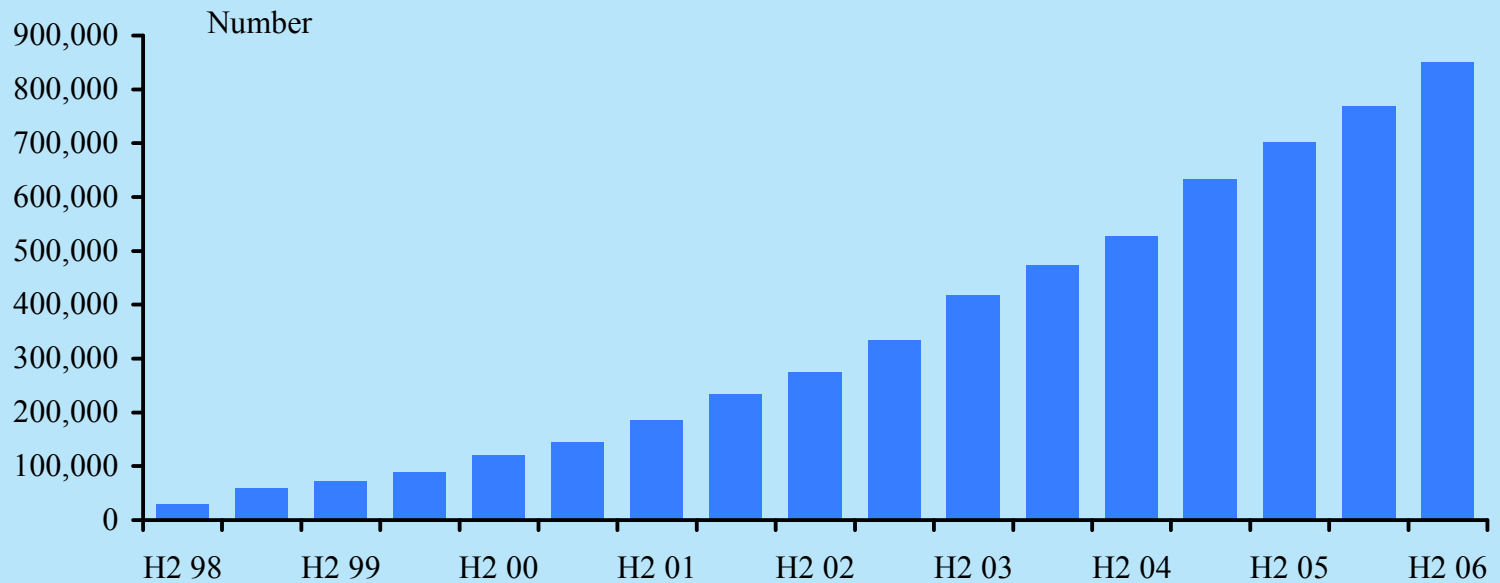


Private rented sector

- Important role in providing flexible accommodation
- Students, migrants and young professionals
- 1983-79% of under 25 years wanted to own home within two years
- 2007-had fallen to 50%
- BTL lending has made important contribution to PRS and has helped to improve quality



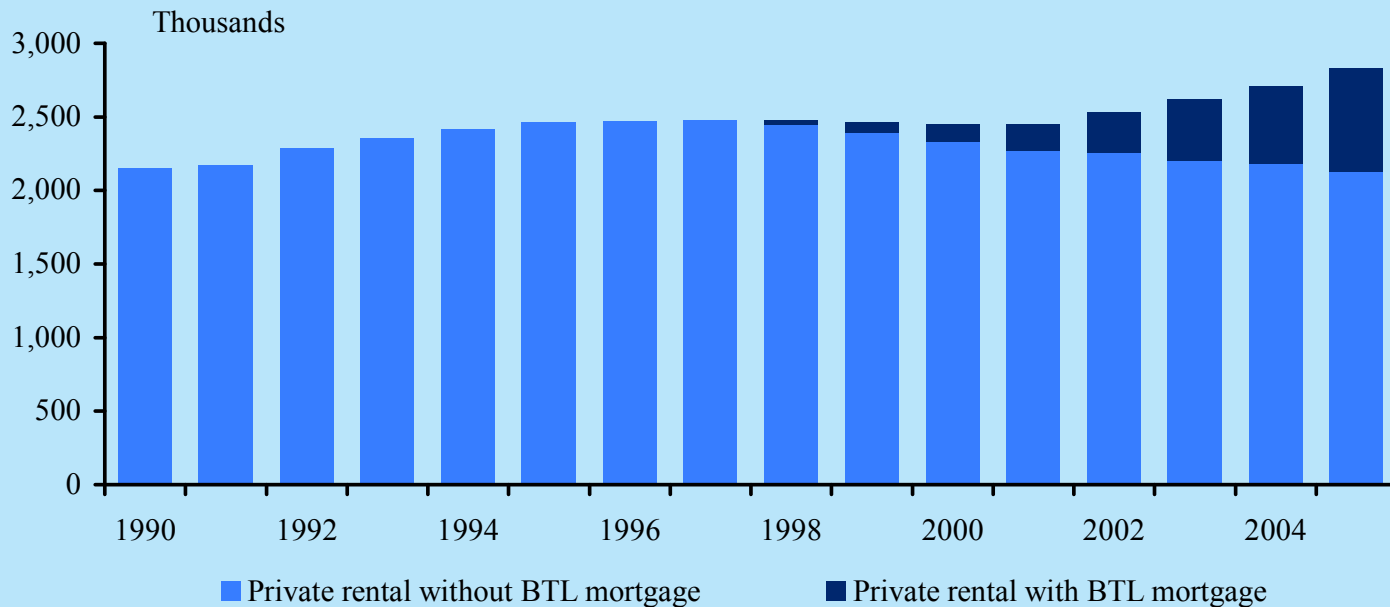
Number of BTL mortgages



Source: CML



Private rented sector with/without BTL mortgage



Source: DCLG, CML



BTL return-illustration

	H1 2004	H1 2007
Assumptions		
Base rate, %	4.00	
Mortgage rate, % fixed for 3 years	4.75	
Property value, £	100,000	126,000
Loan, £	85,000	85,000
Mortgage cost, £ per month	336	
Minimum rental (125% of mortgage cost), £ per month	421	
Actual rental, £ per week	459	516
Gross rental yield, %	5.5	4.9
Return in 3 years		
Rental income, £		17,194
less mortgage and other costs and tax, £		1,281
Property gain, £		26,000
less sales costs, £		24,000
less tax, £		16,800
Total return, £		18,081
Initial investment, £		15,000
Annual return, %		40



BTL returns

Average property price	June 2006	June 2007	Annual % change
UK	£132,121	£141,776	7.3%
Scotland	£91,637	£100,936	10%
Average BTL rents			
UK	£623	£651	4.5%
Scotland	£492	£523	6.3%

Source: HBOS



BTL returns

Average BTL rental yields	June 2006	June 2007
UK	5.7%	5.5%
Scotland	6.4%	6.2%
Average BTL total returns		
UK	11.9%	13%
Scotland	11.7%	16.6%

Source: HBOS



Regulatory balancing act

- HMO Licensing
- Landlord registration scheme
- Health and safety and disability requirements
- New repairing standard with effect 3/9/07



Issues raised re BTL sector

- BTL squeezing out first-time buyers
- Landlords deliberately leaving properties empty
- BTL tax treatment gives an unfair advantage over owner occupiers



Prospects

- Rising interest rates squeezing rental cash flow
- Housing price growth expected to slow
- Established professionals will keep adding to portfolio
- Some equalisation between house prices and rents



Prospects

Demand for private rented accommodation likely to remain high:

- FTB fall, mobility of labour, students and immigrants
- 2012 Homelessness target



Conflicting views – July 2007

- “We have written more BTL business in last 6 months than at any time in the past. Do not see any evidence that BTL market is about to tail off and conditions which have driven the market are still there”

Chris Willard, Group Finance Director, Bradford & Bingley

- “There is no doubt the public still believes the best way of saving for pension is buying a property. But there comes a time when metrics no longer stack up. Rising interest rates and slowing house price growth make property an increasing expensive asset class, especially when rents barely cover mortgage payments and investment products offer equally good returns with much less risk”

Daily Telegraph commenting on Bradford & Bingley results



Renting as an investment

Kennedy Foster

CML Policy Consultant, Scotland