Grunberg & Co.
Chartered Accountants

Property Bulletin

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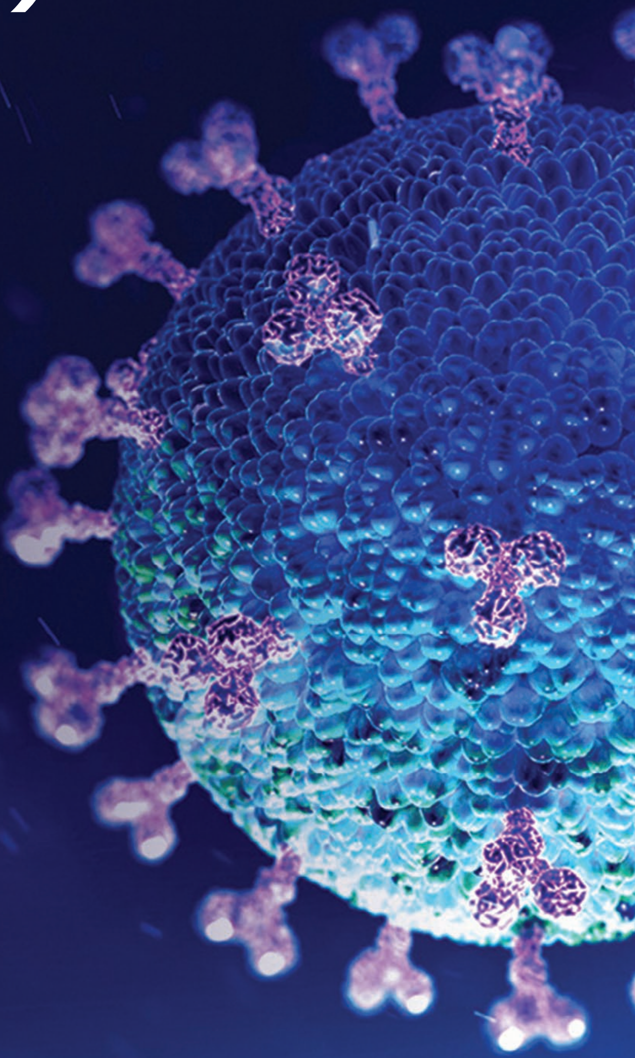
Impact of COVID-19 on real estate businesses



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PLUS:

- Residential property asking prices hit record high and expected to continue rising following lockdown
- Don't forget to report and pay Capital Gains Tax from residential property sales within 30 days!
- Six key factors in financing a property portfolio

Welcome to the latest Grunberg & Co Property Bulletin, our publication to keep you up-to-date with news from the property sector and the accounting and financial services that our firm can offer you and your clients.

If you would like to find out more about Grunberg & Co's tax and accountancy services for you and your clients, please get in touch with us by calling **+44 (0) 20 8458 0083** or emailing **alexk@grunberg.co.uk**

Impact of COVID-19 on real estate businesses

The latest data from the Office for National Statistics Business Impact of COVID-19 Survey (BICS) has indicated that those involved in real estate activities may have been less affected by the pandemic than other sectors.

The latest study, which covers the period between 19 October to 1 November 2020, shows that 9.5 per cent of businesses in the real estate industry saw their income increase by up to 20 per cent compared to the same period in 2019.

In comparison, across all industries, the national average for businesses reporting a similar increase in income was just 6.3 per cent.

Conversely, 9.2 per cent of businesses in the sector reported income was down by more than 50 per cent, compared to a national average across all industries of 12.1 per cent.

Obviously, this highlights that there is a significant disparity in real estate between firms seeing growth and those that are not. However, across the board, real estate is faring better than the national average for all sectors.

Unfortunately, the same cannot be said for reported profits, with nearly half of real estate firms saying profits have remained the same as the previous year.

When it comes to cash flow, 37.9 per cent of firms surveyed in the property sector said they had sufficient cash reserves for six months or more, while 16.4 per cent said they had enough cash for four to six months.

Worryingly though, more than a quarter (26.8 per cent) said that they only had sufficient cash reserves for one to three months of trading.

Businesses in the sector have made good use of the financial support available to them with 95.7 per cent of businesses connected to real estate activities making use of local grants.

However, companies have been less eager to make use of Government-backed loans, with only 29.8 per cent of businesses receiving finance from either the Bounce Back or Coronavirus Busines Interruption Loan Scheme. This is just below the national average of 31.5 per cent of firms across all sectors.

If your business has been affected by the pandemic or you require support with claiming financial support or applying for a loan, please contact us.

Residential property asking prices hit record high and expected to continue rising following lockdown

The latest figures from property website, Rightmove, show that the average asking price reached an all-time record of £323,530 in September – a rise of 5.5 per cent against September 2019.

Rightmove now says that it expects the annual rate of increase in average asking prices to reach around seven per cent by December.

Tim Bannister, Director of Property Data at Rightmove, said: "Previous records are tumbling in this extraordinary market, and there are still some legs left in the upwards march of property prices. We predict that the annual rate of growth will peak by December at around seven per cent higher than a year ago.

"Many buyers seem willing to pay record prices for properties that fit their changed post-lockdown needs, though agents are commenting that some owners' price expectations are now getting too optimistic, and not all properties fit the must-have template that buyers are now seeking.

"Not only is the time left to sell and legally complete before the 31 March Stamp Duty deadline being eaten away by the calendar, but more time is also needed because the sheer volume of sales is making it take longer for sales that have been agreed to complete the process.

"Sellers and their agents should therefore be wary of being too optimistic on their initial asking price, as whilst activity levels continue to amaze, there are some signs of momentum easing off from these unprecedented levels."

At the same time, even though the property market was in effect shut from late March to mid-May, two per cent more sales have been agreed so far in 2020 than had been by this point in 2019.

If you are considering the sale of property it is important that you consider the tax implications of doing so. For carefully tailored advice, please speak to our team.

Don't forget to report and pay Capital Gains Tax from residential property sales within 30 days!

Since 6 April 2020, any Capital Gains Tax (CGT) due on UK residential property disposals made by UK residents must be reported and paid within 30 days of completion.

The changes to the CGT treatment of UK residential properties primarily affects let properties, second or holiday homes and homes with significant grounds and gardens – none of which benefit from Principal Private Residence (PPR) relief, which prevents the disposal of a person's main home from incurring a CGT liability.

Whilst there are some exemptions from completing a return, for example where no tax is due, the short deadline gives limited time to retrieve supporting documentation, prepare CGT calculations or obtain valuations if needed.

It is easy to overlook these requirements during the sale of a residential property but this information must be reported to HMRC within this new time frame and any tax charge paid. Penalties and interest for late filing are no longer linked to the tax return filing deadlines and could start within 30 days of completion – you must act quickly.

The new rules surrounding CGT on property sales are complex and so it is worth seeking advice if you are unsure of how this affects you.

It is important that you contact us as soon as a sale is agreed to allow us sufficient time for the necessary calculations to be prepared.

If you have any queries about the new CGT implications of selling a property, please contact us.

Six key factors in financing a property portfolio

A leading expert in the field of property investment financing has revealed the six key criteria that lenders look for when approving new borrowing to fund a property portfolio.

Aviram Shahar, CEO of online property lending tool, Lendlord, has shared his expertise with the publication Property Reporter on what banks and other lenders most commonly consider when making a decision on property portfolio financing.

While each lender will have its own unique set of criteria, which change on a regular basis, Aviram Shahar says that there are six basic things that all lenders look for.

1 Existing buy to let (BTL) mortgages

Lenders will often judge their decision on whether an investor has existing BTL mortgages. In some cases, they may limit the number of existing mortgages to five, but some will allow up to 10. If an investor has more BTL mortgages Shahar says that there are specialist lenders who will still finance new acquisitions.

2 Total mortgage balance

As well as looking at the number of mortgages an investor has, lenders will also consider the total mortgage balance across an existing portfolio. Some will have a limit on the total amount of indebtedness an investor can have, while others will limit the total amount they will lend to an individual borrower – person or limited company – across an entire portfolio. This may mean that lenders may not be willing to lend to the same person or business multiple times.

3 Loan to value (LTV)

Many lenders see the average LTV across an entire portfolio as an indicator of the risk involved in lending. In most cases, the lower the LTV across a portfolio, the less risk there may be involved and so lenders are more likely to lend. This may also be reflected in the rates that are available to the borrower.

4 Property interest cover ratio (ICR)

The ICR works as a stress test against varying rates of interest. Most lenders will use this to test whether or not the rental income will cover the mortgage costs for the property should interest rates increase to a certain level. This is somewhat similar to the affordability tests run on regular mortgages, which confirms a borrower can cover their debts should interest rates suddenly rise.

5 Portfolio interest cover ratio (ICR)

Lenders will also conduct a similar stress test against an entire portfolio using different rates of interest to ensure that the wider collection of properties would not prevent a borrower from meeting the agreed-upon repayments.

6 Minimum income

Most lenders will want to see a minimum income of at least £15,000 outside of a person's property portfolio, according to Shahar. However, they

may need to see more depending on the level of finance required and the size of an existing portfolio. This should ensure that a borrower has sufficient income to cover repayments if they are unable to obtain income from the property due to rent arrears or a lack of tenants.

Alongside these checks, many lenders will also confirm credit history and conduct a property valuation before making a decision on whether to lend or not. Shahar said that each of these criteria are interlinked and are rarely considered on their own when making a loan.

If you require help with financing your property portfolio, including providing supporting evidence to lenders, our team can help. To find out more, please contact us.

5 Technology Park, Colindeep Lane, London, NW9 6BX

T: +44 (0) 20 8458 0083 | **E:** contact@grunberg.co.uk