Grunberg & Co.
Chartered Accountants

Property Bulletin

March 2021

UK named top location for overseas property investment in 2021

New study has revealed that the UK continues to be a top global property investment hotspot

PLUS:

- Record number of buy-to-let limited companies established in 2020
- A quarter of property owners may be paying too much for their mortgage
- More than 700,000 landlords could struggle with rent arrears by the end of 2021

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**

UK named top location for overseas property investment in 2021

A new study by international law firm DLA Piper has revealed that the UK continues to be a top global property investment hotspot.

Around 33 per cent of the 500 high-net-worth investors and asset managers surveyed said they intended to invest in UK property during the next 12 months.

Chinese and US property investors ranked the UK as the best place for residential property investment anywhere in the world, while those in Germany, France, Spain and Italy named the UK as the third best place to build a property portfolio.

Despite the events of the last year, including the COVID-19 pandemic and Brexit, DLA Piper's survey showed that half of the respondents felt positive about the outlook of the wider European property investment market.

Amongst those who felt this way, the most common reasons they wanted to spend money in the UK property market, included:

- High demand and a shortfall in supply
- Strong rental yields
- Attractive property prices.

Although not mentioned in the law firm's research, other experts have said that the fall in pound sterling, low mortgage rates and the UK's strong property market continue to be key factors that are attracting new investors.

This research is backed up by a similar study from Property Master, which was conducted amongst those already invested in the UK buy-to-let sector.

It found that only 10 per cent plan to exit the sector in 2021, while almost 70 per cent said they intended to maintain or grow their existing portfolio this year.

Overseas residents face complex tax rules when it comes to investing in UK property. To find out how we can help international investors, please contact us.

A quarter of property owners may be paying too much for their mortgage

According to new research, more than one in four property owners may be paying their mortgage provider's highest rate by not taking advantage of the latest deals by remortgaging.

The new study by online mortgage broker, Habito, found that 27 per cent of people were on a standard variable rate (SVR), many of whom may have defaulted to a higher rate at the end of an initial arranged mortgage deal.

Those on an SVR from one of the UK's six biggest lenders could face additional mortgage costs of around £4,080 each year compared to the same lenders' cheapest deals, according to Habito.

The research also found that almost one in five people surveyed did not know whether they were on their lender's SVR or not and that there was generally a lack of knowledge about remortgaging.

In fact, according to the survey results, one in 10 people believed that, because their monthly payments were higher, the SVR would allow them to pay off their mortgage quicker.

Of course, this is not the case as the additional costs are paid as interest, rather than paying off the mortgage balance.

Separate data from the Bank of England shows that remortgaging dropped 33 per cent between February and November 2020. Habito's study suggests that is primarily due to misconceptions about remortgaging.

It found that:

- One in six respondents said remortgaging involved taking on more debt, or was something that people did 'out of financial necessity'
- Six per cent did not know what remortgaging was at all
- Eight per cent thought it meant taking out a second mortgage on the same home, also known as a second charge mortgage.

At this challenging time, landlords and investors must take whatever opportunities they can to reduce their costs. If you need advice on cost management, please contact us.

Record number of buy-to-let limited companies established in 2020

According to an analysis of the latest official data, some 41,700 new buy-to-let limited companies were formed in the last year.

By looking at the latest figures, countrywide property agency, Hamptons, has demonstrated that there was a 23 per cent increase in the incorporation of property companies during the last year compared to 2019 – a record for a single year.

There has been a steady increase in property portfolio holders incorporating into a limited company structure in recent years, as they attempt to retain the benefit of mortgage interest relief, which has been curtailed for individuals but not businesses.

This relief allows landlords to offset 100 per cent of mortgage interest against profits, while those holding property in their own name can offset just 20 per cent.

Another benefit for buy-to-let companies is that they can often get cheaper rates of borrowing to purchase the properties in the first place.

Due to this rise in incorporated property businesses, there was a total of 228,743 buy-to-let companies established in the UK at the end of 2020 – another all-time record, according to Hamptons.

The analysis is based on Companies House information, which shows that a third of these companies are based in London, while London and the South East combined account for nearly half of all incorporated property portfolios across the country.

In fact, so great was the increase in the last year, that buy-to-let companies were the second most common company founded during 2020 – outpaced only by online sellers and mail order companies.

Hamptons estimates that around half of all rental properties bought today are being put into a limited company, compared to just one in five in 2016, when the mortgage interest relief rules were announced.

Many landlords have likely taken advantage of the recent Stamp Duty Land Tax Holiday to reduce the costs of transferring existing properties into a limited company, which for homes under £500,000 would only attract the additional property surcharge of three per cent.

Incorporating a property portfolio into a limited company can be an excellent way to minimise tax charges, but it requires careful consideration and may not be suitable for every investor. We have helped many individuals, both in the UK and overseas, set up a limited company. To find out how we can help, please speak to our experienced team.

More than 700,000 landlords could struggle with rent arrears by the end of 2021

According to research by LSE London and Trust for London, the number of private tenants in rent arrears in England could treble in the coming year.

This could mean that more than 700,000 tenants and their landlords may get further into financial difficulty.

Since the Government introduced its eviction ban in March last year, landlords have had limited options to remove tenants and recover rents.

The restrictions and new rules on repossession of residential properties were first introduced as a result of the original Coronavirus lockdown.

It was initially only intended to last three months but has now been extended several times to assist tenants who have been adversely affected by the pandemic.

In September 2020, some courts began to clear the backlog of repossession claims, starting with the most serious involving domestic violence or anti-social behaviour. A further 'Christmas truce' was then introduced.

Landlords were then due to start serving eviction notices from the 11 January 2021, but under pressure from tenants and charity groups, and with new COVID-19 restrictions in place, the Government extended the ban further.

The current ban on repossessions, announced by Housing Minister Robert Jenrick, will remain in place until 31 March 2021 in England.

Whilst there have been calls for a ban on repossessions and evictions from some groups, the National Residential Landlords Association has said the Government is making the situation worse by allowing tenant's debts to accumulate.

This is because, despite the eviction ban, the rent on properties remains due and so millions of pounds of arrears have now built up on properties across the UK.

This has left many landlords in a difficult situation, where they not only face losing their investment properties but also their own homes, in some cases, due to being unable to cover the cost of their buy-to-let mortgages.

As with the previous bans, tenants and landlords are being asked to communicate with one another and discuss alternative arrangements. Where possible, tenants should continue to make rental payments to the best of their abilities.

If you have seen a considerable decline in your rental income due to the COVID-19 restrictions and the eviction ban then you should seek advice. We can help you to review your finances and look for opportunities to manage your costs during this difficult period. To find out more, please contact our experienced property specialists.

5 Technology Park, Colindeep Lane, London, NW9 6BX
T: +44 (0) 20 8458 0083 | **E:** contact@grunberg.co.uk