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Chartered Accountants

Property Bulletin

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New HMO laws could cost landlords £95 million

New laws came into effect on 1 October 2018, which dramatically widened the scope of properties deemed to be "Houses in Multiple Occupation" (HMO).

PLUS:

- Are landlords leaving the property market as prices stagnate and fall in some areas?
- Just over half the value of a property is the physical building, according to new report

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.

In this edition, we look at how property prices are affecting the number of landlords in the buy-to-let market, new costly HMO rules and research that considers what actually constitutes a property's value.

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**

Just over half the value of a property is the physical building, according to new report

A new report by Direct Line Select Premier Insurance has revealed that only 59 per cent of a property's market value in the UK lies in its bricks and mortar.

Analysis by the insurer showed that average property prices for three-bedroom homes across 12 major UK cities is £277,608, which is 69 per cent higher than the projected rebuild cost of a similar property, which is valued at £164,000.

In comparison, local amenities, schools and public transport accounted for over two fifths of the actual price.

London, Brighton and Bristol have the highest location premiums in the UK, according to the study, with London home owners typically spending £647,000 on average for a three-bedroom property – more than three times the average rebuild cost of £205,000.

Nick Brabham, Head of Direct Line Select Premier Insurance, said: "Although people may be surprised by the amount of value placed on a property's qualities beyond bricks and mortar, this analysis shows just how much intangible benefits such as; local amenities, location and transport links add to the price of a property.

"Wherever you live in the country and whatever the property premium on your home, it is vital that you value the rebuild cost of your property accurately.

"This will help ensure you are suitably covered especially if your property has bespoke features, if it's listed or made of non-standard construction materials. For many, the impact of underinsurance is only realised when it's too late, but this is preventable."

If you are concerned about the cost of your insurance or other costs relating to your property then speak to our team. We can assess your current spending and help you make more from your properties.

New HMO laws could cost landlords £95 million

New laws came into effect on 1 October 2018, which dramatically widened the scope of properties deemed to be "Houses in Multiple Occupation" (HMO).

Until now, licences have only been required for houses of three or more stories, housing five or more people unrelated people, who share the same facilities such as bathrooms and kitchens.

Following the change, any house let to five or more unrelated people, who share the same facilities will fall within the HMO rules, meaning the landlord will require a licence costing £1,235.

With the changes expected to hit more than 77,000 landlords, according to research from Currys PC World Business, the total bill could reach as much as £95 million.

Landlords who fail to have the appropriate licence in place risk a fine of up to £30,000 per property.

Simon Moyle, Head of B2B Strategic Partnerships at Currys PC World Business, said: "With tenants, maintenance, collecting rent and paying taxes to manage, we know landlords have a huge amount to juggle before they can even get around to thinking about licences."

Paul Hilliard of the Landlord National Purchasing Group, added: "It's easy to forget that the majority of the UK's landlords also have other jobs, so applying for new licences isn't top of their priorities, meaning the government has a big job to do… to raise awareness of this new law."

HMO licences require that landlords provide cooking and washing facilities of a certain standard to their tenants.

If you are unsure of how this change may affect your portfolio, please speak to our team today.

Are landlords leaving the property market as prices stagnate and fall in some areas?

Property search portal Rightmove has revealed that property prices across the UK are stalling, which has led some to suggest that this latest hit to the already embattled sector may be driving landlords away.

The new study shows that the worst hit properties from the price freeze are those with two bedrooms or less – the type of property often seen as an ideal investment by new landlords.

It is undeniable that fewer people are entering the market. Recent figures from UK Finance show that mortgage approvals for new buy-to-let purchases were down by 14 per cent during the last year, while longer term trends indicate that there were 53 per cent more approvals three years ago.

Experts from across the sector agree that recent changes to taxation, including the three per cent Stamp Duty Land Tax surcharge on second homes and the reduction in tax relief on mortgage interest, have had a significant impact on the market.

Responding to his own company's findings, Miles Shipside, Director of Rightmove, said: "With the government using the tax system to try and help first time buyers while deterring out-of-favour landlords, prices in this sector have been subdued as intended.

"The story at this time of year for the last five years has been an average autumn bounce of 1.6 per cent in the price of property coming to market.

"Whilst all regions have seen a monthly rise, this year has a more subdued narrative with only a one per cent uplift.

"The fall in prices at the bottom of the market during what is, traditionally, a busier time means that those keen to sell need to price accordingly, which gives an opportunity to stamp duty-free first time buyers to negotiate harder."

This has led some industry commentators to suggest that the start of next year could see a significant number of properties owned by landlords enter the market, as landlords re-invest their money elsewhere.

Brian Murphy, Head of Lending for Mortgage Advice Bureau, recently said: "Many in the industry have long held the view that the introduction of increased taxation on landlords was partly designed to create this very situation, and help to enable more first time buyers to purchase their own property due to a lack of competition with landlords for the same properties.

"So, to that end, more stock at entry level with prices softening may assist that strategy. Obviously, the introduction of the reduction in mortgage interest rate relief, which is a phased process, doesn't affect those landlords who aren't leveraged.

"However, for those who do have borrowings against investment properties and who haven't as yet taken measures to mitigate their tax position, the additional tax that they will be paying from the next year may make it less viable for them to stay in the sector."

Landlords considering disposing of their property must consider how the sale would affect their tax liabilities for the year.

While the sale of a main residence is protected by Private Residence Relief, second homes do not benefit from this relief and are therefore likely to be liable for Capital Gains Tax, which could significantly affect the money released from a sale.

As with the purchase of a buy-to-let property, speaking with a tax advisor in advance of a sale could help to reduce any liabilities on your portfolio. For more information on property tax planning, please speak to our team.

5 Technology Park, Colindeep Lane, London, NW9 6BX | 5th floor, 80 Coleman Street, London, EC2R 5BJ

T: 020 8458 0083 | **E:** contact@grunberg.co.uk