Grunberg & Co. Chartered Accountants

Property Bulletin

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Major cities are key targets for property investors

Despite the economic headwinds facing the country and the rest of the world, the UK and its major cities are attracting interest from domestic and global property investors looking to broaden their property portfolio

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- Decent Homes Standard – What you need to know
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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**

House prices continue to rise but the growth rate slows

House prices continue to grow, despite rising inflation and the cost-of-living crisis, according to new data from the Office for National Statistics (ONS).

The average house price for June stood at £280,000, but some estate agents are warning that buyer demand is starting to wane, and home sellers will eventually have to adjust their price expectations.

£20,000 year-on-year increase

The latest house price data for June 2022 published by HM Land Registry (HMLR) shows average prices across the UK increased by 7.8 per cent in the year to June 2022, down from 12.8 per cent in the year to May 2022.

The rise is still a £20,000 increase over the same period last year, says the survey.

In London, house prices have grown by 6.3 per cent in the last 12 months – 1.5 per cent lower than the national average of 7.8 per cent.

Average house prices increased over the year in England to £305,000 (7.3 per cent), in Wales to £213,000 (8.6 per cent), in Scotland to £192,000 (11.6 per cent) and in Northern Ireland to £169,000 (9.6 per cent).

London prices still the highest

Prices in London remain the highest in the country, with the average price hitting a new high of £538,000 in June 2022.

Across England, the Eastern regions did best, with the East, Southeast, and East Midlands all enjoying above eight per cent growth.

The ONS reports found that the COVID-19 pandemic affected the supply of housing transactions for a period. Therefore, there may be larger revisions to the published UK House Price Index (HPI) estimates than usual.

The HPI shows monthly house price movements, including average price by property type, sales and cash mortgage sales, as well as information on first-time buyers, new builds and former owner-occupiers.

Rental prices continue to rise

Rental prices have also continued to increase, with private rental rates growing by 3.2 per cent over 12 months.

The East Midlands saw the largest growth spike nationally, with 4.3 per cent, whilst London saw the lowest at 2.1 per cent.

Looking to buy, sell or invest in property? We offer a wide range of accounting, tax and advisory services to help you make the most of your portfolio. Speak to us today.

Decent Homes Standard – What you need to know

Under new proposals currently being considered, homes rented in the private sector could soon be required to meet the Decent Homes Standard.

Originally rolled out for social housing more than two decades ago, the Decent Homes Standard sets out several proposed requirements for houses in the private rental sector. These ensure the property:

- Meets the current statutory minimum standard for housing;
- Is in a reasonable state of repair;
- Has reasonable facilities and services; and
- Provides a reasonable degree of thermal comfort.

Under the current system, setting and ensuring privately rented homes meet the standards expected is the responsibility of local councils.

It is up to the local council to identify hazards in privately rented properties and then take enforcement action against the landlord.

The Government has said that under the current system, there is not enough responsibility taken on the part of the landlords to ensure their houses are in a liveable condition.

By introducing a legal duty for landlords to meet these standards, the Government hopes this will tackle the issue.

Landlords in breach of the Decent Homes Standard will be committing a criminal offence and can be prosecuted or fined under the latest proposals.

How will the new standards be enforced?

It is understood that under the proposed changes, all landlords will be required to register their homes and declare that they are in line with the standards. They will do this through a new digital Property Portal.

There will also be more responsibility given to local councils, who will have a duty to investigate complaints associated with the Decent Homes Standard in their jurisdiction.

There has been some backlash against the Government's proposal, with many landlords calling for a simplification of the existing 170 laws in place in the private renting sector.

Landlords have also stated that there should be clear distinctions in the proposals in light of the crucial differences between private and social rented housing.

This change is still at the proposal stage but is expected to become law in the coming months. Given the costs that may be involved in bringing a property up to the required standards, and the risk of financial penalty for failing to do so, landlords should act now.

To understand how this additional investment in your portfolio, if needed, affects your property income and what tax reliefs might be available to support these improvements, please speak to us.

Major cities are key targets for property investors

Despite the economic headwinds facing the country and the rest of the world, the UK and its major cities are attracting interest from domestic and global property investors looking to broaden their property portfolio.

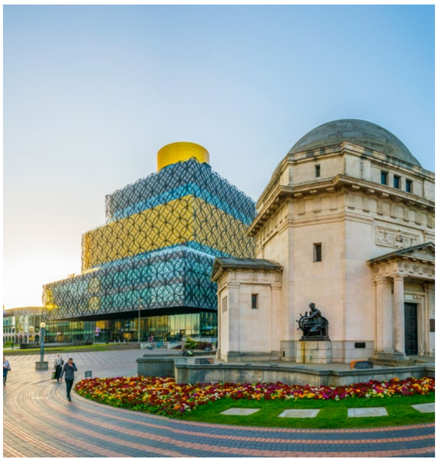
The cities attracting most interest are Birmingham, Liverpool, Manchester and, unsurprisingly, London.

While London remains a huge market with strong returns, investors believe that by diversifying across the country, they can benefit from different yields and capital growth from the different areas.

The Midlands and the North are particularly attractive as the housing markets have quickly outpaced the capital.

Birmingham

The investment surrounding the Commonwealth Games and the delivery of HS2 has raised the Second City's profile as a UK property investment target.



Currently, Rightmove estimates show the average property value to be £210,223, with wide variations across the city.

According to Zoopla, rental yields in Birmingham are averaging 6.56 per cent for buy-to-let landlords.

Another attraction is the major companies opening or expanding offices there in recent years, including HSBC and Deutsche Bank.

This has also led to an influx of London-leavers moving to the city for a better quality of life.

Manchester

The city is popular because of strong rental yields, positive house price growth and major regeneration making it a more appealing place for tenants to live.

The buy-to-let sector in Manchester is thriving, and it has been recognised several times as the 'best place to be a landlord', including in a report by online comparison portal GoCompare.

The average house price in Manchester city centre is now £258,442 according to Rightmove.

According to Fleet Mortgages, it is also one of the areas with the highest yields. The average yield for a one-bedroom flat, according to RW Invest, is 6.59 per cent.

Liverpool

The northern city is ahead in terms of rental yields compared to many other UK property investment options. According to Track Capital, yields can reach as much as 6.9 per cent in some areas.

The city's strong student population makes it a popular rental area, but increasingly the city is attracting greater numbers of young professionals and older renters. Its city centre population is growing quickly, along with the number of start-up businesses attracting talent.

House prices in Liverpool are also attractive for investors, being much lower than the UK average at around £193,383 according to Rightmove.

London

The capital is still a strong and popular prospect for investment. Rightmove figures put the average price currently at £708,713.

This figure is significantly higher than the official Office for National Statistics (£538,000), as it is based on different data but both studies show house prices in London remain strong.

The build-to-rent sector is particularly strong in London, as it is home to by far the highest number of units and as well as being one of the world's most important financial centres, London is a top tourist destination that attracts around 30 million visitors annually.

It has a fast-growing population, a stable market, strong rental returns and a surplus of properties available on the market.

Need help with property investment. Call our team today.

Buy-to-let profits fall as interest rates rise

We are all having to deal with rising inflation and interest rates, as the Bank of England attempts to increase the base rate to get this crisis under control.

However, this sudden rise in the base rate is having a significant impact on the profits of many buy-to-let landlords on variable-rate mortgages.

It has become quite common for buy-to-let investors to use interest-only variable rate mortgages as part of their investment in new properties.

However, evidence suggests that some landlords are seeing their mortgage payments increase fivefold.

According to Angus Stewart, the CEO of Property Master, "the average rate for a two-year fixed rate loan of £160,000 with a 40 per cent deposit would cost a landlord £395 per month. The same mortgage but on a variable rate was £661. This is a jump of 68 per cent."

The decision by the Bank of England to raise interest rates multiple times this year will not be welcomed by many landlords and, unfortunately, rates are likely to rise further this year as the Bank attempts to combat inflation – which could top 22 per cent according to some estimates by Goldman Sachs.

Given the rising rates of inflation, those on variable rate mortgages will need to access how their growing interest rate costs affect their profits, and where necessary, try to fix a rate now to ensure their portfolio remains profitable.

If you would like assistance calculating the impact of the cost-of-living crisis on your portfolio, including interest rates, please get in touch.

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