Issue 19

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Stamford & Rutland
Property News

www.stamfordandrutlandpropertyblog.co.uk

Welcome

My name is David Crooke, owner of UPP Property Agents. Followers of my weekly property blog already know I like to keep a close eye on the Stamford and Rutland housing market, because it enables me to give the best advice.

If you are planning, trying or struggling to rent or sell your home, please call me to find out how to achieve success. You need to plan the launch of your property to the marketplace strategically, getting every aspect of your marketing promotion right, and right from the start.

No one knows the Stamford and Rutland property market like we do, and we hope you find this latest copy of our Property News informative. We would love to hear from you and by working together see how we can help you to achieve results. We are passionate about property and have lots of really innovative and creative ideas.

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Is This a Legal Tax Loop-Hole for Landlords?

In November 2015, George Osborne disclosed plans to restrain the buy-to-let (BTL) market, implying its growing attractiveness was leaving aspiring first time buyers contesting with landlords for the restricted number of properties available.

One of things he brought in was that tax relief on BTL mortgages would be capped, starting in April 2017. Before then a private landlord could claim tax relief from their interest on their BTL mortgage at the rate they paid income tax (i.e. 20% basic, 40% higher rate and 45% additional rate).

Landlords who are higher rate tax payers are going to have be a lot smarter with their investments. However, there is another option...

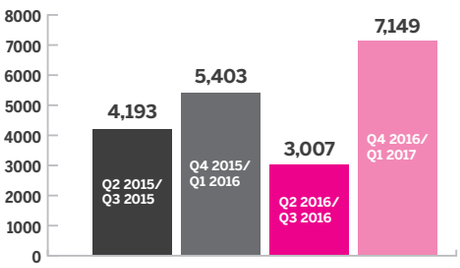
The landlords who own the 1,497 rental properties in Stamford could set up a limited company and sell their property personally to that company.

In fact, many landlords are doing this. In the UK, there are 93,262 BTL limited companies and since the announcement there has been a massive rise:

Q2 '15/Q3 '15, there were 4,193 compared to 7,149 in Q4 '16/Q1 '17.

By selling their BTL investments to their own limited company, owned 100% by them, these landlords could then offset the costs of running their BTL's as an 'allowable expense', effectively writing off the cost of 100% of their mortgage outgoings, wear and tear, upkeep, letting agent's fees etc.

Number of Buy-to-Let limited companies set up in UK since the tax rules changed



I am undeniably seeing more landlords approach me for my thoughts on setting up a BTL limited company. So, should you?

I have done some research with Companies House, and in the 15 months (01.01.16 – 31.03.17) in the PE9 area alone, 119 BTL limited companies have already been set up!

For long term investors it could be valuable to take the short-term pain of 'incorporating' your BTL's into a limited company. There are huge tax advantages in doing so, but there are some big costs to accompany the privilege.

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The new limited company is seen as a separate entity to yourself and, therefore, you are legally selling your BTL property to your limited company, just like you would be selling it on the open market. Your limited company would have to pay Stamp Duty on the purchase and if you, as an individual, made a profit from the original purchase price, there could be a capital gains tax liability of 18% - 28%. The mortgage might need to be redeemed and renegotiated (with appropriate exit charges).

On a more positive note, what I have seen though by incorporating properties is landlords can include their BTL mortgages into one big loan, and potentially obtain a lower interest rate and the ability to advance new purchase capital.

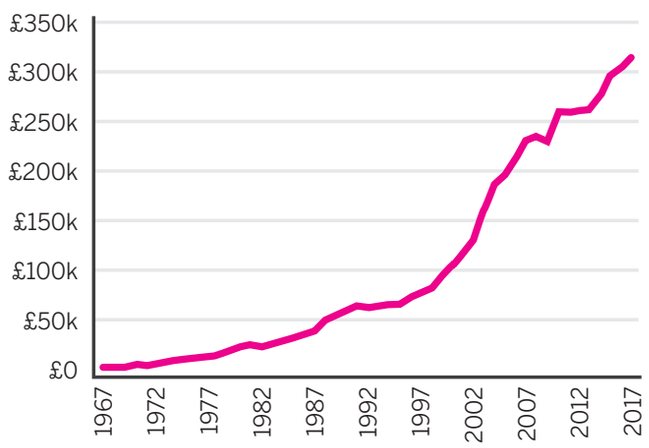
The modifications to BTL tax relief are being progressively eased in over the next 3 years so there is no need to be unnerved and rush into any decisions before finding out the specifics as they relate precisely to your personal situation, because with decent tax planning (from a tax consultant) and good rental / BTL Portfolio Management (which I can help you with) ... whatever you do - let's keep you on the right side of the line!

The Stamford & Rutland property market and 50 year mortgages

50 years ago the average value of a Stamford property was £4,197 and interest rates were at 5.5%. I have recently been doing some research on the current attitude of Stamford first-time buyers. First-time buyers are so important for both landlords and homeowners. If first-time buyers aren't buying, they still need a roof over their heads, so they rent (good news for landlords). If they buy, demand for property goes up for starter homes and that enables other homeowners to move up the property ladder.

First-time buyers are the lifeblood of the property market. They are, however the most susceptible to interest rate rises and the affordability of mortgages.

Stamford - Average Property Values since 1967



An average Stamford property is currently £316,501 and UK interest rates 0.25%. As each year goes by, it appears the age of the everlasting mortgage has started to emerge, prompted by these first-time buyers, eager to get a foot on the housing ladder. In a recent report I have read, some mortgage companies confessed that the battle to gain big returns from the property market has led to mortgages that will take considerably longer than the customary 25 years to pay off.

Recently, it has been commonplace for first-time buyer mortgages to be 30 and 35 years in length, as the 'Bank of Mum and Dad' have been helping with the deposit. Some High Street banks are now offering mortgage terms of 40 years. This means first-time buyers could be paying until their mid-60's. So, a 50-year mortgage does not seem as far-fetched now as it would have been back in the 1970's. After all, life expectancy for a male then was exactly 69 years and today its 79 years and 5 months!

Over the last 10 years, Stamford and Rutland property prices have continued to rise more than wages, therefore, first-time buyers are looking for bigger loans. If this development continues, the only way repayments can remain reasonable is by increasing the term of the loan.

However, some commentators have said there are worries the mortgage companies are lending money over such a long term, they threaten leaving some first-time buyers with a generation of debt if the house price bubble bursts. Interestingly, when I looked at what had happened to average property values in Stamford and Rutland over the last 50 years, there have been bubbles. First-time buyers should take heart, as an area we have always recovered from it a few years later.

What if interest rates rise?

Well looking at historic UK interest rates, the current rate of 0.25% is at a 300-year low. Mortgages will never be cheaper. I would however, seriously consider fixing the rate to cushion any future potential interest rate rises (since they can only go in one direction when they do change).

If Stamford and Rutland's first-time buyers see buying a home as a long-term decision, based on the last 50 years, they should be just fine!

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