

# Epsom Property News

## My concerns

I am genuinely concerned about the Epsom property market, but in a way that might surprise you. Rightmove announced that average 'asking prices' fell last month by 0.4% in the South East, leaving them 5.8% higher than a year ago. Whilst it could be said that monthly change is very modest, in the same period a year ago, we saw a monthly fall of 0.6% in the South East, which is more the norm given the onset of schools breaking up and everyone going on holiday.

Looking at all the data on the Epsom property market; putting aside the need for more houses to be built in the next decade to balance out the increase in population (helped in part by inward European migration) but not matched by a similar increase in housing being built; my research shows there is a widening gap between what property buyers want and what is available to buy. In a nutshell, many more buyers are looking for the smaller one and two bed properties (the typical semi detached and smaller terraced houses/apartments), whilst there is an oversupply of the four and five bed properties, which are the typical large detached properties available.

Demand for smaller properties comes from both first time buyers and the growing number of buy to let landlords, where it is more cost effective and efficient to buy smaller properties to let out compared to larger properties which tend to offer poorer returns. Also, landlords with larger loans (on those larger more expensive properties) will also be hit harder with the changes in the way tax is paid on buy to let investments, which start in 2017.

If you recall, a few weeks ago I did some research on how different types of properties had performed in Epsom since the year 2000. I revisited those calculations and it hit me how different types of properties had performed over the last 15 years. In a nutshell, this mismatch of demand and supply isn't a new phenomenon, it's been happening under our noses for years!

In the last 15 years, the average terraced house in Epsom has risen in value from £126,371 to £399,439 whilst the detached house has risen in value from £295,097 to £816,357. Nothing seems amiss until you look at the percentage growth. The terraced has grown in value by 216% whilst the detached by only 177% meaning the gap between the inexpensive terrace's and expensive detached properties has in percentage terms narrowed enormously (this isn't just an Epsom thing, it has happened all across the Country).

I am concerned because more houses need to be built, not only in Epsom, but in the South East and the UK as a whole. In particular, there is specific need for more affordable starter homes for the growing demand from both tenants (and the landlords that will buy them) and first time buyers. The Tories need to face up to the fact that unless they can get the builders, the planners (to release more building land), the banks (to finance it) and themselves together, to ensure long term plans can be made, and implemented, this issue will continue to worsen.

The country needs 200,000 houses a year to be built to keep up with demand, let alone reverse the imbalance between demand and supply. Last year, only 141,040 properties were built, the year before 135,510 and 146,850 in the year before that. This means only one thing for Epsom landlords. Unless David Cameron starts to rip up huge swathes of the British countryside and build on acres and acres of green belt, demand will always exceed supply when it comes to property for the foreseeable future.

Therefore, investment in the local Epsom property market as a buy to let investment could be the best move to make as the stock market investments are possibly on the wane. Everyone is different and trust me, there are many pitfalls in buy to let.



# Epsom Property News – September 2015

## Epsom – The 10 year Time Bomb on Home Ownership

Many people think the British obsession with owning your own home started with Thatcher in the early 1980's, when she allowed council tenants to buy their council houses under the right to buy scheme. However, the growth actually started just after the Second World War. Looking at the country as a whole in 1951 30% of residential property was owner occupied then, every ten years that rose incrementally to 39% by 1961; 51% by 1971; 58% by 1981 and 68.07% by 2001 but after that, it dropped to 63.4% by 2011 and continues to drop today.

Young adults tend to start to think about settling down and moving out of the family home in their early-mid twenties. After a couple of years, they will have a choice of either buying their first house (albeit with a mortgage) or decide to privately rent for the long term (because the Council House waiting list is measured in decades at the moment!). The ratio of people owning a house with a mortgage versus privately renting is an extremely important guide to what people are doing about their housing needs and what their attitude to renting vs buying is. With that in mind, within the next ten years, I am predicting there will be more people renting privately in Epsom than own a property with a mortgage and that the British love affair of property ownership will fade as the decades roll on.



This is a really important change in the way we live, as I explained to a local Epsom landlord the other day, knowing when and where the demand of tenants is going to come from in the coming decade is just as important as knowing the supply side of the buy to let equation, in relation to the number of properties built in the town; Epsom property prices and Epsom rents.

In the Epsom and Ewell Borough Council area as a whole there are 3,628 households that are privately rented via a landlord or letting agency versus 12,219 households that are owned with a mortgage, so my prediction appears to be outrageous. However, when we look deeper (as the devil is always in the detail), 6,197 of those 12,219 households are 35 to 49 year olds and 3,760 are households of 50 to 64 year olds. I would expect all the 50+ years to be paying their mortgage off as they enter retirement as I would with some of the people in their mid/late 40's.

Meanwhile, at the other end, in the 25 to 34 age range (the age most people bought their first home in the 1970's/80's/90's) only 1,473 of the 2,587 households occupied by those 25 to 34 year olds are owner occupiers with mortgages, because 1,114 households are privately rented. This means only 56.9% of 25 to 34 year olds have bought their house (with a mortgage). Twenty years ago, that would have a much higher percentage of homeowners (between 75% to 85%).

It can be seen that as the older generation pay their mortgages off as they start to get to retirement and the younger generation aren't jumping on the property ladder like they were 20 or 30 years ago, the private rental sector will take up the slack as more and more people will want a roof over their head, but won't buy one but rent one. With Local Authorities and Housing Associations not building houses anywhere near like the number of houses they were building in the 1950's, 60' and 70's, the private landlord appears to have good demand for their rental properties for many decades to come.

This will create a polarisation in the housing market between those, mostly older, households who own outright and those, mostly younger, households who rent. Our housing market is very much turning into the European model. However, all is not lost, the younger generation will inherit their parents properties, which in turn will enable them to buy, albeit later in life.

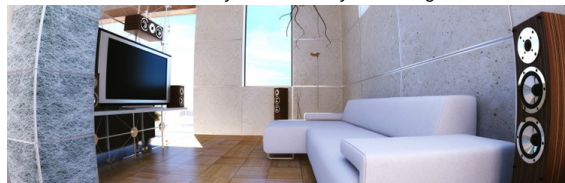
## George Osborne – The Epsom landlord's friend?

Well the last few weeks have been rather hectic as Epsom landlords, some who use us to manage their properties and other landlords who just read our Epsom Property Blog, have been sending me emails or picking the phone up to me not just about new properties to buy, but also about the new rules on buy to let taxation announced in the recent budget. George Osborne confirmed in the recent summer budget that the tax relief given to landlords on mortgage interest payments, on their buy to let (BTL) properties, would be reduced over the coming years for higher rate income tax payers. The Chancellor said the tax relief that private buy to let landlords (who pay the higher rate of income tax) would change in 2017 from the current 45%/40% and would steadily reduce over the following four years to the existing 20% by 2020.

With 19.4% of residential property in the area of Epsom and Ewell being privately rented (as there are 2,450 privately rented properties in the town), these changes are potentially something that will not only affect most Epsom landlords, but also the tenants and the wider property market as a whole. The choice of rental properties could drop, especially at the top end of the market which could push up rents.

However, Epsom landlords could protect themselves by reassigning one or more rental properties into a company structure (e.g., a Limited Company, Partnership or Sole Trader) and by doing so, the total tax paid is greatly reduced, because a company only pays tax on the profit. Nonetheless, before everyone goes off setting up companies for their BTL portfolios, it must also be noted, if a sole trader firm is started, stamp duty needs to be paid, yet if the owner is in business with a partner, they could enjoy some stamp duty relief. The biggest tax variation is Capital Gains Tax (CGT) where the tax bill will be much higher when you come to sell your portfolio. In essence, by going into business with your BTL properties, you will potentially have a modest stamp duty to pay when you start, but you will have a lot less monthly tax to pay, irrespective of the interest rate, but the CGT bill will be much higher when you come to sell ... as you can see, it is not a 'get out of jail card'. Now it must be remembered, I am not a tax advisor, so you must take advice from a qualified person.

Those planning to purchase a BTL property will have to factor these new rules into their calculations, and this could affect the offers they are willing to make. However, I am not that concerned, as the scaremonger reports fail to see the fact that two out of three BTL properties that have been bought since 2007 have been purchased without the support of BTL mortgage. With those two thirds of landlords paying cash for the purchase of their rental properties, that means two thirds of landlords will be totally unaffected by the changes.



So what of the future? The British love their Bricks and Mortar, it's an asset that they can touch and feel and has a 70 year track record of capital growth that has outstripped inflation. Buy to Let will still be attractive to Epsom investors and let me explain why. If you invested £80,000 in Epsom property in September 1987, today it would be worth £314,836. If you had invested the same £80,000 in to the London Stock Market (the FTSE 100 to be exact), it would be only be worth £229,012 today, whilst Inflation would have taken the original £80,000 and pushed it up to £166,254.

It's true some central London landlords relying solely on the tax breaks rather than high yields may be forced out of the market, but even those landlords could seek to recoup any losses by increasing rents. However, those landlords may leave the market and this could constrict the availability of rented houses even more than it is already, increasing rents and thus pushing yields even higher for landlords and BTL investors still in the market... thus attracting new landlords into the market because of those higher yields.

The reality is, there is too much demand and not enough supply of homes for people to live in, in the town. Official figures show the population in Epsom and Ewell is rising by 804 persons per year (i.e., demand rising), but only 215 properties are being built each year (i.e., supply is low). This sets up the Epsom (and UK) property market to continue to create strong and steady returns, irrespective of any tax loophole being there (or not as the case maybe).

If the demand is there, I am happy to organise an informal Buy to Let seminar with a local Epsom accountant one evening, whereby they can show you the options available and what might be best for you. Therefore, if you are interested in attending, please drop me an email to [ian@directresidential.co.uk](mailto:ian@directresidential.co.uk) and we will be able to get something organised very soon.

For any specific advice on Buy to Let please email Ian at:  
[ian@directresidential.co.uk](mailto:ian@directresidential.co.uk)

Please see more tips and Buy to Let advice at the Epsom Property Blog at:  
<http://www.epsompropertyblog.co.uk/>

Bought to you by Direct Residential Ltd

