

# Epsom Property News



## Epsom Rents To Rise Quicker Than Epsom Property Prices In Next 5 Years

The next five years will see an interesting change in the Epsom property market. Our recent research has concluded that the rent private tenants pay in Epsom will rise faster than Epsom property prices over the next five years, creating further issues to Epsom's growing multitude of renters. In fact, our examination of statistics forecasts that...

**By 2022, Epsom rents will increase by 23%, whereas Epsom property values will only grow by 18%.**

Let us explain why we have come to those conclusions:

Over the last five years, property values in Epsom have risen by 52.4%, whilst rents have only risen by 16.3%.

Throughout the last few years and compounded in 2016, tenant demand for rental properties continued to go up whilst the Press predicted some landlords expect to reduce their portfolios in the next couple of years, meaning Epsom tenants will have fewer properties to choose from, which will push rents higher. In fact, talking to fellow property professionals in Epsom, there appears to be privation and shortage of new rental properties coming on to the Epsom lettings market.

This was partly created by the increase in stamp duty last year on investment properties, but also in landlords exiting the market due to pending tax changes.

Landlords have some intriguing challenges ahead of them in the coming years most notably in that the Tory's have changed the taxation rules for landlords in the way Buy-to-Let properties are to be taxed. On top of that, there is the ban on letting agent fees which is still to come into force (probably in 2018). When that happened in Scotland in 2012, Scottish letting agents passed on the standard essential fees to their landlords, who in turn increased the rent they charged to their tenants.

We would say to Theresa May and Philip Hammond they must be wary about indicating both red and green lights at the same time to the private rented sector. They can't expect the armies of small private landlords to continue to house around a fifth of the population and then tax the hell out of them. They didn't invest in Buy-to-Let as a charity or to satisfy any philanthropic urges. Something has to give – and that will be significant rent rises over the coming few years (*and before anyone offers any derogatory comments about landlords ... if it wasn't for landlords buying all these Buy-to-Let properties over the last 15 years, I am not sure where everyone would be living today – because most of the Council houses were sold off in the 1980's!*).

With the challenges ahead, with the 'B' word (that's budget if you wondered!), house price inflation will be tempered over the coming five years in Epsom. As we have offered in previous articles, the number of properties on the market in Epsom remains close to historic lows, which is both good as it keeps houses prices relatively stable, yet not so good as it impedes choice for buyers... and hence why we believe property values in Epsom will only be 18% higher in five years' time.

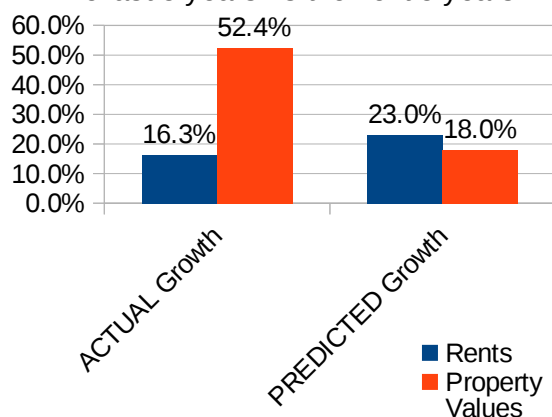
Whilst on the other side of the coin, with the challenges facing landlords and the significant shortage of new homes being built, Epsom people still need somewhere to live. If those people aren't buying houses and the local authority aren't building council houses in there thousands (because they have no money), with the average rent for an Epsom rental property currently standing at £1,491 per month ...

**Over the next five years, we predict the average rent in Epsom will rise to £1,834 per month**

These are interesting times. There is still money to be made in Buy-to-Let in Epsom – Epsom landlords will just need to be smarter and more savvy with their investments. If you are looking for such advice and opinion to help you meet those investment goals, please feel free to contact our specialist – Ian Plumb

## Epsom Property Values and Rents

The last 5 years vs the next 5 years



Spring 2017



# Epsom Property News – Spring 2017

## New tax rules on Buy-to-Let

New rules on Buy-to-Let income tax came into effect on April 6, so landlords potentially could see smaller profits over the coming years. The changes are part of the government's clampdown on landlords and comes one year after the 3% Stamp Duty surcharge on additional properties was introduced.

Here we explain what the changes will mean for your Buy-to-Let portfolio.

At present, when working out your tax bill on income from rent, you are able to deduct mortgage interest before tax is payable, so if you receive £10,000 a year in rent, you pay £8,000 in mortgage interest you only pay tax on the profit which would be £2,000.

A basic rate taxpayer would pay 20% tax on that £2,000 being £400. A higher rate taxpayer 40% (£800) and an additional rate taxpayer 45% (£900).

Under the new rules, tax relief on finance costs on residential properties will be gradually decreased and eventually replaced in 2020 by a 20% tax credit. This will have a significant impact on mortgage interest, which is by far the biggest 'finance cost' landlords have.

The way rental income is calculated is also altering, in that instead of being taxed on the profit after mortgage interest has been deducted, the rent you receive will be classed as income! Therefore using the earlier example where you received £10,000 in rent and paid £8,000 in mortgage interest, under the new rules you would owe tax on the full £10,000, although you will be able to claim 20% tax relief on the mortgage interest.

This should mean a basic rate taxpayer's bill remains the same as under the old rules (although there are exceptions, but as always, please refer to an accountant).

But a higher rate taxpayer will see a huge cut in their profits.

A basic rate taxpayer under the new rules would owe £400, same as under the old rules, which would be a 20% income tax bill, i.e. £2,000, minus the 20% tax relief on the £8,000 mortgage interest, £1,600.

A higher rate taxpayer would have owed £800 under the old rules. But their bill will soar to £2,400, which would be £4,000 income tax on the rental income minus the £1,600 tax relief on the mortgage interest.

Another consideration is being pushed into a higher tax bracket, as rental income is added to the normal income.

For example, a basic rate taxpayer earning £35,000 from their employment and receiving £10,000 a year in rental income at the moment, would remain in the basic rate bracket as the taxable income from rent is only £2,000 in our example. However, under the new rules they would be pushed into the higher rate tax bracket as the full £10,000 would count as income.

The new rules commence April 6, 2017. In the 2017/18 tax year, you may deduct 75% of your costs from your rental income before tax is due, although in 2018/19 that will fall to 50%, then 25% in 2019/20 then in 2020/21 you will no longer be able to deduct costs.

As with any specific advice regarding accounts, we would always advise you speaking to an accountant to be sure of your position.

## Rental reality!

Renting is here to stay...and that is for sure! Ian Plumb our Buy-to-Let specialist was explaining about this recently. "I was discussing this with a client and used the following personal experience as an example.



In 1988 when I bought my first two bedroom flat in Epsom, I paid £77,500, with a mortgage of £63,000 and at that time had an income of £20,000. Therefore the mortgage was 3.15 times my salary. I later went on to rent this property out for £750 per month from 1994."

Ian then drew the example to the current market.

"That same property is now worth £350,000 and commanding a rent of £1,300 per month. Scaling up the equation, you would need a deposit of £66,500, but the job I was working in at that time now pays £26,000. The affordability is now 10.9 times against 3.15 times in 1994."

This demonstrates the real struggle some people have with getting on to the property market, but certainly demonstrates that renting is here to stay!



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

*Bought to you by Direct Residential Ltd*

