

ACTIVE PRACTICE UPDATES

MAY 2023

Morris Owen

chartered accountants, business advisers and more...

IS IT A GOOD TIME TO BUY-TO-LET?

Expanding your property portfolio can help increase your financial security – but is now a good time to buy-to-let?

As house prices start to fall and rents rise across the UK, 2023 may look like a good year to get your foot on the investment property ladder. However, making that decision is far from straightforward.

While a buy-to-let investment strategy can provide you with a regular rental income, it also comes with additional costs and responsibilities.

Recent economic factors such as soaring mortgage rates and reduced tax relief could also negatively impact your profits as a landlord, so it's essential to weigh up your options carefully.

In this article, we'll discuss the pros and cons of investing in buy-to-let in 2023.

WHAT IS BUY-TO-LET?

A buy-to-let is a property bought for the purpose of renting it to tenants. You'll usually need to get a buy-to-let mortgage if you intend to receive rental income from a residential property – unless you purchase it outright.

While these mortgages usually come with higher upfront costs, they are often interest-only. This means your monthly instalments will only pay off the interest on the loan, so you won't need to settle the full sum until the end of your mortgage period.

IS IT A GOOD TIME TO BUY-TO-LET?

The housing market

The UK housing market is slowing down. Property transactions dropped by 18% in the year to February 2023 and reports suggest that house prices are falling at the fastest annual rate since 2009.

This could have both positive and negative consequences for buy-to-let investors. On one hand, buying a property when prices are low may give you a better return on your investment – so long as you get your timings right.

A slower market could also give you some bargaining power if you can offer homeowners a quick sale. Some sellers may be willing to reduce their asking price rather than keep their property on the market for an extended period of time.

Conversely, if your property continues to decrease in value well into the near future, you may end up selling it for less than you paid for. Even if you do get a good deal, you'll also need to factor in additional costs such as taxes and mortgage rates.

The lettings market

You may experience less competition from other landlords in 2023. According to the Royal Institution of Chartered Surveyors, tenant demand hit a five-month high in March 2023 as many UK homeowners decided to sell their properties rather than rent them out.

As a result, the disparity between the number of rental properties and prospective tenants are causing rents to rise across the country, which could be good news for your bottom line.

It may also be easier to find good tenants quickly. The smaller the gap between tenancies, the less time you'll need to spend without a regular rental income.

Mortgages

The Bank of England has increased the base rate 11 times between December 2021 and March 2023 in an effort to curb soaring inflation. As a result, landlords looking to invest face steeper borrowing costs compared to a year ago.

While mortgage rates have fallen from their peak at the end of last year, the average buy to let five-year fixed deal sat at 5.72% in March 2023 – significantly higher than the 3% rates seen in March 2022.

Waiting for rates to fall further before taking out a mortgage may therefore help you avoid higher monthly payments. Alternatively, a tracker mortgage based on the BoE's base rate may make it easier for you to switch to a better deal in the future.

TAXES

The tax landscape has changed significantly in recent years, leaving many landlords with a greater tax burden and fewer opportunities to save costs in 2023.

Mortgage interest relief

Prior to April 2017, you could deduct the entirety of your mortgage interest payments from your rental income as an allowable business expense.

A less generous basic rate tax deduction limited to 20% of your finance costs, profits of the property business or total income – whichever is lowest – has since replaced this relief.

As a result, no longer being able to deduct the full mortgage interest from your rental profits could push you into a higher tax bracket, depending on your earnings.

However, the original tax relief system still applies to limited companies – but before you incorporate, make sure you understand the additional costs and responsibilities of being a director.

Stamp duty land tax

Unless you're eligible for a relief or exemption, stamp duty land tax (SDLT) is payable on a portion of the value of most properties over £250,000.

If you own more than one residential property, you'll usually need to pay an additional 3% surcharge on top of the standard SDLT rates, increasing your upfront costs.

Corporation tax rise

Letting properties via a limited company may also be more expensive this year. As of April 2023, companies with annual profits over £50,000 will need to pay a higher rate of corporation tax.

ARE YOU READY TO EXPAND YOUR PROPERTY PORTFOLIO?

If you're thinking about expanding your property portfolio, outside factors are only half the story. Your own finances and personal circumstances need to be stable before you make any significant investments.

The minimum deposit for a buy-to-let mortgage is usually 25% of the sale price, and you're likely incur other expenses, such as landlord insurance and maintenance costs, on top of that.

A long-term investment like buy-to-let also means long-term responsibilities. Landlords have a wide range of legal obligations, including ensuring the residential property is safe and checking that all gas and electrical equipment is installed correctly. You'll also need to stay up to date with any changes to lettings legislation.

Seeking professional advice can help you determine whether it's a good time for you to invest in buy-to-let.

As your accountant, we can guide you through the process. We'll work closely with you to ensure you get the best return on your investment. We can also use our tax expertise to minimise your liabilities so you can retain more of your rental income when you start letting out your property.

📌 Thinking about purchasing a buy-to-let property in 2023? Contact us today to discuss your options.