MULBERRY BOW

THE BOW BLOG

An Englishman's home is his castle, or castles?

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For most Britons, their biggest financial asset is their home, but over the past 35 years or so many have also become private landlords.

Despite the changes to the buy to let sector in recent years, including tougher mortgage rules and a more punitive tax treatment, this area of investment continues to prove popular. A record number of Britons, c.2.5m, are now private landlords owning on average 1.8 properties each.

Owning a property is often seen as a rite of passage in the UK, an objective so indoctrinated in us from an early age that it has become aligned to other key life moments, such as marriage or having children. Grabbing a rung on the property ladder is nearly always the main objective for most young people, after all an Englishman's home is his castle, isn't it?

Over the last 30 years house prices have risen about 4% per annum and buy to let investors received another 5% or so in rental yield. I'm sure we would all agree a total return of 9% is attractive. For most areas of London, the returns have been much greater.

Tangibility, an element of 'inflation-proofed' returns and a growing demand for rental properties all attract people to invest in property. Investors can also add value themselves in a way they cannot do with shares or other 'listed securities'.

Perhaps most significant of all, investors can often access debt and tend to feel comfortable doing so, despite the risks. A mortgage for an 80% loan to value will magnify investment returns (either way) dramatically. Conversely, a credit facility for an 80% loan on an investment portfolio is not quite so readily available and even when it is, most of us find it psychologically tricky (the FCA also discourages 'borrowing to invest').

With property and property prices being a frequent hot topic around dinner tables as friends and family swap their latest property adventures (or misadventures) it is also a subject that dominates our television screens and newspapers.

Looking to the future, can we say the past will be replicated? House prices in the UK rose at their slowest pace in six-and-a-half years in February 2019 thanks to a slump in the London property market. London house prices are down 3.8% from a year earlier, the biggest drop in a decade, leaving them down about 6% from their peak in mid-2017. Analysts have attributed the decline to uncertainty around Brexit and a surge in prices in previous years.

One must start to consider if the current environment is as good as it gets for property investors? Ten years into an economic cycle, low interest rates, multiple Government backed 'help to buy' schemes, the return of '100% mortgages' with several banks, unemployment at record lows and a demand for rental property surging, as the younger generations are being squeezed out of the property market.

Investing in property is not cheap and there a high transaction costs involved. Not to mention the illiquidity and inflexibility. Or the several changes to legislation that arguably make owning buy to let property less attractive than it was.

Diversification is also an issue. Where do most buy to let landlords decide to invest in property? Near their main residence of course. They know the area and it feels more 'comfortable'. Most can only afford one or two buy to let properties and end up with 50% or more of their net worth in property. Concentration risk within an investment portfolio is something to be avoided, but property somehow avoids this scrutiny and for many, often it seems to be a 'no brainer'.

We might just be at a point where the possibility of an extended period without capital growth becomes a reality, as the economic and political climate continues to become less favourable, of course we might not. That uncertainty goes hand in hand with investing in any 'real asset'. Could this precipitate a seismic shift in mindset where houses are viewed simply as homes, and not as investments or pensions, as is the case in most parts of the world? Only time will tell.

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**Sources: English Private Landlord Study January 2019, Ruffer March 2019, Landlord Today April 2019*