Changes on the horizon for UK Landlords

Adam Joseph is a serial entrepreneur and leading property industry ambassador. He successfully exited his first venture five years ago and decided to make the move to The Happy Tenant Company because he felt there was a real gap in the market for a property management firm that serviced the both part-time and professional landlords.

As a keen market commentator, I always try and open the year with some predictions and take a moment to reflect on the previous year to see where it has taken us. In 2019, I predicted how the political instability of Brexit and a subsequent election would have a negative impact on the London rental sector, whilst the build to rent sector's growth would temporarily subside.

This year I wanted to do something a little different and talk about something I know is going to affect all property investors with a buy to let portfolio. Interest rates are still low and don't show signs of any significant increase, allowing the London property market to enjoy its reputation as a safe place for foreign and domestic investment, with a notable rise in Asian investments in the London market. But this thriving hub could prove more difficult if proposed legislation changes to Section 21 of the Housing Act come into effect. These changes coupled with the new proposals for what is referred to as "Section 24" being introduced in April this year could seriously impact every landlord in the UK.

Changes in legislation to how private landlords can evict tenants

This year the government is proposing new legislation concerning no-fault section 21 evictions. If passed it will make it harder for landlords to evict tenants from properties. This may keep more experienced landlords on the side-lines for fear of longer void periods and rental arrears, without a lawful avenue to evict problem tenants.

It will be crucial to work closely with managing agents to have the most up to date tenancy agreements, as well as screening of any prospective tenants with previous references and checks becoming more essential than ever.

Changes in how your tax relief on your portfolio works

Landlord Referencing UK conducted a poll last year which indicated 1.4 million landlords were unaware of the implications of the changes in legislation to them. While Rightmove's published data indicating that nearly 24% of landlords are planning to sell their portfolio.

The impact of Section 24, other legislation and Brexit has made the buy to let investments more complex to manage and in some cases less profitable or even running at a loss, where landlords will find themselves with increases in mortgage repayments versus tax than they receive on their rents. They also risk losing money invested in a property if house prices fall after Brexit, as predicted by many experts.

Changes to Section 24 means buy to let landlords can no longer offset 100% of mortgage interest against rental income

One option that landlords may try to utilise and offset the tax rises is to increase rents and pass the costs on to tenants. However tenants can challenge unfair or unrealistic rent rises, and landlords without these additional costs who do not increase their rents will be far more attractive to renters, meaning that buy to let landlords who do increase their rents risk poor tenant retention and possibly prolonged periods of empty properties.

A second option would be to incorporate a new company in your name and transfer your property portfolio over which from HMRC’s perspective will be considered a sale and each sale would be subject to stamp duty and a higher rate of capital gains tax. There are also other implications. My suggestion would always be to speak to your accountant and make sure you have a clear idea of the impact this would have.

My final advice would be to reduce the cost of your overall income. Some landlords may choose to reduce the profit they secure from rental incomes in lieu of holding onto the investment until such a point that the property is ideal for sale. Other landlords have started to sell off part of their portfolio of rental investments to mitigate their exposure to increasing the tax they can offset. This is, in my opinion, is very much impacted by the timing and being able to understand where the sales market will go to London post-Brexit.

With Section 24 coming into effect in April 2020 and the changes to Section 21 firmly set onto the parliamentary agenda, landlords could face a tough year ahead. My best advice is to talk to your managing agent to get a good understanding of how profitable your portfolio is and work with them to take action before the legislation changes come into effect and you are left with a portfolio making a loss.

But it isn’t all doom and gloom I am having conversations with clients at the moment on a daily basis helping them put key strategies in place to be able to help navigate through the coming months. There are a number of key information online to help guide you through or your managing agent should be able to provide you with solid information and advice.

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