

# Factors driving UK buy to let

There are eight factors which are coming together to significantly increase the percentage of UK homes which will be second homes / buy to let in the future, says David Lawrenson.

“People are increasingly looking to property as a secure investment because they see the stock market as too volatile”

Back in 1900 around 90% of all properties in the UK were privately rented. After that, a steep decline followed so that by the end of the Second World War only about 50% of all properties in the UK were privately rented. Then, the years of post-war rent control took their toll and private letting collapsed further so that by 1988 private rentals accounted for only around 8% of all dwellings.

Things changed again in 1988 when new laws made it easier for landlords to recover possession of a property and to charge realistic rents. Then in 1996 we had another Housing Act and the birth of the buy-to-let mortgage, and the rest is buy-to-let history.

However, despite all the hype that there has been about buy to let, the proportion of rented property is still small – at about 11% today.

However, there are eight factors that over the next 20 or so years will increase the proportion of homes that are second homes, including those which are buy to let. These factors could come together to mean that within 20 years the proportion of homes that are rented out could be back where it was in 1945.

## Factor 1 – Lack of housing supply

Obviously, we have long known that housing supply is not keeping up with housing demand and I don't see this changing too much soon.

Kate Barker's report for the government showed just how far behind the UK is at providing enough accommodation for all the people who want to live here. And the UK population is growing rapidly – having just passed the 60m mark a few months ago. There is basically not enough housing to meet this increasing population. This factor on its own will push up house prices beyond the reach of many people, who will then be forced to rent.

## Factor 2 – Inward migration

The biggest factor in population growth at the moment is net inward migration into the UK, with anywhere up to 500,000 new immigrants coming into Britain every year. For them, renting is the natural default option.

Now, inward migration may not sound that good if it is your own wage that's being held down as a result of the extra competition for the work you do, but it sure keeps inflation down – some economists say by as much as between 0.5% and 1%.

And that's an important thing for the government – of whatever political hue.

## Factor 3 – The flexible work and study culture

People are increasingly attracted to renting as a lifestyle that fits what the CBI might call the flexible work culture. Some others would call it the hire and fire work culture that we have in the workplace today.

And of course, it was to meet the new flexible work culture that was one of the reasons why the Tory government in 1988 and 1996 passed the Housing Acts because the thinking was you couldn't very well get on your bike to find work if there was nowhere where you could park your bike at night.

As global movement of labour increases there will be ever more points in people's careers where – because of job moves, re-training or whatever – they will need to rent, because renting gives them more flexibility to move to new jobs in new areas or new countries, and this goes right across the careers board – students, lower paid workers and up-market executives.

## “Money for first-time buyers is increasingly coming from parents and grandparents”

For some people with families, this may be a pied-à-terre in town for the week and going to their other home at the weekend. Some of these pied-à-terres will be rented, some will be owned as second homes.

## Factor 4 – Technology

The availability of modern communications will mean that more and more people, especially creative people and tele-workers, will be able to work from home – and many of these will be working from places they either rent or own as a second home.

## Factor 5 – The flexible family

Sadly, as there are more family break-ups, more people will rent whilst they consider their options following a breakdown in a relationship.

## Factor 6 – Extended adolescence

Increasingly, young people want to be flexible for a time before they settle down.

Back in 1983 a Council of Mortgage Lenders survey found that about 80% of under 25s wanted to own their own homes within two years. In 2004 that figure was just 43%. And there was a similar large decline in the age range 25–34.

These young people will mostly rent – and rent for longer.

## Factor 7 – Loss of faith in other asset classes

People are increasingly looking to property as a secure investment because they see the stock market as too volatile, they've been stung by the endowment scandal, the split cap scandal, the collapse of Equitable Life etc, but most of all, they don't trust the government on pensions.

And the closing of many final salary schemes is just one more reason why

people look to property to provide a safe home for their money. And although property looks highly valued now on some measures, it doesn't on others.

Take a look at property yields for example. Today, true net property yields, though lower now, are still higher than equity yields.

The current net yield on the private residential sector is about 3.5% now – which is still slightly above the yield on UK equities – which according to the Council of Mortgage Lender's Housing Finance journal “does suggest the UK property market is not seriously overvalued”. At least not on that measure!

## Factor 8 – ‘Handout homes’

Direct Line and The Future Foundation coined this phrase in a recent report they did.

What ‘handout homes’ is all about is the fact that money for first-time buyers is increasingly coming from parents and grandparents in the form of cash assistance with deposits and ongoing ‘income help’ to meet mortgage repayments.

By doing this, parents also rather neatly keep their cash out of the clutching hands of the Chancellor from an inheritance tax point of view.

Now, some of this handout homes money is increasingly being used to buy a student house (buy to let) for while the children study. And this will grow as the number of students grows. There was a 1/2 million increase in the number of students in the UK over the last six years.

This parental or grandparental property assistance phenomenon could mean that the argument that property prices must fall as first-time buyers' income multiples get ever stretched could be a flawed one.

Now of course, not everyone is well enough off to hand out money to their offspring so what we have here is a kind of polarisation where the well off have second homes for themselves (and maybe this also doubles up as a holiday home too) and maybe also they have helped buy one or more for the children and perhaps a buy to let.

For those without well-off parents, owning a house will become increasingly impossible and many people will have to

rent, thus providing a ready pool of tenants, and rising rents, for those lucky enough to have invested in property.

David Lawrenson is the author of *Successful Property Letting*, which is available at good book shops and Amazon.

