DIEU ET MON DROIT

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MONEY

Invest and become a guilt-free landlord

Are Silver Savers exploiting Generation Rent? Ex-council homes may offer the right balance between doing well and doing good

Personal Account

IAN COWIE

PROPERTY will be a key battleground in the general election and a controversial one for investors in the months ahead.

Next month's pension revolution will free up billions of extra cash to flow into buyto- let (BTL),whichhas already generated double-digit gains for many landlords.

Perhaps surprisingly, people who let accommodation continue to enjoy tax breaks denied to most homebuyers. While mortgage interest relief was abolished on main residences 15 years ago, BTL landlords — like any other business — can still offset interest costs against their taxable profits to increase their net returns.

While you or I might worry about having to replace the roof, landlords can pass on such costs to thetaxman. So, in addition to baby boomers' good luck in being in the right place at the right time before house prices soared, HM Revenue & Customs lets themkeep more of their winnings than ordinary owner-occupiers. Who says HMRC has no heart?

As I reported here last June, property experts expect the imminent increase in freedom of choice at retirement to boost BTL investment. Many people aged 55 or more may well decide that becoming a landlord looks a better bet than buying an annuity.

Lucian Cook at the estate agent Savills told me: "If the wealthiest fifth of those reaching retirement invested 10% of their pension savings in property, that could result in £10bn additional investment in BTL."

But rising house prices and falling rental yields prompt questions about how far this trend can continue. Also, nobody loves a landlord.

That last point may sound daft but it can matter to socially responsible investors who worry about inter-generational fairness and don't want to end up like Rigsby, the miserly landlord in the 1970s sitcom Rising Damp.

One way to address these issues is to buy former local authority property for up to 40% less than comparable new-build flats and houses. Enthusiasts argue this can provide affordable starter homes and lift yields above 6%—that is, rent expressed as a percentage of purchase price.

Many ex-council homes are shunned by owner-occupiers, which helps to keep prices down, even if central locations make them attractive to tenants. Dominic Field of Temple Field Property explained how he puts this into practice.

Bleak house: buy-to-let investors offer today's renters a cheerier alternative to landlords such as Rigsby from the sitcom Rising Damp

His company finds properties for BTL investors. Last July it paid £495,000 for a fourbedroom, one-bathroom excouncil house in Vauxhall, south London. At the time, the gross yield was 4.2%. About £50,000 was spent on refurbishment, adding a bedroom and bathroom.

Since last September, the house has been let to five young professionals for a total rent of £695 a week. Field said: "That is a current gross yield of 6.6% onthepurchase price after factoring in refurbishment costs. Today, the property has an estimated capital value of £650,000, representing an uplift of approximately 20%." If, like me, you would dread having to collect rent, a managing agent would charge up to 15% of gross revenue to do the work for you. That would reduce the yield to nearer 5.6% in this case.

If, though, would-be landlords borrow to invest, that raises both risks and rewards. For example, the gain described above would exceed 50% if the property were bought with a 75% loan-tovalue mortgage. But if interest rates rise and rental income falls, bankruptcy beckons.

The minimum investment accepted by Temple Field is £150,000, with the assumption that a BTL mortgage can be obtained to fund the average price of £500,000. Its charges look steep at 1% of the purchase price, plus a quarter of any reduction obtained from the asking price, or a flat fee of 2%.

Contrary to what I've heard from friends living in former council properties, Field claimed he had never seen large bills for communal repairs imposed by local authorities. Others claim councils may disapprove of owner-occupiers, let alone landlords, long after property has passed into the private sector.

SOCIALLY RESPONSIBLE INVESTORS DON'T WANT TO END UP LIKE RIGSBY

Ed Mead of the estate agent Douglas & Gordon told me: "Ex-local authority is a good sector but over the years our clients' issues have been around council property management departments deciding they want to spend money with little warning.

"Ultimately, trying to persuade investors that they will make a decent return from the lettings part of the deal is a bad idea . . . the real return comes when the property is sold."

Two views make a market, as they say. As an ex-council tenant , I remain sceptical. But robust returns have left houseprice cynics looking silly for as long as I can remember. Either way, I expect lotsmore interest in BTL after April 6.

ian.cowie@sunday-times.co.uk or @iancowie on Twitter