



Landlords of the future

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Introduction

Britain's investors have been remarkably resilient in recent months. Radical policy changes and slowing price growth mean it's easy to be downbeat about the prospects for buy-to-let. Despite the introduction of the 3% stamp duty charge for second home buyers and the prospect of less generous rules on tax relief, investor activity levels in late 2016 were nearly back to normal.

Understanding the makeup of the sector, why landlords invest and who they are starts to explain why we've seen the industry weather external factors better than forecast. For many landlords their property is a long-term investment, the average investor-owned home is only traded every 17 years, meaning for many the payoff is in long-term capital appreciation. For those more yield focused, even incomes which are under pressure from rising house prices and less tax relief, compare favourably to the yields on savings accounts, government bonds and even the FTSE 100 index. While of course past gains are no guarantee of future performance, sustained house price growth over the last 25 years is a seductive draw for many.

Our research shows that landlords are changing their behaviour, both in response to recent policy changes and longer term trends. Landlords are much more likely to own more than one home than they have been in the past, perhaps a sign of the sector maturing. Investors purchasing new properties are also more likely to use a company. Where and what landlords buy is changing too, in part in line with the housing market cycle but also in search of higher yields.

It seems that many landlords will weather the current choppy waters, changing to adapt to the new environment. This means we still expect the size of the rented sector to grow in the coming years. Fewer investors owning more stock looks likely, as does the growth of the build-to-rent sector. The structural shift in economic and housing forces driving the expansion of the rented sector are unlikely to change, meaning the demand will likely be there for growth.

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Executive summary

More people paying more stamp duty

The 3% additional stamp duty charge for second home buyers is raising much more than forecast by the government. £1.2 billion since its introduction, twice what was originally envisaged for the full year by the Office of Budget Responsibility following the policy's announcement in the 2015 Autumn Statement.

A bumper take from stamp duty means more of the market has been affected than expected. Our analysis of sales data shows a quarter of transactions could be caught by the charge in 2017.

Only 60% of those paying the extra 3% stamp duty are investors, the rest are home owners who have not sold their main residence (21%), second home owners (9%), small developers (8%) and those buying with a child or family member (2%).

Some first-time buyers and owner-occupiers have won out against investors because of the new charge. Since its introduction c.9,000 fewer people buying their first home lost out to a landlord than over the same period during 2015. This compares to the 31,000 owner-occupiers paying the charge.

Landlords adapting to a changing environment

With the prospect of the tapering of tax relief on mortgage interest, more investors are choosing to buy properties using a corporate envelope. Fourteen percent of investor purchases were made through a company in 2016, a record high. The number of multi-property landlords is growing too, Council of Mortgage Lenders data shows that multi-property landlords have grown from 22% of the market in 2010 to 37% today.

Landlords are most likely to choose to invest, rather than become a landlord by accident. More are now looking further and wider afield for a better yield and capital appreciation too. The proportion of investors buying a buy-to-let property in the same local authority where they live reached a record low of 54% in 2016, down from 60% in 2010.

Are the returns still there?

Prior to the 2014 stamp duty reform, the average UK landlord paid £161,550 for a home and faced a stamp duty bill of £1,616. When the slab structure was abolished,

this fell to just £731. However, the new stamp duty surcharge now means that the landlord would face a bill of £5,578 – a 663% increase.

The changes being made to the mortgage tax relief and the removal of the wear and tear allowance will squeeze incomes for both new and existing mortgaged landlords too. But most landlords will still turn a profit from their rental home.

Property investment has always been a long-term venture for the majority and acts as a supplement to help boost their retirement nest eggs. Three-quarters of landlords consider capital growth a key reason for investing in property.

Over the last 10 years, buy-to-let has delivered better total returns than other asset classes, almost doubling the returns delivered from both stocks and bonds – returns of 9%, 5% and 6% respectively. With house prices still expected to grow long-term, its appeal remains.

Is there space in the market for both the private landlord and build to rent investors?

2017 is set to be the year of growth for build-to-rent providers and it is likely that institutional investors will drive the rental sector's growth over the next few years, although only 2% of renters had an institutional landlord in 2016.

The sector's current focus on wealthier young professionals will give it access to 1 in 5 renters. As build-to-rent grows, its product and offering will have to adapt to serve the rest of the rental market.

What can we expect from the rental market in 2017?

Overall we expect rental growth to rise broadly in line with income growth, increasing by 2.5% in 2017. But the path of the economy and its impact on employment and pay will dictate the performance of the market in 2017.

We expect rental growth to pick up in London, but for rents to cool in the East. Further North the balance of supply and demand will be important, but in urban centres in the North the importance of the rental market will help to support rental growth.

The stamp duty surcharge

Caught in a trap

Key facts

Q2 2016:
11%
of homes sold attracted the surcharge

Q3 2016:
19%
of homes sold attracted the surcharge

Q4 2016:
22%
of homes sold attracted the surcharge



The 2015 Autumn Statement saw the government announce sweeping changes to the stamp duty regime.

For the first time ever, a buyer who only owns one home is treated differently to someone who owns two or more with the aim of stopping people 'buying homes to let squeezing out families who can't afford to buy'. Official statistics show that in the first three months since the change was introduced, 11% of homes sold in the UK attracted the surcharge, a figure which has since risen to 19% in third quarter of the year and to 22% in the fourth. Countrywide sales suggest that going forward around a quarter of buyers will pay the stamp duty surcharge.

With a quarter of all buyers liable for the surcharge, it looks likely that the additional stamp duty will raise more than the government envisaged

When the surcharge was announced in the 2015 Autumn Statement, the OBR estimated that in the first financial year (2016/17) the levy would bring in £625 million, but in the first three-quarters of the year the levy has already raised £1.2 billion. This comes despite many who were liable for the new levy bringing their purchase forward. If current trends continue, it is likely that the government will raise more than twice what it initially envisaged.

Countrywide data shows that this higher revenue has been driven by the wide range of people paying the higher rates. With the surcharge firmly aimed at investors, it is not surprising that landlords are the largest group of people paying the higher rates. Over the first nine months they accounted for 60% of the sales liable for the surcharge, equating to 89,640 of the 149,400 transactions liable for the higher rate. While the number of homes bought by landlords dropped

sharply when the new charge kicked in, they have increased as a proportion of all sales in every subsequent month.

But 40% (59,760 homes) of those paying the surcharge are not landlords and have coughed up an extra £8,560 in stamp duty on top of what they would have previously paid

The largest, 21% (31,374 homes), are owner-occupiers who are yet to sell their original residence. For some, paying the extra stamp duty will be a short-term outlay which they will recoup when they sell their current main residence within three years. But others have chosen to hold onto what was their main residence and will not receive a refund.

Those buying second homes make up 9% (13,446 homes) of people paying the surcharge. The behaviour of second home buyers has changed least of any group by the additional stamp duty levy. Potentially this is because the decision to buy a second home often isn't purely a financial one and people tend to hang on to them for a long time. They continue to account for between 2% and 3% of all sales since the introduction of the new stamp duty levy, unchanged from pre-April levels.

Small developers, those buying homes to do up and sell on, make up 8% (11,952 homes) of the purchases paying the extra 3% stamp duty. Given their inability to spread the higher rate over a longer period, these micro developers have been the buyers hardest hit by the higher rates. Across the country as a whole their numbers are running at around half the levels they were. In London, where the additional stamp duty is most expensive in cash terms, the number of people buying homes to do up and sell on is down by two thirds.

The final 2% (2,988 homes) of people paying the extra stamp duty are parents and relatives buying a home with their children. For some, having the parents on the deeds is what it takes to make the purchase affordable while for others, the home is bought by a parent for their children to live in. Lenders have started to react to the introduction of the higher stamp duty rates prompting a range of joint mortgages which don't require everyone to be named on the deeds, helping cut the tax bill of their customers.

It is clear that the stamp duty surcharge has caught more people than the government thought it would

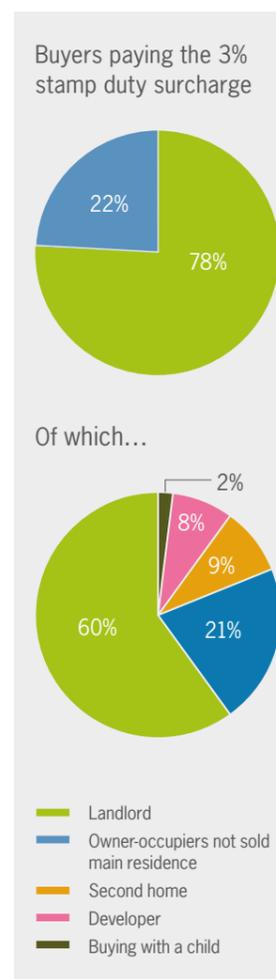
And as a result it could raise twice as much as first envisaged and has served to act as a big disincentive to buy and sell. Landlords are thinking much harder both about buying and selling, with the cost of replacing a sold home now substantially higher. But what difference has the new levy made to those it was aimed at helping?

Since it was introduced fewer first-time buyers find themselves up against a landlord

In 2015, 16% of those buying their first home faced competition from a landlord compared to 11% in 2016 after the new rates were introduced. And when they

do face investor competition they are more likely to come out on top. Since April 56% of first-time buyers who faced competition from a landlord walked away with the house key, the highest figure on record.

In the first nine months after its introduction, the stamp duty levy has given some first-time buyers and owner-occupiers a helping hand. Between April and December 2016, around 9,000 fewer people buying their first home lost out to a landlord than over the same period during 2015. But this small boost has come at a high price given the number of non-landlords caught up paying the higher rates. Ensuring that fewer buyers get caught up in the tax primarily aimed at landlords is a priority for the health of the housing market and the wider economy.



Source: Countrywide Research

	Number	Proportion of people	Proportion of value	Total additional stamp duty paid
Landlords	89,640	60%	58%	£696,000,000
Owner-occupiers not sold main residence	31,374	21%	22%	£264,000,000
Second home	13,446	9%	9%	£108,000,000
Developer	11,952	8%	10%	£120,000,000
Buying with child	2,988	2%	2%	£24,000,000

Source: Countrywide Research & HMRC

The changing landlord

Landlords are changing as the market evolves

Landlords are mysterious creatures, acting and making decisions behind closed doors for reasons which are remarkably hard to track. This is why landlords are often poorly understood and hard to characterise. But we do know that they are changing as the rental market evolves. We aim to shed some light on how landlords behave as the private rented sector comes of age.

Mostly people, not companies...

Market conditions play an important part in how, what and why landlords purchase property. Although the majority of buy-to-lets are owned by individuals, the imminent changes to tax relief on mortgage payments has meant that more people are purchasing buy-to-lets under a company name. The proportion of buy-to-lets bought by companies peaked in 2016 at 14%, up from 9% in 2015. Although homes owned by companies still make up a small proportion of the market, their owners tend to behave slightly differently to other investors. Company landlords are more likely to own multiple properties and are more focused on generating shorter and higher returns, which affects what and where they buy property. A bigger proportion (64%) of multi-landlords own property in urban areas, where yields tend to be highest.

Most still own one property, but the number of multi-property landlords is growing

It is not new information that the majority of landlords only own one property, but changing market conditions have meant a higher proportion of investors now own between two and four buy-to-lets. Historically low interest rates and a slowing sales market have made it easier and cheaper for investors to buy rental properties over the last few years. But we are unlikely to see this trend continue as the stamp duty surcharge introduced in April 2016 has increased entry costs and further regulatory changes are making it more complicated for the amateur landlord.

While many landlords are 'accidental', most choose to invest

Why do people invest in buy-to-let? The majority of landlords invest in order to generate a high returning second income, often as a step towards retirement planning. Whereas some enter the sector almost by accident, for example by inheriting a property or being unable to sell their home. Immediate returns are of higher importance for multi-landlords whom sometimes use it as their full-time job. Those who inherit a home and make the decision to let it out are much more likely to only own one buy-to-let property.

But downturns encourage the number of accidental landlords...

Market conditions also determine why some people become landlords. During the last downturn there was a rise in the number of accidental landlords. The term 'accidental landlord' covers a range of scenarios where people rent out their property because of circumstance rather than choice, usually because they are unable to sell their main home at the price they want to achieve.

...just like what happened following the 2008 recession

This scenario occurs most often when activity levels are low, making it harder for people to sell. This is reflective of the market in 2010 when 13% of landlords let their property because they were unable to sell, peaking in 2011 at 18%. But since 2011 there has been a gradual decrease in the proportion of people letting their homes because they are unable to sell, falling to a record low of 7% in 2016. Since the property they are letting used to be their own home, accidental landlords are more determined to find quality tenants who will look after their property. But they are also more likely to be reliant on the income generated from letting in order to fund their new home.

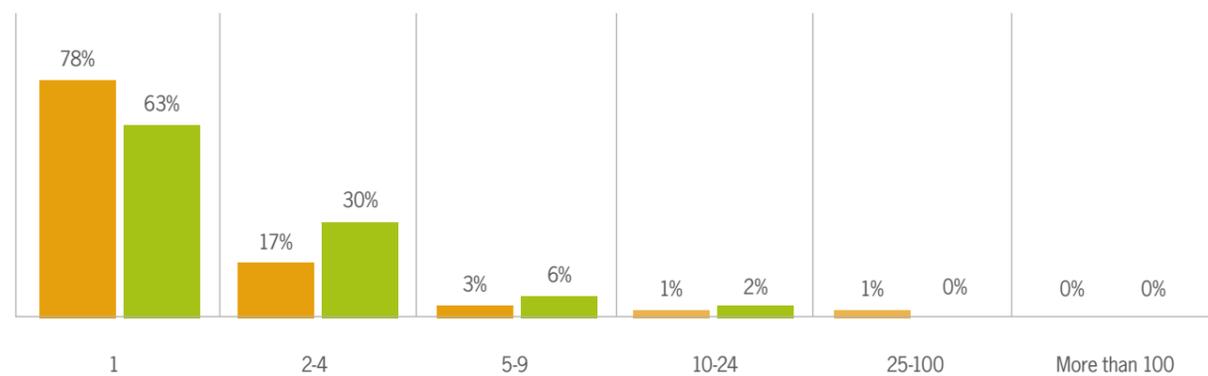
And now we are seeing them rise again

Now, with the sales market slowing again, we are seeing the rise of the discretionary landlord. These are people who make a more calculated decision to let their home instead of selling by taking advantage of historically low interest rates. In May, the month before the referendum, 5% of landlords let their property because they were unable to sell, but by November this had risen to 8%. Discretionary landlords are willing and able to wait for a better time to sell.

The rental sector is both evolving and maturing

While it's been heavily shaped by government policy in the last few years, it is also changing as it matures naturally. Back in the year 2000 there were just 120,000 outstanding buy-to-let mortgages in the UK, around 7% of the current number. While almost all of this growth over these 17 years has come from small investors, it's likely over the next 17 much more growth will come from institutional investors. By offering tenants a greater choice of whether to move into a property owned by a 'professional' landlord, smaller landlords will have to continue adapting or face being squeezed out.

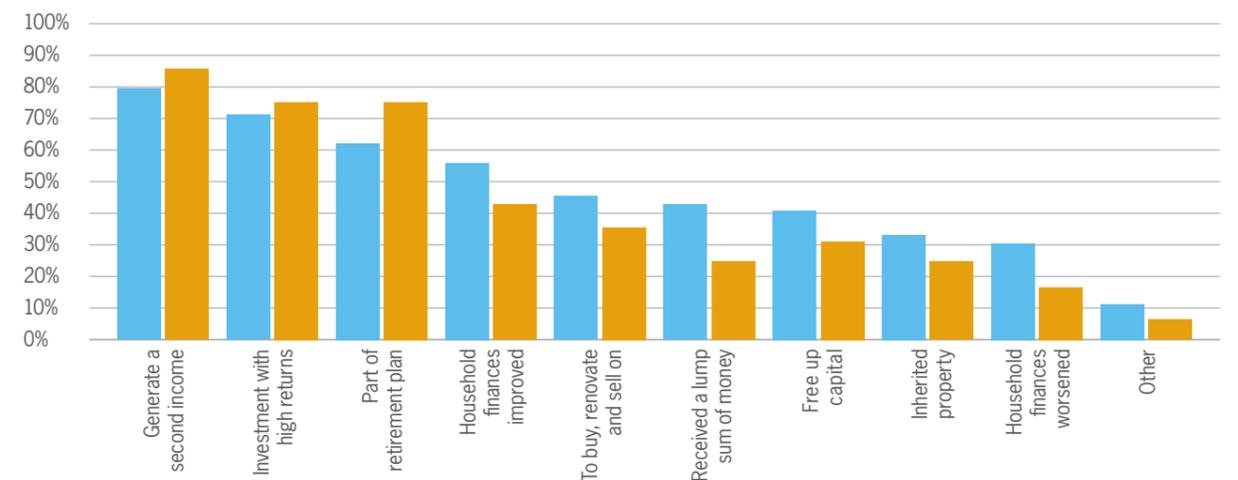
Portfolio size



Legend: DCLG's PLS, 2010 (orange), CML, 2016 (green)

Source: DCLG & CML

Reasons for being a landlord



Legend: Single landlord (blue), Multi landlord (orange)

Source: Countrywide Customer Survey

Heading North?

How stamp duty changes have affected what and where landlords buy

2016 was a difficult year for landlords, with the extra 3% stamp duty surcharge for second homeowners starting and the tapering of mortgage interest relief on the horizon in 2017. With rental growth slowing, even falling in some places, and high house price growth further raising entry costs, landlords' margins are getting squeezed. But investors are finding new opportunities by changing what and where they buy property.

Investors have always tended to buy their buy-to-lets in cheaper areas than where they live, but the new stamp duty surcharge means more are having to look at other affordable areas further afield. The proportion of investors buying an investment property in the same local authority where they live has reached a record low of 54% in 2016, down from 60% in 2010. Additional stamp duty raising entry costs, means some investors are having to buy cheaper properties in order to pay the upfront cost. The new stamp duty surcharge for second homeowners' means the average stamp duty bill for an investor in London is £25,670, compared to £3,790 outside the capital – a huge increase from £4,910 and £1,020, respectively, back in 2010. Whereas others less concerned about stamp duty are also looking to cheaper areas in search of stronger future capital growth or higher yields.

Over the past six years there has been a steady decline in London based investors purchasing buy-to-let homes in the capital. As prices in London have boomed, investors are increasingly looking to cheaper areas further afield

to secure their margins. Now only 56% of investors from London buy investment property in the capital, a significant decrease from the 80% recorded in 2010. London investors are now looking to more affordable areas in the South East, East of England and the North – where sales for buy-to-lets have risen by 8%, 7% and 5% respectively since 2010. Those in search of the highest yields head to the northern regions while those wishing to invest closer to home buy in areas such as Thurrock, Luton and Milton Keynes.

Stamp duty has also changed what landlords are willing to pay for a property. Historically investors have always bought cheaper properties than owner-occupiers, but since the stamp duty surcharge was introduced in April 2016, investors are increasingly having to compete with first-time buyers – meaning they are having to spend more. Between April and December 2016, the average property bought by an investor cost £220,000 compared with £287,000 by an owner-occupier, 23% less. This is a record low, down from 31% in 2015 and 47% in 2010. Tougher competition means the gap is closest in London where investors only spend 19% less than the average buyer. But all these additional costs continue to squeeze landlords' yields.

Average stamp duty paid by an investor



Peak tenant?

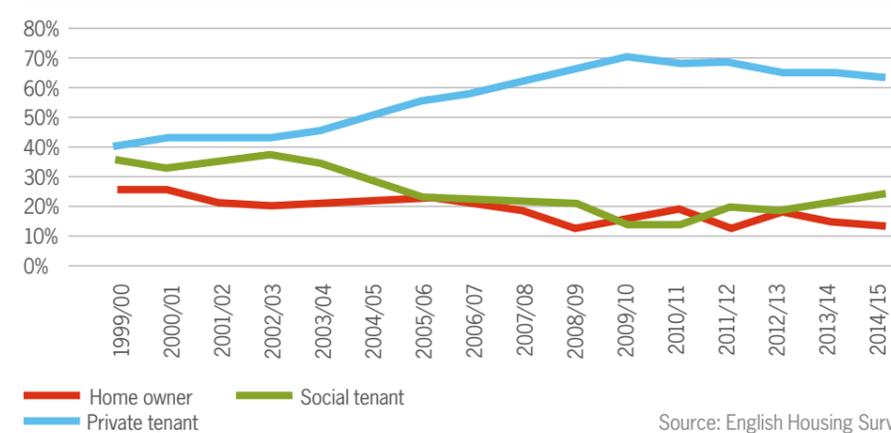
A change in direction?

It has long been the case that most people setting up home start out renting. Ever since the English Housing Survey started recording the tenure of newly formed households in the late 1990s, it has shown the majority have gone into the private rented sector. The numbers moving straight into home ownership or social housing are lower.

The growth of the private rented sector over the last decade has been driven by the growing proportion of new households renting, rather than more existing owner-occupiers moving into the private rented sector. Each year somewhere between 1% and 10% more existing private tenants buy than homeowners chose to rent.

“
Each year 1-10% more tenants buy than rent
”

First tenure of newly formed households



Key dates

1999
English Housing Survey started recording the tenure of newly formed households

2009
The number of new households starting out in the private rented sector peaked at 70%

2015
A higher proportion of newly formed households bought than in 2005



Yields

Does housing still pay its way?

The change in the government’s attitude towards private landlords has made investment costlier than it was. The 3% stamp duty surcharge, upcoming tapering of mortgage interest relief, reduction in the wear and tear allowance combined with the clampdown on the availability of mortgage finance at higher loan-to-value rates, all add to the costs for landlords.

We know that property has outperformed many other assets over the long-term, and with interest rates at historic lows, yields on alternative investments are thin. On top of that, property is often seen as being more tangible, making it an attractive investment for many. But, with all these extra obstacles the government has thrown its way, is housing still an attractive investment? Typically, gross

yields, expressed simply as annual rental income as a proportion of the property value, are at the forefront of talk about the attraction of a rental investment. But, as this does not consider the many costs associated with buying and owning a rental home, it does not reflect the true return of the investment. Net yields, which consider the expenses associated with owning a rental home, provide a more accurate picture – especially as the new government measures aim to soften interest in the rental sector by increasing the costs associated with buying and owning a rental property.

Stamp Duty

Gross yields do not consider the stamp duty element of the purchase so it is perhaps not reflecting the true returns on the initial capital outlay.

Taking stamp duty into account can have a material impact on relative yields – particularly following the introduction of new rates for second home purchases. The initial change from the old slab structure in 2014 benefited most landlords as it made the tax bill on homes less than £1 million, the price range which most individual landlords would be transacting in, cheaper. But the extra 3% landlords now need to pay has stacked the deck against them.

Prior to the 2014 stamp duty reform, the average UK landlord paid £161,550 for a home and faced a stamp duty bill of £1,616. When the slab structure was abolished, this fell to just £731. However, the new stamp duty surcharge now means that the average landlord would now face a bill of £5,578 – a 663% increase.

If stamp duty costs are included in yield calculations, it has a knock-on effect on the yields which landlords can achieve in the first year of owning their rental property. An average landlord, prior to the stamp duty surcharge, could achieve a yield of 5.5% when including the cost of stamp duty into the first year’s yield calculation. But the new stamp duty surcharge would push this yield down marginally to 5.3%. However, stamp duty is an upfront cost which acts as a transaction tax, so most landlords aim to recover this cost through capital growth over a longer time period, rather than through their income in the first year. Yields are most accurately calculated by adding stamp duty to the purchase price which can be spread across the whole period of ownership.

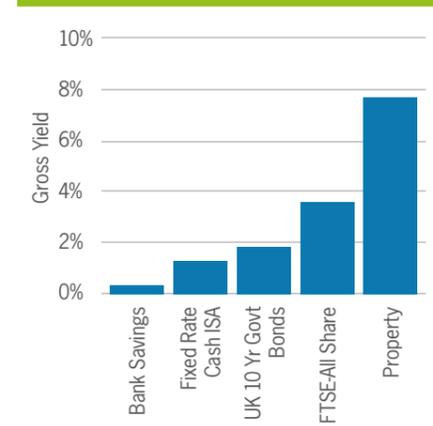
Mortgage tax relief and wear and tear

The changes being made to the mortgage tax relief and the removal of the wear and tear allowance will squeeze incomes for both new and existing mortgaged landlords.

Previously landlords only paid tax on their rental profits after deducting mortgage interest costs and a wear and tear allowance, set at 10% of their annual rental income. But the former Chancellor announced that in 2017 the government will begin the gradual tapering, over a four year period, of the relief on mortgage interest so that by 2020 the tax relief will be fixed at the basic 20% income tax rate. Additionally, landlords will only be able to deduct the actual cost incurred for replacing furnishings and appliances as their wear and tear allowance – redecorating costs and other elements of improvements are no longer included.

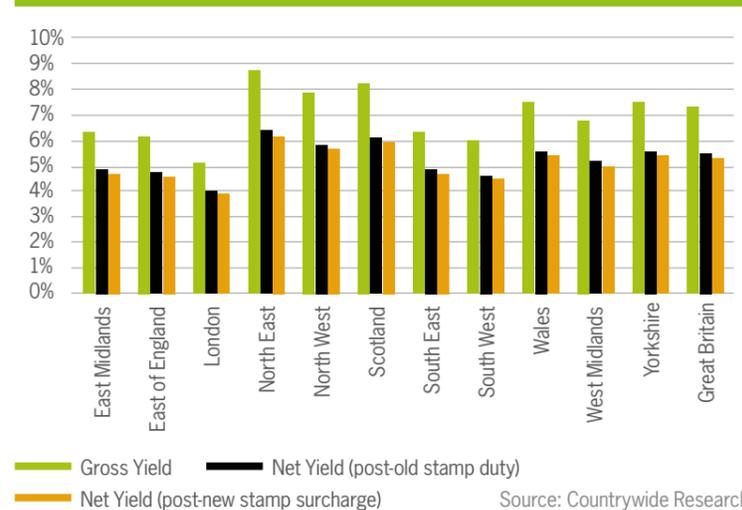
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The new stamp duty pushes yields down marginally to 5.3%
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Asset yields, 2016



Source: Bank of England, FTSE, Countrywide Research

Effects of stamp duty on yields



Source: Countrywide Research

Region	£35,000 Landlord			£50,000 Landlord		
	BTL Net Income – based on 2016 rules	BTL Net Income – based on 2020 rules	Change in Income	BTL Net Income – based on 2016 rules	BTL Net Income – based on 2020 rules	Change in Income
East Midlands	£3,450	£3,450	£0	£2,569	£2,063	-£506
East of England	£5,235	£4,691	-£543	£3,897	£3,091	-£805
London	£6,609	£5,192	-£1,417	£5,009	£3,592	-£1,417
North East	£3,915	£3,915	£0	£2,918	£2,561	-£357
North West	£4,080	£4,080	£0	£3,040	£2,608	-£432
Scotland	£4,183	£4,183	£0	£3,117	£2,705	-£412
South East	£6,170	£5,284	-£886	£4,593	£3,684	-£909
South West	£4,406	£4,182	-£224	£3,279	£2,582	-£698
Wales	£3,745	£3,745	£0	£2,790	£2,365	-£425
West Midlands	£3,975	£3,975	£0	£2,960	£2,438	-£522
Yorkshire and The Humber	£3,838	£3,838	£0	£2,859	£2,424	-£435
Great Britain	£5,418	£4,999	-£420	£4,036	£3,399	-£637

Source: Countrywide Research

Rental yields are rarely the focus

This will affect the annual income landlords can receive from their rental homes, particularly those whose income crosses the higher tax threshold. After 2020, an average mortgaged landlord in Great Britain, with a 70% LTV interest-only mortgage, at the lower tax threshold, will see the yearly net income they receive from their property fall from £5,400 to £5,000. Those on the higher tax threshold, will see their income fall from £4,000 to £3,400. In most regions, landlords on a lower tax threshold will see no changes to their income.



The majority of landlords (54%) are cash buyers, therefore it is unlikely to alter the appeal of the sector for most.



Importantly, even with the full impact of the tax changes, an average landlord is still able to turn a profit from their rental home. However, landlords will need to look at their sums prudently, especially larger ones. The tax changes will have a marked impact on larger landlords who own a portfolio of several rental homes, particularly those who are highly geared and own properties in the more expensive regions.

For example, a higher tax paying London landlord with a portfolio of five properties and 70% LTV mortgages on all properties, will see their tax bill increase by nearly £12,000 following the full implementation of the new tax changes.

But rental yields are rarely the focus

While mortgaged landlords, both new and existing, will see their rental yields negatively affected by the government's new measures for the sector, the majority of landlords (54%) are cash buyers, therefore it is unlikely to alter the appeal of the sector for most. Landlords are, typically, rarely focused on the annual income they receive from their investment with most looking at it as a long-term investment to reap future capital gains.

The CML's survey of private landlords in 2016, the largest of its kind, reported that just 8% of buy-to-let landlords were investing for rental income alone.

Change in tax bill for higher rate tax paying landlord with five properties in London

	Pre 2016	Post 2020 rules	Change
Rental income	£86,387	£86,387	£ -
Mortgage repayments	£15,877	£15,877	£ -
Mortgage interest	£35,431	£35,431	£ -
Other costs (10%)	£8,639	£8,639	£ -
Taxable profit	£43,182	£78,612	£35,431
Total taxable income	£82,182	£117,612	£35,431
Tax payable	£26,473	£38,334	£11,862
Post tax income	£109,915	£98,053	£-11,862

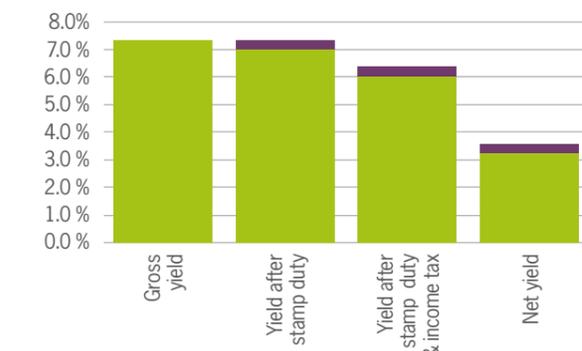
Source: Countrywide Research

Property investment has always been a long-term investment for the majority and acts as a supplement to help boost their retirement nest eggs. Three-quarters of landlords surveyed indicated that capital growth played a part in their reasons for investing in property. Additionally, 70% of those surveyed said that their rental income accounted for less than a quarter of their total income. An average landlord in Great Britain would typically make around £4,000 a year from their property after all taxes and costs have been accounted for. Our data shows that the average landlord typically holds on to their rental home for 17 years before selling up, which is why the extra stamp duty cost has a negligible effect on their return on investment.

With that in mind, it is clear to see why property continues to retain its attraction. Over the last 10 years, it has continued to deliver better total return on investment than other asset classes, almost doubling the returns delivered from both stocks and bonds – returns of 9%, 5% and 6% respectively. This has largely been due to the capital gains, which make up more than 60% of the returns seen, as house prices have continued to grow.

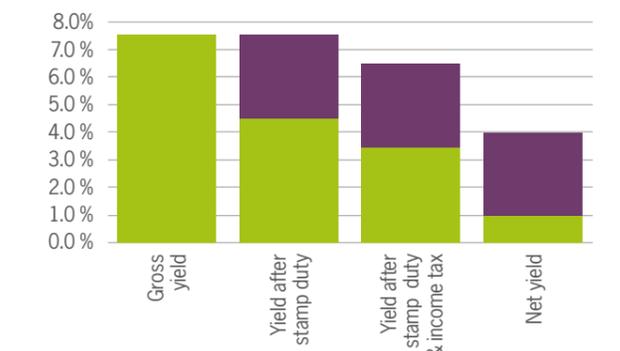
With long-term house price growth still trending upwards, albeit at slower rates than in recent years, the asset class should still be looked on as a valued investment.

Effects of government changes on yields – 2016 rules



Source: Countrywide Research

Effects of government changes on yields – 2020 rules



Source: Countrywide Research

Annualised total return by asset class (10 years to end 2015)



Source: MSCI/IPD, FTSE, JP Morgan, ONS

Rental forecasts

Risks and opportunities

The owner-occupied market tends to get all the headlines regarding the impact of economic and political shocks such as wage growth, inflation and uncertainty, but the rental market is affected by these risks too.

In addition to demographics and the economy, the supply and demand for rental property is partly determined by what is happening, particularly on price, in the owner-occupied sector. But on top of this, new policies on tax and landlord affordability as well as wider economic conditions also affect the likely path of rental market growth.

The introduction of the 3% SDLT surcharge in April 2016 led to a surge in purchases of second homes, adding to the supply base in London and the South in particular, softening rental growth. Additional supply coming to market in 2017 from new builds, especially in London, will also help to subdue rents. The latest data from the taxman shows demand held up during 2016, despite the tax changes, adding to the supply of rental stock too. But that does not mean rents will fall. Tighter household finances reduces the incentive to borrow, but also makes passing lender's affordability tests more difficult, pushing would-be buyers to rent.

Overall the prospects for the rental market are fairly robust, but there are risks. These are mainly to do with the uncertainty about the availability of credit and additional taxation on purchase, sale and ongoing tax reliefs which have still to play out.

Nevertheless, we expect demand for rental property to remain strong, but for additions to supply in 2017 to slow given the additional costs of purchase and slightly weaker expectations about capital growth in London and the South. In other parts of the country, the effect of stamp duty may be less of a concern for investors due to higher yields and lower capital outlays. But for others, the changes to policy are likely to reduce incentives to invest, once again balancing the scale of rental growth.

Overall we expect rents to rise broadly in line with income growth, but with differences across the regions. We expect rents to begin to accelerate in London, but to cool in the East. Further North the balance of supply and demand will be important, but in urban centres in the North the importance of the rental market will help to support growth. Of course there is a wide range of uncertainty around the forecasts, given the lack of detail about the impact of the transition to Brexit and the associated negotiations so important for the health of the economy and household incomes.

Forecasts – Q4/Q4	2014	2015	2016	2017 F	2018 F
Greater London	7.7%	4.7%	-1.1%	2.0%	3.5%
Central London	1.6%	0.5%	-3.1%	2.5%	3.5%
East of England	7.0%	6.6%	5.5%	3.0%	3.0%
South East	2.8%	1.9%	2.6%	2.0%	3.5%
South West	3.9%	4.1%	1.2%	2.0%	3.0%
Midlands	1.1%	1.8%	3.3%	3.0%	3.5%
Wales	1.7%	2.7%	1.2%	2.0%	2.5%
North	1.4%	1.4%	3.8%	4.0%	3.5%
Scotland	0.6%	4.0%	0.9%	2.0%	3.0%
GB	3.7%	3.1%	1.5%	2.5%	3.5%

Source: Countrywide Research

Build-To-Rent

A future for build-to-rent?

The way the government counts the number of homes built has changed remarkably little over the last 50 years. A new home is still defined as either private or social, a distinction which does not really reflect the realities of tenure today. And as a result, there are not any official statistics which count the growing number of homes delivered by build-to-rent investors, a figure which is by our estimates at least on par with the number of new homes built by councils. Countrywide's analysis of planning data shows that at the end of 2016 around 2% of private renters had an institution rather than an individual as their landlord.

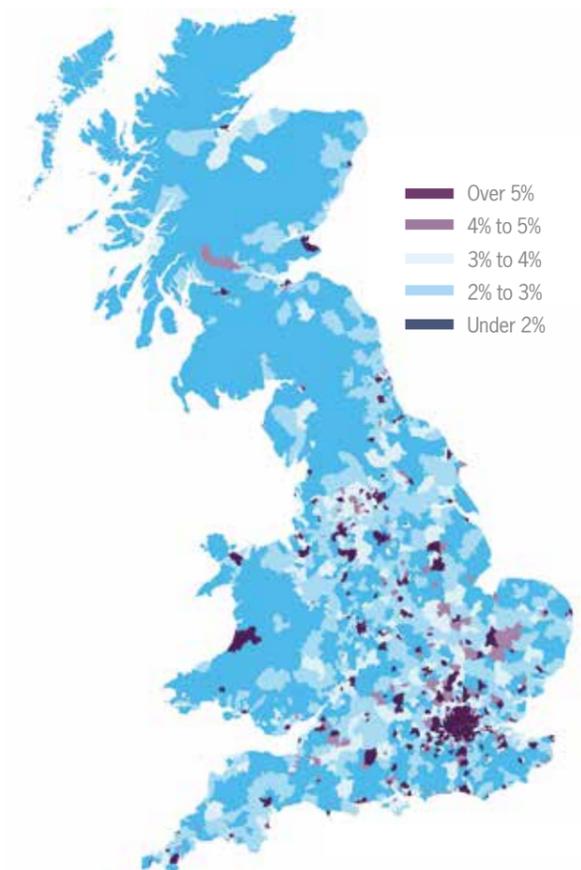
2017 is set to be another year of growth for build-to-rent providers, potentially at the expense of some smaller landlords. The growth of build-to-rent has been supported by government policy while, smaller landlords have been hit by higher stamp duty alongside an increase in the amount of tax they pay. A slowdown in the housing market across London and the South East has seen developments originally destined for the sales market sold to several large investors with deep pockets and let out. At the same time, more institutional investors are building homes that are designed for private renters from the very beginning.

It is likely that institutional investors will drive a large chunk of the rental sector's growth over the next few years. But exactly how big is the market for build to rent and how large can it grow? While the sector is still in its infancy, growth so far has come on the back of successfully appealing to a relatively small tenant demographic who tend to be young, childless and affluent.

But this group of people make up a small proportion of today's private rented sector. If build-to-rent providers continue to go for a similar demographic, they have the potential to capture around one in five renters, or 960,000 UK households. Four in 10 of these live in London, with the rest spread across large towns and cities, markets that so far remain relatively untapped.

On current trends, big investors still have plenty of room to grow. Tenant satisfaction tends to be high and the service professional. The number of tenants with an institutional investor as their landlord will carry on rising, potentially at the expense of some smaller landlords. But the number of tenants willing and able to pay for the existing proposition is finite. There will come a point in the future where institutional investors will have to diversify their offering if they are serious about making inroads into the private rented sector. While such a diversification has the potential to drive up standards for more private renters, it is likely to require a degree of government subsidy and support.

Proportion of private renters with a similar profile to tenants living in build-to-rent schemes



Source: Countrywide Research



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