



PORTSMOUTH RESEARCH

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# RESIDENTIAL MARKET REPORT



# WHAT'S HAPPENING WITH THE BUY-TO-LET MARKET IN PORTSMOUTH?

## What's happening with the buy-to-let market in Portsmouth?.... and should Portsmouth landlords & Portsmouth homeowners be worried?

In 2019, the private rented sector accounted for just over four and a half million households or 19.9% of UK households, no change from the year before. Interesting, when compared to the proportion of private rented households in the 1980's and 1990's, when the proportion of private rented households was stable at around 9.5% to 10.8%.

Most of that growth in the private rented sector came in three main spurts. The first growth spurt was between 1999 and 2003 and that was caused when property values were increasing at 20% per annum, the second came from the migration of 1.69m people from the EU8 countries after 2004 and the final growth spurt came about because of the property crash of 2008/9. When I look at the local stats...

**13.2% of Portsmouth properties in 1991 were privately rented, whilst the most recent stats stand at 22.3%**

Apart from social housing, the other pillar of home tenure is owner occupation. Owner occupation is made up of two separate groups: outright owners and those who own their home yet are buying the property with a mortgage.

**In 1991, 24.7% of Portsmouth households owned their property outright and 42.4% of Portsmouth households were buying with a mortgage, whilst current stats show 25.9% of Portsmouth households are outright owners and only 32.1% are buying their Portsmouth home with a mortgage.**

Looking at these numbers, two things are clear-

1. The increase in the proportion and number of Portsmouth outright owners is at least somewhat caused by Portsmouth's baby-boomer population retiring, being able to pay off their mortgages and thus going into outright homeownership.
2. Overall homeownership is down. These figures will be of no surprise to many readers with heightened barriers to home ownership, as saving for the deposit became the prevailing hurdle to getting on the housing ladder together with a substantial increase in the amount of private rented accommodation, provided by an ostensibly ever-growing cohort of buy to let investors.

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So, on the face of it, everything looks rosy for Portsmouth buy to let landlords with the private rented sector growing ever upwards.

This is not the case though, because these stats on private rented and homeownership on Portsmouth are from the last census. However, the Government have a number of in-depth annual surveys on the property market and since 2016, the proportion of privately rented properties has remained stagnant at between 19% and 20%. Also, over the same time frame, the proportion of homebuyers with a mortgage has increased quite considerably from 30.7% of all households nationally to 35.5% last year. This increase is mainly attributed to an increase in first time buyers.

So, why have we seen an increase in the number of first time buyers?

Firstly, the government introduced their Help to Buy Scheme in 2013 helping first time buyers get on the property ladder with interest free loans and mortgage guarantees. Secondly, the wide availability of 95% mortgages since the mid 2010's (meaning first time buyers only need to find a 5% deposit), and finally the continued increasing reliance of deposits from the 'Bank of Mum and Dad' have helped to support this growth.

Interestingly, age is an important factor in these stats, as it's the 25 to 35-year olds that have seen the biggest increase in home ownership, yet it's decreased for those in the 35 to 45-year old bracket.

So, what does all this mean for Portsmouth landlords and Portsmouth homeowners?

In the next six months, I believe the growth in first time buyer numbers will ease slightly. The pent-up demand of the Boris Bounce in January and February has now been released, and whilst the early signs are very good, we are still to see the effects of the curtailing of the furlough scheme on the people's ability to move home.

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Many doom-mongers were predicting the banks would remove 95% mortgages after Covid-19, yet looking on a well-known comparison website, at the time of writing, there were 183 '95% mortgages' available to first time buyers, with eye watering low rates of 1.53% with the Halifax on a 2 year fixed rate and 5 year fixed rate with the Skipton at 1.83%. The Bank of Mum and Dad might be a tougher nut to crack for first time buyers' deposits – the fall in the FTSE and the repercussions this will certainly have on older households' pensions income may restrict its availability.

This means even though the Portsmouth property market is doing reasonably well, Portsmouth homeowners wanting to sell shouldn't get carried away and 'over-egg' their asking prices. The information available today at all buyers' fingertips means your property can so easily be overlooked as being overpriced, and thus become ignored.

My advice to Portsmouth landlords is, even though the proportion of private rented properties isn't growing, in real numbers it is, as we created 230,000 residential homes in the country last year alone, so we aren't seeing a mass exodus out of private renting.

Yet, now might be the time to consider spending money on upgrading what you already own instead of buying another property. Depending on the type and location of your Portsmouth rental property, the return on investment of certain upgrades can be in the order of 20% to 30% per annum. Don't fall for the trap many Portsmouth landlords fall into and upgrade without speaking to a property professional. Whether you are a client or not, I am always here at the end of the phone to give you my advice and opinion.

Please do let me have your thoughts on the matter – thank you in advance.

# BUY TO LET LANDLORDS AND THE HOUSING CRISIS

Isn't it funny that nobody boasts they are a buy to let landlord anymore? Roll the clock back to the early millennium and you couldn't go to the local golf club or shop at a Waitrose without someone dropping buy to let into the conversation as easily and as often as the weather.

If it wasn't for buy to let landlords – Portsmouth and the UK would be in a rather difficult position when it comes to housing our local people. Many people believe that if you take buy to let landlords out of the loop of the UK property network, then it would be the land of milk and honey for first-time buyers priced out of the market. Those Portsmouth landlords provide those Portsmouth tenants with a mixture of homes to live in and using market forces, ensure the right number of Portsmouth homes are available.

Yet the retort from many tenant organisations would be that Portsmouth landlords are wealthy middle-class people, voraciously exploiting the failing Portsmouth property market for their profit and greed. Of course, the demographic of an average Portsmouth landlord is they tend to come from more fortunate backgrounds, with 3 in 4 of Portsmouth landlords aged between their late 40's to late 60's and 4 in 10 having a degree level qualification.

It also wouldn't surprise anyone to learn that those who invest in a buy to let Portsmouth property are likely to be better off than those who have not yet been able to buy a home. Yet, that is the nature of the country we live in and it's a consequence of a competitive free market economy (the alternative didn't go to well in the Soviet bloc). Indeed, asserting that the buy to let landlords represent a transfer of wealth and money from tenants to landlords is like saying that the pub represents a transfer of wealth from drinkers to the pub landlord.

Don't get me wrong, the tax loopholes for landlords up until 3 or 4 years ago were a little 'too' generous, still these were closed by the Tory's themselves. However, should the Government try to place even more burden on landlords like some are suggesting, forcing them to sell, I am certain some Portsmouth first time buyers would find it cheaper to buy their first Portsmouth home. This is because they wouldn't be in competition with Portsmouth landlords to buy the starter homes both types of buyers crave, meaning house prices would drop (simple economics would dictate that).

Yet, if the supply of Portsmouth privately rented homes contracted at a greater rate (because landlords were selling up) than demand, this would make renting more expensive (again simple economics) for the vast majority of Portsmouth tenants who were still renting a Portsmouth home. Irrespective of whether property values dropped, it might take years for a tenant to save for a deposit, whilst the rental properties the landlords want to sell, the tenants only need to be given two months' notice to leave so the property can be put on the market.

One might ask why don't the local authorities build more council houses?

Well, Government funding has been tight because of the credit crunch deficit since 2009 and going forward because of the current situation with Covid-19, it will get even worse. In fact, of the 617,230 new homes built in the country over the last 4 years, only 8,270 or 1.33% were built by local authorities, meaning only just over 1 in 100 of all new properties built in the last 4 years were built by the local authorities.

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This is important as the number of people in rented property has been growing over the last 20 years. In fact, when you look at all the tenants in council and private rented accommodation locally...

Interestingly, the demographic of a council house tenant is totally different to that of a tenant in a private rented home. The average age of a council house tenant is 52 years old (compared to 32 years for a private rented tenant), so it appears the older generation have the upper hand on council houses. So again, who exactly is going to house the people of Portsmouth, especially the younger generation that can't afford to buy?

Local authorities haven't got the money, Housing associations get their money from central Government, so the only other source of housing is private landlords. The problem existed before private landlords filled the gap. No doubt many Portsmouth landlords have certainly gained from the problem, especially between 2000 and 2007, yet at the same time, they have helped home millions of people.

Consequently, are Portsmouth landlords greedy and selfish? For most law abiding Portsmouth landlords, who look after their tenants and their properties really well, nothing could be further from the truth... and yes they have made some money – yet if you take into account property maintenance, mortgage finance, taxation, agent fees, surveys and inspections – it's really not the gold mine many think it is.

Not until all the political parties stop using the housing issue as a political football will this issue be sorted. For example, it makes sense to allow mass building in the South East, again driving up supply and making property more affordable, yet that would wind up the Tory voting home county heartlands. It's a shame because we do have the room to build more homes, in fact...

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## Only 1.2% of the country has houses built on it

The country needs a massive root and branch change to sort things out, yet I have grave misgivings that any politician has the stomach or the political resolve to do anything about it.

If Covid-19 does affect the confidence in the property market, that will be in fact good news for Portsmouth landlords, as long as the Government doesn't put its big 'size 9's into the rental market by taking even more money out landlord's pockets.

Historically, ambiguity in the property market typically results in an expansion in activity in the private rental market. Prospective home movers will rent in between selling their home and buying the next one, while budding first time buyers typically postpone their purchase and stay in the private rental market for marginally longer ... which all increases demand for rental property.



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