



RESIDENTIAL MARKET REPORT

Cardiff Research

November 2020



ARE CARDIFF FIRST-TIME BUYERS BEING **LOCKED OUT OF THE CARDIFF PROPERTY MARKET?**

With the banks reducing the number of low deposit mortgages (**i.e. deposit of 10% and below**) since Covid-19 hit in the spring, this has meant that the number of Cardiff first-time buyers has been decreasing quickly, meaning many of those would-be Cardiff buyers wanting to make the first step on the Cardiff property ladder are having to stay in the Cardiff rental sector.

This has caused demand to grow amongst Cardiff renters for larger homes to ride out Covid, as they hunker down for the long haul to wait for normality to return to the property market.

Interestingly, the opposite is happening in Central London, where the rents tenants are having to pay has dropped by **3.8% in the last 12 months**, as demand has dropped like a stone. It appears Central London tenants are looking to move out to the suburbs, in search of bigger homes, gardens and green open spaces. **For example, the average rent for a 1-bed apartment in St. John's Wood currently stands at a very reasonable £1,817 per month whilst a 2-bed apartment in Kensington and Chelsea is currently at an average bargain rent of £3,715 per month (yes, they might be low compared to last year, yet for us in Cardiff, that still seems like a lot of money!).** Also, there has been further downward pressure on Central London rents, as many Airbnb landlords have dumped their short-term holiday let properties onto the long-term rental market as the tourism in the capital has dwindled because of the pandemic.



This has been the sharpest drop in Central London rents since the summer of 2009, when the property market was still stumbling from the Credit Crunch.

This means there is a reverse of the trend of the 2010's (2010 to 2018 to be exact), when initially the London property market was shooting up whilst the rest of the country was in the doldrums. Then, when the rest of the UK did start to rise slowly in 2013, London kicked on even further like a rocket ... yet now it appears the opposite is happening.

So, why are the banks curtailing the number of low deposit mortgages, meaning that first-time buyers must find a much larger down payment before they are able to buy their first Cardiff property.

The reason is the banks are fearful of a house price crash in 2021 (although if you recall I wrote about that a few weeks ago and the reasons why that is less likely to happen). They too are afraid of the frothy nature of the property market since the end of the first lockdown in late spring. The bank is lending its own money to buyers and no mortgage lender wants to be holding an enormous amount of these types of high percentage mortgages if house prices fall in 2021, because the bank would be saddled with negative equity and repossession on their hands (and we all know what that did to the housing market in the late 1980's and early 1990's as repossessions rocketed).



This can quite clearly be seen in the pricing and availability of low deposit mortgages. As the Bank of England has reduced its base rate to 0.1%, in the last **12 months 10% deposit mortgages rates have actually increased from 2% to 2.8%**. Also, when lenders have been offering **10% mortgages** throughout the summer, borrowers have had only a 24-hour window to commit before the lender withdraws the mortgage product from the market because of over subscription. As with all economics, if demand is greater than supply, the price goes up. **That extra 0.8% doesn't sound a lot until you realise a first-time buyer would have to pay an additional £167 per month in interest payments on a 10% deposit mortgage, assuming they borrowed £250,000.**

However, it's not all doom and gloom for first-time buyers as there are embryonic signs that the **10% deposit mortgage market could gradually be returning to normal**, as I have recently heard some lenders are taking up to a week for their 10% deposit mortgage offers to run out. Fingers crossed!

So, what does this all mean for Cardiff landlords? Those Cardiff landlords with properties with gardens and larger rooms will be seeing increased demand. The ability to have pets in the rental property is also an advantage, and depending on the property, can add a decent premium to the rent that can be charged.

One final thought though for all homebuyers in Cardiff, be aware it's going to be very challenging to get your house purchase through in time to meet the 31st March 2021 stamp duty holiday cut off if you are starting the process in November. Make sure your lender and solicitor have the capacity to meet that deadline and when you are asked for information, you drop everything to provide it. **The odd day delay here and there will mean the difference between you getting the keys for your new Cardiff home before the end of March 2021 and saving thousands of pounds in Stamp Duty Tax ... or feeling a fool from the 1st of April 2021 and having to pay the tax!**

CARDIFF LANDLORDS AND SECOND HOMEOWNERS AND THE NEW CAPITAL GAINS TAX

The government borrowed £394bn this financial year (April '20 to April '21).

This figure does not include the cost of November lockdowns and support measures, which means the final bill will probably be over half a trillion pounds, these billions will ultimately need to be paid back to cover the cost of Coronavirus.

The Office of Tax Simplification (OTS) published a report for tax reform and, as was predicted by many in the press, the Government Dept suggested the Chancellor contemplate readjusting current Capital Gains Tax (CGT) rates with a person's own Income Tax rates. **This would mean increasing the rate of CGT for selling a buy to let property from 28% to 40% for high-rate taxpayers and 45% for additional rate taxpayers. To add salt to the wound, the OTS is suggesting cutting the £12,300 annual CGT allowance.**

This has meant many Cardiff buy to let landlords contacting me in the last few weeks, wondering if this is the time to exit the Cardiff buy to let property market, especially as they have been hit by growing levels of rental legislation and higher taxes.

With tax bills about to go through the roof, is this the time to leave the Cardiff buy to let property market?

Yet, like all things, the devil is in the detail as Cardiff 2nd homeowners and Cardiff landlords may well finish up having lower CGT tax bills with these new taxation proposals, even though the CGT restructurings are being introduced to raise the much-needed cash for the Government.

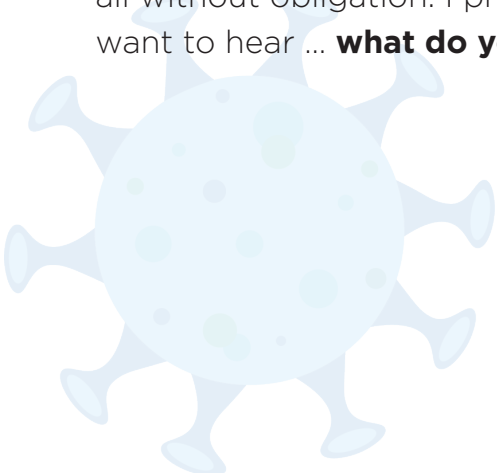
Apart from the suggested cut of the annual CGT allowance and increase in the CGT percentage rates, the OTS report also proposed reintroducing rebasing and indexation. In layman's terms, the OTS are suggesting all gains made before 2000 would not be taxable (rebasings) and any capital gains would be calibrated to account for inflation.




Let us not forget the responsibility of the OTS is to report on tax simplification opportunities, not to set Government taxation policy. None of us have a crystal ball on what Rishi Sunak will do with CGT on buy to let property or second homes. Although, as time has always taught us with investments, often the worse thing to do is to make impulsive decisions on what MAY happen.

You have to remember, CGT only gets charged when you sell or transfer your investments, and most people use their rental investments to provide them with income. If you did sell up, the best 90-day building society accounts are obtaining 0.8% pa, the stock market is a rollercoaster (good luck with that) and **Government 10-year bonds are paying a princely 0.324% pa ...** where else are you going to invest to get the income Cardiff property investments provide?

Property is an asset you can touch, feel and ultimately understand. Maybe, this is the time (if you haven't already) to take portfolio advice on your Cardiff buy to let investments? Many Cardiff landlords do so, whether they use our agency, another Cardiff agency or you manage your property yourself. The service is free of charge, we don't need to meet face to face as we can do it over Zoom and it's all without obligation. I promise to tell you what you need to hear - not what you want to hear ... **what do you have to lose?**





HOW TO ESCAPE THE WORST OF **THE CORONAVIRUS** **DOWNTURN** ON THEIR CARDIFF RENTAL PROPERTY.

With the second lockdown starting on the 5th November 2020, does this mean Cardiff landlords can wave goodbye to their Cardiff buy-to-let investment and see it go up in smoke on the bonfire of buy-to-let dreams, like a Guy Fawkes puppet?

With many Cardiff tenants at risk of losing their jobs after the furlough scheme ends in March and as the reverberations of the coronavirus recession hit this winter, what does this all mean for Cardiff landlords and what can they do to mitigate the risks?

Since the spring, most Cardiff tenants and buy-to-let landlords have been protected from the coronavirus crisis thanks to the banks with their mortgage payment holidays and job support schemes.

Before the second lockdown was announced on the **31st October**, it was expected that as the furlough and mortgage payment holidays were due to end on Halloween, there would be some serious fallout from those schemes finishing. One silver lining from the lockdown (if you can call it that) is that mortgage payment holidays and furlough have been extended, yet does all that just kick the can down the road?

The question is, what can Cardiff landlords do to mitigate the financial risk on their Cardiff buy-to-let investment?



Help Your Cardiff Tenants get the Financial Support They are Entitled To

Billions of pounds are being spent by the Government to help those people whose income has been hit by coronavirus. **The better Cardiff letting agents and self-managing landlords are supporting, guiding and helping those Cardiff tenants in financial difficulty to gain a better understanding of the Universal Credit (UC) processes, systems and payment levels, to enable their tenants to pay the rent and ultimately indirectly help their Cardiff landlord.** Also, if you are a Cardiff tenant, and that support isn't given when you ask, don't forget Cardiff City Council do hold special cash reserves for discretionary housing payments, which can be utilised to close the gap in rent between what UC pays and your current rental commitments. Also, the Government's Money Advice Service & Citizens Advice are a good online resource for what you are entitled to.

Adopting, Adapting & Improving Your Cardiff Buy-to-Let Property

Demand for gardens or office space means Cardiff landlords will need to think outside the box. **Those Cardiff homes with tenants sharing (e.g. HMO's and shared houses) might need to price their pre-coronavirus 4 bed sharing house to maybe a 3 bed sharing house plus a work/office room and, if you haven't already, installing a top of the range, fast and dependable internet connection could be the thing that swings it.** Outdoor space and gardens are really high on housebound tenant's wish lists, in fact I have come across some Cardiff tenants demanding that new rental properties have a landscaped garden or those that bought a dog or cat for company during the first lockdown, are looking for their landlords to relax their 'no pets policy'.





Hold On to Your Good Cardiff Tenants

Those Cardiff buy-to-let landlords with decent tenants, who find themselves in financial dire straits should consider attempting to keep them, even if their own monetary circumstances mean they have to decrease their rent somewhat over the short term. Now of course, I would expect that tenants need to prove their circumstances, yet if their plight was real, surely it would be a wise choice to reduce the rent by perhaps £50 a month and support your tenants? You know they are taking great care of your Cardiff rental property and rather than risk the issue of advertising your empty buy-to-let property – particularly when there is no assurance you will achieve your existing rent and ultimately risk drawn-out void periods with no rent coming in at all. What I would suggest therefore, in such circumstances, is that you create a new Assured Shorthold Tenancy agreement with a longer term with your existing tenant at a lower rent – a temporary measure but with peace of mind for both parties which can then be reviewed once that tenancy is up for renewal.

Carry out Firmer Checks on Your Prospective Cardiff Tenants

Many private Cardiff landlords and a few slipshod Cardiff letting agents tenant checks are somewhat lacking in their depth. Trust me, there is tenant referencing ... and then there is 'proper' forensic tenant referencing. As certain parts of the British economy have been hit harder than others, Cardiff landlords must consider when choosing their new tenants, the type of work they do or who their employer may be, to enable them to decide on their future capacity to meet their rental commitments.

Rent Guarantee Insurance for your Cardiff Rental

There are still insurance companies offering landlord rent guarantee insurance if your tenants become unable to pay the rent. Many insurance firms removed these insurance products in the first lockdown, yet some have returned to the insurance market although insurance premiums have gone up in price. Remember to check the small print of the insurance, although you will get a lower insurance premium if you can show stringent tenant referencing (as per the previous point).



The Nuclear Option – Eviction

Cardiff landlords need to be conscious that, should their tenancy run into trouble, the Government have changed the rules when it comes to eviction during the coronavirus pandemic. **Going into the first lockdown, there was already a backlog in the courts and now, just before going into the second lockdown, bailiffs have been instructed not to enter rental properties in high risk Tier-2 and Tier-3 Covid-19 areas.**

Eviction really does have to be the very last option. Negotiation or arbitration will nearly always deliver quicker and improved outcomes for both parties. Cardiff landlords who do come to mutually agreeable arrangements with their tenants by briefly reducing the rent, or allowing payment holidays with legally enforceable pay back schedules should ensure they get the agreed terms in writing and run by a solicitor or their agent (feel free to drop me a note if you need advice).

However, if eviction is required, it doesn't mean the tenant gets off 'scot free'. Evicted tenants, depending on their circumstances, will either be placed temporarily into an inexpensive B&B, asked to move in with family or given one of the local authorities temporary accommodation properties, with the goal to then move them into long term council accommodation (as the chances of obtaining private rented accommodation would be slim with agent's heightened reference checks – more of that at the end).

The Potential Cost of Evicting a Problem Cardiff Tenant

Thankfully, evictions are very rare. Last year before lockdown, tenants from 201.4 rental properties were evicted each working day in the UK ... but if yours was one of those, that is still a potentially large cost.



Working on the basis that most evictions from the first rent not being paid, through to eviction, refurbishment of the kitchen, bathroom, carpets and décor (because often these do need sorting/replacing) were taking on average between eight to nine months before coronavirus hit, (plus the mortgage payments), this means **a Cardiff landlord could be hit by a £29,611 bill, broken down as follows:**



Missing Rent (8 1/2 Months)	£8,509
New Kitchen	£4,310
Bathroom	£2,344
Carpets	£2,163
Redecorate	£2,191
Agent Fees	£893
Legal Fees & Court Fees	£3,500
Mortgage Payments	£5,701
Total	£29,611

What that would be now is anyone's guess - yet it could be a lot more.

This is why it is so important to get the best tenant from day one. Many Cardiff tenants, who know they wouldn't pass the references of letting agents, are attracted to those private landlords who don't use a letting agency, as they know their referencing checks are not as strict and may be a softer touch. That's not to say going with a letting agent is a guarantee you won't need to evict; it just means the chances are much, much smaller. Like anything in life - it's a choice.

Whether you are a Cardiff landlord who uses a letting agent or not, and feels their reference checks are not to the standard or level you might hope or want and you need a chat about the best rental guarantee insurance, then give me a call ... what have you got to lose?



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