



PORTSMOUTH RESEARCH

SEPTEMBER 2020

# RESIDENTIAL MARKET REPORT



# THE PROS & CONS OF BECOMING A LANDLORD

The buy-to-let market in Portsmouth is about to enter a challenging 12 to 24 months. Yet by looking back at the last recession and what is happening now, there are vital lessons all Portsmouth landlords can learn to protect themselves, and in fact create opportunities for themselves both in the short term and ultimately the longer term. For the purposes of this article, I would like to split these and look at the challenges and then the opportunities.

## So, let's consider the challenges ahead for Portsmouth landlords ...

Overall, the impending rise in unemployment stands to encumber tenants' ability to pay their rent, the rents being achieved and the possible Capital Gains Tax changes might mean an increase in tax paid by Portsmouth landlords when they come to sell their Portsmouth buy-to-let properties.

Lets look at these three points in greater detail. Firstly looking at your Portsmouth tenants ability to pay the rent; the Furlough Scheme certainly did help soften the blow, helping out 8.9 million people in May (out of 30.5 million who were eligible for it) and at the last count in early August, this thankfully had reduced to 5.3 million people (meaning 15.86% of workers are still on furlough). However, it cannot be denied the economic fallout from Coronavirus has already placed some tenants under economic strain. As the Furlough Scheme finishes at the end of October, commentators are suggesting the number of tenants either incapable of paying their rent, or requesting a reduction in their rent, is predicted to increase as we go into autumn and early winter.

The ultimate sanction against non-payment of rent is legal proceedings although guidance from the Government has recommended that landlords and tenants should work together and deplete all possible options before starting eviction proceedings. Yet many Portsmouth landlords are feeling the pressure as many mortgage payment holidays will be coming to a close at the end of September. Some Portsmouth landlords can indisputably see that their tenants are finding it tough and they are willing to work with them, but they can only make allowances go so far. Landlords aren't running a charity and I would stress to any tenant that finds themselves being made unemployed in the months to come to apply for Universal Credit as soon as possible, which should help with their rental payments. With regard to the eviction process, the Government have changed the rules a number of times in the last few months, so if you want an update, don't hesitate to contact me, whether you are client or not – I am just happy to help.

Secondly, it's interesting that in central London, there has been a glut of Airbnb properties coming onto the market because of lack of tourists to rent them on a short-term let. A greater supply of rental properties has meant a downward pressure on rents in London of 2.1%. I don't think this is so much of an issue in Portsmouth as

## **Portsmouth rents are 0.64% higher year on year**

Thirdly, there is talk that the Chancellor, Rishi Sunak, is looking at changing the Capital Gains Taxation rules. As property is the biggest asset that most people own, this is also reason for concern for Portsmouth buy-to-let landlords. Currently, Capital Gains Tax on sales of buy-to-let property is levied at 18% for basic income tax rate payers and 28% for higher rate income taxpayers. There is talk the capital gains made on the landlord selling their buy-to-let property could be taxed at the landlord's income tax rate.

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Yet before you all start selling your Portsmouth portfolios before November's budget, any changes in Capital Gains Tax would be immediate. That means to ensure you didn't come foul of the potential rise in the tax, you would have to have to sell your Portsmouth portfolio at a 'fire sale price' in days and have a solicitor that could do the conveyancing in 3 weeks (whilst it is taking 19 weeks on average for buyers to sort their legal work out) and the buyer be a cash buyer because banks are taking months, not weeks to sort finance. This is just something we are going to have to take on the chin!

## **Let us now consider the opportunities ahead for you Portsmouth landlords ...**

As the country officially entered its first recession since 2009, uncertainty in any markets (be it property or stocks and shares etc.) causes investors to vacillate over whether or not to take the jump. Nevertheless, there are numerous indicators that appear to show this is, indeed, a good time either to become a buy-to-let Portsmouth landlord or expand one's property empire and buy more property ... let me explain.

Firstly, assets (such as gold and stocks and shares) are great, yet if they aren't producing income and cash - that doesn't pay for your day-to-day living. Gold doesn't create any income and many FTSE companies won't be paying dividends for a while. Government Bonds are currently earning their investors 0.2% (no - that isn't a typo) and the best savings accounts are achieving 1.1% with a 120-day notice period, so where are you going to invest your hard-earned money?

**The average Portsmouth buy-to-let property will  
earn a monthly return of 5.17%**

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Of course, deciding on the right Portsmouth property is crucial to get a good rental income and return. I have seen so many Portsmouth first-time landlords buy with their heart and not their head. Buying your own home is more heart than head but buy-to-let is a completely different kettle of fish. There is the inverse relationship between income (rent) and capital growth (how much it will go up in value in the future) i.e. as one goes up, the other tends to go down – so getting the balance for your needs is vital. Again, I can advise on that for you.

Secondly, with the stamp duty holiday and the pent up demand for people wanting to move home in Portsmouth (discussed many times recently in this blog), the Portsmouth property market is certainly very buoyant at the moment, yet even the most optimistic agents say it cannot last. Whether the market goes pop or has a slow and steady puncture, the market will cool in 2021. The recession will mean some people are less able to afford a mortgage. This means that if Portsmouth property values do ease off in 2021, you may be able to get a great buy-to-let deal if you are planning on becoming a Portsmouth landlord or expand your property empire as an existing landlord.

Also, if the property market does find property prices realign to a new normal in 2021/2, house sellers may find it difficult to get a good price on their Portsmouth home during a recession, meaning many house sellers may be more agreeable to sell their property at a lower price.



Third, if people aren't buying, they still need a roof over their head and the council aren't building any council houses, meaning the private sector will need to take up the slack.

## **Rightmove reported tenant demand grew by a third in May 2020 when compared to the same month in 2019**

Therefore, if you are still unsure about becoming a Portsmouth landlord, knowing that more Portsmouth people want to rent should help you feel more comfortable as the risk of 'running out' of renters interested in your Portsmouth property is minimal. Yet again, please don't go buying any old Portsmouth property, as it's fundamental that you make a good investment from the start in order to see a good return on your investment.

## **If Portsmouth property values do fall in 2021 (as in 2009), tenant demand for Portsmouth property will only go up**



Fourth, the Government reduced Stamp Duty with the sole aim to benefit the property market. The purchase needs to complete by the end of March 2021, which means you will need to have bought the property by November at the latest (as obtaining finance and legal work is taking at least 19 weeks). A word to the wise though, that whilst the saving in Stamp Duty delivers some up-front saving for those buying a buy a let property, don't get carried away and use that saving in the purchase price you pay. Certain sectors of the Portsmouth property market are seeing some very inflated prices, meaning if you go into battle for a show home quality semi-detached house within a stone's throw of the best school, you will be fighting against buyers who want it for themselves and are prepared to pay top dollar for it, meaning some landlords could end up paying more for a property. My advice, if you want to save on the Stamp Duty, there are bargains to be had - you just have to know what you are looking for (again, as mentioned in point 1 - I am here to help on that whether you are a client of mine or not). The other option would be 'just hold back' until after 31 March 2021, when Portsmouth property prices could ease.

Fifth, reports that the mortgage lenders are imposing stricter conditions are true, yet even during Covid, many lenders are seeing buy-to-let landlords as a safer option to lend their money to. In June alone, the number of buy-to-let mortgage products rose by 19.2% (to just over 1,700) meaning if you have a decent deposit of 30% upwards, you are likely to find something that fits your needs (at the time of writing this article, the Birmingham Midshires had a buy-to-let 5-year fixed rate mortgage at 1.94% and Santander at 2.04% ... this is cheap money in anyone's language). Mortgage rates are ever becoming more economical, which is a great motivation for anyone wanting to get a foot on the Portsmouth buy-to-let property ladder.

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Finally, words cannot portray the feeling of being able to see and touch one's investment like the sensation of bricks and mortar. Buy-to-let investment has to be seen as a long-term investment yet, for many, that is a source of financial security. Of course property values might go south next year (but they might not!) whereas there may be intervals where it's more problematic to sell because property values will be too low, as is normally the situation throughout a recession, there will also be times where Portsmouth landlords will make a nice profit when selling their buy-to-let homes. Like all things in life - it's all about the timing.

## **Portsmouth property values are 178% higher than 20 years ago**

If you're looking to invest but are not interested in stocks and shares (and you understand that your money may be tied up for a while) then the Portsmouth buy-to-let market could be for you.

To conclude, buying the right Portsmouth property at the right price to start with, presenting the property in the best way to get the best tenant, fully checking out and referencing the tenant to ensure they have a good track record of being a good tenant that doesn't trash the property and has always paid the rent on time in the past and then finally, managing the property to ensure your property complies with the 200+ legislations and regulations of rental property, so you can sleep well at night ... all to ensure the property is returned at the end of the tenancy to you in good order is what nirvana looks like.

Of course, buy-to-let does come with some risks and challenges, but it's all about mitigating those risks. Also, there is no denying that buy-to-let also comes with a lot of opportunities as well. If you are a landlord with another agent or even a Portsmouth landlord that manages the property themselves, feel free to drop me a message, email or pick up the phone and let's chat about your personal goals when it comes to buy-to-let ... because what have you got to lose? Surely 15/20 minutes of your time to get great insight and inside track is worth it?

Remember, the choice is yours!

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# THE PORTSMOUTH PROPERTY MARKET POST-LOCKDOWN – THE FIRST 100 DAYS

**Portsmouth sellers and buyers will need to continue to be pragmatic if the surprisingly strong current levels of activity in the Portsmouth property market are to be sustained.**

To start, we had the once in a lifetime event of the credit crunch in 2008, we then had another once in a lifetime event with the Brexit vote in 2016 and now the mother of all 'once in a lifetime' events, Coronavirus in 2020 – three once in a lifetime events in the space of 3 Olympic Games!

The doom-mongers forecast that the British property market would drop like a lead balloon on the scale of the 1989 housing crash (where property values dropped by 30.87% in a couple of years) but would be nothing compared to the tsunami that was Covid. Yet in the first 100 days of the property market coming out of lockdown, behavioural and economic changes mean that many Portsmouth homebuyers are now even more dedicated to moving home and the Portsmouth property market is doing quite well.

Going into lockdown, the effect on activity in the Portsmouth property market during those two months was expectable and predictable as it was placed in suspended animation during April and May. When the Portsmouth property market re-opened in mid-May, nobody predicted what happened next. Of course, many of us in the property industry estimated some release of pent-up demand from the Boris Bounce, yet nobody anticipated such a ricochet in activity in the Portsmouth property market.

This is particularly interesting when one considers GDP dropped by 20.4% in Q2 2020 (fascinating when compared to notable historic times when it dropped by 13.8% in WW2 and 16.7% in WW1), yet amidst the largest contraction in the UK economy ever in a single quarter, what wasn't expected was an increase of potential property buyers and sellers wanting to move post-lockdown.

Some have cited this boost to the property market on a number of factors. Firstly, we have had the Stamp Duty Holiday, others have pointed at the never seen before 0.1% Bank of England base rates making mortgages cheap, then we had the furlough scheme which protected so many jobs and finally, the pent-up demand from the Boris Bounce.

Yet, when one actually talks with Portsmouth buyers and sellers, whilst all of them cite one or two of the above reasons, all of them mention and talk about how the lockdown has made them re-evaluate and reconsider how they want to live, their work-life balance and where they want to live. This is also reflected with tenants changing their requirements when looking for a property to rent (so Portsmouth landlords - be aware of this).

Demand for apartments in the centre of Portsmouth has eased off, whilst demand for property with a good-sized garden or other outside space has increased.

So, with record numbers of Portsmouth properties coming on to the market - is it boom time for Portsmouth homeowners?

Yes, the Portsmouth property market is good, yet the number of people who have placed their property on the market has also gone up. Portsmouth estate agents have never been so busy putting property on the market and I feel sorry for the chap who is putting up all the for-sale boards - his wife hasn't seen him in daylight for weeks!

But that does mean you are in competition with so many other properties on the market (the number of properties coming on to the market typically at this time of the year is about a third to half less). The Stamp Duty boost ends in March 2021, so that means you need to have found a buyer by November at the very latest. By overregging your asking price, to test the market, might mean you will lose out on this hiatus and could end up missing the boat!

**The prices being achieved for the Portsmouth properties that have been selling have been fair and realistic and have stood up much better than many were originally predicting.**

Yet as the country looks forward, given the ambiguous nature of the outlook for the British economy and the possibility that Covid-19 may be with us for a little while yet, I must implore Portsmouth property sellers to be realistic with their asking price so a greater number of you who want to make the move, are able to do so.

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# PORTSMOUTH MILLENNIALS MOVING BACK IN WITH MUM & DAD?

Roll the clock back 20 years and any self-respecting late 20/early 30 something would never say on their first date that they lived with their mum and dad. It was seen as a sign of immaturity being tied to your mother's apron strings as a failure to leave the family home. Yet over these last two decades, the age of leaving home has been increasing steadily from 20 years and 11 months in the late 1990's to 22 years and 7 months today.

However, as with all the stats, the devil is in the detail. Although the age of leaving home has only risen by 8% between 1997 and today, those that didn't leave home in their early 20's tended to stay much, much longer.

**In 1997, 11.26% of 25yo to 34yo still lived at home with their parents, yet last year that had risen to 15.74%, an increase of 391,000 'stay at home' Millennials**

However, before we deride these Millennials for still being tied to their mother's apron strings, I would say those very same Millennials (the mid 20's to 30-year olds) have been pragmatic, being attracted to sacrificing independence in order to achieve their long-term life goals as they have seen rents rise and an inability to save for the mortgage deposit. All of this has seen the first-time buyer levels in this millennial age range rise for the last three years ... so good news for everyone!

However, is all that about to change?

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Just as mum and dads in Portsmouth had thought their late 20 something/early 30 something offspring had flown the nest, Covid-19 has blown some Portsmouth 'chickadees' back into the nest. Back in March, the lockdown saw many Millennials flee the big UK cities, with their constrained and poky shared HMO's and flat shares, swapping their city centre private rented home for their parents' Portsmouth home.

Yet with lockdown lessening, it isn't just remote workers who are unenthusiastic and disinclined to return to the big cities (fearful of a second lockdown) — many of these Coronavirus blow-ins are deciding to stay put too! A recent YouGov poll asked Millennials of private rented homes what their plans were and 1 in 6 tenants planned to hand their notice in on their rented home and fly back to the nest of mum and dad. The advantages are quite plain, especially as it could enable them to save for a deposit to buy their future home.



**There are 99,460 households in Portsmouth, made up of 31,285 single person households and 57,032 family households (the remainder being made up of shared houses etc.)**

Yet how many of those Portsmouth family households had non-dependent children before Covid-19?

**8,396 Portsmouth households have children that haven't flown the nest**



That's 14.72% of Portsmouth families whose kids are still to leave home ... and it's only going to get worse!

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

It will mean that Portsmouth parents and their children will get to know each other better, build stronger relationships and it will enable their children, if they are wise, to save for their deposit for their first home purchase - who knows maybe in Portsmouth, as working from home could become the norm.

Also, with remote working, many tenants are looking for properties with bigger gardens which could translate into greater demand for property with bigger gardens? It will also change the property needs of those Portsmouth parents and potentially could mean instead of those parents moving down market, they could end up staying longer or moving up market?

Now of course these polls could be a load of hot air? What I do know is that this thing has not played out yet and only time will tell if this will make a concrete change to the way people live, rent and buy property.

These are interesting times and thank you for reading this. Do let me know your thoughts on this matter.

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