

BUY TO LET

The party's over

What is the future now for buy-to-let investors? **Chris Partridge** reports

Buy-to-let investors have been seriously spooked by the turmoil in the market, with interest rates bobbing up and down seemingly by the minute, media interest focusing on the sub-prime mortgage crisis and fears of a property crash to the fore. Applications for new buy-to-let mortgages have declined sharply, and many investors are considering selling up.

It was good while it lasted. Property has been easily the best investment since the millennium, according to research by Landlord Mortgages. A property bought with a deposit of £25,000 in 2000 would have earned a profit of £33,288 (133 per cent) to date. This compares starkly with the measly £1,443 (5.8 per cent) that investors in FTSE 100

shares would have brought in. Even putting the money in a savings account with Northern Rock would have done better, making roughly £10,000 (40 per cent).

But the party is coming to an end, according to Christine Whitehead, professor of housing economics at the London School of Economics.

"The stock market has been cycling for that period whereas the property market has not, so buy-to-let has been making its money on capital gains rather than income," she points out. "The last 10 years have been wildly atypical." So if a down cycle is imminent, will property prices plummet as they did in 1975 and 1990? "I haven't a blind clue," says Professor Whitehead, and if she hasn't, nobody has.

What is certain is that

the combination of low growth and increasing mortgage rates will make things very difficult for buy-to-let investors who bought in the past couple of years. "There will be a small proportion of buy-to-letters who will be cash distressed when their repayments go up as much as 50 per cent at the end of their discount periods, and won't necessarily be able to transfer

THERE IS A SILVER LINING: RENTS ARE RISING BECAUSE PEOPLE ARE AFRAID TO BUY

somewhere else," she says.

The vast majority of investors have already made a substantial capital gain, but if they want to get out of property they will find it expensive to sell and difficult to find a better home

for their money, says Mike Horseman of financial advisors Cockburn Lucas. "The market is now showing investors that property is illiquid: that is, it is not as easy to get out as it was to get in," he says. "You need to consider the costs and fees of unlocking the investment, and the tax consequences. Many will have capital-gains-tax exposure depending on when the property was bought."

Once out of property, the next problem is finding somewhere to put the money. Gold is a safe bet at the moment, as the price is being shored up by demand from Asia. Horseman recommends a good look at the stock market, because however volatile the price may be, they still pay dividends. "Stock markets rise and fall but good income streams are available," he says. Investors should not

abandon property entirely either. "We always recommend that clients have some exposure to property through collective investment schemes or syndicates," he says.



Troubles: the Northern Rock crisis sparked turmoil and uncertainty in the market PA

Many investors are looking at alternatives to residential property, such as holiday homes, hotel rooms, small offices and industrial units.

Small offices in particular are a good opportunity, as there is a shortage of accommodation for the small businesses that make up 97 per cent of Britain's economy. They cost less to

buy than houses, let for periods of 10 or 15 years and need virtually no supervision. The only drawback is that the tenant may go bust, leaving rent unpaid.

There is a silver lining in the clouds over buy-to-let, however. Rents are rising because people are afraid to buy, according to Jo Eccles of property search company Sourcing Property. "Tenant demand outstrips supply in many areas, as people are putting the decision to buy on hold. One of our buy-to-let clients had a full-asking-price rental offer on her property

the day after she got the keys - places are getting snapped up as soon as they come on to the market," she says. "One client is selling his property in Lancaster Gate for £1.45m with the aim of moving in to rented accommodation. If he puts the money into a savings account, he could generate more than £85,000 per year in interest - enough to rent a fantastic property while he waits to see what the market does." And it will be a lucky buy-to-let landlord who lands a tenant with that sort of money to spend.