Safe As Houses?

The latest information on Buy to Let issues and changes that may affect expats - Both those already with properties and those considering a Buy to Let property purchase.

The Big Picture...

I was asked recently to investigate what UK mortgage lenders would be prepared to lend to British expats.

The intention was to buy a house for long-term rental income, and capital growth. In concept, it sounds like a good deal - everybody knows that buying property is as safe as houses.

The advantage of regular income, as well as an appreciating capital asset is an opportunity too good to miss! However, it is not that simple.

The first point is that very few lenders are prepared to lend at all to expatriates. Those who will lend impose strict limits and criteria. 75% maximum loan to property value (LTV) seems to be the biggest Buy to Let mortgage available these days. Some lenders restrict this to 50 or 60%.

Minimum mortgage amounts also apply with several lenders, and minimum £100,000 is common.

Basing the maximum loan on a multiple of income has been common practice for many years (3 times income was usual, even if limits were distorted in the lead-up to the 2008 crash). However, insisting on minimum income of £50,000pa also seems to be a common current requirement.

The lenders I spoke to were also reluctant to take into account the projected rental income from the property itself! A couple of lenders also insist that the borrower has a UK bank account - not easy to set up with no UK residence address! The lender may also be selective about the borrowers current country of residence, too.

One lender I spoke to by phone said ‘We don’t do China residents’. What about Thailand? ‘No!’ Cambodia? No! ... "Where do you do?" "I’d need to check" was the answer.

With increasingly stringent identity and income checks, it is likely an employee of a large multinational will have an easier time securing a mortgage than an employee of a small locally - based company, or a self-employed individual.

A couple of lenders make it a condition of the loan that the borrower cannot live in the property themselves. This effectively means that, should the borrower need to return to the UK, the simple solution of moving into his own house is not permitted

The Mortgage Numbers...

Even though property prices in Britain have been appreciating at between 6% and 8% per year, depending on which statistics are followed, buy to let investment is probably no longer financially worthwhile once the numbers are crunched.

Property yields and prices are out of alignment for investors who cannot buy at bargain basement prices and have the cash to invest to add value by renovating.

The Land Registry, which can track prices homes were sold at, put the value of an average home in the UK at £230,630 for November 2018.

A recent article by 'Gocompare' suggests a typical gross annual yield of a £200,000 'buy to let', rented at £750 per month at 4.5% for 2018. However, some areas may produce much better yields. Nottingham and Liverpool feature at the top of yield lists, whereas some areas of London- Highgate in N6 for example, only yields 1.93%. That's before taking into account mortgage interest and running costs, like insurance, maintenance and safety checks, management fees, and periods where the property is standing without a tenant.

That average yield means buying an average home on a 75% interest only mortgage gives a gross rent return of £864 a month. At 4.0% interest, the mortgage would cost £576 a month, the letting agent around £104 a month at 15% plus VAT of the monthly rent and repairs an average 10% of rent – another £86 a month.

Tax & Mortgages Set To Go Up...

That already adds up to £766 without insurance and covering for a month or two of vacancy a year.

Overall the picture for new landlords going in to 'buy to let' is not good.

Starting back in April 2015, the Chancellor now charges non-residents and expats capital gains tax on any profits they make on selling a property in the UK that was not their main home, in line with charging CGT on UK taxpayers. This is at 18 to 28% of the gain for property sales. All UK-derived rental income is also subject to income tax.

Overall, the outlook for investing in buy to let for expats and non-residents who do not have other cash resources does not look enticing.