

PROPERTY MANAGEMENT

An Integrated Approach...

SWORDERS – RURAL CHARTERED SURVEYORS

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WELCOME...



Hugo Richardson
BSc (Hons) MRICS

We are pleased to enclose our Rural Property Management newsletter outlining the range of services, linked to Property Management, which Sworders can provide.

As well as some interesting case studies, we have included information on the tax implications of letting out property and detailed some of the considerations required before making decisions.

We hope that this newsletter will be of interest to you, especially if you already let out property in rural areas or are considering doing so.

For an initial consultation, without obligation or cost, please contact Hugo Richardson, Angus Hudson or Clare Hutchinson. ■

Sworders

The Gatehouse, Hadham Hall,
Little Hadham, Ware,
Hertfordshire SG11 2EB
Tel: 01279 77 11 88
Fax: 01279 77 11 87
E-mail: post@sworders-agri.co.uk
Web: www.sworders.ag



The Sworders Approach

Residential property management means different things to different people. Most property management agents will provide what they describe as a full management service. This will usually include finding a tenant, preparing a tenancy agreement, and collecting the rent amongst other administrative tasks.

As a firm of Chartered Surveyors, our definition of property management is much broader. When you ask Sworders to take on the management of your properties, we will not only undertake the usual tasks but will also advise if we feel that there is scope to improve the property and thus increase yield. This might be to advise on obtaining planning

permission for an extension or for a new build infill plot or advising on refurbishment opportunities. Sworders can provide a full and comprehensive planning service with our own CAD designer to provide the drawings.

Our knowledge of the numerous Rent and Housing Acts and the different types of security enjoyed by certain tenants means that our negotiations are always from a position of strength and more often than not the application of a little lateral thinking can produce beneficial results and add value. Our case studies show where we have increased rental income, advised on planning opportunities, rescheduled borrowings and saved clients significant sums of interest and tax due to our integrated approach.

If you would like to discuss our services with a Chartered Surveyor on a without obligation or cost basis then we should be pleased to arrange to meet with you. ■





ANGUS HUDSON
BSc (Agric) MRICS FAAV



CLARE HUTCHINSON
BSc (Hons) MA MRICS



RICHARD COULING
BSc (Hons) MRICS



LUCY BACK
BSc (Hons)



JAMES WATCHORN
BSc (Hons)



CAMILLA SMYLLIE
BSc (Hons) MSc



LYNSEY MALOY
BA (Hons)

Gearing up your Portfolio

Whether you own one, twenty-one or two hundred and one properties, "gearing up" a property portfolio can be a very useful way of enhancing the yield. In some cases, owners of let properties wish to release equity from the properties to utilise elsewhere, in others they are quite happy to utilise the income from the let properties without any borrowings.

However, borrowing can be a very useful means of expanding a portfolio at a faster rate than accumulated rental returns would otherwise allow whilst still representing a very low risk for clients who are borrowing a modest proportion of the value of their portfolio.

In some cases, we have secured debt against existing let properties for clients to facilitate development of barns or construction of new build properties where we have obtained planning consent for infill and, in other cases, the borrowing has been used to extend and improve the existing portfolio.

Most lenders are comfortable lending up to 80% loan to value. If you are a first time property landlord the risk associated with



borrowing up to 80% of the value of a simple buy to let property may, depending on your other circumstances, be one you can afford to take. However for a large portfolio, an 80% loan to value ratio is in our view a high-risk ratio. In recent history there have been several periods where individuals with portfolios this highly geared have lost their entire portfolio.

Low risk gearing can increase the growth of a property portfolio significantly and we have clients who have built substantial portfolios from modest beginnings without ever exposing themselves or their families to the high risk that comes with get rich quick property schemes that are increasingly advertised. ■

Refurbishment – but at what cost?

Refurbishment can take many forms but a realistic estimate of the cost of the works and a good knowledge of the realistic potential uplift in rental value that can be secured, will give the opportunity to provide a realistic assessment of the potential improvement to yield. For example, a 3-bedroom, semi-detached property with a value of £265,000 in need of some renovation and improvement may have a current rental value of £550 per calendar month and yet, following improvement and refurbishment at a cost of say £10,000, may have the potential to return a rental income of some £750 per calendar month.

The extra £2,000 per annum for a fully let property could provide a rental return on investment of 20% and on the face of it this would be a very worthwhile investment. However, it is important to differentiate between long term capital improvements (such as an extension to a property or converting an attic for a third or fourth bedroom) compared with investment in ongoing maintenance.



For example, spending £1,500 redecorating a property may increase the rental value of a 3-bedroom semi (depending upon its original condition) by up to £100 per month and still in many cases is a very worthwhile exercise but if you end up with a series of 6 month tenants, you may find that the property needs redecorating 12 months later before you have recouped the value of the original painting.

Having knowledge of the types of improvement and the return you should expect is the key but many Property Management Agents who do not get involved in refurbishing or selling properties, may find it difficult to assess either the cost of refurbishment or the capital value that any such improvements will add. ■

A Win Win Case History

In our first case history, Sworders were advising a landlord whose tenant was an elderly widow of a former farm worker and the sole occupant of a three-bedroom farm cottage.

Whilst the landlord received no rent for the property, he invested no money in the general upkeep or refurbishment. Although legally entitled to charge rent, the landlord did not wish to as he knew the widow had only modest resources and he felt a moral obligation to her as the wife of his former employee.

We met with the tenant and explained the situation, that although the landlord did not want her to have to pay rent out of her small income, he equally could not afford to improve the property without receiving any income.

A gentle probing as to the widow's actual income and savings meant that we could advise that she was entitled to have the rent paid on her behalf by the Local Authority.

This led to a "win, win" situation for both the landlord and for the tenant.

The Sworders approach cost the tenant nothing but created an additional income stream for the landlord, some of which was invested in improvements to the property for the benefit of both parties. ■



Lateral Thinking Pays Dividends

Our second case history is where Sworders advised on the purchase of a modest two-bedroom cottage with a flat roofed 1970's kitchen extension adjoining a small traditional barn and with a separate small range of traditional stables set in 6 acres of grassland.

The client's initial thoughts were to seek planning to extend the house into the barn providing additional single storey accommodation (there being limited headroom for two storey accommodation) and then to let the property with paddock and stables.

Our advice was to apply initially for a substantial extension to the cottage, replacing

the flat roofed kitchen with a much larger two-storey extension. This turned a small two-bedroom cottage with a downstairs bathroom into a substantial three-bedroom cottage with an upstairs en-suite bathroom and second shower room with WC. The second stage was to lower the floor of the adjoining barn to provide enough headroom for two storey accommodation. A further application was then made to convert the barn and stables to separate residential dwellings. The final phase was to apply for a block of six new stables (and a little more extra money was spent on these to provide a future opportunity for second storey accommodation with "walk through" roof trusses.)

This proactive approach to property management resulted in a single property being turned into a portfolio of three properties each let with two stables and two acres of paddock land. Even after the costs of extending the cottage and converting two buildings and erecting the new stables, the rental income provides a substantial return on capital. ■



Questions & Answers



Buy to Let Mortgages – a Cheaper Alternative

Q. I want to buy and let a property and want to use the equity in my house for the deposit. My house is worth £500,000 without mortgage and the property I am interested in acquiring is £220,000. What do you advise?

A. Buy to Let mortgages are generally significantly more expensive than 'own house' mortgages, so we may recommend borrowing the entire sum against your own house. This however must be structured to ensure that the interest is fully allowable (for tax purposes) against the income. Obviously each case should be considered on its merits. ■

Certificate of Lawfulness for Occupier Breach

Q. We have been letting our annexe for many years to someone who has not been our employee and the planners have just informed us that this is breaching the planning condition. What should we do?

A. If they have occupied the annexe for more than 10 years the likely advice would be to apply for a Certificate of Lawful Use. You are in a very strong position to secure a Certificate so long as you can prove that the planning condition has been breached continuously for more than ten years. ■

The Taxation Position

Although landlords will employ accountants to provide them with tax and other advice, this is often limited to completing year-end returns and is therefore usually reactive rather than proactive. Our aim is to work with accountants and try to identify proactive tax saving opportunities.

You have bought your property, arranged a buy-to-let mortgage and Sworders have found you a tenant. But how much tax will you have to pay on the income?

If you own the property as an individual, rather than as a business, you will need to establish the rental income and expenditure for each tax year (that is April 6th to the following April 5th). If your gross rents do not exceed £15,000 per year, this can be calculated on a cash basis (i.e. actually received and paid), otherwise allowances have to be made for amounts paid in arrears or in advance. Income tax is then payable on the profit. The rate at which income tax is paid on the rental profits depends on your other income. Thus if you are already a higher rate taxpayer, this will be at 40%, whereas if this were your only income, you would be able to set your personal allowances against the income.

Allowable expenses are generally those of a revenue rather than a capital nature and must be incurred wholly and exclusively for the purpose of the letting. Thus if there is a part private use of the let property, the appropriate



apportionment should be made. Examples of allowable expenses include management fees, insurance, repairs and maintenance.

The interest element of a mortgage is also an allowable expense, but not any repayments of the capital sum. However, if you have owned the property for some time, you may be able to increase the mortgage up to the value of the property when first let and still get tax relief on all the interest payments. This again is a good example of where someone providing you with integrated advice can identify further opportunities.

When you sell a let property you may have to pay Capital Gains Tax on the gain you have realised. If you have lived in the property as your main residence during the period of ownership, then Principle Private Residence Relief may be available to reduce or hopefully eliminate the capital gains tax liability along with any unused annual exemption. Our integrated approach maximises your return, you decide what to spend it on!

Sworders can offer general advice upon the tax implications of letting property. However, we would always advise that you ask your own accountant for specific tax advice. ■



The Legal Position

It is important for agents to have a thorough understanding not only of the 1988 Housing Act (as amended by the 1996 and 2004 Acts) but also of the Rent Act 1977 and for farms and estates the Rent (Agriculture) Act of 1976.

Understanding both Landlords' and Tenants' rights in any given circumstance is an essential starting point to any negotiation with a tenant. Even where a tenant has security, it is often possible to negotiate a deal to secure vacant possession for sums that might provide a substantial windfall for the tenant whilst still being modest relative to the uplift in value secured by vacant possession. ■

Our Fees

You may feel having read this newsletter that Sworders will be expensive. In fact, our terms for managing residential properties are competitive with high street letting agents who are unlikely to have the capability to offer the integrated approach. After an initial free consultation, advice on additional matters can be negotiated on separate fee bases, the terms of which would be approved by you before work is commenced. We are usually able to offer a 'no win, no fee' basis for planning work.

Please call for a no obligation initial consultation. ■

"The articles featured in this publication have been selected and prepared with a view to disseminating key information and are not intended to be comprehensive nor to provide advice. Before taking action advice should be sought for specific queries."