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Buy-to-let sector a ‘ticking timebomb’ as major sell-off predicted for 2018/2019

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The government’s tax tinkering has lit the fuse of a buy-to-let timebomb, which is set to blow in two to three years’ time, according to some pretty unsettling new predictions.

With Deutsche Bank’s warnings of an impending “major shock” still ringing in our ears, former financier and Maskells chief Charles Curran has analysed the likely effects of recent policy and regulatory changes combining with mortgage lending and tax issues, and concluded that many landlords will be “forced to exit the market”.

Buy-to-let landlords with a mortgage will see their costs increase “substantially” over the next four years, says Curran, while at the same time, the minimum 5.5% interest rate stress test proposed by the PRA will force many existing mortgage holders to remain with the same lender. For those who do choose to move, rates and LTVs “may make it impossible to refinance”.

With regulatory and political headwinds continuing to whistle and the Bank of England’s tough new anti-BTL stance raising further concerns, the sector looks on course for what’s described as a “slow motion train crash”.

In real terms, this could mean a potential additional 163,000 homes on the sales market and a “dramatic” jump in rents, according to the research. House prices are expected to suffer as a result of the additional supply from landlords-turned-forced sellers, while rents could be driven skywards by a combination of fewer homes available on the rental market and increasing numbers turning to the private rented sector.

As for the timings, buy-to-let stock is tipped to flood the sales market around April 2018/2019, when the first & second tranches of removal of interest rate relief come into effect and combine with an increase in capital charges for banks, which will push mortgage rates up.

Charles Curran, Principal at Maskells Estate Agents: "The BTL market has provided so much of the rental stock the country depends on, but the government's tinkering could lead to a sell-off. This situation does seem akin to a slow motion train crash: BTL landlords with mortgages are standing on the track in a game of chicken with regulatory locomotive, hoping to time their exit as best as possible. This high-risk game will almost undoubtedly leave casualties."

In a bleak report to investors last week, Deutsche Bank said that "material changes to buy-to-let economics" could result in a "substantial fall" in BTL buys (which have made up around 40% of resi purchases in London over recent years, according to the bank).

The words "major shock" were used, and a "sell" recommendation was slapped on Earls Court developer Capco ("exposed through its Earls Court residential development land which is a levered play on London prices"), duly sending share prices into a tailspin.

"New tax rules will reduce BTL returns on equity towards zero and result in low or negative cash flow, particularly for new landlords," said analysts Oliver Reiff and Markus Scheufler, who predict that buy-to-let demand could fall by about 50%, just as the prime market faces some challenging "oversupply issues".

The team is assuming a "20% decline in demand for London property at current prices…a 65% decline in mortgaged London BTL purchases…and a 30% decline in cash purchases."

"We estimate that circa 35% of London BTL owners could look to sell – 10% who have capital repayment mortgages, 18% who are recent interest only or mortgage equity withdrawal purchasers and we estimate a further 7% of BTL owners could sell due to inheritance tax," the report added.

If further mortgage regulation is introduced by the PRA as planned, DB predicts a "shock event" will hit the capital's BTL market in 2017. If not, a price fall is expected "at some point during the 2016-2021 period as the lack of profitability becomes more apparent".

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