Hamptons
THE HOME EXPERTS

PRESS RELEASE

Date Issued: Friday 15 January 2021
Embargoed until 00.01 hrs Monday 18 January 2021

Hamptons Monthly Lettings Index – December 2020

RECORD NUMBER OF BUY-TO-LET COMPANIES SET UP IN 2020 AS TAX CHANGES BITE

- During 2020 a total of 41,700 new buy-to-let limited companies were formed, an increase of 23% on 2019 (chart 1).
- More companies were set up to hold buy-to-let properties between the beginning of 2016 and the end of 2020 than in the preceding 50 years combined. This means that at the end of 2020 there were a total of 228,743 buy-to-let companies up and running, an all-time record.
- Buy-to-let incorporations were the second most common company founded during 2020, with companies selling goods online or by mail order in first place (table 1).
- More than a third (34%) of all companies set up to hold buy-to-let properties in 2020 were in London.
- Nationally rental growth hit 4.1% in December, the highest rate in the four and a half years (since July 2016) (table 3).

Research by Hamptons shows that during 2020 there were a record number of new limited companies set up, known as incorporations, to hold buy-to-let properties. Last year there were a total of 41,700 buy-to-let incorporations, an increase of 23% on 2019 (chart 1). The numbers have more than doubled since 2016, rising 128%, when tax changes for landlords were introduced.

In 2016, a 3% investor stamp duty surcharge came into force and the proportion of mortgage interest deductible from tax on buy-to-lets held in personal names began to be phased out. As a result, investors have changed the way in which they purchase properties, with increasing numbers shifting towards limited companies to reap further tax benefits.

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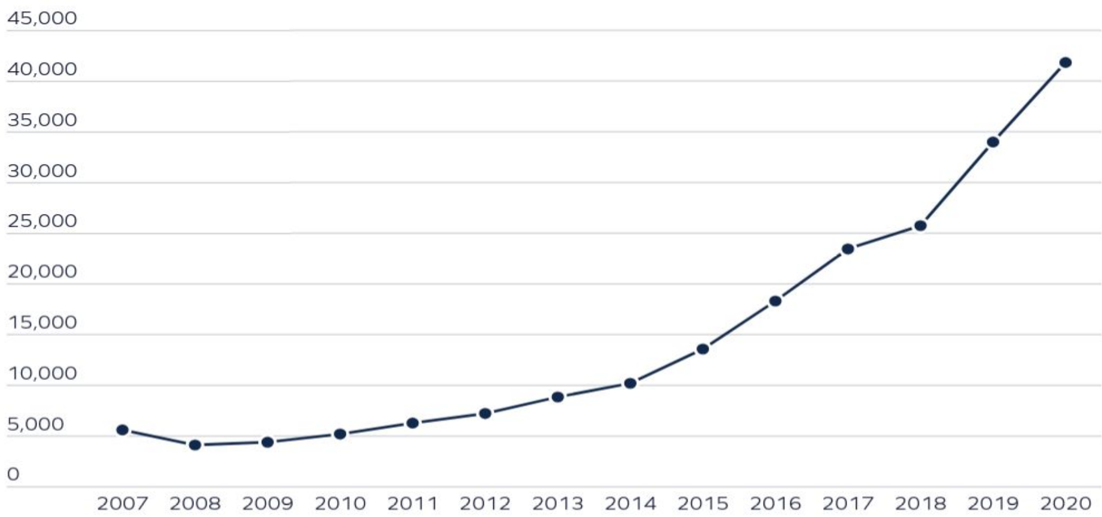
Chart 1 – Buy-to-let companies set up annually (Great Britain)



Source: Hamptons & Companies House

Between the beginning of 2016 and the end of 2020 more companies were set up to hold buy-to-let properties than in the preceding 50 years combined. Companies set up to hold buy-to-let properties were the second most common company founded during 2020, with companies selling goods online or by mail order in first place (table 1). This means that at the end of 2020 there were a total of 228,743 buy-to-let companies up and running, an all-time record.

Table 1 – Top 10 most common companies set up in 2020 (Great Britain)

Retail sale via mail order houses or via Internet	43,200
Letting and operating of own or leased real estate	**41,700**
Management consultancy activities other than financial management	34,700
Buying and selling of own real estate	31,200
Other service activities	30,100
Other business support service activities	26,100
Freight transport by road	20,300
Information technology consultancy activities	19,300
Construction of domestic buildings	17,700
Take-away food shops and mobile food stands	17,400

Source: Hamptons & Companies House

Southern-based landlords have been most likely to incorporate. Given the high cost of property, generally landlords based in the South are more likely to be mortgaged which means that in cash terms their mortgage interest bill is likely to be higher. Therefore the benefits of incorporating a buy-to-let portfolio into a company are likely to be bigger. /…

More than a third (34%) of all companies set up to hold buy-to-let properties in 2020 were in London. Together, London and the South East accounted for almost half (47%) of all incorporations.

The tax benefits of holding property in a company derive from the ability of landlords to offset 100% of mortgage interest against profits, while those holding a property in their own name can offset just 20%.

This means that someone who owns a £250,000 property with a 75% LTV mortgage generating £1,000 a month in rent in a company will pay around £1,033 per year in tax. While a lower rate taxpayer owning the same property in their own name would pay 42% more or £1,463 each year. And a higher rate taxpayer would pay 274% more or £3,863 (table 2).

But whilst those landlords holding their property in a company can offset more costs against their rental income, mortgage interest rates tend to be higher. This means that setting up a company to hold buy-to-let property tends to benefit higher-income taxpayers, or those with multiple buy-to-let properties.

Table 2 – Tax payable during 2020/21 tax year on a £250k property with 75% LTV mortgage

	Limited Company	Personal (lower rate)	Personal (higher rate)
Purchase price	£250,000	£250,000	£250,000
Rent	£12,000	£12,000	£12,000
Mortgage interest	£6,563	£4,688	£4,688
Gross profit	£5,438	£7,313	£7,313
Tax due	**£1,033**	**£1,463**	**£3,863**
Net profit	**£4,404**	**£5,850**	**£3,450**

Source: Hamptons

The above calculation assumes a 75% LTV interest only mortgage with a rate of 2.5% on a property held in a personal name and 3.5% for a property held in a limited company. Gross profit is calculated after costs, but before tax. Net profit is calculated after all costs, including tax.

Rental Growth

The rate of rental growth accelerated sharply in December. Over the last three months, annual rental growth rose from 1.4% in October to 3.0% in November and to 4.1% in December (table 3). This is the fastest rate of rental growth recorded in more than four and a half years since July 2016.

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Once again, all nine regions in England saw rents rise during December, with rental growth also turning positive in Wales. Rents in London began to rise in November for the first time since the start of the pandemic, following eight months of falls. And December saw growth jump from 0.3% to 1.6% in the capital.

However, rents in Inner London remain well down on last year, falling 11.5% between December 2019 and December 2020 (table 3). This is a slightly smaller decrease than the 12.7% year-on-year fall recorded in November.

Table 3 – Annual rental growth

	Dec-19	Dec-20	YoY
Greater London	£1,841	£1,870	1.6%
__Inner London	£2,437	£2,157	-11.5%
__Outer London	£1,727	£1,816	5.1%
South East	£1,083	£1,159	7.0%
South West	£828	£895	8.1%
Midlands	£698	£722	3.5%
North	£642	£683	6.4%
Wales	£672	£678	0.8%
Scotland	£653	£694	6.2%
Great Britain	**£1,012**	**£1,053**	**4.1%**
Great Britain (Ex London)	**£816**	**£844**	**3.4%**

Source: Hamptons

Commenting Aneisha Beveridge, Head of Research at Hamptons, said:

"Despite growth of the private rented sector slowing in recent years, an increasing proportion of buy-to-let purchases are now being held in limited companies. We estimate that around half of all rental properties bought today are being put into a company, up from close to one-in-five during 2016. While most of this growth has been driven by larger landlords, smaller landlords, particularly those who are higher rate taxpayers, have also reaped the tax saving benefits from incorporating.

"As the company buy-to-let market has matured, more mortgage lenders have entered the space. Back in 2016 there were just a handful of lenders who offered company buy-to-let mortgages, often at a greater premium than today. But with more high street names entering the limited company space in recent years, competition has driven down interest rates to within a percentage point of similar products designed for landlords purchasing in their own name.

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"December marked the first time since the onset of the pandemic that prospective tenant numbers surpassed 2019 levels. At the same time, the number of rental homes on the market fell by double-digit percentages in every English region outside London. This has driven rental growth up significantly over the last three months to a point where rents are rising faster than house price growth in almost every region."

Please note the Hamptons Monthly Lettings Index for January will be issued on Friday 12 February 2021, embargoed for 00.01 hours Monday 15 February 2021.

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For further information, please contact:
Alison Blease
Head of Research PR, Hamptons
Tel: +44 (0) 776 96 77 825
Email: bleasea@hamptons-int.com

About the Hamptons Monthly Lettings Index

The Hamptons Monthly Lettings Index (formerly the Countrywide Lettings Index) has been running since 2012.

The index is a mix adjusted series, with rent and rental growth figures for each month based on a three-month rolling average. The most expensive decile of homes let are excluded to reduce volatility and the mix includes the most recently published government stock statistics.

The Hamptons Lettings Index uses data from the Countrywide Group, Great Britain's largest letting agent, to track changes to the cost of renting. The index is based on the 90,000 homes let and managed by Countrywide in each year, adjusting for their location and type. It is based on achieved rather than advertised rents.

About Hamptons

Hamptons is a leading residential estate agent and property services company, operating in London and the South of the UK.

Hamptons offers a wealth of award-winning services including UK and international Sales, Lettings, Property Management, Corporate Services, Residential Development, Development Land, Valuation Property Finance, and is a subsidiary of Countrywide, the UK's largest estate agency and property services group.