PRESS RELEASE

Date Issued: Friday 21 October 2022
Embargoed until 00.01 hrs Monday 24 October 2022

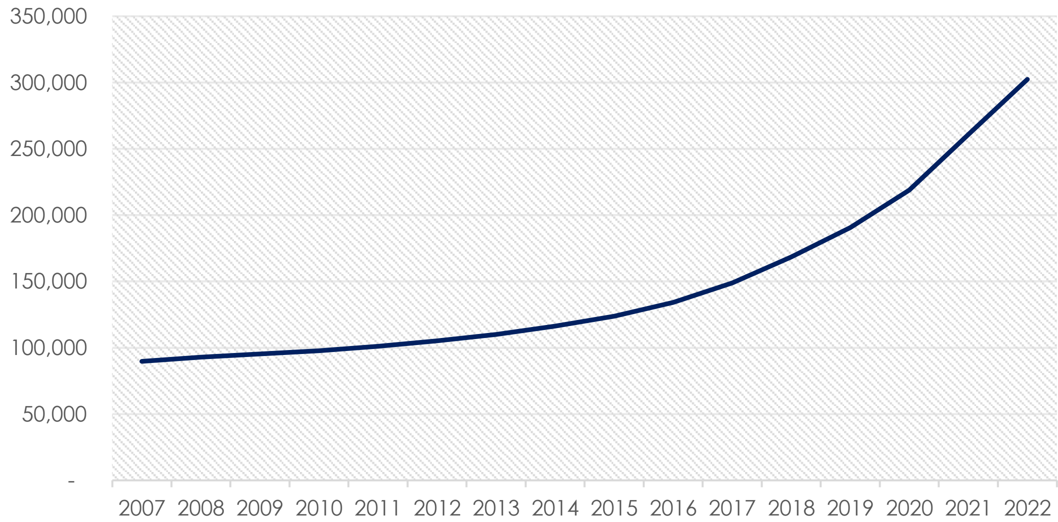
Hamptons Monthly Lettings Index – September 2022

NUMBER OF BUY-TO-LET COMPANIES PASSES 300,000

Landlords incorporate on the back of rising interest rates

- The total number of companies set up to hold buy-to-let property has doubled since 2017 and now stands at over 300,000 (chart 1, table 1). This has been primarily driven by existing landlords moving properties from personal to company names to reap the tax benefits.
- This shift has been underpinned by interest rates rising to 6% which mean the average higher rate taxpaying landlord with property in their personal name may face paying a £1,716 annual tax bill despite making a loss of £2,479 (table 2).
- Nationally, the average cost of a new let rose 6.9% over the last 12 months, down from 7.4% in August, with London leading the way (table 3).
- In Scotland, where a rent cap was introduced for renewals, there were 60% fewer homes available to rent than in September 2019 – the largest fall in the country.

Chart 1 – Total number of buy-to-let companies up and running



Source: Hamptons & Companies House

Last month saw the total number of companies set up to hold buy-to-let property pass 300,000 for the first time (chart 1, table 1). This means that the total number of

/…

buy-to-let companies has doubled over the last five years since 2017. The increase has been driven by new buy-to-let purchases being made in a company structure as well as landlords moving properties from personal to company names.

It is likely that more buy-to-let companies will be set up in 2022 than in any previous year, despite there being fewer buy-to-let homes bought this year in comparison to last year. This rise has been exacerbated by rising rates as existing landlords move properties they already own from personal to company names in a bid to offset rising mortgage interest against their tax bill and increase their profits.

Our estimates suggest that around 40% of all new buy-to-let purchases are now made via a company structure, a record figure and one which is up from around 10% in 2016 before the Section 24 tax changes were tapered in. This means that although the share of homes bought by an investor has remained broadly stable over the last couple of years, an increasing proportion of these purchases go into a company. The average company with outstanding mortgages, now holds 3.3 mortgaged properties.

Over the last 12 months to September 2022, a total of 50,445 new companies were set up to hold buy-to-let property (table 1), the second highest figure in any 12-month period. However, the total number of active buy-to-let companies increased more slowly than this. This is because 8,902 companies were dissolved, predominantly due to the sale of all the properties being held within the company, a figure which is up 25% on the previous 12 months.

Table 1– Total buy-to-let companies and new incorporations

	Total active companies	Incorporations over the previous 12 months
Sept-07	89,757	4,727
Sept-08	92,896	4,626
Sept-09	95,232	4,373
Sept-10	97,847	5,410
Sept-11	101,087	6,370
Sept-12	105,162	7,439
Sept-13	109,994	9,079
Sept-14	116,307	10,812
Sept-15	123,815	13,385
Sept-16	134,132	18,899
Sept-17	148,874	24,456
Sept-18	168,382	26,740
Sept-19	190,552	32,148
Sept-20	219,007	39,872
Sept-21	260,861	51,299
Sept-22	302,404	50,445

Source: Hamptons & Companies House

Rising interest rates have increased the advantages associated with incorporation (putting a rental portfolio into a company), particularly for higher rate taxpayers with properties in their own name given they can no longer fully offset mortgage interest payments.

The average higher rate taxpayer purchasing a buy-to-let today with a 6% interest rate faces a £1,716 annual tax bill despite making a loss of £2,479 (table 2).

Meanwhile the same landlord with a property held in a company structure would not pay any tax, limiting their annual loss to £1,604. A lower rate taxpayer would face a loss of £763 (table 2).

However, with rates above 5.0%, it's likely that even limited company landlords could fall into the red when re-mortgaging or making a new purchase.

Table 2 – Profit and tax bill for company, higher rate and lower rate taxpaying landlords

APR	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%
Net profit LTD Company	£2,106	£1,425	£744	£63	-£763	-£1,604	-£2,444
LTD Company tax bill	£494	£334	£175	£15	£0	£0	£0
Net profit lower rate	£2,753	£2,080	£1,408	£735	£62	-£763	-£1,604
Lower rate tax bill	£688	£520	£352	£184	£16	£0	£0
Net profit higher rate	£884	£212	-£461	-£1,134	-£1,806	-£2,479	-£3,152
Higher rate tax bill	£2,557	£2,389	£2,221	£2,053	£1,884	£1,716	£1,548

Source: Hamptons

Rental Growth

The pace of rental growth continued to soften in September, with the average price of a newly let home rising 6.9% on the same time last year to stand at £1,186 (table 3). Rising rents continue to be led by London, where rents rose 11.3% year-on-year across the capital and 26.1% in Inner London (table 3).

In Scotland, where a rent cap for existing tenants was introduced from the 6 September, the price of a newly let Scottish home (which is exempt from the cap) rose 8.9% on the same time last year. There were 60% fewer homes available to rent than in September 2019, a larger fall than anywhere else in the country over the same time period.

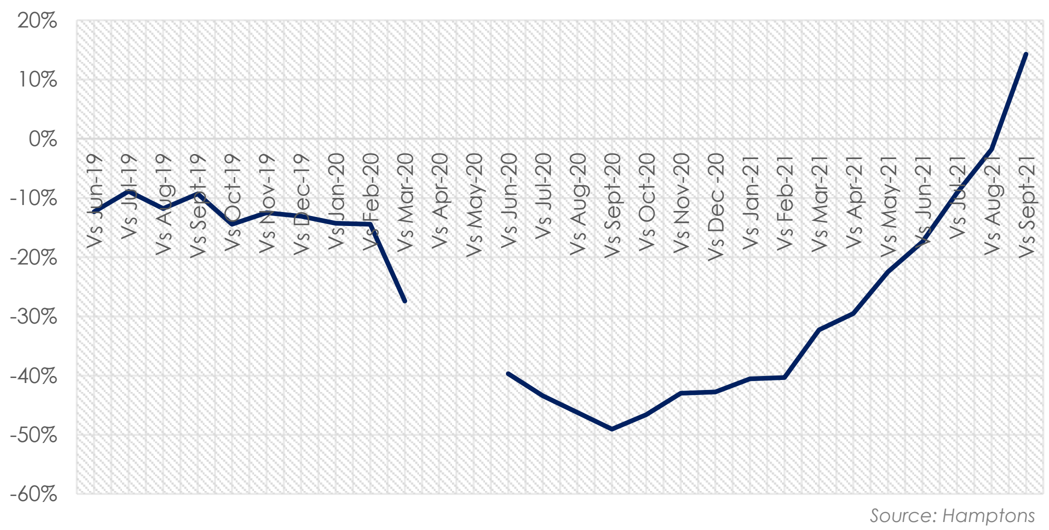
Meanwhile nationally, September saw the first annual increase in the number of homes available to rent in five years. Across Great Britain there were 14% more homes available to rent than in September 2021 (chart 2), although this increase is from a period when stock levels were at record lows. Stock levels may remain up on last year, however they are unlikely to rise far beyond 2021's lows and remain 47% below 2019 levels (chart 2).

Table 3 – Rental growth on newly let properties

Region	Sept-21	Sept-22	YoY %	YoY £
Greater London	£1,845	£2,054	11.3%	£209
Inner London	£2,185	£2,755	26.1%	£570
Outer London	£1,780	£1,928	8.3%	£148
East of England	£1,106	£1,121	1.3%	£15
South East	£1,252	£1,237	-1.2%	-£15
South West	£1,011	£1,088	7.6%	£77
Midlands	£768	£845	10.0%	£77
North	£749	£818	9.2%	£69
Wales	£757	£752	-0.7%	-£5
Scotland	£760	£827	8.9%	£67
Great Britain	**£1,109**	**£1,186**	**6.9%**	**£77**
Great Britain (Excl. London)	£921	£966	4.9%	£45

Source: Hamptons

Chart 2 – Annual change in rental homes on the market



**Data on stock levels was unavailable during the first lockdown, hence the gap in the chart.*

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

"The record number of landlords now holding properties in a company means it's rapidly becoming mainstream among investors. The number of new incorporations is likely to remain relatively high over the next 12 months on the back of the stamp

"duty cut which saves the average investor just under £2k when moving a buy-to-let from personal to company names.

"But the big driver is the financial advantage of being able to offset mortgage payments as interest rates rise. This means that limited company investors stand a better chance of turning a profit in a world where mortgaged landlords are coming under increasing pressure.

"While rapidly rising rents have softened the impact of higher interest rates for landlords, rental growth only offsets around a fifth of their increase in mortgage costs. This means that a landlord who bought an average home two years ago with a typical 25% deposit would need to increase their equity from 25% to 55% if they re-mortgaged today in order to maintain the same monthly returns compared to when they first bought. For the average investor, this means stumping up an extra £67,000 in cash."

Please note the Hamptons Monthly Lettings Index for October will be issued on Friday 11 November, embargoed until 00.01 hours Monday 14 November 2022.

Ends

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

About the Hamptons Monthly Lettings Index
The Hamptons Monthly 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 to track changes to the cost of renting. The index is based on the 90,000 homes let and managed by Countrywide 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 Connells, the UK's largest estate agency and property services group.