LANDLORD FINANCES BRIEFING

Briefing for campaigners and journalists, June 2023.

For more information please contact: Martha Dillon at martha.dillon@positivemoney.org.uk.

This document is intended for campaigners and journalists seeking to understand the financial and tax incentives for English landlords, and the available data on their wealth.

Which policies encouraged the current generation of landlords to invest in homes?

The decline and subsequent rise of privately rented tenancies in England between the 1950s and 2020s, coupled with deteriorating affordability across the housing sector as a whole, was driven by a series of government policy decisions. These are set out in detail in *Banking on Property*, and summarised here:

1. **A 'property-owning democracy'.** In the 1950s, the Conservative government championed the idea that homeownership was a culturally important goal. This notion, accelerated by Thatcher's administration in the 80s and perpetuated by the major parties today, led to a series of policies intended to make buying homes easier, resulting in a rise in homeownership and decline in renting between 1960-1990.
2. **Mortgage liberalisation.** Regulations on UK mortgage lending and international bank borrowing were peeled back during the 70s and 80s. Where formerly only building societies provided mortgages, now private banks and other lenders could too. More generous mortgages could be offered, lenders could tap into international money markets and insurers accepted riskier loans. More money (in the form of newly created credit) could be injected into homes, rapidly inflating prices.
3. **The transformation of homes into financial assets.** The rise in the prices of homes led to people buying them, at least in part, to store and increase their wealth. This included individual homeowners, private investors and companies. This 'financialisation' was also fuelled by a collapse in social housing options - a drop in social housing construction, the sell-off of social homes under Right to Buy, and reduced government spending on the system that remained.
4. **Specific policies for landlords.** The 1988 Housing Act made buying a home to rent more financially and logistically attractive. It phased out rent controls (which had been in place in some form in the UK since 1915) and introduced Assured Shorthold Tenancies. In 1996, the Buy to Let (BTL) mortgage was introduced, a bespoke financial product for landlords - today, 10-15% of mortgages are BTL. These policies helped landlords tap into the increasing value of homes, with a net increase of 2.8 million homes built or transferred into the private rented sector between 1990-2022.

How do landlords make money - and how much money do they make?

The Bank of England estimates that 50% of landlords seek to profit from rental income, while 15% seek to make money from house prices rising (capital gains), and 36% seek a mixture of both.[1]

---

[1] Table 12 Bank of England Staff Working Paper No. 976

Capital gains[2]

Landlords make money when the value of the homes they own increases. English landlords today own approximately £1,500 billion worth of property - 4.6 million homes.

English landlords today have approximately 14x more property wealth than landlords thirty years ago, when they owned around £102 billion worth of homes.This is thanks to a 2.6x increase in the number of privately rented homes and a ~5.5x increase in the value of those homes. (By contrast, homeowners own 7x more wealth - although their homes are worth ~5.7x more, there are only 1.2x more of them.)

Although house prices are currently plateauing or decreasing, if they begin to increase again landlords will be set to capture significant capital gains once more. House prices would need to drop 25% to fall to pre-pandemic levels.

Rental income

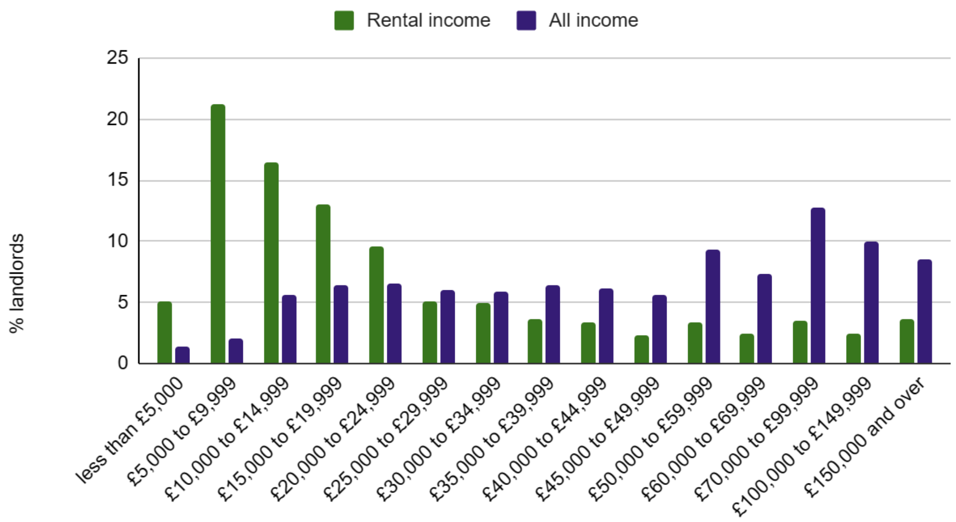

Figure 1: landlord income. Source: the English Private Landlord Survey 2021.

As with capital gains, the data on rental income for landlords isn't transparent. According to the English Private Landlord Survey, in 2021 half of landlords earned under £15k in rental income every year. But, less than 15% are solely employed as landlords - 35% are retired (and thus receiving a pension), and the rest hold other jobs. In terms of total income (rent and other income before taxes), the median landlord earns £46k. A third of landlords earn £60k+. The average income for landlords is £93k, thanks to a large number of extremely high earners renting out homes.

Another way to look at this is whether landlords can pocket all of their rental income, or have debts to pay off. According to the same survey, a third of landlords had no debt at all - meaning they take

[2] This section is based on Positive Money analysis of English Housing Survey, English Private Landlord and ONS House Price index data. 2023.

home all of their rental income, on top of other salaries and income streams. Of the remaining landlords, the majority have an interest-only mortgage (see box). Only 22% of landlords have a full repayment mortgage, meaning that, like homeowners, they have to pay back both a proportion of the home's total value and interest on their loan every month. These are the landlords most likely to be at risk from rising interest rates.

Analysis by Zoopla of a theoretical property illustrates the range of interest payments a BTL landlord might expect to make, depending on the size of the loan they've taken out. When interest rates are around 2.5%, as they have been in recent years, the modelled mortgage interest payments are as low as 12-37% of rental income: meaning profits of 63-88%. Interest rates of 5%, which are approaching in 2023, reduce profits to 26-77%. If interest rates reach 7%, the model indicates that a landlord with a large loan (LTV 75%+) - around a third of landlords - might expect to see monthly losses of up to 4%.

This example calculation illustrates that BTL landlords are unlikely to be facing significant personal losses. However, they may increase rents in order to renew or take out new BTL loans if interest rates increase further (or if they are in the small proportion of landlords on tracker mortgages). BTL lenders typically require proof that rental income will be 25-30% higher than the repayment.

Interest-only Buy To Let mortgages

- A normal mortgage requires repayment of a portion of the total loan every month, and interest. Under an interest-only mortgage, the landlord doesn't have to pay down the full amount of the loan, they just pay the interest. This means their monthly payments are minimised.
- The landlord can still claim the profit (in capital gains) if they sell it for more than they bought it, they just never pay down the loan.
- Interest-only mortgages used to be available to homeowners in the UK. But, since the 2008 crash, only landlords and very wealthy individuals have access to these cheaper mortgage options.
- Mortgage interest can be as low as 12-23% of rental income (2.5-5% interest rates), and lenders typically require evidence that it will not be more than 70-80%.

Is it true that landlords pay a lot of tax?

Landlords have complained about changes to their tax conditions in recent years. In England, private landlords do pay higher property taxes than homeowners. But, they also receive tax breaks and benefits (full list in Appendix 1). They can:

- Reduce income taxes by 20% of mortgage interest payments;
- Reduce Capital Gains Tax by up to £40k for landlords who have lived in their property;
- Balance CGT losses and gains across multiple properties;
- Use loopholes to pay income through companies as dividends, with lower rates of tax, (increasingly common for new landlords);
- Deduct expenses for maintenance, furniture, insurance, ground rents and fees from income taxes and deduct upgrades and extensions from capital gains taxes.

It's worth noting that company landlords receive an even greater range of tax discounts and relief options. Appendix 1 lists the full range of property taxes for company landlords.

Landlords also argue that they are more heavily taxed in the UK than internationally. Taxes are context dependent but, even so, English key property taxes for individual landlords are often similar to those in many comparable economies - both countries that have low proportions of private renters, like France, Australia and the US; and countries where more people rent, like Germany, Denmark and Austria:

Table 1: key property taxes across different countries. Coloured red where taxes are higher than in England.

	English	*France*	*Australia*	*US*	*Germany*	*Denmark*	*Austria*
Rental income	20-45%	14-45%	34.5-45%	10-37%	14-45%	47-60%	≤55%
Capital Gains	18-28%	36.2% (none after 30y)	34.5-45% (halves after 1y)	20%	14-45% (reduces after 10y)	47-60%	30%

So, how rich are landlords?

Landlords are significantly wealthier than the general population.

- **Income**. The median landlord has a gross income of £43k (rent and other income), and the average gross income for landlords is £93k (thanks to a large proportion of landlords with extremely high incomes, Figure 1) By comparison, the median gross income in the UK is £32k, and the average is £39k.
- **Savings**. Data from 2016-18 indicated that the median landlord had saved over £55k. In comparison, the national average was £7k - and just £400 for renters.
- **Home value**. A study from 2013 highlighted similar findings to the above. It also found that the median landlords' main home was worth 28% more than the national average. Half of landlords lived in homes with more than 4 bedrooms.

Rising interest rates may well impact landlords with debt to pay off. But, as the Bank of England has noted, this is a group of people who are more financially resilient to such shocks than the renters to whom the costs may well be passed.

Recommendations

In Banking on Property, we set out a series of recommendations for stabilising the housing system. These included:

1. Commit to long-term house price stability
2. Restrict excessive mortgage lending
3. Reform property taxes to recaptured unearned gains in wealth
4. Significantly boost the stock of council and community-owned homes
5. Legislate for stable, affordable, decent homes for renters

Appendix 1 - property taxes

Table 2: property taxes by owner type.

PositiveMoney

Taxes	*Homeowner*	*Individual landlord (94% of PRS)*	*Corporate landlord (5% of PRS)*
Rental income	None	20-45%	19-25%
Council tax	Set locally	None (paid by tenant)	None (paid by tenant)
Capital Gains	None	18-28%	19-25% (but have ability to use indexation)
Stamp duty	0-12%	3-15%	3-15%
Other tax incentives	Stamp duty holidays	• Reduce taxes by 20% of mortgage interest • Reduction in Capital Gains Tax of up to £40k to people who lived in their property • Balance CGT losses and gains across multiple properties • Offsetting expenses from income tax - including fees, services, insurance, furniture and appliance replacements, and ground rent • Deducting cost of upgrades, stamp duty and broker fees from capital gains tax • Tax-free capital gains allowance of £12k	• All mortgage interest payments deductible • Business Assets Rollover Relief - if the sale is used to buy a new property, CGT can be paid when the replacement property is sold. • Balance CGT losses and gains across multiple properties • Offsetting expenses

Note: individual landlords can also incorporate as a company to pay lower property taxes.