Landlord Perceptions of Mortgage Interest Relief

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Context

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This brief report provides analysis of the perceptions of landlords and agents towards changes in Mortgage Interest Relief (MIR)

Between 2017 and 2020 the amount of tax relief which landlords can claim will be limited to 20 per cent, rather than 40 per cent or 45 per cent which was previously claimed by landlords with higher gross incomes.[1]

In July 2017, the University of Cambridge published research on residential portfolio management based on a sample of interviews with landlords and stakeholders.[2] The overall conclusion of the research was that landlords had a "strong commitment to the private rented sector and are not likely to leave in a hurry" (p.22).

More specifically, they found that the impact of MIR changes was likely to be "very varied across the sector" (p.23). They highlighted the need for further investigation into landlords with a single property as they "are likely to respond differently to both tax and economic changes" (ibid).

In August 2017, the RLA published research conducted by ourselves at the Centre for Regional, Economic and Social Research (CRESR) from Sheffield Hallam University.[3] This report was based on a survey of almost two thousand landlords and agents.[4] It investigated their experiences with, and perceptions of letting to under-35 year olds. The survey included questions about their responses to changes in MIR.

This survey data has been re-analysed to focus on MIR. Findings from the survey data are presented in the next section which is followed by a short summary.

[1] HMRC (2016) Changes to tax relief for residential landlords, https://www.gov.uk/government/news/changes-to-tax-relief-for-residential-landlords
[2] Clarke & Heywood (2017) Landlord portfolio management - past and future, http://england.shelter.org.uk/__data/assets/pdf_file/0017/1401461/Landlord_portfolio_management_-_past_and_future_-_final_report.pdf
[3] Pattison & Reeve (2017) Access to homes for under-35's: The impact of Welfare Reform on Private Renting, https://research.rla.org.uk/wp-content/uploads/SHU-Access-to-homes-for-under35s.pdf
[4] Different questions were presented to each respondents based on their answers at the start of the survey. This means that the number of responses to each question varies and is presented in the footnotes. The full report (see above) provides full details of the survey methodology.

Analysis

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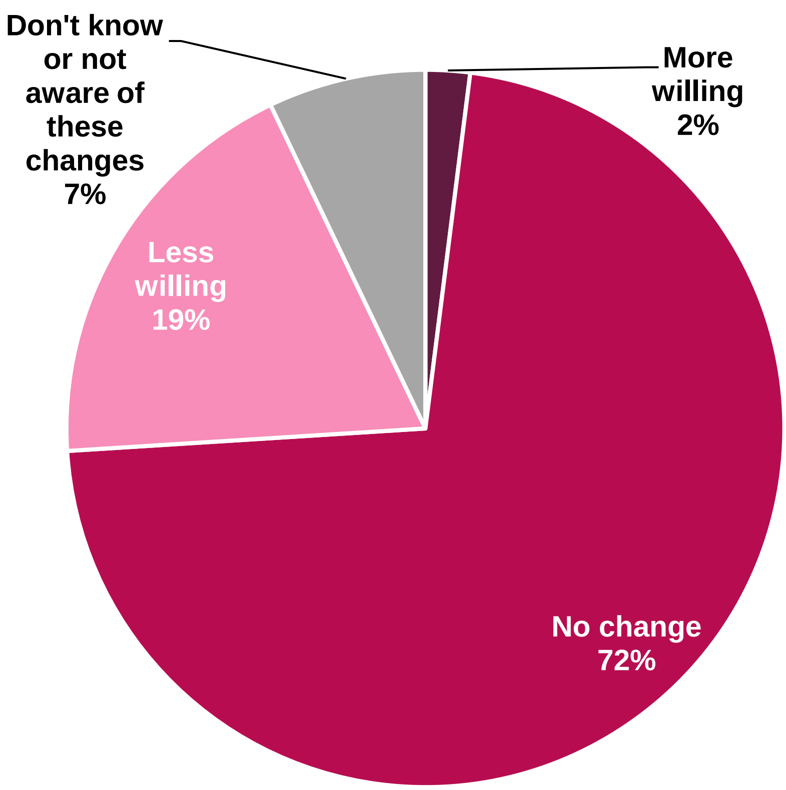
The survey asked respondents if the changes to MIR would have any impact on their lettings strategy. Figure 2.1 highlights the responses to this question. Around one in five respondents (19 per cent) stated that changes to MIR would make them less willing to let to under-35s. Three-quarters of landlords (72 per cent) stated that the changes would not lead to a change in their strategy.

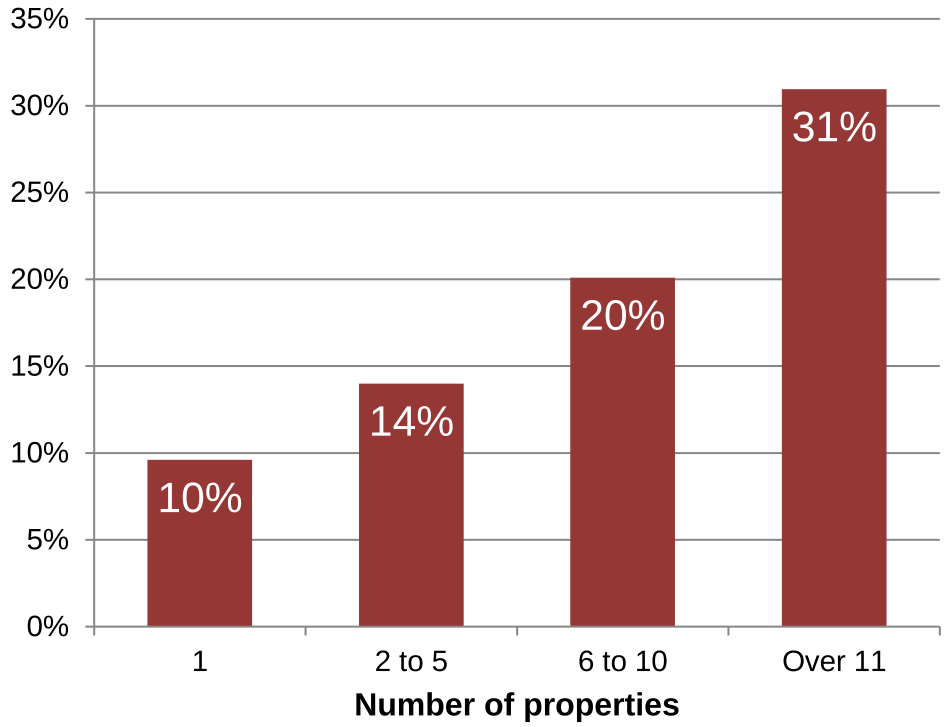
Figure 2.1: Will the changes to mortgage interest relief have any impact on your willingness to let to under-35s? (please tick one)[5]



[5] n=1670

This question was analysed in more detail to assess whether particular types of landlords were intending to change their lettings strategy in response to MIR. Figure 2.2 presents the proportion of respondents who would be less willing to let to under-35s due to MIR changes by the size of their portfolio. It suggests that landlords with larger portfolios are more likely to change their lettings strategy in response to the MIR changes.

Figure 2.2: Less willing to let to under-35s due to MIR by size of portfolio[6]



A number of other variables were analysed in relation to MIR and changes in lettings strategies. This indicates that the MIR changes might make respondents less willing to let to under-35s if they:

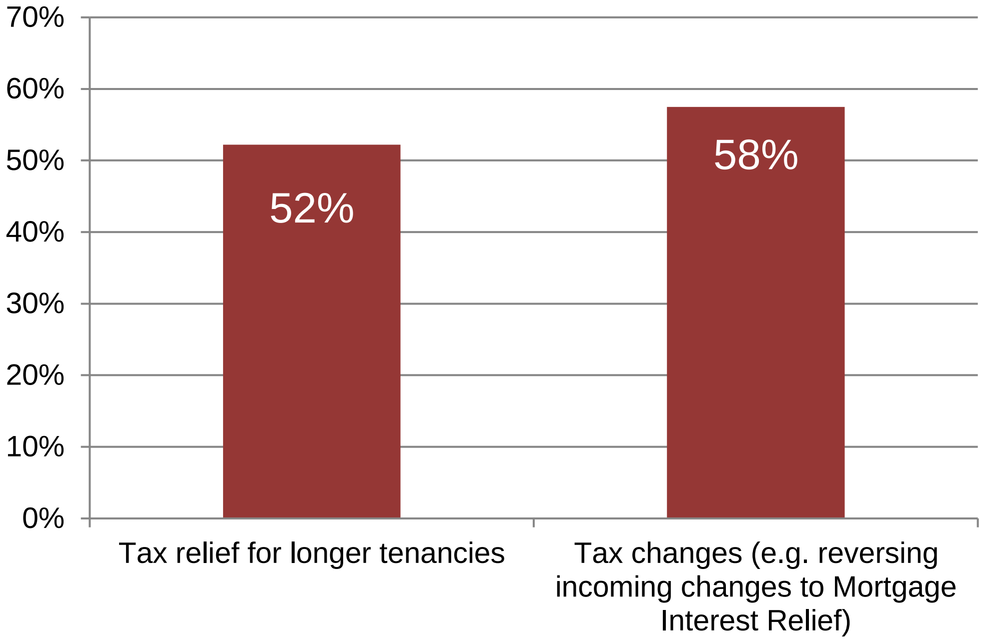
- have interest-only mortgages (30 per cent) or repayment mortgages (25 per cent) compared to those who own outright (4 per cent).[7] This is not surprising given the tax changes focus on mortgage interest.
- are long-term landlords. For example, 22 per cent of respondents who had landlords for over 11 years were less willing compared to 15 per cent for those who had been landlords for less than one year.[8]
- have decreased their property portfolio over the last five years (28 per cent).[9]
- focus on letting to tenants on Housing Benefit, Local Housing Allowance or Universal Credit (33 per cent). This can be compared to 16 per cent of those focusing on young professionals.[10]

[6] n=1662
[7] n=1594
[8] n=1654
[9] n=1651
[10] n=1665

There was some evidence of geographic variation but no clear pattern. The highest proportion of respondents who would be less willing to let due to MIR were found in Wales (27 per cent) compared to South East (15 per cent).[11]

The survey also asked respondents whether any regulatory or policy changes would make them more likely to let to under-35s. Figure 2.3 highlights the overall responses that relate to taxation. More than half of respondents (58 per cent) stated that reversing the MIR changes would make them more likely to let to under-35s.

Figure 2.3: Would any of the following regulatory/policy changes make you more able and willing to rent to under-35s (please tick all that apply)?[12]



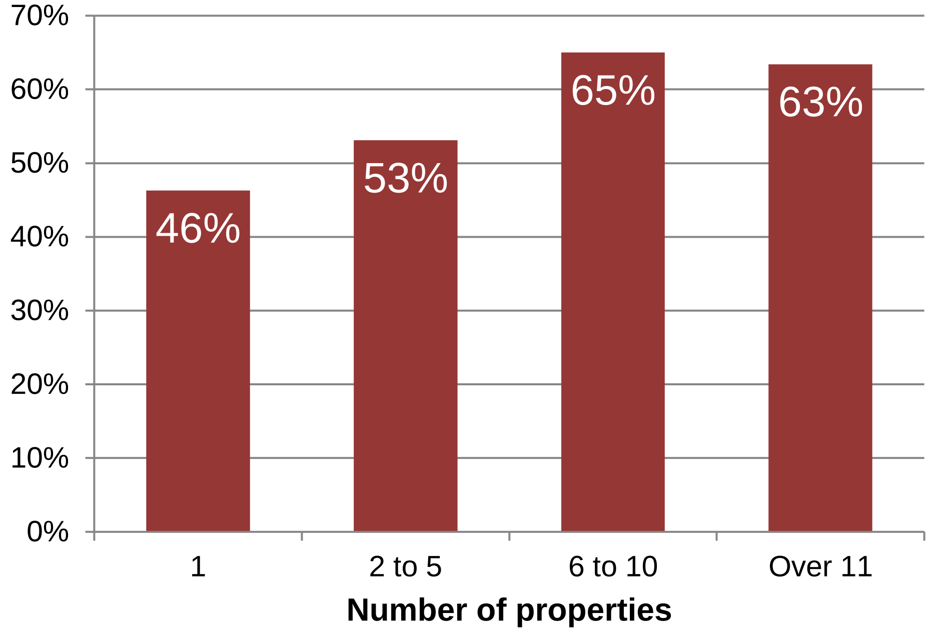
Support for reversing the MIR changes was analysed by different variables. The relationship between size of portfolio and support for reversing MIR changes is shown in Figure 2.4. Respondents with larger portfolios were more likely to state that reversing MIR changes would lead to them being more willing to let to under-35s.

Reversing the MIR changes would make the most difference to the intended letting strategy of respondents:

- with an interest-only mortgage. More than three-quarter (76 per cent) of this group thought that reversing MIR would make them more likely to let to under-35s.[13]
- expect their property portfolio to decline in the next five years (70 per cent)[14]

11 n=1635
12 n=1178
13 n=1123
14 n=1166

Figure 2.4: More willing to let to under-35s if changes to MIR are reversed by size of portfolio[15]



The survey also provided respondents with the opportunity to leave additional comments. Many of these related to the impact of tax changes on their lettings strategy. Excerpts from these include the following comments about MIR:

- "Loss of mortgage interest relief is by far the greatest risk to landlords - why take on more risk?"
- "My rents all have to go up to compensate"
- "Need higher rent to help subsidise the huge tax increase"
- "MIR will reduce margins therefore more stable tenancies and lower maintenance tenants are desirable"
- "Property damage unlikely to ever be recovered making operating less profitable with the tax change"
- "If my profit is going down why would I want to let out property at a loss?"
- "We unfortunately have to sell all our rental properties due to these changes"

[15] n=1167

Summary of findings

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The survey findings suggest that around one in five landlords think that the MIR changes will make them less likely to let to under-35s. More detailed analysis suggests that both the impact of MIR changes and landlord responses to them are likely to vary considerably across different groups.

The findings suggest there may be a particular impact on landlords with larger portfolios. This is worth noting as it would have a number of implications. The first is the numerical impact. A change in lettings strategy by even a small number of landlords with large portfolios could have a noticeable impact on the availability of accommodation - particularly in relation to under-35s who were the focus of the survey.

A second impact relates to the different sub-markets within the private rented sector. The survey suggests that MIR changes might have a greater impact on landlords letting to particular sub-markets, most notably claimants of Housing Benefit and Universal Credit. This is concerning given the pressure that already exists in relation to accessing accommodation for Housing Benefit and Universal Credit claimants. Research has found that landlords who let to these claimants tend to have a larger portfolio.[16]

The third possible impact relates to landlords who have decreased their portfolio. It appears that landlords who have decreased their property portfolio over the last five years are most concerned about the impact of MIR changes on their lettings strategy. The implication is that MIR changes may be the final straw for some landlords who were receiving only marginal returns on their properties. This is supported by the geographic variation of responses and the open-ended responses from landlords.

The survey also suggests that reversing changes to MIR could change the intentions of many landlords. More than half stated that reversing the MIR changes would make them more likely to let to under-35s. Given the scale of the challenge in providing accommodation for under-35s it would be worth reflecting further on the likely impact of MIR changes.

[16] Cole et al (2014) Local Housing Allowance: monitoring the impact of changes, https://www.gov.uk/government/publications/local-housing-allowance-monitoring-the-impact-of-changes