



Look before you leap

Interest is growing in the buy-to-let market once more as rents rise. But do your research as a lot has changed since the heady days of the property boom

The Irish property market is beginning to look like a spending spree again, as interest in real estate has begun to expand based on rising rents on both commercial and residential assets - especially in Dublin.

Almost inevitably, banks have begun to push their buy-to-let mortgage products at customers. While the banks are imposing tougher qualification conditions (most applicants now have to have a minimum €100,000 annual income, for example), the buy-to-let mortgage market is still scarred by the previous flurry of property investing mania.

Banks have increased the number of rent receivers to deal with the buy-to-let sector, in large part to handle the huge number of accounts in arrears. The Central Bank reported towards the end of 2013 that more than 20 per cent - or around 30,000 buy-to-let properties - were in arrears of more than 90 days, a rise on the previous quarter's figure.

Nevertheless, the attractiveness of current yields, particularly in Dublin, has led to a snapping up of investment properties in Dublin and the rest of the country.

The robustness of Dublin yields is surprising, according to John McCartney, director of

research at Savills Ireland. He said prices in Dublin have risen more quickly than elsewhere in the country, but this is a relative figure, since prices had initially also fallen faster and lower than other parts of Ireland. This, he points out, means that Dublin house prices are still trading at a discount to national averages. Since rental income is rising quicker, this disparity of purchase price and potential rental stream means yields in Dublin are higher than in the rest of the country.

Ronan Lyons of Daft said that, "with a little homework if you pick the right area and right property type, the gross yield could be double digits, but it's 8 to 10 per cent for a one-bed or a two-bed in Dublin at the moment".

Investors need to look closely at the rent though, and not at any potential capital appreciation of the asset. "Capital gains are nice as a top up, but core return has got to be the year-on-year return," he said. Rental returns, rather than an increase in price, are "also going to be the reason the person down the road will buy it from you".

According to Lyons, average rents are likely to stay stable at least for the next few years. "At the moment, rents have been stable to mostly rising for nearly four years," he said. "It's a very tight supply and it's not clear

to me that there's any wells of vacant properties around Dublin."

That is especially true in relation to the most in-demand properties - one and two-bedroom apartments in Dublin. For those assets, the only major source of instability will come from any new construction projects, and Lyons thinks it is likely to be around three years before anything new comes on stream. "[There's] not even the planning permissions in place yet," he said, predicting that it could be at least 18 months before any change to the rental prices takes place.

Still a long road ahead

Outside Dublin, the market is not quite so buoyant, but there are still some bargains to be had.

According to Joe Brady of REA Brady in Carrick-on-Shannon: "I'm in Leitrim, Longford, and Roscommon and frankly speaking we're at the weaker end of the country's markets."

Nevertheless, investors are seeing the investment potential there. "The kind of investment stock we've got down there - small houses and apartments at €30,000 to €70,000 - they're producing a net rent of €4,000 or €5,000 a year, and investors are buying them with cash," he said.

As for buying with a mortgage, Brady believes that "banks treat the buy-to-let investors in the cities differently than rural customers". Where a bank might offer someone a mortgage for 50 per cent of the investment outside Dublin, that figure is closer to 75 per cent in the city or in other urban areas, Brady said.

This is leaving the market open to the cash buyer and helping to create a two-tier market. "Investors are buying this stuff at a third of the cost of construction, in some cases," Brady said. "If you're buying in a town where there's a good lot of occupancy, and you're getting it at a third the cost of putting it there, then you'll get capital appreciation too," Brady said, adding that it was a good bargain.

According to Ken Murray of the **Association of Expert Mortgage Advisers**, buy-to-let is in "its infancy in terms of a returning sector". "That's not to say property isn't being bought, but a lot of that is being done in cash."

For investors who want to invest in a rental property and think they want to do that

through borrowing, he advises that the "rate at which they borrow will be different [as] there is, and always has been, a premium for buy-to-let mortgages".

This means there'll be a slightly higher repayment than a normal residential mortgage.

They'll also need to have a substantial deposit. "You're looking on average at having to bring 20 to 25 per cent of the purchase price. Most lenders would be expecting that level," Murray said.

He also emphasises the importance of research. "Make sure the property itself is in the right location from a rental perspective and that your homework is done. Do your research on rent," he said.

Even with serious research, the investment is not without its risks. "You always have to factor in a number of circumstances," Murray said. "One is the tenant. Are they going to be the tenant you hope they will be? Will they move in and look after the property, pay the rent on time, and pay the relevant bills?"

"Another is unoccupancy periods. You've got to be prepared that although rent is very strong at the moment, will it always be? What if you aren't able to rent the place for market demand reasons or if you have a burst pipe and have to move the tenants out for a few months? Even if the rent isn't coming in, the mortgage still has to be paid."

Job description: landlord

When all that's done, there's still the work of being a landlord, according to Margaret McCormack of the Private Residential Tenancies Board.

For starters, anyone getting a buy-to-let mortgage needs to be aware of the tax implications. "When you borrow to buy a property you're paying back interest and capital," she said.

"New landlords need to understand that if they're borrowing they can only offset 75 per cent of that interest as an expense. And they are not allowed to offset any of the capital."

Rent, for tax purposes, will be regarded as profit, meaning investors face income tax, PRSI and the universal social charge. The property will have to be registered with the Private Residential Tenancies Board too, and the place will have to be insured. Landlords can offset some of the cost of maintaining the property, but not yet the local property tax.

Some banks have recently cut their rates to try and attract more people to their buy-to-let mortgages. But most property experts advise that such mortgages still carry substantial risk.

Bank of Ireland last year cut its rate to 4.99 per cent variable and requires investors to have minimum annual earnings of €100,000. Ulster Bank points out in its promotional material that the amount the aspiring landlord can borrow is not reliant on the amount of rent their property has the potential to generate. "We also take into account any disposable income you may have to top up your monthly repayments," the bank's website states.

According to Lyons, leverage is always risky. "If you're going down the road of leverage to invest, you should ask if you would do this to buy shares?" He points out that a single property is a heavily concentrated risk, from both local issues such as flooding and broader market issues. "If you want general exposure, invest in a real estate investment trust [Reit]," he said.

Nevertheless, the potential for returns is there. "Talk to financial advisers, do the maths, and if gross yield is, say, 12 per cent and cost of capital is much lower than that, then maybe the numbers stack up for you," he said, "particularly if you have a good deposit."



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