



# Effects of Interest Rate Rises on Landlords

**Property Portfolio Software Market Survey 2011**

By Amer Siddiq



Award Winning Software

Designed by Landlords for Landlords

[www.propertyportfoliosoftware.co.uk](http://www.propertyportfoliosoftware.co.uk)

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## About This Whitepaper

The **Financial Times**\* on 4<sup>th</sup> August stated that the Bank of England chose to keep interest rates at the all-time low of just 0.5% due to the continuing bleakness of the UK's economic recovery, giving all landlords a bit more breathing space. But for how long?

Interest rates have been kept low in order to stimulate the UK's economy but according to **The Independent**\* newspaper on the 21<sup>st</sup> July 2011, rises are on the horizon for 2012. These rises are going to affect all landlords in some way and, bearing in mind that we are already over half way through 2011, it's not giving us much time to prepare.

People most affected will be those on variable rate mortgages, which, on the 22<sup>nd</sup> June 2011, **BBC News**\* put at more than 40% of mortgage borrowers, or those who purchased property at a 3-5% yield several years ago. People on fixed rate mortgages will need to be looking ahead to when their current deal ends as they could see a massive jump in their repayments.

To gauge just how serious the situation could be, Property Portfolio Software recently conducted a survey on the impact of potential interest rate rises on Buy to Let investors.

We had 181 landlords complete the survey and so the purpose of this paper is to share the results.

\* Sources are listed on page 8.

## About Property Portfolio Software

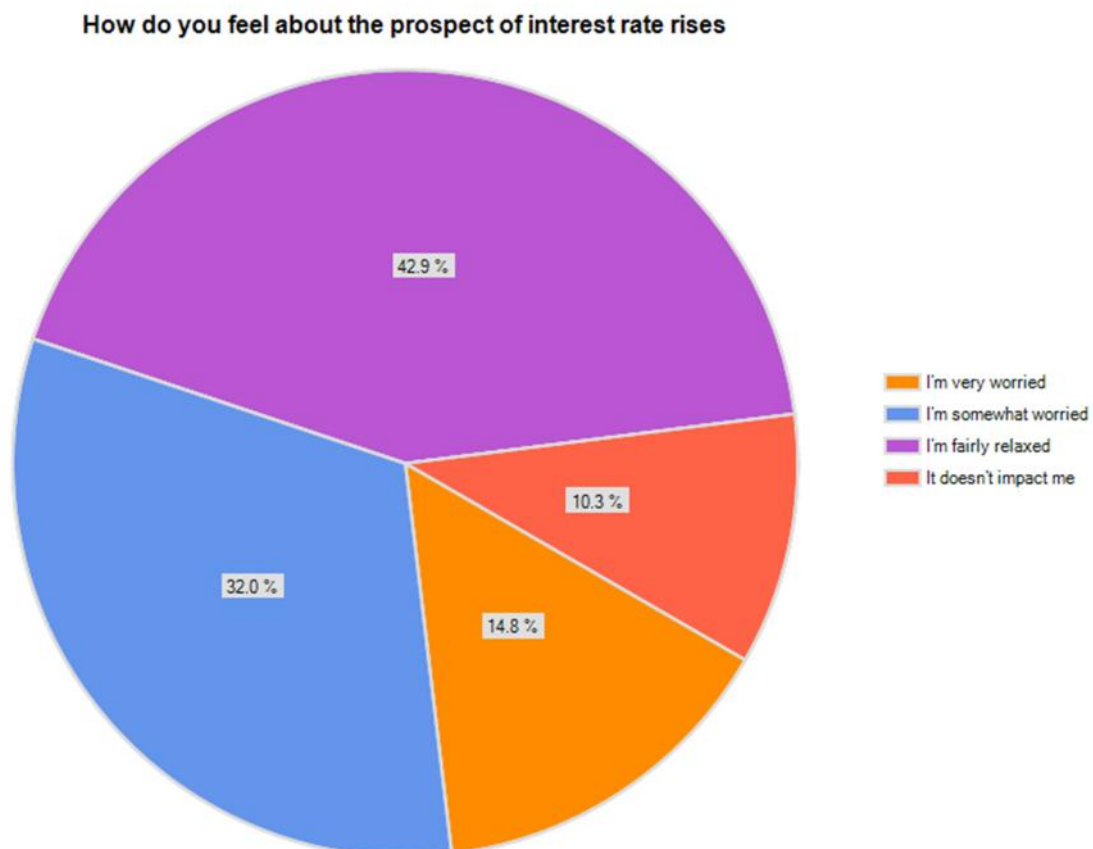
PropertyPortfolioSoftware.co.uk is the UK's award winning landlord software solution provider. They provide software solutions to help landlords get better organised in every aspect of their property business.

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## The Effects of Interest Rate Rises on Landlords in 2011

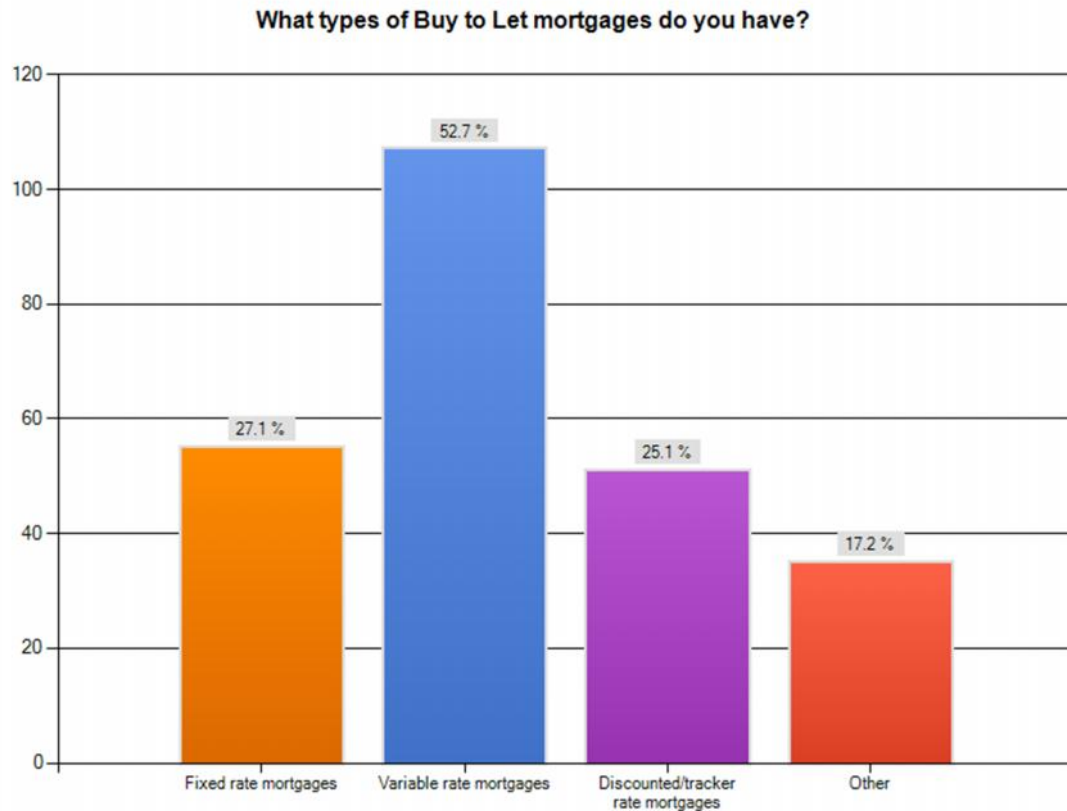
Our focus was to find out about how interest rate rises would affect landlords in the immediate future, who and how many would be affected and what people are doing to prevent the worse from happening, if anything at all?

### Q.1 How Does the Majority Feel About the Prospect of Interest Rate Rises?



**Comment:** With a large number of people left vulnerable on the variable rate, the results surprisingly showed that only a small number of people were worried about the impending rate changes, with most people unconcerned and already financially galvanising themselves for the uplift (see page 7 of this document).

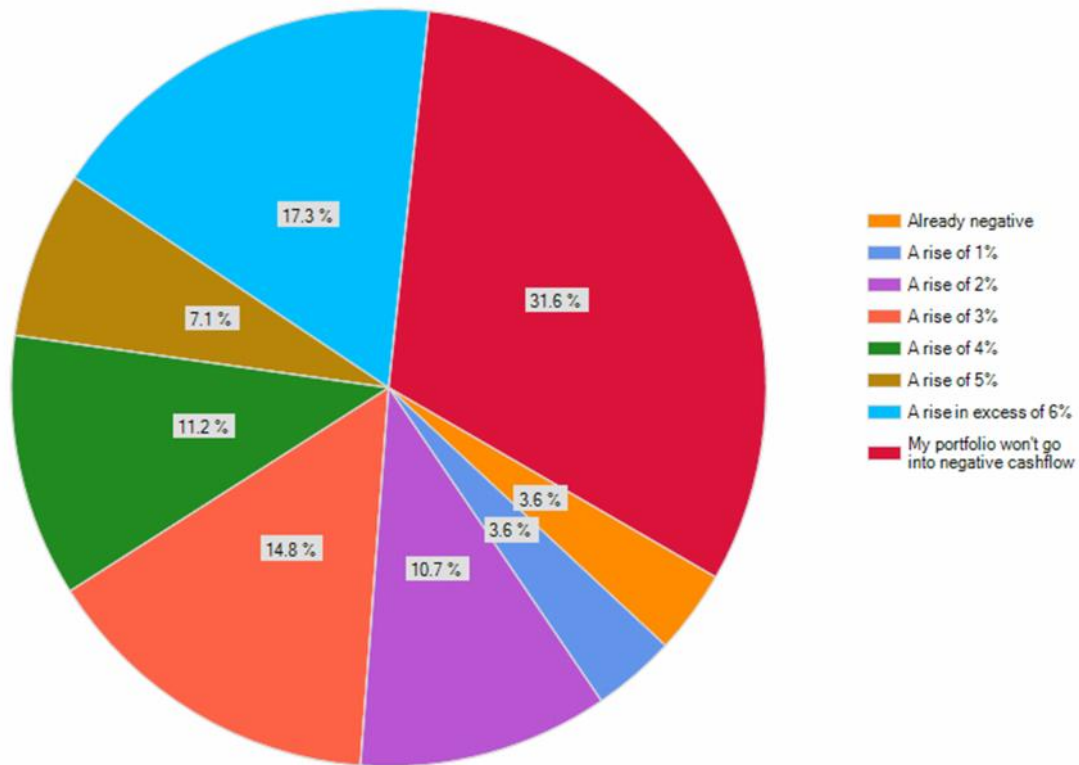
## Q.2 What Types of Buy to Let Mortgages Do Most People Currently Have?



**Comment:** From the outcome of Question One on page 4, one would assume that the people contributing to the survey would have fixed rate mortgages or tracker rate mortgages but, in fact, the most popular mortgage was indeed the variable rate with 52.7%.

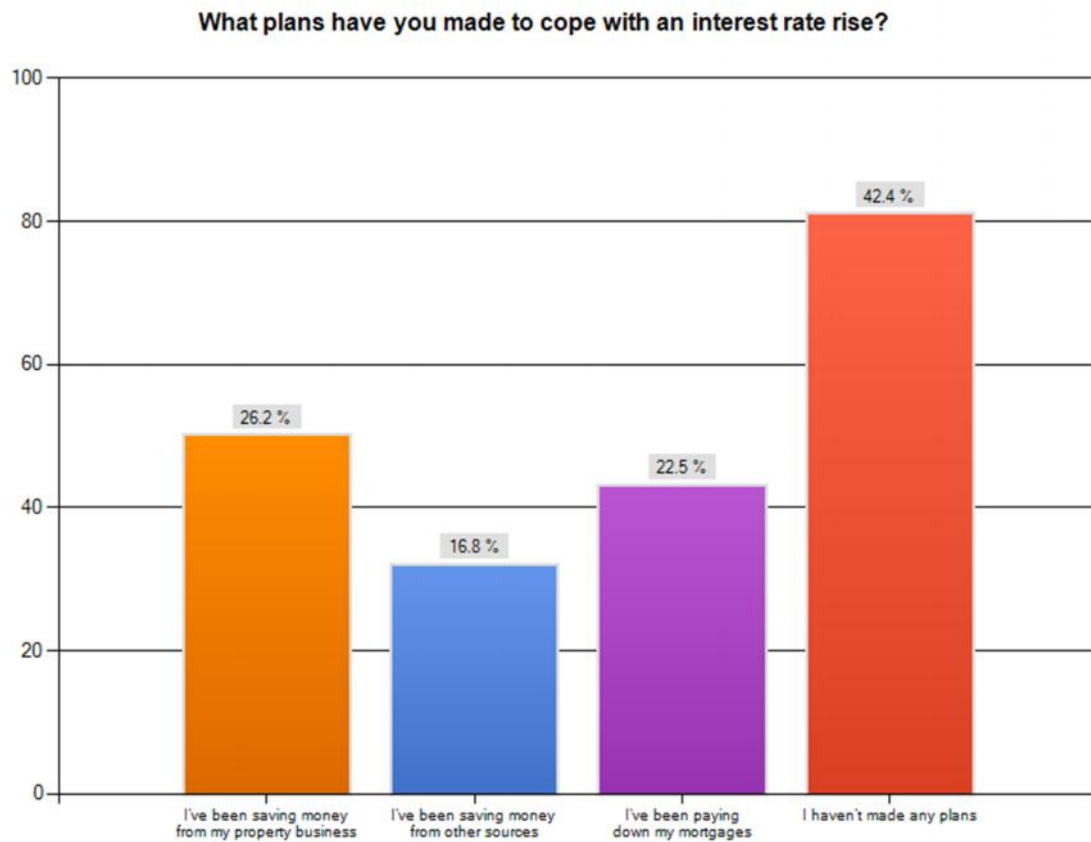
### Q.3 At What Level of Rise Would Your Portfolio Turn to Negative Cash Flow?

At some point interest rates will rise. At what level of rate rise would your portfolio turn to negative cash flow?



**Comment:** Clearly interest rises are going to affect most of us, whether it is a rise of 1% or 5%, but even with a rise in excess of 6%, a considerable number of landlords confirmed that their portfolios would be secure and not affected by negative equity, primarily due to the strategies implemented in Question 4.

## Q.4 What Steps Have People Taken to Cope with Interest Rate Rises?

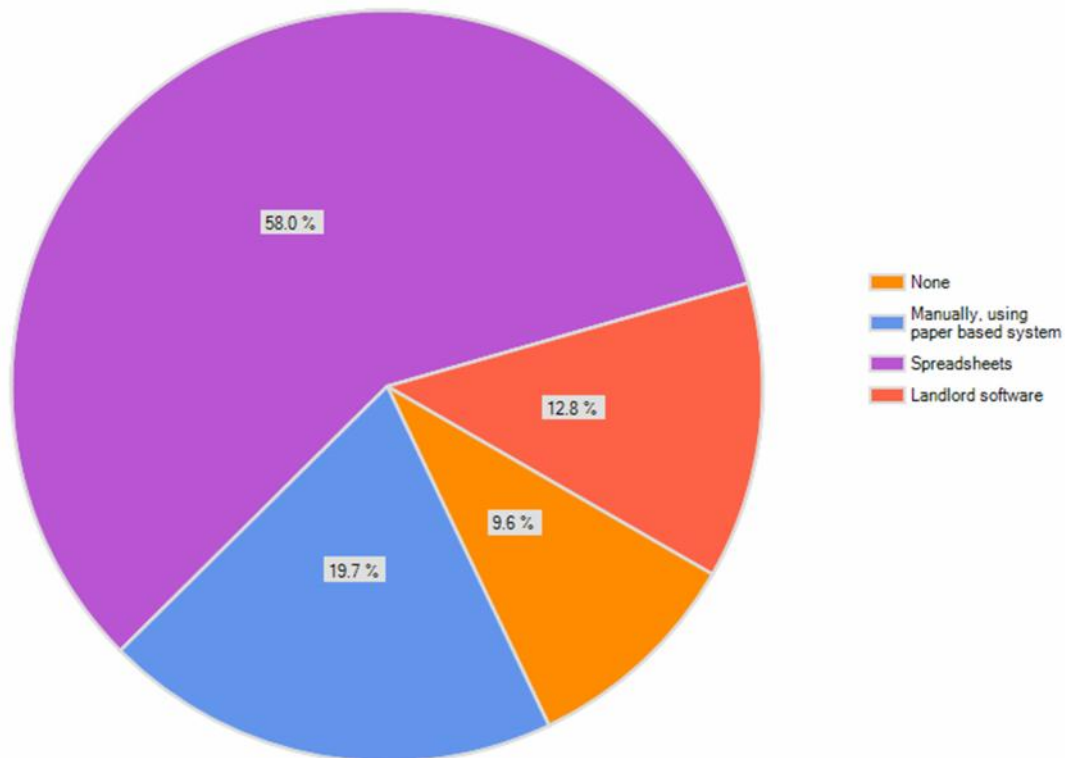


**Comment:** Whilst 42.4% of people have not felt the need to change their current strategy, the majority are already addressing the issue by setting aside money or driving their mortgage down in the anticipation of the rates rising. Even though interest rates are appalling for savers right now, 43% are still prepared to bank their money as a safeguard for the changes ahead.



## Q.5 What Tools are Being Used to Manage Cash Flow?

What tools are you using to manage your property business and cashflow?



**Comment:** From these results it is clear most people still record their property income and expenditure in the form of spreadsheets rather than a paper-based method or property management software.

### Summary

Although the rise of interest rates looms ahead, it seems that when it does eventually happen, the impact will be less traumatic for most Landlords than one initially thought, even those on variable mortgages are already taking measures to ensure a safe and happy future in the Buy to Let market.

### Sources:

Financial Time: <http://www.ft.com/world/uk/economy>

The Independent: <http://www.independent.co.uk/news/business/news/interest-rate-rise-looking-unlikely-until-well-into-2012-2317738.html>

BBC News: <http://www.bbc.co.uk/news/business-13868351>