Hunter Jones® The Telegraph

‘Some say buy-to-let is dead - but my £33m portfolio is just the start'

While many buy-to-let landlords are in despair over a new tax due to be introduced in less than three months, large landlords see it as an opportunity – and some are even expanding to take advantage.

Experts predict that as the tax changes come into force, the buy-to-let market may involve fewer small “accidental landlords”, who are more likely to be put off by the changes, and more professional landlords who will be able to capitalise by buying properties sold off by individuals.

Professional landlords are in a better position than their smaller counterparts because many of them own their properties via limited companies, or can afford to set up a company quickly.

They are also eligible for some tax reliefs that amateur landlords cannot use. However, they are currently very much in the minority. A survey last year by Shelter, the housing charity, found that 92pc of landlords let fewer than five properties and just 4pc described it as their full-time job. Only 12pc were registered as a business.

This is changing, though. According to Mortgages for Business, a broker, 69pc of new buy-to-let purchases made in the final quarter of last year were made by landlords with limited companies.

Income from properties held by limited companies is not affected by the tax changes being introduced on April 6 and is also taxed at just 20pc – a rate that will fall to 17pc by April 2020.

Meanwhile, landlords who own properties in their own names and pay the higher rate of tax (40pc) will lose the ability to deduct their mortgage costs from their rental income before calculating their tax bill.

However, moving properties into a limited company can be expensive. Owners must pay stamp duty – via the company – when the property is transferred.

There is also a capital-gains tax charge if the property has gained in value, although this can be mitigated by professional landlords if they can prove that the portfolio amounts to a "business" as opposed to an "investment".

They must also tell their mortgage lender that the ownership of the property is changing and switch their mortgage to a commercial one – another potentially costly move.

But these costs are not putting off large landlords, who have the cash to set up a company and the time – and sometimes the staff – to organise it.

Many of them are also diversifying into commercial and mixed-use property.

Paul Rothwell, 34, has built up a £33m property fortune after starting with just £15,000 13 years ago. His company, Empire Property Concepts, based in Doncaster, now employs 12 staff.

The business started when his father gave him money to buy a property in Nottingham, when he was a 21-year-old student reading economics and financial services. He converted the basement into a bedroom and let the other rooms out to fellow students.

His timing was good: between 2004 and 2007 property prices rose by 26pc over the UK as a whole and by 16pc in the East Midlands.

As a result, three years later, when he came to graduate, he realised that the house had leapt in value from £88,000 to £140,000.

He was able to remortgage and extract £35,000, which he used to buy a two-bedroom semi-detached house in the South Yorkshire village of Thurnscoe.

From there he built up the business in the same way as thousands of other landlords – by remortgaging a current property, extracting the cash and using it as a deposit on a new one.

He also owns “houses in multiple occupation” or HMOs, as well as larger buildings that he has converted into small studio flats and let separately.

A total of 1,000 people live in his 750 properties throughout the north of England and the Midlands, a number that is growing rapidly; last year he gained 300 new tenants.

On Mr Rothwell’s first property, the rent covered the mortgage twice over. This would be more difficult to achieve now. But his yields are still high. The lowest he receives is 6pc, on an individual family home. HMOs yield much more, up to 15pc in some cases.

The most lucrative properties are houses within a mile of a northern town centre, such as Leeds or Doncaster.

He has stayed away from expensive markets such as London in favour of areas where house prices are low relative to rents.

Many of his properties are owned in his own name, so he will be hit by the tax changes, but he said this was “not a catastrophe – it’s something to be managed”.

The company is still expanding. Mr Rothwell has bought office buildings and is buying large disused buildings and converting them into apartments.

One recent acquisition is a 45,000 sq ft office block in Barnsley, which he plans to let to businesses or, if that doesn’t work, convert into flats.

He has issued a “Loan Note” to allow others to invest in his business and eventually wants to build and develop property himself.

He said new landlords should still be able to follow his lead, as long as they set up a company and have the will to succeed.

“There are always obstacles, but if someone really wants to make something happen they’ll find a way,” he said.

“There are obvious ways you can make it easier, like setting up as a limited company from the start.”

But Mr Rothwell did concede that new landlords might be put off. Apart from the tax change, buy-to-let mortgage regulation has tightened and landlords will face tougher scrutiny of their rental income and whether they would be able to afford a significant rise in interest rates.

And his method of remortgaging to expand, used by thousands of landlords throughout the 2000s, has been all but killed off by higher stamp duty costs and tougher affordability requirements.

Despite the dip caused by the financial crisis, prices in many areas have recovered and are far higher than they were in 2007, meaning landlords need more money to get started.

In some areas, such as London, property prices have grown dramatically and lost touch with rents, meaning yields are very low.

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