

**Anglodan**

## **ANGLODAN PROPERTIES LTD** **Your Partner for U.K. Property Investments**

### **Introduction**

Anglodan Properties offer clients investment in British residential property. We have five good reasons for that:

- **High profit potential**  
British property prices are expected to increase by at least 10% in the period 2004-6.
- **Low risk**  
Apart from four years, British property prices have risen every year since 1945.
- **Higher yield than shares and bonds**  
Since 1969, British property prices have risen by an average of almost 11% per year.
- **Financing and operating costs covered by rental income**  
By using a mortgage the yield can be almost quadrupled.  
The mortgage is "free" since rental income covers the mortgage interest.
- **U.K. property market flexible and active**  
It takes on average only about five weeks to find a buyer for a property.  
The seller achieves about 95% of the asking price.

On this web-site, we would like to show you what these five factors mean for the future of the British property market. You can also see [here](#) how Anglodan can take care of all the practicalities for you if you decide to purchase a buy-to-let property in the U.K. We take care of the whole process from finding the property over managing the purchase of it to finding a suitable tenant for it.

Before you start, however, please take a look at our [Checklist](#) since not everybody is able to buy property in Britain.

We hope to hear from you.

Yours faithfully,

**ANGLODAN PROPERTIES LTD**

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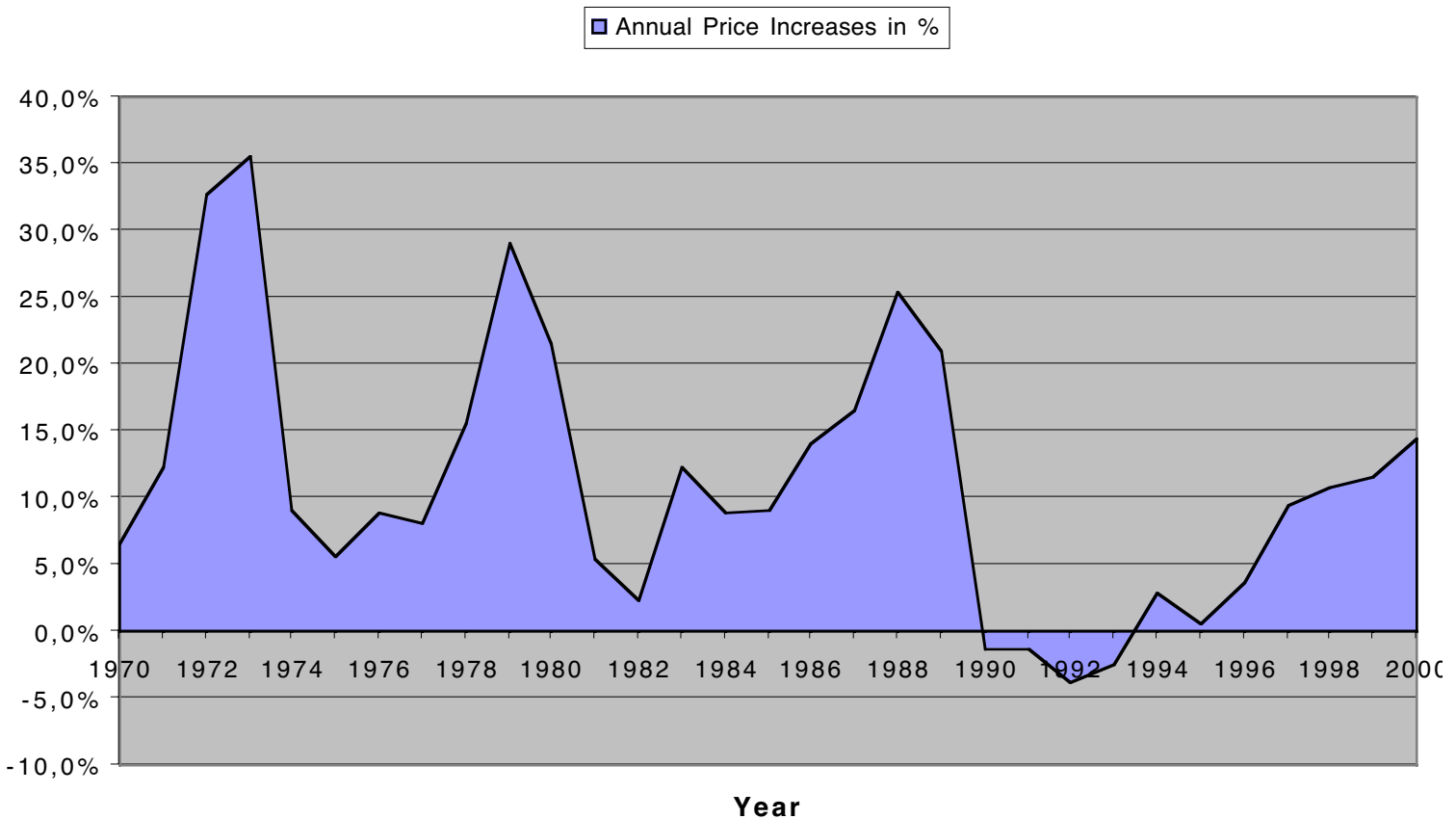
## WHY BRITISH PROPERTIES?

### Factors

#### Constant Price Rises

Since the Second World War, British residential property has increased in value every year save the period 1990-3. Since 1996 price increases have picked up again. Below graph illustrates price developments since 1969:

### Annual Increases in British Property Prices

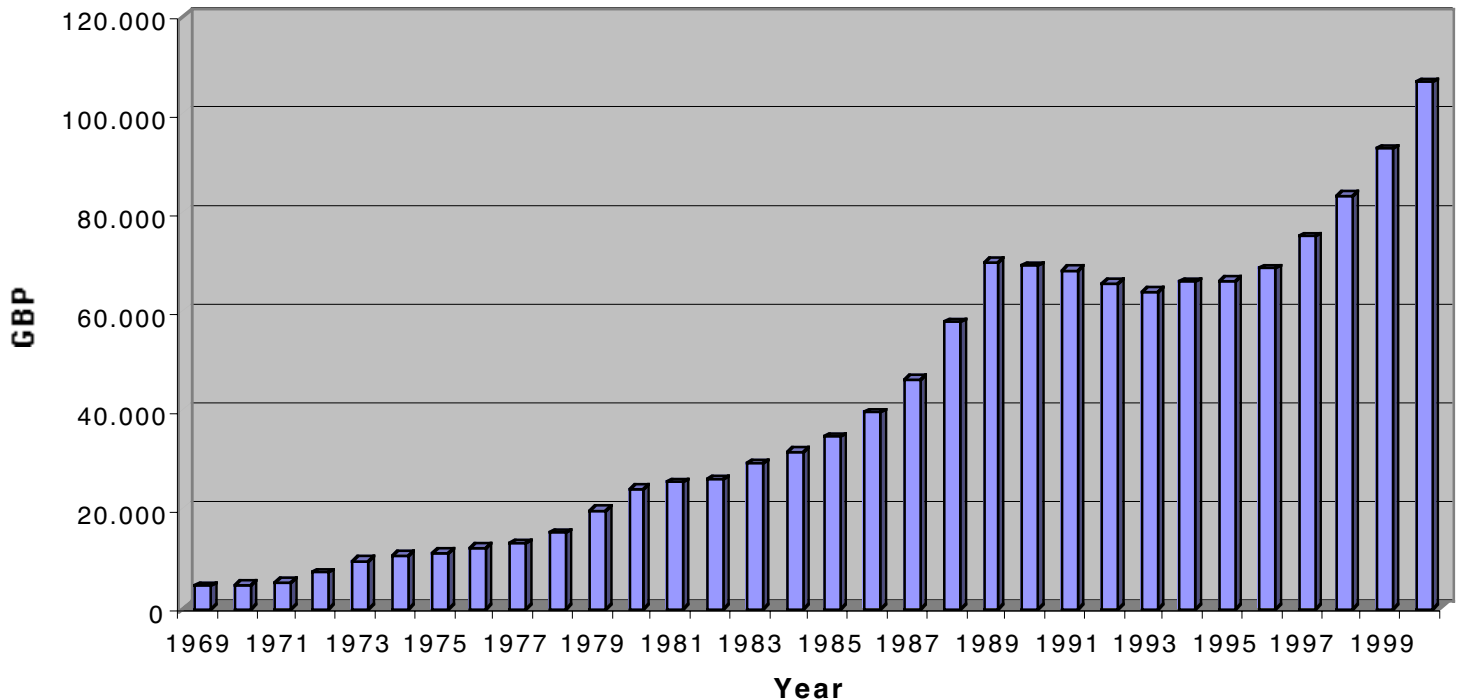


(Source: Council of Mortgage Lenders)

As can be seen from the graph below, this has meant that property prices have doubled four times in the course of the last three decades. Overall, prices have increased 26-fold.

## Average Property Value

■ Average Property Value in GBP



(Source: Council of Mortgage Lenders)

### Lower Borrowing Costs

Borrowing costs have fallen dramatically since 1990. The average homeowner in the UK is currently paying 13.6% of their gross income to support mortgage payments. Over the last 20 years households have been paying an average of 21% of their gross income in mortgage payments. This figure reached a peak of more than 36% in 1990 (Source: Halifax House Price Index for November 2003)..

For mortgage payments to equal the long term average, bank base rates would have to rise to 6.25% from the current 3.75%. For them to reach the peak of 36%, bank base rates would need to rise to 10%. (Source: Halifax House Price Index for November 2003). However, this is highly unlikely as the current consensus among analysts is that base rates will end 2004 at a level

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around 4.25-4.75%. There is thus substantial room for further price increases on homes before a level similar to that of 1990 is reached.

## **Fewer New Homes**

In London and other major cities there are - in spite of a chronic undersupply of residential property – restrictions in place on the number of new homes than can be built on so-called ‘greenfields’. ‘Greenfields’ are sites that have not been built upon before. As it is more expensive for builders to construct on ‘brownfields’ – land that has previously been built upon – construction on these brownfields is considerably slower than similar construction on greenfields. This contributes to the current situation where the supply of new homes cannot keep up with demand.

The Centre for Economic and Business Research (CEBR) writes that the number of properties built in 2002 was only 150,000 which was the lowest level since the First World War. The figures for London and the South East show that new build is providing only about half the number of new properties needed. According to the CEBR, the reason for the shortfall is the inflexible planning laws which makes it very difficult to obtain building permits. (Source: Centre for Economic and Business Research, 23<sup>rd</sup> December 2002 and 19<sup>th</sup> May 2003).

Thus, developers’ holdings of land with planning permission have fallen by 32% since 1999. Even with the currently extremely low rate of completed sales/homes, there is now only 2.5 years supply of land with planning permission held by developers. If housing output were to rise again and move towards the sort of levels demanded by both the market and the government, say to 1998 levels, there would be just over one year’s supply of land suitable for building (Source: FPD Savills on themovechannel.com, 8<sup>th</sup> September 2003). As it is, “the current, low levels of house building mean that the average house will have to last around a thousand years before it is replaced.” Thus, “the markets, and house prices, in the South are likely to be underpinned by our inability to build enough homes. Although large tracts of suburbia in southern towns and cities are generally poorly served by public transport, the sheer imbalance between supply and demand will add support to values” (Source: FPD Savills, Residential Newsletter for November 2003).

Halifax Bank plc – one of the largest lenders on the British property market – estimate that there will be a cumulative shortage of dwellings of around 500,000 just in London and the South East by 2021 if current levels of house-building are not increased (Source: Halifax national commentary, July 2003).

Pierre Williams, spokesman for the House Builders Federation, says that Britain’s housing under-supply currently continues to worsen rapidly by as

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much as 60,000 homes a year or 165 a day (Source: themovechannel.com, 9<sup>th</sup> June 2003).

The Royal Institute of Chartered Surveyors (RICS) report that the provision of social housing is now only one-fifth of what it was 20 years ago. Moreover, the U.K. is lagging far behind the rest of Europe in terms of the number of homes available to accommodate its population. The U.K. now has an average 10%, or 2.5 million, fewer homes than Germany, Italy and France, taking account of population size. (Source: RICS on themovechannel.com, 21<sup>st</sup> August 2003)

This very serious shortage of housing puts a severe upward pressure on U.K. property prices and is likely to continue doing so for the foreseeable future. As Peter Williams, Deputy Director General of the Council of Mortgage Lenders (CML), says, "Even a dramatic increase in supply would not completely prevent house price surges...". (Source: CML on themovechannel.com, 18<sup>th</sup> August 2003).

## **More Singles Want Their Own Home**

More and more singles buy their own home. In 2001 40% of the homebuyers were thus singles compared to 25% in 1983 (Source: Economist Mark Ellis, Halifax Bank plc, on BBC News 21<sup>st</sup> August 2002). According to public statistics about 3.8 million new homes are needed in Britain over the next 20 years. 80% of these new homes will be intended for singles, including many singles wishing to rent (Source: Birmingham Midshires Building Society).

## **Healthy Rental Market**

As property prices are increasing, many people in their twenties and thirties are delaying their first purchase of a home. Instead, they are renting, thus providing landlords with a buoyant rental market. At the same time, these first time buyers ensure that any downward trend in property prices will not remain for long as they will use such an opportunity to make their first property purchase. In this way, they provide a solid underpinning for the prices of smaller properties.

John Heron is the managing director of Paragon Mortgages, the UK's leading specialist buy-to-let lender. He has the following comment about the U.K. rental market in the June 2003 buy-to-let index from Paragon Mortgages:

"The rental market is awash with people in their twenties and thirties who are delaying their first home purchase and going the rental route – a view that the RICS (Royal Institute of Chartered Surveyors, ed.) confirmed in their latest

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Residential Lettings Survey. Canny landlords are providing more supply to meet this demand.”

In Paragon’s Buy-to-Let Trends Survey from September 2003 it is reported that landlords expect gross yields to remain steady over the next 12 months at 8.1% and that net yields are forecast to improve from 5.8% to 6.0% in a year’s time. Landlords are confident of the future and expect to add on average 8.2% more property to their property portfolios over the next 12 months.

Paragon furthermore reports that landlords found tenants after an average of 3.43 viewings and that the average property remained unoccupied for only 2.8 weeks per year.

The positive outlook is also reflected by a survey carried out amongst the participants in the Property Investor Show (Source: themovechannel.com, 4<sup>th</sup> August 2003):

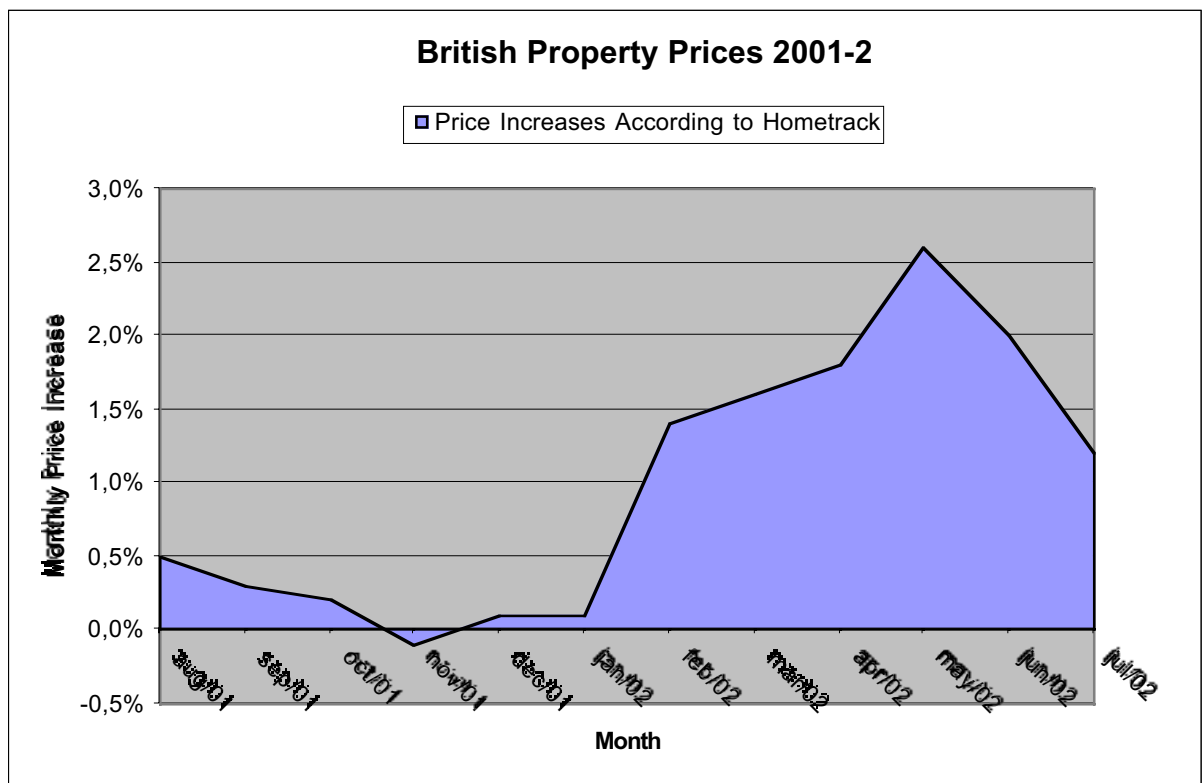
- 71% of landlords say the shortage of affordable homes for first time buyers has boosted the buy-to-let market, as they are choosing to rent instead of buying.
- Hot Spots: Areas seen as giving the highest buy-to-let returns over the next 12 months are, respectively Midlands, North West, London and the South East.
- 80% of landlords are planning to add to their property portfolio over the next 12 months. None are intending to sell any part of their portfolio.
- 53% of landlords believe the buy-to-let market will grow over the next 12 months. 21% believe it will remain stable.

Nick Clark, Director of the Property Investor Show comments: “Our survey confirms landlords are enjoying buoyant times. With low interest rates and the surge in tenant demand from young individuals delaying their first home purchase, landlords have never had it so good.”

## **Limited Sensitivity to Economic Cycles**

According to the property market analysts Hometrack, British property prices developed as follows during the twelve months from August 2001 to July 2002:

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(Source: Hometrack market report, July 2002)

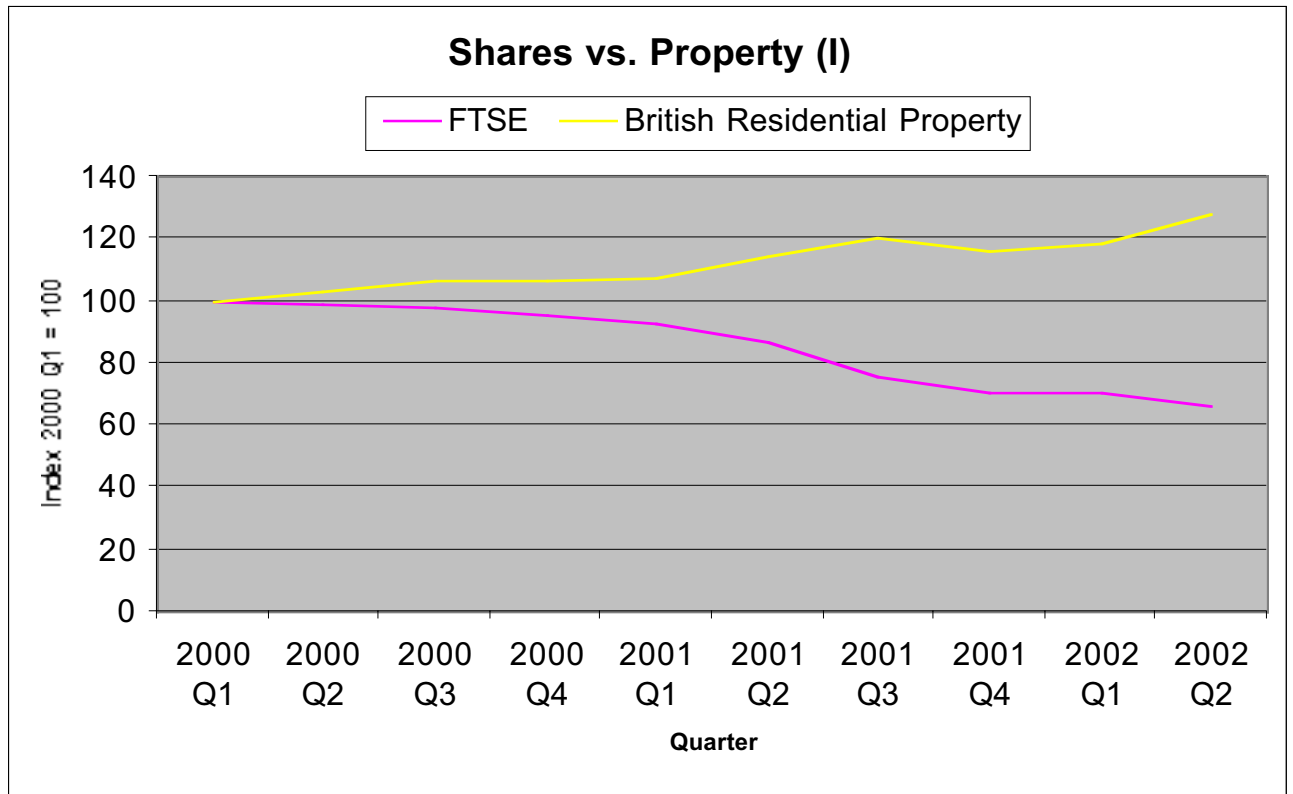
As can be seen from this, the terrorist attack on 11<sup>th</sup> September 2001 only caused a temporary slowdown in the price rises. The considerable price rises that have occurred since February 2001 have – paradoxically – been caused in part by the lower interest rates that followed in the wake of the attacks on 11<sup>th</sup> September.

This shows the resilience of the property market: in case of an economic downturn (lasting a few years), low interest rates will underpin property demand whereas periods of economic growth will increase employment and thus strengthen demand for residential property. The property market is, in other words, supported not only during periods of economic growth but also during economic downturns.

## Safer Than Shares

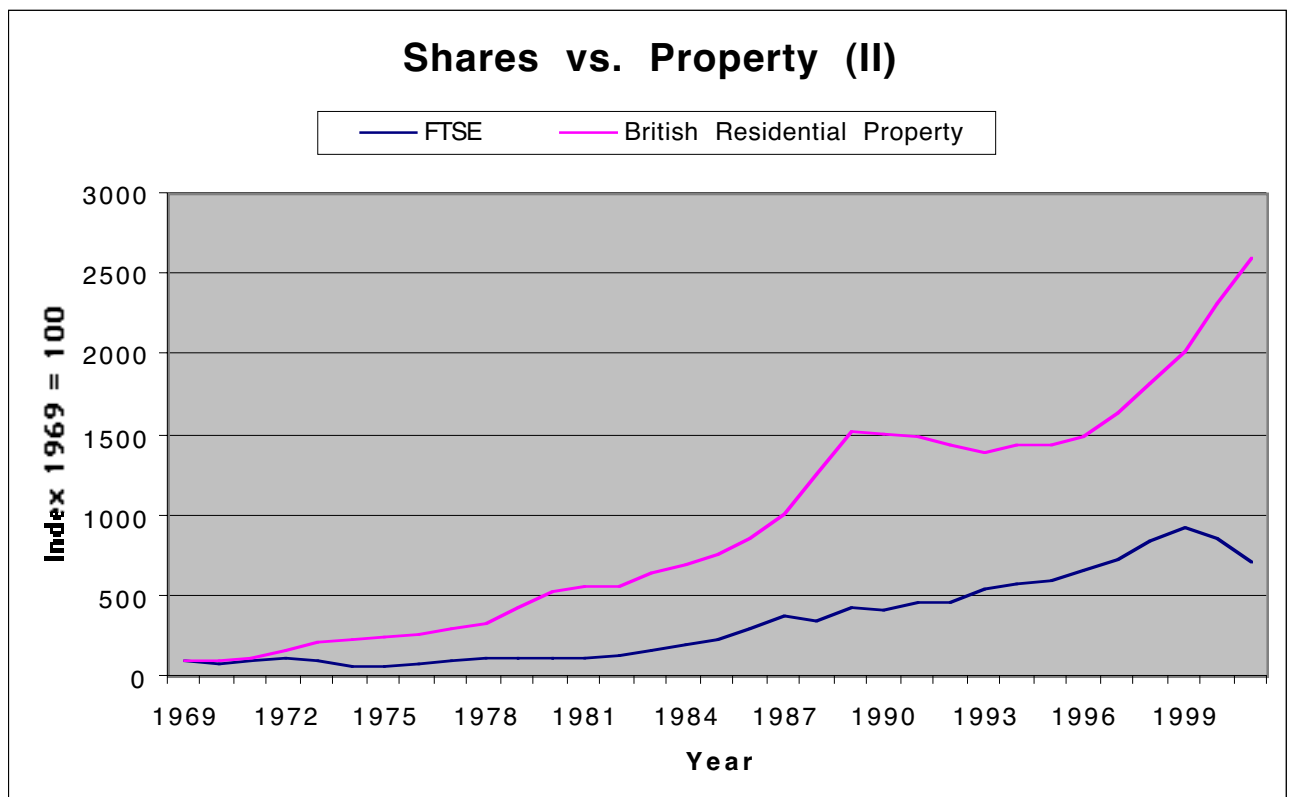
The abovementioned insensitivity to economic downturns is also illustrated by the fact that homes have historically been a much better investment than shares, particularly during the recent downturn of the stock markets. This can be seen in the following graph, where the development in British property prices since 2000 is compared with that of the British stock market index FTSE:

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(Sources: National Statistics, HM Land Registry)

Looking at the stock and property markets over the long term, the trend is even clearer:



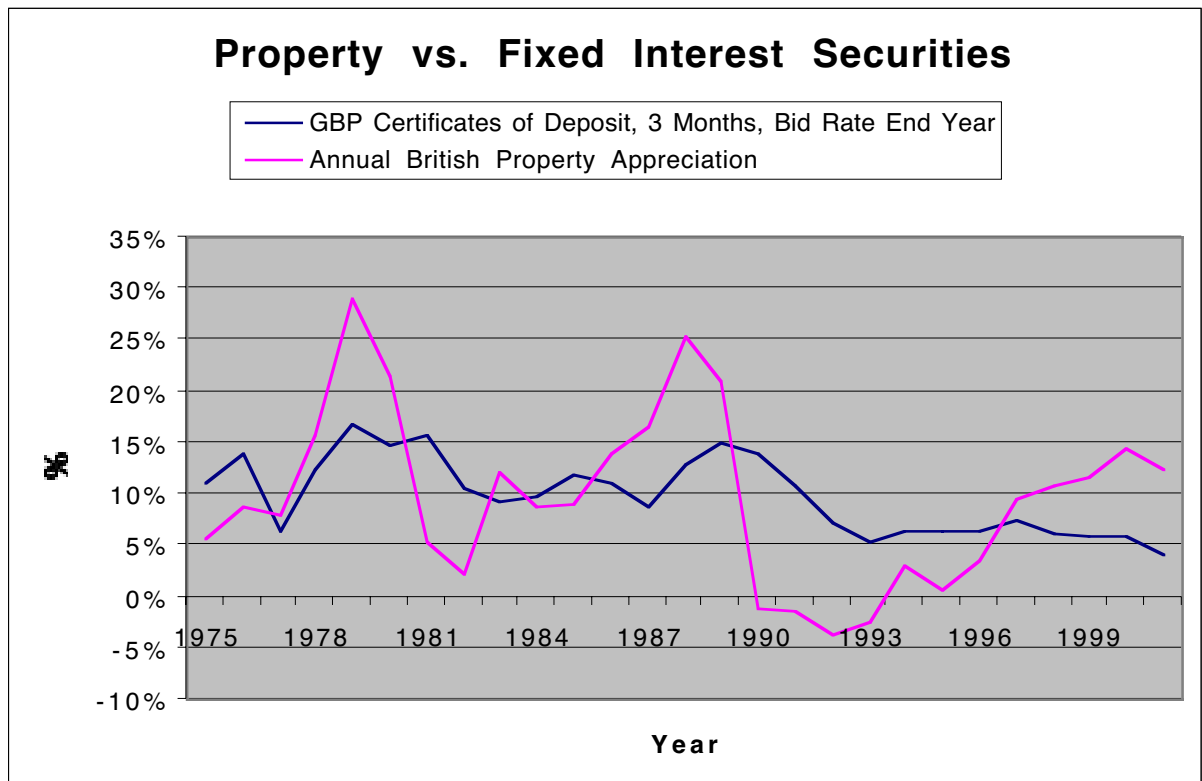
(Sources: Council of Mortgage Lenders, HM Land Registry, National Statistics)

Although the stock market has outperformed the property market in certain shorter periods, the property market has thus been by far the best investment in the long run.

### **More Profitable than Fixed Interest Securities**

Fixed interest securities, too, suffer from lacking behind the yield of properties in spite of the fact that the security offered by properties is not much different from that offered by bonds and other fixed interest securities. Below graph shows how the yield on properties – with the exception of the atypical period 1990-6 – has generally been above the yield available by placing funds in Certificates of Deposit. The property yield has thus been above that of fixed interest securities in nine out of the fifteen years preceding 1990 and in more than half of the observed period from 1975 to 2001. The property yield for 2002 exceeded the bond yield many times over and 2003 also looks more than likely to produce a property yield far exceeding that available on bonds and other fixed interest securities.

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(Sources: National Statistics, Council of Mortgage Lenders, HM Land Registry)

## **Reduced But Continued Price Rises**

The above and other factors mean that the upward pressure on the property prices is expected to continue, although it is unlikely that the rate at which prices have risen over the last couple of years can be maintained. Conversely, it will also be unlikely that prices fall over time. There is thus extensive consensus among analysts that the question is by how much property prices will increase over time, not whether property prices will rise or fall.

Consequently, an increasing number of investors choose the property market over the stock and bond markets. In October 2000, just 8 per cent of the total number of properties sold were to investors, whereas in August 2003 the figure had risen to 13 per cent (Source: Survey from Royal Institute of Chartered Surveyors (RICS), September 2003).

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## The Secret of Property Investments

The above figures show that it is possible - even without mortgage financing – to obtain yields on property investments exceeding those available on shares and fixed interest securities. Historically, however, it has often been attractive to finance investments in both property and shares from external sources. The decisive difference between the two is that the interests on a mortgage used to finance a property investment will usually be covered by the rental income, whereas the interests on a loan used to finance share investments will not necessarily be covered by dividends or rising share prices.

A property purchase where the external financing amounts to 75% of the property value will thus give a yield on the 25% equity four times as high as the rise in the property value, provided that the rental income fully covers the financing and operating costs. An annual price rise of 10% will thus return a yield of 40% annually. This can be illustrated as follows:

Buyer invests	£ 25,000
Buy takes out mortgage for	<u>£ 75,000</u>
Property is purchased for	<b><u>£ 100,000</u></b>
Property value increases in one year by	£ 10,000 (10%)
Less mortgage interest and operating costs	£ -6,000
Plus rental income	<u>£ 6,000</u>
Annual profit	<b><u>£ 10,000</u></b>
Annual profit as % of initial investment (10,000 / 25,000)	<b>40%</b>

The above is obviously a very simplified example. See more detailed calculations [here](#).

As can be seen from the sections further above an investment in U.K. residential property is rather safe. Even so, it quite clearly has a considerable profit potential, too.

## What the Experts Say

### Nationwide Building Society

There is still no single figure for the development in British property prices. Nationwide Building Society – one of the two major lenders on the property market – thus reported a monthly increase of 1.2% in average property prices in November 2003 (Source: Nationwide monthly review for November 2003), whereas the other major lender Halifax Bank / HBOS plc reported an increase of 1.0% for the same month (Source: HBOS national commentary for November 2003). The property analysts Hometrack reported a figure of 0.4% for England and Wales only (Source: Hometrack market report, November 2003). It is, however, interesting that all three analysts agree that property prices can be expected to rise further.

In the Nationwide monthly review for November 2003, Chief Economist Alex Bannister writes that he expects property prices to increase by 9% in 2004. He bases his prediction on the following factors:

- Underlying economic conditions remain reasonably favourable for the housing market. Despite (November)'s base rate rise, mortgage rates remain low by historical standards and the labour market remains strong with employment rising to a new record (28.15 million) in August.
- At present the majority of borrowers and lenders have the comfort of a reasonable equity cushion (typical deposit for first-time buyer is 11% compared with 5% in 1989)...
- Despite higher levels of borrowing, someone entering the housing market taking a typical sized mortgage in relation to their income, would see payments remain relatively affordable at 27% of take-home pay.
- ...our expectation is that rates will end 2004 at between 4.25 and 4.75 %.

In the review for October, Mr. Bannister does not seem unduly concerned about the prospects for moderate interest rate increases:

*What happens to rates is not likely to be pivotal for the housing market. Rate rises will increase payments and cause the market to slow but lessons from the last cycle show that price slumps are more related to labour market developments and policy changes.*

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...

*Labour market developments tend to be more important for the housing market. Even with interest rates expected to rise, the current outlook is for the labour market to remain relatively healthy over the next year or so.*

All this suggests that house prices can be expected to increase further at a relatively high rate.

See Nationwide's monthly and quarterly reviews at <http://www.nationwide.co.uk/hpi/monthly.htm> and <http://www.nationwide.co.uk/hpi/quarterly/quarterly.htm>, respectively.

## **Halifax Bank / HBOS plc**

Halifax Bank / HBOS – the other of the two major mortgage lenders – expects the annual rate of house price inflation in 2004 to be 8%, which is close to the longer-term average over the past 20 years (Source: HBOS/Halifax Economic Forecast for 2004). If anything, the bank says, the risk to the 8% forecast is on the upside, as the three pillars that have underpinned the housing market during the last two years – low interest rates, good employment and good affordability – continue into 2004. House prices could, in other words, well be more than 8% higher by the end of 2004.

The bank adds:

*High levels of employment, low inflation and a strengthening UK economy will continue to underpin the housing market. Mortgage payments remain low in relation to earnings and currently represent around 14% of gross earnings for a typical homeowner. We anticipate that UK bank base rates will increase during 2004 and end the year at around 4.50%. Assuming a base rate of 4.50%, mortgage payments will represent approximately 16% of gross earnings – very good affordability levels.*

The National Commentaries of Halifax Bank can be seen at <http://www.hbosplc.com/>

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## **Property Market Analysts Hometrack**

Housing economist John Wriglesworth, B.A., M.Phil., D.Phil. (Oxon.) from Hometrack expects British property prices to increase by 4% in 2003 and by another 4% in 2004 (Source: Hometrack's market report for November 2003).

Dr. Wriglesworth has the following comment in Hometrack's November report:

*The housing market is proving to be robust, despite recent rises in interest rates and with Christmas approaching. While activity can be expected to reduce over the next two months due to seasonal factors, we expect house prices to remain stable across all areas of the country. Even though interest rates are forecasted to rise a little further, they will still remain historically very low. Competitive mortgage rates with many special deals for first-time buyers, high employment and income levels and an acute short supply of housing in the UK all points to continuing rises in house prices next year.*

*We predict a 4% increase in prices for 2004. There's more chance of finding Elvis on the moon than there is of a house price crash next year.*

Hometrack's reports may be downloaded at <http://www.hometrack.co.uk/>

## **Royal Institute of Chartered Surveyors (RICS)**

Royal Institute of Chartered Surveyors – the British based, international professional body of some 110,000 chartered surveyors – expects property prices to increase by 5% in 2004. RICS Chief Economist Milan Khatri said the following on BBC News (16<sup>th</sup> December 2002) about the outlook for 2003 and 2004:

*I predict growth in prices of 11% throughout the UK. However, in areas of the North and Midlands the figure is likely to be considerably higher.*

*The soft landing will occur in 2004, when I predict price growth will fall to 5% but that still represents a good return on investment.*

RICS furthermore predicts that the UK needs to build 241,000 houses per year for the next 20 years in order to meet current demand. Even with the Government's commitment to build an extra 200,000 homes over the next 20 years, with current building levels at 170,000 per year, the shortfall could be a

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staggering 1.2 million homes. Based on current housing demolition rates (an average of 22,700 properties per year over the last five years) the existing housing stock will be under pressure too, with each property expected to be in use for over 1,000 years (Source: RICS, 10<sup>th</sup> December 2003). This should ensure a continued upward pressure on property prices.

The press releases of the Institute can be seen at <http://www.rics.org.uk/> under Press Releases.

## **Council of Mortgage Lenders (CML)**

The Council of Mortgage Lenders (CML) represents British banks and building societies. The CML predicts that property prices will increase by 6% in 2004 (Source: CML Housing Market Forecast, November 2003).

## **The Centre for Economics and Business Research (CEBR)**

A report released by the Centre for Economics and Business Research (CEBR) on 19<sup>th</sup> May 2003, predicts that annual house price rises for the UK as a whole will fall to 3.6% by the 4<sup>th</sup> quarter of 2004 and 1.5% by the 4<sup>th</sup> quarter of 2005. After 2006, however, house prices are again expected to resume rising at a faster rate than average earnings.

Annual rates of increase of 6% from 2007 to 2013 and 5% from 2013 to 2023 are forecast, with house price growth only slowing into line with average earnings growth around 2020.

Moreover, the CEBR believes that the failure of successive attempts to reform the planning laws to encourage house building means that there is likely to be a continued shortage of houses. This shortage will translate into higher house prices in order to bring supply and demand into line.

## **FPDSavills**

The property consultants FPDSavills predict average price increases of 4% in 2004 (Source: FPDSavills Market Comment for December 2003).

They write:

*... In our view, the strong take-up of fixed rate and discounted mortgages means that the impact of higher interest rates on house prices will be diluted. Moreover, so long as employment remains stable, then a 0.5% to 1%*

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*increase in interest rates can be absorbed into the market. In our view such a rise would support the expected slowdown in growth rather than any major price falls. Even if housing costs do increase by more than expected, there is still room for households to cut back in discretionary areas of spending such as holidays and leisure – areas which have grown rapidly in recent years.*

See FPD Savills' homepage at <http://www.fpd Savills.co.uk/> for further details.

## **The Economist**

The Economist magazine has produced an analysis of property vs. share investments. Although somewhat outdated (August 2002), it is still an informative read.

See the analysis at

[http://www.economist.com/printedition/displayStory.cfm?Story\\_ID=1302601](http://www.economist.com/printedition/displayStory.cfm?Story_ID=1302601)

## **The National Association of Estate Agents (NAEA)**

Melfyn Williams, President of the NAEA, comments as follows in the housing market survey of the NAEA from September 2003:

*Record low mortgage rates and unemployment, combined with rising incomes and consumer confidence are supporting continued house price inflation at rates significantly above retail prices. We confidently expect to see house price rises continuing over the next 12 months.*

## **Estate Agent Group Rightmove**

Miles Shipside, commercial director of Rightmove.co.uk, says in the Rightmove House Price Index for October 2003:

*People who had been waiting in the expectation of a significant downward price correction have realised it's not going to happen. Now they are buying – acknowledging that the market has bottomed out and supported by the ready availability of good mortgage deals from all the major lenders.*

## Other Advantages

In addition to the advantages mentioned in the Factors section, there are a number of other advantages particular to the British property market:

### Lower Transaction Costs

The total buying costs in England and Wales are roughly around 4% of the property value for a property worth £100,000. Sales costs are roughly around 3.5% of the sales price for such a property. See also the sections on Buying Costs and Sales Costs.

### Active Property Market

In November 2003 it took just over five weeks on average to find a buyer for a property and the seller achieved 95.2% on average of the advertised selling price (Source: Hometrack market report, November 2003). It should be added, however, that in spite of the speed at which a buyer is found, the entire process from when an offer is accepted to the time when the keys are handed over typically takes 1-6 months. This is rather long by European standards.

According to the National Association of Estate Agents (NAEA), the average period from when a sale is agreed to contracts are exchanged is nine weeks. (Source: NAEA monthly survey for August 2003).

### No Property Taxes

The British government does not impose any annual property taxes on residential property. A council tax is levied on the occupant(s) of the property. This tax is determined on the basis of the size of the property and the individual circumstances of the occupant(s). If the property stands empty for a given period, the Owner must pay half the Council Tax that would otherwise have been applicable for that period. See also our section on Taxation.

### No Rent Control

Rent is determined by supply and demand and is in principle not subject to any restrictions set by the government. There are, however, certain statutory standards that apply to tenancy agreements. The agreement or contract will usually be an 'Assured Shorthold Tenancy' valid for a minimum of six months and a maximum of one year (with an option for extension). During this period

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the tenant is guaranteed a minimum of 6 months in the property at a fixed rent, provided he honours his obligations as outlined in the contract. After the initial six months the landlord will usually be able to give the tenant two months notice of the termination of the tenancy agreement, whereas the tenant may give the owner a one-month notice.

## **Straight-forward but Flexible Financing Options**

British mortgages are traditionally provided by building societies but are also provided by banks. The standard period of a residential mortgage is 25 years but shorter or longer periods are also available. There are various repayment profiles to choose from but the most common one aims to provide a stable monthly payment which includes both interest and repayment. At the beginning most of this amount consists of interest whereas it mostly consists of repayment at the end of the mortgage period. However, the interest part of the payment may vary according to fluctuations in interest rates.

In case the buyer is expecting interest rates to increase, it is possible to fix the interest rate for up to five years and in some cases even longer. If done at the outset, this would guarantee that interest payments will not increase for the period where interest payments constitute the largest share of the monthly mortgage payments.

## ANGLODAN SERVICES

### Basic Services

Anglodan decides together with the individual Client what the most suitable type of investment property is for him or her. We then go out and inspect six or more properties that fit the description and subsequently manage the entire purchase process once a suitable property has been found. Anglodan does, in other words, not keep a list of properties that we have to sell to our Clients.

Anglodan works for you, the Property Investor, not for the Seller. We are therefore a property investment company, not an estate agent. We are fully independent as we do not receive any commissions from any service provider or lender. Our only income comes from your fees and our service is therefore devoted to securing you the best possible property investment.

If you choose our property search and purchase management service, Anglodan will provide the following Basic Services as a package solution:

- Advise you on all aspects of the purchase of a buy-to-let property.
- Search, select, and inspect up to six suitable properties according to price parameters and other preferences defined by you.
- Produce a short analysis with photos for each of the six properties, covering the state of repair, the letting potential, and the asset appreciation potential.
- On the basis of these analyses and in consultation with you, submit non-binding offers for one or more of the examined properties.
- Further negotiate the purchase price with the Seller within a price range set by you.
- Obtain a competitively priced mortgage from a reputable mortgage lender.
- Arrange for a Home Buyer's Report from a qualified building surveyor.
- Hire a U.K. solicitor specialised in conveyancing so as to have the legal aspects of the purchase dealt with in a proper manner.
- If required, negotiate the purchase from the Seller of furniture and appliances not included in the price of the property.

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- If required, obtain quotes from contractors for making repairs and/or improvements to the property, and control the work carried out on the property by such contractors.
- Purchase mandatory and recommended insurance on your behalf.
- Determine the target rental level in consultation with you.
- Find an appropriate tenant through Anglodan's network of letting agents, and carry out checks of the prospective tenant's credit rating and background.
- Conclude a management agreement with a U.K. property manager with a view to ensure the day-to-day maintenance of the property, the timely payment of rent, and the proper dealing with other *ad hoc* tasks related to the management of the property.
- Provide you with constant feedback during the purchase process.
- Provide you with monthly analyses of the U.K. property market during and after the purchase.

## **Additional Services**

Anglodan will – upon your request and upon extra payment – provide one or more of the following Additional Services:

- Inspect additional properties.
- Assist with the opening of a U.K. bank account in your name.
- Purchase insurance against non-payment of rent.
- Furnish the purchased property with a view to letting it as furnished.
- Keep a record of income and expenses related to the purchased property so as to be able to inform the relevant foreign and U.K. tax authorities of the annual operating profits or losses.
- Other *ad hoc* tasks.

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## **Fees**

We charge a fixed fee for our Basic Service Package, which includes property search and selection, purchase administration, and search for a suitable tenant. We charge by the hour for Additional Services.

Anglodan also offers a full-service solution in connection with the sale of the property whenever that becomes relevant. Our fee for this service is a percentage of the sales price. It is therefore in our interest to obtain as high a sales price as possible on your behalf.

Services from 3<sup>rd</sup> parties are not included in Anglodan's fees but are charged at cost to the Client.

Please [Contact Us](#) for further information about our fees.

## ANGLODAN PROFILE

### About Anglodan

Anglodan Properties Ltd is registered in England & Wales and is based in Luton, England. See our contact details [here](#).

Anglodan was formed in order to facilitate access to the U.K. property market for private investors. The amount of work involved in finding the right investment property and managing the purchase of it can be considerable. That is why Anglodan offers to assist.

Although not an easily accessible market, the profit potential of the U.K. property market is considerable. This can be illustrated by the following example of a U.K. property investment made by the Owner and day-to-day Manager of Anglodan:

	<b>Value</b>	<b>Price change</b>	
		<b>Annually</b>	<b>Total</b>
Flat purchased in October 2000	£ 84,000		
October 2001	£ 95,000	13%	13%
October 2002	£ 125,000	32%	49%
October 2003	£ 135,000	8%	61%

The property has been let to two different tenants during the period and rental income has largely covered both operating costs and mortgage interest payments.

With a loan-to-value (LTV) ratio of 75%, the above investment would have yielded the following total return on equity:

After 1 year	52%
After 2 years	195%
After 3 years	243%

The yield is calculated on the basis of equity invested, which in this case is 25% of the purchase price. This is the reason why the actual yield is considerably higher than the increase in the property value.

Anglodan offers investors easy access to these investment opportunities. Read more [here](#) about how we can take care of all the practicalities for you.

## FINANCES

### Investment Example

There are a number of factors that you should consider when calculating the possible yield of a property investment. These are described in the following:

#### Financing

Because of the possibility of financing most of the purchase with a mortgage, even a modest increase in the value of the property will return a significant yield on the equity invested. If you assume that the rent covers exactly 100% of the total costs of owning the property, a property with 75% financing will thus return a yield on equity of four times the annual increase in the property values. This is because the equity invested only accounts for 25% of the property value while 75% of the value has been covered with a mortgage. If the property value thus increases by 8% in a year, the return on equity would be 32%.

#### Interest Rates

Another important factor is the level of interest rates. The question is here whether the current interest rates will be maintained. However, it is possible – if you expect interest rates to rise – to choose a fixed interest rate mortgage that will lock the interest rate at the current level for up to five years (followed by variable interest). This is only slightly more expensive than a mortgage with variable interest from the outset. You can thus lock in the interest at a relatively low level for those years where the outstanding mortgage is at its highest level in terms of outstanding repayments.

#### Exchange Rate Risk

There is no exchange risk in connection with the mortgaging of the property. The mortgage is denominated in Pound Sterling and an increase in the value of the Pound against your local currency will thus not only lead to an increase in the value of the mortgage (to your disadvantage), but also to an increase in the value of the property (to your advantage). Conversely, a decline in the value of the Pound against your local currency will mean a decrease in the value of the mortgage (to your advantage) and a decrease in the value of the property (to your disadvantage).

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Only the net equity in the property may thus be influenced by exchange rate fluctuations.

## **Rental Income**

For calculation purposes, we currently expect that the rental income will cover 80% of mortgage payments and operating costs in Year 1 and that it will rise gradually to exceed 100% in Year 10.

If taking out an interest only mortgage, the rental income should fully cover both mortgage interest and operating costs already from Year 1.

## **Vacant Periods – ‘Voids’**

An additional factor is the possible waiting time in connection with the search and selection of new tenants and/or the time needed for major repairs or improvements to the property. This can be anything from no months per year (if the tenant extends his tenancy) to, for instance, three months per year (if a new tenant must be found and the rent demanded by the owner is relatively high). It is obviously important to minimise the vacant periods since no rent will be earned when the property stands empty.

In the calculation below a provision for vacant periods has been included in the amount under the heading ‘Other Expenses’.

## **Buying and Selling Costs**

Finally, it is necessary to take Buying and Selling Costs into account. In the calculations below, the Buying Costs have been distributed evenly over the chosen ownership period of 25 years under the heading ‘Other Costs’.

The Selling Costs depend in part upon the value of the property at the time of sale.

## **Sample Calculations**

Below are shown two sample calculations for a typical property where the above factors have been taken into consideration. Currently, it may be possible to achieve lower financing costs than shown below. However, we have used an average mortgage rate of 6% in our calculations as we prefer to estimate conservatively. For comparison, the Association of Residential Letting Agents (ARLA) is currently using 5.50% p.a. as their calculation basis (Source: themovechannel.com, 1<sup>st</sup> October 2003).

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The calculations are based on the following premises:

- Rents rise with inflation
- Other costs rise with inflation
- The parameter percentages are the effective annual rates that are achieved over the full calculation period of 25 years

The first example operates with an annual property appreciation of 4%:

**Sample Calculation for Investment in a British Residential Property**

(all amounts in £)

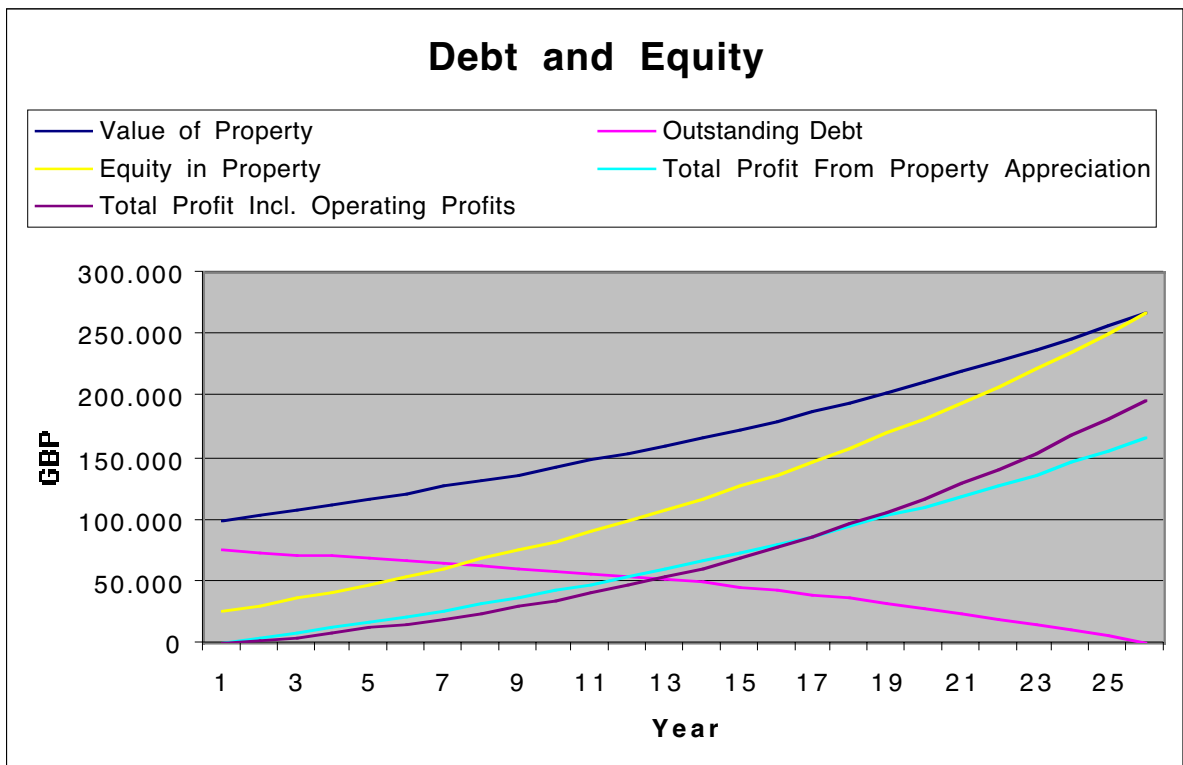
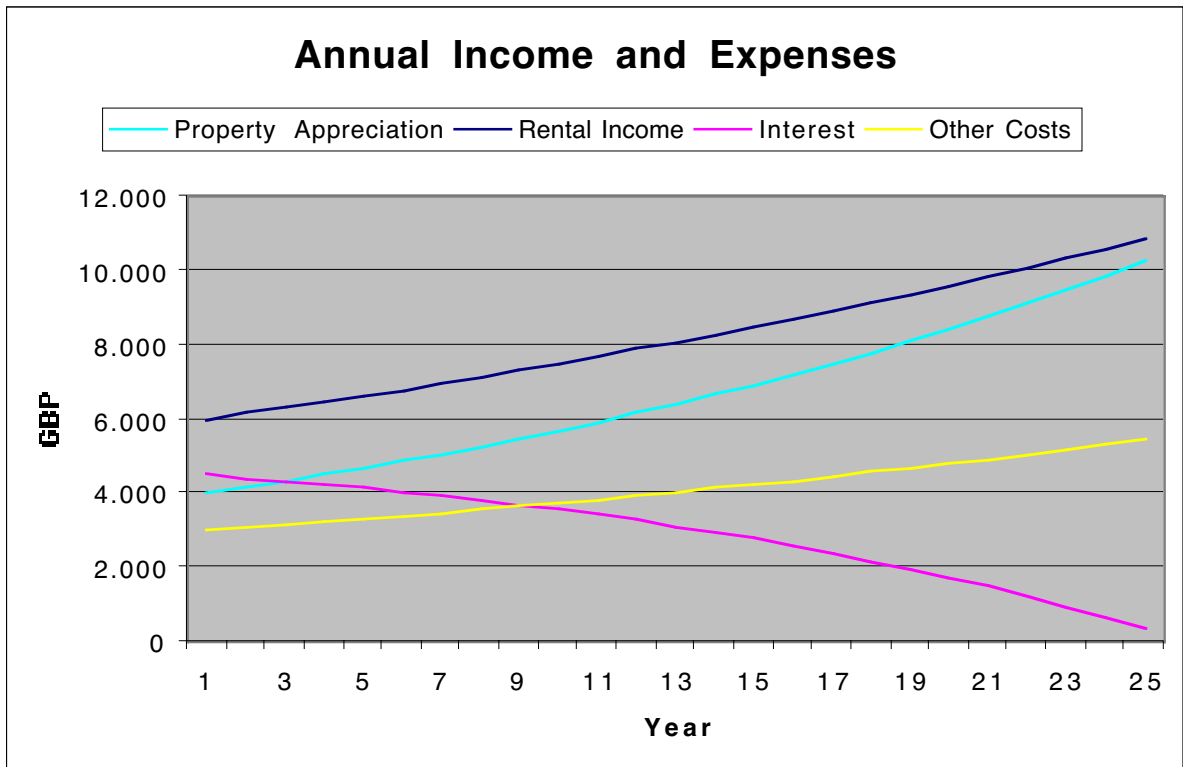
**Anglodan**Parameters:

Accumulated Interest	6,0% per annum
Mortgage Period	25 years
Mortgage Amount	75.000 £
Purchase Price	100.000 £
Property Appreciation	4,0% per annum
Inflation	2,5% per annum

Year	Rental Income	Interest	Other Costs	Property Appreciation	Annual Net Profit	Annual Net Profit as % of Initial Investment	Property Value
1	6.000	4.500	3.000	4.000	2.500	10,0%	104.000
2	6.150	4.418	3.075	4.160	2.817	11,3%	108.160
3	6.304	4.331	3.152	4.326	3.147	12,6%	112.486
4	6.461	4.239	3.231	4.499	3.491	14,0%	116.986
5	6.623	4.141	3.311	4.679	3.850	15,4%	121.665
6	6.788	4.038	3.394	4.867	4.223	16,9%	126.532
7	6.958	3.928	3.479	5.061	4.612	18,4%	131.593
8	7.132	3.812	3.566	5.264	5.018	20,1%	136.857
9	7.310	3.688	3.655	5.474	5.441	21,8%	142.331
10	7.493	3.557	3.747	5.693	5.882	23,5%	148.024
11	7.681	3.419	3.840	5.921	6.342	25,4%	153.945
12	7.873	3.272	3.936	6.158	6.822	27,3%	160.103
13	8.069	3.116	4.035	6.404	7.322	29,3%	166.507
14	8.271	2.951	4.136	6.660	7.845	31,4%	173.168
15	8.478	2.776	4.239	6.927	8.389	33,6%	180.094
16	8.690	2.591	4.345	7.204	8.958	35,8%	187.298
17	8.907	2.394	4.454	7.492	9.551	38,2%	194.790
18	9.130	2.186	4.565	7.792	10.170	40,7%	202.582
19	9.358	1.965	4.679	8.103	10.817	43,3%	210.685
20	9.592	1.731	4.796	8.427	11.492	46,0%	219.112
21	9.832	1.483	4.916	8.764	12.198	48,8%	227.877
22	10.077	1.220	5.039	9.115	12.934	51,7%	236.992
23	10.329	941	5.165	9.480	13.703	54,8%	246.472
24	10.588	645	5.294	9.859	14.507	58,0%	256.330
25	10.852	332	5.426	10.253	15.347	61,4%	266.584

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This can be illustrated as follows:



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In case the annual property appreciation reaches 8%, the calculation will look as follows:

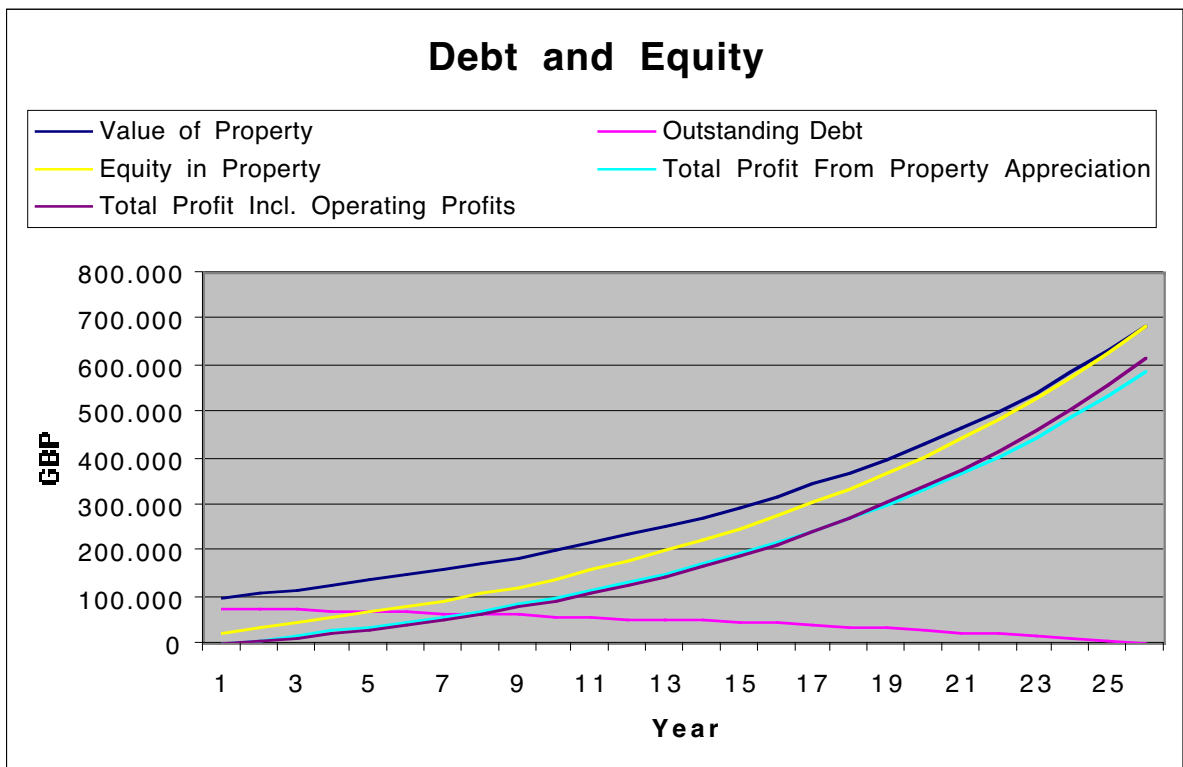
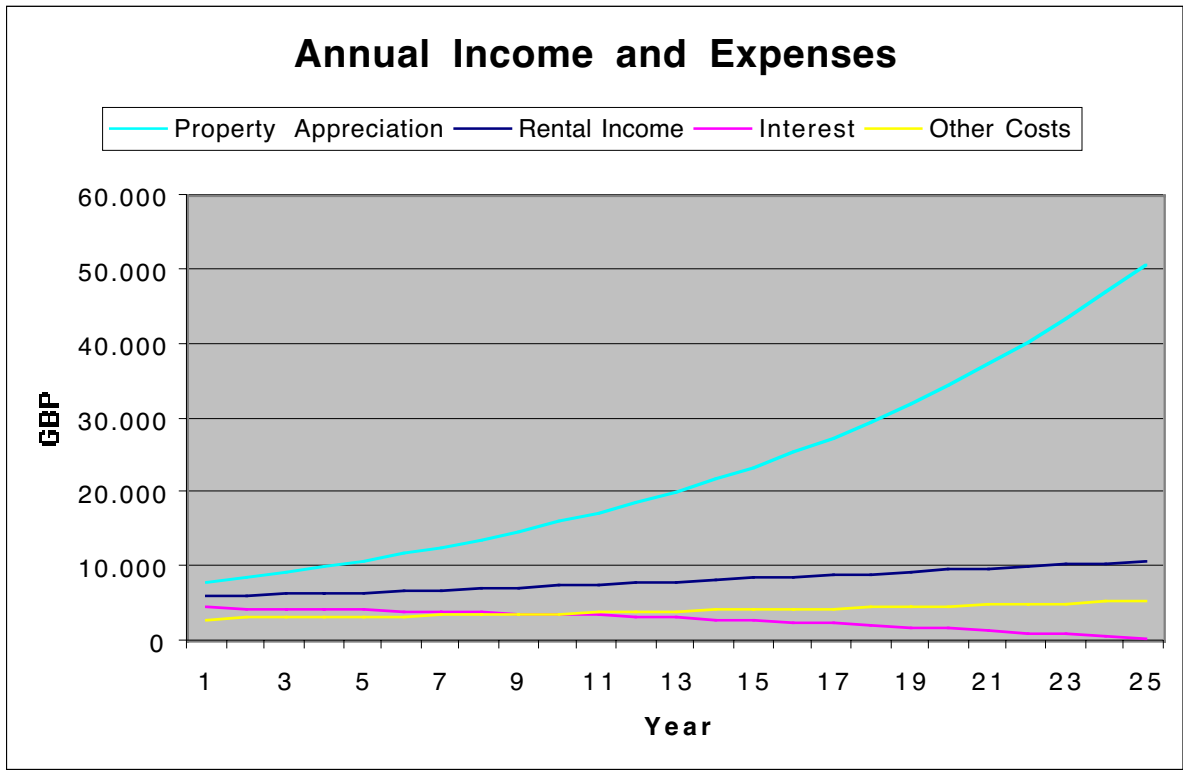
**Sample Calculation for Investment in a British Residential Property**  
(all amounts in £)

Parameters:

Accumulated Interest	6,0% per annum
Mortgage Period	25 years
Mortgage Amount	75.000 £
Purchase Price	100.000 £
Property Appreciation	8,0% per annum
Inflation	2,5% per annum

Year	Rental Income	Interest	Other Costs	Property Appreciation	Annual Net Profit	Annual Net Profit as % of Initial Investment	Property Value
1	6.000	4.500	3.000	8.000	6.500	26,0%	108.000
2	6.150	4.418	3.075	8.640	7.297	29,2%	116.640
3	6.304	4.331	3.152	9.331	8.152	32,6%	125.971
4	6.461	4.239	3.231	10.078	9.069	36,3%	136.049
5	6.623	4.141	3.311	10.884	10.054	40,2%	146.933
6	6.788	4.038	3.394	11.755	11.111	44,4%	158.687
7	6.958	3.928	3.479	12.695	12.246	49,0%	171.382
8	7.132	3.812	3.566	13.711	13.465	53,9%	185.093
9	7.310	3.688	3.655	14.807	14.774	59,1%	199.900
10	7.493	3.557	3.747	15.992	16.181	64,7%	215.892
11	7.681	3.419	3.840	17.271	17.693	70,8%	233.164
12	7.873	3.272	3.936	18.653	19.317	77,3%	251.817
13	8.069	3.116	4.035	20.145	21.064	84,3%	271.962
14	8.271	2.951	4.136	21.757	22.941	91,8%	293.719
15	8.478	2.776	4.239	23.498	24.960	99,8%	317.217
16	8.690	2.591	4.345	25.377	27.131	108,5%	342.594
17	8.907	2.394	4.454	27.408	29.467	117,9%	370.002
18	9.130	2.186	4.565	29.600	31.979	127,9%	399.602
19	9.358	1.965	4.679	31.968	34.682	138,7%	431.570
20	9.592	1.731	4.796	34.526	37.591	150,4%	466.096
21	9.832	1.483	4.916	37.288	40.721	162,9%	503.383
22	10.077	1.220	5.039	40.271	44.090	176,4%	543.654
23	10.329	941	5.165	43.492	47.716	190,9%	587.146
24	10.588	645	5.294	46.972	51.620	206,5%	634.118
25	10.852	332	5.426	50.729	55.824	223,3%	684.848

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The British property market rose by some 25-30% in 2002 (depending upon the index used). At a rise of 27% and with financing of 75% of the property value, the investment would have given a 108% return on equity in 2002 alone, provided that the financing and operating costs of the property were fully covered by the rent.

It is, of course, unlikely that prices will rise steadily by 27% per year over the next 25 years. However, it is worth noting that British property prices actually increased 26-fold in the period 1969-2002 (See [Factors](#)). A high return on equity is thus a very real possibility.

An extended spreadsheet can be downloaded from [this place](#) on our web-site so that you may experiment with the consequences of different economic scenarios and price rises. Sheet 2 of the spreadsheet uses the same structure as the above calculations whereas Sheet 1 contains a number of additional calculations.

## Buying Costs

Below is an estimate of buying costs (incl. VAT) for a property costing £ 100,000:

Solicitor	£ 1,200
Surveyor	£ 800
Lender	£ 900
Local authority search and Land Registry search	£ 250
Stamp Duty*	<u>£ 1,000</u>
<b>SUBTOTAL</b>	<b>£ 4,150</b>

\* Stamp Duty for the British government is 1% of the purchase price for properties worth between £ 60,000 and £ 250,000.

All buying costs save the legal fees and the registry searches will, to some extent, depend upon the value of the property. As can be seen from the above calculation, the costs amount to some 4% of the purchase price to which should be added Anglodan's fees (see [Fees](#)). However, the buying costs as a percentage of the purchase price will decline as the purchase price rises (up to a maximum of £ 250,000) as the costs for the Solicitor, the registry search, and Anglodan's assistance do not depend upon the purchase price of the property. Moreover, costs for the Surveyor only rises moderately as the purchase price increases. If the price of the property exceeds £ 250,000, other and considerably higher percentages apply for the Stamp Duty. For properties valued between £ 250,000 and £ 500,000, the Stamp Duty is thus 3% of the property value. For properties worth more than £ 500,000, the Stamp Duty is 4%.

To the above costs may be added £ 2,000-3,000 for the purchase of furniture in case the property is to be let furnished, and a similar amount for minor repairs and improvements in case the property is not sufficiently presentable. Furnished property will usually be able to command a slightly higher rent than non-furnished properties and will sometimes be easier to let. If you should decide to buy a property in need of major repairs and improvements you should, of course, expect considerably higher costs for such repairs and improvements. Moreover, the vacant periods - 'voids' - without any rental income will be considerably longer as a result of the longer time needed to carry out repairs and improvements. Of course, the upside of buying a property in need of major work that it can usually be purchased at a significant discount.

## Selling Costs

At a sales price of £ 100,000 the Selling Costs (incl. VAT) may look as follows:

Estate Agent (2% of the sales price plus VAT)	£ 2,350
Seller's Information Pack	£ 500
Solicitor	<u>£ 600</u>
<b>SUBTOTAL</b>	<b>£ 3,450</b>

As can be seen from the above, the Selling Costs amount to about 3.5% of the sales price to which should be added Anglodan's management fee (see Fees). However, the Selling Costs as a percentage of the sales price will decrease as the sales price rises since the costs of the Solicitor and the Seller's Information Pack are not related to the value of the property.

## Cash-flow

On the basis of a purchase price of £ 100,000, the cash requirements for the Client in the year of the property purchase may be estimated as follows:

Deposit *	£ 25,000
Buying costs	£ 4,150
Furniture / minor repairs	£ 2,000
Mortgage repayment	£ 1,367
Operating loss for the year	<u>£ 1,500</u>
<b>SUBTOTAL **</b>	<b>£ 34,017</b>

\* The deposit is not paid to Anglodan but is paid directly by the Client to the Solicitor responsible for handling the transfer of the property from the Seller to the Buyer.

\*\* To this should be added the fees of Anglodan.

In Year 2 after the property purchase, the cash requirement consists of the operating loss and the mortgage repayments, which in the Sample Calculation further above amounts to £ 2,792. In later years, the repayments will increase while interest costs will typically decline. At the same time, rental income is likely to increase more in absolute terms than operating costs. This is likely to result in the operating loss turning into an operating profit. In the Sample Calculation the first annual operating profit would be achieved in Year 10. Even so, there would still be a cash requirement due to the rising mortgage repayments.

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The operating profit/loss and cash requirements of the Sample Calculation are as follows:

<b>Year</b>	<b>Operating Profit/Loss</b>	<b>Cash Requirement</b>
1	-1.500	37.542
2	-1.343	2.792
3	-1.179	2.715
4	-1.008	2.636
5	-830	2.556
6	-643	2.473
7	-449	2.388
8	-245	2.301
9	-33	2.212
10	189	2.120
11	421	2.027
12	664	1.931
13	918	1.832
14	1.184	1.731
15	1.463	1.628
16	1.754	1.522
17	2.059	1.413
18	2.379	1.302
19	2.714	1.188
20	3.065	1.071
21	3.433	951
22	3.819	828
23	4.224	702
24	4.648	573
25	5.094	441

The Selling Costs should, of course, be added to the cash requirements for the year in which the Client sells the property.

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## Financing

A British property investment requires a considerable amount of cash (see Cash-flow). However, in case you do not have sufficient cash available in the form of stocks, bonds, or bank deposits, you should be aware that it might be possible to use the free equity in your home to raise the necessary cash. The difference between the remaining mortgage on your home and the property value is your free equity. You may convert that free equity into cash by way of increasing your mortgage. This is also known as Mortgage Equity Withdrawal.

If you wish to raise cash by way of Mortgage Equity Withdrawal, you should contact the bank or lender that handles your current mortgage.

## Taxation

### Local Rules

How the profits from your British property investment are taxed depends on the rules that apply in your country of residence. You should therefore consult your local tax office for details.

### Tax on the Operating Profits/Losses

Whatever the tax rate is that will apply to the operating profits, it is unlikely that the property will make an operating profit for the first several years of ownership, hence no tax is likely to be payable until then. In the Sample Calculation above, an operating profit is thus not achieved until Year 10. Moreover, it will usually be possible to deduct earlier losses in later profits. In the Sample Calculation, the accumulated operating profit does not become positive until Year 17. In the U.K., for instance, this would mean that no tax on the profits would be payable for the first 17 years of ownership.

### Tax on the Increase in Property Value

How this is taxed depends upon the tax rules in your country of residence. Please therefore consult your local tax office on this matter.

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## **U.K. Taxation**

Whatever your local tax rules, the operating profits are taxable in Britain. However, if your country of residence has a double-taxation treaty with the U.K., it will usually be possible to have any tax paid in Britain credited against any tax liability on the operating profits that has been incurred in your country of residence. In any case, any operating profits are likely to be modest. The real benefit of a U.K. property investment lies in the gradual increase in the value of the property over time.

The profit made on the increase in the property value will usually not be taxable in the U.K. if it is your only property in the U.K. or if you do not reside in the U.K.

As to council taxes in the U.K., the Tenant normally pays these. If your property is unoccupied, you will usually have to pay council taxes for the vacant period at a reduced rate. This should not add up to more than £ 100 or so for a few months of vacancy.

## **Tax Forms**

The following forms are used with the U.K. tax return:

- Land and property (usually an integrated part of the tax return itself, Form SA100-15)
- Non-residence, etc. (Form SA109)

The U.K. tax year runs from 6<sup>th</sup> April to 5<sup>th</sup> April.

## **Anglodan Tax Service**

Anglodan can assist in keeping the records of the income and expenses of the property so as to have the correct amounts available for both the British tax return and your local tax return (see Additional Services).

## CHECKLIST

In order to invest in a British residential property there are certain basic conditions that should be met:

- Do you have at least £ 35,000 of equity available in shares, in bonds, in bank deposits, or in your home as free equity?
- Do you have a steady annual income of at least £ 25,000?
- Are you willing and able to supply extra liquidity for the operation of the property if needed?
- Do you intend to keep the property for at least 2-3 years or more?

If you do not fulfil these conditions it will be very hard to obtain financing for the purchase and operation of the property. You should also be aware that a property investment is not a short-term investment. If you do not keep the property for at least a couple of years, the costs of purchasing and selling the property will probably offset any profits gained from an increase in the property value.

## CONTACT US

Before you contact us, please take a look at our [Checklist](#) to see if a buy-to-let investment in British residential property is suitable for you.

If it is, please contact us at our Luton office:

Anglodan Properties Ltd  
960 Capability Green  
Luton LU1 3PE  
United Kingdom

Tel: 0044 (0) 1582 635 042  
Fax: 0044 (0) 1582 635 001  
E-mail: [info@anglodan.co.uk](mailto:info@anglodan.co.uk)