

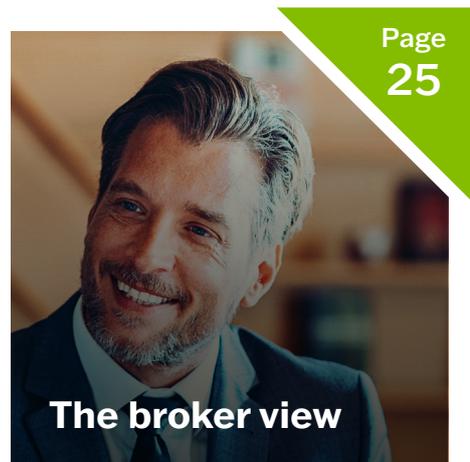
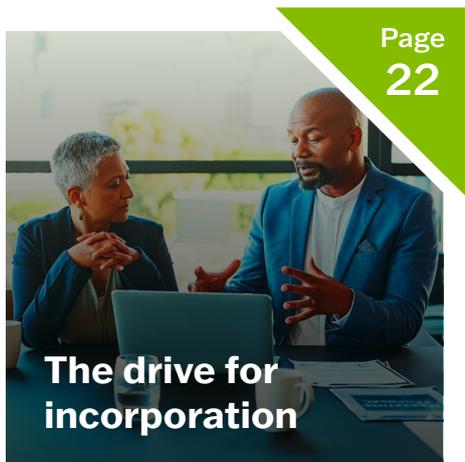


paragon

The rise of the limited company landlord

The proportion of landlords who hold their property within a limited company structure has soared. We examine the growth of the market, drivers of limited company landlords and the route to incorporation.

Contents



Government policy has consequences. It may seem like an obvious statement, but two policies introduced in the middle of the last decade have had a clear impact on how landlords operate their portfolios.

The first was the introduction of the 3% Stamp Duty surcharge (6% in Scotland on properties over £145,000) for rental property purchases in April 2016, which led to a slowdown in new property entering the private rented sector in the following years.

The second was the removal of Section 24 and the phasing out of mortgage interest tax relief from 2017, leading to greater numbers of landlords opting to hold their property in a limited company structure.

This has fundamentally changed the face of the buy-to-let mortgage market. The overwhelming amount of business that comes through our door today is limited company, rather than applications in personal or joint names.

That is perhaps reflective of Paragon's focus on the complex end of the buy-to-let mortgage market, but it demonstrates a clear shift in how landlords wish to structure their business. The reasons for doing so aren't limited to income tax. We are seeing more landlords opting for the limited company structure for inheritance tax or to separate their business finances from their personal affairs.

Furthermore, limited company ownership can offer more favourable mortgage financing between 140% and 145% options. Lenders typically set interest coverage ratios at 145% for higher-rate taxpayers, whereas limited company applications require a ratio of 125%. Additionally, limited company landlords can generally secure higher loan amounts, further driving the adoption of this approach.

While limited company ownership has traditionally been associated with portfolio landlords, our research shows the next generation of portfolio landlords are adopting this approach from the outset. Acquiring properties within a limited company structure from an earlier stage will become the norm, as brokers become more experienced in limited company lending and understand their customers' portfolio ambitions.

Obviously, whichever route a landlord chooses is down to them and the counsel they receive from their professional adviser. Lenders cannot offer advice, but we can identify trends and this is the aim of this report.

We surveyed over 500 landlords, including those with and without properties in a limited company structure, to understand their views on this route, as well as some of the barriers for those landlords who wish to incorporate property from personal names.



The overwhelming amount of business that comes through our door today is limited company, rather than applications in personal or joint names.



Richard Rowntree
Paragon Bank
Managing Director
of Mortgages



The growth of limited company landlords

Government tax changes have spurred the increase in the proportion of limited company landlords.

Government fiscal changes have been the primary driver of the growth in limited company landlords. Then Chancellor George Osborne announced in 2015 the end of Section 24, meaning that Mortgage Interest Relief would be phased out from 2017, replaced with a 20% tax credit.

For landlords with property in their personal name, this meant they would be taxed on income, rather than profit from their lettings business, making this option less attractive. Owning property through a limited company became more tax-efficient in many cases as landlords are still eligible to deduct mortgage interest payments in full from their rental income.

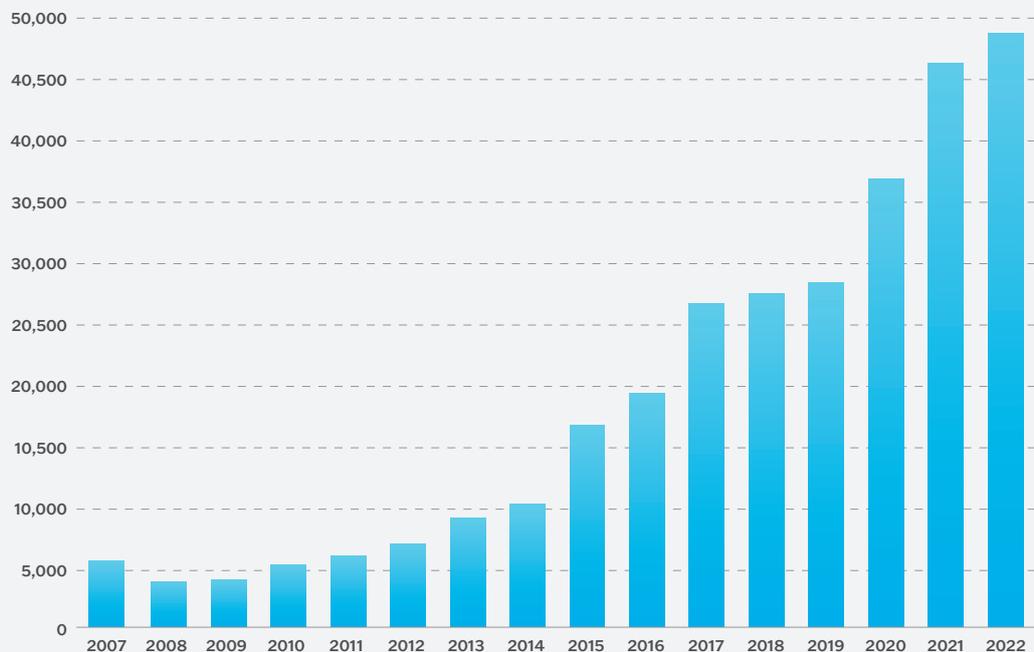
Additionally, limited companies are subject to corporation tax rates, which can be lower than income tax rates for high-earning landlords. This can further reduce the overall tax burden on rental income. Data from Hamptons shows that the number of limited company Special Purpose Vehicles used by landlords grew strongly from 2015 onwards. During that year, 13,863 SPVs were established; in 2022 just over 48,000 SPVs were set up.

Further Hamptons' analysis found that by 2021, 269,300 landlord companies had been founded, 61% of which had been set up following the withdrawal of mortgage interest relief which has been tapered down since April 2017.



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Landlord special purpose vehicles established



Source: Hamptons/Companies House



How landlords hold their properties

Landlords use a mix of structures to hold their property portfolios, with nearly one in four holding all properties within a limited company.

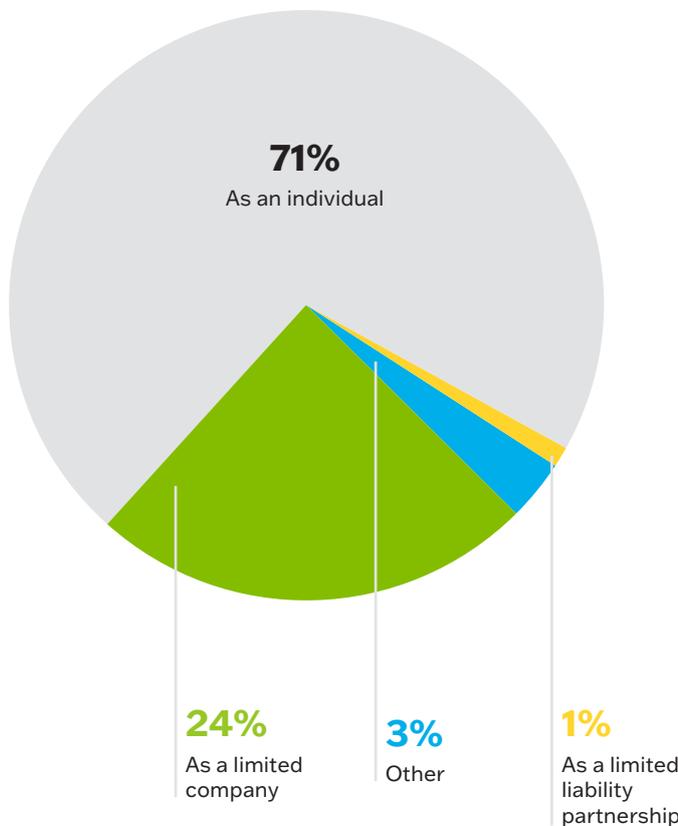
Over half of landlords hold all or some of their portfolio within a limited company structure, with 23% holding all their properties within a limited company and 31% owning a mix alongside property in their personal name.

Despite the growth of limited company lending, the highest proportion of landlords, 34%, still own all property in their personal name. Less common ownership structures include an informal partnership, a limited liability partnership and trading companies.

There has been a clear shift in the structure of property ownership from when landlords first acquired their first rental property. Although a similar proportion started out as a limited company landlord to those who own property exclusively within this structure today, 24%, a greater proportion, 71%, initially held property within personal names.

This suggests those landlords have pivoted towards the limited company option as they have built their portfolios, either through incorporation or acquiring new property in a limited company structure.

How did you own property when you first became a landlord



Over half of landlords hold all of some of their portfolio within a limited company structure, with 23% holding all their properties within a limited company.

How landlords hold their property

34%

In personal name

31%

Mixed – some are held as an individual, some as part of a limited company

23%

As part of a limited company (LTD)

6%

As an informal “partnership”

2%

Mixed – some are held as an individual, some as part of a limited liability partnership

1%

As a trading company

1%

As part of a limited liability partnership (LLP)

1%

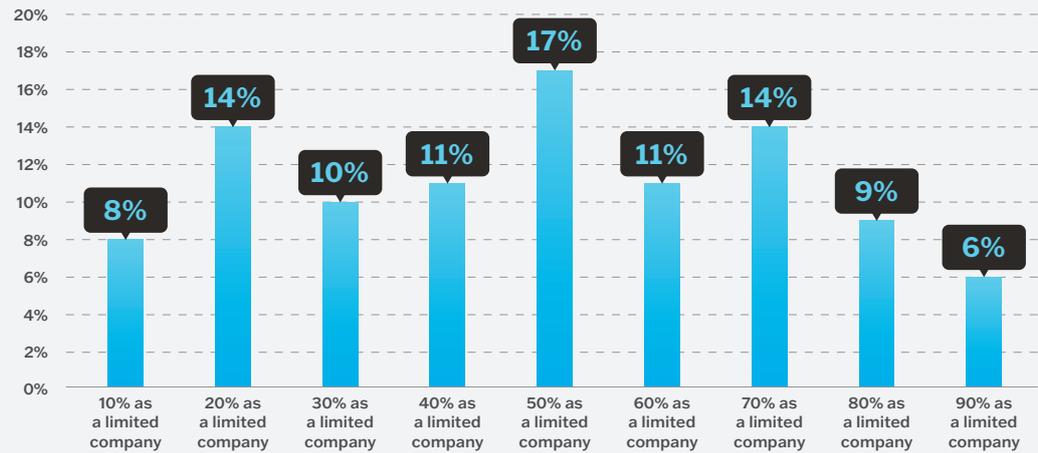
Other / Don’t know

A mixed bag

Of those landlords with mixed portfolios, nearly six in 10 hold over half of the properties within limited companies. However, this cohort of landlords shows a strong desire to transition their remaining properties into a limited company structure.

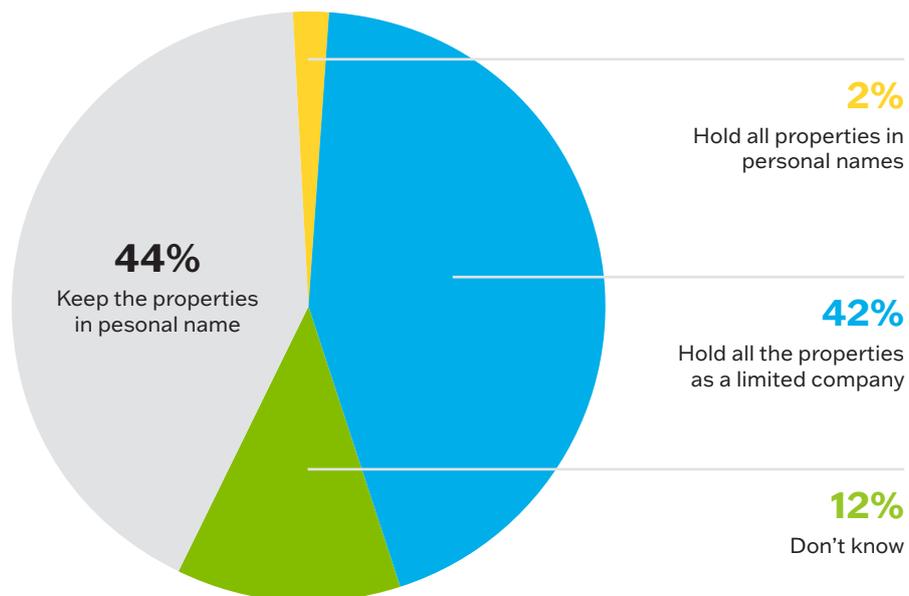
Over four in 10, 44%, plan to ultimately hold all properties within a limited company by incorporating those still in their personal name.

Proportion of property held within limited company



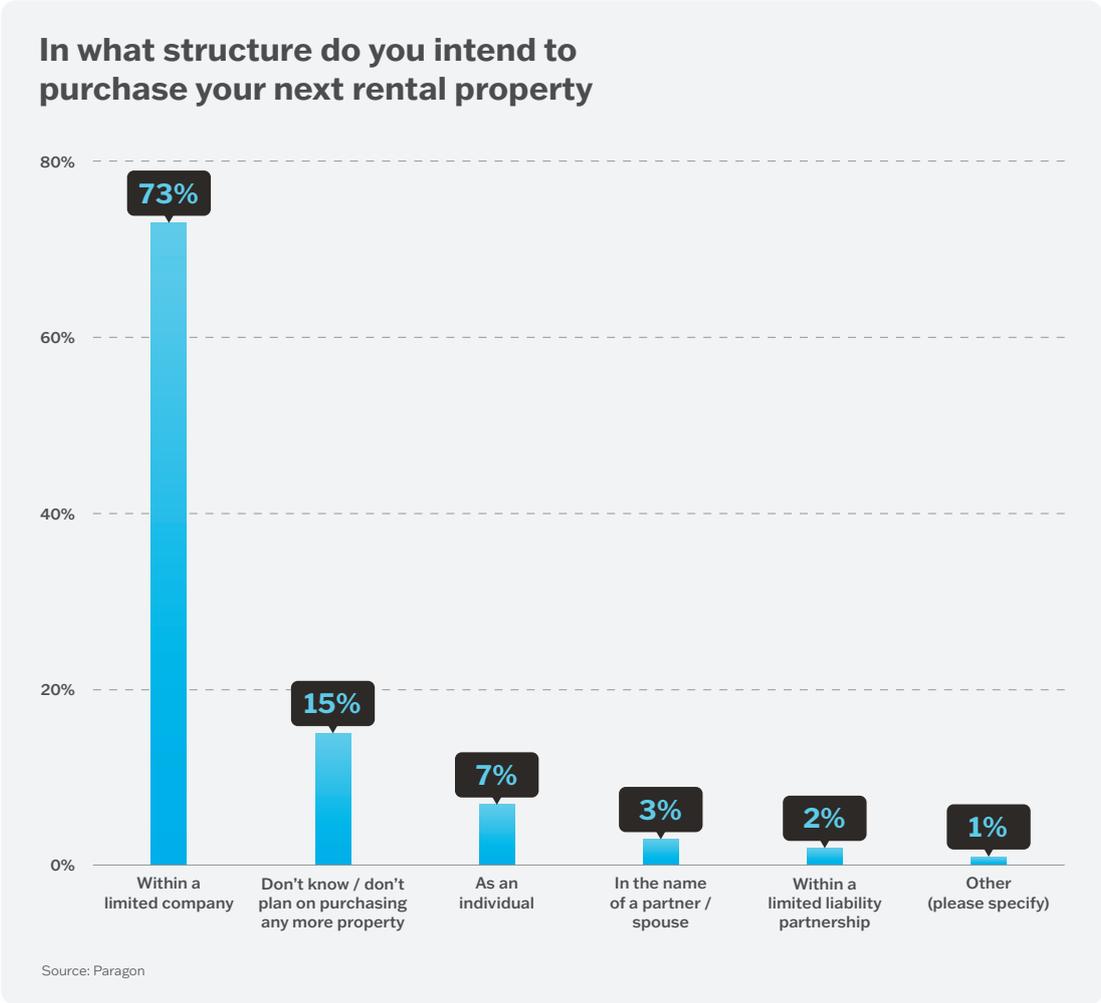
Source: Paragon

Future intentions for mixed portfolio landlords



Purchase intentions

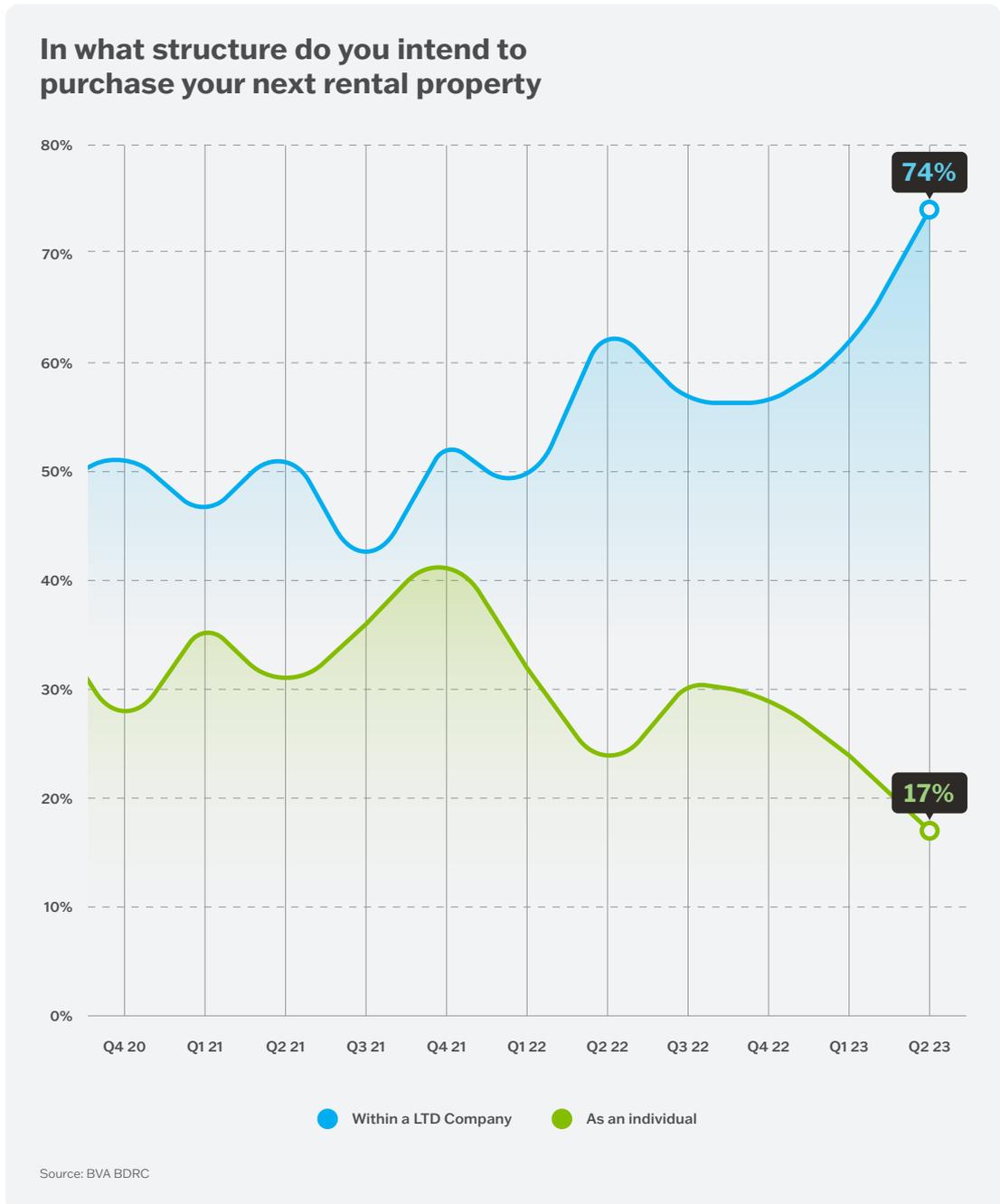
Landlords seeking to purchase additional rental property are more likely to do so within a limited company structure, with 73% intending to do so. Only 7% intend to purchase property in their personal name, with a further 3% planning to purchase property in the name of a partner or spouse.



The findings chime with broader industry research, which found that three quarters of landlords who intend to purchase a new rental property in the next year will utilise a limited company structure – a record level.

The BVA BDRC research showed that 74% of landlords who intend to purchase buy-to-let property in the next 12 months will do so via a limited company, the highest level recorded on BVA's tracker survey and up from 62% of landlords who stated they would use a limited company during the first quarter of 2023.

Conversely, those who plan to buy in an individual name have fallen from 41% recorded in the final quarter of 2021 to 17% in the second quarter of this year.



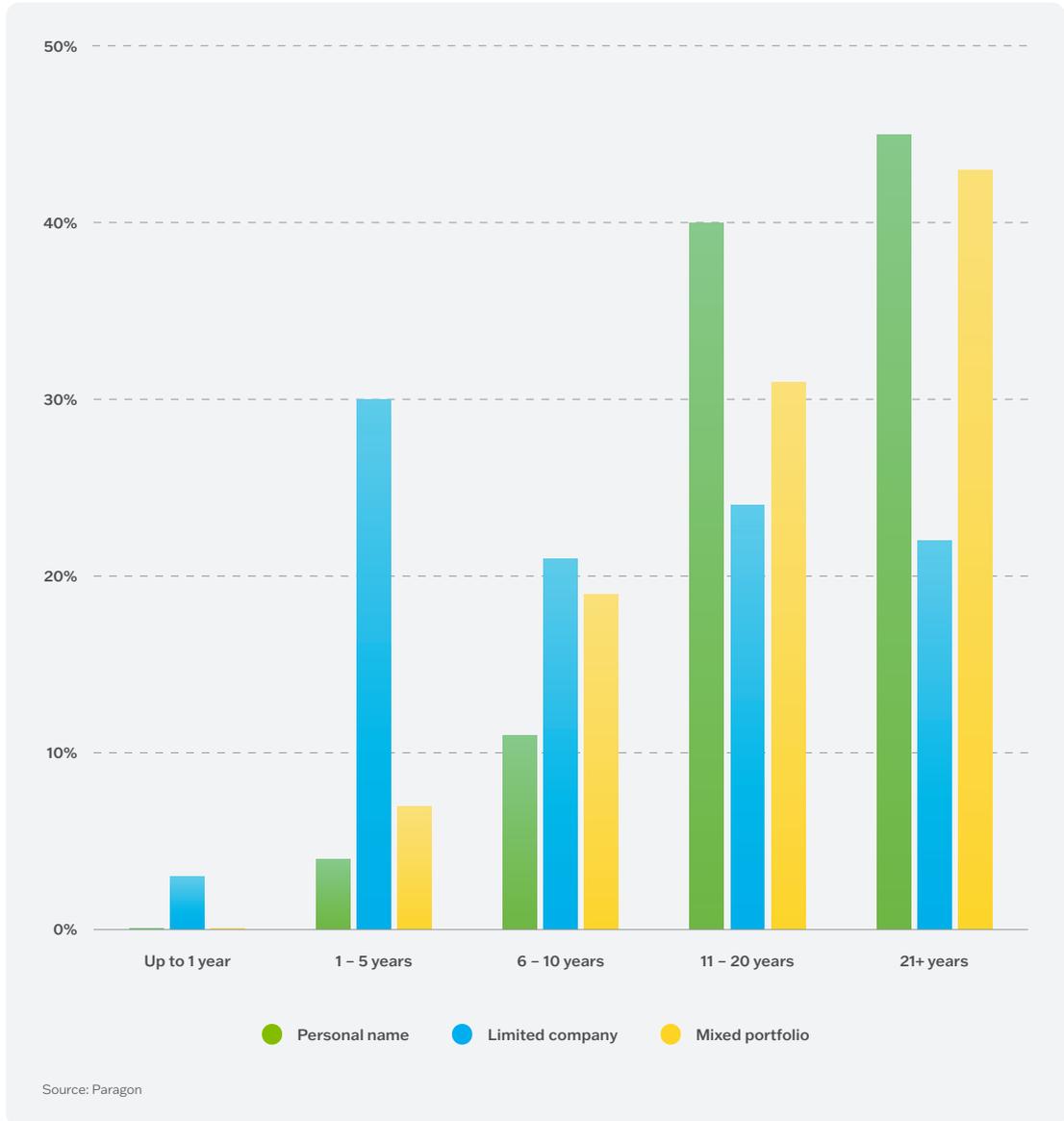


Limited company landlord profile

Landlords who own property via a limited company are more likely to be younger and have less experience than those who own property in personal name.

Experience as a landlord

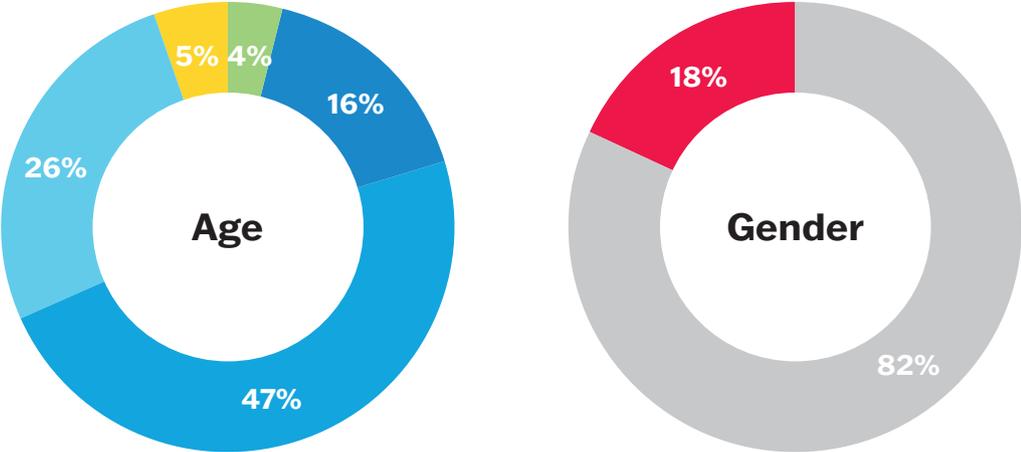
Operating as a limited company doesn't necessarily translate into experience as a landlord. Nearly a third of limited company landlords have only been a landlord for up to five years, which reflects the high number of special-purpose vehicles that have been established since 2017.



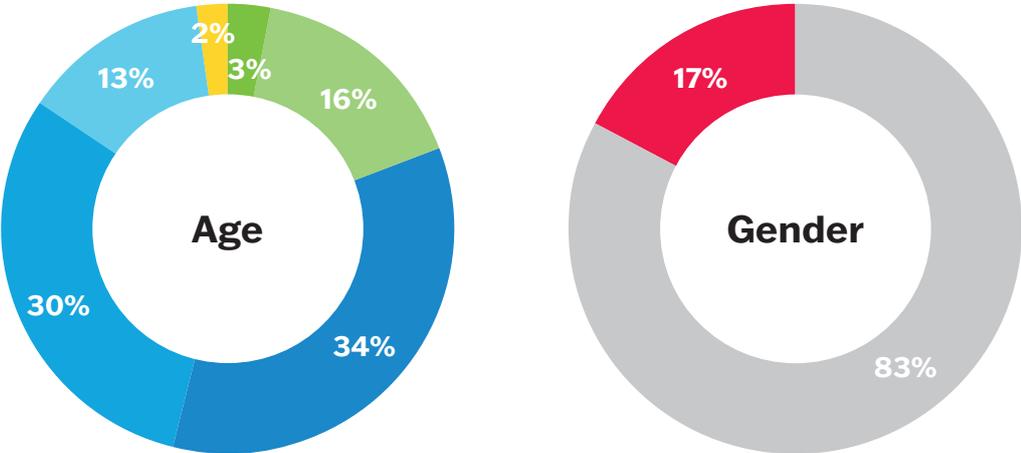
Landlord age and gender

Limited company landlords are typically younger than those with property in personal name only. Over half of limited company landlords are under the age of 54, compared to 20% of those with property exclusively in personal name.

Personal name landlord



Limited company landlord



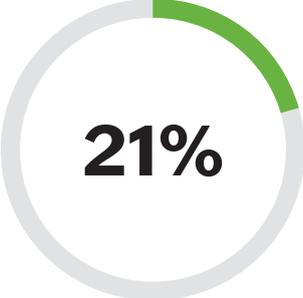
- 18 - 24 years
- 25 - 34 years
- 35 - 44 years
- 45 - 54 years
- 55 - 64 years
- 65 - 75 years
- 76+ years
- Male
- Female

Source: Paragon

Profitability

Limited company landlords are twice as likely to make a full-time living from their lettings business than those who own property solely in personal names.

Personal name landlord



I make a profitable full-time living from letting

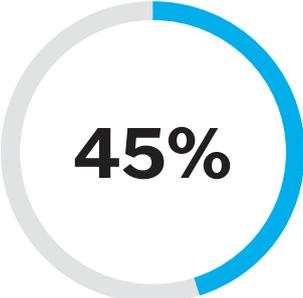


Lettings income supplements the earnings from my day job

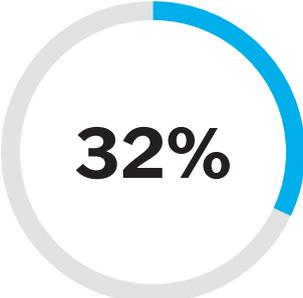


I break even on my letting activity

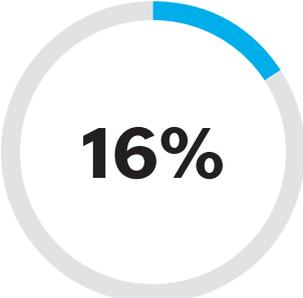
Limited company landlord



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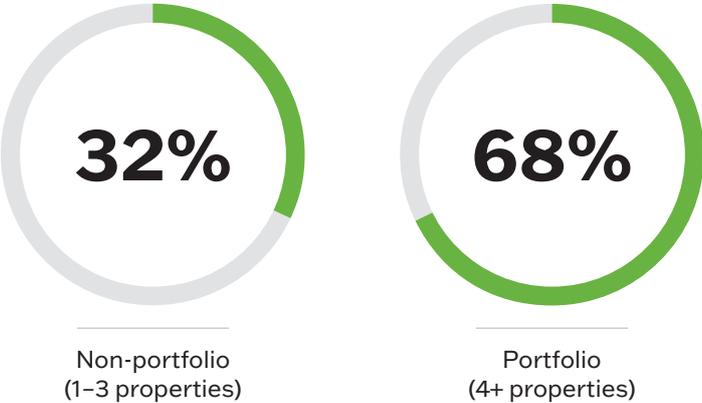
Source: BVA BDRC



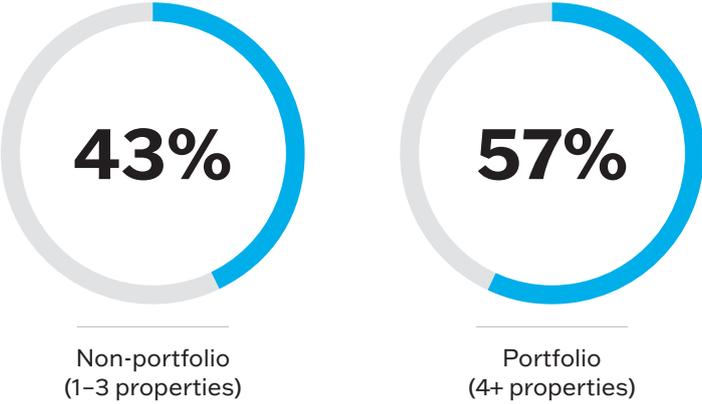
Portfolio size and composition

Limited company landlords are more likely to own more complex property types within their portfolios. A third own an HMO, compared to 14% in personal name, with a quarter owning a block of flats.

Personal name landlord



Limited company landlord

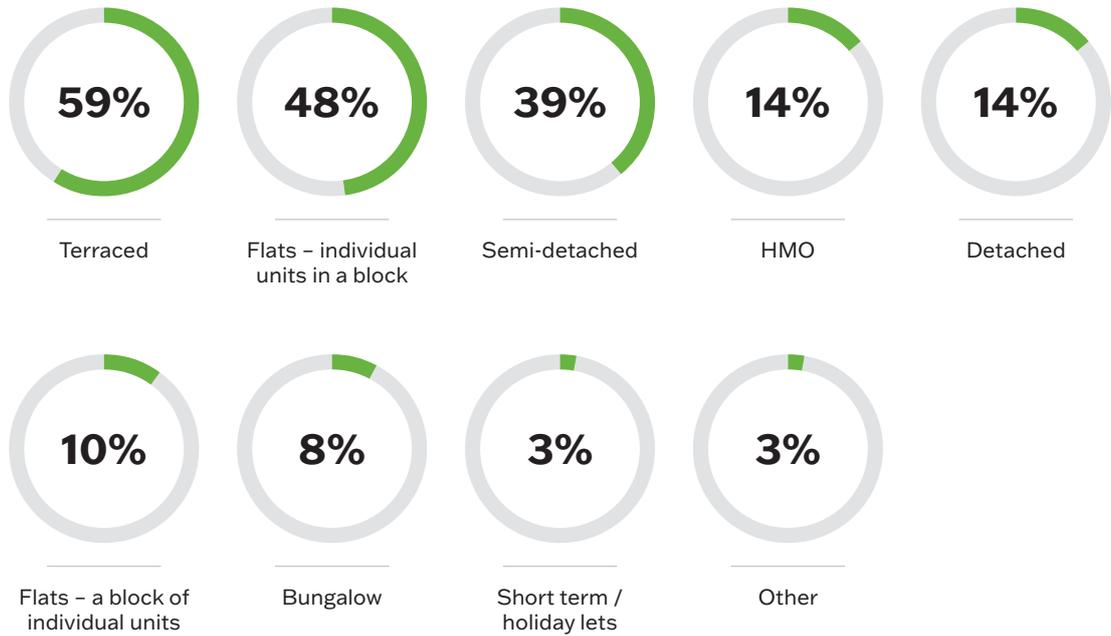


Source: EVA BDRC

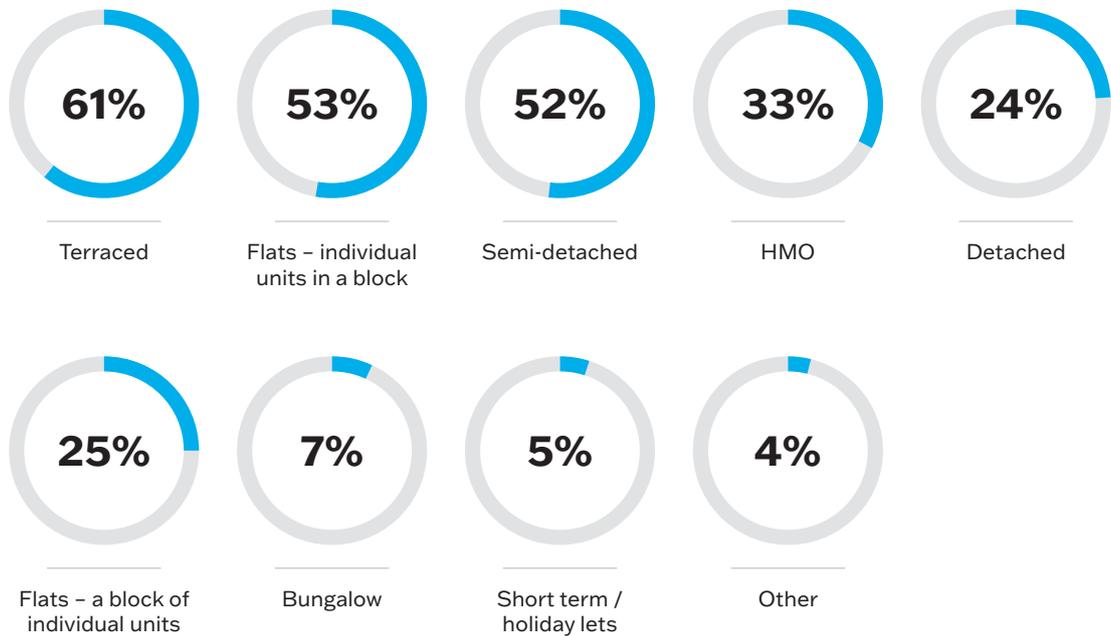


Portfolio composition

Personal name landlord



Limited company landlord

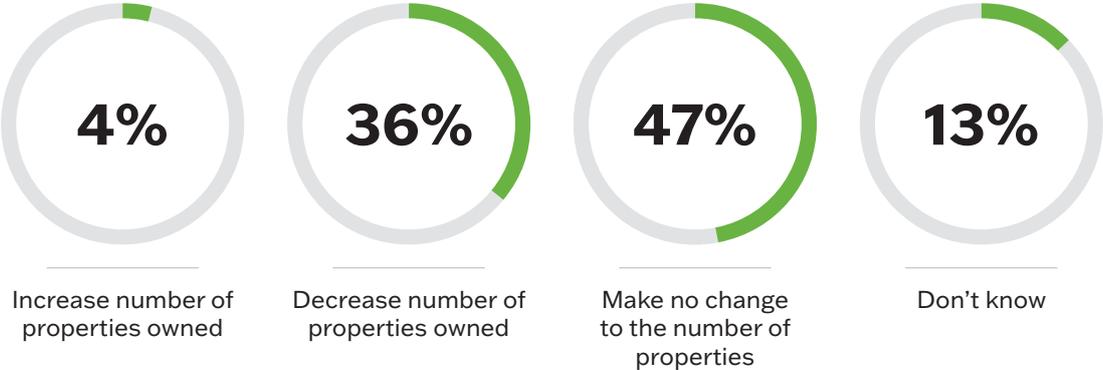


Source: BVA BDRC

Portfolio intentions in the next year

Limited company landlords display a greater propensity to purchase additional properties in the next 12 months than those who hold property in personal names. They also display a slightly lower propensity to reduce the number of properties.

Personal name landlord



Limited company landlord



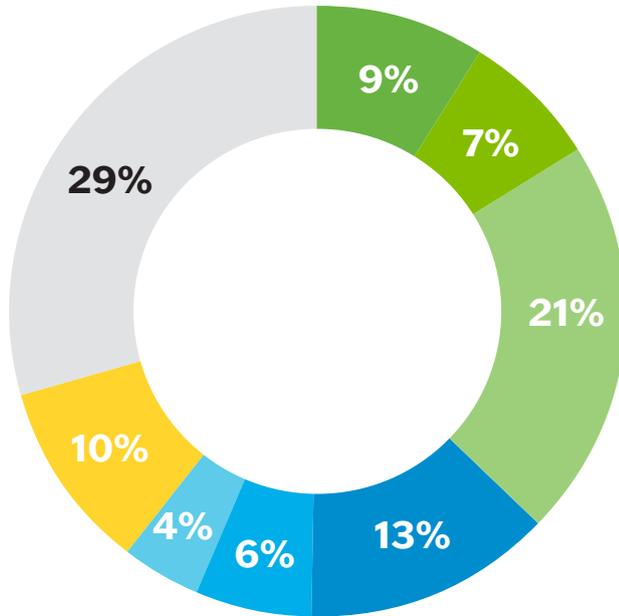
Source: BVA BDRC



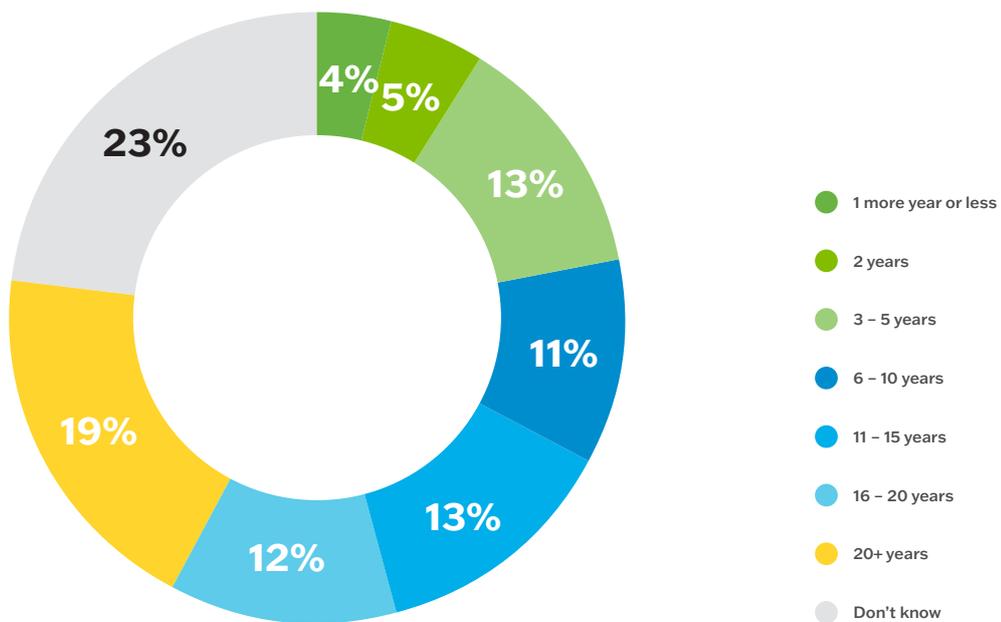
Intention to remain a landlord

Landlords operating within limited companies demonstrate a greater commitment to remaining in the sector. Nearly one in five intends to continue letting property for over 20 years, compared to 10% for those who hold property in their personal name. Overall, 44% of limited company landlords intend to stay in the sector for 10 years plus, compared to 20% for personal name landlords.

Personal name landlord



Limited company landlord



Source: BVA BDRC



Landlord motivations

The ability to offset mortgage interest costs and corporation tax are the key drivers for limited company structures.

Tax is a key driver for landlords holding property within a limited company.

The ability to offset mortgage interest payments and other fees, such as mortgage product fees, is cited as the main driver by 82% of landlords utilising a limited company structure.

Landlords owning property in their personal name pay income tax on the rental income they generate, rather than the profits from their lettings business. This means that a higher rate taxpayer, would be paying 40% tax on rental income, which is even higher for additional rate taxpayers.

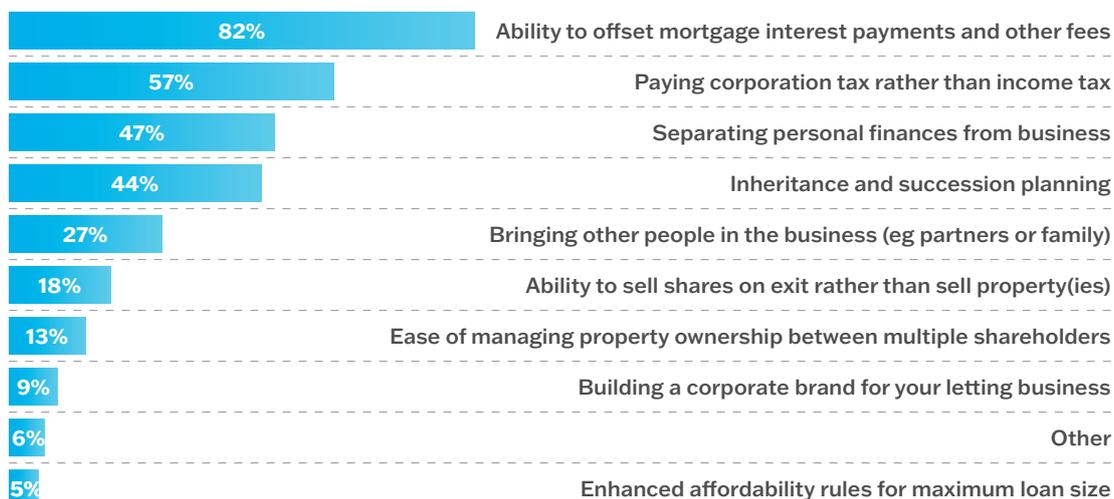
Previously, the landlord would have been able to deduct the mortgage interest element against this income. For example, if the landlord generated £1,200 in rent, but the mortgage interest payment was £700, they would only be liable to pay tax on £500.

Landlords holding property within a limited company structure can deduct these costs from their rental income.

Additionally, limited companies pay tax on their profits rather than their income and this was highlighted by 57% of landlords as another driver for choosing the limited company route. The effective rate of corporation tax is 19% on the first £50k of profits, 26.5% on the next £200k and 25% thereafter. There are additional tax implications for extracting the profits out of a company as dividends. Landlords opting for the limited company route, or incorporating from their personal name, should consult specialist advisors to fully assess their tax implications.

Inheritance tax and succession planning was also a popular reason for landlords to opt for a limited company structure, selected by 44% of landlords.

What are the key drivers for holding property within a limited company structure



Source: Paragon

A word of advice

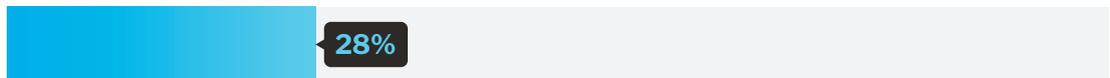
Adopting a limited company structure can be complicated and many landlords who have opted for this route have sought professional advice. Nearly two thirds have taken the advice of their accountant, with a further 28% talking to a specialist tax adviser. Other avenues for guidance include mortgage brokers, landlord peers or associations and media articles.

Sources of advice

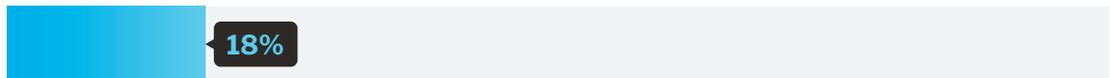
Accountant



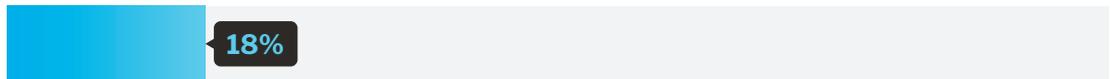
Tax adviser



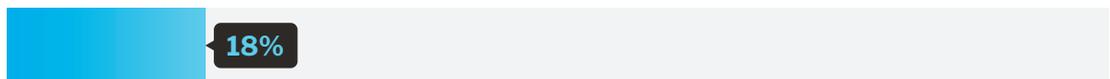
Mortgage adviser



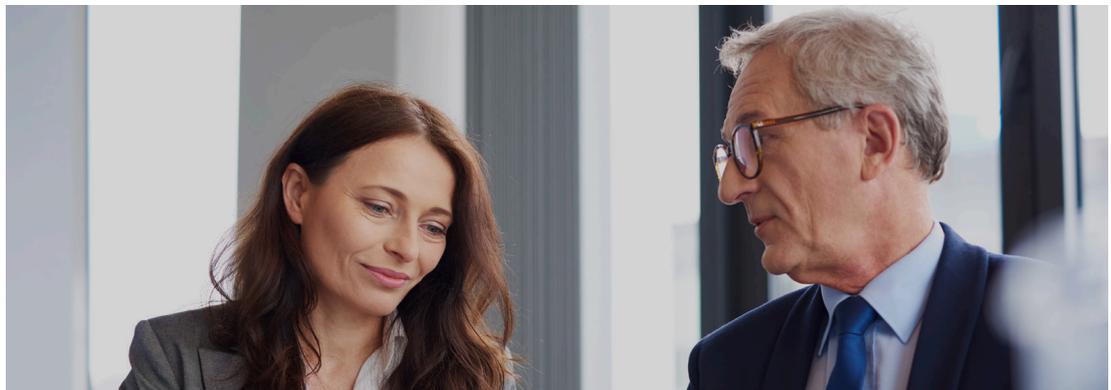
Landlord peers or associations



Media articles



Source: Paragon





The drive for incorporation

A third of landlords with property in personal names are considering moving their portfolios into limited companies, but barriers persist.

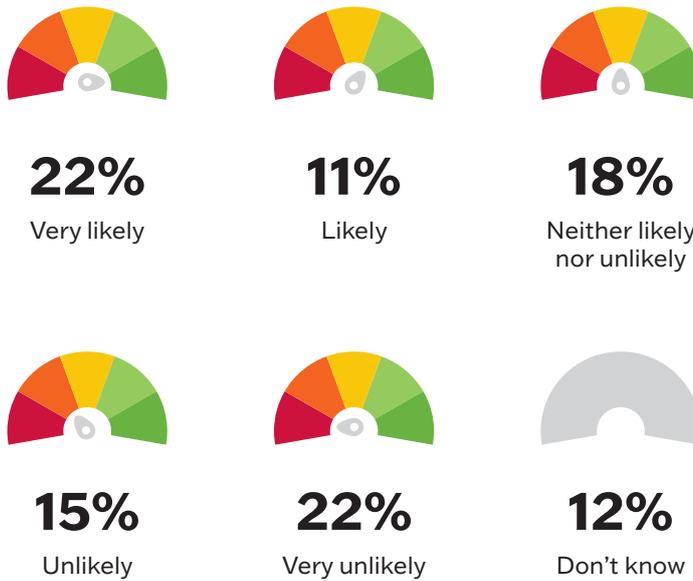
A third of landlords with property in their personal name are looking to incorporate and transition their portfolios towards a limited company structure. Of that cohort, 61% have started to take steps towards this.

Despite the tax benefits, 37% of landlords with property in personal name are unlikely to seek the incorporation route, with a further 12% unsure.



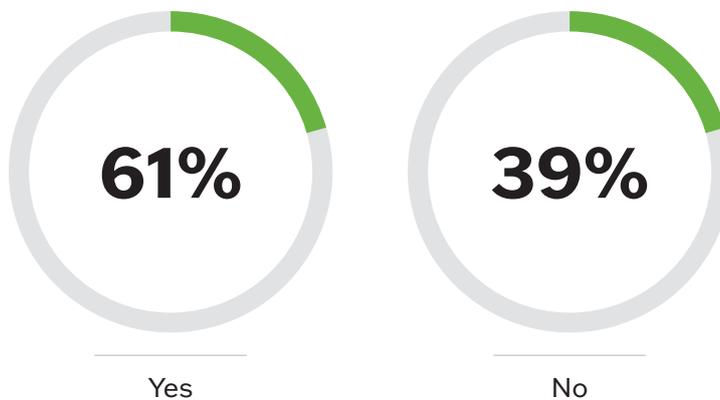
A third of landlords with property in their personal name are looking to incorporate and transition their portfolios towards a limited company structure.

How likely are you to incorporate your properties in the next three years



Source: Paragon

Have you taken steps to achieve this?



Source: Paragon



The cost of incorporation is a significant barrier for over half of landlords. Landlords incorporating typically have to pay Stamp Duty and Capital Gains Tax on the properties they are moving into a limited company structure.

Over a third of landlords said they lacked understanding of the process, with 26% concerned about restricted mortgage availability for limited company properties. Other reasons for not incorporating include not feeling the need to do so, a lack of access to trusted tax advice and being advised against it by a professional tax adviser.

Barriers to incorporation



Source: Paragon





The broker view

Jeni Browne, Sales Director for Mortgages for Business, has seen a swing towards landlords purchasing property via limited companies. She discusses the latest trends.

The broker view

We have keenly tracked data over the years to gain insight into landlord preferences and behaviours. Consequently, we've found some interesting Limited Company trends.

Firstly, the swing towards using a company structure for new acquisitions. In 2018, 76% of our purchase transactions were in a Limited Company. This year, 91% of the purchases we've brokered have been via a Limited Company.

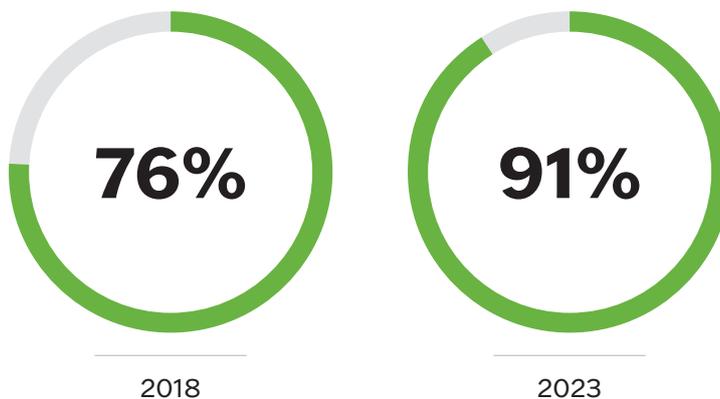
The next bit of data that caught my eye was that more of our Limited Company transactions (16%) are for two-year fixed rates than personal names (6%). I expect this is strongly linked to rental calculations and personal name landlords having to rely more heavily on the less onerous five-year fixed rate rental calculation in lieu of the higher stress rate.

Segueing in nicely, the average Loan to Value (LTV) for Limited Companies has been consistently 3% higher than personal name borrowing for the last five years. Again, this will be linked to more generous rental calculations.

In terms of what I read into this, many landlords choose to use a company structure to obtain either the level of borrowing they require, the type of rate they need, or a combination of the two.

Finally, and more broadly, we are seeing established landlords revisit the possibility of incorporation. Many were willing to ride out the Section 24 changes when their interest rates were sub 2.5%, but now that their mortgage costs are escalating, they are revisiting company ownership once again to protect their profits.

MFB limited company purchase transactions



Many landlords choose to use a company structure to obtain either the level of borrowing they require, the type of rate they need, or a combination of the two.



Jeni Browne
Sales Director
Mortgages for Business

For further information please contact:

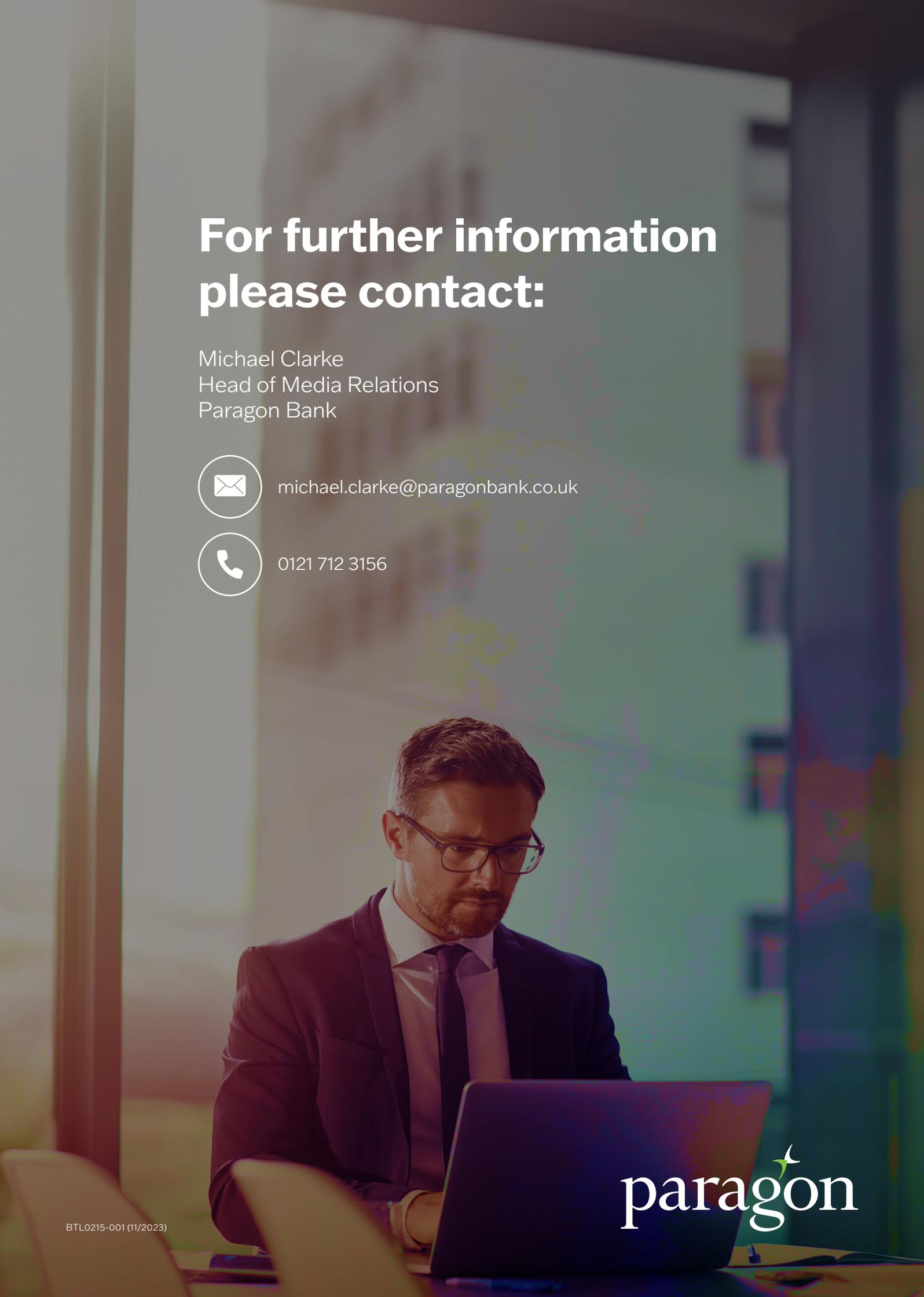
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A man with glasses, wearing a dark suit, white shirt, and dark tie, is sitting at a desk and looking at a laptop. The background is a blurred office interior with large windows.

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