

Welcome to our winter newsletter. We hope 2017 has started smoothly for you and will see you flourishing in every way.

The turn of the year is a natural time for reflection. As Dr Margaret J Wheatley put it, "Without reflection, we go blindly on our way, creating more unintended consequences, and failing to achieve anything useful." We are grateful for the journey travelled so far, and for all the feedback we've received from our clients – prompting us to see things from new perspectives and to consider questions that may not have come to us otherwise. We're looking forward to many more opportunities to learn and grow in the year ahead.

Which brings us to the theme of this edition: a forthcoming change in legislation and one possible response to it.

UK Residential Property

RECENT TRENDS

Home ownership is part of the UK dream. For many it represents stability, security and status. But rental housing plays an important role in our society too. Charting the rise, fall and rise in demand for these two classes of accommodation shows how the housing needs of our society continue to evolve.

One influential factor is that over the last 35 years the shape of UK households has changed.

According to the ONS there were “27 million households in the UK in 2015. Of these, 29% consisted of only one person; in 1981, 20% of the 20.2 million households were single occupancy.”

Other factors - employment opportunities, globalisation, and ease of travel - join the changing composition of households in playing a part in people's decisions about whether to buy or rent. For many people, there are times in their lives when the cost and flexibility of renting just make sense.

There are around 25 million residential properties in the UK now. Around 5 million of those are rental properties.

In modern times there has been a slow growth in the private rental sector since 2001, and a slow

decrease in social housing renters in the same period.

Today about 12% of the population rents privately, about 18% rents social housing and the remainder are home owners.

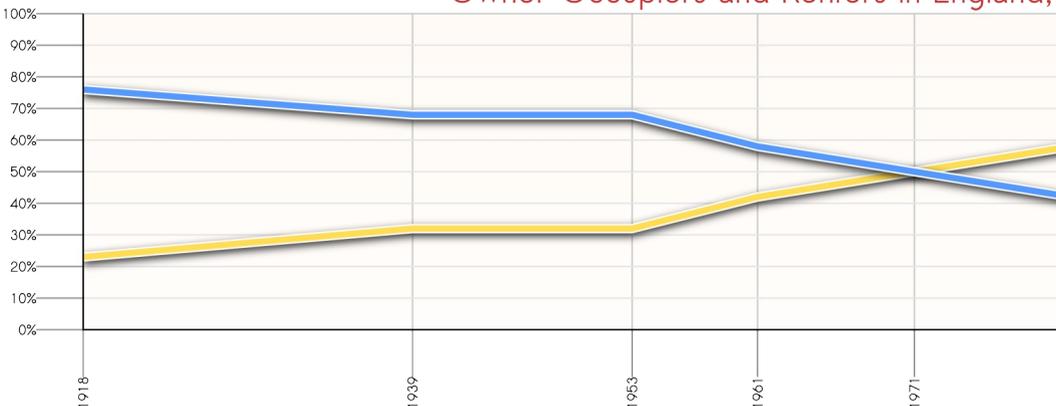
THE SLIGHTLY LONGER-TERM VIEW

The shape of UK housing has changed significantly over the last 100 years. At the end of the First World War, in 1918, 80% of people lived in private rental accommodation. By the early 1990s just under 10% of people lived in privately let dwellings.

During the same period home ownership climbed from 20% to almost 70%.

Meanwhile, the number of people renting social housing, starting from nil in 1918, grew to a high of just

Owner-Occupiers and Renters in England;



over 30% in 1961 and then fell back to around 20%.

So although it's nowhere near as important as it was in 1918, the private rental sector still provides homes for at least 10% of the population.

A SHAKE-UP

And now, the owners of these rental properties have new challenges to deal with as George Osborne's tax changes come into effect this year.

In the past, renting out a property was treated as a business activity in that the owner could deduct the expenses of owning and running the property before calculating the net profit for tax.

From 2017 on, some major expenses will no longer be deductible. Landlords may now

question whether providing rental accommodation can be a viable business any longer.

Landlords will still be able to deduct the cost of management, but the biggest expense for many landlords is the interest they pay on the finance used to purchase the property. That expense will no longer be deductible by private landlords.

WHAT'S THE EFFECT?

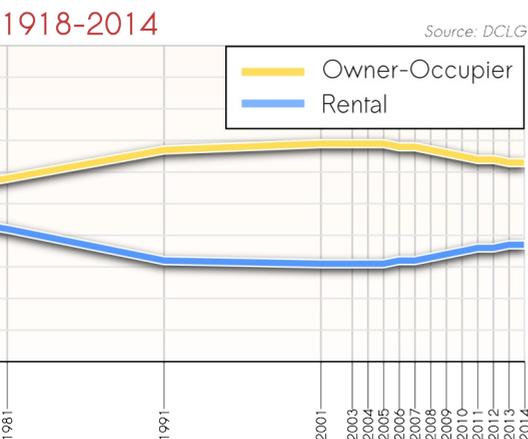
Some portfolios will cease to be financially viable and the owners will have to sell or restructure.

Restructuring can be costly and it involves a certain amount of red-tape. For some people it just isn't worth the hassle.

This opens an opportunity for Giroma to provide a solution for landlords whose portfolios will soon start costing them money rather than creating an income.

WHAT ARE LANDLORDS DOING?

Many are doing nothing. For one thing, the new tax rules won't have any impact on owners who have no mortgages on their properties. For another, some commentators have



put the number of landlords who are unaware of the changes as high as 95%.

Some are putting their faith in lobby groups who believe that the government hasn't understood the impact the new tax rules will have on the private rental sector. They hope to find sufficient support in Westminster to reverse Section 24 of the Osborne tax legislation before it takes effect.

Some are approaching firms offering to provide tax-efficient structures for landlords – provided they can pay a significant fee.

We hope some will come to Giroma, where we have a good track record in finding win-win solutions.

TIMES OF CHANGE ARE TIMES OF OPPORTUNITY

Challenges to long-held habits and expectations can be unsettling and those willing to take new approaches, to see the puzzles in different and perhaps new ways, will discover opportunities to grow.

Giroma is always looking for ways to support people in meeting their needs, and we are keen to work with rental property owners to find solutions that will truly provide a win for all concerned. As Einstein famously said, "In the middle of difficulty lies opportunity."

NEXT EDITION

Our spring edition will be out in April. For news and information before then, visit the website from time to time.

Thank you for your continued interest in Giroma.

QUOTE OF THE QUARTER

*There are risks
and costs to
action.*

*But
they are far less
than the long
range risks
of comfortable
inaction.*

.....

(John F Kennedy)

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