Is Buy-To-Let Viable in a Recession?

With many financial experts warning of one the worst recessions for nearly 100 years looming, many potential property investors may be put off increasing the size of their portfolio, or even may look to sell up at soon as possible. However, as Jimmy Buffett once said, “widespread fear is your friend as an investor because it serves up bargain purchases”. This also relates to property investing and highlights that soon there will be countless opportunities to take advantage of the economic climate.

Opportunities are Dime a Dozen

As a recession hits and budgets are squeezed, inevitable there will be an increase in foreclosures. These properties may be put up for auction which could be purchased with a sizeable discount if you have the cash required. Moreover, individuals may look to downsize urgently if mortgage payments become unattainable, which may lead to a desperate sale. Again, a situation where the house may be sold below value.

Interest Rates are Lower Than Ever

The current Bank of England base rate is at an all time low of 0.1%. The benefit of this is thankfully being passed onto borrowers as mortgages and loans have never been cheaper. With 5 and 10-year fixed rate mortgages an option, now would be a great opportunity to take out a new mortgage and secure a mind-blowing rate for at least half a decade.

House Prices and their Unpredictability

No one can claim they know what is going to happen to house prices. Whether they are going up, down, left or right it is impossible to anticipate in what direction they will head. However, if a recession does occur it would be extremely likely that the economic situation will affect the property market. If property prices drop then this would create more opportunity for property investors if they can seize the opportunity. Moreover, house prices double on average every 10 years so you can be confident long-term that after the recession the market will stabilise.

People Will Want to Rent

With COVID-19 affecting most people financially, major banks have had to toughen the criteria for getting mortgages. Many banks are now requiring a 20% deposit, rather than 10% or even 5%. This means that a mortgage will now be unattainable for more people, leading them down the path of renting instead. Also, people generally are risk-adverse and will see the recession as a time to avoid purchasing a property and will rather hold out until the economy recovers. These two factors will lead to more renters, meaning finding tenants for properties may be easier.