MORTGAGE INTRODUCER

Crowdfunding expected to replace buy-to-let

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Property crowdfunding will go some way to replacing buy-to-let as the government's tax changes stifle the market, Prime Central London property expert Jeremy McGivern has predicted.

McGivern, founder of search agency Mercury Homesearch, reckoned the growth of crowdfunding will represent the biggest change to the housing market in the next few years but warned it could have a 'catastrophic' outcome.

At Investec Private Banking's event last week he was asked about the impact of the buy-to-let tax changes, which include the introduction of the 3% stamp duty surcharge in April and the changes to mortgage tax relief from next year.

McGivern said: "People will go 'instead of putting it in buy-to-let I'll just do it through crowdfunding' and that gets round a lot of those issues.

"It's the law of unintended consequences – there will be ways around it."

He implied that crowdfunding could heat up the market in the process.

He added: “Property Partner has said it wants to become the London Stock Exchange for property – a catastrophically bad idea but it will happen and it will become mainstream.

“The key point is that the minimum investment is £50 and the maximum is £150,000 which means money that was previous locked out of the market in a savings account now has access.

“Lots of £50 investments are not going to make much difference but there are going to be lots of people with £5,000, £10,000, £20,000, £40,000 who have that as their deposit but it isn’t quite enough for the property they want to buy.

“So what are they going to do? When they see the market going up they will put it into crowdfunding sites while they are saving their money, or waiting for a bonus, or waiting for promotion that’s just around the corner which will then allow them to buy the property they want.”

Lee Grandin of Lend2Landlord, a peer-to-peer lending platform linking landlords and developers to funders, felt McGivern may have a point if anyone is allowed to jump in and invest.

He said: “Any mechanism such as a P2P platform that engages a funder that is not able to make a sound decision on whether to lend its money is a total disaster.

“There is definitely a fine line between supporting irresponsible lending and giving peer funders an opportunity to receive a better return.

“What you have to remember is that every Tom, Dick and Harry exists in every asset class, for example many invest in shares knowing that all their capital is at risk.

“There is always an argument that risky investment should be limited by your net worth but Brexit clearly shows you can’t dictate what people should or shouldn’t do so that is unlikely to ever happen.

“There is only ever one message you can ever say and it must be said clearly and concisely: Your capital is at risk, You could lose all your money.”

McGivern also predicted the likes of Bath Building Society’s Rent a Room mortgage, suitable for borrowers letting out part of their homes to visitors on Airbnb, becoming mainstream like crowdfunding.

He said: “A year and a half ago I said banks and other lenders will take Airbnb income into consideration.

“Bath Building Society had a first Airbnb mortgage this year – it was more of a PR stunt than a money-spinner – but that will become mainstream as the sharing economy is becoming more mainstream.”