AFFIRMATIVE

Buying Property to Let:

A New Landlord's Guide

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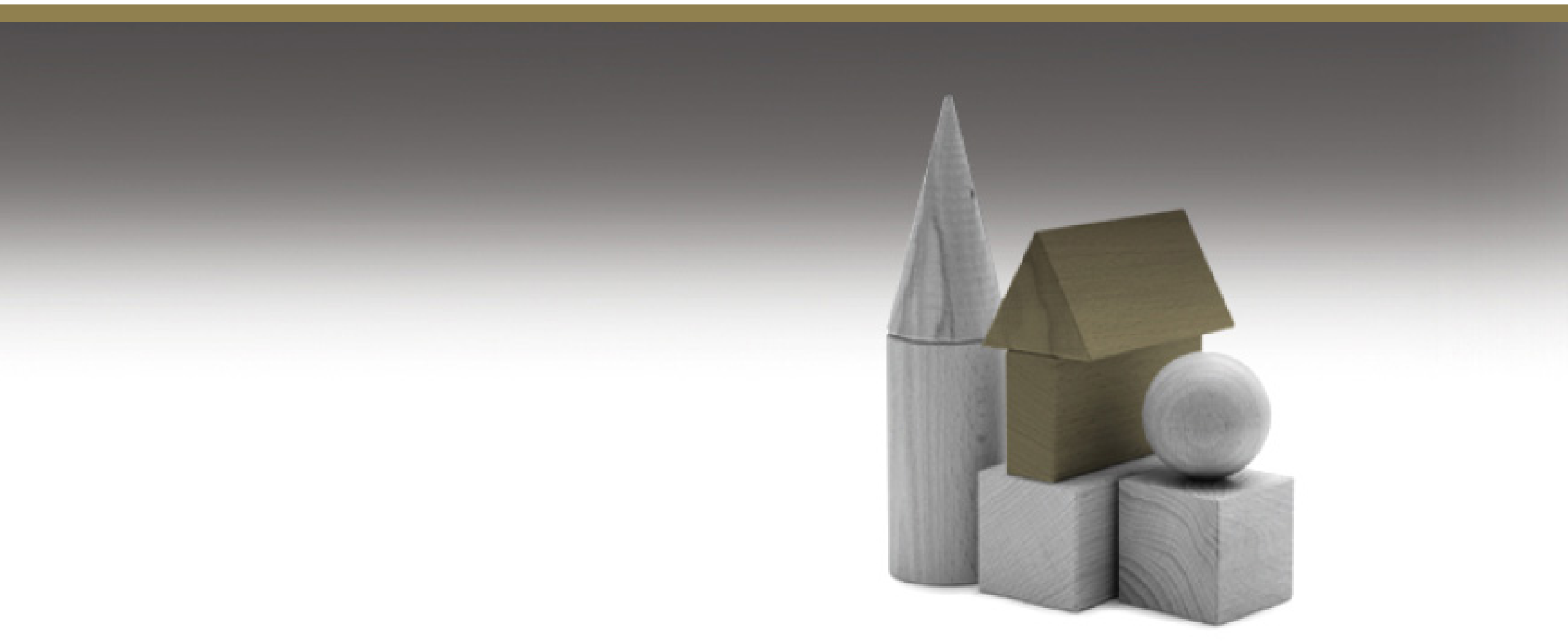

Why Make a Buy-to-Let Investment?

There are many reasons why people decide to become buy-to-let investors. Some do it to make a little extra cash on top of their existing incomes, while others want to devote all their attention to it and become full-time landlords.

In any case, here are the main incentives of buying a property to let:

New Income

The main upside to becoming a landlord is, of course, the new source of income it provides. If you invest wisely and you make the effort to create and maintain an attractive property, you should never find yourself short of prospective tenants. If you are conscientious and proactive in your duties as a landlord, your tenants will be more likely to want to stay for longer than just one contract, which makes your job easier and ensures that you continue to generate a steady flow of rental income.

ROI

You should eventually start to enjoy return on your investment, and then once you have paid off (or substantially reduced) your buy-to-let mortgage or loan, this is where you will start to make a solid and significant profit. At this stage, you have the freedom to reassess your situation: you could expand your portfolio by investing in a second buy-to-let property, or you may be perfectly satisfied with your current situation as a one-property landlord.

Potential Sell-On Profit

If you come to sell the property a few years (or decades) down the line, and you time this sale well, you should in theory get back more money than you invested originally – even with all the additional costs and inflation taken into account.

Is Landlord Life the Right Choice for You?

Before you do anything, you need to decide whether you really are prepared to take on the responsibility of being a landlord. It can be extremely rewarding in the long run, but only if you are willing to deal with the potential complications and downsides.

Even if you use a letting agency to take care of the day-to-day issues (which many new landlords do), you will still need to dedicate a lot of time and money to your investment.

Stress

Buy-to-let investments are hard work – there is no getting around that. Even if there is not much building or decorating to do at the outset, maintaining a property on an ongoing basis can be very stressful.

Furthermore, your new responsibility of being a landlord will likely be daunting for you – especially at the beginning. All the administrative tasks are down to you (e.g. organising deposit protection for your tenants).

Financial Pressure & Risk

The initial property investment can bring a considerable financial burden. You will need to keep up your loan repayments, whether this is a traditional buy-to-let mortgage from a high-street lender or some other form of finance from an alternative lender.

If for some reason your property goes unoccupied for a period of time, the lack of rental income could eventually start to eat into your finances and cause you to fall behind on your repayments. As such, you will need to have a contingency plan in place.

Tax

As your rental revenue will be a form of income, you will need to pay income tax on it. This will mean submitting a self-assessment tax return.

Costs: Initial, Ongoing & Emergency

You will have to spend money in order to make money, and you will also have to cope with sudden and unexpected expenses from time to time. This could be something as simple as replacing a broken window, or it could be something pricier – like a new boiler.

The upside is that many of these expenses are tax-deductible.

Issues with Tenants

Naturally you will try to avoid potentially troublesome tenants in the first place, but some are not identifiable at the outset. Problems with such tenants can range from late payment and non-payment to property damage and antisocial or disruptive behaviour, so it is wise to know your legal rights as a landlord, and to know their legal rights as a tenant. You should also keep an eye out for any changes in related areas of the law.

Your Duties & Responsibilities

Health & Safety

Local councils use the Housing Health and Safety Rating System (HHSRS) to evaluate the safety of residential properties. If they carry out an inspection on your property, it will be for one of two reasons: either because they suspect it is unsafe, or because a tenant has asked them to inspect.

During these inspections, the council will examine 29 potentially hazardous areas within your property. Any hazards found will be put into category 1 (serious) or category 2 (less severe).

Fire Safety

To ensure you offer a fire-safe home to your tenants, you will need to make sure there is...

- a working smoke alarm installed on every storey
- a working carbon monoxide detector in every room that contains a fuel-burning appliance (e.g. boilers, cookers, fireplaces and heaters)
- fire-safe furniture throughout the property
- access to the property's escape routes

Gas Safety

The Gas Safe Register is the UK's current official registration body for approved gas engineers (it supplanted CORGI in 2009). You will need a Gas Safe-registered engineer to check any gas-burning equipment and appliances in your property before you allow tenants to move in, and this process must be repeated annually.

Electrical Safety

The property must be wired up correctly, with working plug sockets and light fittings that are safe for tenants to use. You should carry out a basic visual check on a regular basis – at least once a year, and between each tenancy.

Any existing electrical appliances that were included in your purchase of the property (such as fridges, ovens, toasters and kettles) should be PAT-tested if you intend to keep them for your tenants to use.

Repair Work & Maintenance

Every tenant has a right to accommodation that is kept in a reasonable state of repair, so it will be your responsibility to fix certain aspects of the property if needed. These aspects normally are:

- Anything structural (interior and exterior)
- Electrical wiring
- Heating (including access to hot water)
- Sanitary fixtures and fittings (i.e. sinks, baths, pipes, drains)
- Gas-fuelled appliances and related fixtures (including ventilation)
- Dampness and mould

Tenants should and usually will notify you of any such issues, but it may be worth specifically asking them, every so often, whether everything is okay – just to make sure.

If you want or need to access the property while a tenant is living there, you should give them at least 24 hours' notice (depending on what the tenancy agreement states).

Once a tenant has reached the end of their contract and has moved out, you should thoroughly inspect the property to see if there is any work required before the next tenant(s) can move in. You should look out for all of the above-mentioned examples of disrepair, as well as general aesthetic issues like marked walls, broken furniture and worn-out carpeting.

Paperwork & Admin

When a prospective tenant applies to rent your property, you will need to do the following:

- Check they have the right to rent in the UK
- Give them a copy of the latest version of the Government's 'How to Rent' checklist document
- Get them to sign a tenancy agreement document
- Provide them with an energy performance certificate
- Protect their deposit through a Government-backed tenancy deposit scheme

It is advisable to set up direct debits or standing orders with your tenants, so that their rent is paid into your account on a specific date each month. Doing it this way should help to prevent late payment and non-payment.

Finding the Right Property

Location

Location is a vital consideration in any sort of property purchase, but especially so if you are buying to let, because it will directly influence the amount of rental income you can make on it.

A property in a desirable area will usually have a higher purchase price than a virtually identical property in a less desirable area. If you invest in the more prestigious location, you will be able to command higher rent, and the property itself will usually increase steadily in value. On the other hand, investing in the more modest area will be cheaper for you initially, and will allow you to appeal to the larger demographic of tenants who earn lower incomes.

As long as you invest where there is relatively high demand for rental property, you should have little trouble attracting prospective tenants – which will, in theory, ensure quicker ROI for you.

If you can identify an 'up-and-coming' area and get in there early – while house prices are still quite low but are rising quickly – you should find that your property steadily increases in value in the short to medium term, which means you may be able to sell it on for a considerable profit at a later stage. Of course, there is always a level of risk involved with these supposedly up-and-coming areas, because it is difficult to accurately predict just how affluent and desirable they will become (if at all).

Type & Size

Different types of properties attract different types of tenants, so one of the first things to decide is whether you want to invest in a house or an apartment.

Houses generally appeal to...

- families with children
- established couples
- students (several sharing)

Apartments generally appeal to...

- young professionals (including recent university graduates)
- people who live alone
- young couples
- couples without children
- elderly people

Try to look out for lucrative opportunities too. For example, if you are looking at a large Victorian semi, could it be split out into two or three apartments? Doing this could increase the property's revenue potential considerably. For argument's sake, if you keep the property as one large Victorian house, you might be able to earn £1,200 in rent per month – but then if you were to convert it into three separate apartments, you could potentially command much more than £1,200 in rent from the three sets of tenants.

Condition

Some new buy-to-let investors like the relative simplicity of a low-maintenance ('ready-made') property, while others relish the challenge and potential of a renovation or refurbishment project. You should decide early on just how much time, effort and money you are able and willing to commit to your property, because this will help you refine your search and will ensure that you invest well.

Buying a run-down property and renovating it could indeed prove a highly profitable choice in the long run, but only if you are prepared to put in the hard work at the beginning and to see the project through. Properties that require a lot of work often have enticingly low asking prices, but you must factor in all of the potential renovation costs and then evaluate whether it is really worthwhile.

Your property needs to be legally habitable and safe before you can rent it out, so investing in a high-maintenance property might well mean that you will go several months before you start to make any rental income at all.

Funding Your Buy-to-Let Property Purchase

Unless you have enough cash to pay for your buy-to-let investment outright, you will need to decide which sort of loan you are going to use.

High-Street Buy-to-Let Mortgages

If you want to pay for your buy-to-let property through a mortgage from a bank or building society (or another provider), you will need to apply for a specific type of mortgage that is designed especially for buy-to-let investments.

How a Buy-to-Let Mortgage Differs from a Regular Mortgage

- Not regulated by the Financial Conduct Authority (FCA) unless it is a consumer buy-to-let loan
- Larger deposit – depending on the lender, this could be anywhere between 20% and 40% of the purchase price
- Higher interest rates (usually)
- More expensive fees (arrangement, booking, valuation, etc.)

Banks, building societies and other providers usually have upper age-limits in place for buy-to-let mortgages, stating the oldest you can be when the mortgage ends (usually between 70 and 75). For example, if you are 55 when you apply for the mortgage, and the bank's upper age-limit is 70, you will need to pay it off within 15 years instead of, say, 20 or 25.

Most high-street lenders will only give you a buy-to-let mortgage if you already own another property – either outright or through an on-going mortgage. You will also need to have a strong credit rating, and a good annual income certainly helps as well (although some lenders will simply carry out an assessment based on the rent achieved/ achievable).

Bridging Loans

A high-street buy-to-let mortgage is not always the best option; sometimes it is not even an option at all. If the property you want to buy is not currently habitable (e.g. one that has no bathroom or kitchen), it will not qualify for a buy-to-let mortgage, and another type of finance will be required. This is similarly the case if you are buying a property as a renovation project. Bridging finance could provide the ideal funding solution in these scenarios.

Just as with a normal mortgage, you will need to provide either an existing property – or the property being purchased as security. If you provide two securities it may even be possible to raise 100% of the purchase price and renovation costs. You will need to provide an exit strategy that is acceptable to your bridging lender.

An advantage of bridging finance in a buy-to-let scenario is the speed at which you can receive your funding: within a matter of days if necessary, which is perfect if you have picked up a bargain at an auction.

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