



A Guide to Buying to Let

It is no surprise that during an on-going period of soft sale prices and increasing letting activity that more and more people are looking to increase their investment portfolios or to transfer other investments into property. After all, many of today's millionaires made their fortunes by buying property at the end of the last recession.

But the Buy-to-let market has changed quite substantially over the last 5 years; From the boom days of 2006 when property values seemed to have no ceiling and lending was available to almost anyone, to the lows of 2008-2009 when confidence in the market was dropping almost as fast as lending availability, to today, when rental demand is at an all-time high and lending is becoming easier for landlords. To help those landlords who require advice, we have produced the following guide to Buying-to-Let, with tips and hints on the right property choice as well as a jargon buster to help you understand the 'lingo'. It's fair to say that an unflinching truth of successful property investment is **Location, Location, Location**, but this doesn't mean just buying in the most popular areas (which are normally the most expensive). Instead it is about researching potential areas and finding out what the current and on-going demand is for both

the rental and sales market. The basics of a good investment are to buy low, sell high and to get the best rental possible in the meantime, but the reality is that there are far more variables to consider, so **research and expert advice are the key**. If an area is undergoing regeneration or major improvements, if it offers good commuter links or an on-going pull to potential tenants and buyers – such as large local employers or great schools – then you have



A lettings specialist can advise on the most suitable Buy-to-Let property, which can make all the difference to the success of your investment.

found a good place to invest.

Once you have highlighted the right area, you'll need to **identify the best type of property**. A one bedroom flat in an area popular with families, or a family home in an urban young professional area will leave you with a problem. The easiest way to find out which is the best type of property for letting is of course to talk to a lettings specialist. Many investors are caught out by highballed rental estimates from sales agents keen to close a deal, so **independent advice is a must**.

Despite the overwhelming demand for rental property it is important to remember that **tenants take their choice of property seriously** and if they plan to rent for an extended period of time they will want something well-presented and well maintained, so **be prepared to make cosmetic updates** to a property to ensure a fast let and the highest rental income.

Like any investment you need to consider the **costs involved versus the potential return** and of course with property there is the added confusion of a mortgage. With lenders generally now looking for a minimum of 125% rental coverage, it is important to **secure the right mortgage rate** and to be realistic about the rental income. Mortgage rates vary from product

to product, as do the fees charged by the lenders, so you need to consider the overall cost for comparison of any mortgage as well as ensuring that the mortgage fits with the rental income and purchase price.



Even making cosmetic updates can improve tenant calibre.

Free mortgage comparison sites, such as www.leadersmortgages.co.uk will make this task much easier and show you all the available products from all lenders in one place. The typical deposit required for a buy-to-let property is currently 20%-25%, but there are some 85% mortgage products starting to emerge. The important thing is to make sure that your investment is not over geared. Whilst with the right property in the right area void periods should be minimal, they are still a risk of any buy-to-let investment, so you need to **ensure that your monthly outgoings on the property are manageable** during any periods where you do not have a tenant.

Don't be over ambitious. Property is a medium to long term investment and this is true more now than ever before. Your biggest profits will come from capital growth and this takes time. It is advisable that all buy-to-let investors should look at any property purchase as at least a 5-10 year investment, so if you are expecting to buy an investment property and retire on the profits a year later you will be sorely disappointed. Many people do make a living from their lettings portfolios' but these are typically built up over time.

Be realistic. As with any investment there are negatives as well as positives and whilst many of these negatives can be avoided with the right planning, research and advice, **the property market is constantly changing** so you need to be prepared to overcome any obstacles. Whilst JSM Property landlords benefit from

an industry low of just 3 weeks average void period per annum, it is still advisable to have a contingency fund for void periods as well as for any maintenance and repairs that may be needed. By knowing what 'might' come up you can ensure you don't get taken by surprise.

One of the major considerations when entering the lettings market is how hands on do you want, or have time to be. Some tenancies run smoothly without a single hitch, whilst others can throw up problem, after problem. Lettings is a **highly legislated industry** with many legal pitfalls that can catch out new and experienced landlords alike and with many penalties including imprisonment it's not worth trying to 'wing it'. The easiest solution is to use a **qualified, experienced and ARLA registered lettings specialist** to either manage the property, or at the

very least negotiate the tenancy terms and prepare an inventory, then collect the rental throughout the tenancy. Of course the fees involved in-such a service are greater than if you just use an agent to find you a tenant, but when you have taken so much care to choose an area, find a suitable property, secure the best mortgage deal and attract the best rental, can you really afford to risk the whole investment over what really is a small percentage of the income?

Our qualified and experienced staff are able to give independent advice about potential purchases in each area we cover, as well as talk you through the more in-depth considerations of lettings. With the right advice and a pragmatic approach it is easy to make a success of property investment.

Jargon Buster:

Capital Growth: The increase in value ('capital') of a property from the time you bought it.

Coverage: This term relates to the mortgage on the property versus the rental income. Lenders are keen to see that Buy-to-Let mortgage payments will be covered by the rental income. So if a lender wants 130% rental coverage on a monthly mortgage payment of £1,000 then the rental income would need to be £1,300 per month.

Gearing: The amount of lending against a property, or portfolio of properties. 'Highly geared' means that a property or portfolio has a high percentage of finance against its value.

ROI: Return on Investment. As most property investments are supported with a mortgage (which is subsequently covered by the rental income) the investment is typically regarded as the deposit plus costs (such as stamp duty, solicitors fees etc) to purchase the property. The initial return would be from any excess rental income, but as most property investments are medium to long term, it is the capital growth that is typically the 'profit' generator of Buy-to-Let.

Yield: The rental yield is the yearly income achieved through rent versus the purchase price (or value) of the property. So, for example, if a property worth £200,000 had a monthly rental value of £800 then the yield would be calculated by multiplying the monthly rental by 12 (£800 x 12 = £9,600) and then dividing that amount by the property value: £9,600/£200,000 = 4.8%