Your guide to buy-to-let investment

MORTGAGE WINNERS

Contents

2	Is buy-to-let right for you?
4	What does being a landlord entail?
6	How much can I borrow?
7	Choosing the right mortgage for you
9	What costs do you need to consider?
10	Additional costs to consider
12	Who, what and where?
13	Viewing properties
14	Should you rent privately or use a letting agent?
15	Applying for a buy-to-let mortgage
16	Duty of care
17	Buy-to-let insurance
18	FAQs

Is buy-to-let right for you?

Investing in a buy-to-let property can be an exciting opportunity, but it's not a decision that should be taken lightly.

Many people go down this path as a means of making money, but it's important to go into the business with your eyes open rather than focusing on the potential financial gains.

By having clear, set objectives in mind from the beginning, you're more likely to get the most out of your buy-to-let investment. But what does it take to be a successful landlord, and what do you need to plan and prepare for in order to achieve your goals?

Plan your finances

Know what your financial intentions are from the offset. Will the money be used as your regular income or will it be set aside as capital growth? You'll also need to have a clear budget in mind, accounting for your monthly mortgage payments, income tax, utilities and any unforeseen costs.

Do your research

With more than 160 laws for landlords to comply with, there's lots to think about. To help navigate the complexities, it may be worth appointing a letting agent who will be clued up on all of the rules and regulations associated with being a landlord. However, we still recommend you take the time to learn the main areas of legislation to ensure the safety of your tenants.

Is buy-to-let right for you? continued…

Get financial advice

The property investment market can fluctuate depending on the economic state at any given time, so it's important to speak with a mortgage adviser to protect your finances and insure your property. You should also consider speaking with an accountant regarding your buy-to-let investment so that you have a clear understanding of your financial situation.

Consider an exit plan

This is probably the last thing you're thinking about right now, but it's important to consider your exit from the buy-to-let market just as much as your entrance to it. For instance, will you sell your property after a certain number of years, or perhaps when it's reached a specific value? Having a clear exit plan will also help you to settle your finances in the most tax-efficient way possible.

Avoid bad practices

While there are plenty of things to think about as part of the buy-to-let process, there are certain practices you'll want to avoid altogether:

- Diving straight into buying a property with no wider consideration of the buy-to-let market. This includes not seeking the right mortgage advice, and as a result, not understanding the implications of tax, associated costs and responsibilities involved with renting out a property
- Not protecting your property or your finances against the worst-case scenario
- Not keeping up with the buy-to-let laws and regulations, and therefore not protecting the health and safety of your tenants
- Not understanding exactly what being a landlord entails, including keeping the property in good condition, looking after your tenants' needs and dealing with relevant paperwork

What does being a landlord entail?

It's important to enter the buy-to-let market with your eyes wide open, aware of all the ins and outs associated with being a landlord. Here are a few things to consider when deciding if it's right for you.

Finding the right property

Never underestimate the amount of time it may take to find the right property. You'll need to think about what type of property you want to invest in - would you prefer a new build, or something older? Newer properties should come with fewer maintenance issues, but an older property may give you the opportunity to add more value.

You should also think about how many bedrooms the property has and how many tenants it could house. If your property is going to house more than three tenants who aren't members of the same family (commonly known as a 'house share'), it will be classed as a House in Multiple Occupancy (HMO).

House in Multiple Occupancy

While HMOs often offer higher gross rental income, they can be subject to more frequent tenant changes, and usually incur higher fees and legal costs. HMOs can sometimes require a different type of licence, and those at higher occupancy levels (five or more tenants) will need to be registered.

As a landlord of a HMO property, you need to ensure that:

- The house is suitable and offers comfortable living standards for the number of tenants living there
- You as the private landlord - or the letting agent you've chosen - need to be 'fit and proper'. This means having a clear criminal record and no history of having breached any landlord laws or code of practice
- Your annual gas safety certificate is sent to the council
- When requested, you can provide safety certificates for any electrical appliances
- Smoke alarms are installed and maintained

What does being a landlord entail? continued…

Finding the right tenants

When renting a property, you'll not only need to find tenants to occupy the house, but also tenants that are right for you.

The type of tenant you'll want to attract will largely determine the area you look to invest in. For example, if you want to attract families, you'll want to be close to schools and leisure facilities. Whereas, if you'd rather house students, you'll need to consider a property near university grounds.

While they may come at a cost, a letting agent could be invaluable in finding and vetting prospective tenants, helping you to secure references and carry out credit checks.

Maintenance and repairs

Your buy-to-let property is your responsibility, so anything that needs repairing or maintaining will come down to you. You need to be easily contactable via phone and email, and it'll be your job to find the right tradesperson to
fix the problem.

It's also important to remember that it's not always just the inside of the property that needs maintaining. If there is a garden, tenants might not maintain it, so you may want to consider hiring a gardener or making the garden as low-maintenance as possible (laying patio slabs rather than grass).

Dealing with tenants

You need to be prepared to deal with all types of tenants, including the more challenging ones. Are you willing to have difficult conversations when needed? This could be about anything from missed rent, a rise in payments, upcoming inspections or handing out an eviction notice. If you think you might struggle with this, you could employ a letting agent who would act as the first point of contact for tenants and would have these conversations on your behalf.

No rent coming in

The market can be unpredictable at times, so it's important to be prepared for this. It would be wise to have funds that are separate to your landlord income to insure you against any downturns. As well as changes in the market, there may also be times when your property is unoccupied, so you'll need to have a back-up plan for paying your mortgage during this period.

How much can I borrow?

Buy-to-let is a medium to long-term investment, so the first thing you want to ask yourself is: can I afford to tie my money up for a period of time?

How much to borrow

The terms for a buy-to-let mortgage are constantly changing, meaning it can be difficult to keep up to speed. For instance, higher and lower rate taxpayers are often treated differently, and a five-year fixed mortgage might get you a bigger mortgage than a two-year fixed would.

Typically, landlord mortgages require a higher deposit than you'd need for a residential mortgage. This means that the loan-to-value (LTV) ratio could be smaller compared to other products, such as mortgages for first time buyers.

Buy-to-let mortgage rates can vary depending on several factors, such as:

- Your credit score
- How much deposit you've put down
- How risky the loan is
- The type of mortgage product recommended for your circumstances

For these reasons, it's always worth seeking advice from a qualified mortgage adviser.

Pricing the rent

Deciding on how much rent to charge your tenants can be tricky. Generally speaking, the amount you set the rent at will be determined by the market itself. Look on property websites such as Rightmove and Zoopla to see what a similar size property in the same area is charging.

Once you've purchased your buy-to-let property and understand the required costs - including stamp duty and how much you can expect to receive in rent - you can then work out your rental yield.

Property Value	Rental Income	Expected Rental Yield
£165,000	£700.00	5.09%

For example:
After you've completed all the required calculations, you can make a decision you can make an informed decision whether to go ahead with the purchase.

Choosing the right mortgage for you

There are different types of buy-to-let mortgages and rates to choose from, all of which can be discussed in more depth with your adviser.

Repayment or interest-only mortgage?

Repayment

With a repayment mortgage, you'll pay interest, plus the capital mortgage balance. This means that by the end of the full mortgage term, the mortgage will be repaid (as long as you don't change this at a later date).

Interest-only

With an interest-only mortgage, you'll only pay back the interest, not the capital borrowed. This means your monthly repayments will be lower, which may leave you with more disposable cash from the rental income to cover any additional costs.

It's common for buy-to-let investors to opt for an interest-only mortgage, especially if you're planning to sell the property at the end of the term. If you do sell the property, you'll repay the outstanding mortgage balance, and you'll also have to pay any tax due on capital gains (or profits).

Fixed or variable rate?

Fixed rate

With fixed rates, your mortgage repayments will always remain the same. Regardless of what happens to interest rates, your mortgage payments will stay the same whether you fix for two, three, or five years. Effectively, a fixed mortgage acts as an insurance policy against interest rates going up, so you tend to find that fixed rate mortgages have a higher rate, as you pay a bit more for peace of mind.

Variable rate

With a variable mortgage, the rate will fluctuate depending on the terms of the mortgage.

Choosing the right mortgage for you continued…

Standard variable rates

A standard variable rate (SVR) tends to follow the Bank of England (BoE) bank rate closely, but not exactly. For instance, if the BoE rate is dropped to 0.25%, your SVR might only drop to 0.2%. However, when the BoE rate goes up, it's often increased to the full amount. More often than not, you'll move onto an SVR once your fixed rate term has come to an end.

Trackers

A tracker mortgage will track the BoE bank rate exactly. This means that whatever interest rate the Bank of England sets, is the interest rate that you'll pay on your mortgage. It's common to have a tracker mortgage for a few years before dropping onto an SVR, once this period comes to an end.

Discount rates

As stated in the name, discount rate mortgages offer a reduction in the standard variable rate (SVR). The discount period can be for a short timeframe (two or three years), or last the entire term of the mortgage, depending on the deal.

What costs do you need to consider?

Before you get started, you'll need to pay for more than just the deposit as upfront costs.

Arrangement fee

Some mortgages come with a product fee, which normally costs more compared to residential mortgages. This can either be paid upfront or tagged onto the cost of your mortgage. There can also sometimes be an administration charge made by the lender for arranging the credit of your mortgage.

Stamp Duty

If the property you're investing in is over a certain price, you'll have to pay a tax known as Stamp Duty Land Tax (SDLT) in England and Northern Ireland, Land Transaction Tax (LTT) in Wales, or Land Building Transaction Tax (LBTT) in Scotland. The price you'll pay will vary depending on the amount you paid for the property, and whether you already own a property in the UK.

Legal fees

Your solicitor will charge a fee for their services, which includes handling the contracts and documentation and conducting searches, amongst other things.

Valuation

Many lenders will want to carry out a standard mortgage valuation, which you may have to pay for. However, you can look to upgrade to a structural survey or a homebuyers survey report for an additional cost.

Insurance

Buildings insurance is essential, and if you're furnishing the property out of your own pocket, you'll no doubt want contents insurance too. However, remember that you'll need a landlord policy rather than a residential one. The tenants are responsible for insuring their own belongings.

There are other types of insurance available for landlords, such as landlords and rent insurance. These can cover you for legal expenses associated with evicting tenants, or if there are periods where the property is empty and you aren't making any money from rent. If you're purchasing a flat, this may be included in any service charge, which you'd normally be responsible for paying. Your solicitor will be able to confirm if you need additional buildings insurance.

Additional costs to consider

Income Tax and Capital Gains Tax

You'll pay income tax on all the rent money you receive. If and when you come to sell the property, if you've made a profit (capital gain), you're liable to be taxed on the profit, not the total amount you receive.

We recommend that you seek independent tax and legal advice, as mortgage advisers are not qualified to offer tax advice.

Letting agent fees

Letting agents offer a variety of support, depending on which level of service you'd like. For instance, they can offer rent guarantees, tenant replacement and moving out fees. Some even offer a 'fully managed' service, where they can arrange for any repairs to be done using their own contractors. Just make sure you do your research upfront and know roughly what you can afford to pay.

Court and legal fees

Hopefully it will never come to this, but it's always best to prepare for the worst case scenario. If you end up having to evict tenants who aren't paying their rent, then you might have to take them to court in order to resolve the situation.

Repairs, maintenance and decoration

Depending on the age of the property, you'll no doubt need to spruce it up before your tenants move in. There may also be a few repairs to carry out to make sure everything is in good condition. If you're pretty hands-on, you'll likely find it easy enough to carry out the maintenance work yourself. However, if you don't have the time, skills or inclination, you might want to consider finding a trusted handyman to do these jobs on your behalf.

If your property needs a certain amount of work, it's worth allocating a realistic budget for this and any ongoing repairs, especially when considering your rental yield.

Gas safety check

A gas safety check needs to be carried out annually and will make sure any gas equipment is safely installed and maintained. Make sure the engineer gives you a copy of the gas safety record before your tenants move in, or within 28 days of them moving in.

Additional costs to consider continued…

Legionella risk assessments

As a landlord, it's your duty to carry out a risk assessment for Legionnaires' disease. This is a lung infection caught by inhaling contaminated water droplets, which can be picked up from water systems in properties. Legionella risk assessments should be carried out periodically, so make sure you read up on your responsibilities in this area.

Leasehold properties

There are additional costs to consider if you're purchasing a leasehold property. For example, service charges and ground rents are normally all payable by the landlord and not the tenants. You also need to consider the length of lease, as this could need extending during your ownership.

Furnished or unfurnished?

Your property may be more attractive to prospective tenants if it's already fully furnished, as this saves them a job. However, if you decide against furnishing the property, you don't need to worry about having to replace items following general wear and tear.

White goods

Even in unfurnished properties, many landlords still provide white goods to tenants, such as a cooker, washing machine, and fridge/freezer. If these break or need repairing, you'd need to cover the cost of this.

Who, what and where?

The determining factor in deciding where to buy your property will likely be influenced by the type of tenants you want to attract, as well as whatever your long-term goal is.

For instance, if you want to attract students or professionals, you'll want a three to five bed property with rooms that can be rented out individually, and ideally will be within easy reach of the city/town and have good transport links.

In comparison, if you're looking for long-term tenants, you might want to attract a family looking to settle down for a few years. The location would no doubt be close to local schools and amenities, and you'd likely be looking for a two to three-bed property that you can rent out as one whole unit.

Different tenant types

Just as there are different mortgages and rates, there are also different types of tenants. Bear in mind that the type of tenants you let to can impact the availability of mortgage lenders, depending on their terms.

Prime market tenants

Prime market tenants might be working in the area (or the UK) temporarily. They're often high earners looking to rent a more upmarket property for a short period of time. These tenants tend to rent through a letting agent rather than directly through a private landlord.

Professional tenants

Professional tenants look for easy transport links to make their work commute as easy as possible. They're likely to rent for a long time, rather than saving money towards a house deposit.

Social tenants

Since the selling off of council houses, the private rented sector has become more popular to those living on benefits, than the amount of people living in social housing.

Student tenants

Students are short-term tenants who rent out either in the city centre or nearby areas, usually for between one to three years. Again, this type of tenant would look for excellent transport links in and out of the city, and to their relevant campus.

Viewing properties

Although you're investing your money into a buy-to-let property, you must remember that it isn't actually a home you'll be living in. You'll need to remove your emotions from the house hunting process - it doesn't need to meet your personal specification, but rather your business goals.

Looking at it purely from an investment point of view, you might want to consider the following:

- Who do you want to rent to?
- How long might it take to secure tenants around this area?
- What is the rental market in the area like?
- Is there the potential to build capital growth in the property?
- Will the rent you receive cover your costs?
- Can you make improvements to the property to increase rental income or capital growth?
- Have you looked at any forecasts for property growth in the area?

Should you rent privately or use a letting agent?

The type of person you are and the type of work and family commitments you have will determine whether you rent privately or use a letting agent.

The advantages of using a letting agent

- Chase any outstanding rent payments
- Assist with the eviction process
- Help with getting references
- Arrange for viewings (which can be particularly helpful if you aren't local to the area)
- Update you on changes in legal requirements

If you have the time to dedicate to landlord duties, and things are going well with your tenants, you might feel like you're paying for this service but aren't getting much in return. If that's the case, renting privately might be the right option for you.

However, if you struggle to find the time to complete necessary tasks, such as undertaking credit searches or checking bank statements and payslips, then leaning on an agency might be the ideal solution for you.

Applying for a buy-to-let mortgage

We recommend that you run through your finances to compare the costs of paying for the property against the rent you're likely to receive. A mortgage adviser could talk you through this, giving you a clearer idea of whether you can comfortably afford the mortgage repayments.

Our specialist buy-to-let mortgage advisers will be able to arrange an appointment that easily fits around you - whether that's face-to-face or over the phone.

How can Mortgage Advice Bureau help?

Our team of advisers can search thousands of mortgages for you, including exclusive deals from lenders that you wouldn't otherwise have access to. We have regular contact with a wide range of lenders - some of whom you may not even know exist.

With our help, you won't have to search or contact each individual lender in order to compare the mortgage terms and rates.

Explaining the fees

We'll explain all the different fees involved and what they're for, and we'll take each one into account when finding the right mortgage for you.

Knowledge

Our knowledge of different lenders' criteria is invaluable. Together, we can go through your expenditure to determine exactly what you can afford, tailoring your application to lenders most suited to your individual requirements.

Duty of care

We take your individual circumstances into account, and understand that one size doesn't fit all. For this reason, it's vital that you and your adviser have honest, in-depth conversations about your individual needs, from that first initial chat to submitting your mortgage application, and beyond.

Tailoring your application

Getting a mortgage can seem like a daunting task, but it doesn't need to be. The important thing to remember is that every lender is different in how they define the 'perfect applicant'.
Even if you don't fit one lender's criteria, it doesn't mean you won't be suitable for another. Having an expert on your side will ensure your application is tailored to the right lender for your individual needs.

Protection

Not only will we help find the right mortgage for you, we'll also make sure you're fully protected.

Buy-to-let insurance

When you're a landlord, you need slightly different insurance compared to your usual residential insurance. Some of these may be a requirement of your lender as part of your mortgage agreement, so it's important to know what each of them means.

Landlord building insurance

Often a must-have for lenders, landlord building insurance will protect against any risks to the building that might result in replacement or repair work, such as subsidence, fire, and burst pipes.

Landlord contents insurance

Like your own home, contents insurance for landlords is optional. It will cover you against any fixtures and fittings you have supplied (such as a fridge, washing machine, carpets), as opposed to your tenant's belongings. You can also extend this to include accidental damage.

Portfolio insurance

If you own five or more properties, portfolio insurance could be a good option. It enables you to cover the buildings and contents of all the properties you let out under one policy.

Home emergency cover

Home emergency cover is optional and is seen as an addition to the standard buildings insurance. It can provide emergency assistance for landlords including plumbing, heating, roofing, drains/ sewer blockages, lost keys,
and infestations.

Rent guarantee

There may be times when your tenants can't make their rent payments. Rent guarantee insurance will protect you from this loss, and will pay out the rent you're missing.

Legal expenses cover

This will cover the costs of legal protection should you need it for property damage, recovering rent arrears, repossession, and prosecution defence costs, to name a few.

FAQs

Q. What is the criteria for being a landlord?

A. To qualify for a buy-to-let mortgage, the majority of lenders will require that you already own your own home. Many also require that you earn at least £25,000 from a source not related to letting. However, this does differ between lenders. A minimum deposit of normally around 25% of the property value would also be required in most cases.

Q. Can I use my rental income to purchase another property?

A. This is dependent on your individual circumstances, and lenders will focus on whether you currently have a mortgage to pay on your existing buy-to-let property. If you do, a lender will ultimately see this as debt that needs to be considered. We recommend that you speak to a mortgage adviser, as they'll be able to look at your individual circumstances and discuss the options available to you.

Q. How do I know I'm setting the rent at the right price?

A. You can of course do your own research, but the lender will also do their own checks once they've carried out their property valuation to see whether you've set your rent at the right price.

Q. Can I raise capital on my own home to put down as a deposit on my buy-to-let property?

A. This is possible, but it's best to speak to a mortgage adviser about this. Once again, they'll be able to look at your individual circumstances and talk through your options.

Q. Can I apply for a normal mortgage for a buy-to-let property?

A. No, you will need to apply for a buy-to-let mortgage.

Q. Should I take an inventory for my rental property?

A. Inventories are always worth doing, as it's a good way to make a detailed list of all the contents and the condition of your property before tenants move in. This gives you a great starting point to refer back to if there's a debate over any damage that might have occurred during the tenancy period.

Q. Will I be taxed on my rental income?

A. As a landlord, you would be taxed on the income you make through the rent payments in line with your personal income tax liabilities. We recommend speaking to an accountant about this before purchasing your first buy-to-let property.

FAQs continued…

Q. What is a House in Multiple Occupancy (HMO)?

A. A property is classed as an HMO if there are more than three tenants living there who aren't members of the same family. Another indication is if there are shared facilities, such as a kitchen, bathroom, and toilet. Your choice of lenders may be limited if you're renting out a HMO, but your mortgage adviser will be able to go through this with you in detail. Councils can also have individual rules around HMOs, so if this is something you're considering, we recommend you speak to your local council first.

Q. Can I rent my property to a family member?

A. You would normally need a specialist mortgage in order to let to family members, as most lenders place restrictions on this as a condition of your mortgage. Speak to a mortgage adviser if letting to your family is something you're thinking about.

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There is no guarantee that it will be possible to arrange continuous letting of the property, nor that rental income will be sufficient to meet the cost of the mortgage.
Your home may be repossessed if you do not keep up repayments on your mortgage.
There may be a fee for mortgage advice. The actual amount you pay will depend upon your circumstances. The fee is up to 1%, but a typical fee is £195.