

Buy To Let Guide

# BUY TO LET GUIDE



## The Buy to Let Market

We have been dealing with rented properties in Bradford since 1989. We have seen the types and needs of tenants change, legislative and legal requirements were simply not what they were from all those years ago. In our opinion the private rented sector is set to continue to grow in the years to come. Put quite simply there has always been a natural high demand for rented property with good quality fully referenced tenants found in as little as 1 -3 weeks.

It's common knowledge that the current rate of house building struggles to match demand.

Other factors include the fact that the population continues to grow, generally house price growth out paces salary increases so affordability for buyers is an ever increasing problem, deposit requirements and lending criteria have tightened.

The "Gig" economy means more people work on temporary contracts or are self-employed, meaning they are less likely to be able to get a mortgage and in any case may favour the increased flexibility of renting rather than home ownership.

All of this contributes to the demand for good rental properties in the private sector.



## Looking for a Good Buy to Let Investment

The key here is do your homework well.

Firstly the sums need to add up, more on this later, but the aim is to identify properties with a good level of rental demand, that will be easy to maintain and manage and ideally have the potential for decent levels of equity growth.

When considering different areas, look into levels of demand and the rents being charged, speak to local letting agents such as ourselves, get their opinions, look at proximity to amenities and transport links. Go and look at the area itself, does it appear safe, clean, cared for, identify any potential anti-social behaviour issues such as Pubs, take away's etc. Visit the area on different days and times to get a feel for this.

If looking at flats or apartments how do other properties in the building appear?, what sort of people seem to be living there. Find out if there is a factor for the building and what sort of costs there are. Be very wary of buildings where there is no factor as getting individual property owners to contribute their share of maintenance costs could prove very difficult, and remember there are legal obligations on a Landlord to maintain a property to certain standard, that owner/occupiers will not necessarily need to abide by.

When looking at individual properties themselves consider the following;

- How much remedial work may be required and what this will cost to make it compliant with current regulations in the private rented sector.
- Check out how energy efficient the property is. The Scottish Executive is currently reviewing energy efficiency standards in the private rented sector and is likely to do something similar to new rules in England & Wales where from the 1st April 2018 properties with a band rating below E will no longer meet the criteria for property in the private sector.
- Is the property in good decorative with modern kitchen and bathroom, or are you quite prepared to do this work having bought it. Good tenants have expectations just like everyone else. Ask yourself this question "would I like to live here?". If the answer is no, then why do you think it will appeal to sort of tenants you would like to see living in it.
- When considering the issues of equity growth and "saleability" speak to local estate agents and try get a feel for how much demand there is for properties of this type, how often they come on the market?, how quickly do they sell?, are prices rising?.



## Making The Sums Add Up

Lets say you purchase a buy to let investment property for £100,000, and it rents out for £550 per month. That is a total rent of £6600, which as a percentage of the purchase price comes to 6.66 %, better than a lot building society saving accounts.

In reality though, this is only the yield if you bought the property without any borrowing.

So for example, you took out an interest only mortgage of £110,000, putting down a £40,000 deposit, Lets also say the interest rate on this mortgage is 3.7%.

This would give you annual mortgage payments of £4,070. Rental income is £9,000, less the mortgage payments of £4,070 gives you a net income of £4930. This as a percentage of your £40,000 investment in the property gives you a gross yield of 12.3%, which sounds pretty good compared to building society savings rates.

However there are other costs to consider before arriving at an accurate yield. Prospective Landlords should budget for void periods, say one month out of 12, buying costs i.e. stamp duty and legal fees, Insurance, letting management fees and maintenance and compliance costs.

## Tax Considerations

This is a big subject and we recommend you contact your Accountant for the most up to date advice based on your short, medium and long term objectives for your buy to let investment. In 2015 the Government announced staged restrictions on the amount of tax relief Landlords could claim on their finance costs which need to be considered carefully. The tax situations are always changing and now landlords can't claim back any interest charges from their tax liability. Limited companies however still gain these allowances.

## Compliance & Regulation

Landlords in the private rented sector must be registered and their properties must comply with various regulations designed to ensure tenants safety. These include fire and smoke detection, carbon monoxide detection, gas safety, electrical safety etc all adding extra expenditure on rental income received.

## Buy to Let Investments

Pension reforms mean that at age 55 you can consider taking your pension savings and investing them without the requirement to purchase an annuity

If this is something you are considering, then talk to us!. We are more than happy to provide free advice, with no obligation, on how to make the right buy to let investment.

There are number things to consider Rental yield; The gross yield is calculated by dividing the annual rental by the cost of the property. So for example if the purchase price was £100,000 and the monthly rent earned was £500, this would be  $12 \times £500 = £6000 / £100,000 = 6\%$ .

This is before maintenance costs etc, but you should be looking to achieve a gross yield of at least 6%,

Is it just an investment?; Be careful of choosing a property to invest in if you are also considering that it may be used by you or a family member at some point in the future. Your requirements may not equate to a sound buy to investment property with good "let-ability". Similarly Landlord's often only look in areas they know which again does not necessarily mean you looking at the best buy to let investments.

## Landlords

Providing an excellent letting management service to Landlords is about organisation, attention to detail, and managing tenants not just the property.

The legislation surrounding the private rented sector grows ever complex, and you want a Letting Agent such as Homelets And Sales who can guide and advise you, and makes sure you avoid costly pitfalls and remain on the right side of the law.

We are members of the National Association of Estate Agents and The Association of Residential Letting Agents and we have to stay on top of the ever changing legislation surrounding the private rented sector.

## Managing Tenants

It is no surprise that one of the keys to a hassle free experience as a Landlord is good tenants, and beyond that making it clear to them what their responsibilities are.

All our tenants are thoroughly vetted by an independent insurance company, but we also exercise our own experience, just because someone has a job and a good credit score, it doesn't necessarily mean we are letting them into your property.

It is our experience that good tenants appreciate dealing with a responsible letting agent and landlord, and will often stay with us as their property requirements change.

And don't forget our experience in dealing with any problems which may occur which sometimes do happen. If you choose take out our optional rent guarantee and legal expenses insurance you will have complete peace of mind when letting the property through our office.

## Managing Your Property

We are completely flexible about how we manage our Landlord client's property. When it comes to maintenance and compliance issues, you tell us how you want us to manage it.

## Deposits

We produce a detailed inventory of the condition of your property complete with dated photographs, which we get tenants to sign before they move in. This will be referred to at the final inspection and as part of our service we will deal with the deposit holders on your behalf.

**Please do not hesitate to ask for our advice when considering purchasing a buy to let property. We pretty much know all the pros and cons of purchasing any property in any area of Bradford.**

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