eBook 1

Is Buy to Let a Wise Investment?

Image: George Hodan

the BUY to L£T show

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Is Buy to Let a Wise Investment?

About this eBook

Thank you for downloading this eBook, which accompanies the Buy to Let Show, the only programme which gives you all the information you need, whether you are thinking about buy to let for the first time, or are an existing investor and landlord.

The show was created with the support of Direct Line for Business and some of the top finance, legal, health and safety experts in the country as well as successful property investors and landlords.

Whether you are already investing or are thinking about buy to let, these eBooks and the show will make sure you are equipped with the resources you need, as well as information about companies or organisations that can help you at every stage.

View the shows

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EXPERT TIP

It's still possible to make money from buy to let but the game has changed and you need to take a much more professional approach than in the past. You must treat it as a business, so take professional tax advice, and you may find it's best to set up a limited company and invest through that.

VANESSA WARWICK
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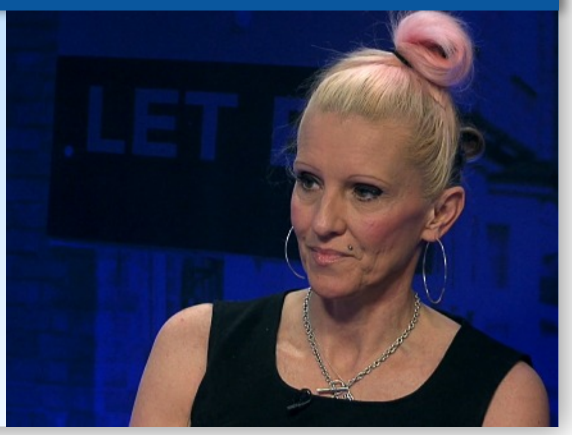

Meet the experts from this show

KATE FAULKNER, PROPERTYCHECKLISTS.CO.UK

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Kate Faulkner is widely regarded as one of the UK's leading independent property experts. She divides her time between consumer education and consulting with the renting and letting/property investment sector, from high street agents to government departments. She has written several property books, including the Which? Essential Property Guides, and is regularly featured on TV and radio as an expert property market commentator.

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Christina is the business manager at Direct Line for Business, where her focus is on improving the customer proposition. With a background in strategy consulting and e-commerce, she has spent five years working in consumer insurance across different products.

TOM ENTWISTLE, LANDLORD ZONE

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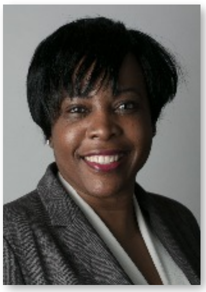
Tom Entwistle is editor and founding director of LandlordZONE®, the first dedicated UK landlord website. Launched in 1999, it is still the most visited independent landlord portal site in the UK and answers upwards of 100 landlord and tenant questions every day. He also writes for several national property journals, is a regular speaker at property events and is an experienced landlord, managing residential and commercial property investments for more than 35 years.



SHERRILL GEORGE, CHASE DE VERE

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Sherrill George is a senior manager based in Chase de Vere's London office. She joined the company in 2015 and is responsible for running a team of 14 independent financial advisers. Sherrill has 33 years' financial services experience including 23 years in the financial advice arena. She worked previously in branch management, financial adviser and area manager roles at Santander and has also managed a team of financial advisers at HSBC. Sherrill has achieved the CII Diploma in Financial Planning.

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Vanessa Warwick is a private residential landlord, and co-founder of propertytribes.com, the UK's leading landlord and investor community. The former MTV presenter swapped rock 'n' roll for bricks 'n' mortar in 2004 when, along with her husband Nick, she began building a property portfolio of apartments, family homes and holiday lets. In 2009, Vanessa and Nick formed propertytribes.com as an information resource for landlords based on the mantra "none of us is as smart as all of us".

Should you invest in buy to let?

Buy to let (BTL) has become one of the most talked about forms of investment, and is seen by many as a path to riches, or at least to an early retirement. And there are those who have done very well out of it, giving up the day job and, in a few notable cases, earning millions.

At the other end of the scale are those for whom the buy-to-let dream has turned into a nightmare of negative equity, void periods and problem tenants.

Naturally, most investors' experiences fall somewhere between these two extremes – but how can you make sure the positives outweigh the negatives? Why do some investors succeed where others fail, and how do you become one of the successful ones? And, with increasing taxation and rising costs for landlords, can you still make money from buy to let – and if so, how?

It's important to go into any new venture with your eyes open, so here are the main reasons why buy to let is successful and why it fails.

Top 5 reasons for buy to let and landlord **success**

1. Understanding your financial objectives, be they income or capital growth, or a little of both.
2. Making sure you have spoken to an independent financial advisor to understand what gap in income/ capital growth you have, the tax implications of investing in property and how best to hold property legally and pass it to your family.
3. Securing the right experts to help you finance and insure your buy to let property so you can survive economic downturns.
4. Knowing the 160+ laws and more than 400 rules and regulations to let a property legally and safely to look after your tenants properly and not end up with fines or being banned from letting.
5. Having a plan to exit your property and ensure you do so in the most tax efficient way possible.

Top 5 reasons for buy to let and landlord **failure**

1. Seeing a property, buying it without independent, expert advice and help and not understanding the costs, tax implications or responsibility involved.
2. Not financing or protecting your property against known risks of buy to let such as cannabis factories.
3. Letting a property without legal, and health and safety knowledge and not keeping up with the law, leaving you and your tenant vulnerable.
4. Not developing a long-term maintenance schedule so you can forecast what expenditure is required and when, and not saving enough to fund repairs.
5. Not understanding the commitment required to look after tenants' needs, ensure the property is always let in good condition, liaise regularly with agents and deal with admin and tax paperwork.

Checklist: The pros and cons of letting a property

Every type of investment has its advantages and disadvantages, and property is no exception. To help you weigh up your options, National Approved Letting Scheme (NALS) have created this checklist which takes a look at the pros and cons of letting your own or an investment property. NALS – the National Approved Letting Scheme – is an independent licensing scheme which requires its letting agent members to meet a set of standards designed to provide protection and security for both the tenant and landlord. Other industry bodies to look for when choosing an agent include: ARLA Propertymark, RICS and SafeAgent.

PROS

- [ ] If you own a home already, letting it rather than selling can help you move into a new home especially if you are struggling to sell or need to move away temporarily or permanently.
- [ ] If it is your own home you will know the property well and what work has been carried out so can understand the required maintenance, if buying an existing property, a quality survey will identify expected works for you.
- [ ] If buying a brand new property, your maintenance costs are likely to be lower, but still secure a snagging survey to identify internal errors and don't forget things like decoration and floor replacements will still be required.
- [ ] If you know the local area you are investing in well and get on with the property's neighbours they can keep an eye on your tenants for you, alerting you to anything suspicious or problems you should be aware of.
- [ ] If you have lived in the property already or buy in an area you know well, you will have a good idea which tenants the property will be suitable for, but make sure whoever you let to – even friends or family – that you follow all the rules and regulations which ensure you let safely.
- [ ] A well referenced, good tenant will pay rent on time and look after your property.
- [ ] You can make money from letting your own property and secure tax relief on the sale if you have lived in the property.
- [ ] If you use a NALS-licensed agent, they will take any of the hassle of renting from you and ensure you let your property legally and safely.
- [ ] You may find a family or someone willing to rent long term that helps give you security in return for a long tenancy.

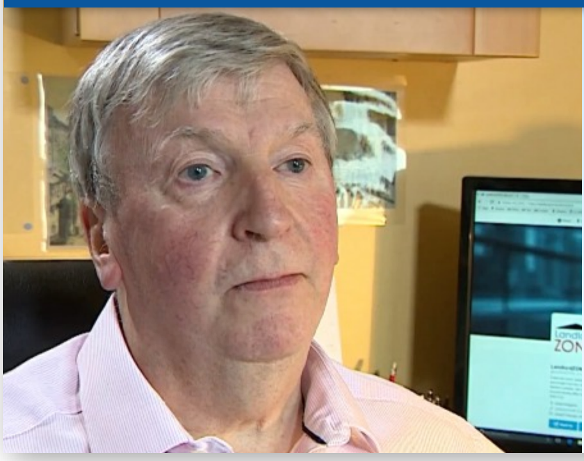
CONS

- [ ] You may incur costs up front to meet the legal requirements of renting a property eg update fuse box, fit smoke and carbon monoxide alarms, improve the property's security.
- [ ] Supply of some properties may be higher than others, so your property might not let quickly.
- [ ] You need to understand and keep up to date with all the legal ramifications of letting a home or use an agent that belongs to a member body and invests in keeping themselves up to date.
- [ ] The property will require on-going maintenance such as redecoration through to a new boiler, windows or roof.
- [ ] The costs can be higher than the income you receive from renting so you may have to put money into the property to keep your investment going.
- [ ] Tenants may damage your property, eg set up cannabis farms or cause malicious damage.
- [ ] Tenants may default on their rent, leaving you to cover the property costs, especially if you have a mortgage to pay.
- [ ] If you don't keep up with maintenance, you may end up being fined or banned from letting if the local authority decide to prosecute.
- [ ] Property prices may fall, and if you borrow via a mortgage, this may leave you in negative equity until the market recovers.

Contact the National Approved Letting Scheme on 01242 581712

Visit the website at nalscheme.co.uk

EXPERT TIP



When you're starting out, keep it local, as it's easier to keep an eye on your investments. Make sure that within the location there is good tenant demand. A good way to do that is to speak to local agents. They are the people on the ground who know the market pretty well and will be more than happy to give advice.

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What are your financial expectations from buy to let?

As explained, one of the main reasons buy to let fails is because the investor simply buys a property they like and hopes it will let and secure the returns they want without taking independent, expert advice. Therefore, one of the most important steps to success is knowing your objectives, before you buy a property.

Buy to let is a long-term investment of typically 15 to 20 years or more, so the first thing you should ask yourself is if you are able to tie up your investment capital for that length of time. You also need to have an exit strategy which will help you identify which properties meet your investment needs so you know which ones to buy and which to leave.

The following property investment brief has been developed with the help of financial advisers Chase de Vere. Completing it will help clarify your objectives and provide a useful starting point when you meet with financial advisers, buy to let agents and property tax consultants such as **Nicholsons** and **Rita 4 Rent**.

Property investment brief

What are the most important objectives to you?

- [ ] Capital growth to build a lump sum for a specific reason, eg pay off mortgage, university fees
- [ ] Capital growth to build a lump sum to sell to fund your retirement
- [ ] Build up a portfolio income to enable early retirement
- [ ] Boost income while working
- [ ] Boost retirement income
- [ ] Buying property now to help children get on housing ladder later
- [ ] Own a student let for your children, then retain for income/capital growth later
- [ ] Leave property to your children/family

Explain your objectives in more detail. For example, if you want income from your property, how much? Or if you want capital growth, how much and by when? ....

....

....

....

Your financial situation

Give details of other property investments, including your own home ....

....

Give details of any other debts ....

....

....

Your current income, including bonuses ....

....

Your current outgoings ....

....

....

....

Future financial commitments, eg funding children through university ....

....

Can you cover your financial commitments if you or a family member becomes sick?	YES	NO
Have you made a will?	YES	NO
Will the will need updating if you invest in property?	YES	NO

About you

How old are you? ☐

Are you…

- ☐ Employed
- ☐ Self-employed
- ☐ Director
- ☐ Retired
- ☐ Contractor

Do you work…

- ☐ Full-time
- ☐ Part-time
- ☐ Permanent
- ☐ Contract
- ☐ Temporary

Your expectations

How much cash do you have to invest in property?

What price growth do you expect your property to deliver each year?

What net income (after costs and tax) do you expect from rental income each year?

EXPERT TIP

When going into a property investment you have to think about the liquidity factor. If you need liquid assets you can spend, remember you can't sell a property overnight. That's why it's important to have a balance of assets. If the housing market is not performing, you know your investment is performing in other areas.

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WHO CAN HELP?

Independent financial advice

- Chase de Vere financial advisers
- Money Advice Service

Property tax experts

- Nicholsons chartered accountants and business advisers
- Rita 4 Rent rental income tax advisers

Checklist: Investing for retirement

If you are investing for retirement income, it is essential to ensure you discuss your plans with an independent financial adviser. Pensions are complex and require investment over many years and your returns are heavily influenced by rates of inflation, economic performance and, of course, the property market. There are also tax implications – some provide relief you can take advantage of and, for some, investing in property could actually reduce your income if you lose current tax benefits.

If you are hoping your existing portfolio or new property investment will deliver an income or a lump sum for you to use in retirement, it is vital to follow this checklist we have produced in conjunction with Chase de Vere.

- ☐ To know what your properties will deliver in your retirement, you will need to decide when you want to retire. Do you know this?

- ☐ To understand the value of your wealth now, you need to collate:
  - ☐ All your property accounts, original price paid for the property, dates if any were your main residence
  - ☐ Costs you incurred purchasing/selling and any home improvement costs not claimed from income
  - ☐ Legal information about properties you own e.g. Joint Tenancy or Tenants in Common
  - ☐ All insurance policies, pension information, trust documents, other assets you own
  - ☐ Find out your entitlement to any state benefits including the state pension.

- ☐ Secure a realistic valuation of your property portfolio. For example, use sold property prices to estimate or a surveyor to value your property/portfolio.

- ☐ Once you have the information above, you can calculate:
  - ☐ Your total assets, eg net equity from properties if sold today, savings, investments
  - ☐ Your gross income from rented properties
  - ☐ Your pension pots and estimated annual income.

- [ ] Work out the net income and assets you have after tax.
- [ ] Calculate the annual average increase in value of your properties to date, then estimate the future value.
- [ ] Multiply the growth to date by the number of years you intend to own the property until you retire.
- [ ] Calculate annual rent increases at the same level they have been for the last 2-3 years (this may be zero).
- [ ] If there has been some growth, then multiply the rental income by the number of years you have until retirement.

- [ ] Assume a worst case and best case scenario:
    - [ ] Worst case = no capital or rental growth
    - [ ] Best case = property performs as well as it has in the past.

- [ ] Net the likely income based on taking 2% annual inflation into account and tax you may have to pay.
- [ ] Make sure all your calculations are net of tax.
- [ ] Ideally find a ‘property investor friendly’ independent financial adviser to help you calculate the income and assets you will own in retirement.
- [ ] Ask the adviser what costs you will incur and what level of advice and service you’ll get in return.

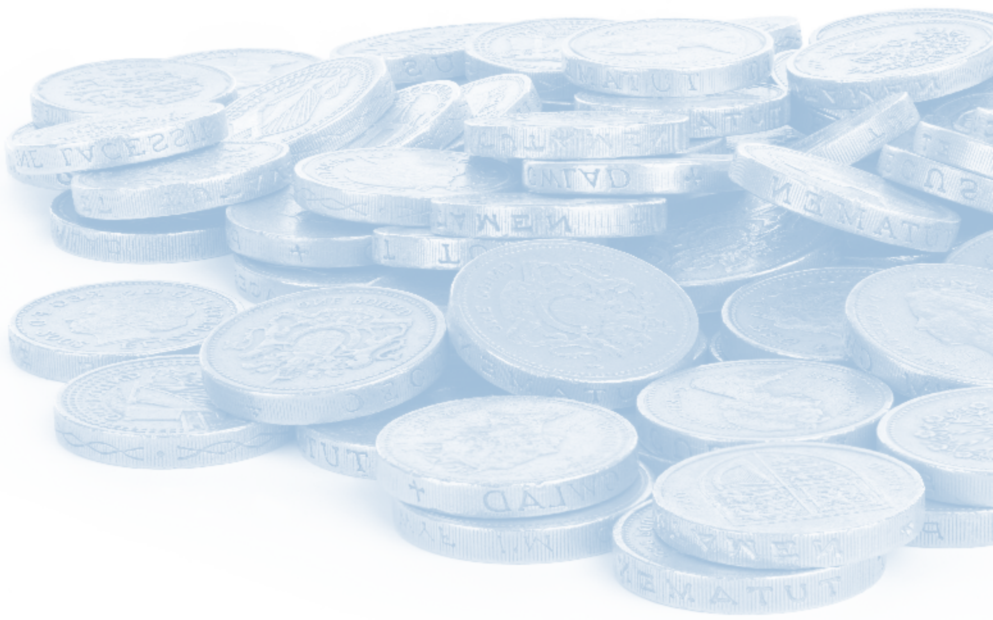

Image: Petr Kratochvil

- [ ] Prepare a brief for the adviser which includes:
    - [ ] When you want to retire
    - [ ] How much net income you will need on a monthly basis
    - [ ] How much money you like to hold in cash
    - [ ] If you want to sell your property portfolio and re-invest the cash or hold and take the rental income
    - [ ] Whether you want to pass on any wealth to family/children/friends.

- [ ] Your first meeting with the independent financial adviser should be free of charge.
- [ ] Ask the adviser to identify the gap in income/assets you have and how they can protect your money from future inflation, investment risk or tax changes.
- [ ] Carefully review their recommendations.

EXPERT TIP

Always seek financial advice and remember it's just as important to consider your exit strategy as it is your investment strategy.

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chasedevere.co.uk

Call Sherrill George at Chase de Vere on 0345 300 6256

Visit the website at chasedevere.co.uk

What will your financial adviser discuss with you when you visit?

When you meet with a financial adviser they will work with you to find the best investment opportunities for your situation, which may or may not include property.

A good financial adviser will aim to build a financial plan which encompasses your long-term goals, while looking to diversify your investment portfolio, so you are not relying on one sector to perform. For instance, if you invest everything you have in property, you are wholly reliant on the property market. By spreading your investments more widely, you have more opportunity to realise a gain and achieve your goals.

Disadvantages to investing in property

- Purchase costs – after legal fees, stamp duty etc, out of £100,000 you may only be able to invest around £94,000
- The "liquidity factor" – how quickly you can access the cash tied up in your investment
- Ongoing running costs, including maintenance, letting agent fees
- Costs of exiting the investment, eg estate agent fees, capital gains tax

But, by working with your financial adviser to diversify your portfolio, you can ensure that, as well as property, you have investments you can exit straight away, with no penalties, should you need access to the funds quickly.

EXPERT TIP

It's important not to cut corners when it comes to maintenance. Lack of maintenance reduces your rental income, reduces your capital growth, and can increase void periods. Certain aspects of maintenance are legal requirements, and your insurance company will check you have maintained the property properly in the event of a claim.

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Example of costs and returns if investing £100,000 over 10 years

This is an example of the returns you could expect when investing £100,000 three different ways, taking into account relevant costs, such as mortgage and tax. As you can see, the returns from investing in a property with 100% cash are similar to those you can expect from a financial investment, while gearing your investment has the potential to produce the greatest returns.

What you have to pay to secure the investment

	One property, no mortgage	Two properties, geared at 50%	Financial investment
Costs to purchase the investment, eg legals, survey, letting the properly legally	£2,858	£7,216	£3,000
Tax you have to pay (3% if a second home)	£3,000	£6,000	
Net amount actually invested	**£94,142**	**£186,784**	**£97,000**

Owning the investment ongoing

	One property, no mortgage	Two properties, geared at 50%	Financial investment
Net income (rental income minus costs)	£3,370	£3,362	£970
Tax to pay on income, individual to each person	£674	£672	
Net amount of income actually received, net of tax	**£2,696**	**£2,688**	**£970**

Cost of exiting the investment

	One property, no mortgage	Two properties, geared at 50%	Financial investment
Costs to sell/encash	£2,183	£4,346	
Tax payable on sale	£1,721	£2,810	
Total	£3,904	£7156	
Estimated return after 10 years (including impact of inflation)	**4.55%**	**5.74%**	**3.49%**

Please note these are example figures only and cannot be relied upon for investment purposes. When investing in property or finance it is essential to seek your own, independent advice from agents, financial advisors, mortgage brokers, legal companies and tax experts.

Checklist: Buy to let tax

nicholsons
chartered accountants & business advisers

If you already have a portfolio or are considering investing in property for the first time, follow our buy to let tax checklist we have created with Nicholsons to help understand the tax implications of your existing or new property investment plans.

- ☐ Be clear about your buy to let objectives eg income or capital growth?
- ☐ Once you own rental property personally, you will need to submit a Tax Return annually, so each year you will need to collate details of:
  - ☐ Rental income
  - ☐ Allowable costs – ground rent, rates, insurance, repairs
  - ☐ Loan or mortgage interest
- ☐ Your tax accountant should be able to advise on any other claims you can make to keep your annual tax bill as low as possible.
- ☐ In the case of married couples/civil partners, tax can be mitigated by making sure a property is in the ownership of the lowest rate tax-payer. If jointly owned, legal and tax paperwork needs completing and submitting, but the relatively small cost can soon be covered by tax savings.
- ☐ Consider, or take advice on, the costs and benefits of owning property via a limited company.
- ☐ Keep the following details in a safe place for future reference:
  - ☐ Original price paid for your rental properties, including Stamp Duty Land Tax (SDLT)
  - ☐ Dates any of the properties were your main residence
  - ☐ Any costs you incurred purchasing / selling, such as legal fees and estate agents’ fees
  - ☐ Any capital improvement expenses
  - ☐ Legal information about properties you own
  - ☐ Details of how the properties are owned, eg Joint Tenants or Tenants in Common

- [ ] To allow your tax accountant to provide you with best advice on your overall capital and income situation, you will (ideally) need to provide:
  - [ ] A spreadsheet showing original property costs, current values, and outstanding loans
  - [ ] Information about all other assets you have, including their values and original costs
  - [ ] Bank and building society balances (including ISAs)
  - [ ] Stocks and shares – costs and current values
  - [ ] Details of all your other annual taxable income
  - [ ] Life assurance policies
  - [ ] Pension information
  - [ ] Details of any wills in place, and any likely inheritances you may receive.

Call Nicholsons on 01522 815100

Visit the website at nicholsonsca.co.uk

EXPERT TIP

Become an expert in due diligence. Fully investigate what you are getting involved with, not just the property but the letting agent and the tenant. If you put the effort in at the beginning, it vastly reduces your risk and will save you a lot of heartache.

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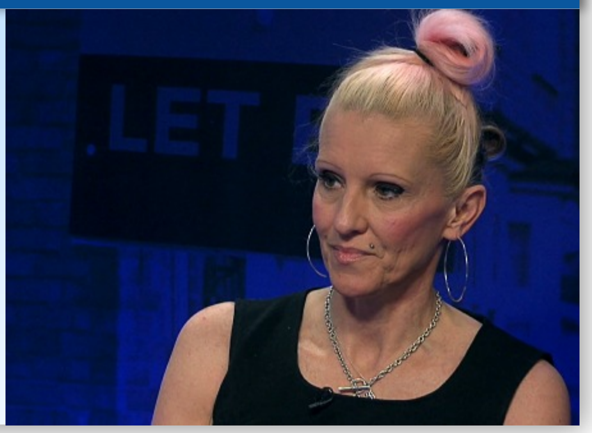


What is the right way to set up your property investment business?

There are lots of different ways to set yourself up as a buy to let investor:

1 You can invest as an individual or with a partner, eg a spouse

2 You can invest under a partnership

3 You can set up and invest through, for example, a limited company

The right way for you to invest depends on your:

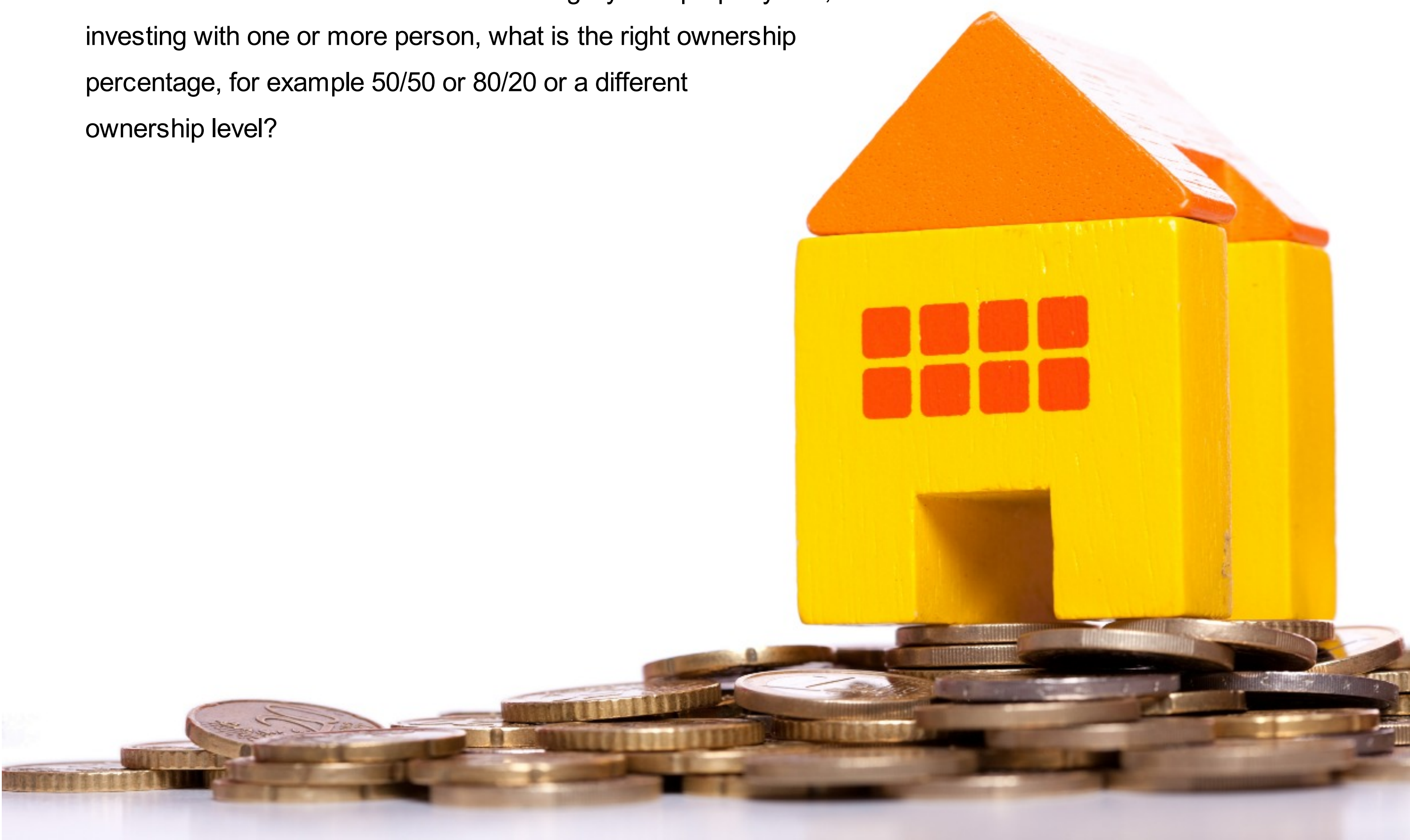
1 Investment timeframe

2 Property investment objectives

3 Exit strategy

Once you have a property investment plan and an exit strategy you wish to pursue, the next step is to talk to a property tax expert before you decide how to invest.

You will also need to understand how to legally hold property and, if investing with one or more person, what is the right ownership percentage, for example 50/50 or 80/20 or a different ownership level?



Checklist: Investing via a limited company

Before you decide to invest via a limited company, make sure you have considered all the pros and cons.

PROS

- [ ] You can still (currently) deduct the finance costs from the rental income.
- [ ] It can be a good way to transfer property tax efficiently from an inheritance perspective.
- [ ] You pay a lower rate of tax, compared to higher and additional rates of income tax.
- [ ] All costs and income will need to be appropriately accounted for and abide by the Companies Act 2006, which you may not do if you own property individually.
- [ ] Profits can be re-invested without incurring income tax.
- [ ] There are favourable rates on sale of investment property compared with a potential 28% when selling individually owned property.
- [ ] Indexation allowance on sale of investment property allows for the effects of inflation.

CONS

- [ ] If you have an existing portfolio, you can't just transfer it into a company as this may trigger both stamp duty and capital gain costs as you will have deemed to have 'sold' the properties to the company from your ownership. However, incorporation relief may be available to some landlords operating a company; it is essential you take expert advice. Also, if you are running a legitimate partnership, there may be grounds for stamp duty savings in the future.
- [ ] You need to consider your financing options if you hold property in a company, although improving, not all buy to let lenders lend on company held lets.
- [ ] It is not only buy to let landlords that have been hit with extra tax bills. Company directors that take dividends have lost much of their ability to pay them tax free.
- [ ] You can only take income from the buy to lets if you make the required profit.

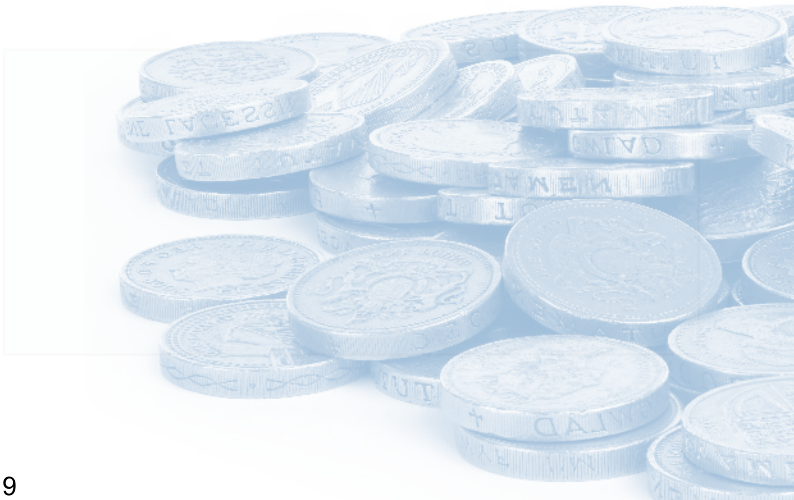
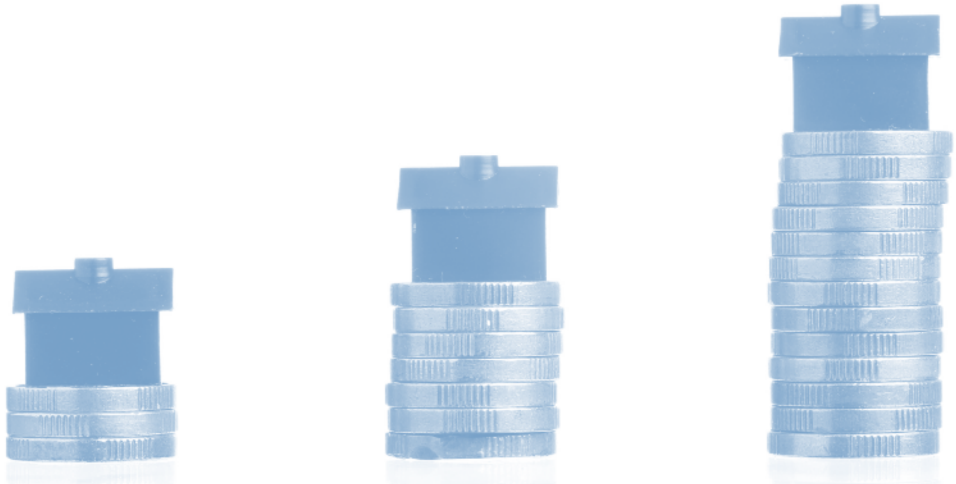


Image: Petr Kratochvil



- ☐ Corporation tax is currently planned to reduce, but once your property is in a company you won’t be able just to transfer back to your own ownership without considering your tax implications.
- ☐ You will have to produce accounts according to rules and regulations laid out by the government and this may mean incurring accounting bills of £1,000 a year or more.
- ☐ Bank accounts will be considered ‘company accounts’ so won’t be free of charge.
- ☐ Exemptions and allowances of personally owned property would be lost, eg annual exemption, personal allowances.
- ☐ For those who own property personally, there can be benefits when selling the property if you have lived there. This is the opposite for company-owned property, and there can be serious consequences if you live in your company-owned property.

Checklist: Buy to let summary

There are many more aspects to buying to let which we'll cover in the other books in this series, but meanwhile, here is a quick checklist from Reeds Rains which summarises the main steps of buying a property to let.

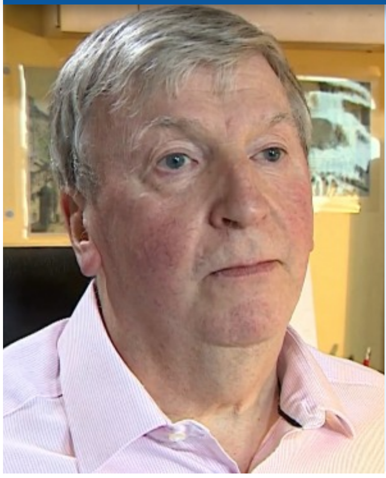
- [ ] Set clear objectives for your property investment.
- [ ] Work out how long you can tie up your money for, eg 10 years, 20 years.
- [ ] Research demand and supply for property to rent now and in the future.
- [ ] Sign up to any local authority landlord accreditation scheme.
- [ ] Decide on an exit strategy via a financial and property tax specialist.
- [ ] Find five potential properties to buy and let.
- [ ] Compare the financial returns for each property.
- [ ] Check out what buy to let mortgage deals are right for you.
- [ ] Make an offer (try to secure 10% below market value).
- [ ] Organise a buy to let survey.
- [ ] Understand what is required to legally let the property.
- [ ] Organise specialist buy to let insurance.
- [ ] Ensure you have an EPC available for viewings.
- [ ] Appoint a NALS letting agent/start advertising the property.
- [ ] Do a credit check on potential tenants.
- [ ] Get an inventory done on the property.
- [ ] Secure the deposit in a tenancy deposit scheme.
- [ ] Sign contracts.

Image: George Hodan

Find your local Reeds Rains branch here

Visit the website at reedsrains.co.uk

Our expert landlord recommends



- Work out tenant demand first. Talking to local agents is key
- Make sure the property you buy suits the tenant
- Consider whether you rent rooms, or a single let which is easier to manage

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Where next?

There are six eBooks in this series, which accompany the six episodes of the Buy to Let Show. They are:

1. **Is Buy to Let a Wise Investment?**
2. **Financing and Insuring a Buy to Let**
3. **How to Choose a Buy to Let**
4. **Letting a Property Legally and Safely**
5. **Dealing with Tenancy Problems**
6. **How to Plan an Exit from Buy to Let**

View the shows

Download the eBooks