

eBook 3

Choosing a Buy to Let



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the
BUY to
L&T show

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Choosing a Buy to Let

About this eBook

Thank you for downloading this eBook, which accompanies the third episode of 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 all the resources you need, as well as information about companies or organisations that can help you at every stage.

In the first and second eBooks of this series, we considered whether buy-to-let is still a viable investment, and discussed the different ways you can finance and insure your property.

In this book, we will help you choose your buy-to-let property. This can be a daunting task but the first thing you need to do before you decide what property to buy, is to understand who is likely to let it, and that's something we'll discuss in this eBook, while helping you understand the returns different property types and tenant lets can deliver.



EXPERT TIP

We wanted to invest in property because we wanted a sound investment with a good return on our capital. Property seemed a good place to put money in as it was bricks and mortar.

**ANDREW PARIS
LIVINGSTONE HOMES**



Meet the experts from this show



KATE FAULKNER, PROPERTYCHECKLISTS.CO.UK

Contact via Propertychecklists.co.uk

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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Michael Wright is Director of RITA4Rent Limited, specialists in property tax. Michael and his team are dedicated to working with landlords to order their taxes in the most efficient manner. As well as being partners of Residential Landlords Association and the Property Tribes, Michael and RITA4Rent have also been featured in numerous media outlets such as the Guardian, the Times, the Evening Standard, the Daily Mail, Letting Agent Today, MoneyWise and Accountancy Age.



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Carrie has worked for Hunters since 2003 where she started her career as a Lettings Negotiator in the busy Leeds city centre office. Progressing through the ranks to her current position, Carrie has a wealth of knowledge and understanding of the lettings market. Her goal is for every Hunters branch to have a successful lettings team who are considered the best and No 1 in their market place - a team who works closely with landlords and tenants and truly understand their needs.



VANESSA WARWICK, PROPERTY TRIBES

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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".



Identifying areas and properties for investment

Before you decide on a type of property and location for your investment, you first need to be clear what financial returns you want, then understand which type of tenant would best suit your plans.

All kinds of people rent property, from students, 20-somethings who can't afford to get on the ladder, people who move around for work, right through to older people who rent for part of the year and spend the winter in warmer climes. Understanding the type of tenant you want to attract is key to deciding on the location and type of property you want to buy.

The way to try to cut through these decisions is to carry out calculations based on the money you have to invest and the returns different property types and tenant lets can deliver. You can compare the results from one area to another to see if there is a significant difference. It is important to consider all the risks and rewards of different types of let, too.



You can find out more about capital growth rates and yields in your area by visiting the property price and rental reports page at [Propertychecklists.co.uk](https://www.propertychecklists.co.uk).

For example, in a university town or city, is the demand for rooms in a house share, or does the shortage lie in studios and one-bed apartments for post-graduates, overseas students and visiting lecturers?

And are students happy to walk or travel a mile or more to study, or do they prefer accommodation on the doorstep of their campus? Buy too far away and you may struggle to let your property. In addition, always talk to local letting agents who are members of one of the following organisations:



RICS[®]

arla | **propertymark**

They will be able to tell you what kind of properties and locations are in demand from tenants, and what is in short supply.

EXPERT TIP









Should you buy a house or a flat? I'm a big fan of freehold houses. You can add value, you can do a loft conversion, build an extension and have much more control over the property. I believe that houses are in decline – there's a huge trend towards building leasehold flats – and wherever there's scarcity, there's value.

VANESSA WARWICK
[propertytribes.com](https://www.propertytribes.com)



Example of how to match your financial objectives to a property investment

Here's how to match your financial objectives to tenant needs. However, it's important to note that the following examples will not apply to every location, so always seek advice from local experts such as letting agents.

| FINANCIAL OBJECTIVE | TENANT TYPE | LOCATION | PROPERTY TYPE |
|---|---|---|---|
|  Capital growth |  Long-term tenant such as those on benefits or a family keen to rent for five or more years |  Near schools and local amenities |  Home with 2-3 beds, rented as a whole unit |
|  Income |  Students or young professionals |  Easy reach of city/town centre, leisure facilities and work, either on foot or public transport |  Houses with 3-5 rooms, rented individually |

EXPERT TIP

We always wanted properties that we could walk in and be proud to show people. If it is good enough for our kids, then great. If not, why would we expect anyone else's kids to live here?

ANDREW PARIS
LIVINGSTONE HOMES





How to calculate potential earnings

There are some useful online calculators which will help you to find out, on average, what you can earn from buy to let.

One of the them is the Mortgage Advice Bureau calculator which allows you to compare the returns of what property versus another.

Mortgage Advice Bureau Speak to an adviser 0800 085 0118

Mortgage calculators Find a mortgage About mortgages Protection Latest news About Contact us

Compare rental yields What could I buy with my deposit? How much stamp duty will I pay? Capital gains

To calculate the yield from a property you are interested in letting simply add a property using the button below; you can compare up to four properties.

| Property 1 | Property 2 | Property 3 | Property 4 |
|---|---|---|---|
| Property value: <input type="text"/> | Property value: <input type="text"/> | Property value: <input type="text"/> | Property value: <input type="text"/> |
| Deposit: <input type="text"/> | Deposit: <input type="text"/> | Deposit: <input type="text"/> | Deposit: <input type="text"/> |
| Annual rent expectations: <input type="text"/> Calculate | Annual rent expectations: <input type="text"/> Calculate | Annual rent expectations: <input type="text"/> Calculate | Annual rent expectations: <input type="text"/> Calculate |
| Annual gross yield year one: 0% | Annual gross yield year one: 0% | Annual gross yield year one: 0% | Annual gross yield year one: 0% |
| Annual Costs Estimated annual mortgage cost: * £0 Running costs (excl. mortgage) **: <input type="text"/> Estimate | Annual Costs Estimated annual mortgage cost: * £0 Running costs (excl. mortgage) **: <input type="text"/> Estimate | Annual Costs Estimated annual mortgage cost: * £0 Running costs (excl. mortgage) **: <input type="text"/> Estimate | Annual Costs Estimated annual mortgage cost: * £0 Running costs (excl. mortgage) **: <input type="text"/> Estimate |
| Rent less mortgage and running costs: £0 | Rent less mortgage and running costs: £0 | Rent less mortgage and running costs: £0 | Rent less mortgage and running costs: £0 |
| Tax bracket Standard Rate - (20%) | Tax bracket Standard Rate - (20%) | Tax bracket Standard Rate - (20%) | Tax bracket Standard Rate - (20%) |
| Net income yield: 0 | Net income yield: 0 | Net income yield: 0 | Net income yield: 0 |
| Net income yield after tax: 0 | Net income yield after tax: 0 | Net income yield after tax: 0 | Net income yield after tax: 0 |

* This is based on an interest only mortgage over 25 years
** An average of 30% running costs



Access the Mortgage Advice Bureau calculator for free here

Working out what to buy

One of the keys to being a successful property investor and landlord is to put your emotions aside and purchase the type of property tenants will want to rent, rather than something you'd like to live in yourself.

Before you decide on an area, tenant and property type, there are several factors you need to consider.

Things to consider

- 1** Who will you rent to?
- 2** Is this rental market growing or declining?
- 3** How long will it take to secure a tenant?
- 4** Will the rent cover your costs, especially if mortgage rates revert to pre-credit crunch levels of 5-7%?
- 5** Can you build in capital growth when buying to help increase future profits?
- 6** Is there a way to improve the property that will result in a higher capital value or more rental income? If you have to sell, are there plenty of properties like yours on the market, or is it unique?
- 7** Are there any forecasts as to how much property prices and rents are expected to grow in the area?
- 8** What might happen in the area to reduce demand, eg new bespoke student accommodation?

EXPERT TIP



As an investor, you want to look at what is going to give you the best return. With a flat you will have to pay ground rent and service charges so that has an additional impact on your outgoings. Often, whether you buy a house or flat comes down to the area – if you're buying in the city centre, it's more likely to be a flat. Look at your market, the area, the type of property and the outgoings.

CARRIE ALLISTON
hunters.com

Different tenant types

In the past, tenants were mostly students, people working away from home and those renting temporarily while they saved up to buy their own property. Today's rental market has a much more diverse and sophisticated range of tenants. These are some of the main types of tenant.

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Prime market tenants

These are tenants who may be working temporarily in the UK, such as medical consultants or corporate high flyers. They may want a premium property for just a few months or for a fixed amount of time that ties in with their employment contract.

These tenants may rent a property directly from a landlord, but will mostly rent through a qualified letting agent, such as NALS, RICS and ARLA members. The rent and fees may be paid by their employer.

Professional tenants

These represent the majority and the main difference between the professional tenants of today and the past is that, these days, they are likely to rent for several years or more. This is partly due to a cultural shift, with many people changing jobs more frequently and choosing to spend rather than save, in addition to not being able to afford to buy in more expensive areas.

Today's professional tenants want to be able to commute easily and have high standards; many are even prepared to pay up to a 10% premium to rent a new build property that no-one else has lived in.

A big contribution to growth in the professional tenant market has come from those moving from abroad to work here.



© Robeco | Dreamstime.com



Remember, whoever you let to, whether foreign nationals or not, you are responsible for making sure all your tenants are in the country legally and correctly referenced by carrying out Right to Rent checks. If you miss this vital step, you could be fined up to £3,000 per tenant in your property illegally.

Social tenants

There are now more tenants renting privately than there are in social housing in the UK for the first time, the result of policies from successive governments since the 1980s and the selling off of council homes. The government now looks to the private rented sector to provide temporary accommodation – funded with housing benefits or the new universal credit – rather than house people ‘for life’ in social housing.

This has opened up a specialist market of renting to those on benefits. This area requires an understanding of housing benefit levels, which are now capped according to national government guidelines and local authority research on rent levels. This cap can change on an annual basis, so it is important to compare private rent levels to those capped by the local authority, as they could be less.



Housing benefit is being replaced with a new system called Universal Credit, which pays all benefits in one lump sum. This means tenants will have to budget carefully to ensure they can pay their rent on time. Understanding how your local authority deals with social tenants in arrears can make the difference as to whether you rent to social tenants or stick to the private sector.

EXPERT TIP

It's much easier to buy a house. A flat is more complex because typically the freeholder – the person or company that owns the whole building – will generally have buildings insurance which you will contribute to via your service charge. However, the cover arranged may not be suitable for you now you are operating as a business letting your property to a tenant and specialist landlord insurance would be required to cover your requirements and fill any gaps that you have identified.

CHRISTINA DIMITROV
directlineforbusiness.co.uk



House shares

This has been a real growth area in lettings over the last 10 years. In expensive areas many people turn to renting a room in a shared house as it is cheaper; others rent rooms because they like the company of other people, particularly if they've shared a home at university.

Most properties rented this way are considered to be houses in multiple occupation (HMOs). The definition of an HMO is a property where:



at least three people form more than one household (not related or in a relationship)



where tenants share facilities, such as bathroom and kitchen

However, local authorities, primarily in England, can require smaller properties, and those rented to fewer people, to have a licence, so do check in the area you are considering investing. In Oxford, for example, you only need three or more people, including children, forming two or more households to make your property an HMO requiring a licence. (Source: [Oxford City Council](#))

Be aware that starting and running an HMO often requires a lot more investment and ongoing maintenance to make sure it meets legal standards. You will need to install fire extinguishers, a fire alarm, fire doors and carbon monoxide detectors to make sure the property is safe. Each local authority has its own rules so it's essential you find out what these are before investing, as it can affect your costs and ultimate profitability.

Not all letting agents will look after HMOs, so you should find ones that do and speak to them about the local market for room rents, as demand for this type of let can be very sensitive to location. If you're planning to let to students, consult the local student accommodation offices first as they may require you to be accredited before they will advertise your rooms.

Before proceeding with a purchase of a property you intend to use as an HMO, check if you need planning permission through an Article 4 direction. Talk to your local authority housing office or a knowledgeable local letting agent.

Always stay up-to-date with legislation, as rules can change. Even if you don't need a licence for your HMO now, you may require one in the future.





There are additional rules and regulations when letting individual rooms in a property, so make sure you stay on the right side of the law. Together with the experts at SpareRoom.co.uk, we have compiled this checklist to get you started.

- Do your research. Use SpareRoom to see what people are charging for similar rooms in your area.
- Decide whether to include bills in the rent. Most sharers prefer this as it helps them budget.
- Decide if you want to rent the property on a single joint and several Assured Hold Tenancy (AST) or on individual AST. The latter will potentially be more profitable, but also involve more paperwork.
- Check whether your property becomes an HMO (House in Multiple Occupation) if you rent it to more than two tenants. If it does you'll need to check up on the regulations. Find out more about HMOs and HMO licensing.
- Make sure your property has had an annual gas safety check, carried out by someone registered with the Gas Safe Register. This is a legal obligation, not simply a recommendation.
- Make sure that you comply with the tenancy deposit rules – it can be an expensive thing to get wrong.
- Get landlords' insurance to cover the building and any contents you are leaving for the sharers' use.
- Advertise your rooms. SpareRoom gets more than 2 million visits every month so there's nowhere better to find tenants.
- Get the most out of your ad. Give it an appealing title – this shows in the search results. Take plenty of photos in good light and tidy up first! You can even add video, to give potential tenants a feel for the place.
- Be pro-active. You can search for potential tenants by looking through the room wanted ads on SpareRoom, Contact any you think might be interested.
- If you already have tenants in the other rooms it can be helpful to give them some say in choosing the new housemates. A happy flatshare is likely to have fewer conflicts so you won't find tenants moving out because they've fallen out.
- Screen potential tenants using a comprehensive tenant referencing service to give yourself peace of mind before accepting them.



Contact SpareRoom.co.uk
on 01625 666 750



Visit the website at
spareroom.co.uk

Know the rules



- ?** Do you need to be registered as a landlord?
- ?** Can you manage a property?
- ?** Do you need a license to run an HMO?

The rules surrounding the private rented sector are different depending on whether your property is based in Northern Ireland, Scotland, England or Wales.

In all but some parts of England, you will need to be registered, but in Wales they have gone a stage further and now you cannot even manage a property unless you have been on a government approved course and are considered to be qualified in the rental sector.

In most areas you will also need a licence – renewable every five years – if your property is a large HMO. It falls into this category if all of the following apply:

- 1** it's rented to five or more people who form more than one household
- 2** it's at least three storeys high
- 3** tenants share toilet, bathroom or kitchen facilities

To make sure you understand the local rules and regulations where your properties are situated, visit:



England



Wales



Scotland



Northern
Ireland

Researching your local area

Once you have decided on the type of tenant you would like to rent to, you can look for locations where demand is highest.

To invest successfully, as well as making sure you buy the kind of property that will be popular with your chosen tenant type, you need to try to buy **below market value**, which will give you additional equity from the start.

Is the area 'up and coming'?

If you can buy property in an area which looks likely to increase in popularity, you may be able to secure higher than average capital growth. To find these areas, look for:



Major transport changes, such as a new motorway link or junction/train/tram links



Inward investment to improve an area, from overseas, national and local government



Higher than average population increases, together with healthy wages – that increases the number of people renting and buying and can push up both rents and prices



New, sustainable, employment opportunities.

However, be careful that prices in the area haven't already accounted for these changes. Check what's happened to sold property prices over time and talk to local agents to find out whether property prices are already much higher than they were before.



Research the area in detail

When you have found a suitable area, which looks likely to experience a boost to its economy, you can look at it more closely with relation to your chosen tenant and type of let.



On average, around 19% of homes are rented in the UK. What is the average in your chosen location?



Which areas have a shortage of different types of homes? For example, if a street is full of semis, but has one detached house, is that the best to buy as there is less supply?



Does the local authority encourage renting to private tenants? Do they run local landlord accreditation schemes and programmes to rent to those on benefits? Ideally find an area where the council is supportive and actively engages with local landlords.



What types of companies are in the local area? Are they service-orientated companies, which might require short lets or do they have the type of employees who prefer to buy? Workers in new media, NHS or science-based companies may be more likely to rent, as their job role tends to be more transient.



What rental demand exists already? Where are the shortages? For example, is it for high-end prime market rents or for student, police, fire service or hospital consultant accommodation?

Finally, check for things that are specific to the local area, such as any selective licensing rules. These can be positive because there are sometimes grants available for property improvements. On the other hand, they may simply increase the cost of licensing. For more information, visit the [government's website](#).

The Local Plan

A local authority's Local Plan and Housing Strategy is usually published on its website before any plans are agreed. This often tells you which sites are going to be developed for commercial use or more housing and will normally say how many properties are needed over the next 10-20 years and what types. This is useful when identifying areas and properties which are in short supply, both now and into the future.



There are lots of variables you need to consider when working out whether a buy to let is a worthwhile investment. No-one can guarantee success, but the more research you do, typically the easier it will be for you to spot a bargain and negotiate a good price on the property you buy, helping to ensure the rental income you earn at least covers your ongoing costs.



Your head needs to rule your heart when buying a property to let, so consider the risks and benefits of each property in turn. To help you weigh up your options, read this checklist from Propertychecklists.co.uk

- Be clear about your buy to let investment objectives, eg capital growth or income.
- Calculate how much you have to invest to cover a deposit and costs to let.
- Research areas to find out which have the best capital growth/income potential.
- Compare areas via key trends such as employment, average wage, age trends as well as new investment in the area such as better transport links.
- Check the property is in an area where the tenant population is increasing, not declining.
- Use local agents who are members of the Property Ombudsman and ideally NALS and ARLA.
- Ask local agents to help you work out which roads and property type will give you the best return on capital growth or income.
- Consider the pros and cons of buying a flat versus a house eg service charges.
- Compare council tax from one area to another (reduces costs during voids).
- If considering new build deals with rent guarantees, check what happens if the rent guarantee goes bust.
- What costs will you incur to renovate the property so it is let legally?
- Include likely maintenance costs over a 20-year period (eg new roof or boiler).
- See which properties you can secure the best deal on, for example is a seller desperate so you can offer 10% below the true value?
- Check insurance costs.
- Know and understand the tax implications of renting or selling the property in the future.



Call Propertychecklists.co.uk
on 01652 641722

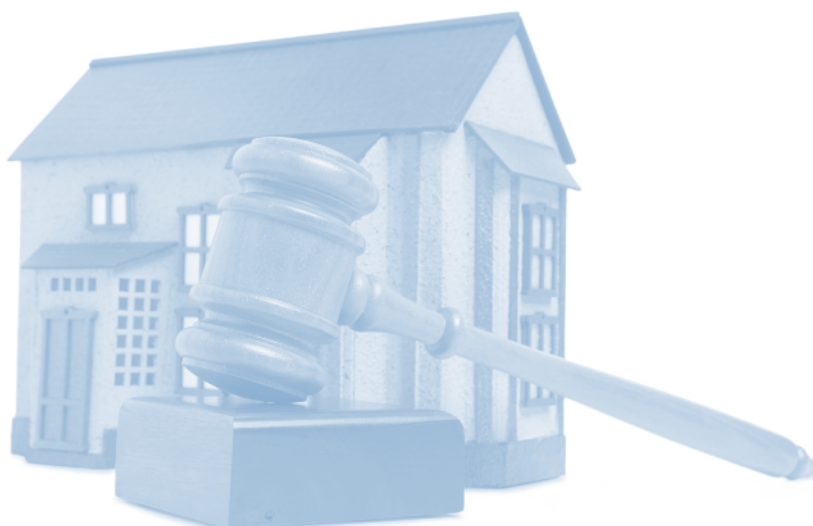


Visit the website at
Propertychecklists.co.uk



Many property investors buy at auction, as there is a chance of securing a property below market value. There are several things to watch out for when purchasing this way, so EI Group has created this checklist to help you on your way.

- If you are buying a property at auction to make money from buy to let or renovation, create a business plan first.
- Sign up to the **EI Group** to find out about the auctions in your area.
- Visit one or two auctions to understand how they work. You can buy the auction catalogue beforehand, or just see the properties (or 'lots') that are available on the day. Mark down what the FINAL price is versus the guide price.
- Contact the auctioneer when you see properties you like to organise a visit.
- Choose a legal company that specialises in buying properties via auction (you'll need to work with a solicitor who ensures you complete within the time limit set at auction). For a specialist legal company contact us.
- Carry out viewings as soon as you can, but make sure you visit each property twice. Once by yourself, then again with a professional builder and/or an independent Royal Institute Chartered Surveyor (RICS) to secure a value.
- If you can, choose several properties to make offers on, just in case you don't win one of the properties on the day and there are others you are interested in.
- Check via professionals such as builders, electricians, gas engineers etc what work is required to bring the property up to scratch to live in, rent or sell on. Just because 'it needs a lot of work' doesn't mean you know exactly how much, so don't skimp on these experts!
- Ask your legal company to check the 'legal pack' that accompanies the property details. Make sure you give them plenty of time to advise you of any restrictions to works that can be done to the property, anything about letting the property etc.



- Prior to the auction make sure that you work out the maximum amount you can afford to pay for the property/what you think it is worth.
- Secure a mortgage if required PRIOR to auction. Make sure the mortgage company is aware and secure in writing that they understand they will be required to complete the funds within four weeks.
- Contact the auctioneer and ask how the deposit will work if required to pay on the day. Do you need a specialist cheque such as a bankers draft? Make sure funds are in place prior to auction day.
- Strategies to maximise profit:
 - Lots out of area (find lots been offered by auctioneers based a long way away, except London-based national auctioneers)
 - Lots out of 'type' or 'character' (look for lots that the auctioneer does not sell regularly, ie a commercial auction selling a flat)
 - Withdrawn lots (If the lot is withdrawn, find out why, it may come back on the market)
 - Unsold lots (If the lot does not sell the vendor may be desperate and accept offers below the reserve)
 - Lots with a high guide price (A high guide price deters interest so the vendor may get nervous and sell at a lower price).



**Call EI Group on
01737 226150**



**Visit the website at
eigpropertyauctions.co.uk**

Buying a flat

Investing in a flat is more complicated than buying a house because you usually purchase the flat itself, but not the communal areas and the plot of land. There are two ways of doing this:

Share of freehold

Some flats have 'share of freehold'. This is often the case when a house has been converted into four flats, each being given a 'share of the freehold', so equally responsible for the property's upkeep, including grounds, roof and other maintenance.

If all flat owners take joint responsibility, this can be a good arrangement but it doesn't always work out that way. For example, if you own the top-floor flat and the roof is leaking but the other freeholders aren't willing to contribute to the costs, you will have to foot the bill yourself to ensure your flat is legally let to your tenants.

Leasehold

The property may be leasehold, in which case you might be relying on your freeholder to make sure you're delivering a legally let property.

Top 10 questions to ask before making an offer on a flat

- 1 How long is the lease for? Anything near 80 years or less could cause you a problem if it can't be renewed as the property may lose value if not mortgageable.
- 2 Is the property leasehold or will you have a share of the freehold?
- 3 Will the lease allow you to let to tenants?
- 4 Are pets allowed? Are there any other restrictions that would affect tenants?
- 5 What services are shared, such as the tank, drainage, roof?
- 6 Is there a sinking fund – an existing reserve fund that is gradually built up to pay for larger maintenance jobs?
- 7 Does the building have a management committee or managing agents?
- 8 What are the costs for buildings insurance, service charges and ground rent?
- 9 What is the managing agent like? For example are they an individual or a company who is a member of the [Association of Residential Managing Agents](#) (ARMA)?
- 10 What access is there to a communal outside area or garden, and what are the parking arrangements?



When you choose a legal expert, it is vital to ensure they have experience with your particular type of purchase. With the help of the Association of Leasehold Enfranchisement Practitioners (ALEP), we have created this checklist of information to gather and questions to ask.

Important information to gather about your residential leasehold property or a property you are thinking of purchasing before contacting a solicitor:

- Address of the property including postcode.
- Lease length: remember if you live/own the property for a long time, you might have to extend it. Please note that it costs more to extend your lease or buy your freehold once the lease falls below 80 years, as marriage value becomes payable to your freeholder. For just £3 you can download the leasehold title from the [Land Registry website](#) which will show you the exact lease length without having to take anyone else's word for it.
- Ground rent payable, this is typically an annual charge.
- Approximate property current value or value of the last property sold in your block.
- Freeholder's details. It's worth ringing neighbouring doorbells, making sure you talk to owners, not tenants, and ask questions, for example:
 - Do they send out statements of service charges paid and what it's being spent on?
 - Is the work they carry out, e.g. cleaning, of a good standard?
 - Do you have to pay for repairs and major works upfront or after the work is done?
 - Have they sent any surprise bills to leaseholders? What were the payment terms?
 - Do they return phone calls and fix urgent repairs in a timely manner?
 - How is the building managed? Are the communal areas well maintained, light bulbs working, garages painted, garden areas kept neat and tidy etc?

Questions to ask when appointing a solicitor to carry out the legal work for your lease extension/share of freehold purchase transaction:

- Are they a member of ALEP?
- What is their website like? Can they communicate clearly and effectively? For example:-
How quickly will they return your phone calls or emails?
Do you talk to the solicitor or one of their support staff?
- Do they have a clear fee structure? (Fixed fee or hourly rate?) Does this fee include VAT?
- Are they experienced in the geographical location of the property?
- Do you need to attend their offices in person in order to provide the ID required to comply with money laundering regulations?
- Are they specialists in dealing with leasehold matters (enfranchisement), i.e. do they have an established department?
- If you appoint them, will you be allocated a particular solicitor or dealt with by a team?
- If a dispute between leaseholder and freeholder cannot be resolved, the matter can be referred to the First-tier Tribunal (Property Chamber). If this happens, do they have sufficient court and tribunal experience to argue and represent your case?
- Do they act predominantly for leaseholders or freeholders?
- Are they prepared to provide any initial advice over the telephone free of charge?



Call ALEP on 0845 225 2277



**Visit the website
at alep.org.uk**

Houses in Multiple Occupation

There are additional rules and regulations to follow if you run a House in Multiple Occupation (HMO) so, if you're considering purchasing an HMO, or intend to convert the property into one, ask these key questions before you make an offer:

- 1** Do HMOs in the locality require a licence and/or planning permission? Different local authorities have different HMO definitions and rules, so make sure you get clarification.
- 2** How much is the licence and how regularly does it have to be renewed?
- 3** Has the property been checked by the local housing standards officer and, if not, what are the key checks they make?
- 4** Does the property meet the HMO regulations, such as for gas and electrical safety, fire doors, extinguishers, ease of exit if there is a fire, etc?
- 5** What is the local demand for HMOs? Is it mainly from professionals, students or those on benefits?

Maintenance costs

It is important to factor in the costs of maintaining your property. Skimping on this area is false economy as a well-maintained home will keep your tenants happy and will be easier to re-let when they leave. And, of course, small niggles which are neglected can escalate into much bigger problems. To help you take into account all the likely costs of maintenance when calculating your investment returns, here are some examples of what you'll have to do to let the property legally and costs you will incur ongoing.

To legally let a property

| | |
|--------|---|
| £50 | Lender's approval to let |
| £80 | Gas safe certificate and service |
| £150 | Electrical safety certificate |
| £40 | Energy performance certificate (EPC) |
| £2,000 | Health and Safety upgrades (safety glass; carpets; heating; mould/damp) |

Annual maintenance costs

| | |
|------|--------------------------------------|
| £200 | Safety certificates, emergency calls |
| £150 | Cleaning |
| £100 | Guttering and drain clearance |



Electrical safety is vital, for obvious reasons, to protect both your investment and your tenants. This checklist, created with Electrical Safety First, will help you budget for and perform the necessary checks on a property before letting it to tenants.

- Make sure your rental property has a periodic electrical inspection at least every five years. This will check for wear and tear, damage or other issues:
 - The wiring is earthed and bonded properly
 - Remove covers to inspect connections and conductors for signs of damage
 - Test the circuits to identify defects and faults
- Carry out any changes an electrician suggests on the periodic report to protect your tenants from electrical dangers. As a landlord it is your responsibility to ensure the following have been done, download the [Electrical Safety First Landlord's interim electrical safety checklist](#) for the full list.
 - Make sure your fusebox ('consumer unit') is fitted correctly and not damaged. Also make sure it is not obstructed with flammable things like paint, newspapers or cleaning fluids.
 - Check there is an RCD (Residual Current Device) and it is working.
 - Ensure cables aren't passing through doors/window openings.
 - Check sockets are not overloaded.
 - Before plugging in leads/cables check for signs of damage like cracks and splits.
 - Make sure appliances aren't subject to a recall by visiting the [Electrical Safety First website](#).
 - Check relevant covers are in place and undamaged on appliances so shock or fire risk is reduced.
 - Make sure a smoke alarm is fitted, working and the alarm sounds when tested.
 - Ideally fit a carbon monoxide alarm just in case any leaks occur so the tenant is warned.
 - Keep a copy of electrical safety reports, any appliances instructions and guarantees so you have evidence the property is safe.



Call Electrical Safety First
on 020 3463 5100



Visit the website at
electricalsafetyfirst.org.uk



Checklist: Ensure your rental is safe for tenants



Electrics aren't the only potential source of danger in a home, so use this checklist, from BlueWatch, to help you assess what work will be required on a property before you invest and let it out to tenants. It is also vital you have a survey done on the property before purchasing.

- As a landlord/agent it is essential you have a 'safety in the home checklist' to protect yourself from potential prosecution in the event of a tenant's death.
- Understand the main causes of fires and carbon monoxide poisoning in homes.
- 60% of fires start in the kitchen, so do extra checks to make sure everything has been covered:
 - Electrical leads, tea towels and cloths aren't near ovens/hobs;
 - Put a note on the microwave to make sure no metal items are placed in them;
 - Ensure electrical appliances aren't located near the sink/any water;
 - Only allow a 'spark device' to light gas cookers;
 - Don't supply a chip pan, and request that the tenant doesn't use one.
- Heaters caused 1,500 accidental fires in 2011/12 so advise tenants not to place clothes/furniture/beds next to heaters and to always turn off any portable heaters.
- If the property has a chimney, make sure it has been swept and is done so regularly, ideally by a chimney sweep who belongs to the **Institute of Chimney Sweeps** or **National Association of Chimney Sweeps**.
- Make a list of all the products and services in the property that need checking by professionals eg cooker, hob, boiler, electrical appliances, heaters, smoke alarms.



- Check whether electrical appliances you supply have a British or European safety mark. If they don't, consider removing them from the property or replace them with safer versions.
- Check any furniture you leave in the property meets the correct fire safety standards.
- Make a list of all of the safety products which the rental home should have such as smoke alarms.
- There are special rules which are created at national and local level so make sure if you have a House in Multiple Occupation, you abide by the specific safety regulations required by your local housing officer/authority and the [LACORs guide](#).
- Make a list of all the additional safety products which would protect both your tenant and your property, even if they aren't required by law for example a fire blanket, fire extinguishers, fire doors and emergency lighting.
- Gas appliances can go wrong even after they have been checked, so ensure you have an annual gas safety check by a [Gas Safe Registered](#) engineer.
- More than 50 people each year die of carbon monoxide (CO) poisoning so always ensure a CO detector is fitted and regularly tested.
- Keep a record of all the safety checks, the equipment you have installed and an inventory of what you left in the property.
- You can get a 20% discount on Smoke alarms at [Blue Watch shop](#), simply enter 'Propertycheck' in the 'offer code' box at checkout.



**Call BlueWatch on
0844 8082435**



**Visit the website at
bluewatch.co.uk/**

EXPERT TIP

My advice is to do your research. There are a lot of things like gas safety, electrical safety and market demand to consider. It's too easy to watch TV programmes and think 'that's simple' but it's not. You can fall foul of all sorts of laws and regulations and end up in serious trouble.

**ANDREW PARIS
LIVINGSTONE HOMES**



Refurbishment costs

If you buy a property which needs refurbishing, you need to make sure your budget covers the cost of any work, plus the mortgage while you are unable to let it out, as well as a contingency fund. Here are some example costs, as a rough guide.

| Potential long-term refurbishment | | | |
|-----------------------------------|-------------------|-------------------|--------------------|
| | Within five years | Within 6-10 years | Within 11-20 years |
| Decoration | £1,000 | £1,000 | £2,000 |
| New/upgraded kitchen | £0 | £4,000 | £5,000 |
| New/upgraded bathroom | £0 | £2,000 | £3,000 |
| Repairs/new flooring | £150 | £2,000 | £2,500 |
| New boiler | £0 | £2,000 | £3,000 |
| Upgrade the electrics | £0 | £2,500 | £3,000 |
| Exterior painting | £0 | £2,000 | £2,500 |
| Guttering/soffits | £0 | £0 | £3,000 |
| New windows | £0 | £0 | £10,000 |
| Roof | £0 | £0 | £15,000 |

Many of these costs can be deducted from your tax bill, either at the time or when you come to sell. But when it comes to comparing different property types, it's crucial not just to look at yield and potential capital growth, but the likely maintenance costs over time, as that can really make a big difference to your overall profitability.

Choosing a law firm

The legals of property ownership across the UK can be complex and buying a property to let only adds to existing complications, so ensure your law firm is experienced in dealing with property investors. They need to have an understanding of not just the legals, but property tax, wills and trusts, and also appreciate the importance of working with your mortgage broker, surveyor and financial adviser.

You also need to inform them of your plans to make money from the property, so they can advise of any issues they come across that could impact on those plans.

You need somebody who is knowledgeable about both buying and letting property so they can:

1

Advise on the best way to own the property

2

Check whether the property/ies should be secured in a trust

3

Work with your buy to let tax expert to mitigate tax

It doesn't matter whether you choose a solicitor or a conveyancer, what is more important is the quality of the work they do and their knowledge and experience of working in the buy to let market.

To carry out legal work on property conveyancers have to be qualified with **The Council for Licensed Conveyancers** (CLC). In Scotland, they need to have a law degree, as they don't tend to work as licensed conveyancers.

Solicitors and their companies must be members of the **Law Society**.



Don't necessarily choose the cheapest law firm. Companies charging low rates tend to do so because they take on as many cases as they can, providing updates via email or text rather than face to face or on the phone. They also tend to progress your purchase only when they receive information, rather than chasing it proactively.

'No sale, no fee' and 'fixed fee' conveyancing

It is worth asking for a 'no sale, no fee' or 'fixed fee' service, as it means if the seller withdraws or you need to pull out, you often don't have to pay the legal fee. It also gives you peace of mind that the company will work efficiently and do all they can to ensure the sale completes.

Hidden costs

If a law firm appears to be cheaper than others, be aware they may have hidden costs. Whichever company you choose, check if the price you are quoted covers everything, including VAT.

There are three key costs to buy to let legals:

1 The cost of the legal person's time

2 Disbursements on your behalf, eg searches and money transfers

3 Stamp duty – including the 3% charge on BTL properties over £40,000

The law firm will also usually handle all mortgage-related payments, so you will need to transfer the deposit funds to them prior to exchange.

As a buy to let investor, you will need to budget for additional legal advice on the best way to own and structure your property portfolio. You may also incur fees for insurances required to protect you if certain information can't be found. For example, if planning consent documents can't be located for an old extension, it may be easier, quicker and cheaper to pay for insurance to cover you if anyone raises it as an issue, rather than hold up the purchase. In this situation, the vendor might bear the cost.

Property investment clubs and sourcing companies

If you're buying through a third party, make sure you instruct a law firm that works for you, rather than one connected with the seller.

Buying a flat

The fees for buying a flat are typically an extra £100 or more, due to the additional work involved in reviewing the leasehold agreement. If you are buying a leasehold property, do use an experienced specialist – you can find one via the [Association of Leasehold Enfranchisement Practitioners](#) (ALEP).

In addition, it's vital your legal representative asks particular questions of the seller, as some leases don't allow you to rent out a property to a third party or even rent out a spare room; others restrict how the property can be developed, such as banning laminate or wooden flooring due to noise issues.

Joint tenancy or tenants in common?

When you buy property with a spouse or business partner, it is usual to buy in both names under the legal term 'joint tenancy'. If one of you dies, the deceased's portion of the property automatically goes to the surviving partner.

If there are two of you purchasing an investment property, it can be better to buy under 'tenants in common', which means you can leave your share to whoever you like, perhaps passing into a trust. Also consider what percentage you own from a tax perspective, especially if one of you is a lower-rate tax payer.

This is why it is important to choose your law firm carefully.



Checklist: Choosing a law firm for your buy to let purchase

When you buy a property to let as opposed to live in, it is important to use an experienced lawyer as the way in which you buy and hold a let property is likely to be different to the way in which you own a home.

BONALLACK & BISHOP
SOLICITORS

In particular, the vast majority of lawyers dealing with residential property have little or no experience of the more specialist property strategies – HMOs, lease extension, delayed completion etc.

So how do you identify the right law firm? We have created this checklist with Bonallack & Bishop solicitors to help you on your way.

- Ask the lawyer you are thinking of appointing what knowledge they have of buy to let. Questions to ask, for example:
 - Do they understand the different ways of owning a BTL property if you are couple?
Can they advise and set up trusts to ensure your properties always pass to your children?
 - What do they know about the legal regulations to let a property?
How much do they know about HMO licencing?
 - Will they be able to purchase within a set timeframe and what happens if they fail to do so?
- Find out what experience the lawyer has if you are buying a specific property investment, and what additional checks they make/recommend, for example:
 - A House in Multiple Occupation
 - A property with sitting tenants
 - Leasehold flats
 - Multiple property purchases such as blocks of flats
 - Buying freeholds and title splitting
 - New build properties sold off-plan or via a developer
 - Buying a plot of land to build on
 - Converting properties from commercial to residential use
 - A property which needs substantial renovation, potentially requiring planning permission to help you generate a good return on your investment
 - Buying a property at a discount eg with a short lease and planning to make money from extending the lease.

- What other companies/organisations do they work with? Or what other companies do you have that they need to work with, for example:
 - Property tax expert
 - Independent financial advisor or mortgage broker
 - Surveyor
 - Planning consultants
 - Buy to let insurance specialists

- The better your lawyer is networked in the property community, the more they will be able to add value to your property investment purchase, rather than just do the conveyancing.
- What will their costs be? Are they transparent and fixed? Do they include all the costs including stamp duty; VAT and break down things like search fees, office copy entries?
- If you are negotiating a price based on completion by a certain date, discuss the proposed timescale with your lawyer during the offer making stage. Usually it would be sensible to agree an exchange within an agreed number of weeks of your lawyer receiving ALL standard contract documentation. This also puts the responsibility on the seller to ensure a full contract package is sent out quickly.
- Will they work with you on-going, for example, to help with tenancy agreements, tenancy issues, can they provide eviction help if required?



**Call Tim Bishop at Bonallack
& Bishop on 01722 422300**



**Visit the website at
bishopslaw.co.uk**



A mortgage valuation is not a survey – this only protects the lender, not the buyer.

Therefore it is important to have an independent survey by a chartered surveyor, as this will provide you with a professional report on the condition of the property, along with a reliable valuation (if it's a Homebuyers report).

There are various types of survey, so take a look at this checklist from The Residential Property Surveyors Association, which will help you choose a surveyor as well as the survey best suited to your property and needs. Skimping on this service as a landlord is fool hardy as just because it 'looks OK' doesn't mean it is! And from a landlord perspective, buying a property with problems you haven't foreseen or maintenance work you haven't accounted for (for example, replacing a roof) could make or break your investment.

- There are two types of surveyor. One belongs to the **Royal Institution of Chartered Surveyors** the other to the **Residential Property Surveyors Association**. Some belong to both.
- Understand there are four types of survey:
 - Mortgage valuation – for the lender
 - Home condition survey – for most properties
 - Homebuyers report – includes a valuation
 - Building survey – for old or non-standard properties
- Make sure you have a mortgage valuation AND either a home condition, homebuyers or building survey report.
- The mortgage valuation is just for the lender, if there is anything wrong with the property you cannot claim against the surveyor.
- If your property was built post 1930s and there are no obvious faults, your mortgage valuation and a home condition or home buyers report should suffice.
- Check if the report comes with any guarantees or insurance. For example, if the RPSA condition report does not pick up something which becomes a problem, you can claim on the surveyors professional indemnity insurance.
- Ask the surveyor if they just send a report or talk over the phone or face to face to go through any problems.
- Check whether the survey can be accessed on-going or if you have the only copy.

- Write down a list of issues you are worried about with the property so the surveyor can check them for you.
- Organise your survey.
- If you can, request a visit to the property and surveyor at the end of the appointment to go through problems, a Home Condition survey will highlight legalities of alterations.
- Send your report to your legal company or conveyancer.
- Check what the costs will be to fix any existing problems.
- Work out what costs you will incur for future fixes, for example, the flat roof may be 10 years old and need replacing in five years.
- Negotiate any monies off the price of the property to pay for existing and potentially part of the future works. For example, if a flat roof is at the end of its life, you may ask for some money off to contribute to a new one.
- As a landlord, it's particularly important to find out what future maintenance requirements the property will need. Anything that will cost you more than £1,000 or more may mean you earn nothing from a property's income each year, so talk to your surveyor about the maintenance schedule required over the period of time you intend to own the property.



Call RPSA on 08714 237189



**Visit the website
at rpsa.org.uk**

Investing individually or through a company

Following the implementation of Section 24 – which restricts the amount of income tax relief landlords can claim on residential property finance costs – some landlords may find it beneficial to invest in property via a limited company.

However, this is neither clear-cut nor straightforward, so you are advised to speak to a property tax expert, who can help you weigh up the pros and cons and work out what is best for your particular set of circumstances. For instance, while you will pay a lower rate of tax – 20% corporation tax rather than the 40% paid by higher rate tax payers – you can only take income from the property if you make a profit, bank charges will be higher and you may not benefit from personal tax allowances.

This topic is covered in more details – with a full list of pros and cons – in the first eBook in this series; **Is Buy to Let a Wise Investment?**

EXPERT TIP

The attraction of a limited company is if you're a higher rate tax payer, you would pay 20% corporation tax as opposed to the 40% tax you'd pay if you held the property individually. But it's a big decision to make because if you're a company, profits are taxed and there are further tax implications of taking the money out. It's a bit of a balancing act trying to work out the best way to do it.

MICHAEL WRIGHT
RITA4Rent.co.uk



Property investment clubs

Buying to let through a property investment club may sound like an attractive idea but far too many people have had bad experiences, so beware of anyone offering you 'instant income', property at a discount or who promise you good returns. Always do your research on every company or individual you deal with.

EXPERT TIP

There are so many 'wealth creation' companies and 'get rich quick' schemes but I call it 'selling a ticket to see a unicorn'. My bottom line on this is if it sounds too good to be true it is, every time. Don't take anybody's word for anything – always do your own research. The most important thing for me is to find the demand before you create the supply. It's no good buying property that allegedly has a 10% discount if nobody wants to rent it.

VANESSA WARWICK
propertytribes.com





Managing a successful rental property is a bigger job than many people imagine and, for this reason, many landlords choose to leave it to the professionals by handing over to a qualified letting agent. The experts at Hunters have created this checklist of the top 10 vital steps you need to take when purchasing and managing a buy to let.

- Choose a property based on what tenants in the area want to rent. Seek advice from local qualified ARLA, NALS, RICS or UKALA letting agents as they know where the demand lies.

- Thoroughly check a property before you buy, ensuring you have the following surveys:
 - Homebuyers or building survey
 - Electrical and gas safety check
 - Timber and damp survey
 - Drainage survey

- When you get the feedback, calculate the cost and time it will take to carry out immediate renovation works required to let the property to tenants legally and safely.

- Ask a qualified letting agent to check the property against their own checklist, which should include the 29 Housing Health and Safety Rating System checks.

- Prepare a maintenance schedule, including upgrade costs, for the length of time you will own the property, so you don't get any nasty surprise bills. A well maintained property will be easier to let so void periods will be reduced.

- Take out specialist landlord insurance. Consider policies which have an emergency call-out for heating and other urgent problems such as leaks; for the latter, check your water company's policy.



- Carry out – or have your letting agent carry out – regular inspections, to see if the property is being kept in good order, and to find out if the tenants have any issues. By looking after your tenants, they will be more inclined to look after your property and stay there longer.
- Get to know the neighbours as they will be your ‘eyes and ears’ if anything is amiss with your property, such as illegal sub-letting, or they may spot property damage that tenants haven’t seen.
- Draw up a schedule of checks to make on the property each year including:
 - Gas safety certificate
 - Checks after severe rain, wind or snow/ice
 - Property condition versus inventory
- Keep up-to-date records of all outgoings related to the property, as well as the monthly rent payments, so you can step in early if necessary.
- Choose a qualified letting agent who has Client Money Protection to manage your property, or at a minimum, join a landlord association or local authority accreditation scheme so you continue to let legally and safely.



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**Call Carrie Alliston at
Hunters on 01904 756100**



**Visit the website
at hunters.com**



Letting a property through a quality agent makes it easier to find a fully referenced tenant and means you will be letting legally and safely. Belvoir have created this checklist to help you choose the best agent in your area.

- Only consider letting agents who are members of either NALS, SafeAgent or ARLA/RICS such as Belvoir Lettings.
- Become a tenant first and put 'renting a property in.....' into a Google to see which agents are top.
- Research via property portals which agents market and let similar properties to yours.
- Ask how the letting agent keeps up to date with latest letting rules and regulations.
- Find out what they do to keep you up to date with BTL eg newsletters, seminars or workshops.
- Find out how your property will be marketed.
- Ask what the agent's average void period is.
- Research the different services letting agents offer including:
 - Tenant find
 - Let only
 - Full management
- Understand in detail what each of the different services includes, for example tenancy agreement.
- Ask how often periodic checks will be carried out under full management.
- Work out all costs of letting a property through the agent including:
 - Set up fee
 - Management fee
 - Other fees



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- Compare costs over a 6-12 month period and include charges to re-letting a property and for EPCs, gas and electric safety certificates.
- Check the terms of business with a legal lettings specialist.
- Find out how long it will take for the tenant's rent to hit your bank account.
- What other services are offered, for example, run seminars, workshops, help with legal issues or property?



Contact Belvoir here

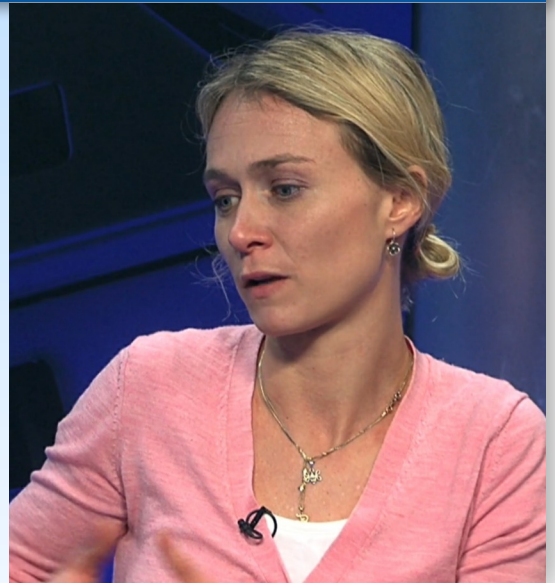


**Visit the website at
belvoir.co.uk**

Our insurance expert recommends

- ! Get an idea of realistic rental income by speaking to a local agent who understands what's driving rental levels in an area
- ! Instruct a surveyor, ideally somebody local, to inspect the building, and make you aware of any problems with the building structure or issues such as subsidence
- ! Finally, you will need a lawyer to guide you through the process and save you from hassle. Again, local is really good

CHRISTINA DIMITROV
directlineforbusiness.co.uk



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



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