

Buy to Let

Thinking of investing in property?

There's plenty to consider before purchasing a Buy to Let property. Navigating the minefield of properties, tenants and regulations can seem daunting, so here's a brief guide to show how Mortgage Scout can help you through the process

The Right Property

Choosing the right property can make or break a buy to let investment, so it's often wise to consider a few key points before committing to a purchase

Location

The location of the property is key to attracting the right type of tenant. Being close to transport links, schools, supermarkets and even the local GP can all raise the appeal of your property.

Type of property

Choosing between a flat and a house can influence the type of tenant you'll attract. Think about the benefits of each before making a choice. Keep in mind leasehold fee's can eat into your profit!

The Perfect Tenant

Although a little flexibility is needed when choosing a tenant, keep in mind the type of tenant you would like to attract.

These typically fall into 3 categories:

Young professionals (individuals or couples)

- Focus on distance to and from transport hubs

Family units

- Quiet residential areas close to schools tend to be a priority

Students (HMO)

- Buying close to university campuses is likely to attract students and lead to rooms being rented individually

How much will it cost?

Property can be a rewarding investment, but it's important to remember that each investment property needs to be run as if it were a business, so keeping a close eye on the start up and running costs is key. There may be a fee for mortgage advice and the actual amount you pay will depend upon your circumstances. Here's a brief list of the other main costs involved, but these can vary greatly between investors

Deposit

Landlords are typically required to provide a deposit of at least 25% to access most mortgages available across the market. Your Mortgage Scout adviser will help narrow these options and ensure you proceed with the ideal mortgage

Stamp duty

Buy to Let properties often tend to be purchased in addition to the client's residential property, which usually means the additional rate of stamp duty will be applicable. The additional rate of stamp duty is an extra 3% of the purchase price, in addition to the standard stamp duty rates applicable. Your Mortgage Scout adviser can easily calculate your stamp duty liability on a range of different purchase prices, to help assess your budget

Solicitor fees

Solicitor fees can vary greatly depending on the type of property, location and purchase price. Your Mortgage Scout adviser can provide a quote and introduce you to solicitor firms if needed

Running costs

It's always a good idea to budget for maintenance costs, agency fees, landlord's insurance & void periods between tenancies

Taxation

Recent tax changes for Buy to Let properties have two major implications for landlords. Firstly, landlords need to take the changes into account when completing their tax returns. Secondly, and more importantly from the landlord's point of view, your profit could be affected.

Since April 2017, tax is now calculated based on turnover rather than profit. The deduction of mortgage interest (and other finance costs) is gradually being replaced with a tax relief allowance, at the basic rate of tax. The changes are being phased in over four years, as detailed below:

	Mortgage Interest Deductions	Tax Relief Allowance (at basic rate)
2016/17	100%	0%
2017/18	75%	25%
2018/19	50%	50%
2019/20	25%	75%
2020/21	0%	100%

Although your Mortgage Scout adviser cannot provide advice on tax queries, they will be able to introduce you to local accountants and tax experts who will be happy to discuss your tax liabilities

Your property may be repossessed if you do not keep up repayments on your mortgage.

There is no guarantee that it will be possible to arrange continuous letting of the property, nor that rental income will be sufficient to meet the cost of the mortgage.

There may be a fee for mortgage advice. The actual amount you pay will depend upon your circumstances.

The fee is up to 1% but a typical fee is 0.3% of the amount borrowed. MAB 11906

Considering a Limited Company?

Investing in property via a limited company, also known as a Special Purpose Vehicle (SPV), is becoming more popular due to the recent tax changes. Although SPV's can provide certain tax benefits for some individuals looking to invest for the long-term, they also come with higher running costs and usually higher interest rates on mortgage payments. Setting up an SPV is a relatively simple process, but we'd always recommend seeking advice from an accountant before making any decisions, to ensure it's right for you. Your Mortgage Scout adviser can introduce you to local accountants and tax experts to help with the decision making process

Mortgage Amount

Buy to let mortgages tend to work very differently to residential mortgages, as lenders are more focused on the rental income that will be generated, with less attention on an individual's personal income. Lenders will usually conduct a 'stress test' to establish if you'll be able to keep up with payments once they've factored in any possible expenses and interest rate fluctuations. The calculations can vary from lender to lender, with most typically wanting to see the rental income covering 125% - 145% of potential interest payments. Your Mortgage Scout adviser can help simplify everything and confirm the maximum loan amount that will be available based on a range of rental incomes

Landlord Obligations

There are certain legal requirements that all landlords must follow before renting their property. Here's a brief list of the main obligations, but we recommend you check with a local agent to ensure you are adhering to all regulations:

Gas Safety

You'll need to get in touch with a 'Gas Safe' registered engineer to carry out a check. You're legally obligated to carry out a check every 12 months and provide a copy of the certificate to your tenant

Electrical Installation Condition Report (EICR)

It is a legal requirement for a let property to have an EICR issued by a suitably qualified electrician. An EICR usually lasts 5 years and a copy must be issued to each tenant.

EPC (Energy Performance Certificate)

You must ensure that any property you plan to let has a minimum energy efficiency rating of an E or above

Deposit Registration

A maximum of 5 weeks rent can be collected as a deposit. You must ensure any deposit funds are protected in a relevant scheme

Selective Licensing

More than 60 councils across England operate 'additional' or 'selective' licensing schemes, which require landlords to adhere to a code of conduct. You'll need to check with local agents to see if your investment property will require one of these licenses

HMO Licensing

If you decide purchasing an HMO property is the best investment for you, you'll need to apply for a HMO license and carry out the works required on the property. Costs can vary between areas, but a local agent will be able to provide more information

Property Management

Self-managing your property can help ensure a long-lasting, friendly relationship between you and your tenants, but it can be frustrating and time-consuming when things go wrong. The worry of a 2am phone call from tenants is often enough to make most consider passing the day-to-day property management to professionals. Here's a few things to consider before making a decision:

Do you have time?

It's hard balancing a full-time job, loving family and busy social life. Adding a buy to let property investment to the mix isn't always feasible. Self-management is worth considering if you can always be available by phone and email, despite your busy life. If not, think about utilising the services of a letting agency

Distance to the property

Buying an investment property in your local town isn't always possible, and the best investments can sometimes be further afield. If you can't attend viewings, inspections or maintenance calls yourself due to the distance, a letting agency may be the best option. Their connections with local tradespeople are a huge bonus as well!

Do you enjoy dealing with tenants directly?

For some, building a friendly relationship with their tenant is a key part of being a landlord. Others prefer the slightly more hands-off approach of using a letting agent. There's no right or wrong here, it's all down to personal preference

HMO

A House of Multiple Occupancy (HMO) is typically defined as a property that is let to 3 or more tenants, who form 2 or more households and share a basic amenity, such as bathrooms or cooking facilities. These properties are usually let to students, professionals or tenants who are looking to rent individual rooms rather than the property as a whole. Potential returns can be higher, but it's worth consulting with local agents to check the demand and regulations for HMOs in your chosen area, as licencing rules can vary between Local Authorities.

Protection

Once you've found the ideal investment property, the next step is protecting it - Mortgage Scout can help you every step of the way! Our mortgage and protection advisers will be able to provide advice and guidance on a number of protection options to ensure your property is protected.

Call us on 0800 1444 744 to speak to a Mortgage Scout adviser, or visit mortgagescout.co.uk for more information



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