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The BTL survival guide



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Property not to be used as primary residence

Buy-to-let has vastly outperformed other investments over the past two decades, but you can't just sit back and watch the money roll in. **Martina Lees** has the essential Q&A

Have you heard the one about the rabbi who turned up in full regalia for a service at a brothel? Or the one about the python who needed a taxi? These are actual cases dealt with by lettings agents. If you thought investing in property would be a matter of sitting back and watching the pounds roll in, the joke might well be on you.

That said, the right property can deliver. Since the birth of the buy-to-let mortgage in 1996, BTL has far outstripped other asset class, according to the specialist mortgage lender Paragon. Every £1,000 invested in a 25% BTL deposit at the end of 1996 would have been worth £13,048 by the end of 2013 – compared with £3,082 for shares, £2,924 for bonds and £1,949 for cash. Yet property does mean more work. ISAs don't call you up at midnight to fix a leak.

In the final part of our investment special, here's our cut-out-and-keep BTL guide.

1 How do I get a buy-to-let mortgage? The good news is that BTL rates are at all-time lows: the average rate of fixed and variable borrowing is now 3.83% and 3.72%. The bad news? You need a deposit of at least 20% of the property's value. Only at 25% will you start getting rates below 5%. Banks also require that the rent covers 125% of the mortgage payment. If you don't own your home, few buy-to-let lenders will fund you, but speak to a broker.

Buying with a mortgage, rather than cash, gears up your gains (and losses): a 25% deposit brings four times the return from price growth that a cash purchase would.

2 Should I buy off-plan? It can make financial sense, says Sophie Roberts, head of

search and acquisitions at Banda Property. Buyers usually put down a 10% deposit on exchange of contracts, with the rest due at completion. "This means they are securing a home at today's value and have time to raise the additional funds."

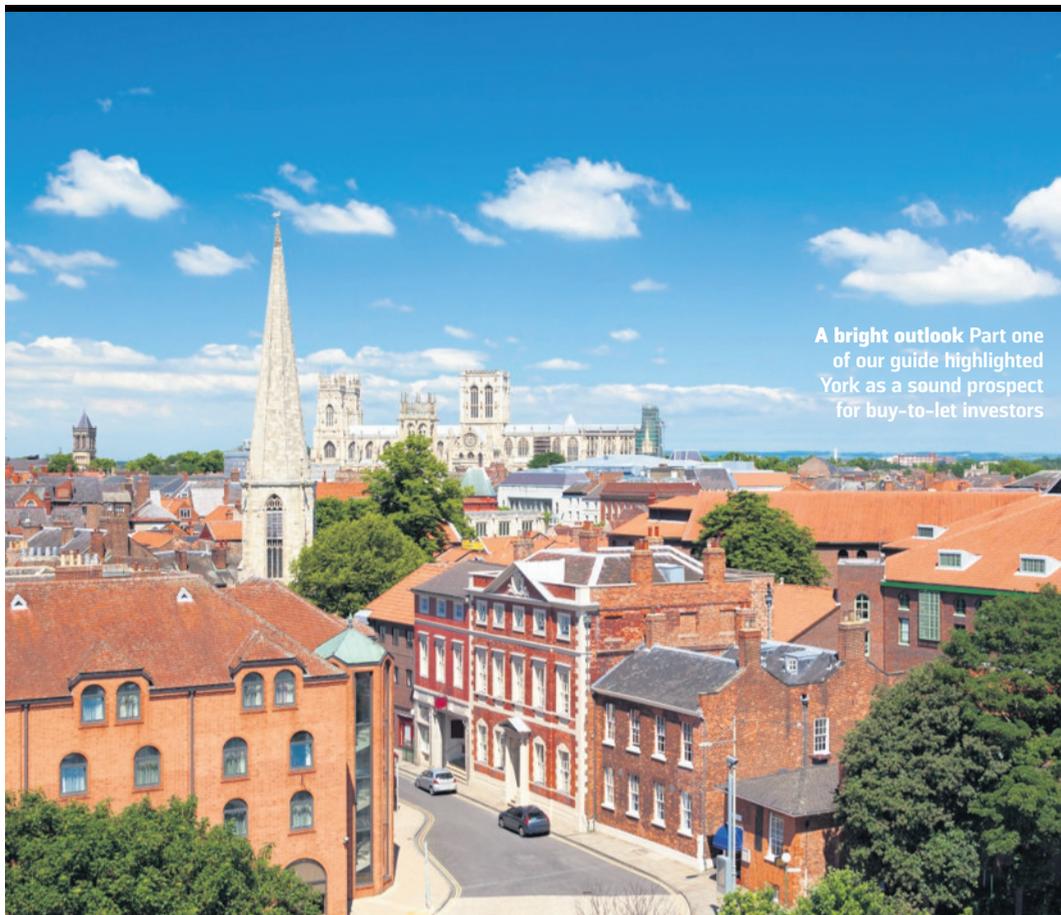
Yet if values fall before the property is built, you could have a black hole on your balance sheet. Avoid huge new schemes where lots of similar homes hit the market at once, depressing prices.

3 Should I buy a flat with a short lease? The shorter the lease, the more expensive it is to renew it – and the lower the price of the flat. If the lease is less than 80 years, your mortgage choices will be limited. A cash investor, however, could get a better rental return on a cheaper flat with a short lease.

Once you've bought, you'll have to wait two years before you can apply for a new lease. You can get around this by paying the seller to serve a renewal notice on the freeholder after exchange of contracts, but before completion of the sale. Best of all, it's possible to get a mortgage conditional on this.

4 Should I buy the freehold? In theory, buying out a freeholder with fellow owners in a building makes you masters of your own destiny, says Donall Murphy, partner at Russell-Cooke solicitors – "although that in itself has the problem of trying to agree decisions by committee". The main advantage of owning the freehold is that you would be able to renew your lease for much less. However, you will likely need to fork out for the freehold and its valuation, as well as legal fees – your own and the freeholder's.

5 Should I invest in ground rent? This is big business. Some freeholders collect portfolios of more than 1,000 ground rents, as otherwise



A bright outlook Part one of our guide highlighted York as a sound prospect for buy-to-let investors

they are a lot of work for small returns. “We frequently sell ground rents,” says Chris Coleman-Smith, head of Savills Auctions. “They have become increasingly popular, enabling buyers to access the London market for a fraction of the price of a house.”

If a lease is renewed, ground rent is usually lowered to a symbolic peppercorn rent – or, in one block of flats in Manchester: “One pound of Lancashire cheese, a pint of locally produced beer, one locally produced loaf of bread and one free-range organic chicken.” So, a healthy profit.

6 When are flats above a shop a good investment?

Some mortgage companies are not keen on lending against mixed-use properties. Still, returns can be good if you choose the right commercial tenant, says Simon Aldous, director of valuation at Savills. In other words, French furniture shop good, smelly fish-and-chip joint bad. His advice? “Select the high street with care and aim for the most flexible commercial licence – a general one.”

7 What should I know about houses in multiple occupation (HMOs)?

In England, you always need planning consent for an HMO where seven or more unrelated people share a kitchen and bathrooms. Many councils, including Oxford and Portsmouth, require the same consent for HMOs of three to six people, says Alison Broderick, planning manager at Platinum Property Partners. The firm specialises in HMOs let to young professionals – with average gross returns of 11%. This is all about compliance – and definitely not for amateurs.

8 I hear some councils require landlords to be licensed. How will this affect me? Last month, Liverpool launched the largest such licensing scheme in Britain,

aimed at eliminating rogue landlords. From April 1, every one of its 50,000 private rental homes will need a five-year licence costing up to £400. In London, Newham council’s blanket scheme covers 35,000 properties at up to £500 each, and Croydon pushed its plan through last week. Many other councils have schemes for specific streets. Check if yours is one of them – fines can be as high as £20,000.

If it isn’t, you can (likely) breathe a sigh of relief. This month, Brandon Lewis, the housing minister, announced that all councils will need state approval before introducing blanket licensing schemes.

9 How will new immigration rules affect me? Since December, landlords in Birmingham, Walsall, Dudley, Sandwell and Wolverhampton have had to check that tenants have a right to live in Britain before letting a property to them, or face a penalty of up to £3,000 per adult illegal immigrant living there – even if they are not named in the lease. The measures, which will be phased in across the country this year, apply only to new tenancies. To avoid discrimination, check all tenants. See bit.ly/1pFOABn.

10 What should I do with deposits? By law, you have to register a tenant’s deposit with one of three state-backed protection schemes within 30 days of receiving it or face heavy fines. At the end of a tenancy, you must both agree any deductions; the balance should reach the tenant within 10 days. Any amount in dispute will stay in protection until you reach agreement.

11 What other legal obligations do I have as a landlord? All gas equipment has to be fitted by an engineer on the Gas Safe Register and tested annually. You must give your tenant a copy of the gas-check certificate on entry

or within 28 days of the test. Not doing so can land you with an unlimited fine, a prison sentence or – if someone dies – manslaughter charges.

You must also ensure that sockets, light fittings and electrical appliances are safe. All upholstered furniture should have fire safety labels.

12 What do I need to know about energy standards?

You are legally obliged to give tenants an energy performance certificate (EPC) before they move in, so they know roughly what heating will cost. Non-compliance can lead to a fine of up to £5,000. By April 2018, proposed laws would ban letting homes with the lowest two ratings, F and G, unless you have installed the maximum package of measures under the government’s Green Deal.

13 How much should I budget for maintenance?

Set aside 10%–15% of your rental income in a sinking fund to cover everything from fixing that iffy boiler (or replacing it with a best-buy Viessmann model for about £2,500) to repainting every five years. Don’t scrimp on the small stuff: clearing gutters annually can save you thousands in damp and dry-rot repairs.

14 How can I make my BTL tax-efficient? Maximise the available deductions of wear-and-tear allowances, furnishings and mortgage interest, says David Hannah, of Cornerstone Tax. “If buying as a couple, make sure the property, or the majority of it, is owned by the lowest earner to benefit from the lower basic-rate tax bands.”

Running larger portfolios as a company can allow you to pay corporation tax at a lower rate than income tax.

15 Do I really need landlord insurance? It’s not a requirement, but it makes sense to get landlord buildings

insurance, which covers your property for damage such as fire, vandalism, subsidence and natural disasters. Without it, you stand to lose your entire investment in an accidental fire – and you’d still have to pay the mortgage. Do not confuse this with normal home insurance, which is usually invalidated if a property is let out.

Optional extras are rent guarantee insurance and landlord contents cover. Taking the time to choose reliable tenants, however, is the best insurance of all.

16 The rent is in arrears. What should I do?

Make immediate contact with the tenant, says Paul Shamplina, founder of Landlord Action, Britain’s first fixed-fee eviction

service. Find out what the problem is and see if there’s a workable solution.

If you’re owed two months’ rent or more, Shamplina advises formal steps. There are two ways to end an assured shorthold tenancy: you can serve a Section 8 notice under the Housing Act 1988, asking for your property back within at least 14 days because the tenant breached the contract. Alternatively, a Section 21 notice can end the tenancy within two months without accusing the tenant of anything. The court procedure is simpler, but you can’t claim arrears.

About 60% of tenants leave when they receive a notice. If they don’t, you then apply for a court possession order, which can be enforced by a bailiff or sheriff.

17 Anything else I should know? The difference between damp (bubbling paint caused by leaks) and mould (black spots caused by showering and cooking with closed windows), which is one of the most popular topics on landlord forums. Arm your tenants with Dettol Mould and Mildew Remover – just squirt on the walls and watch those black specks disappear.

■ Get more advice by joining the Residential Landlords Association (rla.org.uk), the Guild of Residential Landlords (landlordsguild.com) or the National Landlords Association (landlords.org.uk) for £50–£80 a year. Free help is at hand on the forums of property118.com, propertytribes.com and landlordzone.co.uk



Should I invest my pension in a buy to let?

Ask Martin.

Ask free on 0800 302 9393 or view our property investment guide at martinco.com/askmartin