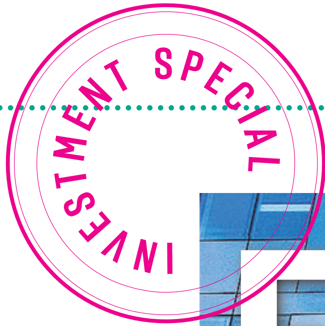
SUNDAY TIMES DIGITAL
Search for a profitable postcode on our interactive map, on tablet and at thesundaytimes.co.uk/buytoletmap



Earning their keep

In week two of our three-part buy-to-let guide, **Martina Lees** focuses on where to invest to ensure a steady rental income

John Davidson/Alamy; REX

Steve Brown knows a thing or two about fighting to win. Paralysed from the chest down when he fell off a balcony in 2005, he overcame his injuries to captain Great Britain in wheelchair rugby (nicknamed murderball for its fierceness) at the London 2012 Paralympics. Now he has applied his resolve to investment, having bought his first buy-to-let property — a one-bedder in Accrington, near Manchester — last month.

"From wheelchair rugby, I've learnt to do my research. I want to know what the competition is like," says Brown, 33, who lives in Reigate, Surrey, but realised that he could get a much better income from property in the north. With a rent of £450 a month, the gross yield on his £56,500 one-bedroom flat is a healthy 9.6%. "I know that next week I'm definitely going to get my rental return, whereas in 10 years' time there are no guarantees what the property market might do. It's not the biggest and most luxurious apartment in the world, but in terms of return, it's a sound investment."

Brown is one of a growing squad of buy-to-let investors focused on rental income, with long-term property price growth as the cherry on top. Some are forward planners who don't trust pensions and aim to build up a substitute; others are retired "grandlords" seeking to top up their pension income through property. And then there are the family funders, who see buy-to-let as a way to pay for their offspring's education and perhaps even help them onto the property ladder one day.

With a balanced approach that prioritises income, you can avoid the errors of the buy-to-let crash, says Graham Davidson, managing director of the Manchester-based property investment firm Sequre. Driven by the "giddiness of house-price growth", many people bought buy-to-let properties by borrowing 90% of their value on a mortgage and the 10% deposit on credit cards. As the rent often fell short of the

MARCH 13|22
TEMPTATION DAYS
10 DAYS OF ALLURING OFFERS ON ALL NEW COLLECTIONS

CHELSEA
HAMPSTEAD
WANDSWORTH
MANCHESTER
WALTON-ON-THAMES

rochebobois PARIS
www.roche-bobois.com

mortgage payments, these landlords had to fork out every month — facing a double whammy when prices started to fall. Stuart Law, CEO of the buy-to-let agency Assetz, is scathing about chasing capital growth alone: "Don't pay for the privilege of gambling on house prices. That's outright speculation, not investment."

This betting mentality left the centres of cities such as Liverpool scarred by hastily thrown-up new-builds, a third of which stood empty by the end of 2007. When the developers downed tools, they sold off their stock en masse at discounts of as much as 40%, Law recalls. Yet because mortgages dried up, rents soon soared — and the investors who had snapped up the housebuilders' stock gained. "It went from overbuilding to underbuilding. Rental demand for city-centre flats has gone through the roof, but very few developers are building them any more."

Since 2010, monthly rents across England and Wales have grown by 3% a year to reach an average of £763, according to the latest index of Your Move and Reeds Rains agencies' 20,000 rental properties. The private rental sector has been growing since 2001, accelerating during the crash to include 4m households (18%) in England and Wales by 2013, says the Office for National Statistics.

This all means there is plenty of opportunity for income-focused investors. How do you choose? Compare the returns on properties by working out their gross yields: divide the annual rent by the purchase price, then turn the answer into a percentage. For example, a £200,000 flat that lets for £10,000 a year has a 5% yield.

However, gross yields don't take into account void periods: budget on two empty months a year. Nor do they include paying the mortgage interest, lettings agent, maintenance or service charge. Once you've deducted all this, you're unlikely to break even on a gross yield of less than 4%. Take our £200,000 flat: on a typical 4% interest-only mortgage, with a 25% deposit and said deductions, you'll net the not-so-princely sum of £27 a month.

For a better income, look for a gross yield of 7%-9%, Law says. If our £200,000 flat let for £15,000, yielding 7.5%, the monthly profit would be a tidier £344.

"I know that next week I'm definitely going to get my rental return, whereas in 10 years' time there are no guarantees what the market might do. It's not the biggest or most luxurious apartment in the world, but it's a sound investment"

Golden touch The British wheelchair rugby captain Steve Brown invested in a BTL flat in Accrington, near Manchester. Left, Liverpool city centre is benefiting from more than £1bn of development

Where do you find such returns? Reliable yield data is hard to compile, says Lucian Cook, residential research director at Savills. "Because of that, people often refer to average regional yields." However, these are exceptionally blunt instruments: reading that returns in the northwest average 7% won't help you choose between Liverpool's docks and Manchester's Piccadilly.

Using Rightmove asking prices and rents for the last three months of 2014, Savills has crunched the numbers in every postcode district across 12 cities where yields on two-bedroom homes are about 6% (see the full data at thesundaytimes.co.uk/buytoletmap). "It's when they dig into the detail at postcode level that canny investors are able to find some real gems," says Miles Shipside, housing-market analyst for Rightmove. "While the most common yield ranges at postcode level are between 4% and 6%, careful selection of the right area with a combination of tenant demand and latent potential shows that returns of 7% are achievable, and 10% in the extreme."

Beware, though, of simply picking the lowest-value, highest-yielding postcode: buying in a run-down area could make it harder to find reliable tenants, meaning more voids and the spectre of the rent not being paid. Here are five of the best picks for balanced investments.

Birmingham 6.22%

Why? "The scale of redevelopment in Birmingham is notable," says Grainne Gilmore, Knight Frank's head of UK residential research. The Big City Plan will help loosen strictures put around the city centre by main roads, allowing it to expand. It will also ease access to desirable residential areas such as the Jewellery Quarter, where Victorian factories are morphing into Shoreditch-worthy lofts.

"Alongside this there is a business renaissance, with demand for office space hitting a high at the end of last year," Gilmore adds. "The lack of supply of new housing in the city — our data shows it will fall well short of demand in years to come — will underpin prices."

Where? Take advantage of young professionals' desire to live centrally around B1's hotspots of Brindleyplace and the Mailbox, a former sorting office now housing a Harvey Nichols and a host of canalside restaurants. Gross yields on two-bedroom properties here, priced around £185,193 on average, are 6.8% — beating the city's average of 6.22%, according to Savills and Rightmove.

Leeds 5.95%

Why? Badly hit by empty new-builds in the recession, central Leeds now has a "huge undersupply" of rental flats, Law explains. There is plenty of demand: the city is home to three universities, Asda's HQ, more than 30 banks and Britain's largest legal centre outside London. The opening of a new John Lewis in the Victoria Gate development this year should only add to the magnetism.

Where? "I'd pick somewhere within 15 minutes' walk of the station," Law says. That means LS1, where two-bedders average £203,811 and gross yields 5.7%.

Or target student sharers with a terraced house in Headingley (LS6), says Jonathan Hopper, managing director of Garrington, the buying agency set up by the Location, Location, Location star Phil Spencer. "You have two universities within three miles of each other [Leeds University and Leeds Beckett University], with the main social life for students based in the centre of Headingley." Returns on two-bedders here, which cost about £135,000, average 6.1%.

Since 2010, Nick Jones, 27, a Leeds-based contracts manager at his family's construction firm, has invested in five houses west of the city centre with his brothers, Andrew, 30, and Mark, 32. "For retirement purposes, we thought the best way to save would be property," Nick says. "We're in it for the long haul; we don't take any money out." Their two- and three-bedroom homes, two of which they built themselves, cost between £85,000 and £100,000 each and have an average gross yield of 8% — well above the two-bedroom average for their postcodes of LS13 (5.8%) and LS28 (5.2%).

Liverpool 5.97%

Why? The signs are in the sky: this month, 17 large cranes are towering above the city centre, where some £1.13bn of development is under way. Prices in Liverpool, still 15.2% below pre-crash levels, rose 2% over the three months to January — faster than London's 1.5%, according to Hometrack.

"Now is a good time to invest," says Henry Sherwood, managing director of the Buying Agents. "We're getting a lot of interest from family offices and funds looking at Liverpool — in one case, to buy an apartment block with an 11% gross yield. There's just nothing in the south that can compete with that."

Where? Of almost 250 postcode districts analysed by Savills and Rightmove for Home, Liverpool's L4 has the highest gross yield, at 10.6%. This area includes Anfield, where Liverpool football club's stadium expansion forms part of a £260m regeneration of the area, and two-bedders average £54,040. But Sherwood warns: "At the moment, that is quite hardcore. It would be a long-term investment."

The city-centre development hotspots of L2 and L1, around the swish Liverpool One, Britain's largest outdoor shopping centre, are a safer bet: yields on two-bedroom homes, which cost about

→

Online or hands-on: how to choose an agent

To manage or not to manage: that is the question. At least, it is once you own a buy-to-let. The rise of online letting agents, which allow private landlords to advertise on the big property portals for little or no charge, promises a shake-up of the market. "Why pay for an estate agent's overheads when you can get the same skills online at much lower cost?" asks Rob Ellice, CEO of easyProperty.com, which launched last September with the backing of the easyJet founder, Sir Stelios Haji-Ioannou. Ellice estimates that online agents now control 3.5% of the lettings market, up from 1% a year ago.

EasyProperty.com — now the biggest online letting agent — offers "pick'n'mix" services, ranging from £10 a week for adverts on Rightmove, Primelocation and Zoopla to 3% commission for full property management. For tenant-finding with all the frills (from hosted viewings and professional photos to check-in), the total bill would be £445. On a £1,000-a-month rental over a one-year period, this would equate to less than half the 8% commission typically charged by high-street agents. Purplebricks.com, which has become the largest online sales agent since launching last April, charges £199 plus VAT for its "tenant find" package.

But beware, warns Christopher Hamer, the property ombudsman. "Some online offerings do little more than act as a notice board for your property." He advises landlords to obtain quotes from three separate agents — whether online or traditional — and to check the terms: how frequent are inspections? Do they protect the tenant's deposit, or leave that legal responsibility to you?

If you live far from your buy-to-let, a trustworthy local agent can be worth their weight in gold. The same applies if you lack the time to deal with tenants calling on Christmas Eve because they don't want to change the overflowing vacuum-cleaner bag/can't bear to empty a mousetrap/are being "eaten alive" by bed bugs (yes, these have all happened). Expect to pay 10%-15% commission for a fully managed service, including tenant-finding, rent collection and maintenance calls.

MANCHESTER

It's not cheap, but this two-bedroom flat in the Edge skyscraper, M3, has river views and a wraparound balcony, and is a block away from Harvey Nicks. The monthly rent of £1,700 means a gross yield of 5.1%. **0161 830 5800, huntersnet.co.uk**

LIVERPOOL

Reeces Ballroom, in L1, which hosted John Lennon's first wedding reception, is being turned into 91 studios and one-bedders, from £64,950 to £99,950. The developer promises 6% net yields for five years. **01865 202700, propertyfrontiers.com**

→ £150,000, exceed Liverpool's average (5.97%). You'll pay more for a two-bedder along the waterfront in L3 (£167,342), eating into returns (5.4%).

Manchester and Salford 6.67%

Why? There's a real business buzz: more office space was let in Manchester last year than at any time over the past decade. The number of 20- to 39-year-olds living in the city — which also boasts the largest student population in Europe — rose by more than a third since 2001, according to the Office for National Statistics. What's more, a £1.5bn expansion of the Metrolink tram system is well under way and the level of construction of new homes in the city centre is at its highest in five years.
Where? "Good investments are typically one- and two-bedroom apartments in the centre," Hopper says. The city's highest yields on two-bedders are 9.2% in M1, which includes Piccadilly station and the trendy Northern Quarter, with such properties averaging £195,962. Up-and-coming Ancoats (M4), directly to the north, is not far behind with average two-bedroom prices of £163,003 and yields of 8.2%.

You'll get lower returns, but higher price growth potential, next door in M3, home to Spinningfields — the north's answer to Canary Wharf. Its developer, Allied London, is due to start turning the neighbouring Granada Studios into homes, offices and shops later this year. Two-bedroom prices in M3 average £216,611, giving a yield of 5.8%.

Just north of MediaCityUK, the BBC and ITV's new home, M5 is also well placed for city-centre commuters, with two-bedders at almost half the price (£108,734) and strong yields of 7.1%.

Reading 5.58%

Why? Unglamorous this Berkshire town might be, but its house-price growth is far from that. In the year to January, values rose 12.3% — outpacing London (12%) and the southeast (9.4%), according to Land Registry data. "London demand could drive prices further," Sherwood says.
Where? "Anywhere within walking distance of the new station will be good," is Sherwood's view. Crossrail is due to open in 2019 at said station, which has just had an £897m upgrade. Typical two-bedroom homes in the surrounding RG1 postcode cost £233,970, with average yields of 5.7%. Buying in RG2 (£213,860; 5.5%) puts you on the doorstep of the city's cluster of IT and finance firms at Thames Valley Park, including Microsoft, Oracle and BG Group.

Leafy Caversham (RG4) is a magnet for commuters from the capital, many of whom rent before buying a Victorian terrace for half of what they'd pay in Clapham. Returns are slightly lower here, at 5%, with two-bedroom homes averaging £268,541.

Alamy; Peter Tarry

Brum deal
Brindleyplace, top, is a hotspot in B1

Five things to think about before you invest

- *Examine your expectations to ensure you pick the right type of buy-to-let. Buying for a monthly income is very different from purchasing for long-term price growth. Go to thesundaytimes.co.uk/buytoletquiz to see what would suit you best*
- *Get your financing in place before you start looking for your property goldmine. Speak to an independent, whole-of-market mortgage broker to find out how much you could borrow. Most buy-to-let lenders require a deposit of at least 25%*
- *Before applying for a mortgage, check your credit record to ensure there are no errors that could jeopardise your chance of getting a loan*
- *Have a business plan. Who is your competition and target tenant? Don't buy a property identical to dozen of others on the market, but choose one that would appeal to your ideal renter*
- *Get advice and ballpark refurbishment quotes on landlord forums such as the lively propertytribes.com, landlordzone.co.uk and property118.com*

When the wives of Craig Morley and Nick Jones met at an antenatal class, little did they imagine they would end up buying several properties together — and eventually Sandown Park golf course in Surrey, which they now run as a joint family business. "We share the workload, the decision-making, the risk-taking — and, of course, the rewards," says Morley, 45, a former heath-club manager.

He and Jones, 51, a former BBC line producer, who lives in Leatherhead with his wife, Sandra, 46, and daughter, Hope, 15, had both been looking for a career change. After much deliberation, the pair decided to club together to invest in specialist buy-to-lets, each rented to six sharers for about £2,700 a month.

With training and advice from the franchise network Platinum Property Partners, they bought a handful of semi-detached and terraced houses in Crawley, West Sussex, paying from £190,000 to £250,000, between 2009 and 2013. The duo spent another £40,000 per house on reconfiguring to add extra

NOW SELLING
ELEGANT HOMES
OVERLOOKING THE THAMES

REGISTER YOUR INTEREST
TODAY
QUEENSWHARF.CO.UK
020 7205 2812

A collection of riverside apartments all featuring balconies, many with expansive views of the River Thames and Hammersmith Bridge. All studio, one, two and three bedroom apartments combine quintessentially British interior design with a modern twist.

Prices from £540,000*

Computer generated image of Queen's Wharf and Hammersmith Bridge**

Clubbing together

These couples have jointly invested in buy-to-let houses and even a golf course. Here's how to do it for above-par performance

bedrooms, so they could be let out on a room-by-room basis, as houses in multiple occupation. Although they are more work to fill than a single tenancy, their average gross return of 16% is three times as high.

"Understand each other's key motivations before you start looking for a property, or else you can quickly get carried away," says Morley, based in Cobham, Surrey, with his wife, Victoria, 42, and children, George, 11, Joseph, 6, and Jemima, 4. "We put in place agreements to protect ourselves. That put both our minds at rest," he adds. Should one partner decide to sell, the other has first refusal to buy at the market rate.

With buy-to-let mortgages requiring a typical deposit of 25%, you would need at least £56,000 in cash to buy a £200,000 property – taking into account stamp duty (£1,500); mortgage fee (£2,000); legal fees, valuation and survey (£2,000); and insurance (£500). To stump up all that, many of us might consider investing with friends or family, as Morley and Jones have done.

Go in with your eyes wide open, says Rebecca Fisher, a partner at Russell-Cooke solicitors. "Ask yourselves the 'what if' questions on the 3Ds – death, divorce and debt. If you can't talk through the difficult conversations at the start, you probably shouldn't be investing together in the first place," she says. "The key D, though, is 'document it'."

Draw up a declaration of trust in advance, dealing with the ifs and buts, and stating who pays for what – including non-money contributions such as DIY renovations, Fisher adds. "Are the contributions the same as the ownership? They don't have to be." Consider tax, too, not only on rental income, but also capital gains tax on any increase in value if you sell. Stamp duty could be due a second time if one buys the other out.

Fisher advises most people who buy together outside a relationship to own a property as tenants in common, rather than as joint tenants. The former means each owns a share of the property that passes to heirs named in their will, instead of defaulting to the co-owners.

Buying in this capacity would also likely mean paying less tax – and having less paperwork – than buying as a company, for which you should seek specialist advice.

There is one exception, though, says Stuart Law, chief executive of the property investment company Assetz. "If you are buying the property and doing it up to sell on, it is better to buy as a company as the tax rate is lower."

Martina Lees