

- › The Top 7 buy-to-let mistakes to avoid
- › How to think like a professional buy-to-let investor
- › Retirement income: buy-to-let versus pension annuity
- › How to minimise rental arrears and voids
- › How to find a buy-to-let hotspot
- › Guide to lettings legislation and tax

and much more...



The definitive guide to buy-to-letTM

Everything from need-to-know to expert insider tips

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THE DEFINITIVE GUIDE TO BUY-TO-LET™

PART ONE Buy-to-let Beginners Guide

First time right time, essentials for landlords

Buy-to-let market information

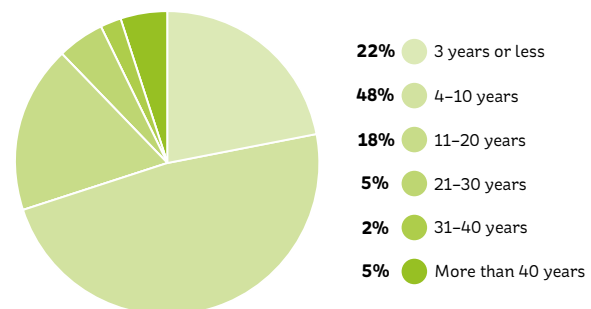
How buy-to-let became a popular investment

Prior to the 1990's investing in UK residential property was not main stream because mortgage finance was not readily available, and rents were relatively low. However since the introduction of Assured Shorthold Tenancies – allowing landlords automatic repossession at the end of the tenancy – buy-to-let mortgages became viable and attractive for lenders. This coupled with an increase in migrant and mobile workers as well as students, increased property demand and since then rents have continued to rise.

In 1996 mainstream buy-to-let mortgages were launched by a panel of mortgage lenders and The Association of Letting Agents (ARLA). These buy-to-let lenders recognised that lending to landlords was lower risk and different to small business lending, thereby granting mortgages as opposed to business loans. Ever since investors have been attracted by rising house prices/capital values, rental income, and tax allowances. Buy-to-let is seen by many landlords as an alternative to pensions because most annuities are flat and are worth nothing upon death.

Detractors criticise buy-to-let for pushing up house prices, and supporters believe that buy-to-let has been and remains vital for the UK's housing supply. Government surveys indicate that a significant chunk of private rented sector has been created within the last ten years by new buy-to-let landlords.

NUMBER OF YEARS SINCE LANDLORD STARTED LETTING PROPERTY



Source: DCLG Private Landlords Survey 2010
Base: all landlords who provided information on year they started letting (837 cases), landlord weighted

Over the past eighteen years, letting agents and professional landlords have become experienced at spotting what makes a profitable buy-to-let. Buy-to-let market influencers include interest rates, legislation, rental demand, house prices, mortgage availability and tax allowances. Whilst market forces cannot always be predicted, they can be anticipated which means that buy-to-let landlords can plan for eventualities.

With the current low interest rates and rising rents, buy-to-let remains as attractive as ever to landlords. At the start of the credit crunch, buy-to-let loans virtually disappeared overnight but since 2011 have experienced an exceptional comeback with loans to value (LTV) of up to 85%. The Council for Mortgage Lenders believes that buy-to-let is likely to continue to grow because of demographic trends, the need for a mobile workforce and housing affordability constraints. →

Since the introduction of buy-to-let legislation has developed to iron out market issues. Tenancy agreements protect both landlord and tenant, deposits must be lodged with a government approved scheme, safety legislation and Houses of Multiple Occupation (HMO) exists to make property safer places to stay. Energy Performance Certificates (EPCs) must be provided with the marketing details for a property To Let. Fees charged to tenants must now be made apparent in property advertisements.

It remains to be seen whether the Governments Help To Buy scheme introduced in 2013 (which excludes buy-to-let) could reduce the demand from tenants for rented property. However it is possible that any affect will be a short term market shift because an increased demand to buy will likely push up house prices, thereby reducing affordability for tenants to buy.

Despite the generous tax allowances, HMRC tax revenues from buy-to-let landlords is not as high as the government believes it should be; tax evasion prosecutions have recently doubled.

Buy-to-let facts and figures

Government's Private Landlords Survey 2010 findings –

This survey is carried out every four years, is next due in 2014.

- 73% of private individuals had been letting for 10 years or less.
- Just 5% of all landlords, who control 15% of all privately rented dwellings, had let for more than 40 years.
- New landlords consisted almost entirely of private individuals (98%).
- 89% of landlords were private individuals creating 71% of all private rented dwellings, and a further 5% were company landlords responsible for 15% of rented dwellings.
- There are approximately 1.46 million buy-to-let mortgages in the UK.

(Source: Council for Mortgage lenders March 2013)

- 3.6 million houses in the UK are privately rented.
- Around 45% of London households are privately rented, making it the UK's largest letting market.
- 71% of landlords make a profit, and 22% break even or make a loss.

(Source: Research by BDRC for Alliance & Leicester – date unknown)

Useful links to further figures



Key specialist buy-to-let market reports and statistics freely available

The industry gathers data and experience which is generally freely available in reports from a variety of sources. Buy-to-let reports typically cover mortgage lending levels, rental price trends, void and arrears statistics, and landlords' confidence surveys.

Quarterly rental price levels, voids and arrears

LSL property services plc own branch rent reports on rents in England and Wales + market trends.



ludlowthompson, London's Letting Agent – Buy-to-let London Review, quarterly review for London rents in detail, mortgage trends, returns, arrears and voids. Covers the whole of the market and its own data from branches across London.



Landlord confidence surveys

ARLA Members Survey of the Private Rented Sector



The Government's national survey of landlords carried out every 4 years



Buy-to-let lending

The Council of Mortgage Lenders buy-to-let reports



The decline of buy-to-let clubs promising to make you a millionaire

As the credit crunch dawned and lenders access to funds dried up overnight, many buy-to-let clubs did not survive. Also some buy-to-let clubs were found to be breaking the terms of loans by not declaring property discounts to the lender.

In the mid 2000's it was a common to see signs advertising property investment fairs across the UK's towns with the invitation to find out how to become a property millionaire, quickly and easily.

Examples of buy-to-let club failures include The Investment Club Limited (TIC) of SW1A London which was wound up in 2008. TIC had thousands of investor members who had benefited from buying off plan property around the UK. The formula included TIC buying off plan properties at bulk e.g. 100 flats at a 10% discount off the asking price from developers such as Taylor Wimpey. On behalf of the investors, TIC would arrange 100% LTV interest-only buy-to-let mortgages based on the developer's original (non-discounted) valuation/asking price. So for instance, on a property valued at £100,000, 100% LTV, the buy-to-let mortgage provided would be for £100,000 – the investor would purchase it for £95,000 and TIC would keep £5,000 as a fee.





As the property market suffered from the credit crisis, lenders' rules became increasingly restrictive. The discount practice of the buy-to-let clubs was unearthed and exposed to be against the terms of the mortgages, which requires that differences between a property's valued price and the price paid to be disclosed to the lender. The economic climate meant that if rental payment defaults occurred mortgages might not be paid. In addition, if repossession was necessary the danger of a wider gap between property price paid and falling market values was now too risky for lenders.

The success of buy-to-let clubs was based on the premise of buying property at discount, and thereby offering a free and attractive cash back service to investors. It was almost as if the investors were being paid to buy-to-let. Popular with both novice and seasoned investors, the service provided a one-stop-shop with the buy-to-let clubs arranging the whole deal in one convenient package including guaranteed rentals. What's more, buy-to-let clubs would help investors build a multi property portfolio by raising new loans against the existing buy-to-let property, and/or use the discount – already gained on the first property – as a deposit.

Clubs such as TIC represented lucrative sources of business for both lenders and property developers. In theory, had the credit crisis not have occurred, such buy-to-let clubs would still be thriving today with more and more people becoming landlords.

Financing buy-to-let

Buy-to-let mortgages: the basics

- Loan-to-value (LTV) is typically 60% to 85% for buy-to-let. In general, the higher the deposit the lower the mortgage rate.
- A buy-to-let lender typically requires the rental to be at least 125% of the monthly mortgage payments.
- Buy-to-let mortgages are typically 1% to 2% more than residential mortgages plus arrangement fees, but this is not always the case. It pays to shop around.
- Interest-only mortgages are the most popular for buy-to-let.
- Some lenders may restrict longer term tenancies over 12 months.

Interest-only versus repayment or cash purchase

Many landlords favour buy-to-let interest-only mortgages because it helps cash flow the expansion of their property portfolio. More of the rental income can be retained instead of going towards a repayment mortgage. The interest-only element of a buy-to-let mortgage is tax allowable, the repayment part of a mortgage is not. At a later stage, some landlords choose to sell a buy-to-let property with a capital

gain to pay all or part of their other buy-to-let mortgages.

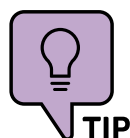
Lender's affordability assessment

INTEREST-ONLY – A key difference between a buy-to-let mortgage and an owner-occupier mortgage is that lender bases affordability for an interest-only loan on the rental income, which must be at least 125% of the monthly mortgage payment.

LOW RATE TRACKERS – Lenders may calculate affordability on both the rate at the beginning and at the end of the tracker rate.

FULL REPAYMENT MORTGAGE – It is more likely that the lender will also assess the landlord's personal income for affordability. A lender may specify that landlords meet a minimum income level to cover to any rental arrears or voids/periods between rentals.

RENTAL INCOME VERIFICATION – During the surveyors visit to the property, the rental income valuation will also be reviewed. Lenders will want to know that new build properties are not over-valued, as has been the experience in past markets.



Buy-to-let mortgages:

✓ **Age restriction** – Landlords planning buy-to-let through retirement should note that some lenders restrict the mortgage term to end between the ages of 70 years and 90 years.

✓ **Best deals** – It pays to shop around for buy-to-let mortgages rather than just consider the high street banks which may not offer the most competitive rates. For dedicated buy-to-let mortgage comparison websites and independent buy-to-let mortgage brokers – see 'Landlords' online resources and services.'

✓ **Portfolio caps** – Landlords planning a buy-to-let property portfolio should note that some lenders will place a cap on the number of properties it will mortgage. Other lenders will allow you to have more than one property on a single buy-to-let mortgage.

Further reading
Council for Mortgage Lending

For buy-to-let lenders – see [Landlords' online resources and services](#)

Beginner Landlords: Need to know

EXPLAINED INSIDE

Buy-to-let investment objectives

Initial decisions to steer your buy-to-let approach
Property type and location: considerations
The top performing locations for UK buy-to-let
London as a buy-to-let location
Buy-to-let hotspot: how and where to find an up and coming location
To furnish or not to furnish: flexible is best

Property Insurance

The ability to insure rental income: Rental insurance and warranty with legal expenses
Buildings and contents cover
Emergency repairs insurance
Landlords Liability Insurance
Accidental damage insurance
Alternative accommodation insurance

Property marketing

How to advertise your property
Finding reliable tenants
Why many landlords prefer to use letting agents
Comparing and weighing up offers from tenants
Rules on discrimination against tenants

Legal requirements

Rights, responsibilities, obligations: landlords and tenants
Houses of Multiple Occupation (HMO)
Tenancy agreements: what needs to be included
Assured shorthold
Tenancy notice period
Raising rental rates
Rental deposits
Rental holding deposits
Tenancy Deposit Scheme, dispute handling, property inventories
Property maintenance
Problem tenants

Protecting your investment

Professional tenant credit referencing
Rental guarantors
How to read a low credit score
Tenant sharers – how to manage joint tenancies

Buy-to-let investment objectives

To facilitate choosing a buy-to-let and find a tenant, the savvy landlord will first consider his or her investment objectives and attitude to buy-to-let.

Initial decisions to steer your buy-to-let

How do you rate the following in terms of your personal priorities – low, medium, high?

- ☐ Maximum rental regardless of the tenancy term
- ☐ Long term tenancies for consistent income without voids
- ☐ Time you have to spare to spend on administration
- ☐ Timely rental payments (if mortgage needs to be covered)
- ☐ Short term capital growth (e.g. purchase renovation project)
- ☐ Long term capital growth

Investing close to home versus researching best location

If buy-to-let is to be viewed as an investment, there is no reason for landlords to limit themselves to where they specifically live. Most lettings can be handled remotely, particularly if using a letting agency service.

For professional buy-to-let landlords, the primary criteria for a location is thriving or growing infrastructure with good transport routes and strong employment. Whether landlords invest in a city, town or rural location depends on their budget and investment aims.

The top performing locations for UK buy-to-let

Historically cities with universities and steady employment opportunities offer reliable returns for buy-to-let. Recent research by property portals such as Zoopla.co.uk, indicates that the UK's northern cities and university locations score the highest for rental yields including Glasgow, Edinburgh Hull and Manchester.

The top ten highest yielding buy-to-let university towns (Source: Zoopla, 2013)

RANK	UNIVERSITY TOWN	AVG. MONTHLY RENT (4 BED HOUSE)	AVG. ASKING PRICE (4 BED HOUSE)	GROSS YIELD
1	GLASGOW	£1,083	£262,888	4.95%
2	HULL	£737	£184,440	4.80%
3	MANCHESTER	£1,053	£275,132	4.59%
4	CHELTHENHAM	£1,631	£429,585	4.56%
5	CAMBRIDGE	£1,628	£429,976	4.54%
6	BUCKINGHAM	£1,502	£405,017	4.45%
7	LUTON	£1,076	£291,454	4.43%
8	BRISTOL	£1,224	£342,699	4.29%
9	LINCOLN	£877	£248,980	4.23%
10	LONDON	£3,485	£995,104	4.20%

The top ten lowest yielding buy-to-let university towns (Source: Zoopla, 2013)

RANK	UNIVERSITY TOWN	AVG. MONTHLY RENT (4 BED HOUSE)	AVG. ASKING PRICE (4 BED HOUSE)	GROSS YIELD
1	CARLISLE	£608	£282,306	2.58%
2	MIDDLESBROUGH	£562	£258,770	2.61%
3	BOURNEMOUTH	£1,452	£564,560	3.09%
4	GUILDFORD	£1,902	£734,763	3.11%
5	STOKE-ON-TRENT	£677	£258,314	3.14%
6	BATH	£1,520	£579,370	3.15%
7	WORCESTER	£946	£359,815	3.15%
8	HUDDERSFIELD	£736	£277,027	3.19%
9	DERBY	£764	£277,808	3.30%
10	BIRMINGHAM	£766	£270,371	3.40%

Rental yield is a good measure of return on investment but does not take into account growth in capital value, which has been historically lower in the north than in the south.

Zoopla's research indicates that for landlords favouring rental income rates over capital growth, the north of England could be the best location for buy-to-let. Capital values in the north of England are low compared to the rental income: the lower the ratio of capital value to rental income, the higher the rental yield.

For landlords valuing capital growth over rental income, buying-to-let in the south of England may be the best strategy.

When capital values do rise, rental yields can fall as rents do not always rise in line with house prices.

London as a buy-to-let location

Historically many buy-to-let landlords have been attracted to London because of its steady rents and rising capital values. The capital's structural shortage of homes and inward economic migration keeps its rental market buoyant. Also gaps between rentals in London – otherwise known as 'rental voids' – have historically been lower than other areas in the UK. Whilst London's capital values are higher than elsewhere in the UK, it is still possible to buy ex-local authority property for under £150,000.

Buy-to-let hotspots

How and where to find an up and coming location

To achieve the best value for money and potential for capital gain, many professional buy-to-let landlords look for an up and coming area where the price of property is lower than nearby already gentrified areas.

Local authorities, commercial planning applications and government reports are a good source of information on future infrastructure. Also try an internet search on 'Buy-to-let hotspots' for various regions across the UK. Always check the article date to see if the information is up to date.

Example result for UK buy-to-let hotspots
Source: The Telegraph



Signs of pending improvements to transport infrastructure and or shopping areas will improve an area's appeal to both owner-occupiers and tenants. The key is to finding a buy-to-let hotspot is to research which locations have just become or are likely to become more gentrified in future years, before the property prices rise.

A 75-page Government report dated June 2013, titled 'Investing in Britain's future' and 'The National Infrastructure' plan, broadly outlines long term plans for improvements for the whole of the UK by region covering roads, rail, science & innovation, housing, digital communications, enterprise zones, regional growth funds.

Examples of planned improvements include how 'High speed 2' (HS2) trains, that travel up to 400 kilometres per hour, will bring journeys from the north of England to within two hours of London. These plans will reduce the London to Birmingham journey to forty-nine minutes. London will benefit from increased capacity across the city including at Victoria, London Bridge and St Pancras stations. The Priority School Building programme plans improvements around the UK, including 28 in the east Midlands, 27 in the south east and 46 schools in London.

Taking the capital's regeneration as an example, the expansion of the London Overground rail has made central London a quicker commute from the suburbs to the east and south of the city. Improvements to shops and facilities can push up house prices and rental demand. Examples in London include Wembley City redevelopment, the new high speed rail network (HS2), Stratford/Olympic Park in East London and the new town centre created in North London - Brent Cross Cricklewood.

[Link to government infrastructure report – Investing in Britain's future](#) 

[The National Infrastructure plan](#) 

To furnish or not to furnish: flexible is best

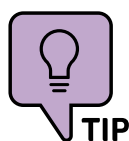
The majority of tenants will require some furnishings with sofas, beds, wardrobes, dining room and coffee tables being typical. However, the wisdom of many letting agent is not to initially furnish a buy-to-let until a tenancy is proposed. To maximise the number of offers received the property can be marketed as 'furnishings: flexible.'

Common errors by landlords include over-furnishing a property letting, and buying expensive furniture to last longer. As the potential for damage in a rented property is higher, it makes sense to buy cheaper furniture as and when required – this can be cash flowed from the *10% annual

wear and tear tax allowance.

It is not always true that a furnished property fetches more rent than an unfurnished property. Indeed the landlord may be faced with a choice of tenants having different requirements. It can even happen that a landlord is asked to remove furniture and therefore have to store or sell it. It can also happen that the tenant requires different sized beds to the ones already provided. Furniture is a small consideration in the grander scheme of a buy-to-let so taking a flexible approach works best.

*The cost of furnishing is not tax deductible however landlords 'fully furnishing' properties benefit from a tax allowance of 10% of the annual rental. There is no actual definition of 'fully furnished' on the HMRC website, but it does reference beds, wardrobes, sofas and white goods furnishings as likely to meet the criteria. In many cases, the wear and tear allowance is favourable because after two or three years the furniture provided will have paid for itself. See 'Tax allowance for furnished properties in the [Guide to Property Taxes & Landlords Buy-to-let Tax Allowances](#).'



Furniture allowance

Landlords who do not wish to become involved with furnishing a property will sometimes offer tenants an allowance. This means that the tenant can buy the type of furnishing they require, adding their own funds as needed. In this scenario, if the tenant wishes to retain the furniture when moving out at the end of the tenancy, a depreciated price for the furniture can be negotiated and paid to the landlord.

Furnishings must be compliant with fire safety legislation – see [Lettings Legislation](#).

Property marketing

How to advertise your property

Lettings property descriptions are now regulated in the same way as property For Sale particulars, and they must provide an Energy Performance Certificate (EPC).

It pays for landlords to be as accurate as possible to avoid wasted property viewings. Quality tenants will be attracted to a professional looking property advert with decent photograph and comprehensive description with floor plan. Professional service companies exist to provide EPC, photographs and floor plans as a complete package →



for a competitive price either via a letting agent or directly to the landlord – just carry out an internet search for ‘EPC, floor plans, photography.’

To highlight the benefit of the property’s location, it is crucial to feature local transport links, local amenities and schools within the property advertisement.

New rules oblige letting agents to state their full charges to the tenant within their advertising.

Finding reliable tenants

There are three main options –

1. Do-it-yourself letting using www.gumtree.co.uk

or a local newspaper to advertise your property. It is not



possible for landlords to directly advertise on the major property portals such as Rightmove, Zoopla and Primelocation. This is the cheapest but the most time consuming and potentially difficult option where the landlord will need to attend to everything personally from property viewings to complying with lettings legislation and the tenancy agreement process.

2. Use an online letting agent such as www.upad.co.uk.

This is a midway option where landlords pay upfront to



advertise their property and for select desired services from £99 to £300. All service levels include tenant referencing. Viewings must

be handled by the landlord. Property management is not included meaning landlords must deal with the tenant directly after the move-in and ensure that the property complies with legislation, arranging safety checks and certificates. For a list of online letting agents see ‘Landlords online resources and services’.

3. Employ a local letting agent who is a member of *ARLA.



This is the most comprehensive and reassuring way for landlords to find tenants and meet their legal obligations. Fringe services such as credit referencing and inventories can be arranged by

the letting agent. Usually letting and advertising fees are only payable once the tenant is found. Letting agency fees for Let Only service are typically 8%-11% of the rental, plus another 4-6% for property management.



TIP

Recommendation

Read independent customer reviews for the services you are considering.

The online review website www.allagents.co.uk, has a search facility where you can see how actual

customers rate the service of letting agents across the UK. The website also features top 10 lists by category e.g. Best Rated Branches in the UK and London. Allagents publishes annual awards for the best performing letting and estate agents. See ‘Landlords’ online resources and services.’

Search for an ARLA letting agent in your area



Directory of UK estate agents & letting agents with customer ratings & reviews

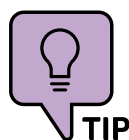


Why many landlords prefer to use letting agents

Letting a property is a time consuming business involving property viewings, paperwork and compliance with lettings legislation. Many landlords consider employing an ARLA letting agency a necessary expense.

To advertise the property on all the major property portals – Rightmove, Zoopla and Primelocation - a landlord will need a letting agency/service provider to access the portals.

If using a high-street letting agency, the advertising fees are generally free until the property is Let. Private advertising will carry an upfront cost with no certainty of outcome.



TIP

Cost of your time

Letting agency fees are tax deductible against rental income whereas a landlord’s own time is not tax allowable.

The below compares the cost of landlord’s time versus letting agents tax deductible service.

Example scenario –

Assumptions: Landlord is a 40% tax payer, Let Only agency fee is 9% of the annual rental income which is £10,000.

The Let only fee would be £1,080 including VAT, of which the tax allowable element is £432 meaning the true cost to the landlord would be £648. Therefore the landlord must work out if it is worthwhile appointing a lettings agency/service or to personally undertake the duties.

Note - Lower rate tax payers may find that their rental income carries them into the 40% tax bracket.



Comparing offers from tenants

Example based on the diversity of a large city, with three different tenant offers.

- A wealthy foreign student – Makes the highest offer to secure the flat, seeks a 12 month tenancy. He will buy his own furniture.
- A group of professionals, sharing – Offers the asking price, seeking a 12 month tenancy with a break clause to end it early. They require basic furnishings e.g. beds, wardrobes, sofa, dining room table.
- A single family – seeking a longer term tenancy of 18 months or longer, at a of rent 10% less than the highest offer. They will bring their own furniture.

Options:

› If your attitude is low risk

Choose the single family for: certainty of tenure/consistent income, no requirement for upfront costs for furnishings. Reduced void periods and renewal costs that occur at the end of tenancies.

› If your attitude is medium risk

Choose the group of professionals: high ability to pay the rent, furnishings allows the landlord to claim an annual 10% of rental 'wear and tear' tax allowance.

The professionals will likely be careful about paying the rent on time and stay the full tenancy, as long as their jobs last or relationships endure.

There is a 50/50 chance such tenants will not renew their tenancy.

The rent can be reviewed at the end of the tenancy, allowing for the possibility of an increase.

› If your attitude is high risk

Choose the foreign student who offers over asking price, there are also no upfront costs of furnishings.

The possibility of the tenant leaving is higher than the others options. If there is no guarantor, there is no way of recovering any rent due if the tenant abandons their studies early and returns to home abroad.

At the end of the tenancy the flat can be let again for the best market rent at current rates (which presumably may have risen since initially Let).

Summary of weighing up tenant offers

- Level of rental offered
- Length of tenancy desired, certainty of income period
- Risk of them leaving early, causing void periods

- Quality of credit score and references
- Risk of rental default (is a guarantor needed/is the quality of guarantor secure?)
- Requirements for furnishings e.g. upfront costs reducing initial profits

Rules on discrimination against tenants

Under the Equality Act 2010, it is illegal for landlords to refuse to rent, nor to charge more, to people based on race, sexual orientation, gender, religion, or mental or physical disability. In certain circumstances landlords are obliged to make changes to communal areas of the property if the disabled tenants and or other occupiers request it because it puts them at a disadvantage. Landlords who receive such a request should seek advice from their letting agent (if using) and or a solicitor as to whether the proposed changes are reasonable, and that any agreement is appropriately documented.

Equality human rights, renting a property



Government guidance Equality Act 2010



Protecting your investment

Professional tenant credit referencing

Tenant credit referencing is an important part of the pre letting process. To carry out a credit reference landlords will need some information from tenant including: full name, date of birth, current address, and previous address. It is usual to take references on all tenants applying to rent the property.

A credit reference shows –

- Evidence of any bankruptcy or are insolvency notices
- Existence of County Court/Sheriff Court Judgements
- ID verification
- Employment status and earnings
- Missed and late payments e.g. credit cards
- Likelihood to afford the rental

Credit reference agencies in the UK include Equifax, Experian and Callcredit as well as a number of resellers specialising in the rental market. Letting agents and landlord associations can usually supply tried and tested competitive tenant referencing services.

Rental guarantors

If tenant/s credit and or references are inadequate, landlords may wish to request a guarantor to underwrite the rental. Reasons for having a rental guarantor include if the tenant



cannot show adequate income to cover the rent, has a low credit score or late payment issues on their credit file and/or county court judgements. Generally a guarantor is a permanent UK resident who is in full-time employment and or has assets including homeownership with enough security to pay in the event of rental default.

The guarantor signs to cover the monthly rent, and all other financial obligations under the Terms of the Tenancy Agreement, in the event that the tenant is unable to pay.

The Guarantor would need to provide ID and proof of income to reassure the landlord / letting agent that they make a solid guarantor.

How to read a low credit score

A low credit score is not always a warning sign about the tenant's ability to pay the rent. Instead it can be purely be a sign of not having established a credit track record, for instance: through being a student; never having borrowed money or used credit cards; due to living at a current address for under six months; living abroad or being employed for less than six months.

Tenant sharers – how to manage joint tenancies

House sharing is increasing popular with both tenants and landlords. Experienced landlords have noted that in respect of sharers –

- **Larger properties do not always need more furnishings** – Many tenants will bring their own belongings so it is better not to over clutter the property.
- **Joint tenancies are better than separate agreements with individuals** – This means that the tenants are all liable with equal responsibility, and it is easier to administer a single tenancy agreement.
- **Students can be surprisingly reliable payers of rent** – A study published by the National Landlords Association in 2013 showed that 38% of students paid the rent late compared to 59% of blue-collar workers paying the rent late. The NLA says that student rentals are also statistically more likely to have fewer voids because of the constant demand for a steady place to stay.

When three or more tenants rent a property it might be necessary to apply for an HMO licence.

Letting insurances

It is possible for landlords to insure many aspects of their buy-to-let. Insuring all risks may require a mix and match

approach as not all insurers provide all the coverages. An internet search of the below listed insurances will provide a range of options for landlords to compare costs and cover, according to their own needs. As a minimum, landlords will need to arrange a specialist buildings and contents insurance but other insurances are optional. There can be a crossover of coverage for some insurances and also exclusions, so it pays to check the small print. Many landlords will invest in rental warranty and legal expenses insurance to cover loss of income if the tenant fails to pay the rent and eviction is necessary.

Types of letting insurance

- Rental warranty & legal expenses
- Emergency repairs
- Buildings and contents
- Landlords' liability
- Accidental damage
- Alternative accommodation

Rental insurance and warranty with legal expenses

Rental warranty is a form of insurance which protects landlords against loss of rental income. Typically it is combined with a legal expenses product, which covers a landlord's legal costs for recovering rental income and tenant eviction.

Rental warranty and legal expenses is available at the relatively viable cost of between £60-£300 depending on the length and extent of the cover. Coverage and exclusions varies so landlords need to check the small print. For example, some rental warranty products may have an excess of 1 or 2 months, and take the tenant's rental deposit into account. With a choice of products in the market place, landlords can shop around to find the policy that suits them best. Cover varies from 6 to 12 months warranty. Legal expenses cover is typically between £10,000 to £15,000.

Even the most rigorous credit checks and referencing cannot guarantee a tenant's future ability to pay the rent e.g. future unemployment. Most landlords find rental warranty policies an invaluable peace of mind.

Making a claim on rental warranty

Landlords will need to submit a claim within the required time frame and provide the right information needed to progress the claim: e.g. it is common to have to submit a claim within 45 days of the first rent arrears, supply copies of all references carried out, a copy of the tenancy agreement, and all correspondence with the tenant relating to collecting the rent.



Weighing up the benefit of rental warranty –

See ‘[The Buy-to-let profitability financial comparisons](#)’: a comparison of tenant eviction costs with and without a rental warranty policy.

Buildings and contents insurance

Specialist insurance exists for covering buildings and contents for lettings. Landlords with existing buildings and contents insurance must check with their insurer that they are covered for renting the property. If landlords fail to inform their insurer about letting it could invalidate the cover and any future claims.

Tenants are responsible for insuring their own possessions in the landlord's property. The landlord must insure the building and their own contents, fixtures & fittings under a lettings policy.

Emergency repairs insurance

Specialist products are available for landlords to cover emergency repairs (not normally available under household insurance), ranging from the basic cover at from £6.50 per month to a comprehensive cover from £20 per month. Items covered for emergency repair include –

- Central heating breakdown
- Water supply pipe
- Plumbing and drains
- Electrical wiring
- Security and roofing incidents
- Gas supply pipe
- Pests
- Annual boiler service

Landlords' liability insurance

If a tenant or visitor is injured as a result of a fault in the landlord's property or their possessions are damaged, the landlord may be held liable. Liability insurance is designed to cover such claims, which can be unexpected, unforeseen and financially ruinous.

Claims of this sort can be financially crippling, and can arise from something as simple as a sink unit leaking water onto a tiled floor.

Accidental damage insurance

Designed to cover home mishaps and outdoor accidents, this cover will protect landlords against damage to floors, walls, the roof, windows, doors and mirrors. Any accidental damage to the landlords contents will also be included e.g. carpets, curtains, furniture, TVs.

Alternative accommodation insurance

In the event of a property becoming uninhabitable, tenancy agreements do not usually require landlords to provide alternative accommodation – unless action or inaction by the landlord rendered the property uninhabitable.

The outcome depends on the policy, the terms of the tenancy agreement and the cause of the damage. It is not usual for insurance to cover the cost of both alternative accommodation and loss of rent.

Scenario accommodation provided

If the tenant wishes the landlord to provide alternative accommodation at the landlord's cost: in this case the tenant they must continue to pay the rent for the uninhabitable property. Any loss of rent will not normally be paid to the landlord by the insurance policy because the tenant is still required to pay the rent.

Scenario loss of rent paid

If the tenant seeks to end the tenancy altogether: in this case there is no requirement for alternative accommodation costs. The landlord's insurers will usually pay loss of rent whilst the property is undergoing repairs provided this cover is in place.

Rights, responsibilities, obligations: Landlords and tenants

Tenants' responsibilities

The tenancy agreement sets out obligations to the tenant, and landlords can also attach any other conditions to the agreement, as well as leave guidance notes at the property.

Typically tenants are responsible for carrying out some minor repairs and maintenance such as gardening, surfaces, furnishings and internal decorations (except normal wear and tear).

Health and safety in the property Landlord obligations

Landlords must ensure that any property To Let is safe and complies with current legislation covering –

- ✓ Gas safety
- ✓ Electrical safety
- ✓ Fire & Furnishings
- ✓ Legionnaire's disease – controlling risk of exposure
- ✓ Houses of Multiple Occupation (HMO) if applicable



Compliance to safety legislation is a complex area that is ever changing in respect of legislative requirements. Letting agencies are obliged to keep their landlord customers up to date, and to ensure that the relevant safety certificates are in place for each new tenancy. Some checks and certificates such as gas safety are required annually. Landlords who do not comply with safety legislation risk prosecution. For further information and links see the **'Lettings Legislation.'**

In addition to complying with safety legislation, other landlord obligations include –

- To provide an Energy Performance Certificate (EPC) before a letting is agreed.
- Lodge the tenant's deposit with an approved government scheme.
- To provide a fair tenancy agreement that complies with the Housing Act.
- Not to disturb tenants or visit the property without adequate notice.
- Follow the correct procedure if they wish the tenant to leave a property.
- Not to increase the rent on a whim.
- Provide full contact details of the landlord and or managing agents to the tenants.
- To carry out certain repairs in a timely manner to equipment for utilities, the exterior and structure of the property.

Rights and responsibilities include – The tenant/s have the right to:

- ✓ Not to be discriminated against under the *Equality Act 2010.
- ✓ To be given the name of their landlord.
- ✓ To live in a property that is both safe and in a good condition.
- ✓ To see the Energy Performance Certificate (EPC) before letting.
- ✓ To see a copy of all property safety certificates.
- ✓ To see a copy of the compulsory registration of the tenancy deposit.
- ✓ To uninterrupted enjoyment of the property / without undue disturbance.
- ✓ To be given reasonable notice of necessary visits to the property e.g. for inspections and repairs.
- ✓ Have the deposit returned at the end of the tenancy (subject to deposit disputes).
- ✓ Be protected from unfair eviction and *unfair rent.
- ✓ Have a fair tenancy agreement that complies with the Housing Act.

The landlord has the right to:

- ✓ Access to the property for repairs and inspections at a reasonable time of day on the basis of giving at least 24 hours notice, except in emergency.
- ✓ To receive the rental on time.
- ✓ Compliance with the terms of the tenancy agreement.
- ✓ To be given proper notice of the departure date.
- ✓ To regain possession of the property if the tenant does not pay rent.
- ✓ At agreed intervals, to review and increase the rent.
- ✓ Retain tenancy deposit to cover cost of damage caused by tenants (subject to the tenant's agreement or dispute resolution via a tenancy deposit scheme).

Unfair rents –

Tenants have the right to challenge excessively high rents and charges via the Rent Assessment Committee



Equality when renting a property



For further information and more links see **'Lettings Legislation.'**

Houses of Multiple Occupation (HMO) / HMO licensing

Larger properties that are shared by separate non related tenants who share the facilities may be subject to an HMO licence. An HMO licence subjects the property to more stringent checks and measures than other lettings. This includes ensuring that the communal areas are in a good state of repair and that proper fire safety measures are in place. It is not always easy to work out whether a buy-to-let would be classed as an HMO. Local authorities administer HMOs and rules vary from stringent to a light touch requirement for different types of properties. It is therefore necessary for landlords to check with local council or via their letting agent if they should apply for an HMO. Failure to obtain a licence could include a £20,000 fine and the loss of rent for up to 12 months.

- A three bedroom property rented by a family of three would not be considered an HMO because the occupants are related.
- A three bedroom property where the bedrooms are Let out on a separate basis to different tenants, under separate agreements would likely be considered an HMO.
- A three bedroom property where the tenants are unrelated and are letting under a single tenancy agreement may or may not be considered liable for an HMO licence. →



The following circumstances may render a property liable to an HMO licence –

- A house split into bedsits
- A house with three or more storeys including basements or attics
- A shared flat house or house, with the tenants having separate renting agreements
- A bed-and-breakfast hotel which is not just for holidays
- A hostel
- Shared accommodation for students – (except halls of residence and other types of student accommodation owned by educational establishments) and/or,
- five or more tenants forming separate households (not related or married or in same-sex relationships)
- where multiple tenants share a bathroom, toilet and or kitchen facilities.

Useful links for Houses in Multiple Occupation

[Government link to HMO rules for landlords and managers](#)



Assured Shorthold Tenancy agreements

An assured shorthold tenancy (AST) is a type of assured tenancy, the most common form of tenancy since the 1996 Housing Act, which gives landlords the automatic right to possess their property. In other words, landlords should not end up with sitting tenants as was the danger in the past.

A tenancy can be professionally drawn up by a solicitor or letting agency. Alternatively do-it-yourself landlords can purchase a template tenancy agreement from a legal online supplier or lettings association.

Rights and responsibilities will usually be laid down in the tenancy agreement, which isn't a document required by law but is strongly recommended. Indeed it is generally a requirement of a buy-to-let mortgage that a tenancy agreement is drawn up.

What needs to be included in a tenancy agreement

The basic content of a tenancy agreement amongst other things includes:

- ✓ Full names of all parties entering into the tenancy agreement.
- ✓ Address of the property.
- ✓ The start date of the tenancy.

- ✓ The duration of the tenancy.
- ✓ The amount of rent payable and payment due date.
- ✓ Reference to any rental rate review dates.
- ✓ What the rental payment includes e.g. furnishings.
- ✓ The length of notice period for either the tenant or landlord within statutory rules.
- ✓ Special terms can be added to the tenancy agreement to detail any other items the landlord agrees to provide at the tenants' request.

Tenancy notice periods

Generally Assured Shorthold Tenancies require landlords to give two months notice. If a new fixed-term agreement is not arranged it becomes what is known as a periodic tenancy. In any event, as outlined in the 1988 Housing Act, the notice period is still two months.

If the tenant wants to move out early, they are legally bound to pay rent for the remainder of the fixed term of the tenancy agreement.

Tenancies can include break clauses which can allow for a review on the rental rate and or a decision to be made about ending the tenancy. If there is no break clause it is still possible for landlords and tenants to agree to 'surrender' a tenancy early. It is wise to document the terms of the surrender because the landlord must be able to prove that the agreement has been properly ended before re-letting the property. Should the landlord take possession of the property when the tenant has not ended the agreement properly, then the landlord could be accused of unlawful eviction.

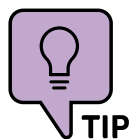
[How to surrender a tenancy](#)

Source: [tenancyagreementservice](#)



Raising rental rates

Generally the rental rates are fixed for the term of a tenancy. The only exception is if the landlord has included a break clause to the tenancy. Landlords are obliged to check that any rent rises are fair and realistic comparable with local market rates.



It is not always in the best interests of a landlord to raise the rent

Arranging a periodic annual rent review is standard practice. However, if the tenant does not accept the rental rise, it could be that finding a new tenant will cost more in the long run. →

Landlords need to compare the cost of reletting (redecorating, intangible empty periods/voids, demands from new tenants e.g. furnishings) against any overall rental gain. Rents can fall as well as rise with the market, so it's wise to consider maintaining the status quo of an otherwise good tenancy against the risks of raising the rental rate.

Reservation fee

(formerly also referred to as a holding deposit)

The function of a reservation fee is for the tenant to reserve a property whilst the landlord considers their application to rent a property via referencing and credit checks. A reservation fee does not oblige landlords To Let the property to the tenant, nor does it constitute the granting or offer of a tenancy.

Reservation fees should not be confused with tenant's rental deposits, which are subject to registration with a government approved scheme, the Tenancy Deposit Scheme (TDS). Accordingly, since the introduction of the TDS, best practice now dictates that the industry should stop referring to the reservation fee as a 'holding deposit'.

Tenant rental deposits

Prior to the move-in, once the tenancy agreement has been signed, a deposit is taken from the tenant and held against damages until the end of the tenancy. Typically a rental deposit is four to six weeks rental, usually taken with a month's rent in advance.

The purpose of the tenant's deposit is to protect the landlord from any potential damage caused by the tenant during the tenancy period. The law requires landlords to register the deposit with a government approved tenancy deposit scheme (TDS) – see below.

Carrying out an inventory schedule of property contents and condition provides an important record in the event of deposit disputes – see 'Property inventories.'

Tenancy Deposit Scheme (TDS) and dispute handling

In 2007 it became compulsory for all landlords to place tenant deposits (except 'holding deposits') into one of the three government approved schemes. The tenancy deposit scheme will handle any disputes between landlord and tenant. Landlords need to ensure that they comply by the rules of the scheme to ensure that they have a valid claim in the event of damages – this starts with an inventory of property condition and furnishings signed by both the tenant and landlord.

Government approved tenancy deposits schemes include

- Deposit Protection Service
- MyDeposits
- Tenancy Deposit Scheme

For further information see [Government tenancy deposit schemes](#)



Landlord obligations for tenancy deposit schemes

- Lodge the tenant's deposit within 30 days of receiving it.
- Agree to return the tenant's deposit at the end of the tenancy within a reasonable time frame (subject to disputes).
- Provide details of the TDS scheme, in writing, to the tenants: how it works in respect of the return of the deposit at the end of tenancy, and what to do in the event of a dispute.
- In the event of damage and the need to withhold some or all of the deposit, notify the tenant in writing with how much is being retained and why. Receipts for repairing the damage should be supplied.
- Wear and tear is an accepted part of tenancies and is therefore generally not a reason in itself for withholding deposit.

Deposit disputes: how tenancy deposit schemes work

If there is a dispute over return of the deposit, the tenancy deposit protection scheme will hold the deposit money until it has been resolved.

How dispute resolution works with via the different schemes –

[My deposits dispute resolution](#)



[The Deposit Protection Service – Alternative dispute resolution](#)



[Tenancy Deposit Scheme resolution](#)



Penalties for failing to register tenants' deposits

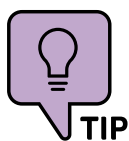
Landlords who fail to lodge a tenant's deposit with a government approved scheme within 30 days can be fined one to three times the value of the deposit. In addition, if a deposit is not lodged with a TDS, landlords will not be able to use the Section 21 Notice, which in an assured shorthold tenancy gives the tenant two months notice to move out.

Property inventories

An inventory is an in-depth review and report on a property's condition and any furnishings it contains. The report is arranged at the start of a tenancy to form a reliable schedule of condition for landlord and tenant. If there is damage to the property the inventory can be used as evidence to justify deductions from the tenant's deposit. If there is a dispute the scheme with which the deposit is lodged will adjudicate using the inventory alongside evidence of damage, which the landlord will need to obtain and submit.

A landlord can personally carry out a check-in/ check-out and compile an inventory. However many landlords prefer to appoint an independent professional APIP qualified inventory clerk. Costs for services range from £60 to £200. Inventories should include – amongst other details – the condition and contents of all rooms in the property including hallways, as well as lighting, smoke alarms, curtains/blinds, flooring/ carpets, walls, doors, bathroom and kitchens.

Both landlords and all tenant/s should sign every page of the inventory report.



Do not over furnish

Do not furnish a property with treasured furniture – be prepared for anything to suffer potential damage.

Appoint a professional APIP qualified inventory clerk: The report will be seen as independent and without bias. In a dispute, an inventory produced by the landlord will automatically be assumed to have been drafted in the landlords favour, particularly if it is not signed off by the tenant. Inventory companies are expert at knowing what to record, and what complies with the government-approved tenancy deposit schemes.

Property maintenance

It's a landlord's duty to make sure the property is at all times habitable, and that repairs are carried out within a reasonable period of time.

If the landlord does not carry out repairs in a timely manner then the tenant has the right to carry out the repairs and deduct the costs from any future rental payments. However, tenants must put their intention in writing and show that three estimates have been obtained and the lowest chosen.

Sometimes tenants – in frustration of waiting for repairs to

be carried out – withhold rental payments. However this is not allowed as stopping paying the rent places tenants in breach of the tenancy agreement.

Wear and tear is treated as a cost of business and an acceptable cost for which the landlord must allow. Indeed there is a 10% of the rental tax allowance to help pay for making good.

In general the landlord is responsible as follows –

- ✓ Landlords are responsible for repairs to the structure and exterior of the property including basins, baths, sinks, showers, lavatories, radiators, heaters, water tanks, boilers and fireplaces.
- ✓ Tenants must repair damage which they or their visitors cause, and not expect the landlord to pay for this.
- ✓ The tenancy agreement should include mention of how a tenant advises the landlord of repair requirements. Many letting agents handle repairs on behalf of landlords.
- ✓ Tenants cannot request that landlords make any repairs or improvement if these were a reason that the rental rate was lowered at the start of the tenancy.

Problem tenants

Careful referencing and due diligence when choosing a tenant should limit the chances of problems which can include late rental payments, poor care of the property and anti-social behaviour towards neighbours.

In any event it is wise to spot problems early by carrying out regular (agreed and announced) property inspections. Landlords can try to keep tenants happy by ensuring that repairs go as smoothly as possible i.e. don't give them a reason to become annoyed and pay the rental late. It is recommended that landlords keep a detailed record of all communications with the tenant, to demonstrate that things have been done properly at all times.

In addition to having an additional property inventory landlords can further protect themselves by taking out insurance for property contents and rental warranty with legal expenses.

Anti-social behaviour towards the tenant or by the tenant to neighbours must not be ignored by the landlord. As the property owner the landlord is obliged to get involved and try to resolve the issue with the appropriate action, which may include eviction.

Receiving rental payments

Whether the rent is paid by cash or bank transfer, the landlord or their letting agent should issue receipts for rental paid or sign a rental book. Many letting agents will recommend a standing order is arranged for timely payment of the rental. →

Energy efficiency, new rules

All rental properties must be advertised with an Energy Performance Certificate (EPC) from an accredited assessor. The EPC indicates the property's rating from A-G: the most efficient to the least efficient. Also included are typical energy costs and usage with tips for reducing consumption.

It is not necessary to arrange a new EPC each time the property is rented to a new tenant.

A new EPC must be arranged every ten years – landlords don't need to arrange a new EPC for every new tenancy.

Energy efficiency requirements for rented properties will shortly become stricter – subject to Parliamentary processes. From 2016 onwards, landlords will not be allowed to refuse reasonable requests for energy-saving improvements that qualify under the Government's Green Deal initiative – and from 2018, rental properties will need to meet a minimum energy efficiency standard or the landlord have taken advantages of all the measures available to his property under the Green Deal⁴. The Government is likely to allow reasonable exceptions to this particular part of legislation, as the principle is that there should be no net costs to the landlord of any improvements made to meet a minimum standard.

New rules and schemes for better energy efficiency

New laws that take effect in 2018 will make it an offence to let out properties with the worst energy efficiency ratings. Tenants will also be able to demand improvements to insulation from 2016, when landlords will no longer be able to refuse tenants' 'reasonable' requests for energy efficiency measures. After April 2018, the legislation states that landlords must not let out properties with the two lowest energy efficiency ratings, F and G.

The National Landlords' Association offers a scheme to help landlords make energy efficiency improvements to property based on the Government's new Green Deal. Under the Green Deal energy efficiency measures are paid for by a loan that is repaid via a supplement on the property's electricity bill. The theory is that reduced energy bills cancel out the loan repayments so there is no net cost to either landlord or tenant. ■

Useful link –

[The National Landlord Association – Green Deal](#)



Buy-to-let Beginners Q&A with insider TIPS

EXPLAINED INSIDE

How does buy-to-let compare to a pension annuity?	Which costs do I need to factor for buy-to-let and what is tax deductible?	What factors can increase the rental price I can ask?
How is lettings and buy-to-let regulated?	What are the pros and cons of using a letting agent or advertising privately?	What are the pitfalls of buy-to-let and how can I minimise these?
What is ARLA? – The Association of Residential Letting Agents	What do letting agents charge and what service can I expect?	Failing to do due diligence Voids: aka gaps between tenancies The value of your buy-to-let can go up or down If tenants pay the rental late or default If the tenant leaves early
How does ARLA's Client Money Protection Scheme work?	How can I reference a tenant?	
What percentage return can I expect for buy-to-let?	Under what market conditions do rentals prices fall?	What are guaranteed rent schemes?
What factors can increase the rental price?	How do I work out what rental rate to charge?	Is it true that student lettings are very favourable?

How does buy-to-let compare to a pension annuity?

The attraction of buy-to-let versus pension annuities is the capital growth/continuous rental income on the property versus the annuity being worth nothing upon death. For instance, taking a £200,000 sum to invest in an annuity, based on current rates (assuming the purchaser is aged sixty), the annuity should pay around £10,000 per year for the life of the purchaser. On death the annuity will be worth nothing.

Alternatively if you decided to invest the £200,000 in a one bedroom new build property in London, cash purchase, based on current market rental yields and costs, you should expect a net income of around £6,000 per annum. Whilst the income is lower than the annuity, in this case the £6,000 rental is likely to rise annually with inflation. The rental income will continue to accrue (to your heirs) after your death. If you decide to sell the property, it could (based on forecast capital growth) be worth around £275,000 in 20 years time, a capital growth of £75,000 on your £200,000 investment.

For a comparison based on a mortgaged buy-to-let, both second hand property and new build, see further examples in the Supplement: **‘Comparison of Investments.’**

- › New build property *versus* second hand property
- › Pension annuity investment *versus* buy-to-let
- › Cash buy-to-let *versus* mortgaged buy-to-let

Warnings: *The downside to property investment is that rental income and capital values can fall as well as rise. The above examples are quite general and should not be taken as investment advice. It is essential to seek independent financial and specialist property tax advice for your personal circumstances. Whilst pensions are regulated, please note that individual residential property investment, including buy-to-let mortgages, are not currently regulated by the Financial Services Authority (FSA).*

How is lettings and buy-to-let regulated?

Buy-to-let mortgages, as opposed to owner-occupier mortgages, are not currently regulated by the Financial Services Authority (FSA).

Landlords seeking evidence and reassurance of professional service standards should look to use an estate agent (for buying) who is a member of the National Association of Estate Agents (NAEA), and a letting agent that is a member of the Association of Residential Letting Agents (ARLA).

Both the NAEA and ARLA are members of the National Federation of Property Professionals (NFoPP), which is an umbrella company for a group of organisations that exist to improve standards within their respective industries.

Statutory property industry legislation requires that landlords and letting agents abide by the Housing Act, Houses in

Multiple Occupation (HMO), safety legislation, tenancy deposit scheme and tax laws (in particular for overseas landlords in respect of tax being deducted from source on rental income).



Letting agents with membership to ARLA must have professional indemnity insurance and adequate professional training programmes. ARLA offers reassurance for landlords through its Client Money Protection Scheme. In addition, it is a condition of membership that ARLA's members belong to The Property Ombudsman Scheme (TPOS).

Useful links –
The Property Ombudsman code of practice for letting agencies



What is ARLA? The Association of Residential Letting Agents

www.arla.co.uk

The Association of Residential Lettings Agents (ARLA) is a professional membership and self-regulatory body for letting agencies in the UK. Member letting agents must adhere to high professional standards, a Code of Conduct and Rules of Conduct.

By using a Licensed ARLA agent landlords are guaranteed the following protection -

- ✓ That the agency is covered by ARLA's Client Money Protection (CMP) Scheme, if the landlord suffers loss because of the member agent's bankruptcy or dishonesty.
- ✓ That the agency has Professional Indemnity Insurance, to cover any claims by landlords for bad advice, negligence, or data mishandling.
- ✓ Service from a trained and qualified letting agent. Every year all ARLA members must carry out a Continuous Professional Development (CPD) programme.
- ✓ That the member letting agent follows the ARLA Code of Practice and Rules of Conduct.
- ✓ Letting agents that do not follow the code can be fined or expelled from membership.
- ✓ Has a clear complaints procedure. ARLA makes it mandatory for its members to belong to an independent redress scheme e.g. The Property Ombudsman Services (TPOS).

Useful links –



To find a local ARLA member letting agent search at its website –





How does ARLA's Client Money Protection Scheme work?

The scheme operates in a similar manner to the ABTA Bond for holidays. If a letting agent misappropriates rent, deposit or other funds ARLA's scheme insurer will consider compensating the landlord or tenant up to a limit of £25,000 – payouts to landlords are limited to a maximum of one month's rent.

Scenario:

Where a tenant paid the rent to the letting agency but it has not been passed to the landlord –

The landlord can make a claim to ARLA for the rental by providing supporting evidence e.g. a tenancy agreement deposit and bank statements from the tenant to show the rental was paid to the letting agent. If previous payments were made by the letting agent to the landlord, the landlord can also submit these as evidence to show ARLA that the rental has not been received compared to the tenant's bank statements for the same period.

What percentage return can I expect for buy-to-let? How do I can calculate a rental yield?

According to The Association of Residential Letting Agents the average gross rental yield for UK cash purchase properties is around 5%.

Source: Q3 The ARLA Review and Index 

The rental yield acts as a base guideline to enable you to compare rental yields between buy-to-let opportunities and other investments e.g. stocks and shares. The gross rental yield is not often quoted alongside property For Sale, therefore the landlord will need to estimate this using a simple calculation.

There are three main rental yields commonly referred to with buy-to-let –

Scenario: based on a buy-to-let –

£250,000 purchase price

£20,000 annual rent

£5,000 annual running costs

Purchase costs £2,500

Capital return yield is 6.5% (ARLA's calculation of house price inflation over the last 20 years).

Gross rental yield – is the percentage which equals the annual rent earned on the property divided by the property's value.

$\text{£}20,000 / \text{£}250,000 \times 100\% = 8\% \text{ gross yield}$

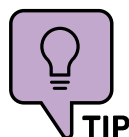
Net rental yield – is the annual rent minus running costs divided by the purchase costs.

$\text{£}20,000 - \text{£}5,000 = \text{£}15,000 / \text{£}252,500 (\text{£}250,000 + \text{£}2,500) \times 100\% = 5.9\% \text{ net rental yield}$

Capital return yield – add the annual house price gain to the house price.

$\text{£}250,000 \times 6.5\% = \text{£}15,000$

$\text{£}20,000 - \text{£}5,000 = \text{£}15,000 + \text{capital appreciation of } \text{£}15,000 = \text{£}30,000 / \text{£}252,500 \times 100\% = 12\% \text{ total yield (net and capital) .}$



Net rental yield is key

Net rental yields will provide a much more useful decision on which property to choose for buy-to-let. For example, if you compare two properties for which the running costs vary e.g. ground rent/service charges, it could be that the property with a higher gross rental yield has a lower net rental yield; in other words the property with the lower gross yield may have a higher net rental yield.

Useful links –
[Property yield calculator](#)



Which costs do I need to factor for buy-to-let and what is tax deductible?

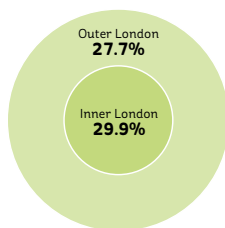
Typical lettings costs include:

- Mortgage
- Stamp duty
- Solicitors conveyancing costs for purchase
- Insurance for buildings and contents and rental warranty with legal expenses
- Lettings fees –
8–11% +VAT for Let Only plus 4–6% +VAT for property management if desired
- Accountancy fees – approx. £250–£1000
- Ground rent/property service charges
- Repairs and maintenance – allow around 10% of the rental income
- Contingencies e.g. monies to cover mortgage if rent paid late/not paid (allow 3 months) and 10% of the rental to cover any voids (gaps between rentals) →

Market Statistics: the total operating cost

The total *operating cost of running professionally managed large scale property portfolios equates to the following percentage of the gross rental income.

(*Source IPD 2012 – real estate researchers, includes rental voids but not cash or debt)



Many letting costs will be tax deductible against rental income, and others will be allowable against Capital Gains Tax on the eventual sale of the property.

For an in depth guide see the supplement 'Guide to Property Taxes & Landlords Buy-to-let Tax Allowances.'

What are the pros and cons of using a letting agent or advertising privately?

Going it alone, without a lettings service

PROS –

- The Landlord saves on letting agency fees, which means better cash flow every month.

CONS –

- Landlords letting without employing a letting service will find it very time consuming
- Landlords do not have access to all the same resources as letting services, eg the ability to advertise on major property portals such as Rightmove, Primelocation and Zoopla.
- The landlords need to deal with tenant enquiries directly.
- Landlords will need to arrange viewings direct with the tenant and attend at the property.
- Property management – the landlord will have to deal directly with the tenant.
- Landlords will have to arrange all the paperwork and legal requirements.
- Landlords will have to pay upfront for property advertising

Employing a letting agent/service

PROS –

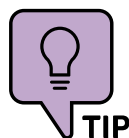
- Marketing costs are included in the Letting agent's fees so there are no upfront costs.
- Time saving on all fronts, from advertising to viewings and post tenancy management.
- Letting fees are tax deductible, whereas the landlord's time cannot be claimed.
- The letting agent will deal directly with the tenant.

- Landlords' benefit from the letting agent's expertise.
- Landlords' benefit from the letting agent's buying powers for fringe services.
- Letting agents ensure that the tenancy complies with safety legislation.

CONS –

Less income/cash flow for the landlord, as letting service fees will be payable.

See the 'Good Agent Checklist'



The intangible value of using a letting agent

- Lettings agents have the ability to handle and weigh up multiple offers – this is a lot of work involving comparing tenant references and rental prices offered.
- Conducting sealed bids/bidding wars. Turning down a bad tenant application means you can stay at arm's length. Open house and multiple viewings maximises the rental offer.
- With no let no fee, landlords can appoint several letting agents to maximise the outcome.

Appoint two or three agents to motivate increased performance

- At the start of the lettings process and at relets, it pays to keep letting agents on their toes by letting them compete with other agents to find a tenant. If desired, the landlords can also advertise the property themselves.

What do letting agents charge and what service can I expect?

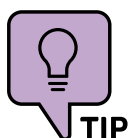
Typically letting agents charge the landlord a fee of between 8–11% for a Let Only and an extra 4–6% for property management services. The cheapest letting agent may not be able to offer you the best service. It's not just about letting the property, but letting it properly within the law, to properly referenced tenants, for a good rent. →

The industry body, The Association of Residential Letting Agents, only allows letting agents to become members if they can demonstrate that they follow industry guidelines.

If you are new to buy-to-let, a letting agent's expertise should save you time and give you valuable know-how.

Even experienced landlords use letting agents because they are too busy to handle the minutiae of the lettings process and viewings. Lettings legislation changes from time to time and an experienced, established ARLA member letting agency will ensure that their landlords keep on the right side of the law.

Look for a letting agent which offers you professional marketing and good customer service. It is usual to ask up to three letting agents to value a property. Test the service as a tenant and see what you think. Also negotiate on letting agency fees.



Claim a refund on agency fees if the tenant leaves early

If the tenants wish to leave early e.g. after eight months into a twelve month tenancy (due to a change in circumstances such as a change of job) the letting agent should refund its fees pro-rata. Alternatively the letting agent should provide a credit for the first four months of the next tenancy/relet to a new tenant.

How can I reference a tenant?

Professional credit references will indicate if the tenant will be able to afford the rent. References from previous landlords may give you some peace of mind. These can be arranged direct a credit reference agency or via your chosen letting agent. Not all credit references offer the same level of information. If using a letting agent, landlords should check that the credit referencing on offer is the best as opposed to the basic cheapest option. ARLA letting agents should be able to advise of any warning signs and interpret the credit references to make the best decision.

How tenant referencing typically works

A history of previous rental experience – via a prior landlord reference – provides an indication of how a tenant has managed a tenancy before, both for payment of rent, and the way they look after a property.

Previous behaviour does not guarantee future performance but acts as an indicator.

Affordability – is calculated as a multiple of the tenants annual rent: commonly two to three times the rental value e.g. with an annual rent of £10,000 per annum, the tenant would need a gross salary of £20,000 - £30,000 to comply with the affordability test.

Continuity of employment – collected via an employment reference: provides an indication of the security of the tenant's ability to afford the rent, an estimate of whether the income being received is likely to continue for the term of the tenancy. This is no guarantee of the future outcome, but it is preferable to see evidence of permanent employment.

A credit check – provided by an appropriate credit checking provider which also confirms whether there is prior history of bad credit, CCJs or similar. This provides an indication of whether a tenant is likely to be a good payer.

ID – photographic and also proving current address/prior address: ensuring that you are referencing and checking the person that is actually applying for the tenancy.

Experian tenant reference service



Endsleigh tenant reference service



Vericheck reference service



Under what market conditions do rentals prices fall?

Where there is an oversupply of property to the number of tenants looking, rental prices can fall. Investing in an area where there is continuous high demand, such as university cities, historically safeguards against large rental fluctuations. Popular areas like central Islington in London or Cambridge tend to maintain high occupancy despite student holidays. Property prices can be higher in these areas but rental voids (empty gaps between rentals) will be less of an issue, if at all.

Sources enabling landlords to monitor rental levels throughout the UK by area –

LSL property services plc – rents in England and Wales, market trends. Covers LSL branch network data only.



ludlowthompson, London's Letting Agent – Buy-to-let London Review. Published quarterly for London rents in detail, mortgage trends, returns, arrears and voids. Covers the whole of the London market including its own data from branches across London.



ARLA Members Survey of the Private Rented Sector, quarterly report.



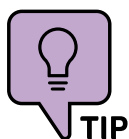
Also see [Landlords online resources and services.](#)



How do I work out what rental rate to charge?

The major property web portals such as Zoopla and Rightmove have data freely available for checking current asking prices and average rentals within a road. See [‘Landlord online resources and services’](#).

Estate Agencies with Let By boards in the road/area of your potential buy-to-let are the easiest route to an accurate rental market appraisal. Valuations from letting agents are not only free of charge but are also a time saver, and in any event a useful adjunct to your own research.



Property websites

If you review current letting listings on the property web portals e.g. Rightmove and Zoopla, you can get an idea of rental prices for property similar to your buy-to-let.

Like the Sales market, property lettings prices tend to be a guideline e.g. an asking price. Depending on the level of interest in the property, you may receive over or under the asking price. Therefore ask your local letting agent for a rental range – you want to know the bottom line rental as well as the full potential. When letting agents are trying to win your buy-to-let business they will probably just quote the full rental potential.

What factors can increase the rental price I can ask?

Depending on the location and the type of accommodation, timing your letting around the higher seasonal demand can end up resulting in a higher rental. You are more likely to receive higher rental offers when there are more tenants competing for your property.

In university towns and cities the highest demand tends to be late summer and the springtime. Consulting local letting agents is the best way to find out about the peak season demand in your local area. Cities such as London will have year round demand for rentals, which makes seasonal demand less important in the overall decision about when to Let.

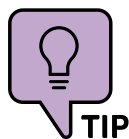
Marketing the property as ‘furnishings: flexible’ helps to increase the number of interested tenants and therefore the number of rental offers. Indeed, furnishing an initial buy-to-let pre-marketing can backfire when the best rental offer is received from a tenant who has their own furniture. Once a property is furnished it still pays to adopt a flexible approach because this will attract more interest, and the landlord can decide on a case by case basis if he is prepared

to change or remove furnishings for a particular tenant. For instance if you receive two offers, for a 12 month and 18 month tenancy both at the full asking price, you may be happy to remove a sofa and add a wardrobe for the longer term tenancy.

If a property is ready To Let outside of the high season, it obviously does not make good financial sense to leave it empty until the high season. To bridge the gap, landlords could explore a short term rental until the high season when it can be remarketed.

Longer term tenancy agreements can contain an annual rental review so that landlords can consider their options to raise the rent in line with the market.

If you are choosing a letting agency, check which ones will carry out database marketing to its mailing list in addition to advertising on property web portals. Ask about this in some details to verify the amount of effort that goes into letting your property. No Win, No Fee does not guarantee that all letting agents will pull out all the stops; much will depend on skill, resources, and experience.



Rent rise versus profit

Consider long term profit against letting for the highest rental. For instance, if a tenant wants to stay on at the same rental rate it’s a common error for landlords to reject the relet over remarketing the property at a higher rent. In this case the landlord can end up incurring relet costs which outweigh the rise gained from a higher rental.

What are the pitfalls of buy-to-let and how can I minimise these?

Pitfall – Failing to do due diligence on the location of the buy-to-let

Solution – Many landlords have come unstuck investing in new build off plan where the surrounding infrastructure fails to attract tenants. To achieve a reasonable rent and minimise gaps between rentals, the buy-to-let will need to be near good transport links and shopping amenities. See [‘Savvy Buy-to-let TIPS’](#).

Pitfall – Voids aka gaps between tenancies, zero income periods

Solution – When the buy-to-let property is empty between lettings there is no income. Therefore the lettings industry →

is generally pro-active and tries to establish the reletting situation as early as two months before the end of the tenancy. If the existing tenant or landlord decides not to renew the tenancy term there will be a gap of some days or possibly weeks before the new tenant arrives. Whilst it is possible to minimise rental voids, variable aspects such as tenants requirements, desired move in date and cleaning, are impossible to anticipate. The recent trend for longer term tenancies of 18 months or more can help landlords minimise rental voids, see below.

Pitfall – Like all investments, the value of your buy-to-let can go up or down

Solution – Buy-to-let is a long term investment and your total return is the barometer of success. Arranging longer term tenancies of 18 – 36 months will reduce a landlord's losses/expenses. The cost of re letting and voids aka empty periods between lettings will be less frequent than with shorter term tenancies. Whilst landlords may be concerned about losing out on potential rent rises, it can often make good financial sense to weigh up the certainty of continuous income versus any rental rise achieved.

For instance, redecoration costs will definitely be incurred during a change of tenancy to ensure it's perfect. During a longer term tenancy the frequency of redecoration is reduced and possibly avoided. The existing tenant is likely to be happy to live with minor issues which would otherwise need to be attended to on relet to another tenant. An analogy would be having all the dents on a car attended to each time it is serviced; in reality this is expensive to do and most people won't notice the small imperfections.

Weighing up the costs of short and long term tenancies

12 months versus a 36 month fixed period

See '[Buy-to-let profitability financial comparisons](#)'

Comparison over 10 year period of total return

Pitfall – If tenants pay the rental late or default

Solution – The first precaution is to carry out credit references on your tenant/s to ensure that they have adequate income to pay the rent. If there are any issues you might wish to seek a rental guarantor (typically a tenant's relative), which will cover the rental in the event of a default.

If you have a buy-to-let loan to repay it is wise to save at least 3 months worth of mortgage payments. This way if the tenant defaults there is enough money to cover the mortgage until they start repaying, or until it is possible to gain possession of the property (which can take up to 3 months).

Also taking out rental warranty insurance will cover your losses until repossession and court costs, giving you peace of mind. Such insurance can take between one and three months to pay out, so landlords need to check the small print as coverage does vary. It is critical to check the individual cover as some have excesses on the policy, or need to take the tenant's deposit into consideration before paying out. Landlords should check that they submit any claims within the required time period with the right information. For example, it is standard to have to submit a claim within 45 days of the first rent arrears and to supply copies of all references, a copy of the tenancy agreement and all paperwork related to collecting the rent.

Weighing up the benefit of rental warranty

See '[Buy-to-let profitability financial comparisons](#)'

Comparison of tenant eviction costs with and without a rental warranty policy

How a letting agent should assist with late payment issues

A good ARLA agent should (where responsible for collecting the rent) ensure the following –

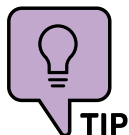
- Fully referenced and appropriate tenants are provided for your property.
- Advise the tenants of the correct rent payment date and enable a standing order or similar process to collect rent.
- Chase the rent for you immediately when it is not paid, within 2-3 days of it being late, keep you informed of the situation.
- Advise you when it is appropriate to take further action. Some letting agents can instruct solicitors for you, or at least advise you when it is necessary to seek appropriate legal action.

If the tenant absconds/leaves early without notice

This is a risk that can leave landlords exposed to a loss. This is why it is very important to carry out rigorous referencing to check the reliability of the tenant, and to arrange a guarantor if in doubt. A landlord can hold the tenant liable for the loss of rental income. So for example if the landlord relets the property and it takes 4 weeks to arrange, the tenants who breached the tenancy will be responsible for the rent for that period i.e the landlord's loss, and any fees that the landlord may encounter as a result. Landlords must however be conscious that leaving the property empty and not attempting to minimise that loss may expose them to be challenged.



It is not possible to claim on a rental warranty policy if the tenant leaves early. This is because technically the landlord has possession of the property at the point that the tenant leaves.



Claim refunds from your letting agent when the tenant leaves early

When a tenant has to leave before the end of the tenancy, landlords who use a letting agent will be entitled to a refund on agency fees pro-rata. If the landlord relets using the same letting agent, typically a refund is credited against the next invoice for letting services.

What are guaranteed rent schemes?

Not to be confused with rental guarantee/warranty insurance.

Estate agents offering a 'guaranteed rent' service will effectively become your tenant and sub-let the property to tenant/s. The letting agent pays the landlords a reduced market rent in return for taking care of the property and insuring the rental. The benefit to the landlord is a guaranteed steady income for the duration of the tenancy without relet voids.

Guaranteed rent is not yet a mainstream service and is generally not offered by traditional estate agents. The schemes may not be covered by ARLA or The Property Ombudsman, meaning there is little consumer protection for the landlord. Some online sources warn landlords of rogue Guaranteed rent schemes over-occupying the property and subletting to DSS tenants, so due diligence is wise.

Is it true that student lettings are very favourable?

During 2012, in the UK there were 1.8 million students making this market significant for buy-to-let landlords. Notwithstanding the introduction of student tuition fees, university attendance is growing from both the UK and overseas.

The benefits to landlords of targeting students are -

- ✓ You can usually rent a property to several people as opposed to one family, which can attract more rental.
- ✓ In general, students don't tend to be fussy about the size of rooms or decor.
- ✓ Some students will pay their rental upfront for the term

Important considerations for student lets -

- ✓ Landlords need to bear in mind that they may need to relet more frequently around the academic year. However, the new students. Intake should make it easy to replace tenants. Some universities will offer free advertising on its accommodation bulletin boards.
- ✓ The location of your property will need to be as close to the university campus as possible and or have excellent transport links as most students won't be driving.
- ✓ The buy-to-let should be accessible for student social life, most likely in the centre.
- ✓ An HMO licence may be required if renting the buy-to-let to three or more students sharing basic facilities (bathrooms, kitchen, lavatory).
- ✓ Older postgraduate students tend to develop more discerning requirements. ■

IMPORTANT DISCLAIMER

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- HOW TO MINIMISE RENTAL ARREARS AND VOIDS
- HOW TO GROW A DIVERSE BUY-TO-LET PORTFOLIO
- EXPANDING A BUY-TO-LET PORTFOLIO IN AN ECONOMIC DOWNTURN
- CONSIDER THE PROFITABILITY OF LONGER TENANCIES, 18 MONTHS PLUS
- HOW TO BENCHMARK A BUY-TO-LET INVESTMENT
- NEW BUILD VERSUS SECOND HAND PROPERTY BUY-TO-LET: THE PROS AND CONS COMPARISON OF REAL EXAMPLES
SAVVY BUY-TO-LET TIPS
- EXIT STRATEGY FOR YOUR BUY-TO-LET

THE DEFINITIVE GUIDE TO BUY-TO-LET™

PART TWO Buy-to-let, expert tips for Landlords

How to think like a professional buy-to-let investor

Decide what stance suits your buy-to-let objectives

E.G.

- ✓ What is your stance – Low or medium or high risk?
- ✓ Rapid portfolio expansion – mortgages versus cash purchases?
- ✓ Highest rental income return versus steady long term income?
- ✓ Short term capital growth versus steady long term capital growth.

Carry out due diligence against your investment stance

E.G.

Compare each property with a financial analysis of forecast net yield and likely capital growth. For example see Supplement Financial Comparisons.

Know your market and target tenants

E.G.

Put yourself in your customer's shoes, it's not what you want or like but what they are looking for:

- Would your rental be affordable for your target market?
- Are the transport links varied enough to keep your tenant (e.g. if they change job).

Leave emotions out of decisions

E.G.

- Don't furnish a property with personal possessions that matter to you.
- Don't buy a property just because you like it.

Take advantage of free, useful services and resources

E.G.

- Letting agencies provide valuations for free, and have a lot of market knowledge.
- Letting agencies do not have sole agency agreements so you can market via several
- No Let, No Fee is standard industry practice.

Check out property web portals, online newspapers and estate agents free market reports (see 'Landlords' online resources and services).



Never rest on your laurels – set regular reviews for buy-to-let performance

E.G.

- Towards the end of each tenancy check: market rents/increase or decreased, demand levels, comparisons of similar available lettings on the market.
- Review the performance of your letting agent – are you satisfied they are working hard to achieve your investment objectives? Ask them to justify any rental valuation with market evidence.

How to minimise rental arrears and voids

- ✓ Arrange standing orders for rental payments.
- ✓ Promptly chase up on any late rental periods on the due date.
- ✓ Arrange mortgage payment to allow time for receipt of rental payments.
- ✓ If the tenant does not wish to renew at the end of the term, start remarketing immediately so that you have new tenants ready lined up.
- ✓ Arrange gas and safety checks and cleaning in advance for the week after the tenancy ends meaning the new tenant can move in as soon as possible.
- ✓ Consider longer term tenancies of 18 months or more to maximise occupancy and minimise the costs of reletting.



TIP

Be ready for tenants

At the point of move-in ensure that the property is 100% ready for the tenants. Sometimes landlords have an outstanding To Do list, but if you can set the standard for the property from the start, you are less likely to get issues. If you give tenants cause for complaint over issues like cleanliness or the failure to provide agreed furnishings, late rental payments are more likely to occur (even though it is against the terms of the tenancy agreement).

How to grow a diverse buy-to-let portfolio

Interest-only mortgage finance allows for greater cash flow to purchase more buy-to-lets and spreads the odds of any losses. With a 100% cash buy-to-let, if the rent is not paid the loss is total, whereas with three financed properties the risk is spread.

Historically, landlords have funded the expansion of their buy-to-let portfolio from the capital and equity for existing buy-to-lets. Many landlords find that diversifying their portfolio means they can increase potential for capital gain whilst offsetting losses against their more profitable lettings. A diverse property portfolio might include both new build and second hand buy-to-lets, a mix of tenant types e.g. student lettings and different locations. Some properties might achieve a higher rental whereas other buy-to-lets may be focused on capital gain.

Buying-to-let in up and coming area provides potential for capital growth. Also flats above shops and ex-local authority can often achieve high rents/yields, but the rents are not necessarily lower than other types of property. Look at plans for infrastructure improvements to areas from shopping centres, general facilities and transport improvements. See 'Buy-to-let hotspots.'

Expanding a buy-to-let portfolio in an economic downturn

When interest rates are low and mortgages more affordable, landlords will need to consider if the rental income will cover any rate rises in the future. If the landlord's other income will not enable them to deal with any rate rises, going for a fixed rate mortgage provides certainty. Periodically, landlords will find it worthwhile checking if they can make savings by remortgaging their existing buy-to-let properties.

Consider the profitability of longer tenancies, 18 months plus

- ✓ Now that renting has become a long term reality for many would be first time buyers, longer term tenancies have become more popular with both tenants and Landlords.
- ✓ Longer term tenancies give landlords the security of a longer term income without any rental voids (very reassuring for anyone with a fixed rate mortgage).
- ✓ Longer term tenancies tend to suffer fewer repairs, and are generally well looked after by the tenants who value the certainty of a home at a fixed rent for more than twelve months.
- ✓ The optimum longer term tenancy is typically 2 years with a break clause after 18 months.








The success of long term tenancies is about honouring the integrity of the term.

Some landlords and letting agents try to insert restrictive break clauses into longer term tenancies, which enables them to raise the rent mid tenancy. Whilst break clauses are in themselves acceptable, it is important not to fall foul of the Housing Act - the tenancy contract must be fair. Another common error is incorrectly administering a Section 21 notice, which allows landlords to regain possession of the property at the end of a fixed term tenancy.

[Government guidance on gaining possession of a privately rented property](#) 

The basic premise of the Housing Act was to give clarity and fairness.

There have been examples of landlords and letting agents coming unstuck in a court of law where the judge finds in favour of the tenant, because the agent/landlord has imposed their own interpretation of the Housing Act, altering agreements as such. Appointing a professional, established letting agent who is a member of ARLA should ensure that landlords are given the best advice.

Mistakes can affect both landlord and tenant, for instance inserting a clause to renew the tenancy after a year for a second year is an example of a seemingly simple amendment going awry; the danger lies in the option to renew the tenancy becoming repeated year after year.

Buy-to-let lenders can restrict landlords to a maximum of 12 months tenancy term

This is because lenders wish to protect their repossession rights in the event of the Landlord defaulting on the mortgage payments. However some lenders are now changing their policy following industry pressure; the Mortgage Works, (TMW) part of Nationwide Building Society, has now changed its lending policy to allow longer term tenancies.









Claim refunds from your letting agent when the tenant leaves early

When a tenant has to leave before the end of the tenancy, landlords who use a letting agent will be entitled to a pro-rata refund on agency fees. If the landlord relets using the same letting agent, typically a refund is credited against the next invoice for letting services.

How to benchmark a buy-to-let investment

As with any other types of investment, reviewing the performance each year makes good sense. For buy-to-let performance reviews the following criteria applies:

-  Rental rate review (have market rents risen or fallen).
-  Current mortgage rates (best deals/is it worth remortgaging).
-  Rental arrears rate (review remedy with the letting agent/tenant).
-  Property repairs and maintenance expenses (review contractor expenses).
-  Gaps between rentals/voids (could this be improved next time).
-  Other expenses for services (review costs/savings through alternative suppliers).

Resources for rental comparisons

The leading property portals such as Zoopla.co.uk and Rightmove publish statistics on average rentals by road. The National Landlords Association produces a bi-annual survey of average rentals (excluding London). However these information resources are only ever going to be a rough guide and it is a very time consuming exercise to compare rentals. For an up to date rental valuation, it would be quicker and more accurate to ask three local letting agents for a valuation over the telephone. Ask for a rental range from high to low: bear in mind the letting agents will be keen to gain the business - so it's important that they appreciate that the property is already let and that this is for information purposes. Asking three letting agents should give you an average rental figure on which to benchmark. →



Under performance on rental needs to consider length of tenancy

For instance, if market rents happen to have increased since the landlord arranged the current tenancy agreement, a landlord will not be able to raise the rental until the tenancy renewal date. Rents can fluctuate so it is, as with many investments, better to look at the longer term taking into account continuous rental payments versus empty periods between rentals. Therefore a landlord may decide to relet the property to the current tenant at the existing rental, which will avoid reletting costs and provide certainty by maintaining the status quo. ■

New build property buy-to-let: the pros and cons

PROS –

Convenience

Ready to go with all new fixtures and fittings, buying to let a new build flat off plan is often perceived as the neatest option. Landlords may also be able to negotiate with the developer to include upgrades on fixtures and fittings.

Low maintenance

A snagging list may be available to deal with any problems post purchase, meaning that some wear and tear is the developer's responsibility, and not the landlords.

Consumer protection

(only applicable to member developers/builders)

The Consumer Code for Home Builders gives protection and rights to purchasers of new homes ensuring that new home buyers are treated fairly and are fully informed about their purchase before and after they sign the contract. www.consumercodeforhomebuilders.com

CONS –

Competition from overseas buyers for some cities

Currently buy-to-let purchasers are competing with overseas buyers – happy to pay a premium – particularly on new build in cities such as London. This means that developers do not have to reduce their purchase prices to attract UK property purchasers.

Potential for specification reduction

Landlords may find that the flat they purchase off plan does not live up to the developer's seductive marketing suite. Due diligence should include checking the developer's scheme in detail. For instance if amenities such as a pool or gym are mentioned in the brochure, is the developer committed to these or is there a get-out clause meaning those plans could be abandoned.

Inadequate infrastructure

If the new property development does not have adequate infrastructure to support it such as nearby shopping amenities and good transport links, then the property could be more difficult to rent.

Mortgage offers expiring

Financing a new build property can prove tricky because mortgage offers are typically valid for limited periods e.g. 6 months. You may have to wait until nearer the completion time to apply for the loan by which time market conditions may have changed against you e.g. a rise in interest rates.

Potential over-supply versus demand

When it comes to letting it out your new build buy-to-let, your flat may be competing with all the others in the block coming up for rent around the same time. This may make it more difficult to rent at the headline rent that the developer quotes as achievable.

Possible noise level from next phase development

If you buy-to-let a new flat which completes at an early stage of a larger development scheme, be aware that your tenants may end up living on a building site. The whole scheme may not be completed for some time after your tenant moves in. Worst-case scenario it may make it difficult for you to rent the flat because of potential noise levels from building works. Some buyers prefer smaller development schemes where the all the properties are finished at the same time.



❏ Possible less overall value versus second hand property

New build properties are nearly always more expensive than second hand properties. It can therefore take time for new build buy-to-let property to equalise with general market values. This scenario could be compared with the second hand car market; new cars depreciate as soon as you drive them off the forecourt whereas second hand cars can more easily hold their value. Whilst it's possible that a new build property could achieve more rent than a second hand property, the higher purchase price and other costs may not result in an overall higher return.

When it comes to selling the buy-to-let if e.g. before retirement it may be that many other investor buyers in the same development are also doing the same. Therefore the competition from neighbouring properties for sale will likely be greater than buying a second hand flat outside of a development complex. ■

For scenarios see following example and comparison of investments-

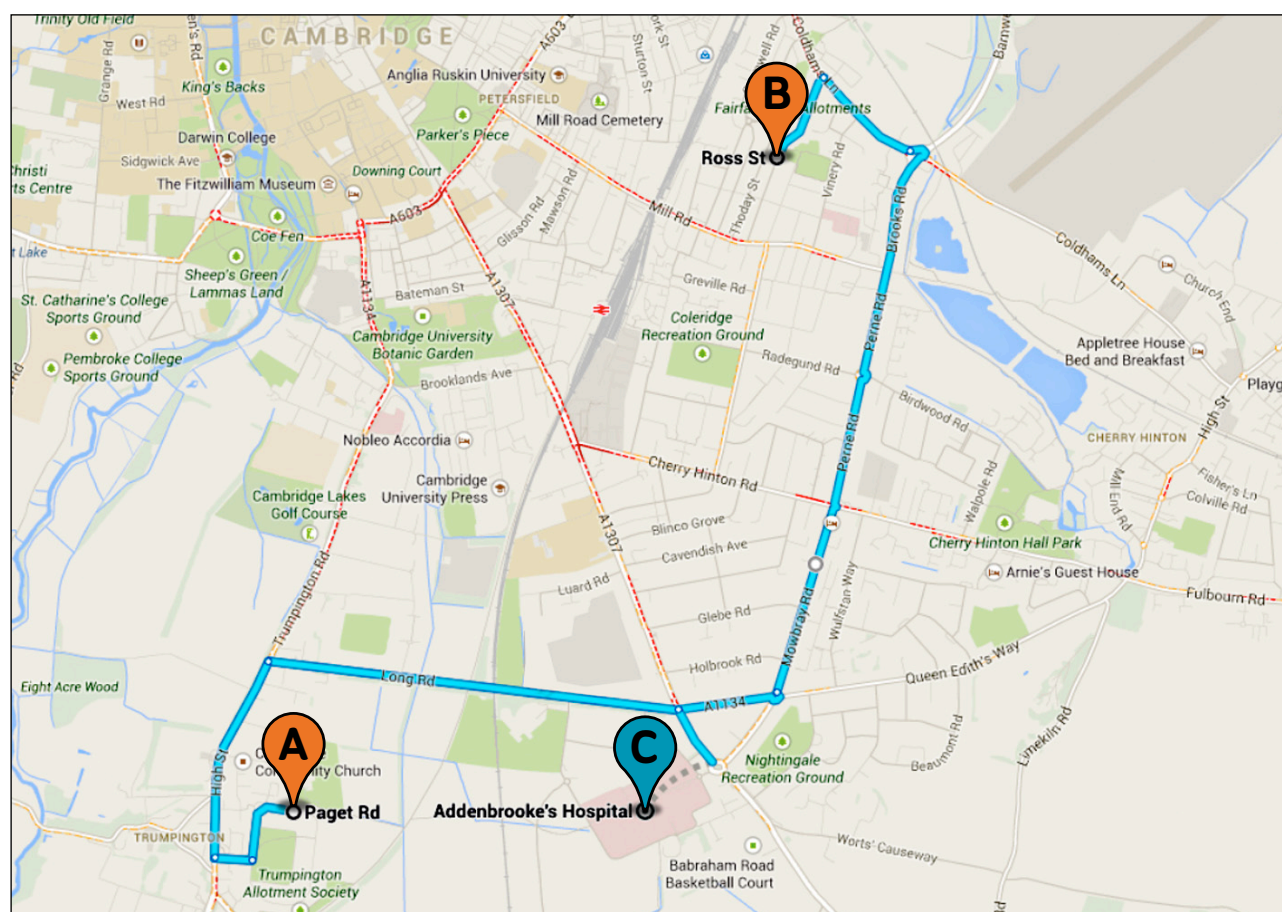
- New build property versus second hand property
- Pension annuity versus buy-to-let
- Cash buy-to-let versus mortgaged buy-to-let

Scenario comparing a new and second hand property

Comparing two actual similar priced properties For Sale in Cambridge

Area amenities -

The property locations are equidistant from amenities which are attractive to both key workers and professionals: between 8 and 15 minutes drive time from Cambridge City centre, Addenbrooke's Hospital, and close to M11 transport links. With three bedrooms the properties could be attractive to tenant sharers.



Map illustrates how property A and B are equidistant to Addenbrooke's hospital C



Second Hand Property

3 large double bedrooms, 2 bathrooms
£299,950

Features: Garden, large living room, conservatory, dining room

Location – Paget Road, Trumpington, Cambridge CB2

Average rents for this road	£1470 pcm
potential annual rent	£17,640
<small>(source: Zoopla.co.uk current values)</small>	
Gross rental yield	5.9%
Total area approx.	1162.2 sq ft

Zoopla
Smarter property search

[For sale](#) | [To rent](#) | [Current values](#) | [Sold prices](#) | [New homes](#)

Current values ▼ Paget Road, Trumpington, Cambridge CB2

Current property values in Paget Road, Trumpington, Cambridge CB2

Paget Road Zed-Index ?

£234,278

stats for All properties ▼

Value change

▲ **£16,213** (7.43%)

from 1 year ago ▼

Avg. price paid: **£213,467**

No. of property sales: **17**

over Last 5 years ▼

Avg. asking price in CB2: **£464,621**

No. of properties for sale in CB2: **89**

Avg. asking rent in CB2: **£1,470 pcm**

No. of properties to rent in CB2: **62**

3 bedroom terraced house for sale

Paget Road, Trumpington, Cambridge CB2

Guide price £299,950

[Check your credit score](#)

Property details

Map & nearby

Street view

Area stats

Local info





New build property

1 large double bedroom and 2 small doubles, 2 bathrooms £325,000

Features: End of terrace, garden, parking, open plan.

Location – Ross Street, Cambridge CB1

Average rents for this road **£1,284 pcm**
potential annual rent **£15,408 – *£16,176**

(source: Zoopla.co.uk current values)

*Assumption add 5% to the rental as the property is new £1,348

Gross rental yield **between 4.7% and 4.9%**

Total area approx **Not stated**

Zoopla
Smarter property search

[For sale](#) | [To rent](#) | [Current values](#) | [Sold prices](#) | [New homes](#)

[Current values](#) ▾ Ross Street, Cambridge CB1

Current property values in Ross Street, Cambridge CB1

Ross Street Zed-Index ⓘ

£324,350

stats for [All properties](#) ▾

Value change

▲ **£22,000** (7.28%)

from [1 year ago](#) ▾

Avg. price paid: **£293,564**

No. of property sales: [30](#)

over [Last 5 years](#) ▾

Avg. asking price in CB1: **£330,207**

No. of properties for sale in CB1: [52](#)

Avg. asking rent in CB1: **£1,284 pcm**

No. of properties to rent in CB1: [110](#)

3 bedroom end terrace new house for sale **Guide price £325,000**

Ross Street, Cambridge CB1

[Compare loans](#)

[Property details](#)

[Map & nearby](#)

[Street view](#)

[Area stats](#)

[Local info](#)



Conclusion comparison second hand property versus new build buy-to-let

The second hand property A. appears the more favourable investment because –

- ✓ It is £25,050 cheaper to buy than the new build property.
- ✓ The potential rental and yields are higher.
- ✓ The layout of 3 separate living areas is more flexible (i.e. tenant sharers will prefer the separate spaces over shared open plan living areas that the new build offers).
- ✓ The 3 large double bedrooms make this second hand property more flexible attractive to sharers (the new build only has one large double bedroom plus 2 small doubles).

Savvy buy-to-let TIPS

✓ Transport sells

Areas that offer quick commutes to mainline train station/s, good bus routes, and or central city bike hire e.g. Barclays Bike scheme in London will attract a greater number of tenants.

✓ Test the transport links

When considering Buy-to-let in at areas with new transport and infrastructure, some landlords will put themselves in the potential tenant's shoes and test it out: does it feel safe to use the local transport and is it a reasonable journey time to main stations? This information will come in handy for marketing the property to tenants.

✓ Infrastructure is key for buy-to-let

If buying-to-let a new build flat it is vital to check that it is somewhere thriving as opposed to in an area which has sparse amenities and is cut off from decent transport links. In such cases, regardless of the premium paid for a new build property and the new fixtures and fittings, the rental achieved would likely be lower than other more popular areas.

✓ Time it right

Many new build Buy-to-let investments are sold off plan. Buying at the end of a new build scheme, when the last few properties remain, can often achieve a discount on the sale price. Typically the developer is keen to wrap up the site show room and move its sales staff on to the next property project.

✓ Price negotiation

It can be easier for landlords to negotiate a reduced purchase price by timing their purchase for the last phase of the development. Find out when the year end is for the property developer. It is easier to close a deal at a keen purchase price when the developer wants to include the property sale within its end of year figures.

✓ Easy expansion of a buy-to-let portfolio

If the initial buy-to-let investment works out well - whether new build or second hand property – repeating the success formula with another buy-to-let flat in the same block two years later could repeat dividends. The advantages are that the landlord will have seen the rentals achievable, be able to raise finance from a lender on a proven basis, and will be buying-to-let at a 'second-hand' market price (without the new build premium).

✓ Ex-local authority property is worth considering

Many professional landlords find ex-local authority good value because they tend to have more bedrooms for their purchase price when compared to other second hand property and new build. The more bedrooms a property has the higher the rental potential for letting to sharers. The demand from sharers is high, meaning that landlords can command good rents for properties with three or more bedrooms.

Letting to multiple tenants may mean the property is subject to an HMO licence (see Houses in Multiple Occupation).

✓ Beware of older and period / listed property

Buying-to-let for a profit generally means avoiding older properties where maintenance costs will almost certainly be higher e.g. new roofs, restrictions on modifications. From April 2018, legislation for energy efficiency will make it difficult if not impossible to rent some older properties that have a low EPC report rating. Whilst it is possible to seek improvements through energy grant schemes, it is likely that the nature of older properties will make compliance difficult – for instance if a property is Listed there may be certain restrictions on double glazing.





Think about your exit strategy for buy-to-let

In order to benefit from both capital growth and rental income, most landlords treat buy-to-let as a long term investment. Your exit strategy depends largely

on what your objective is for buy-to-let. Choosing when to exit your buy-to-let is important to minimise losses and maximise gains, as is setting it up properly in the first place.

1. Set your objectives

What does buy-to-let need to achieve for you, and when do you need the money by? E.G. Capital growth to fund your retirement, funds to pay for your children's university fees, or to leave an inheritance for your family.

2. Set up your buy-to-let in the most tax efficient manner

Whether you want to sell your buy-to-let, retain the buy-to-let to generate income throughout retirement or reinvest, tax will be payable on the profits. Consulting an expert tax accountant can you make the most of planning your buy-to-let exit.

If the property has an interest-only buy-to-let mortgage ensure that you have an adequate repayment plan for its maturity date. Many lenders have a maximum age restriction e.g. 75 years, which means landlords must plan around this accordingly.

3. Regularly review how your buy-to-let performs against objectives

Depending on performance of your buy-to-let, your objectives might change. For instance, if your buy-to-let is profitable you may wish to expand your portfolio and or diversify to additional objectives. Or a change of circumstances may mean you wish to exit your buy-to-let earlier than planned.

Even if nothing has changed, it's important to check that your buy-to-let is performing at a level that will produce what you need. E.G.

- Is your rental rising with inflation and earning enough net rental income enough to top up your pension?
- Or is the capital growth rate enough to cover a lump sum for your children's university fees?

If your buy-to-let is not performing

Look at the reasons why, could it be any of the following?

- ? Rental arrears rate too high
- ? Operating costs too high – could you reduce these
- ? Voids/gaps between tenancies – efficient letting agencies can reduce these
- ? Rental rate – is it high enough/in line with the market
- ? Marketing – is it being adequately promoted to attract the right tenants
- ? Location – has anything changed for the worse in terms of amenities or transport



Buy-to-let exit property sale – important considerations

Don't sell property based on short-term changes in the financial markets e.g. interest rates or media hype. In this event it's not likely you will achieve the best price.

In the above scenario, many other landlords may panic and try to exit the market, which could lower property prices reducing the chance of achieving your capital return.

Don't hold onto a property that isn't performing well because it's in the wrong location. It may make better sense to reinvest in an alternative buy-to-let. ■



The Top 7 mistakes to avoid as a buy-to-let landlord

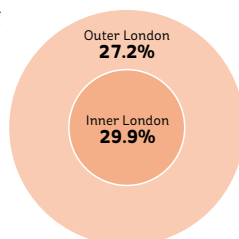
1. Failing to allow for all the costs including rental voids and arrears

Typical expenses incurred for a property letting include -

- Mortgage
- Repairs and maintenance – allow around 10% of the rental
- Insurances e.g. buildings & contents, rental warranty
- Lettings agent fees: 8%-11% for Let only + 4%-6% for property management (+ VAT)
- Accountancy fees £250-£1500 + VAT
- Ground rent / property service charges
- Contingencies e.g. monies to cover voids and arrears – allow 10% of rental income

The total *operating cost of running professionally managed large scale property portfolios equates to the following percentage of the gross rental income.

(*Source IPD 2012 – real estate researchers, includes rental voids but not cash or debt)



2. Failing to carry out due diligence for new build buy-to-let property

Ensuring that a newly built property development has adequate infrastructure nearby is vital for attracting tenants and commanding a good rental. If the new flat or house is not near good transport links and shopping amenities most likely the rental price will be lower despite a premium being paid for the new build property. See [‘Savvy Buy-to-let TIPS’](#).

3. Valuing rental income over long-term profitability

Buy-to-let is best viewed as a total return over the long term. The fewer gaps between rentals and relet costs that a landlord has to pay, the more consistent the profit levels.

The highest rental offer is not always the best

Other variables should come into the decision of which tenant offer to accept. These include the quality of the credit and previous landlord references, the likelihood of the tenant staying the full term of the tenancy, likely wear and tear, and the costs for any furniture required.

At the end of the day, it's a landlord's judgement call as to which tenant represents the best option in terms of their investment objectives.

Reletting to the same tenant – whether or not to increase the rent?

If the existing tenant will only renew the tenancy at the current rental, the landlord has to weigh up the relet costs to alternative tenants which are typically –

- Voids between the end of tenancy and new tenancy,
- Requirements from the new tenants such as changes to items of furniture,
- Redecoration (for which the current tenants may have no requirements)

4. Falling foul of the housing act can land you in court

The Housing Act was introduced to bring clarity and fairness. There have been examples of landlords and letting agents making their own interpretation of the Housing Act, altering Tenancy Agreements to suit. Judges have frequently found in favour of the tenant/s because an overcomplicated tenancy agreement is considered confusing or because it is against the law. For instance, it is not possible to evict a tenant without following the proper procedures. An established letting agent who is a member of ARLA should ensure that landlords do not fall foul of the Housing Act.

5. Not fully understanding tax free allowances

Tax is only payable on buy-to-let profits but some landlords do not know about the important distinction between ‘capital’ expense and ‘revenue’ expense. There is also the difference between a ‘repair’ and an ‘improvement’, which is not always easy to work out.

- ▶ A ‘**capital expense**’ cannot be deducted from rental income and is usually considered to be an ‘improvement’ – which is only allowable against capital gains tax post Sale of the property.
- ▶ A ‘**revenue expense**’ is deductible from rental income, and can include repairs thereby reducing a landlord's annual tax bill.

It is possible that the timing of a renovation can influence whether HMRC consider the expense a ‘capital’ expense or ‘revenue’ expense, but this is not always the case. Therefore, it pays to seek advice from a professional lettings accountant when planning renovation or repairs to a property. See ‘Guide to Property Taxes & Landlords Buy-to-let Tax Allowances.’

6. Not claiming a pro-rata refund on agency fees when the tenant leaves early

When a tenant has to leave before the end of the tenancy, landlords who use a letting agent will be entitled to a pro-rata refund on agency fees. If the landlord relets using the same letting, typically a refund is credited against the next invoice for letting services.

7. Furnishing a new buy-to-let before letting

Many lettings agencies advise landlords not to initially furnish a buy-to-let until a tenancy is proposed. It is not always true that a furnished property fetches more rent than an unfurnished property. Indeed the landlord may face a choice of tenants with different furniture needs. Landlords can even find that they are asked to remove furniture and therefore have to store or sell it. It can also happen that the tenant requires different sized beds to the ones already provided. Furniture is a small consideration in the grander scheme of a buy-to-let so taking a flexible approach works best. The property can be marketed as ‘furnishings: flexible.’



The Top 7 criteria for successful buy-to-let landlords

1. Carry out due diligence for your buy-to-let

- Prepare a business and finance plan for purchase, operation and cash flow
- Research on location – see ‘Buy-to-let hotspots’
- Type of tenant you will attract? Are there enough good transport links to central transport hubs
- Type of property? Is second hand or new build best for you? See ‘Investing in new build Buy-to-let versus second-hand property.’
- Annual reviews – assess the success of your buy-to-let and property management annually: is the rent paid on time? Are the professional services adequate/giving you best value? Are market rents up or down? Review repairs and costs.

2. Make the cash investment work smarter

Interest-only mortgage finance allows for greater cash flow to purchase more buy-to-lets and spreads the odds of any

losses. With a 100% cash buy-to-let if the rent is not paid the loss is total, whereas with three financed properties the risk is spread.

3. Treat it as a business, it's not about personal taste

Professional landlords do not base their purchase decision on whether they personally like the property and would live there themselves. Nor do they place valued personal items of furniture in the buy-to-let, which if damaged could cause emotional distress.

4. Take adequate references for the tenant

- Professional credit check – to check if the tenant can afford the rent / for any CCJs.
- Previous landlord – it's usual to seek this if the tenant has previously rented.

5. Protect your rental income

Arrange a rental guarantor

If there's a lack of credit history for the tenant, seek the back up of a guarantor for the rental income. A guarantor can be anyone with assets such as homeownership and who in well paid employment; typically parents and relatives act as guarantors.

Insure your rental income

There aren't many forms of income that can be insured, but rental warranty products make this possible for landlords.

6. Minimise and allow for voids and rental arrears

Retain enough income to cover empty periods between tenancies and, to cover mortgage payments if rental payments are late or until the rental warranty insurance cover kicks in.

7. Seek professional tax advice

To maximise tax deductible expenses, and ensure that revenue and capital expenditure is planned to be tax efficient. ■

see ‘Guide to Property Taxes & Landlords Buy-to-let Tax Allowances.’

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Your home may be repossessed if you do not keep up repayments on your mortgage. The Financial Services Authority do not regulate all forms of mortgages.

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Buy-To-Let / Letting Checklist

40 Steps

with Flowchart

If using a letting agent, much of the below will be assisted or taken care of on behalf of the landlord.

- 1** Decide buy-to-let objectives
- 2** Review areas/location for buy-to-let– register on the major property portals e.g. Rightmove, Zoopla, Primelocation
- 3** Search and review the type of property that will suit your buy-to-let criteria, i.e. new build, second hand or ex-local authority
- 4** Gain a ballpark rental valuation from letting agents for properties of interest
- 5** Work out the gross rental yield and forecast costs
- 6** Seek buy-to-let *mortgage quotations on your desired property
- 7** Decide on length of tenancy you want to offer – 12 or 18 months plus (check what the mortgage *terms allow)
- 8** Type of tenant – determine who and how you will attract
- 9** Prepare a buy-to-let plan for cost of investment, running costs, cash flow and rental income
- 10** Purchase the buy-to-let property
- 11** Appoint an ARLA letting agent or DIY/join a reputable letting association
- 12** Energy performance certificate (EPC), arrange before property marketing
- 13** HMO licence – if applicable, refer to your local authority
- 14** Advertise and promote the property to tenants/viewings
- 15** Chose a tenant from the lettings applicants
- 16** Receive a holding deposit if applicable
- 17** Tenant referencing – previous landlord if applicable + credit reference,
 - Check the tenant can afford to pay the rent (bank statements/credit reference),
 - Agree rental Guarantor (if applicable)
- 18** Arrange a professional tenancy agreement (avoiding unenforceable unfair terms)
- 19** Sign and date tenancy agreement – all tenants must sign
- 20** Schedule of payment for deposit, first month's rent etc – provide to the tenant



- 21** Tenancy deposit scheme, arrange with a government approved scheme
- 22** Arrange permissions
 - Leasehold property (check with block managers if letting is permitted)
- 23** Insure your letting/rental warranty & legal expenses policy
- 24** Standing orders – ensure set up for rental payments
- 25** Safety certificates (ensure compliance before the tenant moves in)
- 26** Manual at the property for safety certificates, appliance info, emergency and contact/property management details
- 27** Inventory of contents and condition of the property
- 28** Tenant move-in with check-in and signing of inventory
- 29** Redirect any mail (if applicable)
- 30** Inform the council for council tax purposes
- 31** Utilities, advise of tenants move-in date and submit final meter reading
- 32** Keys, provide to letting agent and tenant/s as applicable
- 33** Follow up with the tenants post move-in
- 34** Tax returns – keep adequate records, appoint a lettings accountant
- 35** Regular/quarterly property inspection
- 36** Two months prior to the end of the tenancy
 - Review market rentals.
 - Check if tenant renewing or leaving
- 37** End of tenancy/relet – return utilities and services to landlord's name as needed
- 38** Remarket the property To Let
- 39** Arrange cleaning and prepare the property for the next tenants/safety checks
- 40** Annual review against buy-to-let objectives

Notes:

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40 Steps Buy-To-Let Checklist



SUPPLEMENT

THE DEFINITIVE GUIDE TO BUY-TO-LET™

Lettings Legislation

Compliance rules and regulations and how to keep up to date

Landlords are responsible for ensuring that their properties are safe places to live. This entails a number of periodic safety checks and compliance to standards set down in law. It is a landlord's responsibility to keep up to date with changes to safety legislation. Landlords who do not comply with safety rules risk serious penalties from fines to imprisonment.

EXPLAINED INSIDE

The Furniture and Furnishings (Fire Safety) Regulations 1988 (as amended in 1989, 1993 and 2010)

Gas Safety Certificate

The Electrical Equipment (Safety) / Plugs & Sockets (Safety) Regulations 1994

Legionnaire's Disease

HMO licensing – Housing of Multiple Occupation (HMO/HMO's)

The draft Tenants' Charter – For tenants and landlords in the PRS

It states what tenants should expect and what action to take if they are victims of hidden fees or poor standards of accommodation

Disclosure duties of letting agents and landlords

Property Misdescriptions Act scrapped in favour of Consumer Protection Rights

The Furniture and Furnishings (Fire Safety) Regulations 1988 (as amended in 1989, 1993 and 2010)

Landlords who decide to Let a residential property furnished must ensure that certain types of furniture and furnishings provided meet the current safety regulations. Failure to comply with the regulations is a criminal offence and can carry a fine or prison sentence.

The fire and furnishing regulations apply to these items –

- Loose, stretch and fitted covers for furniture
- Scatter cushions, seat pads and pillows
- Arm chairs
- Three-piece suites
- Sofas and sofa beds
- Futons and other convertible furniture.
- Mattresses, divans, pillows, beds and bases, headboards, mattresses
- Nursery furniture
- Garden furniture which could be used indoors

All upholstered items must comply as follows

- ✓ Have a fire resistant filling material.
- ✓ Must pass the “match resistance test” as prescribed.
- ✓ Must pass the “cigarette test” as prescribed.

Furniture which complies will have a manufacturer’s label which must be non-detachable.

Bed bases and mattresses do not have to have a label but compliance will be indicated if the item has a label featuring BS7177

Fire safety guidance 

Government fire safety rules 



Go beyond what the law requires for safety to protect your buy-to-let

It’s good practice to supply the following for a property letting.

- ✓ First aid kits
- ✓ Mains operated smoke alarms

✓ Fire blanket in kitchen

✓ A fireproof mattress cover

Note – Landlords are responsible for the upkeep of anything they provide in the property.

Gas Safety Certificate

By law landlords must supply a safety certificate for gas appliances at the rental property.

Requirements -

- ✓ Ensure an annual gas safety check on each appliance and flue
- ✓ Repair and maintain gas pipe work, flues and appliances in safe condition
- ✓ Keep a record of each safety check
- ✓ Have the check and work carried out by a registered gas engineer www.gassaferegister.co.uk

Gas safety, guidance landlords’ obligations, Health & Safety Executive (HSE) 

The Electrical Equipment (Safety) / Plugs & Sockets (Safety) Regulations 1994

Whilst no statutory checking procedure exists for electrical equipment landlords are still obliged to ensure that the property is electrically safe. Smoke alarms should be fitted for all lettings and regularly checked to ensure that the equipment is in full working order.

Any plug, socket or adapter supplied for domestic use must comply with the relevant current regulations.

The Electrical Safety Council recommends that rented properties have a full electrical check every 5 year and interim checks annually.

The Electrical Safety Council, ‘The Landlords’ Guide to Electrical Safety’ 

Legionnaires Disease

Landlords have a duty to assess their property’s water supply for the risk of exposure to Legionnaires Disease. The frequency of testing depends on the outcome of the initial risk assessment. Both landlords and letting agents must keep records for five years. →

Tests must be carried out by an accredited competent company. Hygiene measures include dismantling and cleaning shower heads on a quarterly basis or as recommended by the initial risk assessment. Tenants should be advised about the risks and advised to take precautions such as flushing through showers that they rarely use. Landlords must take extra special care for tenants who may be more vulnerable to Legionnaire's Disease, such as the sick or elderly.

The RLA's guidance for legionnaires disease



The HSE guidance for landlords compliance, legionnaires disease



HMO licensing – Housing of Multiple Occupation (HMO/HMO's)

Larger properties that are shared by separate non related tenants, who share the facilities, may be subject to an HMO licence. An HMO licence subjects the property to more stringent checks and measures than other lettings. This includes ensuring that the communal areas are in a good state of repair and that proper fire safety measures are in place. It is not always easy to work out whether a buy-to-let would be classed as an HMO. Local authorities administer HMO licences and rules vary from stringent to a light touch requirement for different types of properties. It is therefore necessary for landlords to check with local council or via their letting agent if they should apply for an HMO. Failure to obtain a licence could include a £20,000 fine, and the loss of rent for up to 12 months.

- A three bedroom property rented by a family of three would not be considered an HMO because the occupants are related.
- A three bedroom property where the bedrooms are Let out on a separate basis to different tenants, under separate agreements would likely be considered an HMO.
- A three bedroom property where the tenants are unrelated and are letting under a single tenancy agreement may or may not be considered liable for an HMO licence.

The following circumstances may render a property liable to an HMO licence –

- › a house split into bedsits
- › a house with three or more storeys including basements or attics
- › a shared flat house or house, with the tenants having separate renting agreements

- › a bed-and-breakfast hotel which is not just for holidays
- › a hostel
- › shared accommodation for students –
- › (except halls of residence and other types of student accommodation owned by educational establishments) and/or,
- › five or more tenants forming separate households (not related or married or in same-sex relationships)
- › Multiple tenants share a bathroom, toilet and or kitchen facilities

Government link to HMO rules for landlords and managers



The draft Tenants' Charter

This document, still in discussion stage, has been developed for tenants and landlords in the private rented sector. It states what tenants should expect and what action to take if they are victims of hidden fees or poor standards of accommodation.

Disclosure duties of landlords and letting agents

New regulations emphasise that it is the 'consumer' who must be treated fairly, so although the agent is instructed by the seller or the landlord there is now a clear responsibility 'to be fair' and disclose and share any knowledge with a buyer or tenant.

The Office of Fair Trading (OFT) guidance on property Sales was issued in September 2012 to assist agents in complying with the Consumer Protection from Unfair Trading Regulations 2008 (CPRs). Since the Property Misdescriptions Act was scrapped in October 2013, the Ombudsman will be measuring complaints against CPRs.

Example of disclose duties

Q&As by Christopher J Hamer, The Property Ombudsman

Q from letting agent –

"A house I am marketing has as its neighbour a somewhat eccentric woman who keeps seven large dogs and 14 cats. Should I highlight this in the property particulars?"

A *"I think that this involves a degree of subjectivity. Eccentricity can be levelled at many people but on balance I would say no disclosure, but if a prospective buyer asks about the neighbours then you should mention the menagerie!"* →

Q from letting agent –

“A rental property on my books has been the subject of endless problems: it is in a block with anti-social neighbours, and previous tenants have complained of condensation. Must I highlight both of these problems in the marketing literature?”

A *“Not sure how you can describe sensibly the anti-social behaviour but you should not describe the property as, for example, secluded, comfortable, quiet etc. I would recommend that the condensation issue is divulged during viewings.”*

Q from letting agent –

“I have a rental property on my books where, sadly, the last tenant was murdered. Should I say this in the marketing? If the owner decides to sell the property, should it be mentioned?”

A *“A difficult one given the sensitivity of the matter, but on balance I think it should be disclosed at the earliest opportunity.”*

The ombudsman confirms when and what agents should disclose



Property Misdescriptions Act scrapped in favour of Consumer Protection Rights

Consumer Protection Rights (CPRs) is now applied to property services in a wider sense, which renders the Property Misdescriptions Act (PMA) redundant. The PMA used only to apply for the selling of property, but the new CPRs also cover rental property descriptions.

In general landlords and agents need to be cautious about claims made for properties. General descriptions of areas as ‘lovely’ and ‘quiet’ must be evidenced as opposed to opinion. Before a letting agent advertises a property they must ask the landlord to check the particulars and sign them off confirming their accuracy. Letting agents must have procedures in place to train staff to check the quality of particulars.

Office of fair trading guidance, consumer protection rights – estate agency services



How to keep up to date with lettings safety legislation

Accordingly to the National Landlord’s Association (NLA), there are currently more than seventy different legislations governing the private rental sector and over fifty Acts of Parliament. There are serious penalties for landlords who do not keep themselves compliant with the rules.

Case law is constantly challenging the status quo for lettings, and keeping up to date with safety requirements can be onerous or lack clarity - for instance the enforcement of HMO licences varies between local authorities.

Frustratingly for landlords, there is no quick and easy way for landlords to find out about all safety requirements. Many professional landlords prefer to rely on the expertise of an ARLA letting agent for up to date interpretation and compliance with legal obligations. Letting agents are legally obliged to ensure that all lettings they arrange comply with rules and regulations.



The National Landlord’s Association features a safety section where landlords can find all the rules and regulations in one place, amongst other guidance related to lettings. To access the information, membership to the NLA is required – prices start from £99 per year.

NLA library with links to safety legislation



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Guide to Property Taxes & Landlords Buy-to-let Tax Allowances

Seeking professional tax advice is worthwhile to avoid overpaying, to maximise savings and keep up to date with changes in allowances and rules.

EXPLAINED INSIDE

Expenses deductible against rental income aka 'revenue expenses'

Capital versus revenue expenses

How to maximise tax relief for a buy-to-let property

Expenses – the importance of 'repairs' versus 'improvements'

Taxable allowance for furnished properties

Wear and tear allowance

Overseas landlords

Property taxes

Buying the property – stamp duty

Selling the property – Capital Gains Tax (CGT)

Reducing Capital Gains Tax

Inheritance tax

Expenses deductible against rental income aka 'revenue expenses' –

- Landlord/property insurance
- Rental warranty insurance
- Council tax
- Letting agency fees
- Professional services e.g. Gas Safety certificate, professional inventories
- Accountancy fees
- Advertising costs
- Interest payments on a buy-to-let mortgage
- Repairs
- Maintenance costs e.g. gardening
- Utility bills (only if the landlord pays instead of the tenant)
- Wear and tear for property which is Let furnished - 10% of the annual net rental income is allowable.
- Energy efficiency investments aka Landlords Energy Savings Allowance e.g. cost of loft, floor, wall insulation and draught proofing up to £1,500 per property, available until 2015. For more information see 'Landlords online resources and services.'
- Other fees and bills related to the Letting e.g. advertising
- Bad and Doubtful Debts – (if not covered by insurance) where the taxable rent is due but it will never be paid or debt recovery has failed, 'lost' income is allowable.

Capital versus revenue expenses

'Capital' expenses are those that increase the value of a property, such as a new higher specification kitchen or bathroom, or adding a conservatory. Such costs cannot generally be deducted from a lettings income tax bill. However landlords can generally offset these 'capital' costs against any capital gains tax when selling the property.

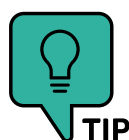
'Revenue' expenses relate to the day-to-day running plus maintenance of the property, and can be offset against a landlord's income tax bill.

How to maximise tax relief for a buy-to-let property

Landlords planning a property renovation of a buy-to-let could save on tax if they plan the timing of the works needed with a specialist lettings accountant. If the renovation takes place before the property is Let, it may be judged to be a 'capital' expense and therefore deductible only on the sale of the buy-to-let. However, if the property renovation takes place during the letting the expense could be considered a 'revenue' expense and therefore offset against rental income.

Expenses – the importance of 'repairs' versus 'improvements'

When renovation is deemed an 'improvement' to a buy-to-let which will increase the capital gain/house price, the expense is only allowable on the Sale of the property. If the renovation is a 'repair' and necessary in order To Let the property, then the expense would normally be allowable as a revenue expense which can be offset against rental income tax. Sometimes a repair can also be an improvement, for instance if you upgrade a property's electrics whilst undertaking necessary rewiring. This area of property tax is not always cut and dried and the expert advice of a specialist letting accountant may be needed to illustrate to HMRC that the expense is considered 'revenue' and not 'capital.'



Many landlords misunderstand definitions

There is a common misconception that if property renovations were necessary in order to let the property, then it should be treated as a revenue expense (offset against rental income tax). In this instance HMRC often argue that if the property could not be let without the repairs then the renovations are in fact 'improvements', which are 'capital' expenses (only deductible on capital gains tax on Sale of the property).

This excerpt from HMRC guidance illustrates the point:

"Repairs to reinstate a worn or dilapidated asset are usually deductible as revenue expenditure. The mere fact that the tax payer bought the asset not long before the repairs are made does not in itself make the repair a capital expense. But a change of ownership combined with one of more additional factors may mean the expenditure is capital. Examples of such factors are:

A property acquired that wasn't in a fit state for use in the business until the repairs had been carried out or that couldn't continue to be let without repairs being made shortly after acquisition.

The price paid for the property was substantially reduced because of its dilapidated state. A deduction isn't denied where the purchase price merely reflects the reduced value of the asset due to normal wear and tear (for example, between normal exterior painting cycles).



Wear and Tear

Taxable allowance for furnished Lettings

Typically landlords cannot claim for the actual cost of furnishings, they can instead claim a 10% allowance of the *net annual rental income.

There is not a clear definition for what constitutes a 'fully furnished' property, although HMRC provides guidelines.

*Net rental – excluding any charges normally paid by the tenant which may be included in the rent e.g. council tax and utilities.

Example scenario 'wear and tear' allowance

On a purchase of £3,000 for furniture, with the 'wear and tear' allowance it pays for itself within 2 years.

£3,000 expenditure on furniture

£18,000 net rental income

£1,800 annual tax allowance (10% of the £18,000 annual rental income)

$£1800 \times 2 = £3,600$

HMRC guidance on the 10% wear and tear allowance



Alternatively, landlords can use the 'renewals allowance' to claim tax relief on the net cost of replacing furniture (not the original cost of the furniture). You cannot claim both the 'wear and tear' and 'renewals allowance' on the same property.

Overseas landlords

HMRC demands that landlords living outside of the UK pay tax at source. This means a letting agent or tenant must deduct tax due from the rental and send to HMRC. The rule only applies where tenants pay more than £100 per week, but it applies to letting agencies regardless of the rental monies involved. It is possible for landlords to apply to HMRC to be considered an exception as shown in the below excerpt:

"Non-resident landlords can apply to HMRC (see Chapter 11 below) for approval to receive rental income with no tax deducted where:

- their UK tax affairs are up to date; or
- they have never had any UK tax obligations; or
- they do not expect to be liable to UK tax for the year in which the application is made."

HMRC overseas landlords guidance



HMRC NRL guidance notes



Property taxes

Buying the property – Stamp Duty

As with buying a property to live in, Stamp Duty is charged at the same rate on buy-to-let property purchases.

HMRC tax threshold rates



Selling the property – Capital Gains Tax (CGT)

When and if the landlord decides to sell a buy-to-let, it may be liable for CGT on any profit. With an annual tax-free allowance (£10,900 for 2013/2014) landlords can make some profit before the tax level starts.

Capital gains rates as at 2013/2014

Basic rate taxpayers – 18%

Higher rate taxpayers – 28%

Reducing CGT

Landlords can offset some expenses against a CGT bill on buy-to-let property including -

- ☒ Stamp duty paid on property purchase
- ☒ Expenses for 'improving' the property
- ☒ Advertising costs for the property Sale
- ☒ Estate agency fees
- ☒ Solicitors/conveyancing fees

If a loss is made when selling a property, it may be possible to deduct this from any other capital gains made during that tax year or in the future.

CGT is not payable on main residences, which is known as 'private residence relief'. If a landlord has personally lived in the property, which has been let out at anytime, it may be possible to claim tax relief against CTG for the last three years of ownership.


Example scenario: A landlord owns a house for 10-years, living in that property for two- years and letting it out for the remaining eight years. The landlord would qualify for tax relief on five- years of home ownership (the two years of owner-occupation, plus the additional three years). This would mean only half the profits from the property sale would be liable for CGT.

Inheritance tax


Like any other asset, buy-to-let property is subject to inheritance tax.



Other online sources of information

Government guidelines to rental property obligations 

Tax insider detailing how lettings tax works 

Government guidelines to the 'wear and tear' allowance 

Tax insider detailing how lettings tax works 

The number of possible allowances and deductions available on property taxes changes from time to time, so it pays to consider consulting a qualified lettings accountant for up to date and advice relevant to personal circumstances.

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The Good Agent Checklist

On the face of it many lettings services will seem the same, and there's a danger that the decision comes down to the highest rental price quoted, and or the personality of the valuer.

In reality, services vary widely from opening hours, property marketing, the skill of the agent putting the deal together and aftercare. Invest time upfront to make the right choice of lettings service, and it could be the start of a long and profitable relationship.

Use this checklist to quiz letting agents about the nitty-gritty of what makes a difference: quickly finding a trustworthy tenant, minimising your risk and maximising

your income. In other words you want the letting agent to demonstrate how they create the best outcomes for you: can they provide evidence for rental valuations? Do they have experience of running sealed bids (where several tenants put in an offer)? How does their property management service work to reduce arrears and voids?

Name of agent

Experience and size –

- ☐ No. of years trading
- ☐ Is lettings a sideline or a full time business
- ☐ No. of years the manager has been letting
- ☐ No of tenancies they handle in a year
- ☐ No. of branches

Notes:

Market knowledge –

☐ Rent valuations:

Range provided e.g. will achieve valuations –
between £x and £x

Market evidence for the price quoted

Length of time to find a tenant

☐ Buy-to-let expertise:

Gross rental yields quoted with particulars

Evidence of buy-to-let know how

News and market updates

☐ Handling multiple tenants offers:

sealed bids

open house viewings

Reputation / Profile –

☐ Profile on independent customer reviews websites

e.g. www.allagents.co.uk, www.reviewcentre.co.uk

☐ Profile in the press

☐ Recommended by locals

Professional credentials –

☐ Membership to industry bodies e.g. ARLA/ TPOS

☐ Investors In People award, training award

☐ Others

Service offering –

☐ Let Only

☐ Property Management

☐ Ability to offer fringe services:

professional credit referencing, rental warranty & legal
expenses inventories, tenancy deposit scheme registration

☐ Longer term tenancies

☐ Terms and fees

☐ Refund policy if the tenant leaves early

☐ Willingness to negotiate on fees/added services

☐ Best ability to address your key concerns

☐ Overall value for money

Notes:

Notes:

Track record for maximising returns –

- ☐ Arranging longer term tenancies e.g. 18, 36 months
- ☐ Sealed bids experience – experience of handling multiple offers
- ☐ Conducting rental price reviews

Support from staff –

- ☐ Ability to answer questions, market knowledge
- ☐ Communication skills: email, phone, correspondence
- ☐ No. of staff dedicated to lettings
- ☐ NFOPP professional qualifications

Responsibility and accountability:

- ☐ Who will be your point of contact
- ☐ Will you have a dedicated property negotiator

Advertising – how they attract tenants –

- ☐ Visible To Let/Let By boards locally
- ☐ Newspaper advertising
- ☐ Listings on major property portals:
 - ☐ Rightmove
 - ☐ Zoopla
 - ☐ Primelocation
 - ☐ Gumtree
 - ☐ Others

Pro-active promotion:

- ☐ Database (no. of registered prospects)
- ☐ Frequency of phone outs, emails and text alerts

Service delivery, speed & convenience –

- ☐ Useful online services for landlords & tenants
- ☐ Facilities for property search:
- ☐ Receive Property Alerts to emails + mobiles
- ☐ Manage transactions via mobile devices:
- ☐ To book viewings online
- ☐ Online transport journey planners / commute times
- ☐ Favourites properties save button
- ☐ Tenants referencing online
- ☐ Landlord online account facilities

e.g. store rental statements,
read viewing feedback,
property marketing stats.

Accessibility –

- ☐ Office Opening hours: Open late? Out of work hours
- ☐ Most people need to view evening and weekends
- ☐ Availability/contactable:
- ☐ Hours can be contacted
- ☐ Ability to contact your
- ☐ Frequency progress updates

Risk management –

- ☐ How will your agent reduce and protect against:
- ☐ Ensuring your compliance with safety legislation
- late rental payments (arrears) percentage performance
- gaps between rentals (voids) percentage performance
- ☐ Tenant vetting –
- Which credit referencing is used
- Landlord referencing
- Experience with Guarantors

Aftercare / property management –

- ☐ 24 hour repairs service
- ☐ Competitive contractors' service
- ☐ Contracted out-service, sideline or agent owned
- ☐ Personal property account manager
- ☐ Property inspection frequency
- ☐ Dealing with damage to property
- ☐ Relet process and costs
- ☐ Relet rate statistics

Service level agreements (SLAs) / setting expectations –

- ☐ Frequency of progress updates
- ☐ Time from instruction to marketing
- ☐ Time taken to find tenant
- ☐ Time taken from finding tenant to letting/move-in
- ☐ 24 hours repairs service
- ☐ Any service promises
- ☐ Other

Overall communication and clarity –

- ☐ Lettings process from start to finish
- ☐ Timescales
- ☐ Responsibilities of all parties
- ☐ Setting expectations
- ☐ Terms of business
- ☐ Example tenancy agreements
- ☐ Complaints:-
Procedure, is it apparent



Appoint several letting agents

Appointing two or three of the top scoring letting agents creates competition and a sense of urgency To Let the property quickly for a good rent.

There is no such thing as Sole Agency for lettings so you can appoint as many letting agents as you like and also try to let it yourself. It's No Let, No Fee – though check the small print if you engage in any fringe services for which you may be charged.

Don't just choose the first tenant: because there are so many variables to a good Let. Allow some time for offers to come through from several letting agents to see which tenant is a good match for you. It can sometimes be down to chance which agent comes up with the first offer, which may not be the most profitable in the long run. For instance, the first tenant's furnishing requirements may be more onerous than subsequent offers.

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GREEN TEXT or  are clickable

Landlords' online resources and services

A summary of the key useful links within this guide, news sources and services

Find a professional High Street Letting Agent



The search offers the search option for 'licensed agents'.

Member letting agents must adhere to high professional standards, a Code of Conduct and Rules of Conduct. Members must have professional indemnity insurance and carry out continuous industry training. ARLA agents must also be members of The Property Ombudsman Scheme (TPOS), giving landlords reassurance in the event of a complaint.

verification by taking email and IP addresses, tracking and recording IP addresses so that suspicious usage patterns can be identified, investigated and removed.

Both negative and positive customer reviews are featured and count towards a customer service ranking for the estate agent. Member agents are billed as 'transparent' as they undertake to advertise all agents on their websites meaning that customers know in advance that they can have the final say about the service received from the agent. Landlords might find it handy to compare and contrast their local letting / estate agents at www.allagents.co.uk. Take up by agents has been sporadic and slow perhaps meaning that some letting agents are afraid to be judged by their customers' reviews. →



With over 60,000 independent customer reviews for estate agents across the UK, allagents is the UK's top website of its kind. The rather garish appearance of this website belies the real substance of its useful content, genuine customer reviews for estate agents across the UK.

Allagents features a search facility for agents by area and name along with a link to each agents independent customer reviews, where they exist. Allagents offers its users the reassurance of safeguards against fake reviews. Recent media headlines include bad publicity around the validity of reviews, meaning that many consumers will find it difficult to trust online customer testimonials. Accordingly review websites are getting better at

	ludlowthompson, E1 (City/Docklands Office/Branch) 3-5 Dock Street, Tower Hamlets, London, E1 8JN 020 7480 0120 Contact Agent Arrange a Valuation Properties for Sale Properties for Rent	337 reviews ★★★★★
	TheCityRooms.com, E1 144 Cambridge Heath Road, Bethnal Green, London, E1 5QJ 020 77 90 55 77 Contact Agent Arrange a Valuation Properties for Rent	17 reviews ★★★★☆
	Atkinson McLeod, E1 143 Leman Street, Tower Hamlets, London, E1 8EY 020 7488 5050 Contact Agent Arrange a Valuation Properties for Sale Properties for Rent	288 reviews ★★★★★
	Baird Eves, E1 234 Whitechapel Road Whitechapel, Tower Hamlets, London, E1 1BJ 020 7422 4000 Contact Agent Arrange a Valuation	No reviews Not rated.
	PG Estates, E1 66 Brick Lane, Spitalfields, London, E1 6RL	25 reviews ★★★★★

Example search result at www.allagents.co.uk letting agent search for London

Other consumer review websites include

www.reviewcentre.com

www.agenttracker.co.uk

www.referenceline.co.uk

www.agentright.com


www.ciao.co.uk

www.whichpropertyagent.co.uk

Property portal search

Search the UK's key property portals agents listings, for information on estate agents in each area. Zoopla includes the number of properties that each agent is advertising For Sale or To Let, which is a useful tool for landlords weighing up the most successful letting agents to Let their property.





Allen & Harris, Headington
Tel: 01865 804004 [Local call rate](#)

[Sales](#)

Allen & Harris was founded in 1966 when Mike Allen went into partnership with D.R. Harris. They opened their first office in Didcot and today we have over 40 offices covering the West & South West of England, South Wales and Central Scotland. As part of the Sequence Group, last year we sold over £3.8bn worth of properties, handling tens of thousands of moves and we currently manage over 7,000 properties, so when it comes to buying, selling, renting or letting we've got lots of experience.


Example search result Rightmove



Cheffins - Cambridge
Clifton House, 1-2 Clifton Road, Cambridge, CB1 7EA
Call 01223 261120 | [Contact agent](#) | [See all 6 branches](#)

Founded in 1825 Cheffins is one of the oldest and best known firm of Estate Agents, Chartered ... [more](#)

No. of properties for sale:	224	Avg. asking price:	£494,955	Avg. sale listing age:	17 weeks
No. of properties to rent:	48	Avg. asking rent:	£1,374 pcm	Avg. rental listing age:	6 weeks



Example agent search result Zoopla



A search for 'letting agents in (area),' will usually return the top agents/websites. Landlords can test/try searching on terms that tenants will use to see which agent websites come out top. Often these will be the main portals Rightmove and Zoopla, however this is not always the case e.g. 'flats to rent in Edinburgh' shows up a dedicated local portal Sthomes.com

Finding an Online Estate Agent

This is a growing area for customers seeking flat fees for a choice of tiered service. Typically online letting agents include everything you would get from a local estate agent in terms of marketing, referencing and agreements. However the property viewing appointments may need to be carried out by the owner/landlord - although the online agency will book these with the prospective tenants. Property management is not normally included, but some online estate agents are now including this service option.

[House simple](#)

[Emoov](#)

[Hatched](#)

[Express estate agency](#)

[Myonline estate agent](#)

Lettings resources for do-it-yourself landlords

Residential Landlord associations from free resources to membership only

[The National Landlords Association \(NLA\)](#) claims to be the leading association for private residential landlords in the UK, looking after the needs of single buy-to-let to multiple property portfolios.

[The NLA library](#) NLA members can access services such as online software, rental survey results and a resource of information for beginner landlords and experienced Buy-to-let investors.

[PIMS](#) Landlords and Letting Agents can join pims.co.uk to access expert knowledge and experience. Includes a Helpline seven days a week.

[Landlord zone](#) Rental property resource for both residential and commercial properties.

[Letlink](#) An online service for UK private residential lettings featuring essential information, lists of local letting agents for landlords or tenants, and free relocation advice.

[The Residential Landlords Association](#) providing landlords with a one stop resource centre of information, advice and essential landlord services.

property118.com Comprehensive list of landlord associations across the UK



Other handy sources for landlords –

[Property rental yield calculator](#)

[Consumer code for new build properties](#)

Professional tenant credit referencing

[Experian](#)

[Endsleigh](#)

[Veri-check](#)

Tenancy deposit scheme, government approved

[Deposit Protection Service \(Custodial and Insured\)](#)

[MyDeposits](#)

[Tenancy Deposit Scheme](#)

Buy-to-let & letting property news

[The Association of Residential Letting Agents UK news](#)

[UK wide lettings news from Landlord today](#)

For London, a dedicated news portal on buy-to-let

[Landlord news](#)

[Buy-to-let news](#)

The major property web portals

[Zoopla](#) – fast becoming the UK's top portal

[Primelocation](#)

[Rightmove](#) – the longest running property portal

Buy-to-let market research and statistics

[The history of buy-to-let from the Council for Mortgage lenders](#)

[The Council of Mortgage Lenders with buy-to-let statistics](#)

[LSL property services plc](#) – rents in England and Wales, market trends. Covers LSL branch network data only.

[ludlowthompson, London's Letting Agent](#) – Buy-to-let London Review Published quarterly including London rents in detail, mortgage trends, returns, arrears and voids. Covers the whole of the London market including its own data from branches across London.

[ARLA Members Survey of the Private Rented Sector](#)

[Office for National Statistics rental price reports](#)

Government information websites

[UK infrastructure planned improvements](#)

[Tenancy deposit scheme guidelines and approved schemes](#)

[Landlord responsibilities](#)

[Guidance Fire and furnishings regulations](#)

[Gaining possession of a privately rented property](#)

[Government guidelines to rental property paying tax](#)

Lettings legal links & related blogs

[Shelter's guidance landlords' obligations to tenants](#)

[A record with details letting's case law from notices, unlawful eviction, unfair terms and more](#)

[Anthony Gold landlord and tenant blog](#)

[Landlord law blog](#)

[Government guidance on gaining possession on an AST](#)

Buy-to-let mortgages

[Paragon](#) The UK's leading specialist provider of buy-to-let mortgages and insurance direct to professional landlords and residential property investors.

[ARLA mortgages comparison facility](#)

[Mortgages for Business](#) is an award winning independent mortgage broker

[Google mortgage comparison](#) A lending panel and facility to search the 'whole of the market'

Mortgage repayment calculators

[Whichmortgage buy-to-let calculator](#)

[Thisismoney mortgage calculator](#)

[The mortgage works](#) Free spreadsheet to work out gross and net profit work sheets. [Monthly](#) [Annual](#)



Lettings & property tax

[Government guidelines to rental property obligations](#)

[Tax insider detailing how lettings tax works](#)

[Government guidelines to the 'wear and tear' allowance](#)

[The wear and tear allowance explored in detail](#)

Insurance & rental warranty, legal expenses

[Landlords building insurance](#)

[Money.co.uk rental warranty comparison table](#)

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Comparison of investments

Annuity, cash purchase, mortgage purchase, property type

£200,000 to invest in buy-to-let or an annuity

Example show your returns for cash purchase versus mortgage and new build property versus second hand property.

Example 1 – Annuity

You have £200,000 to invest and decide to invest in a fixed rate annuity. Based on current rates (assuming the purchaser is aged 60), the annuity should pay around £10,000 per year for the life of the purchaser. Upon death, the annuity will be worth nothing.

Example 2 – One new build property, cash

You decide instead to invest your £200,000 in a new build property in London (breakdown: £191,174 purchase price plus purchase costs, repairs and maintenance of £8,826).

Based on current market rental yields, and costs, you should expect a net income of around £6,000 per annum. However, in this case the £6,000 is likely to rise annually with inflation, as rents increase (roughly) in line with inflation. The rental income will continue to accrue (to your heirs) after your death. Should you decide to sell the property, it could (based on forecast capital growth) be worth around £275,000 in 20 years time.

Example 3 – One second hand property, cash

You decide to invest your £200,000 in a second hand property in London, again paying cash for your investment (breakdown: £186,557 property purchase price plus purchase costs, repairs and maintenance of £13,443).

In this case you should again expect a net income of around £6,000 per annum, which again will rise with increases in market rents. Should you decide to sell after 20 years, the property could be worth around £280,000 – slightly higher than the new build property, due to the fact that most new build properties are slightly more expensive.

Example 4 – Two second hand properties, mortgage

You decide to invest your £200,000 in two second hand properties in London, financing the additional cost with a buy-to-let mortgage (£349,107 total purchase price plus purchase costs, repairs and maintenance of £25,446). You should expect, in this case, a net income of around £3,000 per annum, which will increase in line with increases in market rents. Should you decide to sell after 20 years, your properties could be worth around £520,000, after paying off the mortgage you would be looking at netting over £345,000 from a sale.

See spreadsheet worked examples page 2.



Comparison of investments		Example 1	Example 2	Example 3	Example 4
Annuity, cash purchase, mortgage purchase, property type					
Investment pot of £200,000					
Pension annuity versus property purchases cash, mortgage, second hand and new build					
	Notes	Annuity	One new build (Cash)	One second hand (Cash)	Two second hand (mortgage)
Property Details					
Purchase Price of Property	1		191,174	186,557	349,107
Mortgage Amount	2		-	-	174,554
Deposit amount (investment) required			191,174	186,557	174,554
Purchase Costs					
Stamp Duty	3		1,912	1,866	3,491
Legal Fees	4		1,500	1,500	3,000
Survey	5		750	750	1,500
*Repair/Maintenance Costs	6 & 7		4,664	9,328	17,455
Total Purchase Costs	15		8,826	13,443	25,446
Total Cash Invested in Property/Annuity		200,000	200,000	200,000	200,000
Rental Income (Gross)	8 & 9		8,728	9,328	17,455
Gross rental yield (on property value)	8 & 16	5.00%	4.57%	5.00%	5.00%
Ongoing Costs					
Repair/Maintenance Costs	10		500	1,000	2,000
Void Costs	11		- 364	- 389	- 727
Letting and Management Fees	12		1,746	1,866	3,491
Service Charge Costs	13 & 14		1,000	800	1,600
Mortgage Interest			-	-	8,728
Total annual costs			2,882	3,277	15,091
Rental Income (Net)		10,000	5,846	6,051	2,364
Net rental yield (on property value)			3.06%	3.24%	0.68%
Net yield (on cash invested)		5.00%	2.92%	3.03%	1.18%
Capital Returns					
Value of property after 20 years	17,18,19	-	273,139	277,214	518,755
Mortgage pay off (per £200k invested)			-	-	174,554
Net proceeds before tax (per £200k invested)			273,139	277,214	344,201
Increase in capital value in 20 years			81,965	90,657	169,648
CGT on gain	20	-	22,950	25,384	47,501
Net Gain after tax			59,015	65,273	122,146
Notes & Assumptions		Number			
New build purchase price has premium of	1	15.0%			
Loan to Value	2	50.0%			
Stamp Duty (assume purchases below £250k)	3	1.0%			
Legal fees on purchase assumed to be	4	£1,500			
Survey costs on purchase assumed to be	5	£750			
Repair /Maintenance costs upon purchase	6	5.0%			
Discount on repair/maint on new build prop	7	50.0%			
Gross Rental Yield	8	5.0%			
Premium on rental for new build property	9	5.0%			
Repair /Maintenance costs (ongoing) p.a.	10	£1,000			
Void Periods assumed to be 1/2 month p.a.	11	4.2%			
Letting & Management Fees	12	20.0%			
Service Charge costs p.a.	13	£800			
Premium on service charges for new build property	14	25.0%			
Mortgage Rate	15	5.0%			
Annuity Rate	16	5.0%			
Capital appreciation p.a.	17	2.0%			
Reduction in capital appreciation on new build prop	18	10.0%			
Period to look at (years)	19	20			
Capital Gains Tax Rate	20	28.0%			
*new build – allows for furnishings, curtains etc. Second hand property includes a refurb with new kitchen and bathroom					

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Buy-to-let profitability financial comparisons

**Letting contract lengths
short versus longer tenancy**

**Arrears and rental warranty
versus scenario without**

Lettings contract lengths

The comparison shows how over a 10 year period, the longer 36 month tenancy saves £5205 compared to the 12 month shorter term.

Income Projections for two contract lengths		short term	long term
		12 Month Contract	36 Month Contract
Initial contract details			
Initial Monthly rental		1,500.00	1,500.00
Contract period		12.00	36.00
Year 1			
Rental Income		18,000.00	18,000.00
Costs			
Rental Fee Inc VAT		-	-
Agreement Fee		-	-
Check in/out fee		-	-
Cost of void period at end of contract		-	-
Net Income		18,000.00	18,000.00
Year 2			
Rental Income		18,000.00	18,000.00
Costs			
Rental Fee Inc VAT		-	-
Agreement Fee		-	-
Check in/out fee		-	-
Cost of void period at end of contract		-	-
Net Income		18,000.00	18,000.00
Year 3			
Rental Income		18,000.00	18,000.00
Costs			
Rental Fee Inc VAT		-	-
Agreement Fee		-	-
Check in/out fee		-	-
Cost of void period at end of contract		-	-
Net Income		18,000.00	18,000.00
Year 4			
Rental Income		18,000.00	18,000.00
Costs			
Rental Fee Inc VAT		-	-
Agreement Fee		-	-
Check in/out fee		-	-
Cost of void period at end of contract		-	-
Net Income		18,000.00	18,000.00
Year 5			
Rental Income		18,000.00	18,000.00
Costs			
Rental Fee Inc VAT		-	-
Agreement Fee		-	-
Check in/out fee		-	-
Cost of void period at end of contract		-	-
Net Income		18,000.00	18,000.00

Year 6						
Rental Income			18,000.00	18,000.00		
Costs						
Rental Fee Inc VAT			-	-		
Agreement Fee			-	-		
Check in/out fee			-	-		
Cost of void period at end of contract			-	-		
Net Income			18,000.00	18,000.00		
Year 7						
Rental Income			18,000.00	18,000.00		
Costs						
Rental Fee Inc VAT			-	-		
Agreement Fee			-	-		
Check in/out fee			-	-		
Cost of void period at end of contract			-	-		
Net Income			18,000.00	18,000.00		
Year 8						
Rental Income			18,000.00	18,000.00		
Costs						
Rental Fee Inc VAT			-	-		
Agreement Fee			-	-		
Check in/out fee			-	-		
Cost of void period at end of contract			-	-		
Net Income			18,000.00	18,000.00		
Year 9						
Rental Income			18,000.00	18,000.00		
Costs						
Rental Fee Inc VAT			-	-		
Agreement Fee			-	-		
Check in/out fee			-	-		
Cost of void period at end of contract			-	-		
Net Income			18,000.00	18,000.00		
Year 10						
Rental Income			18,000.00	18,000.00		
Costs						
Rental Fee Inc VAT			-	-		
Agreement Fee			-	-		
Check in/out fee			-	-		
Cost of void period at end of contract			-	-		
Net Income			18,000.00	18,000.00		
Total Gross Income			180,000.00	180,000.00		
Total Net Income			180,000.00	180,000.00	- saving with 36 month deals	
Explanations						
Year one shows higher upfront costs for the 36 month tenancy because of letting agency fees.						
However in year two and three profitability is greater than the 12 month tenancy because there are no relet fees or empty periods whilst reletting the property.						
Throughout the 10 year period the table repeats the same cycle.						
The assumption has been made that annual rent reviews are built into the 36 month tenancy agreements.						
Assumptions						
Rental fee of		10%				
Assumed number of weeks void period		1				
Fixed agreement fee of		180				
Fixed check in/out fee of		120				
Yearly rental increase		3%				
VAT multiplier		1.2				
Rent review built into 36 month contracts						
Assumed rental fee is based on monthly rent at point of the agreement						
Assumed 12 month contract in year 10 for both for purpose of comparison over set period						
Arrears and rental warranty versus without cover						
(see other sheet)						

[illegible]

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