THE TEN TIPS OF BUY-TO-LET

PROPERTY SECRETS

Welcome

Buy-to-let is much tougher than it once was. A tax crackdown on buying property investments and a tax raid on landlord's rental income has seen to that.

But for many Britons the idea of investing in property still appeals, as they trust bricks and mortar and may feel that they can add value to a home in a way they can't to an investment fund.

A world of low interest rates helps polish the attraction of buy-to-let. Returns on savings are low and mortgages are cheap.

But interest rates are forecast to rise and the 3 per cent stamp duty surcharge eats a large amount of your money, while the loss of full mortgage interest tax relief has eaten into returns.

Buy a £150,000 home and you will lose £5,000 in tax on stamp duty and your rental revenue will now be taxed not your profit.

Nonetheless, buy-to-let remains popular. So if you are considering it, or are an existing landlord looking to up your game, here are our top ten buy-to-let tips - in the This is Money long-running essential guide to property investing and being a good landlord.

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Why invest in buy-to-let?

As an income investment for those with enough money to raise a big deposit buy to let looks attractive, especially compared to low savings rates and stock market swings.

Meanwhile, the property market bouncing back after its financial crisis lows has encouraged more investors to snap up property in the hope of its value rising.

House price rises have priced most people out of London property investment, but some areas of the UK are still to regain the ground lost after the financial crisis slump and investors are increasingly looking there for stronger returns.

Mortgage rates at record lows are helping buy-to-let investors make deals stack up.

But beware low rates. One day they must rise and you need to know your investment can stand that test.

There is also a tax rise being put in place, as buy-to-let mortgage interest relief is axed and replaced with a 20 per cent tax credit.

Additionally, since April 2016 landlords now have to pay an extra 3% stamp duty on property purchases.

It's also worth noting that the Bank of England has buy-to-let mortgages in its sights.

Yet despite the tax changes and potential for buy-to-let mortgage costs to rise, there are positives.

Greater demand from tenants, rents that should rise with inflation and the long horizon for interest rate rises, mean many investors are still tempted by buy-to-let.

If you are planning on investing, or just want to know more, we tell you the ten essential things to consider for a successful buy-to-let investment below.

Like any investment, buy-to-let comes with no guarantees, but for those who have more faith in bricks and mortar than stocks and shares below are This is Money's top ten tips.

1. Research the market on buy-to-let

If you are new to buy-to-let, what do you know about the market? Do you know the risks, as well as the benefits.

Make sure buy-to-let is the investment you want. Your money might be able to perform better elsewhere.

In recent years a high-rate savings account would beat most investments. Now rates are lower, but investing in buy-to-let means tying up capital in a property that may fall in value.

This compares to the possibility of a 5% annual return from an income-based investment fund, or 3 per cent on a fixed rate savings account.

Remember that the return from an investment in funds, shares or an investment trust through an Isa will see you escape tax on income and get capital growth tax free. You will also have the ability to sell up quickly if you want.

The flipside is that you cannot buy an unloved investment fund and set about renovating it and adding value yourself.

Investing in buy-to-let involves committing tens of thousands of pounds to a property and typically taking out a mortgage. When house prices rise, this means it is possible to make big leveraged gains above your mortgage debt, but when they fall your deposit gets hit and the mortgage stays the same.

Property investing has paid off handsomely for many people, both in terms of income and capital gains but it is essential that you go into it with your eyes wide open, acknowledging the potential advantages and disadvantages.

If you know someone who has invested in buy-to-let or let a property before, ask them about their experiences - warts and all.

The more knowledge you have and the more research you do, the better the chance of your investment paying off.

2. Choose a promising area to invest in property

Promising does not mean most expensive or cheapest. Promising means a place where people would like to live and this can be for a variety of reasons.

Where in your town has a special appeal? If you are in a commuter belt, where has good transport? Where are the good schools for young families? Where do the students want to live?

You need to match the kind of property you can afford and want to buy with locations that people who would want to live in those homes would choose.

These questions might sound overly simplistic, but they are probably the most important aspect of a successful buy-to-let investment

In most cases people tend to invest in property close to where they live. On the plus side, they are likely to know this market better than anywhere else and can spot the kind of property and location that will do well. They also have a much better chance of keeping tabs on the property.

Yet it is also worth bearing in mind that if you are a homeowner then you are already exposed to property where you live - and looking for a different type of home in a different area might be a good move.

3. Do the maths on buy-to-let

Before you think about looking around properties sit down with a pen and paper and write down the cost of houses you are looking at and the rent you are likely to get.

Buy-to-let lenders typically want rent to cover 125 per cent of the mortgage repayments - often now 150 per cent - and most now demand 25 per cent deposits, or even larger, for rates considerably above residential mortgage deals.

The best rate buy-to-let mortgages also come with large arrangement fees.
Once you have the mortgage rate and likely rent sorted then you must be clinical in deciding whether your investment work out?

Don't forget to factor in maintenance costs.

What will happen if the property sits empty for a month or two?

These are all things to consider. Make sure you know how much the mortgage repayments will be and if it is a tracker allow for rates to rise.

4. Shop around and get the best buy-to-let mortgage

Do not just walk into your bank and building society and ask for a mortgage. It sounds obvious, but people who do this when they need a financial product are one of the reasons why banks make billions in profit.

It pays to speak to a good independent broker when looking for a buy-to-let mortgage. They can not only talk you through what deals are available but they can also help you weigh up which one is right for you and whether to fix or track.

You should still do your own research though, so that you can go into the conversation armed with the knowledge of what sort of mortgages you should be offered.

This is Money's carefully chosen mortgage broker partner London & Country offers fee-free advice, you can find out more and use our comparison tool to find the best buy-to-let mortgage for you below.

Click to use the Mortgage Comparison Tool

5. Think about your target tenant

Instead of imagining whether you would like to live in your investment property, put yourself in the shoes of your target tenant.

Who are they and what do they want? If they are students, it needs to be easy to clean and comfortable but not luxurious.

If they are young professionals it should be modern and stylish but not overbearing.

If it is a family they will have plenty of their own belongings and need a blank canvas.

Remember that allowing tenants to make their mark on a property, such as by decorating, or adding pictures, or you taking out unwanted furniture makes it feel more like home.

These tenants will stay for longer, which is great news for a landlord.

It is also possible to take out an insurance policy against your tenant failing to pay the rent, usually known as rent guarantee insurance. This can cost as little as £50, and is available as a standalone product from a specialist provider, or as part of a wider landlord insurance policy.

6. Don't be greedy, go for rental yield and remember costs

We have all read the stories about buy-to-let millionaires and their huge portfolios.

But while you may expect long-term house price rises, experts say invest for income not short-term capital growth.

To compare different property's values use their yield: that is annual rent received as a percentage of the purchase price.

For example, a property delivering £10,000 worth of rent that costs £200,000 has a 5% yield.

Rent should be the key return for buy-to-let.

Most buy-to-let mortgages are done on an interest-only basis, so the amount borrowed will not be paid off over time.

This is tax efficient, as you can offset mortgage payments against your tax bill.

However, whereas once you could offset your entire mortgage cost against tax that is now being eaten into and by 2020 you will get a maximum 20 per cent tax credit on your mortgage payments.

If you can get a rental return substantially over the mortgage payments, then once you have built up a good emergency fund, you can start saving or investing any extra cash.

Remember though, people rarely buy a home outright and they come with running costs, so mortgage costs, maintenance and agents fees must be worked out and they will eat into your return.

You may want to consider whether buy-to-let still beats an investment fund or trust once these costs are taken into account.

Once mortgage, costs and tax are considered, you will want the rent to build up over time and then potentially be able to use it as a deposit for further investments, or to pay off the mortgage at the end of its term.

This means you will have benefited from the income from rent, paid off the mortgage and hold the property's full capital value.

7. Look further afield or doing a property up

Most buy-to-let investors look for properties near where they live. But your town may not be the best investment.

The advantage of a property close by is being able to keep an eye on it, but if you will be employing an agent anyway they should do that for you.

Cast your net wider and look at towns with good commuting links, that are popular with families or have a sizeable university.

It is also worth looking at properties that need improvement as a way of boosting the value of your investment. Tired properties or those in need of renovation can be negotiated hard on to get at a better price and then spruced up to add value.

This is one way that it is still possible to see a solid and swift return on your capital invested. If you can add some value to a home straight away then it gives you a greater margin of safety on your investment

However, remember to ensure that the price is low enough to cover refurbishment and some profit and that you allow for the inevitable over-run on costs.

A good rule to follow is the property developers' rough calculation, whereby you want the final value of a refurbished property to be at least the purchase price, plus cost of work, plus 20 per cent.

8. Haggle over price when investing in property

As a buy-to-let investor you have the same advantage as a first-time buyer when it comes to negotiating a discount.

If you are not reliant on selling a property to buy another, then you are not part of a chain and represent less of a risk of a sale falling through.

This can be a major asset when negotiating a discount. Make low offers and do not get talked into overpaying.

It pays to know your market when negotiating. For example, if the market is softer and homes are taking longer to sell you will be better able to negotiate. It is also useful to find out why someone is selling and how long they have owned the property.

An existing landlord who has owned a property for a long time - and is cashing in their capital gains -may be more willing to accept a lower offer for a quick sale than a family that needs the best possible price in order to afford a move.

9. Know the pitfalls of buy-to-let

Before you make any investment you should always investigate the negative aspects as well as the positive.

House prices are on the up right now but growth has slowed and they could fall again. If property prices dip will you be able to continue holding your investment?

Meanwhile, rates are low at the moment and that is encouraging people to invest with rent comfortable covering the mortgage, but what will you do when rates rise?

Consider too the standard variable rate you may move to after a fixed rate period. What will happen if you can't remortgage?

Even in popular areas properties can sit empty. One rule of thumb many buy-to-let investors apply is to factor in the property sitting empty for two months of the year - this gives a substantial buffer.

Homes often need repairing and things can go wrong. If you do not have enough in the bank to cover a major repair to your property, such as a new boiler, do not invest yet.

It's also essential to read up on tax on buy-to-let. It now incurs an extra 3 per cent stamp duty surcharge and soon all mortgage interest will no longer be able to be set against rental income before income tax is calculated. Instead a 20 per cent tax credit will be phased in.

10. Consider how hands-on a landlord you want to be

Buying a property is only the first step. Will you rent it out yourself or get an agent to do so.

Agents will charge you a management fee, but will deal with any problems and have a good network of plumbers, electricians and other workers if things go wrong.

You can make more money by renting the property out yourself but be prepared to give up weekends and evenings on viewings, advertising and repairs.

If you choose an agent you do not have to go for a High Street presence, many independent agents offer an excellent and personal service.

Select a shortlist of agents big and small and ask them what they can offer you.

If you are considering going it alone look at where you will advertise your property and where you will get documents, such as tenancy agreements from.

It really pays to look after your tenants. Do this and they will look after you.

The biggest drag on many buy-to-let landlord's investment returns is the void period. A time when you don't have anyone in the property. Good tenants who want to stay help avoid this - and if they move on they may even recommend your property to someone they know.

Keep up with maintenance, make sure your property is a nice place to live and try and build a good personal relationship with your tenants.

THE BUY-TO-LET TRAPS

BONUS SECTION…

PROPERTY SECRETS

How to avoid the classic mistakes that mean investing might not pay off

The buy-to-let sector has experienced a resurgence in recent years as investors look for income in the low interest rate environment - and hunt for growth off the back of house prices rising again.

Buy-to-let has been a great investment for many people, but for some it has been a disaster that has cost them thousands.

Those considering investing in buy-to-let - or hoping to improve the returns on their existing properties - need to make sure they aren't making common mistakes.

We outline the classic errors to avoid to make sure you get the best from buy-to-let - and how to look after your tenants so they look after you.

Solid rental returns should be the backbone of successful buy-to-let investing and an improving mortgage market means more people able to buy and less demand for lettings.

There are still a lot of people who find themselves locked out of home-ownership though and the most recent ONS English Housing Survey showed 19 per cent of people renting privately in 2014.

More potential homebuyers have been looking to rent, as they are put off or cannot yet afford a deposit for their first home, due to stagnant wages and lenders demanding larger deposits for the best mortgages.

These factors, coupled with rising house prices, should have meant an easier ride for landlords but it pays to be cautious and realistic.

According to property expert Vicki Wusche, your properties need to be delivering a positive cash flow each month. This means rent comfortably beating your mortgage costs and avoiding costly void periods - months when your property isn't rented out - that could see you lose thousands in one fell swoop.

It is also important to have extra cash to cover maintenance or periods without tenants. If you are only just breaking even, or making a loss, there are steps you can take.

Don't buy the wrong property for the wrong price

Location is a vital factor when becoming a landlord.

You need to consider the type of rental income you will get in an area as well as the overall return you will get on the property.

It can be tempting to choose a property near where you live, as it would be easier to keep an eye on it.

But your area may not be the best for property prices or rental yields.

It may be worth looking further afield for better rental returns and appointing an agent to look after a flat or house if you cannot get to them.

You need to balance where rental returns and demand is strong against the cost of investing. London homes rent in days or even hours, but high house prices make buying in very expensive and keep a lid on yields.

Likewise, you need to watch out for areas that have seemingly temptingly high yields but low demand for property.

Ms Wusche explains: ‘It’s vital to be clear about your strategy when investing. The investment should generate cash flow – even if you also intend to benefit from the capital gain. You should ask what tenants would want to live in this property and what are they likely to pay in rent and cost in lost income and voids.’

Find the right tenant

Insurance broker Simply Business says your tenants are the 'bedrock' of your buy-to-let business so it is important to vet your potential tenant so you are confident that they will look after your property and pay rent regularly and on time.

It really pays to look after your tenants. Do this and they will look after you.

The biggest drag on many buy-to-let landlord's investment returns is the void period. A time when you don't have anyone in the property. Good tenants who want to stay help avoid this - and if they move on they may even recommend your property to someone they know.

Keep up with maintenance, make sure your property is a nice place to live and try and build a good personal relationship with your tenants.

Other things you can think about

- Research the potential to rent the property as a multi-let or house of multiple occupancy.
- Speak to your letting agent about refurbishing the property and letting to ‘better’ tenants
- Speak to the council about joining their schemes to house benefit tenants and get a guaranteed rent.

Don't forget to manage your income

As a landlord you have a choice of whether to use a lettings agent to help manage your property and pay their fee.

Alternatively, you could save on letting agents' fees by becoming a DIY landlord. But remember if you want to save on letting agent fees, you need to be willing to take on all the things they would usually do for you.

Being a landlord is like running a business. Your main source of income in this business is rent, so it is vital to make sure this is paid on time and is the right amount.

It is also possible to take out an insurance policy against your tenant failing to pay the rent, usually known as rent guarantee insurance.

This can cost as little as £50, and is available as a standalone product from a specialist provider, or as part of a wider landlord insurance policy, available from This is Money's landlord insurance finder below.

Click to use the Landlord Insurance finder Tool

Ms Wusche explains: 'Whether you self-manage or use a letting agent it is vital to have a system that triggers an alert when your rent is due. If rent is not paid on time you need to take, immediately, appropriate action to get the rent back up to date.'

Be organised

Remember that your letting agent is paid to monitor your property, so think about how you can make yourself their preferred client. Answer calls and emails straight away. Don't pester them but be professional. Help them to like you and want to work with you

Make a note in diary or phone when your rent is due – ON THAT DAY check your bank and if payment is not received query it.

Be prepared to work with a tenant to get them to repay any debts rather than opt for immediate eviction which costs money and loses you income.

You are not maintaining your property

If you want to let a property then it must be safe and in a good state of repair - and it has to stay that way.

This means that if a pipe bursts, the boiler packs up, or a leak appears, you are likely to get a call to get it fixed.

You can't just leave these things until you can get round to them. They need to be sorted asap.

This is a classic area of dispute between landlords and tenants, so try not to fall into the trap of not doing things that you should.

Maintaining a good relationship with your tenants is essential for running a good property investment and if you have to bite the bullet and pay for repairs you need to just accept that as part and parcel of being a landlord.

Ms Wusche says: ‘We are providing homes for people. I would not tolerate living in damp or untidy conditions so why should my tenants. If you do not respond to maintenance calls quickly your tenants will leave. For a repair that might cost £250 you could lose £400-£650 in rent.'

Five tips to be a better landlord

Make sure the property is fit to rent on day one. This reduces maintenance and repairs throughout the year while tenants are in place.

Agree with the letting agent that any maintenance requests concerning safety, heating, water or light up to a value of £300 are carried out immediately and reported to you.

Consider moving your mortgage. Rates are near record lows at the moment and you could save hundreds of pounds.

Establish a system where the letting agent sends you a copy of their inspection reports on a quarterly or half yearly basis.

If this seems onerous or your life is too busy then maybe this year would be a good year to sell your property. Benefit from the capital gain, if you have one, and maybe put your money elsewhere.