
Social Buy To Let Secrets

The Secrets of Guaranteed Yield

By J C Cheong

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1 INTRODUCTION

There are plenty of people around offering you a way to turn your savings into a goldmine overnight. This isn't one of them. What this book is, is a step-by-step guide to low-risk, high-yield investment in social housing.

I'll set out the arguments for and against social housing and tell you exactly what it is and how it works. But first a few words about why I've chosen to invest my own money in social housing.

Before investing in property of any kind, social or not, you have to have confidence in the long-term stability of the property market in the country where you're investing.

Long-term is the key thing to note here, and in the UK, with high employment, a strong economy and low interest rates, I'm positive that over 15 years or longer, property is, generally, a good investment. Of course, you can still make mistakes with individual properties, but on the whole, I'm confident that when I want to sell in a decade or more time, I will be making a healthy profit.

You need to believe that too if you're investing in property.

If you don't, then social housing isn't for you, and neither is private buy-to-let. But, assuming you share my long-term optimism for the market, let me tell you in a nutshell why social housing is my passion.

Social housing provides a guaranteed-yield alternative to private letting, and avoids some of the big risks involved in private lets – how will you cover the mortgage if your tenant moves out after six months and you can't find another in a hurry? What if the tenants don't pay the rent? Who's going to pay for the stained carpets and broken chairs? What if they keep their last month's rent to get their deposit back? And, you don't need to pay estate agents to manage the property for you.

Social housing means you don't have to worry about any of these things. Leases are long – typically three to five years, and you get your rent and council tax paid by a reliable source, even if the property is empty.

Now is an especially good time for investors to consider social housing, because rental yields in the UK are generally low – around 5.5%. In my experience, yields for social housing are usually higher than this, although the big attraction is not necessarily a higher yield but a GUARANTEED one.

More of the detail later.

This book will show you exactly what I have done, and what you need to do, if you want social housing to help you achieve financial freedom.

2 WHAT IS FINANCIAL FREEDOM, AND HOW CAN YOU GET IT?

What exactly is financial freedom? Of course, having a couple of million sitting in the bank, earning £2,000 a week interest for you to live on would certainly count as financial freedom. I can't honestly say I'm in that category myself just yet!

But, my current state of financial independence means that I can stop working, and I can still pay my bills, my mortgage, my council tax, food, and holidays. How can I do this? Because my 'passive income' exceeds my expenses.

Passive income is money you get that doesn't involve you doing any work or spending any time on it. This can be in the form of interest from banks, profits or dividends from a business, profits from shares, and rent from buy-to-let properties.

If I have passive income exceeding my expenses, then I don't need to work to cover my living costs. If I choose to work, that gives me spending money for whatever takes my fancy. If financial freedom is your goal, you need to be clear at the outset about what you spend every month, before you try to work out how to cover those costs.

Take me, for example. I can cover my expenses with £1,500 a month. I get an income of average £300 from a buy-to-let property per month. So, I need 5 properties that give me £300 each to become financially free.

Of course, your expenses can go up, and if you wish to remain financially independent, you need to increase your passive income as your expenses rise.

I'm a registered optometrist/optician and earn a good living. And, I quite enjoy my work, which earns me £300 a day if I want it to. When I want to buy a new iPod, I work for a few hours. The point is that what my work earns me is spending money, after my expenses are covered by my investment properties.

Financial freedom means having something everyone craves – more time. For some people, it means being able to pack in a job they hate and spend more time gardening, golfing, shopping, playing with your children or whatever. For others, it's just about being able to strike more of a balance between work and the rest of your life.

If this appeals to you, then social buy-to-let housing could well be what you've been waiting for.

Social housing can be a terrific, reliable source of passive income. But, it does require some effort at the outset, to get it going. This guide will show you what you need to do.

2.1 How I've Used Social Buy-To-Let To Get Financial Freedom

I thought you might be interested to know a little bit about my own property investments before we get into the hows and whys of social buy-to-let.

I'm 30 years old and bought my first property in 2001, and I bought it to live in. It was an ex-local council 3-bed maisonette in Islington. It cost me £172,000, and my mortgage on it was £148,000.

In 2002 I moved to Tower Hamlets. I didn't sell the Islington property, as I chanced upon social buy-to-let and let out the property through RSL Pathmeads. It gives me £310 rent per week, or £1,343 per month. My interest-only mortgage repayments and costs come to £845, so I have positive cash flow of £498 from the property.

I realised how good an investment this was, and remortgaged the property at a value of £210,000. This gave me a new mortgage value of £178,000, and £30,000 to reinvest, which became the deposit on my next property.

I used the money to buy another 3-bed maisonette nearby, in late 2002, as Pathmeads were still looking for Islington properties. I paid £180,000, and the rental income is £325 per week, or £1,408 per month. The mortgage repayments and costs come to £970, giving me positive cash flow on the property of £438.

Concentrating on Islington, in 2003 I bought a 1-bedroom flat after agreeing rental terms with Pathmeads. When I actually took possession, I found Pathmeads no longer needed it and had to let it on the private market. You don't need to risk this happening to you, though. See [Learn from my mistakes – demands do change.](#)

A year later, Pathmeads' needs had changed again so I put it with them. I paid £135,000 for the place and had a loan of £115,000. The mortgage and other costs come to £600 a month, the rental income is £195 per week, or £845 a month, giving me cash flow of £245 a month.

Pathmeads stopped needing Islington for a couple of years, from 2003, so I started looking elsewhere. They needed places in Brent, so I started house-hunting in Brent and also contacting other RSLs.

In 2004 I bought a 2-bed property in Brent for £167,000 with a loan of £140,000. The interest payments and costs on the place come to £720 a month. Rental income is £230 per week, or £996 per month, giving me cash flow of £276.

I then bought a 2-bed place in Hillingdon, which in 2004 cost me £165,000, with a loan of £140,000. The mortgage and costs come to £700 a month, and the rent is £205 per week, or £888 per month. The cash flow from this place is not great - £188 a month – but it's still positive, and that's OK with me.

My total monthly rental income is £5,480, and after all the mortgages and costs are covered, it gives me cash flow every month of £1,600. This covers the mortgage on my own property – a one-bed in Greenwich Millennium Village that I bought for £195,000 – and my basic living expenses.

I did look at using the Tower Hamlets property as a social buy-to-let after I moved to Greenwich. Pathmeads do have properties there they use for social letting, but the rent just didn't stack up, so I sold the place for £228,000 – a £20,000 capital gain in a year and a half. I didn't have to pay capital gains tax on this, as it had been my primary home. See [Capital gains tax \(CGT\)](#) for more information on this.

I did attempt to buy a 2-bed student let in Barbican next to the University for £185,000, but due to the fact it was high rise and ex-council, I was unable to get a mortgage and the deal fell through. See [What not to buy](#) for more on high rises, and [A pitfall to avoid with ex-council housing](#).

While my essential living costs are covered by the cashflow from my rental properties, I do still work, and usually I work full time. I am an optician and can earn good money, and while I'm still young, I think it's worth making the most of my earning potential while I keep an eye out for other properties to invest in.

My plan is to gradually have the passive income from my buy-to-let properties build up and replace the money I get from working. In the longer term, I hope to renew the leases I have with housing associations every five years, and ultimately sell the places in between 15 and 25 years time, when by then, the capital growth will be rather nice too.

Other investments in my portfolio include overseas property. I've bought two places in Spain, one of which I've sold, and the other is let. I also have an off-plan in Croatia that's not yet completed.

As a bit of a punt, I've also bought 2 plots of greenbelt land that are awaiting planning permission. These I see as an investment over about five to seven years.

Over the years I have tried dabbling in shares, but not successfully and it did lose me some money. I'm sticking with property now, with a keen focus on social buy-to-let.

3 WHY BUY-TO-LET? ISN'T IT TOO LATE?

Property investment's appeal is two-fold: the money you make comes from both capital appreciation and rental income. This book concentrates on getting your property let and the rent guaranteed, but rent and capital appreciation go hand in hand.

If I ask you whether you think in 15 years time, you will be paying more or less for houses, what will you say? I'm sure you'll say more.

Population increases, housing shortages, basic demand-and-supply conditions and of course history - property values normally double every 7 to 10 years – tell you this should be the case. In the past five years, property price growth has been far stronger even than that.

Social buy-to-let is not primarily about capital appreciation, however. I consider it a big bonus, after all the rental income.

If you do not feel that property is the way forward, though, I won't try to convince you otherwise.

You need to be sure that this is what you want to do, then I can show you how to do it. Otherwise, you will need to seek your fortunes elsewhere.

I've chosen property because for me, it makes the most sense. I burnt my fingers on shares and options, I was silly enough to venture too late into multi-level marketing, could not find the pot of gold in internet marketing, and have wasted my money on lottery tickets.

I don't want to devote all my waking hours to running a business either. Time is, after all, a valuable commodity in itself.

Property has been kind to me. While I have made a few mistakes over the years, which you will benefit from later on in this book, I have not lost a penny on property overall, and, as I've said, I make a good living from it.

It's definitely not too late for you to do the same. Sure, price increases in some parts of Britain have slowed down, and there may be a period of slow growth or none at all, but if you take a long-term view of property investment, it's a solid one, and one that can also give you a good income in the short term.

But, you do need to know what you are doing. Knowledge is absolutely key.

4 So, What Is Social Housing?

Social housing is letting a property to people who are entitled to subsidised housing from their local council. The council, or an associated body, pays you the rent, finds the tenant and takes care of it all. Private landlords need simply to supply the kind of properties that the local authorities in their area are looking for.

The big myth – social tenants are a risk

The thing that puts most private landlords off the idea of social housing is that they have a preconceived idea about who their tenants are going to be.

Drug addicts, asylum seekers, homeless and jobless people, basically people they consider to be of a lower class than themselves, and not the kind of people they want to let loose in their property.

‘How are they going to pay the rent?’ they ask. ‘Are they going to trash the place? Trust me, I have seen many students in privately rented properties, and for some of them, their deposits didn’t the cost of damage they made to the properties.

4.1 The Truth About Social Housing – Who Your Tenants Really Are

The truth of the matter is that this preconceived idea about social tenants could not be further from the truth.

I have visited my tenants and most of them are couples with children, or single mothers. If you’re still worried, it might interest you to know that most asylum seekers and people who are sponsored to be in the UK cannot get Housing Benefit, and therefore can’t be housed in the properties we’re talking about.

You don’t have to visit your tenants, by the way. The housing associations that let your property for you send people in for home visits to check on it. See [Checks On Tenants](#).

Once the lease has been signed and the rent starts coming in, we hope not to hear anything from the RSL or the tenant for the next few years. You’ll usually get notification of a rent review late in the lease period – usually at the beginning of the fourth year in a five-year lease. Usually this leads to an increase in the rent, but the rent can be left where it is. There is a chance, in theory, that the rent will be lowered, but I’ve not ever heard of this happening.

If you don’t hear anything, that means your property is fine and there are no problems. However, in reality, you are likely to receive letters every now and then from the RSL’s maintenance department.

4.2 Why It Doesn't Matter Who Your Tenants Are Anyway

Who cares who your tenants are anyway?

This might sound like a silly thing to say, but there's an important point to be made here about social housing.

The tenants get their housing benefits, but it's not the tenant who you rely on to pay you every month. In fact, they don't pay you at all.

You are paid by Registered Social Landlords or RSLs, sometimes also called Housing Associations. The council organisation you let the property to, in other words, pays your rent. Nothing to do with the tenants at all.

So as long as the money keeps coming in, do you really care who stays in your property?

I hear you ask, 'What if they trash the place?' No, they won't. They may lose their housing benefits if they have anti-social behaviour against their names. And, you are covered by the RSLs against the cost of any damage caused by the tenants anyway. I'll explain this later in more detail, see [Who's Responsible For What?](#)

4.3 How Much Money Can I Expect To Make?

The answer to this question is that it varies a lot, depending on the council/borough you're in, and, often, on the rent negotiator the RSL sends out to give you a rent quote.

For instance, I had my 3-bed in Islington valued at £310 per week by the local RSL, and my next-door neighbour had her near-identical property valued by the same council (probably by a different rent negotiator) for £325.

Here are some figures based on current selling prices and rent quotes being supplied by London's biggest RSL, Pathmeads, in early 2007.

Bear in mind that average yields for private landlords are currently 5.5% to 6%.

In Islington

2 bedrooms

- Rent £180 - £230 per week
- Selling prices from £160,000 (ex-local council) to £300,000+. For a good social buy-to-let, about £180,000
- Yield: 5.2% to 6.6%
- Verdict: Solid investment if you find a good ex-council property

3 bedrooms

- Rent £250 to £320 per week
- Selling prices from £180,000, average £200,000 for ex-local council flats
- Yield: 6.5% to 8.3%
- Verdict: A better bet, if you can afford a bigger place

4 bedrooms

- Rent £310 to £360 per week
- Selling prices from £200,000, average around £220,000
- Yield: 7.3% to 8.5%
- Verdict: Even better still

In Harrow

4 bedrooms, 2 reception rooms

- Rent £185 to £275 per week
- Selling prices between £280,000 to £500,000
- Yield: 1.9% to 5.1%
- Verdict: A big no-no for social property. It just doesn't stack up

In Westminster

3 bedrooms

- Rent around £320 per week
- Selling prices £325,000 upwards
- Yield: 5.1% at best
- Verdict: Just under private letting average

4 bedrooms

- Rent around £360 per week
- Selling prices £350,000 upwards
- Yield: 5.3%
- Verdict: Acceptable

In Brent, depending on postcode

2 bedrooms

- Rent between £170 - £208
- Selling prices from £190,000 (ex-council), private from £220,000
- Yield: 4.6% to 5.7%
- Verdict: Not bad – about the same as private letting

3 bedrooms

- Rent between £225 - £282
- Selling prices from £199,950 (ex-council), private from £230,000
- Yield: 5.8% to 7.3% for ex-council property
- Verdict: Great, better than in the private market

4 bedrooms

- Rent between £267 - £335 per week
- Selling prices from £299,950, few ex-council properties currently on market
- Yield: 4.6% to 5.8%
- Verdict: Acceptable

As you can see, the yields really become attractive if you look at buying ex-council properties, especially in London.

Still, the big draw of social buy-to-let is that the yield is GUARANTEED. So, even if the rent is slightly lower than you might get in the private market, it's a figure you can bank on month after month, and that has an attraction of its own.

4.4 Some Definitions, Before We Carry On

4.4.1 Registered Social Landlords (RSLs)

These are sometimes called housing associations, and they're basically your tenants. They don't live in your flat, obviously, but they're the people paying your rent.

If you run your buy-to-let like a business, they are your customers, the clients that put money in your account. Not the individuals who collect the Department of Social Security (DSS) housing benefits.

RSLs are organisations that provide homes for social tenants. They have an obligation to pay you every month under the terms of the tenancy agreement you sign with them. They work closely with the local authorities and are regulated by the Housing Corporation.

4.4.2 Social Tenants

These are the people who live in your properties, but, crucially, not the people who pay you.

They still have to pay rent, but a smaller proportion of the market rates, and they don't pay it to you. You will still get the market rate and, in fact, you can get a lot more than the market rate.

The tenant generally claims part or full Department of Social Security (DSS) Housing Benefit. The Housing Benefit and tenant's rent is paid directly to the RSL. All tenants are provided with a non-secure tenancy whereby an Assured Shorthold Tenancy agreement or licence is drawn up.

That's the best part of social buy-to-let. You will be dealing with an organisation, a corporation, with different departments for acquisitions, safety, maintenance and finance, not individuals who may or may not be reliable payers of their rent.

In effect, your 'tenants' are professional people who are dedicated to giving what they call excellent 'customer services' to landlords. You need never even speak to your tenants if you don't want to.

4.4.3 Local Authority

This is the Local Council, the people who send you a council tax bill every year, and the people who control the level and type of social housing within their area.

The housing authorities or RSLs that you'll be working with basically ask Local Authorities what types of accommodation they need in the area.

4.4.4 Housing Corporation

The Housing Corporation is a non-departmental public body sponsored by the Office of the Deputy Prime Minister. Their role is to fund and regulate the provision of affordable homes in England. (see www.housingcorp.gov.uk) for more on who they are.

Social housing is not just restricted to England, though. On the Housing Corporation's web site, you will find the regulators of RSLs, and therefore of social housing, in Northern Ireland, Scotland and Wales.

The government's National Affordable Housing Programme (NAHP) is making £3.9 billion available to fund 84,000 new affordable homes for those in need between 2006 and 2008. As a private investor, you can't apply directly to the Housing Corporation for a grant, but the RSLs certainly will be doing just that.

And if the RSLs have millions more to invest, they'll be looking for landlords like you to give them ways to spend it on affordable housing. You could look at social housing as a chance to claim your share of this £3.9 billion.

4.4.5 Private Sector Leasing Schemes

These are schemes you use to let your property to social tenants. Landlords lease their properties to an authorised third party, usually an RSL, for a long period. This is typically from three to five years. The RSL then sublets to tenants.

4.5 A Word Of Warning

Do not confuse letting to Housing Associations or RSLs to letting directly to DSS claimants. Always, always go through a Housing Association or RSL. Letting directly to the DSS claimants will be more time-consuming than letting to students, and comes with no certainty that the rent will be paid at all, never mind on time.

4.6 Private Vs Social Housing

Let me tell you why I choose social housing over private tenants.

It's because I feel that I need to contribute to help solve the housing shortage problems, especially for the people who need my help the most - people who are claiming their housing benefits and cannot afford private rents.

Yeah, right! I'm sorry, but I am in this for one person only – me.

Call me self-centred, but you need to treat this like a business. If some of my tenants are grateful to me for them having a place to stay, great.

But the truth is I am grateful to them because without them, there would be no demand for Housing Associations, no demand for social landlords, and I'd have to find another way to generate my passive income.

The real reason I am in social property is because it pays me, and it pays well.

4.7 The Risks Of Letting To Private Tenants

The private rental market can be good, but it fluctuates too much for my liking. In fact, I have spoken to many landlords and most prefer to rent to young professionals working in the city than people on benefits. Fair point, I say.

But, to rent to young professionals, you need nice houses, which cost more up front, which in turn gives you less cash flow. And boy, are these tenants demanding.

They drive a hard bargain on the rent because driving a hard bargain is probably what they do for a living. They've worked hard for their money and it's hard to get them to part with any more of it than they feel is absolutely necessary. The same can't be said of many local authorities.

There are a lot of other downsides to the private letting market that put me off:

4.7.1 Voids

According to the latest data from the National Association of Estate Agents, the typical void period – the time it takes to find a tenant for an empty rental flat or house – is 14 days.

The Association of Registered Letting Agents says it's much longer than that. In London, they say the average empty period is 29 days – basically a whole month – and in the rest of the southeast, it's slightly less at 26 days.

If I take the average rent I am receiving per week, which is about £300, this means I'd be losing £1,200 during this time.

That's not the worst of it. Unless you are extremely cash rich and don't need a mortgage for all your rental properties, somebody has to pay the mortgage. You.

A typical monthly mortgage payment on a property for me is £750. That's £750 I have to fork out of my own pocket before the estate agent finds me a new tenant. A new tenant, I might add, who might not pay the rent on time or at all, might trash the place, and who I'd have to go to a lot of trouble to evict if they refuse to go at the end of the lease.

You don't get that with renting to Housing Associations.

4.7.2 Paying estate agents? For what?

In the world of private letting, getting a reliable tenant to renew their lease when it ends is fantastic. You avoid having to deal with that nasty character Mr Void, for a start. You're familiar with the tenant, and you know that they pay the rent and look after the place.

Where's the downside in that? There's just one. Your estate agent. Unless you found your tenant by word of mouth or through classified ads, you will have paid an estate agent a finding fee to get you your tenant. Fair enough, they found the tenant.

What you probably didn't pay much attention to at the time was the fact that finder's fee is due again if the tenant renews – usually at exactly the same rate, which can be as high as 11% of the rent – even though the agent has done nothing at all for it this time around.

You don't get that with renting to Housing Associations.

4.7.3 Rent arrears

No matter how good their references are, there's always a risk with private tenants getting behind with the rent. Even if they eventually pay, you've got problems with your cash flow. And if they don't, won't and won't move out, you've got real problems.

You have to take the tenant to court, take out a court order to evict the tenant by issuing them with a Section 8 notice to get out. This means you have to pay a solicitor to help you evict a tenant who's not only not paying; they're costing you money as you can't rent the place out to anyone else.

Then there's the mortgage to consider. If this does happen to you, having a non-paying tenant is the same as having no tenant. You'll be paying for the mortgage out of your own pocket.

Remember, even a great tenant's circumstances can change.

You don't get that with renting to Housing Associations.

4.7.4 Tenant deposit problems

Speaking of tenants, when I was a tenant myself, not all that long ago, I pretty much always failed to pay my last month's rent. I reckoned that since I'd put down a month's rent deposit at the beginning of the tenancy agreement, and I hadn't damaged anything, I wouldn't pay the last month and we'd be even.

Looking back, I should have done things by the book – paid the rent and then applied for the deposit back at the end.

What would have happened if there had been some damage done to the property that was my responsibility? The landlord would have been out of pocket. If I'm honest, I don't think I cared that much about the landlord at the time, but this failure to pay the last month's rent is common practice in the private sector.

As I'm now a landlord, I don't want this to happen to me. It's always difficult when tenants pull that trick. Even if private tenants are really nice and do pay their last month's rent, it's difficult to negotiate the cost of damage.

There will inevitably be arguments when you take part of their deposits to cover damages, even when it is legitimate. By legitimate, I mean that an inventory was done when the tenant moved in, so there is proof that 12 months ago, the bedroom carpet did not have that huge burn mark on it.

And, due to the fact that there are unscrupulous landlords who illegally withhold tenants' deposits, the government has now conjured up the Tenancy Deposit Scheme. It's a good thing, as it protects both tenants and landlords, but it does mean more time and hassle for private landlords, and it means you don't get any interest on your tenant's deposit.

You don't get that with renting to Housing Associations.

4.7.5 Tenants' utilities bills

When you let privately, you need to call your service providers and change the name on the utility bill every time there is a new tenant, even though the old tenant should tell them when they are leaving. The old tenant should take meter readings for gas, electricity and water when they leave, and inform the supplier.

The new tenant should call the utility companies when they move in, and check the readings again. But can you trust them to do this, and can you be sure the old tenant has paid the bills?

It's best that you call the utilities yourself when the old tenant leaves and the new one arrives, and that means up to three calls each with three companies, who'll put you on hold for about half an hour each time.

You may have to do this every year, or worse still, every 6 months. What a headache, just so you don't end up stuck paying reconnection charges and your old, non-paying tenant's unpaid bills.

You don't get that with renting to Housing Associations.

4.8 The Risks Of Letting To Social Tenants

The risks involved in social buy-to-let are in choosing the right property at the outset – not with the tenants.

'What if the social tenants trash the place?' you ask. No, they won't, as they are usually families who want to have a reasonably nice place to live in. They are receiving housing benefit, and they risk losing this if they are found to engage in anti-social behaviour.

The RSLs you use to let your property will make house visits. If the tenant damages your property, the RSL deals with this, organising for it to be fixed, and picking up the bill.

At the end of the lease, the property will be handed back to you. That is, if you choose not to renew the lease or if the local authority no longer needs your type of the property.

Compensation will be agreed between you and the RSL for any damage caused by the tenant. RSLs do not, however, decorate or refurbish when the lease expires.

4.9 Weighing It Up

True, the pitfalls of private renting may never confront you, and let's hope they don't, but they can never happen to you if you are a social landlord renting your property to RSLs.

No voids, no dealing with tenants, no need for referencing agencies, no estate agents' fees to pay, no chasing utilities companies, and long leases of three to five years.

Most RSLs have leases of 3 years minimum, and they give you the option of having a 5-year lease. If they need the property, they allow you to choose. The length of the lease does not depend on the individual property.

Lease renewals can be arranged up to nine months before the lease is up, and you're guaranteed that the property will be vacant at the end of the lease if you don't wish to renew, which means you don't have to face the prospect of evicting non-paying tenants.

You might, quite rightly, have considered the possibility of locking yourself into a rental agreement for three to five years, only to find that market rents shoot up in that time, and you've shot yourself in the foot by agreeing to something lower.

This is a possibility, I have to admit. But the key advantage of social buy-to-let is that your rent is guaranteed. No voids to worry about. It's money in the bank, and you can count on it.

I have summarised the pros and cons of social and private buy-to-lets in a table in [Appendix 1](#).

What social housing does is give your property portfolio some balance, with locked in returns and stability, allowing you to seek higher capital return and perhaps lower yields elsewhere.

4.10 How Social Housing Fits Into Your Portfolio

If you're already a buy-to-let landlord and you're successfully letting to private tenants, I'm not suggesting you should immediately cash everything in and switch to social.

What makes good sense, however, is to balance your portfolio as you expand it, spreading both the risk and the rewards of your investment.

Social housing, with its guaranteed yields, is a good way to generate extra cashflow in the short term. This extra cash can be used to assist cashflow-negative properties that you're letting privately, either on an ongoing basis or just when you're between tenants.

It also enables you to go into high-capital-growth markets, such as those in Eastern Europe, even if your rental income from those properties does not cover the mortgages.

You want to have a slice of the Eastern action, but might be deterred if you think you'll have to subsidise the mortgage. Social housing gives you the peace of mind, with your long-term rental income guarantee, to be able to take money from one property to help fund another, which will pay off big time when you come to sell.

Now I'll walk you through all the steps you need to take if you're to become a successful social landlord, and get that bit closer to financial freedom.

5 GETTING STARTED – FINDING DEMAND FOR SOCIAL HOUSING

Most people would think the first step in becoming a landlord of any buy-to-let property is to go to a few estate agents and ask what they've got. But you'd be making a big mistake.

If you do this at the outset, you'll be jumping into becoming a supplier of accommodation without knowing if there's a demand for it. And if there's no demand for it, you know who's going to be paying for it while it sits empty. Starting with estate agents is the biggest error you can make.

5.1 Finding RSLs, And Identifying The Best Ones

If you know at the moment you exchange contracts on a property that it will be rented out almost straight away, you won't need to pay for the mortgage at all, and you can have instant cash flow.

So, look for properties that are in demand. Who demands them? Housing Associations and Local Councils of course, if you want to be a social landlord. So you have to find the Housing Associations in the area that you are interested in buying.

5.1.1 Pick up the phone

The easiest way to check what kind of properties are in demand is to go and call the local council and ask them which RSLs they use to get properties for their tenants on DSS Housing Benefits. It's that simple. Pick up the phone, call the council and ask them.

You should speak to your local council's Housing Department, but from experience, sometimes it is hard to get someone at the Town Hall who knows what you are talking about. They may not understand what Registered Social Landlords are, so use the more common term 'Housing Associations', or ask them about Private Sector Leasing or PSL schemes. You might need to persist to get to speak to someone who's familiar with the schemes.

Now, bear in mind, that not all local councils use Housing Associations that run these schemes. It depends on several factors: funding available, the type of properties required, how well supplied they are at the time, and what they need can change from time to time.

This is an important point that I'll illustrate later, using my own experience as an example.

So, call the council. If they don't do these schemes in the borough where you live, then you may need to look outside your borough. For example, I live in the Greenwich borough but have no properties rented to any Housing Associations in the borough. My properties are in mainly in Brent, Islington and Hillingdon.

5.1.2 Get online

The Internet is becoming an invaluable source of research for landlords. You're probably not aware, but if you have gone to the Housing Corporation web site I gave you just now, and looked around the site, you will have found the most valuable asset that a social landlord can have. Let me give you the exact site:

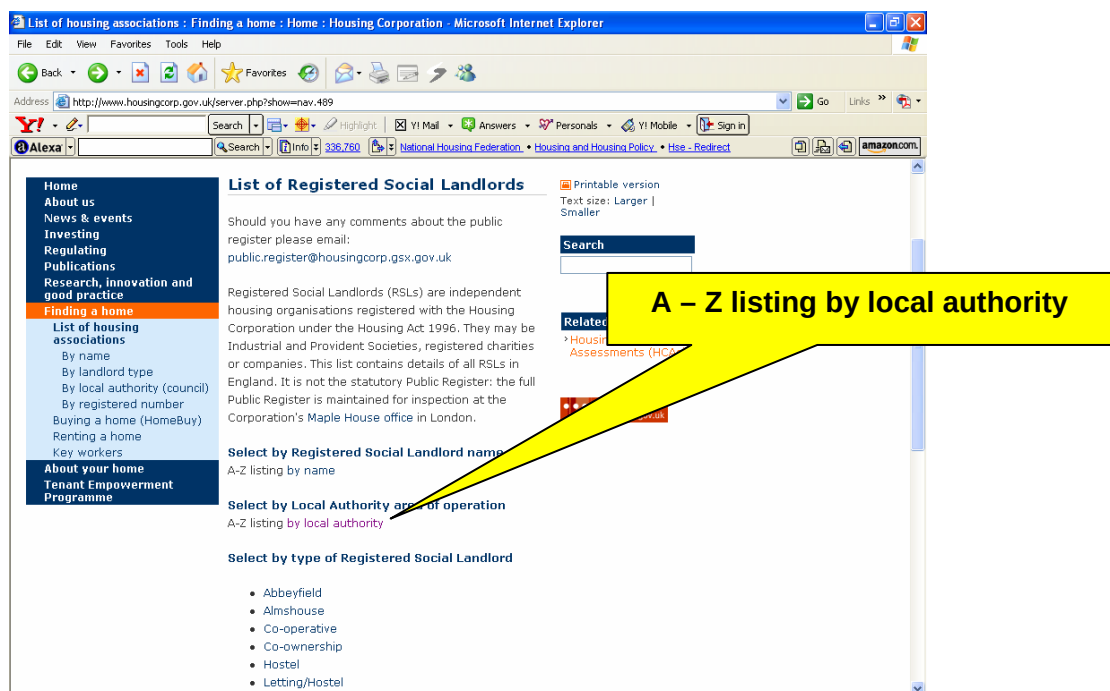
www.housingcorp.gov.uk/resources/register/select.htm

or

<http://www.housingcorp.gov.uk/server/show/nav.489>

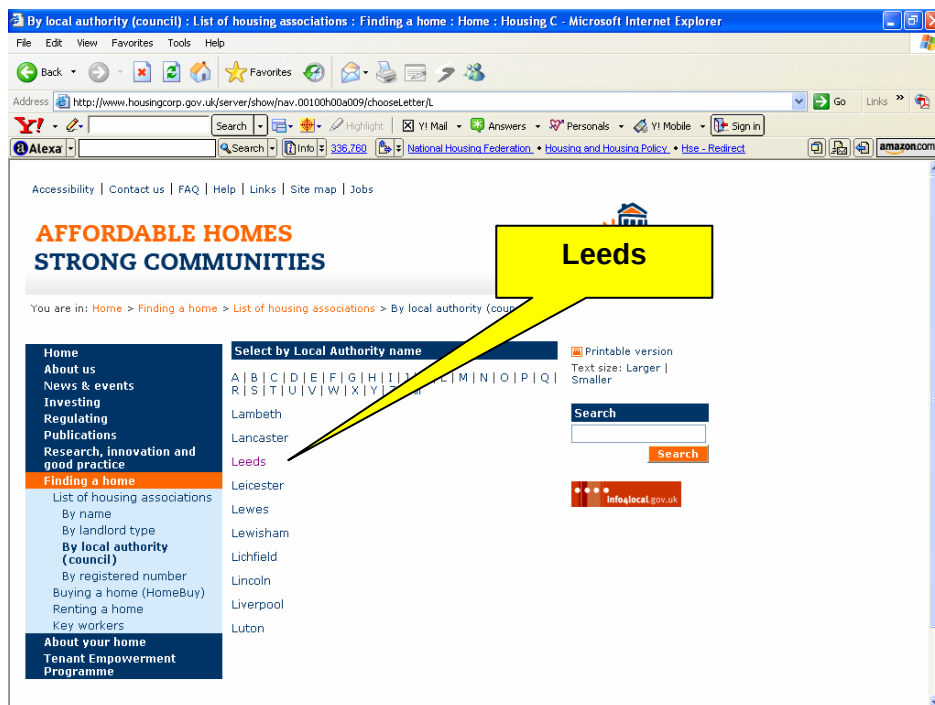
These two links will lead you to the same page. Alternatively, you can go to www.housingcorp.gov.uk and click on [List of housing associations](#). Here you'll see an index where you can search for a Registered Social Landlord by name, local authority, type and registered number. This site is updated very regularly.

Unless you know the name, type and registered number of a particular Housing Association (the more you deal with them, the better you will know them), you don't need to worry about these. The most obvious step to start with is therefore the Local Authority that the Housing Association deals with.



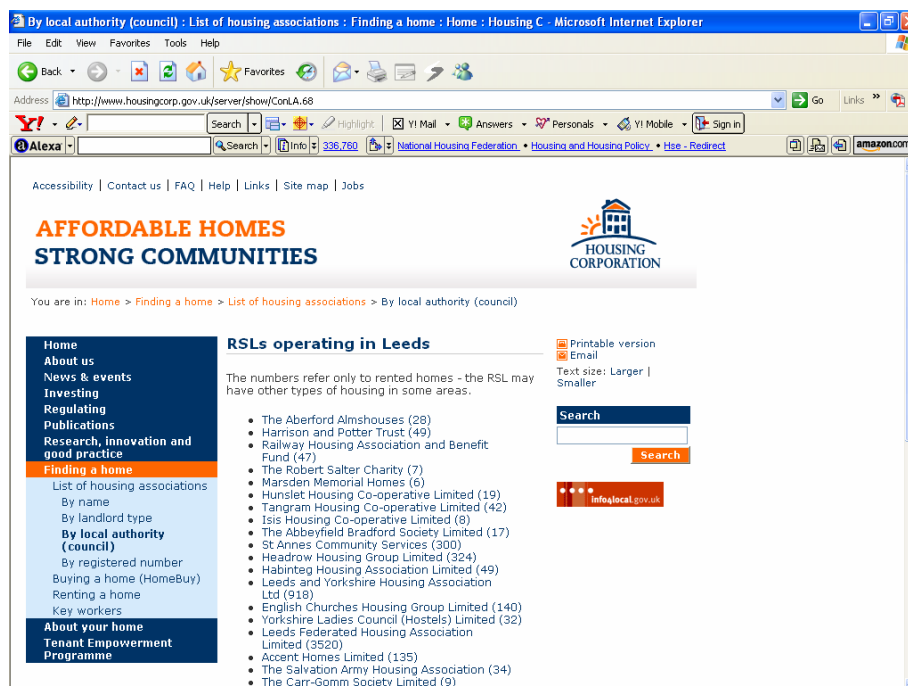
Note that for London, there are many boroughs. You won't find London by clicking on "L". You need to click on, say, "B" for Brent or "E" for Ealing.

Let's say you live in Leeds and you want to invest in Leeds. Under "Select by Local Authority area of operation", you click "L", which brings you to this screen.



Click on Leeds City Council as that is who you pay your council tax to. And now you want some of it back.

You are confronted by about 50 RSLs listed in alphabetical order. Don't be dumbstruck. This means a bit of filtering on your part, but it might mean loads of letting options for you, so it's good news. Remember each RSL is a potential customer for your buy-to-let business. But you might well wonder where to start.



5.1.3 Choosing your target – which RSLs to call

Well, if you have the time, click on every single one and you can get their phone numbers and call every single one of them. This is something you may end up doing, but it is definitely too tedious to do at the outset unless you've nothing better to do.

Here's a more concise way to narrow the field. To reduce the numbers of RSLs you want to call, try clicking on a few of the RSLs listed. For example, Headrow Housing Group Limited (324). Scroll down a little and you will see the address and phone numbers to call.

The screenshot shows a web browser window with the address <http://www.housingcorp.gov.uk/server/show/CorRSL.914>. The page is titled "Headrow Housing Group Limited". On the left is a navigation menu with links like "Home", "About us", "News & events", "Investing", "Regulating", "Publications", "Research, innovation and good practice", "Finding a home", "List of housing associations", "By name", "By landlord type", "By local authority (council)", "By registered number", "Buying a home (HomeBuy)", "Renting a home", "Key workers", "About your home", "Tenant Empowerment Programme". The main content area displays details for Headrow Housing Group Limited, including its registered number (LH0065), regulation field (North), charity status (Non-charitable), and various registered numbers. It also provides two addresses: a Registered Address and a Correspondence Address, both located at Ingots Buildings, Cemetery Road, Yeadon, Leeds LS19 7UP. Contact numbers are listed as Telephone: 0113 2504337 and Fax: 0113 2508205. A search bar and a "Search" button are visible on the right side of the page.

Headrow Housing Group Limited	
Housing Corporation	
Registered Number	LH0065
Housing Corporation	
Regulation Field	North
Charity Status	Non-charitable
Companies House registered number	
Charity Commission number	
Industrial and Provident Society number	21086

Registered Address
Headrow Housing Group Limited
Ingots Buildings
Cemetery Road
Yeadon
Leeds
LS19 7UP
Telephone: 0113 2504337
Fax: 0113 2508205

Correspondence Address
Headrow Housing Group Limited
Ingots Buildings
Cemetery Road
Yeadon
Leeds
LS19 7UP
Telephone: 0113 2504337
Fax: 0113 2508205

But don't call them yet. If you look further down the screen, you'll see their housing stock.

Associated Organisations

Some RSLs have formal links with other organisations. Often there is a group structure with one RSL being in control and known as the parent. Other members of the group are known as subsidiaries. Organisations with other kinds of formal links are known as associates. The organisations listed below may be RSLs. If they are they can be clicked on to be connected to their Public Register webpage.

HEADROW HOUSING TRUST (Subsidiary)

Stock Type	Owned	Managed On Behalf of Others
General Needs	419	0
Supported Housing	209	0
Total Rented Social Housing	628	0
of which are wheelchair user standard	4	N/A
Staff Units	6	0
SO (<100% equity)	101	0
NS SO (<100% equity)	29	0
Non Social Housing	158	0
Total Housing Stock	922	0
Total Housing Stock Owned & Managed on Behalf of Others		922

This particular RSL own 922 properties in total, but do NOT manage any on behalf of others. They only buy properties and rent them out. So they will not take your property and manage it for you. In other words, there's no point calling them.

You want RSLs who manage a lot of properties on behalf of others.

Therefore, if under the column "Managed on Behalf of Others" there's a big fat zero, or the same under "Total Housing Stock" or "Total Rented Social Housing", give them a miss. I tend to ignore these RSLs as they will not be suitable. The general rule of thumb is the 'Managed on Behalf of Others' figure is less than 50, put these RSLs to the bottom of your list.

A quick click and scroll down on every RSL in this list left me with a filtered selection of 13 RSLs to start off with. From this list, for the borough or district you're looking at, I'd choose four or five RSLs to call.

Obviously, I'd start with the ones with the most "Managed on Behalf of Others" in the row for "Total Rented Social Housing". I'd try New Leaf Supporting Independence Limited (3,276), Sanctuary Housing Association Limited (1,643) and Hanover Housing Association (938).

Notice that most of them are Limited Companies, which means you'd be dealing with corporate clients. This doesn't mean that they'll definitely accept private properties, but calling these HAs should be your top priority.

Of course, while I've taken Leeds as an example in this case, the same principles apply to wherever you're looking to buy in the UK.

5.1.4 Picking favourites

My favourite RSL is one I already have a few properties with, and I'll tell you why. Just check out how many properties they manage on behalf of others.

Stock Type	Owned	Managed On Behalf of Others
General Needs	0	17595
Supported Housing	0	0
Total Rented Social Housing	0	17595
of which are wheelchair user standard	0	N/A
Staff Units	0	3
SO (<100% equity)	0	0
NS SO (<100% equity)	0	0
Non Social Housing	0	7
Total Housing Stock	0	17605
Total Housing Stock Owned & Managed on Behalf of Others		17605

Stock data for RSLs in the Public Register is based on data from the Regulatory and Statistical Return (RSR). A table showing how each figure is calculated can be found [here](#)

Area of Operation
The numbers refer only to general needs rented stock - the RSL may have other types of housing in some areas.
(source RSR as at 31st March 2005)

It's 17,595. That's definitely a good sign.

I actually stumbled across this RSL by clicking on some of the links under Associated Organisations. I was looking for an RSL in Islington, so I clicked "I" on the very first page for London Borough of Islington, came across Paddington Churches Housing Association Limited, clicked on every one of its subsidiaries and found Pathmeads Housing Association Limited.

I was astonished at the number of properties they managed on behalf of others. So, here's a little tip: Clicking on the subsidiaries links can sometimes pay big dividends. I gave them a call and they needed housing all right. In Islington and other areas I was looking for. This was a stroke of luck, and I later found out that they are the biggest RSL in London. Here is their website:

www.pathmeads.org.uk

5.2 Checking Demand – Establishing What RSLs Need

Now you know which RSLs you want to call. So, you pick up the phone and you tell them exactly what you want to know. Don't worry about keeping them on the phone for ages with all your questions. They're used to it, and if you're thorough, you avoid making costly mistakes.

What you need to ask:

- Tell them you're a private landlord (don't worry if you don't own any properties yet)
- You want to supply them with the properties they need
- Do they deal with private landlords? Or do they offer Private Sector Leasing Schemes? If not, ask them if they have any subsidiaries that do so. If you get a 'no', say thanks and hang up. If it's 'yes', keep going
- You need to know what type of accommodation they require, basically houses or flats
- In what boroughs/districts do they need property?
- How many bedrooms/bathrooms do they need?
- How many of the bedrooms need to be doubles?
- Will they accept ex-council flats? See [A pitfall to avoid with ex-council housing](#) for more detail on this
- What's the average rent at present for each kind of flat or house they've told you they need? They may not be able to tell you this precisely over the phone, but you should try
- Ask whether a rent negotiator can be sent out to view a property before you actually purchase it? Again, there's more on this in [Going viewing WITH your RSL](#)
- If not, when is the earliest stage in the buying process that a rent negotiator can be sent out?
- Ask where you can find more information relevant to private landlords. Usually they'll point to their web site
- As some RSLs do charge a management fee, ask if they do charge and if so, how much it is
- Ask if they have a landlord information pack they can send you

Two crucial questions:

- For how long are they going to need the types of accommodation they've told you they now need; and
- How frequently their demand tends to change

5.2.1 Learn from my mistakes – demands do change

Why is it important to ask these last two questions? Because RSLs' demands are not always the same from year to year, or even from month to month.

You don't want to be stuck with a property that's no longer in demand by the Local Authority.

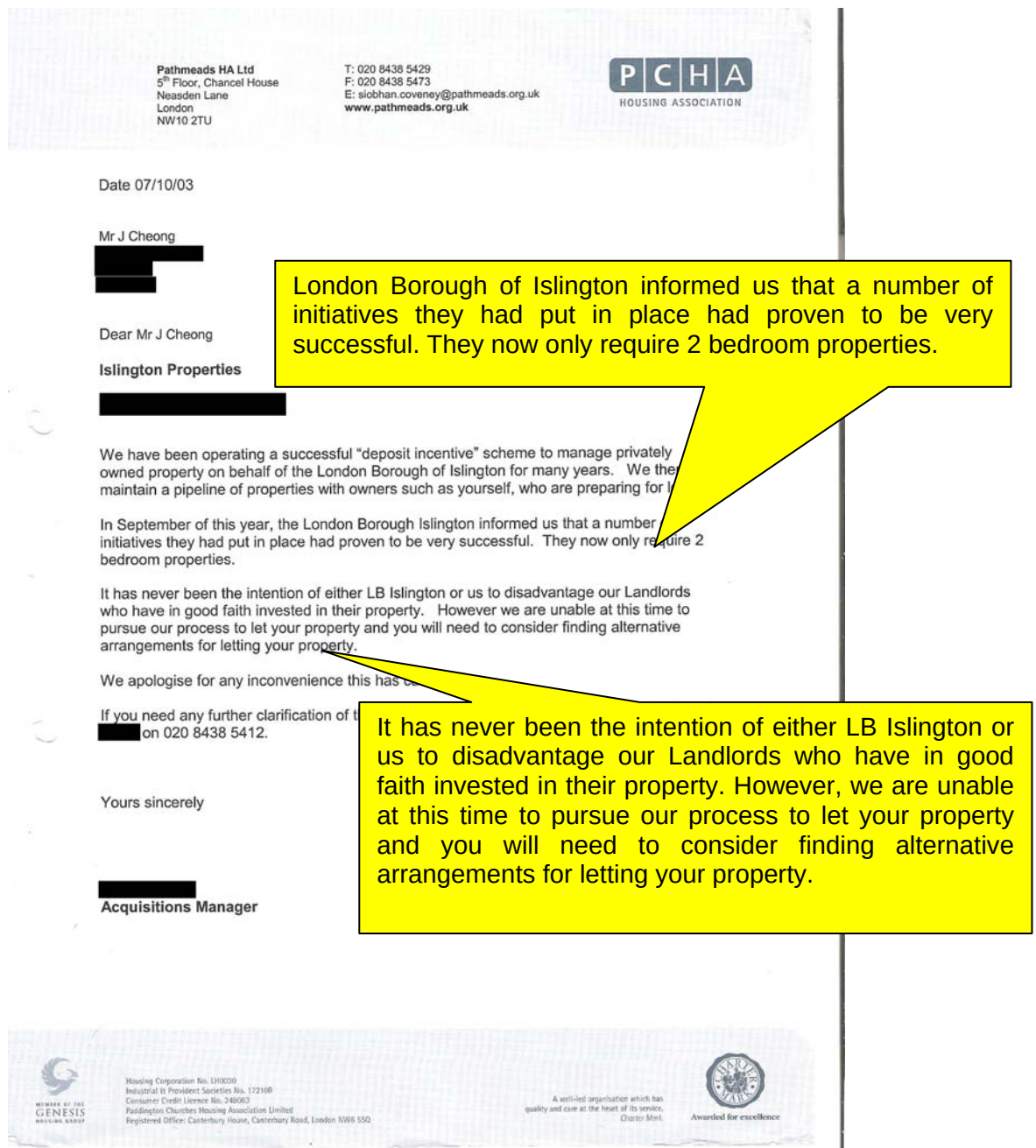
I was stung once like this, but you can learn from my mistake.

In fact, I strongly believe that this is the only risk in the social buy-to-let business. So it is important to check demand from time to time as you look for properties to buy, even though you can't always be absolutely precise. I'll show you later how best to do this, but first let me explain what happened to me.

In August 2003 I called up Paddington Churches, and asked them what kind of properties they needed. They said 1 and 2-bedroom flats. So I went about sourcing for 1 and 2 bedroom flats and I found a very suitable 1-bed in Islington, one of the boroughs they operate in.

I went down to see it, got a rent quoted from their negotiator, calculated that I would end up in positive cash flow, so I put in an offer. It was accepted and things were proceeding rather nicely.

I exchanged contracts with the seller and was about to complete when I received this politely worded letter:



You can imagine my horror at receiving this. The property I was going to let out to them was a 1-bedroom place, which was now, suddenly, of no use to the people I was planning to let it to.

I had just spent one and a half months pursuing this property for them and suddenly: 'Sorry! We don't need it anymore. Sorry for any inconvenience caused.' Inconvenience? Never mind all the money I'd put into it, and now I was stuck with the thing.

I ended up having to rent it privately via an estate agent for 12 months, for less rent than was offered by the RSL in my initial dealings with them.

Fortunately, the council changed their demand for properties again a year later. I was of course a bit bitter, but the benefits of going back to social housing completely outweighed this minor setback.

I now have this property under Pathmeads, a subsidiary of Paddington Churches. I've learnt from this, and if you follow the steps I've outlined in this book, you don't need to worry about being stung by a sudden change of mind by your Local Authority.

5.2.2 Other ways of checking demand

You can easily find most RSLs' web sites on the internet. Most RSLs are corporations, so they usually have a web site. For example, I typed in Pathmeads on the Yahoo search engine at www.yahoo.co.uk and it came out with the website www.pathmeads.org.uk.

Just type in the name of the RSL (leave off any 'Ltd' from the end as it will give you more options) and you will easily find their sites, and you can usually find a good deal of useful information on demand here.

5.2.3 When is an RSL not an RSL?

To digress a little ...

The "RSL" that operates for Hillingdon Council is not actually an RSL at all. It's a private company called Orchard and Shipman plc, which is an estate agent. They were granted the Community Housing Contract to locate and secure housing for the London Borough of Hillingdon in 2001 and more recently, Spelthorne Council. They also operate in Edinburgh. I'm sure there are others like it around the country.

In this case, Orchard and Shipman is not a RSL but the principle, from the private landlord's perspective, is the same. In fact, it might help fast track the entire process that they are an estate agent and may have available properties ready to purchase and rent to the council.

Another plus point is that they also know pretty much exactly what the council requirements are. So, for the social landlords who want to invest in Hillingdon, Spelthorne and Edinburgh, here's their web site: www.orchard-shipman.com

5.2.4 Deciding what to look for

I'll now walk you through a real-life example, from my own experience, of how to identify what you're going to buy.

I had just called up one of London's biggest RSLs, Pathmeads. I live in London so I choose them, in part, because I don't need to drive five hours north to find a property that meets their needs.

I said: 'I have a few properties with you already and would like to increase this portfolio. Where do you need properties?'

Brent Council needs 2-beds or larger, Westminster needs studios, one, two and three-beds, and Harrow requires four-beds.

Now that you have established the demand, you need to SUPPLY them with the properties they need. Don't let my little anecdote about changing demand put you off. I have deliberately included a step in this book to prevent what happened to me from happening to you.

At this stage, having learnt from my mistake, the vital question is 'How often do you think the demand for these kinds of properties changes?'

I was told that the demand had been fairly stable for the past year, and it was not likely to change in the short term. Great, but given my nasty experience before, I'm going to take this with a pinch of salt. I will come back to that vital step to make sure they will still need the property before I put any money down on it.

My experience tells me that Westminster will be too expensive for me to stump up the deposit, even for studios, although the rent would of course be higher than in other areas. I also know that 4-beds in Harrow will be above my budget, as I suspect that they cost more than £250,000.

That leaves me with Brent. Where's Brent, then? I haven't even heard of Brent before. Time to find out.

You're now ready to go house hunting.

6 FINDING SUPPLY

There are a few ways you can find the properties you might be interested in buying. The traditional way may be to take a walk to see local estate agents in the areas of interest. Tell them how many bedrooms you require and in what areas, as per the RSLs' comments on the phone.

Next, ask them to show you which properties have been in the market for the longest, say more than seven or eight months. It's a quiet market at the moment, which means it's a buyer's market. Also ask why the owner is selling for each of the properties they suggest. If it's been on the market for ages, and they are getting desperate to sell, then the price will be easier to negotiate.

6.1 What The Asking Price Really Means

Asking prices are just that – you should always bargain.

Gone are the days where buyers pay the asking price or more. Nowadays, all sellers expect not to get the asking price. And depending on the situation, you may sometimes get quite a bit of money off the asking price.

Here's a real-life case study to illustrate this.

I recently bought a property in Tower Hamlets, which I now rent out through the RSL Pathmeads. The seller was a Hong Kong investor who wanted to jump onto the London property boom. Sadly for her, she was three years too late, but this was to my absolute gain.

This investor bought a 2-bed, 2-bath at £224,000 (so says the estate agent, but this was later verified by the documents we exchanged) and wanted to sell at £240,000.

By the time I viewed the property, she had turned down offers of £220,000 and £225,000 four months earlier. When I saw it, the property had been on the market for nine months. I initially offered £200,000 which was rejected.

After some negotiation, I had an offer of £208,000 accepted. The seller was clearly getting desperate, and ended up selling at a loss. Soon afterwards, I had the flat revalued at £235,000. Very nice.

After this incident, I came across a web site that would have eliminated my doubts about what the estate agent claimed was the price the seller had paid for the property.

Imagine a website that tells you how much the property was bought for by the vendor. Then you can get a pretty good idea of how much profit the seller wants – or, in this case, how much of a loss the seller is willing to accept – and you can get this information for free.

It's a bit like playing a game of cards and knowing your opponent's hand before you start. I'll direct you to this site later; let's get down to some basics first.

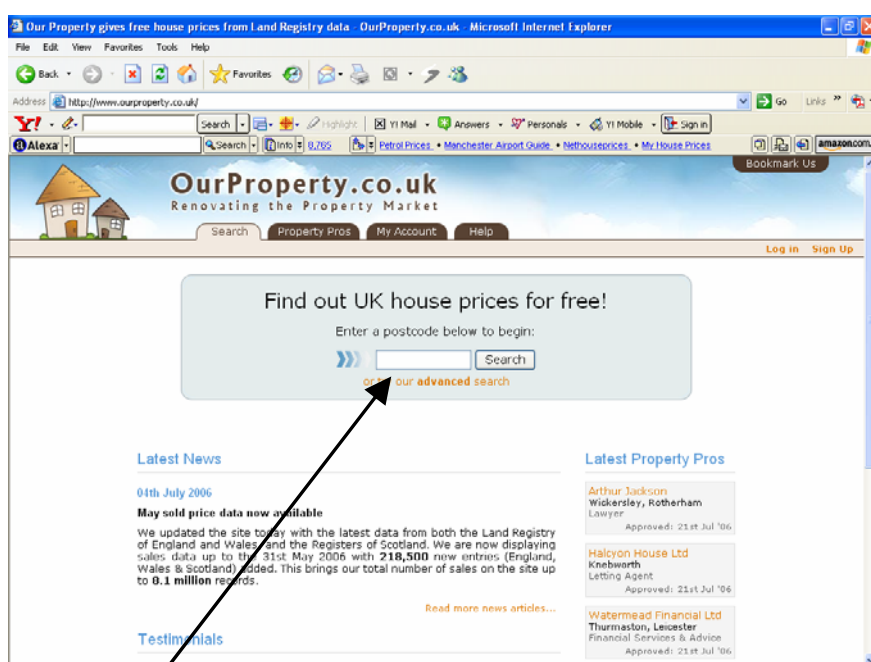
6.2 The 6 Golden Rules For Buying Property

There are lots of ways of going about this, but I'd like to share with you the rules I play by when I buy property.

6.2.1 RULE NO. 1: You make your money when you buy, not when you sell

If you can buy at less than the market price, then you've made a profit before you even get the keys. Before you start looking at finding a discount, though, you need to know what the market price is for the property you're looking at in the same area.

There is a useful web site to help you establish this: www.ourproperty.co.uk which gives you the average price of property in the area you are interested in.



Just enter the postcode of the property you are interested in and it gives you a quick check. Note however, that they do not take into account the number of bedrooms. A 3-bedroom flat is going to cost obviously more than a 1-bed. So take this figure they give you with a pinch of salt, but it does give you a rough idea.

A more accurate way of finding out the market price is by asking the estate agents how much, for example, a 2-bed flat sold for in the same street, and how long ago that was. Make sure you find out the price that was actually paid, and not just the asking price.

Later, I will tell you a web site, which not only tells you how much the seller bought the property for, but gives you a pretty accurate current value as well. [Know your enemy – and your secret weapon](#)

Of course, you should always try to buy below the market price. As I said, negotiating a discount depends on a lot of factors, the key one being how keen or desperate the seller is to sell.

Another way of getting a discount is by buying in bulk, which is what Property Secrets does. They go to developers and negotiate favourable prices and terms for their members.

The buying power of the database of members means the developers can expect to sell a good number of properties all at once and with minimum hassle. In return, they knock something off the price, and you can end up with genuine discounts on market prices of up to 15% or even 20%.

Of course, you have to pay to be a member, and probably have to pay a finder's fee, but you'll usually still come out in front.

The main drawback to this is that these deals are usually on new builds, which are not usually best suited to social housing. I'll explain why in detail later, see [Deciding What Kind Of Property To Buy](#).

You also need to be aware that there have been disreputable property buying clubs found operating in the UK, taking hefty membership fees and offering little or nothing in return, so look carefully before signing up to anything. I myself once paid £2,000 for a club membership for which I got absolutely nothing. Another costly mistake, which I hope will stop you doing the same thing.

6.2.2 RULE NO. 2: If your first offer is accepted, it was too high

Now, there was a time when I was ridiculed by an estate agent for putting an offer that was too low. Fortunately for me, it was over the phone. The agent insulted me, asked if I was joking and seemed fairly upset with me for putting in an offer that he considered would be offensive to the seller. He said that he was not even going to inform the seller.

This, I now know, is illegal. By law, estate agents have to put every offer, no matter how low, in writing, to the seller.

At that time, I was still on a steep learning curve. I actually apologised to the estate agent and felt really bad about it.

Looking back, what I should have done was remind him that by law he has to put the offer to the seller in writing. The agent has no right to reject any offer on the seller's behalf unless the seller specifically gives the agent a minimum selling price. If the seller then rejects my offer, then the agent should let me know.

What I will also say now is that I am an investor who knows how much I want to spend on a property. I'll show you shortly how to work out precisely, right down to the pennies, how much you're willing to pay for a property. Whatever you do, though, don't tell the agent this.

Remember, nobody expects to pay the asking price anymore. Don't be embarrassed to put in an offer that is well below the asking price. The key thing is to put in an offer and don't worry about offending anyone.

You need to make a profit when buying by paying under the market value. With the market rate in mind, which you will have already determined, I'd suggest that your

first offer be at least 10 to 15% off the asking price. In this market, try 20% first. Don't worry about hurting anybody's feelings - we don't have time for that.

The longer the property has been on the market, the lower the initial offer should be. Worst-case scenario: They reject the offer and you renegotiate.

That said, don't go in with an offer of half the asking price, as they won't think you're a serious buyer.

It's essential to build up some rapport with your estate agents. If they see that you are a serious buyer, then they will treat you with a lot more respect and in future, if good properties come out in the market, they will call you first.

If you can get £15,000 to £30,000 off a property worth between £150,000 to £250,000, that's pretty good. And always have a maximum price and don't go beyond it, see [RULE NO. 5: Know what you want to spend, and stick to it.](#)

6.2.3 RULE NO. 3: Think with your calculator, not your heart

What I mean by this is do not let your emotions run high and cloud your vision.

It is all jolly well that a flat is nice and luxurious with floor-to-ceiling windows and fantastic views in great locations. You visit a property and you like it. Or worse - you love it!

You think, 'This is a great place.' If you do this, you'll probably pay over the odds for it, even if it means the rent doesn't cover the mortgage payments and you are paying out of your own pocket for it.

This is the biggest mistake most investors make in property.

They don't mind if the rent does not cover the monthly mortgage payments, as they think in the long run, they can always sell it for a profit. But if there's no positive cash flow, this gem of a property is a liability.

The truth is, and this is especially true of social buy-to-let, that you do not have to like the property. Remember, it is your buy-to-let business. You are never going to live in it. You need to cut costs like any other businesses.

As long as the council accepts it and wants to rent it, then nothing else really matters too much. This brings us to the next rule.

6.2.4 RULE NO. 4: Always ensure positive cash flow

Working this out requires a simple formula:

Rent minus mortgage payments minus all costs = a positive number

If your mortgage payments exceed your rent, then you have to fork out money each month to pay the bank. If not, they will repossess your property.

I know several landlords who sometimes go into a deal that gives them negative cash flow as the rent does not cover their mortgage payments as they believe that the capital value of the property they are investing in will rise. The added “benefit”, as they see it, is that they do not have to pay income tax on the rent because they’re making a loss.

Do NOT do that if you want to be financially independent.

It defeats the purpose. Always do the calculation. The RSL rent negotiator will tell you the rent they are willing to pay you for a property, and you will know how much the bank requires you to pay per month.

You can then find out the service charges, ground rent, building insurance (if not included in the service charges) and estimate your other running costs, to calculate whether you are going to have positive cash flow or not for every deal.

6.2.5 RULE NO. 5: Know what you want to spend, and stick to it

There are a couple of ways to work out the maximum you want to spend on a property. The first is a formula involving the desired return in percentage from the rent.

Let me show you:

Annual Rent = weekly rent × 52 weeks e.g. £250 × 52 = £13,000

Property Costs = Service charges (typically £450 for an ex-local authority flat, £1,000 for a newer build property), Ground Rent (typically £10 to £50), Building Insurance (typically £200 to 300 but depends on property) and British Gas Boiler 3 Star Cover (typically £250). Example £450 + 50 + 300 + 250 = £1,050

Desired return from rental = % return you want from the property rent, and be realistic. Start with say, 6%. You can always change it later, but start here.

So in the example above, your max purchase price should be:

$$(13,000 - 1,050) / 0.06 = 199,166.67$$

You wouldn’t tell this figure to an estate agent until the advanced stages of negotiation, but if you give them such a precise figure they’ll be firstly, a bit taken aback, but then secondly, they’ll realise that you’ve done your sums and are serious about what you will and won’t pay.

This will go back to the seller, and can only work to your advantage.

The second method of determining how much you should pay is slightly more complicated, but is the method I use more often. It involves Rule 4, which calculates the monthly positive cash flow. I will walk you through an example later to show you exactly what I mean.

Check out this method in [The final figure, and the Max Bid Calculator.](#)

Whichever method you use, the important thing is that once you have arrived at a figure, stick to it. This is the downfall of many investors, especially those buying at auction for the first time.

They go in with a maximum price, and are horrified to find the first bid is higher than their max. Emotions set in, they start bidding and find themselves like a fish out of water. So, stick to your limit and what you can afford. There will always be another property for you to buy, so walk away if you have to.

6.2.6 RULE NO. 6: Lease must be for at least 99 years

If you find a freehold property, there is no time by which you have to return the property to someone else, the leaseholder. This is also true for certain leasehold maisonettes. You do have the responsibility to keep the property and area up to acceptable standards, though.

Most properties, however, will be leasehold, which means you have to pay a service charge to the freeholder every year. And, when the lease ends, you have to give the property back or pay to extend the leasehold of the property.

If the lease is 25 years or less, it's useless, because you'll find it hard to get a loan for that, and it will be impossible to sell in, say, 20 years' time when there are only five years left on the lease. Extending leases can cost a hefty sum as well, so steer clear from short leases.

My long term strategy of social (or any) buy-to-lets is to ensure that you sell in 15 or 20 years' time, partly so you can ride out the storm of any ups and downs in the property market, and partly because you don't want to end up with a big mortgage repayment after 25 years if you are taking out an interest-only mortgage.

More on mortgages in

Mortgages, Tax Costs And Gearing, but the point is that in 20 years' time, you need to make sure that the lease length is going to be attractive to a buyer.

Now with all the rules in place, let's go straight to how to buy a property. You've probably already bought your own home, or other investment properties, but here's how to buy a property like it's a business move, not a lifestyle one.

6.3 Deciding What Kind Of Property To Buy

I repeat, you do not have to like the property you buy. You are not going to live there. The council is not looking for luxury housing for people on housing benefits. They are looking for safety to prevent them from being sued.

As long as it is safe and the local authorities have a need for the type of accommodation, that is all you need to care about. Safety first.

6.3.1 What to buy

Properties can be classified into a few basic categories, with those best suited for social housing listed here first:

✓ Ex local authority flats and maisonettes

These are usually the best properties as they are cheapest in any area to buy, which means lower interest payments, lower building insurances and lower service charges.

✓ Period conversions / new build / Purpose built flats

These are OK but service charges tend to be higher, though you can offset costs against rental income tax. It's difficult to find freehold properties that tick all the boxes so service charges tend to be part and parcel of the costs.

✗ Houses

These tend to be most expensive in any market, and I tend to stay away from these as I struggle to find one that gives me positive cash flow. Interest payments will usually be more than rental, meaning negative cash flow – a big no-no, if you remember the Golden Rules.

Ex-council houses often come with good yields and can be bought at prices below other equivalent-sized properties. They are generally the best properties for social buy-to-lets.

6.3.2 What not to buy

Stay away from high-rise tower blocks.

No mortgage lenders will touch them and so it will be very difficult to sell on in 20 years. It's possible, of course, that this will change by the time you come to sell, but let's stay on the safe side.

I'd say stick to buildings with a maximum of five storeys in the block. This is a question the lenders ask time and time again, and if you're saying it's ex-council AND 15 storeys, the mortgage will almost certainly fall through.

Again, I have experienced this first hand. I had to pull out of an ex-council flat on the ninth floor after the lender rejected the application. These properties will have little or no resale value for the same reason, so even if you get good rent, you may lose a good chunk of your capital.

Ex-council properties can also show good capital growth especially in developments where there's a high proportion of owners relative to council tenants.

Also remember Rule 6, no short leases.

6.3.3 A pitfall to avoid with ex-council housing

Generally, ex-council flats are most suitable for social buy-to-let. There is sometimes a trap here though, which is to be avoided at all costs.

The Housing Association or the Local Authority you're putting your property with sometimes requires you to obtain the permission of the freeholder to let the property to them, if the property is a leasehold property.

The catch here is some councils or RSLs will refuse to take on properties if the freeholder is the council or Housing Association themselves, which means ex-council properties.

So, definitely check with the RSL to see if they will accept ex-council flats before you go any further.

A mistake that I almost made (but thankfully didn't) was that I nearly bought an ex-council flat owned by Hillingdon Council to rent back to Hillingdon Council. But Hillingdon Council will not accept ex-council flats! Check first and be sure.

6.3.4 Look beyond price – hidden costs that can catch you out

Service charges for a property can slash your profits if you do not take them into account when doing your initial sums. Here are some suggestions on how to minimise – or even eliminate – service charges.

Freehold properties will incur no service charges. This sounds good and I will always try to look for freehold properties. This means that the "lease" is yours and Rule 6 will not apply.

The lease will not run down like a leasehold property. However, be aware that you are responsible for any damages to any part of the property if you have the freehold, and that means sometimes having to fork out large sums of money for maintenance and repairs to the exterior of the property. This should not be very often, but never say never!

Ex-council flats usually have lower maintenance and service charges as the social freeholders are not usually out to rip off the leaseholders.

The lowest net yields around tend to be on flats in mansion-type blocks. The effect of all the free hot water, porters and expensive lift maintenance shows up in high service charges, which will hit the net yield.

Other places with big maintenance charges are new-build developments with swimming pools, concierge services and secure parking. These will definitely be more suited for private landlords as only corporate tenants or professional tenants will be able to afford the rents.

The RSL will NOT give you the market rent for these properties as they are too luxurious for their social tenants.

So, avoid all these flash apartments, as they are hugely expensive to start with, rent from an RSL won't give you a reasonable yield, and the high service charges will probably guarantee negative cash flow.

It does sound like ex-council flats are the best types for social letting, but do not exclude other types of properties from your considerations, if they obey the rules.

So where do we find these properties?

6.4 Finding Suitable Properties

Eventually we will need estate agents. They will give you the most exposure to the market, and since buyers don't have to pay estate agents, why not use them for free?

Before approaching the agents, though, we need to do some research. Again, the internet is your best friend here. There are just tons of web sites that will allow you access to thousands of properties at a click of your mouse. Look at either web sites of estate agents, or web sites with which many estate agents register, like these:

- www.rightmove.com
- www.findaproperty.com
- www.primelocation.com
- www.propertyfinder.com

Any one of these will give you exposure to a huge number of the properties that are for sale.

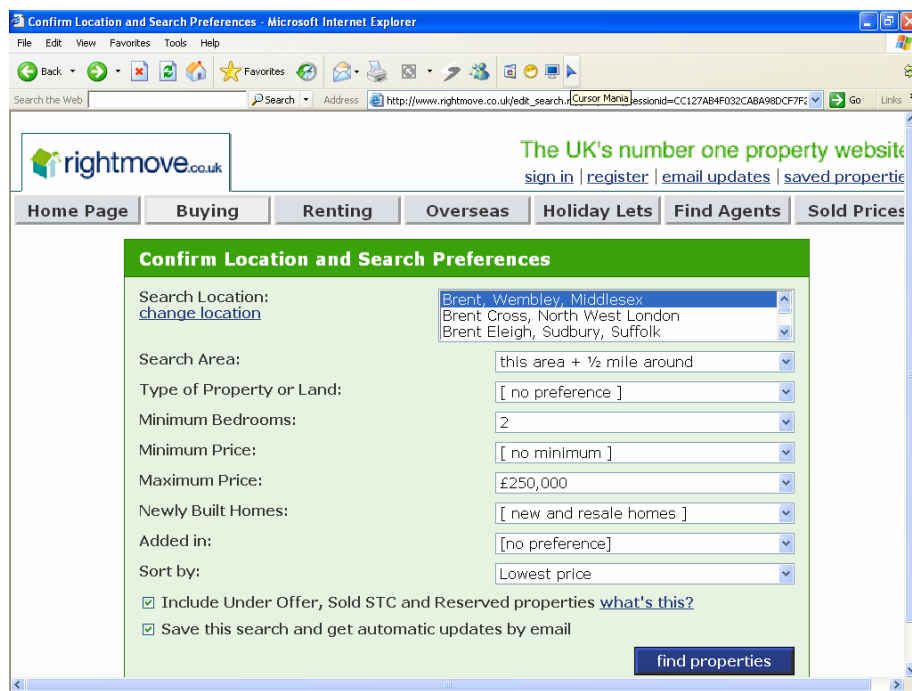
6.4.1 Searching online

Let us look initially at the first web site, rightmove.com. You have to register your email address and give a password before you can use it.

I am interested in Brent, but just to confirm my suspicions on Westminster and 4 beds in Harrow being beyond what I can afford, I do a quick check on rightmove.co.uk and find out that I am right. They are above my budget. We will concentrate on Brent instead.



Under SEARCH FOR HOMES IN THE UK, you will see a box for you to enter the place name or postcode. I type in Brent and select “for sale”. Click on “start search”.



Under Search Location, I highlight the Brent I want, which is Brent in Wembley and not Brent Cross or any other boroughs.

However, I want to make sure I capture as many properties as possible, without including the whole of London, so I change the Search Area to [this area only + ½ a mile around].

To widen the network of properties I can see, I have [no preference] for the Type of Property or Land, [no minimum] for Minimum Price, [new and resale homes] for Newly Built Homes and [no preference] for Added In.

I will change the Minimum Bedrooms to 2, as Pathmeads, the RSL I'm planning to let the property to, requires 2 to 3 bedrooms, and I set my own limit of £250,000 as Maximum Price. I am not going to pay £250,000 for any properties I find, but it includes properties I can put a lower offer on. I sort by [Lowest price] because I am looking for the cheapest first.

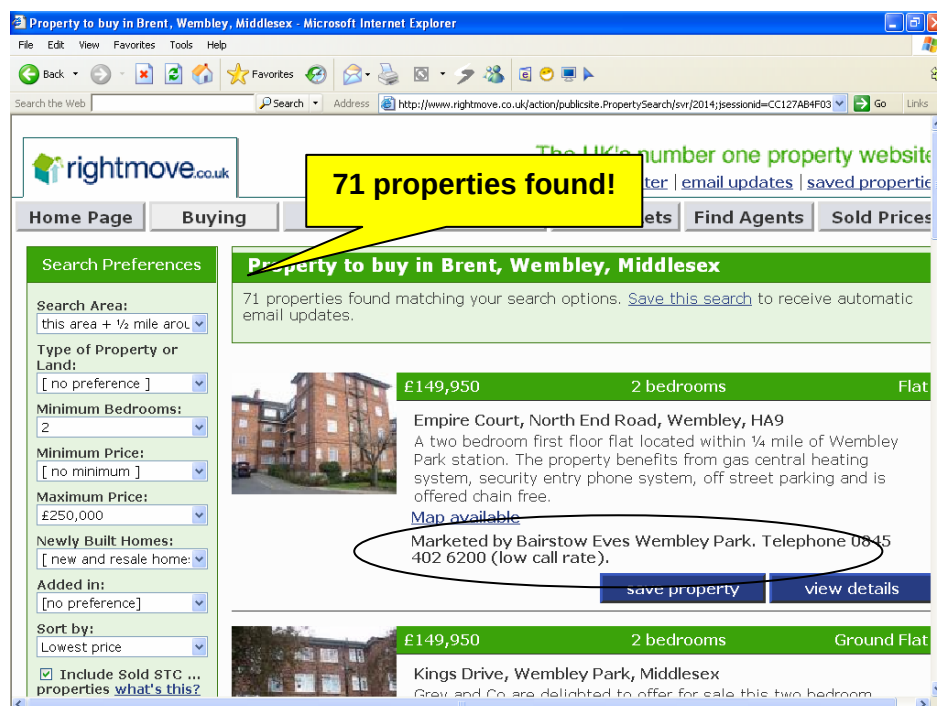
Cheapest isn't always best, of course, as yields can be higher on a property that costs more to buy. But, if I can satisfy all of the RSL's requirements and get a good yield, there's no point spending more than I have to, if the rent's not going to go up proportionally.

Much better to put the difference towards my next property purchase.

I tick the two boxes as my preference. The first will allow you to see properties that are already under offer or sold, so you cannot bid for them unless the sale falls through. I still do this, as it gives me an idea of what price and what properties are being sold.

- ☒ Include Under Offer, Sold STC and Reserved properties [what's this?](#)
- ☒ Save this search and get automatic updates by email

Click on “find properties” and we come to the next page. (You will be prompted to log in if you haven’t already done so, and you tick the second box under Save this search and get automatic updates by email.)



Now you have your results: 71 properties found. If you end up going out to see all of them, you might take three years to find a property. We need to eliminate a few of them.

6.4.2 Narrowing the field

For each of the properties, you need to have a quick click through and look around at the details under each, and look at what prices are being asked for what. The most important information here is actually the details of the estate agents marketing the properties, so you will immediately know who to ask if you want to see the properties.

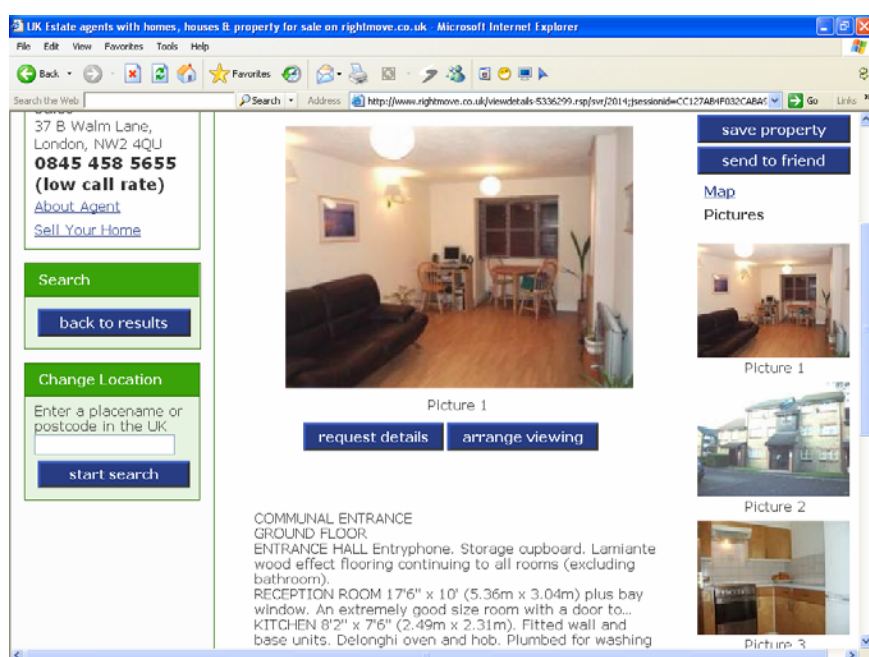
Make a note of all the different agents in the area where you’re looking, and pay them a visit when you go to the area to view the properties.

Even if they don’t have something that interests you on the web site, never rule them out. Something new might come on to the market that perfectly meets your needs, or

a sale might fall through and something they thought was gone becomes available, so keep your options open.

The same principle applies to all other property web sites. Of course, you can go straight to the specific estate agents' web sites, but these generic web sites will give you exposure to a broader range of property.

How do you know which properties are suitable, without going out to visit them all? If you click on the details of the properties on the web site, most will give you pictures of the interior, to give you a feel for what they're like. But remember Rule 3 - the numbers should come first, not how nice a place looks. Nicer looking properties tend to come at a higher price and often – but not always – a lower yield.



6.4.3 Fancy flooring, and other red herrings

Look at this property I found. Nice looking room isn't it? New wooden flooring throughout doesn't seem to need loads of work doing to it. Hmmm, I like it. Even before I see it, I think I might be falling in love. Already I'm thinking I'd really like to buy it. I'm even thinking I like it so much I'll pay the asking price of £175,950. The council will love it! Or will they?

If you recall from Pick up the phone, when you called the RSL you wanted to deal with you asked them to send you a landlord's information pack. This pack will give you a very detailed requirement of what properties the RSL actually needs. Now is the time to use the pack to rule out unsuitable properties. There's no point wasting time viewing properties that won't be accepted by the RSL. These packs are great time and energy-saving tools. Note that different boroughs and RSLs have different requirements.

You should also have asked if the council require two double bedrooms or will one double and a single do. Similarly for a 3-4 bedroom, can one or two of the bedrooms be a single bedroom? If there are no preferences, then the bigger the bedrooms, the

more rent it will command. If they cannot tell me, I will almost always go for 2-double-bedroom apartments.

Having done my homework in this case, I had in my hands a Landlord Property Standards Booklet from the RSL I wanted to deal with.

Reading through it, I discovered that Brent Council will only accept single bedrooms of a minimum 5 sq m and double bedrooms of 8 sq m. If there are 4 people living in the property, I will need a living room of 9.5 sq m and the dining area should be large enough to fit all the occupants around a table at once.

If it is a combined living and dining room, 4 people should have at least 11 sq m worth of space to wine and dine. That's only the beginning of it. The booklet is 11 A4 pages long. They sure take good care of their social tenants, don't they? Well, all the better for me that they spell out exactly what's needed, as it makes it easier for me to rule out unsuitable properties and focus on the good ones.

So, put the distracting pictures aside. What should be catching your attention is the size of the bedrooms.

The screenshot shows a Microsoft Internet Explorer browser window displaying a property listing on rightmove.co.uk. The page title is 'UK Estate agents with homes, houses & property for sale on rightmove.co.uk'. The address bar shows the URL: <http://www.rightmove.co.uk/viewdetails-5336299.rsp/svr/2014;jsessionid=CC127AB4F032CABAC>. The page content includes a search bar on the left, a 'request details' and 'arrange viewing' button, and a list of room details. Three yellow callout boxes highlight specific room dimensions and areas:

- Bedroom 1 = 3.35m x 2.52m = 8.442 sq m!**
- Reception Room = 5.36m x 3.04m = 16.24**
- Bedroom 2 = 2.71m x 1.76m = 4.76 sq m!!!**

The room details listed on the page are:

- COMMUNAL ENTRANCE
- GROUND FLOOR
- ENTRANCE HALL Entryphone. Storage cupboard. Laminate wood effect flooring continuing to all rooms (excluding bathroom).
- RECEPTION ROOM 17'6" x 10' (5.36m x 3.04m) plus bay window. An extremely good size room with a door to the kitchen.
- KITCHEN 8'2" x 7'6" (2.49m x 2.31m). Fitted wall units. Delonghi oven and hob. Plumbed for washing machine. Fitted walls. Ariston electric oven and with an extractor fan above. Plumbed for washing machine.
- BEDROOM ONE 11' x 8'3" (3.35m x 2.52m) with arch to a 6' (1.82m) long dressing room with fitted shelves and hanging space and wash-hand basin.
- BEDROOM TWO 8'9" x 5'8" (2.71m x 1.76m).
- BATHROOM/WC Fully tiled walls and floor. Bath with hand shower attachment. Wash-hand basin in a vanity unit. WC. Extractor fan. Airing cupboard.
- TERMS
- TENURE Leasehold. We understand from our client that the lease has a term of approximately 112 years remaining. We have not had sight of documentation to confirm this information.
- If you have other questions about this property, please telephone 0845 458 5655 (low call rate).
- Disclaimer

Oops, the smallest bedroom, which is a single, is too small. This looks now like a typical new build with one acceptable double bedroom and 1 tiny space that is more suited to being a study than a bedroom. I mean, I am 1.8m tall. If I lie down along the width of the bedroom, I won't fit in! This property, no matter how nice it looks, goes straight out of the window.

Speaking of windows, another important thing to look out for will be double-glazing, which most RSLs require. You can eliminate properties with small bedrooms or dining rooms and no or part double-glazing, unless you are willing to fork out the money and time to upgrade them.

I am sure that out of the 71 properties we found in our initial search, you can quickly eliminate about 60 of them, with a quick read and a few calculations. Digest the landlord information pack thoroughly before you start, and that will stop you from making a serious mistake – buying a property that the council doesn't want.

6.4.4 What to ask before you view properties – 10 key questions

Every borough has different requirements. Have a look through the detail in

Appendix 2 – An Example Of An RSL's Requirements for some of the detail you might come across in landlord information packs. This is just to give you an idea of what various councils' requirements are.

When you've narrowed your search to a few properties you think you'd like to view, prepare a checklist of questions for each property as follows, and hit the phone. You need to know:

1. What borough the property falls under. It is important to make sure this is a borough your RSL needs housing in
2. Postcode, and if possible, the full address. It's amazing the information you can get with a simple postcode
3. Length of Lease
4. How long the property has been on the market
5. Why the vendor is selling
6. How urgent (or desperate) the vendor is to sell
7. Service charges and ground rent
8. Whether the service charge includes buildings insurance
9. If it doesn't, how much is buildings insurance?
10. Any minor or major works that need to be done in the next five years

This list is by no means exhaustive but it gives you enough information to apply Rule 4 before putting in an offer.

6.4.5 Make estate agents do the hard work for you

Arrange an appointment with the agents to view the properties that will meet the council's requirements. Tell the agents what the requirements are, and get the agents to do some of the dirty work for you.

Give them a copy of the Information Pack that you received from the RSL and ask them politely to digest the information. You need to make estate agents earn their money. They need to match you with the property you need. They always say the more precise you are, the better it is for them. This cannot be any more precise!

If they agree to do this, then the moment a property that suits the council's requirement comes on the market, they will inform you. They will have done the work for you. I say 'if', because I have come across a few agents that refuse to do that. I say let them put in a bit of work to earn their commission.

As much as I sound like I hate estate agents, which I don't, you will need to build up a good relationship with those willing to at least have a read of the requirements, as they will be able to call you when a suitable property does come on. I consider them a part of my team in this business, even though it's not me, the buyer, that has to pay them.

6.4.6 Found the right place? Stop right there

Once you find a property, call the RSL you want to let through again before putting in an offer. Ask them to check out how much rent it's likely to generate, telling them the exact area and address of the property, including the postcode if necessary. If you don't already have the postcode, the agent should be able to tell you it.

Explain to the RSL that you are buying only to let it to them, so make sure they still require the property that you are about to put an offer on. Remember my mistake?

Make this call on the same day that you've viewed the property, if you can. If the RSL can't give you an exact rent, they will give you an estimate.

Ask them also how long it will take to arrange a representative from the RSL to come and visit your property once you've completed on it. This representative is a rent negotiator who will come and check out the property and offer you a rent quote. If they don't need the property, they won't give you a rent quote. This is very important.

If it takes about two to three weeks, then you need to time the appointment to be just after completion. They will usually not come to the property before you have bought it. So it's important that you do not leave it too late to call and arrange an appointment.

Now, sometimes, the negotiator can come BEFORE the house is in your name. Always ask the RSL about this when you call them up. If they're willing to do this, then jump on the opportunity, because this will save you a lot of time and eliminate any uncertainty about the rent and therefore your yield.

6.4.7 Going viewing WITH your RSL

I checked with Pathmeads, the RSL I was targeting with the property I wanted to buy in Brent, and they said they could send a rent negotiator in before I bought it.

Fantastic! I arranged to view three properties with various estate agents, and for a rent negotiator from the RSL to come with me to all three on one day to give me a rent quote for each property.

I'd advise you to see properties at least once before you take in a rent negotiator, so you can rule out any properties with obvious problems or more work needing to be done on them than you're willing to take on. You don't want to waste the negotiator's time.

So, I have seen a 2-bed property that meets all the RSL's requirements. I got the postcode.

I have arranged for a negotiator to come down to see the property. Within five working days, I received written confirmation of the rent offer. I repeat again, if the negotiator cannot come before the property is in your name, make sure that you call up the RSL and give them the postcode to get an estimated rent quote.

This is crucial, as we need to do some maths here. I am going now to repeat Rule 4 again in detail, with this property in Brent as a case study.

This will lead to the second formula I mentioned in Rule 5, which allows me to know exactly the maximum offer I can make on a particular property.

7 PUTTING IN AN OFFER ON A PROPERTY

7.1 Calculating Your Maximum Bid

Working out your maximum bid needs to take in many more factors than the price and your mortgage repayments.

7.1.1 What you need to take into account:

1. Rental estimate or actual rental quote

I was quoted £230 a week for this 2-bedroom apartment. To calculate the monthly income to be deposited into your bank account by the Housing Association, multiply that by 52 (weeks) and divide by 12 (months). Thus the rent per calendar month is $£230 \times 52 / 12 = £996.66$.

2. Service charges, Buildings Insurance and Ground Rent

This particular property has a combined service charge, building insurance and ground rent charge of £450 per annum. Per month, this comes to $£450/12 = £37.50$.

3. Interest repayments

Using one of these two calculators, you will be able to find a fairly accurate estimate of your biggest expense, the monthly mortgage payment.

<http://www.propertyfile.net/tools.htm>

<http://www.ukcitymedia.co.uk/mortgagecalculator.html?www.qubez.co.uk>

Using the propertyfile.net site, put in the amount you want to borrow or mortgage required, usually 85% of the price you're going to pay. I've chosen this figure because most lenders require 15% as a buy-to-let deposit.

So for this property, if you were going to pay the asking price – which you're not – you'd need to work out 85% of £179,950, which is a mortgage of £153,000.

Set the interest rate at 5.5% - just above the 5.25% that's available at the moment, to be on the safe side - and a repayment term over 25 years.

You can make adjustments to the figures in a minute, but do it this way in the beginning. Press calculate and you get the interest-only monthly payment as £701.05 and repayment mortgage monthly payment of £939.29. More about different types of mortgages in [Interest-Only Vs Capital Repayment](#).

4. Your mortgage

I almost always go for interest-only monthly payments as that gives me more cash flow as my monthly repayments will be lower than with a repayment mortgage. There are pros and cons to each, though (see [Interest-Only Vs Capital Repayment](#) for more information on this), and I'll leave it to you to make your own decision about this.

Beside the interest rate box, there is a link "[click for current rates](#)". If you click on that, it gives you a list of variable and fixed rate mortgages of several building societies and lenders. This gives you a very quick idea of current interest rates.

You can change the interest rate in the box in the calculator and play around with the figures. If you change it to 6% with all other figures constant, the interest-only mortgage payment becomes £764.79. So you know that a 0.5% increase in the interest rate will set you back roughly £64 per month.

5. 3* (Three star) Gas Cover

This is required by all RSLs to ensure that call-out charges for the boiler are covered. I use British Gas but you can check out other suppliers. Sometimes the RSL have their own recommended contractors, so ask when you call them up.

British Gas is good in the sense that they also cover plumbing, drainage and electrical call-outs. Knowing how expensive this can all be, I have peace of mind using them. They cost me about £29 a month, or £348 per year. If you have more than one property with them, you can negotiate a discount.

We now have the figures to test out Rule 4. Using the formula, you will see $(1) - (2) - (3) - (5) = £996.66 - £37.50 - £701.05 - £29 = £229.11$. You have a POSITIVE number.

If this figure is NEGATIVE, pull out immediately. This property's not going to make you rich; it's going to be a drain on the money you've already got.

If the figure is positive, you need to see whether it's positive enough for you to carry on.

7.2 Is It Worth Your Time And Money?

7.2.1 Deciding what's a good deal for you

Is it worth your while to go into this deal? For me, this decision is dependent on the property purchase price. My rule of thumb is that for every £50,000 I spend, I need at least £80 positive cash flow.

£50,000 – positive cash flow of £80 per month (£960 a year)

£100,000 – positive cash flow of £160 per month (£1,920 a year)

£200,000 – positive cash flow of £320 per month (£3,840 a year)

This is a rough guide, and it's what I feel is worthwhile for ME to go into a property. Your assessment may be different.

For the property we've been looking at in Brent, with an asking price of £179,995, it should give me positive cash flow of about £280 per month if I pay the asking price. At the moment, I work out that I'd have £229.11.

Not as high as I like it, but as this is only a guide as to whether it is worth it, after the initial work, this will be £229.11 per month for at least three to five years, for doing nothing.

It will be up to you to see if this is worth it. Depending on the market and the area, it may sometimes be difficult to get a higher cash flow than this. My highest cash flow for a £200,000 property is £497.76 per month.

7.2.2 Playing around with the numbers

In the case of this property in Brent that we've been looking at, and based on the figures we have, I consider it insufficient to be worth all my trouble buying this property.

I could walk away, but I actually decide to put in an offer.

Why?

Because I can change some of the variables to increase my cash flow.

I can either increase (1) the rent, or reduce (2), (3) and (5) the expenses, to achieve this. It would be more difficult for me to change (1) the rent as this is quoted by the negotiator and it is unlikely to increase for the same property, (2) service charges and ground rent are usually fixed or (5) three star cover is usually non-negotiable as well. But I can change (3), the mortgage payments. How?

The effect of a better interest rate

If I want to get £280 per month positive cash flow, I am still £50 short. I might be able to reduce the interest rate to 5% by finding a better deal from my broker.

Using the mortgage calculator again, this time changing the interest rate to 5%, I find that my mortgage payments are now £637.50. My cash flow is now £292.66.

Is that a better deal now? Absolutely. So reducing the interest rate you pay to the bank helps, and it helps a lot. Remember, in this case, it makes a difference of about £50 to £60 for each 0.5% of interest rate change.

Now, if you are worried about interest rate rises, try to find a fixed rate mortgage with a good rate.

Or, play on the safe side and find another property that gives you a better return with a higher interest rate factored in. How much exposure to the risk of interest rate rises you're comfortable with is something only you can decide.

Extending the length of the mortgage

You can also increase the number of years of repayment to 30 if you are repaying the capital, but this just increases the amount of interest you pay over time. I don't normally do this because you will see from the mortgage calculator that changing the number of years of repayment only changes the repayment monthly mortgage payment. The interest-only monthly mortgage remains unchanged.

Let's say you can't find a lender who will lend to you a better rate than 5.5% on an interest-only mortgage. How else can I reduce my mortgage payments?

Borrowing less than 85%

Reducing the amount you borrow means coming up with more deposit, which I don't advise, as the biggest returns on investment always come from having the biggest possible mortgage. Provided the mortgage repayments are covered by the rent, of course.

Paying less for the property

The alternative is to reduce the amount you pay for the property. Don't forget, the mortgage was calculated based on paying the asking price of £179,995, which I have no intention of doing.

Now I am going to show you the second formula for calculating your maximum offer on a property that I promised under [RULE NO. 5: Know what you want to spend, and stick to it.](#)

To achieve the £280 cash flow I want, I will need to have mortgage payments of £650. Return to the mortgage calculator, keep the interest rate at 5.5%.

This time, I reduce the amount I want to borrow by say £3,000 or whatever you want, and click "Calculate". Play around a bit.

If I were to pay only £150,000, I still have to pay £687.50 a month on the mortgage. Not good enough. I reduce the amount by smaller and smaller intervals until I find that £142,000 is the magic number that gives me a monthly mortgage payment of £650.83.

Now if £142,000 is the maximum amount I want to borrow, this constitutes 85% of the maximum offer I can make on the property.

7.2.3 The final figure, and the Max Bid Calculator

To work from your mortgage amount to your maximum bid, you need to use this formula, what I call the Max Bid Calculator:

Max Mortgage / (LTV/100) = Maximum Bid

In this case, it's:

142,000 / (85/100) = £167,058.82

I now know that I can go up to a maximum bid of £167,058.82 to achieve my target of £280 positive cash flow per month.

Make sure you understand this method before you proceed. I know this is a little complicated, but this formula will be one of the most powerful tools you can get your hands on in buy-to-let investing.

Do these calculations for as many properties as you can. This allows you to familiarise yourself with the method and it immediately gives you a financial comparison to assess which property gives you the best cash flow.

You can do this using the Max Bid Calculator.

7.3 Making An Offer, And The Art Of Negotiation

7.3.1 Know your enemy – and your secret weapon

Not really your enemy of course, but you need to know a bit about the person you want to buy from, and, crucially, how much they paid for the place when they bought it.

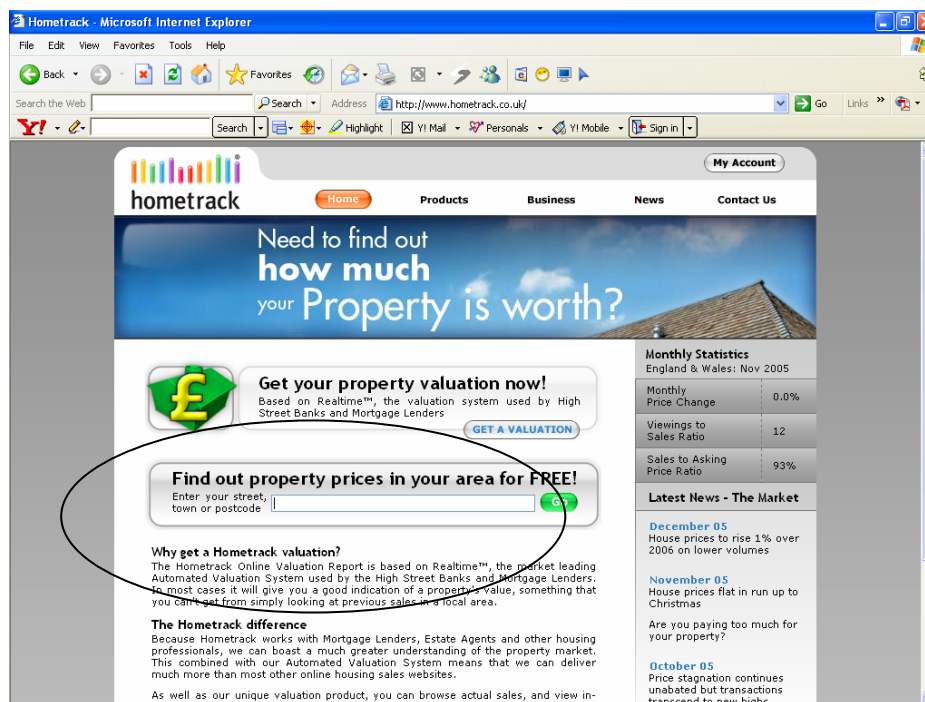
This is bargaining time, and, being Chinese and a businessman, this is my favourite part of the whole process.

Putting in an offer and negotiating a final purchase price while remembering the basic rules of buying properties is extremely satisfying.

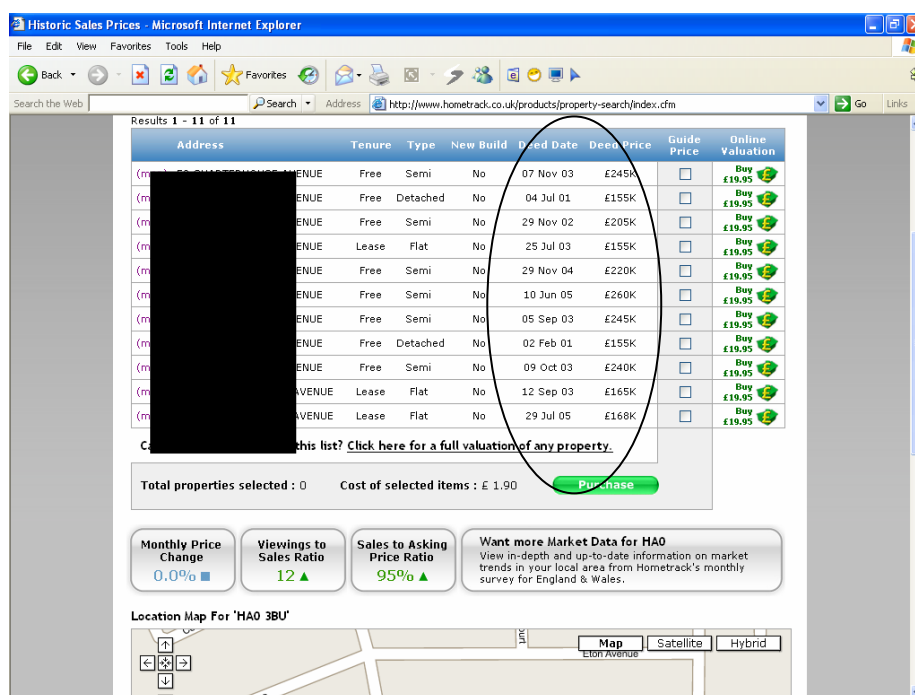
Now, here's your secret weapon, and it's sitting there waiting for you on the internet.

www.hometrack.co.uk

This is probably the most important web address to remember from this whole book, and I'd strongly urge you to use it before you buy any UK residential property.



Enter the postcode of the property you wish to purchase in the space above. You did remember to ask for the postcode didn't you? Of course you did - when you went to view the properties. Otherwise, call the estate agents now and they can tell you over the phone.



You look for the address in the first column, it tells you immediately whether it is a freehold or leasehold property (under Tenure), what type of property it is (flat/maisonette/terraced/semi-detached/detached), whether it is a new build or not, the official date of purchase (deed date) and, incredibly, the price the vendor bought it at.

The only downside seems to be that the free data only reflects properties that have been sold in the past five years.

Anyone considering buying a property can access this information – for free – before they even put in an offer.

If I were selling, I'd consider myself to be at a distinct disadvantage in negotiations, thanks to this site. I wouldn't want the buyer to know how much profit I am trying to make.

As a buyer, though, this is to our advantage. Firstly, we will know when we put in an offer whether it is probably too low to be accepted. Remembering **RULE NO. 1: You make your money when you buy, not when you sell**, we want it to be too low in the first instance, and maybe even put in an offer below the price the vendor paid.

7.3.2 Start low, and expect to be turned down

Depending on the seller's circumstances, properties can be sold at a loss, as I demonstrated in the case of the Hong Kong investor who I bought from. Not often, but it is possible.

You don't want the vendor to rip you off, so from the Hometrack web site, you can have a good look at the prices of the other properties in that street. Take into account the recency of the sale dates and you can find out what the other properties went for. But always start low (remember RULE NO. 2: If your first offer is accepted, it was too high). Get rejected and build up the price, going no further than your maximum spending limit (RULE NO. 5: Know what you want to spend, and stick to it).

In addition, Hometrack allows you to pay for additional information on the current price of a property, which shows how much it thinks that property is currently worth. If you go back to the web site, the last column is the word "BUY" with an empty box. It is probably worth that £1.95 to tick that box and find out how much that property is worth now. Hometrack charges £0.95 per property, with a minimum of £1.95; I usually pay Hometrack for current prices of 3 properties for £2.85.

Hometrack tells me that this property is currently worth around £180,000. The asking price is £5 below that, so we're in the right ballpark.

Now you know the current value of the property, don't even think about offering it. Remember Rule 1: Profit when you buy. So using all the numbers now at your fingertips, think about your first, low offer, and make it well under your maximum bid.

7.3.3 A bit more detective work

There is another web site that can tell you how much a property was bought for, but for a charge. Hometrack gives it to you for free. However, it is worth a look as it gives you other information before you put in an offer.

www.landregisteronline.gov.uk

You can find out who the legal owner of a property is, if there are any mortgages on the property, and if the property has any rights of way or if there are any restrictions

that may affect it. If the property has been bought or sold since April 2000, it also reveals how much the owners paid for it. It does not tell you what the current market value is, though. For that, you'd have to use Hometrack.

7.3.4 The seller says no, so then what?

Negotiation depends on a lot of factors. Re-iterate to yourself Rules 1 and 2 ([The 6 Golden Rules For Buying Property](#)) to ensure you get the best purchase price.

Being good at this comes with experience. If you feel that you have bid too high, you can still consider pulling out before exchanging contracts. There is not much place for emotion in business. There is no legal obligation to anyone before exchange. The seller can pull out. The buyer can pull out. It's not a pleasant situation and won't win you any friends, but you're not out to make friends here. If you need to change your mind, do it BEFORE exchange.

If you think you've overbid, check your sums again and if you still get the right answers, you don't necessarily need to pull out. Remember, do you expect to sell the property for a higher amount in 20 years' time? If so, then don't worry. Carry on as long as you have positive cash flow ([RULE NO. 4: Always ensure positive cash flow](#)). I cannot stress this enough. Let the council pay your mortgage and take the surplus earning for yourself. This is what this book is all about.

7.3.5 Gazundering and gazumping

Gazundering

Another anecdote: I know an investor who routinely drops the price he's agreed to pay for a property one or two days before exchange of contracts.

He feels that this is a buyer's market and since the deal has taken one or two months to the date of exchange, the market may have dropped. So he lowers the price. This technique is called gazundering.

Of course, it always angers the seller and estate agent, and he is possibly classed as a bad buyer, so it might make it difficult for him to buy through the same agent again.

The deal usually falls through, but if he gets what he wants, he wins. It's not considered fair play, though, so I wouldn't suggest you start out with this as your strategy.

If you are reading this in Scotland and contemplating doing something like that, don't! Once an offer is accepted on a property in Scotland, the price is legally binding.

Gazumping

The opposite of gazundering is gazumping. This happens when a seller who has already accepted your offer (and usually when conveyancing has started and you have asked for a bank valuation of the property) the seller then goes on to accept a higher offer from another buyer.

If you've been gazumped, you lose all the work, time and money you've put into researching the deal.

Before the exchange of the contracts, there is no legal obligation to either side, so this can unfortunately happen to you. If surveys, searches and fees have already been incurred, they cannot be recouped.

The seller's estate agent is legally obliged to inform them of any offers made on their property, and it is up to the seller whether or not to consider the new offers.

Why there is a new offer in the first place puzzles me. If you looked at rightmove.co.uk or any estate agents website, once a property has been taken off the market, the properties should be marked 'under offer'. However, these things do happen, so be prepared.

Avoiding gazumping

Exclusivity agreements can help to avoid gazumping. These involve the seller signing an agreement stating that during a specified exclusivity period, he or she will not enter into a sale agreement with anyone else.

Some insurance companies offer gazumping insurance policies to cover fees you might have incurred.

Generally, cases of either gazumping or gazundering are not all that common, in my experience.

7.3.6 A starting bid – the Brent example

In the Brent case, one of the reasons why I was attracted to this property, besides the fact that it meets all the council's requirements, is that the property has been on the market for 6 months and the vendor is getting pretty desperate. He has had no offers throughout those 6 months.

A quick check on Hometrack.com showed me that he bought the property on 4 July 2001 for £155,000. He wants £179,995 for it. Not unreasonable after 4 years. But I only want to give him £167,058.82 max. I put in a bid for **£152,995**, or 15% off the asking price.

I know he will reject this first bid, as it would mean him selling at a £2,000 loss. But I ask the estate agent - who had a few words to say about my low offer - to convey that offer to the vendor anyway.

7.3.7 The Golden Rule of Negotiation

DO NOT, AT THIS STAGE, TELL THE AGENT YOUR MAXIMUM BID.

If you do, you've shown your trump card. The agent, who gets a bigger commission from the vendor for every bit extra that you pay for the property, will probably advise the vendor to hold up until you reach your maximum bid. They are working for the vendor, after all.

7.3.8 Playing mind games

This step can be said to be slightly psychological. No offers for 6 months, the first offer is less than what he paid for the place, so he's definitely going to reject it.

But what will be going through his mind will be, "Is my property really worth as much as I'm asking?" He wants it to be, but reality is not telling him that.

If you've sold a property before, you will know that estate agents will come to a seller and tell them what price they will market a property at, and they do jack it up sometimes to win the sole-agent contract – your agreement that no other agent will sell it.

So, the vendor will be thinking, did the agent jack up the price 6 months ago?

You show you are sincere by upping the offer after your first bid is rejected. You can do this in as many steps you want, but I'd say at least £2,000 to £3,000 at each stage. Remember your maximum bid of £167,058.82. Never exceed that.

That means I can increase my bid by £2,000 about 5-7 times. It helps if you are the only bidder and as an investor, you can always walk away.

7.3.9 When to walk

If you do go up to your maximum bid amount and it is rejected, walk away.

Look for other properties. Tell the agent to ask the vendor to come back to you if he changes his mind. Tell the agent that you are NOT going to go above this amount, right down to the last penny even, if you want to show you have done your calculations.

This also shows you are a serious buyer. It is then up to him to persuade the vendor that as there have been no offers for six months, it's probably worth letting go of the property at around my maximum bid.

In the Brent case, we finally agreed a fee of £167,000, giving me instant equity of about £13,000 in the property. Other apartments are going for around £180,000 and I paid Hometrack to verify that as well. I know that this property can be revalued at £180,000.

7.3.10 Market values – what they mean and how to beat them

You're probably thinking: 'That property's not worth £180,000. How can it be, if it was priced at £179,995, didn't get any offers for six months, and sold for £167,000?'

Fair enough too. A property is worth what the market pays, and as I paid £167,000, that's the market value, I hear you say. A valid argument and you'd get full marks on your economics paper.

But let me tell you why I believe I got it for below the market value, and how you could do the same.

When a buyer buys the property for his own residential purpose, they need to like it. Which means the decor needs to be nice and the layout to their taste.

7.3.11 I smell a bargain

In the Brent case, it wasn't a place I'd have chosen to live in. This was purely about investment, and let me tell you, it wasn't the nicest of places, to say the least, when I bought it.

It stank of dog pee and needed new carpet, the wallpaper was coming off, and it was generally pretty unattractive. To someone who wants a nice place to live, that is. Its state put off all the owner-occupier buyers.

Investors who are not into developing or DIY and buy new builds will let to young professionals. They don't want this kind of place, then.

I am not a property developer, so the property must not have structural problems and major work needing to be done. But as I was going to let it out, as long as it satisfies the council's criteria of the room sizes and so on, then the fact it stinks and is a bit dingy isn't a problem. Those things can be easily fixed. I always look for ex-local council houses, partly because they can often be in this kind of condition, and that means a better deal for me.

The cost of decorating and new carpets is tiny relative to the saving on what I believe is the real market price.

In the Brent case, I won't, of course, know the property's real market value until I come to sell it, but I know from Hometrack that for its size and location, £180,000 would have been the market price at the time, AFTER the work was done to make it a bit more attractive.

If you are worried about the RSL giving you a low rent quote because they've seen the place in pretty poor condition, don't worry.

It's worth telling the rent negotiator that you're planning to put in new carpets or anything else that would make a big difference to how a place looks, but the main thing that determines the rent quote is the location and size of the property, and what the RSL is prepared to pay. They don't worry too much about the condition of the place, as that's the safety surveyor's job. See [Getting It Up To Social Housing Standard](#).

7.3.12 Why all valuations are not equal

A valuation is a subjective, based on a bit of science, but you should remember that anyone who gives you a value has a different reason for doing it, and that will affect the number they give you.

Estate agents, as we know, tend to value a property higher than they think it will actually go for.

A bank valuation for mortgage purposes tends to be lower, therefore.

Even when all things are equal, the market doesn't always pay what you might think is the real market value.

For instance, I bought a 3-bed property in Islington for £172,000 and the woman who bought the virtually identical place next door at about the same time paid £180,000. Naturally, she was gutted to discover this. But, three years later, I've checked recently on Hometrack and similar properties in that area have been selling for £200,000, which is reassuring for both of us.

7.3.13 The long-term view on values

In the Brent case, there is, of course, the possibility that I didn't get a bargain, and that the place was worth the amount I paid. I hope not, but it is possible.

I believe I did get a genuine bargain, but even if I didn't, my belief in the long-term viability of the property market means that when I come to sell in 15 or 20 years' time, the capital gain over that time will be significant, with or without that extra £13K difference between the 'market value' and what I paid.

8 CONVEYANCING AND LOOKING FOR A MORTGAGE

Once both sides agree a price, and you're sure that all your sums add up and that this is a positive cash flow investment (in this case, about £280 a month), you need a solicitor to help you with the conveyancing of the deal, and also a mortgage broker.

8.1 Talk To Your Solicitor

If you don't already have a good solicitor who you know is fast and reliable and charges a fair rate, ask for a recommendation from friends or colleagues. Try not to go via the solicitor recommended by the estate agents.

If possible, find one that doesn't charge you anything if the deal falls through for any reason, so you pay only on completion. And remember that demand for social housing in particular areas may change, so it is vital that you are prepared to pull out if this happens before exchange of contracts.

The solicitor's job is to do all the necessary legal paperwork to ensure the house is rightfully yours, make clear the boundaries of the property, enquire that searches are done with the local authority (this usually cost £250), and ensure what will be left in the house for you in terms of fixtures and fittings.

Your solicitor is working for you – you're paying them – so make sure you ask any questions you might have about the property and get them to resolve them for you.

8.2 Set Up Your Mortgage

You also need a good mortgage broker, and you need to know how they're paid – either by you, with a fee, or by the lenders, who pay a commission, or a combination of both.

My broker does not charge a fee, but most importantly for me, he has a very good relationship with a specialist lending company called Paragon, which likes social landlords.

Paragon, as with other lenders can also be approached directly, if you want to skip the broker, but you might be missing out on a good deal if you don't do plenty of shopping around.

From the table in

Appendix 1 – Pros And Cons Of Social Buy-To-L you will see that one of the few cons of social buy-to-let is that due to the long lease, it is sometimes difficult to get a buy-to-let mortgage.

This is explained later, in Why are lenders reluctant to go social? Why this is, I still don't comprehend. It does not make sense that mortgage lenders hate long, guaranteed leases. Have a read of the mortgage section for more on this, along with some mortgage jargon translated into layman's terms.

8.2.1 The mortgage fine print – read it!

A broker will find you a lender who is willing to lend you the money. Before completion, as you do not have a guaranteed long lease signed yet, you should have access to loads of mortgage lenders and be able to get the best deal.

It is usually the re-mortgage after a few years, if you want to change lender that is more difficult, because there is this reluctance among many lenders to get involved in social housing.

At this stage, anyway, you don't have to mention to any lender that you intend to rent the property to an RSL on a long-term lease.

Look out for the fine print, though, or you may find yourself in breach of contract of the mortgage agreement. It is usually written in the terms and conditions of the loan that the buy-to-let property should be let on an Assured Shorthold Tenancy, usually between 6 months to 1 year.

It is up to you whether you wish to inform your lender (if they are not specialist social buy-to-let lenders) that you are buying the property to let to housing associations.

The mortgage lender will ask for a rent estimate from an agent, and you can ask that from the same estate agent selling you the property. They normally let out properties as well, so they can confirm a rental quote.

The lenders use this rental quote to calculate how much they can lend you when they do their underwriting. The general rule is that they want to see the rent being at least 130% of the monthly payments.

8.2.2 More about mortgages

To cover everything there is to know about mortgages would be a whole other book in itself. I've included what I think is most relevant to the issue of social housing in

Mortgages, Tax Costs And Gearing, but I'd advise you to make sure you really understand your mortgage before you sign, and if this means some extra reading, go for it.

Property Secrets' book Buy to Let Secrets by Neil Lewis and Richard Davies, has a very thorough section on mortgages and gearing, and you may well find it useful reading, along with the forums on www.propertysecrets.net

Information is power, and the more relevant information you have to hand, the better your position will be.

8.3 Solicitor, Check. Money, Check. Now Can I Sign?

The lender will need to have a valuation of the property and you have to pay a surveyor for a homebuyer's report, which will cost around £300, but can depend on the property price.

The broker will already be able to give you a quote as to how much the lender is willing to lend.

Now, 3 to 4 weeks have passed since we agreed the price with the vendor. The surveys have come back fine and Paragon is willing to lend me the £142,000 I need.

The searches have come back from the local authorities and everything is fine. There are no major works to be carried out in the next 5 years. I am about to exchange contracts with the seller. So I'm ready to put pen to paper.

Hold on!

Once you sign, that's it, unless you want to lose your deposit – not a great move for an investor. Before you sign, you have no obligation to the seller besides what your conscience tells you, and as a hard-nosed investor, that doesn't mean a lot.

When you sign, though, you really are committed to buying this property. And if you sign at this stage, you could be making a terrible mistake.

Remember, I made this mistake once before and ended up with egg on my face – a property all set for social letting, but that the local authority didn't need.

You must not forget to check that the RSL you're targeting still needs the property you're about to buy. So, the next step will be the most important in the entire social buy-to-let process.

9 BEFORE EXCHANGE OF CONTRACTS

9.1 Recheck Demand With Your RSL

Whatever you do, do not skip this step. It's absolutely vital that you call the RSL again before you sign anything. Learn from my mistake, and don't make this mistake yourself. Ensure that the RSL still needs the property that you are about to exchange on.

Call them, let them know you are about to exchange on a property that you're buying only because you want to let it to them. Give them the postcode. Tell them it is a 2-bedroom flat in Brent. Do they still need it? Chances are they say yes, everyone is happy and you proceed to exchanging contracts. Completion – paying the balance of the agreed price and getting your keys – usually happens between five and 15 days after exchange, depending on what both buyer and seller agree.

Now, here comes what I see as the only real risk involved in social buy-to-let. You ask the RSL before exchanging, do they still need the property? Now, it's usually only about a month or two that passes between putting in an offer and exchanging, and demand doesn't usually change that quickly, but it can do.

So, what do you do in the unlikely but possible event that you ask the RSL if they still need the place, and they say no?

9.1.1 Decision time – should I stay or should I go?

You have a decision to make. Do you pull out, or go ahead anyway? Walking away doesn't feel good, and it means a lot of wasted time and energy, but it's better to walk away than keep going with a bad deal.

There is another option at this stage, though, and that's to consider the private rental market. All the due diligence you have done was to ensure that the council needs the property. You have not yet decided if the private rental market needs the property.

In my case, as I did not recheck demand before I bought, I already had the keys before I realised there was no longer a demand for that kind of social housing. For me, there was no going back, and fortunately, I was able to rent out the property privately quite quickly after completion.

As you've applied for a buy-to-let mortgage, you should already have an idea of what the private market would pay for your place, and can do your sums and see if it appeals. If you go down this route, you're not exploiting the opportunities that social housing bring – the whole purpose of this book – but you may find this more appealing than starting again with another property.

If you do go down the private route, it might even be possible for you to advertise for tenants before completion, if the vendor agrees, which they're quite likely to if there's a threat of the whole deal collapsing at this stage.

But if the rental from the private market for your kind of place in your area isn't workable, then you need to just say goodbye and put it down to experience. Better that than to end up with negative cash flow and an empty property.

9.2 Arranging Crucial Appointments

Assuming you go ahead and do buy a property for social letting, there are a few pieces of paperwork and ringing around that you need to get done at this stage. Exactly what's required depends on how things have unfolded so far, but you'll probably be in one of two situations.

9.2.1 Situation 1

If the rent negotiator has already given you a rent quote, you will also have had a rent acceptance application form. In that case, you need to:

- Send in the rent acceptance application form (along with an administration fee of £100 + VAT in the case of Pathmeads; this varies between RSLs, but you should already know this from your previous inquiries to the RSL)
- Inform the RSL that you have exchanged on contracts. The property ownership is currently being transferred to your name
- Arrange a time for one of the RSL's technical surveyors or technical advisors to visit immediately after completion
- If you're anticipating that any renovation work is going to be needed, arrange for your builders to clear their schedules after completion
- Arrange for gas engineers and electricians to come out and give you certification (See [Getting It Up To Social Housing Standard](#))

After contracts are exchanged, a completion date is usually set, so you will know when to get the technical surveyor, builders, gas engineers and electricians to arrive all rather promptly.

Unless the vendors are really kind, they will usually not want to have all these intrusions before completion. The RSLs will not generally send the technical advisors to you before completion anyway, as they want to confirm your ownership first.

Always stay in touch with the RSL. They will be able to guide you along the process, as long as you keep them informed of progress.

9.2.2 Situation 2

The second scenario comes about because you're dealing with an RSL that does not allow the negotiator to go down before completion.

Call them now to arrange for the rent negotiator to arrive on, or as soon as possible after, the day of completion. Then repeat the steps from scenario one. This will cause a little more delay, so hopefully your RSL allows the negotiator to come out early in the process. You should already know this, though, as it will be one of the things you asked about in [Pick up the phone](#).

10 COMPLETION

10.1 Time To Hit The Phone (again)

Great. You own the property and you've got the keys.

Hopefully, if you didn't have a rent quote before exchange, then 10 days ago you booked an appointment for the RSL to send a negotiator down to visit your property and give you a quote. So this should take no longer than another 3 or 4 days. The negotiator will come and look at the property and give you a rental offer.

Finalise your calculations now and see how much positive cash flow you will be receiving. This should not be too far off the original figure that persuaded you to go ahead with the purchase in the first place.

In the case of my property in Brent that we've been following, I was given the rent offer before I even made an offer on the place. I was given a rent acceptance application form to fill in during the negotiator's visit, which I have since returned to my chosen RSL, Pathmead, once contracts were exchanged.

In the case of the Brent property, I was quoted £230 per week, or £996.66 per month. This is subject to the property being brought up to their safety standards. You will be told what to do by the technical surveyor to make sure you meet the requirements. See [Getting It Up To Social Housing Standard](#).

You will receive written confirmation of the rent offer usually within 5 working days of sending off your application, depending on the RSL.

The reason the whole process can only really start after completion is that at this stage, the RSL will obtain an Office Copy Entry from the Land Registry to confirm ownership details of the property. They want to make sure you really are the owner of the property.

10.2 Biding Your Time

This does slow things down a little, and may give you a short initial void after completion, but once you do the initial work, you don't have to worry about finding another tenant for up to 5 years.

This month or so of initial void is dependent on how smoothly things go and how quickly work is done to bring the property up to RSL standards.

Still, think about all the month-long voids that private landlords expose themselves to every six months, and how quickly that can build up over 10 years. That's up to 20 months, or nearly two years without rent. Voids are always bad news for investors, but at least with social housing, you know it's only going to be a one-off, in the first few years at least.

10.3 Early Costs – And One You Don't Have To Pay

I'm sure you're well aware that you have to start making mortgage payments from the time the property becomes yours, so it's obvious that the faster things get done, the sooner the rent starts paying the mortgage. One good thing is that as this is a rental property, and if there is no furniture in the property, you do not usually have to pay council tax.

Ask the council about this, as the rules change from time to time, but keep receipts for any furniture you buy for the property, showing proof of delivery dates, so you can help prove that the place was unfurnished as well as unoccupied for a time. Once the tenancy agreement is signed, the council tax will be taken over by the RSL.

This means you should not have to pay council tax on the property at all.

11 PREPARING THE PROPERTY TO BE LET

11.1 Getting It Up To Social Housing Standard

You've bought a place of the right size in the right place to meet the needs of the RSL you're targeting, and you've made sure all the rooms are the right dimensions to meet their requirements.

Now you have to know a bit more about the safety standards that RSLs require of your properties. Remember that RSLs are not interested in how nice a property looks, nor in providing luxury to their tenants. Their big concern is tenants' safety.

RSLs require clean properties in a good state of repair and with efficient and functioning heating and electrics. They simply won't consider anything that is sub-standard.

This is to cover them – and you – from the risk of being sued if one of the tenants has an accident. As the landlord of a property, you retain ultimate legal responsibility for what goes on there, just as you would if you were letting privately.

But, as an RSL is sub-letting the property, they stand to get in plenty of legal hot water as well if a problem emerges. Their fear of a costly lawsuit means their health and safety department will always, always make sure that their backs are covered. And, in effect, that yours is covered too.

I'll give you an example. The RSL will force you to have the CORGI CP12 gas certificate, which I'll explain shortly, and before it expires they'll send you a reminder to renew it, so they keep you on your toes. It's the same with electricity checks.

I actually feel more comfortable letting to them as they act as a nanny and remind me all about things for every single property.

Here's what you need to know about safety.

11.1.1 Gas safety

You need a defect-free Landlords Gas Safety Certificate, known as CP12. This has to be completed by a CORGI-enrolled contractor. The issue date must not be more than 1 month prior to the proposed lease date.

The RSL can recommend a contractor to do that for you. I actually use the RSL recommended contractor for the CP12 certificate as the RSL safety department has to approve the certificate. This is something you'd need to do if you were letting to private tenants as well.

Once that is passed, you need gas insurance, or 3-Star Cover insurance. I get mine from British Gas because they also provide plumbing, drainage and electrical cover, and you can ask for appliances to be covered as well.

This means that if the boiler plays up, I just call British Gas – or the tenants do it themselves, as I've handed over the phone numbers - and they send someone down

to fix it. I have called out electricians, plumbers, gas engineers and even builders for minor problems via the British Gas contract and have not paid anything extra, just the standard £29 per month.

The CP12 needs to be renewed every year. The RSL will usually send a reminder to you 1 or 2 months before it is due to expire.

You can decide which contractors you want to provide you with the CP12 and 3-Star Cover, but it's compulsory that you have both.

11.1.2 Electrical safety

You need a defect-free Electrical Safety Report. The electrical installation testing must be carried out by a NICEIC (National Inspection Council for Electrical Installation Consulting) or ECA (Electrical Contractors Association) approved contractor.

The issue date must not be more than 3 months old. The expiry date must not be less than the proposed expiry date of the lease. This usually lasts for 5 years, so it will cover the whole of the lease.

When organising your electrical safety test, you should arrange for the test to be carried out and the relevant certificate completed and sent to the RSL as soon as possible to avoid unnecessary delays in the commencement of the lease.

11.1.3 Fridge-freezer

You are usually required to supply and fit a new fridge-freezer or have a second-hand or existing fridge-freezer PAT (portable appliance testing) tested when the electrical safety test is carried out.

11.1.4 Smoke detectors

This is compulsory for all RSLs that I have come across. The locations of the smoke detectors vary but generally one will be required in the kitchen and one in the hallway.

11.1.5 Furniture

Under the Furniture and Furnishings (Fire Safety) Regulations 1988 upholstered furniture must have fire-resistant filling material.

Most cover fabrics used in sofas and the like have passed a match-resistance test and the combination of the cover fabric and the filling material must have passed a cigarette-resistance test if sold in the UK.

Don't worry, you won't be required to try burning the furniture yourself. Just ensure that when you are buying new or second-hand furniture for a rental property, you check to see that there is an appropriate label.

Furniture or furnishings purchased after March 1st 1990 from a reputable supplier should all have attached labels. There are two types of labels:

DISPLAY LABELS: - all furniture will carry the appropriate display label at point of sale.

PERMANENT LABELS: - all new furniture (except mattresses and bed-bases) and covers for furniture must carry a permanent and non-detachable label, like this.



Most RSLs will ask for new mattresses for their tenants as well. This is annoying as when I used to rent privately, I was never given a new mattress, still sealed in plastic. But, as it is a requirement, you have to provide it. You can get some cheap mattresses quite easily in local furniture shops for around £30 to £50.

11.1.6 Washing machines/showers

Before you jump into buying a brand new washing machine and putting in a new power shower, check with the RSL whether they want these things or not. The RSLs I use want the washing machines and showers removed.

This is good. It saves you not just the expense of buying these things, but also any worry about repairs. If the tenants want a washing machine or shower, they have to buy them themselves, and are responsible for their maintenance.

11.2 Get A To-Do List From The RSL

Next will come the visit from your RSL's technical advisor or technical surveyor, who will inspect the property and prepare a schedule of works and list the furniture needed to bring the property up to a lettable standard. You will be sent a copy of this.

At the same time, hopefully the gas and electrical certificates are up to scratch. (See [Getting It Up To Social Housing Standard](#)) You need to send a copy of these to the RSL as soon as possible.

Once you receive the schedule of works, get cracking. The sooner you get the work done, or employ a trusted builder to do this work for you, the sooner you can sign the lease and get the money coming in.

The usual schedule of work does not require the same standards of luxury that might be demanded by private professional tenants. As we've said before, in the case of social buy-to-let, the work is purely to achieve cleanliness and safety.

11.3 Making It Happen

Examples of work required include simple things like:

- All surfaces must be free from dust, dirt and marks.
- All windowpanes must be free from cracks or chips. Window restrictors must be fitted to all opening windows (to open no more than 10cm) if the property is first floor or above.
- You need to supply 3 or 4 sets of keys for every door, gate and any lockable windows.
- A new coat of paint is required if paintwork is old.
- All mattresses must be brand new.
- Tidy the garden.
- Carpets must be of a good standard, on underlay, free from all dirt, marks, stains, burn marks, fraying and tears.
- Remove shelves as these could fall and hurt the tenant.
- Remove all wall hooks, pictures and brackets.
- Supply 3-piece suite for living room.

As you can see, these are not difficult things to do. These are things you'd probably be doing if you were letting the place privately as well.

11.4 What It Costs To Get A Property Up To Scratch

11.4.1 Gas checks and cover

Gas 3 Star cover is around £250 to £400 a year, depending on the size of the property. This is to cover call-out charges, and in my experience, this has covered everything.

I've been lucky and because all the problems have been small and have been fixed on the spot by the technicians sent out, I've never had any extra to pay.

I always use the RSL's gas certification checks, as I once used British Gas to get a gas landlord certificate and it was rejected by Pathmeads, the RSL I was dealing with!

The gas certificate was fine, just that it was not in the format or it did not tick the correct boxes or some other red tape issue, so they rejected it and I had to pay for it again with their recommended gas specialists.

11.4.2 Electricity

For the electrical checks, I always use the RSL's maintenance department and the people they recommend, who I know I can trust.

Another reason is that the NICEIC electrical safety certificates I've had done privately last only three years, but the ones I've had through RSLs give me five.

The downside to this is the RSL demands an administration fee of £25 plus VAT, in the case of Pathmeads. Incidentally, this is what the RSL charges for every gas inspection or maintenance issue that they need to send someone out for. For the peace of mind, though, I pay that every time, and don't even have to call a tradesman myself.

The gas and electricity safety checks cost me £79 for both, and admin of £25 and VAT on top of that. When I did these checks privately, the electrical certificate alone cost £129 + VAT. Bank on the checks costing from £60 to £150 for each check, depending on who you use.

11.4.3 Furnishings

You need the real basics, here, and nothing more. A three-piece suite, fridge (with certificate as described in [Fridge-freezer](#)), oven, beds, mattresses, wardrobes and chests of drawers.

You can sometimes get a bed for £100 from Argos or somewhere similar, if you shop around. Remember, they really are not looking for fancy stuff, which some private tenants demand, but only for what's practical and safe. I cannot emphasise that enough.

What you DON'T need to buy: Washing machine, dishwasher, TV, coffee table, stereo or any entertainment systems, no plates, bowls or cutlery. Just the bare basics of furniture.

These people need a place to live, a roof over their heads, and a good start that will hopefully help them get jobs or simply look after their children.

Here's a rough guide to what I spend on furniture:

1) Bedrooms 1&2

double beds, 2 x £120, total £240

2 x wardrobe, chest of drawers, bedside tables, total £300.

2) Living room

3-piece suite £600

3) Kitchen

Oven already fitted, usually

Fridge £250

Dining table and 4 chairs £110

TOTAL

I usually set aside £1,500 to furnish a 2-bed property.

11.4.4 Building and decorating

I steer clear of any property that requires anything structural doing to it. It's too time-consuming and too much of an unknown from a cost point of view.

Usually, I get some reliable Polish handymen/decorators I know to give me a quote based on the list of jobs that the RSL's inspector has given me. Obviously the cost varies from property to property, depending on what needs doing, but for decorating, I usually get everything done for between £500 and £1,000 for a one-bed, and under about £1,800 for a two-bed.

In the case of the Brent property that we've been following, I had to put in new carpets and do a few other little jobs, so it cost me £2,500 altogether, which is higher than average, but I managed to make some savings by hunting down really cheap furniture.

When I say cheap, I should say cheap but sturdy – you don't want it to collapse and need replacing in a few months.

It sounds like quite a lot, but remember that I believe the poor condition of the place saved me £13,000 off the asking price, so I'm still in front on costs.

11.4.5 Total setting-up costs

The total setting-up costs for social buy-to-let, including gas and electrical safety certification, 3 star cover for your boiler, new furniture and decorating I would say are:

For a one-bed: roughly £2,300

For a two-bed: roughly £3,700

Of course, a lot depends on the condition your property is in when you buy it, and your taste in furniture, but this is a rough guide.

11.5 Arrange Your Final Inspection

To save time, if you estimate that you can get the work done within 2 weeks, call the RSL and arrange for the Final Inspection to take place in 2 weeks, even if you haven't started the work.

That sets you a deadline and forces you to complete the works and get the furniture in. On the plus side, of course, this minimises the time during which you receive no rent.

The RSL should by now have the gas and electrical safety certificates and a gas service contract on file. Only then will they send the technical surveyor for the second and usually final visit to check that the property is ready to let.

11.6 Other Conditions Of Social Housing Schemes

Some councils, such as Hillingdon, as I mentioned previously, require the approval of your freeholder to use the property for social housing. If it is an ex-council flat, the freeholder is the council, and sometimes councils won't allow a property they themselves are the freeholders of to be used for social housing. Strange, as they're denying themselves available properties, but true.

There are also some RSLs who require you to seek approval from your insurers. There are some landlords' policies that do not allow Private Sector Leasing Schemes lets. Most do, but it is essential to check first.

Some good insurers with a long experience in buy-to-let are Hamilton Fraser Insurance Solutions, Rentguard and Coverlet Insure.

11.7 Final Inspection

The Technical Surveyor who performed the first inspection of the property will return to ensure that all the works have been done to the required standard.

If the RSL has received the Office Copy Entry from the Land Registry, they will sign the lease and send it to you for signing. Sign the document, have it witnessed, but they'll ask you not to date it.

This is because the RSL will only start paying you once they've found someone to live in the property.

Once you send the lease back, within 2 weeks they will usually have found someone to move in, as demand for these properties is high when the council is looking for such properties. You double-checked this before you bought, remember?

The RSL wants to save themselves two weeks' rent. This isn't usually a problem, because it's outweighed by the fact you don't have to worry about voids for the next five years.

12 WHEN THE LIGHTS GO OUT – MAINTAINING YOUR PROPERTY

12.1 Who's Responsible For What?

If the tenant says there is a problem with the property and something needs to be fixed, they will inform the RSL who will, in turn, inform you, the landlord. If we do not do anything within a certain period of time, the RSL will send their associated contractors, be it a plumber, gas engineer or electrician.

If you have insurance to cover call-outs like these, give your insurer a call and they'll send someone down to the property.

Once the problem is fixed, give the RSL a call or write them a letter to inform them that the problem has been resolved. If you don't, they'll assume it's not been addressed, send someone out themselves, and send you the bill.

Other less common maintenance issues that the landlord is responsible for include leaking water supplies, both external and internal, door and window ironmongery, gas supply from the gas meter to the property, cisterns, kitchen units (except what is consider normal wear and tear), surface water and foul drains and gutters, electric switches and socket fittings.

I have only had 2 calls for these less common maintenance issues in 6 years, with five buy-to-let properties.

12.2 Hands-On Or Hands-Off? How Involved Do You Want To Be?

What I tend to do is to give the tenant the British Gas Breakdown Number (I take out British Gas cover for call-outs, and get a discount if there are no or very few call-outs), and the tenants call up British Gas on their own if there's a problem. This means the problem is reported and resolved without me or the RSL even having to hear about it.

It depends how involved you want to be, or how hands-off. It really can be free and easy for 5 years if you want it to be.

If it is something not covered by British Gas or whatever cover you have, you can decide whether you want the RSL to send their associated contractors to the property. Bear in mind they charge an administrative fee on top of the call out charges.

You may ask them to give you a quote and you can use Yellow Pages to call around to find out if they are competitive rates. From my experience, the RSL only employs reputable companies for their work, and they quote you in advance. So even with the administration charge that the RSL bills you for arranging the work, it could be worthwhile to get the RSL to do everything from you. All they do is to take it off the rent they send you and attach the invoice of the work done.

12.3 Damage Caused By Tenants – Not Your Problem

As I mentioned at the beginning of this book, one of the things that puts many investors off the idea of social housing is the idea that the tenants will trash the place, bother the neighbours, and generally be more trouble – and more expense – than they're worth.

Social tenants, apart from usually being decent people who wouldn't do that anyway, have a very good reason in addition to common decency not to do this. They stand to lose their housing benefits, and this would be catastrophic for them.

Of course, you're right in thinking that every now and then, as in private letting, you may come up against someone who simply doesn't give a damn about the neighbours, your property and furnishings, or losing their housing benefits. Should you worry, then?

No. If your tenant causes damage to your property or the furniture you've put in there, the RSL must either arrange for damage to be fixed – at the RSL's expense – or replace whatever's been broken.

12.4 Checks On Tenants

The RSLs you deal with will make regular checks on your property throughout term of the lease to make sure that your property is in good condition, about every three to six months, depending on which RSL you're dealing with.

If you want to go with them, or carry out these checks yourself, this can be done. It depends how involved in the process you want to be.

12.4.1 Damage or wear and tear?

Sometimes, the line between damage and wear and tear is a difficult one to draw. The distinction is crucial for the landlord. If something is damaged, then it's been caused by the tenants and therefore is the RSL's concern to fix and pay for.

If it's wear and tear and the item in question is no longer working or is otherwise sub-standard, then you get the bill.

This can be tricky sometimes. For example, I was informed by an RSL managing one of my properties that I needed to replace an armchair. I went down to the property and saw that there were slashes on it, caused probably by a penknife. I talked to the tenant, who admitted that his children had caused the damage.

When I passed this on to the RSL, they agreed that it was therefore not my job to replace it. In cases like this, where it is the RSL's role to replace an item, they can choose to either do it right away, or to wait until the end of the lease or the end of these tenants' stay.

12.5 Evicting Problem Tenants

If you're unlucky enough to have tenants who do, against all the odds, trash the place, or who harass or cause a persistent nuisance to the neighbours, the RSL has a duty to deal with them, and the last resort is eviction.

The RSL handles all of this for you. As with eviction in private letting, it can be a lengthy process – up to six months – but this will be done for you, and won't cost you anything.

13 EXIT STRATEGIES – WHAT HAPPENS WHEN YOUR LEASE EXPIRES?

13.1 Lease Renewals

After several years of checking the rental monthly payments entering your bank account, your lease with the RSL will be approaching an end. Provided that the council still requires your property, which is the usual situation, it would be pretty sensible for you to let it back to the RSL for another 5 years.

The RSL does not redecorate the property or repair or replace any damaged furniture where this is due to reasonable wear and tear.

If, at the end of the lease, a tenant is still living in the property and the landlord wishes to renew the lease, the RSL will offer a lease renewal, subject to the local authority's current requirement. They usually contact you nine months before the end of the lease to begin negotiations.

If they write to you saying they are interested in renewing the lease, this is great news!

The RSL will then send a negotiator to the property to assess rent and list any health and safety work that needs doing, as they did before signing the initial lease.

If the council no longer needs your property, however, it will be handed over to you at the end of the lease. You then have to decide what you're going to do with it.

13.2 Lease To Private Tenants

Now, I know that you bought your property based on demand for social housing, and not with private tenants in mind. And, I've gone to great lengths to detail the big benefits of social housing versus private, in particular the peace of mind you get from having guaranteed yields.

But, if you've got a place that's no longer needed for social housing, and you're not ready to sell, you need to think about the private market. Check out the demand with estate agents and discuss their management fees, tenant finder's fees, and get a realistic assessment of the rent your property's likely to generate. Do this about 4 to 5 months before the lease with the RSL is due to run out.

Five years after fixing your initial mortgage on the property, you may find, depending on what interest rates are doing, that you can get a better rate with lower monthly payments. This may help keep your cashflow up, even if the rental you get in the private sector is lower than the RSL was giving you.

Remember the cashflow calculator we used when looking at what we could afford to pay for a property? See [Playing around with the numbers](#). Now's the time to look at that again, and see which of the variables you can change to get the numbers you need.

Try to increase the market rent by making the property a bit nicer, and do a few of those things to make the place feel homely that you did not have to do with social buy-to-let. You can also decide whether you want to keep paying for 3 star cover for the place, now that it's no longer compulsory as it was with social housing. As a landlord who wants a peace of mind, I would keep the three star cover, but you might opt to dump it.

13.3 Check, Check And Check Again

I've said over and over in this book that the demand for social housing in different areas can change from time to time, and you should remember this now. If, nine months before your lease was due to expire, the RSL said they no longer needed it, you may find that after handing the property back to you, they actually do need it again, so ring and check.

Certainly do another check before signing a private tenancy agreement, and if they do need it back, I'd go with the social option every time, unless, for some reason, you stand to gain significantly more rent from the private sector. Unlikely, I'd say, but I suppose it's possible.

Even if you do get a private tenant in and all is going smoothly, always keep an eye on the RSL demand in case it changes. You can always give notice to the tenants, as set out in the terms of the tenancy agreement.

13.4 Selling The Property

In the unlikely event that letting privately will result in negative cashflow from the property, you will probably have to consider selling it. This might happen either because the mortgage costs have increased considerably, or the rent you get from the private sector is so much lower than with social housing that it no longer covers the rent.

By this time, it'll be 5 years since you bought it, and in all likelihood will be worth a good deal more than when you bought it.

Selling the property also might be something you look at doing before the lease expires, for whatever reason.

This is not a problem, even if there is a social tenant in the place. In fact, it might actually make the property more appealing to potential buy-to-let investors. If the lease is still current, then you must sell the property with the lease intact, and the tenant and lease remain until the lease expires.

You cannot sell the property to someone who is unwilling to take over the lease you have with the RSL.

I asked a couple of RSLs about this, and they said that while the lease could not be broken by a landlord in order to sell, there were rare, specific and special circumstances in which they'd consider handing back a property to the owner before the lease was up, but usually only if the owner was likely to become homeless themselves if they didn't get it back.

Officially, if potential buyers want to view the property, under the terms of your lease you have to give the RSL 14 days' written notice of each appointment, so that they can notify the tenants that they need to provide access.

I actually have all my tenants' mobile numbers, and I keep in touch to maintain a good relationship with them. If I did decide to sell, I'd call them directly and make sure they didn't mind letting potential viewers come in. This means I can bypass the RSL.

Imagine having to give 14 days' notice before being able to get a potential buyer in for a viewing? You'd never sell the place like that.

If you are planning to sell, I'd say you should start marketing the property no later than 6 months before the lease is up, and advise any potential buyers of the lease with the RSL.

You should also inform the RSL of your intentions, as once the property changes ownership and the lease has not ended, then the rent goes to the new owner. So, they'd need to change their details.

If you sell the property and you make a profit, depending on what the tax laws are in 5 years, you'll probably have to cough up for Capital Gains Tax.

Have a read of [Tax](#), bearing in mind that this may, and probably will, change by the time you come to sell in 5 years or more, so always seek advice from an accountant on these matters. You might also check with your accountant when you buy, whether it would be beneficial to you to buy your buy-to-let properties in a company's name.

14 MORTGAGES, TAX COSTS AND GEARING

14.1 A Word About Mortgage Lenders

Now, one thing you may find is that very few lenders who offer buy-to-let mortgages will be willing to lend on a property registered for a guaranteed rent scheme like social housing.

This I do find absolutely perplexing but that is the way things are. I do not understand their reluctance. When banks lend money to people, what gives them the most hassle and paperwork and problems? When the person who borrowed the money doesn't pay, surely.

And why can't the borrower pay the money? Probably when no rent is coming in. They can't find a tenant, and they run into cashflow problems. So, they tell the bank that they can't pay. The banks have to go to the trouble of repossessing the property and need to sell it to recover their money.

They're clearly forgetting something important: the rent in social buy-to-let is GUARANTEED. And if we follow my methods, the rent always covers the mortgage payments. So, if the RSL is going to give me all this money to pay the bank, how am I going to fall into arrears? I will always be able to pay the bank their interest, and that's guaranteed, but many lenders insist that this is a problem.

14.1.1 Why are lenders reluctant to go social?

Their biggest worry seems to be the tenure of the lease involved in social housing. An Assured Shorthold Tenancy – the usual requirement of buy-to-let lenders and the kind used in private letting – guarantees that a tenant can be moved out after six months.

This is not so under a guaranteed rent scheme which offers the tenant a number of years in the property.

The banks say something like: "If we had to repossess, we could be tied into three to five years of running the property before we can sell it. It would therefore be a lot harder to repossess the property if the owner defaults on the mortgage payments."

This very statement does not make sense to me. Why would the bank need to repossess, when guaranteed rent is coming in to pay off the mortgage? Sometimes, it infuriates me.

But we are stuck with this problem. That's the way things are. Most banks will make it a point in their terms and conditions that the property must be let under an assured shorthold tenancy contract, sometimes not more than 6 months.

In fairness, one of the problems for the lending industry is that the lease documents of individual RSLs are all different. Not only that, but each RSL may have a different set of requirements in each different local authority borough, reflecting the special requirements of each borough they work for. For the lenders, this is just too much work to concern themselves with.

14.1.2 The times, they are a-changing

This may not be the case for much longer, however.

The Council of Mortgage Lenders is now working with the housing associations (RSLs) and at least one landlords' association to look at this issue. The hope is that they will get agreement on a standard lease document for private sector leasing schemes, or at least a set of terms, which will give the lender confidence that their interests are protected.

Presumably this will make it easier for lenders to gain possession of a mortgaged property in the event that the borrower defaults.

Your choices are certainly much more restricted than on normal buy-to-let properties – just a handful of lenders offer mortgages on these properties. It would be fantastic if the Council of Mortgage Lenders or the Housing Associations maintain a list of lenders who are happy to lend on long leases, but no such list exists.

14.1.3 What you do in the meantime

While these discussions continue, you're going to find it a bit of a challenge to find a lender who'll give you a mortgage on social buy-to-let property.

The answer is to deal with the handful of lenders that do want to lend us their money to get the guaranteed rent. Most of these lenders have landlord packages and the more properties you have with them, the more opportunity you have to negotiate rates and terms with them.

A few lenders I know do lend on social housing are Mortgage Express (www.mortgage-express.co.uk), Mortgage Trust (www.mortgagetrust.co.uk) and Paragon Mortgages Limited (www.paragon-mortgages.co.uk). They will be more than happy to talk to you. A good mortgage broker will be able to help find others, I'm sure.

Lenders generally expect a letter from the estate agent or in this case, the RSL, stating the potential rental value of the property before lending. The rental income must generally achieve a minimum of 130% of the monthly mortgage payments.

14.1.4 Clauses that will make lenders like you

Many Private Sector Leasing Schemes issued by RSLs usually have a clause saying "if the landlord shall default on his mortgage payments, they can pay rent to the mortgage lender who shall give a good receipt on behalf of the landlord". This should help your case for a mortgage with any reluctant lender.

Many RSLs are flexible and may be prepared to insert break clauses or agree to other changes to their standard lease, if it helps the landlord get agreement from their lender.

Break clauses mean that lenders will be happier to deal with landlords undertaking Private Sector Leasing Schemes as this makes it quicker for the lenders to repossess the properties if the need arises.

For example, a break clause after 3 years can be written into a 5-year lease. If the landlord defaults on mortgage payments after two years, the lender can repossess the property with the social tenants (sub-tenants) still living in the property. After a year, as vacant possession is guaranteed, the lender can then recover the asset.

14.1.5 Paperwork for your RSL on your mortgage

Some of the more demanding RSLs may ask for proof that you have sought and obtained approval from your mortgage lender for the property to be used as social housing. In that case, you will have to inform the lender that you are buying the property for long-term leasing.

However, many others do not, and they put the responsibility on you to “check that all necessary lenders, freeholders and insurers approval and permission have been obtained”.

14.1.6 The letter of the law

It is possible, therefore, if the RSL doesn't insist on seeing approval of a long-term lease from your lender, that you go ahead and get a mortgage without telling your lender what kind of lease you're planning to get.

It's very unlikely, assuming you make all your mortgage payments on time, that you would ever get caught out, but it's not a route I'd advise you to take.

Agreeing to stick with short-term leases and then taking out longer ones would breach the terms and conditions of your mortgage. This becomes a legal matter, and is probably not worth the risk. It's better that you use one of the lenders who are happy with you letting to RSLs on a long-term lease.

14.2 Interest-Only Vs Capital Repayment

There are two ways you can set up your mortgage. One is to repay capital and interest, known as a capital repayment mortgage, and the other is to only pay the interest on the loan, called an interest-only mortgage.

If your loan repayments are spread over 25 years as is usual, a capital repayment mortgage will mean that you will owe the bank nothing at all after 25 years if you kept up with all the monthly mortgage payments.

An interest-only mortgage will mean that after 25 years, the bank will chase you for the initial loan amount.

It does seem sensible to have a mortgage that you eventually pay off the capital, so you don't have to worry about where you're going to get the money from to repay the bank the initial loan amount.

I, however, have a different theory. I have always debated which kind of mortgage is better, and have come to the following conclusion:

When it comes to my own home, the property I live in, I will pay it off as quickly as possible so I can forget about it. Definitely have a repayment mortgage for your own home.

There are now mortgages for your own home such as the One Account (www.oneaccount.co.uk), Intelligence Finance (www.if.co.uk) and Barclays (www.barclays.co.uk) that calculate interest daily.

The advantage of this is that you're only charged interest on whatever balance you owe them after they take into consideration not just your mortgage, but also your current account, savings, and credit cards. Let me explain in a little more detail:

Say I owe £100,000 on the mortgage. With a conventional mortgage, I will pay interest calculated based upon the £100,000. That will end up being quite a lot.

With a more flexible mortgage like the ones I've described – there could well be others, so shop around – the amount you have in your other accounts is offset against your mortgage and credit card loans.

- Mortgage Balance – £100,000
- Credit Card – £2,000
- Current account – £1,000
- Savings – £9,000

So, in effect, you owe the bank $£100,000 + £2,000 - £1,000 - £9,000 = £92,000$. You get charged interest on the £92,000, which is a lot cheaper, and you still get to use the £10,000 you have in your current and savings accounts.

14.2.1 Why interest-only is usually the way to go

While I'm a big fan of paying off the capital owed on your own home, I will always advise that when it comes to your investment properties, you go for interest-only.

This is because you can waive the interest against tax, which I will come to in just a second, and it makes the monthly repayments significantly lower than they'd be if I had a capital repayment mortgage. This leads to more positive cash flow.

What happens after 25 years, you ask? I can always re-mortgage five years from now to give me another 25 years, or I can bank on selling the property just before the 25 years is up, and repay the bank out of the proceeds.

You just need to be confident that when the time comes to sell, that the property will be worth more than the amount you owe the bank. And you wouldn't be investing in property in the first place if you didn't believe that.

Having an interest-only mortgage has another advantage: it allows more capital to be freed up for gearing and further investment.

And one final thing: you can only offset interest repayments against tax – not contributions to paying off the capital – so capital repayments come out of your

profits. In essence, you pay more tax with capital repayment mortgages on your investment properties.

14.3 Mortgage Glossary

A more complete list of mortgage terms can be found in [Appendix 4 – Glossary Of Mortgage T](#) but I'll just point out a few of the more important and most commonly used ones here.

14.3.1 Loan to Value (LTV)

This is the maximum amount of money a mortgage lender can lend you relative to the property value. It is usually expressed as a percentage, like 80%.

That means if a property is worth £100,000, then the lender will only lend you £80,000, and you have to come up with the other £20,000 deposit from somewhere else. LTVs for owner-occupied homes are usually about 90 to 95%, whereas buy-to-let LTVs are around 80 to 90%.

This means that gearing (see [How to make your money go further](#)) is very important as a way to get the deposit on the next property in your portfolio.

14.3.2 Tie-in period

As a condition of a special mortgage deal, for instance a fixed rate or discount on the standard interest rate, you may have to agree to stay with the lender for a period of months or years after the deal has ended.

If you move your mortgage elsewhere during this period, you may have to pay an early redemption charge, and these can run into thousands of pounds, so make sure you're aware of the terms of your discount or special deal.

14.3.3 Arrangement fees

This is a fee you pay to your lender in return for a mortgage deal. Different names for arrangement fees are: application fee, booking fee, completion fee, drawdown fee and reservation fee. Some lenders charge a fixed fee of, say, £499, while others charge 0.1% of the loan. If interest rates are low, then arrangement fees are usually higher to compensate for the lower profits the banks make.

14.3.4 Valuation

Before granting you a loan, the lender will send someone out to conduct a simple check of the property in order to find out how much it is worth and whether it is suitable to lend a mortgage on.

This is carried out by a professional surveyor for the lender. You usually pay the bill for this and will usually get a copy of their report.

14.3.5 Term of Mortgage

The period of years over which you take the mortgage. Most new mortgages are taken on a 25-year term.

14.4 Upfront Costs

14.4.1 The big one – your deposit

Before buying any property, you need to know the amount of money that you'll have to come up with initially.

I have heard of no-money-down deals with buying properties, meaning no deposit and a 100% LTV, but I have not come across in them in the buy-to-let market.

You may also see a developer selling newly built properties offering to pay your 5 or 10% deposit, pay your stamp duty and legal fees and so on, but these properties are usually not suitable for social buy to let. This was discussed in [Deciding What Kind Of Property To Buy](#), usually due to the high service charges involved.

14.4.2 Home Information Packs (HIPs)

The present situation for buying properties puts a fair amount of the costs involved on the buyer rather than the seller.

As you may be aware, there was a plan by the UK Government to make it compulsory for all property sellers to produce a Home Information Pack.

This would have included a mandatory home condition report or property survey, legal documents, including a copy of the title deeds, local authority and water board searches such as planning permissions, road schemes, listed building status and drainage.

In the case of a leasehold property, it would also have required a copy of the lease, service charge accounts, building insurance details and a copy of any contract with the management company.

A five-page detailed examination of your home's energy efficiency and environmental impact, known as the energy performance certificate, would also have been required.

All this would have cost sellers between £600 and £1,000, and of course they'd be adding that to their asking price.

After heated and very public debate on this idea, the requirements on sellers have been toned down. From around June 2007, barring no last-minute changes of heart from Westminster, sellers will have to provide a less demanding HIP. The main change from the original proposal is that a home condition report is no longer required.

In summary, it would have benefited buyers to a greater extent with the original HIPs, although would have added to the cost, and may have put sellers with something to hide at a disadvantage. Now, it will just save the buyer around £400.

14.4.3 Stamp duty, and fees, fees, fees

These are the other costs you should bank on:

15 to 20 % Deposit	15% to 20%
Stamp Duty	0% for properties less than £125,000 1% £125,000 to £249,999 3% £250,000 to £499,999 4% for properties more than £500,000
Solicitors' fees	£400 to £800
Mortgage Broker	0% to 1% = £0 to £1,000
Mortgage Arrangement Fees	£0 to £500
Mortgage Indemnity Guarantee	£0 to £2,000
Valuation / survey fees	£150 to £500 (dependent on cost of property and type of survey required)
Local Searches	£150 to £300
Land Registry fees	£100 to £200
That's just to buy the property, then there's the cost of getting it to meet the RSL's standards. See What It Costs To Get A Property Up To S	
Gas Safety Checks	£60 to £150
Electric Safety Checks	£60 to £150
Builders	Up to £1,000
Furnishings (sofa, fridge etc)	£800 to £2,500
Initial 2-week void	£400 to £600, depends on mortgage

14.4.4 And the grand total is...

For a property of £100,000, you need between about £16,000 to £30,000 in your pocket, depending on the LTV you've agreed with your lender.

If you're in this price range, you don't pay any stamp duty, which is a big saving. A property costing £200,000 (I would not recommend purchasing a property much more than £200,000 unless it is a 3 or 4 bedroom property and the rent will cover the mortgage) will require you to come up with roughly £33,000 to £45,000.

A quick note on stamp duty: If you buy a property of £249,999, you will pay 1% stamp duty of £2,499.99. If you pay £1 more for the property, you will need to pay £7,500 in stamp duty - an extra £5,000.

There are some properties over £250,000 which may be suitable for social buy to let, but to get a good cash flow, most properties you look at should be under that threshold.

14.4.5 How to fund your upfront costs

Depending on how much you earn and how much you spend, you can save, but to save this kind of money can take months if not years, even for high-income earners.

There is a better way than buying a piggy bank, though. If you are a homeowner or already have a buy-to-let property, you probably have equity in these properties from which you can release capital. This is known as gearing, and this is where you'll get the money for your next deposit and upfront costs from.

14.5 Gearing

Gearing or remortgaging is the technique that most buy-to-let investors use to raise the capital to buy their next property.

14.5.1 How to make your money go further

Let me show you how gearing works.

The first place I bought, a three-bedroom place in London, cost me £172,000 – an ex-local authority maisonette. The asking price was £179,999, I bid £172,000 and the offer was accepted. Damn! Big mistake – I obviously bid too high, but I've learnt from experience and won't be doing that again. Anyway, back to gearing.

I bought the place, rented it out to an RSL. Three months passed. I then went to my mortgage broker and told him I wanted to re-mortgage. OK, he says. On the mortgage application form, I had to fill in an estimated current property value. I thought, let's try £190,000. My broker told me, no, put £220,000.

I thought he was mad. I knew full well that the place would never sell at £220,000. I'd only bought it three months before, remember, and I paid too much at £172,000.

The broker advises me to go ahead anyway. The survey valuation came back at £210,000. I was amazed. My original mortgage (at an LTV of 85%) was £148,000. With this new valuation, I could now borrow 85% of 210,000, which is £178,500, a cool £30k more.

Of course the mortgage payments increased, but this was still covered by the rental, which was guaranteed.

I then had an extra £30k to put into another property, just three months after buying the first. If I had gone with my initial assessment of the property's new value, at £190,000, I could only have borrowed 85% of that, which is £161,500. This means I would only have had £13,500 extra to put towards my next property.

The key, therefore, is to state a higher valuation of your property than you really think it is worth, as the lender's surveyor will almost inevitably give it a value below the one you've given. Of course, it has to be reasonable as surveyors can easily see through what you're doing. But the correct figure will give you that extra 10k or 15k towards the next property.

14.6 Tax

As much as we all hate it, we have to pay tax on the rental income we get from the RSLs. This is almost a PhD in itself, knowing how our Chancellor likes to make tax issues clear and simple for all taxpayers!

I am not a tax expert, so I always consult a qualified chartered tax accountant on this. Make sure you do too, if you are not confident about all the ins and outs of what you do and don't need to pay.

This is not an area where you want to be making mistakes. Here is an overview of some of the things you should bear in mind when it comes to tax.

14.6.1 What you don't pay tax on

The following costs can be offset against your rental income:

- Service Charges
- Ground Rent
- Feu duties (Scottish Ground Rent)
- Insurance (Buildings and Contents)
- Insurance (Gas – 3 Star Cover, Electrical, Appliance, Plumbing)
- Replacement furnishings
- Maintenance and repairs, but not improvements
- Mortgage interest, even if the property is empty
- Insurance for white goods
- Letting agent's fees for management, including VAT, if you're letting privately
- 10% of rent as "wear and tear" on furnishings, but not fittings

14.6.2 What paperwork you need

If you are investing or dealing in property then you must keep all receipts for 5 years and 10 months from the end of the tax year in which you receive them.

These will be the most important documents you will have to support your tax return. Also keep the annual statements that your bank sends you detailing how much interest you have paid on your mortgage.

It is also a good idea to have a separate bank account for all your property-related transactions. This allows you to see the status of your property account, hopefully growing all the time. If a tax investigation does take place, then you will be able to match up your receipts against your account transactions.

You can get more information from www.hmrc.gov.uk.

If you have not set up a company for your property investments, then the rental income will count towards your personal income. The amount you get taxed will be as follows:

14.6.3 Your tax liability

Income tax 2006/2007

Rate/Allowance Value	Band	Description
Single Person Allowance	0% £0 to £5,035	The first £5,035 of an individual's income is Tax Free.
Starting Rate	10% £5,035 to £7,125	The next £2,090 (between £5,035 and £7,125) is taxed at 10%
Basic Rate	22% £7,125 to £37,435	The next £30,310 (between £7,125 and £37,435) is taxed at 22%
Higher Rate	40% > £37,435	Any income received above £37,435 will be taxed at 40%.

14.6.4 Reducing your income tax liability

If you are a 40% taxpayer, like I am if I work full-time, any rental income you receive will be charged at 40%. This is seriously going to affect your financial independence. Setting up a company might be better off for you, as corporate tax is only 19%. In addition, running expenses such as wages and travel can be offset against tax.

Again, you need to discuss your situation with a chartered accountant to decide whether you should set up a company before you buy a property.

If you buy a property in your own name, and decide later to transfer it to a company, your company will have to pay stamp duty.

14.6.5 Capital gains tax (CGT)

Capital gains tax is due whenever you make a profit from the sale of a property. You are only liable to pay it if you are a property investor – by that I mean it's not your own home that you're selling - and it's only paid when the property is sold.

In the year 2006/2007, each individual has an annual tax exemption or CGT allowance of £9,000. This means that when you sell your property, the first £9,000 of profit you make is tax-free.

You can also offset buying costs like solicitors' fees, stamp duty, surveyors' fees, and selling costs like solicitors' fees, estate agent fees and so on.

I have not sold any of my properties yet. I am hoping to lease them to Housing Associations for 15 to 20 years. My strategy for my properties is to hold the properties for at least 10 years, 15 to 20 if possible. One reason for that has something to do with something called Capital Gains Taper relief.

14.6.6 How Taper Relief Works

Allow me to illustrate:

No of Complete Years Held	% of Gain Chargeable	Effective Tax Rates		
0	100	40	20	10
1	100	40	20	10
2	100	40	20	10
3	95	38	19	9.5
4	90	36	18	9
5	85	34	17	8.5
6	80	32	16	8
7	75	30	15	7.5
8	70	28	14	7
9	65	26	13	6.5
10 or more	60	24	12	6

The first column shows the number of complete years you have owned the property. This is known as a qualifying period and is referred to as 12 whole months.

You will notice that selling after 10 years of holding the property will mean that you are liable to pay tax on only 60% of the profits instead of 100% after 2 years.

There is a lot of information on taxes around, not least on the Inland Revenue web site www.hmrc.gov.uk. There's also a good deal of property-specific tax advice in another Property Secrets book, [Property Tax Secrets](#).

You can learn almost everything you need to know about tax from this book, but I always think money spent on the advice of an accountant is money well spent. It's also tax-deductible.

Tax requirements, rates and exemptions change fairly frequently, and it's vital that you make sure you're up to date on the changes that are relevant to your investments.

15 APPENDIX 1 – PROS AND CONS OF SOCIAL BUY-TO-LET

PRIVATE	SOCIAL
Rents not guaranteed – tenants may default	Guaranteed rents
Get rent from individuals	Get rent from a reliable corporation
Possible voids	No voids after initial fortnight
Short leases 6 months to 1 year	Long leases, 3 to 5 years
Letting agents' fees, even for tenancy renewals	No agents/management fees
If not using agents, have to show prospective tenants around	Never have to show any tenants around
Referencing for tenants recommended	No referencing for tenants needed
Legal eviction if tenants refuse to move	Vacant possession at end of tenancy agreement
Need to use Tenancy Deposit Schemes	No need to be concerned with Tenancy Deposit Schemes
Lease renewals 1 month before end of tenancy	Lease renewals 9 months before end of tenancy
Washing machine required	No washing machine required
Power shower pump expected	No shower required
No regular visits to property	Can visit and check property if you want
Hassle with utility bills	No hassle with utility bills
Probability of forgetting to renew gas or electrical safety certificates – this is ILLEGAL for a landlord	Reminder sent to you for renewal gas every year and electricity every 5 years.

Wide network of mortgage lenders	Niche market of mortgage lenders
No social stigma	Social stigma
Second hand mattresses and fridge acceptable	New mattress required, PAL certification for fridge if not new
If one tenant pulls out, you can look for another	Possible change of demand by council during purchase

16 APPENDIX 2 – AN EXAMPLE OF AN RSL'S REQUIREMENTS

This is the kind of thing you'll find in an RSL's handbook for landlords, setting out very specifically what they expect you to provide at a minimum.

It seems unwieldy, but it's a great tool, as it eliminates any doubts about whether the property you're considering buying will be suitable. Each RSL has different requirements, but this will give you an idea.

Space requirements

Bedroom sizes

The bedroom should have space for the bed(s), a wardrobe and a chest of drawers and allow for air to circulate. Single bedrooms should be a minimum of 5 sq. m and double bedrooms 8 sq. m.

Living room with separate dining area

The size of the living and dining room will depend upon the number of the occupants of the property

Up to 4 people	9.5 sq. m
Up to 6 people	12 sq. m
Up to 8 people	15 sq. m
8 people and over	18.5 sq. m

Dining room areas should be large enough to fit all the occupiers sitting on chairs around the dining table at once.

Combined living and dining room

A combined living and dining room should be big enough to accommodate the dining table and chairs, and a 3-piece suite suitable for the number of occupants.

Up to 4 people	11 sq. m
Up to 6 people	14 sq. m

Over 6 people need a separate living room

Combined kitchen/diners should have sufficient space on and around the dining table and be separated from the food preparation area.

Fixtures and finishes

Stairs

Stairs, banisters and handrails must be strong and well fixed, with handrails on all internal stairs and landings. Balustrades should have a maximum 100mm space between them and any open risers should be infilled.

Plastic or glazed stair panels or ranch-style banisters must be replaced with conventional balustrades or boarded over on both sides with plywood.

Spiral staircases are the only stairs that are not acceptable.

Wall and ceiling finishes

Any areas of live plaster, damp penetration, cracks, excessive condensation, mould growth or structural movement must be attended to.

Polystyrene tiles must be removed and the surface underneath made good and decorated.

A rough artex finish to walls where it may be a danger to the occupants should be plastered over to a level and even finish. Artex to ceilings is acceptable.

PVC or plastic suspended ceilings need to be replaced with mineral fibre tiles, or the suspended ceiling removed entirely and made good.

Internal decoration

All walls, woodwork and ceilings should be clean and in good decorative order with no scuffs, marks or abrasions. Wallpaper should have no tears, marks or gaps and the wallpaper should match.

Walls and ceilings should be finished with vinyl silk or emulsion paint and joinery and metalwork finished with a gloss finish or stained.

Floors

The preferred floor finishes are; sheet vinyl in the kitchen, bathroom and toilet, and carpets in the remainder of the property, including any stairs.

All floors should be level and even and free from trip hazards and dampness. Floor coverings should be of reasonable quality, in good condition, and they must be able to last the length of the lease.

Floor coverings must be properly fitted and secure.

Carpets in basements must have underlay or 4mm plywood under the carpet.

Vinyl floor coverings in bathrooms and kitchens must be laid on 4mm plywood boarding and the floor must be well sealed with waterproof silicone sealant around all edges.

Ceramic tiles are acceptable on solid floors in halls, bathrooms, kitchens and toilets. Parquet, wood laminate and varnished floors are acceptable in all rooms apart from the bathroom, the kitchen and the WC.

Blocks of flats will need an appropriate quality underlay to stop moisture moving from one flat to another.

Cork, carpet tiles or anything similar are not acceptable floor finishes.

Wood laminate flooring will only be accepted on the understanding that any water or other damage will be your responsibility.

Fireplaces

Gas fires with back boilers behind them must be capped off and all other gas fires or wall heaters capped off below floor level and removed.

Unused fireplaces should be properly blocked up and provided with a non-closing vent and fly screen.

Kitchens

Kitchen Units

The following list sets out the minimum number of units (or equivalent kitchen storage areas) you should provide in the property.

Property size	Double base unit	Unit
1 bed (1-2 people)	2	1
2 bed (3-4 people)	2	1
3 bed (5-6 people)	3	2
4 bed (7-8 people)	4	3
5 bed (9-10 people)	5	3
6 bed (10 people)	5	4

Kitchen units should be in a good serviceable condition and the worktops must cover all the base units.

Tiling

Tiled splash backs with a minimum height of 300mm must be fitted to all walls adjoining worktops and sinks. All tiling should be well fitted and have no cracks, chips or mould, and joints between the worktop and tiles must be sealed with a waterproof silicone sealant.

Electrics

At least two unengaged double electric socket outlets with switches should be provided, in addition to sockets for the cooker, toaster and kettle. Sockets should be 100 mm above worktop height and at least a metre from any taps or other water source. There must also be sockets for the fridge and a washing machine.

Fridge/freezers

All fridges and freezers supplied must be new or have been recently PAT (portable appliance testing) tested, with a certificate.

Cookers

Cookers should be in a good condition, securely fitted, at least 900mm in height and they must have a safety chain or anti-tilt bracket installed. Cookers at the end of units or next to doors are not acceptable.

Ventilation

The kitchen needs to be well ventilated with a window that opens, or be fitted with an extractor fan that provides a minimum of four air changes per hour and stays on for 15 minutes after the light has been turned off.

Mechanical Waste Disposal Units

Mechanical waste disposal units must be removed.

Washing machines

We do not require you to provide a washing machine but space for a washing machine (ideally in the kitchen) is required where the property has two or more bedrooms. Hot and cold feeds, a low level socket and the waste should be provided in the space and capped off.

Dishwashers

We do not require dishwashers.

Bathrooms

Bathrooms and toilets

A bath is required in properties with two or more bedrooms. Basins and baths must be in a good condition and well sealed to the tiled splash back with waterproof silicone sealant.

Tiled splash backs must be in good condition and be a minimum height of 300mm.

Baths should be free of chips, rust or staining and adequately supported. Bath panels must be replaceable and securely fixed with cups and screws or concealed fixings.

Toilet pans and seats must be clean, free from cracks or chips and should be well secured to the floor. Mechanical waste disposal systems (Saniflow or equivalent) will not be accepted.

Waste pipes to the toilet, bath and sink should be free-flowing, watertight and fitted with overflow pipes.

We would prefer you to fit an emergency release vanity bolt or indicator bolt with a lock to all bathroom and toilet doors.

Bathrooms should have a window, which is easily opened. Where additional ventilation is required you should fit either a permanent vent through the external wall or provide an airflow ventilator in the window.

Bathrooms with no windows must have a mechanical extractor fan as in the kitchen.

Any glass in bathroom doors and windows should be opaque.

If the toilet or bathroom are directly off the kitchen you need to provide a wash hand basin in the room.

Showers

We cannot take properties with showers or shower fittings over baths, so any that are installed must be removed.

Shower cubicles and trays must be of good quality, with full height tiles well sealed to the tray and raised off the ground level on a plinth to allow access to the u-bend.

One-bed properties can be fitted with showers only; larger properties must have a bath.

Fire Safety

Kitchen Doors

Half-hour fire check doors with a self-closing device must be fitted to all kitchens to prevent the spread of fire. Where the kitchen is part of the dining room, a fire door must be fitted to the living room doorway to provide a protected means of escape for the bedrooms.

Means of Escape

No bedrooms should lead directly off the kitchen or kitchen/diner. Open plan ground floors in houses must have a protected means of escape for bedrooms. Bedrooms must open onto a landing or hallway, that is they cannot be accessed by going through another room.

If the only exit from the property is directly through the kitchen, an alternative means of escape must be provided.

If the property is a flat or a maisonette in a block where a communal staircase serves more than one property, the entrance door to the flat must be a half-hour fire resistant door and be self closing.

Smoke Detectors

In a house with two floors two smoke detectors must be fitted, one to the ceiling in the hallway outside the kitchen and the second on the landing. Houses with more floors require at least one smoke detector on each landing. Flats need one smoke detector in the hall or common area of each unit.

Smoke detectors must be hard wired mains supplied with battery back up, linked together where there is more than one, and must be E1 151 Professional Range smoke detectors.

A carbon monoxide tester should be provided.

Doors and Windows

Doors

Main entrance doors to flats need a letterbox with the street and flat numbers on the door (or in a prominent position by the main entrance) and the flat number on the flat entrance door.

Properties above the ground floor must be fitted with a doorbell.

Properties above the third floor must be fitted with an intercom or entry phone system and the power to its supply provided by the landlord.

Flats in large blocks need secure letterboxes for tenant's post.

Front entrance doors must be fitted with a night latch and a five-lever mortise deadlock with a thumb turn release so people can escape easily if there is a fire.

Back doors must be fitted with a mortise lock and should have tower bolts fitted to both the top and bottom of the door.

Doorframes should be in good condition, doors must operate freely and easily.

Single glazed doors must either be re-glazed with 6mm Georgian wired glass, panelled both sides of the glass with 4mm plywood or the glass sandwiched between clear plastic adhesive sheets.

Bedrooms with patio or French doors must have an additional window that can be opened for ventilation. French doors must have integral security deadbolts to the top and bottom of each door.

Windows

Windows should provide adequate light and ventilation to the room.

They should be openable, undamaged, and free from decay and decorated well enough to last the term of the lease. Glazing should be securely fixed and putty sound and waterproof. Sash windows should be draught proof and correctly balanced.

All windows on the ground or lower ground floor must be fitted with window locks.

Window openings on the 1st floor and above must be fitted with restrictors that limit the window opening to a maximum of 100mm.

We require horizontal safety rails, spaced no more than 100mm apart, to ground floor windows with sills below a height of 1.0m and rails to windows on the first floor level or above where the sill is 1.2m from the floor level.

We cannot accept louvre windows on the ground floor and louvre windows on first or other floors should not have more than four louvre blades.

Glazing in windows below 1.0m must either be covered with clear plastic safety film or the glass replaced with safety glass.

Mirrors

Any large or potentially dangerous mirrors should be removed or covered with clear plastic safety film. Small bathroom mirrors can be retained but they must be well fixed and secure.

Keys

We need three full sets of keys to the front and rear doors, the window locks, garage doors, garden shed and to any communal cupboard containing meters etc. Internal doors (apart from the bathroom and WC) should not have locks but if locks are fitted you must retain the keys.

External requirements

Structure

The building structure must be sound, completely water tight and in good condition.

External walls and windows

External decoration must be sound and of sufficient quality to last the term of the lease. Rendered surfaces and parapet walls must be in good condition with copings and flashings secure and complete.

All brickwork must be sound and vertical with continuous pointing. Chimney stacks must be in good repair with chimney pots securely fixed.

Roofs and rainwater goods

Roofs and rainwater good must be in a good and serviceable condition. Any loose slates, tiles or aerials, which either present a possible hazard or that may cause defects to the property, should be made safe.

Gutters and down pipes should be fitted, in good condition, clear of blockages and empty into a gulley.

Non-traditional roof coverings and gutters such as felt roofs or bitumen covered slate roofs, are not acceptable.

Balconies and roof terraces

You must provide railings to external roofs onto which the occupiers may have access. The railings must be galvanised steel (or equivalent) conforming to BS standards with a minimum height of 1.1m.

We cannot take on properties, which do not have railings to protect flat roofs or external decking if there is any danger at all of someone going onto the flat roof. We may insist that access to these areas is sealed off and bars installed on the access routes to such areas.

Outbuildings

Sheds and outbuildings must be structurally sound and empty. They should not have a lock but you will need to fit a bolt to keep the door closed. Asbestos in outbuildings must be removed by a specialist contractor.

Sheds, outbuildings, greenhouses, purpose built conservatories or lean-tos that are poorly constructed, present a potential danger to the occupants or are unsafe must be removed.

External toilets that are functioning properly can be retained. Those not working should be removed and the services and wastes sealed and capped off.

Any electrical sockets in outbuildings must either comply fully with current NICEIC regulations or disconnected and made safe.

Garages

If the property has a garage it must form part of the letting. The garage will need to be in a good, safe condition, clear of any belongings or rubbish and we will need you to provide three sets of keys. The garage cannot be used by you for any personal storage.

Gardens

Gardens must be debris and weed-free and anything that presents a hazard must be removed. Patios, paths and other concrete areas should be level and in good repair. Ponds must be filled in and manhole covers should be easily removable for access. Large trees and vegetation should be pruned or lopped.

Any drops in the garden greater than 1 metre must be protected by secure fencing.

Boundary walls

All boundaries must be continuous with a minimum height of 1 metre. They should be sound and free from defects with any poorly secured panels or posts repaired and they cannot be topped with broken glass, spikes or barbed wire. Side access gates must be in good condition and fitted with a latching device and bolts at the top and bottom.

Boundaries to railway tracks, roads or other potential dangers must have secure fencing a minimum of 2 metres in height.

Refuse disposal

Dependent upon the Borough's waste disposal method you will need to supply a heavy-duty plastic refuse bin, a wheelie bin or whatever is required by the Local Council.

Services

Meters and supply

Meters should be out of the reach of children, but the gas and electric meters must be accessible to all occupants so they can use key or card meters. All gas, electricity and water services must be separately metered and supplied individually.

We will need isolation points with stop cocks clearly labelled, and easy to reach within each property. Any supply to communal stairs, external lights, etc. must be separately metered and paid for by the landlord.

At the time we take over the property you will need to provide £15 of credit on all key and card meters.

Gas

A CORGI registered engineer must inspect the gas supply and all appliances at the start of the lease and on an annual basis.

At the start of the lease you must give us a copy of the CP12 Gas Safety Inspection Certificate and every 12 months after this you must send us a new certificate. We require you to provide a manual to the heating system, with details of where switches are and how to turn the boiler on and off.

Gas meters on escape routes, for example fire exits, stairs, communal hallways, that are below 2,100mm in height must be put inside fire protected vented cupboards.

You must provide permanent vents in any room that contains a gas boiler.

Heating systems

All properties must have adequate space heating and hot water systems with an adequate radiator or night storage heater in every room (not in circulation spaces).

You must provide gas central heating breakdown cover for gas heating and hot water systems. All works and installations must satisfy the Gas Safety (Installation and Use) Regulations 1994.

All boilers, radiators and radiator pipe work must be in good condition with radiator valves in full working order. You need to provide a room thermostat in the coldest part of the property if thermostatic radiator valves are not fitted.

Boilers in bathrooms cannot be put over the bath; the boiler must be in an enclosed fire-protected cupboard, which has air vents at the top and the bottom.

Any electrical connections in boiler cupboards in bathrooms must be protected but we prefer programmers, controls and isolator switches to be located outside the bathroom if possible.

Economy 7 or night storage heaters must be connected to off peak electricity with the correct meter installed and the heaters wall mounted with fused spurs.

Cylinder immersions must be provided on all hot water and storage cylinders. Hot water cylinders should be fitted with insulation jackets and hot tanks and pipes located in loft spaces and roof voids should be properly insulated.

We will accept warm air ducted heating and district heating systems in ex LA right-to-buy units where the LA is responsible for the system but only if it is working adequately.

Rooms without a radiator must be fitted with night storage heaters connected to off peak electricity.

Non-conventional heating systems will only be accepted at our discretion and we will require a back-up heating system.

Panel heaters or hot air blowers are acceptable in bathrooms only and electrical bar heaters are not acceptable in any rooms.

All heating appliances that are not used must be disconnected and removed.

Electrical

An NICEIC approved electrician must inspect the electrical installation in the property prior to the start of the lease. We will require a copy of the NICEIC Periodic Inspection Report (or an Installation Certificate for a new or renewed installation), which must last for the term of the agreement.

Rooms should have the following minimum number of socket outlets:

Bedrooms	One double
Lounge	Two doubles
Dining	Two doubles
Kitchen	(see section on kitchens)

If electricity meters and fuse boards are at low level within a property or common hallway they will need to be located in a fireproof cupboard.

Lighting

All rooms should have a lighting pendant or batten holder with light shades and bulb points with a simple on off switch.

Fluorescent lighting is only acceptable in the kitchen.

If wall lights provide secondary lighting we will ask you to remove them and cover them with a blanking plate.

In exceptional cases we may accept recessed lighting, spot lights, or low voltage fittings but we will not replace the bulbs and if we have problems with the unit we may replace them with a standard pendant fitting.

You must provide external lights for deck access flats, maisonettes or alleyways from the street level to the door. The lights must be bulkhead vandal resistant and connected to a landlord's supply.

Asbestos

You must inform us if there is any asbestos anywhere in the property. If you are unsure, we may require you to get a specialist firm to confirm whether there is asbestos present or not. If asbestos is present it must be removed by a specialist contractor complying with hazardous materials legislation.

Flats over shops

Flats over shops must have safe, clear and well lit access. We cannot take flats situated over pubs, restaurants, fast food outlets, dry cleaners or other similar operations where the premises are open later than ten o'clock at night or where fumes or smells from the shop may cause a problem to our occupants.

Loft Conversions

All recent loft conversions will need Building Regulations approval and Planning Permission if necessary. The precise requirements for the conversion works will depend upon the date the works were done, the storey height, and the lay out.

Key elements are:

½ hour fire doors with closers to all habitable rooms in the loft, closers on all other doors of habitable rooms, hard wired smoke detectors on all landings, means of escape for all habitable loft rooms, 2 meters head height over stairs and landings and a maximum pitch of 42 degrees on the new stairs.

Furniture Requirements

The requirements for furniture and contents are listed below. These items will need to be supplied by you before the property can be let.

The furnishings will be expected to last the full term of the Lease Agreement. Second-hand furniture is acceptable providing it meets all approved safety standards. Owners are advised that under the Furniture and Furnishings (Fire) Safety Regulations 1993, all soft furnishings such as mattresses and 3 Piece Suites etc, must be clearly labelled and conform to the current fire safety regulations.

KITCHEN	Electric or gas 4-ring cooker Refrigerator with suitable freezer compartment. Freezers are required in larger properties Net curtains/blinds Adequate cupboards and work surfaces
LOUNGE/ DINER	3 Piece suite (must not be boat style or Chatsworth) Dining table (not glass) and the appropriate number of chairs Nets and heavy curtains
MAIN BEDROOM	1 x double bed with a new mattress 1 x double wardrobe 1 x 5 drawer chest of drawers Nets and heavy curtains
BEDROOM 2 (DOUBLE)	2 x single beds with new mattresses 1 x double wardrobe 1 x 5 drawer chest of drawers Nets and heavy curtains
BEDROOM 3 SINGLE	1 x single bed with a new mattress 1 x single wardrobe 1 x chest of drawers Nets and heavy curtains
BATHROOM/ W. C.	Net curtain or blinds Sanitary fittings should be clean and in good working order Bath and sink plugs, W.C. seat and toilet roll holder

17 APPENDIX 3 – CASH FLOW CALCULATOR

The cash flow calculator can be used to calculate how much your maximum bid on a property should be if you're to achieve a reasonable guaranteed monthly cash flow.

Property Secrets SocialBuy to Let Cashflow Calculator										
	Property 1	Property 2	Property 3	Property 4	Property 5	Property 6	Property 7	Property 8	Property 9	Property 10
4 Asking price	£179,995.00	£140,000.00								
5 Initial Deposit (15%)	£26,999.25	£21,000.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
6 Initial Loan Amount (85%)	£152,995.75	£119,000.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
7 Rent offer per week	£235.00	£190.00								
8 Rent offer per month	£1,018.33	£823.33	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
9 Rent offer per annum	£12,220.00	£9,880.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
10 Service charges	£400.00	£200.00								
11 Building insurance	£0.00	£150.00								
12 Ground rent	£0.00	£20.00								
Cost of service charges, building insurance, ground rent per month	£33.33	£30.83	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
14 Mortgage interest rate (%)	5.50	5.25								
15 Term of loan (years)	25	25								
Monthly mortgage interest only payments	£701.23	£520.63	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
17 Three Star Cover per year	£325.00	£250.00								
18 Three Star Cover per month	£27.08	£20.83	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
19 Other expenses	£0.00	£0.00								
20 CASH FLOW	£256.69	£251.04	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
21 Desired Cash Flow	£287.99	£224.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
22 Maximum mortgage repayment	£669.92	0	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
23 Maximum loan amount	£146,165.38	0	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
24 Maximum purchase price	£171,959.27	0	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

» [Click here to open the Social Buy To Let Cashflow Calculator.](#)

18 APPENDIX 4 – GLOSSARY OF MORTGAGE TERMS

Advance

The mortgage loan.

APR

This stands for Annual Percentage Rate. It takes into account all fees and other costs in connection with the mortgage, as well as the lender's interest rate. The APR is intended to help you compare the terms offered by different lenders and all lenders must quote an APR in addition to the actual rate of interest applied annually to your mortgage.

Arrangement fee

A fee you pay to the lender in return for a mortgage deal. Different names for arrangement fees are: application fee, booking fee, completion fee, drawdown fee and reservation fee.

ASU Insurance

Accident, Sickness and Unemployment insurance (also known as ASR, Accident, sickness and redundancy). It provides a monthly payment if you cannot work for an extended period due to an accident, sickness or unemployment (or redundancy).

BBA

British Bankers' Association. The banks' industry organisation.

BSA

Building Societies' Association. The trade organisation of the building societies.

Buildings insurance

This covers the cost of rebuilding or repairing the structure of the property. Lenders insist you have enough buildings insurance before they give you a mortgage. With leasehold properties, such as flats, it is the freeholder's responsibility to arrange buildings insurance, although the freeholder will usually pass on the charges to the leaseholder.

Buildings and contents insurance

This combined policy may be cheaper than one policy for buildings insurance and another separate policy for contents insurance.

Burdens

Conditions in Scottish title deeds about the use of the property.

Bridging Loan

A temporary loan that enables you to complete the purchase of a new home if you have to do this before completing the sale of your existing home or other property.

Capital and interest

Your monthly payments are partly to pay the interest on the amount of mortgage you borrowed and partly to repay the outstanding mortgage. Also known as a repayment mortgage.

Capped rate

An interest rate charged for a set period of months or years which can go up and down with the variable rate, but there is a maximum (capped) interest rate which it cannot go above.

Cashback

A payment you receive when you take out a mortgage. It may be a fixed amount, or a percentage of the amount of the mortgage.

CAT marks/standards

Standing for charges, access and terms, CAT-marked mortgages must comply with benchmarks laid down by the Government. Different CAT marks apply for (discounted) variable rate and fixed or capped rate mortgages. A CAT mark does not mean a mortgage deal is officially endorsed and for many people non-CAT-marked deals will be a better option.

CCJ

County Court Judgement. A decision reached in the County Court, which can be for non-payment of debts. If you pay off the debt, the CCJ is satisfied and a note is put on your records (credit file) to say this.

CML

Council of Mortgage Lenders. Building societies and most banks and other lenders are members of this trade organisation.

Completion

When the sale and purchase of the property are finalised, and you become the owner.

Conclusion of missives

Scotland only. The point at which buyer and seller are legally bound to the transaction.

Contents insurance

Insurance cover for your personal possessions. This may include cover against loss or damage away from the home.

Contracts

The legal documents under which buyer and seller agree to buy and sell the property.

Conveyancing

The legal process involved in buying and selling property.

Credit file

A record of your financial history.

Credit scoring

A lender's way of assessing whether you are a good risk to lend money to.

Credit search

A check the lender makes with a specialist company to find out whether you have any County Court Judgements or a record of not paying loans, credit-card bills and so on.

Date of entry

Scotland only, this is the same as exchanging contracts.

Deposit

The amount of money you put towards buying a property.

Direct lender

A lender that arranges mortgages over the phone, through the post, or the Internet.

Disbursements

A solicitor's expenses, i.e., for stamp duty, Land Registry fees, searches, faxes, etc.

Discount term

The time that a discounted rate applies to a variable rate mortgage.

Discounted rate

A guaranteed reduction in the standard variable mortgage rate. This often lasts for an agreed period.

Early redemption charges

A fee charged by the lender if you pay off all or part of your mortgage before an agreed date, or you move the loan to another lender. These charges usually apply on fixed, discounted, or cashback mortgages.

Equity

The amount of value in a property that is not covered by a mortgage. Take the amount of the mortgage from the value of the property to work out the equity.

Equity release

To remortgage to a larger mortgage, to release equity in your property.

Estate agency fees

The amount the estate agent charges the person selling the property. This is usually worked out as a percentage of the sale price, though some estate agents will sell for a fixed fee.

Exchange of contracts

The point where you and the person selling the property sign and swap identical contracts that show the price and what fixtures and fittings are being included in the sale, as well as a date when everything will be finalised. At this point, the agreement becomes legally binding and if either side pulls out after this, they must pay compensation to the other party.

Feuhold

Applies in Scotland only. Similar to freehold.

Fixed rate

The interest charged on the mortgage is for a set amount for an agreed period of months or years.

Fixtures

Any item that is attached to a property, and so is legally part of the property.

Flexible mortgage

A type of mortgage where you can make extra payments or underpayments without paying a penalty.

FPC

Financial planning certificate. These are professional qualifications for financial advisers. Level IV is the highest qualification.

Freehold

This is when you own the property and the land it is on.

Freeholder

Someone who owns the freehold of the property.

Gazumping

When the person selling the property accepts an offer from a potential buyer, and then accepts a new, higher offer from another buyer before exchange of contracts.

Gazundering

This is when the person selling the property accepts an offer, and then the buyer puts in a new, lower offer just before exchange of contracts.

Ground rent

An annual fee that a leaseholder has to pay the freeholder.

HM Land Registry

The official organisation that keeps records of properties in England and Wales. Transfer of ownership has to be registered with the HM Land Registry.

Homebuyer's report

The report you get when a professional surveyor checks the structural state of a property. This is more detailed than a valuation but less detailed than a full structural survey. The buyer pays for it, but it may give them the chance to negotiate a lower price if problems are detected.

Income multipliers or multiples

The size of mortgage that lenders will offer will often be worked out by multiplying your income each year by a set figure. If you are the only person taking out the mortgage, the usual maximum income multiple is three times your yearly income, although some lenders will go higher. Bonuses and commissions can sometimes be included in the calculation.

Income protection insurance

This is a policy that pays a monthly income to replace your income if you become sick or have an accident and become unable to work. It will usually continue to pay until you return to work or to the end of the plan, whichever comes first.

Income references

This is confirmation from your employer that you earn the amount you claim in your mortgage application. An accountant can do this for you if you are self-employed.

Interest-only

Your monthly payments to your lender are simply made up of interest. The capital is paid off at the end of the mortgage term or when you sell the property.

IPT

Insurance premium tax. A tax on all UK general insurance. This is currently charged at 4% of the premium when you buy it from an insurance company or an insurance broker.

Leasehold

This is when you own the property for a set number of years, after which it goes back to the freeholder. Most flats in England are leasehold, and although most lenders will lend on leasehold properties, they will demand that there is a number of years left on the lease before making a loan (the amount varies from lender to lender).

Licensed conveyancer

An alternative to solicitors, these people specialise in the legal side of buying and selling property.

Loyalty bonus

These are special schemes lenders operate under which, if you already have a mortgage, they may provide reduced interest rates or fees, and even services like removals.

LTV

Loan to value. This is the size of the mortgage as a percentage of the value of the property or the price you are paying for the property. A £90,000 mortgage on a house valued at £100,000 would mean an LTV of 90%.

MGI

Mortgage guarantee insurance, also known as MIG (Mortgage Indemnity Guarantee) is insurance covering the lender in case your property is repossessed and the lender cannot get back its money. It's usually applied to high-LTV mortgages.

Missives

Scotland. The formal written offer to purchase and the acceptance.

Mutuals

Organisations owned by and for the benefit of their members - savers and borrowers - with no outside shareholders. Building societies are mutuals, along with some insurance and investment companies.

Negative equity

This is where the money you owe on the mortgage is greater than the value of the property.

New for old

This is insurance cover that will pay the full cost of replacing damaged or lost property with a similar, new item.

No-claims bonus

A discount on buildings and contents insurance if you have not made a claim for a number of years.

Non-status

This means the lender does not need employment or income references from you. This type of loan is often offered to self-employed people.

On risk

When your insurance cover begins. This may be before you have paid a premium.

Percentage advance

The size of the mortgage worked out as a percentage of the price you are paying for the property or valuation. (If your property was valued at £100,000, an £80,000 mortgage would be an 80% advance.)

Possession

The lenders' term for repossessing your property.

Rebuilding cost

The recommended amount from your property valuation that you should take out buildings insurance cover for. This may be higher or lower than the market value of your property.

Remittance fee

A charge made by the lender for sending the mortgage funds to your solicitor when the purchase is just about to be completed.

Remortgage

A new mortgage, even though you are not moving home and not necessarily borrowing any more money.

Repayment mortgage

Your monthly payments are partly to pay the interest on the amount you borrowed and partly to repay the outstanding mortgage. Also known as a capital and interest mortgage.

Sassines Register Fee

Fees paid to the Register of Scotland to register ownership of a property.

Sealing fee

A charge made by lenders when you repay the mortgage.

Searches

Checks carried out during the conveyancing. These checks are made with local authorities and other official organisations to check planning proposals and other matters that may affect the value of the property, and whether it can be sold in the future.

Self-certified mortgage

You confirm how much you earn, and the lender does not need any references.

Settlement

In Scotland, this is the same as completion.

Structural survey

This is the most wide-ranging check of the outside and inside of a property and should pick up all but the most hidden faults. It is paid for by the buyer, and done by a qualified surveyor.

SVR

Standard variable rate. The interest rate the lender charges goes up and down, with your interest payments changing accordingly.

Tie-in period

As a condition of a special mortgage deal (discount or fixed rate, for example), you may have to agree to stay with the lender for a period of months or years after the deal has ended. If you move your mortgage elsewhere during this period, you may have to pay an early redemption charge.

Term

The period of years over which you take the mortgage and when you have to repay it. Most new mortgages are taken on a 25-year term.

Third party buildings insurance

A charge a lender may make if you take buildings insurance from someone other than the lender.

Title deeds

Documents to show proof of who owns the freehold and leasehold property.

Total Amount Payable (TAP)

The total cost of repaying a mortgage over the loan period, including the initial amount borrowed and interest.

Transfer deed

A document that, once you sign it, actually transfers the ownership of the property.

Valuation

A simple check of the property in order to find out how much it is worth and whether it is suitable to lend a mortgage on. This is carried out by a professional surveyor for the lender. You usually pay the bill and will usually get a copy of the report.

Variable rate

The interest rate the lender charges goes up and down, with your interest payments changing accordingly.

Congratulations! You have completed

Social Buy To Let Secrets

Why not take a look at our complete range of publications at

www.propertysecrets.net