



COUNCIL OF MORTGAGE LENDERS

BUYING TO LET

This leaflet is not intended as a detailed guide, and people thinking of purchasing a Buy to Let property should seriously consider taking expert advice about - legal, tax, financial and property management matters.

BUY TO LET

This leaflet is for people who are thinking of buying a property to rent with a "Buy to Let" mortgage and who may have little or no previous experience of investing in the private rented sector. The leaflet describes "Buy to Let", and some of the things you need to bear in mind when -

- choosing a property
- financing your purchase
- managing your property
- considering what your costs will be

WHAT IS BUY TO LET?

"**Buy-to-Let**" is a form of residential investment where you buy a property, usually with the aid of a mortgage, and rent it out. The 1988 Housing Act made investment in residential property more attractive to landlords when it introduced a new type of tenancy giving landlords more control over their properties and there has been a modest recovery in the private rented sector since then. The increased availability of loans at attractive rates of interest for Buy to Let purchasers, has also increased the appeal of owning rental property.

Obviously, the size of mortgage you can afford will have a major influence on the size and location of your property. Choosing a mortgage is described in more detail in the section below. And finally, in considering how much to spend on a property you should bear in mind that as well as increasing in value, your property can also fall in value.

MANAGING YOUR PROPERTY

Your responsibilities

When you have chosen a property, you will need to decide who will manage it for you. If you manage it yourself, you will be responsible for -

- finding tenants
- checking tenants' references
- collecting the rent and maintaining the property
- and dealing with problems

Your legal responsibilities

You will also need to be aware of your legal responsibilities as a landlord such as -

- carrying out repairs
- ensuring the safety of gas and electrical appliances
- and ensuring that the furniture and furnishings meet fire safety requirements

You should also consider familiarising yourself with landlord and tenant law, to understand your responsibilities as a landlord, and the rights your tenants enjoy. This is an area you may wish to take legal advice about. The Department of the Environment, Transport and the Regions (DETR) have published a useful guide for landlords in England and Wales called "Assured and assured shorthold tenancies" which is free from the Department of the Environment Transport and the Regions and can be obtained on **0870 1226 236**.

When your property is empty

You should remember there may be periods when you are unable to find tenants for your property and it will be empty, with no rental income coming in. Obviously you will still be expected to continue repaying your mortgage so you will need to think about how you will meet your mortgage repayments in these circumstances. This could particularly apply if you choose a property in an area where the supply of rental property exceeds demand from tenants.

Maintaining your property

As well as managing your property, you will be responsible for maintaining it. Besides repairs and regular maintenance, properties can benefit from routine improvements which maintain their attractiveness with would-be tenants. You may find that your property is in need of an overhaul after a tenancy finishes. Naturally, you will have to finance this yourself. What is more, your property is likely to be empty and you will not receive a rental income, while your property is being improved.

Using a managing agent

Given the number of different responsibilities you face as a landlord and the limitations on your own time, you may wish to use a managing agent to look after your property for you. This will cost you approximately **10% - 15%** of your monthly rental income.

CHOOSING A MORTGAGE

Paying for your property

Obviously, when you choose a property, you will need to ask yourself how much you can afford to pay, and how you will pay for it? If you take out a mortgage, you should work out what percentage of the value of the property you need to borrow. Typically lenders allow people to borrow up to 80% of the property's value. The size of the loan is usually linked to the expected rental income. As a guide, your lender will expect your monthly rental income to be **25%-50%** greater than your monthly mortgage payments.

Your choice of mortgage

When you choose a mortgage, your choice will be between a repayment mortgage or an interest-only loan. With an interest only mortgage, some lenders may require you have a suitable investment product. If you have a repayment mortgage, some lenders may also advise you to arrange life insurance alongside your loan.

You may be able to choose between fixed rate and variable rate mortgages. Fixed rate loans will give you some certainty about your mortgage repayments whilst variable rate loans could move up or down. You should also remember that your mortgage payments could rise if interest rates rise, depending on the type of mortgage you have.

But before choosing your mortgage, you should consider taking advice from your lender or a mortgage intermediary.

WHAT WILL YOUR COSTS BE?

As well as your mortgage payments, you will need to pay for -

- buildings insurance
- consider contents cover, if your property is furnished.
- maintenance costs
- periods when you are receiving no rental income because the property is empty or the tenants have fallen behind with their payments
- mortgage repayment increases because of interest rate rises, which you may not be able to recover immediately from rent increases

Your tax liability

Before you can calculate what your income from your property will be after taking into account all necessary expenditure, you should recognise that the profits from renting property are taxable. However, you will be able to offset some of the costs you incur as a landlord against tax.

You will have to pay the following taxes -

- Income tax
- Stamp Duty when you buy your property
- and Capital Gains Tax when you sell it

You can find out more about the tax treatment of income from rented property in Taxation of Rents: A guide to Property Income. IR150.

THE ACCOMPANYING CHECKLIST IS DESIGNED TO HELP YOU WHEN YOU CONSIDER PURCHASING A BUY TO LET OR RESIDENTIAL INVESTMENT PROPERTY AND IS SUPPORTED BY LEADING PROFESSIONAL AND TRADE ASSOCIATIONS REPRESENTING INDIVIDUALS AND ORGANISATIONS INVOLVED IN RESIDENTIAL INVESTMENT.

THIS LEAFLET IS FOR INFORMATION ONLY. THE RESPONSIBILITY FOR PURCHASING A BUY TO LET PROPERTY RESTS WITH THE INVESTOR.