

STRAWBERRY STAR

BUY-TO-LET GUIDE



Strawberry Star
GROUP

WHAT IS BUY-TO-LET?

- Where a residential unit is purchased specifically to rent for profit
- Owner becomes a landlord, subject to statutory obligations and special finance / tax conditions
- Can be a strong form of property investment leading to profit from both rental yields (if rent is superior to mortgage repayments) and capital growth
- But not without its risks – market factors, changes in mortgage conditions, unreliable tenants, ongoing maintenance costs
- A number of factors you need to bear in mind if choosing to go down the BTL route

FINANCING A BTL PROPERTY

A – The Mortgage

- Specific type of mortgage for BTL purchases. Amount you can borrow is based on assessed rental income of the property in question rather than the salary of the mortgagee
- Interest rates for BTL mortgages are always higher than standard residential mortgages and the type of mortgage you can secure will be subject to common conditions including
 - Rental income likely needs to be 125% of the mortgage repayments
 - Deposit likely to be in excess of 25% of the property value
 - Minimum annual salary in addition to the rental income

B – Additional Costs

- **Mortgage fees** – usually about £1000 - £1500 but vary from mortgage to mortgage so be sure you understand them before committing
- **Survey fees** – depends on the type of survey you opt for
 - Basic mortgage valuation = from as little as c. £200
 - Homebuyers Report (more detailed) = from c.£400
 - Full Structural Survey = from c. £600

NB – cost of survey is dependant upon the cost of the property being bought so, again, be sure you understand fully the cost implications

- **Conveyancing fees** – vary from solicitor to solicitor but expect to pay in the region of £1000

- **Agency fees** – assuming you employ the services of a property management agency you will be subject to fees of approx. 10% of the monthly rental value. Lettings agencies will charge a similar fee each time they source new tenants for you, whilst combined Lettings & Management agents will charge between 10%-15%
- **Maintenance and repairs** – you will be required (in some instances by law) to ensure your property and its contents are maintained to certain requirements and periodically inspected. It goes without saying that it's in your best interests to keep your property in good structural and decorative order
- **Vacant periods** – there may be short periods between tenants when your property is vacant and will not be earning rent. You must make sure you can support mortgage contributions during such periods
- **Insurance** – taking out specialist landlords insurance is highly recommended to protect your property and its contents, and will in many cases also cover against non-payment of rent and 3rd party liability

C – Taxation

- **Stamp Duty** – the state tax on purchasing a property increases with the value of the property and adds a significant sum to the total purchase cost:

£0-£125,000 – 0% Stamp Duty

£125,001 - £250,000 – 1%

£250,001 - £500,000 – 2%

£500,001 - £1,000,000 – 4%

£1,000,001 - £2,000,000 – 5%

£2,000,001+ - 7%

- **Income Tax** – rent received from a BTL property must be declared as income and is taxable according to the landlord's income tax banding (basic rate = 20%, higher rate = 40%, additional rate = 50%)
- There are however costs that can be offset against against the rent before it is declared:
 - Interest on mortgage payments (NOT capital repayments)
 - Maintenance and improvements
 - Agency fees
 - Insurance premiums
 - Council tax and bills if paid by the landlord not the tenant (it is typical for the tenant to pay these)

- **Capital Gains Tax** – payable on any profit made between the original purchase price and the price at which the property is sold. There is currently an annual exemption rate of £11,100 – CGT is only paid on profit above this level at either 18% (standard rate taxpayers) or 28% (higher rate tax payers)
- Expenses you can offset against CGT include solicitor's fees, estate agent's fees, advertising the property, stamp duty
- **Inheritance Tax** – BTL property forms part of your estate and will be included in the calculation of Inheritance Tax. Given the high cost of UK property and the relatively low Inheritance Tax-free threshold, the inclusion of a BTL property into an estate is very likely to take you over the threshold and you should seek specialist advice into reducing your IHT burden.

LANDLORD'S OBLIGATIONS

As a landlord there are certain legal requirements you must satisfy:

Gas regulations

- Gas Safety Certificate confirming that all relevant equipment meets the requirements of the Gas Safety (Installation and Use) Act 1988 and
- has passed an annual inspection conducted by a registered Gas Safe engineer.

Electrical regulations

- electrical system and all appliances must conform to the requirements of the Electrical Equipment (Safety) Regulations and Plugs and Sockets (Safety) Regulations 1994
- annual inspections not mandatory but qualified assessment highly recommended

Fire safety

- furnishings must comply with Furniture and Furnishings (Fire) (Safety) Regulations 1988
- post-1992 properties = hard-wired mains operated smoke alarms must be present on each floor

Energy Performance Certificate (EPC)

- property energy efficiency rating
- required prior to renting out your property
- must be displayed in any property advert
- must be renewed every 10 years

Deposit Protection Scheme (DPS)

- must register tenant's deposits with an approved Deposit Protection Scheme until the end of the tenancy
- held there until mediation in the case of any disputes between landlord and tenant over deposit deductions

Mortgage lender consent

- mortgage lender must give approval to let out your property
- If on standard residential mortgage the lender will likely load the interest rate currently payable

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