‘Buy To Let’ explained

Renting out a property - it’s a nice and relatively simple way to earn a fair bit of money, right? Wrong. Well, maybe not wrong, but not entirely right either. It is a way of earning money, whether as added income or through a career in property. However, it is not simple. There are many facets and things to take into consideration before taking the plunge, but it is a plunge well worth taking. Here’s a guide to getting started on buy to let properties.

Purchasing a building with the intention to let it out to tenants can benefit you in numerous ways. As mentioned, it can provide a regular, steady and substantial stream of income. In addition, it can also accumulate capital growth over the long-term.

So, you’ve decided to jump aboard the property ladder. The first step is to establish exactly how much you can afford to invest. As well as the costs of the property itself, you need to consider additional outgoings such as stamp duty and fees for surveys, lenders and solicitors. Now you need to start assembling your team. Which soliciting firm are you going to go with? Which valuation company?

Now it’s time to get your head into the market. You need to know what type of property is going to provide the best returns in terms of rent and value. Are you going to be hands on and manage it all yourself or will you employ someone else to do it on your behalf?

Once you’ve chosen the perfect property, get those contracts exchanged pronto! Failure to do so will leave you vulnerable to price hikes or the vendor pulling out on a whim so put pen to paper as soon as you can.

Of course, not everyone has enough money burning a hole in their pocket to simply go out and buy another property. This is where a buy to let mortgage comes into play. Essentially, this is a loan specially granted to secure the purchase of a property with the intention of letting it out. Typically, this mortgage is interest only is available for as much as 75 per cent of the building being bought.

Thanks to initiatives brought in to encourage growth in the private rental sector, interest rates for private investors within the property industry have been lowered.

When it comes to returns, you should be looking at gross figures in the seven to ten per cent ball park. However, this is before you make allowances for the practical costs of letting a property, which can accumulate rapidly. Overall, your rents should at least match around 130 per cent of your monthly mortgage repayment. This will ensure all potential costs are covered.

Another thing you will need to consider is taking on a letting agent. There are many advantages of doing so, not least that it will considerably ease your own workload. Agents will have the experience and expertise required to communicate with lenders. In addition, they will have an in-depth knowledge of the market. This is vitally important when it comes to deciding how much rent to charge and the type of tenants you are likely to encounter.

It’s important to detach yourself from the process and not to let your own tastes influence your decisions. Remember, you are buying to let, not for yourself. So what if you don’t like the size of the kitchen or would knock down the wall given half a chance? Ignore this; once they’re in, you can focus your priorities on maintaining the building and generating income.