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Mortgage & Wealth Management Ltd

Buy-to-Let Guide

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What is Buy-to-Let?

One of the most profitable long-term investments might be purchasing property. Buying a property to let has the opportunity of providing an income in the form of rent. It may also be an asset that could increase in value over the longer term.

Buy-to-let mortgages are commonly used for property investors. There are a few differences between a traditional mortgage and a buy-to-let mortgage. With a buy-to-let mortgage, the income received from rent could be used towards making the mortgage payments. The monthly rental income often covers the mortgage payment and the extra income received from the rental property could also be used to reduce the balance of the mortgage.

Choosing the right property

Ultimately a landlord needs to ensure a good return on their investment, so it is worth remembering that the property you purchase is not often the kind of property you would choose to live in yourself.

What to consider

Before deciding on a property, we suggest that you consider the following:

1. Do your research
Speak to local estate and letting agents as they will know areas that are popular with tenants and what rent could potentially be achieved.

2. Narrow your search area
Choose a property and location based on the type of tenants you would like to attract. For example, young professionals may be looking for a property with good transport links and close to shops, bars and restaurants. Young families however, may be looking for properties within the catchment area of a good school or a property with a garden.

3. Set your budget
The rent you set needs to be enough to cover your mortgage payment, associated bills, regular maintenance and account for any tax payable on the property. In some cases lenders might stipulate how much rent needs to be generated in order to qualify for a buy-to-let mortgage.

Purchasing the property

If the property is being purchased with a mortgage, then a specialist buy-to-let mortgage will need to be secured from a lender.

If you are letting out your current home, you need to ensure that you notify your current mortgage provider as you may be able to amend the terms of your exisitng agreement.

If you are in a position where you can buy the property with cash then these conditions do not apply.

Securing a buy-to-let mortgage

Buy-to-let mortgages differ from standard residential mortgages, because the lender will work out how much can be borrowed based on the rental income of the property.

Deposits

Most lenders will also require a higher deposit compared to residential mortgages somewhere around 25% however there are deals available within the market on lower deposits which your mortgage broker will be able to advise you of. They are also likely to take into account the amount the landlord earns per year.

Our mortgage advisers will be able to help find the best deal that fits with each individual's circumstances.

Landlord Requirements

A landlord must comply with a number of statutory requirements to ensure the safety of their tenants whilst they occupy the property. A full list of these responsibilities can be found at: www.gov.uk/private-renting/yourlandlords-safety-responsibilities.

Tenancy Agreements

When letting out a property, it is mandatory to have a tenancy agreement drawn up. Once signed, this is a legally binding document that outlines what is expected of each party involved in the rental process - including how much the deposit will be, how much rent will be charged, and what condition the property is expected to be returned in.

Talking to a letting agent or a solicitor is advisable when preparing these documents.

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The cost of your investment will be one of your big considerations when you enter the buy-to-let property market. Stamp duty, surveyors' fees, landlord and buildings insurance premiums, and property repairs are some of the expenses you might need to factor into your calculations.

Like any investment, buy-to-let property comes with a degree of risk, so it's advisable to prepare for possibilities like house price declines, rental voids, non-payment of rent and legal disputes with tenants. Also, another thing to consider when choosing a buy-to-let property as an investment is that you may be liable to pay tax on it.

Income Tax*

The income received as rent is taxable and will need to be declared to HM Revenue and Customs (HMRC) through a self-assessment tax return. A number of costs can be offset against the rent before tax is charged including:

- Interest on the mortgage payments (not the capital repayments).
- Maintenance costs for repairs and upkeep of the property.
- Letting agency fees.
- Buildings and contents insurance premiums.
- Council tax and some utility bills if it is the landlord, rather than the tenant, who pays these.

To help understand the amount of tax that must be paid, it is advisable to talk to an accountant, especially as HMRC require a record of income and expenses for at least 6 years.

Inheritance Tax**

In the event of the landlord's death, the buy-to-let property will form part of their estate. If the estate exceeds £325,000 for an individual or £650,000 for a couple, inheritance tax is charged at 40% for everything above this amount.

Capital Gains Tax***

If a landlord sells a buy-to-let property for more than they bought it for, they will be liable to pay tax on the capital gain; if they sell it for less, then there is no capital gains tax due.

Like income tax, there are a number of expenses that can be offset against the capital gain to reduce the overall amount. These include:

- A loss made on the sale of a buy-to-let property in the previous year.
- Conveyancer's fees.
- Estate agent's fees.
- Marketing costs for the property
- Stamp duty

Seek Independent Advice

Buy-to-let is not without its risks. While history has shown that in the long-term the increase in house prices often outstrip inflation, there have been periods of significant house price falls.

Rental Income can also vary and may be less than expected. There is no guarantee that the tenant will maintain their payments, or that the property will be let continually. Building in a contingency within your budget will allow for months of rental void.

Therefore, buy-to-let properties may not be suitable for everyone, and careful consideration should be taken before deciding on this option.

If proceeding, careful choice of location and property is needed.

Make sure you obtain professional advice from Watts Mortgages & Wealth Management Ltd prior to deciding how to proceed with a buy-to-let mortgage. Our team of specialist advisers have a wealth of experience dealing with clients who may purchase one or two properties to clients who have large portfolios. So whatever your needs are, call one of our team.

Testimonial

Many thanks to Sian for the expert advice when I wanted to remortgage my buy-to-let portfolio. Your whole market approach and willingness to go the extra mile to secure the best deals for each property has enabled me to significantly reduce my repayment costs and provided stability for the next five years.

Mr O Mason

This information is of a general nature and every care is taken to ensure it is accurate at the time of writing - January 2021. However, all information and figures are subject to change. You should seek professional advice tailored to your needs and circumstances before making any decisions. Your home may be repossessed if you do not keep up repayments on your mortgage. Taxation information source: *https://www.gov.uk/renting-out-a-property/paying-tax. ** https://www.gov.uk/inheritance-tax. *** https://www.gov.uk/capital-gains-tax

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