The ultimate Landlords' Guide

The independent guide about being a landlord

Provided by the mortgage works common sense lending

Introduction.

The Landlords' Guide is your ultimate guide to everything that's involved in being a landlord: from what you need to consider before you even start investing in Buy to Let, to your legal duties, taxation, funding your portfolio, managing your rental property and more. As your definitive independent guide, it contains expert advice and tips for first time landlords, as well as new ideas and strategies for established investors. So whether you already let out one or several properties, or are thinking about entering the Buy to Let market for the first time, this guide is for you.

You can read it all or jump straight to a particular chapter or section that appeals to you using the Contents page. At the end of the guide, you'll find two useful worksheets for calculating your net profit, some web links for more information and a glossary to make sense of some of the industry jargon. You can find all orange words throughout the guide in the glossary.

Please note: this guide does not cover holiday or commercial lets, or homeowners renting out a room.

We hope you find this guide useful. While we've tried to cover everything we think an investor or first time landlord might want to know about the Buy to Let sector, there may be some omissions. If there's something you'd like to know more about, do let us know. It's the first time we've produced a Landlords' Guide so we'd really appreciate your thoughts.
Contact us at Citizenship@nationwide.co.uk

Contents.

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Chapter 1

Can being a landlord work for you?

What you'll get out of this chapter...

- Some useful background on the Buy to Let market
- Different approaches to Buy to Let investments
- Developing a plan to guide your property search

Some background on the Buy to Let market.

It's relatively easy to get started as a landlord.

The simple definition of a landlord is somebody who lets property in exchange for rent. No special qualifications are required – and anybody who owns or wants to acquire property to let can explore supplementing their income in this way.

Demand for rental property is strong and still growing.

The number of households renting the home that they live in almost doubled between 2001 and 2012, and experts predict that the supply of tenants will continue to increase over the coming decade. Changing demographics, more mobile working patterns and relaxing attitudes to home ownership are driving more people to consider renting.

Such attractions help to explain why letting property is a growing business. Yet it is important that anybody tempted to become a landlord understands the risks and responsibilities involved, whether that property is one they already own or one they are looking to invest in. Beneath the national figures on tenant numbers lie significant variations from region to region, town to town, even street to street. As a landlord, you need to know your location, your tenants and, crucially, your likely returns.

What you need to think about before investing.

Buy to Let is an investment like any other, so even at this early stage, you need to think about the best form of investment for you.

It pays to look below the surface when working out whether being a landlord will add up for you. The risks of a Buy to Let investment include problem tenants, unplanned void periods when your rental property is empty, rising mortgage interest rates, variable rents, tax liabilities, short-term depreciation, and the possibility that your Buy to Let property could decline, rather than increase, in value.

It is also essential to understand your risks and responsibilities as a landlord – and the additional overheads that result from these: requirements for annual gas safety checks, for example, in addition to more familiar homeowner costs, such as buildings insurance.

Capital growth and rental income.

The property that you buy and the tenants that you aim to attract will be driven by your underlying reason for entering into Buy to Let. There are two ways that you can seek to make a return on your investment: capital growth and rental income. Most people are looking for a combination of these, but it's likely that your underlying reasons for investing mean you will place more focus on one or the other.

Capital growth is the term used to describe the change in property value over time. If you bought a property for £200,000 in 2002 and sold for £340,000 in 2012, the capital growth would have been 70%. Capital growth can be difficult to forecast and you need to remember that house prices can also fall. If capital growth is important to you, consider the region, town and type of property that you buy. Historical house price trends may be an indicator of future performance, so you may want to inform your decision regarding property location by reviewing regional trend data.

Rental income is the income you receive from your tenant. This may also increase over time but like house prices, rents can go down as well as up. Calculating your rental yield is a useful way of reviewing your Buy to Let strategy and assessing a potential purchase, whether it's your first Buy to Let property or you're adding to an existing portfolio. Rental yield is essentially the return on your investment. If you've done all your sums correctly, the rent you receive should provide you with a regular net rental income, and this is why so many people are turning to Buy to Let to supplement pensions.

Calculating rental yield.

You can calculate rental yield on a gross or net basis, the key difference being whether the yield is inclusive or exclusive of costs.

Estimating gross and net rental yields.

Gross rental yield:

Let's say you buy a property for £200,000 and receive rental income of £1,000 per month. You calculate your gross rental yield by dividing the annual rent by the investment, in this case the purchase price:

- Annual Rent (£12,000) = monthly rent (£1,000) x 12
- Gross rental yield (6%) = £12,000 / £200,000 x 100

Net rental yield:

We can calculate the net rental yield by adding in costs. Let's assume that the property has a mortgage of £150,000 at an interest rate of 4%, resulting in a monthly mortgage payment of £500, and we also allow a further £100 per month for agency fees and insurance:

- Net rent (£400) = rent (£1,000) - £600
- Annualised net rent (£4,800) = net rent (£400) x 12
- Investment (£50,000) = £200,000 - £150,000
- Net rental yield (9.6%) = £4,800 / £50,000 x 100

This example also shows why it is important to consider the impact of interest rates when assessing rental yields and considering your funding approach. Taking a Buy to Let mortgage enabled a higher net rental yield than the non-mortgaged option. However, were interest rates to increase to 5%, the rental yield would be the same in both cases.

Developing a plan to guide your property search.

As with all property purchase decisions, you need to have calculated your likely incomings and outgoings (see Chapter 8 for two handy worksheets to help you with this) to know the maximum you can afford to spend on a property. You will also be guided by any considerations arising from how you purchase the property: whether outright or with a Buy to Let mortgage, bearing in mind any loan restrictions on the type of property you can buy, and your investment strategy (rental income or capital appreciation).

When deciding whether to become a landlord – or asking yourself whether you are going about it in the right way – it pays to have in mind the three P’s that generate tenant demand:

Having the right **property** in the right **place** at the right **price**.

Whether or not your approach to being a landlord adds up depends on whether you can offer tenants these three P’s, whilst still covering your costs and generating a reasonable return on any investment you have made.

Don’t be dazzled by the high rents some areas command, as there are often higher costs associated with owning property in these locations. It is often not the most expensive properties that generate the strongest demand from tenants.

Bear in mind...

Other costs to consider in the purchase process are stamp duty, solicitors’ fees, estate agents’ fees (if you’re also selling a property), survey and valuation charges, and mortgage-related costs, such as arrangement fees.

Chapter 2

Choosing the right approach.

What you'll get out of this chapter...

- The importance of knowing your market
- Different types of Buy to Let property
- Important information on licensing
- Home improvements that sell
- How to find a Buy to Let property
- Your potential target tenant groups
- Considerations for renting to tenants on housing benefit
- Renting to friends and family
- Building a Buy to Let portfolio

Knowing your market.

If you're starting out as a Buy to Let investor or considering expanding your portfolio, the first question to ask yourself is:

"what type of people am I targeting?"

Once you have decided which group of tenants provides you with the best opportunity, the rest of your strategy should follow quite naturally: the area you pick, the property you buy and the way that you advertise it.

Once you know which group of tenants you want to target, it's time to decide on the right area and location. The type of tenant you're targeting should influence where and what you buy. For instance, professionals will likely favour proximity to good transport links in commuter areas, while local schools might be important to families. Things to consider are:

- The **type of accommodation** your tenant will be looking for (a flat or a house, for example)
- The **size of the property** (if you are planning to rent to a single family or let multiple rooms to students)
- An urban, suburban or rural **location**
- The **likely costs** associated with the area (council tax, travel zones, etc.)
- Whether you **know the area** (this can be a help, but bear in mind that you are choosing a property that a tenant will want to live in, not necessarily that you would like)
- Whether there is an **over or under-supply of rental property** of this type in this area
- **Average cost vs. average rent.**

Property considerations.

When you come to select your rental property you have several choices to consider before you invest – and when it comes to preparing your property for tenants:

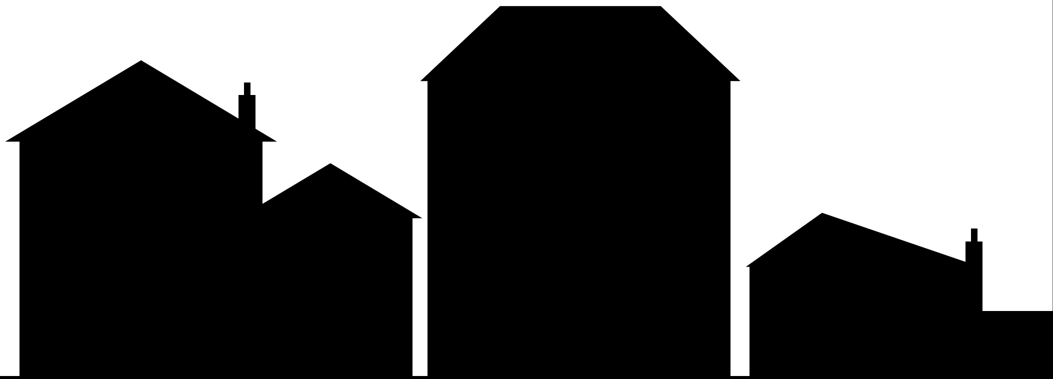
- The type of property you invest in: flat, house, conversion?
- Period or new build?
- Size?
- Furnished or unfurnished?
- Potential re-sale.

Write down the key things you think your target tenant is looking for in a property and make this your ‘shopping list’. Keep a clear head and analyse the pros and cons of each potential property, for example, how close is it to local schools if targeting families?

It’s unlikely you’ll get everything on your shopping list, so you have to decide which factors are most going to appeal to tenants, and prioritise these. Talk to people to get their expertise and input – ideally members of your target tenant group, or estate agents and letting agents with experience of that audience.

Bear in mind...

When you see a place you are interested in, bargain hard. When investing in Buy to Let, you are effectively like a first time buyer with no property to sell, which makes you more appealing to any sellers.
Make sure you use this to your advantage by haggling hard on the asking price and negotiating a better deal in return for a speedy sale.



Type of property.

Whether you're searching for a remote cottage, central city pad or large family house, be led by your target tenant and the type of housing you think they will want to live in.

As well as the type of property, you should also consider whether it is sold on a freehold, share of freehold or leasehold basis, as they will incur different costs. This will primarily be an issue if you're buying a flat, as most houses are freehold. But do make sure you are aware of what's involved in each instance. For example, if the property is leasehold, you will have additional ground rent and management costs. But you won't be responsible for maintaining certain areas, such as the exterior (although you will contribute towards its upkeep through service bills).

Old vs. new.

To an extent, whether you opt for an older, period property or one built in more recent years depends less on the type of tenant you're targeting, and more on your budget. Older properties usually require more maintenance than new builds, and can also come with other complicating factors (listed status, for example). New builds can be less hassle as they will have extra warranties for the property and any fitted appliances, so you can estimate lower maintenance costs in the first ten years. But then, it's often said that "period sells" and character may well help your property to stand out in the market. Make sure you consider both options and do a proper cost analysis for each route.

Size.

Your target tenant will have a strong influence on how big (or small) the rental property is that you buy. You should have a clear idea of what size dwelling they are seeking (families will usually want a minimum of three bedrooms, for example). Also consider how the size of the property fits with your investment strategy. For example, a studio flat is a good investment for delivering solid rental income, but won't necessarily deliver value at re-sale so is, therefore, less suitable for landlords seeking capital appreciation. Do your homework and don't limit your market by buying too small or too big (bearing in mind that larger properties could price out your target tenants).

A larger property rented out to more than three households with some shared facilities (kitchen or bathroom), is known as a House of Multiple Occupation (HMO) and needs to comply with some different rules and regulations, as well as requiring a license from the Local Authority.

Many student houses will fall under the HMO category, and you will need to provide enhanced fire precautions, face periodic inspections and need a licence to operate from the local council. If you require a Buy to Let mortgage, you will also need to make your lender aware that you are providing an HMO – and be aware that this kind of Buy to Let arrangement and mortgage is often subject to different terms and conditions.

Speak to your local council as the definitions and costs associated with HMOs vary across local authorities.

Licensing.

There are three types of licensing scheme, designed to improve the standard and management of rental housing:

- **Mandatory** – for HMOs, as designated by the 2004 Housing Act
- **Selective** – which may cover all rental properties in an entire area
- **Additional** – for certain types of HMOs.

You'll need to contact your local council to find out whether they require landlords to have a licence and, if so, what type, and which areas are affected. Be aware that the letting agent can be the licence holder on behalf of the landlord, and there is a charge for buying a licence.

Find out more at https://www.gov.uk/private-renting/houses-in-multiple-occupation

Bear in mind...

Some older properties that have been converted to self-contained flats may also be classed as a HMO. These are properties which do not meet 1991 building regulations and where less than two-thirds of the property is owner-occupied. In this instance the licence should be held by either the freeholder or the manager of the property, and landlords should be aware that a local housing authority can place restrictions or enforcement on the property, which could have an impact on their investment.

Furnished or unfurnished.

A furnished property is defined by HMRC as "one that is capable of normal occupation without the tenant having to provide their own beds, chairs, tables, sofas and other furnishings". Part-furnished usually means that white goods (a washing machine, for example) are installed, but furniture is not.

Students and young professionals are unlikely to have much furniture of their own, so are most likely to want a furnished property. Families are likely to have accumulated a lot of their own things, which will need storing elsewhere if they can't use them, so a furnished property could rule out a significant element of some target markets.

Home improvements that sell.

One way to add value to your investment is to buy a property that needs renovation. You'll need to make sure that you purchase it at a low enough price to allow for the extra cost of improvement works and make some profit on the refurbishments (aim for 20%, but be aware it'll probably be lower due to any unexpected costs).

If the property is simply looking a bit shabby, you should repaint it and consider new flooring. Generally, it pays to play it safe; think neutral décor and popular flooring choices (wooden floorboards or carpet outside the kitchen and bathroom areas). If you've invested in an older property, do also consider whether it would be wise to invest in any energy efficiency measures to make the home more comfortable for your tenants. A report from the Department of Energy and Climate Change found that energy-efficient homes could increase a property's value by £16,000 on average[1]. You may want to consider the Government's Green Deal (see Chapter 4) as a way of financing any energy efficiency improvements.

Potential re-sale.

If capital appreciation is a driver, you need to make sure that the property you buy is also in the 'right' place i.e. an area where house prices are likely to rise. This will have implications for other aspects of your rental strategy. For example, it might mean targeting the student rental market is less appropriate than targeting professionals, who will probably have higher standards about the location of their rental property.

[1] http://www.thesundaytimes.co.uk/sto/business/money/Consumer/article1273852.ece?CMP=OTH-gnws-standard-2013_06_15

Sourcing a property.

You have any number of avenues to choose from in sourcing your property.

The traditional route is via an estate agent, but you may also want to consider searching at auctions (particularly if you know the location already), online property sites or approaching the owners direct of any properties you particularly like. Letting agents can also be a good source of properties. Let to Buy is another route into letting, in which you let out your current property whilst buying another for you to move into.

Key things to watch out for...

By the end of 2013, estate and lettings agents will be required to reveal information considered 'fair' to buyers and tenants. For landlords, this means that as a buyer, you should discover any potential pitfalls to the property before the sale goes through (noisy neighbours or smelly takeaways nearby, for example) – but you'll also have to let any prospective tenants know about these too.

Your target tenant.

All sorts of people rent property, but primarily they fall into one of five groups:

- Students
- Professionals / working couples
- Families
- Tenants on benefits
- Friends and family

Renting to students.

In 2012, there were 1.8 million students in the UK[2], which makes for a sizeable population of possible tenants. Despite the introduction of student tuition fees, more people are attending university than ever before, both from within the UK and overseas. And this makes for a significant rental opportunity.

There are other benefits to targeting students: you can usually rent a property to more people than if you had a family as your tenants (many student properties have a converted bedroom downstairs, for example). Although the majority of students are looking for a furnished property, they don't tend to be as particular about the décor or size of rooms as a group of professionals might be. Some students will also pay their rent for the term upfront, which makes for easier cashflow, but don't assume this will always be the case. And although you may need to find tenants more frequently (i.e. every academic year) than if you were renting to other tenant types, each year's intake of new students brings a ready pool of prospective tenants.

If you decide to let to students, there are a few important things to consider:

- **The location of your property** – it needs to be in an area where there's a higher education establishment (or ideally several) but at the same time, consider whether it's located on public transport routes (not many students will want to finance a car while at university), near campus and close to all-important student-friendly clubs and bars.
- **If you rent out a house or flat to two or more students** who share basic facilities (such as a kitchen, toilet or bathroom), your property could be classed as a House of Multiple Occupation, which carries more stringent regulations and you will be required to obtain a licence (see page 14).
- **Consider gaining accreditation through the local university** if they offer this type of scheme – your properties will be subject to some additional checks but it is likely to increase their appeal.
- **Don't assume students are a homogenous bunch**: post-graduates will be older and may have needs more akin to the professional market; while others won't care about the 70s décor and faded carpets as long as the rent is reasonable and they can make their lecture in less than 10 minutes.

[2] http://www.nmas.ac.uk/students/wheretostart/nonukstudents/

Renting to professionals.

Professionals may want to rent for several, varied reasons: they could be waiting to get onto the property ladder; working in a job that moves them around the country or overseas; they may have their own business, which can make securing a mortgage more tricky; or they may simply not want the hassle of owning their own home.

This group represents a good rental opportunity.

Although they may have higher expectations about the standard and location of the property, they are likely to be more financially stable and, as they're generally older, take more responsibility for the care and maintenance of your property. There may also be fewer outgoings for you as a landlord, since many will want to furnish their property themselves.

Renting to families.

Families are one of the fastest growing rental groups and represent a significant opportunity for landlords – so long as they are able to meet their specific needs and target them effectively.

A report from Cambridge University, commissioned by Shelter and the Resolution Foundation, found that the number of families with children renting private accommodation increased by 86% in 2012, with most living in London – where it's expected a third of households renting will be families with children by 2025.

Be aware the needs of this tenant group are different.

For a start, many will be looking for somewhere to call their home and, therefore, may prefer to sign up for a longer-term let or decorate it in their style. The location of the property will also be relevant: its proximity to schools, for example. And don't forget the state of the property too: parents with young children will be especially conscious of any potential dangers and may prefer ground-floor properties with outside space (if renting in a block of flats), rather than climbing several flights with little ones in tow.

Renting to tenants on housing benefit.

This group represents a sizeable opportunity as a result of the shortage of local authority housing in the UK – and many of these tenants could also fall into one of the categories above (e.g. families with children). However, some lenders have terms and conditions preventing landlords with Buy to Let mortgages from renting their property out to tenants on housing benefit. And targeting this group can be complicated, especially as the Government is overhauling the benefits system with a number of significant implications for landlords.

A few definitions to help with this audience:

- **Housing benefit** is the name of the benefit given to people on low income as well as those out of work to help cover their rent payments.

Local Housing Allowance is a way of calculating how much rent can be met with housing benefit when the tenant is renting from a private landlord (rather than making use of social housing, for example). Local Housing Allowance rates are based on the size of household and area in which a person lives, so vary across the country.

One of the biggest challenges in renting to benefits claimants is the uncertainty surrounding upcoming changes in welfare legislation. Under the Government's plans for universal credit, benefits will be paid direct to tenants in most cases – to encourage tenants to manage their own household budgets – and landlords will no longer be able to insist on direct payment. There will be some exceptions, which could see landlords continuing to receive payments direct or the use of a 'protection mechanism' to safeguard landlords' income – but the legislation is yet to be finalised.

Find out more at https://www.gov.uk/universal-credit/overview

If you're considering...

Targeting this population, which represents a significant part of the market, do bear in mind that there's still a great deal of uncertainty as to your future legal situation. And this includes when the new universal credit scheme will actually launch.

Renting to friends and family.

This is potentially a fifth group to consider as possible tenants – and renting to friends or family can appear an easy option. But it is wise to approach it as rigorously as you would any other form of rental arrangement – to protect both your property and your relationships.

On the plus side, you will know your tenants, their circumstances and history, and you trust them.
On the other hand, you are likely to receive requests (and late night phone calls) directly rather than through any letting agent; disputes may emerge on the definition of things like maintenance; and it can be harder to treat your rental property as an investment when you have friends or family living in it. You will also need to check with your mortgage provider as some lenders won't allow you to rent out your property to family. Even if they do, you will need to declare this as your intention at the outset of securing a Buy to Let mortgage.

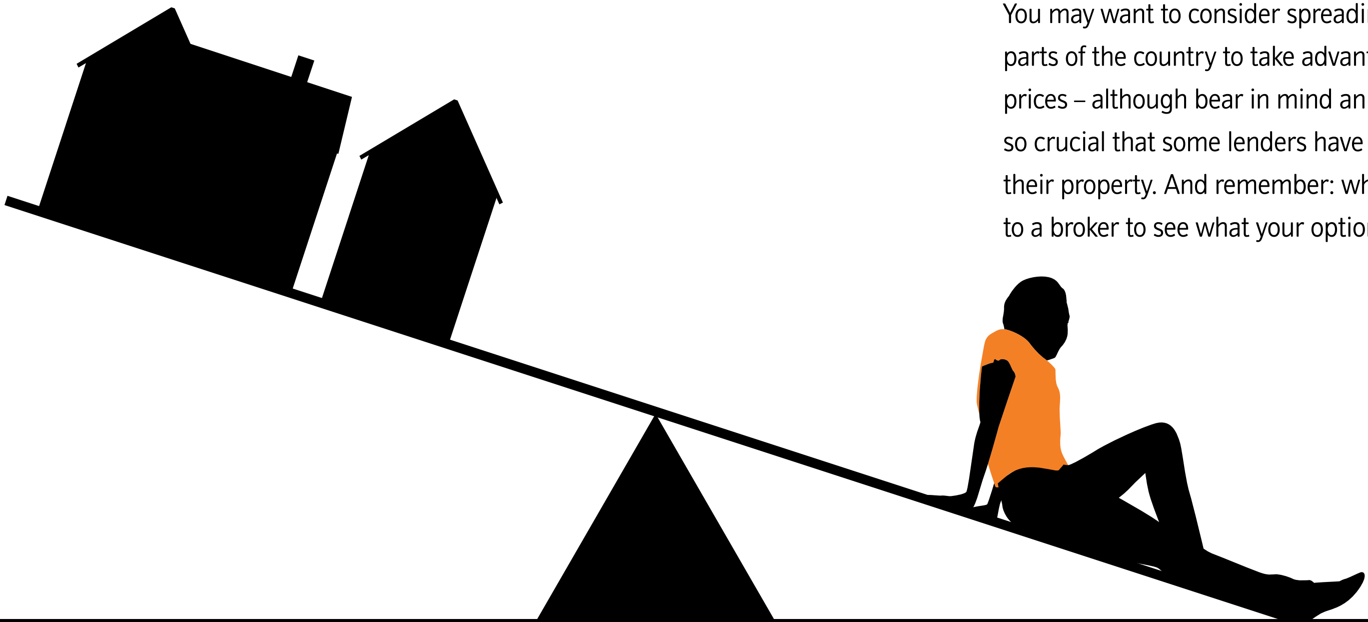
It is strongly recommended that you still put the same formal paperwork in place as you would when letting to any other group as well – and make sure you do not shirk on your legal responsibilities. Your tenant may be a friend or relative, but it is still better for both of you if you have recourse to a legal framework in the event of a dispute.

Building a portfolio.

Depending on the amount you have available to invest – and without overstretching yourself – you might want to consider buying more than one rental property. You can 'gear up' your investment this way by taking out a Buy to Let mortgage and spreading your investment over more than one rental property.

The loan-to-value (LTV) will be higher on each property (as you have less deposit available for each one than if you invested in one property), so the potential risk is higher, but so too are the potential returns from rental income and capital appreciation.

You may want to consider spreading the risk by investing in properties in different parts of the country to take advantage of different markets for tenants and property prices – although bear in mind an investor's understanding of a property location is so crucial that some lenders have limitations on how far away a landlord can be from their property. And remember: whichever approach you take, you may want to speak to a broker to see what your options are.



Chapter 3

Finding the right mortgage and other financial products.

What you'll get out of this chapter...

- Working out if you need a Buy to Let mortgage
- The differences between Buy to Let and residential mortgages
- Finding a Buy to Let mortgage
- Protecting against loss of rental or other income
- What to do when your circumstances change

Do you need a Buy to Let mortgage?

If you're buying a property outright, you won't need a mortgage to finance the purchase – unless you decide to use your investment to buy several properties. If you decide to rent out your existing home and move elsewhere then you may not need a Buy to Let mortgage either. But you must tell your mortgage provider and request a 'consent to let'. Most lenders will charge a fee for this and/or change the mortgage rate, or update the terms and conditions. If you fail to tell your mortgage provider of your change in circumstances, you could be in breach of your mortgage conditions.

In most cases, you'll probably need a Buy to Let mortgage.

This is a loan from a financial provider to cover the purchase of a property that will be let out, rather than lived in by you. You don't need to have tenants already, but you will need this to be your intention in order to meet the lender's terms and conditions – and many lenders will require it to be immediately available to tenants (not allowing major renovation or conversion projects to take place, for instance).

How does a Buy to Let mortgage differ from other mortgages?

In many ways, it doesn't:

- You'll be subject to the same credit checks
- You make regular monthly payments
- The payments are made over an agreed period of time
- The property acts as security for the mortgage provider in the event of default
- Fixed and variable rate deals are available.

The key differences are:

- Affordability is based on achievable rent not income, with allowances made for potential void periods. As with a residential mortgage, lenders may also ask for proof of personal income in support of their assessment
- Buy to Let mortgages are not regulated by the Financial Conduct Authority (FCA)
- The overall cost of a Buy to Let mortgage tends to be higher than for residential loans, due to greater risk associated with this type of lending
- A Buy to Let mortgage typically requires a higher minimum deposit, with the majority requiring at least 25% of the property value
- Most Buy to Let mortgages are taken out on an interest-only basis to maximise cashflow, whereas the availability of these loans for residential lending is limited.

Assessing affordability for Buy to Let mortgages.

Affordability is typically linked to rental income calculations, which vary by lender but is often based on 125% of rental income, and will use a 'stressed' interest rate to check that your rental income will cover monthly mortgage payments in different scenarios.

Because many Buy to Let mortgages are interest only, the value of your loan won't reduce over time – although your property may increase (or decrease) in value – and you will want to consider how you will repay the loan at the end of its term. Other types of loans are still available (like repayment of capital and interest too) but do remember payments on an interest only mortgage are tax deductible. The deposit will typically be at least 25% and arrangement fees are often positioned at a higher level than for homebuyers.

You'll need to factor in...

Pre-completion:

- A non-refundable booking fee and valuation fee

Post-completion:

- Early repayment charges (often a percentage fee and one-off charge), plus any lump sum payments

How much can I borrow?

- Let's say the property value is £175,000 and the estimated monthly rent is £650 (£7,800 per annum)
- The mortgage lender's interest rate (or the stressed rate, if applicable) is 5% and the mortgage lender's rental income requirement is 125% (rent must equal 125% of your mortgage costs)
- Your maximum loan equals annual rent, divided by rental income requirement, divided by interest rate (£7,800/125%)/5%
- So your maximum loan is £124,800 and minimum deposit is £50,200

How much rent do I need to cover the mortgage?

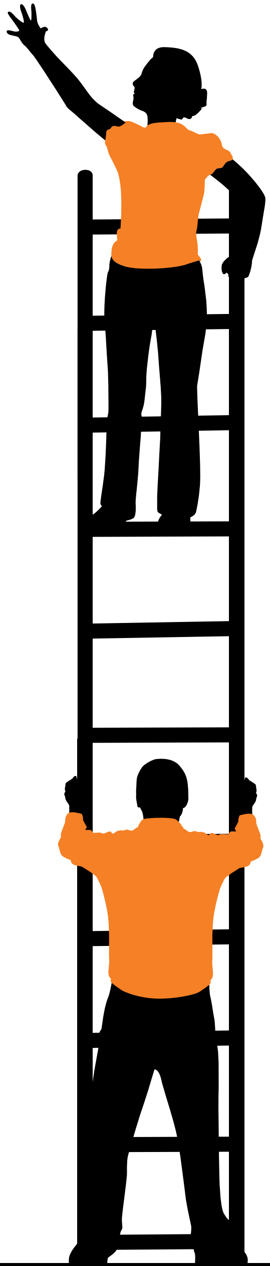
- Let's say the property value is £125,000, your deposit is £25,000 and the loan you require is £100,000
- The mortgage lender's interest rate (or stressed rate) is 6% and the rental income requirement is 125%
- The rental income that you need equals the loan, multiplied by the % rental income requirement, multiplied by the interest rate (£100,000 x 125%) x 6%
- You therefore require £7,500 annual rent, or £625 monthly rent

Finding a Buy to Let mortgage.

As with any mortgage, make sure you shop around for a Buy to Let mortgage that meets your requirements. You could follow the majority of Buy to Let investors and speak to a specialist Buy to Let mortgage broker or independent financial adviser (IFA). These can offer advice on a range of Buy to Let mortgages from different providers.

Make sure to check how much of the market they cover, and find out if they have any exclusive deals. They'll also be able to look at your finances (for instance, assessing the impact of any existing debt on the type of mortgage you're eligible for) and base their recommendations on your specific circumstances. Most will charge a one-off arrangement fee and receive commission from the lender.

Alternatively, look in best buy tables online or in the press, and check different lenders' websites to see if existing customers can receive preferential rates (some providers won't offer certain loans to non-customers). Don't just focus on the interest rate, but take into account the loan-to-value ratio and any arrangement fees, as these can vary widely.



Protecting against loss of rental or other income.

As with any investment, you need to consider the pros and cons of what you're doing; remember house prices and rental incomes can fall, and interest rates can rise too – all of which can have a negative impact on your income.

The biggest fear for any landlord is that your property sits empty, burning a hole in your pocket. If you've done your sums and ensured a healthy return, you'll hopefully have built up an emergency pot of cash to help you through any void periods. Many landlords suggest having a buffer of two months for this kind of event and also to help cover any unforeseen costs, so make sure you've accounted for this in your cost planning. You could use the worksheets in Chapter 8 to help with your financial budgeting.

For the cautious investor, landlord insurance is a necessity. It's like home insurance – so you might want to decide whether to have this instead of your existing building and contents insurance, and check for any overlaps – but also includes some specific features for landlords. You can buy it as easily as home insurance (on the web, through a broker or from the insurer direct) and there are different policies to cater for landlords with one or multiple properties.

Features vary from policy to policy, but typically include:

- Third-party liability (in case a tenant causes structural damage)
- Public liability (in case anybody tries to sue you for being injured in the property)
- Legal cover should any disputes arise with tenants
- Loss of rent, but bear in mind this applies to a period when the property becomes inhabitable due to repair works, rather than void periods.

Some landlord insurance policies also let you buy additional cover to guarantee rental income in the event of tenants falling into arrears. You can buy these as standalone policies, and many come bundled with legal assistance to help you evict tenants too. Rental protection insurance (as it's known) is relatively inexpensive, but do check the small print to find out how long before the insurer pays out in the event of a claim and what percentage of your rental income you'll receive.

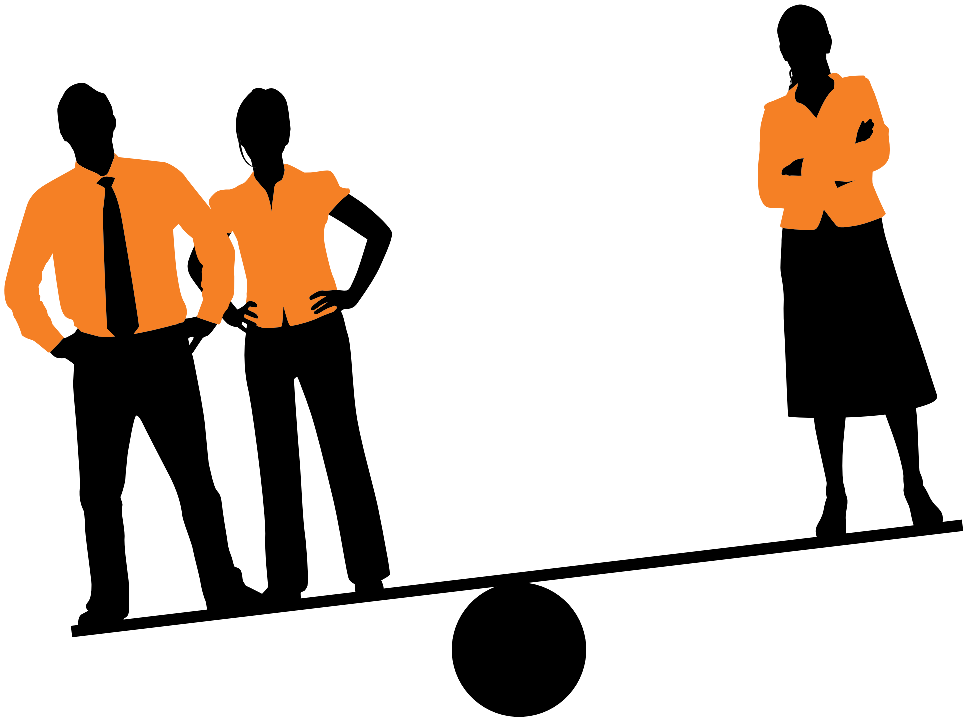
Another option to safeguard against void periods is to sign up to a guaranteed rental scheme through a letting agent. These give landlords a fixed rental income for a set period of time, regardless of whether the property is empty or not. The landlord still has responsibilities towards his tenants but you'll probably receive significantly less rental return than if you'd let the property out on the open market. If you're interested in this route, do the sums, read the small print to find out what costs you still need to cover (ground rent in a leasehold property, for example), and consider opting for a short-term contract to test the water first.

What to do when your circumstances change.

Life doesn't always run smoothly so you need to check the small print of any mortgage terms before signing on the dotted line in case your circumstances should change. In any scenario, speak to your mortgage provider directly (or through an intermediary) and don't keep them in the dark, as if you breach any of their terms they can ask you to repay your loan in full.

One result of changing circumstances may be that you want to live in your rental property. The first thing to do in this situation is speak to your mortgage provider. It isn't illegal to move back into any rental properties you own, but you may be in breach of your mortgage terms. Buy to Let mortgages are not intended for owner occupation, as the affordability assessment is based on rental income being used to pay the mortgage. You will, therefore, need to switch to a residential mortgage, which is regulated by the Financial Conduct Authority (FCA) and offers you full protection on this basis. Be aware, however, of any early repayment charges in switching your mortgage before the end of its term.

If you are in the fortunate position of being able to repay your mortgage and enjoying a good return on your rental property, consider whether any additional sums you have available could deliver greater benefits elsewhere (on your residential mortgage, for instance, as the interest payments on your Buy to Let mortgage are tax deductible but not on your residential loan).



If you want to sell the property, see Chapter 7 for best practice and advice on exit strategies.

If you are experiencing any problems in paying your mortgage, you should talk to your lender in the first instance.

In a worst-case scenario in which you can't meet the mortgage payments or you breach the terms of your mortgage, your lender can take you to court to get possession of the property and sell it to recoup their loan. Alternatively, mortgage companies in England and Wales (different rules apply in Scotland) may appoint a 'receiver of rent' who collects the rent on behalf of the mortgage company rather than the landlord (they also become responsible for managing the maintenance and ensuring it meets current regulations). This means your tenants may not have to move out; whereas with a possession order the mortgage company usually evicts any tenants in order to sell the property. But in most cases, the tenant will be served notice to leave at the end of the assured shorthold tenancy in these circumstances anyway.

Find out more at www.legislation.gov.uk/ukpga/Geo5/15-16/20

Chapter 4

What's expected of a landlord?

What you'll get out of this chapter...

- Your rights and responsibilities
- An introduction to tenancy agreements
- Choosing between longer-term and shorter-term lets
- Energy efficiency and what the Green Deal means for landlords
- Rules on discrimination
- Important information on how you are taxed

Rights and responsibilities.

As a landlord, you have some responsibilities to your tenants in relation to your property; in exchange you get certain rights to help to protect your investment.

Your tenants have the right to:

- Live in a property that's safe and in a good state of repair
- Have their deposit returned when the tenancy ends (for exceptions to this, see Chapter 5)
- Challenge excessively high charges (tenants can appeal to the Rent Assessment Committee if they think their rent is too high)
- Know who their landlord is
- Live in the property undisturbed
- See an Energy Performance Certificate for the property
- Be protected from unfair eviction and unfair rent
- Have a written agreement if theirs is a fixed-term tenancy of more than three years.

In return, you have the right to:

- Reasonable access to the property for inspection or repairs (but you need to give at least 24 hours' notice and visit at a reasonable time of day, unless it's an emergency)
- Agree the terms of the tenancy (for example, the property cannot be sublet without specific agreement from you)
- Receive rent on time
- Receive proper notice of departure
- Be able to serve an eviction notice if the tenant doesn't pay rent and shows no sign of doing so
- Increase rent fees at certain times and within certain circumstances, as long as the new rent is fair and justifiable
- Charge the cost of any repairs caused by the tenant to them.

Find out more at: www.gov.uk/private-renting/your-rights-and-responsibilities or www.nihe.gov.uk/index/advice/renting_privately/advice_landlords/general_guidelines_landlords.htm

Tenancy agreements.

These responsibilities and rights will usually be laid down in what's known as a tenancy agreement. This isn't a document required by law – a property can be let with only a verbal agreement – but it is strongly recommended to have one in place to get a mortgage.

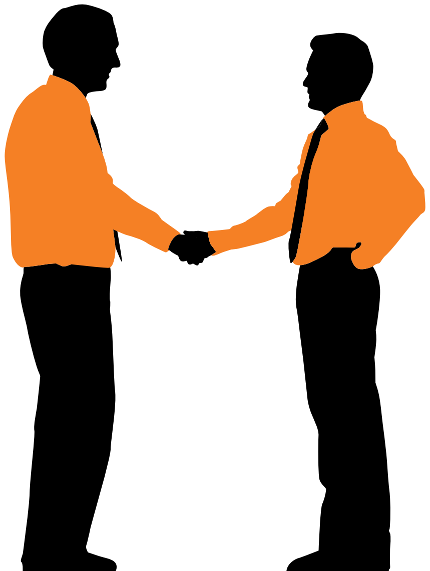
It is also strongly recommended that you have a written tenancy agreement, so both parties have a clear record of their roles and responsibilities. You will find more information on what you can include in tenancy agreements (and why you might want to) in Chapter 6, and definitions for different tenancy types opposite.

Types of tenancy.

Legally speaking, there are three different types of tenancies, with different rights for you and your tenants:

- Assured tenancies were established in the 1988 Housing Act – giving increased protection from eviction for tenants – and were the default tenancy type until February 1997
- An assured shorthold tenancy (AST) is a type of assured tenancy and the most common form of tenancy since the 1996 Housing Act
- Regulated tenancies can no longer be given and, therefore, only apply to tenancies started before 15 January 1989 (when the 1988 Housing Act took effect). The key characteristic of regulated or "Fair Rent" tenancies is that they were, and remain, subject to rent control[3].

In Scotland, the terminology is similar, with Short Assured Tenancies applying to properties rented from private landlords after 2 January 1989, and assured tenancies to rental properties prior to this date.



[3] https://www.gov.uk/private-renting-tenancy-agreements/tenancy-types

Longer-term vs. short-term lets.

The standard tenancy term is six to 12 months: this is usually what's specified in an assured shorthold tenancy and what most lenders will make a condition of a Buy to Let mortgage. However you can offer a short-term let (usually defined as anything under six months), or a longer-term let (a tenancy over 12 months). There are advantages and disadvantages to both, depending on the type of tenant that you want to target. And you will need to let your lender know if you want to modify the agreed terms in your mortgage agreement to check they will allow you to accommodate shorter or longer-term lets, and on what basis.

By its nature, a short-term let is more flexible for both parties (tenant and landlord). If you're uncertain about your future rental plans, a short-term let can fill the gap. It might also be a way of making money on a property you own while you're not occupying it (if you're away on business, for example). But remember, you must tell your lender if you plan to do this. There are also groups of potential tenants specifically looking for this type of letting arrangement, like overseas workers or companies with a mobile workforce, which opt for this type of accommodation over costly hotels.

The advantage of a longer-term let is the security that comes from having a tenant for a longer period of time; and the benefits of not having to find a new tenant or deal with void periods.
Several sources report growing demand from tenants for longer-term lets, especially for families looking to provide more security for their children. If this type of tenancy appeals to you, as well as talking to your mortgage provider, you should let prospective tenants or letting agents know that you want someone to stay for the long term to attract the right tenants – and also give them the security of settling in the home.

Energy efficiency and the Green Deal.

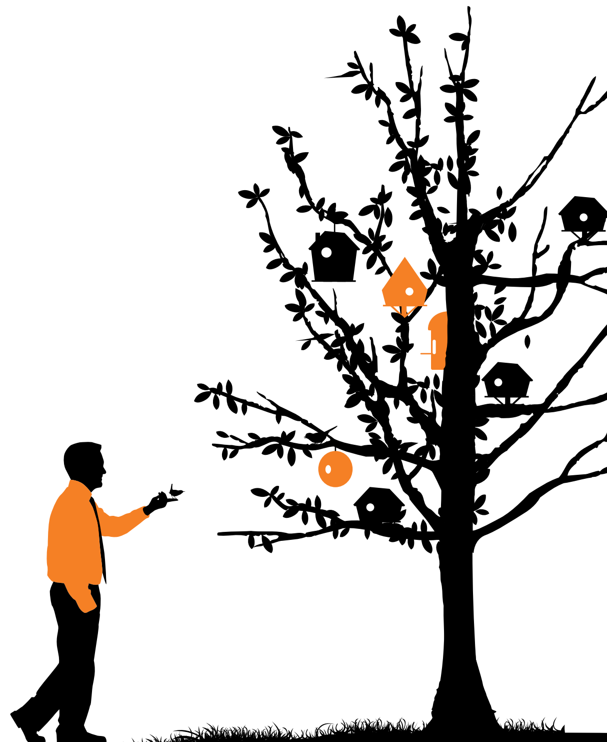
Before you first rent out your property, you need to obtain an Energy Performance Certificate (EPC) from an accredited assessor. This gives information about the property's energy use and typical energy costs. It also includes recommendations for reducing energy use and, importantly, gives an energy efficiency rating from A (most efficient) to G (least efficient). You don't need to get a new EPC every time you have a new tenant, but you do need to show them the EPC that you have – and you will need to renew it every 10 years.

The Green Deal is a new initiative from the Government that makes energy-saving improvements (like loft insulation or double glazing) affordable because they are repaid through the savings made on your energy bill over time. The repayments are based on the average saving a property of your type is likely to make from having the work done and can provide an effective way of paying for large investments upfront (like a boiler).

However, you will need to get the permission of tenants before signing up, as they will be the ones paying for the improvements through their energy bill. Any new tenants will also need to be shown the repayment amounts under the Green Deal at the same time as you show them your EPC certificate. And if you sell before the loan is repaid, then the remaining amount passes onto the next owner, so consider if this might restrict your resale options.

On the flipside, energy efficiency requirements for rented properties will shortly become stricter – subject to Parliamentary processes – so it may be worth your while to invest in improvements now. From 2016 onwards, landlords will not be allowed to refuse reasonable requests for energy-saving improvements that qualify under the Government's Green Deal initiative – and from 2018, rental properties will need to meet a minimum energy efficiency standard or the landlord have taken advantages of all the measures available to his property under the Green Deal[4].

[4] The Government is likely to allow reasonable exceptions to this particular part of legislation, as the principle is that there should be no net costs to the landlord of any improvements made to meet a minimum standard.



Unpaid water bills.

The Government has plans to tackle the problem of unpaid water bills with a new clause in the Flood and Water Management Act 2010 that makes you jointly liable with your tenants for any unpaid water bills.

The regulations have yet to be implemented – and there are likely to be exemptions (for example, if landlords can pass on a forwarding address for tenants) – but it would be wise to consider updating any tenancy agreements now to include a clause ensuring the water bills have been paid, or that money is recovered from the tenant's deposit to cover the amount due prior to their departure, and a forwarding address supplied.

Sensible measures.

Finally, as with any investment, you will want to make sure you're doing everything to protect it. And in many cases, this means going above and beyond the requirements of the law.

Sensible measures include installing carbon monoxide detectors in addition to fire alarms, and making sure that your tenants know where to turn off the gas.

Rules on discrimination.

The Equality Act 2010 makes it illegal for landlords to discriminate against anybody with a physical or mental disability by refusing to rent their property to them or charging higher rental payments.

The law doesn't require you to modify a property in order to accommodate a disabled person. But it does mean you cannot refuse to rent to people based on their sex, race, disability, religion or belief and sexual orientation. On the other hand, you're perfectly within your rights to refuse smokers, or people with pets or children.

Taxation.

As a landlord, you pay tax on both your rental income from your property (income tax), and on any profit you make from the eventual sale of the property (capital gains tax). As with all matters of taxation, there are many legitimate ways of reducing the amount of tax you owe, including a tax-free allowance for both income and capital gains tax.

Taxation of rental income.

The good news is that you only have to pay income tax on any profit you make from your rental income, with many expenses incurred through the process of letting being tax deductible. Things like insurance, cleaning and letting agent fees can all be deducted from the amount of rental income that you pay tax on. And don't forget some of the other lesser-known items you can claim for, including property magazine subscriptions, overdraft charges and legal fees.

You can't deduct the cost of buying furniture or fittings for your property, but you can apply a wear and tear allowance of 10% against the rental income you receive. Similarly, you can't claim your mortgage payment as an expense against your rental income, but you can deduct the mortgage interest.

Another option is to run your rental business as a limited company, making you liable to corporation tax rather than income tax (which can mean paying lower rates). Depending on how much you earn, you may not have to pay any additional income tax, as this only kicks in when you're taking home net profit above a certain threshold. However, be aware that running your business as a limited company may restrict your choice if you need a Buy to Let mortgage.

It's also worth considering the ownership of any rental properties, in case this can help to reduce your tax liability. Contrary to expectation, rental income doesn't have to be paid in proportion to property ownership. For instance, if a parent buys a student house with their child who's at university and owns 90% of the property, they don't have to take home 90% of rental income. They could take home a smaller percentage of rental income than their child, who is unlikely to pay much tax given their student status.

This is especially beneficial for higher rate tax payers – but only applies to situations where the property is jointly owned and let. It's also important to remember that it doesn't apply in cases where the joint ownership is between a married couple or civil partnership, as HMRC always assumes a 50:50 split in these circumstances. It also doesn't apply to capital gains tax (see *opposite*), as owners will be taxed on any profit made on their share of the property, regardless of how rental income has been divided.

Capital gains tax.

Capital gains tax is a tax charged on any profit you make when you sell your rental property – and only applies if a profit is made on the sale.

For example...
In June 2001 you bought a house for £75,000
In May 2007 you built an extension that cost £10,000
In August 2012 you sold the extended house for £200,000
So your gain before applying any reliefs is £200,000 - £75,000 - £10,000 = £115,000[5].

You can claim an exemption – what's known as Private Residence Relief – if the property has been your main residence and has been let for less than three years. If you lived in it but it's been let out for longer than three years, you may still be able to claim partial Private Residence Relief on the amount of capital gains tax owed for the rental period, again reducing your tax bill[6].

Find out more at www.hmrc.gov.uk and remember, it is always a good idea to seek independent tax advice on your own circumstances.

[5] For more examples, visit http://www.hmrc.gov.uk/cgt/property/calc-cgt.htm
[6] Find out more on Private Residence Relief at http://www.hmrc.gov.uk/helpsheets/hs283.pdf

Chapter 5

Managing your Buy to Let property.

What you'll get out of this chapter...

- Your choices when it comes to managing your property
- How to choose the right agent
- Top tips for marketing your Buy to Let property
- Vetting tenants
- Best practice on tenancy agreements
- Deposits
- Collecting rent
- Inventories and pre-letting of property
- Ongoing maintenance
- Problem tenants
- Advice for dealing with arrears and ending tenancy

Property management choices.

You can manage everything and be a direct point of contact for your tenants, or you can pay an agent to look after the property on your behalf. There are pros and cons to both approaches (see below). What you decide will depend on your experience (whether it's your first rental property, for example), resources (time) and circumstances (if you have another job, for example).

Advantages and disadvantages.

Self-management.

- No deductions for fees on your rental income
- Greater control over your investment
- If you are local to the geographical location of the property, there will be no (or minimal) costs involved in travelling to visit the property
- Direct point of contact for tenants
- Need to oversee all aspects of management: from finding tenants to arranging legal paperwork and managing the relationship
- Time intensive, particularly if you have a portfolio of properties.

Letting agent.

- Day-to-day property concerns handled on your behalf
- Less direct relationship with your tenants
- Local market expertise and lettings knowledge
- Good industry contacts (e.g. 'handyman' for repairs or solicitors for legal documents)
- Access to a greater pool of people. Enhanced advertising may increase rent
- Reduced rental income due to letting agent fees
- Lots of choice: how do you pick a good one?

Provided by the mortgage works common sense lending

The terms 'managing agent' and 'property management agent' are often used interchangeably with 'letting agent' so it would be useful to clarify the differences. In law, a letting agent is defined as somebody who's solely engaged in finding a tenant for a privately rented property, whereas a managing agent is someone who is responsible for managing a property – be that a leasehold flat or a privately rented property. To confuse matters, many managing agents call themselves letting agents – and many letting agents offer an array of property management services, and even some extra schemes on top, like rental guarantee.

Here's a summary of the different services from different agents:

	Letting agent	Managing agent
Marketing your property and contacting prospective tenants on their database	✔	✔
Arranging viewings and negotiating with tenants on your behalf	✔	✔
Running reference and credit checks on applicants	✔	✔
Advising you on your legal and financial duties as a landlord (e.g. annual gas safety checks)	✔	✔
Preparing the tenancy agreement	✔	✔
Collecting the tenant's deposit and putting this in a tenancy deposit protection scheme on your behalf	✔	✔
Providing an inventory of the property and assessing its condition prior to tenants moving in	✔	✔
Managing the tenant's move into the property (giving keys, inventory etc.) and overseeing the transfer of utilities and council tax bills		✔
Collecting the monthly rent and transferring this to your bank account		✔
Providing a day-to-day point of contact for any repairs or tenant concerns about the property		✔
Regular inspections of the property		✔
Giving tenants notice at the end of the tenancy		✔
Managing any problems (e.g. with arrears, evictions, breaches of contract such as pets in a 'no pets' property)		✔
Providing a rental guarantee scheme to protect you against void periods		✔

How to choose the right agent.

If you decide on a letting or managing agent, you need to determine what you want from them: whether to find tenants or manage the whole relationship. Any agent will be the main representative for your property to tenants, so it's important you have complete trust in their abilities.

As the lettings sector is a crowded marketplace, make sure you search around for the best agent for your specific property and rental needs:

- There are often advantages to appointing a local agent, since knowledge of the local market is crucial – and being on hand for any tenant emergencies offers additional benefits
- Ask any potential agent how they advertise to prospective tenants and how they plan to market your property, so you can be certain they will reach your target tenants effectively
- Find out how many properties like yours they've successfully let in recent months and how they source reliable tenants
- Ask if the agent is a member of a trade body, like ARLA (Association of Residential Letting Agents), NALS (National Approved Letting Scheme) or RICS (Royal Institution of Chartered Surveyors), so you have faith in their procedures being rigorous and thorough. Also find out if they're a SAFEagent, as this denotes a firm that protects landlords and tenants money through a client protection scheme
- Compare fees and contract terms across agents, so that you know the exact costs on a monthly and annual basis. Letting agents have come in for criticism by the Office of Fair Trading for not giving landlords enough transparency on their fees or services, so be sure to go through the small print of contracts carefully – and don't hold back from asking for clarification on any point
- Negotiate on rates and terms; some letting agents work on a 'no let, no fee' basis and in such cases you could appoint more than one agent to let your property – but be sure to check for hidden fees
- If you own several properties you might want to consider different agents for each one – rather than one agent for all properties – to protect yourself in the event of one of them going under.

At the same time, help your agents do the best job they can by giving them as much information as possible about your target tenant – and ask for advice on achieving the highest rental price possible amongst this group. Also be clear about what type of let you want (long or short term, for example).

You can expect to pay a fee of 10% to 20% of your rental income for a letting agent.

It will be at the higher end of this range if they're doing things like overseeing rent collection and maintenance work; and at the lower end if they are simply marketing your property, vetting potential tenants and drawing up a tenancy agreement.

Get more advice at:

The Association of Residential Letting Agents: www.arla.co.uk
National Approved Letting Scheme: http://www.nalscheme.co.uk
Royal Institution of Chartered Surveyors: www.rics.org/uk

Top tips for marketing your Buy to Let property.

If you're marketing the property yourself and not enlisting the services of an agent, you have several avenues to reach your potential tenants:

- Local newspapers and magazines
- Word of mouth
- Online sites, like Gumtree
- Local shop windows
- Tenant-specific sites e.g. student accommodation sites and Studentpad.

If you're using a letting agent, they will be marketing the property on your behalf, but don't be afraid to question them about their strategy – and make sure they take into account your target audience.

They are likely to use some of the following channels:

- 'To Let' boards
- Local newspapers and magazines
- Their own website
- Websites like Rightmove and Primelocation
- Any tenant-specific sites, like local university student accommodation sites and Studentpad.

Vetting tenants.

As a landlord, you need to safeguard your investment, which means you want tenants who are reliable, pay on time and will take care of your property. When choosing tenants, consider the following precautions:

- Always carry out rigorous checks before agreeing a tenancy and interview prospective tenants
- Remember you are free to put any conditions on the type of tenant you want as long as it doesn't breach equality legislation (see Chapter 4)
- Demand references (usually two, from an employer and previous landlord)
- If a tenant can't supply a reference, ask for a guarantor as an extra precaution
- There are also firms that will vet people on your behalf and reference services that you can use, like Tenant Check from the National Landlords Association
- If you have a letting agent, they are likely to carry out vetting on your behalf. But even so, make sure you're completely confident with the tenants they've selected, especially if it's the first time you've worked with the agency.

Best practice on tenancy agreements, deposits and collecting rent.

Tenancy agreements.

A tenancy agreement is a contract between you and your tenant(s) that outlines the rental rights and responsibilities of both parties. You don't need a tenancy agreement by law, but it is highly recommended to avoid disputes at a later date. If you are letting through an agency, they will be able to prepare the tenancy agreement on your behalf, but you will still need to sign it.

As outlined in Chapter 4, most tenancy agreements are on an assured shorthold tenancy basis and include the following common features:

- The term of the tenancy (usually a minimum of six months)
- The landlord's right to repossess the property at the end of the agreed term (although the contract can renew if both parties want to continue)
- The start date for the tenancy
- That the property must be let to an individual (not a company) who is using it as his or her main home
- That the landlord is required to give two months' notice to terminate the agreement; and a tenant one month's notice
- The amount of rent due, how often and when it can be increased
- Any other payments due by the tenant (e.g. council tax)
- Any services provided by the landlord.

You can ask a solicitor to draw one up or use an 'off the shelf' agreement from a trade body. It may be worthwhile joining one of the landlord associations – the National Landlords Association (NLA) and the Residential Landlords Association (RLA) are the two biggest – and for a relatively small sum, they can supply standard tenancy agreements. Although, you will need a solicitor if your tenancy contains any exceptions to a usual AST (for example, if you're letting for more than three years).

Once you are happy with the tenancy agreement, you and the tenant(s) need to sign it and retain a copy each.

Tenant deposits.

After the tenancy agreement has been signed, you should collect a deposit from your tenants. A deposit is usually four to six weeks' rent – although it is up to the landlord or agent how much they charge – and provided with the first month's rent in advance. It protects you from any damage caused by the tenant or a tenant leaving without paying the rent. It isn't required by law, but it is prudent to collect it to protect your investment.

If you have let your property on an AST (as in most cases), the law also requires you to register your tenant's deposit with a government-approved tenancy deposit protection scheme (depending on the provider, there may be a small cost for doing this). Government-backed tenancy deposit protection schemes include mydeposits, The Deposit Protection Service, The Dispute Service and Capita.

It is extremely important to fulfil your obligations regarding the tenancy deposit protection scheme, as there are legal and financial ramifications for not doing so.

You are legally obliged to do the following:

- Protect your tenant's deposit within 30 days of receiving it
- Return your tenant's deposit at the end of the tenancy
- Give your tenant, in writing, the following information: your contact details (even if you're using a letting agent); details of the tenancy deposit protection scheme used; information on the tenancy deposit protection scheme; how they will get their deposit back at the end of the tenancy; and what to do if there is a dispute about the deposit.

Make sure any requests you make in writing are sent recorded delivery and keep a copy for your own files. If you don't protect your tenant's deposit, fail to do so in the timeframe or don't tell the tenant details of the scheme, you can be fined one to three times the value of the deposit. It will also have an effect on your right to evict the tenant – you can't invoke a Section 21 Notice, which in an assured shorthold tenancy gives them two months notice to move out – so it's crucially important to get this right.

Should the letting run its course, you must return the deposit to your tenant within a reasonable period of time at the end of your rental agreement.

If you withhold some or all of the deposit – due to damage or missed rent payments – you must tell the tenant in writing how much you are retaining and why, and ideally provide any receipts to justify your decision. If there is a dispute, the tenancy deposit protection scheme will hold onto the money until it has been resolved – and they often have a free Alternative Dispute Resolution (ADR) service that you can use if you both agree to it.

Find out more at http://england.shelter.org.uk/campaigns/deposit_protection/tenancy_deposit_advice_for_landlords

Inventories and pre-letting of property.

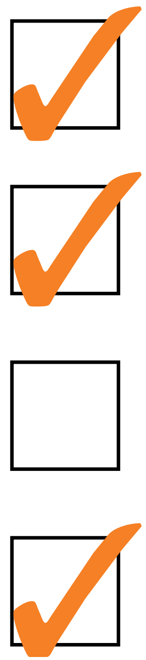
Before your tenants move in, you (or an agent acting on your behalf) should do an inventory outlining the contents of the property and what condition they are in. Ask your tenant to sign every page of the inventory, so you're both agreed on the state of the property and its fittings.

Even if you're not providing much in the way of appliances or furnishings, do spend time on this and include all aspects (the state of the carpets, for example), as it will be important in determining whether your tenant receives their full deposit back at the end of the rental. Some landlords walk around and take video or photographs for their inventory (using their mobile phone, for example); others use a professional 'check in, check out' service (such services are tax deductible). You can revisit the inventory at any time, but it's most common to do so at the end of the tenancy.

If you've had tenants in your property already, you should make sure the property is up to standard for your new tenants, repainting or replacing any fittings that aren't working properly. Now is also the time to check your gas, electricity and fire safety (see Chapter 6 for more details).

Before you welcome your tenants in, remember to take meter readings (if this is a new let, you will have been paying the bills until now). Leave them the gas safety record and show them how to work any equipment.

Don't forget to make sure that any insurance policy has commenced by the time your tenants move in.



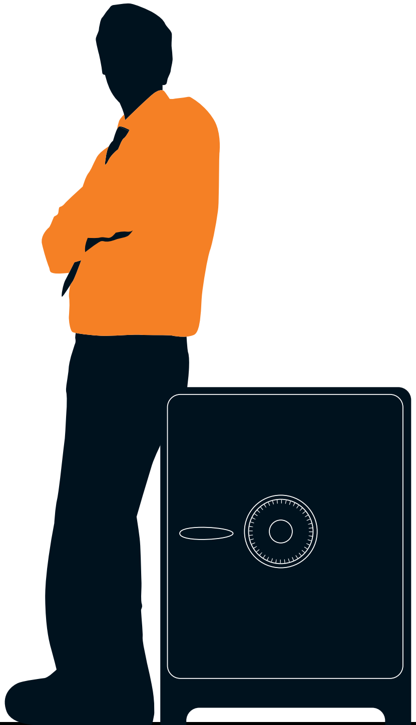
Collecting rent.

If you are responsible for collecting rent (if you have not employed a letting agent to do so), then make sure to issue a receipt or sign a rent book. This can be issued by hand if your tenant pays in cash; or if they pay by cheque or some form of bank transfer, provide them with a receipt each time. Even if there's already online evidence of payment, it's good financial practice to issue receipts and this can also be used by you as proof of income for tax purposes.

Rent increases.

Your tenancy agreement should include details of how and when the rent will be reviewed. Unless it states in the AST when you can increase the rent, you will need to wait until the end of the tenancy agreement term to do so, when you renew the AST. Any rent increase must be considered fair and realistic (comparable with local rents, for example) and you must give a minimum of one month's notice (or longer, depending on your tenancy agreement).

As tempting as it may be, don't be greedy; if you ask for a higher rent, your rental property may sit empty for longer. Don't assume that you can increase rents every year, take advice (from your letting agent) and consider that markets can go up as well and down, so if you're not going to reduce your rent every time the market dips, you can't necessarily expect to increase it every time it rises too.



Ongoing maintenance.

Property requires ongoing maintenance if you want to secure a long-term return from your investment. You also have to remember that your rental property is now somebody's home, so it's important to show a duty of care and respond quickly to any problems or repair. From a legal point of view, this will also stand you in good stead in the event of any claims.

Your local authority can also inspect your property at any time if it has been deemed dangerous or the tenant asks for an inspection. The council will look at the condition of the property using a risk assessment approach called the Housing Health and Safety Rating System (HHSRS). So consider reviewing the condition of your property regularly to see where and how it could be improved and made safer.

Find out more at https://www.gov.uk/government/publications/housing-health-and-safety-rating-system-guidance-for-landlords-and-property-related-professionals

A tenancy agreement outlines your responsibilities for maintaining the property, but here's a summary of what they're likely to be for the building's ongoing maintenance:

- You are generally responsible for repairs to the structure and exterior of the property; basins, baths, sinks and toilets; fires, radiators and water heaters; water, gas and electricity supply and meters; and water tanks and boilers
- You may have agreed additional responsibilities – such as fittings and fixtures – in the tenancy agreement too
- The tenancy agreement may also outline how a tenant alerts you to any problems or repairs. If you have a letting agent, they may manage this on your behalf without contacting you (your arrangement with them will outline the extent of your relationship)
- It's a landlord's duty to make sure the property is habitable and repairs are carried out within a reasonable period of time (this definition depends on the type of repair)
- If you don't carry out the repairs, a tenant has the right to carry them out and deduct the cost of the works from any future rent payments. However, they need to give you notice of their intention, obtain three estimates for the job, and go with the lowest of the three. They also can't stop paying rent, as this will put them in breach of their tenancy agreement
- Tenants can't request their landlord make repairs that were required before they moved in if rents were deliberately kept low for this reason
- Tenants can't ask their landlord to repair damage caused by them or a visitor to the property
- Wear and tear is inevitable in a property's furnishings and fittings over time. The inventory is a vital document showing the condition of the property pre-tenancy and if you used video or photography in your inventory, it's advisable to repeat this post-tenancy to record any changes in its condition. Be aware that any evidence will need to have been agreed and verified by both parties.

Problem tenants.

One of the biggest headaches for landlords is problem tenants. If you carried out a thorough vet of potential tenants – asking for references and speaking to employers or former landlords – you may be able to avoid ever encountering a problem tenant. Similarly, maintaining a close eye on your investment with regular (announced) visits – or asking your letting agent to on your behalf – will also help to minimise any problems caused by damage or worse to the property. It's also advisable to respond professionally to any requests from tenants (e.g. for repairs) to maintain a good relationship.

Further strategies for protecting yourself include putting in place adequate insurance to protect your investment in a worst-case scenario, and keeping detailed records of all communication so you can prove you followed the necessary processes at all times.

If your tenants complain about anti-social behaviour by neighbours, or are behaving anti-socially themselves, you will need to intervene. You can ask the police or the local authority to take action; or if it's your tenant, you can go to court to get them evicted or bring about an end to the tenancy. Don't ignore the problem because as the property owner, you are required to get involved.

Advice for dealing with arrears and ending tenancy.

Rent arrears is the amount of rent not paid to a landlord on time – and unfortunately it tends to increase in times of economic hardship.

49% of landlords have experienced rental arrears in the past 12 months[7].

Although any loss of rental income can be worrying, landlords should work with their tenants to try and resolve short-term instances of arrears. This might be through a repayment plan or a temporary reduced rent arrangement. The key benefit of such an arrangement is it keeps your tenant in the property, gives them a chance to recover their finances, and avoids the cost and hassle of having to find a replacement.

You can try to mitigate the effect of your tenant going into rent arrears at the start of the contract by carrying out background checks, and taking a deposit so you have this to fall back on in the event they can't pay.

[7] As of July 2012, according to the National Landlords Association

The National Landlords Association has the following advice:

- Work together and discuss the situation
- Be alert: If the tenant has experienced a sudden change in circumstances, work with them to check they are receiving any benefits they may be entitled to
- Set up a payment plan: If the tenant is not entitled to additional funds, work with them to arrange a repayment plan or reduced rent arrangement
- Avoid substantial debts: If problems with payment continue despite a short-term arrangement, it may be appropriate to negotiate bringing the tenancy to an early end in order to avoid accruing significant debts
- Be aware of the appropriate procedures.

If your tenant is on housing benefit and falls into arrears of eight weeks or more, you should report it to the local council. They will then usually arrange payments to come direct to you.

If you are working with a letting agent, they should be able to manage any problems with rental arrears, evictions and ending tenancies on your behalf (provided such services are included in the agent agreement).

Ending a tenancy.

The requirements for ending a tenancy are relatively straightforward. Under an AST – the majority of rental arrangements – you have an automatic right to give notice of termination of the tenancy up to two months before the end of the fixed period. This notice can also be submitted through your letting agent. If a new fixed-term contract isn't agreed at the end of the term, it becomes a periodic tenancy that continues on a weekly or monthly basis (depending on how often the rent is paid). The notice period for such tenancies is still two months, as outlined in the 1988 Housing Act.

If your tenant wants to move out early, they are legally bound to pay rent for the fixed term outlined in the tenancy agreement – unless the tenancy agreement includes a 'break clause' outlining how much notice they are required to give and any special procedures to follow – and also pay for any costs incurred in re-renting the property (such as advertising). However, if they don't have a break clause and you both reach a mutual agreement about ending the tenancy early, you can agree to 'surrender' the tenancy. In this case, the tenant may have to pay some costs towards finding a replacement tenant (or be required to find the tenant first), and the exact terms are agreed between both parties in writing.

Should your tenant not leave when their time is up.

There are several legal routes to pursue – and it's important to state that you can never evict a tenant yourself, as this is a criminal offence. You need to serve a notice of intention to seek possession proceedings before you can obtain a possession order from the Court. This will detail the grounds upon which you are seeking a possession order and how much notice needs to be given. For instance, if a tenant owes rent, at least two months' rent must be owed, and the notice of intention is two weeks. If the tenant does not vacate the property after a possession order is granted you can apply for a warrant for possession of the property and an eviction appointment will be fixed by the bailiff.

Bear in mind...

You are unlikely to recover any costs incurred in evicting a tenant beyond retaining any deposit collected at the start (see the Deposits section, above). This is often because the tenant simply cannot afford to pay them – especially if they couldn't pay their rent – unless a guarantor signed the tenancy agreement (in which case, you can pursue them). In situations where a case makes it to court and wins, repossession claims and court fees are usually fixed and not dependent on your own legal fees. Add onto this lost rental income during the period too.

Since September 2012, it has become a criminal offence to squat in residential property in England and Wales. Yet landlords should be aware that somebody who remains in their property at the end of their tenancy is not considered to be squatting under the new law, and they cannot take the matter into their own hands and attempt to evict any tenants themselves.

Chapter 6

Maintaining your property.

What you'll get out of this chapter...

- Your responsibilities for maintaining your property
- A summary of gas, electricity and fire safety regulations

Maintaining your property.

Most of your legal responsibilities are concerned with the **health and safety of your tenants** and keeping your property in “a good state of repair” and, therefore, it’s important to maintain it to legally required standards.

Gas.

If your property has any gas appliances, it’s your job to ensure they’re safe under The Gas Safety (Installation and Use) Regulations 1998:

- Maintenance: Pipework, appliances and flues must be maintained in a safe condition. This will normally involve a programme of regular inspections, and any necessary repairs. It covers all pipework that runs from the meter to the appliance. Find out more at www.hse.gov.uk/gas/landlords/gaspipework.htm
- Gas safety checks: A gas safety check must be carried out on every gas appliance or flue every 12 months . If a tenant has their own gas appliance that you have not provided, you are responsible for parts of the associated installation and pipework, but not for the appliance. Find out more at www.hse.gov.uk/gas/landlords/safetycheckswho.htm
- Records: A record of the annual gas safety check, or Landlord Gas Safety Record (known as a CP12), must be provided to your tenant within 28 days of being completed or to new tenants before they move in. You must also keep copies of the gas safety record for two years. Find out more at www.hse.gov.uk/gas/landlords/gassaferecord.htm

Bear in mind...

All installation, maintenance and safety checks need to be carried out by a Gas Safe registered engineer (Gas Safe is the new name for CORGI). You can find out more information at:
www.gassaferegister.co.uk

Electrics.

It's your responsibility to ensure that any electrical wiring in your property is safe, as well as any electrical equipment that you provide for tenants to use.

This involves testing electrics regularly to ensure they are in "good working order", ensuring there are enough plug sockets to minimise the need for multi-way adaptors and installing residual current devices (RCDs) to help protect against electric shocks. Any electrical item – like a toaster, kettle or washing machine – should carry a CE Mark (showing it meets the basic requirements of EU legislation) as an absolute minimum, and ideally the British Standard Kitemark or the BEAB Approved Mark.

The Electrical Safety Council (ESC) recommends that you have a registered electrician examine the property every five years or whenever a tenant moves out, whichever comes first. The electrician will provide an Electrical Installation Condition Report, which outlines what was inspected and tested, and any action you need to take. Make sure you keep the paperwork safe for all installations and tests. You can find more information at www.esc.org.uk/stakeholder/guidance-for/guidance-for-landlords/

Fire.

The Regulatory Reform (Fire Safety) Order 2005 puts a duty on the landlord to take general precautions to ensure, as far as is reasonably practicable, the safety of people on the premises and in the immediate vicinity. You should start by conducting a fire risk assessment to identify any hazards, determine the fire risk and then put in place a system of maintenance to ensure the continued safety of tenants.

How the law is interpreted depends on the type of property and level of occupation; the legislation does not propose a single solution to fire safety that can be applied broadly across all types of property.

But there are some general principles of fire safety that apply to all buildings, which landlords should consider:

- Escape routes: do your tenants know their way out in a fire?
- A fire detection and alarm system will alert tenants to a fire in its early stages, but the type of system you install will depend on the risk of the premises; larger buildings or buildings with multiple occupancy might need more complex systems with separate smoke and heat detectors, for example
- Emergency escape lighting might also be necessary in larger buildings or buildings with multiple occupancy
- As an extra precaution, you may want to provide fire blankets or simple fire extinguishers. But be aware that these should only be used for very small fires – the best advice in any other instance is to evacuate the property – and it can be problematic ensuring they are maintained and aren't used improperly.

Managing and maintaining the systems in place to secure fire safety is as important in having them in the first place. Again, how complex this is depends on the fire safety risk for your individual property. In single household dwellings, it is recommended to test the fire detection system at least once a year, but it would be advisable to encourage your tenants to check it more regularly (every week or month, for example). Tenants should also be aware of the importance of keeping escape routes free of storage and clutter. Find out more at www.gov.uk/government/publications/fire-safety-in-shared-or-rented-accommodation

For larger buildings or those with multiple occupancy, there is more detailed guidance available[8] and more complex detection systems will need to be checked by a relevant engineer and the results recorded in a log book. If your property is part of a shared dwelling (like a block of flats), make sure that you, your tenant or a letting agent (if managing it on your behalf) can also provide regular access to your flat for testing central fire alarm systems.

Bear in mind...

Any furnishings you supply with your property also need to meet fire safety standards, as laid out in the Furniture and Furnishings (FIRE) (Safety) Regulations 1988. This covers everything from headboards to futons and cushions – but it doesn't apply to items made before 1950 or furnishings like duvets, carpets and curtains. It's your responsibility to make sure all relevant items have a label on them showing the regulation they conform to. Never cut this off and, if in doubt about whether a piece of furniture meets the regulations, replace it. It's a criminal offence not to comply with the legislation and the penalties are severe.

[8] http://www.cfoa.org.uk/11934

Chapter 7

Selling Buy to Let property.

What you'll get out of this chapter...

- Planning your exit strategy
- The sales process
- How might Buy to Let affect a property's value?
- Key things to watch out for

Planning your exit strategy.

Buy to Let is best approached as a long-term investment in order to benefit from both capital growth and rental income over time. What your exit strategy is depends largely on what your objective is in taking out the investment. Do you want your property to fund your retirement? Or perhaps the objective is to give your children an inheritance?

Choosing when to exit is important because it's when you could make – or lose – the most money on your investment.

If you have a mortgage secured on a Buy to Let property, it will have a maturity date and you will need to consider how to repay the mortgage before the end of the term and ensure tenancy agreements do not run beyond this point.

If there is an issue with repaying your mortgage, you should always contact your lender immediately. There may be alternative options available that mean you don't have to sell the property – for instance, having another investment that might be able to repay the mortgage on the property, or agreeing a term extension.

As most Buy to Let mortgages are interest only, you will need to repay the capital proportion of the mortgage at the end of the term, which you should consider if your mortgage continues into retirement when planning your exit strategy. A number of lenders have a maximum age of 75 at mortgage maturity, so if this is the case, you will need to align your strategy accordingly.

It maybe, however, that your circumstances change, forcing you into an early exit.

If your property is delivering a reasonable return, perhaps look into employing a letting agent to take care of more of the day-to-day running of the property. Or perhaps you're looking to expand your portfolio and want to divest of any poor-performing properties to focus on those that are delivering a strong return.

Before you divest of the property, consider why it might not be making the returns you'd hoped for:

- Are you asking for too much rent?
- Targeting the wrong kind of tenant for the property?
- Could the property benefit from some home improvements to boost its letting ability first?
- Maybe it's an older property and needs to be more energy efficient?

Take a good look at your rental investment – and get an outsider's opinion too (a local letting agent should be able to provide advice and might give you access to a wider pool of tenants too).

What to consider when selling:

- It's never a good idea to sell based on short-term changes in the financial markets or media panic about interest rates. This is because it's unlikely a quick sale will get you the best price for your property.
- There's also a possibility that lots of landlords trying to exit the market at the same time could, in fact, lower property prices and reduce your chances of achieving a return on your capital investment.
- At the same time, don't hold onto a property in the hope that the location will finally become 'up and coming' or the property will go up in value. If it's a drain on your investment, you're right to consider selling up and moving on.

The sales process.

As with selling a residential property, selling a Buy to Let investment can take time so it's not a quick-fix solution. First, you need to get your property valued and choose one (or more) estate agents to sell it on the open market for you. They'll arrange viewings and negotiate any offers on your behalf.

It's advisable to sell up when the property is vacant, as this will widen its appeal to homeowners and landlords; only an investor buyer will want to take on a property with tenants and even they may still serve notice on taking ownership. This may mean you have a void period in-between the tenant moving out and completion of the property sale, but if your aim is a speedy sale it's something you'll have to accept.

If you can, however, consider giving your tenants notice ahead of the end of the fixed term, and coming to an agreement with them on allowing viewings in the property –maybe extending the time they can stay or reducing their last month's rent as an incentive.

Once you accept an offer on your property, the sale passes into the hands of the solicitors. Your buyer will likely arrange for a survey to be done and, depending on the complexity of the sale, you should hope to exchange in four to six weeks' time, and complete as soon as both parties are ready.

The advantage of being a landlord is that you should have a good understanding of your rental property, and know what kind of buyer your property might appeal to.

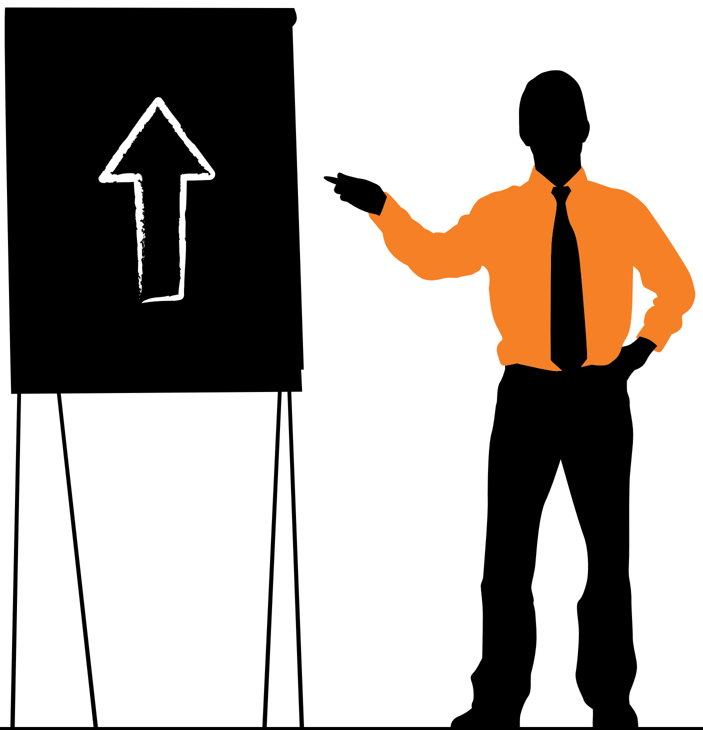
Share this information with the estate agent, along with the history of the property and any home improvements you have made in recent years. Many lettings agencies are also estate agents, so if you've been using an agent and had a good experience, consider asking them to sell your property. As an investor, there will also be no onward chain, giving you potentially more flexibility than other sellers.

If you are selling several properties, there are specialist buyers – estate agents, property developers or investors – who will take on your whole portfolio. Do consider that you are unlikely to achieve the same price for each property as if they had been sold individually on the open market, but if your goal is to exit the landlord market altogether, it may be worth seeking out these types of buyers.

How might Buy to Let affect a property's value?

It doesn't need to: if you've been maintaining the property to a decent standard and have installed new appliances and fittings, the house should appeal to new buyers – even though it might have had multiple tenants.

How easy the property is to sell afterwards does depend slightly on the type of rental property you own, however. In many cases, your potential buyers may be homeowners rather than landlords. A spacious house or flat will appeal to families and young professionals respectively, whether it's been rented out or lived in by the owner. But if your Buy to Let property has been providing student accommodation on campus, for instance, it may have limited appeal to non-landlords.



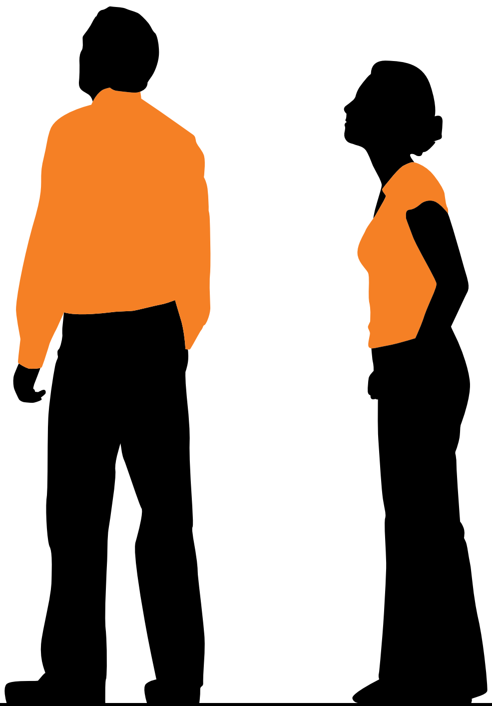
Key things to watch out for.

The main thing to remember when you sell a rental property is that you will have to pay capital gains tax on any profit you make on the sale (see Chapter 4 for how this works). If you're worried about having a high tax bill, think carefully about whether you can hold onto any other properties, even if it's only until the start of your next tax year, as this will delay your liability for another 12 months.

As with any property sale, there are also other costs to consider:

- Having an Energy Performance Certificate done (if you haven't recently arranged for one as part of your rental commitments)
- Estate agent fees
- Solicitor costs
- Potentially removal or storage costs if you have furnished the property
- Early redemption charges if you have a Buy to Let mortgage and are repaying it before the end of the mortgage term.

Factor all these costs into your financial planning and don't make any decisions lightly.



Chapter 8

Buy to Let investment planner.

What you'll get out of this chapter...

- Calculating your rental income and costs
- Planning for loss of income due to empty property
- Monthly worksheet
- Annual worksheet

Calculating your rental income and costs.

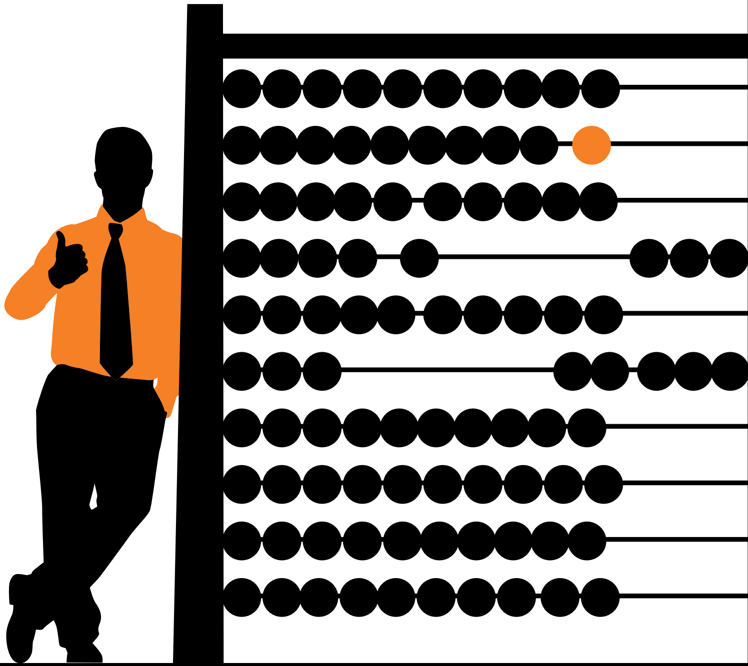
To find out what likely profit you will make on your rental property on an annual and monthly basis, we've put together two worksheets to fill in with your incomings and outgoings. This should help you plan your cashflow around the months with higher outgoings and manage any void periods.

In the annual worksheet, void periods are included as an outgoing (allow up to two months' rent); while in the monthly worksheet, void periods are assumed as months 11 and 12 (shown in black), so assume no rental income for this two-monthly period when working out your costs.

With both worksheets, you'll need to assume costs for rental income if you don't already have a definite figure. We've also marked which costs can be deducted against your income tax, so you can work out your likely profit after tax, which is your key figure for estimating the net income you'll take home.

Costs for the initial purchase of the property aren't included (see Chapter 3 for a breakdown of these), nor are any costs or income you may make in selling the property (see Chapter 7 for more information on this).

The worksheets are only intended as a guide to help you estimate your likely return from your rental property; you will need to consult an accountant or independent financial adviser for detailed guidance.



Planning for loss of income due to empty property.

Try to put aside some money each month to cover any void periods. A good rule of thumb is to have two months' rent available to give you enough time to review your marketing strategy and find new tenants.

But if you're really concerned, find a letting agent offering a guaranteed rental scheme to pay you a fixed rental income regardless of whether any tenants are living in your property. There are some pitfalls with doing this, however (see Chapter 3 for more details).

Monthly worksheet:

MONTH	1	2	3	4	5	6	7	8	9	10	11	12
INCOME												
Rental income												
TOTAL INCOME:												
COSTS												
License fee*												
EPC assessment*												
Gas safety checks*												
Electrical inspection*												
Tenancy deposit protection scheme fee*												
Solicitor fees for tenancy agreement*												
Wear and tear allowance (10% of rental income, if furnished)												
Vetting service*												
Professional clean*												
Mortgage repayment (only applicable for full or part repayment mortgages)												
Mortgage interest* (only mortgage interest is tax-deductible)												
Letting agent fees*												
Ground rent and service charges (if leasehold)*												
Maintenance (ideally save 5% of rental income a month)*												
Insurance (building/contents/landlord/income protection)*												
TOTAL COSTS:												
PROFIT FOR TAX (total income minus tax-deductible expenses):												
TAX DUE:												
NET PROFIT AFTER TAX (total income minus total costs minus tax due):												

This worksheet is also available as an Excel spreadsheet you can download from http://www.themortgageworks.co.uk/includes/pdf/MonthlyWorksheet.xls.

NB: Not all of the above expenses may apply; *Tax deductible expense

Annual worksheet:

	PRE-TENANCY	DURING TENANCY	POST-TENANCY
INCOME			
Rental income			
TOTAL INCOME:			
COSTS			
License fee*			
EPC assessment*			
Gas safety checks*			
Electrical inspection*			
Tenancy deposit protection scheme fee*			
Solicitor fees for tenancy agreement*			
Wear and tear on furnishings (10% of rental income, if furnished)			
Vetting service*			
Professional clean*			
Mortgage repayment (only applicable for full or part repayment mortgages)			
Mortgage interest* (only mortgage interest is tax-deductible)			
Letting agent fees*			
Ground rent and service charges (if leasehold)*			
Maintenance (ideally save 5% of rental income a month)*			
Insurance (building/contents/landlord/income protection)*			
Void periods (assume two months rental income)			
TOTAL COSTS:			
PROFIT FOR TAX (total income minus tax-deductible expenses):			
TAX DUE:			
NET PROFIT AFTER TAX (total income minus total costs minus tax due):			

This worksheet is also available as an Excel spreadsheet you can download from http://www.themortgageworks.co.uk/includes/pdf/AnnualWorksheet.xls

NB: Not all of the above expenses may apply; *Tax deductible expense

Chapter 9

Glossary of terms and useful links.

Glossary of terms.

Assured shorthold tenancy (AST)
The most common form of tenancy since the 1996 Housing Act, it is a type of assured tenancy, which applies if the property rented is private and you don't live in the property yourself.

Assured tenancies
Established in the 1988 Housing Act, assured tenancies were the default tenancy type until February 1997 (when the 1996 Housing Act took effect).

Buy to Let mortgage
A loan from a bank or building society to finance the purchase of a property that will be let out, rather than lived in by you.

Capital gains tax
Tax paid on profit from the sale of an asset – in this case, your rental property.

Freehold
In a freehold property, the owner has complete ownership of the land and all buildings on that land.

Guaranteed rental scheme
When a letting agent gives you a fixed rental income for a fixed period of time, providing cover for void periods.

House of Multiple Occupation (HMO)
An HMO is generally defined as a house or flat in which two or more households live as their main or only residence, and where some of these households share basic facilities, such as a kitchen, toilet or bathroom.

Housing benefit
Means-tested benefit towards rent and some service charges.

Income tax
Tax you pay on your income; in the context of this guide, tax paid on the rental income from your property.

Landlord insurance
Similar to home insurance, but for your rental property. It has some overlap with building and contents insurance policies, but can include additional landlord-specific features too.

Leasehold
The owner owns their building (this most commonly applies to a flat) but the common ways, external structure and grounds are owned by a freeholder, and the leaseholder must pay ground rent and service charges towards their maintenance.

Letting agent
Somebody who lets the property on your behalf in return for a fee based on a percentage of your rental income. They may simply find tenants for you or deliver a range of property management services.

Local Housing Allowance
A way of calculating how much rent can be met with housing benefit when the tenant is renting from a private landlord (rather than making use of social housing, for example). Local Housing Allowance rates are based on the size of household and area in which a person lives, so vary across the country.

Longer-term let
Usually defined as a rental period of more than 12 months.

Managing agent / property management agent
An agent responsible for managing a property rather than just finding a tenant.

Regulated tenancies
These can no longer be given and only apply to tenancies started before 15 January 1989 (when the 1988 Housing Act took effect). The key characteristic of regulated or "Fair Rent" tenancies is that they were and remain subject to rent control.

Rent arrears
The name given to the amount of rent not paid to a landlord on time.

Rental return
The difference between your rental income, less mortgage payments and other associated costs.

Rental yield
There are two ways of calculating rental yield: gross rental yield refers to the annual rent as a percentage of the property value; net rental yield refers to the annual rent minus costs, as a percentage of the landlord's investment.

Repayment vehicle
The means by which the investment will be repaid at the end of the Buy to Let mortgage term.

Short-term let
Usually defined as a rental period of less than six months.

Tenancy agreement
A tenancy agreement is a contract between you and your tenant(s) that outlines the rental rights and responsibilities of both parties.

Tenancy deposit protection scheme
The name given to the scheme that protects tenants' deposits. You must pay a tenant's deposit into a tenancy deposit protection scheme within 30 days and give them details of which scheme is used, how it works and how they will get their deposit back at the end of the tenancy.

Universal credit
The Government's new welfare initiative to replace the existing benefits system. People looking for work or on a low income will receive a new single payment rather than several different benefits.

Void period
When your rental property is empty.

Useful links.

Trade bodies:

Association of Residential Letting Agents: www.arla.co.uk

National Approved Letting Scheme: www.nalscheme.co.uk

National Landlords Association: www.landlords.org.uk

Residental Landlords Association: www.rla.org.uk

Royal Institution of Chartered Surveyors: www.rics.org/uk

SAFEagent: www.safeagents.co.uk

UK Association of Letting Agents: www.ukala.org.uk

Charities:

Crisis: www.crisis.org.uk

Shelter: www.shelter.org.uk

Deposit protection schemes:

Mydeposits: www.mydeposits.co.uk

The Deposit Protection Service: www.depositprotection.com

The Dispute Service: www.tds.gb.com

Capita: www.capital-tdp.co.uk

Health and safety:

Electrical Safety Council: www.esc.org.uk

Find a Gas Safe Registered Engineer: www.gassaferegister.co.uk

Government legislation: www.gov.uk

Tax:

HMRC: www.hmrc.gov.uk

Here's a summary of the information provided in this guide to help you develop and improve your rental strategy:

Investment.

- ✓ Remember, renting is a long-term investment
- ✓ Do your sums to make sure your rental income covers mortgage payments and costs
- ✓ Put aside two months' rent to cover void periods
- ✓ Check if you're making full use of your tax-deductible expenses

Rights and responsibilities.

- ✓ Know your rights and responsibilities – and those of your tenants'
- ✓ Comply with gas, electric and fire safety legislation
- ✓ Don't discriminate against potential tenants
- ✓ Go beyond your legal duties to protect your tenants and you
- ✓ Comply with local authority licensing requirements, if necessary

Tax.

- ✓ Find out what expenses are tax deductible and put some money aside every month for paying your tax bill
- ✓ Consider the implications of capital gains tax and inheritance tax planning (if this applies to your circumstances)
- ✓ Always consult an expert for independent financial advice

Strategy.

- ✓ Confirm your investment strategy: maximum rental income or maximum return on the value of the rental property?
- ✓ Compare the returns of any new properties against your existing portfolio to judge the performance of your investments
- ✓ Decide what type of tenant you want to target, and choose a location based on what appeals to them
- ✓ Be aware of the issues of renting to friends and family; if you decide to do so, make sure you have a tenancy agreement in place
- ✓ Keep abreast of new legislation that will affect some tenancy groups (e.g. tenants on benefits)

Property.

- ✓ Choose your property based on the type of tenant you want to target
- ✓ Budget for extra maintenance costs with period homes
- ✓ Consider whether the property is freehold or leasehold, as there could be additional costs
- ✓ Aim for gross rent of between 130% and 150% of the monthly mortgage payments
- ✓ Could the Green Deal help increase the energy efficiency of any existing properties?

Mortgage.

- ✓ Be aware of the costs involved in purchasing a property – including mortgage fees
- ✓ Check the small print on your mortgage for any property or tenant restrictions
- ✓ Get insurance: buildings/contents/landlord or other

Management.

- ✓ Do put in place a tenancy agreement
- ✓ Be aware of how to deal with problem tenants
- ✓ Consider a letting agent who will have local market expertise – but be aware they will charge a fee
- ✓ Thoroughly vet tenants (or ask an agent to do it for you), as this is your most effective way of preventing rent arrears
- ✓ You must put your tenant's deposit in a tenancy deposit protection scheme
- ✓ Don't forget to do an inventory (ideally video/photograph it too)

Exit strategy.

- ✓ Budget for selling costs
- ✓ Have an exit strategy in place and think about what repayment vehicle you will use for a Buy to Let mortgage
- ✓ If planning ahead, ensure alignment of mortgage maturity date, ending of tenancy agreements and disposal of the property
- ✓ Capital Gains Tax will be due on any profit your rental property makes from the sale

This is the first time we've produced a guide for landlords so we'd really value your feedback.

Please let us know your comments at Citizenship@nationwide.co.uk

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