Your guide to Buy-to-Let

Help and support for landlords

Welcome

Whether you are becoming a landlord for the first time or buying another property to rent out this needs careful consideration.

The key to investing successfully is to plan your finances, be aware of what's happening in the market and choose the right buy-to-let property. Our handy guide can help you do just that.

Why buy-to-let?

Interest rates have been at an all-time low since 2009, leaving many people looking for alternative ways to invest their savings. A buy-to-let property can be a great option, either to provide a regular income or to potentially grow your capital if property values increase over time.

Choosing your property

When choosing your buy-to-let property, consider the potential rental returns. Study the local area and try to buy in a location you know will be attractive to prospective tenants. Features that can make a property more appealing are:

- Within walking distance of public transport.
- Good commuter links to the nearest city or town.
- Close to hospitals or universities.
- In the catchment area of good schools

Finding a mortgage that fits

Once you've found the perfect property, the next step is to decide what sort of mortgage is best for you. To help you decide, think carefully about what you want out of your buy-to-let investment. If you want to own the property in the long run, a repayment mortgage might be your best option. But if you want to sell when house prices rise, you may want to consider interest only.

Life is full of uncertainties, so many of our buy-to-let mortgages come with flexible features – you can overpay by a percentage of the outstanding balance per calendar year, and apply for payment holidays too, subject to terms and conditions.

Knowing the market

Keeping up to speed with changes in the buy-to-let market is important so you know exactly where you stand. Here are some of the latest changes for you to be aware of.

Stamp duty

From 1 April 2016, an additional 3% was added to Stamp Duty Land Tax (SDLT) for people buying additional residential properties. The Scottish Government also introduced higher rates on Land and Buildings Transaction Tax (LBTT).

These rules apply if you own two or more residential properties at the end of the day you complete the purchase, and you are not replacing your main residence.

Stamp Duty Land Tax (England,Wales & Northern Ireland)	Land and Buildings Transaction Tax (Scotland)	Standard Rate	Higher Rate
£0 to £125,000*	£0 to £145,000*	0%	3%
£125,001 to £250,000	£145,001 to £250,000	2%	5%
£250,001 to £925,000	£250,001 to £325,000	5%	8%
£925,001 to £1,500,000	£325,001 to £750,000	10%	13%
£1,500,001 plus	£750,001 plus	12%	15%

*Higher rates do not apply to properties costing £40,000 or less

Replacing wear and tear allowance

Replacing Wear and Tear Allowance with Tax Relief for Replacing Furnishings in Rental Properties.

From April 2016 the wear and tear allowance system was replaced by a new system which means landlords can only deduct the actual costs incurred on replacing furnishings from their rental income in the tax year, rather than just allocating a fixed percentage every year.

Changes to tax relief

Started to be phased in from April 2017 and once fully embedded by the 2020/21 tax year, tax relief on buy-to-let properties will be capped at the basic rate of tax (20%) for all landlords. Previously, landlords could claim tax relief against their mortgage interest payment at the top level of tax they pay, meaning that higher rate payers receive 40% relief and additional rate payers 45%. These changes will therefore reduce the profits earned by landlords taxed at higher and additional rates.

Changes to energy performance rating

As from the 1st April 2018 a new legal requirement was introduced for any properties rented out in the private rented sector to have a minimum energy performance rating of E on an Energy Performance Certificate (EPC). Where existing tenancies are in place, the legal requirement will come into effect from 1st April 2020.

Additional costs

Make sure you think about the upfront and ongoing costs when becoming a landlord.

Upfront costs

- Stamp duty and legal fees, including surveys/valuations.
- Your deposit.
- Compulsory inventories, and gas and electricity safety certificates.
- Any minor repairs required before tenants move in.
- Furnishings (you can let your property with or without furniture, and your rental price should reflect this).
- Refurbishment and development if you need to improve or update your property.
- Letting agents, if you choose to go through them to find tenants.

Ongoing costs

- Long term repair and maintenance
- Void periods – there may be times when you are between tenants and your mortgage payments aren't covered by rental income. To make sure you can still meet your monthly payments, you should aim to raise rental income of at least 145% of your mortgage payments. Most lenders will require proof of this affordability when considering your application.
- Landlord's insurance/building insurance.
- Renewing annual safety certificates i.e. gas, which should cover all appliances and flues in the property.
- A management agency fee, if you decide to use one to help with the ongoing management of the property.
- Service charges.
- Ground rent.

Your responsibilities as a landlord

When investing in a buy-to-let property, there are a few things to consider. As a landlord, you must:

- Treat your tenants fairly.
- Understand and comply with all legal requirements, including any licensing or registration rules and health and safety obligations towards the tenant. This includes gas safety, electrical equipment safety and fire and carbon monoxide safety. You'll also need certificates to prove these regulations have been met. This is not an exhaustive list.
- Understand the consequences of being unable to comply with your obligations under a buy-to-let mortgage.

Please remember; if you are unable to comply with your obligations, such as keeping up repayments on your mortgage, lenders have the power to take possession of and sell the property to secure repayment of the mortgage loan, or to appoint a receiver of rent for the property.

Think about how you would cover the mortgage and other costs during void periods if your property is empty and you don't receive any rental income.

Protect your property's value by keeping it well-maintained and, for a leasehold property, meeting valid requests from the freeholder and/or the managing agent. Make sure you have appropriate buildings insurance in place from the day your mortgage completes and throughout the mortgage term.

Finding your tenants

Finding good tenants is a serious business. After all, they'll be living in your investment. To attract quality tenants, make sure your property is in the best possible condition. In particular, pay attention to its interior details – it'll go a long way.

If you already have tenants in while prospective tenants are viewing your property, ask them to clean and tidy up, and to make sure all the furniture is in its original position.

Top tip: Choose neutral colours when you decorate, as this will work with whatever furniture, bedding and ornaments your prospective tenants may already have. Scented candles and flowers are a nice touch to make the place feel fresh and homely

Rent

It's a good idea to research the rental market in the area so you can set a realistic price for the size and location of your property. Have a look online and in local newspapers to get an idea of what other people are charging.

Make sure you get a deposit from your tenants, and confirm they can pay this upfront. This will usually be at least one month's rent (and you have the right to ask for more), to safeguard against any damages or to make your mortgage payments if your tenants move out unexpectedly.

Tenant deposits are no longer held by landlords – instead, they're held in a tenancy deposit protection scheme. You'll need to set this up and provide your tenant with details within 28 days of taking their deposit.

Security checks

It's important to get professional and personal references to make sure you're comfortable with your new tenants. You might even want to run a credit check to make sure they'll be able to make their rental payments, as well as to verify they are who they say they are. The National Landlords Association offers a tenant check that includes bankruptcy and county court judgement searches. Alternatively, letting agents will usually carry this out as part of the tenant finder package.

Using a letting agent

If you're a busy person and worried about the time it may take to find and vet tenants, you could consider using a letting agent. They'll usually charge a fee as a percentage of the tenant's total rent. Typically, they'll be able to do some or all of the following:

> Draw up a suitable tenancy agreement.
> Advise on and arrange inventory and condition reports.
> Help with changes to utility accounts and council tax.
> Carry out a market appraisal to assess the rent the property will fetch.
> Collect rent and pay the money to you.
> If you decide to use a letting agent, it's still worth meeting the tenants yourself to establish contact from the start and make sure you're happy.

Any questions

Your mortgage adviser will be able to answer any questions you have. They can also help you review your options and make sure you choose the right buy-to-let mortgage for you.

YOUR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE