

Becoming a Property Landlord Guide

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Your complete guide to becoming
a property landlord

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Introduction to being a **Landlord**

The **UK buy-to-let sector** is growing at an astronomical rate. With private renting now the norm across the country, the rental sector has doubled since 2001 and comprises a massive **5.4 million privately rented households**. A trend expected to continue.

Forecasts suggest that **more than half** of **20-39 year olds** will be **privately renting** by 2025.

So with '**Generation Rent**' on the rise, is it time you gave serious thought to investing in property?

This guide is for all landlords - whether you've **built a portfolio** or you're **just starting out**.



Why become a Landlord



Steady increase in demand **vs the available supply**

There's a number of reasons to become a landlord but none stand out more than the **steady increase in demand vs the available supply**.

Demand is the lifeblood of an investment and so it's important to have plenty of it.

This increased demand is affecting everything from **property values to private rental prices**. Rents have risen by 14.5% since 2011 according to the Office of National Statistics - demonstrating the potential for impressive passive income.

At the same time, the Bank of England Base Rate remains at 0.5% - which means that many lenders are offering incredibly **competitive mortgage rates** and associated products.

This in turn has made buying a property much more **accessible**.

Finally, the UK market is incredibly diverse, with a number of regional cores providing **above average returns** for investors seeking affordability away from the usual London investment.

Getting started

As you might have guessed, getting started as a landlord starts with finding your **'forever investment'**.

At this point you'll want to be doing **plenty of research** - it might seem dull but it can be the deciding factor between a **success** and a **failure**. Within your research, you'll need to consider the following steps, all of which ensure you get the fundamentals right:

Explore the investment hotspots

Sounds simple enough, right? You'd be surprised at how many people **jump into an investment** without a firm idea of where they should be investing.

You should get an understanding of the **local market** - what property types are renting out at the moment, what's available in the area, and what's the common tenant demographic?

Don't be afraid to speak to **local letting agents** at this point as they'll have a good idea of the performance in the area.

Think about the ideal tenant

The cornerstone of any good investment is the **tenant**. They're the lifeblood of your investment and will ensure you enjoy a **steady stream of rental income**.

Within your research you've probably got a handle on the **demographics** you can expect within the area, so you'll understand what properties you should be considering.

If you have a 3-bed house for example, you'll want to focus on a totally different tenant than a 2-bed apartment in a city centre.

Don't try and appeal to everyone - you'll just end up wasting your time and money.

Don't overstretch your budget

If there's one thing to remember in an investment it's that you want to **start efficiently**. This applies to all aspects of the development; from the number of properties you invest in, to the way that you decorate and market your asset.

Make sure you perform **due diligence, calculate financial projections, set budgets** and don't be afraid to shop around for the best deals on any services you may require.

Similarly, things can change overnight. It's vital to have a **'rainy day' fund** so that you can deal with unforeseen costs such as void periods or maintenance. These issues can arise overnight so having this safety net in place can give you peace of mind.

Understand what being a landlord entails

While it may seem easy in theory, there's a lot of considerations for landlords to take into account before you jump in.

Firstly, there's always a chance that you might run into challenges with a tenant - including **rent arrears, unexpected repair bills and sub-letting activity**. These require good communication skills to resolve as well as your time and money - even if you're working with a lettings agency.

Both **landlord and tenant laws** change frequently so it's important to maintain your knowledge to ensure you're always on the right side of the law.

Financing your investment

A step that many landlords don't fully consider is financing the investment. While yes, you may understand that you need a buy-to-let mortgage, there's a range of different products out there that might suit you personally.

The three most common finance methods include: **Interest-Only Mortgage, Repayment Mortgage & Cash Investment.**





Repayment Mortgage

This type of mortgage requires an investor to pay back both the **capital and the interest** during the mortgage term. While this means you'll pay the outstanding balance by the end of the term, it does result in higher monthly payments



**LOWER RENTAL RETURNS
DURING THE REPAYMENT PERIOD**



**LESS FLEXIBLE THAN OTHER
OPTIONS**



**STRONGEST RETURN ON CAPITAL
EMPLOYED**



**BUILD EQUITY AND MAXIMISE
RETURNS OVER THE LONGER TERM**



Interest-Only Mortgage

Interest-Only Mortgage

The **most popular** buy-to-let financing option, an Interest-Only mortgage, means investors pay off the interest on the mortgage each month, but don't pay off the loan - the loan balance is still the same the end of the mortgage term.

Monthly payments are **typically lower** but offer more rental returns each month and thus, flexibility.

- ✗ CAN'T MATCH LONG TERM RETURNS OF A REPAYMENT MORTGAGE
- ✗ LOAN PAYMENT REQUIRED AT THE END OF THE MORTGAGE TERM

- ✓ MOST FLEXIBLE INVESTMENT FINANCE OPTION WITH MODERATE RENTAL RETURNS
- ✓ MORE OPPORTUNITY TO BUILD A FINANCIAL SAFETY NET AND SCALE A PORTFOLIO



The **costs** of being a landlord

BUY-TO-LET MORTGAGE COSTS

If you're buying a property with a buy-to-let mortgage then obviously this will be your largest outgoing each month.

Whether you opt for an interest-only or repayment mortgage, you'll need to deal with monthly payments - plus the final payment at the end of the mortgage if you're purchasing with an interest-only product.

Due to the global pandemic, lender confidence has dropped which has meant fewer products on the market. Nevertheless, speaking with a specialist lender can help find the right product for you.

LETTING AGENT FEES

Depending on whether you opt to work alongside a letting agent, you can expect this to be between 10% and 20% of your monthly expenses - based on how much support they're providing.

Typically, your letting agent will find tenants, collect rent and deal with tenants' issues, so this will depend on how hands-on you're looking to be.

What many landlords don't realise is the associated costs that can begin to mount up over the course of an investment.

Buying, maintaining and selling buy-to-let properties can be an expensive business so it's important to understand all the costs you'll face before deciding whether to become a landlord.

PROPERTY MAINTENANCE COSTS

While there's no hard and fast rule associated with maintenance costs, on average you can expect around **5%** of your monthly expenses to be taken up by **repairs and maintenance**.

Typically, landlords would recommend a **'little and often'** approach to maintenance but again, this would be up to you. At the very least, it can be a good idea to invest more upfront to ensure quality, durable fixtures and fittings - with the focus here being on the word **'durable'**.





LANDLORDS INSURANCE

As you'd expect, landlord insurance is an easy way of **mitigating risk**. If you have a mortgage, your lender will usually expect you to have this.

You can get various levels of insurance, which will typically cover the **building or your contents or both**. On average, you can expect this to make up **3%** of your monthly expenses.

Costs will vary depending on where the property is, the type of property and the level of cover you require.



Responsibilities of being a landlord

As a professional buy-to-let landlord, it's vital to be aware of your legal and financial responsibilities - especially regarding your tenants.

Getting the fundamentals right at the start of your investment will put you in good stead going into the future, mitigating issues you may find down the line.

By understanding and following these responsibilities, you not only provide a better service for your tenants, but you also protect yourself against potential legal issues.

Some of these responsibilities are mandatory but others - like landlord insurance - are optional. In this case, having a policy can protect you but isn't a requirement. Building insurance, on the other hand, is necessary if you have a buy-to-let mortgage.

It's also important to consider that the government is looking to reduce the amount of 'accidents' and rogue landlords, which is why being as responsible as possible can help you make more progress within your investment.

TENANCY AGREEMENTS AND DEPOSITS

You may hear of several different types of tenancy agreement but the most common is the Assured Shorthold Tenancy (AST). This is a contract that gives the tenant the legal right to live in the property - whether that's over a fixed period or on a rolling contract.

Another legal requirement is ensuring the tenant's deposit is placed in a protection scheme within 30 days of the tenancy agreement starting.



Legal Responsibilities of being a landlord

On top of the tenancy agreement and deposit protection, there are several other legal responsibilities you must undertake - all largely relating to the property itself:

- Ensure the property has an Energy Performance Certificate
- Protect the tenant's deposit in a government-approved scheme
- Gas, Fire and Electrical Appliance Safety
- Drawing up a Tenancy Agreement

You'll also need to consider the amount of rent you can charge:

The amount is based on many different elements, including external market trends. While there's no guarantees around rental income, you may be able to find forecasts based on local averages and past performance.

This is why buy-to-let is often seen as a long-term investment. Markets fluctuate and generally, you'll want to take advantage of secure, steady rental income over any other income stream

Lastly, the rental property must be 'fit for human habitation' which means it must not meet any of the following criteria:

- **The building has been neglected and is in a bad condition**
- **The building is unstable**
- **There is a serious damp problem**
- **It has an unsafe layout**
- **There is not enough natural light**
- **There is not enough ventilation**
- **There is a problem with the supply of hot and cold water**
- **There are problems with the drainage or the lavatories**
- **It's difficult to prepare and cook food or wash up**
- **Or any of the 29 hazards set out in the Housing Health and Safety (England) Regulations 2005**

Furnished or Unfurnished?

WHY CHOOSE FURNISHED PROPERTIES?

The main benefit of a furnished property is pretty self-explanatory: you can appeal to tenants seeking them.

Since it saves tenants money, you can give yourself the **edge** in a competitive market while also **commanding more rent**. At the same time, when a tenancy ends, you still own the furniture. Whether you pass it on to your next tenant or use it for yourself is up to you.

Finally, you can deduct a percentage of the cost of the furniture from your tax liability.

Furnished or Unfurnished?

WHY CHOOSE UNFURNISHED PROPERTIES?

The biggest benefit of an unfurnished property for a landlord is the cost. The initial purchase (or even replacement) of furniture can be expensive and in some cases limit the amount of interest your property receives.

This is because while you might love your furnishing choices, not everyone will. At the same time, tenants may have their own furniture that holds sentimental value.

There's also an argument to be had that tenants who buy their own furniture may also stay for longer periods of time, mainly because removing the furniture can be more complex than simply leaving the property. As with most things in an investment, your choices depend on your situation. If you have more cash to hand initially and want to stand out in a crowded market, a furnished apartment can offer unique benefits.

If you want your tenants to have flexibility on the other hand, unfurnished may be the way to go.



Finding your ideal **Tenant**

So you've found your ideal location and development, but who is going to live there?

While your ideal tenant might be different to the next person reading this guide, the fundamentals remain the same. You want someone that will **pay the rent on time**, look after the property and is interested in renting long-term.

Ultimately, finding the ideal tenant will require some research on your part, coupled with an honest chat and your natural instinct.

Here are some useful points to consider:

Job Stability

A stable job is an excellent indicator of a tenant that will be able to pay the rent in full and on time. Most referencing agencies will require the tenant's yearly income to be 30x the rent.

Right to Rent

A simple enough check to perform - the landlord must ensure that the tenant can legally rent in the UK. This is done by checking the relevant documents (which must be the originals, not copies).

Background Checks

While these are difficult to perform on your own, a letting agent can help you check the tenant's previous renting history. This could include; previous landlord references, land registry checks and enhanced credit checks.

Evaluate and Encourage Good Communication

From the very first meeting with your tenant, you'll get a feel for whether they're a good fit for you. While we can't stop you from having an opinion on first glance, it's more important you find a tenant that is open and honest.

This is where being a people person can have a tremendous impact in the long-run. If you **encourage openness from the beginning**, you can also ensure that tenants report problems early, which can be incredibly beneficial for stopping problems before they escalate.



Long-Term Renting

Void periods can be the death of any investment, which is an issue that finding a long-term renter can mitigate.

While there's nothing wrong with finding tenants looking for short-term tenancies, **a 12-month contract is much more ideal**, ensuring a steady stream of income while allowing you to build a rapport with the tenant.

Landlord Taxes

Investing in UK buy-to-let property comes with a number of taxes to consider. If we think of this as a journey, then your first stop is Stamp Duty Land Tax.

For investors, Stamp Duty on buy-to-let property has remained. While investors have benefited from only paying the 3% surcharge, from October 1st 2021, the flat rate will need to be considered on top of this. This tax fluctuates depending on the value of a property, but is a necessary payment for both UK and non-UK buyers purchasing property over £125,000.

Another buy-to-let property tax is income tax, which investors will be required to pay on any profits made on their monthly rental income. The amount of income tax you stand to pay depends largely on which tax bracket you're in, starting at 20% for the basic rate, and increasing to 45% for the additional rate.



While income tax could potentially reduce your monthly passive income, the strong rental growth that comes with buying a buy-to-let property more than makes up for this additional tax.

At some stage on your investment journey, you may find yourself thinking about selling a buy-to-let property in your portfolio. For those investors, you should consider the possibility of paying capital gains tax on your buy-to-let property

Much like income tax, this fluctuates depending on how much profit you make.



How to end a **Tenancy**

If you want your tenants to leave the property, notice has to be given in a very specific way - depending on the type of tenancy agreement and associated terms.

ASSURED SHORTHOLD TENANCIES

In some circumstances, you can take back your property without giving a reason. To do this, the following must apply:

- You've previously protected your tenant's deposit in a deposit protection scheme
- The date you want them to vacate the property is more than 6 months after the original tenancy began (the initial signature)
- They have a periodic tenancy (or fixed-term, provided they're not leaving before the end of the fixed term)

In this case, written notice must be given to the tenants and the date you wish them to leave.

The current notice period is 6 months if you gave notice on or after 29 August 2020, due to Coronavirus rules.

FIXED-TERM

If the tenant is still within the fixed term, you can only ask them to leave if there's a reason included within the 'Housing Act 1988'. Examples include:

- Your tenants are behind with rent payments ('in arrears')
- Your tenants have used the property for illegal purposes, for example, selling drugs

In the event that the tenant refuses to leave, you would then start the eviction process through the official courts channels.

Why Choose

Marlow Mortgage Co.

We've helped many first time and experienced landlords.

We are knowledgeable about the buy-to-let market and are passionate about making the whole mortgage application process as straightforward and easy as possible.

How we work:

- > We work flexibly around your busy schedule and we're happy to talk on the phone, Zoom, Facetime, text, or email to get the job done.
- > We have access to whole of the market and specialist lenders, so we can find the best mortgage deal for your situation.
- > We aim to communicate with you in layman's terms and avoid complicated jargon
- > We want to help you buy and retain your first buy to let property

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