Orchard Lettings
your local lettings experts

Beginners Guide to Property Investing

Introduction

Thanks for downloading a copy of our Beginners Guide to Property Investing, we hope it covers everything you need to know about investing in and letting property.

With so many regulations governing the rental market these days it can be all too easy to get yourself into trouble if you don't have the experience or knowledge of letting properties.

This guide contains everything you need to know to get you on the way to purchasing your first buy to let investment, from choosing the right property to the rules and regulations that you must abide by as a landlord.

Starting off as a buy to let landlord can be daunting, but you don't have to go it alone, just get in touch and we can help guide you along the way.

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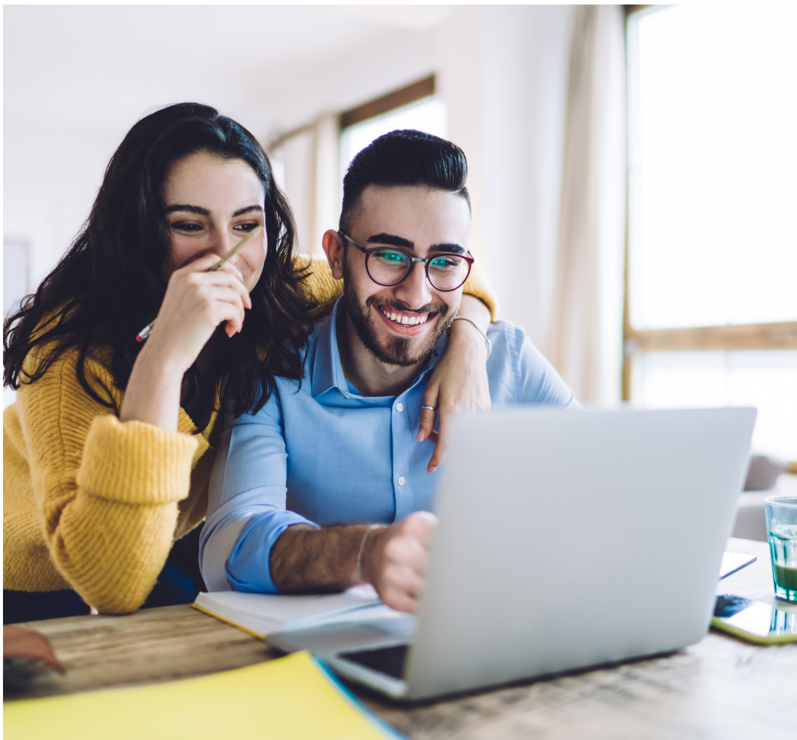
***DISCLAIMER**: This e-book is intended for information only and does not constitute legal advice. If you have any questions related to issues in this e-book we strongly advise contacting a legal professional.*



The biggest mistake new landlords make

So what is the biggest mistake new Landlords make? Well the answer is quite simple, new Landlords don't think of their property as a business. For those who have been forced to become a Landlord, or 'Accidental Landlords' who see their property as their home, the change of mindset is even harder. But to make a success of letting out your property, that shift is essential.

Your rental property is probably one of your largest financial assets, but do you have a plan for how you want your property to help achieve your lifestyle goals? A recent survey of over 500 buy-to-let Landlords found that **93%** of Landlords have no five year plan for their properties!

But before you draw up your business plan, you need to think about your goal. Why? Your goal is your final destination. Do you want to start a new career? Retire with a nest egg? Spend your days lying in a hammock in the Maldives?

Your plan will look quite different for each of these goals. One rental property won't get you there, but it can become a big step towards that goal if you have your head screwed on.

Thinking about the bigger picture will help you make better decisions on the smaller stuff, such as which type of tenants to accept or whether you should renovate the Bathroom. Without a goal, you may end up not only wasting money, but also wasting valuable time towards reaching your goal.

Putting pen to paper...

The next step in your property investment strategy is to commit your goals to paper and come up with your business plan. So here's a few area's that you need to consider: -

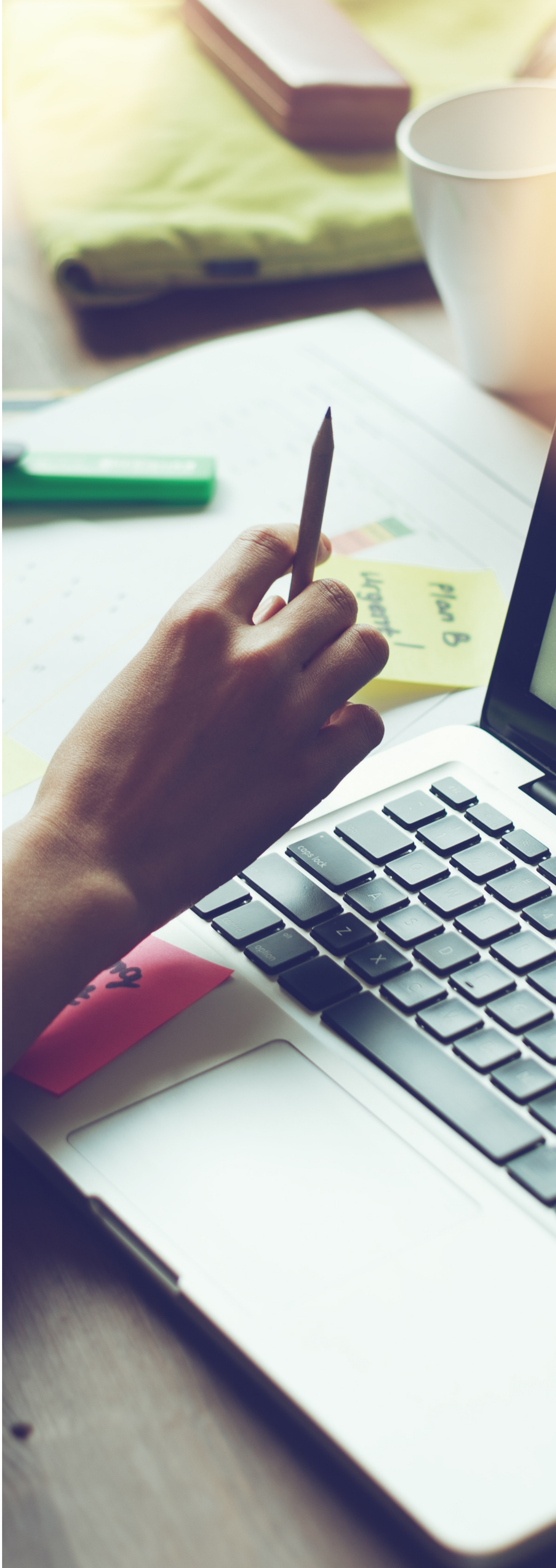
- The type of property that you want to invest in - do want to only purchase new builds in high demand areas, bungalows for the retirement market or maybe you want to start investing in HMO's?

- The type of tenant you prefer - this will play a big part on the above. Professional couples will prefer new build apartments whereas families will want a modern semi with a garden for the kids. Student properties will bring in a good return, but come with a certain degree of hassle that only students can provide!

- Your Numbers - What should you budget for? Things like mortgage payments, rates, insurance, maintenance and agency fees all need to be taken into account. Do your figures add up to get you where you want to be?

- Your exit strategy - How long do you want to keep the property? Do you intend to sell it, or maybe move into it yourself?

Plenty to think about, but the key one to focus on is the numbers. Don't forget investing in property is a business, and the key factor to make a business work is making the figures add up.



Understanding buy to let figures

A key part of buy to let investing is to do your sums. Start with the basics, what is the property's market value? What would you rent it for? What will the mortgage and monthly payments be?

In addition to the all important rental income, you will also need to budget for a number of necessary costs. It's worth highlighting what these costs are so you can budget for them. This is especially important as ultimately you are responsible for these costs whether the property is occupied or not.

Insurance Premiums
Standard home insurance will not cover a let property, so you will have to get specialist Landlord insurance. Premiums for buildings insurance vary by area, type and size of property but allow for between 2 and 3% of the rent. If you've decided to furnish the property allow between 3 and 7% of the rent depending on the level of furnishing.

Replacing Fixtures & Fittings
Allow for 10% of the rent each year to replace worn out fixtures, fittings and furnishings. Also, be prepared to re-decorate every few years.

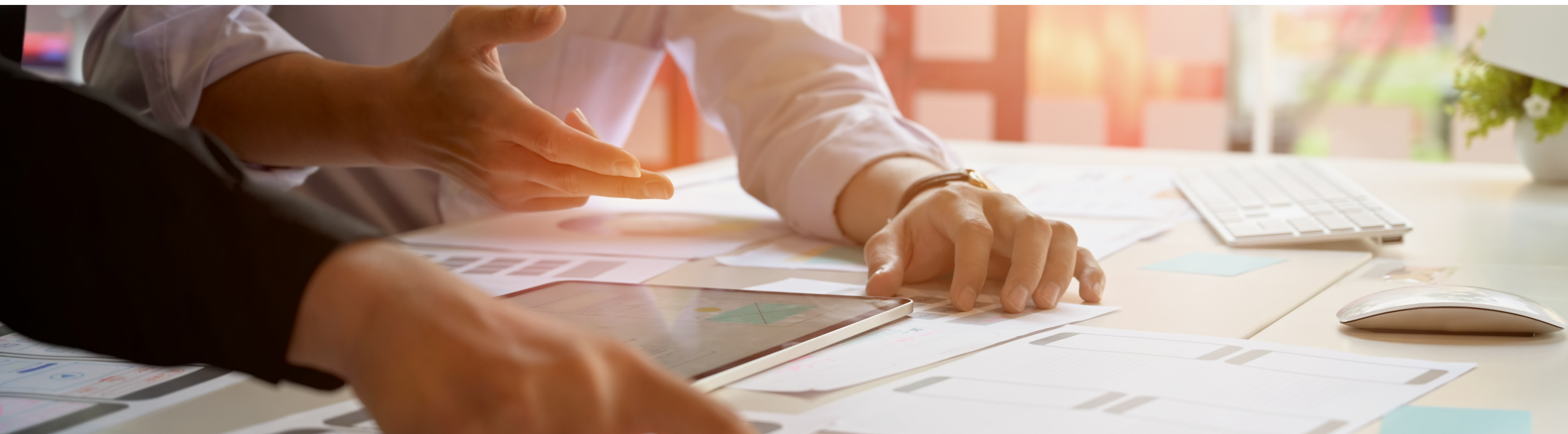
Maintenance
Things will break down and need to be maintained over time. You will need to allow a percentage of the rent to cover this. The type, age and condition of the property will obviously have an effect on repairs and maintenance of the property, so this should be taken into consideration when choosing your property to purchase.

Ground Rent, Service Charges & Rates
If the property is leasehold you'll have to pay ground rent, if you purchase an apartment or a house in a development there may well be associated Service Charges to be paid. Regardless of what type of property your purchase all rents quoted in Northern Ireland include rates which are paid by the Landlord.

Empty Periods
Don't assume the property will always be occupied with a tenant paying rent. Budget for a month each year when the property is empty aka 'Void' periods in Landlord speak.

Letting Agency Fees
Fees may vary, but a good agent could get you a higher rent than if you rented privately - remember that they have more market expertise and a greater selection of tenants for you to choose from, which will more than make up for their charges.

Mortgage
Of course, your biggest cost is likely to be your mortgage. Many Buy to Let mortgage lenders will only lend up to 80% of the property value, so you'll need to put in some money yourself, which has a cost too!



Understanding yields

So how do you measure success in income and return on your investment? Before we reach for the calculators, a quick note: apart from stamp duty, tax is not included here. Why? Because tax is so individual, it's impossible to use the general formulae below to calculate it.

So, let start with measuring income...

Gross Yield

When looking at a Buy to Let property most agents will talk about 'yield' and they usually mean gross yield. This is the yield before you've taken any costs into account. To work out your gross yield is simple: -

Annual Rental Income	÷	Property Price Paid	×	100	=	Gross Yield
£6,000		£100,000				6%

So, what makes a good yield? As a rough rule of thumb, once you've accounted for costs, you need to be looking for a gross yield of around **6%** to **7%**. You'll hear the term 'yield' thrown around a lot when you're looking at buy to lets. But just be cautious though, many people misunderstand what it means, or even try to mislead you with over-inflated yields. For peace of mind do your own sums.

Net Yield

To get a more precise yield, you'll need to factor in you running costs. Your net yield takes into account agent fees, repairs, service charges, insurance and loss of income when the property is empty. If an agent quotes you a net yield, check what they include so you can compare like with like. To work out your net yield is pretty much similar to gross yield: -

Annual Rental Income Less Expenses	÷	Property Price Paid	×	100	=	Gross Yield
£4,000		£100,000				4%

Return on Investment

Now, I know that 4% sounds like a measly return. Why bother when you can just stick your money in a savings account? But what you have to take into account is that the cash you used to purchase the property wasn't all your own - you borrowed much of it from the bank! If you have a mortgage, calculate the yield based not on the purchase price, but on how much of your own money you invested: -

Annual Rental Income Less Expenses	÷	Cash Invested	×	100	=	Return on Investment
£4,000		£30,000				13.3%

Now that's a much healthier looking figure! To get the true picture, when adding up your 'cash invested' include all purchase costs to your deposit: stamp duty, surveys, legal and mortgage fees.

So now you know how to work out the figures and returns, the next thing we need to consider is raising the money to purchase your buy to let investment, and we're going to cover this next.

Buy to Let mortgage basics

To fund the purchase of your investment property you will need a Buy to Let mortgage instead of a normal residential mortgage. Buy to Let (BTL) mortgages are based on what your property would let for, instead of what you earn (residential mortgages).

BTL mortgages are similar to a residential mortgage and these days the interest rates and arrangement fees on BTL mortgages are only slightly higher than residential mortgages.

How Much Can I Borrow? There are two main criterias for a BTL mortgage that you need to be aware of: -

Loan to Value (LTV) Always shown as a percentage, this is the amount you borrow (the loan) as a proportion of the property's value. If you put down a 15% deposit, the loan to value will 85%.

Equity This is how much you'd get if you sold the property and repaid the mortgage. It includes your deposit, capital you've repaid and any increase in price. If your 85% loan to value property, bought to £100,000, doubles in value, your equity will be £115,000 or 57.5%.

The LTV percentages do vary greatly between lenders - as do the types of property they will lend against - so it pays to shop around a bit for the best deal. I would always advise that you speak to an independent mortgage advisor who specialises in BTL mortgages and who can give the best possible advice.

The key thing is to be comfortable with what you have borrowed and to be happy that if the property was empty for a month or two with no rent coming in or if interest rates went up, that you would still have enough money to pay the mortgage and other expenses.

Finally, remember you could also be liable to pay higher stamp duty level if you decide to purchase another property and already own one. Make sure you take this extra cost into consideration when work out all your costs.

Deciding which area to buy in

A major mistake made by many novice Landlords is to buy in the wrong area. Many people are ruled by their heart and not by their head! You might see a great deal for a property online and the sums add up, but you can't make your decision solely on this.

So what's the solution?

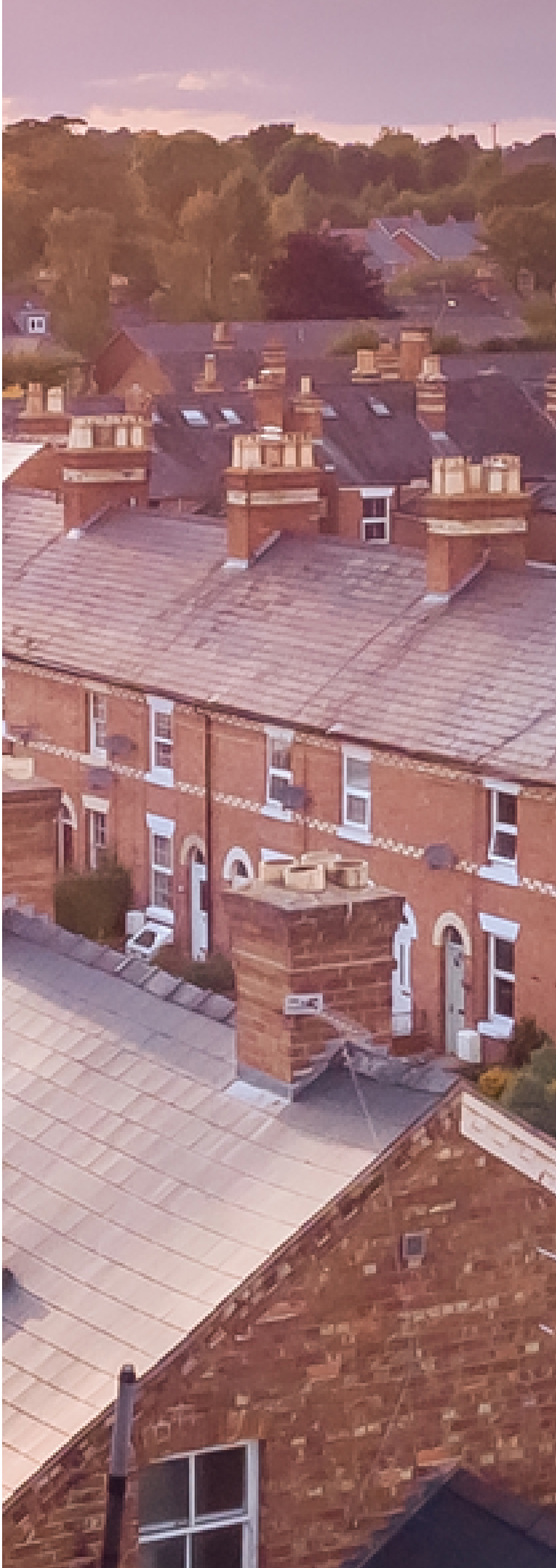
You have do get out there and do some research...

Here's my top 6 pointers for you:

- Drive around the area you are looking to invest in.
- Speak to local agents.
- Speak to the Council to see what developments are coming.
- Check out local schools and facilities.
- Check out what average rents and void periods are for the area.

If the above is a bit daunting or your time constricted, a good Letting Agent will have all this information to hand and will help you to identify areas and properties, but you still need to educate yourself and be confident in your purchase.

Want to get started, but not sure what areas in Portadown, Craigavon or Lurgan to invest in? Drop us an email with some areas that you are thinking of and we can point you in the right direction.



Questions to ask when viewing a potential investment property

By law, an estate agent must tell the truth and you need to know what you are buying – after all you want to make money not spend it on a load of nasty surprises. So ask the obvious:

Is there anything you should know? Are there noisy neighbours or is a bypass planned to run by the back garden?

Check exactly what is included in the sale – will you have to immediately rush to Ikea for new light fittings and white goods?

Has the house been for sale for ages? You could get a lower price – which means more profit.

What about major works? Has the house been extended or had attic conversions and have they got the permissions for these?

What about major repairs? You do not want to have to rebuild the gable wall due to subsidence. Linked to this ask about the boiler, electrical systems and plumbing and drains – all big ticket items if you need to replace them.

For older properties – is it listed or in a conservation area? Your potential for development could be severely restricted.

What local facilities are near by? – Ask about the general area – is it good for schools and transport? These can be key selling features for the right renters.

For Leasehold properties – ask to see latest information on maintenance charges and ground rent currently being paid. Are there any future works planned for the building? Is there a sinking fund in place for any large works planned? When was the communal roof last repaired/replaced and when was the last time the communal areas were decorated (internally/externally?).

These questions will help you foresee any expenditure which could affect your cash flow and profit. Finally make sure you know how many years are remaining on the lease and if the owner knows what costs might be involved in case you wanted to extend the lease shortly after buying the property. Lease extensions can often run into tens of thousands of pounds so it is vital you consider how short the lease will be if you decide to sell your investment at a later date.

Make sure you tick the legal boxes

Being a Landlord is a serious responsibility. You have to keep your tenants safe, and if you don't, the consequences can be devastating. So what are your obligations? Note, the following applies in Northern Ireland only, the rest of the UK, Scotland and Wales have their own rules.

Above all, be safe. You have a duty of care to take all reasonable steps to ensure the property you are letting is safe. For example, glazed doors need safety glass, stairs need handrails, and there should be no old lead water pipes or exposed asbestos.

Here's a list of specific tests you must complete as a Landlord: -

Gas Safety Certificate

Annually, £65 - £125

By Law you have to maintain gas pipework, flues and appliances in a safe condition. An engineer on the Gas Safe Register has to test the gas supply and all gas appliances in your rented property once a year. Not doing so can land you with an unlimited fine, prison sentence or - if someone dies - manslaughter charges.

Smoke & Carbon Monoxide Alarms

Start of each tenancy, £15 - £25 per alarm

Since 2015 you are legally obliged to install at least one smoke alarm on every floor of your rental property, and test them at the start of every tenancy, or face a heavy fine.

You have to fit carbon monoxide alarms in every room with a solid fuel appliance, such as a coal fire or wood burning stove.

Electrical Safety Checks

Every five years, £120 - £200

In rented accommodation, the electrical system and any electrical appliances must be safe to use. By law, the landlord is responsible for safety of the electrical system, cookers, kettles, toasters, washing machines, immersion heaters and any other electrical appliances supplied with the tenancy.

Energy Perfomance Certificates

Every ten years, £65 - £85

You are legally obliged to get an Energy Performance Certificate (EPC). You have to arrange the EPC check before you advertise your rental property, and you must include the rating in the advert within seven days. You must show on viewings and give your tenants a copy before they move in. If you don't, you face a £200 fine.

Protecting your buy to let investment

Insurance - although it's not a legal requirement is it a condition of your mortgage, and your Buy to Let property is a pretty hefty investment so why wouldn't you insure it?

There are three main types of insurance that are relevant to you as a Landlord: -

- Buildings Insurance
- Contents Insurance (if you let the property furnished)
- Landlord Liability Insurance

Buildings Insurance

It's vital to have the right buildings insurance, which covers the structure of your property against fire, subsidence, floods and extreme weather. This is a condition of all mortgages, but even if you own the property outright, it's a risk not worth taking. Without cover, you stand to loose it all - and you'd still have to pay the mortgage. Take note! a normal home insurance will not cover let property. Check with your insurer that you have the right policy.

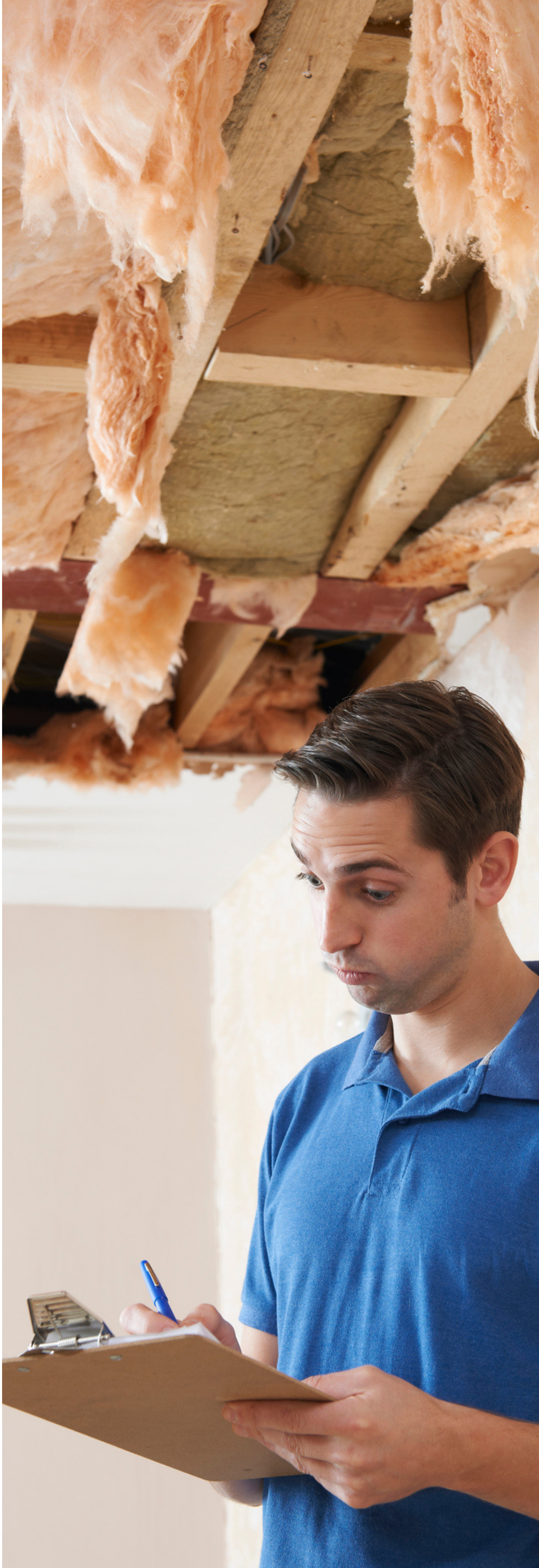
Good landlord buildings policies also cover loss of rent and temporary accommodation (for example, if a flood makes the house uninhabitable). The sum you're insured for is not the same as the property's market value; in fact, it's usually lower. It's your responsibility to double-check the sum is correct. If in doubt, ask a chartered surveyor. Over-insuring for more than the rebuild cost will not make a difference to any claim, but will push your premiums up!

Contents Insurance

Landlord's contents insurance is particularly relevant if you let your property furnished, though it does also cover appliances and certain finishes such as carpets in unfurnished rentals. As policies usually have an excess and single item limit, it could make more sense to pay any repair costs yourself. Your tenants are responsible for protecting their own belongings against loss or damage.

Landlord Liability Insurance

What if a tenant or tradesman falls down the stairs, breaks a leg and sues you? Though the risk might be small, sums could be large - which is where landlord liability insurance comes in. This can be added on to your buildings policy at little extra charge.



Keeping on the right side of the tax man

Your Tax Obligations
First things first. When you start letting out a property, you have to tell the HMRC that you have a new income source. Though they have no automatic way of finding out about this, don't be tempted to keep schtum. As part of a clamp-down on lettings tax evasion, HMRC gets data from estate agents, deposit protection schemes and local authorities.

You need to register for self-assessment tax returns (even if you normally get taxed through your employer) and file a return every year. On the property pages, fill in your rental income, deduct allowable costs and add the profit to the rest of your income to see how much tax you should pay. This is all pretty straightforward, but if you're short on time or the idea of tax forms sends a shiver down your spine, by all means get an accountant to do it for you.

What Can You Deduct?
When it comes t tax, the name of the game is to deduct every cost you legitimately can. If you're a 40% higher-rate taxpayer, every £100 expense you claim could cut your tax bill by £40.

So what can you claim?

Capital Expenses. The buying costs (the property itself, stamp duty, legal fees, surveys) plus any work to improve the property, such as an extension. However, you can only deduct them once the property is sold, and inflation will probably take these figures down a good bit.

Revenue Expenses. As long as they are for letting a property, you can deduct all running costs from your rental profit as you go along.

But what are legitimate revenue expenses? You can claim just about every cost after the point of buying the property. For example, repairs, Letting Agent fees, furniture bought for the property, service charges, ground rents and rates, insurance, deposit protection fees, gas safety certificates and EPC's, utilities, cleaning or gardening bills paid by you, Accountancy fees and Legal advice are all deductable.

There is pressure on the government to reduce the allowable expenses, so it's best to check with your accountant for any changes. Of course you don't want to incur costs just to save tax, but you do want to keep good records so you can make costs count. You have to hold on to all receipts for six years. To ease bookkeeping, we recommend opening a separate current account solely for your property.

Should you use a letting agent?

So you've got your new investment property, and need to find a tenant, you could go it alone and risk getting a poor quality tenant or you could consider using the services of a Letting Agent like us, so I thought it would be handy to give you some advantages of using a local letting expert...

Higher Rent Values and Faster Occupancy Letting agents are experts in assessing potential rent values and have a good grasp on market conditions, trends, and demands. They will advertise on a number of different websites and make use of social media. For these reasons a good letting agent will get a top price where rent is concerned and quickly find a suitable tenant to occupy the property. We use over 10 major websites and property portals to advertise lettings, the likes of Propertypal as well as links to local major employers.

Finding Suitable Tenants Finding the right tenants can be a costly process, not to mention time consuming. An accomplished letting agent has the capacity to carry out the appropriate checks that lead to a suitable tenant. We carry out identity and residency checks on all applicants, obtain credit, employer, and current landlord references. If an applicant is found to have a clean history but is deemed financially uncertain they are asked to provide a guarantor or provide full settlement of rent in advance.

Day-to-Day Property Management Whether it's a busted boiler or pesky pest control problem, maintenance of your property is a foregone conclusion. Letting agents should have a comprehensive network of tradesman available to contact. Bigger problems require a higher level of organisation, meaning the letting agents need to liaise with tenants to arrange when work can be carried out on the property. Dealing with these obstacles can be a time consuming process. A good letting agent has the ability to efficiently solve maintenance issues, and in doing so will free up your time considerably.

Solving Tenant Issues Over the course of a tenancy agreement there is a chance that issues may arise beyond that of the maintenance work mentioned above. For instance, a tenant locking themselves out of your property. Problems like these often arise at inconvenient times. Letting agents are equipped to deal with these issues and do so on a day-to-day basis. We can even offer tenant support during hours that might otherwise be deemed unsociable. This is an important offering that helps maintain a favourable relationship with tenants.

Prompt action over late payment Perhaps a landlord's biggest worry is whether or not their tenants will pay the rent on time. Late payments are sometimes unavoidable but chasing one can be strenuous. Letting agents have experience in rent collection and chasing late payments. They will often have cover in place to ensure you are always paid. We offer services like Rent Guarantee and free Eviction Cover.

Peace of Mind A private landlord faces many pitfalls: invalid notices, incorrect claim forms, unprotected deposits, disrepair in the property, drawing up the wrong tenancy agreements...the list goes on. Landlords have many legal obligations that can be easily forgotten. Letting agents can take that burden and fulfil the majority of a landlord's obligations on their behalf. You can also breathe easy in knowing that correct legal action will always be taken.

How can we help?

We are here to help, advise and support you when it comes to letting property. It is all we do - unlike other agents we do not sell property, so your valuable investment gets the attention it deserves.

We know how much hard work and planning you have put into your property, we've been there, as we are property investors ourselves.

So when you are ready to take that leap and call a few agents we'd love to be on your list to show you how we can help make letting your investment property a hassle free experience.

Has this e-book raised a question relating to letting your property? Perhaps you need a little more bespoke advice or have a query over the letting process? Whatever you questions or concerns, just give us a call and we can talk it through with you.

Gavin Boyle - Proprietor

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Orchard Lettings
your local lettings experts

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