

# Smart letting

Your essential guide to buying-to-let

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To make a smart move, you need all the information at your fingertips.

# Thinking Smart

This guide helps you do that homework, making sure you're smart enough to succeed in the buy-to-let market

Having already made the decision that buying-to-let is for you, good organisation is vital. The best way to get the most from the opportunities it offers is to go into the market armed with the right information and a carefully considered plan. And that's where your adviser can help.

Our advisers are experts in helping people like you make the most of buying-to-let. That includes finding and arranging a buy-to-let mortgage that's exactly right for you and protecting the property you plan to let.

It's easy to be put off the idea of buying-to-let by the thought of the difficulties involved. After all, you've already got one home and one mortgage, so why put yourself through the trouble of finding another one? But with the help of your adviser, buying-to-let can be remarkably easy.

Instead of facing an added hassle in your life, you can look forward to expert advice, outstanding support, and of course, a successful buying-to-let project.

Whether you're interested in buying-to-let in the UK or overseas, this guide will give you all the information you need to make smart buying-to-let decisions.

When choosing the property you want to let, you've got to keep one thing in mind – it's strictly business.

# Property

With our help you can make sure you take the right approach to finding exactly what you're looking for.

It's important to remember that buying a property to let isn't the same as buying your home. Very often, you're not looking for something that appeals to you, you're looking for something that's attractive to possible tenants. It's a commercial decision rather than a personal one.

So you need to do some market research before you decide on the property and choose how you're going to pay for it. Get out and about, checking the area, finding out whether rented accommodation is popular, and looking at the prices of similar properties. You could start by visiting estate agents and checking the local papers.

Another thing to think carefully about is the type of property you're looking for. Again, remember you're not looking for somewhere you'd like to live, you're looking for a property that's going to be easy to let. So decide on the type of property that's best suited to being rented out and one that's likely to increase its value over time.

## Location

Location, location, location. It's just as relevant to buying-to-let as it is when you're buying your own home. What size of property can you afford? Who do you plan to let the property to? One-bedroom flats suit young single people – so look for areas with bars, restaurants or a good social scene. For families, you'll be thinking about a three- or four-bedroom house – and somewhere near a school or shops.

There are other things to take into consideration. Transport, the current availability of rented property and the likelihood of the properties in the area increasing in value are all important issues to think about.

## Furnished or unfurnished?

In the current market, unless it's a property being used for corporate relocation or student accommodation, unfurnished or part-furnished properties are particularly popular. So when you're showing prospective tenants the property, it will have carpets, curtains, and fitted kitchen and bathroom – but no furniture. Also, unfurnished properties, whilst untenanted, do not attract council tax.

# Smart Money

Having already decided that buying-to-let is for you, committing your own money is a big step.

So obviously it's vital to get the financial side of things right. These are some of the things to think about before you choose your property.

## Setting a budget

Buying your property isn't the only initial cost to consider when you're thinking about buying-to-let. Of course, there are the usual things like valuations and surveys, solicitors' fees, stamp duty and a deposit. But what other costs should you consider? These are a few of the things you should think about:

- Decorating
- Renovation work
- Furniture
- Private advertising
- Letting agent costs

You'll also have to think about the ongoing costs of running the property once you've bought it and tenants have moved in. If you'd rather not have the hassle of managing the place yourself, a letting agent can do it for you – but it'll cost you around 10-20% of your rental income. In return for this, they'll find tenants and collect rent for you.

And don't forget – your property may not always be earning you money. You might find yourself between tenants and receiving no rent at all. You need to have some way of covering things if this happens. There's also your situation to think about. It's not a pleasant thought, but what would happen if you lost your job due to redundancy, or if you could not work due to a serious illness or had an accident at work?

That's why it's vital you talk to your adviser about critical illness and income protection so you've got the right level of cover in place.

## Choosing the right mortgage

Once you've been through all the stages explained earlier, you're ready to choose a mortgage. And talking to your adviser is a great place to start. They'll give you all the help you need to work out how much you can borrow and find your ideal buy-to-let mortgage.

As one of the UK's biggest mortgage introducers, Openwork can give you access to some of the UK's major lenders, meaning we'll be able to find the right buy-to-let mortgage for you.

The good news for you is there are many attractive buy-to-let mortgages out there now. These deals recognise that you'll use rental income to pay your mortgage and they offer rates similar to the rest of the mortgage market. To qualify for one of these loans, many lenders want your rental income to be more than the monthly mortgage payment.

**Your home may be repossessed if you do not keep up repayments on your mortgage.**

A fee may be payable for mortgage advice. This exact amount will depend upon your individual circumstances.

## Cutting your property tax bills

If you're buying-to-let, you've got to think about tax. HM Revenue & Customs produces a guide to what you need to know, called 'IR50: Taxation of Rents: A Guide to Property Income', that you'll find at [www.inlandrevenue.gov.uk/leaflets](http://www.inlandrevenue.gov.uk/leaflets) or you can order from your nearest tax office.

You have to let HM Revenue & Customs know that you're receiving income from a property because you'll probably have to pay tax on it. But you can offset the cost of things like interest payments, repairs, insurance and management fees to keep your tax bill to a minimum.

And if you've furnished your property, you're allowed a deduction for wear and tear on furnishings and equipment. You'll also need to think about capital gains tax when you come to sell your property and inheritance tax if the property takes your total estate over the published nil-rate band.

HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

## Budget checklist

When you're filling in this checklist, remember to allow for at least two months without any rental income – this can make all the difference. You'll also need to think about the tax you'll pay – see the section on cutting your property tax bills to find out more.

### Income

Estimated monthly rent: \_\_\_\_\_

Yearly income: \_\_\_\_\_

Void periods: \_\_\_\_\_

Total income: \_\_\_\_\_

### Costs

Mortgage: \_\_\_\_\_

Buying costs (stamp duty, survey, legal fees, etc.): \_\_\_\_\_

Management fee: \_\_\_\_\_

Furnishing: \_\_\_\_\_

Repairs/maintenance: \_\_\_\_\_

Council Tax \_\_\_\_\_

Deposit: \_\_\_\_\_

Total costs: \_\_\_\_\_

### Yearly gain/loss:

\_\_\_\_\_

# Buying

Follow these easy steps to buying your new home

## The path to a new home

Even though it might not seem like it sometimes, there are logical steps to follow on the road to buying your home. Even though you've done it before, it's probably worth familiarising yourself with them again – it will put you in a much better position to understand what's going on.

## Budgeting

Buying a house takes careful budgeting. You need to know all of the costs before you go ahead and they aren't always that obvious. The main things to think about are:

- stamp duty
- solicitor's or conveyancer's fees
- local search fees
- land registration fee
- valuation fee
- survey fee
- arrangement fee
- possible renovation work after your survey
- removal costs.

Your Adviser will explain how he/she will be paid for arranging your mortgage.

The exact details will be shown on your key facts illustration. A fee may also be received by your adviser for arranging buildings and contents and accident, sickness or unemployment cover.

**Buy to Let Mortgages are not regulated by the Financial Services Authority.**

## Step 1

### Choose a mortgage

You'll need to make a number of important decisions as part of this step, but there's no need to worry. Your adviser will give you all the help you need to work out how much you can borrow and find your ideal buy-to-let mortgage.

Your adviser can arrange for an 'in principle' decision from a lender before you find a property to confirm how much you can borrow. If it is a variable rate mortgage, don't forget to factor in potential rate increases when working out your budget.

## Step 2

### Viewing Properties

It's important to remember that you're not looking for a home. Location is key – you can change the property, but not where it is.

Ask the estate agent how long the property's been on the market. Anything over two months might give you clues about the asking price or condition of the property.

Try to create a good relationship with the seller. Don't tell them you're planning to let-it-out – a lot of people have an emotional attachment to their old home and prefer to sell it to someone who'll live in it.

Ask the owner what comes with the house so you're clear on fixtures and fittings. Consider the cost of repairs or redecoration.

Check again that you can expect enough income from the property to make it worthwhile. Look at what's on offer from other landlords to see how they compare.

Take some notes after you've seen each property and don't look at too many one after the other – 'viewing fatigue' won't help your judgement.

## Step 3

### Make an offer

Suggest to the agent how much you'd like to pay. If your offer is accepted, it's subject to completing contractual details and the house undergoing a survey.

There's no legal obligation at this stage to buy the property. In Scotland, you need to ask your solicitor or conveyancer to 'note interest'. You'll be told if a closing date is set and the property won't be sold without you having the chance to make an offer.

## Step 4

### Complete your mortgage application

You need to complete your mortgage application – it's easy with the help of your adviser.

## Step 5

### The property is valued

Your lender needs to confirm that the property you're buying is suitable for lending purposes. Although you usually have to pay for this, the report is for the lender only and isn't a guide regarding the price you're paying.

Because you'll have responsibilities as a landlord, it's probably best to opt for a more detailed survey such as a Homebuyer's report or structural survey – particularly if you are buying a property that's either old or of unusual construction. Do tell your lender to save time and avoid paying twice.

## Step 6

### Receive an offer letter

Your mortgage application is agreed, and you'll get an offer letter from your chosen lender. This may be subject to certain conditions. Read it carefully and consult your solicitor or conveyancer.

## Step 7

### England, Wales and Northern Ireland – Contact your solicitor or conveyancer

Your solicitor or conveyancer will take care of the legal side of things like contractual arrangements, the lender's legal work, legal fees, stamp duty and local searches.

### Scotland – Make an offer

When you've had the property valued and have accepted the mortgage offer, you're ready to make an offer on the property.

## Step 8

### England, Wales and Northern Ireland – Exchange contracts

Nothing's certain until exchange has taken place. If you have a deposit to pay, this is when you pay it. Once exchange of contracts has taken place, you're legally obliged to buy the property. You risk losing your deposit if you don't. Once you've paid your deposit you're liable for buildings cover.

### Scotland – Offer accepted, conclude missives

Your offer is accepted, and your solicitor or conveyancer concludes missives.

## Step 9

### Protect your new property

You'll need to take out the right cover to protect your property and furnishings. Your adviser can help you with insuring your new property and yourself against events you can't predict. There are numerous policies on the market, so it's worth a thorough investigation to find out what's covered. Your premiums may also be affected by the type of tenant you opt for.

## Step 10

### Completion

Finally, the completion day has arrived. Time to collect keys and organise to change locks. Don't forget to cut several sets, for you, the letting agent and the tenants. Your first mortgage payment will typically be more than a month's interest, depending on the date you complete so make sure you budget accordingly.

### Congratulations!

Now get the place ready for your first tenants...

# Letting

## Things to do before you let the property

Make a detailed inventory of everything in the house, noting any damage.

Make sure the property is clean and tidy, that everything's in good working order and that any furniture is practical, comfortable and meets safety standards.

Set the rent. You should have decided this when applying for your mortgage, but check the local newspapers to make sure you're not setting it too low.

## Finding a tenant

You might want to do this yourself by advertising in local newspapers, work noticeboards and so on. Alternatively, you could use a letting agent to manage your tenants for you.

It's probably best to get tenants to pay their own bills, saving you hassle in the future. But you'll have to be clear about this when you advertise the property, along with any other restrictions like no pets or smokers.

Explain clearly the type of tenant you're looking for. It might be professional people only. It might be students – although you'll need to contact student services in the local colleges and universities first to get your property checked and registered.

If someone expresses an interest in the property, ask for detailed references and check them carefully. Once you've done this, you'll need to set up a tenancy agreement and have it checked by a solicitor and signed by both parties. This avoids any disagreements in the future. Also ask for a deposit to cover any potential damage or non-payment of rent.

## Managing your tenants

A friendly but professional relationship is best. Make it easy by agreeing ground rules. Agree in advance when and how the rent's going to be collected (consider a Direct Debit Instruction or Standing Order) and when you'll visit – give the tenants 24-hours' notice.

If anything goes wrong in the property, get it sorted out as soon as possible. Things like utilities, fixtures and fittings are your responsibility and fixing them quickly will keep everyone happy.

Don't forget that it's your property, but your tenants' home. Make sure they feel comfortable in it while they're there. It's a good idea to let them make slight changes to suit their tastes.

Give the tenants good cleaning equipment and they're more likely to keep it clean and tidy. And don't forget the garden if you have one – give them a lawnmower for those sunny afternoons!

If you're not happy with the way they're looking after your property, tell them about it. If things don't get better, you're allowed to give them notice to leave (the notice period should be in the tenancy agreement).

## Letting agents

If you don't have the time to find the right tenants and manage their stay in your property, it's a good idea to use a letting agent. They'll also know all about safety regulations and legal issues connected with letting a property.

Shop around – get quotes to find the best price and service, and check whether they're members of ARLA – the Association of Residential Letting Agents. Look at [www.arla.co.uk](http://www.arla.co.uk) to check for agents near you.

## Legal issues

You have rights as a landlord, and as long as you do things correctly, the law is usually on your side.

You're responsible for safety involving gas and electrical installations and appliances, for making sure that mattresses, pillows, and cushions meet Fire and Furnishings (Safety) Regulations, and fitting carbon monoxide and smoke detectors.

All properties must meet the requirements of the Housing Health and Safety Rating System, and in some instances may require Houses in Multiple Occupation (HMO) licence.

To find out more, landlords should contact the Local Authority for the area that their property is in, or visit [www.propertylicence.gov.uk](http://www.propertylicence.gov.uk)

Decide on the ten features your buy-to-let property should have.

# Smart Essentials

Our new property must have

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_
6. \_\_\_\_\_
7. \_\_\_\_\_
8. \_\_\_\_\_
9. \_\_\_\_\_
10. \_\_\_\_\_

When you're looking for a buy-to-let property, you should be looking at quite a few places. After a while, it gets pretty difficult to remember the differences between them. That's why you should write down your priorities on this page before you get started.

Remember to think about your ideal tenants and what you'll need to have in place to get the best possible rental income. You can use your list to judge the properties you visit, either before you go – saving time on visiting properties that don't match what you're looking for – or during your visit.

Think about the area, the tenants and their priorities. What's important to them in terms of amenities, transport and shops? Is parking an issue? What about schools.

# Smart Words

## The terms you'll need to know.

### **Advance**

The mortgage loan.

### **Agreement in principle**

Agreement by a mortgage lender to lend a sum of money, subject to certain conditions.

### **Annual Percentage Rate (APR)**

The Annual Percentage Rate is the figure quoted by lenders and reflects the total cost of the loan.

### **ARLA**

The Association of Residential Letting Agents. A self-regulating body for letting agents in the UK.

### **Arrangement fee**

A fee paid to the lenders for arranging the loan.

### **Assignment/Assignations of life assurance**

The right of a mortgage lender to claim under a life assurance policy to ensure the mortgage is repaid if you die, or at maturity.

### **Building insurance**

Insurance against damage to the structure of the building caused by specific events such as storm damage to the roof.

### **Capital**

The amount of the loan on which the mortgage lender calculates interest.

### **Capital gains tax**

A tax you pay on profits above an allowed level you make from the sale of an asset such as a buy-to-let property

### **Completion or settlement date**

The date when the money is paid, the deeds are handed over, the keys are released and you can move into your new home.

### **Conclusion of missives**

In Scotland, this is the same as exchange of contracts.

### **Contents insurance**

Cover can be arranged for the contents normally in the home and can be extended to include possessions away from the premises.

### **Conveyancing**

Conveyancing – the legal process involved in transferring a property from one person to another.

### **Deed**

The legal papers that show ownership of the house and provide information about boundaries and rights of way.

### **Early redemption charges**

A fee charged by some lenders if, during an agreed period, you repay the loan or switch to another lender.

### **Equity**

The difference between the current value of the property and mortgage amount.

### **Exchange of contracts**

The point where your contract and the seller's contract are exchanged.

### **Fire and Furnishings (Safety)**

#### **Regulations**

Levels of fire resistance for domestic furniture, furnishings and upholstery that your property must meet before you can let it out.

#### **Freehold**

Ownership of the house and the land on which it stands (see 'Leasehold').

#### **Full structural survey**

A thorough investigation and report on the home's structure.

#### **Ground rent**

Yearly charge payable by a leaseholder to a freeholder.

#### **Homebuyer's report**

Surveyor's report on a property – less extensive than a structural survey.

#### **HMO**

Houses in Multiple Occupation.

#### **HHSRS**

Housing Health and Safety rating System – A risk based system designed to assess the health impact a property has on its occupants.

#### **Inventory**

A comprehensive list of all the items in the property before the tenants move in. You should check it when they're leaving to see that everything is accounted for.

#### **Land registration fee**

A fee paid to the Land Registry to transfer ownership record of the home.

# Smart Words

## The terms you'll need to know.

### **Leasehold**

Ownership of the home, but not the land on which it stands. When the lease expires, ownership reverts to the freeholder.

### **Letting agent**

Someone you pay to deal with the day-to-day running of the property. They will take around 10-20 per cent of your rental income, but if you don't have time to do the work yourself, it can be well worth it.

### **London Inter-Bank Offered Rate (LIBOR)**

The rate of interest at which banks borrow funds from other banks, sometimes used to set the rate of interest you pay on a buy-to-let mortgage.

### **Loan to value (LTV)**

The ratio, expressed as a percentage, of the amount you want to borrow against the value of the home.

### **Higher lending charge**

An arrangement that covers the lender if your home is repossessed and the lender can't get the money back from you. You're charged a 'high loan to value fee' to cover the cost of this insurance.

### **Mortgage**

A loan secured on your home. This security will remain in existence until you pay off the loan.

### **Mortgagee**

The financial institution lending the funds secured on a property.

### **Mortgagor**

The person taking out the mortgage.

### **Remortgage**

Changing your mortgage without moving property.

### **Returnable deposit**

A deposit the tenant pays to you before they move in to cover the cost of any damage to the property and to protect you against unpaid rent. This is repaid to the tenant when they move out.

### **Search fee**

A fee charged for checking with the local authority for details of any plans that may affect the value of the house.

### **Stamp duty**

A Government tax that has to be paid on houses with a purchase price above a published level.

### **Tenancy agreement**

An agreement between you and prospective tenants, checked by a solicitor and signed before you give them the keys, which explains all the rules of the tenancy.

### **Tenure**

A term for the type of ownership of a house, for example, leasehold, freehold.

### **Term**

The length of time over which a mortgage is to be repaid.

### **Title**

The legal right to ownership of a house, as shown in the Title Deeds.

### **Vendor**

The person selling the house.

### **Void periods**

A period of time when you are between tenants and aren't receiving any rental income.

# Next steps

This brochure gives you the facts about choosing a buy-to-let property and the mortgage to go with it.

Before you take things further you'll want to know you have the right people with you – people whose expertise will give you confidence, and who will make you feel comfortable that you're taking the right direction. And that's what Openwork will bring you.

Openwork is a UK-wide network of over 750 financial advice firms backed by the worldwide Zurich group. We give your adviser the tools they need to do their job, which gives them more time to spend doing what they do best – giving you financial advice.

So make sure buying-to-let is a successful and smart choice for you by talking to your Openwork Adviser today.



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