

RIGHTMOVE'S GUIDE TO

Letting

A GROWING MARKET

Why more people are renting

THE LEGAL ELEMENT

Understanding your responsibilities as a landlord

FINDING A TENANT

What to look for

UNDERSTANDING TAXATION

Of rental properties

 **rightmove.co.uk**

The UK's number one property website

Welcome to Rightmove's guide to letting property



Guiding right

Whether you're buying, selling, renting or letting we understand that even the smoothest of transactions can be traumatic. Therefore we have pooled our expert knowledge of the market to develop a series of essential guides to equip you with all the information and useful tips you need to ensure your experience remains a stress-free one.

This guide is made up of nine sections so you can dip in and out of what's most relevant to you.

If you need advice on buying a property for yourself, or if you have never bought a property before, you may also like to read our **Guide to Buying** which is a great introduction to buying property in the UK.

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Commercial Director



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Step 1-

A growing market



This guide has been designed to explain the key facts you need to know about becoming a landlord. By the end, you should have a good understanding of what's involved. However, your local Rightmove member letting agent will be able to answer any additional questions you may have.

Successful buying-to-let is dependent on:

- Buying the right kind of property in the right location that appeals to a large range of tenants
- Good tenants who will pay the rent and look after the property
- Your ability to manage the tenancy properly
- Compliancy with the rules and regulations on letting property
- Not getting emotionally attached to your property. It's generally a long term investment and a mistake to treat it as your own home.

The UK has a housing crisis – a growing population and a lack of available properties has pushed up house prices beyond what people can afford in many areas.

This has meant some people have no option but to rent instead - it's usually cheaper and for those that want to eventually buy; it allows them to save for a deposit.

Why buy-to-let is growing

At the same time, lifestyles have become more flexible. Today people move between work and study frequently.

For these people, being a tenant offers more flexibility than buying a house.

In 1988, the tenancy laws were changed to allow landlords to get their property back simply by giving sufficient notice to the tenant. In 1996, special “buy-to-let mortgages” for landlords became available, making it much easier for people to borrow money to buy property to let.

All this is good news for landlords.

Step 2-

understanding rental yield and capital growth

There are two ways landlords make money through property letting – capital growth and rental income growth. Let's take a look at these in more detail.

When a property increases in value over time, it is known as '**capital growth**'.

Capital growth, also known as capital appreciation, has been strong in recent times, but the value of property does go up as well as down, and of course the local conditions surrounding your property have a big effect.

Rental income is what the tenant pays you – hopefully this will grow over time too.

In addition to the all important 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

Premiums for buildings insurance vary by area, type and size of property but allow for between 2 and 3% of the rent. For furnished property allow between another 1 and 4% of the rent depending on the level of furnishing.

REPLACING FIXTURES AND 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 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 in to consideration when choosing your property to purchase.

GROUND RENT AND SERVICE CHARGES

If the property is leasehold you'll have to pay these charges.

ALLOW FOR EMPTY PERIODS

Don't assume the property will always be occupied with a rent paying tenant. Budget for a month each year when the property is empty – “void periods” in landlord jargon.

LETTING AGENCY FEE

Fees vary but a good Rightmove agent could get you a higher rent than if you find a tenant 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.

understanding rental yield and capital growth continued...

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 of course has a cost too!

Once you have deducted all these costs from the rent, you end up with your net expected rental income.

If you divide this into the value of the property, including all the costs associated with buying it, you have the 'true' or 'net rental yield'.

So, if net rental income is £10,000 and the property cost £200,000, the net rental yield is simply £10,000 divided by £200,000 which equals 0.05 or 5%.

Once you do the maths, you may find that the net rental yield figure is less than

the cost of your mortgage, leaving you with a shortfall.

However, if you have bought well, you should expect the rental income to creep up over time – plus you should see some capital growth too.

In the next sections, we'll look at how to buy a property that will hopefully do both.

Step 3- Understanding your legal responsibilities as a landlord

There are some legal requirements you will have to comply with as a landlord. This section introduces some of these responsibilities.

The law states you must maintain the property and undertake any major repairs that are required. This includes anything that affects the structure and exterior as well as the electrical, heating, hot water and sanitary conditions.

In addition, there are special rules that apply to soft furnishings, gas and electrical safety, tenants with disabilities and shared houses. These are as follows:

- All soft furnishings must comply with the Furniture and Furnishings (Fire) Safety Regulations 1988 and be fire safety compliant. Look for the fire safety label on all furnishings. For further information visit <http://www.firesafe.org.uk/html/Legislation/furnregs.htm>
- The Gas Safety (Installation and Use) Regulations 1998 say landlords must ensure that gas appliances, fittings and flues are safe for tenants use and that installation, maintenance and annual safety checks are carried out by a Corgi-registered gas installer. If everything is OK, you'll be given a certificate called a CP12 and you must give a copy of this to the tenant. Gas safety checks must be carried out on a property annually. For further information visit: <http://www.hse.gov.uk/pubns/indg285.pdf>
- The Electrical Equipment and Safety Regulations say you must ensure that the electrics are safe, with operating instructions and safety notices supplied before a letting commences. Get your electrics regularly checked by a qualified electrician.
- Landlords should make "reasonable adjustments" to their property to accommodate a disabled person.
- Certain types of shared houses (called Houses in Multiple Occupation) have to be licensed under special rules, which also require the property meets certain extra fire and electrical safety standards. These rules also set a limit to the number of people who can occupy a property. Whether or not you need to get a license depends on the size of the property and varies by council - ask your local authority's housing department for more information.



A good general guide to all the regulations can be found at: http://www.direct.gov.uk/en/HomeAndCommunity/BuyingAndSellingYourHome/RentingAHome/DG_4001394

If you are in any doubt of what your responsibilities are, your local Rightmove member letting agent will be able to help and advise –

however, as the landlord it's your legal responsibility to ensure the regulations are complied with and that safety checks have actually been carried out, – failure to do so is a criminal offence so seek advice and guidance.

Also, if you own a flat, some leases require you to tell the freeholder of your plans to let or may prohibit certain types of lettings – check your lease

agreement carefully for any possible restrictions.

Finally, if you are planning to let your former home, a standard home insurance policy will not cover you properly and may result in claims being rejected – you'll need a special landlords' insurance policy. But don't worry - premiums are not much higher than on a standard policy.

Step 4-

Finding the ideal rental property and buy-to-let mortgage – things to consider



As a landlord, you can use Rightmove in two ways...

- 1. To find a property to buy with the express intention of renting it out.**
- 2. To find a tenant to rent the property.**

This section covers how to find a property to buy that can be rented out.

Rightmove is the best place to start your search, because 90% of property for sale in the UK is advertised on the website.

This gives you a huge choice of property for sale. Most listings on Rightmove have additional information such as extra photographs, virtual tours, floorplans and brochures so you

can really get a good idea of what the property is like before you go on viewings.

To make your search easier, you can register for email alerts so you can receive automatic notification in your inbox of new listings that match your search criteria.

Once you have found a property that interests you, contact the Rightmove member agent who is marketing the property to arrange a viewing.

OTHER WAYS TO USE RIGHTMOVE

Most properties on Rightmove have links to interactive maps from Aboutmyplace.co.uk. This can give you a wealth of information about the property's location

including aerial photos, proximity to local train/tube stations and sold prices in the area.

The latest Rightmove House Price Index may be useful to get a general idea of what the asking prices in England & Wales are at the moment.

FINDING THE IDEAL BUY-TO-LET PROPERTY

To get a property that will give you a good level of rental income and capital growth, you'll need to understand what will appeal to tenants - which may be very different from what appeals to you.

For example, while you might love houses that are a stone's throw from

nowhere, there will be limited demand from tenants for properties like this, no matter how pretty and idyllic it looks.

Start by looking for areas and types of property that are in demand now and will become increasingly in demand in the future. Things to look for are...

- Improvements driven by companies moving in, new transport links or government regeneration money
- An area getting "discovered" – this may be because it is close to another attractive area. An up-market shop opening is often a good sign.

Your local Rightmove member letting agent will be able to advise:

- What type of properties in their area have the strongest (and fastest growing) level of tenant demand relative to the supply of properties of that type
- What type of tenant will be suited to your type of property - singletons, couples, families, students, private tenants or those on local housing allowance
- What level of furnishings (if any) the tenant will expect a landlord to provide
- What approximate level of rent you could expect to achieve - and how quickly you can expect to receive it
- What changes are happening locally that will affect future tenant demand and property prices
- Whether an oversupply of a certain type or size of property is likely to develop a few years down the line.

Properties that let quickly tend to have the following features:

- Proximity to transport links, shops and parks. For the student market closeness to the university is a big plus
- Kitchens and bathrooms in a good state of repair and décor
- Ample storage
- Good natural light
- Parking
- Garden (important for tenants with children)
- Good security.

If you have a type of buy-to-let property in mind, discuss this with your lettings agent.



MORTGAGES

Buy-to-let mortgages are similar to an ordinary residential mortgage and these days the interest rates and arrangement fees on buy-to-let mortgages are only slightly higher than on ordinary residential mortgages.

The two main differences are...

1. When considering whether to give you a buy-to-let mortgage, as well as looking at your own credit history and the property's value, the lender will also do an assessment of the likely rental income from the property. The lender's valuation report will give them this information and they will usually expect the rent to be at least 20% more than the interest payable on the mortgage (this is called "the rent to interest ratio").
2. Most buy-to-let lenders will only lend up to 80% of the property's value as a mortgage (this is called the "loan to value" ratio) – it means you will have to put in the other 20%. These 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.

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.

And remember - if you are thinking of letting out your former home, you must contact your mortgage company as you'll need to convert your residential mortgage to a buy-to-let one.

If you haven't arranged your mortgage yet, your local Rightmove member agent should be able to help or point you to a broker who can.

Builders and developers often have attractive mortgage deals too, so if you are buying a new build home, ask what's on offer.

Step 5- Doing viewings and negotiating/making offers



Use Rightmove to find out as much as you can about a property using the photographs, floorplans, virtual tours, online brochures and local information that is available with most descriptions.

Always call or email the advertising agent to check any missing information. As soon as you have established the property has potential, book a viewing with the agent. Don't forget to take a camera and tape measure on every viewing you go on.

Remember – buy-to-let properties are not emotional purchases. So be sure to remain rational about what is right for the rental market, not yourself.

Once you have found the ideal property, the next step is to make an offer. This will be based on various factors such as:

Your position – buyers with pre-arranged mortgages have a head start on most of the competition. If you've a buy-to-let

mortgage sorted, make the agent and seller aware of this as it can put you in a favourable negotiating position.

Your budget - decide your maximum limit from the start and stand firm – after all you've done your maths and know the investment's potential. If the seller refuses to budge, you need to think very carefully if the property really is worth the extra money.

Seller's position - are they in a hurry to sell or have they been trying to sell for a long time? If so, they may be willing to accept a lower offer to make the sale. Sellers who are not in a hurry to move are more likely to hold out for a higher price.

The market - in tougher times when there are fewer buyers, sellers may be more willing to negotiate on price. Once you make an offer make it clear that it's subject to contract and a satisfactory survey.

Step 6-

Finding a tenant

Some people try to find a tenant without using an agent. If you are lucky enough to know of reliable tenants, that's great. If not, finding and managing tenants can be expensive, time consuming and hard work.

Rightmove member letting agents are able to advertise your property for rent on the UK's number one property website – in front of millions of potential tenants every month.

FINDING A GOOD LETTING AGENT

A letting agent will save you time by showing potential tenants around your property, which is great if you haven't got the time to handle calls, stay in for viewings and respond to emails.

Your letting agent will also:

- Do a market appraisal to assess the rent the property will fetch
- Find good tenants for you
- Draw up a suitable tenancy agreement.

To find a good tenant an agent will do a thorough check of each applicant's credit status, income, employment and previous history as a tenant. They will also check each tenants ID too.

If you know other landlords ask them which Rightmove member letting agent they would recommend.

Don't just go to the agent who charges the lowest fees to find you a tenant or who claims he can get the highest rent. Instead, ask them about what's included in their fees – for example, some agents will include making out an inventory, whereas others might charge extra for this.

To save time for both yourself and your agent, be clear with your agent about the type of tenant you will be happy with; are pets or smokers an issue for example?

Once they have found a suitable tenant and you've consented to the property being let - you, the tenant and the agent will agree a move-in date.

On move-in day, the agent will ensure the first month's rent and the deposit is received and they will get the tenancy agreement signed.

They may also arrange to have utility meters read, get the utilities and council tax transferred into the tenant's name, show the tenant how everything works and give them written instructions of who to contact in an emergency.

Some agents will also arrange for a thorough inventory to be carried out – describing and listing the state and condition of the property and all the fixtures and fittings within it. This should be signed by the tenant.



Don't skimp on having proper references and an inventory done.

A proper set of references will ensure you don't get the tenant from hell – one who won't pay rent and who could take months to evict.

A proper inventory will mean that if the property is returned in a mess or with things damaged beyond normal wear and tear, you'll be entitled to keep some or all the deposit to pay for it.

TENANCY DEPOSIT SCHEMES

The most common form of tenancy agreement is the Assured Shorthold Tenancy (called Short Assured in Scotland) since this allows you to recover the property just by giving the tenant sufficient notice.

All new Assured Shorthold Tenancies in England and Wales which started on or after 6th April 2007 and where a deposit was taken, must now have the deposit protected under a government approved Tenancy Deposit Scheme. Your letting agent should be able to arrange this as part of their service.

Providing the property is left in the same state at the end of the tenancy as it was at the start (fair wear and tear excepted) and there are no rent arrears, you will have to return the deposit within 10 days of the end of the tenancy. If it isn't, you will have to itemise and agree deductions with the tenant.

For all the latest information on tenancy deposit schemes visit: http://www.direct.gov.uk/en/TenancyDeposit/DG_066385

If the annual rental income exceeds £25,000, the tenant is a company or you live in the property, the Assured Shorthold Tenancy agreement is not valid. In these cases, your local Rightmove member letting agent will be able to suggest alternatives.

Step 7-

Managing the letting

Using a letting agent can be beneficial as they are able to look after the receipt of the rent, deal with ad hoc tenant queries, get essential maintenance work done using their own network of tradesman and carry out regular inspections of the property.

Check what's included in the service and what's at an additional cost by reading the agent's contract carefully.

ENDING AND EXTENDING AN ASSURED SHORTHOLD TENANCY

Most Assured Shorthold Tenancies are six months in duration, though 12 month tenancies are common too.

Providing the terms of the tenancy have not been breached, you cannot regain possession until after six months (or longer if the "fixed-term" is longer) unless the tenant agrees.

To end the tenancy you have to give the tenant at least two months notice in writing.

So, for example, if the period of the tenancy was from 1st to the 30th day of the month and you gave notice on 10th August, the period of notice would not actually start until 1st September and would end after 30th October.

Again, your local Rightmove member agent should be able to advise you how to end or extend a tenancy and the correct form of wording to use. They may be able to arrange this on your behalf although there may be an additional charge for this service.

Step 8-

Understanding taxation of rental property

As a landlord, you'll have to declare your income and costs - whether you make a profit or not - and keep all records, invoices, receipts and statements for up to six years.

Request and complete the Land & Property Supplementary pages for your tax return and the easy to follow notes from <http://www.hmrc.gov.uk/saemployees/fagsa105.shtml>

You'll find that the taxman is actually quite generous in allowing you to offset a large number of running costs including the interest payments on your mortgage and the arrangement fee on the mortgage too.

Where you make a loss on your buy-to-let property, you

can carry forward and set it off against rental profits in future tax years (but you cannot set it off against other income).

If you aren't a resident in the UK and use a letting agent for management, you can get an exemption from HMRC so that the rent can be paid over to you gross.

When you come to sell, there are a number of reliefs that are available that reduce the amount of tax you may have to pay on any capital gain you've made on the property, including Letting Relief and your Capital Gains Tax Allowance.

This can be a bit more complex so if you need to know more, you are advised to contact the Inland Revenue.



Step 9-

Letting in Scotland

There are some differences if you are letting a property in Scotland.

Here, all landlords have to be registered in a scheme, there is currently no tenancy deposit scheme and more shared privately rented properties have to have an HMO license.

Visit www.betterrentingscotland.com to find out more.

Rightmove's guide to Letting