

Thinking of Investing in Buy-To-Let Property?

Here are some points to help you decide if it is a wise move for you.

Think long-term

As the property market constantly swings up and down, be prepared to invest for at least five years. No one knows when the current downward curve will turn, but historically property prices have always risen over the long term. The advantage of buy-to-let is you can sell when house prices are up and maximise your profit.

Calculate your 'return'

Having found a suitable property, and a letting agent has estimated its rental value, calculate its potential 'annual return'. This is the percentage of annual rental income over the capital outlay, calculated either gross or net (after costs). In Cambridge, a gross return of more than 5% is considered good. The annual rent estimate must allow for 'voids' (no tenants, no rent). This varies but, with careful management of a good property, could be as little as a week or less. At CPL over 80% of our properties have annual voids of 0-8 days.

Don't over borrow

The unfortunate truth is that interest rates may rise and rents may drop – or, in a worst-case scenario, a drastic drop in house prices could put you in negative equity (owing more than the property is worth). If unable to make your mortgage repayments in these circumstances you will be in big financial trouble. Your mortgage lender should advise you about the important choice of fixed or variable rate mortgage. Whichever you decide, your rental income must cover your mortgage repayments and other outgoings plus a comfortable financial buffer to protect you. It is also wise to aim for a varied property portfolio and invest in other ways outside property.

Anticipate your outgoings

Remember to allow for outgoings such as gas safety certificates, electrical testing, upkeep and repairs to the property and replacement of white goods. Letting agent's costs also need to be included (e.g. CPL charges 10% of rental income, or 7% for flats). A tempting area to make a saving, but an agent's experience in dealing with tenants and good contacts with tradesmen will save you time, hassle – and money – in the long run.

Buy-to-let investment can be a good long-term nest egg, provided it is approached carefully, anticipating all possible eventualities in your calculations. Fundamental to all of this is the careful choice of a suitable property – the subject of a future article.

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Further information:

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