

SHOULD I BUY TO LET?

The 'buy to let' market is still reasonably buoyant, fuelled by the availability of lending, a relatively high level of confidence in property price stability and an increasing demand for rented accommodation.

In this article we look at some of the more practical, but less often mentioned, aspects of buy to let which clients should consider.

Investment Management and Transaction Costs

Letting usually has fairly high investment management costs. The transaction costs are relatively high, particularly the Stamp Duty Land Tax payable on purchase and the agent's fee on sale.

Preparation of leases for each set of tenants and other costs add up to make property a relatively expensive investment asset to hold in terms of management costs. The cost of preparing a Home Information Pack when the property is resold should also be borne in mind. Landlords also need to be licensed if they rent for multiple occupancy and such licences can be expensive. The cost implications of safety legislation can also be substantial.

Tenants

Good tenants, of course, make being a landlord easier, but the other kind exist, too. Every tenant represents a potential problem. They may fail to take care of, or even damage, your property, necessitating significant expenditure before it is fit to be let again. They may stop paying their rent.

They may refuse to vacate the property or wreck it. Dealing with problem tenants can be both expensive and can cause gaps in the flow of rental income. Having a well thought out lease agreement is an essential protection.

Buying Badly

Before buying any property, you should research the area. Rises and falls in value are not uniform in individual areas, let alone across the country. Also, make sure you have the property carefully surveyed.

Agents

The quality and effectiveness of letting agents varies a great deal. Make enquiries of other landlords before making your choice. Recently, a scheme called The National Approved Letting Scheme was set up in order to improve the service to landlords and tenants. To belong to the scheme, members must:

- agree service standards set out in writing;
- set a clear charging structure;
- maintain professional indemnity cover and client money protection cover;
- establish an internal complaints procedure; and
- offer mediation and binding arbitration in the case of disputes.

Tax

Profits from rental income are taxable in the normal way, but do not attract National Insurance Contributions – a significant saving compared with earned income. You can deduct repairs, letting agent's fees, interest on a loan applied to buy the property and so on. The tax position varies somewhat, depending on whether you let the property furnished or unfurnished, so take advice about which is the better choice. If you live abroad and rent out a house owned in the UK, you will find that tax is deducted by your letting agent. Lastly, when a property is sold, there is the possibility that any gain may be subject to Capital Gains Tax.

Exposure

One of the less frequently mentioned potential downsides to an investment strategy which includes a buy to let is that it does often leave the owner's investment portfolio heavily weighted in property.

This may or may not be a good strategy, but it does raise the level of 'portfolio risk'. If there is a downward move in property prices, or there is an increase in interest rates, an investment portfolio with a large proportion in property can look quite unattractive. The other risk for many landlords is that of Inheritance Tax. Properties come in 'big lumps' and if it is necessary to sell a let property quickly, in order to realise sufficient cash to pay Inheritance Tax, this can lead to having to sell an investment property at an inopportune time