# Can I really make good money from property?

It's easy to be dazzled by TV property programmes and to be tempted into becoming a landlord or developer. We look at whether it's as lucrative and as simple as it seems

Kim and David Winsper have made almost 200 per cent on their investment in buy-to-let properties in seven years. Kim said: 'We were able to get into buy-to-let because we used to live in army accommodation that was very low cost. We used the money we saved to build up a deposit on our first buy-to-let and we've now got four properties.'

So, should you invest in buy-to-let? Overall, the market is healthy. House prices are rising, even if at a steadier rate, access to borrowing is easier than it's ever been and rents are climbing at their fastest pace since 2001. It's also predicted that demand for private property is likely to grow due to a shortage of housing. In addition, interest rates remain low at 4.75 per cent, although there is talk of a further interest rate rise before the end of the year.

But the opportunities for making easy money that existed between 1996 and 2004, when prices rocketed, are likely to have passed, and prices can fall. If you do invest in a buy-to-let property, treat it as a long-term investment and don't put all your money into it.

More than ever before you need to do your research before you buy. According to John Heron, Director at mortgage company Paragon Mortgages: 'The people who make money from buy-to-let are those who don't get emotionally involved with the property. They treat it as a business and make sure they understand their tenant's needs. This dictates the property they buy, where they buy and how they manage it.'.

Kim agrees: 'It's not an easy option. We've had to make sacrifices because the rent we get doesn't cover our expenses. But we're in it for the long haul. Our aim is to pay off the mortgages by the time we're 50 and live off the income.'

## Getting finance

If you decide to go ahead, you first need to sort out the finance. Buy-to-let mortgages are available from more than 80 lenders and there is a variety of fixed, discounted and variable rate deals. The websites www.charcolonline.co.uk and www.moneysupermarket.com are good places to do research. Rates tend to be higher than standard mortgages. In July, for example, they were around 5 to 6 per cent. Arrangement fees also tend to be higher, at around £500 to £1,000 compared with £300 to £700 on standard deals. But you can pay well over £1,000, especially as some charge 0.5 to 2.5 per cent of the amount you're borrowing.

**'It's not an easy option. We've had to make sacrifices'**

MAKING A SUCCESS OF BUY-TO-

**Kim and David Winsper** *36, 34, partner in family business, warrant officer in the Royal Engineers*
'It's important to keep an eye on the market and adapt. Woking, where our properties

You'll need a deposit, typically at least 15 per cent, and most lenders also require your rent to exceed your mortgage payments by at least 25 per cent.

Unlike other mortgages, buy-to-let mortgages are largely unregulated, so if you think you've been mis-sold, you can't take your complaint to the Financial Ombudsman Service. It's worth visiting two or three brokers to compare the mortgages they recommend.

## Choosing a letting agent

You can manage the property yourself or use a letting agent. Letting agents provide a 'tenant find only' or full management service. Tenant find only costs on average 10 per cent of your monthly rent. The

PHOTOGRAPHY PETE JONES, ANDY NEWBOLD, SUPERSTOCK, ALAMY


# Tax – your questions answered

**What you'll have to pay if you become a landlord or do up a property to sell**

**Q I'm letting a property. How will I be taxed?**

**A** In most cases you pay income tax on rental profits – the rent you charge less allowable expenses. Expenses include mortgage interest, council tax repairs and decoration (not improvements) and letting agent's fees. If your property is fully furnished, you can claim for wear and tear. For more on this see the Land and Property notes that accompany the self-assessment tax return.

**Q I'm selling a property that I rent out. What tax will I have to pay?**

**A** If you've never lived in the property, you may have to pay capital gains tax (CGT). Tax is due on any gain that exceeds your tax-free allowance, which is £8,800 for the 2006-2007 tax year. Your gain is the difference between the property's purchase and selling prices, less allowable expenses, reliefs and any losses on other assets. See the *Which? Tax Saving Guide 2006-2007* for more on how to work out your CGT.

If you have lived in the property at some point in the past, the period during which it was your main home and the final three years of ownership are not liable for CGT.

Any remaining years may be covered by special letting relief. For more information see helpsheet IR283 from Revenue & Customs.


**Q I've bought a property and will live in it as my main home while I do it up to sell. Will I pay capital gains tax?**

**A** Yes. If you sell your only or main home, you don't normally pay CGT. But this doesn't apply when you buy a property with the intention of reselling at a profit quickly or when you spend money on a property with the intention of reselling at a profit. If you frequently buy and sell properties, particularly when accompanied by substantial work on them while owned, Revenue & Customs may decide that this amounts to a trade. If so, you lose your capital gains tax exemption and your profits will be taxed as trading income.

LET

are located, has been flooded with new flats. We may sell a couple of ours to buy a bigger property because the returns will likely be better.'

**You'll need to keep up to date with changes in legislation**

agent will find a tenant, carry out tenant checks, prepare the contracts and collect the first month's rent and deposit. A full management service includes checking the tenant in and out with a full inventory, collecting rent and handling repairs. Expect to pay around 15 per cent of your monthly rent for full management.

When picking an agent, look for one that is a member of the National Approved Letting Scheme (NALS). Its members must have a complaints procedure and offer arbitration for unresolved disputes.

Even if you use a letting agent, you are still responsible for complying with legislation, such as the gas safety regulations. One way of getting clued up is to join a landlords' association. Visit www.landlords.org.uk for details. A good leaflet called *Let's make it safe* is available from the Association of Residential Letting Agents.

## Doing it yourself

If you manage the property yourself, tailor the advert to suit the property and tenant. An advert in a shop window isn't likely to help you find a tenant for a luxury apartment but would work for a small studio.

You'll need references from your tenants' employers and past landlords. It's wise to photocopy passport details or get their National Insurance number, and check their credit history with a credit reference agency.

From 6 April 2007, only landlords who belong to the government's tenancy deposit protection scheme can hold deposits. Visit www.communities.gov.uk for information on the scheme.

Put together a full inventory of your property's contents and its condition. You could make a video inventory or take photos with the tenant present.

Last but not least, make sure you put a proper tenancy agreement in place before you let tenants into your property. You can buy standard tenancy agreements in newsagents.

You'll need to keep up to date with changes in legislation. Since last April, if you own and let property in Scotland, you must be registered with your local authority. See www.landlordregistrationscotland.co.uk for more. Changes are currently happening to housing law in England and Wales. For example, the government has introduced a licensing scheme for some houses in multiple occupation (see www.communities.gov.uk to check whether your property is affected), a new

**In Scotland, figures show that converting a house from three bedrooms to four cuts value**

health and safety rating system has come in and, by 2009, you'll need to provide an energy performance certificate when you let your property.

## Property development

Another way of making money on property is to get into property development, but unlike the buy-to-let market, there aren't many good sources of information to help you. And since house prices aren't rising at the pace they were, you can't rely on a booming market to make you money.

In many respects, you will have to do similar research to that you'd do for a buy-to-let purchase, such as researching the area's school and transport links. You'll also need to think about the work the property needs and what will add value.

Consider who you will sell to. You can ask a good local agent what features people who buy in the area are looking for. It's also worth walking the area at different times of day to get a feel for what it's like.

A surveyor or estate agent can advise on what does and doesn't add value. Jeremy Leaf, a spokesman for the Royal Institution of Chartered Surveyors, told us: 'A loft extension, for example, will add value to some properties but not all. If it makes a property top heavy, with too many bedrooms compared with the amount of living space, it could be a mistake.'

Once you've picked a property, get a full survey. Jeremy Leaf suggests drawing your surveyor's attention to work you plan to do. 'Get them to include a full schedule of works in the survey. You can use this to get quotes from two or three builders. You'll know that you'll be getting quotes on a like-for-like basis'.

Set a realistic budget for the work and build in a contingency fund. Never forget to check whether you need planning permission. Your architect or local authority's plan-

**'A loft extension will add value to some properties but not all'**

# Investing in property funds

**If buy-to-let or property development are too much work, you could consider shares in property companies**

The big news in property funds is the arrival of real estate investment trusts (Reits) next January. Currently property funds and companies pay corporation tax on profits and you pay tax on dividends, so you're taxed twice. But Reits won't attract corporation tax if they pay 90 per cent of profits as dividends, so they'll be useful for people who want an income from their investments.

Shares in Reits will be traded on the stock market. Stockbrokers' charges of around £10 to £15 mean it will only be worth investing if you have £1,000 to £1,500, unless the trust organises its own savings scheme. You'll be able to put Reits in an individual savings account (Isa), too.

A downside of Reits is that their price will be set by demand for the shares, not the value of the properties held, so their prices will behave more like shares than property prices with bigger ups and downs.

## Unit trusts

A more stable option is a unit trust that invests in its own properties. Unit trusts are a cheap way to invest small amounts. Your money is pooled with that of other savers. The fund manager invests this money and you own units in the investment.

Only three unit trusts that invest in UK property have a five-year record – enough to assess them during good times and bad. Norwich Property and New Star Property invest mainly in their own properties, which they let out. Aberdeen Property Share trust invests in shares of listed property firms.

Expect to pay up to 5 per cent in fees upfront and annual charges of about 1.25 to 1.5 per cent.

## Investment trusts

Investment trusts are similar to unit trusts. Again, your money is pooled and invested. There is only one UK-based property investment trust with a five-year track record. TR Property, which invests mainly in the shares of property companies, has seen its share price rise more than 250 per cent in that time. Objectively, this stellar performance is unlikely to continue.

Other investment trusts are based abroad, which isn't as risky as it sounds as they're run by well-known firms, such as Scottish Widows.

## Property shares

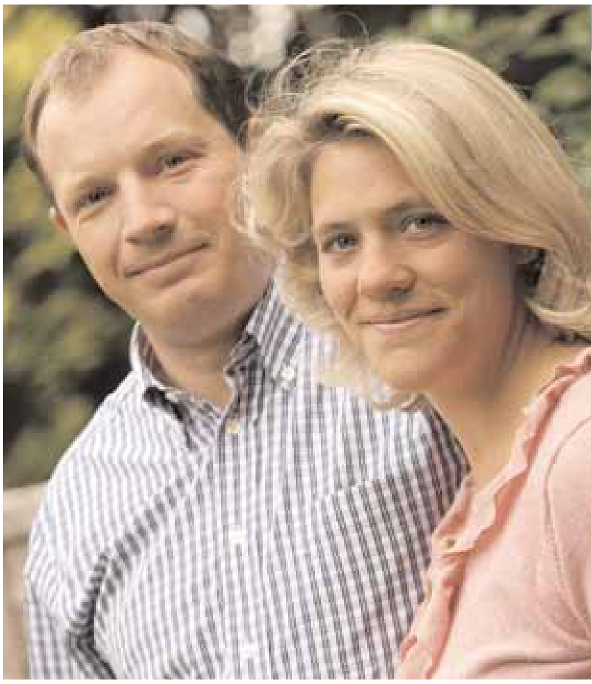
You can invest directly in property by buying shares in property companies. Five property companies, including Land Securities and British Land, are in the FTSE 100 index of the UK's biggest companies. All five intend to convert to Reit status next year.

## Pensions

If you're investing in a stakeholder pension or a money-purchase occupational scheme, you may be able to put money into a property fund. Check with your pension scheme.

After January you'll be able to invest in Reits within a self-invested personal pension, and existing pension property funds may convert to Reit status.


**Property company Land Securities owns the landmark Piccadilly Lights building in London**



## OUR TENANT DID A RUNNER

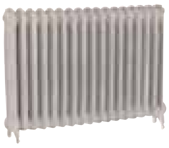
**Nick and Emily Tier** *34 and 33, teacher and housewife*

Nick and Emily rented out their buy-to-let property for the first time at the beginning of this year. 'We vetted the people who responded to our advert and felt happy with our choice,' the couple said. But two months after the tenant moved in, they hadn't received any rent. The tenant moved out but left the property in a terrible state. Emily said: 'We've missed out on three months' rent. She left a broken gas oven in the living room and cigarette burns on the carpet. We've had to spend another month's rent to furnish the house. We're now renting it out to a company for use by their employees and we're hoping that everything will go well.'

ning department can give guidance. Finally, don't get emotionally involved. You're buying a property to make money, not to live in as your home.

### Adding value to your home

Where you can get emotionally involved is if you are doing up your home, but if you're doing it to increase your property's worth you still need to be cautious. Not all improvements add value, and even if they do you'll find there's a ceiling price for your type of property in your area.



Adding a central heating system will almost certainly add value. According to Nationwide, a lack of central heating knocks 7 per cent off what a property could be worth. Creating a parking space is also a good move. It adds around 6.5 per cent. A single garage adds 7.7 per cent and a double garage around 14.5 per cent.

An extra bedroom can increase the worth of a house, but not always. For example, turning a two-bedroomed house into a three-bedroomed adds 6 per cent, assuming the total floor space remains the same. But turning a three-bedroomed house into a four-bedroomed house adds less. In Scotland the Nationwide figures show that converting a house from three to four bedrooms cuts value.

But a lick of paint is the simplest way to increase the worth of your home. The current vogue is for plain, neutral colours to act as a blank canvass and to make rooms look brighter and bigger.

Surprisingly, there's little evidence that some of the more common home improvements add value. A new kitchen, for example, will end up in a skip if the buyer doesn't like it.

The same applies to bathrooms. There's no point spending lots of money on a bathroom for investment purposes if a buyer will just rip it out. But adding a second bathroom is a good idea, as long as you don't convert an existing bedroom into a bathroom. Nationwide figures show that a second bathroom adds around 5 per cent.

Double glazing cuts out noise and draughts, so it's a popular improvement, but, again, don't assume it will add value. Replacing existing windows with PVCu may even lower property value.



## Checklist

**How to make the most of investing in property**

### Buy-to-let

- **Consider the risks** House prices fluctuate and rents can fall. Interest rates may rise so that your rental income doesn't cover your mortgage and you may have periods where you can't find a tenant.
- **Cash flow** Your money will be tied up in the property, and the costs of selling make it a poor short-term investment. You'll need a contingency fund to cover emergency repairs and regular maintenance.
- **Do your research** Investigate the property, the location, tenant demand and typical rents. Don't buy on sentiment or according to your own personal taste. Make sure you find out about relevant regulations and tax issues.
- **Add up fees** Take into account all the costs, including buying costs, maintenance of the property and appliances, letting agent's fees, accountant's fees, tax, landlord's insurance and mortgage repayments.
- **Tenants** Treat your tenant as a customer and make sure you meet their needs.

### Property development

- **Research** Check out the location and market and plan improvements that add value.
- **Budget** Put together a realistic budget and build in a contingency fund. Don't forget to allow for capital gains tax.

### Improving your property

- **Convenience** Think about your own needs rather than just adding value. Don't splash out on a new kitchen or bathroom thinking it will add thousands.
- **Adding value** Central heating, a second bathroom and extra bedrooms add value.