



# Buy to let to win

Letting property can be a lucrative business, but you must avoid the pitfalls such as expensive agents and tricky tenants. We reveal what it takes to be a successful landlord

**T**he last decade has seen a huge rise in the private rental market. There are currently 900,000 private landlords in the UK – and this is set to double in the next three years, according to research company Mintel.

The boom started in the 1990s, after new laws gave private landlords more protection and buy-to-let mortgages were introduced. Even though house prices are no longer rocketing, as they did between 1996 and 2004, buy to let can still be a good long-term investment. Indeed, a December 2006 online survey of 1,582 Which? members found that 51 per cent had bought their buy-to-let property as a long-term investment, while a further 31 per cent had bought it to provide income for their retirement.

Buy to let isn't the only route for those looking to become landlords. Some might let their home when they go abroad or move in with a partner. Others might inherit a second property and decide to let rather than sell.

Regardless of your reasons for letting and the route you take, if you do your research, get the right tenants at the right price and stick to the regulations, you could well make a profit. Our survey showed that 34 per cent of landlords made more money than expected, while only 17 per cent made less. But being a landlord isn't easy and there's a lot to consider before you start letting.

## Money matters

You must first determine whether letting a property is financially viable. If you buy with a mortgage, your profits are more likely to come from the capital growth of your property than income from tenants. So it's best to look at your let as a long-term investment.

## Income

In the meantime, you must make sure that your rental income covers your mortgage payments and any other outgoings.

To work out your turnover, estimate your expected monthly rent (this should be based on letting agents' estimates or rental figures for similar properties in the area). From this, deduct an estimate of your monthly costs (mortgage payments, maintenance, bills and insurance).

Don't forget that you may also have one-off costs such as unexpected repairs – in our survey, 34 per cent spent more on maintenance than they'd envisaged – and you should take into account that there may be periods when the property is empty.

## Landlords' tax

As far as tax is concerned, any money you receive from rent (after expenses have been deducted) is subject to income tax and you'll have to declare it on a self-assessment tax return each year. HM Revenue & Customs will then calculate how much you owe. It's your responsibility to request the form and fill it out on time.



Have all your gas appliances checked by a Corgi engineer

**Our survey showed that 34 per cent of landlords made more money than they'd expected**

If you sell a property that isn't your main home, it's likely that you'll have to pay capital gains tax on any profit that you make above a certain amount. Contact HM Revenue & Customs for more details on landlords' tax issues.

## Rights and responsibilities

The law says that landlords have to abide by certain statutes to protect tenants. As long as you understand your responsibilities, and live up to them, there shouldn't be a problem. Tenancy agreements set out additional responsibilities for both you and your tenant. These legally binding contracts give you more protection if things go wrong, so make sure you have one.

Most new tenancies are 'assured short-hold tenancies' (ASTs). These have a fixed term of at least six months; afterwards, you can either renew the agreement or let it continue on a monthly or weekly basis. You can ask a solicitor to draw up an agreement, or buy one from legal stationers or websites such as the Association of Residential Letting Agents (ARLA) or the Residential Landlords Association (RLA).

## Who's responsible for what

Tenancy agreements usually detail who's responsible for what. As a general rule, landlords should keep the property in good order and arrange necessary maintenance and repairs. They are responsible for the structure and exterior of the property, supplied appliances, heating, hot water, gas supply and electrical wiring.

The tenant should do day-to-day things, such as replacing light bulbs, regularly

testing the smoke alarm and keeping the garden tidy and free from rubbish.

If your property is leasehold, it is your responsibility to pay maintenance charges and ground rent. Tenants are usually responsible for paying council tax and utilities such as gas and water.

Buildings insurance is your responsibility and it's a must. You should also consider contents insurance, particularly if you're letting a furnished place. Your tenant should insure their own belongings. You might also want to consider special landlords' insurance, which protects you against non-payment of rent. You must notify your mortgage lender that you plan to let and it may charge an administration fee.

## A safe house

There are also certain safety laws to which you must adhere. Most importantly, you must have a valid gas safety certificate for your property the whole time it's rented out. Give a copy to your agent or tenants and keep one yourself. Inspections must be car-



**Tenants should check smoke alarms**

ried out by a Corgi-registered engineer annually. They cover all gas appliances and pipes and cost about £70 to £100.

Unlike for gas, you don't need a certificate for electrical safety, but you may be liable if a tenant is injured by an unsafe appliance or fitting that you provided. It's worth getting a Part P-registered electrician to do a check-up every year. These checks cost about £120 to £200.

Also, don't assume that you can just put any old furniture into a rental property. All furniture and furnishings that you supply in your property must meet the fire resistance requirements in the Furniture and Furnishings (Fire Safety) Regulations 1988. So check the manufacturer's label, particularly if you're buying secondhand.

## Registration

In England and Wales, you need to register with your local council if you own a 'house of multiple occupation' (HMO) above a certain size. An HMO is a property that has shared kitchens or bathrooms, such as bedsits. In Scotland, most private landlords must register with the local council. In Northern Ireland, landlords in specific areas have to register. Contact your council for more information.

## Deposit

To reduce disagreements about deposits, the government recently set up the Tenancy Deposit Scheme. Since April this year, if you take a deposit for an AST, you must pay it into a government-authorised scheme and give details to your tenants within 14 days. The schemes offer a free resolution service if there are any disagreements at the end of the tenancy.

## GET IN TOUCH ON 27 SEPTEMBER

### Call our service team

We will be taking your calls on 27 September to give advice on your key services. We'll answer questions on phone and internet services; switching utility providers; green issues in the home; choosing tradespeople; your consumer rights; renting and letting property and home

improvements. Call 01992 822800 or 0845 307 4000 between 10am and 3pm quoting your Which? membership number. We'd also like your feedback on the team's latest reports – including opticians, letting property and boiler servicing – and your suggestions for future topics.



## KNOW YOUR RIGHTS

### We answer some of the toughest questions that landlords have

**Q** I'm returning from working abroad and want my property back. Can I get my tenants to leave?

**A** With an assured shorthold tenancy, you have a right, under section 21 of the Housing Act 1988, to get your property back after the fixed term has ended. You must give your tenants at least two months' notice in writing that you want them to leave.

If your tenants don't move out by the date specified in the notice, you will have to go to court for a possession order. Visit the RLA website for more information.

**Q** My tenants haven't paid rent for the last two months. Can I evict them?

**A** Under section 8 of the Housing Act 1988, you can apply to evict tenants at any time if they are at fault – for example, by not paying rent or damaging your property. But you must follow a set procedure or you could



be prosecuted for unlawful eviction or harassment.

To start the eviction process either you or your solicitor must send the tenant a 'section 8' notice. Forms are available from legal stationers, or you can download one from websites such as the RLA's. We recommend that you take advice from a specialist solicitor at this stage.

If your tenants don't move out by the date specified in the notice you will have to go to court for a possession order.

**Q** My tenant won't let me into my property when I call. Can they do this?

**A** Tenants have a legal right to 'quiet enjoyment' of their home. This means you, or your agent, have the right to enter the property only at reasonable times of the day to carry out repairs or inspections. But unless there's an emergency (such as a fire or major water leak) you must give your tenant at least 24 hours' notice of a visit in writing (this will usually be detailed in your tenancy agreement). Trying to enter the property without your tenant's permission could be classed as harassment.



**Give tenants 24 hours' notice**

## Agents or alone

One of your biggest decisions will be whether you manage your property yourself or use a letting agent. Your decision should be based on time available, experience and money. If you feel you have lots of the first two and little of the third, you may go for a DIY approach; conversely, you could use an agent if you are more cash rich and time poor.

## The DIY route

Doing it yourself is undoubtedly cheaper and you can keep a close eye on your property. For extra help and advice, you could consider joining a landlords' association such as the RLA.

If you go it alone, you must vet your prospective tenants thoroughly. It's better to have an empty property for a few weeks than to be stuck with problem tenants. Ask to see their passport and another form of ID and take copies. Ask for references from their employer and previous landlord, if applicable. Get details and contact referees yourself to make sure they're genuine (for more on tenant troubles, see "Never relax your rules", above). In addition, make sure you take a thorough inventory of your property when tenants move in and out.

Finally, ask your tenants to set up a standing order to be paid into your account

## 'NEVER RELAX YOUR RULES, EVEN FOR A FRIEND'

**MaryAnn Pearce** 44, private landlord and property developer

MaryAnn, a private landlord from London and London representative of the National Landlord Association, lost £6,650 in rental income when her tenant stopped paying rent and refused to leave her property. In April 2006, her tenant moved in and, as she already knew him, MaryAnn didn't take a deposit or insist on a tenancy agreement. She says now: 'You should always treat your letting as a business. Never relax your rules, even for a friend.'

In September 2006, the tenant stopped paying rent. Luckily, although there was no tenancy agreement, the law

on evictions still applied because he had been in the property for more than six months.

MaryAnn issued a section 8 notice, for rent arrears. But this route proved time consuming, as the tenant claimed he hadn't paid rent because the property needed repairs, even though he had agreed to fix these problems in return for reduced rent.

So MaryAnn issued a section 21 notice, giving the tenant two months' notice that she wanted her property back. Under section 21 rules, you don't need to give a reason and the court can

intervene if tenants refuse to move out. In April 2007, the court awarded MaryAnn possession of her property, seven months after her tenant had stopped paying rent.

She is currently decorating the property to let it again and is still trying to pursue the previous tenant for the money owed to her. MaryAnn told us: 'A section 21 is effective but I wish I'd used it earlier. If you think you have a bad tenant, give them notice to leave before things get worse. If things get better, great, but if they don't you'll be able to minimise your stress and your financial losses.'

on a set date each month. This is the best way to make sure rent is on time.

## Using a letting agent

If you live a long way from your property, or don't want to deal with tenants directly, you

might want to use a letting agent. Letting agents act as intermediaries between landlords and tenants. For a fee, most agents can find tenants, collect rent or offer full management, which involves dealing with enquiries and organising maintenance.



Keep your property clean, modern and neutral

## Making the most of your property

Property guru Kate Faulkner, author of *Renting and Letting, a Which? essential guide*, offers her top tips on maximising the rental value

### ■ What's in demand

Talk to letting agents in the area to find out what the local rental market is like, what types of property are in demand and how much they are being let for.

■ **The right place** Tailor your property to suit the type of people you've decided to let to – for example, a good number of bedrooms and a large communal lounge for students, or a well-decorated property with a modern kitchen and bathroom for professionals.

■ **The right price** Make sure that your rent is better value than other rents in the vicinity. For example, if similar properties are going for £1,000, put yours on for £900 to £975 – you're likely to get more viewings and be able to get tenants when other landlords have their properties empty.

■ **Business, not personal** Renters like a blank canvas, so ditch the swirly carpets and dark wallpaper. Decorate in light, neutral colours to appeal to as many people as possible.

■ **Clean up** All tenants like a tidy home. Clean the property between lets and give it a lick of paint. When things start to look shabby, fit new carpets, change kitchen worktops and regrout bathroom tiles.

■ **Easy upkeep** Make sure your property is easy to maintain. For example, deck the garden or provide a lawnmower so that tenants can cut the grass. Fit laminate floors or stain-resistant carpets that clean easily.





A second online survey of Which? members, carried out in May 2007, showed that 65 per cent of landlords used an agent, but one in four was dissatisfied with the service. To avoid problems, choose one that is a member of the National Approved Letting Scheme (NALS). Members must follow a code of conduct, use a complaints procedure and be linked to a legally binding arbitration scheme.

Most letting agents will ask landlords to sign a contract that details their fees and terms of business. In May this year, we posed as potential landlords to collect contracts from 15 agents around the country and found that their fees varied enormously.

**If you see anything in the contract you don't like, ask the agent to change it, or walk away**

Compare a few agents in the area and don't sign until you're happy with the service.

Agents usually charge a one-off fee or a percentage of your rental income (either monthly or yearly) for their service. But watch out for 'set-up' or 'administration' fees, which can be added to this cost. For each of our 15 agents, we worked out how much they'd charge us to let a property for £500 a month on a six-month tenancy (excluding VAT). For letting only, fees ranged from £180 to £500. For full management, costs ranged from £180 to £875. It's worth trying to negotiate fees, but don't automatically assume that the cheapest is the best.

### Things to look out for

Make sure you read the contract carefully. There are often additional, hidden charges lurking in the small print. It's usual for agents to ask for between one and three months' written notice if you want to terminate your agreement but some will charge you a cancellation fee as well. One agent in the Midlands wanted all the commission to the end of term plus a £250 admin fee. We also found agents charging between £50 and £150 for carrying out an inventory. And some charged a 'renewal fee' of between £20 and £88, just for renewing an existing tenant's agreement.

Finally, watch out for estate agency fees. Many letting agent contracts contain a clause that entitles them to commission if, at a later date, you sell your property to your tenant, even if the tenancy agreement has ended and the agent no longer works for you. Fees ranged from 1 to 2 per cent of the total sale price. If you see anything in the contract you don't like, ask them to change it, or walk away.

## LETTING A PROPERTY

### Checklist

Your essential step-by-step guide to letting property

- **Money** Work out your finances to check that letting is a viable option for you.
- **Safety** Make sure your property is safe for tenants.
- **Gas** Get a gas safety certificate from a Corgi-registered engineer.
- **Electrics** Get electrical appliances checked for safety.
- **Fire** Ensure that all supplied furnishings meet fire regulations.
- **Register** Contact the council if you are a landlord in Scotland or own an HMO in England or Wales – you may need to register. Contact HM Revenue & Customs to find out about tax.
- **Check up** Take time to get references and check potential tenants thoroughly.
- **Contract** Always have a written tenancy agreement in place that clearly defines tenant and landlord responsibilities.
- **Deposit** Take a deposit of four to six weeks' rent in advance and ensure it's protected in an authorised government scheme.
- **Inventory** Take an inventory when tenants move in and leave.
- **Rent** Set a date for rent payment. Ask your tenants to set up a standing order so that you know rent will arrive on time.
- **Agent** Make sure your agent is a member of a recognised association such as NALS. Try to get a personal recommendation and check the contract and fees carefully before signing.
- **Rights** Understand your rights and those of your tenants.
- **Business** Treat your let as a business and don't make exceptions for people you know.
- **Take action** Act quickly but fairly if you have problem tenants – don't let problems get out of control.

### MEMBER DISCOUNT

#### Renting and letting Money off our essential guide

*Renting and Letting*, one of Which?'s best-selling essential guides, will help build up your expertise as a landlord or ease your path as a tenant and is now available at a special price of £9.99 (£1 off the RRP), with free p&p.

Call 01903 828557 or email [mailorders@lbsltd.co.uk](mailto:mailorders@lbsltd.co.uk), quoting code RLW0907 and ISBN 978 1 84490 029 9, for your copy.



### Contacts

**Association of Residential Letting Agents** (ARLA) 0845 345 5752; [www.arla.co.uk](http://www.arla.co.uk)  
**HM Revenue & Customs** [www.hmrc.gov.uk](http://www.hmrc.gov.uk)  
**National Approved Letting Scheme (NALS)** 01242 581712; [www.nalscheme.co.uk](http://www.nalscheme.co.uk)  
**National Association of Estate Agents** (NAEA) 01926 496800; [www.naea.co.uk](http://www.naea.co.uk)  
**National Landlords Association (NLA)** 020 7840 8900; [www.landlords.org.uk](http://www.landlords.org.uk)  
**Northern Ireland Housing Executive** [www.nihe.gov.uk](http://www.nihe.gov.uk)  
**Residential Landlords Association (RLA)** 0161 962 0010; [www.rla.org.uk](http://www.rla.org.uk)  
**Tenancy Deposit Scheme** 0845 226 7837 [www.thedisputeservice.co.uk](http://www.thedisputeservice.co.uk)