

Letting out and renting property

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What's in our Guide.

1. How buy-to-let mortgages work
2. How to get the best buy-to-let mortgage rates
3. mortgage rates
4. Your rights and responsibilities as a landlord
5. Buy-to-let mortgage and letting agreements

Guide taken from Which Property guides January 2016

“This guide is to offer insight into the Buy to Let market. We hope you find it helpful“

**David Bell, Director
Eastons Group**





Consider all the costs of letting a property before entering into buy-to-let

It's essential to do your research before taking out a buy-to-let mortgage. You need to be confident that your rental income will comfortably cover your mortgage and all your other expenses. Lenders will expect to see evidence that your expected rent will cover your mortgage payments by at least 125%.

A buy-to-let property should also be seen as a long-term investment. Over the long term, house prices are likely to increase but in the short term they could fall or stay the same. No one knows with any certainty what will happen to house prices in the future.

When calculating whether buy-to-let is right for you make sure you include all of the costs involved in letting out a property:

Maintenance costs

These will vary depending on the property but you should budget for costs of about £250 a year, if you have insurance.

Refurbishment costs

Every few years it is likely you will need to redecorate or refurbish parts of the property for example putting in new bathroom fixtures. You should budget for costs of around £2,000 over five years.



Letting agents

If you decide to use a letting agent to find tenants should budget for a fee of around £250. If you would like the letting agent to fully manage the property for you i.e. collect rent, deal with tenants' problems and queries etc. you should budget for 10% -15% of your annual rent.

Landlord insurance

You can get different levels of landlord insurance, for instance cover for the building and cover for your contents if the property is furnished. Costs for landlord insurance will vary depending on where you live, the property type and how comprehensive the cover is that you're looking for. Which? recommends that you take out some kind of landlord insurance and it is likely that your mortgage lender will expect you to.

Void periods

You should also allow for the property being empty for about 8% of the year between tenancies or during repairs.





Buy-to-let mortgage rates

Buy-to-let mortgages are often more expensive than residential mortgages

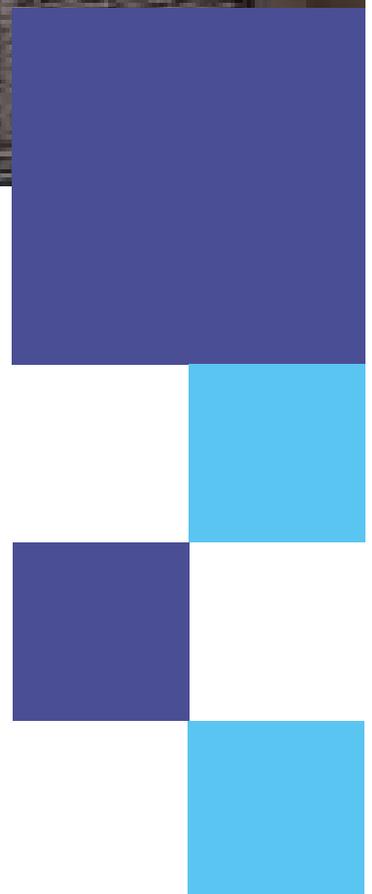
If you're buying a property specifically for letting purposes, you'll need a buy-to-let mortgage unless you're lucky enough to have the cash to buy upfront.

Buy-to-let mortgages cost more than residential ones, because there is more risk for the lender.

If your tenants don't pay their rent, or you have long void periods (periods without tenants), you could struggle to pay the mortgage - especially if it's not your only one.

Buy-to-let mortgage rates explained

You'll pay 1% to 2% more interest on a buy-to-let mortgage than a residential one for both fixed and tracker rates.



Buy-to-let mortgage deposits

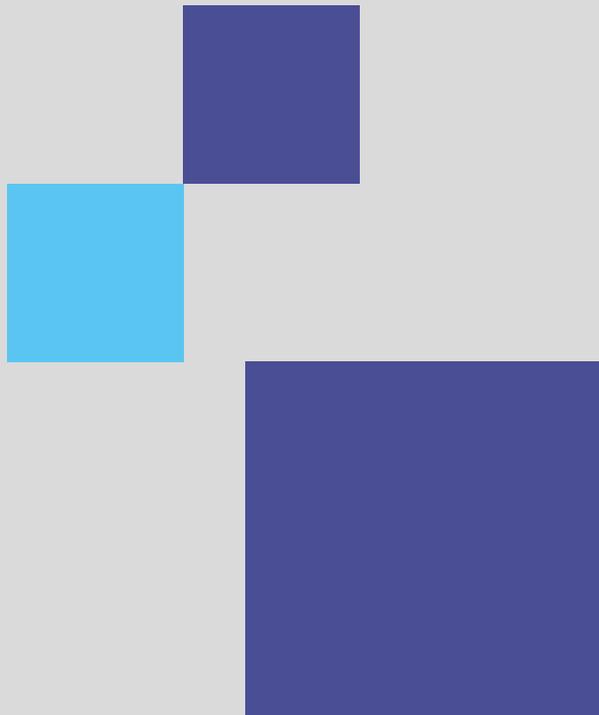
Buy-to-let lenders typically require larger deposits than those of regular residential mortgages, and the best buy-to-let mortgage deals are often available for those with the lowest loan to value. This is considered to be a loan of 60% of the property's value or lower.

For the best buy-to-let mortgage rates you'll need a 25% deposit, although there are lenders that offer buy-to-let mortgages with a 15% deposit.

Buy-to-let mortgage fees

Set-up fees (which include arrangement, booking and valuation fees) for buy-to-let mortgages can be higher than for residential ones, so you'll need more cash up front.

Initial fees can be as high as 3% of the value of your loan. Don't add the fees to the mortgage, as you'll then pay interest on them over the life of the loan.





Buy-to-let mortgage lending criteria

There are a number of criteria you need to satisfy in order to qualify for a buy-to-let mortgage.

As well as looking at the proportion of the property's value you are borrowing (loan-to-value), a buy-to-let lender may look at how much rent you'll get as a proportion of the mortgage interest you'll be paying. A typical minimum is 125%. This is so the lender is satisfied you'll be able to afford your mortgage.

However, rises in interest rates could increase that margin, so you should ensure you are well above the minimum.

Lenders may also impose other criteria. These can include:

- Not being able to let the property to groups of unconnected individuals
- Lower loan-to-value restrictions on new build properties
- Conditions about the type and length of letting agreement you have with your tenants

Landlord responsibilities

As a landlord you have a number of different legal responsibilities

As a landlord, you have a number of landlord responsibilities for the properties you let, including:

- Repairs to the structure and exterior of the property you let
- Maintenance of heating and water systems
- Maintenance of bathroom installations
- Gas safety check of all gas appliances carried out each year. This must be done Gas Safe registered engineer.
- Ensuring electrics and all electrical appliances are safe.
- Ensuring furniture meets fire safety regulations



HMO licence

You need a special licence from the local council if the property is three or more stories high and houses five or more people from two or more households.

A household is defined as a single person or members of the same family who are living together. This is known as a 'house in multiple occupation' (HMO). Some lenders won't allow you to let on an HMO-basis.

Assured Shorthold Tenancy

You should let your property using an Assured Shorthold Tenancy (AST). Legally, all new tenancies are automatically ASTs unless you set something else up.

An AST allows you to reclaim your property after six months, as long as any initial fixed term has passed and you give your tenants two months' notice. Most mortgage lenders will require you to have this type of tenancy.

Tenancy deposit protection

If you ask your tenants to pay a deposit, you (or your letting agent if you are using one) must protect it using one of three government-approved deposit schemes:

- My deposits,
- Deposit Protection Service
- Tenancy Deposit Scheme.

You either pay an insurance premium to the scheme or use it to hold a deposit. The schemes provide a dispute resolution service, if you and your tenants disagree about the return of the deposit.

Energy performance certificates

Energy performance certificates (EPCs) were introduced to the rental market in 2008. You need to get an energy performance certificate whenever you let the property to new tenants. This tells them how energy efficient the property is, and gives you recommendations for how you can.

If you don't have an EPC available for prospective tenants to view you could risk a fine. The only exception is houses in multiple occupation (HMO). These are exempt from the EPC rules as they typically have to abide by stricter regulations.



Using a letting agent

Choose your letting agent carefully to ensure you're getting good value for money

A letting agent can help you find and vet tenants for your property for about 10% of the rent. They will also offer a full management service for between 10 -15% of your rent.

If you decide to use a letting agent, make sure you include these charges when working out your overall letting costs. To find a letting agent in your area, contact the Association of Residential Letting Agents.

Different types of letting agreement

Tenant find - this is where you use a letting agent to help you find tenants for your property. They will advertise the property, show tenants around the property and field calls from prospective tenants.

Let only - this includes the tenant finding service, along with drawing up tenancy agreements, obtaining and submitting references, arranging an inventory and taking receipt of deposits.

Full management - this includes all the elements of buy-to-let property management, from finding tenants, arranging legal documents, collection of rent and management of the upkeep of the property. You can expect to pay up to 15% of your rental income for this type of service.



Letting agents - five key things to look out for

- 1) Check your letting agreement with your letting agent carefully. This is likely to be a very long document - typically 30 or 40 pages - and there are usually a series of costs in the agreement that can be charged while letting a property on your behalf.
- 2) As the landlord you need to 'appoint' the agent to act on your behalf, so make sure you agree the work that they will undertake during the let and what work you wish to do yourself. For example, you may want to handle maintenance issues.
- 3) Either the letting agent or you as the landlord will need to ensure the property conforms to legal requirements, such as having an up-to-date gas safety certificate or meeting the Furniture and Furnishings Regulations.
- 4) Check for an 'exclusion of liability or indemnity clause', which states what the letting agent isn't responsible for, which normally relate to errors you as the landlord may make.
- 5) Also check for 'termination of the agreement', which provides a notice period for the letting agreement you have made with the agent to come to an end. This could be one or two months.

Letting Agent Fees

Letting agent fees and charges should be set out in one or two pages that clearly cover everything that could be charged. It's a good idea to look for an 'hourly' rate for unforeseen jobs the letting agent may do, such as going to court on your behalf if you need a tenant evicted. Know your rights: How to complain to your letting agent - What steps to take if you're unhappy with the conduct of your letting agent

Seek buy-to-let mortgage advice

We believe you should seek independent mortgage advice before taking out a buy-to-let mortgage.

Landlord insurance

Insurance protects you when things go wrong during a tenancy

Landlord insurance can help to make sure you continue to take a rental income from your property even if the worst should happen and is similar to home insurance but is specifically designed to cover rental properties. Normal home insurance will not be adequate to cover a buy-to-let investment.

For example, home insurance will only cover properties which have been uninhabited for up to a month whereas landlord insurance will usually allow a home to be empty for three months. This flexibility is useful as it allows for changeover between different tenancies.

Landlord insurance - the main elements

Landlord buildings insurance - This covers damage to the structure, such as from a fire or a flood, and will pay out to cover the cost of making repairs. It would also cover the cost of needing to rebuild the property in the event of extreme damage. Read more about buildings insurance.

Landlord contents insurance - This kind of insurance is especially important to landlords who will be renting out their property with furniture in it. It will cover the cost of replacing or repairing furniture and fixtures such as carpets, kitchenware or electrical items like TVs. Read more about contents insurance. It will not cover any damage to items which tenants bring to the property - they will need to take out their own contents insurance if they want cover for their possessions.

Landlord liability insurance – This will cover you in the event of a tenant or a visitor to the property being injured and you being held responsible.

Landlord insurance - additional features

Beyond basic cover there are additional features you can get with landlord insurance.

Rent guarantee insurance - this will protect you against a loss of income from unreliable tenants, and cover your rental income when the property is empty between tenancies.

Legal expenses cover - this will cover your costs if you were involved in a legal dispute with your tenant.

Home emergency cover - if your property's supply of gas, electricity, heating or water is disrupted this can cover the cost of repair, and help to get it fixed more quickly.

Landlord insurance - get the right policy

You should check carefully to make sure that the insurance you choose cover the things you need it to - for example if you want to insure against flood damage. Check the terms and conditions carefully for different exceptions.

Let to Buy

With let-to-buy you use rental income to cover your mortgage repayments

Let-to-buy is becoming increasingly popular for people who want to move house but are worried about the sale price they will get on their current home.

Let-to-buy - how it works

Let-to-buy allows you to move house without needing to sell your current property.

Stage 1: Remortgage your current property onto a new mortgage deal. You could do this with your existing lender or a new lender. If you own enough equity in the property remortgaging will allow you to release some money.

Stage 2: The new mortgage will either need to be a buy to let mortgage or you will need to agree consent to let with the lender. You would then let out your existing property to cover your mortgage repayments.

Stage 3: Use the equity you have released as a deposit to take out a new mortgage and move into a new house.

Stage 4: Keep letting your existing property until you would like to sell it.

Let-to-buy risks

There is no guarantee that house prices will increase in either the short or long term so you could lose money by waiting to sell your existing property.

Becoming a landlord is not a decision to be taken lightly. There are financial costs and the impact on your time to consider. You may struggle to get enough rent to cover your mortgage repayments or have problems with your tenants which make it a stressful experience for you.

Getting a let-to-buy mortgage

If you think let-to-buy is only something you will do in the short-term then your current lender may allow you to let out your property with 'consent to let'. You should speak to your lender before applying for consent to let as the terms of this are unique to each lender and may incur costs.

If consent to let isn't relevant to your situation or you don't gain approval from your lender, you may need to take out a buy-to-let mortgage.

Because there is a greater level of risk for the lender with this kind of loan, their requirements tend to be higher than with a residential mortgage. You will typically need a deposit of 25% or more and you can expect to pay about 1% extra in interest compared to a conventional mortgage product.

Rent a Property

The internet is a good place to start your property search

There are a number of key things to consider when looking for a property to rent. Thinking about these things in advance will help to make your property search less stressful when you start to attend viewings.

Your property search criteria

One of the most important things to think about is what you need, versus what you'd like. For example, although you may like to have a spare room, this may not be something that is essential.

Things to consider include:

How many bedrooms do you need?

Would you like a garden/some kind of outdoor space?

What are your transport needs - do you need to be near a bus-stop/train station or within walking distance of your work/college?

Will you need a parking space?

Do you travel late at night/early in the morning? Will you want somewhere safe and well lit?

Will you want a bath, or is a shower room fine?

What storage space will you need?

One important thing to think about is whether you would like a furnished or unfurnished property. Unfurnished properties tend to have slightly lower rent but moving into a furnished property may work out a lot cheaper in the short term as you won't need to buy potentially costly items, such as kitchen appliances.

The lettings market

Consider how busy the rental property market is. For example, are the local letting agents desperate for tenants to fill their landlord's properties, or do they have too many tenants and not enough properties to let?

If you can find a good area that has lots of property to rent, it means you can take your time choosing the right property and probably offer to rent at less than the advertised price.

If the local tenant demand is high, it's important to appear keen and reliable - always turn up on time for viewings and have references and reservation fees ready. You could even have your own credit report ready to show prospective landlords/letting agents that you are well organised and can afford the property.



Letting Agents

Letting agents will know the local area well, and will be able to tell you what kind of property you can expect for your budget. If you let them know what sort of property you are looking for they can also tell you as soon as something comes onto the market.

If you use a letting agent make sure you use one that is signed up to a redress scheme, as this will give you better consumer protection. Using an agent who is not a member of a scheme will leave you with limited options to complain or get your money back if you have problems.

You should look for agents who are members of the Property Ombudsman, the Association of Residential Letting Agents (ARLA) or the National Approved Letting Scheme (NALS).

Letting websites

There are various websites you can use to search online. Some are specific to renting whole properties, such as Rightmove.co.uk and Findaproperty.com, while others are more likely to concentrate on letting rooms, such as Spareroom.co.uk and Gumtree.com.

One problem with looking online is that, when demand is high and rooms or properties are moving quickly, many may not even reach the internet because they're let before the agents have had time to advertise.

You could also check:

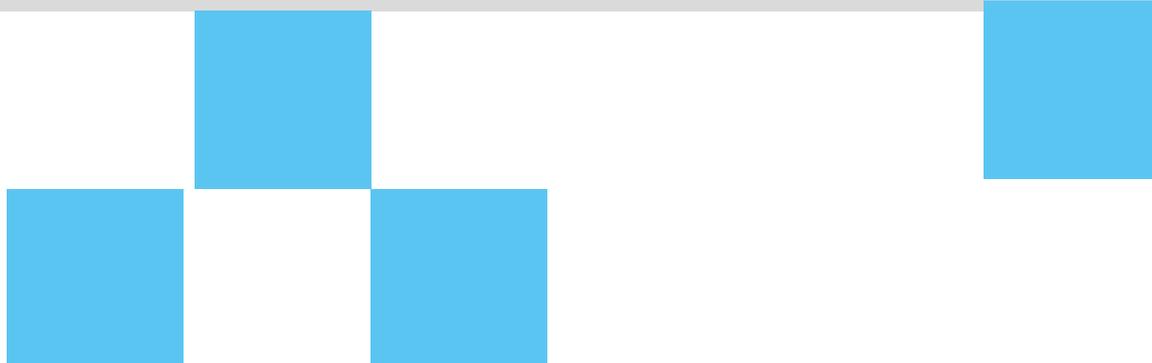
- any accommodation agencies, especially if you are a student, nurse or work for a large company that helps people find homes/rooms for rent
- local newspapers and specialist publications such as Hot Property, Loot and Daltons Weekly
- advertisements in local supermarkets or post offices/newsagents
- noticeboards at work/college/university.

If you receive state benefits and are struggling to afford a home yourself, you may be able to receive help from your local authority or housing association. Visit or phone your local authority for more information.

Know your rights: Moving out before the end of a tenancy - find out if you can leave without being liable for the remaining months' rent.

More on this...

- Viewing rental property: rental checklist - what to look out for when choosing a rental property
- Home contents insurance explained - how to make sure your belongings are protected
- Saving for a deposit - the best ways to save up for a house



Viewing Rental Property

Get all the facts when viewing a rental property

It's easy to fall in love with a property and rush to move in a matter of days, only to realise you should have asked lots more questions about the letting agent, landlord and the property before you started renting it.

Property viewing checklist

At each rental property viewing take your time to check the property to make sure there are no problems.

Check the exterior of the property – are the gutters or any pipes leaking?

Check inside – do the lights work? Do taps produce water?

Security – do windows and doors open easily and close securely. Are there adequate locks on the doors?

Are there enough electric sockets?

Are smoke alarms fitted? And are they connected to the mains, or will you have to replace the batteries?

Ask to view a copy of the property certificates. These include the energy performance certificate (EPC) and gas and electrical safety certificates. The better rating the EPC gives the property, the lower your utility bills are likely to be. This could save you hundreds of pounds a year. See our guide to energy performance certificates for more information.

If you're moving into shared accommodation, check whether property should have a 'house in multiple occupation' (HMO) licence from the local council. This usually applies to property that is three or more stories and occupied by five or more people who are not in the same family. If it is a licensed HMO, the property should have more safeguards for the tenants, such as fire doors.

Questions about the tenancy

It's important to know from the start how much it will cost you to live in the property, and what you can expect from the landlord/letting agent whilst you're living there.

Top tenancy questions

1. How much is the rent on a monthly basis?
2. What is included in the rent?
3. What additional bills do you have to pay and how much are they likely to be?
4. How much deposit is required? Which tenancy deposit protection scheme do you protect the deposit in?
5. What notice period to quit is required?
6. Who should you contact in an emergency, such as a flood or fire?
7. What insurance does the landlord have to cover the property? What do you need to insure yourself? See our guide to home insurance for Which? Recommended Providers.

Letting agent fees

Most rental properties are advertised by letting agents rather than directly by landlords. If you move into one of these properties you will pay admin fees to the letting agent, as well as putting down a deposit on the property. These fees will often cost hundreds of pounds so it's really important to ask your agent about them. Typical fees charged by letting agents include an administration charge, a credit reference check, and check-in or check-out fees.

Letting agents may not tell you what fees they are going to charge you until you have decided you would like to move into a property. So make sure you ask at the earliest opportunity what their fees are so you can figure out if you have enough money.

Top 5 letting agent fee questions

1. What fees will I pay to move into the property, and how much will they cost? If necessary, prompt them and ask if that includes admin, credit reference check and check-in fees.
2. Will I pay any fees to move out of the property?
3. Are the fees per person or per property? For example, are the fees divided between everyone moving into a property, or does each person pay the full amount?
4. Do the fees quoted include VAT? Letting agents will often quote fees without adding 20% Value Added Tax
5. Can I have the fees in writing?



Tenancy agreements explained

You should check your tenancy agreement carefully

The tenancy agreement is one of the most important documents that you will sign during the renting process. However, it's surprising how few people take enough time to check contracts and ensure they know what to look out for.

The following checklist is useful for examining the key clauses in the letting contract, which is most likely to be an assured shorthold tenancy (AST).

Letting agreement checklist

The following pieces of information should be in an AST agreement. If you can't find them, make sure you have the agreement checked by a legal specialist in lettings.

Details of the parties involved Includes the contact details of the landlord/tenant and anyone else involved in the let, such as a letting agent and/or guarantor.

Date of the contract this is normally the start date of the tenancy.

Data protection ensures a tenant's details can be shared only with parties relevant to the let, for example an inventory clerk or utility company.

The property Refers to the fixtures and fittings within the property (such as kitchen or a fireplace) and the outside space, and normally includes items recorded in the inventory.

The deposit this is an essential clause that should detail how much deposit the landlord/agent will take and which tenancy deposit protection scheme is used to protect your deposit should there be a dispute.

The rent this records how much the rent will be, when it's due and how it is to be paid, for example by standing order. It should also state what happens if you default on the rent, and how the rent can be increased during your stay.

Possession and notices these clauses set out the notice you have to give the landlord/agent if you want to leave the property, and how the landlord can regain possession of their property.

Tenant's obligations this sets out everything a tenant should - or shouldn't - do while renting the property. This will include things like keeping it in good order and notifying the landlord/agent if there is a problem, such as a leak. They can be quite extensive so make sure you read them very carefully and understand each one.

Fair wear and tear this explains that some parts of the property may naturally deteriorate with age, such as carpets, and that the tenant should not be liable for this.

Signatures This is where you and the landlord (or letting agent) sign the agreement, which makes it binding.

Your landlord must protect your deposit in a special tenancy deposit scheme

In the past when landlords and tenants had disagreements over the return of a deposit for renting a property there was little protection for either party. If a landlord felt that a tenant had caused damage to a property, they could simply withhold some or all of the deposit at the end of a tenancy.

If a tenant feared they wouldn't get their deposit returned to them, they could refrain from paying their last month's rent and there was little the landlord could do about it.

In an effort to regulate the system and ensure that neither party loses out unfairly, the government introduced two types of deposit protection scheme in April 2007. Some schemes are paid for directly, and others are paid for using the interest accrued by the deposit amount.

Anyone who signs an assured shorthold tenancy agreement in England and Wales should have their deposit protected by one of these schemes - it is a legal requirement of the landlord. It's up to the landlord to decide which scheme to use but your deposit should be equally protected whichever one they choose.

Any disputes arising over return of deposits can be resolved through the schemes, which act as independent arbiters.

Your tenancy agreement should include information about which scheme your landlord or letting agent is using.

The custodial tenancy deposit scheme

Landlords pay deposits into the Deposit Protection Service, which can be done online and by phone. It's free to landlords and letting agents, as the scheme uses part of the interest earned from holding the deposit to cover costs.

When it gets to the end of the tenancy, both parties have to agree on the amount of deposit to be returned in order for the scheme to release the funds. Funds are then released directly into the tenant's bank account.

Insurance-based tenancy deposit schemes

There are two options: My Deposits or the Tenancy Deposit Scheme (TDS). You pay your deposit to the landlord/agent. The landlord keeps the deposit during the tenancy (and any interest payable) and pays a premium to the insurer.

Tenancy deposit protection for tenants

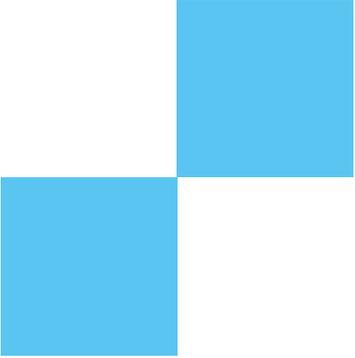
If there's a dispute, and all parties agree to the scheme arbitrating it, the relevant information is collected by the scheme operator. An in-house or external independent examiner is then appointed to recommend a solution.

Within 30 days of getting your deposit, your landlord must tell you:

- The address of the rented property
- How much deposit you've paid
- How the deposit is protected
- The name and contact details of the tenancy deposit protection (TDP) scheme and its

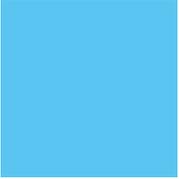
dispute resolution service

- Their (or the letting agency's) name and contact details
- The name and contact details of any third party that's paid the deposit
- Why they would keep some or all of the deposit
- How to apply to get the deposit back
- What to do if you can't get hold of the landlord at the end of the tenancy



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