

PropertyQuote

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# Introducing Property Letting: A Guide for New Landlords



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The property market is unquestionably one of the most exciting and rewarding places to invest in the UK. Not only has the property market historically given good returns on investment, but property letting offers flexibility and control to investors that is almost unrivalled elsewhere. A good landlord will have a property portfolio that isn't just blossoming and profitable, but will also fit their lifestyle.

Unfortunately, the theory is a lot easier than the reality. Making the decision to become a landlord is just the first step on a long journey, and getting started can often seem overwhelming. So, where should you start and how can you get your property business off afloat on the best possible terms?

### Finance First: Breaking Even

Before you even step into an estate agent's office you need to grasp a few basic financial concepts. They will help you to visualise how your investment will work and how it will pay. Your break-even should be at the forefront of your mind at all times: even retirement nest-eggs or occasional use holiday homes need to break even.

The first thing to remember is that if it doesn't work on paper, it won't work in real life!

Landlords are primarily interested in two types of income: **rental income** and **capital growth**. Your rental income, sometimes called your 'yield', is the amount your tenants pay to live in your property. This doesn't include their security deposit, which you legally cannot access except in the case of damages, and will include your costs: maintenance, repairs and your mortgage repayments. Ideally, your rental income should be positive, but rent prices usually grow faster than mortgage repayments, so it is possible to start in the red.

Secondly, capital growth is the expected rise in the selling price of your property over time. Unfortunately, you won't benefit from capital growth until you eventually sell, so don't bank on using it to pay the bills! Making sure your capital growth, as a percentage of your property value, is greater than your mortgage repayment is key to a profitable investment.

### Buying-to-Let: Which Property?

Once you understand the theory, you need to put it into practice by choosing a property. Ninety per-cent of choosing the right property is about research. Get to know the area you want to invest in, run rental income and capital growth projections on every property you consider and think about the work that needs to be done to get your property up to standard.

From a financial point of view, most landlords will want to have three or four realistic letting strategies for every property. Although, ideally, you might choose to let long-term, a quick renovation and resale or a conversion might be alternatives. You can't bank on securing long-term capital growth anywhere in the UK, so you need a flexible strategy that can help you respond to the market.

You should also take into account the more practical side of property letting. You might need to be present for renovations, to meet your tenants or even when the boiler goes at midnight on a Sunday. As a first-time landlord you should not underestimate the amount of time that property letting can take! Treat your first property as a trial which gives you a feel for the practical side of letting.

You can read more on how to find the right property for you in our guide [Choosing a Rental Property](#).

## Using an Agent or Self-Managed?

Before you start letting to tenants you need to decide who is going to be doing the bulk of the work once the tenancy starts. Thankfully, specialist letting agencies are there to help landlords, and many first-time landlords take a hands-off approach to letting, choosing to let the agent manage their property instead.

Of course, agents will charge fees for their services. As a landlord you'll usually pay a percentage of your monthly rental income for management services. For some agents this can be as much as 10%. On top of this, if you choose to use an agent to find tenants, your tenants will be charged an administration fee for signing on.

While this might seem like a lot, and it will certainly affect your margins, it gives you a degree of security. Arranging things like HMO certification (for 'Houses of Multiple Occupancy'), energy efficiency ratings and landlord insurance can be daunting prospects for first timers. Equally, some agents will offer services that guarantee you tenants, or financially covers void periods for example. These can be win-win arrangements for new landlords.

## Rules, Regulations and Red Tape

The property market is so crucial to the UK's economy that it's under considerable legal and political scrutiny at all times. There are plenty of UK and international laws which apply to landlords, alongside a variety of local authority regulations.

Many areas in the UK will require landlords to be licensed, and it's national law that HMOs need to be licensed. You'll also have to register for council tax as a landlord (although if you're not letting an HMO the bill will be sent to your tenants) and you need to ensure that your personal tax affairs are in order.

You will also need to seek legal help when drawing up a contract between you and your tenants, alongside the administrative costs of purchasing a property in the first place. While agents can be very helpful with this sort of thing, there's no substitute for sitting down for a few hours and making a list of what needs to be done.

There's no doubt that making your first steps into property letting is very exciting, but don't let it overwhelm you! Most landlords find that the processes become second nature after a while and you should never be afraid to ask questions. Your local authority, landlord insurer, agent or even other landlords will always be willing to help you on your way.