The Nottingham Building Society

The essential guide to

Buy-to-let mortgages

Get it right and a rental property can be a good investment: a win-win for you and your tenant. But rental properties – and the mortgages you need to purchase them – aren't without their complications.

Is a buy-to-let mortgage right for me?

This guide gives you all the information you need to become a successful landlord: providing the lowdown on everything from finding the right property, the types of mortgages available, how to make your property more desirable, vetting potential tenants and landlord insurance and choosing the right lettings agent.

We begin with the key things you need to consider. Our expert guide is Tina Hayton-Banks, Head of Central Sales and Service for NMS (Nottingham Mortgage Services – a subsidiary of The Nottingham).

"Buying a property to let is a big commitment and you need to go into it with your eyes open. The first thing you need to consider is whether a rental property is the right place to put a substantial chunk of your money. Those looking for monthly income from their investment are likely to be disappointed," says Tina. "Buying to let works better for those looking for mid to long-term investment. Not many people make a living out of buy-to-let properties. Those who do, tend to have a large portfolio of properties."

A minimum of 25% of a property's purchase price is likely to be required by a lender as a deposit to secure a mortgage. Rental income from the property – once you have paid the mortgage, covered insurance premiums, paid potential lettings agent fees, made repairs and saved a little to protect you from those gaps between tenants – is not going to be substantial.

You need to already be an owner-occupier to get a buy-to-let mortgage. Lenders will not consider someone not already on the property ladder, as they want to see you have a track record in making mortgage repayments. If buying to let sounds like an option you want and are able to pursue, now is the time to get started on some serious homework. First begin by working out what kind of property you can buy on your budget, what type of tenants you want – and making sure they are a good fit for one another.

Finding the right property overleaf...

Is a buy-to-let property a good investment opportunity?

If we haven't already got one, lots of us would like a second property – and preferably a third and a fourth. Buying to let can give an income, a pension, a nest egg and a rewarding place to put your money in a low interest environment.

But is this the investment opportunity that it once was? Paul Offley, who runs HM Lettings, a division of The Nottingham, knows the buy-to-let sector better than most. We asked him for his thoughts.

"The market is strong," says Paul. "Finding tenants for good buy-to-let properties is not an issue for us. An increase in interest rates could make mortgages more expensive. Existing and would-be landlords need to bear that in mind and plan accordingly. The gap between your rental income and monthly mortgage outgoings may narrow in the months and years to come. Short-term profits may become harder to find. But it is still a good investment if you're in it for the longer haul," states Paul.

"The market is cyclical, it always has been," he says. "Sometimes the residential market is strong and sometimes the rental market slips back a bit. Then it switches. I've been in this business for years and I've seen it many times. At the moment we're seeing an awful lot of movement with residential sales. Some people are selling their buy-to-let properties because there is good money to be made on them. But in a couple of years the market will swing back again. Britain has a shortage of houses. Supply isn't meeting demand. Saving a deposit for a first home is tough. While that remains the case there will always be a readily available supply of potential tenants.

"You need to find the right property at the right price that will attract the right kind of tenant for you. Get advice; speak to a lettings agent. Do your homework and don't expect to make mountains of money straightaway. If you do that, buying to let can still be a good investment."

How do I find the right buy-to-let property?

Buying something for someone else is never easy. You worry they won't like it or it won't fit. When that something is a house, bought for an as yet unknown someone to live in, you can multiply those concerns by 10. Such are the dilemmas of a would-be landlord.

The first thing to do is get a thorough understanding of the rental market in the areas you are looking to buy - look at areas that have workforces such as hospitals and large businesses.

Go on to the internet, visit estate and letting agents, look at the property pages in local newspapers: see what properties are out there, how long they take to let and what rents they command. Learn what types of properties are popular, quick to let, and suit your budget in terms of price and potential rental income.

"Rental properties that are currently being advertised generally give you a fairly good guide" says Tina. "But remember to give yourself a 5% to 10% leeway on rental income. As tenants will want to negotiate and they will always want to negotiate down."

Next on your to-do list should be a series of questions. What kind of rental do you want: fully-furnished or unfurnished? Do you want to manage the property yourself or pay a lettings agent to look after the property and be the go-between between you and the tenant? Who do you ideally want to let to: students, a professional couple, a family? This may be a question asked by lenders as some have restrictions on types of tenant or multiple occupancies.

Answering these questions will help you to narrow your search – ruling properties in and out on your list.

Remember that the house or flat – however much you might like it – is not for you to live in.

"Lots of us have family and friends who rent. Speak to them, get their opinions" Tina advises. "Talk to estate agents and get their opinion on how suited a property will be, but do your own homework too."

Put yourself in your tenant's shoes; see things from their perspective. Are they going to want to live in that type of property, with those facilities, in that location? Will it tick their boxes in terms of access to decent local schools, shops, nightlife, parking, public transport, commuting routes, etc?

Be honest with yourself. Does the property need lots of work – major or cosmetic – to make it tenant-friendly? How much is that going to cost? Will it deliver your required level of rental income? How long will any improvement work take? Remember that every month you are without a tenant is a month when you are carrying the full cost of the mortgage.

Finally, you need to be sure that the monthly rental income from your property is 25% higher than your mortgage repayments. Lenders will insist on it – and they will send out a valuer to make sure that's the case before offering you a mortgage.

"Be realistic and sensible, otherwise, you could find yourself wasting a lot of time and money."

Tina – Head of Central Sales and Service

How do I find the right mortgage?

You own a house, you've had mortgages, you know how it works. Sorting out a loan on a buy-to-let property is pretty much the same, right?

"Are you an owner-occupier? You need a 'yes' to that question before going any further. Lenders will want to see you have a track record in making home-loan repayments before considering you for a buy-to-let mortgage," says Tina.

The next thing to bear in mind is that the vast majority of buy-to-let mortgages are interest-only, rather than interest and capital repayment. An interest-only mortgage means you only pay the interest on the loan. At the end of the mortgage term, you can sell the property, re-mortgage or use invested rental income from the property to pay back the capital part of the loan.

The Mortgage Market Review (MMR) rules – designed to ensure borrowers are not loaned more than they can afford – do not apply to buy-to-let mortgages. That doesn't mean lenders are free and easy with their money. If anything, they are more cautious.

Most lenders have minimum salary requirements and age restrictions on buy-to-let mortgages. They want to be reassured you have the means to make mortgage repayments if you have a few months without a tenant in your property, or things don't go entirely to plan.

"See it from a lender's perspective" says Tina. "If you run into financial difficulties which mortgage would you carry on paying: the one on your own home or the one on your rental property? The lender wants to make sure you can afford the repayments now and if interest rates rise."

Valuers used by mortgage companies don't just assess the value of a buy-to-let property (to make sure the home is worth the loan), they also calculate its expected rental income.

The amount of rent the property brings in per month usually needs to be 25% higher than the monthly repayments on its mortgage (£625 rent against a £500 mortgage repayment, for example). Lenders have other rules you need to be aware of.

Some banks and building societies don't offer buy-to-let mortgages on flats or properties with ties to commercial use. Some will not lend on shared and multiple occupancy properties and some where the tenants are family members.

Fees on buy-to-let mortgages also tend to be higher.

"Some fees are quite hefty. You can pay up to £2,000 says Tina. "The property's rates might be lower, but is it worth the fee? You might be better off with a mortgage with a lower fee and a slightly higher rate. Those are the things you need to consider."

Our advisers are aware of the different qualifying and affordability criteria applied by different lenders. Tina strongly advises would-be landlords to make use of this free and professional expertise.

"We will search the whole market to help the borrower find what they are looking for," she says. "It won't necessarily be the cheapest rate, but it will be the overall best deal based on their circumstances and rental property."

See overleaf for a how to guide...

How to make your buy-to-let property a desirable residence

Anyone who's scrolled through the customer reviews on TripAdvisor or Amazon knows public opinion can be a confusing and contrary thing. Which makes decisions difficult when you've got a new buy-to-let property to present.

You want a home that potential tenants will be clamouring to live in. But how do you get that on a limited budget? Should you spend all your spare money on a new kitchen? Perhaps a new bathroom would be a better tenant-magnet. And what about the decor? Do you go big, bold and super-trendy or play it safe with wall-to-wall beige?

Paul Offley knows what goes in the rental market and understands better than most what ticks tenants' boxes.

Here are his top tips for making your property desirable:

1. **Do your sums and don't spend beyond your budget.** Most properties, however nice you make them, have a rent ceiling. A new kitchen and bathroom might make your property easier to let but how much will it add in terms of extra rental income?
2. **Stick to the blander end of the paint charts.** Beige throughout might be a little boring but it's easy to live with and is unlikely to put anyone off. A bright orange kitchen might be your choice, but for some tenants it has a 'yuck' factor. Think neutral, fresh and clean, and you won't go too far wrong.
3. **A decent, modern kitchen will make your property more desirable.** Tenants like nice kitchens, a nice kitchen will give your buy-to-let the edge over other rental properties in the same price bracket. Don't buy the most expensive, branded kitchen units, bathrooms and appliances. Things need to be reasonable quality, but you don't need to spend a fortune.
4. **Take wear-and-tear into account.** A broken cupboard door or toilet seat isn't too problematic if you can easily find a replacement. Being forced to buy a whole new set of units is a different matter. Not every tenant will look after something as if it is their own. You need to think practically.
5. **Avoid uber-trendy fixtures and fittings.** They might look great now, but will they be such a big draw when you're looking for another tenant a year or two down the line?
6. **Tenants like laminated floors.** That's a fact. Consider fitting some. Plus, they are much easier to keep clean than carpets.
7. **Make life simple for your tenants.** A slab patio and a small, easily-maintained lawn is preferable to a garden that needs lots of weeding and tending.

Tips for finding the right tenant overleaf...

Tips for finding the right tenant

You've bought a buy-to-let property, made improvements, redecorated and generally got the place looking splendid. Now comes the hard bit – finding a decent, reliable, rent-paying tenant.

The first thing to work out is whether you want to find a tenant yourself or pay a professional to do it for you. Finding your own tenant is obviously cheaper, but it can bring headaches. Do you really want the hassle of traipsing potential tenants through numerous viewings of your property, chasing up references, doing credit score checks and making sure your tenancy agreement is legally watertight?

Paul's advice will assume you're using an agent, but the same principles apply if you're doing everything yourself. Most agents will charge a flat fee for a so-called 'tenant-find' – anything between £150 and £300 – and most will be prepared to negotiate. Make sure you know what they are offering.

Some agents will charge extra to draw up a tenancy agreement, do an inventory of the property and get references.

A basic tenant-find will see an agent market your property: in their offices, in the local press, on their website and various online property portals. Find out where an agent is going to advertise and make sure you're happy with that before signing a contract with them.

When an applicant has been found, the agent will take a fee from your prospective tenant (good for weeding out time-wasters) that will pay for them to run credit score checks, identity checks and get references. "Checks and references are important. Don't be tempted to skimp on them should you decide to find your own tenant," says Paul. "If you haven't made sure a tenant is genuine and doesn't have a bad credit score and outstanding county court judgements against their name, it could invalidate insurance policies you may take out to cover your mortgage if they fall behind with their rent."

When your tenant has signed a contract (a tenancy agreement) and paid their deposit (usually a month or two months' rent) an inventory needs to be taken of the property prior to them moving in. Many agents – though not all – will offer this as part of the service. The inventory (preferably accompanied by photographic evidence) needs to be comprehensive, detailing the condition of the property and everything in it. The tenant will need to sign the inventory in agreement that everything in the property is as stated. If the property is damaged and the tenant denies responsibility, the inventory will be crucial – giving you the documentary evidence that will be needed to withhold some or all of the tenant's deposit when they move out.

All tenant deposits must be handed over to a government-backed tenancy deposit scheme (TDS). If you fail to do this you won't have a legal leg to stand on if you want to withhold some of your tenant's deposit when they leave. The deposit is protected by the TDS and any disputes between a landlord and tenant are resolved by an impartial adjudicator.

"Make sure the contract is in order and all the paperwork is completed before your agent releases the keys of the property to the tenant," advises Paul. "Any mistakes will be harder to untangle once the tenant has moved in."

The final thing you might want to consider, which we've already touched upon, is rent protection insurance. If the tenant stops paying their rent, for whatever reason, these policies will cover your mortgage for a set period of time – usually six or twelve months. Some policies have a one-month excess (meaning you have to pay the first month's mortgage repayment) others have no excess. A typical six-month policy should cost about £75, but there are differences between them. Some agents will throw in a six-month policy for free as part of their service. Taking out rent protection insurance is a personal decision. If you have the means to cover the mortgage if a tenant misses a few rent payments then it might not be necessary.

Protecting your buy-to-let property overleaf...

Protecting your buy-to-let property

We've all seen the horror stories. Tenants from hell make juicy headlines and compelling trash TV. And it's not just tenants. Some landlords have terrible reputations too.

As a new buy-to-let landlord you want to protect your investment if the worst comes to the worst – and you don't want to fall foul of the laws governing rental properties. We are going to show you how to stay safe with good insurance cover and the main things you must do to make sure your property complies with the law.

Insurance

You need to tell any insurer that you require landlord insurance for your rental property. This is important. A standard owner-occupier policy may not cover a home being let to tenants.

Basic landlord insurance provides buildings cover to protect the structure, fixtures and fittings of your property. Insuring these will probably be a condition of your mortgage.

Some landlord policies also provide contents cover for any furniture or electrical items that belong to you. Optional cover is available on some policies for accidental damage, home emergencies, compensation claims and legal fees.

You need to consider quite carefully what level of cover you need. A policy that covers legal expenses might be appropriate. If you need to evict a tenant for whatever reason, it can be a long and costly process. Bear in mind that you are more likely to have a problem with a rental property than your own home. If your property is severely damaged you won't be earning rent. If you're not getting rent, you might struggle to pay your mortgage.

Your insurer may want to know who you are letting to. Are they young professionals or students, for example? The answer may affect your premiums. Be honest with your insurer or you risk invalidating your policy.

Most policies also contain a clause which stipulates the property can only be unoccupied for less than 60 days in a row. If your property is vacant for more than a couple of months it is wise to inform your insurer. Failing to do so could also compromise your policy.

Staying within the law

Before you rent or market your property you must obtain an Energy Performance Certificate (EPC) – and display its energy efficiency rating to potential tenants. If an EPC was provided when you bought the property you can re-use it. EPCs are valid for 10 years and can be used time and again for this period. The penalty for not providing an EPC is £200.

It is your legal responsibility as a landlord to get a registered Gas Safe engineer to check every gas appliance and flue in the property. The engineer will issue a gas safety certificate, which is valid for 12 months. A record of the annual gas safety check must be provided to your tenant within 28 days of the check being completed or to new tenants before they move in. Landlords must keep copies of the gas safety record for two years.

It is the landlord's responsibility to ensure that the electrical installation and appliances in their property are safe when the tenancy begins and are in proper working order throughout the tenancy. It's a good idea – but not a legal requirement – to have your property's electrics checked by a qualified electrician every 5 to 10 years.

The electrician will issue, depending on the requirement, an Electrical Installation Certificate or a Periodical Inspection Report (PIR).

It is a legal requirement for properties built after June 1992 to have hard-wired, mains-operated smoke alarms on each level of the property. Landlords who have a pre-June 1992 property are advised to supply smoke alarms, even if they are battery operated. If you do supply battery alarms, make sure your tenancy agreement states that the tenant is responsible for regular testing and the replacing of batteries. Fire doors and a safe means of escape in all rental properties should comply with current building regulations. If you are in any doubt, contact the building inspector at your local council.

This guide is intended as a summary only and does not constitute legal advice given by The Nottingham Building Society. No reliance should be placed on this guide and you must make your own decisions. We recommend that you seek legal and/or financial advice if you have any questions or queries.

Some buy to let mortgages are not regulated by the Financial Conduct Authority.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE