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Investing in property

A guide to starting as a buy-to-let investor.

Investing in property is usually about as close as it comes to a safe bet. The value of your asset tends to increase the longer you hold onto it, while the short and medium-term yields from rental income can cover the mortgage.

For years, property prices have outstripped inflation, at a time when low interest rates have offered very little in the way of incentives for savers. You can understand why investing in property has been attractive.

With government reforms beginning to bite, however, investing in property has become less appealing with landlords offloading 3,800 properties a month in June 2018, according to the Ministry of Housing.

The tax reforms mean it's far more expensive to purchase a buy-to-let in 2018, and it's certainly not as attractive as it once was.

For instance, stamp duty in 2018/19 on a £250,000 investment property amounts to £10,000 for an investor, compared to £2,500 for an owner-occupier.

The way landlords have to declare their rental income has also started to change, meaning most will see their tax bills rise significantly by April 2020 when mortgage interest relief is fully phased out.

Buy-to-let investors who can afford to buy a property outright hold all the aces. If you're in that fortunate position, here are a few things to consider when it comes to investing in property.

Attitude to risk

House prices are like any other investment in that the value of your property can go up and down.

The same can be said for rental income, which is driven by demand and can fluctuate, so investing in property is usually for the long term.

Investing for the longer term should enable you to take the rough with the smooth should the property market slow down, and earn profits when it picks back up again.

With the UK property market showing signs of stagnation in recent times, avoid over-investing in property and diversify your portfolio by holding other kinds of investments.

Tenant demand

There's a reason the dictum 'location, location, location' was borrowed for the title of the popular Channel 4 show: it's a simple, universal truth, and finding out where there is demand for tenants should be the first thing you consider.

Solving that problem will determine what type of investment to purchase, and you should find out where demand for tenancy is strong so you can rent out your property with ease.

Part of your homework should be to understand your tenant demographic. For instance, city centres are likely to prove popular with professionals, while families may want to be nearer schools.

Certain areas or streets of towns or cities will be popular with tenants who consider good amenities, transport links and low crime to be important factors when looking for a place to live.

Investing in properties in reputable areas should also be less risky given the insatiable appetite for desirable rental properties in most areas of the UK.

Different ways to invest

Buying outright

The overriding positive with stumping up the cash in full for your investment property is that it will ensure you have no mortgage to pay, but you also should be aware that it can take a long time to sell your property, and it's not as simple as selling shares or bonds when the time is right.

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Investing in property

You will need to consider the costs involved with buying or selling, such as estate agent, solicitors' or surveyor fees, and stamp duty in England and Northern Ireland.

Investing in property with the intention to rent it out or in addition to your family home will land you with an extra 3% to pay on top of each stamp duty band.

Managing a buy-to-let property can also take its toll in terms of maintenance and property management, which consumes time and money.

Flats or houses

Much has been made of there not being enough properties to meet demand in the UK, and for that reason flats usually make better buy-to-let investments than houses in 2018.

That said, not everyone has the cash to splash on an abandoned factory or warehouse on the banks of the River Thames in London, and the option to buy an eight-bedroom Victorian mansion in another city is more realistic for most investors.

Not only would it cost significantly less to invest in and upgrade the Victorian house, you could convert it into a block of flats to maximise rental yields.

Trustworthy professionals

Without doubt one of the most important tasks of buying a property is finding business colleagues you can trust implicitly.

For example, having a meticulous tradesman can be worth its weight in gold when it comes to improving your investment property.

On the flip side, employing a rogue trader could cost you thousands of pounds – not just to settle the bill for shoddy work, but to amend those mistakes as well.

The same applies to surrounding yourself with an excellent set of professionals to offer the best objective advice, and that's something our expert advisors can provide.

Plus, you'll need professional help to make sure your property meets its legal health and safety requirements, including checking gas and electrical equipment, following fire safety regulations, and making sure you have the right insurance.

Look for ways to add value

Every postcode in the UK has a ceiling in terms of its value, and there are dozens of ways for you to achieve it.

You could consider converting your loft or cellar into another bedroom or storage space, boosting the value of your investment by an estimated 30% in the process.

Fitting a new kitchen or bathroom can add up to 15% of your property's value, enabling you to potentially recoup your investment when the time comes to sell.

More often than not, investing in your existing home will drive up the value of your property which you should recoup when the time comes to sell up.

Property investment funds

Another option to invest in property would be to invest in a pooled, or collective, property fund.

These are handled by fund managers, who collect investors' cash to invest directly into property or shares in property.

Examples of property funds include:

- property unit trusts
- property investment trusts
- offshore property companies
- real estate investment trusts
- shares in listed property companies
- insurance company property funds.

These funds have bounced back from the shock of the UK electorate's decision to leave the EU in 2016, which saw a 2% downturn in their average return.

According to *The Telegraph*, the eight largest funds average £1.9 billion in pooled cash and typically return 8% profits for investors.

Seek advice

Find out as much as you can about investing in property before you take the plunge.

With growth in house prices showing signs of slowing down, the time to invest may be around the corner if prices begin to fall.

It would be wise to speak to one of our expert advisers, who can run you through the pros and cons to help you determine whether investing in property suits your goals.

Also avoid putting all your eggs in one basket and consider diversifying your portfolio to ride out any storms that may be on the horizon.

Speak to us about investing in property.

Important information

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future. Advice about direct property investment is not regulated by the FCA.

This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation. You should not make any investment decisions based upon its content. Past performance is not a guide to the future. The value of property and investments can fall as well as rise and you may not get back the amount you originally invested.

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