The landlord's guide to letting a property

Independent advice for landlords

Compiled free by Lets Direct
www.letinbristol.co.uk

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Introduction

Following this guide should help you maximise the income your property can generate. The information displayed in this fact sheet is for general guidance only. For more detailed guidance you may wish to seek legal advice. The first step is to cover the basics before moving on to the finer points. You should ensure the property is presented well. It should be well decorated, clean and tidy in order to attract a tenant who is likely to pay good rental. Under the 1985 Landlord and Tenant Act, landlords are legally required to ensure that tenants are kept 'safe from harm'. Simply put, this means the property must be fit for habitation.

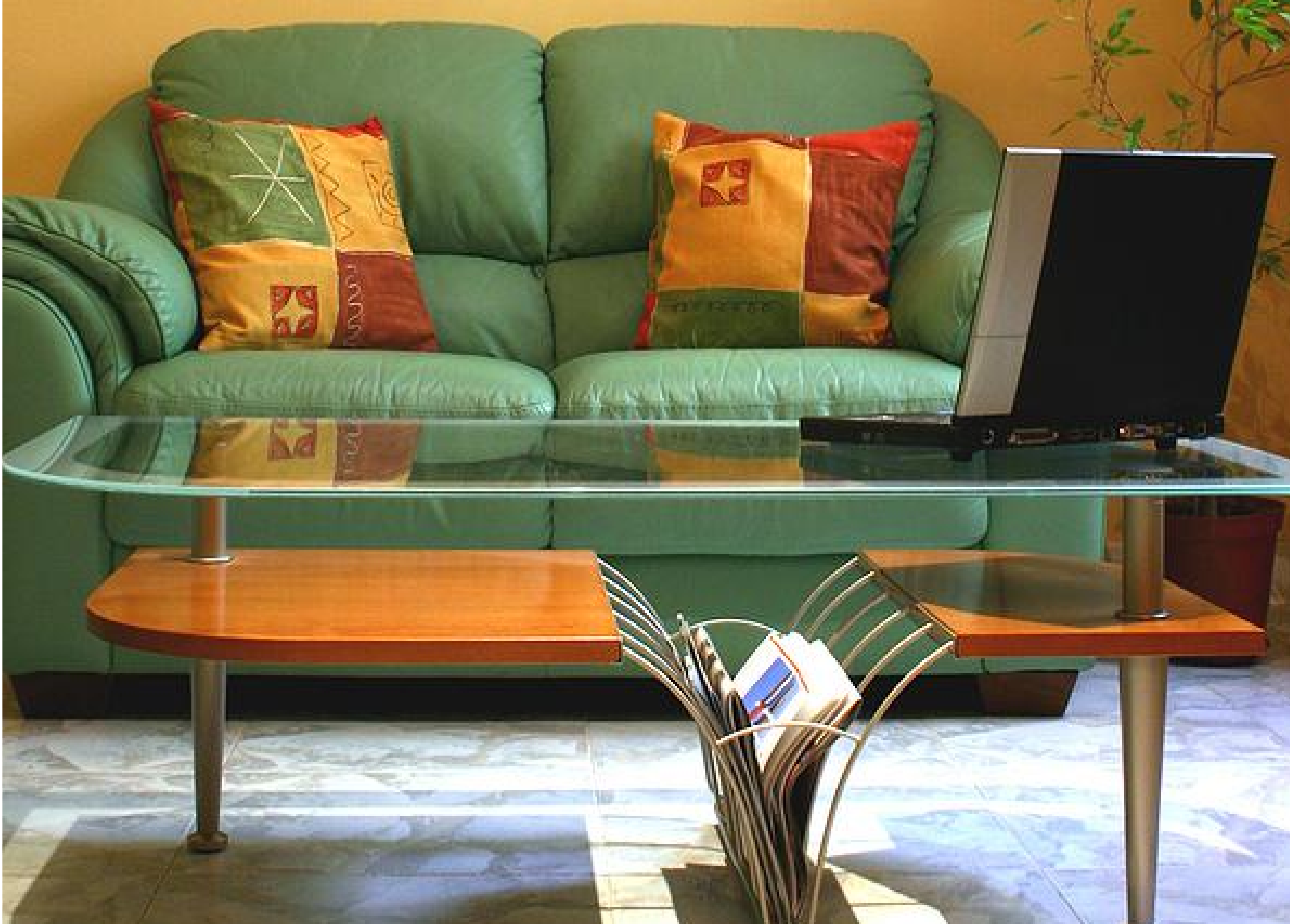
Presentation

Properties must be supplied and maintained to a good standard and as a landlord you must ensure that the structure, water supply, hot water supply, lighting, heating and ventilation are maintained throughout the tenancy. The level and quality of the interior decoration often has a substantial affect on the level of revenue that can be achieved. We advise that you follow these guidelines closely:-

Carpets and walls should be of a neutral colour. The use of whites, creams and pastel colours make a property look and feel brighter, bigger and fresher. A painted finish is easier to maintain than wallpapers. However, try to avoid magnolia as it has become dated and can be off-putting to potential tenants. Good quality curtains and carpets should be provided as the lifespan is usually much greater than cheaper alternatives.

Kitchens should be well equipped and have a high level of modern quality fittings. The same applies to bathrooms: modern equipment such as a power shower; good lighting and a tiled floor. Try to avoid carpets in either of these areas if possible as there can be issues with damp and stains. A vinyl or tiled floor is recommended for kitchen areas. It is recommended that bathroom units be of a white colour as they date less quickly.

A wood flooring or wooden effect is increasingly popular and gives an impression of space. If you decide to install a wooden floor be careful if you deal with a freeholder as there can be issues with excess noise caused by this type of finish. **Back to Contents>**



A huge selling point can be lighting. Downward spotlights are very appealing, and a well lit home gives the feeling of space. Any dark areas should be fixed and lamps used if needed. Outdoor security lights are also appealing and give tenants a feeling of safety. Lighting is important. If it is day time, open all curtains and allow natural light. Natural light gives the impression of space and shouldn't be under-estimated. If you are showing the property in low light, ensure outside lights are on if you have them and all rooms are already lit.

When presenting to tenants, make sure the property is clean, is free from clutter and unpleasant odours. Arrive early and open windows so it smells fresh when the tenant walks in. Bathroom areas should be clean, the toilet seat down, and should contain toilet roll holders (and toilet roll), towel rails, mirror and bathroom cabinets or shelves. Ensure the garden areas or yards are clean and tidy. Grass should be cut and weeds removed. **Back to Contents>**

Restrictions on tenants

You can put restrictions on the tenancy. For example you may specify no pets, children, smokers etc. Remember however, that the more restrictions you apply the more difficult it will be to let the property. It is now common for tenants to want to be able to have pets, and as a landlord you should consider this carefully. If you do allow pets and/or children it is often acceptable to have a clause in the tenancy agreement specifying that the tenant must have the property's carpets and curtains professionally cleaned. **Back to Contents>**

Letting to Non EU Nationals in the UK

Landlords and property owners or their agents should make sure that they obtain a photocopy of the prospective tenant's passport and work permit/visa. If the applicant only has three months remaining on the visa and they are looking for a six month let, then there could be problems with them being able to remain at the property. Several of the credit search companies when they take up references on an EU resident or non EU resident also ask for a copy of a utility bill (mobile phone bill etc.) from the applicant's last known address as "proof of residency". **Back to Contents>**

Deposits

From April 2007 under the 2004 Housing Act landlords will no longer be able to hold deposits with Assured Shorthold Tenancies unless they have registered with a specific scheme *(see Tenancy types and deposits*). Deposits and their return cause many arguments. It is essential therefore that you complete an inventory and have the tenant complete an inventory. You should mark anything that is new as new, and any older items as used. This will give an indication of their condition. **Back to Contents>**

Inventories

A tenant must always be allowed to agree to an inventory which lists all items in the property and the condition of those items. It is usual to allow the tenant around two weeks to return the inventory as problems may not be noticed straight away. You may also wish to consider the use of an independent inventory agent who are specialists in this field.

Inventories should not stop at listing the property's contents and condition but should also look at walls, floors, windows, cleanliness, condition of light switches etc. It helps to list as much as possible as this can avoid conflicts later and if needed, be used as evidence should a dispute go to arbitration. Note that most letting agents will not arbitrate disputes between landlords and tenants and the final decision lies with a professional inventory agent or professional letting association. **Back to Contents>**

Transfer of services

Normally your tenant will be responsible for the payment of council tax, water, electricity, gas, TV Licence, oil and telephone. Between lets you will be responsible for these (except the TV licence if unoccupied).

The agent or owner should write to the local authority and service providers advising of the change of occupier. British Telecom quite often will not transfer a service without the current subscriber agreeing to this. Please note the telephone number at a property is for a current subscriber and if you want to retain your existing number, you must make arrangements with BT or your telephone service provider to hold your number in "suspense". **Back to Contents>**

Water meters

Since 1989, most new homes built in England and Wales have had a water meter installed. In addition to this, many water company customers previously on a non-metered supply have opted for a water meter. Since 1st April 2002 companies like Three Valleys Water Plc in England have been installing water meters when a property is sold. From the 1st January 2005 this company will also be installing meters when a property is rented out. The government act covering this is under S1444B of the Water Industry Act 1991.
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Tenant referencing

Most agents will take up credit search references using Letsure or Homelet referencing. or a similar type of company. Provided the references are satisfactory you can, for an annual premium, subscribe to their legal protection insurance plan. If the tenant requires a guarantor, the credit search company will advise and referencing will have to be taken up on that person. Company lets will also follow the same procedure.
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Property manuals

From experience the landlord will normally know how equipment operates: where the stopcock is; when the dustmen call and where the nearest school and pub are located. You should prepare a ring binder that gives notes about the working of the property, the location of meters and the property's postcode etc. You should also include photocopies of instruction manuals for the washing machine, cooker, vacuum cleaner, water softener etc. **Back to Contents>**

Insurance & legal expenses insurance

You must advise your insurance company that the property is being let. This should cover the buildings policy and contents. You should also check to ensure you have sufficient public liability cover. Many people who let unfurnished do not insure their contents. Contents insurance for let property is really not expensive. If for example you had a burst pipe in the attic and water damage penetrated through to the kitchen. The buildings policy would normally cover replacing the ceilings and any decoration, but not your carpets or curtains that were damaged as a result of this accident.

A tenant is normally responsible for insuring his/her contents and this will not cover your belongings. It is possible to take out insurance to cover the legal costs of pursuing claims against the tenant arising from a breech of the terms of the tenancy, including the costs of obtaining repossession.

When you take out a buildings policy, the main insured perils should include fire, lightening, aircraft, explosion, smoke, impact, burst pipes or leakage of oil, storm or flood, subsidence damage, theft and malicious damage (Some policies will give the option of malicious damage caused by the tenants - a valuable option for let properties). Most policies will compensate you for loss of rent following damage from one of the above perils if the property is uninhabitable. Check this out with your block management agent if you have a flat and don't arrange the buildings insurance yourself. It should be noted that damage to property caused by tenants who are classed as DSS asylum seekers, refugees or students will no longer be covered under some buildings insurance for blocks of flats and you should seek professional advice.

If your flat is let and you have not taken out additional insurance, you will be held personally liable in the event of damage to property, including neighbouring properties, howsoever caused, including all costs incurred by the management company, solicitors, neighbours etc. **Back to Contents>**

Income tax

The income derived from letting your property is subject to UK tax. The position can vary depending if you are a UK resident or a UK non-resident. It is money very well spent to use an accountant. Income earned in the UK is subject to taxation under self-assessment. This means that the landlords will receive their income from an agent less any bills the agent has settled on their behalf.

Any tax implications will be between the landlord and Her Majesty's Revenue & Customs. If you are a UK resident you will receive the usual personal allowances applicable to your circumstances, which may be offset against all your taxable income. Income from letting a property is subject to income tax at the basic rate on profit. Profit is assessed after deducting expenses from the rent received; examples are:

a) Any water, electricity, gas charges paid by the landlord.
b) Insurance premiums related to the cover of the buildings, contents and loss of rent.
c) Repairs – but not improvements.
d) Letting agents, accountants and legal fees- including VAT.
e) Mortgage interest payments.
f) Maintenance contractors e.g. gardening contractors

If you are going abroad, it is essential that you apply for your FICO (Financial Intermediaries and Claims Office) number through HMRC as quickly as possible. The HMRC has further information and you can download information including a FICO application form at www.hmrc.gov.uk

Please note until an agent is informed by HMRC of a FICO approval number then they are not able to pay over the rent without holding back an amount for tax. If the certificate is not received or approved, they will have to retain money for tax and pay this over to HMRC on a quarterly basis.

They would also make an administration charge to cover their time in carrying out this work. If you are collecting the rent direct, your tenant should withhold a percentage to cover any tax liability, so it is essential that you a) obtain a FICO approval and b) you employ the services of an accountant.

If an agent is acting on a tenant introduction basis and you are going overseas you must still obtain a FICO approval number as otherwise the tenant living at the property would be responsible for the paying of tax and most tenants would not want this inconvenience. The letting agent would also be duty bound to advise them of the situation. **Back to Contents>**

Overseas properties - UK tax

If you invest in overseas property you must declare the profits in the UK. Unless you are classified as non-UK domiciled, you are taxed in the UK on all your income and gains wherever these profits arise. If you let your overseas property you should inform the tax authorities where the property is located, which will sometime mean completing a tax return in that country.

The income and expenses from your foreign property must be listed on the foreign income pages of your UK tax return. Any foreign tax you pay on that income can normally be off-set against the UK tax due where a double taxation agreement exists between the UK and the country where the property is situated. Remember other countries have different rules for tax deductible expenses. Seek professional help.
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Resident landlords

If you rent out part of your own home this can also count as residential lettings, but you can take advantage of the 'Rent a Room' scheme instead. This lets you get tax-free income of up to £4,250 from letting rooms in your home. **Back to Contents>**

Leasehold properties & Consents to let

If you have a mortgage, you should gain consent from the lender prior to lending. If you do not, you will be breaking the mortgage covenant. Most lenders will give consent provided they have seen and approved a tenancy agreement and that satisfactory references are taken up on a given tenant.

In the case of a leasehold property, a consent to underlet may be required from the freeholder under the terms of the head lease. You may also have to pay for a consent to underlet a leasehold property. You might be required to provide a copy of the lease to be incorporated into any tenancy agreement that is prepared.
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Tenancy types & deposits

A tenancy is a contract between a landlord and a tenant that allows the tenant to live in a property as long as they pay rent and follow the rules. A tenancy agreement is the document agreed between a landlord and tenant which sets out the legal terms and conditions of the rent contract. A tenancy agreement should be prepared before anyone rents the property.

Tenancy agreements can be either written or verbal, but you should use a written tenancy agreement where possible. This will avoid any disputes at a later date as all the tenancy information will be in writing. Check you understand any terms before agreeing to them. Whether or not a tenancy agreement is in place, landlords and tenants still have certain rights and obligations under the housing legislation.

Tenants' rights include:

- freedom to live in the property undisturbed
- the right to live in a property in a good state of repair. The landlord should make repairs and maintain the property
- the right to access information about their tenancy at any time
- protection from unfair eviction

They also have the right to protection from unfair rent, to challenge excessively high charges, and to have their deposit returned when their tenancy ends. If a tenant has a regulated tenancy, they have additional rights. They may have a regulated tenancy if they moved in before 15 January 1989. If the tenant fails to pay rent or breaches other terms of their tenancy agreement they can lose their legal rights as a tenant.

As a landlord, you also have rights. You can:

- repossess the property when the tenancy ends
- take back the property if it gets damaged
- access the property by giving 24 hours notice
- take legal action to evict your tenant in some instances like non-payment of rent

You may also have other rights and responsibilities specifically included in your tenancy agreement.

Tenancies can run for a set period, normally of six months or longer (fixed-term tenancy), or on a month-by-month basis (periodic tenancy). The most common form of tenancy is an Assured Shorthold Tenancy (AST). A tenant may have an AST if all of the following apply:

- the rented property is private
- the tenancy started on or after 15 January 1989
- the property is their main accommodation
- the landlord doesn't live in the property

All new tenancies are automatically ASTs. You can set up another type of tenancy called an 'assured tenancy' but this gives the tenant more rights to stay in the property.

A tenancy cannot be an AST if:

- it began or was agreed before 15 January 1989
- the rent is more than £100,000 - this is then a bare contractual tenancy
- it is rent free
- the rent is less than £250 a year - or less than £1,000 in London
- it is a business tenancy or tenancy of licensed premises
- it is a holiday let
- the landlord is a local authority

You may have an assured tenancy if the tenancy began before 28 February 1997. This has similar legal rights to an AST, but the tenant can stay in the property for an unspecified period of time. There is no automatic right for the landlord to repossess the property at the end of the tenancy. They must show the court that they have a good reason for wanting possession, using one of the grounds for possession in the legislation.

Or you may choose to have a regulated tenancy but only if all of the following apply:

- the tenant moved in before 15 January 1989
- the tenant lives in a different building from the landlord
- the tenant does not get other services included, like cleaning

Regulated tenancies give tenants more rights than an AST, like increased protection from eviction. They also have a legal right to apply for a fair rent to be registered for the property. A fair rent is an amount set by a rent officer and is the maximum amount the landlord can charge.

If the tenancy was arranged between 28 November 1980 and 15 January 1989, it may be a protected shorthold tenancy. This is a type of regulated tenancy with the same legal protection, though it usually runs for a shorter period of time.

If a tenant dies before the tenancy ends, their tenancy rights will automatically pass to their spouse or another qualifying family member.

When an agent is rent collecting or managing a property they will normally hold the deposit in a separate client account. On average a rental equivalent to six weeks rent should be held.

Sometimes a tenant will stop the final payment of rent and suggest that you have the deposit instead. In the event of this happening and when there is only a month’s deposit held, there will be no money for end of stay dilapidations or cleaning etc.

There will be occasions, e.g. some military and corporate lets where the company or country will guarantee the deposit and will not therefore physically pay a deposit. Remember if you hold the deposit, it is not your money and should be kept in a separate bank account. Deposits are normally held in an escrow account administered by the Deposit Protection Service.

Tenancy deposit protection (TDP) schemes guarantee that tenants will get their deposits back at the end of the tenancy, if they meet the terms of the tenancy agreement and do not damage the property. Landlords must protect their tenants' deposits using a TDP scheme if they have let the property on an assured shorthold tenancy (AST) which started after 6 April 2007.

If these conditions don't apply - for example, because you live in the property with your tenant you do not have to protect your tenants' deposits. However, it is still good practice to do so.

Landlords or agents must use one of the three approved TDP schemes to protect tenants' deposits where these conditions apply. If any other scheme is used, deposits are not protected in law. The three approved schemes are:

• Deposit Protection Service (DPS)
• My Deposits
• Tenancy Deposit Scheme (TDS)

If you don't protect your tenants' deposits when required to, your tenants can take you to court and you may have to repay them their deposit plus three times the amount of their deposit. You will also be unable to seek possession of your property in certain circumstances.

The schemes were introduced to:

• encourage landlords and tenants to draw up clear tenancy agreements
• provide a free service to resolve disputes

Please note that TDP schemes do not cover holding deposits. Tenants can pay you holding deposits before they have signed a rental agreement. You are not required to protect a holding deposit with a scheme before someone becomes your tenant. However, once they are your tenant, the holding deposit becomes a deposit which must be protected with a scheme. **Back to Contents>**

Redirected post

You should consider paying The post Office to redirect your post for you. The Post Office charges for this service, but you should receive your post quickly. Although a tenant might initially send on the post to the agents or Landlord, this can delay matters.

Apart from arranging the redirection via the post office, you should also leave your forwarding address in the property manual with a note requesting them to cross through your address and forward it on. (It does not cost anything in the UK, but it will if the item has to be sent overseas). You should also write to your bank, credit card company, insurance, mortgage company, friends and give them your new address.
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Keys

You should leave sufficient number of keys for the number of people renting the property. Some agents will retain a set at their offices. You should label up all the keys at the property. e.g. garage door, french windows, front door, windows etc. **Back to Contents>**

Alarm systems

If you have an alarm system make the tenants (and agents if applicable) have the appropriate access codes. It should be clearly defined who actually pays for alarm maintenance. The landlord or the tenant.
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Gas & electric

Gas: The regulations were introduced to ensure that appliances are properly installed and maintained to avoid the risks of carbon monoxide poisoning. At the commencement of a letting, a landlord is required by law to hold a current Gas Safety Certificate.

The tenant must be provided with a copy of the record prior to occupation. The gas safety record must be renewed annually and must cover all gas appliances in the property. An authorised registered engineer can carry out the inspection. Remember - a standard annual service would not be sufficient to comply with the requirements of the regulations.

Electricity: At present there is no specific statutory requirement to prove that the appliances supplied are regularly checked or tested. The landlord does have a duty of care. Dangerous wiring, flexes, exposed cable and damaged sockets must all be replaced. Appliances must be fitted with a sleeved insulated plug.
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Fire & furnishings

From the 1st January 1997 any furniture supplied as part of a new letting that commenced after 1st March 1993 must comply with the regulations. They do not apply to antique furniture made before 1950, carpets, curtains, pillowcases, duvets, bed linen or loose covers for mattresses. Generally they apply to all other furniture that has a cover fabric and filling including cushions, padded headboards, loose covers, beds and pillows etc. If your items do not comply and have appropriate safety labels, they should be removed from the property. The independent inventory agent will normally note down the compliance on the inventory.

Smoke detectors are compulsory in all new homes built since June 1992 and these have to be fitted via a mains feed on each floor. There are no specific statutory regulations stating these have to be put in older buildings (unless it is a registered house in multiple occupation), but it is advisable to fit a battery detector in stairways and halls/landings. You might also like to consider providing a fire extinguisher and blanket for the kitchen. **Back to Contents>**

Cleaning & gardening

Before a tenant moves into your property ensure that it is professionally cleaned throughout. If you have not had your carpets cleaned for a while, they must be professionally cleaned and you might like to consider having a protective coating put on them by the cleaning contractor. Windows should be clean inside and out.

You should make sure that your chimneys and flues have been swept. In many tenancy agreements, a clause states that tenants should do this during the tenancy, but they must also be done prior to the tenancy starting.

It is often normal practice to have a clause in the tenancy agreement stating the gardens have to be maintained in a satisfactory condition. Over the last twenty years, the lifestyle of a tenant has changed. You do get some enthusiastic gardeners, but the majority of tenants are working long hours and when it comes to a weekend, want to pursue other activities rather than gardening. We would suggest whenever possible:

a) You have a gardener to attend to hedges, shrubs and trees at least twice a year or

b) Include this together with regular maintenance of lawns and flowerbeds. A tenant who knows that they will not have to look after a garden will be happier to rent your property. **Back to Contents>**

Empty properties

You will find that most letting agents will not be responsible for a property between lets and that you have to agree a fee for checking the property. You should also check the terms of your property insurance regarding this issue.

During the winter months if the property is empty you should either have the water system drained down professionally or leave the heating running. **Back to Contents>**

Letting agents services defined

Many agents offer three types of service: Tenant introduction, rent collection or a full management service.

Tenant introduction:-

The agents find a tenant, take up credit search references, prepare the tenancy agreement, arrange the check in of the tenant and advise the gas, electricity and water companies and local council of the change of occupier. After that the rental is paid directly to the landlord and all management is carried out by the landlord. The letting fee is payable once the tenant has been installed.

Rent collection:-

The agents find a tenant, take up credit search references, prepare the tenancy agreement, arrange the check in of the tenant and advise the gas, electricity and water companies and local council of the change of occupier. The agent collects the rental and pays this over to the landlord each month less their fees. The landlord carries out all management.

Full management:-

The agents find a tenant, take up credit search references, prepare the tenancy agreement, arrange the check in of the tenant and advise the gas, electricity and water companies and local council of the change of occupier. They collect the rental and pay this over to the landlord each month less their fees and manage the property. This involves dealing with enquiries from the tenant, arranging routine maintenance e.g. washing machine repairs, plumbing repairs etc. and visiting the property approximately three times a year for a property inspection. If major works are requested by the landlord, e.g. decoration, new carpets, insurance claim work etc. they would usually make an additional charge.

Please note additional charges are normally payable for tenancy agreement preparation and independent inventory agents charges.

Lets Direct has some of the lowest rates in the industry. To compare packages **click here**.

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Stamp duty on tenancy agreements

From the 1st December 2003, stamp duty has been abolished and replaced with stamp duty land tax. The starting point for this is £125,000. This means that the vast majority of tenancy agreements will not attract SDLT. If a tenancy does attract SDLT, this will be the responsibility of the tenant. **Back to Contents>**

Buy to let

Buy to let is a phrase referring to the purchase of a property specifically to let out. A buy to let mortgage is a mortgage specifically designed for this purpose.

For many years landlords have invested in residential property to be let for profit, but arranging a mortgage loan to buy such property had always been hard as tenants were hard to evict and rent levels were relatively low. Since the introduction of the Assured Shorthold Tenancy however the rights of tenants and landlords have been more evenly balanced and mortgage lenders have been more willing to provide finance. This lead to a rapid expansion in the amount of mortgage finance available with schemes specifically designed for amateur and professional landlords that became known as buy to let mortgages. The recent credit crunch, however, has caused most UK lenders to cease offering this kind of mortgage.

As for all property rental, the benefits for a buy to let landlord can include a stable income from rental receipts, as well as an accumulation of wealth if house prices go up over time. Rising house prices in the UK have made buy to let a popular way to invest. The main risk involves leveraged speculation where the landlord takes a loan to buy the property, with the expectation that the house can be sold later for a higher price, or that rental income will meet or exceed the cost of the loan. In the best outcome for the landlord, he will have benefited from the use of the lending banks money indicating that he has allocated the capital more efficiently than professional investors could have done. If the landlord cannot meet the conditions of their mortgage repayments then the bank will seek to take possession of the property and sell it to gain the loaned money. The broad popularity of buy to let investments has made a large number of new landlords and is a component of a risk that forms a systemic threat to the banking system in the UK.

Recent research by BDRC for Alliance & Leicester showed that 71% make a profit, but 22% break even or make a loss. On average, English buy to let yields (the difference between the rent the landlord receives and the costs of ownership) were just under 5.5% in Q3 2007. This has fallen from over 7% in Q2 2002.

Buy to let mortgages have been on offer in the UK since the late nineties; they are specifically designed for investors to borrow money to purchase property in the private rented sector in order to let it out to tenants.

Lenders give in different ways. The amount of currency investors can borrow is decided by the rental valuation of the property. Usually the annual rental income has to cover a certain percentage of the mortgage repayments, somewhere between 120% and 150%. This is to allow surplus rent to cover other costs such as property maintenance and void periods (periods when there are no tenants living in the property and therefore no rental income).

Other lenders will offer a three times' salary multiple and half the rental income.

Others base the amount that they will lend on your salary and the existing loan commitments that you have, but then apply the 'deduction rule'. This means that they will lend up to 3.5 times your income (or whatever salary multiple applies), minus a representative figure for annual mortgage payments worked out at a pre-set level of interest. For example if a landlord earned £40,000 and has an outstanding mortgage balance on a property of £120,000. Under the rule, the annual mortgage repayments may be calculated as £10,000. This would be deducted from his salary to leave £30,000, which is then multiplied by 3.5 to give £105,000 - the amount that he is able to borrow.

Typically the interest rates that are offered on BTL mortgages are fairly close to residential mortgage rates but will on average be higher and typically charge higher fees. This is due to the perception amongst banks and other lending institutions that BTL mortgages represent a greater risk than residential owner-occupier mortgages.

This type of investment has become very popular in the UK over the last five years or so, as house prices have dramatically increased. Another reason for their popularity is the tax advantages that are available to UK BTL investors. Rental income is considered in the same way as salary, and is therefore often taxed at 22% or even 40%. However, landlords can deduct costs from the taxable portion of their rental income, and these costs can include the interest portion of their BTL mortgage repayments as well as maintenance costs on the property. This tax set-up has made BTL investments more popular over the last few years.

Recent credit problems have had some investors maintaining the same percentage of equity in the property should prices fall and so rapidly find money to cover these downturns.

The infamous landlord Peter Rachman started a trend of harassing existing tenants (who had security of tenure and rent controls) until they left, then packing in new tenants who had fewer restrictions and no cap on rent charged. Parliament finally acted in 1977 with the introduction of the Protection from Eviction Act, and more comprehensively through the Rent Act 1977, which although preventing unlawful eviction and creating security of tenure, meant that renting out property was often loss making for landlords. In consequence, the private rental sector declined yet growth in social housing did not increase to compensate. A housing shortage then ensued and to create a more open structure the 1988 Housing Act was enacted. It was a milestone piece of legislation which created the concept of the Assured Shorthold Tenancy whereby there was less security of tenure for tenants. Landlords gained the power to evict problem tenants more easily, and so the prospect of becoming a landlord was more attractive than previously. The housing crash between 1989 and 1994 saw an increase in the number of tenants, as people lost their homes and were repossessed which coincided with a significant growth of the new Buy to Let landlord.

Buy to let as a term was coined in 1995 as a marketing badge for a finance initiative launched by the Association of Residential Letting Agents (ARLA), although this type of lending had existed for many years.

The Council of Mortgage Lenders (CML) started collecting statistics on buy to let in 1997 and some observers have interpreted the growth in buy to let lending, as reported by the CML, as evidence of a boom. However the CML only measures the growth of the new specialist lenders in the market - such as Paragon Mortgages, Mortgage Express and BM Solutions, whilst omitting the core back book of loans to residential property investors by mainstream lenders.

The apparent growth in buy to let lending is attributable to the success of specialist lenders in taking market share by offering bespoke products and services and attractive pricing. In fact, as much as 40% of activity is remortgaging as established landlords switch from more expensive commercial mortgages.

Despite the growth of the buy to let market since its inception, the private rented sector remains predominantly undergeared, with only 19% of the 2.7m properties mortgaged. Not only does this put buy to let growth into context, it also shows the growth potential remaining in the sector.

Buy to let mortgage products grew in popularity in the years following the millennium, and by 2007 the market was filled with wholesale lenders. Some of the largest banks in the world began wholesale lending, including the Royal Bank of Scotland and HBOS. Capital was raised through the practice of repackaging mortgage securities and selling them to another lender at a higher price. These securities were ultimately worthless, and this contributed heavily to the downfall of a number of buy to let lenders in 2008 and 2009. Due to the low prices of buy to let loans being lent by these wholesale lenders, it became even cheaper to buy to let than to have a residential mortgage. The standard package tended to be allowing a mortgage of 85% of value, with rental cover at 125% (i.e Mortgage payments £5,000 pa would require rental receipts of £6,250).

The market peaked in 2008, before collapsing not long after. The market dropped dramatically, moving from $27.2 billion worth of lending in 2008, to just £8.5 billion in 2009 as lenders removed available products by the week, and with new products having a maximum loan to value of 70%. To add even more to the problem of gaining finance, valuers were becoming extremely cautious, with mortgage valuations often significantly less than the purchase price agreed. By the end of this period, the market had halved in value. The dramatic rises that the market saw in the first decade of the 21st century were wiped out within a matter of weeks. New government regulation has been announced in order to improve protection to consumers. This regulation will ensure that lending does not reach the low prices and unsustainable levels of 2007.

One of the key innovations required for widespread property investment was the reform of tenancy agreements and specifically the introduction of the assured shorthold tenancy (AST) agreement. AST gives both the landlord and the tenant assurance of the tenancy and specifies the term the property is to be let and specifies notice period for both parties.

The buy to let world is divided into "old hands", and recent entrants, sometimes derided as amateur investors. The UK press often describes amateur investors as over-optimistic investors who are willing to buy property to let out, when there is little hope of making a profit. The new landlord friendly legislation afforded by the 1988 Housing Act, coupled with the introduction of competitive mortgage products, brought new investors into the property market.

They have been attracted by rental incomes, rising capital values and a perception that the risk in housing is lower than for equity based investment. More recently, investors have seen buy to let as an alternative to their pensions, especially in light of the negative publicity pensions have received.

However, the sector is still dominated by professionals.

The Office of the Deputy Prime Minister's (ODPM) Private Landlords Survey, which appears in their coalition English House Condition Survey, is the most comprehensive study of the private rental market. The survey is published every four years and the last three editions illustrate the changing structure of private rented sector ownership.

The ODPM survey does suggest that there has been significant growth in the number of small scale landlords owning up to four properties. However, further analysis of this data reveals that the private rented sector is still dominated by professional landlords with large portfolios of property.

Analysis undertaken by Capital Economics found that although 53% of landlords own less than five properties, this represents less than 3% of the dwelling stock. Further, at the other end of the scale, 13% of landlords own 74% of the stock.

Buy to Let has experienced much poor press over the past few years, with many commentators believing that it has contributed to rampant house price inflation. Such is the popularity of Buy to Let that estimates have recently put one in three new properties in London being bought by investors. Oxford Economics stated in August 2007 that buy to let is "undoubtably contributing to the overvaluation of housing". [3]

Rent to let is a concept derived from the conventional buy to let but with a slightly different angle to it. Rent to let requires a substantially less amount of capital as you do not make an outright purchase of a property and to rent on the market for a profit over a length of time as you do with buy to let. A rent to let agent will typically approach a landlord to potentially rent a property from them with an aim of letting out in the residential market for a dearer rental price than they pay the landlord. The main advantage of this scheme is that it does not require as much capital as buy to let and hence why it is becoming a concept which many are latching onto.

This innovation is tying alongside the Guaranteed Rental Scheme (GRS), where the landlord is guaranteed a fixed rent for an agreed period with the additional benefit of not having to manage the property by any means necessary. The Rent to let agent then lets the property out for a greater rental price and pockets the difference. This form of arbitrage can be very appealing and again does not require huge sums of initial starting capital.

You are advised to seek professional advice when entering into any Buy to Let scheme. **Back to Contents>**

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