Buy-to-let **Investment Guide 2022**

Hello and welcome to our buy-to-let investment guide.

Buy-to-let (BTL) investment has become very popular over the last 30 years, with the number of private landlords rising to around 2.7 million.

Investing in property is a popular choice due to the long-term security it provides, as well as the opportunity to benefit from capital gains and regular rental income.

In recent years, letting property has become more challenging due to a range of tax and regulation changes and since March 2020, the rental sector has also had to contend with the impact of the Covid-19 pandemic.

Despite some obstacles, if approached in the right way with the help of a professional letting agency, BTL investment can still be profitable and rewarding.

The appeal of London as a global destination remains firmly intact and the capital looks set to recover strongly from the pandemic.

Landlords letting property here benefit from annual property price rises and consistently high tenant demand. Meanwhile, due to record low interest rates, it's a great time to expand a portfolio.

We hope the following guide provides you with useful information on property and rental prices, London's enduring appeal, the costs landlords need to consider, the best types of property to invest in and much more.

Giles Atkinson
Director

Dan McLeod
Director

‘Everything you need to know about property investment in London’

What are the pros and cons of property investment?

People have been investing in bricks and mortar for many decades, but in recent years it has been seen as one of the safest and most reliable forms of investment.

For many, it has been far steadier and more profitable an asset class than more traditional investments such as gold, stocks, pensions and shares.

Because property is a physical thing, and an innate need for everyone, it has a long-term value and reliability that other asset classes simply don't offer.

In times of crisis, such as the Covid-19 pandemic or Brexit, it is also seen as one of the safest forms of investment, particularly in traditional safe havens such as London.

Property investors, whether that's those investing in a second home, a holiday home or a more traditional buy-to-let, have benefited in recent years from ever-increasing house prices and strong demand from tenants, tourists, businesspeople and others which has improved the prospects of achieving strong yields.

Like with anything, there are potential downsides and risks when it comes to investing in property, but these tend to be outweighed by the advantages. As long as you invest in a safe, compliant, sensible way, property can be a great vehicle for investment and generate a solid income over time.

The pros

Security compared to other investments

The biggest reason for property's increasing popularity as an asset class is the fact that it's safer and more secure than other investments, such as gold and stocks and shares, or even more modern avenues such as cryptocurrency, which tend to be much more volatile and prone to fluctuation. They are also much more vulnerable to external shocks and forces, as seen by the unpredictability of the FTSE 100 or the Dow Jones during times of crisis.

Once upon a time, pensions were the best way to accrue money over time for retirement. But for many, government and workplace pensions aren't good enough to live off in retirement. This has seen many turn to property instead

Regular rental income and property price rises

The solid fundamentals of the market – rising house prices and consistent tenant demand – have helped to make it attractive to many. The rising number of people renting for the long-term, especially in cities like London, has meant property has been a great place for people to put their money.

If you decide to let your home, you can benefit from regular rental income over time and hopefully generate a good return on investment each year. Equally, there is capital growth to consider, which in a city like London has become pretty inevitable in recent years. If you ever come to sell your home in the future, you can feel confident that you will get quite a lot more than you paid for it in the first place.

In addition, having a stable asset is useful if you need a property to live in further down the line. Property is a tangible investment in a way that stocks, shares and gold – intangible and volatile – are not.

The cons

Risk of investment

No investment comes without risk, and in the case of letting property you could face void periods (times where your home is unoccupied and generating no rental income, but where you still have all the costs to cover).

You can limit the chances of this happening by working closely with an experienced, knowledgeable letting agent, who can ensure the gaps between tenancies are kept to a minimum.

Additional costs to consider

There is also potentially costly maintenance to factor in. For example, if the oven, fridge or boiler breaks down, it's your responsibility as the landlord to step in to fix or replace these items. You might also have issues with roofs, damp, drains or something like Japanese knotweed.

Many people might also be put off by the hassle of owning a rental property, although again a good letting agent can help to smooth any issues during a tenancy with proactive property management.

It's also important to bear in mind, when investing in property, acquisition costs such as stamp duty (currently there is a holiday on all homes worth up to £500,000 until the end of June, and a holiday on all homes worth up to £250,000 until the end of September, but landlords must also pay a 3% surcharge on top of the normal rates of stamp duty).

In recent years, the government has been strongly criticised for what has been seen as deliberate attacks on the buy-to-let sector in terms of tax and regulation. As well as the aforementioned stamp duty surcharge, there have been changes to mortgage interest tax relief, energy efficiency, electrical installation and wear and tear.

Low interest rates and rising prices - why now is a good time to invest

Despite the many challenges posed by Covid-19, now remains a good time to invest as conditions are still favourable for buy-to-let borrowers.

As well as rising prices, which haven't so far been affected in any discernible way by the pandemic, we are living through an era of record low interest rates which are unlikely to be changed until the economy is in a healthier state.

Most buy-to-let landlords have an interest-only mortgage, which means the Bank of England base rate takes on even more importance.

The current base rate is a mere 0.1% to protect the economy against the coronavirus crisis. Interest rates have been held below 1% since February 2009. They were steadily slashed throughout the financial crisis, down from 5% in March 2008 to 0.5% by March 2009.

Interest rates stayed the same from March 2009 until August 2016, when they fell again to 0.25% in the aftermath of the Brexit referendum. As the economy recovered from that shock, rates slowly crept up over the next few years, reaching 0.75% in August 2018. There was plenty of speculation of further rises, but then the pandemic hit, and rates were slashed back down to 0.25% and then historic lows of 0.1%.

For some context, interest rates were as high as 15% in the 1980s and never below 5% in John Major's time as Prime Minister in the early-to-mid 1990s. Low interest rates are bad news for savers, but generally good news for borrowers.

Cheap borrowing costs have made buy-to-let an attractive market for many first-time landlords, with borrowing to invest in property far more appealing than saving at present due to the record low interest rates.

The number of buy-to-let landlords in the UK is now said to be around 2.7 million, an all-time high, thanks to stable returns, increasing demand for rental homes, the stamp duty holiday and low mortgage rates.

This isn't surprising when you consider the strong fundamentals of the market, which makes it a great time to purchase. According to Halifax's House Price Index for February 2021, house prices have risen by 5.2% in the last year, while Nationwide says the current average price of £231,061 is the highest on record.

Meanwhile, in its monthly snapshot of the market – released in January and based on sales registered last November – HM Land Registry revealed that the average price of a home in London increased by 9.7% to reach a record of £514,000.

This is the first time the average price of a property has broken through the £500,000 barrier, according to the figures.

Additionally, Zoopla has the current average house price in London standing at over £644,000, a 2.41% rise on last year.

Rightmove, on the other hand, puts the average asking price in London at just over £670,000, with sold prices in the capital up 6% on the previous year and 8% up on 2018 when the average house price was £621,760.

Demand has held up very well during the pandemic and, with the vaccine being rolled out successfully, there is a good chance that major cities will receive a boost as people look to return to city-centre living and the culture, nightlife and opportunities on offer in somewhere like London.

As more of society opens up, including universities and offices, there is likely to be even higher demand for rental homes in London.

Landlords should feel confident in generating good, steady rental income and also seeing their investment rise in value over time.

The enduring appeal of London as an investment hotspot

London is the UK's largest property hotspot and the most diverse when it comes to housing stock, tenant demographics and property prices.

The phrase 'there's something for everyone' springs to mind and helps explain why London's lettings sector is so successful.

According to the most recent English Housing Survey, 28% of London households live in the private rented sector meaning renting is the most popular type of housing in the capital.

This provides landlords and investors with a huge number of opportunities which are further bolstered by London's cultural dominance, global appeal and unrivalled infrastructure.

Demand vs supply – why London always wins

- Consistently high demand

As a property investor, you're likely to have seen promotions for developments in other UK cities such as Manchester, Newcastle and Sheffield citing yields of up to 20%.

While these figures are impressive, investing in these developments can be risky as demand in other UK cities is a lot lower than what you can find in the capital.

With lower demand and lots of stock on the market, you could struggle to let a property quickly, while there is also an increased chance of average rental values dipping.

- Shorter void periods in London

Longer void periods present landlords with financial and maintenance issues, so they are something you want to avoid at all costs.

In London, demand for rental property is always high and generally outweighs supply. The shortage of available rental properties allows landlords operating in the capital to let properties quickly and reduce the impact of void periods.

For example, data from Goodlord shows that the average void period in Greater London during February 2021 was just 20 days, lower than the national average and all but three English regions.

- Rising rental prices and capital gains

High demand for properties also has a positive impact on average rental prices as tenants compete for the best homes.

London landlords are also likely to have a choice of tenants, meaning you can carry out a comprehensive vetting process and make sure you choose the best fit for your requirements. Taking this approach increases the chances of a long and harmonious let, protecting your investment and safeguarding your income.

The combination of regular rental income and the impressive capital gains that are achieved year in, year out in London provides investors with the best possible scenario, even when you account for the higher acquisition cost.

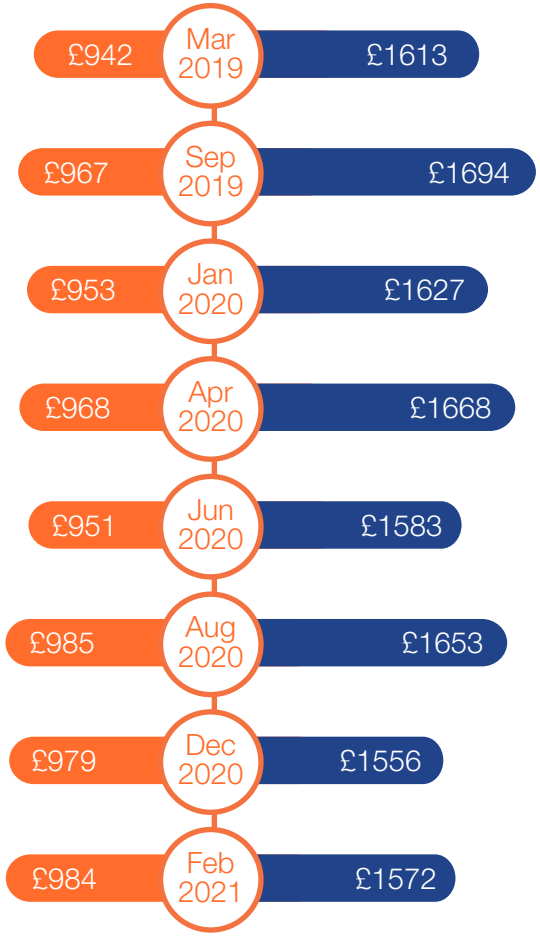
London remains top investment hotspot

Compared to other UK locations, London remains a top investment hotspot due to its aforementioned low supply and high demand. This leads to shorter void periods and higher average rental prices.

London's rental market also performs strongly compared to other European cities. HousingAnywhere's International Rent Index shows that during Q3 and Q4 2020, London had the second highest average rent for an apartment in Europe at €1,751 and €1,780 respectively, second only to Paris and beating cities such as Barcelona, Munich and Rome.

Meanwhile, as evidenced by the graph on page 7, the London rental market is operating at a different level when compared to the rest of the UK as landlords in the capital receive a significantly higher annual rental income.

Avg London Rents vs Rest of the UK. March 2019 - February 2021



Source: HomeLet Rental Index

UK
London

On top of this, the long-term capital gains that can be achieved in London are unrivalled. The UK's largest city is the perfect location to invest your cash with the opportunity to make a healthy profit if you do come to sell in the future.

The global appeal of London

London is a popular destination with overseas tenants due to its status as one of the world's most high-profile cities. It's also the top choice for many overseas student tenants due to its safe haven status and diverse culture.

According to London Central Portfolio (LCP), 21% of Chinese students in the UK enrol in London. It recorded a 15% growth in Chinese student enrolments in the UK in 2019/20.

There has also been a surge in students from India – many of whom rent in London – enrolling in UK higher education establishments, almost doubling in 2019/20 compared to the previous year.

LCP's analysis shows that approximately one in five Asian students studying in the UK enrol in London, contributing towards a vibrant market for landlords.

Goodlord analysis of 300,000 tenancies shows that between 2017 and 2020, the proportion of EU tenants in London stood between 22% and 29%. During the same period, the proportion of international tenants in the capital hovered between 16% and 22%.

How will London recover from the pandemic?

The whole world has been turned upside down by the Covid-19 pandemic and it's only now, in 2021, that a return to something resembling normality is on the horizon.

There have been numerous reports suggesting that urban centres will struggle as people prioritise living in more rural or coastal locations.

While this may have been the case during various states of lockdown, there is no reason why the capital won't grow its status as an investment location once the worst of the pandemic is over.

Remote working may continue for some sectors, but the return of the hospitality and leisure industries will coincide with residents and tourists returning to the centre of London.

Even if the number of people commuting to London is lower than it was before, the capital has never been purely a commuter city. Its first-class infrastructure and cultural significance mark it out as somewhere people want to live and visit.

Throughout the course of the pandemic, many areas in greater and outer London have proved their credentials as profitable investment locations. Consequently, it will be a case of adjusting investment strategy to keep up with which areas are up-and-coming with the highest growth potential.

'London landlords can reap the benefits of long-term property price rises'

What type of property should I invest in?

One of the most important considerations when investing in a rental home is what type of property it is.

There is, after all, little point in investing your hard-earned money into a home that has absolutely no appeal to tenants or future buyers.

Leasehold vs freehold

There has been a big scandal surrounding leasehold houses in recent years, which may immediately put you off this type of home.

There are pros and cons to both models, but it is worth considering the major problems that many leaseholders have had with spiralling ground rents, increased service charges and properties that are unsellable because of unsafe cladding.

Leasehold is certainly a potentially more problematic form of ownership, but for many it will work fine without any issues. You will have less control over the home, though, and may face issues in renovating or changing it in any way.

Typically, flats and apartments are nearly always leasehold, while houses tend to be freehold. That said, there has been an increasing trend in recent years for houses to be sold as leasehold too, which has been a major contributor to recent controversy.

Leasehold reform is in the offing, when parliamentary time allows, which is set to make leasehold a fairer and less burdensome form of ownership.

Freehold offers more control and security than a leasehold agreement – once purchased, it is yours, completely, until you sell it, and you can do whatever you like with your home (within reason and the constraints of planning regulations).

On the downside, freeholds are likely to be more expensive because they are nearly always houses. Initial investment will be higher, and responsibility for maintenance will be all your own – including outdoor and garden space – but in terms of flexibility and certainty freehold wins out.

Victorian vs new-build vs other period

London is full of beautiful period homes – Victorian, Edwardian, Georgian, mock-Tudor, etc. – and for many tenants this will have considerable appeal.

The grandeur, tall ceilings, large windows and elegance of these types of homes can be a real selling point, plus their size means they are often divided up into flats, apartments or HMOs (houses in multiple occupation).

So, you could get round the issue of leasehold by buying a freehold Victorian house and then turning it into an HMO or individual rental apartments.

On the downside, period homes tend to have more issues with maintenance and damp because of their age. And they tend to be much less energy-efficient. With rental homes needing to meet minimum standards for energy efficiency, set to become even stricter in the coming years, you may find that costly additions are needed to improve the home's energy rating.

New-builds don't usually have the same issues – they are built in such a way as to make them highly energy-efficient. These homes tend to be very contemporary, which has appeal to many tenants, although some might be put off by their lack of character compared to a period home.

Period homes are likely to be more expensive, but equally will have higher sell-on value in the future. New-builds have the advantage of being purchased straight from the developer, which means no issues with chains breaking down, but there have been a number of stories of people being unsatisfied with the quality of their new-build homes in recent years.

Again, it will come down to personal taste, but both new-builds and period homes are likely to be popular in a major renting city like London.

Changing priorities

Covid and the numerous restrictions it has entailed has changed the priorities of many tenants, who typically now want more space – both indoors and outdoors – and proximity to nearby parks, commons and greenery.

Bigger homes are likely to prove more popular, which may be where period properties have an advantage.

Many more people are working from home, too, especially in a city like London, which means dedicated office space – or space that can be turned into a home office – will now be much more important. As, of course, will high-speed internet.

Transport links, proximity to offices and access to nearby shopping centres have all arguably become less important since the pandemic, but these things may start to bounce back as key priorities as society begins to open back up.

Yields, void periods and costs – what do you need to consider?

One of the most important aspects of your buy-to-let investment is your ability to generate a rental yield.

A rental yield is the return on investment that an investor achieves through rent. Rental yields can be calculated in two different ways: gross and net. While a gross rental yield refers to everything before expenses, a net rental yield takes everything else into account. You can work out the rental yield of your portfolio using our rental yield calculator.

Gross rental yield

The gross rental yield is calculated by taking the yearly rental income of a property and dividing it by the property purchase price.

As an example, if the monthly rent is £2,000 and the property is occupied for a full year, you will receive £24,000 per annum. If your property costs £550,000 to buy, you would use the following calculation to determine the gross rental yield, which in this example is 4.3%.

£24,000 / £550,000 = 0.043
0.043 x 100 = 4.3%

Net rental yield

The net rental yield encompasses the cost of owning the property and includes any outstanding mortgage payments, making it more accurate than a gross rental yield.

This is calculated by taking the annual rental income minus costs associated with owning the property. Then, you divide by the property value.

For instance, if the annual rent is £24,000 and the annual costs regarding the property (such as mortgage payments, insurance, repairs, ground rent, etc.) is £6,000, then the annual profit would be £18,000. Divide this by the purchase price of £550,000, and the net rental yield becomes 3.3%.

£24,000 - £6,000 = 18,000
£18,000 / £550,000 = 0.033
0.033 x 100 = 3.3%

As well as general market supply and housing demand, there are a mixture of factors that can affect property prices in a given area. If there are plans for regeneration, new infrastructure, transport links or investment in an area, this can have a positive effect on future prices.

As a landlord, you will want to pay close attention to rental yields and be sure to research and identify areas with the best buy-to-let yield.

$$\frac{\text{Annual Rental Income}}{\text{Property Purchase Price}} \times 100$$

Gross rental yield (%)

$$\frac{(\text{Annual Rental Income} - \text{Costs})}{\text{Property Purchase Price}} \times 100$$

Net rental yield (%)

Ten steps to a successful buy-to-let investment

Being a landlord can be time-consuming and costly, and you run the risk of being caught out by changing regulation if you're not up to speed. Here are ten essential buy-to-let tips to consider.

1. Understand the process

- Research what buy-to-let investment really involves and your obligations as a landlord.
- Speak with a conveyancing solicitor about the legal matters of purchasing a buy-to-let.
- Talk to an accountant who can help you to understand the tax implications.

2. Research the market

- Does the area have a large student population? Is it popular among young professionals?
- Is it wise to invest in an up-and-coming area that has cheaper properties?
- Are you able to identify areas with planned or ongoing major infrastructure works?

3. Sort your costs

- Take into account the cost of letting a property, such as general maintenance and repairs.
- If tenants fall into arrears, you must have the right processes in place to recover unpaid rent.
- Monitor general changes in interest rates and/or what the end of any fixed-term deal could mean for your finances.

4. The right insurance

- You must have specialist building insurance (and probably contents insurance).
- Always opt for specialist cover designed for buy-to-let properties, or Landlord Insurance.
- Shop around for the best quote, using comparison websites.

5. Get organised

- Archive all events and paperwork on items you purchase, applications, receipts, etc.
- Digitise your paperwork so you can search for specific records at a later date.

6. Tenant deposits

- Tenants' deposits must be safely placed in a government-accredited scheme.
- Provide your tenant with the Deposit Protection Certificate and a How to Rent guide.
- The deposit you can take from a tenant is capped at five weeks' rent or six weeks if the rental costs are more than £50,000 a year.

7. A safe and secure home

- New electrical safety regulations: all fixed electrical installations must be inspected and tested every five years.
- A Gas Safety Certificate for all gas appliances each year and an Energy Performance Certificate must be provided.
- Smoke alarms should be fitted on every floor of the property, while carbon monoxide detectors must be in any room where solid fuel is used.

8. Maintenance and repairs

- Some maintenance issues are more pressing than others, but you should try and deal with all issues as quickly as you can.
- Keep your property in good condition with regular inspections to reduce the chances of maintenance issues cropping up.

9. End of tenancy

- Reference the inventory during check-outs and ensure everything is agreed with the tenant before their deposit is returned.
- If deposit deductions are required, you must make your tenant aware in writing what they owe and how much will be taken from their deposit.

10. Hire a reliable letting agent

- Your chosen letting agent should belong to a professional body such as ARLA Propertymark and a redress scheme, and also offer Client Money Protection.
- Choose a letting agent that will put your best interests front and centre and will help to communicate with tenants throughout the duration of the contract.

These 10 steps are just the tip of the iceberg, with plenty more components for landlords to consider. However, your chosen letting agent will be on hand to guide you through the rental process.

The importance of compliance and property management

Compliance obligations for landlords and investors are now greater than ever before, with rental property being heavily regulated in the UK and new legislation regularly being introduced. You can download our guide on lettings regulation here.

Despite challenges for the buy-to-let market – particularly tax and regulatory changes – investment in rental property continues to outperform most major asset classes.

Buy-to-let investment is supported by low mortgage borrowing rates, strong demand from tenants and stable yields.

During 2020, there were numerous changes, some of which have been enacted as a response to the coronavirus pandemic.

These include changes to the Minimum Energy Efficiency Standard (MEES), mortgage interest tax relief, the rules surrounding tenant fees and electrical safety, among others.

This year sees more changes on the horizon, with key dates that landlords and investors will need to be aware of.

Key changes in 2021

January

- The Dogs and Domestic Animals (Accommodation and Protection) Bill
  - If passed, tenants would have an assumed right to take a pet into any rented accommodation.

March

- Eviction Legislation
  - Landlords are currently legally obliged to give tenants six months' warning for all evictions.
- Stamp Duty Holiday
  - The stamp duty holiday, which increases the amount at which stamp duty is paid to £500,000, has been extended until June 30 2021 for homes worth £500,000, and then to September 30 for all homes worth £250,000.

April

- Client Money Protection
  - The deadline for agents to comply with Client Money Protection legislation.
- Electrical Compliance
  - The deadline for landlords to acquire an electrical safety compliance certificate.

May

- Breathing Space
  - Tenants in 'problem debt' will have 60 days of protection from creditor action while they seek debt advice.

June

- Right to Rent
  - Landlords must continue using passports and national ID cards as an interim measure until June 30.

What's still to come?

- Changes to planning regulations
- Deadline for landlords to implement Making Tax Digital (MTD)
- Abolition of Section 2021
- Changes to Capital Gains Tax

Over the last year, the lettings industry has had to contend with Covid restrictions and operate under a new normal, including virtual viewings, increased health and safety measures and limited contact under social distancing measures.

For landlords who manage their own portfolios, the above challenges may prove overwhelming. Therefore, it could be a good idea to let your properties with a professional letting agency instead.

Not only do letting agents help to negotiate the best rent for you, but they also have access to the most reliable tradespeople and can help to reduce void periods.

Letting agents provide a 'buffer zone' between you and your tenants and are well-equipped to advise you on the many intricacies of the rental sector, helping you to remain compliant throughout.

At Atkinson McLeod, our letting services can protect your most valuable assets and are extremely valuable at the best of times, but even more so now in the new current and post-Covid-19 market.

We hope this guide has been useful but if you need assistance on anything to do with buy-to-let investment, please don't hesitate to get in touch with us.

Kennington Office
Tel: 020 7840 3205
181 Kennington Lane, SE11 4EZ
kennington@atkinsonmcleod.com

Hackney Office
Tel: 020 8510 4430
295 Mare St, London E8 1EJ
hackney@atkinsonmcleod.com

Canary Wharf Office
Tel: 020 7001 9680
45 Westferry Rd, London E14 8JH
canarywharf@atkinsonmcleod.com

Wapping Office
Tel: 020 7488 5050
143 Leman St, London E1 8EY
city@atkinsonmcleod.com

Property Management
Tel: 020 7068 7650
45 Westferry Rd, London E14 8JH
propertymanagement@atkinsonmcleod.com

atkinson mcleod