Buy-to-let is back in

Demand for rentals is tempting investors again. **Zoe Dare Hall** lists the golden rules


Holiday lets in prime spots such as Devon may mean more work, but can produce higher yields

James Osmond/Getty

Buy-to-let is on the rise again, in what savers are seeing as a "lost decade" for investment in anything other than bricks and mortar. Yet it's a different world from the one that existed before the credit crunch, when just about anything could be let out and would rise in value. Here are the new rules of buy-to-let in 2012.

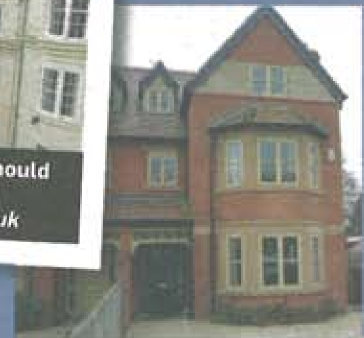
1 **Target city centres** In five years, these areas have gone from being swamped with empty new-build flats to, in some cases, under-supply. Stuart Law, chief executive of Assetz, a specialist property investment company, believes it is time to look again. He cites yields of 7.5% and more, with attractive projects including new-build two-bedroom flats near MediaCity, the BBC's new base in Salford, from £87,500, with a projected 8.9% yield. Similar properties in central Liverpool start at £93,000, with a projected 8.7% yield. "Anything bringing in less than that is overpriced," he says (0845 400 9000, assetz.co.uk).

2 **Family values** Flats generally give you higher yields, but houses are easier to sell. So, if you are looking to sell up in 5-10 years, invest in the latter. Terraced houses are the most popular, with 1.2m now owned as buy-to-let investments, compared with 1.46m flats, according to this month's English Housing Survey.

Longer leases of 18-24 months are increasingly popular with the new generation of family renters. Good-quality homes with three or four bedrooms are prime buy-to-let purchases in the country, says Peter Everett, regional sales director at Hamptons International. "Lack of mortgage availability and increased demand mean rents are likely to rise by 2% this year, generating rental yields of between 5% and 7%."

business

This two-bed Brighton flat should bring in £850pcm. *£185,000; 01273 315612, justinlloyd.co.uk*



This five-bedroom, four-bathroom family house in Oxford is available to rent for £3,995pcm. *01865 311011, finders.co.uk*

Another option is furnished holiday lets: more work, because of their short-term nature, but with the potential for higher yields in tourist destinations such as the Lake District or Devon. "As they are classed as a business, not an investment, they bring a bucketload of tax benefits, including no inheritance tax," Law says.

3 Don't buy cheap, buy value You can still try to drive a bargain — look at repossessions or probate sales, for example — but never choose a place just because it's cheap. Kesh Thukaram, managing director of Best Insurance and a member of the Landlord Syndicate, reports a growing number of prospective renters with children, which means properties in safe areas, with good schools and transport links, are more important than ever.

Before the crash, investors would probably have bought five £100,000 properties in an oversupplied city centre. Now you're better off spending all that cash on a one-bedroom flat in prime central London or a two-bedder in Zone 2, as these will appeal to a wider rental market.

4 Location, location, education The student accommodation market is booming, and "cluster flats", generally a few ensuite bedrooms clustered around a communal kitchen in a private hall of residence, are a good way to get in. "You'll spend a bit more — typically about £200,000 — but it's a rock-solid income generator," Law says. "I've never had a single void in years of owning clusters in Manchester, Preston, Dundee and Sheffield."

5 Cash is not always king Just because you can buy with cash, don't assume you should. Plenty of would-be investors have substantial savings, but, according to Assetz, 60% get a mortgage to make their money go further. "If your net yield is higher than the interest rate, taking a mortgage can increase the return on your capital investment," says Law, who describes a 50% loan-to-value mortgage as a "tactical weapon".

Lenders are beginning to view most buy-to-lets as a safe bet. The number of properties bought with BTL mortgages rose by 84,000 in 2011, and lenders predict that will increase this year.

6 Think long-term The speculators of the Noughties have gone: many of today's BTL landlords never intend to sell at all. "Make sure you can put away your money for 15-20 years — and don't underestimate maintenance costs, which can add up to thousands," says Kate Faulkner, director of Designs on Property. Consider where demand might increase in the future: homes for the over-60s, for example.

"Make sure yields are at least 7% when income needs to cover costs, and don't invest unless you have an exit strategy costed by a property tax specialist," Faulkner advises.

7 Focus on growth Most investors are looking to achieve the highest rental yields, but about one in five is concerned purely with capital growth — "An asset they can pass on to the next generation," Law says.

James Davis, CEO of Upad.co.uk, an online letting agency, has an eye on the pension pot, with 15 properties in London and Swansea. "In Swansea, lots of houses have been empty for a couple of years," he says. "Renovating them can increase their value by about £50,000."

8 Think about your market Tenants for flats are less demanding than those for family houses, says Louise Vaughan, of Prospect Property Search. She suggests thinking twice about furnishing a flat: "There is no difference in the rent you can charge, and you could be left with a property full of unwanted goods."

9 Location, location, population "From 2000 to 2006, buy-to-let was so easy, with prices going up across the board by 10%-20% a year, that anyone could have made a success of it," Faulkner says. These days, it's wise to choose somewhere that's booming.

Gavin Sung, head of residential development letting at Savills, suggests Bicester — the fastest-growing town in Europe — and Witney as desirable alternatives for young professionals priced out of renting in Oxford. In London, he singles out Clapham, where there is huge rental demand, and West Hampstead, one of the most sought-after places among middle-class buy-to-let investors.

10 Don't get greedy, get it let If you receive a firm offer just below your asking price, go for it. "Renters are like lemmings," Vaughan says. "Once a property has been unlet for two months, nobody wants it, even if there's no rhyme or reason to this, and you'll be stuck with a long void period."

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