

In association with Direct Line

# Property Club



In our weekly column for buy-to-let landlords, **Zoe Dare Hall** discusses the rising number of newcomers in the market

## The inexorable rise of the first-time landlord

Emma Fildes is among the tens of thousands of people in the UK who have become first-time landlords this year. The 34-year-old estate agent for Fyfe McDade, who lives and works in east London, has bought a one-bedroom flat in Clerkenwell. Within a fortnight of completion she has found two mature Chinese students as tenants willing to pay £420 a week.

"Having a buy-to-let property is something I've wanted to do for years but have always been a bit scared," she says. "I met a mortgage broker who went through the figures and he showed me it was absolutely feasible – so when this opportunity came up in Clerkenwell, I went for it," adds Fildes, who chose the area because its property prices are predicted to go through the roof – rising by 40 per cent in the next five years, according to Knight Frank – as a result of the Crossrail development.

She remortgaged the flat she lives in to come up with a 20 per cent deposit and chose a new-build flat. "In terms of finance, I worked on the basis of the worst-case scenario. When I realised I could cover my costs even if I got £30 less rent a week – which was far lower than expected – I felt it was too good an opportunity to miss."

For Rumeet Simmonds, 36, who works in Canary Wharf, and her husband Richard, 33, an IT contractor, the motivation to become buy-to-let landlords was "security – a future pension pot", says Simmonds. "Working in finance, I felt investing in bricks and mortar was the best option."

The couple live in Petts Wood, Kent, and have chosen to invest in a two-bedroom flat, costing £385,000, in the new Greenwich Square development in Greenwich. It's an area that has seen rents increase by 11 per cent this year due to a raft of new developments attracting a younger clientele as well as the area's traditional family market.

"We felt this development will have a strong sense of community, with a gym, swimming pool, medical centre and library. The other big selling points were the size of the apartments and the predicted rental returns," says Simmonds.

Around 29,000 people became buy-to-let landlords for the first time last year, according to the Association of Residential Letting Agents (ARLA) – an 80 per cent increase from two years previously. Propelled by frozen salaries, rising living costs and wariness about other types of investment, these "virgin landlords" are drawn to buy-to-let, helped by low mortgage rates and rising rents.

But choosing that first property can be fraught. Old or new, one bed or two? A pit in a prime location or a beauty off the beaten track? It's all a case of understanding the local market: who your tenants are likely to be, what type of property rents – and sells – most easily, and whether you are looking for rental returns or longer-term capital gains, as getting a good balance of both isn't always possible.

"I see a lot of people expecting amazing returns in London, but unless you're brave and buy off-plan very early in the development – which overseas investors seem more willing to do than British buyers – you're not going to get the five per cent that was standard 12 months ago. You have to see it as a long-term investment," says Emma Fildes.

You might, like her, decide a one-bedroom flat is the best investment. They have the benefit of being cheaper to buy and in demand among younger renters who can't afford to own – and equally serve the growing newly-homeless-after-divorce demographic.

"There is often a premium on the rent, too, as developers don't build many one-bed flats or studios – and they often cost less than the lowest stamp duty



SUKI DHANDA

**Doggedness pays: Emma Fildes has found her buying costs well covered**

threshold," says Frank Webster, director of Finders Keepers lettings agency in Oxford. Alternatively, family houses or maisonettes could be the way to go if you can afford it, suggests Elliot Lester, sales manager at Aston Mead in Surrey and Berkshire: "Don't immediately just opt for what most investors choose – small flats close to good rail services for the City.

"There are many types of tenants, and those that don't need the railway will look in a much wider area. This is where landlords can see a good return on their investment. If you can afford to buy a small family house, you could see tenants

staying much longer. That will reduce general wear and tear and save you paying fees for every new tenancy."

Freehold houses will also produce a better net income than leasehold flats. "Many first-time landlords don't take into account the cost of ownership, including service charges and maintenance fees, which can drain off four to six weeks' rental income a year," says Lester.

Where other first-time landlords often fall down is by trying to cut corners by stinting on insurance cover. Finders Keepers' Frank Webster has seen enough cases of flooding or accidental damage by tenants

to know the pain it causes if the landlord isn't correctly covered.

Taking the time to find a reputable lettings agent should also be top of the list for virgin landlords – "either a good local one with their finger on the pulse in your area or a strong national one with an extensive database of prospective tenants," says Nicholas Finn, London director of Garrington property finders.

As Emma Fildes found, buying your first investment property can be a daunting decision. But when, like her, a first-time landlord realises how the numbers stack up, they'll soon be looking at where to buy next.

### Phil Spencer's tips for landlords

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#### £ FIX THE FINANCE

Levels of deposit, gearing and rent are all in a state of flux, so sort out exactly what you can afford – and what you will need to recoup in rent – before you start looking at locations and what type of property you can afford to buy.

#### DO THE MATHS

It may be tempting to buy in the area you know. But remember why you're doing it: it's purely about

maths and a commercial decision rather than what you like or know.

#### LEAVE THE HERD

Certain areas may be hyped because they are predicted to see huge price growth due to big new infrastructure projects. But that hype is usually created by the PRs of large developers, so take it at face value. It doesn't mean it's not going to happen, but the timing or extent of growth may be unclear.



### Direct Line Landlord Insurance

For new landlords, it is essential to carefully research your buy-to-let investment before signing on the dotted line. View your investment in a similar way to setting up a business, even if it's just one property. Take time to reduce the risks and maximise the rewards by understanding what returns you are expecting and what is realistic.

You will need to understand today's market returns as well as predict how you expect rents to rise annually and whether you will secure any capital growth over the years you will be investing.

It's worth finding a good team to support your first purchase. These include a good letting agent who is a member of ARLA/NALS

and specialists in buy-to-let finance, surveys and tax. You will also need to make sure you have good-quality tradesmen you can trust to look after the tenant without running up huge maintenance bills. An expert team like this will help you understand the legal responsibilities you are undertaking as a landlord – from letting your property legally to paying the right amount of tax.

For help understanding the financial issues, preparing a business plan and to download a free property investment brief, visit Direct Line's Landlord Knowledge Centre at [directlineforbusiness.co.uk/knowledge-centre](http://directlineforbusiness.co.uk/knowledge-centre) or for Landlord Insurance call a landlord specialist on 0845 835 1491.