



Buy to Let Mortgages

Important considerations before becoming a landlord

If you're buying a property as an investment there are a few important things you need to be aware of. We've compiled some information to make it easier for you to understand the challenges and rewards.

Landlord Responsibilities

Its hard work, but it can be rewarding

It takes time and effort to manage your own rental property. It comes with a range of responsibilities. These include collecting deposits and management fees, conforming to all legislation, maintaining gas and electricity, managing maintenance and insurances, and accounting for the tax generated on your income.

- So it's not the sort of investment you can just put your money into and forget about. It should be viewed as a long-term commitment. However, if you're comfortable with these responsibilities and all of the commercial considerations, it can be a rewarding experience.
- It is important you're aware that your tenants' deposits must be placed in a Tenancy Deposit Protection Scheme. There is a scheme for tenancies started in England and Wales and a separate scheme for tenancies started in Scotland.

Use a letting agent or invest time yourself?

There's a lot involved in managing a property. However there is the option of using a letting agent to help you. They look after legislative compliance, tenant contact, collecting the rent, managing the deposit and many other tasks that might otherwise take you a lot of time.

This does come at an additional cost though. Letting agents normally charge for finding a tenant for you, and a monthly (or quarterly) management fee. For many buy-to-let landlords though, it's a cost they are happy to pay compared to the investment in time they'd otherwise have to invest to run things themselves. It's something you need to consider for yourself. If, after considering all of this, you do choose to manage the property yourself there are standard contracts available online.

Remember to keep up-to-date

As a landlord, you'll ultimately be responsible for ensuring all legislation is complied with. So even if you use an agent, make sure you keep these renewed

- The annual Gas Safety Certificate
- The Energy Performance Certificate
- Buildings/Landlord insurance

Commercial considerations

Look for an attractive yield

You need to consider what kind of return you could expect by investing in a property. This is known in the industry as the 'yield'. Understanding the yield from a particular property, and how it's calculated, will help you evaluate if it represents sufficient reward for your time, effort and capital.

Yield is calculated as a percentage, based on a property's market value and annual rental income. It's a very simple calculation which divides annual rental income by the property value. For example, if a property is priced at £150,000 and commands a rent of £175 per week, the yield would be 6.1%.

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Make sure it would also cover the running costs

The yield figures quoted are generally 'gross' yields. They can look like very attractive returns on your investment but be aware that they don't take any account of the annual expenses you will incur. So it's important to also consider 'net' yield which is the return you could expect after deducting the annual costs of buying and owning the property. It's not just your mortgage repayments that will need to be covered.

There are a range of costs you need to consider:

- Mortgage repayments
- Stamp duty/Land and Building Transaction Tax
- Income Tax
- Survey costs
- Legal fees
- Buildings/Landlord insurance
- Property valuation fee
- Letting agency fees
- Redecoration costs
- Maintenance/repairs
- Replacement of worn-out items

Plan for the unknown

It's important to recognise that things don't always go to plan in the rental market. Many landlords experience periods of 'rental voids' and 'rental arrears'. A rental void is the period when there are no tenants in the property. Rent arrears happen when the tenants can't pay their rent. In both cases you would have no income but you'd still have to cover the costs on the property. Would you be able to do so? Would you be happy to do so?

Here are some helpful sources to help with your research

The National Residential Landlords Association www.nrla.org.uk

Propertymark www.propertymark.co.uk

www.clydesdaleonline.co.uk

Nationwide Building Society (trading as Clydesdale). Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority under registration number 106078. Head Office: Nationwide House, Pipers Way, Swindon, Wiltshire, SN38 1NW.

Credit facilities other than regulated mortgages and regulated credit agreements are not regulated by the Financial Conduct Authority.

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