

Merchant

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Making Financial Sense

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BUY-TO-LET

Selecting the right property to rent out is a critical element to becoming a landlord

Buy-to-let is a form of investment where a residential property is purchased with the intention of renting it to make a profit.

Selecting the right property to rent out is a critical element to becoming a landlord. To do this you should spend a significant amount of time researching the best place for you to buy. Once you've decided geographically where you would like to buy, local letting agents will be able to advise you on the type of property in highest demand and popular locations for these properties. They will also be able to give you an indication to the type of tenant these properties attract.

FINDING THE RIGHT MORTGAGE

Unlike a residential mortgage, where the amount you can borrow is based on your salary and your outgoings, a buy-to-let mortgage is assessed on the rental income that the property is likely to generate. Lenders will typically need the rental income to be at least 125% of the monthly mortgage payments (on an interest only basis). Some lenders do base this on a higher rate such as 6-7% .

Typically you will need a deposit of 25% of the property value although there are some lenders who will require as little as 15%. However, the larger the deposit, the lower the mortgage rate will be, which means your earnings relative to mortgage repayments will be greater.

ADDITIONAL COSTS

Mortgage fees – these can typically be in the region of £1,000 and may be more if the mortgage rate is particularly attractive. We can help you find the best combination of fees and interest rate.

Survey fees – depending on the type of survey you opt for, a typical cost would be £430 for a basic mortgage valuation and £630 for a more detailed homebuyers report, with a full structural survey costing more again. This is for a property up to £300k, with charges being higher for more expensive property.

Solicitor fees – expect to pay £500-£1000 for your solicitor to complete the conveyance of your property. In addition you will need to pay stamp duty.

Stamp Duty – the amount of stamp duty you will pay will vary according to the value of your property. This is a government tax paid on properties costing £125,001 or more. Rates range from 2% to 12%.



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ONGOING COSTS

There will be ongoing costs for managing your property if you choose to use a letting agent, as many people do. As a rule of thumb, this is usually around 10% to 12% of the monthly rent. You'll also have the cost of repairs if anything goes wrong with the property, for example, the boiler breaks down or there is a leak in the shower – these things do happen and you will be responsible.

There may be short gaps between tenancy agreements so you will need to account for times when you may not have rental income. You will still need to meet the monthly mortgage payments during these periods so should bear this in mind when you are doing your budget.

TAX MATTERS

There are four taxes that a buy-to-let investment property will possibly incur:

- Stamp Duty
- Income Tax
- Capital Gains Tax
- Inheritance Tax

PROFESSIONAL FINANCIAL ADVICE YOU CAN TRUST

There is no need to spend hours searching mortgage comparison sites – we'll give you whole of market independent advice. Simply contact us now by phone or by email and one of our experienced advisers will be happy to help. We look forward to hearing from you.

This factsheet relates to England and Wales. Information is based on our current understanding of taxation legislation and regulations. Any levels and bases of and reliefs from taxation are subject to change. Tax treatment is based on individual circumstances and may be subject to change in the future. Although endeavours have been made to provide accurate and timely information, we cannot guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough review of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions.

YOUR HOME MAY BE AT RISK IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE OR ANY OTHER DEBT SECURED ON IT.

