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25 Things You Should Know Before Buying Rental Property

RWinvest Guide to Rental Property
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01

Identify Your Personal Goals

'Your goals can impact what sort of property you should buy and what area to invest in'

Before we jump into the nitty-gritty stuff, it's important to think basic. What exactly do you want out of your investment?

Maybe you're thinking ahead to retirement or just want some more money on the side. Whatever your reasons, buying rental property is an excellent choice.

However, your goals can impact what sort of property you should buy and what area to invest in.

If you're looking at retirement, you may want a property with high growth potential so you can sell it on for a big payday for retirement.

Alternatively, if you're just looking at monthly income, you may want an area with high rental income and may not be too interested about your return on investment.

It's important to keep your goals in mind when evaluating each aspect of a successful rental property investment.

02

Get to Grips With the Terminology

There’s a lot of jargon and terminology in the property world, and we’re going to be using a bunch of it in this guide.

With this in mind, we will help you to get to grips with some commonly used key phrases and concepts.

Take a look at some of the following definitions to help you understand the basics of rental property investment.

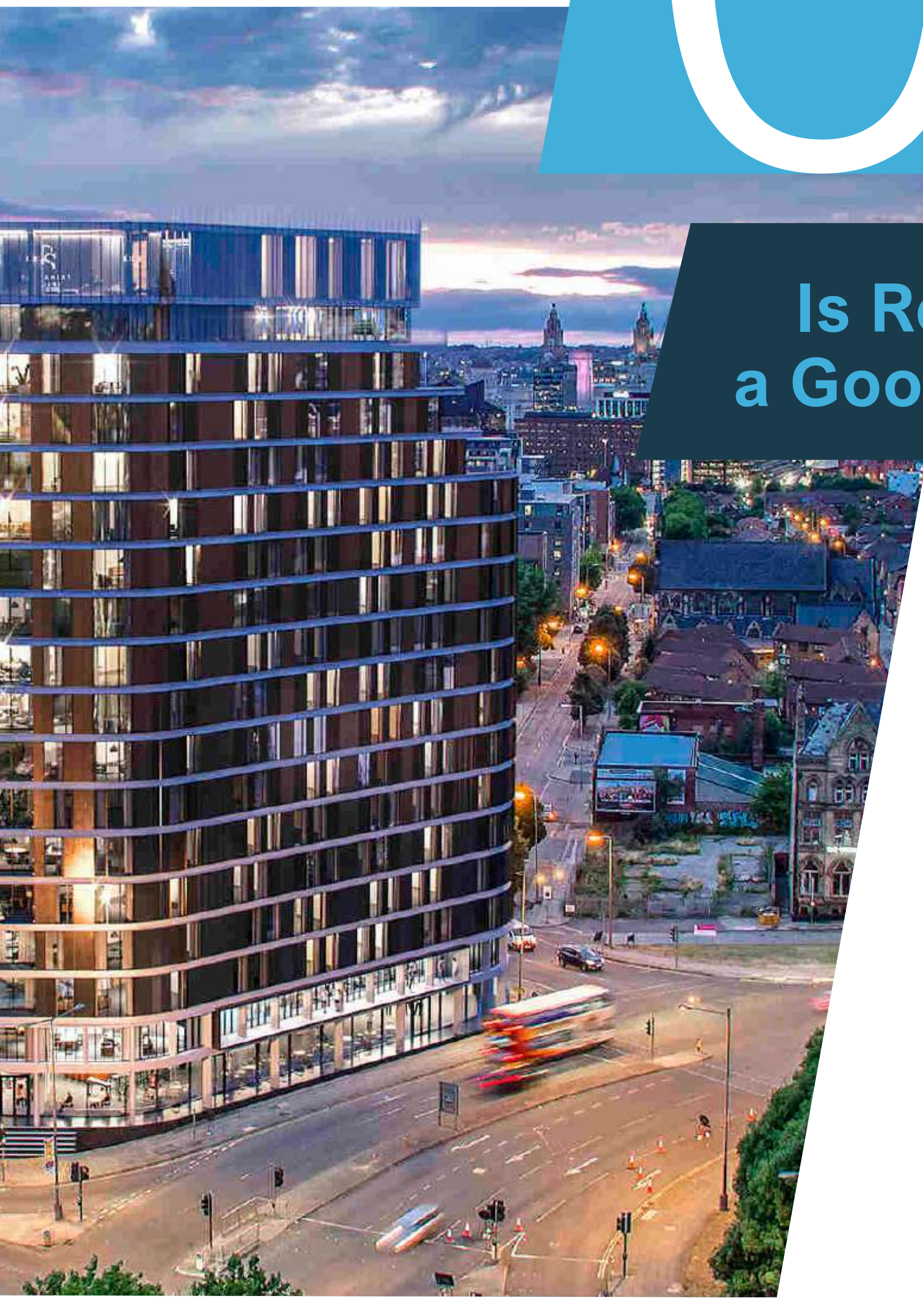
This is not an exhaustive list but gives a good baseline of some important concepts you will likely encounter upon buying rental property.

Base Rate	The rate of interest the Bank of England charges. Often the Bank of England’s base rate is used as a benchmark for other interest rates and will be used by mortgage lenders.
Bridging Loan	A short-term loan designed to allow a person to buy a property before selling their current one.
Buy to Let	Sometimes known as buy-to-rent, buy to let is the purchase of a property with the intention of letting to a tenant. It is another term for rental property.
Capital	Also known as equity, capital represents the amount of money you have invested into an asset like a property.
Capital Appreciation	This is the increase in a property’s value over an amount of time. It can both depreciate and rise in value.
Conveyancer	A legal representative such as a solicitor that deals with the legal aspects of purchasing or selling a property.

Conveyancing	The legal process that refers to the transference of ownership of a property.
Freehold	A form of property ownership where you own both the property and its land.
Ground Rent	An annual charge paid by the leaseholder of a property to the freeholder.
Land Registry	A government office in charge of record holding of land ownership and charges against property such as mortgages.
Land Registry Fee	A fee paid to the Land Registry upon the sale of a property.
Lease	A legal document that allows one party i.e a tenant to rent a property owned by another party for a set period of time.
Maintenance Charge	A charge, typically on leasehold properties like flats, which covers the costs of insurance and maintenance of a building.
Rental Yield	The return on a property investment you earn through rent. It is calculated by dividing your yearly income by the original purchase price and multiplying by 100 for a percentage.
Rent Arrears	The money owed when rent hasn't been paid.
Stamp Duty Tax	A tax paid to the government by those purchasing a property in England and Northern Ireland. It has different names in Scotland and Wales, and different rates, but the concept is the same.
Survey	A report from a qualified surveyor that checks the structure of a property and identifies any faults.
Tenancy	The agreed-upon possession of a property by a tenant under the terms of a lease.
Tenancy Agreement	A contract between a tenant and landlord that allows the tenant to live in the property as long as they follow the rules and pay rent.
Void Periods	The time a property isn't generating rental income when it is vacant.

03

Is Rental Property a Good Investment?



This may seem like quite a silly question given the fact you're currently reading a detailed guide on investing in rental properties.

However, you would be remiss for not asking yourself this question "is rental property a good investment?"

A lot has changed over the years, particularly in the last 12 months with the huge economic impact of covid-19 and the ensuing lockdowns worldwide.

While writing this, the UK is quickly returning to normality; it's still important to ask yourself if you're making the right investment and are rental properties a good investment.

'Rental Property Investment has a historical track record of bouncing back from economic turmoil'

The good news is that buy to let is performing exceptionally well and is far more reliable than the stock market.

Rent prices are increasing nationally, with huge capital growth predictions for the coming years.

Taxes have changed somewhat in the past few years, though, so you may be earning less monthly income than you would before 2017.

While we will discuss some of these concepts later on in the guide, the bottom line is that you can still make comfortable profits in the UK. However, you may need to be a bit pickier about where you choose to invest.

Real estate can breed success if you do it right. While this is also true for the stock market, the reality is that it can be perilous to invest in stocks.

Rental property investment has a historical track record of bouncing back from economic turmoil.

Take 2020, for instance. House prices in the UK dropped between March and April by about £2,000 at the start of the first UK lockdown.

Fast forward to the end of the year, though, and house prices reached a record high, growing at the highest rate since 2004 and surpassing £250,000 for the first time ever.

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04

The Risks & Benefits of Property Investment

While buying rental property can be incredibly fruitful and safer than the stock market, that doesn't mean it doesn't come with risks.

If you're asking "how to buy a rental property" and want the best investment possible, you need to do some due diligence and accept that each investment comes with risks.

If Covid-19 has proved anything, it's that the future is never certain. Stocks can rise and fall on a whim, and house prices could follow suit. There's really no way of knowing.

With the right sort of investment, though, you can alleviate these risks and set yourself up for success. Of course, while the market can sometimes experience changes and fluctuations in property prices, the housing market is very resilient and always bounces back.

Benefits

- You earn regular monthly income through rent.
- You can earn a significant profit on the sale of a property over a long period of time.
- Many cities such as Liverpool, Manchester and Leeds offer huge potential for significant returns on investment.
- Less risky than stocks.
- Can be highly affordable depending on the property location.
- You can take out various insurance to cover losses such as rental income.

Risks

- Tax changes mean profits can be affected.
- If you choose to not use insurance, you can risk losing out on profits or income when the property is vacant.
- Property prices can drop in certain areas and you can lose a lot in capital growth. It's important to note, though, that selling in the distant future will alleviate these issues as property values continue to grow over long periods.
- There's a bunch of other costs to consider like stamp duty and general maintenance.

05

Understand What Property Investment Involves

This is quite a broad topic, and we've discussed some aspects already, but understanding the fundamentals of property investment is vital.

Unfortunately, finding out how to buy a rental property isn't as simple as handing over a cheque.

There are many steps in place and rules and regulations you need to keep in mind if you decide to buy a rental property.

Firstly, let's take a look at a step-by-step guide for buying a rental property and renting it to a tenant in the most basic terms.

Now, these steps can change dramatically depending on a variety of factors.

For instance, if you use the services of an investment company, choose a different type of property investment, or use a property management company, there may be different steps and things to consider.

Step 01:
Identify a Property

Step 02:
Make an offer

Step 03:
Have offer accepted

Step 04:
Arrange a mortgage if applicable

Step 05:
Hire a conveyancer

Step 06:
Consider a survey

Step 07:
Provide a deposit

Step 08:
Exchange contracts

Step 09:
Complete sale and get the keys

Step 10:
Pay Stamp Duty and other legal fees

Step 11:
Ensure the property is suitable for tenants

Step 12:
Research area and set approriate rent

Step 13
Find a good letting agent

Step 14:
Get tenant references

Step 15:
Organise the tenancy deposit with DPS

Step 16:
Sign the tenancy agreement & move tenant in

06

Are You Ready to Be a Landlord?

A lot of the steps in tip number five revolve around the fact that you will become a landlord.

While you don't have to become a landlord to rent a property (a common misconception that will be addressed next), it's important to understand exactly what it means to be a landlord if you choose to go down this route.

Simply put, being a landlord can be a lot of work. Not only do you have to find tenants, but you also have to maintain the property and keep it in shape.

From clogged toilets to organising inspections, a landlord needs various skills to keep the property ticking.

Owning rental property can be a big responsibility. You need to understand the wealth of legislation in place with private renting.

Safety Responsibilities

Gas Safety

Electric Safety

Fire Safety

Repairs

‘Rent increases are part of your tenancy agreement, which should include how and when you can review the rent’

Rent Increases & Arrears

As a landlord, you will want to maximise your rental income. With rent averages increasing month by month and UK rent already 6.2% higher than a year prior, according to Homelet, you may want to constantly improve your rent.

However, how much you charge to your tenants can be a tricky subject, and there’s legislation in place to ensure you cannot change rent prices on a whim.

Firstly, rent increases are part of your tenancy agreement, which should include how and when you can review the rent.

For those on a periodic tenancy (one that rolls on a month-by-month or even a week-by-week basis), you can only increase rent once a year.

On the other hand, for a fixed-term tenancy (one that runs for a given period), you can only increase rent upon agreement with your tenant. If there is no agreement, you can only increase the rent after the term ends.

Generally, for any tenancy, you must get permission from your tenants to increase rent. The rent increase needs to be “fair” and “realistic,” in line with average local rents according to gov.uk.

So, how do you go about increasing rent?

Well, firstly, you must give your tenants a minimum of a month’s notice if the tenant pays rent weekly or monthly.

If the tenant has a yearly tenancy, you need to give a minimum of six months difference.


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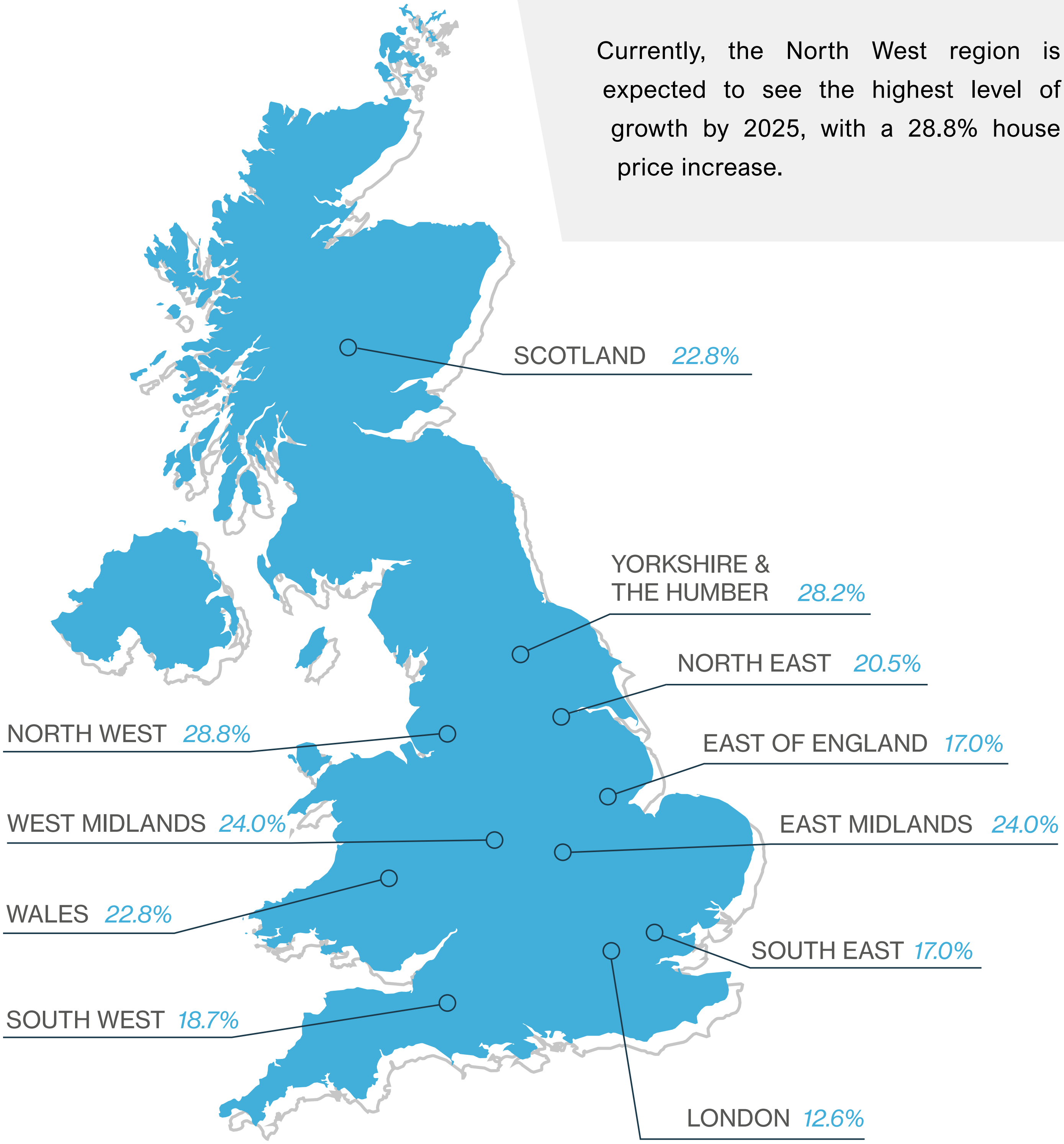
09

Market Research: Find the Right Location

Savills' Four-Year Capital Growth Forecasts

Recently, property experts Savills released their latest property price predictions for UK regions. The results may surprise you.

Currently, the North West region is expected to see the highest level of growth by 2025, with a 28.8% house price increase.



Property Price Increases from 2001 to 2021

In 2020, the Liverpool housing market exploded, rising a staggering 17.59% between February 2020 and February 2021.

City	2001-2021	2011-2021	2001-2021	2011-2021
London	240.83%	33.99%	-11.80%	-15.54%
Birmingham	205.67%	50.76%	28.36%	5.49%
Manchester	344.59%	67.97%	34.72%	11.40%
Leeds	225.34%	46.65%	28.69%	9.84%
Liverpool	220.81%	39.53%	31.95%	17.59%
Newcastle	178.85%	22.00%	11.35%	7.98%
Sheffield	254.73%	55.94%	32.14%	11.67%

Rental Demand

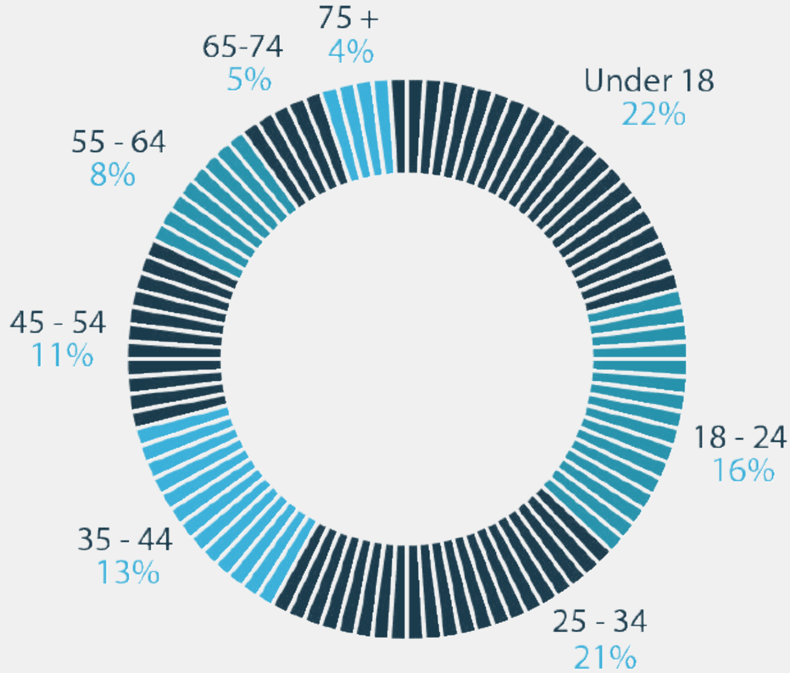
Rental demand is a complex factor to measure directly, but prominent signifiers are how fast properties sell, the number of property enquiries, population growth, and the increase in house prices and rent. These measurements are likely to increase the more demand for property there is.

Take Manchester, for instance. A report by Zoopla in 2020 found that the current ratio between the available supply for property and the demand for it is currently 1:5. This means that for every single property, five buyers are interested. That's a massive demand for property and highlights that you will have minimal void periods if you were to rent in the area.

Moreover, it's essential to consider the local population. Using Manchester as an example again, you can evaluate a cities investment potential based on the population. According to reports, Manchester has seen a 27.8% population increase since 1991. Meanwhile, the Greater Manchester population increased by 7.7% between 2006 and 2016 – double the UK average growth rate. This is significant as it shows more and more people are choosing to live in the city.

Population Estimates for Manchester

According to data from the local government, around 37% of the city population are ages between 18 and 34.



10

Consider Rental Yields

Rental yields are paramount when it comes to an investment as they signify the return on your investment.

Return on investment shows how long it will be before you start making a profit on your initial cash injection.

The higher the yield, the better the investment opportunity.

Rental yield is displayed as a percentage and is calculated by dividing your yearly rental income by the original purchase price and multiplying by 100.

Typically, rental yields between 5 and 6% are considered ideal, meaning the average UK property falls short of a perfect investment.

City	Average Rent (Yearly)	Rental Yield
London	£31,632	3.42%
Birmingham	£11,148	5.60%
Manchester	£13,272	6.66%
Leeds	£12,948	6.25%
Liverpool	£9,960	6.51%
Newcastle	£11,616	6.92%
Sheffield	£10,776	5.63%

11

Consider the Liveability of an Area

What Do People Look at When Considering Liveability of an Area?

When looking at houses to rent, it's important to put yourself in your tenants' shoes. Would they want to live here?

Considering the liveability of an area is vital, and you need to understand precisely what the local neighbourhood offers.

For young families, the quality and availability of local schools are paramount, so you should aim to buy a property with these local facilities if you are targeting this tenant group.

Likewise, you need to consider other factors like local crime rates, job opportunities, health care, transport, education like universities, and nearby amenities like restaurants and bars.

These are all of critical importance to an individual's life.

A good rule of thumb is if you don't want to live there, then the chances are your prospective tenants won't either.

12

Types of Property to Consider

Residential Property Investment

If you're asking about investing in rental property for beginners, this is likely the most straightforward answer. Residential buy to let is when you purchase a residential property like a home or flat and rent it to a tenant of any age.

Student Property Investment

Similar to residential property, student buy to let is the idea of purchasing a property and renting to students. The UK student market is thriving at the moment, with a record number of international students attending UK universities.

Houses of Multiple Occupancy (HMO)

A house of multiple occupancy is a residential build that features more than one tenant. It is an increasingly popular investment type in cities like Liverpool. Often, these buildings are split into different rooms, with each room rented out within the property.

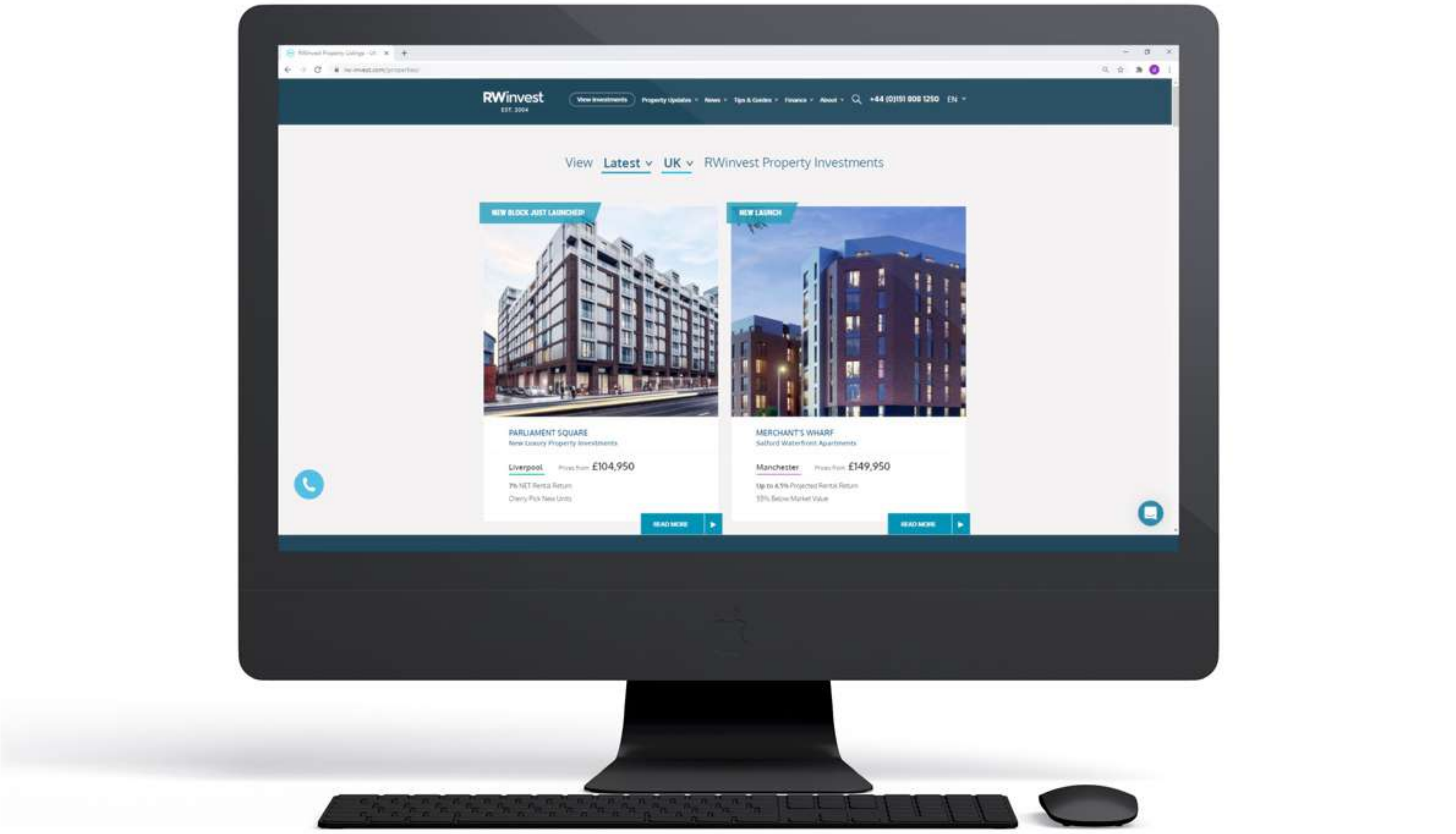
Hotel Lets

A more obscure investment strategy, hotel buy to lets can be incredibly profitable but come with some high risks. The way it works is that an investor can purchase a room within a hotel build, with the investor taking a cut of the cash of any guests that stay in the room.

Holiday Lets

Here, investors can purchase a property to rent on a short-term basis to holiday-goers. Typically, you can advertise these properties on websites like Airbnb, which is becoming a trendy platform for those letting out properties to tourists.

Start your search today.



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13

Think About Regeneration

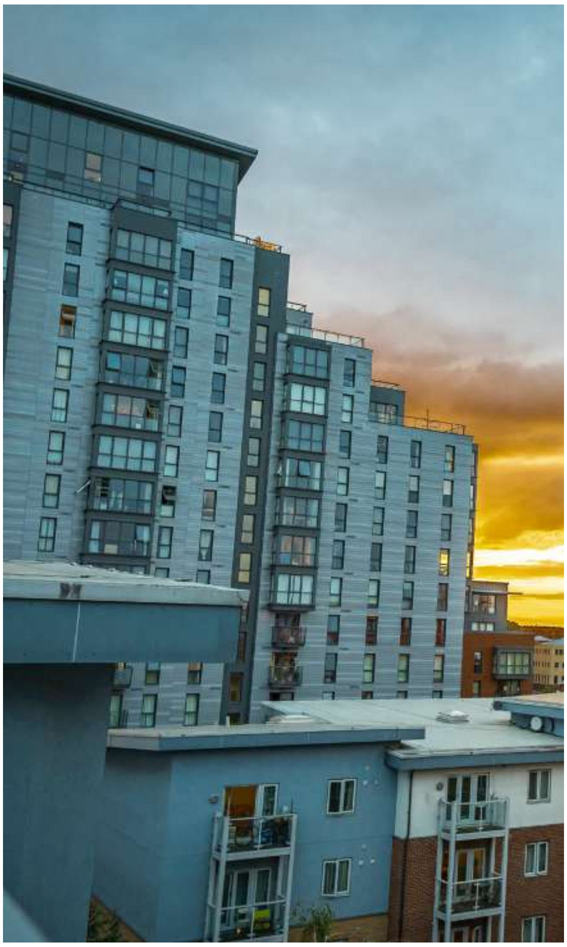
Manchester

Manchester's business backbone was rejuvenated thanks to the £1.5bn Spinningfields project.

Located in the heart of Manchester, the project added a new area to the city, which is now home to 150 financial and commercial organisations.

Due to its scope, Spinningfields has been dubbed the North's Canary Wharf, a massive testament to Manchester's prominence in the business world.

This business growth was also supported by MediaCityUK, a project that has cost over £1bn. MediaCityUK has attracted several world-class media organisations like the BBC and ITV.



Slough

If you want to get ahead of the curve, Slough is in line for tremendous growth over the coming years.

Slough is a commuter town, meaning thousands travel from there to work in London, which is easy to do thanks to the excellent transport options on offer.

In fact, Slough was voted as the second-best location in all of Europe for connectivity. This is about to get bolstered through the introduction of new Crossrail routes.

The £14.8bn Crossrail is a new railway system making it easier to travel to significant locations in London.

Liverpool

Liverpool has been heavily transformed since the 1980s and has changed from a struggling economic area to one of the most prominent UK powers.

Major billion-pound projects like Liverpool ONE put the city on the map by introducing a world-class shopping centre.

Fast forward to 2021, and there are some seriously impressive upcoming projects already being built or in the pipeline.

This includes the £5.5bn Liverpool Waters project, which is set to introduce five new neighbourhoods to the city centre.

Likewise, the £2bn Knowledge Quarter is continuing to be developed, an area that is already home to thriving science-based businesses and the city's major universities.

14

Off-Plan or Already Built?

Why spend over the odds when you can get a property for even cheaper than market value?

It sounds fanciful, but there are ways to ensure you get high-quality properties for as cheap as possible, and that is by buying a house for rent off the plan.

But what do we mean by buying off the plan, and is it worth it over buying more traditional investment properties?

Off-plan property is a property that is available to buy despite not being finished yet. This means it can either be under construction still or is only in the planning stages.

Off-Plan Property Investment

Pros

- Stronger capital growth potential than already built properties.
- Cheaper than market value, so signifcant chance of a great deal.
- Assured rental returns for a set number of years.
- Cherry-pick the best units.
- New build properties so incredibly modern.
- Some companies offer payment plans so you can pay in multiple steps.

Cons

- May have to wait for over a year before the project is completed.
- The finished project may not look how you expected if you invest with an unreliable developer.
- The project could delay or the developer could go bust if you invest with an unreliable developer.
- It can be challenging to secure a buy to let mortgage on an off-plan development.

15

Avoid Fixer Upper

‘Reviving a weather-worn property can be a considerable undertaking and requires a significant budget and knowledge to get it into shape.’

If you want to know about investing in rental property for beginners, you should avoid a fixer-upper.

When we say fixer-upper, we refer to investment properties that need a lot of work done before it’s suitable for renting or selling.

Reviving a weather-worn property can be a considerable undertaking and requires a significant budget and knowledge to get it in top shape.

While you will likely save a tonne of money when buying the property, the amount you could spend may eventually surpass the savings you made, with solo housing projects notorious for going over budget.

Plus, if you choose to rent the property afterwards, you may not be seeing a significant return on your investment.

If you have the expert knowledge required, then a fixer-upper is possible, but it is not recommended for beginners.

When looking at investment properties, stick to more traditional methods for now while you are still learning the trade.

16

Choose a Property Investment Company

Advantages of Using a Property Investment Company

If you want to know how to buy investment property as easily as possible and avoid this hassle, one method is to use the services of a property investment company.

These companies can help you invest in property, and can easily guide you through the process of learning how to buy investment property.

Companies like RWinvest will provide solicitors and identify properties with the best investment potential.

Due to their expertise and industry knowledge, these companies will know what makes a good investment and will typically only offer properties with a high chance of success.

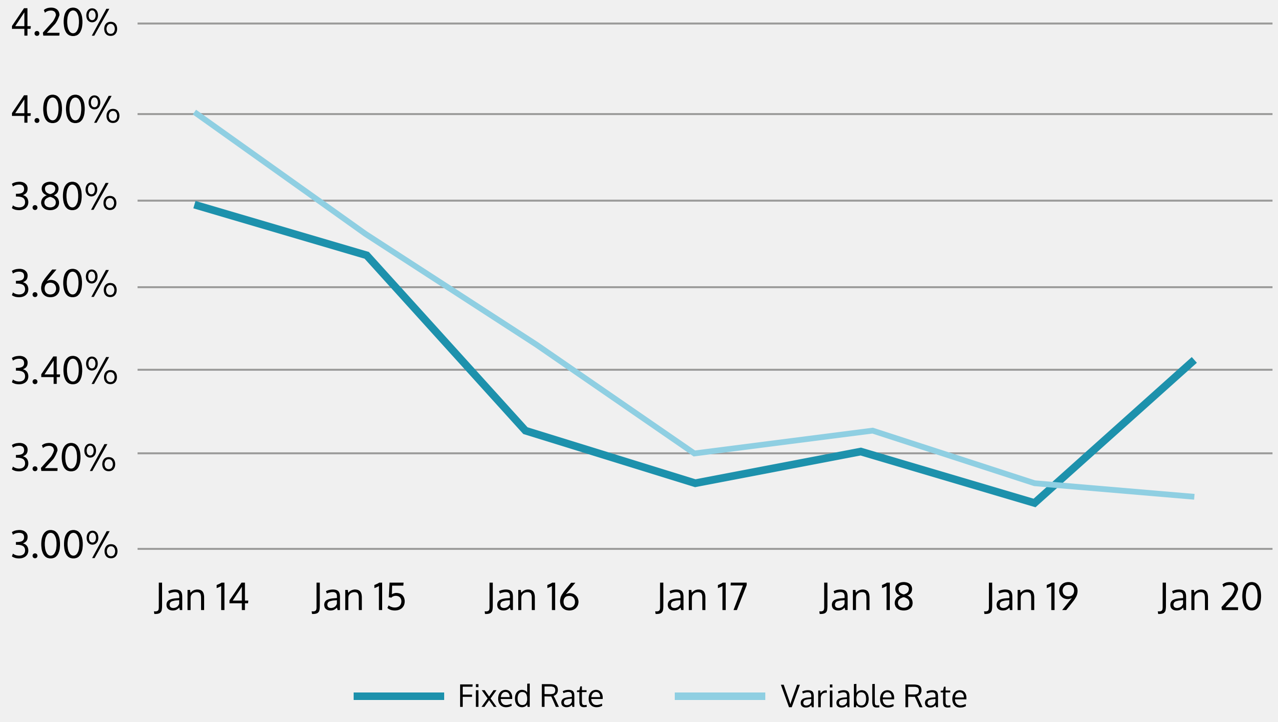
Here at RWinvest, we are a property investment company specialising in residential and student property.

We've been in operation for over 17 years and have helped a whopping 25,000 investors make the investment of their dreams.

17

Buying Outright or Use a Buy to Let Mortgage?

Average Buy to Let Mortgage Rates



Can I Get a Buy to Let Mortgage?

Buy to let mortgages for investment rental properties aren't available to everyone, and you will need to fit certain criteria to be eligible.

The criteria include earning over £25,000 a year, needing a good credit score, owning a home already, and being no older than 70 or 75 when the mortgage term ends.

If you have enough money to do so, you may wish to pay for investment rental properties in cash, without the help of a buy to let mortgage.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UP to 6.5% Projected Rental Return
55% Below Market Value
GALAXY COFFEE
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19

Think About What Your Target Tenant Wants

Property Feature	Current Rank	Previous Rank
Fast Broadband	1st ▲	2nd
Outside Space	2nd ▲	7th
Close to a Park	3rd ▲	9th
Concierge & Onsite Security	4th ▼	3rd
Excellent Transport Links	5th ▼	1st
Nearby Supermarket	6th ▼	4th
Professionally Managed	7th ▲	8th
Air Conditioning	8th ▲	10th
Cinema Room	9th ▼	5th
Gym	10th ▼	6th

20

Keep Taxes and Tax Relief in Mind

Income Tax

Income tax is the tax paid on the profit you earn from your rental properties. This profit is defined as the amount left over after calculating your rental income and subtracting any expenses or allowances.

Capital Gains Tax

While this tax won't be relevant at the start of your journey, it will be when you decide to sell your rental property investment. This is because capital gains tax is a tax paid on the profit you make when selling a property.

Buy to Let Mortgages Tax Relief

Since April 2020, the law changed, and you are now no longer able to deduct your mortgage expenses from rental income. Instead, you now receive a tax credit that's based on 20% of your monthly interest payments.

21

Consider Forming a Limited Company

If you read the last section, you will know individual landlords have been struggling with tax relief recently when buying rental properties, thanks to a host of changes in 2020.

To counteract this, many individuals have opened their own limited company when buying rental properties.

With so many landlords going down this route, it would be remiss not to consider it. But what does it actually mean for you? Should you form a limited company when buying rental properties?

Well, first and foremost, there are tax advantages to operate as a company. Limited companies aren't affected by the changes made to mortgage interest tax relief because interest can be classed as a business expense and is fully deductible from your income.

Speaking of income, one huge benefit of forming a limited company when buying to rent is corporation tax. Corporation tax is currently a flat rate of 19%. It means you can make significant tax savings if you earn over £50,000 or £150,000, with individual landlords subject to the 40% to 45% tax rates.

This all sounds great on the surface, but actually getting income from the company can be complicated, as money can't be taken directly out. Instead, you will have to take the money as a dividend or take the money as salary.

Both cases can be complicated as the former is subject to tax rates of 7.5% for a basic rate, and 38.1% for higher rates.

22

Play the Long Game

Playing the long game also includes keeping hold of your rental property through times of uncertainty. It’s common for investors to panic during periods that the economy and property market seems unstable.

A good example is the recession of 2007. During this time, many property investors sold their properties out of fear that they would lose money. In reality, investors who held onto their rental property investments during this time have now seen property prices grow higher than they were before the recession, benefitting from significant capital gain.

Let’s use a practical example to show the benefits of playing the long game.

In 2001, buying to rent a typical Manchester property would cost about £44,813, according to the UK House Price Index.

Jump forward 20 years, and if you sold the same property in February 2021, you could expect to sell the property for £199,235.

That’s a 344.59% profit on rental property investments in Manchester.

23

Keep an Eye Out for Deals

Many companies, particularly during the 2020/2021 Covid-19 pandemic, started offering their rental properties at below-market rates and offering deals such as assured rental yields for a set length of time.

A lot of the time, a company may not advertise available deals and may only disclose them once an investor has enquired about the property.

A good tip for finding out about the latest deals before buying a rental property is to sign up to a property company's mailing list, where you'll be updated on new opportunities that hit the market.

If this is something you're interested in, use the sign-up form below to sign up to our mailing list and be the first to know about the best deals and discounts available with RWinvest.

Join Our Mailing List Today and Get Exclusive Offers and Pre-Release Discounts Directly to Your Inbox

JOIN NOW

25

Invest in Insurance

Our final tip is designed for keeping your investment as safe as possible. To do this, it is highly recommended you get insurance on your rental properties investment.

We've already touched on insurance expenses earlier in this guide, but it is such an important topic that it deserves a tip on its own.

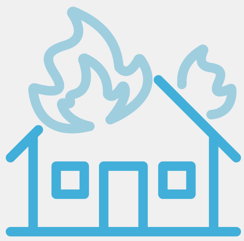
You may not realise, but there are specific insurances designed for landlords, some of which are considered compulsory by mortgage lenders.

If you're asking how to buy your first rental property, it's vital you protect your asset with insurance.

But what type of landlord insurance should you opt for, and what do they protect you from?

Building Insurance covers you for:

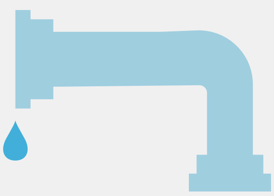
Flood Damage



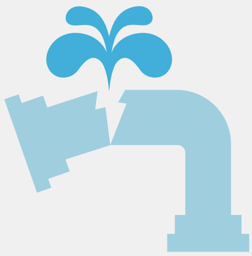
Fire Damage

Theft

Smoke Damage



Water Leakage



Burst Pipes

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