

**Buying to let:
a guide to the
UK market.
What expats
need to know.**



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New York Herald Mar 1917

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For expats, buy-to-let in the UK presents an interesting prospect for many different reasons. There may be the need to acquire a property to live in at a future date or the desire to gain a foothold in the UK's vibrant property market. On top of this, there is much to consider before buying a property.

Buying to let is undoubtedly a significant financial commitment for anyone. There are many factors to carefully evaluate, whether buying an initial buy-to-let property or expanding a portfolio. Inside this guide, three expert writers provide an overview of the key considerations:

- The importance of understanding the market
- What makes a good location?
- What does it take to be a landlord, what should be expected from tenants and what is the role of a letting agent?
- The different costs and tax that can apply to buying, running and selling a buy-to-let property

This guide is intended to be an introduction to much of what is entailed in buying to let. As well as accompanying factsheets and articles, throughout the guide you can find links to more detailed and up-to-date information online. We have a range of material available including property market and tax updates. Speak to us to find out more.

Contributors

We asked a team of writers to cover the key aspects of buying to let: location, landlord responsibilities and financial considerations.



Andrea Dean is a freelance homes and property journalist. Andrea looks at what makes a good rental location.



Graham Norwood is a property writer with hands-on experience as a buy-to-let landlord. Graham explores the responsibilities of landlords and tenants.



Nicole Blackmore is a senior personal finance reporter at the *Telegraph*. Nicole discusses the financial considerations of buying to let.

Your property may be repossessed if you do not keep up repayments on your mortgage.

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The UK rental market.

The UK has an established rental market, with plenty to explore for the buy-to-let landlord.



Buying to let in the UK

The UK property market has seen a growing number of buy-to-let homes in recent years, helping to create what is now an established rental sector. Bank of England data shows that the number of buy-to-let mortgages has increased gradually over more than a decade. This has coincided with house price growth outpacing income growth, and an evolving UK mortgage market.

Despite the apparent popularity of the UK's buy-to-let market, it should not be approached without caution. Headline return figures can be misleading, disguising what can be vast regional disparities and the potentially high impact of running costs.

Get to know the market

In this guide, you can find out more about the market before purchasing a first property to let or expanding a property portfolio. You can also find links to online sources for the latest information to assist your research and to help in the process of choosing how to source or manage a buy-to-let property.

Accompanying the guide are factsheets and other articles that provide up-to-date views and statistics on the state of the UK property market, as well as considerations for international landlords.

Key considerations

THE RIGHT PROPERTY

Choosing a buy-to-let property is quite different from choosing a new home for yourself. Locations and property types that are attractive for renters should be of a higher priority than personal taste. In the next section, we look at some of the key factors that may make for an attractive rental location.

RESPONSIBILITIES

As an expat or international landlord, there may be additional considerations when it comes to managing a buy-to-let property. It's important to consider how relationships with tenants can be managed and obligations met when deciding to become a landlord. Find out more on page 9.

FINANCES

The potential financial returns from buying to let need to be balanced with a good understanding of the potential costs that can be incurred. The actual return, or net yield, on a property will be lower due to costs of owning and managing a property, tax and also exchange rates. An overview of the financial aspects of buy-to-let can be found on pages 11-12.

Updates and more information

▶ **HSBC Expat**
www.expats.hsbc.com

▶ **National Landlords Association**
www.landlords.org.uk

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Good rental locations.

Choosing the right location for buying to let is often the key to success.

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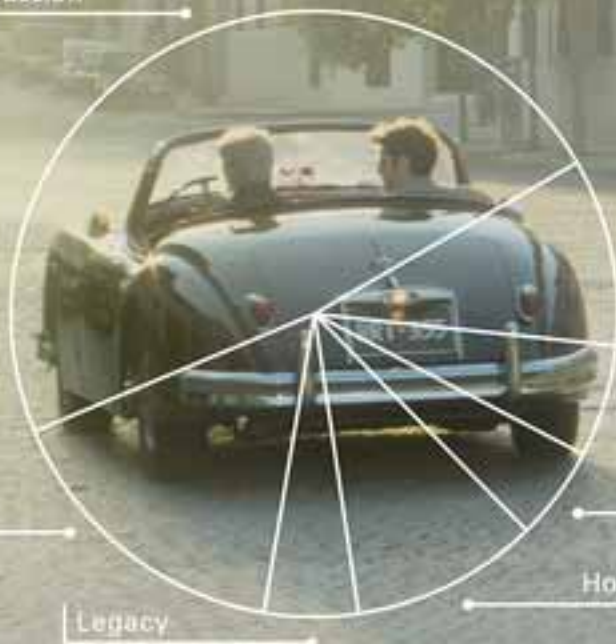
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In the decade to 2014, the number of households in the private rented sector virtually doubled. (The English Housing Survey, 2015). A trend that seems set to continue.

“A lot of people are going to be renting – by choice or by necessity – for as far ahead as we can realistically look,” says Paul Smee, Director General of the Council of Mortgage Lenders.

This is clearly good news for potential landlords, but it’s vital to choose the location of a buy-to-let property carefully in order to generate a decent rental income along with capital growth.

Demand and cost

Consider where there’s strong demand for rented accommodation and the profile of local house prices. A property should also be selected based on the type of tenant you want to attract.

“Buy-to-let remains an attractive option for investors, but it’s important they focus on locations where rents have outpaced house prices. This means not just looking at large towns and cities, but also at commuter areas, and those with high rental demand and concentrated employment, such as a hospital or university nearby,” says Tracie Pearce, head of mortgages at HSBC.

Do your research

Focus on suburbs offering fast rail and road links into economic centres for commuters; university towns and cities with substantial student populations; and boroughs with high-achieving state schools – a magnet for families.

Find out where changes are planned that could drive future growth and demand – for example, increased investment, regeneration, improved transport links or major company relocations.

Local knowledge

Even if you have a clear idea of where you want to buy, talk to lettings agents who will have detailed knowledge of the local market and how much rent you can charge. See the box for useful resources, including an online source of location-specific data that can provide median and average rents for different types of property in a given area.

The Association of Residential Letting Agents (ARLA) advises against letting personal taste cloud your judgement when buying a rental property. Instead, your decision should be based on market requirements. Modern flats with double bedrooms of equal sizes – and ideally two bath/shower rooms – appeal to professional sharers, whereas families want houses with eat-in kitchens, outside space and off-street parking.

“Consider where there’s strong demand for rented accommodation and the profile of local house prices. A property should also be selected based on the type of tenant you want to attract.”

Homes for learning

The student housing market has changed dramatically in recent years, with huge investment in good-quality, purpose-built accommodation – far removed from the traditional idea of rough-and-ready student digs.

According to estate agency Savills, higher-ranking universities have seen an increase in domestic and foreign students, which would suggest an increase in demand for accommodation.

Making a connection

Whatever type of tenant you’re aiming for, don’t underestimate the importance of proximity to transport links. A survey by estate agency Knight Frank in 2014 revealed that 78% of renters wanted to live within one kilometre of a train station or bus stop.

More information

▶ **Home.co.uk – UK property information website**
www.home.co.uk

▶ **Association of Residential Letting Agents**
www.arla.co.uk

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Landlords & tenants.

Before committing to buying to let, it's important to acknowledge the various responsibilities of becoming a landlord.

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Owning a buy-to-let property has been a popular investment in the UK, and the long-term forecasts for the market would appear to support its future popularity.

However, buying to let is unlike most other investments, largely due to the requirement to manage tenant relationships and meet the various obligations of being a landlord.

Managing a property

Managing a buy-to-let property from a long distance can add some complications; as a result, many landlords instruct professional letting agents based close to buy-to-let properties.

In return for a fee, generally between 5% and 15% of rental income, agents handle some or all activities from tenant selection and vetting, through to rent collection, repairs and cleaning. They also deduct tax from rent for expat landlords when required by law. Agents are often members of a number of schemes or associations. They may be part of two or more of the following:

- Association of Residential Letting Agents (ARLA)
- UK Association of Letting Agents (UKALA)
- National Approved Letting Scheme (NALS)
- Royal Institution of Chartered Surveyors (RICS)

An agent is legally required to be part of a redress service for handling complaints from landlords or tenants, and must also place tenant deposits in a Tenancy Deposit Scheme protecting the funds should an agency encounter financial problems.

Landlords' responsibilities

The UK government sets out laws and guidelines on the role and responsibilities of landlords. These include:

- Keeping a property safe, achieved by arranging gas, electrical, fire and carbon monoxide checks by registered experts, and by installing alarms, as set out in law.
- Meeting requests by tenants for reasonable improvements, such as periodic redecorating.
- An Energy Performance Certificate has to be issued by a qualified provider; from 2016, tenants can request energy efficiency improvements in some circumstances.
- Some local councils require landlords to possess licences deeming them 'fit and proper' to manage properties. Landlords in Wales are also required to register for Rent Smart Wales scheme. Most regulations apply across England and Wales, with some differences in Scotland.

Tenants' responsibilities

Managing a buy-to-let property is a two-way street, so tenants have responsibilities too. UK government guidelines say tenants:

- Must pay the agreed rent in all circumstances and meet all agreed utility and council tax charges.
- Cannot sublet without a landlord's consent.
- Should manage the property sensibly. For example, this may include taking precautions during harsh weather and allowing reasonable access to conduct repairs.
- Must also pay for damage caused during a tenancy, which may be covered at the end of a tenancy by the retention of some or all of a tenant's deposit.

Serious measures

Past surveys have shown that the majority of tenant and landlord relationships are good. However, the Housing Act 1988 and the Assured Shorthold Tenancy – the most common tenancy in Britain – allows landlords a range of options to evict tenants. Letting agents and specialist eviction services exist to assist in these rare circumstances.

Updates and further information

Association of Residential Letting Agents (ARLA)
www.arla.co.uk

UK Association of Letting Agents
www.ukala.org.uk

Royal Institute of Chartered Surveyors
www.rics.org/uk

National Approved Letting Scheme
www.nalscheme.co.uk

UK government
www.gov.uk

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The finances of buying to let.

When it comes to deciding to buy a property to let, it is important to be realistic about the returns on offer and the costs that may be involved.



The potential for both income and capital gains from a buy-to-let property can look attractive. However, the outgoings on owning such an asset, from the cost of managing a property to tax bills, can dramatically reduce those headline figures. There are also financial risks to consider, including void periods (where a property is not let), currency fluctuations and the potential for falling house prices.

Buy-to-let returns

Overall returns on a buy-to-let investment can be simplistically calculated by looking at the costs of buying a property, versus the potential rent that will be paid by tenants, before deducting costs that would reduce the total return made. A variety of market factors will affect actual returns. In the UK, there can be wide variations from the national average. Regional returns will vary due to rental demand, average rents, the costs of buying property and of servicing a mortgage.

Rental income

The rents paid by tenants vary significantly by region. In recent years, the cost of renting has been much higher in London and the South East than in other areas. University towns and areas with strong employment opportunities tend to deliver higher-than-average rental incomes.

Working example

- **Imagine a £250,000 property on which you earn rent of £1,000 a month (this is a gross yield of 4.8% a year).**
- **A 75% interest-only mortgage of £187,500 with a 4% annual interest rate would carry monthly repayments of £625. Add to that a 15% agent fee of £1,800 a year, and annual maintenance and insurance bills of £1,000, which amounts to additional costs of £233 a month.**
- **Your final monthly income would be £142. The net annual yield, in this example, is 2.7%.**

Please note: this figure is also potentially subject to income tax. After tax, this could potentially result in a net loss.

“A variety of market factors will affect actual returns. In the UK, there can be wide variations from the national average.”

Capital gains

House price growth, which can significantly boost returns, is not guaranteed. Prices can fluctuate from month to month. Despite a general growth trend in the UK housing market in past years, it has not been an unbroken path: In 2008, prices fell sharply across the UK, with growth returning by mid-2009.

So while recent years have seen growth, keep in mind that past performance is no accurate guide to the future and house prices may also fall.

Calculating the costs

To work out the potential profits of buying to let, outgoings must be taken into account. Some of these can be offset against the tax due on an investment property.

Mortgage finance:

Buy-to-let mortgage lenders typically require a minimum deposit and also monthly rental income that more than covers monthly mortgage payments.

Both fixed and variable rates may be available for BTL mortgages, while the type of mortgage – capital repayment or interest-only – will also affect the interest rate chargeable, as will the loan term.

When taking out a mortgage, booking or arrangement fees may be charged. For example, an arrangement fee may be applied, which could be around 1-3% of the loan amount, or a fixed fee. At HSBC, a fixed booking fee may be payable. A valuation survey of the property will also be needed, which incurs an additional charge.

Lending options for landlords living overseas may be limited. Fewer lenders may make mortgages available to expats or other overseas residents, so interest rates could be less competitive. Arranging a UK mortgage from Hong Kong or Dubai, for example, may be more complicated than for domestic landlords seeking property finance.





Tax:

A number of taxes may apply when buying a rental property:

Stamp Duty Land Tax (SDLT) – This is payable when a property is purchased. It is a percentage rate charged on a proportion of the property value; the rate paid will vary depending on how much the property is worth. From 1 April 2016, higher rates of SDLT will be charged on BTL properties above £40,000. The higher rates will be 3% above the current SDLT rates.

Income Tax – Property owners who are not resident in the UK are generally required to pay UK Income Tax on rental income. Some of the costs of financing and maintaining the property can be used to reduce the tax bill, however the rate of tax relief is due to change between 2017 and 2021.

Capital Gains Tax (CGT) – UK residents and foreign owners must pay CGT on the profits when selling or disposing of a buy-to-let property that has increased in value.

Letting Agent fees:

Fees for letting services are normally a percentage of the rental income, and will vary by agent and service level.

Lower fees will cover basics such as finding and vetting tenants, and preparing an inventory. Ongoing property management services, which include managing periodic rent increases, will incur higher costs.

Other considerations:

It's also important to factor-in landlord insurance, legal fees and maintenance costs. Leasehold properties may incur additional service charges or ground rents.

International landlords will also need to think about any currency impacts from receiving or making payments. Currency solutions can be used to manage exposure to changes in currency markets and to time payments.

“Currency fluctuations also need to be considered as they can push costs up and profits down, and vice versa.”

Make sure you assess the pros and cons

When thinking about buying to let, it is important to fully consider the financial implications and take a longer-term view. Money invested in property is likely to be tied-up for a long time, and it may not be possible to sell quickly.

Property prices, rental income and interest rates can all change, affecting overall returns. Currency fluctuations also need to be considered as they can push costs up and profits down, and vice versa.

If all of the costs are known and carefully considered, however, buying to let in the UK can be a financially viable investment in a dynamic property market.

Updates and further information

▶ **UK government – HMRC**
www.gov.uk/government/organisations/hm-revenue-customs

Our checklist and where to find more information.

- THE MARKET**
 Understand the state of the UK property market and rental sector
- LOCATION**
 Find the right location for your potential tenants, and you, through local research
- RESPONSIBILITIES**
 Make sure you know the responsibilities of being a landlord in the UK
- COSTS AND RETURNS**
 Calculate what it might cost to buy and manage a buy-to-let property, and consider the impact of financial risks from void periods or market changes
- MORTGAGES**
 Research your mortgage options
- FIND AN AGENT**
 Select a letting agent that's right for you

Directory

- ▶ **HSBC Expat** – visit our website for the up-to-date news and views on the UK property market and buying to let.
www.expat.hsbc.com
- ▶ **National Landlords Association** – the organisation for landlords provides information and support services for members.
www.landlords.org.uk
- ▶ **UK government** – the UK government website contains information for landlords and tenants. Up-to-date guides on UK tax rates can also be found here.
www.gov.uk
- ▶ **Letting agents may be part of one or more associations or organisation such as:**
UK Association of Letting Agents
www.ukala.org.uk
Association of Residential Letting Agents
www.arla.co.uk

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You should always think carefully before purchasing a buy-to-let property. The value of a property is a matter of opinion and not a matter of fact, not all properties will grow in value or provide sufficient income to cover all your associated costs. You will be responsible for your costs even if you do not have a tenant. Property can also be difficult to sell and you may not be able to sell quickly if you need to do so.

Your property may be repossessed if you do not keep up repayments on your mortgage.

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