

Buy To Let Guide

Buy to let is a form of investment where a residential property is purchased with the intention of renting it to make a profit. The person renting out the property becomes a landlord, and must comply with a number of statutory requirements. Not everyone becomes a landlord by purchasing a specific property to rent. Some people become 'accidental landlords' as they let out their residential property and use some of their equity as a deposit to buy a new home; this is described as let-to-buy. Whatever your route to becoming a landlord, we are here to show you how to finance the purchase or remortgage of a buy to let property. Your letting agent will advise you on your obligations as a landlord and finally help you find the right tenant. Together we will help you on the smooth path towards becoming a successful landlord. Selecting the right property to rent out is a critical element to becoming a landlord. To do this you should spend a significant 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) which means that if your mortgage costs £800 a month, the rent will need to be at least £1,055 a month. Most lenders do base this on a higher rate such as 5.5% - 5.99%. Typically you will need a deposit of 25% of the property value. However, the larger the deposit, the lower the mortgage rate will be, which means your earnings relative to mortgage repayments will be greater. Most lenders, although not all, will require you to have an annual salary of £20k or more in addition to the monthly rental income. A mortgage broker can be invaluable in helping you find the best value buy to let mortgage to suit your personal circumstances

Stamp Duty

Recent changes in stamp duty calculations mean that landlords will now have to pay an increased rate of stamp duty on Buy To Let properties

Stamp Duty Rates

£0 - £125,000 3%
£125,001 - £250,000 5%
£250,001 - £925,000 8%
£925,001 - £1,500,000 13%
Over £1,500,000 15%

For example: If you bought a property for £300,000 you'd pay the following stamp duty:

- On the first £125,000 – £3,750

- On the amount from £125,001 to £250,000 - £6,249.95
- On the next £50,000 - £4,000 This comes to a total of £13,999.95