Property Investor Guide

Lighthouse Property Services

next

Why invest in property?

Many investors see property as a favourable alternative to more 'intangible' investments. Not only does it offer the opportunity for both short term profit and long term gain, but it has also proven to be extremely resilient against wider economic challenges over time.

For some, property is the chance to diversify in order to better protect their money. For others, owning something tangible, ('bricks and mortar') gives a feeling of security that a number on a statement simply never could.

Being able to take a hands-on approach to improve a home - and directly affect its immediate earning potential and long-term capital gain - also makes property ownership an attractive prospect. Whatever the reason, if you have clear financial goals you want to achieve, property is still one of the most stable places you can choose to invest.

A *balanced* investment approach

There are many factors that need to be understood in order to create an optimum investment strategy. These will include such elements as your objectives, short term and long term cost burdens and personal circumstances. For example, the older you are, the more you should potentially be wary of risk as you have a shorter time to correct any portfolio downturn.

Diversification is a key term. Put simply, this means having a mix of investment types with the goal being to reduce risk and yield higher returns – avoiding having 'all your eggs in one basket'.

So, does property meet the criteria for being a suitable element of a diverse portfolio?

The benefits of property investment

- Property performance can be very different to traditional vehicles such as stocks and shares so certainly meets the diversification criteria. It's value isn't directly linked to stock market performance so if shares dip, there's not necessarily an equally negative correlation with property.
- Property can help you achieve higher returns whilst reducing the risk of your overall portfolio.
- Property can provide protection against inflation - there is an opportunity to increase rental income either contractually or at tenancy change-over so real returns can be maintained.
- Property is a tangible asset that you can physically impact to increase its value and make returns from. Good quality tenants, reduced void periods, decoration and property improvements can all directly affect its value. You have more direct control here than over other types of investment.
- Property provides regular income generation which can be stable and actively managed, either directly or through a management business.

So, we've established that property is a powerful investment vehicle.
But what type of property is best for you?...

What makes a good property investment?

When assessing what makes a good property investment there are several factors to consider. It's a good idea to take personal tastes out of the equation – be objective about what property would create the best rental opportunity as this may be very different to one that you would live in yourself.

Schools
Important for attracting the family market and as a rule, the better the school reputation, the higher the rental value. Properties near a good school also attract a higher sale price when it comes to realising your asset.

Job market
The more jobs there are, the greater the potential rental income. Look to see if there are many major employers coming to the area and invest in property ahead of potential price increases.

Average rents
Do your research. What do comparable properties earn in the same area? It's vital for calculating the efficiency of your potential investment. You can simply look in lettings agents windows, or visit sites like Rightmove to see rental values in the area you are interested in.

Crime rate and amenities
Both factors affect the desirability of a neighbourhood. The lower the crime, the better the amenities then the greater the opportunity to attract tenants and high rents, as well as improved capital appreciation.

Associated costs
Different properties will attract different costs – for instance buildings insurance and local tax. Get quotes and understand what these may be as you assess your investment return potential.

Affordability
You will of course need to take into account what property you can afford as well. Finding a great buy to let opportunity may not be the dream investment you think it is if you are financially stretched beyond your means.

A good letting agent will have local property experts to advise and support new landlords and ensure that they have everything they need to make an informed decision.

What are the potential risks?

With the right guidance and patience, a property can become a great asset and the rewards of being a landlord can be plentiful. As well as additional income there are opportunities for tax deductions and it can help you achieve long term security.

But of course, there are risks to consider which it would be remiss not to highlight.

- Property prices can fall as well as rise, which may likely have a greater short-term impact as historically over the long-term, property value increases. But past performance isn't a guarantee of future performance although property risk would look to be relatively low.
- Rental income may vary as demand changes. When there is an over-supply of property, this can force rents down. There is also the risk of void periods, where the property lies empty and generates no income at all.
- Rental property can have significant costs attached to it, these will need to be weighed up against the returns generated to understand the margins involved. Long term, new costs may appear, for example, should compliance requirements change or taxes increase.

Buy to let costs

Tax for landlords can be complex and it comes in many different forms, including;

- Stamp duty in England, Land Transaction Tax in Wales and Land and Buildings Transaction Tax in Scotland
- Income tax
- Capital gains tax
- Inheritance Tax

...and more.

Insurance costs can also be significant but are a necessity. A landlord insurance policy will cover the building and its contents, it can include rental protection cover and some policies can cover legal costs in the event of a dispute.

Additional cost considerations include:

- Property upkeep and renovation
- Safety checks
- Licensing
- Furnishings
- Marketing costs

These will vary to a greater or lesser degree, depending on where you live or what property you have so it's important to do your homework and understand what your overall cost scenario looks like. A letting agent is a good place to start to help you understand your investment opportunity.

Lettings agents will also charge a fee but a good agent will provide a service and value that will save you time and money in the long run and help you make your investment as profitable as possible.

There are also ***tax benefits.***
For more details, click to read our Landlord Tax Guide.

What is the property purchase process?

The process of purchasing a buy-to-let is not too dissimilar from buying a property to live in...

If you need to finance the investment, you will need to consider a buy-to-let mortgage – which tends to have higher charges than a mortgage on a property you live in.

1

Once you have a deposit you will have to go through an affordability check to understand your budget and secure the mortgage.

2

After you have identified a property, the mortgage provider will assess it's rental value and any additional work that needs to be completed.

3

Once you have an offer accepted, you can then start to think about the actual process of letting it out and begin to look ahead to enjoying the benefits of investing in property.

4

We have many years of experience and expertise in letting property. From finding your first tenant, arranging all the legal paperwork through to on-going management, we can help you make the smooth transition to becoming a landlord.

Countrywide Mortgage Services can help with finding you the right mortgage. **Just click here to find out more**

Expanding your portfolio

Once you have invested in property and started your journey as a landlord, then you may wish to consider developing your business approach. Similar to investing in a stocks portfolio, property in itself can offer a diversified approach if and when you look to expand your property portfolio.

Varied location investing
There is no absolute reason to invest in property close to home; looking at opportunities across a wide area may enable you to take advantage of different yield potentials (rental income measured against value of property). This will also spread your risk if one area suffers a dip and helps to smooth out any variations in return.

Varied property types
Investing in a different selection of property types –from family homes to single bedroom apartments allows you to reach a variety of market segments and also protects against changes in demand for different types of property.

Pricing
Consider what mix of property may be best for your budget. Instead of a single property, could you invest in two cheaper properties instead? This could you give you greater opportunity and again is a way to diversify and reduce your exposure to risk

Current rental market conditions*

Recent insight confirms that property remains a potentially strong investment opportunity especially in certain locations around the UK. Average rents excluding London rose by 2.3% in 2020 helped by a continued rise in demand – up 21% year on year across the UK (again, excluding London).

Greater demand has been seen in areas that meet the need for more space - so, more suburban commuter-zones rather than central city locations. This is a change brought about by the COVID-19 pandemic; whether this will change again in future is difficult to forecast, depending upon the course of the pandemic and how deep-set current attitudes amongst renters may be.

If you'd like to know more about investing in property, and how an agent can help, just contact your local branch today.

As well as increased demand, there has been a fall in supply of 11% over a similar period, creating opportunity especially in buy to let 'hotspots' - for examples, keep an eye on our blog posts for the latest news on property investments.

*Zoopla UK Rental Market Report Feb 21