Property investment for beginners:

A Property Geek guide

SAMPLE CHAPTER

SAMLE CHAPTER Typical buy-to-let strategies

Standard, single family buy-to-let

Standard buy-to-let (BTL) is the Bruce Forsyth of property investment: it's been around as long as anyone can remember, has its annoying aspects, but generally can be relied on to do a solid job.

The one thing that can kill a BTL investment (and just to be clear, the Brucey analogy has ended because I don't want to update this when he croaks it) is **voids**. "Voids": your property sitting empty because no one wants to live there while you're still sending money to your mortgage lender every month. Voids are a very bad thing.

How do you avoid voids? *Know your market.* Buy in an area with strong, consistent rental demand, and market towards the people who want to live there. For example, you might be able to get a blinding deal on a three-bedroom house, but if it's in a dodgy part of town where no families want to live? Forget it. If you were happy to rent it to people receiving benefits it could be great, but if that isn't part of your strategy then steer clear.

If there's anything else that can mortally wound a BTL investment, it's a bad tenant. The worst kind of tenant is one who doesn't pay their rent – and it'll be weeks before you're allowed to start legal proceedings. End-to-end, the eviction process takes months – and in the meantime you're still paying your lender and other expenses.

The solution to that? Well, there isn't one – if you've only got one property you're particularly exposed to the risk of a bad tenant because they represent 100% of your property income. All you can do to ameliorate the risk is be very selective, reference check the holy heck out of them, and go with your gut.

Other than that, normal BTL is exactly what we've been using in all our examples so far, so there's no need to say any more.

Renting to tenants in receipt of housing benefit

At the time of writing, Local Housing Allowance (LHA) is the way of calculating the level of Housing Benefit (HB) someone is entitled to. Before long, HB will become part of Universal Credit (UC), but many people still refer to housing benefit as DSS (DSS – oh).

Yep, it's a regular acronym soup in benefit land. But the way LHA is calculated can pave the way to big profits for investors.

It goes like this. The UK is carved up into Broad Market Rental Areas (BMRA – yup, another acronym for your collection). Within each area, every property of the same size gets the same amount of LHA. For example, at the moment, the government will pay £103.85 per week for a family to live in a three-bedroom property in Rotherham.

The opportunity lies in the fact that these BMRAs can be pretty damn broad – and the number of bedrooms is all that matters, rather than other factors that normally make a house more or less desirable.

(Actually, the level of benefit entitlement is calculated based on the circumstances of the occupiers rather than the size of the property. This can create still more opportunities, but let's not complicate matters right now.)

That means that a family would receive the same amount of LHA if they lived in a three-bedroom flat in Rotherham as they would if they lived in a detached three-bedroom house in Rotherham with an acre of land, stables and a private golf course. If such a thing existed.

What does this mean for you as an investor? Well, you can pick up a three-bedroom flat in Rotherham dirt cheap, price it at the exact level of LHA (because you know the government will pay it), and be guaranteed a deluge of applications because there's a huge demand for rental property in most areas of the UK and many landlords won't touch HB claimants.

(I promise I picked this example totally out of the air, but a quick search reveals that you can buy a perfectly serviceable three-bed semi in Rotherham for £45,000, which would give you a gross yield of 12% – based on the level of housing benefit an applicant is entitled to for this number of bedrooms. Blimey.)

But hang on a sec! If the returns are so good, why won't most landlords touch it?

Well. These days, HB is paid directly to the tenant, who's then meant to pass it on to the landlord (although there are sometimes ways around this). Sometimes, tenants find they have other priorities to spend the money on. They often don't have the money for the rental deposit, they can cause more wear and tear than other groups, and they can disappear overnight without any warning.

None of this is meant to be discriminatory – and there are many, many landlords with big portfolios of HB tenants who do very nicely indeed. But it's a fact that HB tenants can be hard work, and the risks can put landlords off. But that leaves the rewards on the table for those who want to make it part of their business model.

Student lets

Ah, students. Dossers who spend all day sitting around stubbing out fags on the wallpaper while they save their energy for an out-of-control house party at night.

Or…not? With average student debt approaching the average weekly wage of a mediocre footballer (hmm, must be a better comparison than that), students are getting a lot more serious than in the days when they were getting paid to be there.

They're more demanding too. When I were a student (all of eight years ago), we had single beds and furnishings older than we were. These days, students won't settle for anything less than double beds, a flat screen TV in every bedroom, and fixtures 'n' fittings straight out of a House of Fraser catalogue.

This means you can no longer shove a bunch of students in a grotty old house and relieve them of their student loan for the privilege, but there can still be a lot of money to be made. That's because you're charging by the room, and the level of rent is generally within some tight norms in any given student town – and can bear no resemblance to what you'd get for letting to a family.

Let's go to Liverpool for this example. The three-bedroom LHA rate for a property in central Liverpool is £121.15 per week. But if you had a three-bedroom mid-terrace property with two reception rooms, you could convert one into an extra bedroom and have four students each paying you £80 per week. That's a full £200 more than the LHA rate, every week.

The other major benefit of students is the predictability with which they come and go. You'll know exactly what week they'll move out at the end of their academic year, by which point you'll already have the next year's tenants signed up. Beat that.

The downsides? There's no killer downside, but lots of niggles. Unrelated people sharing a house means the property is classed as a House in Multiple Occupation (HMO – we'll discuss this next), which can require a compulsory licence and, in some areas, need planning permission if you're changing it from a single family let. Students do cause more wear and tear than families, and properties definitely need to be furnished – which costs money upfront.

Getting finance to buy a house for students can be tricky, as some lenders shy away from HMOs completely, or restrict the number of bedrooms. Then there's the demand side: with tuition fees going up and up, will the number of students go down and down? And if you can't find tenants for your student house, is it in an area where you'd be able to find a family to rent it? Would the lower rent paid by a family still make you a profit?

So students can be highly profitable, but if you get your investment wrong it can cause you a headache worse than a Freshers' Week hangover.

HMOs

An HMO is when more than one "household" shares a kitchen or bathroom – with the most common examples being a student house, a group of friends sharing a house, or a house that's being let by the room. There are actually different definitions of what constitutes an HMO for different purposes, but this basic definition will work for us.

Councils can choose to require operatives of an HMO to apply for a licence, and for large HMOs (those with five or more people spread across three or more floors), a licence is compulsory at national level.

Why the regulations? Well, HMOs are more of a safety risk than single lets, and licences ensure that fire escape routes are in place, gas and electrical appliances are safe, and the house is being run professionally.

As we saw with student houses, HMOs can be highly profitable. By packing in as many bedrooms as possible, the total rent you can get from an HMO can dwarf what you'd get from the same house as a single let.

This profit is the landlord's reward for doing what can be a very effort-intensive job. Apart from the regulatory burden of making sure the HMO meets council standards, wear-and-tear will be higher than if the property was let to a family, rent needs to be collected from each tenant individually, and bills are often included in the rent so the landlord needs to keep on top of this paperwork too.

There's also issue of tenant turnover. Depending on the type of tenant you target, they can often be quite transient – and every time someone leaves there are marketing expenses, costs to reference check the new tenant, and the possibility of a void period. Combine this with increased maintenance costs, and the profits aren't as high as they might first seem.

An HMO can still generate a lot of cash if costs are realistically estimated and voids are minimised. The secret of a successful HMO? As with other investments, *know your market*. If you want to cut down on hassle and target young professionals, buy in a desirable area and furnish the property to the standard they'll expect. If you want to target the LHA market, buy cheap, go for hard-wearing furnishings, and have systems in place to collect rent efficiently and stay on top of any issues.

For an eye-opening look at what running an HMO can be like, you should read **HMO Landlady's blog**. If you read her stories and still think HMOs are something you could be cut out for, they can be a very profitable investment strategy.

Holiday lets

Moving on, let's recover from all this HMO chat by going to the seaside. Or the Lake District, or a nice cottage in the countryside. Because the British holiday is alive and well, especially in recessionary times (and when Ryanair has put many people off flying for life).

Successful holiday lets are about three things: location, marketing and pricing. If you buy in a popular location, you should fill up the prime weeks of the year relatively easily. But the returns come from successfully filling the "shoulder months" – times when you have a realistic chance of some demand, but it's not peak season. That's where marketing comes in.

Pricing is vital because you'll want to vary your rates throughout the year to maximise occupancy. Luckily, your competitors will by necessity be very open about their own pricing, so you'll know how to position your property competitively.

The obvious downside of holiday lets is that you'll never know exactly what your rental income will be, because your occupancy rate will be unknown. There might also be relatively high costs to factor in – you'll need to pay for cleaning between tenants, and maybe a managing agent to deal with check-ins if you don't live locally. Then there are your marketing expenses.

The flipside is that you'll be spreading your risk – one bad tenant can't mess you up for months on end. And if you've worked out your numbers based on a conservative occupancy rate, you can keep tweaking your pricing and marketing to boost your occupancy and therefore your profit.

As you might have gathered from all this talk about tweaking prices, marketing for the quieter months, dealing with constant check-ins and check-outs and so on, *a holiday let needs to be run like a business*. Using a managing agent can help, but even if they're competent they're not going to work as hard to maximise occupancy as you would. After all, an empty week might mean £500 to you but it's only £50 to them.

Then again, if it's sitting empty you can always take a nice break there yourself.

Thank you for reading this sample chapter!

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