Property Investment Guide 2023

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Introduction

Over the past 25 years, Britain has turned into a nation of property investors. One in ten of us now owns a buy-to-let (two million people) or an overseas property (one million), an increase of more than 50 per cent since 2000. It all adds up to investment real estate worth more than £1.5 trillion.

For those who are interested in joining this club, the entry fees are steep, but still affordable for anyone on an average salary. It demands time and effort, but the rewards – both financial and in terms of job satisfaction – are generally rich compensations.

If you've thought about making a property investment, but feared that the complexities and administration would be too much, this guide is for you.

It sets out in straight-forward terms how to approach property investing, providing a logical and comprehensive guide to sourcing, buying, managing and selling all the main types of investment property.

Investing in property is always an adventure, but it doesn't have to be a nightmare.

Good luck!

Chapter 1

Sourcing a property

First question – why?

When you're setting out to source a property, be clear what you want to achieve. Will it be part of a long-term portfolio, which you'll hold for years as an asset, with letting income? Or do you plan to refurbish and sell quickly? Are you aiming to diversify an existing investment portfolio or establish an income stream to supplement your pension?

With a longer-term asset, you'll need to factor in management and ongoing costs. For example, you may need to visit the property or arrange renovation and repair work. Equally, if you're planning to refurb and flip, there will also be good reasons to look nearby, so that you can get to the property easily.

Are you looking for a regular source of income, or for longer-term capital growth? A property in an area with strong letting potential such as a busy town or city is more likely to generate regular income than a rural property far from transport links.

Second question – where?

To choose a location for your investment property, it helps a great deal if you know the area well. For most people, this means investing in or near the area where they live.

Through your own local knowledge, you can accept or reject specific locations, because (for example) they suffer from excess noise, traffic or have a poor reputation. Someone who was unfamiliar with the are might not realise these factors, but they can have a major influence on property values and letting prospects.

You'll also probably know about popular cafes, restaurants and shops, about great transport links, leisure facilities and schools. People can research these factors, but as a resident, you'll know more about them than most – including anticipated changes such as a new transport route, a new leisure centre or the fact that a school's status is improving.

To add to your knowledge, do some extra research. Check out property websites such as Rightmove, PrimeLocation and Zoopla, to see what properties are available for sale and rental, how much they're on for and for how long. Also look at Google Maps if you're interested in development opportunities – you may be able to spot land with planning potential.

Next, check out local authority websites to see their planning policies. This will tell you where the priority is for Houses of Multiple Occupancy (HMOs), or for student accommodation. The Land Registry portal gives you exact figures for what a property most recently sold for. So you can match this figure with contemporary valuations and earlier figures from comparable properties.

Third question – how much?

When sourcing an investment property, be sure to factor in all relevant costs at an early stage. The purchase price will clearly be the largest single expense, but it's only one of many costs. Add up any service charges, ground rents, council tax, Stamp Duty Land Tax and income tax, then compare the overall costs with the prospective income – including void periods. In the UK, average void periods in letting properties are 20 days per year.

The yield you should be looking for will vary, depending upon the area of the country in which you're investing. For example, yields in London are generally 6 per cent or lower, whereas in the North East of England, they are typically 10 per cent or higher.

In terms of an ideal purchase price, this too depends on whether you plan to hold the property for long, or refurb and sell. For longer-term assets, paying the market rate in a certain area and condition could be fine, because you can factor in anticipated lettings income and capital uplift. Whereas if you're planning to refurb and sell, known as property flipping, you need to calculate how much below the market rate you're prepared to pay, to allow for your expenses and to give you a profit margin.

Fourth question – how?

Estate agencies – physical and online - are the obvious place to start. It's worth nurturing agents and contacting them regularly, so that you hear about opportunities as soon as they come in, ideally before they've been published. Like most people agents are keen to save themselves time and effort. If they know you're ready to proceed, they'll offer you a property before going to the wider public.

Consider working with a professional property sourcing agent or investment company. They may have opportunities which fit your profile, in terms of price, rental yield and location, saving you a great deal of time. You'll have to pay them a fee, but this could be worthwhile set against other savings.

A relatively new option is property crowdfunding, where crowdsourcing companies provide investment opportunities on a single platform. This form of investment gives you a percentage holding in a property, or group of properties, and means you have exposure to market increases for an affordable sum. It takes much less time to make the transaction and returns on your investment may start coming in within weeks.

Final question – what?

Studio, two- or three-bed apartment, house, bungalow? Consider the pros and cons of different property formations before you set out on your search. Two-bed apartments are generally accepted as the easiest and most profitable to let. On the other hand, a four-bed house on a long-term corporate let can be a secure and high-earning asset. Research the relative demand for different property types in the area you're focusing on. Are there changes to the market, for example are more single people, or families, moving into the area?

Research local property auctions. These can be a gold mine of possibilities, with properties on offer well below their market rate. But beware: they could also have hidden problems with the legal title, with structural issues, their location or with their neighbours. Due diligence is even more important here. The same applies to repossessions, where the receiver has a short time frame to offload a property. This makes them a highly motivated seller, but it places an onus on the buyer to do their homework.

Chapter 2

Negotiating a property price

It can feel daunting. Even terrifying. When you're trying to buy something that costs maybe 50 to 100 times more than you've paid before, a small mistake can cost many thousands of pounds. So it's worth checking out how the experts do it, with the benefit of years of experience, during which they've probably messed up frequently.

They stick to 10 golden rules:

Rule number one – know your location

Find out what similar properties are selling for and how long they're taking to sell. Are they sitting on the market for months, or do they disappear within a couple of weeks? This gives you a sense of how much competition is out there.

Consider the pros and cons of the area: is there noise from traffic or neighbours? How close are you to shops, transport, parks, leisure facilities? How safe is the neighbourhood?

Try to find a local property report, covering the latest developments, statistics etc.

Rule number two – inspect with care

Commission a report by a professional surveyor, looking at everything from potential damp in the basement to the state of the roof. They will tell you whether the property is worth the asking price. Discuss this with the surveyor. How much would it cost to bring the place up to scratch? They can tell you how much to knock off the asking price.

Do your own inspection of the property, looking for issues. Can you smell anything odd, which could be damp or damaged drains? Is there any mould on the walls or ceilings? How much of the current fixtures and fittings, flooring and decoration, would you keep and how much replace?

Compare the property's size, condition, age and layout to what's on offer nearby.

Check out the Energy Performance Certificate (EPC). If it's low, work out how much it would cost to bring it up to a good standard, through double glazing or insulation for example.

Add up the likely cost of all these things and consider deducting them from the asking price.

Rule number three – be ready to move

What sellers and their agents love is a chain-free, financially ready buyer who can move quickly, saving them months of potential hassle and time-wasting. When buyers are in property chains it not only takes longer to transact, it's also less secure – they could drop out if the chain fails.

Even if you're in a chain, you can still prepare by having a 'mortgage in principle' agreed with a lender, meaning that you're ready to transact as soon as your own sale goes through (if you need a mortgage, that is). Even if the sale on your property falls through but you still want to proceed with your next purchase you could use bridging finance to bridge that gap and avoid losing your next property. This is reassuring to the seller, since it shows you're a serious buyer and can afford the property.

Don't reveal what your actual budget is, just give them a sense that all's fine.

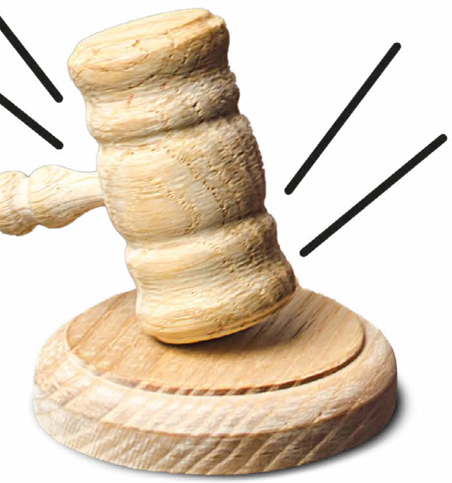
Rule number four – keep your distance

As a property investor, you're interested in the financial advantages of a deal, rather than finding your dream home. Stay calm and business-like in negotiations rather than enthusing about how amazing a property is. Agents will interpret emotional as an excuse to push up the price.

Equally, you want to impress the seller with your credibility and the fact that you can move quickly to complete the deal. You need to be seen as an attractive buyer, someone who is good for the money and competent dealing with legal contracts, rather than an amateur who's out of their depth.

Consider mentioning that you're interested in other nearby properties. This may trigger the agents to accept a lower offer, for fear of losing you.

. **Rule number five – go low, stay low**



Unless there's fierce competition for the property, start your negotiation with a bid at least 5-10 per cent beneath the asking price. Most sellers and agents pitch their valuations high, so you're simply bringing them closer to a realistic level.

While discussing a price, make your position clear: stress how you're ready to move, you have your finances in order, you're chain-free… whatever attributes you have, put them on the table. If the property has been on the market for some time, ask why.

Set a maximum budget and be prepared to walk away. In fact, hinting that you'll walk away can be a strong bargaining position. The seller has to weigh up whether to risk losing you and starting the process again with someone else, or compromising on price and keeping you on board.

Put your offer in writing, so that there's no scope for confusion or debate later on.

Rule number six – be ready to haggle

Property prices are subjective. A place is only worth what someone is prepared to pay for it. So remember – you are that 'someone'. If the property market is falling or interest rates are rising, you may decide that you're not prepared to pay as much as you initially discussed. Or you may have discovered issues with the property that will cost money to put right.

Be prepared to knock money off the asking price for anything that will cost you later. Both the seller and their agent are usually motivated to achieve a quick sale, so they'll be open to bargaining, to accelerate the process.

If there are items in the property that you would use, such as fridges and cookers, see if they can be included in the sale at no extra cost.

Rule number seven – bid smart

If it comes to a competitive tender, with sealed bids, remember to stay within your budget – and the budget your financing will cover. Always offer a few pounds more than a round number – say £450,050 – so you'd trump someone offering £450,000. Discuss your bids with the estate agent: they may give you a clue about what would be a winning amount.

Final thoughts

If you follow these rules, you'll stand a great chance of getting an investment property for a bargain price, or getting a better property for your budget.

One other thing to bear in mind. Because property values are subjective and because people become emotionally attached to their homes, they like to sell to buyers where there's a personal connection. Maybe you have something in common, like a shared background or interest. Maybe they think you'll treat the property well.

Small things, but they could tip the balance in your favour.

Chapter 3

Conveyancing

The stage of buying a property between having an offer accepted and completing the purchase is known as conveyancing.

In almost all cases, a conveyancing solicitor deals with most of the work. Even so, there are important decisions to be made, so it's worth understanding the process and being prepared to ask the right questions.

First, instruct a conveyancing solicitor

The seller's estate agent will probably recommend someone, but you don't have to accept them (they may be paying an introduction fee to the estate agent). Compare the rates they're charging with independent conveyancers to see if you can find a better deal.

Current prices for conveyancers in the UK range between £500 and £1200, plus around £700 for 'disbursements', which means costs such as searches, the Land Registry fee and fraud checks.

Look for a conveyancer who is registered with a professional body. When you discuss fees with them, make sure to ask whether the disbursements are included – ask for an itemised list.

If they're offering a 'no move, no fee' deal, check what it means – would you still have to pay third party costs, or do you need to take out an insurance policy? Also, will you have to pay a deposit, or pay the conveyancing bill at exchange, or completion?

Even though it may seem straightforward, conveyancing can be a surprisingly complex business and lead to disputes with clients. So the more you can find out about the company to reassure yourself, the better.

Next, go through the draft contract

You'll need to check the tenure of the property – whether it's freehold or leasehold. If you find that the lease has less than 80 years to run, think twice about whether you want the property. If it's below 60 years you should almost certainly reconsider unless you're fully aware of the implications, being unable to mortgage the property being an example.

Gather up all the documents to support the contract, including the TA6 form you'll receive from the seller, and go through them with the conveyancer.

Once you've instructed a conveyancer, stay in touch with them and find out the name of the person who is handling your case, so you can ask them about specific details. For example, you may need to know about restrictions and costs relating to a leasehold property.

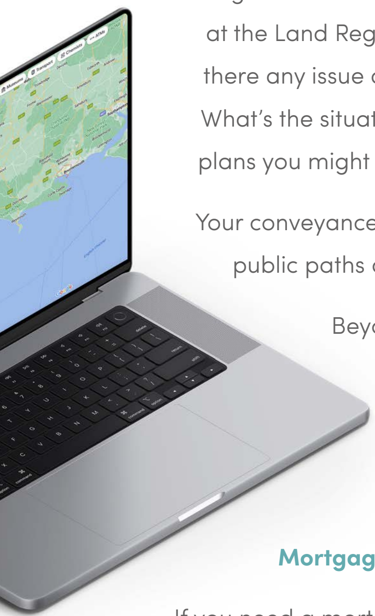
Many conveyancers have online case management systems, so you can see the progress of the transaction. This can be helpful, to keep things moving.

Arrange a property survey

This isn't a legal requirement, but it's definitely recommended. A professional surveyor will spot any issues with the property and could save you thousands of pounds, for example if they spot evidence of damp or dry rot. You could then renegotiate the price, or even decide not to go ahead. Keep your conveyancer up to date with any developments following the survey and get everything set down in writing.

Conduct searches

Your conveyancer will do these, but you should be alert to whatever they find. Are there any plans for a new road or property development nearby? Are the title register and title plan, showing the seller's legal ownership, properly lodged at the Land Registry? Is the property you want to buy at risk from flooding? Is there any issue around contaminated land, ground stability or other hazards? What's the situation with the water supply and drainage – would it affect any plans you might have to do building works?



Your conveyancer will also search Local Authority files for details of things like public paths and common land.

Beyond these standard items, there may be specific searches relevant to your local area. Some parts of the UK have disused mines beneath them. Some properties are liable for 'chancel repair', which is an ancient responsibility to pay for churches' maintenance.

Mortgage and insurance

If you need a mortgage to buy a property, the lender will carry out a valuation to assure themselves that their money is protected. Typically, the buyer pays for this, but some lenders will waive the fee in order to get your business.

They will also require you to take our buildings insurance before you exchange contracts – as soon as exchange happens, you're responsible for the property. Compare quotes for buildings insurance. If you're borrowing from a bank, they will probably recommend their own insurers, but you don't have to accept their suggestion.

Signing contracts

Your conveyancing solicitor will have received a draft contract from the seller's solicitor when the conveyancing process started. As you get closer to exchanging contracts, your conveyancer will ensure that all enquiries have been answered satisfactorily and that the fixtures and fittings in the property that were included in the deal are actually there (consider visiting the property to make sure).

The two solicitors will agree a completion date – usually between one and four weeks following exchange of contracts - and make sure you've arranged to make a deposit into your solicitor's account that will have cleared in time for the exchange. This is usually 10 per cent of the property value and is forfeit if you pull out of the deal after exchange.

Exchanging contracts

On the day of exchange, your solicitor and the seller's solicitor typically have a phone call where each of them read out the contracts, to make sure that they are identical, and then send them immediately to one another by post. Once this has happened, you are in a legally binding contract to buy the property, with a date fixed for you to get the keys.

If for some reason you don't complete the purchase, you will lose your deposit. On the other hand, if the seller refuses to sell, you can sue them. They're also unable to accept any other offers on their property after exchange.

At this point, the property deeds are frozen for 30 working days so that your solicitor can process payment to the seller and make an application to the Land Registry to transfer the property deeds into your name.

Your solicitor will send you a statement saying how much you need to pay to complete the purchase. This amount will need to be cleared into your solicitor's account at least a day before completion. Then your solicitor will apply to your lender for the mortgage loan.

Completion

Some time in late morning or midday on completion day, the seller's solicitor confirms that they have received the outstanding money, then the seller drops the keys at the estate agents and you can pick them up and move in.

There are then just a few final issues to conclude: your solicitor will pay Stamp Duty Land Tax on your behalf, you'll receive legal documents from the Land Registry around 20 days after completion, the conveyancer will send the title deeds to your mortgage lender (who will hold them until you've paid off the loan) and will send you a bill for their services.

Bingo. You're a property owner.

Chapter 4

Stamp Duty
Land Tax

If you buy a property in England or Northern Ireland, you'll probably have to pay Stamp Duty Land Tax (SDLT) on it.

We say 'probably', because there are various exemptions. And if you're in Scotland, the Land and Buildings Transactions Tax will apply; in Wales it's the Land Transaction Tax.

SDLT turned 20 years old in 2023, after its birth in 2003 in the Finance Act, replacing Stamp Duty – so called because an actual stamp used to be stuck onto property title documents, to show that duty had been paid.

Today, there are no stamps, and the tax itself has morphed into a far more complex and changeable beast. Successive government have raised and lowered its thresholds, introduced new exemptions and liabilities, opening and shutting windows like an accountant's Advent Calendar.

So here's a warning: be sure to check the exact terms of SDLT as they apply at the time you're making a transaction, and how they may change in the months and years ahead. Governments are prone to make changes in their annual budgets, to take effect in Finance Acts, so look out for the latest news.

As of spring 2023, here is the current situation.

Basic rates

For properties sold for up to £250,000 no SDLT applies for most buyers.

For properties sold for between £250,000 and £950,000 SDLT of 5 per cent applies to that slice.

For properties sold for between £950,000 and £1.5 million SDLT of 10 per cent applies to that slice.

For properties sold for more than £1.5 million, SDLT of 12 per cent applies to any amount above that level.

SDLT applies to both freehold and leasehold properties, whether you're buying outright or with a mortgage.

Second home rates

To discourage buy-to-let investors and free up property for first-time buyers, the government has introduced an additional SDLT rate for anyone buying a second home. This is 3 per cent above the basic rate, including any amount up to £250,000. So if the second home you buy costs £500,000, you will pay SDLT of 3 per cent on the first £250,000 and 8 per cent (5 per cent plus an extra 3 per cent) on the second £250,000. Then 13 per cent on any amount between £950,000 and £1.5 million, and 15 per cent above £1.5 million.

One thing to watch out for: if you're buying a residential property and – at the same time – selling your existing property, you may end up owning both properties at the same time. This makes you liable to pay the second home rate of SDLT, even if you only have them both for a short time. You can apply for a refund of the extra tax, but you have to sell the first property within three years of buying the second one – and apply for the refund within 12 months of that sale.

Relief for first-time buyers

In England and Northern Ireland, there's no SDLT to pay for first-time buyers on properties costing up to £425,000. Beneath £650,000, they pay nothing on the first £450,000, then 5 per cent on any amount between £450,000 and £650,000. If the property costs more than £650,000, there's no first-time buyer relief.

(We warned you it was complicated!)

Non-resident buyers

If you're a non-UK resident buying residential property in England or Northern Ireland, you're liable to pay an additional 2 per cent SDLT above the standard rate for any property costing more than £40,000.

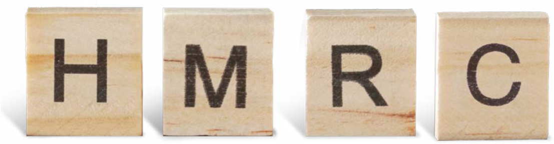
Other exemptions

If you've been left property in a will, or someone has given it to you, SDLT doesn't apply so long as there's no outstanding mortgage on it. If there is, then SDLT is levied on the value of the mortgage, above whatever threshold limit applies. The transfer of a property following a divorce, separation or at the end of a civil partnership is also exempt from SDLT.

If you buy six or more residential properties at the same time, you could benefit from Multiple Dwellings Relief, where SDLT is calculated on the average purchase price from all the properties in the transaction, rather than from each one individually. This can work out to the buyer's advantage in many cases.

How and when to pay SDLT

SDLT has to be paid within 14 days of the property transaction completing – effectively, from when you take possession. Typically, your solicitor will pay SDLT on your behalf, although it's possible to do it yourself. If you're not a solicitor or conveyancer, get an SDLT1 form from HMRC, include a valid local authority code, sign and return it to HMRC.



When paying the tax, be sure to use the correct 11-digit 'unique transaction reference number' (UTRN) and the right HMRC bank account, which will mean that HMRC can link the payment to the SDLT return.

If you make a late SDLT return, you'll be liable for a £100 penalty, rising to £200 if it's more than three months late. After 12 months, this becomes a tax-based penalty, with interest charged on the amount owing.

Mixed use properties

This is a further area of SDLT law with complex terms, so it's worth discussing the situation with a good solicitor who understands the details.

If you buy a building with an apartment above a shop, then this counts as mixed-use. SDLT is then charged at commercial rates, which are zero up to £150,000, then 2 per cent between £150,000 and £250,000 and 5 per cent above £250,000.

Other examples of mixed use include large country estates, where some of the land is used for farming. As with other areas of SDLT, the rules are liable to change and there are debates between HMRC and legal advisers over what constitutes mixed use. So get good advice.

Final thoughts

Because SDLT can be a major burden on buyers, sellers like to price their properties just below SDLT thresholds. They know that a £949,000 property (5 per cent SDLT above £250,000) is more attractive than a £980,000 property (10 per cent SDLT on the final £30,000). Use this knowledge to your advantage.

Chapter 5

Financing options

As a property investor, this issue is possibly the most important one of all. Financing makes or breaks an investment.

The most common form of property financing is the mortgage, typically sourced from a bank or building society. There are hundreds of mortgage products available in the UK, so you can choose from many different options:

- A repayment mortgage, where your monthly payment includes interest plus a portion of the capital that you have borrowed.
- An interest only mortgage where your payments only cover interest on the capital. You need to make other arrangements to repay the capital at the end of the mortgage term.
- Mortgages can last anywhere from five years up to 35 years or even longer. A shorter term will mean higher monthly repayments.
- The interest rate that you pay can either be fixed for a specific period of time – generally between two and five years – or a Standard Variable Rate, which moves along with UK national interest rates. Or it could be a 'tracker' mortgage, following the Bank of England's interest rate for example.

The interest rate that you're offered, and the size of deposit that lenders demand, will depend upon your age, your income and expenditure, your credit history and the type of property you're buying. Lenders prefer traditional stone or brick-built houses with tiled roofs rather than wooden homes or thatched roofs. They prefer freehold to leasehold properties (where you may be at the mercy of high service charges or renovation bills) and are happier if the property is not in an area of flood risk.

Even if you have a poor credit history, an insecure income, a small deposit, you're over 50 or want to buy a non-traditional property, you may still be able to find lenders who will extend you mortgage finance. Specialist mortgage brokers can advise you on these options. The interest rate and/or deposit may be higher than for other borrowers, however.

To take out a mortgage of any size, you'll currently have to provide a deposit of at least 5 per cent and sometimes as much as 50 per cent of the property's value, depending upon your credit status and other factors.

As a rule of thumb, lenders will make mortgage offers based on four-to-four-and-a-half times income. So if you earn a salary of £50,000 as a full time employee, or make £50,000 a year in self-employment, you can expect to borrow up to £225,000.

Self-employed people need to provide three years of approved accounts, along with itemised lists of borrowings, future income and prospective outgoings.

Many lenders offer buy-to-let mortgages which are usually interest only, so investors can cover their payments through charging rent to tenants. They can then pay off the capital at the end of the term through selling the property, or from other sources. Lenders generally want a deposit of at least 50 per cent with buy-to-let mortgages.

If you already own a property, you could consider equity financing, where you borrow money based on your existing equity. This is similar to a mortgage, since it uses your home as security for the loan.

When calculating mortgage affordability, bear in mind the likely extras you'll have to pay:

- An arrangement fee, which lenders charge for administering the mortgage. This can be anywhere from a few hundred pounds to £2,000 or more.
- A booking fee, which you must pay in advance for a mortgage and isn't refundable if you pull out or the deal falls through. This is typically £100.
- A valuation fee, charged by the lender to carry out a survey to value the property. Some lenders include this in the arrangement fee and some charge it separately. Depending on the size of the property, it can cost anything from £200 to £1,500.
- A transfer fee. This covers the payment from the mortgage lender to your solicitor, and is usually a modest about, say between £30 and £60.
- A higher lending charge can apply if you have a relatively small deposit. It pays for the lender's insurance in case you can't repay the mortgage and they have to sell the property at a loss. It's usually around 1.5 per cent of the mortgage.
- Legal fee, charged by your solicitor, either as a fixed fee or as a percentage of the mortgage. It's often around £1,000, or higher, if it includes the Stamp Duty Land Tax, which they pay on your behalf.

Bridging finance

This shorter-term form of lending comes into its own in four main areas of property investment.

1. Buying property from auction

If you're buying a property at auction, you may need to raise significant funds quickly. Arranging a mortgage is likely to take at least three weeks and often six or seven. Whereas you can secure bridging finance in a matter of days. Bridging finance can be an especially useful option when the property is unmortgageable with high street lenders due to disrepair.

2. Buying before selling another property

The second major reason to take out bridging finance is where you're buying and selling simultaneously and you need to pay for one property before you've sold the other. Bridging finance enables you to close the transaction in good time, rather than be rushed into an unsuitable deal – or keep other people waiting.

3. Property flipping

Third, bridging finance can work well if you're buying properties to refurbish or renovate and sell (aka 'flipping' properties). If you're confident that you can complete the work in good time and make a sale, then the potential profits from this arrangement will far outweigh the interest payments you'll have to make.

4. Buying a property with a short lease

Fourthly, bridging finance can be used to purchase leasehold properties such as flats that have a short lease. As high street banks avoid lending on these types of properties the purchase price is often low to attract potential cash buyers. Once the property is purchased the lease can then be negotiated - be warned it can take some months and will cost you upwards of £2,400 and in some cases a lot more. Read this useful guide for more about lease extension costs and financing.

"We've seen first hand that property investors can unlock significant value through using bridging finance," says Stephen Clark at bridging loan Finbri. "For serious property investors, flexibility and speed make all the difference to whether a deal happens or not."

Chapter 6

Residential Vs commercial property

In general, investors like to stick to either residential or commercial property, with those who are newer to the sector more likely to go for residential.

This makes sense, because anyone who has bought a property to live in knows quite a lot about the process. They can then extend this knowledge into an investment.

Even so, there can be good reasons to invest in commercial property, whether on its own or as part of a semi-commercial or 'mixed-use' investment.

By commercial, we mean any property that is used for business, whether it's a shop, a medical centre, a restaurant or an office.

Here are the main pros and cons of commercial vs residential property investment:

Upsides of commercial

Your potential profits may be higher than for residential, thanks to longer lease lengths and higher rates per square metre. Tenancies are usually for several months, if not years, giving you security of income over a longer period, with less ongoing administration.

Commercial tenants are normally responsible for the upkeep of their premises, including renovations and refurbishments, repairs and damage. This can be a major saving, in comparison to residential property, where you may have to mend the roof or fix the boiler.

When you buy a commercial property, you are exempt from the 3 per cent Stamp Duty Land Tax (SDLT) that applies to residential properties bought in addition to a main dwelling. This can be a significant saving, especially in an expensive neighbourhood.

For residential property investors, buying commercial premises is an opportunity to diversify their portfolio, meaning that they receive income from two different asset classes. This can help protect them against a downturn in one or other of the property types.

Lastly, it is now easier to convert some commercial buildings to residential use, thanks to changes in planning laws. In March 2021 the government relaxed rules for changing use from Class E (shops, offices, cafes, restaurants, medical clinics) to Class C (older residential properties providing basic accommodation). You no longer need full planning permission to make this sort of conversion.

As more of these opportunities emerge, property investors are turning to bridging finance providers to support them in converting commercial to residential premises, according to Stephen Clark at bridging finance company Finbri. "In areas of high residential demand such as the Southeast of England, investors have identified major opportunities to reconfigure well-located real estate. Bridging finance can play a very helpful role in bringing these situations to fruition."

Downsides of commercial property investment

In general, commercial property is more expensive than residential property, so you have to make a larger down-payment. Equally, banks are less willing to lend on the sector, so they demand higher deposits and higher interest payments. A loan-to-value (LTV) of 75 per cent is typically the maximum that a lender will offer on commercial property, compared with 95 per cent on residential.

Although leases are longer than for residential, the initial paperwork and administration in commercial property investment is lengthier and more complex. This itself may be more expensive, as you may have to get legal advice and hire solicitors to draw up contracts. All these expenses add to the risk of the investment.

The advantages of long lease times come with disadvantages: demand for commercial premises is generally lower than for residential and it may take some months to find new commercial tenants for a property, especially during an economic downturn. By contrast, residential tenants are plentiful and can move in quickly.

The move towards working from home, which accelerated during the pandemic, means that certain kinds of commercial premises are suffering from declining demand. Businesses need less office space, people order goods online rather than visiting physical stores. Rising energy bills are also depressing demand for commercial property, as businesses struggle to cover their costs.

You need to be confident that the commercial building you're buying will still be needed, and profitable to you, well into the future.

What about mixed-use (semi-commercial) property?

There are a whole series of pros and cons connected with mixed-use property. Some investors are highly enthusiastic, others run a mile. Here are the main points:

What's to love:

Prices are generally lower than for purely residential properties. If you can find a mixed-use building with strong commercial demand, the yield may be a good deal higher than you'd find elsewhere.

(Mixed-use properties generally qualify as 'commercial' for tax and legal purposes – that is anything with more than a third of its floor area in commercial use. A three-bedroom property where one room is used as a hairdressing salon would remain residential.)

If you have different tenants for the residential and commercial parts of the building, you spread your risk: there's less chance of suffering a void period. The commercial tenant pays for the upkeep of their premises, which saves you time and money. And you're exempt from the 3 per cent extra SDLT that residential investors have to pay.

The option to convert a mixed-use property to purely residential could be very attractive, thanks to recent changes in planning law.

What's not to love:

Some residential tenants are reluctant to live in mixed-use premises, because of perceived stigma, or the potential nuisance of customers, noises or smells. This may particularly affect you if the commercial part of your investment is a restaurant or a late night bar. They tend to attract younger tenants who are more transient, meaning more administration in replacing them when they leave.

If your lender demands a higher interest rate for a commercial mortgage, this can severely erode your profit margin. Having to pay a higher deposit also ties up money that you might want to spend or invest elsewhere.

Local business and insurance rates are likely to be higher for commercial than residential premises, even though you're only receiving residential income for part of the building. This again can dent your profits.

Replacing commercial tenants can be a lengthy business, as can selling a mixed-use property.

Final thoughts

There are plenty of reasons not to invest in commercial or semi-commercial property, but wherever there are obstacles there are opportunities.

A lack of competition can lead to bargain prices!

Chapter 7

Buy-to-let

The story of buy-to-let over the past 25 years is like the tide surging in, then ebbing out, yet with more and more boats on the water.

From the mid-1990s the Labour government of Tony Blair promoted buy-to-let to boost investment in the private rented sector. Rented accommodation at the time was too often of poor quality, and demand outstripped supply. The Association of Residential Lettings Agents (ARLA) launched the buy-to-let concept in September 1996 and it soon took off, thanks to generous tax breaks and helpful banks.

Today, there are more than 2 million buy-to-let mortgages active in the UK, and more than £540 billion was loaned by banks between 2000 and 2020.

After the global financial crisis of 2008-9, banks became wary of lending to buy-to-let customers, partly because they themselves were in trouble – some banks had to be rescued. By 2016, the government decided to prioritise home ownership and help first-time buyers, so it switched the focus of fiscal policy, abolished some of the tax benefits and made life more difficult for buy-to-let investors. A special Stamp Duty Land Tax levy of 3 per cent over standard rates came in for buy-to-let properties and you could no longer write off as much mortgage interest against tax.

Nevertheless, the culture of buy-to-let had become so engrained in British commercial and social life, with TV shows devoted to renovating old properties to let out, and millions of people getting involved, that it has outlasted government support. Consistently rising property prices have compensated for the diminishing tax benefits, while rental income in many locations has increased dramatically.

How to become a buy-to-let investor

You will need to do a series of sums to work out whether buy-to-let is a viable option.

Banks have quite strict criteria regarding buy-to-let mortgages, so you can see in advance whether you meet these points.

Banks typically require that:

- You earn at least £25,000 per year
- Your prospective monthly letting income will be at least 125 per cent (and sometimes 145 per cent) above your monthly mortgage payments.
- You provide a deposit of at least 20 per cent of the property purchase price
- You take out buildings insurance
- You pay a higher interest rate than for residential mortgages
- You have no more than a set number of properties in your portfolio – ten is a common limit
- The overall loan-to-value across your portfolio is lower than, say, 65 per cent

The government also demands:

- That you put tenants' deposits into an authorised deposit protection scheme
- That you have a gas safety certificate for your property
- That you have at least one working smoke alarm per floor and carbon monoxide detectors in rooms with solid fuel-burning stoves
- You provide your tenants with the correct paperwork
- You pay Insurance Premium Tax on general insurance policies
- There's also a few upcoming legislative changes such as the minimum Energy Performance Certificate (EPC) standards for landlords that you might want to get ahead of

If you're happy to comply with all of these regulations, and the sums add up, then it's time to seek out a suitable property for buy-to-let.

Popular locations include towns and cities with colleges and universities, because they have a steady supply of students needing accommodation. Elsewhere, locations that attract young single professionals and young families are also good, since many of them will want to rent. In these cases, look for properties that are close to transport facilities and in urban areas with strong employment demand.

Beware falling for the lure of ultra-cheap locations. If a property costs far below the national average, there's probably a good reason for this, including lack of demand from prospective tenants. It may also be much harder to sell than elsewhere.

Buy-to-let experts advise that new build homes are preferable to older properties, because there will be less maintenance work to do and they will likely have a higher Energy Performance Certificate rating, which is attractive to tenants eager to minimise energy bills.

Self-managed or via an agent?

If you acquire a buy-to-let property near to your own home, it may be worth managing it yourself. You'll be responsible for collecting rent, finding new tenants when people leave, sorting out maintenance problems such as leaking pipes or broken fridges, handling awkward tenants who make a lot of noise, for example. You'll have to withhold some or all of their deposit if they've caused any damage, which can be a source of dispute. Plus you'll have to satisfy you bank and the government's list of demands.

As long as you're happy doing all these things, and have the time to spend on them, you'll save yourself many hundreds if not thousands of pounds. However, if you're already busy and find them onerous, there's no shortage of letting agents willing to do the work for you.

They routinely charge 10 per cent of your letting income, sometimes as much as 20 per cent in areas with higher demand. Agents are particularly good at finding new tenants, which an individual can struggle to do on their own.

Be sure the agent you use is registered with the National Approved Lettings Scheme and the Association of Residential Lettings Agents.

Final thoughts

The dampening effects of successive governments' approach to buy-to-let has caused many former investors to sell up and look for other types of investment, but that's not necessarily a bad thing, if you want to get involved. Less competition is usually good news.

You only need to look at the hectic scenes in London, where apartments have literally hundreds of people competing to rent them, to see how supply is still far below demand. The margins are certainly tighter and banks are more cautious, but it's their job to lend money, so don't be afraid to ask.

And if you look at property values, they consistently rise faster and further than wages, so – even if you only make a small profit from letting – you're likely to benefit from capital appreciation in the medium and long term.

Chapter 8

Property flipping

The perfect property flip takes a matter of weeks, involves minimal work to the building – maybe a couple of coats of paint – with an uplift from purchase to sale of tens of thousands of pounds after all costs.

In the real world, property flipping is an altogether tougher, more risky, lengthy and laborious business. You can still make serious profits, but it's not something to take lightly, or think about as a 'get rich quick' scheme. In the UK, around 10,000 properties a year are flipped, yielding an average profit of £50,000.

Here's a rundown of the key issues to bear in mind:

1. Location is key

The phase 'choose the worst house on the best street' is made for property flipping. Where a location has cachet and inbuilt demand, it makes your job much easier. You're looking for an undervalued asset, so focus your search on areas where there are plenty of examples of market value. In a street of £1 million homes, look for one selling for £700,000.

Dig into the details of similar properties. Have they completed extensions recently? What is the average floor area? Is there a 'ceiling price' on the district? Would you need planning permission to complete any potential renovations?

Look for properties that have been on the market for some time. Their owners may accept a lower offer. And properties 'in need of modernisation', as agents put it.

Spend time on Google Street View or simply driving around an area to get a feel for the standard of properties. Arrange viewings with agents. Ask questions as you go along, to gauge what other buyers will find important.

2. Condition is crucial

A project that starts off as a quick fix can suddenly turn into a long-term money pit if you're unprepared or unlucky. Pay attention to the state of the roof: any missing tiles or sagging beams could mean it needs replacing. Check for signs of subsidence, infestation or damp.

Have a survey completed by an RICS-registered professional ahead of purchase. They'll advise you on the value of the property and what you can do to improve it.

The more work you need to do on a property, the less suitable it is for flipping. Keep in mind that, in this of all businesses, time is money. If you're financing the flip through borrowing, you're paying interest. Even if you're paying cash, you're tying up capital that could be profitably deployed elsewhere. Your own time could be better spent.

3. Do the maths

A helpful rule of thumb with property flipping is the 70 per cent guide. This means calculating the after-repair value of the property, subtracting the cost of repairs, then paying 70 per cent of this figure.

So if you reckon you can sell a property for £500,000 and it's going to cost you £50,000 to do it up, you should pay no more than £315,000 for it (£500,000 - £50,000 = £450,000 x 70% = £315,000).

Add up the potential costs of the flip: surveyors, architects, builders and contractors, materials, finance, insurance, waste disposal, estate agency fees, Stamp Duty Land Tax, Capital Gains Tax, Income Tax. Add 10-20 per cent to your budget to cover surprises.

Assess how the market is performing and its prospects for the coming months. Are there any changes that could affect its direction, such as interest rate changes, revised tax laws or government incentives? An ideal market for flipping is where property prices are rising sharply, but it can still be profitable in a static or declining market. If owners are in a hurry to sell, you can still achieve a successful flip through buying below market rates and selling again quickly.

4. Renovation tips

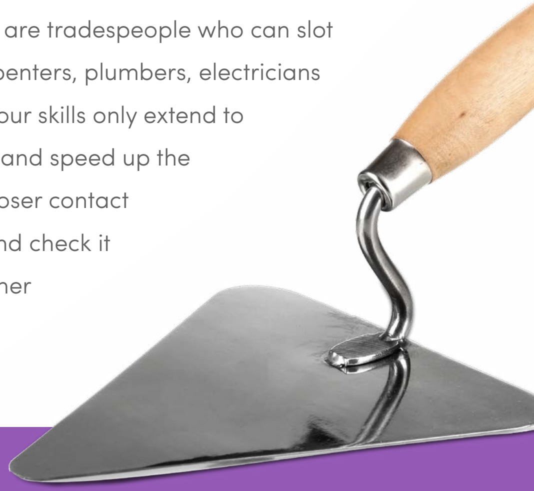
When flipping properties, the secret is to keep it simple and fast. Buyers are most attracted by kitchens and bathrooms, so if you're going to renovate, focus on these. A new kitchen takes between four and eight weeks to fit, and costs between £7,000 and £15,000 on average. A bathroom takes between three and six weeks and costs £6000 to £10,000.

Because they take much longer (up to 16 weeks), loft conversions and property extensions are less popular with property flippers. They're also much more expensive (up to £50,000), so only take them on if you're sure that they'll add more value than they cost. Extensions may also require planning permission, meaning additional time and cost.

Experts advise you to retain period features such as fireplaces and coving, use classic colour schemes rather than bold or dramatic décor, watch out for asbestos in materials (it must be disposed of safely) and aim for a high Energy Performance Certificate rating, which will make the property more attractive to buyers.

5. DIY or contractors?

The most prolific and successful property flippers are tradespeople who can slot renovations in between their regular work as carpenters, plumbers, electricians or builders (sometimes all of the above). Even if your skills only extend to painting walls, this can still help to minimise costs and speed up the process. Spending time on site means you're in closer contact with contractors, so you can oversee their work and check it for quality or faults. They can also recommend other contractors for different aspects of the job.



Final thoughts

Average house flips take four months from purchase to sale, so you need to have plenty of spare time to oversee the process. Around two-thirds of flipped properties are bought with cash, but that still leaves several thousand deals each year needing finance.

Auctions and repossessions can be fertile sources of flippable properties. In these cases, you'll need to move quickly to secure the deal.

"Property flippers often seek out bridging finance for their transactions, because it allows them to secure auction deals, or to buy properties where the seller is in a hurry," says Stephen Clark at bridging finance company Finbri. "Bridging suits the pace and purpose of flipping, delivering speed and flexibility just when it's needed."

Chapter 9

HMO conversion

The big attraction of converting a property into an HMO (House of Multiple Occupation) is that the yield can be excellent. Whereas you might let out an average three-bed home for £600 a month in a mid-sized English city, you might achieve more than £2,000 a month after HMO conversion.

Further attractions include the challenge of converting interesting old buildings – police stations, fire stations, churches, factories, theatres, prisons – into HMOs, giving them a new life and exercising your creative talents as a property developer.

From an operational and cashflow point of view, HMOs are attractive since you're unlikely to suffer complete void periods – there will still be income from tenants, even if one or two people move out. (Part of the definition of an HMO is that the tenants are unrelated). Plus, the UK government offers incentives including a 5 per cent VAT reduction on building costs involved in the conversion.

Once you've completed the conversion and the tenants are in place, the longer-term benefits include a potential uplift in valuation, above residential or buy-to-let rates, since HMOs can be valued as commercial property.

Sounds great. Where's the catch?

There are quite a few catches. Number one is the initial cost of the conversion, which will likely be higher than for single lets, due to the many regulations you'll have to comply with.

Then there's the risk of not filling the rooms, if you pick a property in the wrong area, or there's too much competition (unlikely in the current environment, at least in major cities). Finding new tenants is likely to be a regular exercise, so many HMO owners delegate this work to agencies, for a fee.

HMOs have to be licensed by the local authority, so you'll need to find out exactly what they require. Technically, an HMO conversion means changing the legal status of a property to C4. But the specific requirements can vary according to which council district you're in, so it's best to hire an architect or planning expert to advise you, preferably someone with a history of HMO conversions in your area.

In fact, you're well advised to assemble a team of experts before you start an HMO conversion. These may include a materials consultant, architect, structural engineer, party wall surveyor, acoustics consultant, building control/planning consultant and a quantity surveyor. Once you've started work, you'll need building contractors, plumbers, electricians and decorators.

It's quite an army!

Tell me more about the regulations

You'll need to have a fire assessment carried out, to ensure that fire alarms, smoke detectors and fire doors are in place and that there are fire-retardant materials in furniture. If the assessment is OK, you'll get a fire certificate which must be renewed every five years. Your gas safety certificate has to be renewed annually.

The overall HMO license also lasts five years, as does the electrical installation certificate, whereas the Energy Performance Certificate is a one-off, along with the Building Regulation Certificate, awarded at the end of construction.

Depending on where the building is located, you may need an Article 4 exemption. This regulation means that an HMO conversion may need planning permission. It's generally applied to HMOs with more than six occupants.

HMO conversions expert Ryan Windsor of Windsor & Patania Architects has this advice:

"Always try to get the exact specifications from the council. Don't hesitate to ask them for the exact specs of the fire alarms, smoke alarms etc. A few of our clients have been unfortunate where the council requires certain specs and the HMO used other specs which led to the license being declined. Finding this out can be hard to do but if you try you may be surprised at how easily they give out information."

The local authority will also carry out a Housing and Health and Safety Rating System (HHSRS) risk assessment every five years, to see if there are any problems with damp, ventilation, drainage, hazardous materials or infestation. You can read the HHSRS manual to see if your property has any of the 29 hazards that it lists.

The size of the rooms you let out is regulated: for anyone over the age of 10, they have to be at least 6.51 square metres, and 4.64 square metres for each person under 10. There are further rules on the maximum number of people who can use a property, relative to its size.

How can I prepare a property to be an HMO?

Besides complying with all the regulations, there's a host of things you can do to make an HMO more attractive to prospective tenants.

The shared areas – kitchens, bathrooms and living rooms – should be furnished to a good standard, clean and newly decorated. Also bear in mind that they'll get a lot of use, so buy robust white goods and furniture, and use materials that will withstand plenty of wear.

Draw up interior plans to maximise the number of bedrooms, while maintaining sufficient shared space for your tenants. This may involve some structural work, with consequent expense, but if an extra bedroom brings in £6,000 a year, it won't take long to pay for itself.

Fit locks to all bedrooms and add emergency lighting. Keep pest control treatment records.

What else should I know?

Seasoned HMO conversion experts advise having a plan B, in case something goes wrong. Planning permission can take months, or not be granted for an unforeseen reason. The costs can become too high, making the project unviable. Plan B could involve shifting to a single let, where you look for a tenant to take over the whole property, or selling it altogether. When you're considering places to buy for HMO conversion, prioritise those which could work under other scenarios, as an insurance policy.

Final thoughts

If you have a regular turnover of tenants in one or more HMOs, there's a strong chance that some of them will have physical or mental health challenges. They may need adaptations to a building to make it more accessible, or support in other ways.

Chapter 10

Selling a property

To let or not to let?

If you have a tenanted property, you'll need to decide whether to sell it tenanted or vacant. There are pros and cons to each side:

A tenanted property will appeal to other landlords, saving them time and effort in attracting new tenants. Since they're probably experienced buyers, they can conclude a deal faster than non-professionals, chain-free.

On the other hand, tenanted properties involve more administration – tenancy agreements, Right to Rent records, gas safety certificates, inventories, deposits and (for the tenants) potential new reference checks and contracts. You'll have to depend on the goodwill of the tenants when showing prospective buyers around.

To sell a buy-to-let property vacant will mean evicting current tenants, which generally takes at least two months unless you pay them compensation to move out earlier; you'll probably need to spend time and money on redecoration, during which time you'll not have any letting income.

On the plus side, you can attract a wider range of buyers and could get a higher valuation.

How to value your property for sale

The main valuation factors are square footage, the number of bedrooms and bathrooms, access to outside space, state of repair, level of noise and air quality in the street, transport connections and amenities such as parks, schools, shops and leisure facilities.

Here are five ways to translate these details into a viable figure, to attract the maximum interest in your property, without under-valuing it:

1. Research recent sales and current asking prices in your area

Online agencies such as Zoopla and Rightmove provide instant listings of similar properties. Using their form, submit your post code, your number of bedrooms, type of property (house or apartment) and price bracket to see what's on the market. The listings will show how long a property has been on sale and whether its price has been discounted. Look at the interior photography and floorplan to see how similar your property is to theirs.

The UK House Price Index from The Land Registry has recent selling prices, so also have a look at these. You may find that they're lower than the prices listed online for similar properties – that's because sellers often advertise higher prices than they eventually accept, or withdraw their sales altogether.

2. Invite at least three agents to view your property

There is now a sharp divide between online agencies such as Purplebricks and Yopa, who charge flat fees of as little as £999 to sell properties, and traditional high street agencies such as Foxtons, Savills and Bairstow Eves, which charge a percentage of the eventual sales price. Each offer distinct advantages to a home seller, so invite at least one from each side.

After showing them around, ask them to give you two quotes: the highest price that your property could be sold for, and the price that would attract the most attention from buyers. Then ask them about the merits of each. Pitching high is a sign of confidence, it may attract buyers who want a high-spec, modernised home they can move straight into, without having to refurbish.

"We see a lot of 'mortgage rich' buyers," says Tom Cottrell of online agency Yopa, who works in North London. "Their banks will lend them enough to buy an expensive property, but they don't have the cash to do it up." A recent kitchen extension or top-end bathroom will save them trouble and encourage them to meet a high valuation. But too high and you may get no offers at all.

Pitch low and you could prompt a bidding war, with potential buyers submitting 'best and final' offers, leading to a sale above your original estimate.

Bear in mind that online agents charge their fees upfront, so they have less motivation to sell a property than traditional agents, who are only paid once they've made the sale. Aim to pay no more than 1 per cent of the property price to a High Street agency for sole representation.

3. Calculate what your property's features add to the valuation

Compare your property to others locally and spot the differences. If a home has three bedrooms and is selling for £600,000, perhaps your four-bedroom home will sell for £800,000. A large garden (say 50 feet plus) can add 10 per cent to the selling price. Positives include recently-installed, energy-efficient heating systems, wooden flooring, original features such as fireplaces in older properties, high ceilings, new windows, generous storage, suitable space for an office, and a utility area. In combination, if you have several of these advantages compared with local sellers, you could value your property at a premium.

4. How is your area changing?

Buyers like to think they're moving into an improving area, so make a list of any recent or expected changes. For example, Low Traffic Neighbourhood (LTN) schemes, which although controversial, have successfully calmed vehicle flows in many UK neighbourhoods. Estate agents now consider these areas highly desirable: safer, more pleasant, with lower noise and air pollution. Highly-regarded schools are magnets for parents with young children.

Equally, new retail or leisure developments create a sense of progress. If companies are prepared to invest, it encourages homebuyers to join in.

5. Take your agent's advice

It's tempting to aim for the stars when putting a value on your property. What you could do with that extra £100,000! Realistically, your life will be simpler and less stressful if you can conclude a relatively quick sale. You could also save money in fees and interest payments, especially if you're buying somewhere else. The agent is probably already in touch with suitable buyers, so they know what people will pay.

Last thoughts

For some home buyers, emotions play a big part in their decisions. They react well to 'kerb appeal' – arriving at a property to find a tidy, well-kept front garden, freshly-painted windows and clean brickwork. Inside, consider 'staging' the property: feature designer furniture, luxurious fabrics and vases of flowers. In certain circumstances, this can add dramatically to the valuation. See 'Million Dollar Listing' and 'Selling Sunset' TV shows for inspiration.

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