# THE RISKS INVOLVED WITH BUY TO LETS

**There are several risks involved with property investment but it's important you're aware of them so that you can make decisions with confidence, knowing all possible outcomes.**

**One thing we need to remind you of is that getting one property is essentially putting all your eggs in one basket, diversifying your investments or having a number of properties is a way of reducing the overall risk.**

**Now, let's look at the individual risks...**


## PEOPLE

**Tenants:**

- Finding the right tenant - In the first instance finding a tenant can be difficult; either you can pay a letting agent to help you'll need to do it yourself (which could be timely). However, it's worth spending more time finding the right tenant, as it's likely they will want to stay in your property for longer.
- Whilst finding a tenant - In the period of time you are looking for a tenant, you aren't receiving rental income, yet you still have to repay your loan, which means you could suffer losses short term.
- Bad tenants – Unfortunately, we don't really know our tenants that well. They could either refuse to pay rent or damage the property and you will be left with repair costs. Bonds can help to cover some costs, but often not all.

**Estate Agents:**

Don't forget, an Estate Agents job is to get the best price for the property. Once they've agreed an offer their job is complete. We just want to make you aware that they are on the seller's side not yours.

## PEOPLE

**Solicitors:**
Do you know if your solicitor is on the panel of the lender you are using? If not, you can't use them. You need to know if something unusual were to come up, your solicitor is capable of handling it. If you're not sure what solicitor to use, seek reviews or testimonials off people you know or online.

**Mortgage Brokers:**
You need to be sure your mortgage broker knows what you're are trying to achieve so that they can get the right mortgage for you. You're relying on them to help you buy this property and you should expect them to communicate everything clearly and timely.

**Letting Agents:**
What are you getting for your money? Lettings agents are supposed to manage the property for you – collecting the rent, protecting it from damage and managing your tenants. If they don't do this, what are you paying them for?

**Relatives/Friends**:
Often friends can get excited for you and start butting in. Politely tell them that 'you got this!'; you're getting professional advice and their involvement and opinions are overwhelming you.


## FINANCE

**Figures:**
Refer to your goal; do the figures work? Have you saved enough to invest in the property you need to help you achieve your goal?

**Funding:**
You might have saved enough for the deposit for your second mortgage or the whole sum if you're buying outright, but have you considered contingency money for other fees and emergencies?

**Getting it right from the start:**
In order to obtain a positive cash flow, you need to ensure you have a decent profit margin. This doesn't mean you have to buy the most expensive property.

You need to come to terms with the fact that the value of a property can depreciate and interest rates can increase. Therefore, don't invest in a property just because it has the highest yield today, this could all change tomorrow. Now we mentioned interest rates are at a historic low, which is great, but these will change so again be prepared for your profit margin changing.

**Void Periods**:
If a tenant leaves and you have a gap between finding a new one this is known as a void period. To avoid negative cash flow, you can get period property insurance.

## DAMAGE

- Damage caused by a tenant – yes, you can refuse to give their bond back, but will this cover the cost of the damage?
- Structural damage – if you're buying an older house, it might be a good idea to get a structural survey conducted so that you can be sure the property has no underlying structural problems that will be expensive to repair.

## LOCATION

Ultimately you want to choose a location where there is supply and demand and where your prospective tenants would buy. You don't want to buy some where that's in the middle of nowhere, has no public transport links, shops or where crime rates are high.

You should also be wary about what's near the property, is it close to a riverbank where there might be a risk of flooding.

## LIQUIDITY

Unlike shares, bonds and savings, property is a long-term investment. You can't expect to take your money out whenever you want; it takes a while to sell a property.

## TAX

It's simple, the more properties you have the more tax you will have to pay; this is an income.


## WHAT YOU CAN DO

**If your salary plus profit income is more than £50k we would recommend putting your properties under a limited company, this means you are eligible to tax relief.**

**There is money to be made in property investment but it comes down to the factors above - who you work with, what type of property you buy, when you invest, where you invest and how you manage your finances.**

**You need to invest not because it's a cheap investment but because it's right for you. Keep referring to your WHY!**

Please be aware that this property will form part of your estate and may be subject to Inheritance Tax (unless borrower is a Limited Company or LLP). There could also be a potential liability for Capital Gains Tax when you come to sell the property. It is your responsibility to declare to Her Majesty's Revenue and Customs (HMRC) any income you receive from your Buy to Let property. Income is taxable as earned income and could put you into a higher tax band. Business Buy to Let mortgages are not regulated by the Financial Conduct Authority.

THE MONEY PARTNERSHIP

01633 987070
INFO@THEMONEYPARTNERSHIP.COM