Is it time to reconsider buy-to-let?

Rents are up and banks are lending, but do your homework, says Susan Emmett

A lot of people jumped on the buy-to-let bandwagon thinking that it was an easy way to make money. It isn't

Rents are at a record high and demand for rental homes is growing as first-time buyers continue to struggle to secure a mortgage or are simply being priced out of the market. It has led many to ask the question: "Should I consider buy-to-let again?"

Why would I want to become a landlord?

According to Rightmove, the property portal, the demand for rental homes now outweighs supply. Its statistics show that rental searches have gone up by two thirds in the past two years, while the number of homes to rent is down by nearly a quarter.

In a recent survey, 50 per cent of tenants said that they were expecting rents to rise farther, while more new investors said that they were looking into buy-to-let for the first time. Forty-six per cent of prospective landlords said that it was their first foray into property.

What is happening to rents?

Rents are going up faster than property prices. Landlords are now reaping an average monthly rent of £692, after a 4.4 per cent rise over the past 12 months, according to figures from LSL Property Services. The jump comes at a time when property prices have remained subdued, which means that yields reached 5.1 per cent in April.

Aren’t property prices still looking fragile?

Despite some recent mildly optimistic house price surveys — Land Registry recorded a 0.8 per cent increase in April and Nationwide reported a rise of 0.3 per cent in May — the housing market is still weak outside London, where prices and rents are on the up. Figures from Hometrack, the property data company, show that prices fell by 0.1 per cent last month, pushed down by a fall in demand and a rise in supply. Some new investors see this as an opportunity to strike a good deal.

But can I get a mortgage?

Although the level of buy-to-let lending is a third of what it was in 2007 at the height of the boom, more deals are being done, and lenders that withdrew during the worst of the recession are coming back. That said, lending requirements are more stringent, particularly when it comes to a deposit.

What sort of deposit do I need?

At the least you would need a deposit of 15 per cent of the value of the property. Aaron Strutt, of Trinity Financial Group, the mortgage broker, says that the Kensington Mortgage Company is offering a two-year fixed deal at 5.99 per cent. Most lenders, however, require a 25 per cent deposit, while 35 per cent will open the best deals, such as Coventry Building Society’s two-year fix at 4.35 per cent.

What other costs should I consider?

You also need to factor in all the other costs related to buying property, such as solicitors’ fees and stamp duty. Plus, some buy-to-let lenders levy steep arrangement fees.

How do the sums stack up?

With the cost of the average property now at about £167,000, according to Nationwide, investors borrowing 75 per cent of the value of the property would need an average deposit of about £42,000. Assuming that you took out the two-year fixed-rate deal at 4.99 per cent from the Nottingham Building Society, you would be paying about £520 a month on an interest-only basis. The rent you charge would need to cover that, plus letting agents' fees and the cost of maintenance, before you could think of a profit. Didn't a lot of investors get their f ingers burnt last time round? During the boom, a lot of people jumped on to the buy-to-let bandwagon thinking that it was a quick and easy way to make money. It isn't. You need to deal with maintenance, any possible void periods and tenants who don't pay. Plus there is always the possibility that house prices will fall after you buy.

Over the recession some landlords who had borrowed up to their limit went into negative equity and were unable to pay their mortgage. **Trinity Financial: 020-75209 427, trinityfinancialgroup.co.uk**