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Guide to managing your investment property in 2025

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Current landlord legal requirements/responsibilities

Getting your compliance right

- Gas Safety
- Electrical Safety
- How To Rent
- Deposits and prescribed information
- HMOs & selective licencing
- EPCs

Pitfalls to avoid

How to avoid common mistakes

- Compliance documents
- Maintenance issues
- Deposits
- Rent increases
- Change of tenants
- Notices
- Illegal charges

Legal changes to consider following the budget announcement and the Renters' Rights Bill

What's changing?

- Fixed terms
- Student lettings
- Termination and recovering possession
- Additional maintenance requirements
- Selling your property
- Standard tenancies

Recovering possession

Getting your property back

- Confirm compliance
- Fixing issues
- Serving notices
- Issuing a claim

Paul Davis

Ludice Wealth Management

Buy to let basics

What does ‘buy to let investing’ mean?

A popular form of investing is using property to make a return on your capital, the investor will buy a property for the purpose of renting it out for a specific monthly amount. The money that is left after costs are paid becomes income for the investor. Most mortgages are arranged on an interest only basis to maximise monthly income.

How do you get started?

There are several ways to get started, you could buy a property outright or you could buy a property with the help of a buy to let mortgage. The majority of buy to let financing starts at 75% loan to value. This means that you would typically need to have 25% deposit plus costs for SDLT and solicitors etc.

Buy to let mortgages are not regulated by the FCA (Financial Conduct Authority) so you do not get the same protection as you would buying a property for your residential purposes.

Do the sums and have a plan – knowing and planning the cashflow is vital to starting out as a landlord.

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Buy to let benefits

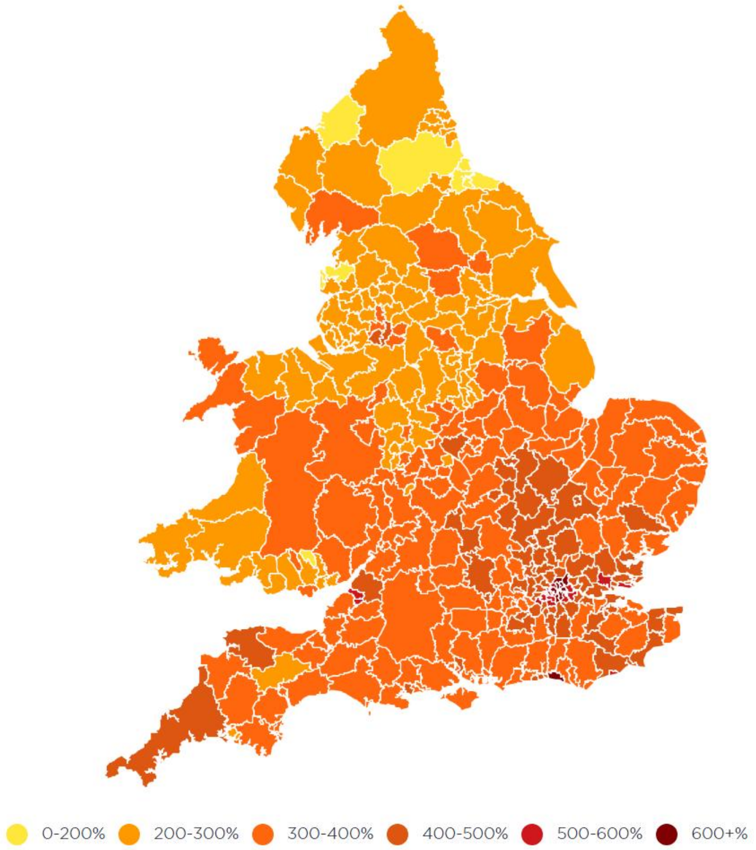
What are the benefits of buy to let investing?

The investor can make a return from the property on a monthly basis, which is the rental income from the property minus costs. This creates a passive income that is long term.

The property will most likely gain value over the time the investment is held. Using the latest figures, property prices have grown 2.2% in the year to May 2024.

If you had made a property purchase 25 years ago, then the value of the property could have grown up to 600%.

Total house price growth from the last 25 years



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Buy to let disadvantages

What are the downsides of buy to let investing?

- **Rental Voids** – there may be periods of time where you do not have a tenant. You are liable for the costs during these periods including council tax, standing charges, mortgage costs, etc.
- **Bad tenants** – there is no guarantee that the tenant will be a good one. There are many examples of where rent is unpaid, the property is not looked after or other issues.
- In recent years, with the increase in the interest rates and remortgages, many landlords have had significant decreases in profit, leading to restructuring of the portfolio, de-gearing lending, etc.
- Interest only borrowing is useful to maximise the rental income and build the portfolio, but the cost of debt erodes profit – for every £ borrowed at 5.01%, you are paying back £3.76. Borrowing £248k over 30 years, for example, would cost a total of £934,000!
- Properties needs to updated, maintained and (in some cases) managed – these costs come out of your profit.

Buy to let mortgages

How do you get a mortgage?

Buy to let mortgages are different to residential mortgages because they are not governed by how much you earn, rather they are based on the rental income of the property. Basic qualifying criteria include:

- Most lenders will want to see a personal income of over £25,000 – not all.
- Most lenders will want you to own your own home before buying an investment property.

How much can you borrow?

- Usually, a maximum of 75% of the value of the property. In some cases, 80%
- Defined by the rental income of the property
- Defined by your own personal income – whether you are a basic rate taxpayer or higher rate
- Impacted by the size of your portfolio and the loan to value across the portfolio
- If you are short on rental income versus deposit, then some lenders allow for top slicing – using excess personal income to support the purchase.

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Buy to let mortgages

How much can you borrow?

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Interest cover ratio (ICR)

ICR			
Buy to Let and Let to Buy		HMO and Limited Company HMO	Limited Company Buy to Let
Lower rate tax	Higher rate tax		
125%	160%	175%	125%

Stress rates

Application type	Trackers and variables	Fixed for 1 or 2 years		Fixed for 5 or 10 years
		Purchase, Remortgage (with capital raising) and Further Advance	Like for Like Remortgage (excluding Let to Buy)	
Stress Rate	Higher of pay rate +2% or 5.50%		Higher of pay rate or 4.50%	

This means that, for a client with an income in basic rate income tax, the rental income of the property would need cover 125% of the mortgage if the rate was 6.39% (4.39% actual rate +2%).

Rental income calculators vary on lender.

Buy to let ownership

How should you own your property?

You typically have two options when purchasing a property for rental purposes, either in your own personal name or in a special purpose vehicle SPV. An SPV is a limited company set up for property ownership.

You can finance the purchase with the usage of a mortgage in both cases, although the rates are usually slightly higher for limited company mortgages.

You should speak to your accountant to work out which is the best route for you – it will most likely depend on factors like your own personal income and your property goals as these two options are taxed in different ways.

As a guide, I find from clients that holding 1-2 properties usually works out cost wise to hold them in your personal name. SPV attract their own costs, like the cost of accounting and marginally higher financing costs.

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Buy to let portfolio

How to grow a property portfolio?

If you intend to build a portfolio of properties, then you could grow this organically.

If you retain the income from the property and do not spend it, then you can save sufficiently to build the deposit for the next property and so on.

If you finance the property to 75%, then as the property grows in value you can remortgage it to raise capital against this capital growth.

Examples include properties initially purchased for £125,000 in 2014 now with mortgages on them of over £262,500 as the value is £350,00 in today’s market.

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Buy to let variants

What types of property?

Most lending on buy to let is done on property where either one tenant or one family will rent the property on an **assured shorthold tenancy (AST)** for 6 or 12 months. If you are lending on this property, then the valuer will go and assess the property based on these assumptions.

Other options

- **Student lets** – very popular in university towns where you can have multiple tenants on one. If you have four students paying £500 a month, for instance, that's £2000 per month compared to around half if it were a standard family let. They can be slightly more difficult to administer and not all lenders would be interested.
- **HMO (houses of multiple occupation)** – similar to the above, but you would usually have separate tenancy agreements for each occupant. This involves extra planning because most lenders won't consider lending unless you have two years' experience in standard BTL investment. You may also need a licence on the property.

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The buy to let marketplace

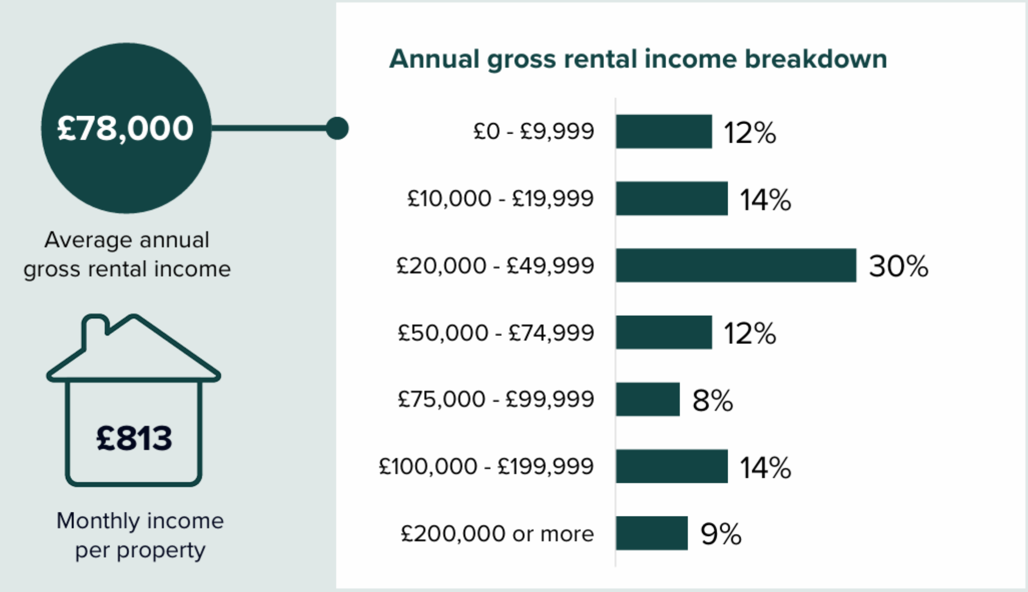
Can you make money?

The typical landlord generates an annual gross rental income of £78,000, with the average portfolio size at eight properties in Q3 of 2024.

(source: The Mortgage Works)

Overall gross rental income

The typical landlord generates an annual gross rental income of £78,000. With the average portfolio size at 8 properties in Q3 '24, this equates to a monthly income of £813 per property.



Gross rental income analysis

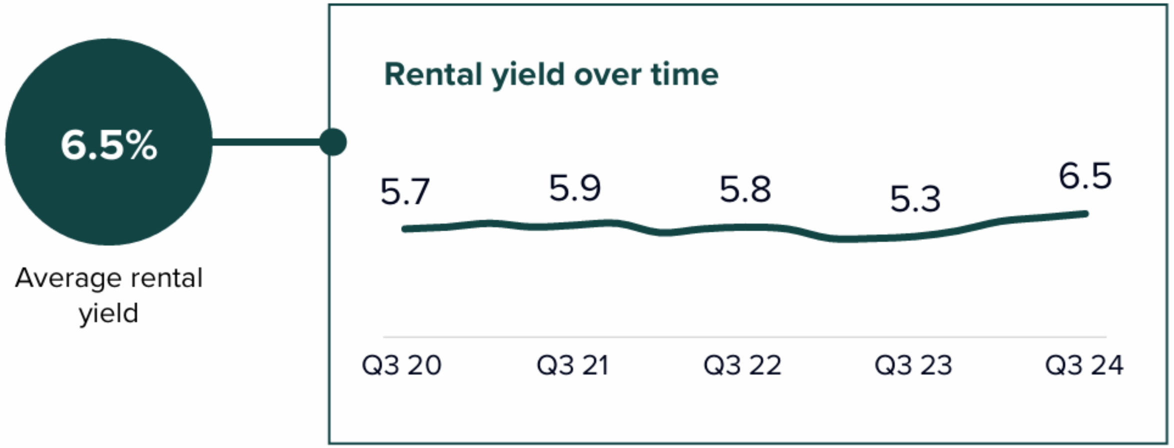
Limited Company landlords generate an annual gross rental income that is more than 3 times higher than those holding property as an individual. Landlords with larger portfolios and those who borrow also achieve an above average gross rental income.

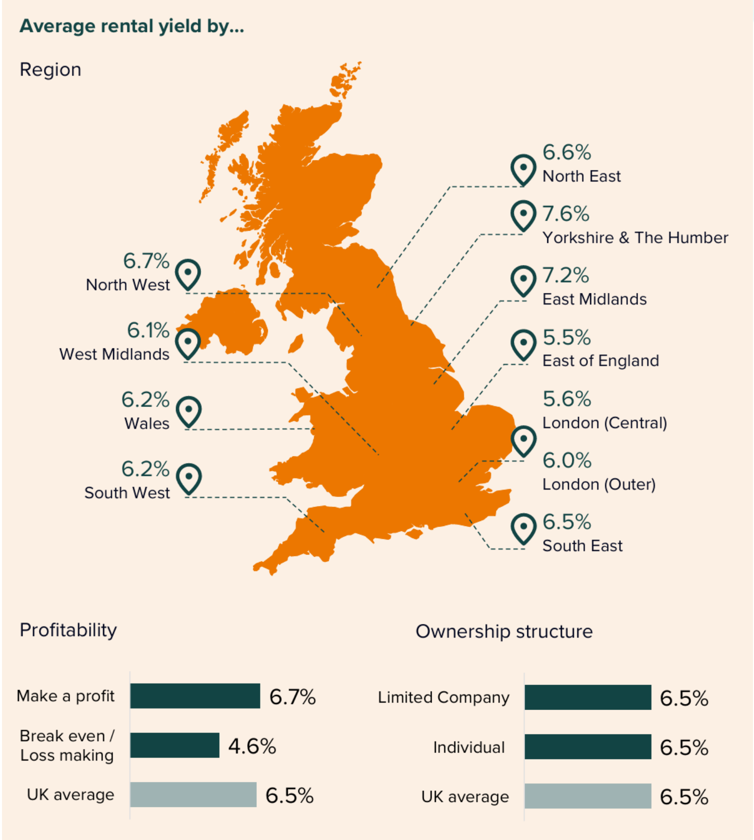
Yield on investment

Do the maths on the property – Could you get a better return on your investment via the stock market for much less involvement?

Rental yield analysis

In Q3 ‘24, the average achieved rental yield is 6.5%, its highest level for 10 years. Yorkshire & The Humber is the strongest region for yields this quarter (7.6%). The East of England (5.5%) and Central London (5.6%) are the weakest.





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It is not intended to be a substitute for formal advice from the appropriate person in the organisation to a client under the terms of a suitable signed engagement letter.

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Landlords – Tax hit

- Mortgage interest – tax relief restriction for individuals
- Higher rates of CGT – confirmed will remain at 18% and 24% in budget, but for how long?
- Abolishment of ‘furnished holiday let’ regime from April 2025
- Increases in SDLT on acquisitions
- Increased anti-avoidance regarding property transactions
- Regulatory burden.

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Furnished holiday lets

- **Furnished holiday lets** – confirmed that this regime will be abolished for short term lets from April 2025.

- Effectively removes the following tax benefits:
    - Capital allowance deductions
    - Business asset disposal relief on disposal
    - No longer treated as earnings for pension purposes.
    - No ability on jointly owned property to allocate income based on who performs work.

- Budget did provide clarity on the changes and how it will impact the taxpayer.

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Stamp duty land tax

Property or lease premium or transfer value	**SDLT rate**
Up to £250,000	5%
The next £675,000 (the portion from £250,001 to £925,000)	10%
The next £575,000 (the portion from £925,001 to £1.5 million)	15%
The remaining amount (the portion above £1.5 million)	17%

Individual vs Company

	Individual	Company
Tax on rental profit	Income tax 20%/40%/45%	Corporation tax 25%
Finance Cost – Tax Relief	Maximum 20% tax relief on finance costs.	Interest fully deductible in company so maximum relief 25%
Tax due on gain on disposal	CGT 18% or 24%	Corporation tax 25%. Indexation up to December 2017.
Access to profit	Profit after costs and tax will be accessible in full to individual.	Profit after costs and tax will be retained in company. If shareholders want access to funds will need to consider how funds will be extracted. So further level of tax but can plan to minimise tax.
SDLT	Higher rate (assumes individual already owns another property)	Higher rates.
ATED	Not applicable	Company may need to submit annual returns to claim exemption.

Consideration in ownership structure

- No one size fits all

- New property acquisition:
  - Financing options available and costs for a purchase via a company.
  - Do you need access to net funds? If you need access to the funds, does that provide an overall saving if owned in a company?
  - Longer term planning – introduce family members so they share in profit/capital growth.

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Consideration in ownership structure

- Existing portfolios:
  - To transfer existing portfolio to company will give rise to CGT and SDLT implications.
  - In limited circumstances, it may be possible to incorporate a property partnership to defer the CGT and SDLT charges, but strict criteria.
  - Need to consider existing finance arrangements – early redemption charges plus cost of refinancing in new company.
  - Need of access to rental profits.

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Inheritance tax

- Broadly, inheritance tax is calculated on the value of all assets held on death, less liabilities (including mortgages)
- Nil rate band (£325,000) and residence nil rate band (£175,000)
- For example, if an individual's estate is valued in excess of £500K (or £1m for a married couple), IHT may be payable at 40%
- Planning options to minimise IHT but need careful consideration to ensure it meets your long terms objectives – not just tax
- No reliefs for property businesses
- Changes around business property relief, agricultural property relief and unused pension pots announced in the budget
- Now is a good time to undertake a review of your IHT position.

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Q&A

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