Buy-to-let explained: how to become a landlord

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Want to give buy-to-let a go? Here's our complete guide to becoming a landlord, from getting a mortgage and choosing a property to finding the right tenant.

Key takeaways

- A buy-to-let mortgage is different to a mortgage for a home you live in: you usually only pay the interest back each month
- Work out the rental yield to see what profit you can make from a buy-to-let property
- Make sure you understand the responsibilities you'll have as a landlord, like putting the deposit in a protection scheme and keeping the property safe and energy efficient
- Think about tax, insurance and maintenance costs when you're working out your budget
- If you're a first time landlord, a letting agent can help you stay compliant and manage the tenancy

Thinking of becoming a landlord? Lots of people find property is a great investment.

A buy-to-let home can boost your monthly income, as long as it covers your mortgage repayments. The average buy-to-let property generates £1,000 in rent per month at the moment.

It can be a good long-term game too, as you could make a profit when you come to sell.

But, like all investments, there are some risks to think about with buy-to-let property.

You'll also need to consider your responsibilities as a landlord.

Here's what to think about if you want to become a landlord and how to get started with buy-to-let.

1. Getting a buy-to-let mortgage

Unless you've got a big pile of cash in the bank, you'll need a mortgage to buy the property.

And you can't choose any old mortgage. You'll need a specific buy-to-let one.

There are different rules about who can get a buy-to-let mortgage and what sort of repayments you make.

In most cases, you'll need to already be a homeowner earning more than £25,000 a year.

You'll also need a good credit score, and some lenders require you to be under 70 years old.

What's different about a buy-to-let mortgage?

The main difference is how a bank or building society works out what you can borrow for a buy-to-let mortgage.

The mortgage lender will focus on the potential rental income of the property to decide how much they can lend you.

Another key difference is that many landlords using buy-to-let mortgages go for an interest-only product.

That means you'll only pay the interest on your mortgage each month, rather than the loan itself.

Then, at the end of the mortgage term, you'll repay the full amount of the loan. This can be from your savings or from selling the property.

What deposit do you need for a buy-to-let mortgage?

It's fair to say that most lenders will need a bigger deposit for a buy-to-let mortgage than they would a residential one.

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You'll probably need a deposit of at least 25% for a buy-to-let property. But to get the very cheapest mortgage deals, you're looking at more like 40%.

It might be possible to get a mortgage with a smaller deposit, but you're likely to pay higher fees and interest on it.

To get an idea of your buy-to-let mortgage eligibility and affordability, our mortgage repayment calculator is a good place to start. You can work out what your repayments will cost you each month.

Mortgage calculator: work out your monthly repayments

How much can you borrow for a buy-to-let mortgage?

The maximum amount you can borrow is based on the rental income of the property.

A good ballpark figure is that you will need to earn 25-45% more in rent than you pay each month for the mortgage.

So if you're charging £1,250 in rent each month, you could get a mortgage where you're paying £1,000 per month.

From the lender's point of view, this shows you'd be able to pay your mortgage if the home is empty between tenants.

What fees can you expect to pay for a buy-to-let mortgage?

Mortgages with low interest rates are likely to come with hefty upfront fees.

It's important to weigh up the interest rate against any fees over the long term. In some cases, a higher interest rate might actually work out cheaper for you.

Still have questions about buy-to-let mortgages? Check out our **Buy-to-let mortgage guide**

2. How to make money with buy-to-let property

To make money on a buy-to-let, you will need to:

- profit from the regular rental income
- sell the home for more than you bought it for

Review the potential for both of these when you're deciding on a buy-to-let property.

A good way of measuring the profitability of a rental property is to look at its rental yield.

This is the income you get from the rent expressed as a percentage of the property's value.

Let’s say you want to buy a property worth £200,000. You plan to charge £1,000 per month in rent, which works out to £12,000 per year. Divide 12,000 by 200,000, then multiply by 100. That equals a yield of 6%.

A good rental yield is generally benchmarked at around 5%.

But some properties might reap yields as high as 7%-plus. HMOs can achieve between 12% and 15%.

Search house prices

Remember to budget for maintenance costs. There’s no exact way to tell what you’ll spend on this, but it’s good to put aside at least £250 a year for maintenance.

3. What taxes do you pay on a buy-to-let?

There are various taxes you'll need to pay on your buy-to-let home.

Tax on your rental income

Your rental income will be taxed at your relevant tax band. Bear in mind that it could push you into a higher tax bracket.

You can deduct some costs from the amount of tax you pay. This includes:

- letting agent fees
- buildings and contents insurance
- council tax
- utility bills (if you pay them on behalf of the tenant)
- essential maintenance, such as roof repair or a new boiler
- damage to furniture or fixtures once a tenancy ends

Relief on mortgage interest is capped for all landlords at the basic rate of 20%, regardless of whether you are a higher rate (40%) or additional rate (45%) taxpayer.

What are your tax liabilities as a landlord?

Capital Gains Tax

You will need to pay Capital Gains Tax (CGT) on your rental property when you come to sell it.

You pay this tax on any value increase since you bought the property. In other words, on your profit. CGT is paid at 18% or 28% depending on your tax bracket.

Capital Gains Tax: what you pay it on, rates and allowances (GOV.UK)

There can be allowances though. The first proportion of your profit might be tax-free in some cases.

[Capital Gains Tax calculator (GOV.UK)]

You can also offset the cost of stamp duty and solicitors and estate agents' fees against your CGT bill.

Stamp Duty

You pay an extra 3% stamp duty on any second or additional homes, which includes buy-to-let.

The tax applies to all investment property of over £40,000.

The 3% stamp duty is also charged on the entire property price, not just the value over a certain tax band.

[Stamp duty surcharges]

4. Your responsibilities as a landlord

It’s important to think about the legal responsibility you’ll have as a landlord. Let's run through the main things to think about.

Tenancy contracts

There are a few types of tenancy contracts, but the most popular is an assured shorthold tenancy (AST).

An AST gives renters a legal right to live in your property for a fixed duration or a rolling term. It lasts for a set period of time, normally six or 12 months.

An AST sets out how much your tenants must pay in rent, who is responsible for repairs and the notice period for eviction.

An AST should also include details about when rent can be increased, how long the tenancy lasts and the deposit protection scheme.

Deposit protection schemes

A deposit protection scheme is a way of looking after the deposit money your tenants have handed over.

If you don’t have one, you or your letting agent could be fined.

There are two types of government-backed deposit schemes: insurance and custodial.

Under the insurance scheme, you or your letting agent keeps hold of the deposit. You pay

Under the insurance scheme, you or your letting agent keeps hold of the deposit. You pay interest to the insurer.

This scheme is available through the Deposit Protection Service, MyDeposits and Tenancy Deposit Scheme.

With a custodial scheme, the deposit money is paid into the scheme, so you don't have to look after it yourself.

Deposit schemes come with an independent resolution service, just in case any problems arise between you and your tenant.

Right to rent checks

As a landlord, you're legally responsible for making sure the people who rent your home have the right to rent in the UK.

Right to rent and what you need to do (GOV.UK)

Improving the EPC rating

As a landlord, you need to make sure the property is at a certain energy efficiency level.

If the property has an Energy Performance Certificate (EPC) rating of F or G, you need to improve it to a rating of E before you can rent it out.

But there's a cap on how much you have to spend. You won't need to pay more than £3,500 (including VAT) on energy efficient improvements.

If you spend that amount and the home still doesn't have an E rating, you can register for an exemption.

Landlord guidance on energy efficiency (GOV.UK)

Although you only have to get the home to a rating of E, it can be a good idea to aim for a better rating. It will be cheaper for tenants to run and better for the environment.

Other responsibilities you'll have as a landlord

You'll also need to:

- make sure the property is safe for tenants to live in
- deal with repairs to the property's structure and exterior
- maintain the heating and water systems
- make sure furniture meets fire safety regulations
- make sure the gas and electrics are safe
- provide the right paperwork and information

Renters’ rights and what you’ll be responsible for

5. Protecting yourself with insurance

There are three main types of insurance you’ll need as a landlord: buildings, contents and landlord liability.

Buildings insurance

You’ll need to take out buildings insurance before you can secure a mortgage on a property.

Buildings insurance covers you if your property is damaged or destroyed and needs to be repaired or rebuilt.

Make sure you put the correct rebuild value on your buildings insurance form. This is different to the amount you paid for the property.

A chartered building surveyor can do a valuation to make sure you're setting the right rebuild value.

Contents insurance

Your contents insurance will cover the furniture and fixtures in the property.

Even if your place is unfurnished, getting some level of contents cover is a good idea to protect carpets, curtains and white goods.

The people renting from you will be responsible for insuring their own belongings.

Landlord liability

Landlord liability insurance will cover you in the event of the injury or death of the people who live in or visit your property.

This type of insurance is often optional, but you may be required to have a minimum level in place. This includes if you are renting to students, have an HMO, or in some local authorities.

6. Choosing a property

If you’ve decided to take the plunge and become a landlord, welcome to the exciting bit: finding a property.

Search our homes for sale and explore different properties you can get for your budget.

Find your new home

Understanding what a tenant wants from a home will help you choose the right property. That means you'll be able to attract more suitable tenants and generate a good rental rate.

Location is a really important part of finding a buy-to-let.

If you're hoping to rent to families, look for homes near good schools and amenities.

A student, on the other hand, may want a more affordable property that's close to their university, transport links and nightlife.

And don't overlook smaller properties. If they're in the right location, they can make attractive rental homes.

Consider going for a new-build home, too. Although the initial cost might be higher, you're likely to save a lot of money on maintenance and refurbishment costs over the years.

New-builds also tend to be more energy efficient, which is all the more important to tenants in 2023.

You might want to think about how close the property is your own home. You'll be on hand if anything goes wrong, and you'll have the benefit of being familiar with the area.

7. Using a letting agent for a rental property

A letting agent can take a lot of admin and hassle off your hands. But you'll have to weigh up the cost and decide if it's right for you.

For a let-only service, you're probably looking at a one-off fee of around four to six weeks' rent.

This will cover the letting agent finding a tenant for you, which is often faster than if you go at it alone. They'll advertise your property and hold viewings for you. They may also handle the paperwork when a tenant moves in.

Once you've found a tenant, you can keep using a letting agent to manage the tenancy.

This could be rent-collection only, where they'll take payments for you and chase up any late rent.

Or it could be a full property management service, where they cover everything from arranging to fix the boiler to keeping you compliant with landlord laws.

This option is particularly useful if you don't have much spare time or if you live far away from the property.

Letting agent fees start at around 10% of your monthly rental income, but it's not unusual for them to be around 20%. They can be higher in London.

It might sound like a lot if you're a first-time landlord, but it can save you both time and effort. And tenants can find it reassuring to have a letting agent as their point of contact.

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When you're looking for a letting agent, check their background and credentials. Make sure they're a member of the Association of Residential Letting Agents and the National Approved Lettings Scheme.

8. Finding a tenant

Our advice? List a rental home in the same way you would if you were selling your own home.

First of all, get to know the local rental market and going rates. You want a fair rental rate that will both attract tenants and make you a return.

Search rental properties

Make sure you have good photography and an accurate description to show it in its best light.

Be prompt to communicate with potential tenants and book them in for viewings.

Again, it can help to tap into the expertise of a local letting agent to market your property.

They can also help you stay on top of the paperwork and regulations, which can be a bit daunting if you're a first-time landlord.

Does it matter what kind of tenants you rent to?

We think you should feel happy to rent your home to anyone who can put down the deposit and afford the rent.

But if you're targeting a specific type of renter, such as students or professionals in a house share, it can make a difference to your plans.

Some lenders are more careful about giving out mortgages for student lets and **Houses in Multiple Occupation** (HMOs).

An HMO is a household made up of three or more tenants, and they share a toilet, bathroom or kitchen facilities. It might be professionals in a flat share, for example.

If you rent your property as an HMO, you'll have more legal responsibilities to think about.

Responsibilities of HMO landlords (Shelter.org.uk)

9. The pros and cons of buy-to-let property

There's lots to weigh up if you're thinking about buy-to-let.

We've spoken to some landlords to find out what they think the benefits and downsides are.

The pros of buy-to-let

- Overall, it can give you more financial freedom both now and in the future
- It's usually a safe long-term investment, with most homes gaining value over time
- You could make a profit in the short-term too, as long as rent you charge covers your mortgage
- Demand from tenants far outweighs supply of rental homes in 2023, which means you should be able to find a tenant
- It can be rewarding to provide a good home and build a relationship with a tenant.

The cons of buy-to-let

- Many mortgage lenders require rental cover of 145%
- There are lots of regulations to think about (but estate agents can help you with this)
- Tax relief on mortgage interest is capped at the basic rate of 20% for all landlords
- If you're buying an additional property that's not replacing your main home, you'll pay an extra 3% on stamp duty
- You'll have to pay Insurance Premium Tax (IPT) on general insurance policies
- You might have to pay Capital Gains Tax when you decide to sell.

10. Is buy-to-let right for me?

Only you can decide whether becoming a landlord is the right thing for you.

But if you choose a property wisely and stay on top of your responsibilities, it can be both profitable and rewarding.

Spend time understanding the market and the potential outcomes of investing in buy-to-let property.

And if in doubt, get advice from a local letting agent to see what's happening in the market.

11. Our top tips for future landlords

Look for ways to improve your income

Look for creative ways to improve your home for tenants and potentially boost your income.

That might mean adding an extra bedroom by converting a loft space, or turning an office or spare reception room into an extra bedroom.

Buy a newer home to reduce maintenance costs

It's harder to find a modern rental home, so they tend to get rented quicker. They can also help you save on maintenance and refurbishment costs.

Consider paying cash

It could be less expensive to remortgage your own home rather than take a buy-to-let mortgage. But always seek financial advice before doing this.

Do your checks

Check tenants' references and credit scores to make sure they can afford your rental rate. A letting agent can help you get this right.

Get help from a letting agent

If you're a first-time landlord, a letting agent can help you get it right. You could always branch out on your own later, once you know what you're doing.

Cover yourself

Invest in good buy-to-let insurance to make sure you're fully covered for all eventualities.

Keep it clean

When you're looking for a new tenant, clean and redecorate your home to keep it in the best possible condition.

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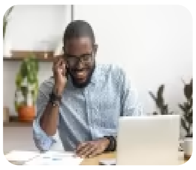

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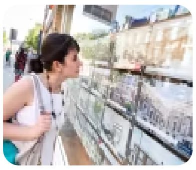

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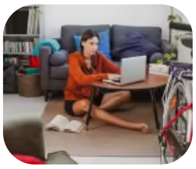

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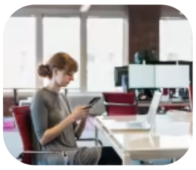

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