

"They say that you learn from your own mistakes, but my view is that it's far better – and certainly less expensive – to learn from other people's experience.

"For over 10 years we have been providing advice and guidance to literally hundreds of clients, helping them to build their property portfolio, minimise risk and maximise their returns.

"Of course, we are not just consultants and mortgage brokers. We also practise what we preach; our consultants are also successful investors in their own right. (Our portfolios, for example, now exceed £4 million.)".

"We offer exclusive mortgage products, and we can usually provide a decision in principle within 24 hours, with a mortgage offer following - in most cases within 20 days.

Brian Gibson: Managing Director

As safe as houses

Why the property market is considered a safe place to invest

The rental market

Within the UK, the private sector currently provides around 10% of all homes. This has grown substantially since ARLA (the Association of Residential Letting Agents) successfully branded investment in residential properties for letting purposes as "buy-to-let", whilst at the same time persuading mortgage lenders to offer buy-to-let mortgage terms in line with prime consumer rather than commercial mortgage rates.

Ease of access to competitive funding, coupled with a buoyant housing market, has changed this sector, probably forever. It may take some time before the UK private rental sector compares with many of our European counterparts, for whom 60% of housing stock is provided by the private rental sector. However, some would say we are heading in that direction. People under the age of 30 are already struggling to get onto the housing ladder because they simply don't earn enough to qualify for a sufficient mortgage. In other parts of Europe – Germany and Switzerland for example – this has been the accepted norm for several decades. If people can't afford to buy, they rent. The rental market is not just limited to youngsters, though. Divorcees, single parents and professionals who move around frequently with their work now all rely heavily on the private rental sector.

The property market

History has shown us that the value of UK properties doubles every 10 to 12 years. (source: Office of the Deputy Prime Minister). The market is underpinned by demand because new property development is insufficient to keep pace with ever increasing housing demand. Government figures suggest that 250,000 new homes are required every year. However, the reality is that only 150,000 new homes are actually built. The government has also predicted that twice as many homes will be required in the UK by 2016. How many of them will be provided by the private rental sector?

Why invest in property?

An example of gearing up

Owning a £1 million property portfolio can be rewarding in more ways than one. It is not just the profits on rental income you need to consider: 5% property inflation on a £1 million portfolio would result in you making £50,000 extra in capital growth every year.

Good news

You don't need a million pounds to own a £1 million property portfolio. You could need as little as £150,000 for deposits and a bit extra to cover fees. That is because it is possible to borrow the other 85%.

But it gets better

You don't even need £150,000! All you actually need is your first 15% deposit. Thereafter, the trick is to get your money back out as soon as possible and whenever the property increases in value. There are many ways to do this. One example is refinancing. However, you may not even need to do this. Some buy-to-let mortgage schemes allow you to increase your mortgage in line with property prices. Assuming that property will increase by 5% every year, it is possible to double your portfolio every four years, simply by increasing your mortgages in line with property / rent inflation and using the extra cash as deposits on more properties. If you could raise £100,000 cash to invest in property, this would put you into a position where you could spend up to £500,000 on properties. With such an investment, if the property market were to increase in value by just 5% per annum you would be making £25,000 a year, increasing year on year. This represents a rising return of at least 25% of your initial £100,000 investment!

Increasing returns

Another example of gearing up

Just suppose you could raise £100,000 to invest in property. You might decide to buy just one property with it. If that property increased in value by 5% in one year, you would have made £5,000, wouldn't you?

Now let's take a look at another strategy. We are going to assume that we can rent out the property for enough money to cover the interest costs on the maximum possible buy-to-let mortgage, together with all the associated costs of owning and letting a residential property.

In this example we are going to borrow £85,000 and invest £15,000 of our cash to fund the balance of the purchase price. Now if the property increases by 5% we have still made £5,000 but we have only invested £15,000. This is a 33% return on our money! A prudent investor would not buy just one property though. They would probably buy five on the basis of spreading risk, safety in numbers and economies of scale. Assuming the properties are worth £100,000 each the deposits would amount to £75,000. Therefore the investor would still be left with £25,000 to cover other purchase costs such as fees, stamp duty etc still leaving a healthy surplus for contingencies or a "rainy day". This would mean the investor had £500,000 worth of property, which assuming 5% growth per annum, would equate to a profit of £25,000 a year.

The key to successful investing is making a meaningful return. In the example above, the rent only covers the costs so there is no surplus there. The increases

in values are not much use either, unless the property is sold – or are they? The key to successful property investment lies behind a strategy to get money out of the properties without having to sell. This is all down to setting up the right mortgage in the first place.

Whilst our consultants provide the highest levels of independent broking services, they will look beyond just the interest rates. They will also provide you with guidance in respect of maximising your returns. In the previous example, you might have decided to borrow 80% on the basis that the mortgage interest rate was slightly cheaper. However, you would have invested £20,000 to make £5,000. This is a 25% return. In other words, you would have reduced your return from 33% to 25%, perhaps only to save a few pounds a month in interest.

Where to start

Speak to three established property managers in your area and explain that you are planning to invest in property to let – or better still, look for yourself at twilight areas that are improving. Agents will be more than happy to provide advice on demand, preferred areas, property types, rental incomes and tenants in return for an opportunity to discuss their letting and management services with you. Choosing the right location and property can make or break your long-term investment strategy. Wherever possible, ensure that the advice you are getting is independent. Remember, estate agents who also manage properties might try to steer you towards buying properties they are marketing for sale and this can be a conflict of interests.

University Accommodation Offices are always delighted to hear from prospective new landlords. They know exactly what their students want to rent, the going rates for rents, and where their students want to live. Again, explain how much money you are intending to invest in the property market. If you work with the University Accommodation Office and take their advice when you are buying, you can be very confident that they will do everything they can to introduce you to good student tenants.

What to do when you find a property

Go back to the property managers and ask them for an indication of achievable rents and demand for the properties you are considering. Armed with this information it is time for you to speak with Gibson Pensions & Investments again. We will calculate and recommend methods of maximising your returns by choosing the right mortgage products to suit your strategy for both the present and the future. Your funding strategy is important far beyond the point of buying the property. You need to ensure that the mortgage facilities you arrange can easily be increased in line with rise in the value of your properties. Check the rental rules e.g. multiple occupancy approval.

Letting your property

When you have made a mortgage application Gibson Pensions & Investments will also share some hints and tips with you on making your property more appealing to tenants, maximising your rental income and expanding your property portfolio further.

Why it might be better to refinance than to sell

Imagine you had bought your buy-to-let property for £100,000 and taken on £85,000 buy-to-let mortgages some time ago. Now let's assume that as time passed by, both the value of the property and the rent have doubled. So now the property is worth £200,000 and you still owe £85,000 on your interest only mortgage.

You have three options:

1. Keep the property and keep banking the handsome profits you are making on your rents.
2. Sell the property. This will give you £115,000 minus costs. Unfortunately, by selling the property you have released a £100,000 capital gain. The tax on this could be as much as 40% i.e. £40,000. At best, even if you owned the property for over 10 years and claimed all of your indexation allowances, you will still have to pay £24,000 in Capital Gains Tax. That means that you will still have to pay somewhere between £91,000 and £75,000 in your hand. Still a very nice return, but of course the property is now sold, so you will not benefit from any further growth in property values and rents.
3. Remortgage the property. Bearing in mind that the property and the rent have doubled, why not double the mortgage? This would release £85,000 and the rent would continue to pay for it. You haven't released a capital gain so there is no tax to pay. And you still own the property so you can sit back for as long as it takes to double in value yet again!

Do you have buy-to-let property which has increased in value? If so, which option are you going to take?

Cash-flow

Cash-flow is the lifeblood of any business. Investment in property must be treated as a business. Provision must be made for periods when rent is not coming in and when property needs decorating or maintenance. To provide maximum cash-flow, it is common practice for landlords to structure their funding on an interest only basis. You will appreciate that it is far easier to make overpayments than it is to renegotiate the level of mortgage repayments in the event of a cash-flow shortfall.

Minimising risk - cash is king!

There are plenty of property millionaires around, and doubtless plenty more will make their fortunes in property. So what are the risks?

- Rising interest rate
- Falling property values
- Tenants not paying their rent
- Struggling to find a suitable tenant
- Theft of the furniture or extensive damage by the tenant
- Boiler needs replacing
- Property trashed

BUT, the BIGGEST risk of all is lack of cash

With cash in the bank, any of the above can be looked upon as a set-back rather than a disaster – and yet risk is associated with debt! Survey after survey of

portfolio landlords reveals that the norm is to borrow less than 50% of the value of their property empire whereas they could borrow up to 85%. How much cash could they release?

Let's look at this concept further in its very simplest form. The cost of borrowing £10,000 is £50 per month at an interest rate of 6%. If interest rates went to 10% the cost of borrowing £10,000 would be £83.33 per month. Now pick any one of the eventualities above and tell me which you would be most comfortable with! £10,000 in the bank I suspect, because £50 per month wouldn't be of much use would it?

Now let's scale this up a bit for the benefit of any portfolio landlords reading this. What if we could raise £1 million? The cost would be £5,000 per month, or would it? Actually, the cost would be the difference between the interest rate you pay, which could be fixed, and the interest you could receive on a high interest bearing current account.

The difference is probably a lot less than you think, especially if Gibson Pensions & Investments shops around for you. Now just imagine what sort of position that would put you in.

- £1 million in the bank would make you virtually recession proof
- If property values were to fall you would be one of the few to be in a position to buy at the new lower prices
- If the differential between the interest received and the interest you pay were to become too big you could simply reverse the position and repay the extra borrowings

The window of opportunity to do something could be now. Nobody actually knows what will happen to property prices, interest rates or any of the other issues affecting you as a landlord. If property values fall before you act then your window of opportunity will be closed. It makes sense to release equity whenever you can.

What will you do?

The decision is yours!