

This is a sample chapter from “Renting Out Your Property For Dummies” supplied to LandlordZONE by John Wiley & Sons Ltd, publishers of the Dummies series of books.

## Finding the Perfect Rental Property

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### ***In This Chapter***

- \* Figuring out exactly what type of rental property you want
  - \* Knowing where to look for a rental property
  - \* Assessing whether there are enough suitable tenants in the area
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Location, location, location is the mantra you should bear in mind when you go to buy property - particularly when you go to buy rental property. Not only do you want to pay a reasonable price for a property that will increase in value over time, but you also need to find a rich source of suitable tenants to fill it, look after it, and pay the rent on time every month. This task sounds straightforward enough, but you need to do your research very carefully before committing to the purchase of a rental property to make sure that all these aims are met.

It doesn't matter how great a one-bedroom flat is if it's situated in an area full of large family homes with big gardens. You're not likely to find the single tenant or couple you need to fill it, and - at the end of the day - filling the property is your aim if you want your rental property business to be profitable. As a landlord, you have to be dispassionate and ruthless about your purchase, because the type of property you may want to live in won't necessarily appeal to tenants. In this chapter, we help identify what to look for when choosing a rental property - and the pitfalls to avoid.

## ***Knowing What to Look For***

Before you start, you need to have a clear idea of what type of rental property you're looking for. If you want a small family house, say a two-bedroom terraced house, don't be persuaded to look at unsuitable properties such as studio flats or rambling six-bedroom mansions. By focusing on exactly what you want and avoiding countless unsuitable properties, you can save yourself time and money.

While staying focused is good, don't be too narrow-minded. If you're looking for a two-bedroom house for your rental business but then stumble across a slightly cheaper two-bedroom flat in the area, you may decide that the flat is perfect for renting to tenants. If you stick too closely to your original plan and don't evaluate alternatives as they present themselves, you could find yourself missing a good opportunity.

### **<Tip>**

Ask dedicated letting agents - not estate agents - for advice on renting property. Estate agents want to earn their commission and get the sale, so they are unlikely to be completely unbiased. The letting agent should provide more useful opinions on location and a particular property.

## ***Big or little: Size matters***

Letting agents will all tell you that the easiest properties to let to tenants are studio apartments and one-bedroom flats. If you opt for a huge, grand house in the hope that it will generate lots more rent, you are likely to discover that finding tenants is much harder. This fact is partly down to demographics: More people are living on their own than ever before. And with property prices out of the reach of many first-time buyers until later in life - the average age of a first-time buyer in the UK is now 33 - many 20- to 30-year-olds are being forced to rent until they have saved enough for a deposit.

### **<Tip>**

If you have £300,000 to invest, consider using it to pay deposits on two or three small family homes rather than put all your money towards one big property. Doing so is advantageous in a couple of ways:

- \* **The smaller properties are usually easier to let than larger ones, making life easier for you.** In fact, demand for properties with three or more bedrooms is diminishing. You are better off choosing a property suitable for the young professional who is not yet ready to buy but still wants the freedom and independence of living on her own.

- \* **The rent on a studio or small flat is also going to be a lot less than on a big house.** This may not sound like a good thing, but consider this: If you run into void periods, covering the mortgage yourself is likely to be much less of a burden than it would with a large property.
- \* **Flats are much easier to maintain.** Most flats in the UK tend to be leasehold rather than freehold so you will have to pay an annual service charge to the freeholder for the maintenance of the common areas. If you buy a leasehold property, you own the flat for the duration of the lease, unlike a freehold property where you purchase it outright. Watch out for properties with a lease of 65 years or less as these are likely to be cheap because mortgage providers won't lend money on these. However, leases can be extended - and you can add the service charge onto the rent.

## ***Setting your budget***

Of course, what property you buy is largely decided by your budget. You can find more about financing the purchase of your property in Chapter 16, but the key factor to bear in mind is that you shouldn't overstretch yourself. Most landlords use leverage to borrow much more than their deposit, but the rental income must cover at least 130 per cent of the mortgage repayments. And ask yourself this: If the property is empty for two or three months a year, can you afford to carry on paying the mortgage yourself? If the answer is no, you should think about scaling down your ambitions.

## ***Location, location, location***

Picking a good location isn't as straightforward as it sounds. What you think is a good location might not be your tenant's idea of a good location. Your ideal place to live could be a green, leafy street with minimal traffic, close to good schools. But your prospective tenants (some of whom won't have cars) may be more interested in an area that is close to shops, pubs, and takeaway restaurants with reliable public transport links.

If your tenants don't have a large family, a large supermarket two roads away isn't as important as a 24-hour convenience store where they can pick up a pint of milk late at night.

Many prospective tenants don't have the resources to run a car - which is why they are renting in the first place - and will demand a property close to local transport links. Most don't fancy walking half-an-hour from the nearest train station when they return home late at night. For these tenants, the train station or bus stop needs to be close to a rental property: More than 10 minutes' walk and your prospective tenants are likely to be put off.

<Tip>

To extend the likely pool of tenants, look at properties outside major cities but with reliable transport links into the city. For example, many towns in the South East, such as Guildford and Haslemere in Surrey, are around an hour away from London on the train. Many people prefer to live outside a city and commute in as necessary for work. Buying rental property in such an area widens your pool of potential tenants.

**<Remember>**

When you buy a property, keep your potential tenants in mind. You should have a good idea what type of person is likely to want to live in your rental property. If not, you'll find buying the right property very difficult. For example, if your rental property is near a college, university, or hospital, a house that several students or colleagues can share for a reasonable monthly rent may be easier to let than a luxury one-bedroom flat with a hefty rent to match.

## **Ex-council flats**

In big cities in particular, you can often find lots of ex-council flats for sale, at cheaper prices than swanky Victorian conversions. While you personally might not want to live on the edge of an estate in an ex-council property, tenants often aren't bothered about renting such a flat or house, as long as the inside is up to scratch. If the property is clean, and everything in good working order, you shouldn't have much trouble renting out an ex-council flat.

### ***The benefits of buying locally***

If you plan to manage your rental property yourself, without the help of an agent, buying locally makes sense. If the tenant has a problem in the middle of the night or complains of a malfunctioning boiler - problems you'd prefer to check out yourself before calling in a tradesman - your life is a lot easier if the rental property is just down the road rather than three hours away up the M1.

The other advantage of buying locally is that you are likely to know the area inside out. Many landlords feel more confident buying property in an area they know, especially when they start out. You are likely to know what is a bargain in terms of property prices - and what isn't. Finding that bargain and snapping it up quickly is also easier: You might be driving down a street on your way to work and spot a property that you think would be ideal for letting. A quick call to the estate agent handling the sale, and you're on hand to view it immediately. A scenario like this could save you the hassle of trawling through newspapers, property magazines, the Internet, and estate agents, and puts you in a position to find a good deal.

### ***Buying too close to your own residence***

Be wary of buying a rental property too close to your main residence. Buying the empty house next door to yours, for example, with a view to letting it out

may seem like a good idea. But while you can keep a close eye on the rental property, tenants living on your doorstep can be a pain in the neck, particularly if they're the type to constantly badger you for this and that.

Just as you may regret having your tenants living next door, you may also find it difficult to rent the property in the first place. Tenants can be wary of living in close proximity to their landlord, fearful that they will be closely watched and monitored. It may be better for all concerned if you buy your rental property in another part of your town.

### ***Buying in an area you don't know***

Buying in an area that you don't know well is fraught with potential problems. The property you have your eye on may look like a bargain, but it could be in an area beset with problems, none of which are apparent to someone not familiar with the locality. The area could also be declining rather than improving in the long term, and you're not likely to know that until too late.

If you want to spread your wings and buy further afield, do your research carefully first. The Internet is a great place to start when you want to research an area. You can get an idea of the type and price of property available, local amenities, and schools and transport. Once you have a general idea of where a good place to buy may be, visit the area to get a feel for whether it actually is a good place to buy in. Visit local estate agents and speak to letting agents to get an idea of what property is available and what sort of rent you can expect.


### ***Dilapidated properties***

A rundown property needing complete renovation may be well within your budget, but there's probably a very good reason for that - the property is likely to need plenty of work. It may look like a bargain, but if it takes months to get ready to rent, it'll cost you money, not just in renovations but also in lost income. Also, most mortgage lenders only offer buy-to-let loans on properties ready to let to tenants (see Chapter 16)

#### ***<Tip>***

Converting an old rambling house into several flats may be tempting, but leave this well alone until you're more experienced in property management. Over time, you'll build up contacts, including a network of tradesmen and builders, who will be able to complete the work for a good price.

## ***Letting out a basement in your home***

If you live in a large property with a basement, you may be tempted to convert it into a self-contained flat to rent out and generate some extra income. But bear in mind that this strategy is feasible only if the property has space for a separate entrance. If you're planning a new self-contained flat and building work is required, you also need planning permission. Building regulations also have to be followed concerning all structural aspects of the property, as well as the size of the windows, ventilation, drainage, and escape routes.  Information on planning and building regulations can be obtained from your local council.

### ***<Remember>***

While converting your basement into a self-contained flat is potentially a good idea, think it through very carefully. Check with local letting agents as to the amount of rent you can expect to generate to see whether you'll get a good return on your investment.

## ***Where to Go to Find Your Rental Property***

Wherever you decide to buy your property, prepare yourself for plenty of legwork. If you know the area well, perhaps because you live there, keep your eyes peeled when you're out and about to see whether you can spot any houses and flats for sale that would be suitable for your purposes. You can take several other routes to find the right property for you, and these are explained in the following sections.

### ***Using an estate agent***

Although letting agents are more useful to landlords than estate agents when it comes to managing your property, you will need the services of an estate agent when you are purchasing a rental property. Although everyone loves to hate them, estate agents are very useful when you're looking to buy a rental property. You can't get round it - you'll have to befriend an estate agent if you want to get ahead of the game. If you get on with your agent and prove that you're a serious buyer, your agent is more likely to ring you first when suitable properties become available.

### ***<Warning>***

Estate agents are paid by commission, which they get by selling a property for their client - the seller. As a result, they want the property to fetch the highest price possible. Don't forget this during your negotiations.

<Tip>

To prove that you're a serious buyer, make sure your funds are ready to move forward with the purchase of a property as soon as you find a suitable one. Be proactive: Keep in touch with estate agents to see what new properties come up and make an effort to see these new properties as quickly as possible.

## ***Buying at auction***

Auction is the place to go if you want to buy a property with development potential. Hundreds of auctions take place across the country every week, organised by the big estate agents. But while auctions are good sources of properties, they can be intimidating places. If you plan to buy at auction, attend one or two first, purely as an observer, to see how they operate. Having done so, you may decide that such a process is not for you - and then you can channel your energies into buying property by another route.

<Tip>

If you go to an auction, set a limit beforehand as to how much you are prepared to bid for a property and stick to it. Exceeding this budget may be tempting if you have set your heart on a property, particularly if you get caught up in a bidding war. It is likely that the property requires quite a bit of work, so if you blow your budget buying it in the first place, you'll be left with no funds to pay for refurbishments.

If you successfully bid for a property, the offer becomes binding and you have to exchange contracts immediately. You also have to pay a 10 percent deposit on the day and complete the purchase within a stated period of time, usually 28 days. If you don't, you lose your deposit, could be sued for breach of contract, and be liable to pay the difference between the price you agreed to pay for the property and the price it eventually fetches. So make sure you don't bid until you have done the following:

- \* **Done your homework:** Never bid for a property, even if it sounds like a bargain, without seeing it first. Look through the auction catalogue and visit any properties you're interested in. If the property needs a considerable amount of work, take a builder with you so that he can give you an estimate.
- \* **Arranged your financing:** Unless you have enough cash to pay for the property outright, you must have the mortgage agreed with your lender before the auction. You must also ensure that you have enough cash available to pay the 10 per cent deposit on the day of the sale: Most

auctioneers require that you pay this via banker's draft, so make sure the funds are available in your bank account.

Some auctioneers require that you register as a bidder at the start of the sale, so ensure you get there early on the day if this is the case.

**<Warning>**

It is possible to grab a bargain at auction, but it's also just as easy to make a terrible, costly mistake. Think carefully before you buy and don't get carried away in the heat of the moment.

## ***Using the Internet***

The Internet has really taken off in recent years as a source of properties for sale. Many of the big estate agents have realised the value of having some sort of online presence, as have sellers who want to avoid using the services of an estate agent altogether.

**<Tip>**

Local and national newspapers tend to have good Web sites featuring properties for sale. These sites are likely to be updated more frequently than the paper, particularly in the case of weekly local papers. Make a habit of checking sites on a regular basis.

## ***Checking Out the Tenant Pool***

It doesn't matter how great your rental property is, or how close it is to major transport links, if the area doesn't have sufficient tenants to ensure it is rented out virtually all of the time. Before buying a property, establish whether the property is located in a serious rental market. In areas that have lots of small "starter" homes, for example, people may tend to buy rather than rent. If you have a property there, you'll struggle to find tenants who want to rent your property.

An area with more tenants looking for somewhere to live than available rental properties is the ideal location for your rental property. To get a feel for the rental market in the area, try gauging how busy letting agents are. If the market doesn't appear to be strong, you may want to look somewhere else.

**<Remember>**

Markets can change quickly as well - an area that is rich with potential tenants working for a big company located in the area can change dramatically should that company close down or relocate. If you already own

a rental property in such an area, you may decide to sell up and buy another property elsewhere with a stronger source of tenants. As a landlord, you have to move quickly if you are going to keep ahead of the game.

This is a sample chapter from “Renting Out Your Property For Dummies” supplied to LandlordZONE by John Wiley & Sons Ltd, publishers of the Dummies series of books.

The book is a comprehensive guide to the whole process of renting out property. It’s brim full of practical advice based on years of letting experience. In our opinion this **new UK edition** of a long-established US title is an absolute must for the bookshelf of serious landlords, novice and experienced alike. We can highly recommend it.