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All you need to know about…
…Let to Buy

When you move home, you normally have to sell your current property, especially if you need the money to buy a new one. But there are occasions when it makes practical or financial sense to keep your old home. If you rent your old home out rather than sell it, you could end up over time with a valuable asset that generates a regular income.

This guide aims to give you all the information you need on Let to Buy…

1 When does renting out your old home make sense?

- If you are just moving temporarily, perhaps for work reasons, and you want to keep open the option of moving back to your old house
- If it is a good rental property, and you are confident that property prices are going to rise – and you have enough money that you do not have to sell your old one to fund buying the new home

2 What do you think will happen to property prices?

This is the critical question. If property prices are rising, then clearly there is a massive financial advantage to building up a property portfolio – you get the capital gains on more than one property. But if property prices are falling, then your old home will go down in value, and certainly in the short term you would probably be better off selling it.

However, in the long term property prices invariably rise (along with economic growth and incomes), and so if you are planning to keep your old home for many years, then you shouldn't worry about a short term dip in prices.

3 Will your mortgage company let you?

You need to check the small print of your mortgage – most mortgages include a clause that does not let you rent out your house, while some let you do it for up to a year, and others have clauses that allow you to rent it out if you are moving for a limited period for work and intend to move back.

If you do have to change mortgage, you will probably have to change to a buy-to-let mortgage (usually higher interest) which will probably entail early repayment fees, valuation/survey fees, and new mortgage arrangement fees.

4 How can you finance two properties?

Clearly, you should only consider doing this if you are financially secure, and financially literate – if you are already stretched, and not confident dealing with financial matters, then you could end up really regretting it.

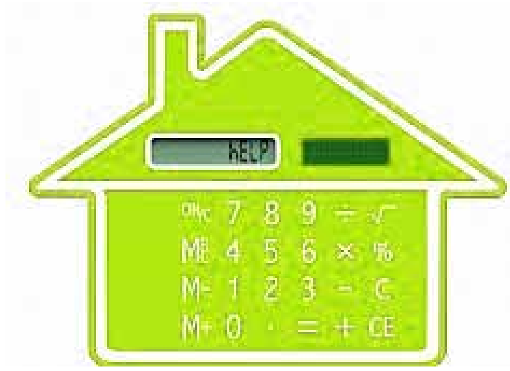
You are clearly more likely to be able to buy a new property while keeping your old one if you have major equity in your existing property, and a sufficient income to easily finance the mortgage on your new property. If you need to raise the deposit for the new property, you can do that by increasing the mortgage on your existing home, the payments for which should be covered by the rental income.

You will then need to take out a second residential mortgage on your new home, the payments for which would be covered by your normal work income. You will then have two mortgages, one on each property, covered by the rental income and your personal income.

5 Will you be able to pay the mortgages?

If you move out but still have a mortgage on your old property (whether you are buying or renting a new place), you obviously need to work out whether you will be able to keep up with the monthly repayments on that mortgage – in addition to the mortgage on your new home. Clearly, you want (and the mortgage lender is likely to insist) that the rental income is enough to cover the mortgage interest payments. But there are many other factors that you need to consider:

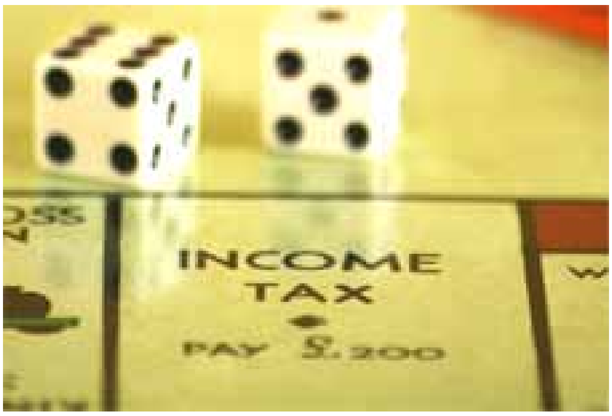
- How many months of the year are you likely to be able to rent it out? As a rule of thumb, you should reckon on one month a year where it will be unrented (for example, when you are looking for a new tenant)
- Will you be able to cover the mortgage if you are unable to rent it, for whatever reason? You should be confident that you can avoid a forced sale or repossession if you have difficulty renting it out for a while
- Will you be able to pay for the property's maintenance? Can you afford a new boiler? What if the house gets damp? Or what about if it needs a new roof?
- Will you manage the property – or will you pay somebody to do so? How much will that cost?
- Will you rent it through an agent? What commission will they take?
- Have you factored in insurance into the total monthly costs?



6 How much will it cost you to live in the new place?

Clearly, the ability to afford to keep your old home will depend not just on the rental income you get, but the cost of living in your new place.

- How much will your new rent or mortgage be?
- Have you factored in the hidden and often substantial costs of buying and moving, such as stamp duty and estate agent fees?



7 Will I have to pay income tax?

If you make a profit on renting out your property – ie the annual rental income exceeds the allowable costs including mortgage interest payments – then you may have to pay income tax on it. HMRC give generous allowances for maintenance and wear and tear (and you can offset professional fees such as agents and property managers), so the tax bill is often less than you might expect. You cannot offset mortgage capital repayments against income tax.

To be sure that Let to Buy is the best option for you why not take advantage of a FREE consultation with a specialist advisor at Barr Mortgages. Just call 01237 472 321 and ask to speak to an advisor about Let to Buy - you'll be glad you did.