Easthams&Co

Landlord's Guide

INVESTING IN A RENTAL PROPERTY

Before investing in a property in any area it is important that you do your homework first. Key areas to research before making any property purchase are as follows:

• **LOCATION, LOCATION, LOCATION:** Make sure your buying in a popular area.

• **RENTAL YIELD:** What return on investment are you going to achieve.

• **TARGET MARKET:** Who are you looking to rent to: Working Professionals, Corporate Clients, Retirees, Students or Social Housing tenants.

• **CAPITAL GROWTH & RENTAL YIELD:** Supply v Demand. Long term v Short Term investment. If demand rises faster than supply there is a greater prospect for capital growth. Look at local government and private sector investment in the area you are looking to invest in as this is a good sign that prices will rise.

• **ADDED VALUE:** Could you carry out a small or large refurbishment and increase your return on investment adding value in the long term.

• **POTENTIAL PITFALLS & EXIT STRATEGY:** Ensure you have an exit plan in place because who knows what's around the corner.

LOCATION, LOCATION, LOCATION

It is always important to choose the right area for any investment property. Look at catchment areas for local schools, locality to motorway networks, hospitals, local amenities, commuter links and business parks catering to large blue chip employers.

Here is our pick of popular areas to invest in within Preston and surrounding areas:

Fulwood with Royal Preston Hospital at its heart, good local schools and motorway links to Manchester, Liverpool and the Lake District, it's not surprising that there is always strong demand for 3 and 4 bed Semi-Detached and Detached family properties in this area. It has historically always been the strongest rental market in the PR postcodes

Winckley Square has recently seen a £1.2m refurbishment and further investment in residential accommodation, commercial premises and the city centre is making this area more and more popular. A very good long term bet as the City expands and the councils city living strategy takes effect.

Cottam Extremely popular with professional families and corporate tenants looking to rent, the low supply of rental accommodation in this area ensures some of the strongest rents and lowest void periods in the area

Ashton is a popular area for cheaper terraced style properties and 3/ bed semi-detached, Victorian and Edwardian properties. It has a small hub of independent shops and links to Preston's Dockland area. There are also some good primary schools making it popular with young families.

Penwortham is becoming a very popular area with a village community feel and a high street benefiting from both national chains and small independent shops. It has good links to Hutton with its popular Grammar school and Preston's Police Headquarters and the popular villages of Longton and New Longton. This is a thriving area offering semi-detached and detached properties and is popular with families and working professionals alike.

The Docks (in particular Mountbatten Close) is a vibrant development of 1 and 2 bed apartments and townhouses with numerous retail and leisure outlets on the door step. This is an extremely popular area for corporate and professional tenants due to its close proximity and easy commute to BAE Systems Warton

Goosnargh, Barton & Broughton are popular rural villages situated to the north of Preston and offer larger Semi-Detached and Detached properties popular with families and professionals. This area commands higher property prices and higher rents. The area benefits from being rural, but at the same time close to local amenities, motorway networks and one of the most popular high schools in Preston.

Lytham is situated on the coast and offers stylish independent shopping with boating lakes and picturesque parks and is an extremely popular area with properties ranging from Seafront apartments to large period properties. Popular with young professionals, families and retirees, Lytham has something for everyone and achieves far higher rents than other surrounding areas.

TARGET MARKET

Establishing your target market is an important consideration, your target market will be highly influenced by your properties location, but it will not be completely determined by this; for example you may purchase a 3 bed semi-detached property close to the hospital and local schools with the intention of appealing to families, only to find that the majority of interest is coming from medical staff and student doctors working at the local hospital.

Establishing what type of tenants you want to rent to can also have a bearing on your monthly rent; renting to students can mean you achieve a higher annual rent however there may also a considerably more wear and tear and increased maintenance costs.

Families tend to want spacious properties with gardens in the right catchment areas for schools and have good access to local amenities and parks. As with all tenants looking in the current market, they will have high standards.

Families are more likely to be looking for longer term tenancies and they may be looking to get their children into a particular school so consider this when looking at locations; if you're not familiar with the area you're looking to invest in, websites such as Rightmove, now have map locations for primary and secondary schools making it easier to find what locations to invest in.

Young professionals usually want a good location in areas that attract other young professionals; ideally near restaurants, pubs, gyms and motorway networks. Many won't have acquired much in the way of furniture yet, so furnishing a property particularly with contemporary furniture can be a bonus.

Corporate tenants want something they can move straight into. Many corporate tenants are relocating from elsewhere in the UK or from overseas and will require the property to come with everything from furniture, TVs, cooking utensils and bed linen etc. Although there will be an additional outlay of money to provide these items, the tenants or companies taking out the tenancies will often pay a premium for this type of property.

RENTAL YIELD Vs CAPTIAL GROWTH

RENTAL YIELD

Gross yields currently average 4.17% nationally. Gross yields are calculated by dividing the annual rent by the property price and do not account for property related outgoings and therefore do not give an accurate return on investment.

Annual income (monthly rental income x 12) / market value x 100 = Gross rental yield (%)

When investing in a property it is always important to calculate the net yield especially when looking to make an income after costs from your investment. Net yield is the return on investment after deducting costs. Costs that should be considered when calculating net yields are as follows:

- Tax
- Mortgage repayments
- Ground rents (if leasehold)
- Service Charges (if under block management – tends to apply to apartments)
- Annual Insurance
- Repair and maintenance costs
- Letting agent's fees
- Mortgage repayments

Annual income – Annual costs / market value x 100 = Net rental yield (%)

Rental yield is the rate of return from an investment and investors purchasing a property with this in mind will be looking to create an additional monthly income; something which can be attractive for those who've retired or are looking for an additional revenue stream. Investors may be looking at buying multiple cheaper properties and may be also looking to pay off the mortgages as quickly as possible often betting against mortgage interest rate rises

CAPITAL GROWTH

Essentially this is the profit you will make when you eventually sell the property. Investors would usually be looking at long term investment for reasons such as providing a retirement fund in the future. Before purchasing a property in a new area it is always advisable to do your research. Looking to see if there is any local government or private sector investments already planned or forecast to happen in the near future, can have a significant impact on property prices.

The same can be said for supply and demand; if demand outweighs supply there is a much greater potential of house prices rising. If looking at capital growth over rental yield, investors would tend to put down a larger initial deposit with the plan that any monthly rental payments would then cover any mortgage interest repayments.

Thanks to the new City Deal, Preston is set to have a £440 million investment over the next 10 years, seeing the area benefiting from new housing and infrastructure, creating the potential of attracting new business with local councils forecasting up to 20,000 new jobs; boosting the local economy to the tune of over £1bn making it an attractive proposition for any property investor looking at capital growth.

ADDED VALUE

Refurbishing a property will impact the achievable monthly rent. Investing in a properties appearance either internally or eternally can have an immediate impact on its rental potential, in both market appeal and an increase in the monthly rental value, as well as adding to the value in the longer term.

House prices aren't going to rise like they have in recent years though they should still see modest increases. As such, adding value can be the key to increase rental yield as well as capital growth in the long term.

Energy Efficiency can have both a short and long term impact; it is now mandatory to state a properties EPC (Energy Performance Certificate) rating when advertising online, so a low EPC rating can have a negative impact on its marketing potential while a high EPC rating can improve this.

Changing windows for modern double glazed units, removing old dated boilers for a new condensing boiler with thermostat control, topping up loft insulation, installing solar panels and even changing light bulbs for LED bulbs, can all contribute to improving a properties EPC rating and in turn, can make it a more attractive proposition to a potential tenant who will be able to determine their approximate running costs.

POTENTIAL PITFALLS & EXIT STRATEGIES

When investing in property it is important to look further into the future at any potential pitfalls and what your exit strategies may be. You may expect house prices to rise, however experts do advise that you invest for income and not short term growth, though this can depend upon what type of property is invested in, at what time you invest and in which location.

It is advisable to factor in the property potentially having a void period of up to two months a year in order that there is a substantial financial buffer in place when things go wrong. Bear in mind that you will suffer market falls in the same way you will benefit from rises and interest rates go up as well as down.