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Risks and rewards of buy to let investment

Buy to let can be a great way to invest your money, with potentially excellent returns in the medium to long term. However, there tends to be more information given about the rewards of buy to let, rather than the risks, despite the fact that property is a medium to high-risk investment. So, before you invest your money, you need to make sure you understand all the risks, as well as the upside.

Key risks of buy to let

- Property prices may go down – even within three months of purchasing
- Buy to let requires continued investment through essential maintenance
- Your main cost – your mortgage – can increase and could possibly make your outgoings higher than your income
- You have to commit your investment monies for up to 20 years to see good returns
- Tenants not paying rent (or letting agents not passing on rent) could cause you to lose your property if you can't cover the cost of your mortgage and default on payments
- Bad tenants can cause tens of thousands of pounds worth of damage to your property, which – may not be covered by insurance - will result in a loss on your investment



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Key rewards of buy to let

- You can buy a property asset for less than it's worth
- You can add value to a property (up to the 'ceiling price' of the local area)
This is difficult to do as it depends on the property/area. For example, adding an extra bedroom or creating off road parking.
- A property's asset value might fall, but it is unlikely to become worthless, unlike stocks and shares
- Income and capital growth from a property can give better returns than other assets over a 10 to 20-year period
- It's an asset you can purchase and manage yourself
- It's tangible: you can see and 'touch' a property asset

So, although buy to let can be a very good long term investment over a long period of time, over a short period it can lose you money. In the worst case, if you aren't able to rent it out and default on your mortgage payment, you can lose the property.

And, even if you use a letting agent, buy to let isn't a 'passive' investment because you will always have to be involved in making decisions. For example, how much to rent it for, whether to accept an offer on rent, whether you should hold or sell your investment and whether to spend money on a new kitchen and bathroom. You also need a team of people to support your investment – such as agents, tradespeople, mortgage broker, solicitor, property tax expert, surveyor – and have to track and assess the performance of your portfolio yourself.

So, unlike other many financial investments or gold, where you buy the asset, leave it and simply wait for it to hopefully provide a dividend or grow in value, you must be prepared to keep putting money into your buy to let investment and be involved on a daily, weekly or at least monthly basis. Property can be a superb investment vehicle, but make sure it's right for you.