

# LANDBAY

## Is now a good time to invest in buy-to-let?



By Paul Brett, managing director, intermediaries at Landbay

*Rental demand is high but there are fewer properties on the market and some landlords are selling up. They need to be replaced with fresh faces so now could be a good opportunity to get into the buy-to-let business*

The housing market is slowing down as house price growth falls from the highs of last year. Less property is being sold, although more homes are coming onto estate agents' books, and asking prices are being reduced in many cases.

To illustrate the slowdown, there have been almost 12 months of consecutive falls in annual house prices, but in August prices went down 1.3%. This is the first drop since March 2012, according to the e.surv Acadata House Price Index.

This is the opposite of the situation a year or two ago when the housing market was booming - annual house price growth peaked at 12.7% in August 2022. Evidence indeed that home buying and selling is cyclical and has its ups and downs.

### **Four in 10 landlords are keen to buy property**

Arguably the coming months could be a good time to buy property, particularly for property investors. We carried out research in the summer and found that 41% of landlords intend to buy property in the next 12 months, 17% don't know and 42% are not looking to buy. These statistics were very similar to Q4 2022.

The main reason for considering buying by 35% of respondents is the increase in the number of tenants followed by a drop in house prices cited by 33%.

A new report into the lettings industry from Goodlord and Vouch's also found that 78% of letting agents saw increased demand from tenants looking for homes. In addition, 58% of agents reported an increase in the scarcity of available properties.

### **First-time landlords needed**

Apart from current landlords, we know there are new property investors entering the market as we have mortgage applications from first-time landlords too. The private rented sector is crying out for more houses and also for more landlords to meet the chronic housing shortage.

If you are thinking of moving into property investment, you need to do your homework as there are rules and regulations.

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## How does a buy-to-let mortgage work?

Many landlords are cash buyers but if you need a mortgage, you should speak to a mortgage adviser who understands the buy-to-let market. A buy-to-let mortgage is not the same as a residential homeowner mortgage and they are generally interest-only. The cost of the property can be paid back when it is eventually sold and hopefully you will have made a profit.

A buy-to-let mortgage is based on the value of the property and the rental income, not how much you earn at work – although some lenders may require a minimal income of typically £20,000.

You will need at least a 25% deposit and the amount you can borrow will depend on an affordability assessment. This uses a calculation called an Income Cover Ratio (ICR), also known as a stress test, usually set as either 125%, 140% or 145%, depending on which income tax bracket you are in.

For example, an ICR of 125% means the rent charged to the tenant must be at least 25% higher than the landlord's mortgage payments.

### Mortgage example

Here is an example for an individual lower rate tax payer (ICR 125%):

- House value: £200,000
- 25% deposit: £50,000
- Loan amount: £150,000
- Interest rate: 5.75%
- Minimum monthly rent required: £899

### Mortgage advice

If you are thinking of becoming a landlord, speak to a mortgage adviser who understands the intricacies of the buy-to-let market. Good brokers will have strong relationships with various lenders who should be able to answer any queries you have.

### Got a case in mind?

Get in touch using our [BDM Finder](#) or call us on **020 7096 2700** or email [enquiries@landbay.co.uk](mailto:enquiries@landbay.co.uk).

*Landbay is an intermediary-only buy-to-let mortgage lender. This means our mortgages are only available via mortgage brokers and we always advise landlords to seek advice from brokers who understand the buy-to-let market.*