The rise of the **long-distance landlord**

Deterred by property prices in your neighbourhood? We explore the pros and cons of investing in buy to let hundreds of miles from where you live

BY JOANNE CHRISTIE

Ever since buy-to-let mortgages were introduced just over 25 years ago, the idea of buying a property to let out has been a popular investment choice for many people looking for a way to supplement their income and grow their wealth.

But government policy has not been kind to landlords in recent years. The introduction of a 3% stamp duty surcharge on second properties in 2016 has made purchasing property more expensive and the reduction in the amount of mortgage interest relief landlords can claim from April 2017, which is being phased in, has meant holding on to them is becoming far less profitable.

The introduction of new requirements by the Prudential Regulation Authority (PRA) has made life even harder. From January 2017, banks have been required to stress-test buy-to-let mortgages at an assumed interest rate of 5.5% and now presume borrowers are higher-rate taxpayers. This has led most banks to increase the rental cover requirement from 125% of the mortgage payments to 145%.

The upshot of this new rule is that while buy-to-let mortgages typically come with maximum loan-to-value ratios of 75%, in London and many other areas of the South East, rents are not high enough to allow that kind of borrowing.

According to Kent Reliance's Buy to Let Britain report, published in December 2017, the average yield in London is 4%. On a one-bedroom flat valued at £350,000, the assumed rent by that reckoning would be £1,167 per month. But using new PRA guidelines, most banks would only be willing to lend just over £175,000, or about half the value, meaning investors need to put a lot more initial cash into purchases than before. Additional PRA guidelines came into force in September 2017 with even more stringent criteria for landlords with four or more rental properties.

All of these changes have led to many landlords selling up, while other potential landlords are choosing not to invest in property. According to research published by the Residential Landlords Association in August 2017, 22% of landlords planned to sell at least one property over the next year, with only 18% planning to buy additional

John Switzer Haagensen, left, and Richard Smit, right

"It's so much more affordable up north"

When John Switzer Haagensen, 35, and his husband Richard Smit, 38, from Shepperton in Surrey, first starting thinking about investing in buy-to-let property five years ago, they initially began looking close to home before deciding to buy in Glasgow, where they now own six properties. "We had looked at Staines, which is right next to Shepperton where we live, but you had to pay more stamp duty because the property price was higher, but then when you looked at the yields it is very difficult to justify doing it," says John. "We decided on Glasgow after looking in the area and seeing the yields and the rents achievable. It was just so much more affordable up north compared with locally."

After choosing their first flat, the pair renovated and prepared it for rent themselves, before leaving it with an agent to manage. "We quite enjoy taking on properties and then going up and painting them and trying to make the places look nice for the new tenants," he says. "But I think it is very important to have a good agent and we have a very close relationship with ours. In fact, the last three properties they've done the viewings for us, told us what they thought, what we could achieve in rent and then we've bought it. The last one I've never actually seen as we had someone else to do it up for us."

Going forward, Richard plans to focus on property full-time after resigning from his job as a software engineer, while John will continue to work in IT.

"Until now it was important for us to stick to one area as we were both working full-time, so it had to be easy and it had to be with people we trust," says John. "Now that Richard is not working full-time, we can broaden our horizons and try different areas, probably in the north of England."

properties. Similarly, in its Mortgage Market Forecast for 2018 and 2019, also published in December 2017, UK Finance reports "subdued house purchase activity by landlords since the middle of 2016 and we expect more of the same over the next two years", noting that buy-to-let lending has returned to 2012 levels.

But property professionals say another distinct trend is also emerging — people are investing in different areas than they were before.

Ray Boulger, senior technical manager at broker John Charcol, says: "For some time now, we have seen two trends: first, portfolio landlords who might until a year or two ago have been buying properties in London and the South East looking at buying in the Midlands and the North; and second, landlords actively looking to sell their properties in London and the South East, and reinvest further north."

He adds: "I think two factors are relevant. The first, which probably kicked it off, was the 3% stamp duty surcharge, which obviously becomes a much bigger issue on higher-value properties. The second is the mortgage controls imposed by the PRA, whereby lenders have to impose stricter affordability criteria."

Kent Reliance's report also notes a "geographical swing taking place". It says: "Where London once led the way, it now lags behind. With an affordability ceiling reached, rents are rising fastest outside the capital, while total returns too are more attractive in areas such as the North West. Tax changes are reducing net income, and more stringent mortgage finance criteria require investors to demonstrate higher yields. As a result, we expect the supply of rented properties to grow more rapidly in areas demonstrating better yields, and with lower house prices. Landlords are becoming even more discerning in their investment decision-making."

On the face of it, following the trend of investing in higher-yielding areas seems like a sensible idea, but for many people this will mean buying property a long way from where they live, which goes against all the conventional wisdom about buying a property close to you, where you know the market and where you're able to keep a close eye on your investment.

Tips for investing further afield

It is undoubtedly more difficult to do due diligence on a property that is far away, particularly for those with full-time jobs. But it isn't impossible and many people start by investigating an area they have some connection to – perhaps they once lived there, went to university there or have a child attending university there.

One important thing to consider is local authorities' attitudes to landlords. Some areas either have or plan to bring in landlord licensing schemes, which can significantly add to yearly running costs, especially on low-value properties. Other councils have restrictions on the number of houses in multiple occupation (HMOs) or student houses, and in the case of the latter, there's an increasing trend towards purposebuilt blocks competing with traditional student share houses.

It's a good idea to visit the area and talk to as many people as possible. Letting agents are a particularly good source of information; you're likely to need one once you buy a property, so the benefits of speaking to as many as possible are twofold.

If you can't dedicate the time to pounding the pavements yourself, assessing the merits of an area, you could use a property sourcer or buying agent.

Graham Davidson, managing director of Sequre Property Investment, says: "For the past two years, over 51% of our investors have hailed from London and the South East, but have chosen to invest in the North of England. This is simply due to the fact that property prices are lower and the returns are much higher."

Avoid the sharks

Be aware, however, that property-sourcing fees can run to several thousand pounds and there are many so-called property sourcers and mentors with dubious experience and questionable business practices.

Be wary of anyone asking for thousands of pounds upfront. Also look for those which are members of a property ombudsman scheme as this will provide some redress if you're not happy. Finally, before signing up for anything, do some research on online property forums and social media and ask for references.

If you want to invest in buy to let, but property prices are too high and rents too low locally to make it stack up as an investment, looking further afield could be a viable option and you certainly won't be the only person doing it. mw

Joanne and her husband, David

"We could buy in Hull for less than the deposit on our first London home"

BY JOANNE CHRISTIE

"My husband, David, and I had talked about buying a buy-to-let property for many years, but had been wary of buying close to where we live in London because of the high cost involved. We were concerned that the monthly mortgage payments were high and would still have to be paid if a property was empty or if the tenants stopped paying rent.

"A few years ago, I read an article about Hull that said you could buy properties there for £30,000. I was intrigued as that was less than the deposit on our first house. In 2015, I started seriously looking into Hull as I'd since heard there were developments indicating it was on the up, including the announcement in 2014 that Siemens was building a wind turbine factory there and that it was due to be the UK City of Culture for 2017.

"We made several trips to Hull, looked at many properties and talked to lots of letting agents about desirable properties. We bought our first buy-to-let house in 2015 and our second just over two years later. It is difficult being so far away when maintenance issues crop up and we did have one tenant who stopped paying rent early on in our journey, but this is where a good managing agent comes into play. Because the mortgage payments are low, it's far less stressful if a tenant were to leave than it would be with a London property, but, on the other hand, when repairs are needed they take up a much greater percentage of the rental income than would be the case with a higher-value property."

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JOANNE CHRISTIE is a freelance writer who writes on property and personal finance for the *Guardian*, the *Times*, the *Daily Telegraph* and for consumer websites