BUYING

BUY TO LIVE VS BUY TO INVEST

urbanspaces
URBANSPACES.CO.UK

BUY TO LIVE VS BUY TO INVEST

urbanspaces

The strong desire to own a home precludes many practical decisions concerning its purchase. First-time home buyers in particular are often guided by their emotions when choosing a property, rather than approaching it in a carefully thought out way. There are two main routes to buying a property and various factors to consider when deciding to buy a 'home' or an 'investment'.

If you want to buy a 'home', think with your heart not your head!

Ask yourself some all-important questions. For example, does the property feel like home and meet all your lifestyle needs? Can you visualise yourself growing with the space and creating a home that you are happy to return to every day? And lastly, does the space the space meet all your personal requirements and does it feel like 'home'?

Buying a property as an investment

Sensible investments in property have many attractions. Property can be less volatile than shares (though not always) and it tends to be regarded as a safe haven when other assets are declining in value.

Buying a property as an investment has the potential to generate capital growth (an increase in the value of your asset) as well as rental income. However, as with any investment, there are no guarantees. Property prices go down as well as up, and sometimes tenants are hard to find, especially good ones who pay on time and take care of your investment.

Capital growth

Capital growth is the increase in value of your property over time and is one of the main reasons people invest in residential property. Your best chance of achieving capital growth is buying the right property, in the right place, and most importantly at the right price.

Rental income and yield

You should apply the same standards to a property investment as to any other investment, benchmarking the potential return against what you might achieve elsewhere.

An important measure is a property's yield. This can be calculated by dividing the annual rent it generates by the price you paid for the property and multiplying it by 100 to get a percentage figure.

Keep an eye on vacancy rates, i.e. the proportion of properties sitting empty out of the total rental supply.

If landlords have to fight for tenants, they won't have much bargaining power when it comes to the rent. However, if the rental market is tight and tenants are competing for properties, they'll be prepared to pay a bit more to get through the door.

A worthwhile investment

If you hold your investment property for long enough, hopefully you'll reach the stage when losses start turning into gains. The rent you're charging should rise over time, and you'll be steadily whittling away at the mortgage.

However, once your rental income exceeds your mortgage repayments you'll no longer be negatively geared. And no negative gearing means no tax advantages, although that doesn't mean you should rush to sell.

Yes, you'll have to pay more tax because the income you're making exceeds your losses, however the fact is you're making money, which is why you invested in the first place.

The temptation may be to take your profits and plough them into another property and that can be a perfectly reasonable strategy, but don't lose track of the costs involved in selling. Stamp Duty on a new purchase is also a big deterrent.

Selecting a property

When considering the actual property there are various factors that need to be addressed.

The location

When investing, you will want to benefit from as much capital growth as possible, so the first rule is to buy in a guaranteed area or an area which is going to be subject to rejuvenation or redevelopment, i.e. an area that is up and coming. Purchasing early will give you a higher return on investment. Consider who will be renting the property and if they will need to be close to transport facilities.

If the property is for you to live in and you are moving to a new area, you may want to do some research to see if it is suitable for your lifestyle. Check out surrounding house prices, public transport links and other amenities.

The type of property

Properties with a view are always more desirable than those without one, and tenants like facilities such as balconies, internal laundries, undercover parking and security.

These sorts of facilities may not be available in an older property, which may have to compete with a new apartment building down the road with all the mod-cons.

If the property you're interested in is already rented, ask about its tenancy history. Have there been periods when it hasn't been occupied? If so, find out why. You don't want to inherit any problems.

Buying

Once you've found the right property, the actual mechanics of buying an investment property will be the same as if you are buying a home to live in. There are few differences between borrowing for a home and borrowing for an investment property.

Some lenders charge a higher interest rate for investment properties because they say their risk is higher, but shop around and you should be able to get a good rate.

One option of particular interest to investors is an interest-only loan, where you don't pay off any of the actual loan, just the interest.

Such a loan can make it easier to estimate the true returns from a property. A tax advantage is that interest payments for investment properties are tax deductible, whilst payments off the principal are not.

Managing your property

It's possible to manage a rental property yourself, and in so doing you are likely to save a management fee that's usually around 5% of the rent. However, it can be time-consuming and it's hard to remain emotionally detached when you have tenants ringing up complaining about every little thing, or you personally have to deal with damage to your property.

The other option is to use the services of a professional property manager, who will have up-to-date information on what's happening in the market and what tenants are prepared to pay. They will have a number of prospective tenants on their books, along with extensive experience of vetting tenants. They will also have access to reputable contractors at cheaper rates.

Insurance

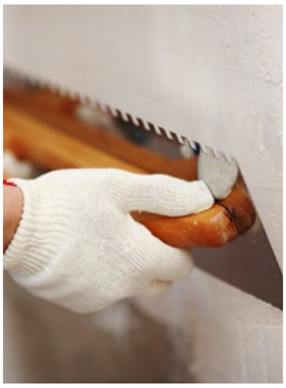
When you buy a property for yourself, you should take out buildings and contents insurance to protect your property and your possessions in case anything goes wrong. As a property investor you will also need to insure yourself against a myriad of potential hazards. It's up to your tenants to take out home contents insurance to cover their possessions, but you will need buildings insurance.

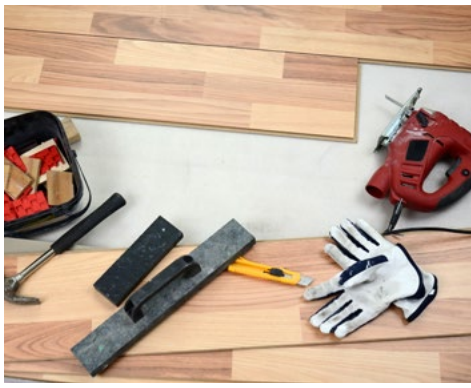
You will also need to take out landlord insurance, covering risks such as malicious or accidental damage to your property by a tenant, any legal liability should a tenant injure themselves, and lost rental income should tenants move out without paying.

Renovating

When buying a home to live in, the decisions you make on décor and renovation will vary widely depending on your budget and individual taste. You have the freedom to design it as you wish, to fit in with your current or desired lifestyle.

However, when it comes to an investment property, it's safer to adopt a neutral and simple style, even if it's not to your own taste. Make a cost-benefit analysis of your renovations and don't overcapitalise by spending too much on design, finishes and fittings.





For more information about buying a new home to live in or as an investment, contact our New Homes team on 020 7604 3200 or email investments@greene.co.uk.

For more information about buying or selling your home, contact one of our dedicated Account Managers.

URBAN SPACES
t: 020 7251 4000
e: clientservices@urbanspaces.co.uk
urbanspaces.co.uk