UK INVESTMENT

Happy returns

TV presenter Sarah Walker (To Buy or Not To Buy) puts her money where her mouth is – in property

It's no secret that those who invest in property in emerging markets enjoy great capital appreciation, but a lot of people are missing a trick by overlooking a UK-based strategy which gives fantastic rental returns in addition to the benefit of longer-term capital growth.

The buy-to-let market in the UK has grown at a phenomenal rate over the last eight years: the number of buy-to-let mortgages has increased more than ten-fold since 1999, to over 850,000, and Britain now has almost three million privately rented properties.

It's no surprise that so many people have chosen to invest their money in property – capital growth is more or less guaranteed over the medium to long term, with property having doubled in value, on average, every eight years since 1950, and rental profit can certainly provide a good extra income – but until recently, low interest rates, combined with consistent rises in property prices, have meant that investors, thrilled with their equity, have not had to worry unduly about rental income.

Strategies

Many investment strategies have thus far relied on capital growth and investors have had the luxury of being able to remortgage and use equity to either reinvest or subsidise rental income.

Now, however, with interest rates having recently peaked at their highest for a decade and many properties which have been rented out as single units not even coming close to servicing their own debt, there is a common misconception that there is no money to be made any more from buy-to-let in the UK, and an enormous number of people are choosing instead to invest overseas in emerging markets, where rapid capital growth is virtually guaranteed.

However, for a consistent, high level of on-going income, the strategy of investing in Houses in Multiple Occupation in the UK can rarely be beaten for cashflow, provided it's done well.

And that's the caveat: it's not necessarily

as simple as converting a couple of reception rooms and putting out an advert for rooms to rent. You need to know where to find the right property – one which you can be as sure as possible is going to service its own debt and which you will be able to resell in a hurry, should you need to – and how to acquire it at a 'discounted' price in order to cushion yourself against any fluctuation in the market.

It's common to hear the term 'cashflow-positive' applied to investments where you simply have sufficient equity that you can remortgage and release funds, which may have been achieved through buying at below market value and/or renovating and refurbishing.

That strategy is one which has worked very well over the past 15 years, but it relies to a large extent on a steadily increasing market and capital growth, and in the current climate that's risky and will almost certainly involve the investor having to subsidise the loan repayments, at least in the short term.

There are investor training companies out there recommending that you never invest more than 67% of your liquid capital, so you have a 'rainy day' fund to help with mortgage payments if times get hard.

But to get the best return on capital employed, you need to gear as highly as possible, so how can you ensure you're leveraging other people's money and making your own go further for better returns, while achieving a high enough level of income that not only are your loan repayments, bills and expenses covered, but you're left with a decent monthly profit?

Quite simply, you need to deal with, and learn from, experts. A monthly pre-tax profit of £700 might sound like a stretch in the current market, but there are many people out there making that and more, from acquiring properties at below market value, refurbishing as necessary, and operating them as executive room lets in towns and cities all over the UK.

In Swindon, Caroline is making over £1,500 a month from an eight-bedroom HMO; in Basildon, Barry's five-bedroom property is grossing him over £1,000 monthly profit; a family in Southampton are making over £900 on a five-bed and over £1,100 on a six-bed; an investor in Reading is making £1,000 a month; in Gloucester, Oxford, Essex, there are opportunities for grossing between £650 and £1,500 a month, provided you follow a sound strategy.

Robert Kiyosaki, author of the acclaimed worldwide best-seller 'Rich Dad, Poor Dad', says: "If you want to go somewhere, it is best to find someone who has already been there." It's sound advice, and if you want to avoid making costly mistakes, it's worth investing in mentoring and training at an early stage; take the time to seek out successful investors who are achieving what you want to achieve and learn from them, because if you can find a short cut to the blueprint for a proven strategy, why wouldn't you use it?

And what about the bubble bursting? Everyone wants to know how long a trend is going to continue and the truth is that all any of us can do is take an educated guess on the future of the buy-to-let market based on some key demand indicators. The divorce rate is now one in two, which means households splitting from one into two properties; there is an estimated shortfall of 37,000 new homes each year, so by 2020 there may be a shortfall of nearly half a million; the average age of the first-time buyer has risen to 34, and young professionals now make up a significant proportion of tenants looking for good-quality housing.

An increasing number of people who for financial or supply reasons can't buy their own private home, need accommodation, and shared housing seems the most obvious way forward.

Growing rapidly

In terms of supply and the rental business itself, it's estimated that buy-to-let properties now represent around 11% of housing stock, which is more than double the figure in 2000.

This relatively young market is growing rapidly and industry professionals are willing to spend money to make money, with both tenant demand and landlord competition driving up the standard of accommodation.

A large proportion of people now looking for rooms to rent are highly educated, have good jobs and want a decent standard of living, so contrary to the stereotypical 'studenty' image that HMOs often conjure up in people's minds, the current demand is for a private space people can call their own, within an environment that feels like home, or at least a reasonable hotel.

Today's discerning tenants expect their accommodation to be modern and comfortable, with satellite television, wireless broadband and a weekly cleaner.

The number of women moving into property investing has risen recently, and perhaps a key reason is that being an investor and landlady offers women the chance to utilise many of their natural talents and plays to female traits.

It's a people business, it requires an appreciation of how to make a house a home, and you need to multi-task, plus it's a business that provides a level playing field for men and women in terms of earnings.

Female tenants are more likely to feel comfortable with a landlady, and women tend to want to keep things looking nice: it may be a generalisation, but men are usually more interested in bricks and mortar, while women gravitate towards the aesthetics of a property.

So as the 'executive bedsit' becomes the new standard to which the rental market needs to aspire, we may find more women moving into the sector. But men shouldn't worry too much – there is still a shortfall in the supply of quality rental accommodation right across the country, so if you're prepared to put in some thorough research and go the extra mile, you should be able to command the best prices in your area and have no trouble filling rooms.

If you want to become a serious property investor, it's a sensible idea to spread the risk and build a portfolio with a good mixture of investments that will bring you rewards in different ways. Having a highly cash-positive element will give you an ongoing income and also act as insulation against any fluctuation in the market, because if interest rates rise and/or rental yields or property prices fall, you'll still be making money, just a little less.

If you're an existing investor keen on concentrating overseas, this strategy will give you extra revenue to reinvest, and if you're a novice looking to get stuck into property, why not start in a country you know, with a language and currency you understand?

With a solid, low-risk, high-return, cash-positive foundation, you're giving yourself the best chance of success, and if you want to get your hands dirty in the current climate, high-quality HMOs are a great place to begin.

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