Buy to Let -Top Activities of 2007 - Unlock your funds & save money!

1. Review Your Existing Property Portfolio

Many landlords purchased properties a few years ago when the choice of buy to let lenders was limited. So weak was the choice of mortgages available, that some were using arrangements with their bank – often at 70% lending, and a margin of 2% over Bank of England base rate.

Thankfully the competition in this marketplace has grown so much, that we find landlords are constantly re-mortgaging from one lender to another. The buy to let market has now taken on many similarities to the domestic mortgage market. Significant savings can be made by simply completing a few forms every 2-3 years. For example we recently performed the following exercise for one of our portfolio clients;

2004-2005 – five properties purchased, each of £100,000 value

- **Mortgages of £85,000**
- **Rent on each property - £535pm**
- **The original fixed scheme at purchase has finished – client now on lenders standard variable rate of 7.25% - £513 pm**

2007 – Solution – five properties still owned – value now £145,000 each

- **Interest rates available – 5.25% 2 year fixed**
- **Rent on the each property now £560**
- **Borrowings could be raised to £100,000 from £85,000**
- **New mortgage payments - £437 pm**

Additional capital of £15,000 has been raised on each property, whilst reducing the monthly cost by £63. Over 5 properties this is;

- **Extra borrowings of £75,000**
- **Total monthly savings of £315 or £3,780 per annum.**

Like most landlords, we are sure you could put these funds to good use.

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2. Forward Buy Facility & Hunting Fund

Over the years it is easily possible to build up a large portfolio of buy to lets, and before you know where you are, your situation could be as follows;

- **Portfolio of houses / flats valued over £1,000,000**
- **Mortgages secured of £600,000**
- **Many different schemes and lenders make up your portfolio**
- **All schemes having different criteria to borrow further funds**
- **Sinking in paperwork and communication from the lender**
- **Restrictions on lending for limited companies**
- **Lending to individuals restricted to £1m per lender in many cases**
- **Some types of properties not acceptable to different lenders**

Subject to basic requirements, the portfolio could be moved to a major provider who specializes in lending to professional landlords.

With a minimum of fuss, the following could be secured;

- **A forward buying facility for a million available**
- **A hunting fund, created overnight, of £250,000 - this is cash that can be released by refinancing and re-gearing, bringing the portfolio back to 85% loan to value.**
- **Any forward buying facility is secured for 6 months. If it is not used there is little cost – just a small administration fee**
- **With the £250,000 extra, additional property up to £1.65m could be purchased.**
- **The lender will advance up to £25m for long-standing clients, and likes to say yes!**
- **Lending to limited companies is welcomed**
- **Lending on unusual properties is accepted**

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3. Cheque book / Drawdown – Flexible Mortgage

We have many clients who, to enter the buy to let market, require a "release valve" or "drawdown fund". Considerable amounts of profit can be made at the purchase stage – if you can secure a purchase "for cash" and complete quickly, you will be in a very strong bargaining position.

Subject to affordability, it is possible to secure a facility of up to 95% of the value of your home (whilst this is possible it is probably recommended to keep the borrowing to 75-85%).

So for example:

- **Main Residence valued at £250,000**
- **Current mortgage £90,000**
- **Mortgage moved to flexible draw-down product**
- **£90,000 re-mortgage completed often at preferential rates**
- **£122,500 drawdown facility created overnight**
- **No interest payable on the draw-down until used**
- **No requirements to use the funds in any set timeframe**
- **Can be used as often or as little as possible**
- **Can be used for any legal purchase**

Some of the uses clients have given for the funds include;

- **Purchase a property at auction**
- **Purchase a property to renovate**
- **Renovate or build onto your own home**
- **Purchase land with or without planning permission**
- **Purchase a property abroad**
- **Purchase a property quickly below market value**

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4. Refurbishment Facility

With the property 'slowing down' from the frantic days of 20% capital growth a year – many clients have decided that opportunities exist in taking a "tired" looking property and renovating it.

In the past it has always been good business practice to purchase the worst house in the best street and breathe some life back into it. This has been used both by first and second time buyers many times, to assist them to leap frog up the housing ladder quicker than would normally be possible. Landlords are using this tried and tested method to lock in extra value.

A refurbishment facility is available through different avenues and is now being aggressively used in the following circumstances;

- **Property is in a bad state of repair and is not immediately rentable**
- **The property can be converted to provide additional space**
- **Property can be purchased well below full market price if it is in a bad state of repair**
- **Once refurbishment has taken place top rents can be achieved**

The main research necessary is to determine what purchase price similar properties in good condition would fetch. You then simply deduct your acquisition costs along with costs of works (plus 20% contingency) from this figure, and if there is a healthy figure remaining, then it makes for good business.

The best way forward is to arrange a valuation of the property in its current condition, as well as a valuation after the works are completed. The lender will then advance 85% of the initial purchase price to secure the property, and then release the pre-agreed additional funds once the work has been completed and inspected. Often this can be used to recover all of one's deposit and development costs.

The end result is an investment property secured with no long-term outlay.

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