

# Expanding a portfolio


Advice and guidance from the National Landlords Association

[www.landlords.org.uk](http://www.landlords.org.uk)

**PROFESSIONAL  
PRACTICE FOR  
PROFIT**   
**IN THE PRIVATE-RENTED SECTOR**



**EXPANDING**  
for returns



**BUYING**  
at auctions



**TARGETING**  
your market

# ■ Expanding a portfolio

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Thank you for requesting this National Landlords Association (NLA) guide to expanding a portfolio. For those who are not currently members of the NLA, or who may not have come across the Association previously, we exist to promote renting as a viable tenure, support landlords to make the most of their businesses and ensure that property investment remains sustainable by providing profitable returns.

This guide is designed to provide support and advice to landlords looking to take the next step in building their investment portfolio, whether this means making that all important second purchase or gearing up to become a full-time property professional.

## ■ Why grow a portfolio?

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As a landlord you will no doubt have a keen interest in the value of your assets, the income they generate and the return on this investment. However, you may be unsure about what to do next and whether you can afford to expand your business.

No investment is without risk and, as any established landlord will confess, residential property probably has more potential pitfalls than most traditional financial investments. However, approached sensibly and with proper planning, a property portfolio can also provide a good combination of capital growth and regular income.

Having taken your first steps into the private-rented sector you will understand the potential benefits of residential property and are hopefully making a decent return on your investment – but is your capital providing the maximum possible return?

### **A ‘typical’ small landlord**

Worried that their work-place pensions will not provide an acceptable income upon retirement, Bruce and Blodwyn use their £50,000 savings as deposit to purchase a rental property in Swansea.

They secure a £50,000 mortgage and purchase a house for £100,000.

They find a tenant and agree a rent of £600 per calendar month.

**Based on these valuations, their £50,000 investment will produce an annual gross yield of 14.4%. \***

*\*Gross yield is calculated as income/investment value\*100.*

By all accounts this is a strong return on investment, however could the couple be doing more to protect their investment and ensure that they receive the maximum returns.

### **Increasing returns through expansion**

Following their friends Bruce and Blodwyn's example, first time investors Tiger and Peggy-Sue decide to invest in a similar property for £100,000. However, after a short period they opt to re-mortgage their rental house and use the capital released to make an additional purchase.

They secure a 75% loan to value mortgage on their first house and use the extra £25,000 released as 25% deposit to purchase another house for £100,000.

They find tenants for both properties at an agreed rent of £600 per calendar month.

**Based on these valuations, their £50,000 investment will produce an annual gross yield of 28.8%. \***

*\*Gross yield is calculated as  $\text{income}/\text{investment value} \times 100$ .*

It is also worth remembering that, although there is certainly no guarantee that your investment properties will increase in value, on average, residential property in the UK has doubled in price every decade. On this basis the more property you own, the greater your eventual profit is likely to be - although this can only be realised by selling your portfolio.

Of course these examples do not take account of the costs of running a letting business, which will inevitably increase if you opt to grow your portfolio. However, as with any growing business, expansion should lead to greater economies of scale and improved efficiencies as you get to know your market and develop your own entrepreneurial style.

## ■ What next?

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The leap from small, perhaps ‘accidental’, landlord to proprietor of a portfolio of letting properties (even if that portfolio consists only of a small number of flats and houses) should not be taken lightly. There is undoubtedly a lot that can be gained by growing your investment but there are considerable risks and liabilities. Aside from the financial risk that things don’t go to plan and you could stand to lose a significant amount of money, there is also the fact that your investment is somebody’s home. You must be sure that you are prepared to take on this responsibility of before opting to buy more property.

If you are unsure at this stage, consider discussing your options with an independent financial advisor who will be able to talk through potential opportunities and suggest alternative investment strategies designed to spread your risk and suit your specific needs.

If residential property is the best option for you, your next steps should feel quite familiar – having previously purchased property to let. However, if you are unsure about the best way to approach the market why not consult the NLA’s ‘Considerations before investment: Advice and guidance from the NLA’ guide.

## ■ Financing your purchase

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Most private residential landlords will use a buy-to-let mortgage to finance new purchases. This is usually the simplest option for small to medium sized lettings businesses, although if your portfolio is beginning to take off it may be worth discussing your needs with your lender, broker or an independent advisor as there may be more appropriate tailored solutions available on the market, which could save you time, money and effort in the long-run.

Many landlords choose to take the stress out of selecting mortgage products by using a reputable mortgage broker, although lenders are increasingly keen to work with landlords directly and many offer user friendly online application systems to make the application straightforward.

If you have a relationship with a particular lender you will need to confirm their lending conditions and any limitations that may exist. Some high street banks limit the number of buy-to-let loans available to individuals, often to as few as five mortgages with a maximum value of £500,000. However, this should not prevent you from applying for further lending from other banks or specialist lenders.

The NLA provides an online comparison service for landlords trying to identify a good deal at [www.landlords.org.uk/mortgages](http://www.landlords.org.uk/mortgages). This search facility is free to use and offers full NLA members cash back on completed transactions. Bear in mind that if you are planning to release capital from an existing buy-to-let property you will need to follow much of the same process in order to re-finance that asset.

If you need to commission surveys or valuations of a let property make sure that you speak with your tenants to arrange a convenient time and assuage any potential fears they may have about your intentions. It can be unnerving to have surveyors examine your home – particularly if you are worried that your landlord may be considering selling-up.

The mortgage product selected will depend on the type of property, target market and location as many lenders specialise or choose to restrict lending on niche investments. Once you have identified lenders active in your market place it is important to compare the various products on the market based on the cost and availability of individual products. Some of

## ■ Financing your purchase cont.

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the common selling points to consider are:

- Interest rate (initial and reversion rates/SVR)
- Term of lending
- Repayment vehicles (repayment, interest only etc.)
- Applications fees
- Type of products (tracker, fixed etc.)
- Early repayment charges
- Special offers or discounts
- Cash back or loyalty offers
- Completion fees
- Restrictive terms and conditions (e.g. maximum tenancy length or restrictions on types of tenant).

Once you have identified a suitable product you will need to complete an application. In order to do so you will need to provide your personal details, details of your current financial status and any outstanding credit arrangements, your income and expectations of future rental income.

If successful you will receive an approval in principle and the verification process can begin, during which you will need to demonstrate that any information provided in your application is true and the property you wish to mortgage meets the lender's criteria for lending. It is at this stage that a valuation will be carried out to provide an overall value and estimate of an achievable rental income. **If all goes well a written offer will follow and you will be free to draw down the funds.**

### Application Timetable



## ■ Choosing the right property

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Unlike many investment vehicles the choice of which investment to make is entirely yours. However, this is not to say that there is not advice out there to help you to select the right property to meet your investment needs. Local letting and estate agents can provide invaluable market intelligence, and a good relationship with an agent can help you to identify prospects before they become available to the wider market.

A trusted agent can advise about local demand, market characteristics and suggest viable investments – although it is important to bear in mind that even the most professional agent has a vested interest in your continued business.

The type of property you buy will depend on a myriad of factors and will hinge on the needs of the tenant market. For instance a large shared house close to nightlife could be a wise investment in a prominent university town, but may make little sense in commuter country where proximity to travel links and school catchment areas are key considerations.

Consider whom you want to attract to your property, of course there are no concrete categories of potential tenants but consider which of the following (or combination thereof) you may prefer to work with:

### **1. Students**

This group is largely dependent on geography and if you are looking to invest near a university it is a good idea to consider the needs of students by looking at similar property. Many universities have specific criteria or requirements which landlords must meet in order to work with their accommodation team.

### **2. Sharers**

Shared housing can offer a strong yield, but is often more complicated to manage and can require a different skill-set.

### **3. Families**

Families tend to want greater stability and may want to stay in the property for a longer period. This is usually good news for a landlord as it provides a long-term income. Proximity to amenities and schools is usually a high priority.



## ■ **Choosing the right property** cont.

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### **4. Older households**

While not traditionally a mainstay of the private-rented sector, ‘third-age’ households make up an increasing proportion of the market. It is worth discussing the local demographics with relevant agents if you are interested in attracting this market.

### **5. Commuters / professionals**

Often seen as the most sought after tenants, ‘young professionals’ form a large part of the market. This is far from a uniform customer base, but proximity to transport and leisure facilities tend to figure high on their must-have list.

### **6. Households in receipt of housing support**

Households in receipt of housing benefit – currently called Local Housing Allowance but soon to be replaced by Universal Credit – can fall into any of the above categories but are often viewed as a ‘type’ of customer in their own right. Information about the current rate of Local Housing Allowance or other applicable benefits and credits can be found online and will help to determine what rent levels are accessible by this part of the market. However, bear in mind most support recipients are also working households.

### **7. Companies / commercial tenants**

Companies often take on tenancies to allow employees to relocate or work in other areas temporarily. They can prove very good tenants. However it may be wise to seek the assistance of a professional agent or speak with a landlords association when agreeing terms. The type of agreement entered into will not be the same as those employed for individual tenants and can cause some confusion for the less experienced landlord.

Above all, it is essential to research potential locations and identify core criteria. It is possible to renovate and change almost any aspect of an investment property to meet customer demand, but if the location is wrong your valuable asset is unlikely to ever yield the kind of returns you would like.

# ■ Choosing the right property cont.

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When looking for a property it is important to take the following factors into consideration:

## 1. Location

Even within a chosen area you cannot fix a bad location. Check the distance to local travel links and amenities and remember that those included in listing paperwork may be ‘as the crow flies’.

## 2. Condition

Are you prepared to renovate? What work is it likely to require? Remember you are responsible for the upkeep of your rental properties so look out for issues which are likely to require attention. Note the type of construction and how easy it will be to maintain and renovate as necessary.

## 3. Status

Is the property freehold or leasehold? There are advantages and disadvantages to both depending on the property and personal opinion but it is essential to understand what is for sale, including the length and terms of the lease, if applicable. These factors can have a significant impact on the property’s value and future saleability.

## 4. Motivation of the seller

You’re making an investment; this means that you have more flexibility and ability to proceed than 80 per cent of those in the market who are looking for a home. This flexibility has a value and can be used to good advantage with a motivated seller. Likewise, watch out for long chains with poorly motivated sellers. You don’t want to wait months unnecessarily just because the vendor is in no hurry to move on.

## 5. Potential income

This is crucial, just because you like a property does not mean it will make a lucrative investment. Remember, you are looking for your customer’s ideal home – not yours. Assess the potential income by looking at other properties on the market and talking with local agents.

## ■ Choosing the right property cont.

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### 6. Price vs. value

Every vendor wants to maximise his or her sale price. You are in a position to leverage your position as an investor, making decisions with a business brain and able to move fast. Check out recent sold prices - these are readily available online and can differ greatly from asking prices. Use this market intelligence to your advantage and make sure you only offer according to your valuation, not the vendor's. Getting a good price now will pay dividends in the long run.

When assessing different geographical areas think about the type of tenants you wish to attract and what type of properties they are likely to choose to live in – never forget an investment is most likely to prove successful if it is also a desirable home. The features and characteristics that will prove desirable will depend on the age profile, affluence, employment status and lifestyle of your target market so it pays to talk to landlords and businesses already in the market as well as looking around at the competition. If you are unsure where to start, why not attend a local NLA branch meeting to meet other landlord investors and share in their experience of the market.

## ■ Making a purchase

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Most property purchases involve a traditional estate agent as the facilitator. However, many rented properties are bought via auction. As you grow your business and become more familiar with the types of property which work for you, you may want to consider auctions as an alternative.

NLA London Representative and investor, Richard Blanco provides the following advice:

### **The thrill of the chase: How to buy at auctions**

Auction rooms can be intimidating places for the novice, but with a little research and the right strategy in place, they can also provide opportunity to pick up a bargain – an important opportunity for any professional landlord keen to watch the bottom line at the very start of the landlord cycle.

There are a number of advantages to buying at auction, especially for developers who want to purchase run-down property in attractive locations and then invest in bringing them up to rental standard.

Auctions in the UK tend to be the marketplace of choice for housing stock that needs to be improved or redeveloped. Certain types of stock tend to only be available at auction, for example RSL sales (Registered Social Landlords), repossessions, tenanted properties, freeholds with multiple units and mixed commercial/residential properties. However, more conventional residential properties do come up for auction as well

NLA London representative, landlord and developer Richard Blanco, uses auctions to buy rental property and told UK Landlord that the auction procedure is swift: “You have two weeks to view, you exchange on the date of the auction and then complete 28 days later. There’s no negotiating with an estate agent and you don’t run the risk of the buyer withdrawing or being gazumped!”

Whereas 20 years ago auctions were rarefied events attended by hardened developers, Richard has noticed that auctions are much busier nowadays no doubt due to the introduction of buy to let mortgages and a plethora of television programmes about good deals from converting property.

## ■ Making a purchase cont.

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### Preparing for battle

Before going into any property auction, it is absolutely essential to visit the property you are interested in. Although this should be common sense, it is often quite hard in practice, because viewing dates are fixed in the auction world. When looking at the property, some specialist knowledge will also be required; Richard recommends reading ‘The Construction of Houses’ and ‘Understanding Housing Defects’ by Duncan Marshall to get to grips with some basic surveying skills. Common structural issues are cracks, damp, woodworm and poor construction of extensions or alterations. You will also need to brush up on your understanding of the law. Common issues include problems with the title and short leases.

Before putting in a bid, you should be in a position to estimate the cost of likely works, so you may want to take a trusted builder to view the property with you and give you a provisional quote.

“Make sure you do your sums” Richard says. “People often think they’re getting a bargain at auction. But you must factor in costs like stamp duty, legal fees, lease extension costs, and a realistic estimate of how much works will cost, plus agents’ fees if you’re planning to sell the property afterwards. Make sure you decide what your maximum bid will be before you go into the auction room; otherwise you may get carried away. Bid with your head, not your heart.”

Richard recommends asking agents what the rental value of the property will be and how much the property is likely to be valued at after you buy. If you won’t make any profit, then it may be better to buy a property that does not require modernisation through an estate agent.

It is also essential to know how you are going to finance your purchase. Richard advises it may not be practical to reach an agreement in principle with a lender in advance, because if you are outbid, you are going to end up with footprints on your credit file, which could damage your chances of getting a mortgage when you buy.

## ■ Making a purchase cont.

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### **At auction**

Once your bid is accepted you go forward to the front desk and sign the contract. You must also provide a cheque, usually for 10% of the value, so you need to make sure you have positioned cleared funds in the right account to cover the cheque payment. The auctioneer will usually require two forms of ID and the name of your solicitor and that's it, you will have exchanged! If you don't complete, you will lose your deposit.

After an auction, successful bidders have 28 days in which to complete, which is a fast turnaround for most mainstream buy-to-let or residential lenders. "Apart from dealing with the legal aspects of the purchase and planning for any works that need to be carried out, if you are not a cash buyer, your main challenge will be to organise finance," Richard says. "If you can, buy with a mainstream lender and you might manage to get a 70% or 75% loan. This is much cheaper than the lender of last resort, which is bridging finance."

### **Opportunities and risks**

"Auctions are a good place to find bargains, especially for cash buyers. A cash buyer can buy properties for which other people cannot raise mortgage finance. Furthermore, properties are often sold at auction because there is a problem that means that mainstream lending is not possible. For example if the property does not have a working bathroom or kitchen, it may be deemed uninhabitable. Lenders do not like serious damp or legal problems that might make the property difficult to sell. Structural problems such as cracks might also make building insurance difficult to obtain for the rest of the property's existence, and this will also make mortgaging difficult or impossible.

Auctions are at their best when the market is depressed, as there will be more stock from repossessions and fewer people able to buy. At buoyant times, when the market is rising or there is a shortage of stock, competition for lots will be much more intense. Currently the shortage of stock and pent up demand in London has eliminated bargains at auction,

## ■ Making a purchase cont.

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but as supply increases over the next few months, we should see the gap between guide and sale prices narrow.

Auctions can be very exhilarating and quite sociable as you meet lots of other players. But you need nerves of steel in the room, so if it's your first time, take a friend. You can get some bargains, but this is often down to luck. The best bargain I ever bought was because the agent couldn't open the front door of the property on two of the viewings and hardly anybody got to see inside. Luckily he did manage to open the door on the day I was viewing and I was the only person to bid."

## ■ Skill up

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Once you have considered your options, sorted out your finance and made that all-important purchase, it is time to turn your attention to how you run your business. Having identified your core market and projected your income, you should be relatively clear about your finances. However, there is much more to being a professional landlord than just managing your accounts.

Running a profitable letting portfolio involves managing numerous tenancies, maintaining valuable assets and sustaining healthy relationships with clients, businesses and various third parties. In many ways it can be one of the most challenging forms of small business, especially given the nature of the private-rented sector's constantly evolving regulations.

The NLA recommends that you commit to an ongoing course of professional development, ideally beginning with a comprehensive landlord development course, which will enable you to achieve accredited status.

The NLA runs a one-day landlord foundation course designed to assist both new and more experienced landlords to develop their professional skills.

The NLA's learning and development course offers an excellent opportunity to network with other landlords and discuss ideas, problems and possible solutions.

We provide expert trainers who are landlords themselves, with real life stories and up-to-date content. It is the foundation level of knowledge required for landlords to become accredited with the NLA.





## **Skill up** cont.

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The foundation course focuses on the main issues facing landlords, including:

- Finding tenants
- Setting up
- Managing and ending a tenancy
- Keeping records
- Repairing obligations
- Up to date advice

Some of the other benefits to becoming accredited include setting yourself apart from rogue operators, a mark of quality as a responsible landlord, business advantages for tenants seeking good landlords, reduced licencing and HMO discounts in some areas, preferential services with some local authorities, access to grants or other service with some local authorities, your course fees are tax deductible, choose to display your status and free advertising with other local registers.

# ■ Learn online, in your own time

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Most landlords, especially those just starting out on the road to letting independence, also work full time and are consequently very busy people. However, this is no excuse for failing to get to grips with their role as landlord. As a result the NLA also offers online professional development, which can be undertaken and assessed at your convenience. The NLA's Online Library is a valuable resource allowing new and experienced landlords to keep abreast of their responsibilities and learn how best to make the most of their business.

Subjects in the Library are split into relevant categories. All subjects on the system follow a common layout, starting with legal requirements, through practical guidance, to sources of further help. The following subjects are covered by the Library to give you a thorough grounding in letting for profit.

## **Starting up**

- Landlord and Tenant - Who's Who?
- Considerations Before Letting
- Using an Agent
- Landlord Registration (Scotland)

## **Regulatory Regime**

- Tribunal Services for Residential Property in England and Wales
- Private Rented Housing Panel (Scotland)
- Criminal Law
- Civil Law
- Criminal Law and the Court System (Scotland)

## **Property**

- Licensing
- HMO Definitions
- HMO Management Regulations
- HMO Licensing (Scotland)
- Implied Terms for Maintenance and Repair

- Property Repairing Standard and Overcrowding (Scotland)
- Management Orders
- Empty Dwelling Management Orders
- Planning and Building Control
- Planning and Building Warrants (Scotland)
- Water, Drains and Sewers
- Glazing and FENSA
- Glazing (Scotland)
- England - Decent Homes Standard
- Wales - Welsh Housing Quality Standard
- Condensation \* *VIDEO INCLUDED*
- Energy Efficiency, Energy Performance Certificates and The Green Deal
- Energy Efficiency, Energy Performance Certificates and The Green Deal (Scotland)

- Land Registry
- Home Information Packs - no longer required
- Insurance
- Pest Control
- Guide to Selecting a Supplier
- Contractors
- Structural Engineers
- Surveyors
- Digital TV Switchover
- Parking on Private Land and Abandoned Cars

### **Tenancy**

- Types of Tenancy
- Types of Tenancy (Scotland)
- Tenancy Deposits
- Tenancy Deposits (Scotland)
- Freehold and Leasehold
- Inventories
- Rent
- Housing Benefit and Local Housing Allowance
- Welfare Reform and Universal Credit
- Utilities and Mail
- Referencing and Vetting Tenants
- Guarantors
- Changing Tenancy Terms
- Ending a Tenancy
- Ending a Tenancy (Scotland)
- Unlawful Eviction and Harassment
- Unlawful Eviction and Harassment (Scotland)
- Unlawful Discrimination

- Overcrowding
- Anti-social behaviour
- Council Tax
- Data Protection and Freedom of Information
- Squatters
- Customer Service and Handling Complaints
- Tenancy Support Workers
- Firearms and requests for their storage in rented property

### **Safety**

- Housing Health and Safety Rating System
- Fire Safety Overview  
*\* VIDEOS INCLUDED*
- Gas *\* VIDEO INCLUDED*
- Electrical
- Furniture and Furnishings
- Asbestos
- Legionnaires Disease
- Working at Height
- Personal Safety

### **Financial**

- Financial Overview
- Record Keeping
- Income Tax
- Value Added Tax
- Capital Gains Tax
- Stamp Duty Land Tax
- Inheritance Tax
- Mortgages
- Landlord Energy Saving Allowance

For more on the Online Library, and the benefits of 'skilling-up' your business, visit: [www.landlords.org.uk/library](http://www.landlords.org.uk/library)

## ■ Using an agent v. self-management

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Having considered the complexity of running your own letting business, you may decide that you simply do not have the time or perhaps the inclination to commit to becoming a professional lettings manager. This should not prevent you from developing a profitable portfolio.

Approximately half of all private landlords in the UK opt to use a letting or management agent for their lettings. This can be an excellent alternative for those with limited time, or where distance from your properties could cause a problem. Landlords are always on-call should problems arise with their properties so it is worth considering using a local agent to manage your tenancies and advise on letting matters.

If you choose to contract an agent it is essential to find a firm which subscribes to a credible trade body such as UKALA (UK Association of Letting Agents), ARLA (Association of Residential Letting Agents), or NALS (National Approved Letting Scheme). These bodies provide financial protection for client landlords should the agent encounter difficulties, impartial redress schemes to handle potential disputes and require all members to abide by a strict code of conduct.



Of course using the services of a professional is not without its costs, but a good quality agent should effectively pay for itself in the long run. Always discuss fees up front to ensure that you are clear about what you will be expected to pay, if there are any renewal charges should your tenants stay long-term and how the contract may be ended by both sides. This should be made clear in the agent's terms and conditions of business.

It can be tricky to select a good agent so why not attend a local NLA networking event to discuss firms in the area with other landlords. Experienced local landlords will know which agents offer the best service and may save you making an expensive mistake.

A listing of local meetings and events can be found here:

[www.landlords.org.uk/events-home](http://www.landlords.org.uk/events-home)

# Join the NLA

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Being a landlord can be a rewarding business but it's not without challenges and as we've outlined above, there is risk. For further help and support with your lettings, join the NLA.

## Membership benefits:

- Our range of resources will provide you with accurate information, practical guidance and legislative updates
- You can meet with fellow landlords and benefit from their experience
- Our membership promotional tools and accreditation scheme can help you gain a competitive edge
- Our wide range of services will help you deal with most aspects of letting property
- You can also enjoy substantial savings on our benefits and services
- Our on-going campaign activities and surveys will give you the opportunity to make yourself heard at a local, national and European level
- We offer a range of membership packages to suit your needs



For details visit: [www.landlords.org.uk/membership](http://www.landlords.org.uk/membership)

## The NLA caters for all types of landlords:

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I'm a **Landlord** working independently

Help with all aspects of letting property



I'm a **Landlord** working with my family

Extend the benefits of membership to your family



I'm a **Landlord** trading as a business

Manage your letting business more effectively



# Encouraging Renting

Follow us:



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