

**THE  TIMES**

## The best places to gamble on buy-to-let



Liver building at the world heritage site Liverpool pierhead Allan Baxter/Getty Images

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The latest side-effect of the widening of the North-South divide is a new interest among buy-to-let investors in rental homes in northern cities that have been hard-hit by the downturn. Many buy-to-let investors who put money into flats at the height of the property market boom came to grief because they were both overextended and were looking for short-term gains. But these new amateur landlords are seeking out long-term alternatives to the low rates of interest on deposit accounts; they are also calculating that the reluctance of the banks to lend to first-time buyers, especially those in areas of economic hardship, will create an ever-larger clientele for rented accommodation over the next few years.

Figures from Zoopla.co.uk, the property search website, show that the cities offering the best rental returns are Liverpool, Hull, Coventry and Middlesbrough. Reflecting the widening of the North-South divide, house price falls in these locations have been deeper than the average; there are also more homeowners struggling with their mortgage repayments.

In those regions, mostly in London and the South East, where house prices have remained more resilient, rental yields are lower. Cambridge, for example, is bottom of

the class for buy-to-let returns. The typical yield (annual rental income that can be earned on a property as a percentage of its value) is 4.3 per cent compared with 6.6 per cent in Liverpool. Yet the average Cambridge household earns £7,000 more each year than the typical Liverpool family, at £29,250, says Centre for Cities, a research consultancy. In Cambridge, the proportion of people of working age who claim jobseeker's allowance is around a third of that in Liverpool, at 1.8 per cent compared with 6.3 per cent.

But why do gloomy economic indicators signal a buy-to-let investment opportunity?

Nick Leeming, director of Zoopla.co.uk, says: "The towns where average rental yields are highest are typically in areas that have suffered most during the economic downturn. Property prices in these locations are relatively low on average, but this does not necessarily mean people can afford to buy them. High unemployment rates and greater exposure to public sector cuts have diminished people's appetite to buy."

Mr Leeming says that landlords may cash in where first-time buyers are squeezed out of the property market and forced to remain in rented homes due to high deposit requirements, paltry savings rates and poor wage inflation. High rental demand and relatively low property prices are the perfect combination for landlords.

Martyn Green, director of the letting agent Jones Lang LaSalle's Liverpool office, believes that his experience of the city's rental market reflects the dynamic that Mr Leeming describes. He says: "First-time buyers are unable to get a mortgage so they are choosing to rent. This is causing a shortage in available rental property, and demand for city-centre homes is outstripping supply by five to one." He says that the Liverpool lettings market is also buoyed by demand from wealthy international students.

There is a downside, however. In areas where unemployment is high and wages are stagnant, landlords must weigh up the potential for strong returns against the risk that they could face prolonged periods during which they cannot find a tenant for the property.

David Whittaker, of Mortgages for Business, the broker, says: "In the past, people who invested in buy-to-let focused on capital appreciation. But now that property prices are relatively flat, cashflow is more important, so they are looking for high-yield properties where the rent more than covers the mortgage and other costs. If you have a high yield, then you can cope with some periods in which the property is vacant; you just have to lower the rent until you find a tenant."

Mr Whittaker says that landlords can minimise their risks by getting credit checks and references for potential tenants. Rental guarantee schemes are a way of insuring against periods when the property is vacant, but Mr Whittaker believes they are too expensive and that landlords are generally better off putting money aside themselves.

*Additional research by Chris Ola*

## **LOAN BEST BUYS**

- For landlords with a 20 per cent deposit, Yorkshire Bank has a two-year fixed rate at 5.29 per cent with a £999 fee.

- Landlords with a 20 per cent deposit could fix for three years with The Mortgage Works (part of Nationwide Building Society) at 6.39 per cent, but this comes with a large fee of 2.5 per cent — equivalent to £3,750 on a £150,000 home loan.
- If you have a larger deposit of 40 per cent you could fix for two years at 3.25 per cent with Northern Rock, but again this comes with a hefty fee of 3.5 per cent or £5,250 on a £150,000 mortgage.
- For borrowers who do not want to pay a large fee, Coventry Building Society has a two-year tracker mortgage starting from 3.89 per cent with a £250 fee, but you will need a 35 per cent deposit to qualify.
- Most lenders require you to have rental cover of at least 125 per cent. This means that your rental income must be at least 25 per cent higher than your monthly mortgage interest payments.
- A mortgage broker may be able to find you other deals that are not available through lenders directly.

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