Premium

How to invest in buy-to-let: where your £100,000 will earn the highest returns

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Do you want to invest in buy-to-let – but don't know how? In this four-part series, we find out where and how to invest in property in the UK with different budgets, from £15,000 to £100,000, and take a look at how far your money can take you.

For the final installment in our series, we're working with a budget of £100,000. With this kind of money, 20 out of 34 London local authorities are within reach, according to exclusive research by Hamptons International.

But the property market here has slowed, and relative returns are lower. So does £100,000 actually allow you to buy property that's more profitable than what you can get with £15,000?

Between July and September, rents in the most expensive areas of London were up by 5.2 per cent year on year, according to LonRes's prime lettings index. Combined with lower sale prices, this means that yields are now at their highest level since the beginning of 2013. The central London market is looking up for landlords – and even better returns can be found on the outskirts of the city.

What gets really interesting about working with this budget is that allows you scope for a change of tactic: the sum of £100,000 opens up not just geographic areas but different types of property and ways of buying.

You have enough money now to seriously invest in houses in multiple occupation (HMOs) - the most profitable form of buy-to-let property in the country, according to the National Landlords Association.

And you have a fast-track to building a portfolio in the parts of the country where returns are highest. Though, if you're savvy, you'd be able to start here with a £15,000 budget too.

Methodology | Where to invest in buy-to-let property

- The findings were based on Hamptons International's analysis of Land Registry data.
- For each local authority, we looked at average prices for properties in four categories: flats, terraced, semi-detached and detached houses.
- We calculated the cost of a 25 per cent deposit (the industry standard for buy-to-let mortgages) for each.
- Then, we rated the local authorities by their average rental yields.

Buy-to-let in London

The east London borough of Barking and Dagenham has the highest returns in the capital, according to Hamptons, with yields of 5.5 per cent.

A 25 per cent deposit on an average flat here will set you back £57,350, and for a terraced house the cost would be £80,490. Semi-detached properties technically come into budget with deposits of £95,500, but you'll have to factor in a £20,560 stamp duty bill to boot.

Barking is benefiting from rising rents in more central areas such as Stratford, says Matthew Cann of agent Bairstow Eves. Homes within a five-minute walk of the station are most in demand.

Investors are also eyeing up Barking Riverside, a scheme with plans for a total of 10,800 homes that will include a new Overground station (due to open in 2021). Yields here can hit six per cent, says Cann, though that's before shelling out the development's higher management fees.

The regeneration here has sparked international interest. Cann estimates that 40 per cent of investors are from overseas, up from 10 per cent four years ago. Half of these international buy-to-let buyers are Chinese, he adds.

After Barking and Dagenham, there are four local authorities that offer five per cent yields: Newham, where a 25 per cent flat deposit will set you back £86,320, Enfield (£71,650), Bexley (£58,700), and Havering, where homes are cheapest. Deposits here cost £57,850 for flats and £85,020 for terraced houses (though £17,207 in stamp duty will push you just over budget).

Within Havering, yields can edge up half a per cent in the suburban areas of Rainham, Harold Hill and certain parts of Collier Row, where house prices are lower, says Linval Williams of Andrews Estate Agents.

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Investing in HMOs

HMOs are properties with at least three tenants who form more than one household (if tenants are married, in a relationship or related they count as one household). HMOs with two or more separate households, or five or more tenants, need a license from the local council. This will certify that the property fulfills requirements such as minimum bedroom sizes.

For many landlords, it's worth it. Across the country, HMOs generate average rental yields of 6.5 per cent, compared to a 5.6 per cent average return for terraced houses, according to the NLA.

But they make up a relatively small proportion of the market: NLA statistics show while terraced houses account for 59 per cent of Britain's rental stock, HMOs make up only 20 per cent. It's a sector that previously "had such a bad reputation," says Tom Wolfe of HMO Advice. But with co-living on the rise, times are changing and there's space for the sector to grow.

In Chelmsford, Essex, investing in HMO property means boosting returns from five per cent for standard lettings, to returns at "nine per cent plus," says Neil Baldock of Charles David Casson estate agency.

Here, a 25 per cent flat deposit costs £53,080 and terraced houses are £72,070 (a total of £85,132 with stamp duty), according to Hamptons. Parklands Drive and St Fabian's Drive are particular hotspots for HMO stocks, says Baldock. He advises buying within a mile radius of the city centre - these tenants are sociable and want transport and amenities.

HMO properties work best for young professionals, which means "London is always going to be the powerhouse of this sector," says Wolfe.

In the capital, good HMO properties can achieve yields of 6.5 per cent, compared to the city's standard yield of 3.5 per cent, says Christopher Florence, also of HMO Advice. The company is currently working with a 12-bedroom property in Ealing that has yields of 14 to 15 per cent.

Wolfe and Florence recommend buying large houses with nearby transport links, either in Ealing or "anywhere south", such as Clapham and Putney. In general, more bedrooms mean more profit, but Wolfe cautions that the social aspect of HMO living is key. Homes with six bedrooms are the sweet spot, he adds.

Converting an old property to qualify for an HMO licence can be "costly and complex", says Simon Gerrard of Martyn Gerrard estate agents. HMO license criteria can vary significantly between local authorities and "many councils are having an aggressive crackdown."

New build property will be compliant with HMO regulation, says Gerrard – though of course, this comes at a premium.

Should you buy one property or start a portfolio?

With a budget of £100,000 to play with, you could buy one expensive property, or pick up a few. So which makes the most financial sense?

In Sunderland, north-east England, yields are 9.7 per cent and a 25 per cent flat deposit costs £18,940, according to Hamptons. Four flat deposits, plus stamp duty, will come to £84,852; you'll even have budget left over to renovate.

In Redcar and Cleveland, near Middlesbrough, you can get even more for your money. Yields here are 9.6 per cent, according to Hamptons, and a flat deposit will cost £15,390. You could buy five plus tax for £86,180.

Max Armstrong, director of North East Property Investments, recommends using a £100,000 budget to start a portfolio by buying two properties in cash as a limited company. He advises doing the refurbishments and getting a history of rentals first, then refinancing after six months and investing again to keep building the portfolio.

Buying through a limited company means that the investor qualifies for the tax benefits that landlords enjoyed before the 2017 changes that began phased reductions in tax relief on buy-to-let mortgages: mortgage costs still count as deductible business expenses. Also, rental profits on properties owned by limited companies are taxed at corporation tax rates rather than personal income tax rates. The downside is that creating a new company means buying without a financial history, and mortgage costs are higher. Structuring the purchase in the above format is the closest thing to the best of both worlds. (Though it's worth noting that if you later make a profit on the sale of the properties, you will have no capital gains tax allowance).

Buying around main cities and towns such as Sunderland and Newcastle is safest, adds Armstrong, and properties here will hold their value better.

Yields of 15 to 16 per cent can be found in the lower value properties in the east coast pit villages between Sunderland and Middlesbrough, says Armstrong, but these areas have a high density of housing benefit tenants, which means a higher degree of risk. This can be offset by leasing properties on long term three to five year contracts to housing providers, which then manage the properties themselves and sublet them.

The North East is a becoming hotspot for big money. Armstrong estimates that 85 per cent of his clients come from outside the area, primarily from London and the South East. International buyers from the Middle East who would previously have invested in the capital are also increasingly starting to look north, he adds.

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