ROUGH GUIDES

THE ROUGH GUIDE to Property

THE PERSONAL FINANCE SERIES

In partnership with: Legal & General

A note from Mike

As a nation we seem to be obsessed with house prices, but where we live has such a big impact on our lives and happiness that it's important to spend time thinking about property – whether it's planning a house purchase, finding somewhere to rent or working out where to live in retirement. I have been helping people manage their finances for almost twenty years, and questions about property, mortgages and renting come up often.

The Rough Guide to Property*, the fifth in our series, gives you plenty of information and guidance about the many aspects of owning or renting a property. It shows you how renting works, how to get your first foot on the property ladder, and how you might make your property work for you. Whatever your income or the stage you are at in your life, this guide will help make an often complicated subject seem a lot more manageable.*

NAVIGATING THIS EBOOK
We've highlighted handy Top Tips, text boxes, infographics and tables so you can pick out useful information that's relevant to you, or delve deeper by reading through each chapter. Any word or phrase that is coloured and underlined has a hyperlink, which connects to other parts of the guide or to external websites (see Colour Key below).

COLOUR KEY:
blue hyperlinks: Click to access useful resources for further guidance.

purple hyperlinks: Click to navigate to the **Jargon Buster** (pp.58–60).
orange text underlined: Click to move to other parts of the guide.
Note that words coloured orange but not underlined do not have hyperlinks.

☞ Visit www.roughguidefinance.com to subscribe to *The Rough Guide to Personal Finance* series.

THE ROUGH GUIDE TO PROPERTY

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Dr. Nigel Wilson, CEO, Legal & General

Foreword

Legal & General has teamed up with Rough Guides to create this new and much-needed book.

At first glance, travel and personal finance seem worlds apart, as do our two organizations. But dig a little deeper and a common purpose emerges: visiting new countries and sorting out personal finances are both, to a greater or lesser extent, **journeys of discovery**.

Over the past twenty years, Rough Guides has provided independent and reliable guides to countries and regions across the world. I and my family have used them on many occasions and have discovered and learned about new places as a result – they've enabled us do things which we might not otherwise have done, like visiting Myanmar (Burma) and South America.

We want ***The Rough Guide to Personal Finance*** series to achieve the same result by acting both as a **prompt to get started on the financial planning path** and to serve as a reference throughout the different stages of our lives.

We are ambitious – our intended audience is everyone. A young person's decision on the purchase of a pension plan is as important as how someone nearing retirement should spend and **invest** their pension pot. Too often, these crucial decisions are made with insufficient knowledge, information and guidance. Indeed, we devote more time and energy to planning holidays than our financial future.

The Rough Guide to Personal Finance series was commissioned to help fill that gap. The series will cover the key events of life and is firmly independent: the authors of each ebook have been selected by Rough Guides and are **respected personal finance writers**. They have been chosen for their expertise, personal experience and no-nonsense approach to financial planning.

At Legal & General we make a promise that every day we will help make financial security easier to achieve. This Rough Guide is an important new tool to help us fulfil that promise. It is designed to **help you take control of your finances and plan for the future**, whatever financial life stage you are at.

Dr. Nigel Wilson
CEO, Legal & General

CHAPTER ONE: FINDING A HOME

Your home and your wellbeing

Where you live has a huge impact on every aspect of your life, from your financial wellbeing to your health and happiness. Whether you own your home or rent it, it should be the place where you feel most safe and secure. But finding the ideal home can be tricky.

The Rough Guide to Property steers you through the many difficult decisions you need to make about your accommodation – from whether to rent or buy to what type of mortgage might suit you best – and helps to make the process a little less daunting.

Making the right decision

Your accommodation is likely to be the biggest expenditure of your life, regardless of whether you choose to rent or buy, so deciding where and what you can afford is key. Before you make those decisions, there are a lot of things to consider, such as:

- What sort of property you want to live in (flat, house or bungalow, for example)
- How much living space you need, including the number of bedrooms
- Whether you want to live in a town or in a more rural location
- Whether you need a driveway or garage
- The distance from work and from friends and family
- How much council tax you will have to pay
- Whether you want a garden or outside space
- Whether you're in reasonable distance of a good hospital and whether it's easy to register with a doctor or NHS dentist near your prospective home

Taking the time to think about what you want before you start looking will help to narrow down your search. Consider places that don't fit your initial criteria too – you may need to make some compromises, especially if your budget is tight.

The hidden costs of housing

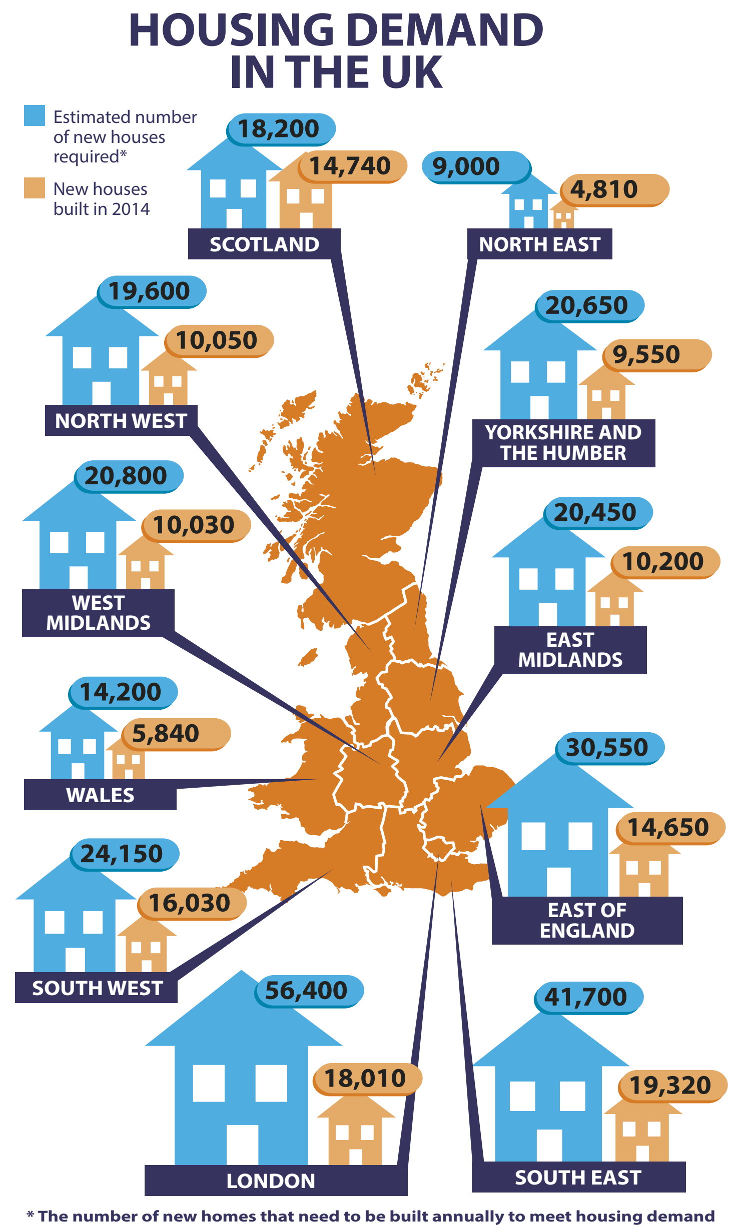
Some of the costs of owning or renting your home are more obvious than others. When choosing where to live, remember to take into account how local amenities (or the lack of them) will impact on your everyday life. Consider things like:

- **Schooling:** Are there good schools in the area? For parents, buying a house in the catchment area of a good school can add thousands of pounds to the price. Similarly, the Money Advice Service estimates that childcare costs in London are around 50% more than the average in the rest of the UK

- **Travel:** How much will it cost you to travel to work? For example, a train and bus pass in Manchester will set you back at least £110 per month, while the annual season ticket for commuting between Manchester and Bolton costs a minimum of £988 in 2015
- **Parking:** Does the property have a drive or a garage? Will you have to pay to park near to your home? Residents' parking permits can be expensive and there are often waiting lists
- **Crime:** Is the area you are planning to move to safe? You can compare the crime statistics of different areas on the crime-statistics.co.uk website. You can expect your insurance premium to rise if crime rates are high in the area you're moving to.

Housing demand

The UK has a significant shortfall of houses, exacerbated by consecutive governments failing to build enough new homes. This is a problem across the country, with demand far outstripping supply, as illustrated in the Housing demand graphic (p.11). One of the biggest impacts of this shortfall is that house prices continue to rise; this, in turn, means that many people are unable to afford to buy – or even rent – their own property.



Sources: Parliament.uk; ONS; Shelter; Welsh Government

Your options – buying or renting

There are advantages and disadvantages to both renting and buying, and what works for you will very much depend on your personal situation. Though it's much easier to rent than to buy – as you need less money to get going – you still need a regular income to pay your monthly rent and household bills. There are fewer responsibilities in renting and it gives you greater flexibility, but the reality is that you don't ever own the property.

Help with buying a property

The government is encouraging home ownership with three different schemes. The **Help to Buy** scheme could enable you to buy your first property with a smaller deposit than usual (for more information, see Chapter 3). There are also plans to extend the **Right to Buy** scheme (currently available to council house tenants) to 1.3 million housing association tenants. This could allow them to purchase their homes at a discount of up to £103,900 in London, £77,000 in the rest of England, £16,000 in Wales and £24,000 in Northern Ireland. Currently, some housing association tenants have the **Right to Acquire** their home, with discounts of between £9000 and £16,000. Further information on Right to Buy can be found on GOV.UK.

In 2015 the government promised to deliver 200,000 **Starter Homes** by 2020. These homes will be available for first-time buyers under the age of 40 at a discount of up to 20%. More information can be found on the New-Homes website.

Help with paying your rent

If you're on a low income or unemployed, you may be eligible for **Housing Benefit** (p.21) to help pay your rent. The exact amount of **Housing Benefit** will depend on your circumstances, income and location, and may cover all or just part of your rent. In addition, what you get will depend on whether you rent through your local council or privately – and it's worth bearing in mind that some private landlords may refuse to take Housing Benefit tenants. Social housing is covered in more detail in Chapter 2.

☞ **TOP TIP** If you are turned down for credit, whether renting or buying, contact the company and ask it to review the decision. You may be able to supply additional information to support your application. You can request a **credit report** by contacting a **credit reference agency**, such as Equifax, Experian or Noddle. For more on understanding your credit history, see Chapter 4 of The Rough Guide to Money & Savings.

CHAPTER TWO:
RENTING A PROPERTY

Renting – the flexible option

There are many advantages to renting rather than buying your own place. Renting can give you more flexibility about where you live and the type of property you live in, it allows you to move out relatively quickly if your circumstances change, and you aren't usually responsible for maintenance or repairs. Finding the right place to rent can still be tricky, however, and your monthly rent could be as much as – or even more than – a monthly mortgage repayment.

The cost of renting

When you're considering the cost of renting, first of all check precisely what is included in your monthly **rent payment**, as general running costs may or may not be included. Also bear in mind the initial upfront costs involved with renting, illustrated in the **Cost of renting** graphic (p.16). You should also budget for **contents insurance** (which covers your belongings). Work out a budget to see if you can afford to rent your own place – the Money Advice Service has a useful Budget Planner.

Finding the right place to rent

There are various resources available to help you find a property to rent. One of the easiest and quickest ways is by using an online property site such as Rightmove, Zoopla and Onthemarket. Spareroom lets you search for rooms in shared flats or houses. Another option is to go directly to an estate agent or letting agent – local branches are a good way of finding out about an area, as are local newspapers. It's also worth asking around – friends and family can often be good sources of information.

Letting agents – what to expect

A letting agent's role usually involves carrying out all the necessary checks (see **Before you sign**, p.17) prior to a tenancy, taking the deposit and collecting the rent. In some instances letting agents will also manage the property on behalf of a landlord. Most estate agents offer lettings as part of their business.

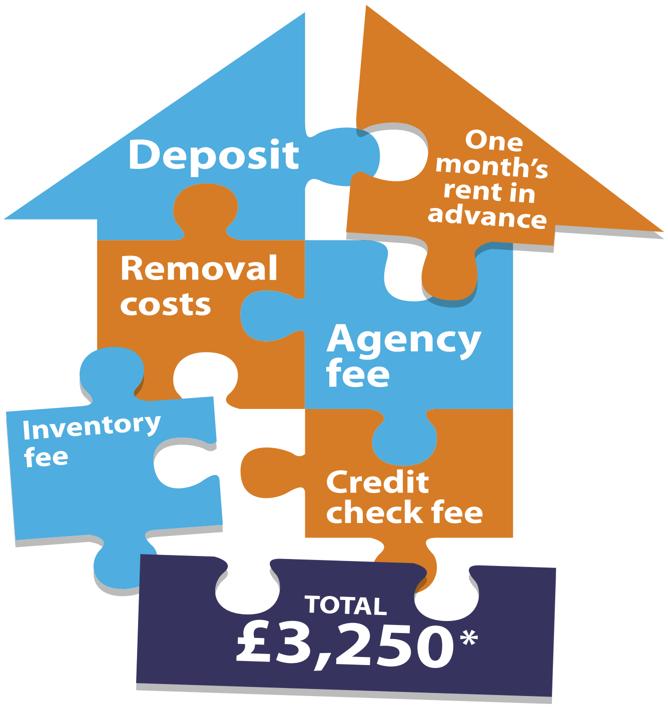
Except in Scotland, where it is illegal for letting agents to charge fees, there are various charges you are likely to pay as part of the rental process, including a holding deposit before signing the tenancy agreement (often the equivalent of a week or two's rent). Other services charged for include:

- The drawing up of tenancy agreements
- Credit checks and referencing
- Making an inventory of the property (see Before you move in, p.18)

Letting agents are required to disclose all fees on their website and in their offices. If you do decide to use a letting agent, check that it is a member of one of the following schemes:

- The Association of Residential Lettings Agents (ARLA)
- National Association of Estate Agents (NAEA)
- National Approved Letting Scheme (NALS)
- UK Association of Letting Agents (UKALA).

HOW MUCH DOES IT COST TO RENT?



*** This figure is the total cost per property before moving in, based on the national average rent of £956 per month.**

Sources: Reallymoving.com; Shelter

Viewing a rental property

When visiting a property you're interested in it's a good idea to have a checklist of things to do and what to watch out for:

PROPERTY VIEWING CHECKLIST	TICK
How well maintained is the outside of the property?	
Investigate the area. Does it feel safe? Is it near enough to transport links and shops?	
Is there parking at the property or nearby?	
Are the communal areas clean and well kept?	
Is the street particularly noisy? What are the neighbours like?	
How much is the rent? How many bedrooms are there?	
What condition is the interior in? Any signs of damp or serious drafts?	
Is the property furnished or unfurnished and what appliances are included in the rental?	
How is the property heated? Central heating is cheaper than storage heaters.	
Are the gas and electricity working properly? Has the boiler been recently serviced and are there smoke and carbon monoxide alarms?	
What broadband services are available? Is there a good mobile phone signal?	
Finally, does it feel like a home and can you see yourself living there?	

☞ **TOP TIP** Before going to look round a house, make sure you set yourself a budget limit and draw up a checklist of your requirements.

Before you sign

Once you have found a property you like, let the landlord or letting agent know you are interested straightaway. It's possible to negotiate on the price of a rental property (around 10% is advisable), but success will depend on factors such as how long it's been on the market and when you can move in. You may also wish to negotiate specific requirements, such as a longer tenancy period, or being allowed a pet.

Once you've had your offer accepted, you will usually be asked to pay a holding deposit to secure the property (this is normally taken off the main deposit), in addition to other administrative fees (see Letting agents – what to expect, p.15). You will normally have to provide work references, and your landlord or letting agent will probably want to check you are creditworthy. They may also want to see your bank statements or bank details.

☞ **TOP TIP** Properties in over-subscribed areas can go very quickly. If there's a lot of interest in a property, being able to move in quickly can be an advantage.

Before you move in

For most rented accommodation it's usual to pay one month's rent as a **deposit** and a month's rent in advance. In addition you may have to pay for the credit check, as well as an application fee and possibly an inventory fee – all of which could add up to hundreds of pounds.

In advance of moving in, check the following:

- Make sure you get a **tenancy agreement** and read it thoroughly. If anything is unclear, ask someone with rental experience to look over it or seek advice from an organization, such as Shelter
- Check that your deposit will be held in a secure **deposit protection scheme** (see **Deposit protection schemes** box, p.19)
- Check that gas and electrical safety certificates will be provided and are up to date.

If your landlord doesn't provide an inventory, ask for one. This lists all of the items in the property and their condition, including carpets, furniture, appliances etc, and is a way of establishing the condition of a property when you move in; this then helps when you move out. Ideally, it should include photographs so there is less chance of disputes later. You can find a typical inventory on the Shelter website.

☞ **TOP TIP** If the inventory has no photographs of the listed items, take photos of them on the day you move in or, even better, make a video. It's also worth doing this to record the general condition of the property, in the event of any disputes with your landlord.

Deposit protection schemes

If you're an **assured shorthold tenant** (see **Tenancy agreements** below), your landlord is required by law to protect your deposit in a government-backed scheme within thirty days of receiving it. There are three such schemes: mydeposits, the Deposit Protection Service, and Tenancy Deposit Scheme, with websites that enable you to see if your deposit is there. As well as keeping your deposit safe, these schemes help protect tenants by preventing landlords from withholding deposits unfairly at the end of a tenancy. All provide a free alternative dispute resolution (ADR) service, so that in the event of any disagreement about the return of your money – for example, over damage done to the property – this can be resolved without needing to go to court.

A landlord who does not protect a deposit can be ordered to pay compensation to the tenant of up to three times the deposit amount.

Tenancy agreements

Your **tenancy agreement** is a crucial part of your tenancy. Though it can be given verbally or in writing, the latter will make sure that you are better protected in the long term. Your tenancy agreement should include the following:

- Your name(s) and the property address
- The landlord's or letting agent's name and address
- How much the rent is and the date on which it is due
- The amount of the deposit and the scheme that will be used to protect it (see **Deposit protection schemes** box. p.19)
- Whether you are responsible for bills like council tax and water
- The length of the **tenancy period**
- How you can end your tenancy.

Most new private tenancies are automatically **assured shorthold tenancies (ASTs)**, which usually last for six or twelve months. Exceptions include when you live with your landlord, in which case you might be classed as an excluded occupier, which gives you fewer rights as a tenant. If you live with other people you might have a joint tenancy or, if your agreement is with a friend, a licence. More information about the different types of tenancies can be found on the Shelter website.

Fixed term vs. periodic tenancies

Tenancies are either for a fixed term or periodic, meaning that they run from week to week or month to month. Once a fixed-term tenancy has ended, you will automatically go onto a periodic tenancy unless your contract is renewed. If this is the case, you will usually have to give one month's notice to end the tenancy. More information on tenancies is available at GOV.UK.

Rights and responsibilities

When you rent a property there are things you can and can't do. Check the **tenancy agreement** so you know precisely what your responsibilities are. Equally, your landlord has responsibilities. It's important to keep in good communication with your landlord, raising any problems when they arise, in order to maintain a good relationship.

Your responsibilities

Your responsibilities as a tenant include:

- Paying your rent in full and on time each month
- Looking after the property and letting the landlord know of any problems
- Respecting your neighbours and not causing a nuisance
- Not doing anything illegal at the property
- Not **subletting**
- Giving notice before the end of the tenancy
- Returning the property in good condition at the end of the tenancy; this usually involves having the property professionally cleaned.

You may also be asked to do other things, such as cutting the grass or maintaining the garden.

Your landlord's responsibilities

There are certain things that your landlord must do, such as:

- Give you notice if they want to enter the property
- Carry out essential or emergency repairs
- Give you the right amount of notice if they wish to end the tenancy
- Protect your deposit and return it when you leave
- Make sure the property is secure and that all furniture and fittings reaches the required safety standards. See GOV.UK for more information about these
- Keep in touch and provide you with their contact details, but generally leave you alone to enjoy the property.

If you have a problem

Always let your landlord know about any problems as soon as they arise. If you are struggling to pay your rent, inform your landlord and try to get some help. The Money Advice Service offers advice about dealing with debt and arrears; you may also be eligible for **Housing Benefit** (see **Housing Benefit** box, below).

If you are unable to settle a disagreement with your landlord, plenty of advice is available from organizations like Shelter and the Housing Ombudsman Service.

Housing Benefit

Housing Benefit helps pay for some, or all, of your rent, if you are on a low income. The amount you get will depend on what your income and savings are, whom you live with, and whether you are in social housing or renting privately.

Housing Benefit is based on the "eligible rent" for your property, which means the reasonable cost of a suitable property in your area, including service charges.

You claim Housing Benefit from your local council or, if you are claiming other benefits, from Jobcentre Plus. For council tenants, Housing Benefit is usually paid directly into your council rent account; for housing association or private tenants, the money goes into your bank account or into that of your landlord.

For further information about financial help go to the benefits charity Turn2us.

Social housing

If you are on a low income and struggling with housing costs, social housing is an option. Also known as affordable housing, this is normally provided either by local councils or by housing associations – not-for-profit organizations that own and let affordable properties.

Supply is limited but demand is high because rents are usually cheaper than those charged by private landlords. The council or housing association will decide whether you are eligible (see **Eligibility for social housing**, p.22), and if you qualify you will usually be placed on a waiting list – unless you're regarded as a priority.

If you need help finding affordable housing for yourself and your family, first contact your local authority: you can do this at GOV.UK. Shelter is an invaluable resource, with free information and support (both online and by telephone)

Eligibility for social housing

In order to apply for social housing you need to be a British citizen living permanently in the UK who has not recently lived abroad. You may also be eligible if you have a long-term or indefinite right to stay in the UK because you are, for example, a worker from the European Economic Area or a refugee.

You usually get priority if:

- You are homeless
- You live in overcrowded or unsatisfactory housing
- You, or a member of your family, have a medical condition made worse by where you live
- Your lack of mobility makes it difficult to live in your home
- You have to move for medical or welfare reasons.

You are given extra priority if:

- You are at risk of domestic abuse, racial or sexual harassment, or intimidation
- You have been a member of the regular armed forces or a serving member with a serious injury or illness.

You can check your eligibility for social housing on Turn2Us's Benefits Calculator.

Bedroom tax

If you are a council or housing association tenant receiving **Housing Benefit** and your home has one or more spare rooms, your benefit could be reduced. This is called an under-occupancy charge, but is more often referred to as the "**Bedroom Tax**". One unused room will see your benefit reduced by 14%; two loses you 25%. Couples are expected to share rooms, as are two children under the age of ten and two children of the same sex under 16.

There are, however, some exceptions. Foster carers are allowed to have an extra room and pensioners are exempt. If your child is away at university or serving in the armed forces, their room can be left empty as long as they plan to return.

Check to see if you could be affected by using Shelter's online Bedroom Tax checker.

Owning your own home

Getting your first foot on the property ladder is harder than it was ten years ago, especially for those at the start of their careers. However, it may still be an achievable dream if you plan ahead and save methodically. For most people this means saving for a deposit and applying for a large loan – a **mortgage** – in order to get started.

Saving for a deposit

The first step to owning your own property is saving for a deposit. By putting some money aside each month and reducing unnecessary spending you should be able to start to grow your savings. There may also be help available to give you a better chance of realizing your dream of having your own place (see Help with buying a property, p.12). For detailed information on the best ways to save, see Chapter 5 of The Rough Guide to Money & Savings.

How much will you need to save?

The minimum deposit you need in order to get a mortgage is 5% of the purchase price. For a mortgage on a flat costing £200,000 that would mean saving a deposit of at least £10,000. That's a lot of money, so the earlier you start saving the better. You'll need to budget for a number of other fees including:

- Mortgage fees (p.34)
- Valuation and survey fees (p.34)
- Searches (p.37)
- Legal costs (p.36)
- Stamp Duty (p.36)
- Insurance (p.39)
- Moving costs (p.45)

If you have a relatively small deposit for a mortgage, your mortgage lender may charge you an additional fee of around 1.5% as protection in case you get into financial difficulties. This is called a higher lending charge and is there to protect the mortgage company rather than you.

Freehold or leasehold – what's the difference?

- **Freehold:** If your property is freehold, you own the land and the building and can decide what to do with them (subject to legal restrictions). You can also live there for as long as you like.
- **Leasehold:** You are buying the right to live in the property from a freeholder, but only for a set period of time – 99-year leases are very common. As a leaseholder you have less control over your property and may have to pay ground rent, annual management charges, service charges and a proportion of repair bills to whoever owns the freehold.
- **Share of freehold:** A leaseholder living in a flat may be able to buy the freehold of the whole building with other residents. You and your neighbours then become owners of the building, which you run yourselves or through a company, enabling you to have greater control of your own flat and the building as a whole.

Where to save

A **savings account** is the easiest place to start saving for your deposit. Regular savings accounts pay a higher interest rate than current accounts, as long as you pay money into the account regularly each month. However, in return for the higher interest rate you normally have to pay in for a set period of time (typically a year) and there may be restrictions on how often you can withdraw money. Some banks and building societies also offer special "homebuyer" savings accounts that have higher rates of interest, so check what's available.

A good way of boosting your savings is by opening an Individual Savings Account (ISA). In the 2015–16 tax year you can put £15,240 into cash or stocks and shares ISAs and any interest or growth you receive is free of any personal liability to income or capital gains tax.

Remember, however, that the value of an investment in a stocks and shares ISA may fall as well as rise and is not guaranteed, so you may get back less than you invest.

The tax efficiency of ISAs is based on current rules, and the current tax situation may not be maintained. The benefit of the tax treatment depends on individual circumstances.

THE BUYING PROCESS

Source: *Money Advice Service*

Help to Buy ISAs

A **Help to Buy ISA** is a new type of tax-free savings account that helps people to save for a deposit on a property. You can open a Help to Buy ISA with £1000 and then pay in up to £200 per month from then on; the government will boost your savings by 25% – so for every £200 you save, you'll receive a £50 bonus.

You get the bonus once you have bought a property costing up to £250,000 (£450,000 in London). If you open the account with £1000 it will take you around four-and-a-half years (55 months) to save up to the savings limit of £12,000 and get the maximum bonus of £3000. You can find a factsheet about **Help to Buy ISAs** on GOV.UK.

Finding a property to buy

Buying a home is such a big financial commitment that it makes sense to take your time and make sure you buy the right place first time – buying the wrong property can be a costly and frustrating mistake.

☞ **TOP TIP** Asking prices don't always reflect the real value of a property and many sellers actually expect to get less. To make sure you're not paying over the odds, check if the asking price is reasonable by looking at websites such as Zoopla, Rightmove and Onthemarket, which let you see how much similar properties have sold for.

Negotiations

Always be prepared to negotiate the price, highlighting any problems with the property and work that needs to be done. Make the most of your situation – you will be more attractive to a seller, for example, if you have a mortgage offer already in place or don't have a place to sell.

Surveys and expert reports (see p.38) can be useful in getting the price reduced. Ask for extras to be included – such as white goods, furniture or fixtures and fittings (e.g. curtains, door handles and light fittings). For some sellers it may be easier to leave them behind than to take them. It's also a good idea to do your own checks, too. Think about how much repair work would cost you once you've moved in and try to negotiate on anything that might be expensive to replace. Here are some things to look out for:

- Check the condition of electrical sockets, central heating and water and gas pipes.

- Is any painting and decorating needed?
- Will they sell you the electrical appliances, such as the cooker, fridge or washing machine?
- Do the carpets or floors need to be repaired?
- Will fixtures and fittings need to be replaced?
- Check the windows and windowsills are in good condition and working properly, particularly if there are old wooden sash windows
- Look at the roof and guttering for any signs of damage – any repair work will be expensive.
- In a shared building, are the communal areas and lifts in need of maintenance or redecoration?

Buying at auction

One of the speediest ways of buying a property is at **auction**, but bear in mind there are risks involved and it's essential to do your research. This involves identifying a property from an auctioneer's catalogue (usually published a few weeks before) and arranging to visit it with a professional – ideally a surveyor – who can assess its condition. Auctioneers provide a **legal pack** about each property, containing all the relevant legal documents and details. It's important to read this thoroughly and show it to a **solicitor** if there's anything you don't understand. You should also arrange your finances well in advance of the auction, including having the offer of a mortgage from your mortgage lender in place.

If you are the successful bidder you have made a commitment to buy the property and will usually have to pay a 10% deposit straight away and the balance within 28 days. Of course, if you aren't the successful bidder, all that time and money spent on surveys and solicitors' fees will have been wasted. It is still worth taking every precaution, however, as professional advice should identify potentially expensive problems and stop you paying more than the property is worth.

For more on buying at auction, visit the RICS website.

☞ **TOP TIP** Always check that the boiler of the property you are thinking of buying is in good condition and has been serviced regularly. Replacing an old boiler can be very expensive, and can cost anything between £500 and £2500.

Gazumping

Gazumping happens when a seller accepts an offer from a buyer, only to later accept a higher offer from another buyer. This is a legal practice everywhere in the UK, apart from in Scotland. If you are gazumped, you may be able to offer a higher price to retain the property, but you could be gazumped again if the second buyer raises their original offer. Gazumping can lead to you losing not just the property but also the money you've already spent on fees, searches and surveys. Minimize the chances of gazumping by being in a strong position when you make an offer on a property – the following tips may help:

- If your current home is under offer, you'll be a more attractive buyer
- Ask for the property to be removed from the market once the offer has been accepted
- Arrange for a "mortgage in principle" – a conditional offer from a mortgage lender – to show that you are serious
- Act quickly to arrange the survey and other necessary details
- Request a lock-in agreement by which both parties pay a deposit in exchange for exclusivity for a limited period

You can also protect against gazumping, or the sale falling through for any other reason, by taking out home-buyers protection insurance.

Mortgages explained

There are two main types of **mortgage**: fixed and variable rate. Mortgages last for a set number of years – 25 to 30 is typical – during which you have to pay back all the money you borrowed, month by month. Having a mortgage is a serious financial commitment and if you get into difficulties and are unable to keep up your monthly repayments, you risk having your home repossessed.

How much you can borrow

How much you can borrow depends primarily on how much you earn and the size of your deposit. However, mortgage lenders also need to be sure you can afford to make the mortgage repayments each month, taking into account your household expenses, any existing debts and whether you could cope if interest rates rise in the future.

The maximum mortgage you can borrow is usually limited to four and a half times your income. So if you earn £20,000, the maximum mortgage you would get would be £90,000. If it is a joint mortgage, the maximum multiple of your joint income may be lower than this. Bear in mind that the agreed amount you

borrow may be considerably lower, taking into account your existing debts and regular outgoings, and will depend on the lender.

To get an idea of how much you could borrow with a mortgage use the Money Advice Service Mortgage Affordability Calculator.

Choosing the best mortgage deal

Mortgage interest rates determine how much you will pay for borrowing money from a mortgage lender. Which type you choose will depend on how concerned you are about interest rates rising and your repayments becoming more expensive, or if you just want the cheapest monthly repayment and are confident you will be able to pay. When looking at different mortgage deals, compare the total cost of each one, including fees and charges, to make sure you are comparing like for like.

There are thousands of mortgage deals to choose from. Speak to a mortgage broker or an independent financial adviser to help you find the right one and to arrange it for you. You can find a mortgage broker on the Unbiased.co.uk website.

Repayment or interest only?

First, you need to decide how you'd prefer to repay the mortgage each month. There are two main categories:

- **Repayment mortgage:** You pay back some of the amount you borrowed plus the interest, so the loan is paid off in full at the end of the mortgage period
- **Interest-only mortgage:** You pay just the interest and not the money you borrowed, so by the end of the mortgage period you still owe the same amount as when you started.

You should only take out an interest-only mortgage if you also have a realistic way of repaying the money at the end of the mortgage. For example, a savings fund or investments that will grow sufficiently to pay off the outstanding amount. Be aware that if your savings or investment plan doesn't cover the full amount, you'll be responsible for paying the difference. Lenders are increasingly reluctant to agree to interest-only mortgages and usually only do so if the buyer pays a deposit on the property of 25% or more.

Once you've decided the repayment method, you'll then need to choose a suitable mortgage. There are various types, each with different rates, benefits, and terms and conditions – see the Mortgage Options table (p.32) for the main types. For information on **buy-to-let** mortgages, see Chapter 5.

MORTGAGE OPTIONS				
TYPE	INTEREST	BENEFITS	DISADVANTAGES	NEED TO KNOW
Standard Variable Rate (SVR)	Mortgage lender's standard rate of interest which can go up and down in line with market rates, such as the Bank of England base rate.	Interest rates can fall so you pay less. You can usually repay your mortgage at any time without any early repayment charges.	Rate can change whenever a lender wants. This means your payment can go up or down, which makes budgeting difficult. Rates will probably go up if the Bank of England increases its base rate.	SVR mortgages do not normally have the lowest interest rates that lenders offer.
Fixed	Interest rate stays fixed for a certain period (usually two to five years).	Repayments remain the same for a fixed period. How much interest you pay won't change, even if other interest rates increase.	No benefit if interest rates go down, and watch out for high application fees and early repayment penalties.	Talk to your advisor at the end of your fixed rate as your lender's SVR may not be the best deal available.
Discount	SVR at a discount for a certain period (usually two to five years).	Interest rate can fall. Cheaper than an SVR mortgage.	If interest rates rise, your mortgage repayments will go up. There may be an early repayment charge.	At the end of the discounted period the lender will change the interest rate to SVR, so check with your advisor for better deals.
Tracker	Interest rate is linked to a specific rate, such as the Bank of England base rate	If the interest rate you're tracking changes, the tracker rate on your mortgage changes by the same amount.	Interest rate will increase if Bank of England base rate goes up. There may be an early repayment charge.	Some lenders impose a "collar" which means that the interest rate won't fall below a certain level.
Offset	Your mortgage is linked to your main current and/or savings accounts, so you pay less interest on the loan.	The size of your mortgage is reduced by your savings. You may be able to pay off your mortgage early.	You need to have a substantial level of savings to qualify. All accounts have to be with the same lender/ bank, and the linked accounts won't receive any interest.	You won't pay income tax on your savings, which is particularly beneficial for higher rate taxpayers.

Why interest rates change

Every month the Bank of England decides on its base rate of interest, the rate it charges other banks and financial institutions for loans. Since March 2009 the base rate has been 0.5%. When it increases, banks and building societies usually respond by raising their rates of interest, leading to a higher cost for mortgages. Generally, if the base rate goes up you pay more for borrowing money but receive more interest on your savings.

Loan-to-value (LTV)

If you buy a property worth £200,000 and you put down a deposit of £40,000, the amount you need to borrow (the mortgage) would be £160,000. In other words you would have paid 20% of the total cost, while the mortgage lender provides 80% of the total. The 80% is known in the property business as the loan-to-value (LTV). The higher the LTV, the bigger risk for the lender resulting in a higher interest rate on your mortgage. If you are able to save a 40% deposit or more, you should be able to get the lowest mortgage interest rates.

Mortgage fees

When you take out a mortgage there are various fees your lender is likely to charge you. These include:

- **An arrangement fee:** For setting up the mortgage, also known as a product or completion fee
- **A valuation fee:** For valuing the property but not surveying it. Its primary purpose is to make sure the property is worth the amount you are borrowing
- **A survey fee:** For carrying out a survey identifying any problems and repairs. See box, Types of survey (p.38), for more information.

For a full list of potential fees, see the Money Advice Service website. Costs vary considerably with different providers but could add up to hundreds or even thousands of pounds. You may be able to add some of these costs on to your mortgage, but this could mean paying interest on them for the duration of your mortgage. Instead of choosing a mortgage with the lowest interest rate or fees, you should look at the total cost of different mortgages over a period of time.

☞ **TOP TIP** Watch out for early repayment charges if you need to pay off the mortgage early. You will normally be charged an early repayment fee if you repay the mortgage in full during fixed, discounted or tracker rate periods.

Other ways to buy

- **Shared ownership schemes:** These usually involve new properties provided by housing associations. You take out a mortgage to buy a share in the property of between 25% and 75%, and pay rent to the housing association for the amount of the share of the property you don't own. You can increase your share at a later date. See GOV.UK for more information
- **Help to Buy mortgages:** A government-backed scheme to help buyers who are struggling to save a large enough deposit. They work like standard mortgages but the government guarantees some of the mortgage. There are two types of Help to Buy mortgage: mortgage guarantee and equity loans. With both it should mean that more people can buy with a deposit of just 5%. See the Help to Buy website for more information. To find out if you are eligible and which type of mortgage is right for you, speak to an independent financial adviser or mortgage broker
- **Buying with friends:** If you can't afford to buy on your own, why not join together with someone else, such as a friend or a colleague, to buy a place together? Discuss the purchase thoroughly and ask a solicitor to draw up an agreement between you. It's extremely important that you set ground rules for living in the property and what will happen if one person wants to leave or sell up. See the National Association of Estate Agents (NAEA) website for further guidance
- **Right to Buy:** If you are a council tenant you may be able to buy your property at a discount of up to £104,000 in London and £77,000 in the rest of the country. See the government's Right to Buy website to find out if you're eligible.

☞ **TOP TIP** If you are having trouble getting a mortgage, see if a family member or friend will act as guarantor. This means that, in the worst-case scenario, where you are unable to pay your monthly mortgage repayments, your guarantor is legally bound to make the payments for you. This type of mortgage comes with risk, so guarantors should seek independent advice.

Self build

If you can't find, or can't afford, the property you want, then there's always the option of **self build**. The first step to building your own home is to find an appropriate plot of land, one where you are likely to have **planning permission** granted. Contact estate agents, auction houses and landowners and property search sites, and speak in advance to your local council planning office for advice about planning permission.

Unless you purchase one of the many self build kits on the market, you will almost certainly need an architect to help design your house. Helping with the build yourself is another way of keeping the cost down. Government **grants** are available for community-led projects. If you build a new home or convert a non-residential building into a home, you can apply for a refund of the VAT on some building materials and services within three months of completing the work.

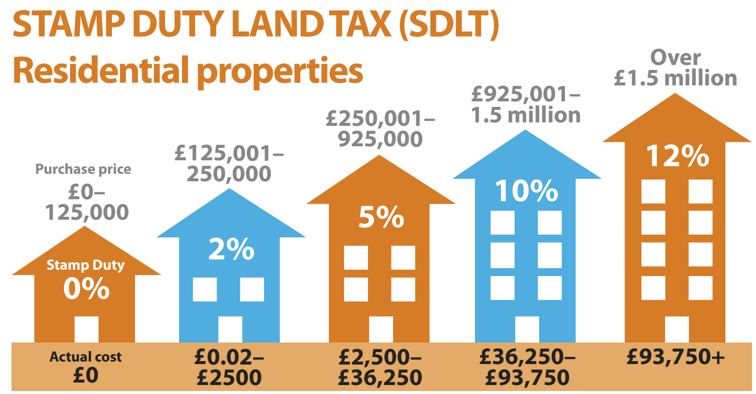
Visit the Self Build Portal website for more information.

The legal side of buying a home

Unless you are confident you know what you are doing, it's advisable to pay someone to do the legal part of buying a property for you. A conveyancing solicitor draws up a contract for the purchase that is "exchanged" with the vendor to formalize the purchase. The solicitor will also arrange to do **property searches** and confirm what is included in the sale.

Land Tax

The government taxes most property purchases. In England, Wales and Northern Ireland the tax is called **Stamp Duty Land Tax (SDLT)** and is paid on all properties costing more than £125,000. The amount ranges from 2% to 12% depending on the price (see graphic, p.37). In Scotland, **Land and Buildings Transaction Tax (LBTT)** works in a similar way, though the rate of LBTT applied depends on different price bands to SDLT. For example, a property worth £500,000 in Scotland will have a maximum LBTT of 10% (£23,350) applied to it, while in the rest of the UK a £500,000 property would incur a maximum SDLT rate of 5% (£15,000). For other differences when buying in Scotland, see Chapter 4.



Source: *GOV.UK*

Conveyancing

The legal part of buying a house is called **conveyancing** and is usually done either by a solicitor or a specialist lawyer called a conveyancer. You will probably pay around £850 depending on the property you are buying . Although you can do the work yourself, it is such an important process that it is definitely worth paying someone to do it for you.

☞ **TOP TIP** When buying a property choose a "no sale, no fee" conveyancing solicitor, one who won't charge you for legal costs if you have to pull out of a purchase. You will still have to pay any additional costs that have been paid, such as local searches.

Searches

"Searches" are legal checks, usually involving the local authority, to see if there are any outstanding issues relating to the property. These might include planned developments in the area, whether you have any legal obligations once you own the property, or whether the area is prone to flooding. Fees for searches are usually around £250 to £300.

Planning laws

Before you make any structural changes to your property, check with your local planning office to make sure you are allowed to do so. You may be able to make some improvements without **planning permission**, but always get advice before starting work. This is especially important if you live in a listed building or a conservation area – a building or area officially deemed historically or architecturally significant. Ignoring regulations can lead to stiff penalties, and you may be forced to dismantle something you've spent a fortune putting up, if retrospective planning permission is not agreed. See GOV.UK for more information.

Surveys explained

When you buy a property you'll need to have an expert check it to make sure it is worth the price you are paying and if there are any problems you need to know about. A survey gives you extra protection if you discover major problems later on. See the Types of survey box for the different types of survey. Regardless of which survey you decide on, if problems are identified you may be advised to pay more to get specialist reports carried out.

Types of survey

There are three types of survey:

- **Home Condition Report** As its name suggests, a condition report tells you about the condition of the property, but does not include a valuation. It uses ratings to indicate whether any work is needed urgently, in the future, or not at all. It is suitable for a conventional property in reasonable condition. It usually costs around £350

- **Homebuyer Report** Similar to the Home Condition Report but gives a more extensive inspection of the property, and includes its market valuation. It costs on average about £540

- **Building Survey** The most comprehensive examination, providing detailed information about the structure and fabric of a property but not its market value. It is suitable for larger, older, run-down or altered properties. The cost usually starts at around £600.

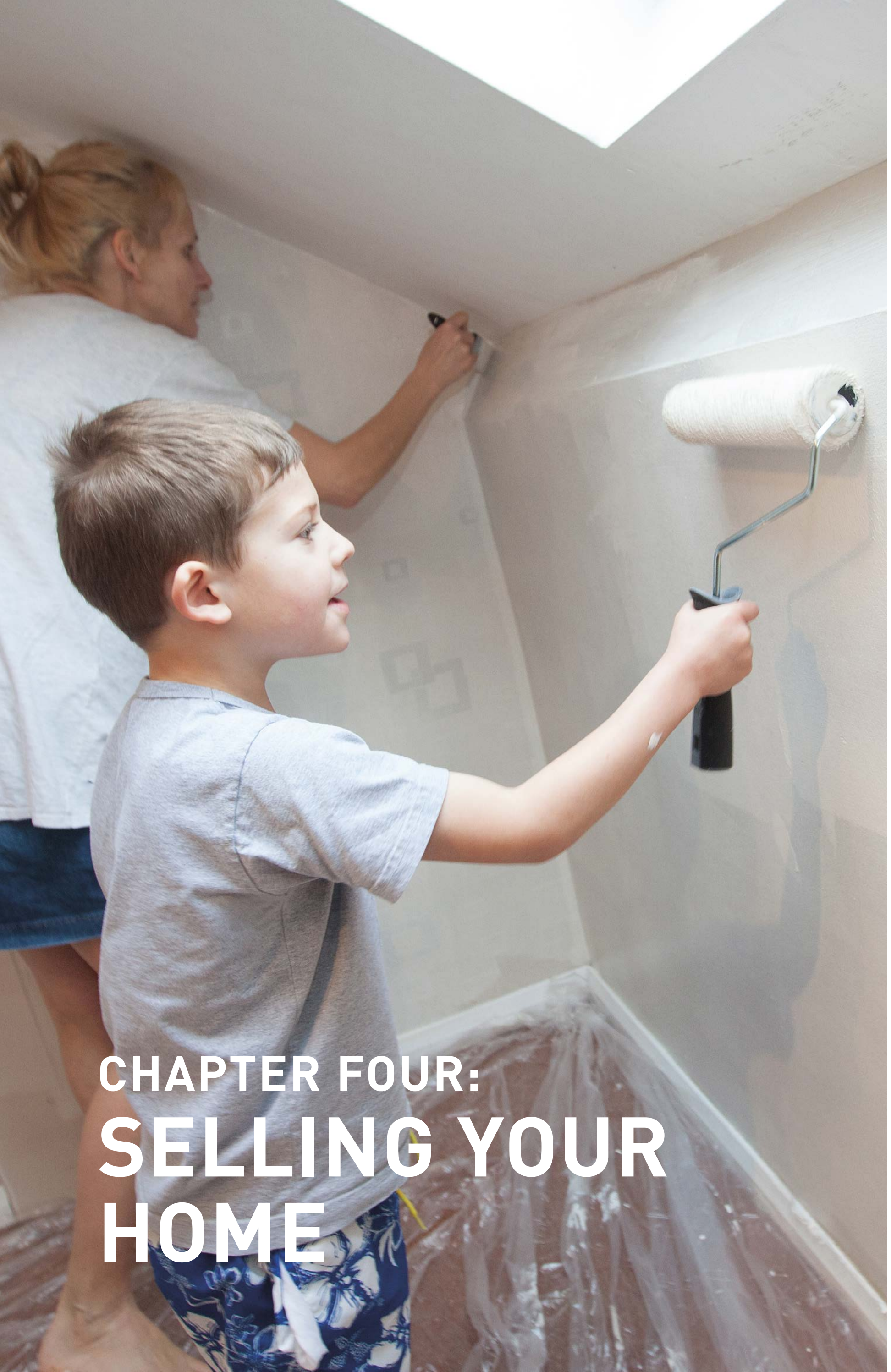
There's more information on types of survey and how to find a surveyor on the website of the Royal Institution of Chartered Surveyors (RICS).

Insurance

Insurance is an important part of owning your own home, and there are a number of different types that will provide you with protection should anything go wrong (see Types of Insurance table, below). It's essential to insure against damage to your property as well as the contents, but you may also want to insure against the possibility of being unable to pay the mortgage because of redundancy, illness or even death.

Comparison sites like moneysupermarket.com and Compare the Market are a good place to look at the various options available to you, and an insurance broker can also help find you the right insurance cover – you can find one through the British Insurance Brokers' Association (BIBA).

TYPE OF INSURANCE	WHAT IT COVERS
Buildings	Damage to the structure of your property. It also covers damage to permanent fixtures and fittings, such as bathrooms and kitchens.
Contents	Damage to, or loss of, your belongings from fire, flood and theft, among other things.
Income protection	Pays out a percentage of your income if you are unable to work due to incapacity caused by long-term illness or injury. Premiums vary according to age, health and the work you do.
Mortgage payment protection insurance (MPPI)	Your mortgage payments and some associated costs are protected, usually for up to 12 or 24 months, if you can't work following an accident, sickness or involuntary unemployment.
Life insurance	Pays a lump sum if you die during the policy term.
Critical illness	Pays out a cash sum if you're diagnosed with a specified critical illness during the policy term.



CHAPTER FOUR:

SELLING YOUR HOME

Deciding to sell

Selling a property is a similar process to buying one (see The Selling Process graphic, p.42). Once you have put your house on the market, you'll go through many of the same procedures as buyers do: you'll need to find an estate agent to handle the sale and negotiate the price, a mortgage broker to find you the best mortgage deal (if you are buying another property with a mortgage), and a solicitor to work on the legal aspects. Once everything is in place, you exchange contracts and complete the sale. This chapter give you an overview of selling a property.

Estate agents

Most people sell their house or flat using an estate agent, nearly all of which offer an initial valuation for free. You should speak to a few different agents, as the fees they charge and their terms and conditions vary enormously.

Once you've decided which agent to go with, the **fees** charged can be expensive, especially if your home sells quickly. Typically, you can expect to pay your estate agent a **commission** of around 1% to 2.5% of the sale price. Make sure you know exactly what your agent is providing for the fee, that VAT is included and there are no hidden extra costs.

You can employ a single agent (the sole agent) or, if you want to sell in a hurry, you may wish to use several agents. Only the agent who makes the sale gets the commission in a multiple agency agreement, but the commission fee is usually higher.

> ☞ **TOP TIP** Don't be afraid to chase your estate agent and solicitor for news of progress. Communication is key to a successful property sale or purchase, so make sure everyone knows what is going on.

THE SELLING PROCESS

Online estate agents

There are now many **online agents** using web portals such as Rightmove, Zoopla and Onthemarket to advertise properties. The main advantage of using them is they are much cheaper than high street estate agents and could cost you as little as £300 to £1,000. The various packages offered by agents vary considerably, but you will probably have to do some of the work yourself, such as supervising viewings of your property and putting up a "For Sale" sign.

Valuing your home

When doing a valuation of a property, an estate agent will take into account various factors. What sort of condition is it in? How many bedrooms does it have? How many similar properties are there in the area? Is there a good school nearby?

Get valuations from several agents (and look at property search sites) before you settle on an asking price. Don't be tempted to set the price too high, as it could take a long time to sell and you may have to reduce the price. Decide in advance what the minimum price is that you would be happy to accept. Once you have got an agreement, they will put your property on the market. Don't be complacent though – if they are not providing sufficient viewers, look at moving to another agent.

☞ **TOP TIP** Make your property look as attractive as possible before photographs are taken and viewings arranged. Tidy up, de-clutter, and paint any areas that need touching up. Don't be tempted to do huge repairs or redecoration, as these don't usually lead to a higher selling price.

Other costs

Apart from your estate agent's fees, there are a number of other costs that you will need to pay, some of which are obligatory. These include obtaining an **Energy Performance Certificate** (p.44) and the cost of **conveyancing**.

☞ **TOP TIP** Instead of selling up, think about staying where you are but making it more suitable to your needs. Would an extension or building into the loft provide an extra bedroom or office? Sometimes simply painting and decorating can make you see your old and familiar home in a new light.

Housing chains

The purchase of your new home is likely to depend on you selling your current one, and this may well be the same for your potential vendor. This delicate sequence of property transactions, known as a "chain", is extremely common, and it only takes one purchaser to pull out for the chain to be broken and for everyone to be back at square one.

Here are three ways that may help you avoid the problem:

- **Ask for evidence that the offer is genuine:** Get your agent to obtain proof that the buyer is ready to move and has a mortgage offer in principle
- **Only sell to a "no chain" vendor:** These include first-time buyers and those who have already sold and moved out of a property
- **Sell before you buy:** Move into temporary rented accommodation and put your possessions into storage before purchasing a new home.

Energy Performance Certificates

An Energy Performance Certificate (EPC) gives a rating of how energy efficient a home is and recommends how this could be improved. Each property is given a rating from 1 to 100 and a letter G to A. The higher the number the more energy efficient the property is (A is the most efficient rating and G the least). Any home that is advertised for sale or rent must have an EPC, which costs around £60 to £100. EPCs are valid for ten years. An example EPC is available on GOV.UK.

To find an accredited energy assessor in England, Wales and Northern Ireland use the Department for Communities and Local Government website; for Scotland, visit the Energy Saving Trust website.

☞ **TOP TIP** If you have a mortgage on your current property, ask your lender what your options are for moving it to the new property. If your mortgage is "portable", you will be able to transfer it to the new property but will still be assessed to make sure you can afford it. For more on mortgages see **Chapter 3**.

Problems with the survey

The buyer may decide to have a survey carried out to check for any major problems with your property and possibly to check whether it's worth the purchase price. If the purchase is being made with a mortgage, the mortgage company will also carry out a valuation. This may prompt further investigations, such as damp, timber or wall tie surveys, and result in the buyer trying to renegotiate the purchase price in light of any findings. You will need to

decide whether to carry out repair work, reduce the price or not, or to continue negotiations. For the different types of surveys, see Chapter 3.

Moving out

Once you've exchanged contracts you should know your moving date and be able to arrange any removal help you need. If you're thinking of using a removals company, shop around first and find out what is included in the fee in terms of packing materials and insurance. If you do decide to use a removals company, choose one that's either been personally recommended to you or that's registered with the British Association of Removers (BAR). Doing the move yourself – perhaps by hiring a van and roping in friends or family – can keep the cost down significantly, but first check that your insurance covers a move by non-professionals.

Storage

Storage can be very useful during the selling process, especially if you want to de-clutter your home to appeal to potential buyers, without getting rid of things. Equally, it may be that you have items of furniture which are of sentimental value that you want to keep but don't have space for in your new home. There are countless storage companies across the UK – check the Self Storage Association for details on the nearest options near you.

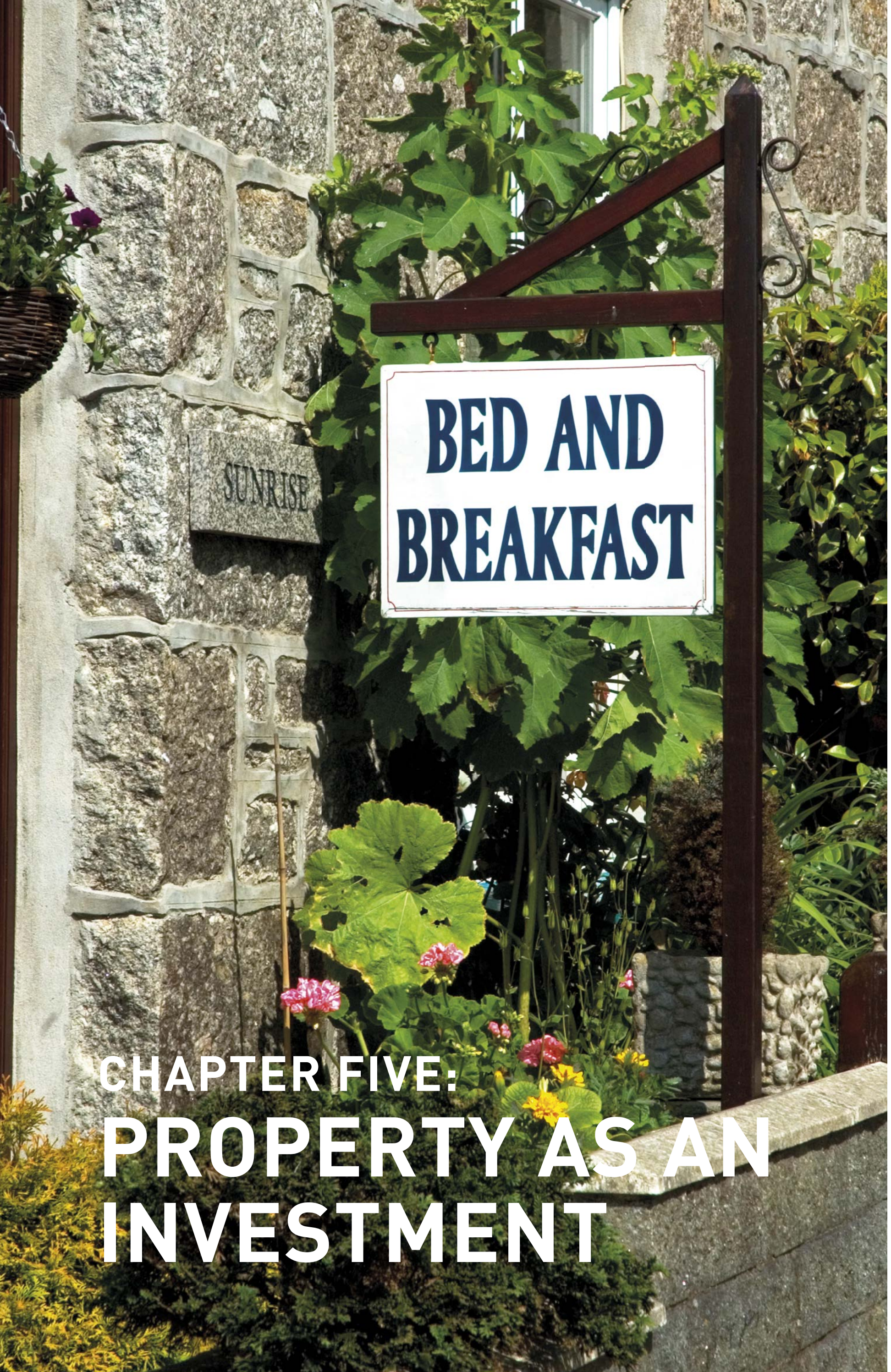
Buying and selling in Scotland

When you sell a property in Scotland you have to have a Home Report prepared before you can sell it. This is made up of three documents:

- **The Single Survey:** This assesses condition and value of the property
- **An Energy Performance Certificate:** Shows how energy efficient the property is and how this could be improved
- **A Property Questionnaire:** This is filled out by the seller and contains additional information about the property such as Council Tax banding.

The seller is responsible for drawing up the Home Report but usually employs a third party to do so, such as an estate agent or solicitor.

In Scotland properties are normally advertised as "offers over" or "fixed price". Offers are sometimes submitted by a closing date and include the terms of the offer. Once offers are received the seller decides whom to sell to and the legal work is carried out. For more on selling in Scotland go to the Citizens Advice Scotland website.



CHAPTER FIVE:

PROPERTY AS AN INVESTMENT

Making your property work for you

Over the last few decades buying a property has proved to be a very good investment. If you own your home you not only have somewhere to live, but the value of your investment may well increase over time. This gives you more options when you get older, especially if the mortgage has been fully paid off. You may wish to **downsize** and free up some cash for your retirement or stay where you are and pass your property on to your children.

There are plenty of other ways to make money from your property, such as renting out a room or buying to let.

Buying to let

Buy-to-let is simply buying a property in order to rent it out. It has become increasingly popular in recent years and, according to the Association of Residential Letting Agents (ARLA), there are now an estimated 565,000 buy-to-let landlords. The idea is that the rent you receive covers your costs and any mortgage, and over time the value of the property – if you maintain it well – may increase, although there is no absolute certainty that property prices will continue to rise.

Buy-to-let mortgages: how they work

When you apply for a buy-to-let **mortgage** you will need to supply the lender with both the details of your income and the amount the property will be rented out for. Normally the expected rent has to be at least 25% more than the monthly mortgage repayment. This means, for example, that if your mortgage payment is £500 per month then the property should be rented for at least £625 per month (£500 x 1.25).

A typical deposit is at least 25% and fees tend to be higher than residential mortgages. It is also normal that your monthly repayments only pay off the interest and not the capital, in which case at the end of the mortgage you will still owe the amount you borrowed (less any overpayments you might have made).

In order to pay less income tax on your investment, you can reduce your income by the amount of your monthly mortgage repayments (see **Mortgage options** box, p.32). From 2017 the rules are changing so that landlords won't be able to reduce their income from property by the full amount of interest they pay on buy-to-let mortgages. From 2020 only the basic rate of tax will be deductible. For more information about tax on buy-to-let incomes, see GOV.UK.

☞ **TOP TIP** Don't ever try to obtain a standard residential mortgage for a property that you intend to rent out. This counts as fraud and could land you with a custodial sentence and cause problems if you ever need a mortgage in the future.

Benefits and risks

The obvious benefits of a buy-to-let are that it could provide you with an income and your property could increase in value. There's no guarantee that it will, however, and if you're unlucky you may make a loss if you ever need to sell it.

There are several other potential risks involved and it's worth thinking about these before you make a purchase. As the landlord you will have to pay for damage to the property as well as ongoing repairs and maintenance. Problems with tenants, such as failure to pay rent, are not uncommon, and you may not be able to rent your property all the time.

Bear in mind that although interest rates have been very low for several years, they will probably increase at some point in the future.

Costs

Employing someone else to manage your buy-to-let property is likely to cost you about 10% of your rental income. Managing the property yourself will be more work but will give you more control and should save you money. You will still have to pay to advertise and find and screen suitable tenants, and you should also budget for ongoing maintenance and repairs.

If you buy with a mortgage, you will have to pay mortgage fees as with a residential mortgage and also the cost of conveyancing, the legal work of buying a property.

☞ **TOP TIP** When looking for a buy-to-let property, try to be as objective as possible. You are not buying a property to live in but are looking for the one that makes the best financial sense and will give you the best return.

Finding tenants

Finding good tenants can be difficult. You need to decide to whom you want to rent, where to advertise, and how to find them. It's a good idea to check tenants to see if they have caused problems for previous landlords. You may decide to carry out a credit check and ask for employment and bank references. In the end, you may decide that using a letting agent is easier and gives you extra security against something going wrong.

Buy-to-let: tax and expenses

If you have a buy-to-let property it's essential that you keep records (normally for six years) and are aware of the taxes that you may have to pay:

- **Stamp Duty:** You pay Stamp Duty Land Tax (SDLT), or Land and Buildings Transaction Tax (LBTT) in Scotland, on buy-to-let properties in the same way as residential properties (see **Land Tax**, p.36, for more details)
- **Income Tax:** The income you get from a buy-to-let property is taxable and you need to declare it on a self-assessment tax return. Income Tax is charged at 20%, 40% or 45% depending on your income. You can reduce the income you get from buy-to-let by taking off some "allowable expenses", such as the cost of repairs and maintenance, interest on buy-to-let mortgages, and buildings insurance premiums
- **Capital Gains Tax:** If you sell your buy-to-let property for more than you paid for it, you may have to pay Capital Gains Tax (CGT). CGT is charged at 18% or 28% on the gain you have made. Each year you have a CGT allowance (£11,100 for 2015–16). You can also reduce your CGT bill by deducting some of your expenses made selling the property. These include estate agent and solicitor's fees, stamp duty and the costs of improving the property but not repairs or maintenance
- **Inheritance Tax:** A buy-to-let property becomes part of your estate when you die and you will have to pay Inheritance Tax (IHT) if your estate is worth more than £325,000 (£650,000 for married couples). IHT is charged at 40%. By 2020 married couples will be able to leave £1 million to their children without paying any IHT. More information about IHT can be found on GOV.UK

If you aren't sure how much tax you should be paying check with HMRC or speak to an accountant or tax expert.

You or your letting agent can put some restrictions on who you accept, such as not allowing smokers or people with pets, although this will in turn restrict the number of prospective tenants. You cannot discriminate against a potential tenant on grounds of race, religion, gender, sexuality or disability, although you can refuse a tenancy to someone who is on Housing Benefit.

As a landlord you have certain duties and responsibilities. These are outlined in Chapter 2.

☞ **TOP TIP** If a tenant refuses to pay their rent or moves out, landlord insurance could pay your legal costs to repossess the property, pay you any rent you are owed, and cover the cost of repairs to damage caused by the tenant.

Making money from your home

There are plenty of ways you can make money from where you live, especially if you are happy to have someone staying in your house or flat. You could also improve the energy efficiency of your home by installing better insulation or solar panels. Most of the options involve some work and money, and you may decide that it isn't worth the hassle or expense for what you could get back. If you do go ahead, it's important to understand what the risks are as well as the potential benefits.

The Rent a Room scheme

Under the **Rent a Room** scheme you can rent out a spare room in your home and the first £4,250 you receive will be tax-free. If you make less than that in a year, you don't have to do anything; if you earn more, you have to fill out a tax return.

The room you let must be furnished, part of your main home (a room or floor but not the whole property) and you can't use the scheme if you are living abroad. As a resident landlord you are responsible for making sure that the property is safe and well looked after. If you provide extras, such as meals or a laundry service, this should be added to the rent as part of your Rent a Room income. From 6 April 2016 the tax-free threshold will increase to £7,500 per year making it an even more attractive prospect. For more information see the Money Advice Service website.

☞ **TOP TIP** If you live alone and decide to rent out a room in your home, don't forget to notify the council as having a tenant will mean you no longer qualify for the single occupant discount for council tax.

Short-term rentals

If you own your own home you could use one of the growing number of online sites to offer temporary accommodation to tourists, business people or visitors. The best known of them are:

- Wimdu lets you advertize your room, house or flat to people around the world. You decide how much to charge and create your own listing. After each booking you can rate your guests and they can rate their stay. In the event of any damage being caused Wimdu will protect you up to £500,000.
- Airbnb works in a similar way to Wimdu. Again you can list your property online and guests sign in for one night's stay or more depending on availability. Reviews and ratings are given after each stay. Airbnb offers £600,000 of damage protection.

Renting your garage or driveway

You don't have to let people into your home to make some extra cash. You could rent out your driveway or garage and make some extra cash. JustPark lets you advertise your spare parking place or garage to anyone who wants to park where you live, and people can book online.

Home movies

One unusual way of making money from your property is to rent it out as a **film location**, which can earn you hundreds – or even thousands – of pounds a day. You don't need to be the owner of somewhere like Highclere Castle (the real Downton Abbey), but your home should be large enough to fit cast, crew and equipment comfortably – it's not uncommon for fifteen or so people to squeeze into one room. Lots of natural light, interesting features, good parking facilities and accommodating neighbours are all important factors, and most filming tends to be done within fifty miles of London. If it all sounds too invasive, bear in mind that shoots for magazine work are much smaller in scale but will also pay you less. Film location companies that register new properties include Shootfactory and Lavish Locations.

Energy efficiency

British houses are notorious for being energy inefficient, causing around 38% of the UK's total greenhouse gas emissions. There are plenty of ways of improving the energy efficiency of your home. A few, such as loft insulation or fitting solar panels, can be quite expensive; others are relatively cheap and simply involve being more aware of wastage. Here are some ideas that may help you reduce your bills:

- **Insulate your loft and cavity walls:** A good way of keeping more of your home's heat inside
- **Install double glazing:** Another efficient way of stopping heat escaping
- **Upgrade your boiler:** An old, inefficient boiler can substantially add to your energy bills
- **Install solar panels:** Photovoltaic (PV) panels will generate some if not all of your home's heat and power. The main disadvantage is the installation expense so it's worth taking expert advice
- **Switch energy supplier:** Make sure you have the best tariff from your supplier and think about shopping around for a better deal

- **Buy a water-saving shower head:** This will reduce both how much water and how much energy you use
- **Light bulbs:** Low energy bulbs can last up to twelve times longer than standard ones
- **Timed heating:** Use the timer to control the heating and lower the thermostat whenever necessary
- **Control your energy use:** Turn off lights, don't leave taps running, don't over-charge your electronic devices, and only fill the kettle with as much water as you need.

The Home Heat Helpline can provide more advice on making your home more energy efficient. Depending on where you live, there may be grants available to help you improve your home's efficiency. For more information go the website of the Energy Saving Trust.

Your home after retirement

Your retirement is probably a good time to reassess how well your home is working for you. It's likely you'll be spending more time there than ever before, and may want to make it more suitable to live in as you get older. The alternative is to **downsize** – sell up and move to a smaller, cheaper property, releasing money that could supplement your pension. The advantages and drawbacks of **downsizing** are discussed further in The Rough Guide to Retirement.

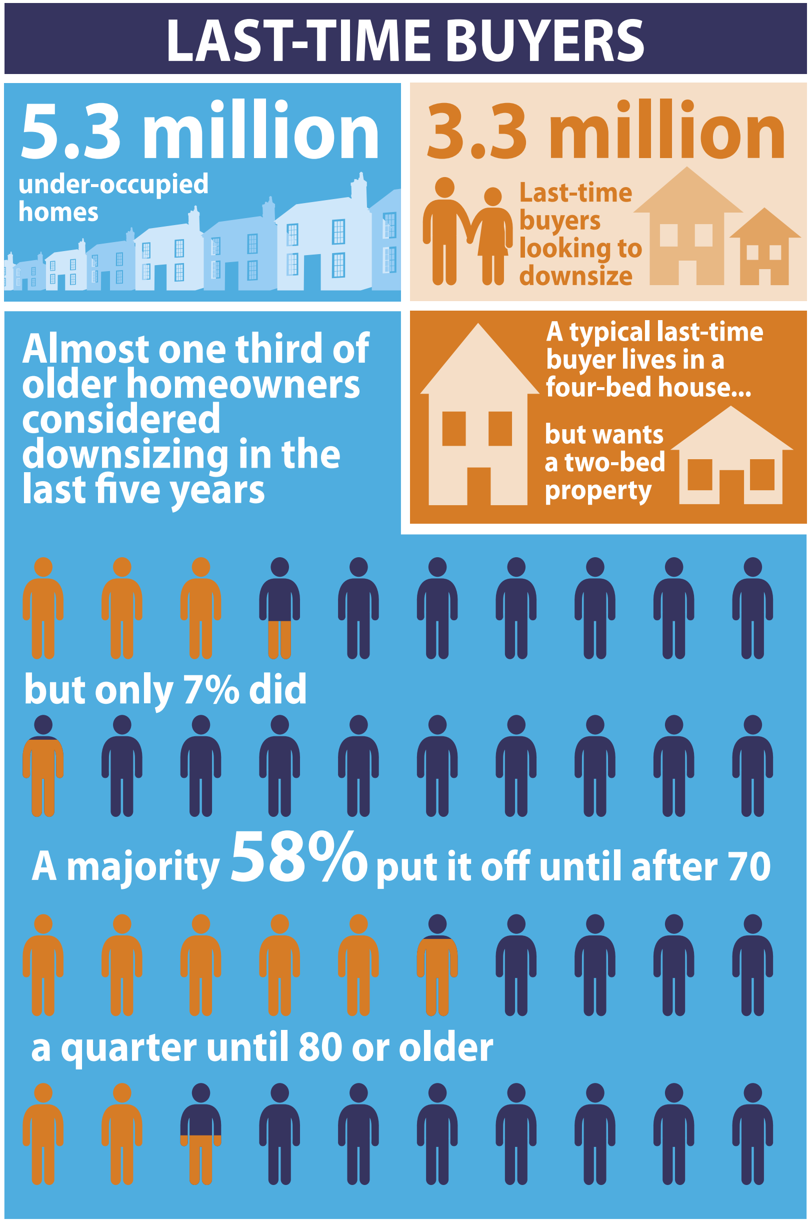
If you decide to stay where you are, but need to find ways to improve your finances, one option is **equity release**.

The right property in later life

As you get older you may well want somewhere different to live: mobility may be a problem and the extra rooms of a family home may no longer be appropriate. Moving closer to family means that you could help with childcare and your children and grandchildren can help or look after you if necessary. You may also decide to move to be nearer to services that you become more dependent on, such as doctors and hospitals.

☞ **TOP TIP** Think hard before deciding to "escape to the country" in later life. For all the advantages of a less hectic lifestyle and pleasant surroundings, there are the disadvantages of having to establish a new social life and greater distances from shops and other facilities.

Source: Nationwide; RICS



Source: Legal & General, 2015

THE ROUGH GUIDE TO PROPERTY

Equity release

Releasing equity simply means accessing the money that is tied up in your home, but without having to leave it. You are able to do this if you are 55 or older. There are two types of **equity release**:

- **Home reversion:** You sell part, or all, of your home in return for either a regular income or a cash lump sum; depending on your age and health, the sum is usually between 30% and 50% of the market value. You can continue to live in the property, either rent free or at a lower than market rent for the rest of your life but you still have to look after and insure it. When the property is sold, the reversion company is entitled to its share of the proceeds – so if you sold 40% of your property, they will be entitled to 40% of the sale price.
- **Lifetime mortgage:** You take out a mortgage on your property, typically up to 60% of the value, but unlike a standard mortgage you don't have to make any repayments. However, interest is charged on the loan, which means that the amount you owe can grow quickly. For example, if the fixed-rate of interest is 6%, the amount you owe will roughly double every ten years. The mortgage is paid off when you die and the property has been sold.

For more on equity release see Chapter Five of The Rough Guide to Retirement.

Next steps

Whether you are planning to own your own home or rent it, it will almost certainly be your biggest expenditure. So, however young or old you are, it's essential that you consider your options carefully, budget realistically and always do plenty of research. For example, the sooner you start saving, the sooner the dream of owning your own place could become a reality. Think about the future and what your next step should be – whether it's moving to a larger property, downsizing or releasing equity from your home. Could you be saving money by making your home more energy efficient, or making money by letting out a second property or a room in your house? Hopefully, this guide will have given you the confidence to answer questions like these and find the right home for you.

☞ Visit www.roughguidefinance.com to subscribe to *The Rough Guide to Personal Finance* series.

THE ROUGH GUIDE TO PROPERTY

Useful links

ADVICE & CHARITIES

- **Citizens Advice:**
  - **England/Wales:** citizensadvice.org.uk
  - **Scotland:** cas.org.uk
  - **Northern Ireland:** citizensadvice.co.uk
- **Home Heat Helpline:** homeheathelpline.org.uk
- **The Money Advice Service:** moneyadviceservice.org.uk
- **National Debtline:** nationaldebtline.org
- **Shelter:** shelter.org.uk
- **StepChange Debt Charity:** stepchange.org
- **Turn2us:** turn2us.org.uk

BROKERS & FINANCIAL ADVISERS

- **British Insurance Brokers' Association:** biba.org.uk
- **Unbiased.co.uk:** unbiased.co.uk
- **Vouchedfor.co.uk:** vouchedfor.co.uk

CREDIT AGENCIES

- **Call Credit:** callcredit.co.uk
- **Equifax:** equifax.co.uk
- **Experian:** experian.co.uk
- **Noddle:** noddle.co.uk

FINANCE

- **Confused.com:** confused.com
- **Financial Ombudsman Service:** financial-ombudsman.org.uk
- **Moneyfacts:** moneyfacts.co.uk
- **Legal & General:** legalandgeneral.com
- **Legal & General Money Hangouts:** legalandgeneral.com/live/#
- **uSwitch:** uswitch.com

GOVERNMENT & PUBLIC BODIES

- **Department for Communities and Local Government:** epcregister.com
- **Financial Conduct Authority:** fca.org.uk
- **GOV.UK:** gov.uk
- **GOV.Wales:** gov.wales
- **HM Revenue & Customs:** hmrc.gov.uk
- **Housing Ombudsman Service** housing-ombudsman.org.uk
- **Jobcentre Plus:** gov.uk/contact-jobcentre-plus
- **Ofcom:** ofcom.org.uk
- **Parliament:** parliament.uk
- **Right to Buy:** righttobuy.communities.gov.uk

PROPERTY

- **Association of Residential Letting Agents:** arla.co.uk
- **Deposit Protection Scheme:** depositprotection.com
- **Help to Buy:** helptobuy.org.uk
- **The Letting Protection Service Northern Ireland:** lettingprotectionni.com
- **The Letting Protection Service Scotland:** lettingprotectionscotland.com
- **National Approved Letting Scheme (NALS):** nalscheme.co.uk
- **National Association of Estate Agents:** naea.co.uk
- **New-homes:** new-homes.co.uk
- **Ombudsman Services:** ombudsman-services.org
- **Onthemarket:** onthemarket.com
- **The Property Ombudsman:** tpos.co.uk
- **Property Redress Scheme:** theprs.co.uk
- **reallymoving.com:** reallymoving.com
- **Rightmove:** rightmove.co.uk
- **Royal Institution of Chartered Surveyors:** rics.org
- **Self Build Portal:** selfbuildportal.org.uk
- **Spareroom:** spareroom.co.uk
- **The UK Association of Letting Agents:** ukala.org.uk
- **Zoopla:** zoopla.co.uk

OTHER RESOURCES

- **Airbnb:** airbnb.co.uk
- **British Association of Removers:** bar.co.uk
- **comparethemarket.com:** comparethemarket.com
- **Energy Saving Trust:** energysavingtrust.org.uk
- **JustPark:** justpark.com
- **Lavish Locations:** lavishlocations.com
- **Moneysupermarket.com:** moneysupermarket.com
- **Rough Guides:** www.roughguides.com
- **Self Storage Association:** ssauk.com
- **Shootfactory:** shootfactory.co.uk
- **UK Crime Statistics:** crime-statistics.co.uk
- **Wimdu:** wimdu.co.uk

Jargon buster

Assured shorthold tenancy (AST): A type of tenancy agreement, which usually lasts for six or twelve months.

Bank of England base rate: Rate of interest set by the Bank of England each month.

Broker: An agent who can advise you about, and sell you, products like insurance or mortgages.

Buy-to-let: Buying a property to rent out as an investment.

Capital gains tax: A tax on the profit or gain you make when you sell or dispose of an asset. You can receive gains of up to the value of £11,100 (for the 2015–16 tax year) before you have to pay capital gains tax.

Contents insurance: Insurance that covers damage to, or loss of, your belongings from fire, flood and theft, among other things.

Conveyancing: The legal process of buying a property.

Credit reference agency: Credit reference agencies keep financial details about your credit (or borrowing) history and share them with lenders.

Credit report: If you ask to see the information a credit reference agency holds on you it issues a credit report which is a snapshot of your borrowing history.

Credit score: Calculated by a lender to help assess the risk of lending to you (it's also known as a credit rating).

Deposit protection scheme: Instead of a landlord keeping a tenant's deposit it is held in a separate secure government-backed scheme.

Downsizing: Selling and moving to a cheaper property to release some money to live on in retirement.

Energy Performance Certificate (EPC): An energy performance certificate gives a rating of how energy efficient a home is and also recommends how its efficiency could be improved.

Equity: The difference between the value of a property and any mortgage or other loans secured against it.

Equity release: Selling or mortgaging part or all of your home to release equity to live on in retirement.

Guarantor: A person who guarantees to pay back someone's debt if he or she is unable to repay it.

Help to Buy: A government-backed scheme to help buyers who are struggling to save a large enough deposit. They work like standard mortgages but the government guarantees some of the mortgage.

HM Revenue and Customs (HMRC): A government department that is responsible for collecting taxes to make sure that money is available to fund the UK's public services. It also administers National Insurance and state benefits.

Housing Benefit: A regular payment from your council to cover some or all of your rent if you are on a low income.

Income multiplier (mortgages): A way of calculating how much a mortgage lender will lend expressed as a figure. For example, a lender may lend three times your income.

Individual Savings Account (ISA): A type of savings account that allows you to save money without paying income tax on it.

Inheritance tax (IHT): A tax paid on the estate – the money and property – of a deceased person.

Investing/investment: Paying money into shares, property, commercial ventures or other financial schemes, with the hope of making a profit.

Land and Buildings Transaction Tax (LBTT): LBTT is a tax, paid by the buyer, on land and property transactions in Scotland worth over £145,000. The rate at which it is paid depends on the purchase price of the property.

Land Registry: Keeps information about the ownership of land and property in England and Wales.

Life insurance: A contract between you and an insurer which will pay out a cash sum if you die during the term of the policy.

Loan to Value (LTV): The size of your mortgage compared with the value of your property.

Mortgage: A loan provided by a bank or building society (the "lender") to a person buying a property (the "borrower").

Mortgage valuation: A check made by mortgage lenders to see if the property is worth the money they are lending – not the same as a survey.

Personal pension: A retirement savings scheme that you set up for yourself and pay money into to create a fund of money to be used in later life.

Property searches: Checks made before buying a property could include: a local authority search (to see if there are any planned developments, roadworks or disputes that could affect the property) and water, drainage, environmental or flooding searches.

Property survey: An expert check of a property to highlight repairs or structural problems.

Re-mortgage: The replacement of an existing mortgage with a new one. You might want to do this to save money, for example, if another lender offers a better deal.

Rent a room: Government scheme where you rent out part or all of your home and £4,250 rental income is tax-free each year. This will increase to £7,500 in April 2016.

Right to Acquire and Right to Buy: Government schemes that allow housing association and council tenants, respectively, to buy their home at a discounted price.

Self-assessment: A system which HMRC uses to collect income tax. Tax is usually deducted automatically from your pay, pensions and savings, but if you have other income, it is your responsibility to report it in a self-assessment tax return.

Stamp Duty Land Tax (SDLT): Stamp Duty is a tax, paid by the buyer, on land and property transactions in England, Wales and Northern Ireland worth over £125,000. The rate at which it is paid depends on the purchase price of the property.

Starter Homes: Government scheme aimed at first-time buyers under 40, enabling them to purchase a newly built home at a 20% discount.

Subletting Renting out part or all of a property that you are yourself renting. This should only be done with permission from your landlord.

Tenancy agreement: A contract between a landlord and someone who rents their property which sets out the legal rights and obligations of both parties.

Tenancy period: The length of your tenancy, as specified by the tenancy agreement.

Vendor: The person selling a property.

Yield: The yield on a buy-to-let property is calculated by dividing the annual rent you expect to receive by the purchase price of the property. It is a measure of the return for renting out the property.

Mike Naylor

Mike Naylor is a personal financial expert, writer and broadcaster and has worked in financial services for more than twenty years. He is a passionate consumer advocate and has campaigned on bank charges, PPI and consumer rights. Mike worked for *Which?* and *Which? Money* magazines and helped set up a helpline for their subscribers. He specializes in writing about and researching personal finance in print and online, and he regularly appears as a personal finance expert on TV and radio. He has a keen interest in property and has bought and sold many properties. As a freelancer Mike has written consumer guides for BBC1's *Rip Off Britain* series, contributed to books, magazines and newspapers and has worked for the Financial Services Consumer Panel, Moneyvista and Zopa. Follow him on Twitter.

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