Why buy-to-let is the preferred choice for property investors

By Jess Young – July 29, 2019

It says a lot about the overall strength of the UK's property market that in spite of all the unwelcome upheaval of recent years, no less than 73% of investors believe that buy-to-let property in the UK is still the best and least volatile long-term investment. That's according to research by Benham and Reeves, who surveyed 5,000 buy-to-let investors.

The law of supply and demand is stronger than the political winds of change

Given the amount of time politicians have recently spent talking about how they will shake up the rental market to benefit tenants, anyone might be forgiven for thinking there was the distinct possibility of an early general election and that advance campaigning was underway.

Only time will tell whether or not this is the case, but the simple fact of the matter remains that the UK has long been a country in which a relatively high percentage of the population could reasonably be termed "natural renters" or "lifestyle renters". These include students, young adults (both workers and professionals) and international visitors, both short and long term (e.g. for example exchange students or people who wish to stay in the UK for a few years to improve their English and/or gain work experience before returning to their home country).

As a result, there is a continual need for high-quality rental accommodation, the vast majority of which comes via the private rental sector. This means that in practical terms, the government needs private landlords and hence, whatever its public rhetoric may be, it simply cannot afford to upset buy-to-let property investors to the point where they exit the market in droves.

Hence, buy-to-let investment in the UK is still very much a viable, long-term investment.

Getting started in buy-to-let

Successful buy-to-let property investors are very good at making accurate calculations about their likely cost and hence can take informed decisions about whether or not any given property is likely to generate their desired level of reward or yield.

Those new to UK property investment can find themselves struggling to make calculations to the same level of accuracy for the simple reason that they lack the finely-tuned judgement which comes with experience. At this particular moment in time, there is the additional complication of a possible rise in interest rates, which could substantially reduce, or even eliminate, yields. In fact, in a worst-case scenario, it could even turn a profit into a loss.

There are two steps a "freshman" buy-to-let property investor can take to mitigate this risk. The first is to look for property in areas where there is good affordability and solid yields. This typically means avoiding the south of England and heading to the Midlands and North (or Wales and Scotland), especially University towns. Another option is to look at a long-term, fixed-rate mortgage to ensure stability.

Such fixes do carry a price premium and this price premium does, naturally, increase in line with the length of the fix, but they do give new buy-to-let property investors a welcome degree of security while they find their feet in property investing.