

TWO IN THREE LANDLORDS OPT FOR PROPERTIES IN PERFECT CONDITION WHEN EXPANDING THEIR PROPERTY PORTFOLIO

- **BTL property in perfect condition costs 43% (£58,500) more than one requiring renovation**
 - **Yet the average yield for ready-to-move-into property is 1% higher**

Almost half (43%) of UK landlords only have one buy-to-let (BTL) property, yet of these, 43% plan to expand their portfolio, according to research from HSBC. The most popular choice for a second BTL property is a two-bedroom flat (24%) that requires no renovation (65%), with only 38% of landlords prepared to take on the challenge of a fixer-upper.

The average price of a two-bedroom property that is ready for tenants to move into straight away is £194,599 – 43% higher than one that is in need of renovation (£136,042).

However, despite the greater initial outlay, refurbished properties are proven to be the better investment on average: HSBC research shows landlords who purchase a BTL property requiring no renovation receive an average yield of 5.4% - 1% higher than those who purchase a property that requires extensive refurbishment (4.4%).

Properties that are ready to move into achieve higher yields in six out of ten UK cities, making them the ideal choice for landlords looking to expand their property portfolio. Only in Liverpool and Edinburgh is it more beneficial to buy a property that requires considerable refurbishment.

Peter Dockar, head of mortgages at HSBC commented:

“Ready-to-move-into properties are often the savvier choice for landlords looking to purchase additional BTL properties. Not only does this avoid the need for lengthy and expensive renovations, it can also result in higher yields in most areas of the country. While the initial purchase price will be significantly higher, rental returns are also improved, making monthly mortgage and maintenance costs more palatable.”

Table 1: Average yield by location and property type

LOCATION	Yield		Difference
	Needs renovation	Doesn't need renovation	
London	2.8%	6.0%	3.2%
Newcastle	3.6%	5.9%	2.3%
Birmingham	4.6%	6.4%	1.8%
Leeds	4.5%	5.8%	1.2%
Exeter	4.4%	5.2%	0.8%
Norwich	4.2%	4.8%	0.5%
Brighton	4.4%	4.4%	0.0%
Cardiff	5.3%	5.3%	0.0%
Edinburgh	5.8%	5.5%	-0.2%
Liverpool	7.9%	5.0%	-2.8%
UK	4.4%	5.4%	1.0%

The average rental income for a two-bedroom property in immaculate condition is £872 per month. This is 75% higher than the typical rental income achieved for lesser standard properties (£498), indicating why average yields are much higher for properties in good condition.

There are particularly large rental gains to be made in Leeds by opting for properties in perfect condition. A recently renovated two-bedroom property here can achieve an average monthly rental income of £675 – more than two times greater than the income achieved for properties that require refurbishment (£327).

Renovated properties in some parts of London can fetch an average monthly rental income of £1,891 – the highest amount in any UK city.

Table 2: Average purchase price and rental income by property type

2 bedroom property	To buy			To rent		
	Needs renovation	Doesn't need renovation	% change	Needs renovation	Doesn't need renovation	% change
Liverpool	£47,035	£128,680	174%	£308	£541	75%
Leeds	£86,289	£140,735	63%	£327	£675	107%
Birmingham	£96,670	£136,675	41%	£370	£724	95%
Newcastle	£101,510	£119,370	18%	£302	£586	94%
Cardiff	£111,990	£166,685	49%	£498	£740	48%
Edinburgh	£122,950	£189,900	54%	£592	£877	48%
Norwich	£147,499	£170,490	16%	£522	£678	30%
Exeter	£170,490	£197,475	16%	£627	£850	36%
London	£233,495	£377,995	62%	£552	£1,891	243%
Brighton	£242,490	£317,990	31%	£884	£1,163	32%
UK	£136,042	£194,599	43%	£498	£872	75%

Despite significantly higher rental returns, some landlords may not be able to foot the bill for a refurbished property; of those landlords that do not intend on expanding beyond one BTL property, the primary reason is that they cannot afford to do so (27%).

Landlords that don't mind some DIY may therefore find it cheaper to buy a property in need of work and foot the bill for renovation costs to achieve higher rental income and overall yield. A new kitchen, new bathroom and redecoration of four rooms will cost around £10,428*, but could add £58,557 to the value of the property**.

Peter Dockar commented:

"The choice is clear for landlords hoping to make the most out of their buy-to-let investment: either purchase or renovate a property to good condition or risk lower rental income and reduced overall yields. Maximising return on investment is crucial for landlords hoping to add more properties to their portfolio, and will help build a solid stream of income to supplement existing earnings or act as an alternative savings plan."

- Ends -

*Cost of new bathroom and kitchen from <http://www.which.co.uk/home-and-garden/home-improvements/guides>. Redecorating costs from <http://www.servicemagic.co.uk/resources/cost-guides/>

**Difference between purchase price of property that needs renovation (£136,042) and property that does not (£194,599).

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