



*Factsheet 2*

# Buying property using a property investment company

**Provestor.**

The Property Accountants

## Buying property using a property investment company

The process is similar to buying a personal property, you just need to bring an investment outlook

For most people, the actual buying of a property is where it starts to get interesting. If you've bought your own home, the process of buying buy-to-let property will be very similar. The key difference is that you are investing in this property as a business decision - you're either starting up or adding to your portfolio and you'll have your investment goals in mind. So you need to be going into the process with a clear head; it's an exciting business opportunity rather than a personal love story. We all know that buying property can be stressful. As a professional investor, you should be aiming to reduce and hopefully remove any stress before it can even begin.

To keep your purchase smooth sailing, here are five essential tips to remember:

1. Have a clear view of the steps you'll go through - no surprises is key (with our step by step guide, this factsheet is a great place to start)
2. Get a trusted team of experts around you - from your solicitors and broker through to a specialist accountant, such as Provestor
3. Keep the conversation going with everyone involved

4. Take detailed notes that you can access from anywhere - there are some great note taking mobile apps out there
5. Aim to respond to any requests you get promptly. This sends a message that you expect everyone you're working with to respond promptly too

## Should I transfer my existing buy-to-let property into a limited company?

If you already own a buy-to-let property you might be considering transferring it to your limited company. It seems sensible; any net profit will be taxed at the lower company tax rates. It's also neat - all your business, finances and details in one place. Sadly it's not as simple as a transfer. Typically your company will need to purchase the property from you. This will incur personal capital gains tax on the sale, stamp duty tax on the purchase by your company, along with solicitor, valuation and mortgage fees. More often than not, it's not viable because of the costs involved. If it is, it opens up the additional opportunities and tax planning incentives available to limited companies which are particularly useful if you have more than one property or plans to leave your properties as inheritance.

## Funding the purchase

You probably have a vague idea of the location, property type and price of what you'd like to purchase. If you haven't already, it's time to get some cash together for a deposit and other fees. The most common sources of funding are:

## **Personal savings**

While it's not a quick fix solution, the simplest way to get cash together is to save it up. For your mortgage, you'll need to show a build-up of savings in your account for your deposit; usually by providing at least three months bank statements. If a sudden large sum has been paid in, your lenders will want to know the source to satisfy their money laundering checks.

## **Retained profit**

If you already have properties generating profits, you may be putting this to one side ready for your next investment. This is a great way to grow your portfolio. With Provestor, each time you log in to our app you'll see a live view of your retained profits that can be released for your next purchase.

## **Inter-company loans**

If you have a trading limited company (for example, that you use for your contracting business), you may want to loan your property company the funds from your trading company. Not all lenders accept inter-company loans for deposits. While some will just want to ensure the trading company can support the withdrawal of funds, others will insist on the trading company paying dividends to the shareholder who can then loan it to the property company. Your mortgage broker will be able to find out lenders current willingness to accept inter-company loans for deposits.

## **Using the property you already have**

One approach is to sell a property or refinance another property. Here your lender will request either bank statements showing funds going into your account or a completion statement from the solicitors. Re-mortgaging your own home is a very personal decision, the practicalities of which will depend on your cash

flow and financial stability. Be sure to have a great mortgage broker on your side and seek expert advice before you decide anything.

## **Invest with someone else**

Never mix business with pleasure, right? Many property developers have great partnerships with a friend or family member that have enabled them to invest in a portfolio together. If you do decide to invest with someone you know, make sure your aims are aligned, and you have clear binding agreements in place.

*Some specialist lenders do take a more flexible approach to borrowing – this is where a mortgage broker can be invaluable. Take a look at our factsheet #3 on mortgages for limited companies.*

## **Pre-offer checklist**

Think you've found the perfect property? Now's the time to do some checks to ensure it will meet your investment plans and to get everything ready to make the process as smooth as possible.

- Double check the property suits your investment goals.** Does it fit with your strategy, does the type of property fill a gap in your portfolio, will the property attract the type of tenant that you want, are the returns going to be in line with your goals?
- Research the local market for demand.** This is where good letting agents come into their own, check with them to ensure there are plenty of potential tenants
- Work out the cash you need to find.** Alongside the costs of purchase, you'll likely incur costs getting the property ready for tenants

## Purchase costs

Deposit	£
Lender / valuation fees	£
Mortgage broker fees	£
Stamp duty	£
Searches	£
Solicitor	£
Survey	£
Land registry fees	£
<b>Total</b>	<b>£ _____</b>

## Property preparation costs

Gas safety checks	£
Heating service	£
Repairs / maintenance	£
Gardener	£
Decorator	£
Smoke / CO detectors	£
<b>Total</b>	<b>£ _____</b>

- Crunch the numbers.** Make sure you know what you can afford. There will be future costs like advertising the property to rent or hiring an lettings agent to manage the property. Remember that you'll be responsible for maintaining the property and ensuring its safe for the tenant to live in. You should ideally have a fund, equivalent to at least 3 months of rental income, for unforeseen repairs and any lack of income while the property is empty
- Get a solicitor lined up.** Getting this done early not only speeds up the process but lets you find the best deal and most efficient firm

- Get a mortgage in principle with your chosen lender.** This will prove your eligibility and clarify how much you can borrow
- Research your obligations as a landlord.** Ensure you're ready to comply, especially if you are buying a house in multiple occupation (HMO)

## **Make an offer**

Don't be afraid to haggle. Markets fluctuate, and as a buy-to-let investor you have the same advantage as a first-time buyer when it comes to negotiating a discount. You're not reliant on selling a property to buy another, so you won't have a chain to hold anything up. All being well, after a bit of back and forth you'll get the call that your offer has been accepted. Once the price is agreed you'll need to exchange details with the seller. Remember that at this point neither of you are legally obliged to complete, you can withdraw without any serious repercussions.

## **Instruct your solicitor**

If you haven't already, you need to find a good solicitor. Be sure to get a fixed quote and be wary of low cost, large-scale businesses. Using a more person-oriented firm means you're likely to deal with the same person throughout the process. Let your solicitor know you're planning on purchasing via your limited company - it's a standard process for solicitors.

Your solicitor will start to carry out the necessary local authority searches. Be ready to chase; a lot of solicitors tend to work at their own pace.

## **Arrange a mortgage**

A mortgage for a buy-to-let property is different from a residential one. Be sure to shop around for the best deal. While you should do your own research to understand the best options for you, it pays to speak to an independent broker. They can talk you through what options are available and what's right for you.

## **Arrange a survey**

If you're using a mortgage, your lender will undertake a simple valuation survey of the property before formally approving your offer. You can choose whether to get a survey of your own done. Getting a survey that inspects all the main aspects of a property is a useful way to avoid costly problems later down the line. You can either ask your estate agent for a recommendation or search the database of Royal Institute of Chartered Surveyors (RICS) members.

## **Ride out the process**

You'll probably find yourself playing a waiting game now. While it can feel like nothing is happening for weeks and weeks, there's often a lot of legal processes ticking on behind the scenes. Be ready to chase up wherever it's needed to keep the process running.

Use this time wisely to help you hit the ground running when you complete. Research insurances, find a lettings agent and let them know the approximate availability so they can spread the word early. Start talking to tradespeople that can help decorate, tidy the garden, complete repairs etc.



## **Exchange contracts**

After all that waiting, you'll finally be inching closer and closer to the finish line. By this point you should have received the final mortgage offer guaranteeing your funds and your solicitor should share their findings, flagging up any areas of concern. You'll need to put down a deposit (usually 25%). There is now a legally binding contract between you and the seller. Once this has happened, you can't pull out from the sale without forfeiting your deposit money.

## **Complete the purchase and get the keys**

Finally, you'll get a completion statement from your solicitor with a clear breakdown of the cash, stamp duty, fees etc. Once your solicitor has finished some final checks, you'll get to sign the transfer deed. Your funds will be drawn down, and your solicitor will send your payment. All you need to do is head off to pick up the keys to your new property.

*There's sadly no getting around it, the process of buying a property in the UK is long, complicated and frustrating. You'll frequently feel like things have stalled. It's your job to find out what should be happening, and prompt the necessary parties into action. If you intend to build up a portfolio, having a great team at your disposal (from your solicitor and surveyor through to your broker and accountant) is imperative.*

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The Property Accountants

Our factsheets do not offer investment, tax or financial advice and nothing in them should be construed as advice. Our factsheets provide information and education for investors who can make their decisions without advice. If you are unsure of any investment decision you should seek a professional financial advisor.

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