

# SHOULD YOU BRICK IT?



**A GUIDE TO BUY-TO-LET INVESTING**

**COOPER PARRY**  
**WEALTH**



# WHY INVEST IN BUY-TO-LET?

For years, us Brits have been obsessed with investing in property. We know what they are, where and how to buy one. They're tangible and, unlike some other investments, we understand them.

Many people have made good returns from **buy-to-let properties**, particularly from the early 2000s up to around 2015. The process was simple – buy a property with a low-cost mortgage, pay the mortgage from the rental income, sit back, relax and receive the balance as a regular income. Then sell and bank a large profit.

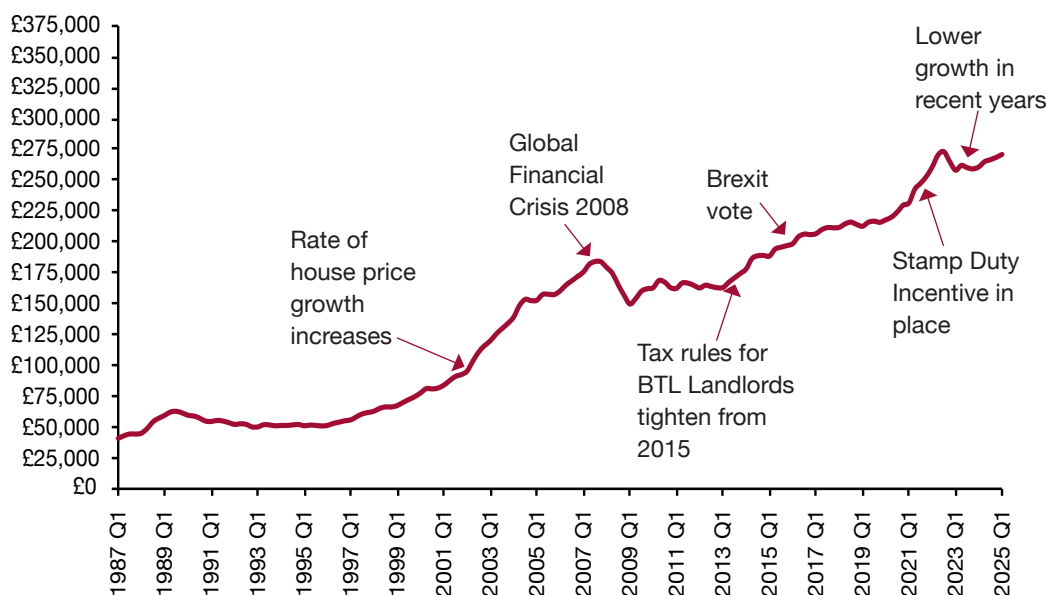
But what is the situation today for someone looking to invest in a rental property?

It is still true that buy-to-let investing provides the opportunity for:

- a **steady rental income**
- **capital growth**
- **portfolio diversification**, if you are primarily holding conventional investments
- the ability to **offset certain costs** against taxable income/gains
- the ability to **leverage** (borrow against the asset)

And since 1987, despite some significant events, the increase in house prices over the years certainly looks good.

## Average UK House Price (1987 – 2025)



Source: Nationwide House Price index<sup>1</sup>

An increase in the average house price from **£40,882** in 1987 to **£270,867** in 2025 represents an overall increase of **563%** and an average growth rate over 38 years of **5.1% per annum**. Since 1997, that annual growth rate has increased to **5.8% per annum** on average, though has flattened out in the last few years.

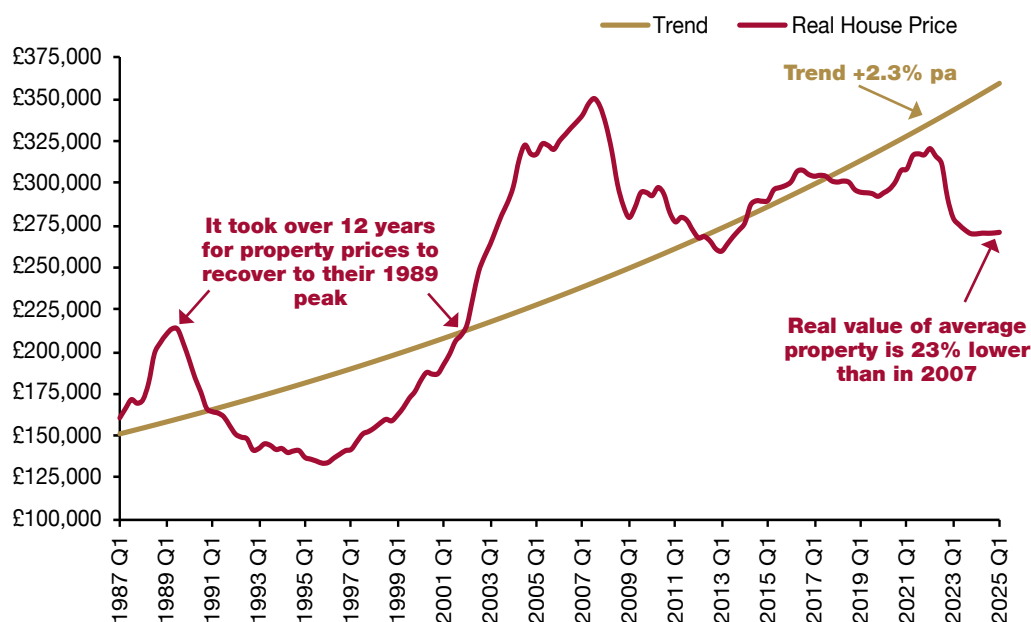
1. This data series is based upon the average price for all UK properties (not seasonally adjusted).

## INFLATION: THE INVISIBLE ENEMY

However, as investors, we always need to consider the 'real' increase in the value of our investments, **over and above inflation**. Investing in **assets that produce real returns** means that our money is growing ahead of inflation, and we'll be able to spend more money in the future on the things that are important to us, like holidays in the sun.

Nationwide provides a useful chart which gives an insight into **real property values**, and their findings may surprise you.

### Real Average UK House Price (1987 – 2025)



Source: Nationwide Real House Prices<sup>2</sup>

First of all, the good news. Nationwide's data shows that, over the long term, property can be a **useful inflation hedge** and the trend has been for valuations to rise, over and above inflation, by **2.3% per annum** since 1987.

However, the chart shows that there were periods when property valuations have **fallen significantly in real terms over sustained periods**. When values peaked in 1989, it took just over 12 years for property prices to recover to the same real value. And if you were a landlord who bought an 'average' property in 2007, in real terms **your investment is worth 23% less today**.

This is an often-overlooked aspect of property investing. Just because the prices displayed in the estate agents' windows seem to be going up – or at any rate not decreasing – that **does not mean that the real value of your investment is not going down**.

2. In this chart, Nationwide have used the same data as seen on the previous chart but also the Office for National Statistics Retail Price Index to change historical house values into today's money to calculate the real growth in average UK property value.

## HOW THE BUY-TO-LET MARKET HAS CHANGED

The early 2000s were certainly a boom time for **buy-to-lets**. This was due to a combination of strong increases in valuations (as you can see in the charts above), but also favourable taxation, low interest rates, high demand for rental properties and the wider availability of **buy-to-let** mortgages.

But the popularity of **buy-to-lets** led to government crackdowns, with the following results:

- the **restriction of tax relief**<sup>3</sup> for mortgage payments
- an **additional Stamp Duty**<sup>4</sup> surcharge of 5%
- the removal of the **wear and tear allowance**<sup>5</sup>
- **higher Capital Gains Tax** (CGT)<sup>6</sup> upon sale
- the introduction of new **quarterly reporting requirements to HMRC**<sup>7</sup>

In addition, lenders have become more cautious, using stricter criteria, and **buy-to-let mortgages have been harder to come by**. Also, with interest rates being higher, **borrowing is more expensive** for everyone today, including landlords.

Lastly, the Government are pushing through the **Renter's Rights Bill**<sup>8</sup>, which will impact the rights of landlords to evict tenants, give rights to tenants to challenge rent increases and require landlords to maintain properties to a higher standard. This may increase ongoing costs and make managing a rental property effectively more difficult. Research by Pegasus Insight<sup>9</sup> indicates that 81% of landlords believe the bill will have a negative impact on the private rented sector.



3. Since April 2020 landlords receive a flat rate 20% tax credit on mortgage payments (previously at their marginal Income Tax rate, up to 45%).

4. Since April 2016 landlords have incurred additional Stamp Duty of 3%. This increased to 5% in October 2024.

5. An allowance previously available to landlords equating to 10% of the net rental income. Since April 2016 it has been replaced with the less favourable Replacement of Domestic Items Relief.

6. 18% if the gain, when added to your taxable gross income, falls wholly within your Basic Rate Tax Band. 24% for gains above Basic Rate Tax Band. Before 2020 Lettings Relief was also available if the property had previously been your primary residence.

7. From April 2026, for all landlords with gross rental income of £50,000 or more, reducing to £30,000 from April 2027 and £20,000 from April 2028.

8. If passed, this legislation will abolish no fault evictions, introduce open ended tenancies and tighter rules around rent increases. The new Decent Homes standards may lead to higher maintenance requirements.

9. [Renters' Rights Bill is driving landlord behaviour change and most think reform will be negative](#)



# BORROWING TO INVEST – IT WORKS BOTH WAYS

When you take out a mortgage to purchase your buy-to-let property, you are **leveraging your investment** and it can work out well, or not so well. Let's look at an example to illustrate this.

You buy a property for **£200,000** and put down a 25% deposit of £50,000. If the property **increases in value by 20%** to £240,000, you will have made £40,000 on an investment of £50,000 before costs, a **gross return of 80%** – happy days.

But the converse is also true. If the same property **reduces in value by 20%** to £160,000, you will have lost £40,000 of your £50,000 investment, a **loss of -80%**, and costs incurred will exacerbate that loss still further.

As city financiers well know, but buy-to-let investors seem to **forget because mortgages are so 'normal'**, leveraging moves investments **much further along the risk/reward scale.**





# SO, HAS THE MARKET HIT A BRICK WALL?

## Or should you still be considering a buy-to-let property in your portfolio?

As with any investment, you should first consider carefully why you are doing it and how this asset will work as part of your overall financial plan.

Secondly, **do some maths.**

Many investors, particularly those new to the **buy-to-let market**, are easily seduced by the **gross yields**<sup>10</sup> that can be achieved on properties – the **average in the UK is currently around 6%**<sup>11</sup>.

But that is before costs and taxation. So, let's take a closer look.

Property should **always be considered a long term investment** because the **upfront costs** are significant and could include:

- **legal fees & other costs**, such as a survey and mortgage fees
- **Stamp Duty**, including the 5% surcharge
- initial **renovations/decoration** and the **costs of making the property meet the required standards**, e.g. Electrical Installation Condition Report, Energy Efficiency Standards etc.
- **furnishing** the property, including white goods etc.
- **costs of finding tenants** - advertising/marketing, possibly including agent's fees.

Then there's the **ongoing costs** to consider, which could include:

- maintenance to the **interior, exterior and structure** of the building
- maintenance of **plumbing, electric and heating systems** & obtaining annual certifications
- periodic **redcoration** and replacement of **bathrooms & kitchens**
- **mortgage repayments**, including periodic refinancing fees
- **building & contents** insurance
- **service charge**, for properties in a block
- **managing agent's fees**
- **accountant's fees** for compiling accounts/submitting tax returns

Whilst many of these ongoing expenses can be deducted from the rental income to calculate your taxable profits, these costs will all eat into your return.



10. Often gross yield figures are calculated by dividing the annual rent by the property purchase price. It is more correct to add purchase costs, such as Stamp Duty, to the purchase price.

11. Source: [Office for National Statistics Private rent and house prices, UK: May 2025.](#)

Property is a **naturally depreciating asset** – it deteriorates, over time, if not looked after properly – and you need to invest hard cash into it to maintain or grow its value. This includes potential **emergency costs** such as replacing a boiler or fixing a leaking roof.

It's also sensible to assume that there will be **void periods** (months with no rent coming in) – for example after a tenant moves out and no suitable tenant can be found, and also scenarios when a tenant fails to pay rent. Assuming an occupancy rate of 90-95% would be considered prudent.

Another cost that should be incorporated into the calculation is the **value of your time**. Even with a managing agent, experienced buy-to-let landlords will tell you that time is spent finding/checking tenants, sorting out problems and organising ongoing maintenance. The initial renovation of a property may be an enjoyable and creative project, if that is your bag, but an emergency call out for a non-functioning boiler on a freezing afternoon in January is not many people's idea of fun.

At the end of your tenure as a landlord there will also be **sale costs** (agent's fees, solicitor's fees etc.) and you'll pay CGT on the gain you've made<sup>12</sup>. Remember, the CGT allowance for individuals is just £3,000 now, so you don't get much profit for free.

12. Sale costs and the costs of capital improvements (**not** repairs) to the property can be used to reduce the taxable gain.





# THE MATHS – AN EXAMPLE<sup>13</sup>

Sarah, an accountant, is considering buying a second property in **Newcastle** to rent. It's where she grew up, she has family still there and she's heard that house prices are rising nicely in the city. Having done some research, she has established that the gross yield in Newcastle is currently around **7.3%**, higher than the national average of 6%<sup>10</sup>, which looks promising.

Sarah's property is an 'average' Newcastle house with a **purchase price of £202,000** and **monthly rent of £1,200**. She can get an interest-only mortgage for 75% of the **value at 4.5% interest**<sup>14</sup>. To be prudent, she's going to assume a **tenant occupancy rate of 95%** and **maintenance & management costs at 25% of rent**<sup>15</sup>.

Sarah will pay **Stamp Duty of £11,640** and her solicitor says her **conveyancing fees will be £1,300**. The property is mostly in good order, but she would need to redecorate it, replace the curtains and some carpets and the previous owner took the washing machine and dryer. There's also the costs of a survey and the mortgage arrangement fee. Sarah thinks all this will cost around **£6,000**. She's got a cousin who is interested in being her tenant and so allows no cost for that. Overall, she estimates the **set up costs will be £18,940**.

So here's a summary showing the details of Sarah's potential property purchase:



| Newcastle Property                            | £s             | %     |
|-----------------------------------------------|----------------|-------|
| Property value                                | £202,000       |       |
| Initial costs (Stamp Duty, solicitor, set up) | £18,940        |       |
| Estimated gross rental yield                  |                | 7.1%  |
| Annual Rent at £1,200 pcm                     | £14,400        |       |
| Occupancy                                     |                | 95.0% |
| <b>Sarah's capital/deposit, 25%</b>           | <b>£50,500</b> |       |
| Interest only mortgage                        | £151,500       |       |
| Annual mortgage interest                      | £6,818         | 4.5%  |

13. All Newcastle property data is from Verta UK Buy to Let Yield Map UK Buy-To-Let Yield Map 2024 | Verta Property Group

14. Estimate, based upon current tracker rates June 2025, source MoneySuperMarket.

15. We are assuming maintenance costs equating to 10% of rental income, managing agent costs of 10% of rental income and a nominal 5% of rental income to represent the cost of the Sarah's time spent on the property.





Sarah diligently works out a **Monthly Budget** (she is a Higher Rate tax payer<sup>16</sup>).

| Monthly Budget                                | IN          | OUT  |
|-----------------------------------------------|-------------|------|
| Monthly rent                                  | £1,200      |      |
| Vacant periods, 5%                            |             | £60  |
| Monthly maintenance & management, 25% of rent |             | £300 |
| <b>Net monthly income, before tax</b>         | <b>£840</b> |      |
| Tax at 40%                                    |             | £336 |
| Mortgage interest                             |             | £568 |
| Mortgage interest credit                      | £114        |      |
| <b>Net monthly income, after tax</b>          | <b>£50</b>  |      |



And, being an accountant, she also looks at the **Annual Yield** on her potential investment.

| Annual Yield Calculation                                                         | £s   | %           |
|----------------------------------------------------------------------------------|------|-------------|
| Net annual income, after tax                                                     | £600 |             |
| Net rental yield, after tax<br>(net annual income/property value + set up costs) |      | 0.3%        |
| <b>Yield on Sarah's capital</b><br>(net annual income/Sarah's capital)           |      | <b>1.2%</b> |



So, whilst a **headline yield of 7.1%** looks enticing, Sarah sees that her **after tax yield may be just over 1%**.

The figures used in our example will be different for other parts of the country and different types of property. And of course, each landlord will be comfortable with their own assumptions for the above calculations, perhaps based upon experience.

**We would suggest all potential landlords do some maths along these lines.**

The above calculations, together with prudent assumptions regarding future property valuation increases – and not forgetting **sale costs** and **Capital Gains Tax** – will ensure that you **go into the buy-to-let investment with your eyes wide open.**

16. Some landlords with buy-to-let portfolios have set up limited companies, but the complexities of buying through a company are beyond the scope of this guide.



# PUT YOUR INVESTOR HAT ON

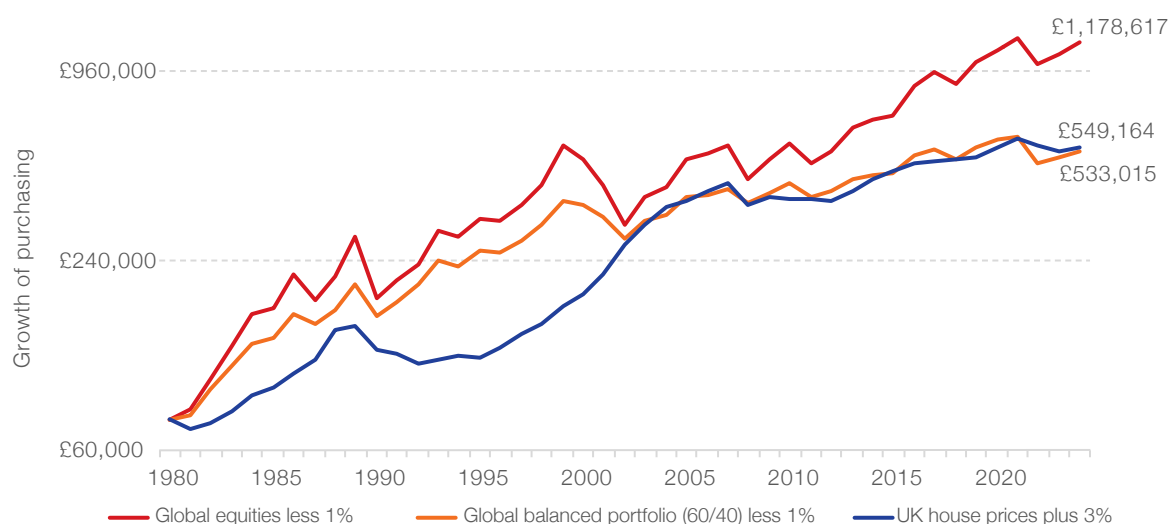
Let's now take a look at alternative options that you have as an investor. For this type of analysis, we need to look at your **total return**, taking into account both **capital growth** and **income yield**.

In the chart below we have compared the performance of:

- **£75,000** invested in a **portfolio of 100% global shares**<sup>18</sup> incurring **costs of 1% pa** (no set up/sale costs).
- **£75,000** invested in a **typical balanced portfolio 60% global shares/40% bonds**<sup>19</sup>, incurring costs of 1% pa (no set up/sale costs).
- A fictional unmortgaged<sup>17</sup> **buy-to-let property**, purchased for **£75,000** in January 1981 whose value increases in line with the overall UK property market up to December 2024<sup>18</sup> and we've added a **net yield of 3%**. We have assumed **no initial purchase or sale costs**, though these can be significant.

Let's look at the **real return**, after inflation, from each of these strategies over the last 23 years<sup>20</sup>.

## Buy-to-let versus traditional portfolios – after inflation 1981-2024



Data source: Cooper Parry Wealth & Albion Strategic Consulting

Over this period, all three strategies have done well and, by December 2024, were **worth much more in real terms**. The buy-to-let property and the balanced 60/40 portfolio have delivered similar results and **are worth around 7 times the original investment**. Not surprisingly, the 100% global shares portfolio has **knocked it out of the park, worth 16 times the original investment**.

Please note, this analysis does not factor in the **generally higher set up and sale costs** for the **buy-to-let property** and consideration also needs to be given to the specific risks of this type of investment, see page 11.

17. Although, in reality, many BTL properties may be mortgaged, for this analysis we need to assume the full capital investment, so it is comparable to the other investments.

18. Based upon Nationwide UK House Price Index.

19. Global shares [Albion World Stock Market Index \(AWSMI\)](#). Balanced (60/40) = 60% 'Global shares', 40% Albion 2.5Y UK Constant Maturity Bond Index. Costs of 1% pa (representing fund costs and tax on investment income) have been deducted from the 'traditional' portfolios. Portfolios were rebalanced back to the original mix once a year.

20. Maximum timescale available with this data set.

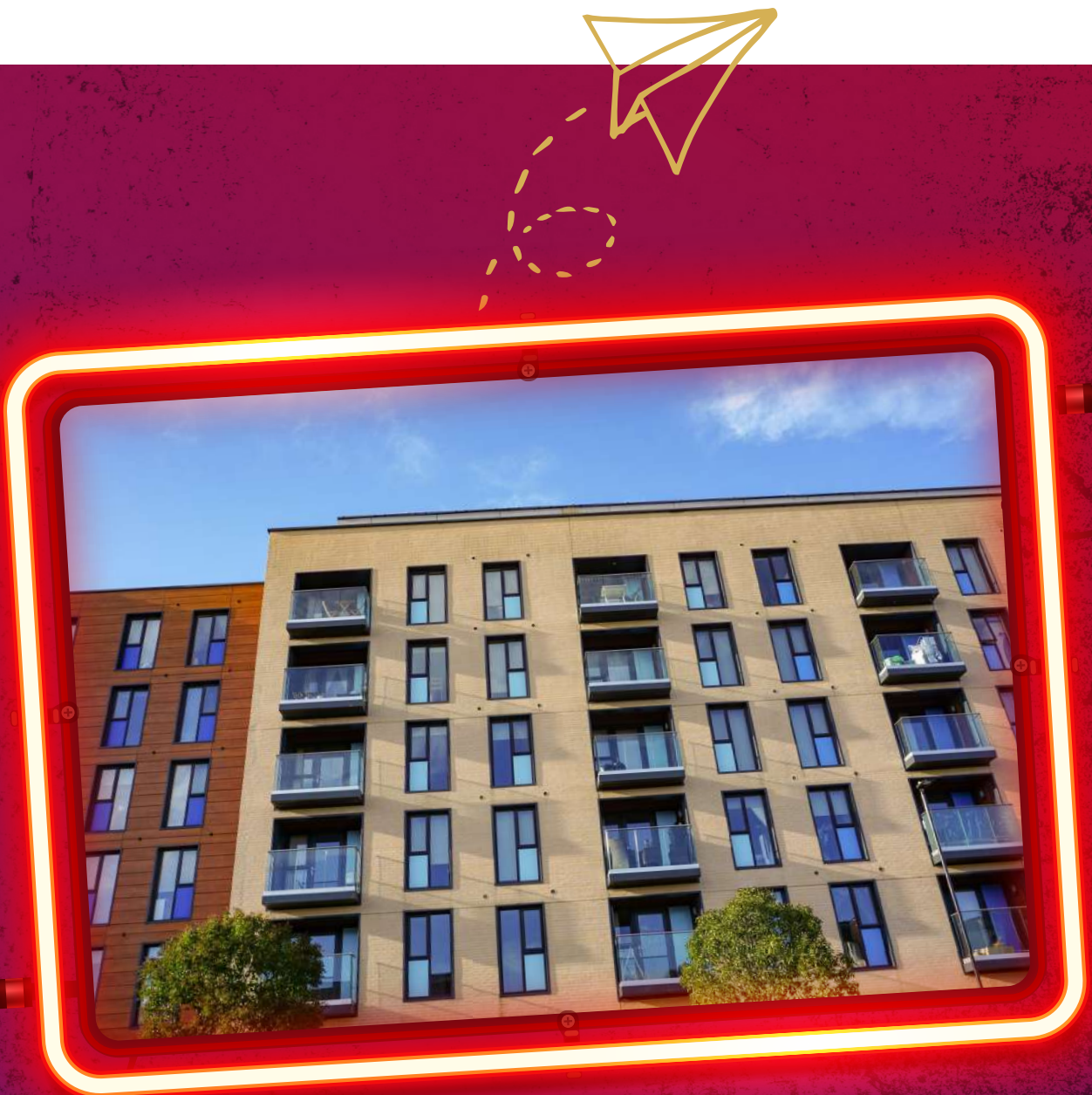


# INVESTMENT VS PROPERTY: WHICH IS BEST?

Drawing **definitive conclusions** from this analysis is difficult as making a direct comparison between these different types of investment is very hard and broad assumptions have to be made.

On the one hand, you have a **broadly diversified global balanced portfolio** with robust returns data and on the other a **single fictitious buy-to-let property** which we are assuming has performed exactly in line with the average of the UK housing market in capital terms with an assumed net rental income included. In this analysis we cannot sensibly factor in entry and exit costs for the property investment, but these will certainly reduce the overall performance of the **buy-to-let investment** from that indicated in the graph above.

However, the **real takeaway** is not that one type of investment is better than the other, but to show a **'bar'** that **buy-to-let investors** might need to achieve in running their property/properties to obtain a similar result to **more straightforward alternatives available to them.**





# RISKS OF BUY-TO-LET

Many see 'bricks and mortar' as a **low-risk investment** due to its physical presence and familiarity, the rental yield and capital appreciation. But as a **buy-to-let investor** there are **external factors** – higher interest rates, property market slumps, changing legislation – which are risks that can have a major impact on returns.

Focusing only on **buy-to-let** in your portfolio means you are dependent on the fortunes of one asset class, residential property. Academic evidence tells us that **diversification across different asset classes** (including shares, bonds, commercial property and across different types of businesses and countries worldwide) provides a **better way to balance risk and return**.

The risk is **further concentrated** because, unlike our fictitious **buy-to-let property**, your potential investment property (or even a small portfolio of properties) would not be tracking the whole UK market – the success of the investment(s) is **dependent upon very local market conditions**.

As we all know, selling property can take some time, cost and effort so the relative inaccessibility of capital – or **illiquidity** – is a key consideration. During a market downturn, you may effectively be prevented from selling. Share/bond investment portfolios can generally be liquidated within 7-10 days<sup>20</sup> of your instruction – a considerably shorter timeframe and with much less hassle.

As investors we have to consider our own appetite for risk. Risk and return are related, and it's a simple investment truth that if you want more return, you have to take more risk. Although mortgages feel normal, **leveraging your investment in this way increases the risk**, as well as the potential return of property investment.

**While investing into any market – property, shares or bonds – carries risk**, taking professional advice, diversifying, keeping costs low, and carefully balancing your portfolio around your objectives and risk profile, all **help to manage the risk and future uncertainty, whilst still enabling you to sleep well at night**.

For more information on our approach to investment, please see our PortfolioScience guide.



20. Depending upon trading times for investments in portfolio



## CONCLUSION

For all investors, **real, above inflation returns are an important goal**. Residential property – and also commercial property – have delivered that, over the long term. This is why we include exposure to commercial property in our portfolios.

But, as we have outlined above, investing directly in property is **complex** and regulations and taxation are **not as favourable as they have been in the past**. In addition, whilst **leveraging** (by taking out a mortgage) potentially increases the return, it also increases the risk of your investment. As an asset, a **buy-to-let property** offers scope for a regular income and potential for capital growth, but it is **illiquid** and **requires effort and time** on an ongoing basis to manage it successfully.

Due to its complexity – and perhaps also the emotional investment that can be made in developing properties – **buy-to-let investors often fail to make a clear-eyed assessment of what returns they have truly achieved**, or can expect, and how that compares with the conventional, and easier, investment alternatives available to them.

We hope this guide will help you do that.



**If you have any questions or would like to discuss this further, then please feel free to get in touch:**  
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