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MDM WEALTH

The **pros and cons** of investing in buy-to-let

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Investing in buy-to-let property can provide a steady rental income, helping to supplement your retirement fund or form part of the legacy you leave for loved ones.

Statistics published by the government (29 August 2025) confirm that there were around 2.86 million private landlords in the UK in 2023/24.

Since then, the property landscape has changed, with the introduction of the Renters' Rights Act 2025 and increased regulatory responsibilities for landlords.

However, buy-to-let remains a viable option for many. In this guide, you'll find the pros and cons you'll need to consider and some important questions to ask yourself.

Keep reading to find out about the potential benefits, including:

- Stable income
- Capital growth
- Tax relief.

And some potential downsides, such as managing:

- High upfront costs
- Your tenant responsibilities
- Ongoing regulatory and tax pressures.

3 potential financial benefits of investing in buy-to-let

1. You'll receive a steady rental income (excluding void periods)

Owning a tenanted buy-to-let property provides you with regular rental income that you can use to support your long-term financial goals.

You'll need to cover expenses like the property's mortgage, insurance premiums, and ongoing maintenance costs, but a rental property – particularly in a desirable area – could provide some profit too.

You can use this additional income to help fund your retirement, pay for discretionary spending, or to provide a living legacy to loved ones. You might also reinvest the money to increase the size of your property portfolio.

Just remember, you'll still incur monthly outgoings during void periods (when you don't have a tenant and your property sits empty), so ensure you have a fallback for these times.

GLOSSARY: RENTAL YIELD

Gross rental yield is the annual rental income you receive (or would hope to receive) expressed as a percentage of the property price.

Net rental yield factors in maintenance costs and other ongoing operating expenses, too.

Location, location, location

If you're looking to buy a new investment property, you'll want to ensure you're receiving the highest possible rental yield. That will typically mean buying where demand for rental properties is high, such as in cities and university towns.

According to Zoopla (16 March 2026), the UK average gross rental yield is currently 5.8%. The city with the highest rental yield, though, is Sunderland, sitting at 3.5% above this average. If you plan to buy close to where you live but local rental yields are low, you might want to reconsider your strategy or look further afield.

City	Average gross rental yield	Average monthly rent	Average price of a buy-to-let property
Sunderland	9.3%	£659	£84,924
Aberdeen	8.3%	£734	£106,170
Burnley	8.2%	£634	£92,473
Dundee	8.1%	£809	£119,569
Middlesbrough	8.1%	£665	£98,697

Source: Zoopla (16 March 2026)

As well as current demand, you'll also want to factor in the potential for house price growth in your chosen area over time, which could affect the rent you charge and your overall return.

2. You could see capital growth over the long term

UK house prices tend to rise over time, which means you could realise a significant gain when you eventually sell your rental property.

According to the UK House Price Index (12 June 2026), the average cost of a UK property across all property types in January 1996 was £52,116. By January 2026, this figure had risen to £267,516.

Alongside house price increases, cost of living rises are generally passed on to renters. When combined with rising house prices, increased rental income can protect your wealth from inflation over time.

It's worth noting, of course, that house prices fluctuate and rises are not guaranteed.

3. You could receive tax relief on mortgage interest and allowable expenses

You may claim basic-rate tax relief (20%) on buy-to-let mortgage interest through your Self Assessment tax return.

It's worth noting that while this is good news, the current tax position is less favourable than it once was. This is due to "Section 24" tax changes phased in between 2017 and 2020. Previously, you could claim tax relief at your marginal rate of Income Tax, meaning higher- and additional-rate taxpayers could claim an extra 20% and 25%, respectively.

You can also deduct some expenses from your rental income when calculating your taxable rental profit. Allowable expenses must be incurred wholly and exclusively for the purposes of renting out your property.

They might include:

- General maintenance and repairs
- Utilities, such as water, gas, and electricity
- Letting agent and management fees
- Insurance policies
- Some legal fees.

Making the most of these potential tax efficiencies can be complex, so speak to a professional for guidance.

Note: If your annual income from property is £50,000 or more, new rules applicable from April 2026 mean that you will need to sign up for Making Tax Digital.

3 potential drawbacks to consider before investing in buy-to-let

1. The upfront costs are high

Buying property is expensive. While you might secure a residential mortgage with a deposit of 5% to 10%, lenders see buy-to-let mortgages as higher risk. This is because repayment is often reliant on rental income, and void periods can interrupt this cash flow.

According to MoneySuperMarket (23 February 2026), the most common minimum deposit for buy-to-let properties is 25%.

You'll also have to pay an additional property surcharge on top of standard Stamp Duty Land Tax (SDLT) or equivalent rates, depending on where you are in the UK.

England and Northern Ireland: You'll pay an extra 5% as a flat rate applicable on top of standard SDLT rates across all bands.

Scotland: The Additional Dwelling Supplement (ADS) is levied at 8% on the property purchase price, on top of standard Land and Buildings Transaction Tax (LBTT) rates.

Wales: An additional surcharge of 5% applies on top of standard Land Transaction Tax (LTT) rates.

Finally, you'll need to factor in the usual costs associated with buying a property, including conveyancing fees and survey fees. These costs are classed as "capital expenditure" and are not tax deductible as costs associated with the ongoing rental of the property, once purchased.

2. Being a landlord can be labour-intensive

Being a landlord can be a full-time job. It involves taking on legal and moral responsibilities to your tenants, keeping up to date with changing legislation, and managing the day-to-day running of a property.

Even once you've paid the upfront costs and completed the purchase, you'll need to find a tenant. This might involve:

- Advertising your new property
- Vetting tenants and organising viewings
- Checking references and preparing tenancy agreements.

Once your tenants are in place, you'll need to comply with safety laws and other legal requirements, including:

- Paying for annual Gas Safety certificates
- Undertaking five-year electrical checks
- Maintaining Energy Performance Certificates (EPCs)
- Checking and servicing smoke and carbon monoxide alarms
- Monitoring property maintenance, such as boiler repairs.

Alongside the previously mentioned tasks is the financial administration:

- Collecting monthly rent
- Chasing outstanding payments
- Paying your mortgage and insurance.

When a tenant leaves, the process starts again. And of course, this isn't an exhaustive list.

Many landlords find it worthwhile to pass these duties to a letting agent, but of course, this will affect the return on investment.

PROPERTY DISPUTES ARE ON THE RISE

As a landlord, you might have to deal with redress complaints involving deposit disputes, perceived poor service, or rent collection issues.

The Landlord Association (3 March 2026) reports redress disputes increased by 47% in 2025, compared to the previous year.

This includes complaints from landlords, tenants, and consumers and could suggest growing tensions and the need for clear communication on all sides.

3. Regulatory and tax pressures

As you have already read, the landscape for landlords is changing. Increased regulatory pressures and amendments to the tax system mean that there's lots to stay on top of, including:

- Evolving tax treatments (such as the previously mentioned Section 24 rules)
- New housing regulations (for example, ongoing changes to EPC requirements)
- Mortgage market developments as a result of external economic factors.

You'll also need to consider what happens when you come to sell the property.

Capital Gains Tax (CGT) will usually be due if you sell your buy-to-let property for a profit. The gain is generally calculated as:

Sale price – Purchase price (and other allowable costs)

Allowable costs in this calculation include:

- Stamp Duty paid on purchase
- Solicitor and estate agent fees
- Capital improvements (such as loft conversions or extensions).

CGT is payable at 18% for the portion of the gain that fits within the basic-rate band (up to £50,270 in 2026/27) when added to your other sources of income and 24% for gains above that amount. The annual CGT exempt amount stands at just £3,000 for the 2026/27 tax year.

A final important tax note is that from April 2027, Income Tax rates applicable to property income will rise to:

- 22% for basic rate
- 42% for higher rate
- 47% for additional rate.

THE DANGERS OF INTEREST RATE VOLATILITY

As a landlord, you might be particularly vulnerable to movements in interest rates.

Increases to the Bank of England's base rate could affect your mortgage repayments with a disproportionately large knock-on for your profits.

Buy-to-let mortgage rates are generally higher than residential mortgage rates and if rates rise, you might be unable to increase the rent you charge in line with your own rising costs (or at least not do so immediately). This lag could eat into your margin.

The Renters' Rights Act 2025 came into force from 1 May 2026

On 1 May 2026, the Renters' Rights Act 2025 came into effect, giving tenants new rights and introducing new rules for you, as a private landlord.

Here's a closer look at some of the headline changes:

1. Section 21 ("no-fault") evictions have been abolished

Under pre-Renters' Rights Act rules, landlords could ask tenants to leave a property without having to prove that the tenant had done anything wrong. Instead, they could regain possession of the property using a Section 21 notice.

Under new rules, however, you must have specific legal grounds, including:

- Serious issues with missed rent payments
- Anti-social behaviour or property damage
- An intention to sell the property (or move in yourself).

Note: The threshold for missed rent payments has risen from two months to three months, and the notice period for eviction on these grounds has increased to four weeks.

You cannot stipulate selling or moving in as grounds for eviction during the first 12 months of a new tenancy. After that period, you must give four months' notice. You generally cannot market or re-let the property for 12 months after using these grounds.

The new rules could slow down a desired change of tenancy by introducing complexity and third parties, including the courts.

2. Rolling tenancies replace fixed-term ones

You formerly had the option of Assured Shorthold Tenancies (ASTs), effectively tying your tenants into 6-, 12-, or 18-month contracts. This is no longer the case.

Rolling tenancies give tenants greater freedom when they want to leave. In turn, this could increase your tenant turnover with greater risk of void periods in which you are paying the mortgage with no rental income to cover the cost.

3. Rent increases can only be made annually

Changes to how and when rent increases can be implemented are intended to close the loophole of so-called "back-door evictions". This was the practice of landlords increasing rents in order to force tenants to leave. Rents can now only be increased using a statutory "Section 13" notice.

The end of back-door evictions is undoubtedly important. However, the changes will impact on your flexibility. You might find yourself effectively "stuck" receiving a lower level of rent than you'd like, especially following interest rate increases. This puts more onus on you to make your one annual rate rise work for you, while also not exceeding market levels.

If a tenant believes a rate rise is higher than current market levels, you could find yourself taken to a tribunal.

3 questions to ask yourself before investing in your chosen property

Once you've weighed up the pros and cons of property investment, you might be ready to take the plunge. Whether you're investing in buy-to-let for the first time or adding to an existing property portfolio, there are some important questions you'll need to ask yourself.

Here are three of them.

1. Is the location desirable for my ideal tenant and me?

We've already seen that owning a buy-to-let property can be hands-on. If you intend to manage the landlord responsibilities yourself, you'll probably want the property to be nearby. After all, you might need to visit regularly, whether at the viewing stage or when conducting routine maintenance.

The location also needs to be right for your ideal tenant. It's important to have this ideal tenant in mind when considering a purchase, as it will affect everything from the price you are willing to pay to the décor decisions you make and the marketing you undertake.

A young professional in the city will have vastly different needs from a young family. Place your ideal tenant at the forefront of your mind when making any purchasing and post-purchase decisions.

2. What immediate costs will I incur?

You'll need to weigh the cost of any necessary improvements against the purchase price and the potential yield.

Are the changes you'll need to make simply cosmetic, or will structural improvements be required? For example, does the property comply with current EPC rules? On the latter point, the government (5 May 2026) remains committed to a transition for all rental properties to hold at least a Band C EPC rating, with the expectation that "as many of them as possible" will be upgraded by 2030.

Factor in your investment horizon too. A property might be in good shape now, but if you plan to rent it out for years to come, might you incur additional costs further down the line?

Taking on a "project" isn't necessarily a bad choice – especially if you have the expertise to carry out work yourself. The important thing is to factor the costs of these renovations into your overall budget.

3. What is my likely rental yield?

Buy-to-let property is an investment, and you'll need to have a clear idea of your potential return before committing. Consider the property asking price, the cost of any work required, and the potential rent you can charge, based on comparable properties in the area.

This isn't just important to you. It will be crucial for the lender, too, who will use the potential yield as part of their affordability tests.

Lenders will calculate an Interest Coverage Ratio (ICR). This looks at likely rental income for the property versus the likely cost of mortgage interest based on conservative (or higher-than-anticipated) rates.

The benefits of seeking professional financial advice

Despite increased regulation and changes to renters' rights, investing in buy-to-let property will remain an attractive proposition for many.

If you're considering purchasing a buy-to-let property for the first time or adding to an existing portfolio, seeking advice could be a useful way to begin.

The shifting landscape makes expert guidance invaluable, helping to ensure you make the right choice for you and do so in a tax-efficient way that aligns with your wider long-term goals.

If you have any questions, please get in touch:

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All information is correct at the time of writing and is subject to change in the future.

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