Here's what you need to know before taking the buy-to-let plunge

By Tony Clarke

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Correctly managed, buy-to-let properties can be one of the most attractive investment opportunities out there. For a relatively low up-front cost, they can generate good long- and short-term returns in the form of capital growth and rental income, and their gearing potential - something unique to property investments - can be leveraged for continued expansion within the market.

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It sounds like the ideal starter investment – and it can be – but, managed poorly, buy-to-let can also be a huge financial drain. So how do you go about positioning yourself for success as a first-time buy-to-let purchaser? It's not difficult as long as you're willing to do your research, crunch the numbers, and keep your expectations realistic.

The first step is to take a good look at your own finances. Visit a bond originator and find out what kind of mortgage you qualify for, and then consider how comfortable you'd be with those repayments should the interest rates rise or your personal monthly expenses climb. Don't forget about bond, transfer and conveyancing fees either – they can add a significant amount to the bottom line.

Be prepared to weather surprises

Be conservative when considering affordability, especially as a first-time investment buyer. Being forced into an early sale because of financial distress is a sure-fire way to lose money on a buy-to-let investment, so it's better to start small and be absolutely sure that you can weather any surprises that come your way.

Once you've worked out how much you can afford to spend, you'll need to start looking for a property that fits the bill – quite literally. It's not just about purchase price, it's about finding a balance between all the associated costs, the potential rental income and any future growth.

Finding this balance can be a complicated endeavour, and is best approached with the help of a property professional who is active in the area you are considering. You'll need to be able to estimate not just your monthly bond repayments, but also rates or levies, insurance, and the cost of maintaining your property in good condition. You also need to be able to accurately predict the rental potential of the property, and understand the local area trends in order to assess the likelihood of future growth. It's a process that requires a lot of in-depth knowledge, and experienced agents will generally be able to give you a far better idea of the situation than you could determine for yourself.

Covering bond repayments

Don't expect to be able to cover 100% of your bond repayments with rent to begin with – let alone 100% of your overall costs. Depending on which area you're investing in, your rental yield is likely to cover between 50% to 80% of your monthly costs at the beginning. This percentage increases over time as rent goes up, but it does mean your investment might take a few years to start paying off. It's a good idea to keep this in mind when you begin investigating potential neighbourhoods, as some suburbs will offer more immediate returns than others.

High rental yields don't always signify the better investment, however, and remember not to discount the value of capital growth. Over the long term, a property with a lower rental yield but high capital growth may well outperform a property with higher rental yield and low capital growth. You have to look at both the long and short-term benefits of an investment property, and choose one that will suit your specific priorities and cash flow.

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