YOUR PROPERTY

ACTION PACK

FROM YOUR PROPERTY NETWORK MAGAZINE

WHICH PROPERTY STRATEGY IS RIGHT FOR YOU?

HOW YOU CAN GET STARTED TODAY!

REPLACE YOUR INCOME IN THE NEXT 12 MONTHS!

THE YPN JARGON BUSTER

A list of the abbreviations and tech-talk used in YPN

ACV Asset of community value

ADR Alternative Dispute Resolution

APHC Association of Plumbing and Heating Contractors

ARLA Association of Residential Letting Agents

Article 4 An Article 4 Direction removes permitted development rights within a specified area designated by the local authority. In many cities with areas at risk of 'studentification', there are restrictions on creating HMOs so you will have to apply for planing permission. Check with your local planning authority.

AST Assured Shorthold Tenancy

AT Assured tenancy

BCIS Building Cost Information Service – a part of RICS, providing cost and price information for the UK construction industry.

BCO British Council for Offices

BIM Building information modelling

BMV Below market value

BTL Buy-to-let

BTR Build-to-rent

BTS Buy-to-sell

CCA Consumer Credit Act

CDM Construction Design and Management

CIL Community Infrastructure Levy - **The Community Infrastructure Levy is a planning charge, introduced by the Planning Act 2008 as a tool for local authorities in England and Wales to help deliver infrastructure to support the development of their area. It came into force on 6 April 2010 through the Community Infrastructure Levy Regulations 2010. (Source: planningportal.co.uk)**

CIS Construction Industry Scheme – Under this, contractors deduct money from a subcontractor's payments and pass it to HMRC. These deductions count as advance payments towards the subcontractor's tax and NI. Contractors must register for the scheme. Subcontractors don't have to register, but deductions are taken from their payments at a higher rate if they're not registered.

CGT Capital gains tax

CML Council for Mortgage Lenders

CPD Continuing Professional Development

CPT Contractual periodic tenancy

CRM Customer relationship management (eg, CRM systems)

CTA Call to Action

DCLG Department for Communities and Local Government

DoT Deed or Declaration of Trust

EHO Environmental Health Officer

EIS Enterprise Investment Scheme

EPC Energy performance certificate

FCA Financial Conduct Authority

FLEEA cover Insurance cover for Fire, Lightening, Explosion, Earthquake and Aircraft impact, but no other perils. Some times issued for a property that has been empty for some time

FPC Financial Policy Committee

FRA Fire risk assessment

FSCS Financial Services Compensation Scheme

FTB First time buyer

GCH Gas central heating

GDPR General Data Protection Regulation

GDV Gross Development Value

HB Housing benefit

HHSRS Housing Health and Safety Rating System

HMO House of Multiple Occupation

HNWI High Net Worth Individual **a certified high net worth investor is an individual who has signed a statement confirming that he/she has a minimum income of £100,000, or net assets of £250,000 excluding primary residence (or money raised through loan a secured on that property) and certain other benefits. Signing the statement enables receipt of promotional communications exempt from the restriction on promotion on non-mainstream pooled investments. (Source: FCA)**

HP Hire Purchase

HSE Health and Safety Executive

ICR Interest Cover Ratio

IHT Inheritance tax

JCT (contract) Joint Contracts Tribunal – **produce standard forms of construction contract, guidance notes and other standard forms of documentation for use by the construction industry (Source: JCT)**

JV Joint venture

JVA Joint venture agreement

KPIs Key Performance Indicators

L8 ACOP Approved Code of Practice L8 – Legionella Control and Guidance

LACORS Local Authorities Coordinators of Regulatory Services

LHA Local Housing Authority

Libor London Inter-Bank Offered Rate

LLP Limited Liability Partnership

LTV Loan To Value

MCD Mortgage Credit Directive (European framework of rules of conduct for mortgage firms)

MVP Minimum viable product

NALS National Approved Letting Scheme

NICEIC National Inspection Council for Electrical Installation Contracting

NLA National Landlords Association

OIEO Offers in excess of

OMV Open market value

PBSA Purpose-built student accommodation

PD Permitted Development / Permitted Development rights – **you can perform certain types of work on a building without needing to apply for planning permission. Certain areas (such as Conservation Areas, National Parks, etc) have greater restrictions. Check with your local planning authority**.

PI insurance Professional Indemnity insurance

PLO Purchase lease option

PM Project manager

PRA Prudential Regulation Authority – **created as a part of the Bank of England by the Financial Services Act (2012), responsible for the prudential regulation and supervision of around 1,500 banks, building societies, credit unions, insurers and major investment firms. (Source: Bank of England)**

PRS Private Rented Sector

R2R Rent-to-rent

REIT Real Estate Investment Trust

RGI Rent guarantee insurance

RLA Residential Landlords Association

ROI Return on Investment

RP Registered Proprietor, refer ring to the name on the title of a property Land Registry

RSJ Rolled-steel joist – steel beam

RTO Rent to Own

RX1 Form used to register an application to the Land Registry to place a restriction on the legal title of a property to protect the interests of a third party. The restriction will prevent certain types of transaction being registered against the property (eg, sale, transfer of ownership or mortgage)

S24 or Section 24 Section 24 of the Finance Act (No. 2) Act 2015 – restriction of relief for finance costs on residential properties to the basic rate of Income Tax, being introduced gradually from 6 April 2017. Also referred to as the Tenant Tax'.

SA Serviced Accommodation

SAP (assessment) Standard assessment procedure

SARB Sale and Rent Back

SDLT Stamp Duty Land Tax

SI Sophisticated Investor (Source: FCA)

Certified: individual who has a written certificate from a "firm" (as defined by the FCA) confirming he/she is sufficiently knowledgeable to understand the risks associated with engaging in investment activity.

Self-certified: individual who has signed a statement confirming that he/she can receive promotional communications from an FCA-authorised person, relating to non-mainstream pooled investments, and understand the risks of such investments. One of the following must also apply:

(a) **Member of a syndicate of business angels for at least six months;**

(b) **More than one investment in an unlisted company within the previous two years;**

(c) **Working in professional capacity in private equity sector or provision of finance for SMEs;**

(d) **Director of a company with annual turnover of at least £1m within the previous two years.**

SIP(s) Structural integrated panels

SME Small and Medium-sized Enterprises

SPT Statutory periodic tenancy

SPV Special Purpose Vehicle – a structure, usually a limited company, used when more than one person invests in a property. The legal status of the SPV protects the interests of each investor.

SSTC Sold Subject To Contract

TPO The Property Ombudsman

UKALA The UK Association of Letting Agents

USP Unique selling point

Welcome to Your Property Action Pack

The team at Your Property Network has a massive passion for property. Since the magazine was founded in 2008, we have shared thousands of case studies and hundreds of investor success stories showing how ordinary people can create awesome returns no matter what the mainstream press is saying about the property market.

From people who are just starting out in property investment through to experienced investors who have seen many changes over the years, our mission is to show you what strategies are working across the UK now to help you create a profitable property business.

Whether you are aiming to buy your first buy-to-let or curious to learn more about the creative strategies that investors are using to generate life-changing property profits, YPN is the place to find out.

In this Beginner's Guide we are going to give you an overview of what it is possible to achieve in a surprisingly short amount of time by sharing some truly inspirational, real life examples. Hopefully we'll also debunk some common misconceptions along the way.

Most people – who know little about the realities of property investment – don't realise that piles of cash are not needed to start profiting from property. There's no denying that a big cash pot at the start is a massive advantage … but some of the more creative strategies we'll be introducing in this guide, such as rent-to-rent and purchase lease options, allow investors to profit from property they do not own, without the requirement for mortgage finance.

There are links to further resources throughout the guide, such as audio interviews with investors, video links, and the opportunity to join us on our free, interactive online training sessions. We can't wait to give you some ideas about what effective property investing can do for you!

Click here to subscribe to YPN

Which Property Investing Strategy is Right for You?

One of the most exciting things about property investing is the multitude of different ways you can profit from property.

We've all seen property programmes on TV where they tell you how you can fix up a house and rent it out or sell it for a quick profit. Both are perfectly legitimate ways to profit from a run-down building, but at YPN magazine we know there are so many other ways of making a lot more money from property. In the pages of this guide, we will look at some of the most effective methods and help you determine which strategy is best suited to you.

When choosing your property strategy there are several things you need to consider...What are your property goals? A relatively passive long-term pension? A hands-on business that creates enough income to replace the day job? Lump sums of cash profits into your bank account? Or possibly a combination of all of these.

What are your current resources? Are you starting out with funds to invest, or looking to find out more about the strategies people are using to make massive returns starting with very little cash? Are you happy to work on your property business full-time or would you prefer to be more hands-off?

When faced with too much information it is very easy to get overwhelmed by the number of different strategies available. Trying to implement five strategies on five different properties is simply not going to work. You need to understand the concepts, then take time to work out which best suit your circumstances at the present time. Often the strategy you start with will in time lead on to another – your goal might be to buy HMOs and live off the rental income but if you are short on cash then flipping property or generating money and experience through rent-to-rent might be the best place to start.

We have tried to give an indication of the different levels of complexity and starting capital required for each strategy. This isn't scientific, as each deal must be approached on an individual basis, but it may serve to show what the different strategies are capable of achieving for you.

How to Build a Property Portfolio

So you're interested in building a property business?

The great news is that acquiring a property portfolio is a fantastic way of controlling your own financial future. Whether you are looking for a long-term pension investment or for supplemental income from rental profits, it is possible to generate both when you make wise investments in property.

Buy-to-let is by far and away the most well-known property investment strategy in the UK. It sounds so simple: buy a property (with or without a mortgage), let it out and pocket the rental profit!

If only things were that straightforward!

Buy-to-let can provide an excellent opportunity to take advantage of long-term capital growth with relatively little risk (**IF YOU HAVE DONE YOUR HOMEWORK!**).

Recent changes to the UK tax regime will have a significant impact on whether or not you would choose to pursue this strategy. These changes affect the amount of tax you will pay on the rental income and the amount of stamp duty charged when you purchase a property. There are however techniques and strategies to mitigate these impacts – find out more about these in the YPN Tax Pack.

Click here to subscribe to YPN

YPN Strategy

Momentum Investing

How to Build a Buy-to-Let Portfolio

The key to growing a buy-to-let portfolio is creating the money needed for deposits. Sure, you could buy one property and then begin saving for your next deposit but it's going to take a very long time to buy your next house, let alone build a substantial portfolio that creates life-changing profits.

The solution to this problem is to work out how to get your deposit **OUT** of the first deal to be able to use these funds to buy your next property. Investors most commonly achieve this by acquiring a property that requires significant improvements. After purchasing at the best possible price, the investor can carry out works to improve the condition and therefore the value of the property. At this point the property can be refinanced against the new, improved value, releasing the equity created to make the next purchase. This is called **MOMENTUM INVESTING**.

In this way, over time the same deposit can be used to purchase multiple properties, gradually building a portfolio.

The potential

- Done well, each single let property should generate between £2,500 and £3,500 per year net profit with none of your money left in after recycling your deposit.
- A property portfolio of just five to ten properties will replace an average income, and capital gains over the longer term can be significant (though that can vary according to location). At just 4% annual growth in property prices, after ten years a £100,000 property would be worth £148,000.
- Ten small, relatively low-priced houses or flats could therefore create up to £480,000 in equity.
- A portfolio of single let properties often forms the bedrock of an investor's portfolio, creating serious long-term wealth. Some also couple development strategies with single lets to accelerate faster
- Newbie investors often overlook single let properties, forgetting that they are often easy to rent out, have low void periods and form the cornerstone of many successful property businesses.

Pros

- A single let **CAN** be a relatively passive investment; should you find yourself with a reliable long-term tenant you can just sit back and wait for that capital appreciation!
- Compared to managing HMOs (houses rented on a room-by-room basis), managing single lets is pretty straightforward.
- You can do a huge amount of due diligence in terms of property values, tenant types likely to rent your property, and market rents achievable, so the model can be very predictable.

Cons

- You may find it difficult to borrow if you are not a homeowner or if your credit score is poor. This does not mean you can't build a portfolio – you may just need to be a little more creative in the way you do it (more on that later).
- The income from single let properties may not be as high as you expect. Costs that must be deducted from the rent add up quickly, and void periods (the times when the property is not let) can quickly eat into any profits. It's therefore essential that you keep your property well-maintained and tenanted.

Investing for the long term

Investor case study: Keeping it in the family

Ten years ago, Arshad Mahmoud and his two sons, Imran and Ifshaan, decided to take charge of their own future after Arshad's pension company let him down. Arshad had a bit of property experience prior to that – an electrical engineer turned computer software engineer, he and his wife had turned their Middlesbrough home into an HMO when he had to relocate for work in the 80s. By the mid-90s, they had three student HMOs in Middlesbrough.

In 2006, Arshad discovered the book *Rich Dad Poor Dad* by Robert Kiyosaki, and decided to use property as his vehicle to create a passive income that would give him more control over his pension.

Adding an extension onto his family home back in 1999 (for which he received over 100 objections) had given him an understanding of the building and development sector that would prove to be invaluable as the family moved forward in property.

Their momentum investing really got going in 2007 when they took out £150,000 equity from their home to acquire investment property. Since then, their projects have included converting commercial units, HMOs and building their own home.

> "When searching for a project, they assess a property to see how much value can be added and whether they can recycle all their cash back out"

Their strategy is to identify properties they can add value to, whether residential, commercial or mixed use. They retain most of the properties they buy to benefit from any rental income and have only sold three over the past ten years.

The combined deposit and refurb costs need to realised in the revaluation. What they decide to do with the property depends entirely on the numbers.

For example, to be used as a single let, it must be bought at a price that is significantly below market value and generate cash flow from day one, or alternatively has enough scope for them to increase the value by adding a new bedroom or building an extension.

All their properties are within a 30-minute drive from their home. This means they can control quality and costs by hiring the same tradespeople and workforces for each project.

Arshad and his sons see property investing as a long-term strategy. They use repayment mortgages to repay debt, and 80% of their portfolio is made up of projects financed by commercial lenders over a 21- or 25-year term.

Their business and successes go to show that the idea of BMV deals is not dead. They have two strategies to find them:

1. **Direct to vendor. Many properties purchased in this way are in a state of neglect and dilapidation. The family team are not afraid of getting their hands dirty to overcome problems on a challenging deal.**
2. **Monitoring the market. If a property is not selling, they try to figure out what the problem is. They look for opportunities to add value that others may not have considered. Everyone is looking for a bargain, but not everyone is prepared to do the work.**

Although Arshad and Imran are in a position where they could leave their day jobs, neither want to. They both work in IT part-time. Having a regular income from stable employment has helped with financing and allows them to run the property business without having to pay themselves a salary. Ifshaan, however, works full-time within the business looking after the day-to-day management of the trades.

Their outlook on property investing is for it not to support their lifestyle, but to build long-term wealth for their pension. It's a family decision to save the money for the future.

Due to recent changes in legislation, they are planning to adapt as a family and as a business. Properties are currently held jointly between family members, or in single names, but they have started to use limited companies.

If you're interested in investing for the long term, it would be easy to replicate their strategy in other locations. Although their area hasn't seen much capital appreciation, yields and cash flow are excellent.

The Mahmouds' full story can is in the February 2018 issue of YPN.

Project Case Study

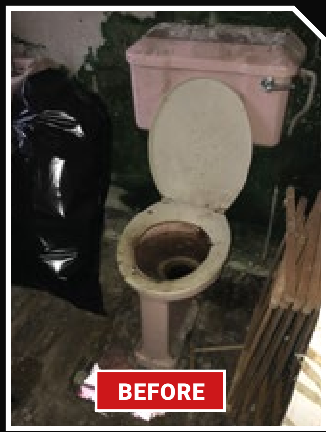
TS1 – Middlesbrough

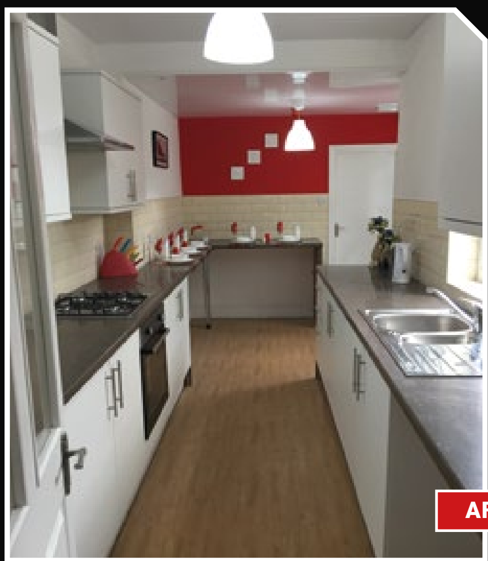
Two-bedroom ugly duckling turned into a beautiful five-bedroom en-suite HMO swan.

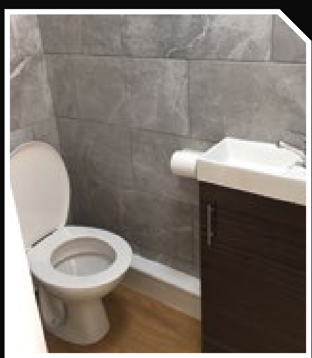
- **Cash purchase**
- **Derelict two-bedroom house sourced direct to vendor**
- **Converted into a five-bedroom en-suite HMO aimed at the student market in Middlesbrough (14 minutes' walk from Teesside University)**
- **This project was done to the current HMO regulations although it does not require a HMO licence**

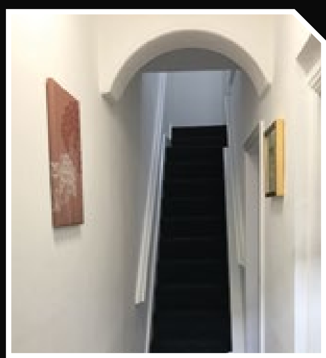
Purchase Price	**£27,500**
Refurb	**£45,000**
Fees/Legals	**£2,040**
HMO valuation	**£100,000**
Refinance at 75%	**£75,000**
Cash out	**£460**
Rent @ £89 per week per room (5 rooms) @ 50 Weeks	**£1,854**
Finance interest	**-£218**
Bills etc	**-£312**
Letting fees 15% - £278 (self-managed)	**£0**
Cash flow per month	**£1,324**
Cash flow per year	**£15,888**
Return on investment (no money left in)	**Infinite**

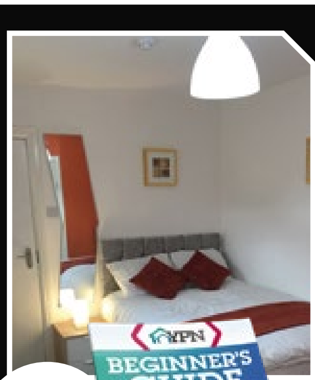
Received £460 (cash out) for buying this property and doing refurb and it pays £1,324 every month (cash flow)











YPN Strategy

HMOs

HMOs vs Single Lets

Supercharge your rental returns!

Single lets are the mainstay of traditional buy-to-let portfolios.

There is nothing wrong with a solid bread and butter deal in the long run.

BUT ...

Single lets are not going to change your life in the next 12 months.

HMOs (Houses in Multiple Occupation) are a type of multi-let property let on a room-by-room basis that generate MUCH better rental returns.

In the example below, the same property is used as a single let and a multi-let with massively different results – 5x the return from the same property.

4 BEDROOM SINGLE-LET RENT

£950pcm

EXPENSES

Mortgage @ 70% LTV	£583.33
Insurance	£25 pcm
Letting Agent	£95 pcm
Voids	£95 pcm
Maintenance	£50 pcm
Gas/Electric Checks	£10 pcm
Net Cashflow	£91.67 pcm

5 BEDROOM MULTI-LET RENT

£2000pcm

EXPENSES

Mortgage @ 70% LTV	£583.33
Insurance	£500 pcm
Letting Agent	£200 pcm
Voids	£100 pcm
Maintenance	£100 pcm
Gas/Electric Checks	£10 pcm
Net Cashflow	£506.66 pcm

The main difference is that when letting a property as a multi-let or HMO, within reason an investor will maximise the number of rooms available for rental by tenants. In this example, one of the reception rooms has been converted into another lettable room.

Single Lets

Pros

- Lower barriers to entry, often smaller and cheaper
- Straightforward to finance; traditional buy-to-let mortgages
- Lower maintenance: find the right tenant and they may stay for 20 years

Cons

- **THE BIG ONE** – Much less income
- Exposure to voids – it's either full or empty, no middle ground

Multi-Lets/HMOs

Pros

- **THE BIG ONE** – Potential for **MASSIVE** Profits
- Opportunities to be more creative in the deal!

Cons

- Much more hands on in terms of management
- Purchase price may be much higher
- More complex to finance
- More stringent regulation

Investor case study:

Creating Homes in HMOs

Wendy Whittaker-Large formed Best Nest in 2013 after deciding that HMOs were the next step up from single lets.

Wendy started out with the goal of building enough revenue from property for her and her husband to replace their incomes. They achieved it in 2015. Her husband Andy has since joined her in the business and they now work together.

Initially, she spent all her time on the business but now it's down to an average of ten hours per week. She and Andy are both strategic and work from a leadership and guidance level, visiting projects and checking in with staff. Their key measures are growth, scale and profitability, and each month they take the time to review the business to make sure they are on track.

Although it's nigh-on impossible to have a completely hands-free business, they are aiming to make it as passive as possible. They want to get to the point where they can run it from anywhere … and then travel the world.

They have devised a cookie cutter approach to find the ideal HMO and in doing so have minimised time and maximised profits. Their preferred model is a large Victorian terraced house in a bad state of repair. These are usually quite cheap.

Their rule of thumb calculation is:

- **Divide up the total cost of the project (refurb and purchase cost) by the number of rooms**

- **Each unit of accommodation should be no more than £30,000 (in their area)**
- **The location of the property should ideally within a 15-minute walk to a train, bus or tram station**

If the per room cost is higher than £30,000 it means they will have to charge higher room rates, which could lead to more voids.

Their service stands out from their competitors as they focus on providing a personal service; they are a local company, supplying beautiful rooms in well-maintained houses. They are keen to make sure that the properties are "home" for tenants – their rule is to nip any issues in the bud so problems don't grow and escalate.

Their tenants are of a mixture of professions – contractors, hospital consultants, and even one who's retired. Most come through Spareroom, though many now come to them through referrals.

The minimum let is usually six months but occasionally they will accommodate a shorter period – for example if the tenant is on contract work. Average length of tenancy is around 22 months, longer than the industry average of nine months.

Through market research, Wendy and Andy discovered that a common reason why tenants move out is because of unresolved maintenance issues. Consequently, they have put together their own maintenance team who sort issues promptly. Maintenance is reviewed regularly.

Wendy and her lettings team manage voids by asking tenants to give a month's notice, and viewings are conducted in the last fortnight of the tenancy. This means there are people lined up to take the room before the tenant moves out. The maintenance team fix anything that needs fixing within 24 hours and the new tenant is moved in ASAP.

A key thing to get right with HMOs is to ensure room sizes are compliant with the minimum size regulations. Although in general, the bigger the rooms, the better.

Small details such as extra storage for bikes can go a long way. Inside, high-quality furnishings will make the property look complete, as well as be durable against wear and tear.

The full article about Wendy and Best Nest can be found in the September 2017 issue of YPN.

Project Case Study
Gainsborough Road

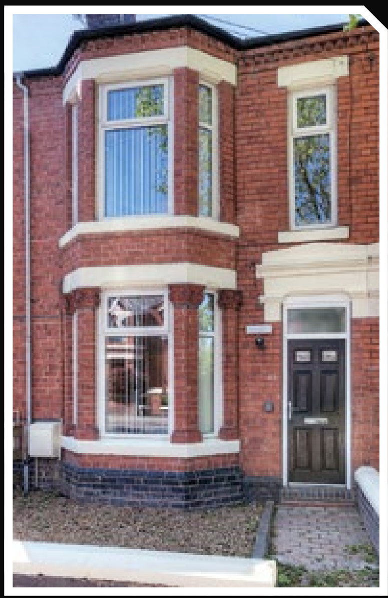
The Property

This was our first seven-bed HMO and I bought this in high excitement because I could see the massive potential in this property. The floor size was great, it already had double glazing, the kitchen was beautiful (handcrafted with a granite work surface) so I thought we'd keep the kitchen but just upgrade it a little bit with new tiles and so on. And it also had an attached workshop at the back of the property, so I knew that we could create another bedroom downstairs by insulating it and building it up to comply with building regs.

Works completed

There wasn't a lot of confidence in the marketplace still even in 2013, and it needed some work doing to it. Works completed:

- Converted the two reception rooms downstairs into two bedrooms. This space was massive, so there was plenty of space for this
- The kitchen was big enough to be a kitchen diner. We put in a dining room table and chairs, television and two big fridge-freezers. There's lots of storage, a dishwasher, a sink and a double, five ring hob. It's a huge kitchen, so there's plenty of room to sit and eat and relax, as well as to cook
- There were three good-sized bedrooms upstairs. We put ensuites into the front two bedrooms, and the back room is a good-sized double, which is next to the shared bathroom
- Created a sixth bedroom in the attached workshop at the back of the house. It was a single skin of brick, so needed insulation and new plasterboard adding and the roof needed to be redone. We also added some windows and a back door. There has previously been an outdoor toilet, so there was the drainage there to be able to easily turn that into an ensuite
- Created seventh bedroom in the loft after builder identified the opportunity!
- Full re-wire throughout
- Full replumb and installation of a central heating system (it didn't have central heating before)
- Full acoustic linings - Cheshire HMO rules stipulate that you have to acoustically insulate the walls and ceilings to conjoining rooms and above the kitchen, so all the rooms have got acoustic insulation in them, which makes it feel a bit more like a hotel room, which the tenants love because it is more private
- Fire linings (to all communal walls and under the stairs)
- Smoke alarms
- Emergency lighting system



The Numbers

- Purchase Price (after all costs): **£93,500**
- Refurb Cost: **£56,991 & £8,700 redecoration and furnishing**
- Total investment (including all fees): **£163,481**
- Per room cost: **£23,000**
- Monthly gross income: **£2,900**
- Monthly expenses: **£650 mortgage**
- Utilities and bills: **£420**
- Investor payment: **£600**
- Monthly net profit **£1,230**

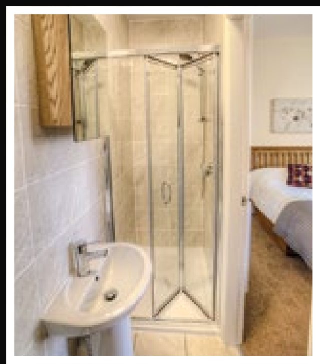
Tenants

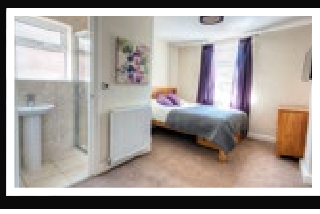
This one is a fully bloke-i-fied HMO, with all male tenants. All professionals, and all over 24.

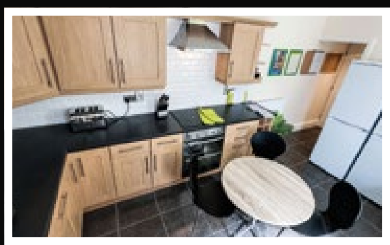
Our average room rent is about £100 a week. Some of them are lower than that, £85, £90 a week, and then for our bigger ensuite rooms we can get £125, £130 a week, so it does vary.

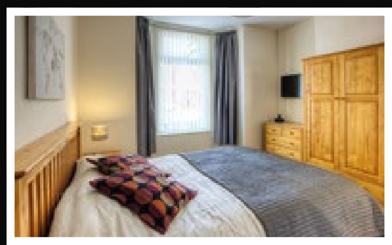
Timescales

It took about seven months from putting in the offer to the property being refurbed, and it was fully rented within the first fortnight of being finished.









Revaluation

We were initially going to remortgage after six months, but as we were going for a commercial revaluation we were advised to wait a little longer. After eight months it was revalued at £190,000, so we pulled out £142,000 and left in £21,000.

We could have pulled out a bit more, but as we wanted maximum cash flow it made more sense to leave some money in and reduce the risk to the bank, and give us a better deal. We have a brilliant deal with Lloyds on that one, actually.

The mortgage is £650 a month on that property, and that's a repayment mortgage. Not bad for a seven-bed HMO.

YPN *Strategy*

Buy-to-Sell & Flips

Refurbishing a Property for a Profit

Create lump sums of cash by buying to sell

The most glamorous of all the property strategies!
(Maybe that's just us.)

It's important to take the risks involved with this deceptively simple strategy seriously. Many investors find a great deal of satisfaction in renovating a near ruin or reconfiguring a poorly laid out property for a profit. Whilst there is no real limit to the potential scale and profits from property refurbishment and development, if taken lightly these deals can represent significantly higher exposure to short term risk.

The important thing to remember when with this strategy is that it can, and very often should, take time to move up the deal scale. You need to learn your craft by turning a profit on a house or a flat first, gaining the refurbishment experience you need before buying that massive warehouse which is crying out to be turned into ten trendy flats. That's not to say you need to learn how to plaster, or even pick up a paint brush yourself, but project-managing a refurbishment is often a severely underestimated skill. Profits are exposed to increased material costs if the project was not costed properly, or increased lending costs if it runs over the expected refurb schedule.

Many investors eventually aim to use buy-to-sell projects (often referred to as flips) to create cash profits that they can reinvest using other strategies for the long term. More experienced investors often use joint venture structures (where they work with other people's money) to fund large development deals. The profits are then shared between the project-managing investor and the joint venture partner(s) who provided the funds.

Buy-to-sell can be a capital intensive game. This is because to create worthwhile profits you need to invest in reasonably active markets. Real short-term profits are only really feasible in hot property markets.

With this strategy you are significantly at the mercy of greater short-term risks. We all know that historically house prices in the UK rise, but if you buy when times are good and there is a dip six months later, you could be exposed to significant losses when you have to sell.

Pros

- Significant cash profits
- Flexibility for joint venture structures
- Small projects are a useful tool to build experience and credibility
- Transforming eye sores into eye porn

Cons

- Exposure to fluctuations in the market
- Effective project management required
- Potentially capital intensive

Investor case study:
Ditching the Day Job for Full-Time Flips

Jonathon Breeze had always been keen to get into developing properties and finally made a start in 2011 when he bought his first property at auction. He renovated and sold it while working full-time.

He and his wife had had a couple of rental properties, but Jonathon was drawn to the BTS strategy as he felt there was a greater chance for bigger profits. From his day job he had a lot of experience in project management, and felt the skills would be transferrable.

When working on his third project, after repeating the model a couple of times, he started to think about going into property as a full-time business. He enjoyed watching the transformations of rundown properties and turning them into desirable family homes.

His target properties are those that attract first-time buyers: semi-detached, three/four bedrooms, in a reasonably affordable and desirable area. Back in 2011, the UK was still in a recession and the resale market wasn't strong. But there was, and always will be, someone looking to buy a house. On the plus side, the recession meant it was easier to pick up properties.

When identifying a project, Jonathon looks at the purchase and resale values of the property. He looks on Rightmove for sold comparables in the past 12-14 months within a quarter mile radius. He then walks around the area to get an assessment at street level of the sale prices. Talking to estate agents in the area will give

him an idea of the current market too. In cases where there isn't an exact comparable, he will look at the nearest equivalent property and add a small premium. He knows the quality of finish of his property is likely to be better than others.

He finds his projects via agents and auctions and has built relationships with both agents and auction house staff. They keep him up to date with any potential properties that might meet his criteria.

He funds his projects in several ways – his own cash, development finance, private investors, JVs. He has built up a reasonable track record and therefore has access to development finance through a high-street bank, which covers 60% of gross development costs.

ROI can vary widely depending on how much of his own money he's put in, so he tends to calculate profits from a minimum figure. He aims to achieve a minimum of £50,000 per development.

He determines his budget by first working out how much he can buy the property for, and how much he needs to sell it for to make a profit. Then he works through each element of the development to figure out if he will make his required profit. If yes, he'll put in an offer. If not, he moves on.

Jonathon project manages his developments himself. Once, he did outsource management to a builder but then felt the need to step back in as the builder wasn't doing the job to his standard. Moving forward, he would like to outsource more and be less hands-on so he can focus on the strategic side of the business.

Every project will throw up something unexpected. He has had issues such as woodworm, and spending more on foundations as the land wasn't as secure as originally thought. Jonathon advises to have a contingency in the budget to cushion the blow when things don't go according to plan.

Buying to sell is not a passive strategy, but it can be lucrative and generate big chunks of cash. When the opportunity to buy property significantly BMV is limited, it's important to develop the property to an excellent standard.

The full story about Jonathan's journey from part-time to full-time in property is in the March 2018 issue of YPN.

Project Case Study

Gainsborough Road

Type of property: 3 bedroom semi-detached, 1960s

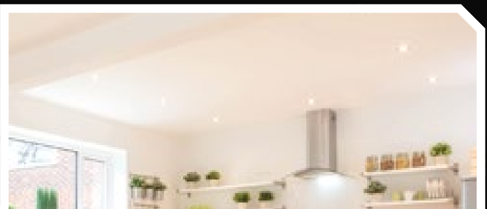
Purchase date: December 2016

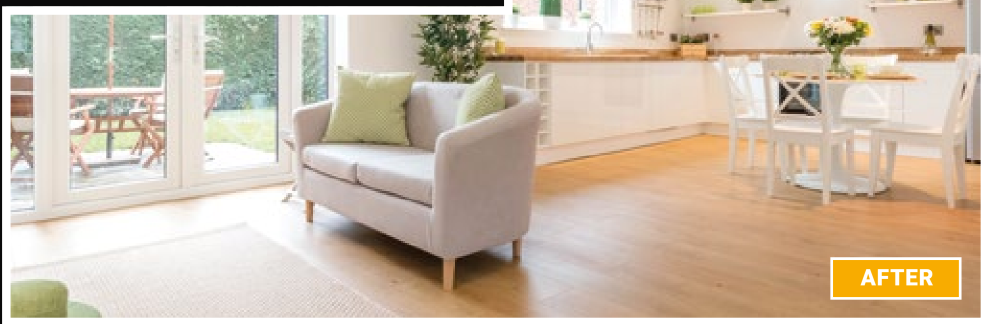
Purchase price: £160,000

Funding: Own money, Development Finance, Joint Venture

Development included:

- Removal of internal walls and chimney breast to create open plan living area
- French doors installed to rear
- Patio area created
- Repair garage roof
- Render front of property
- Full electrical installation
- New radiators
- Re-plastered
- New kitchen and bathroom
- Painting and decorating
- New laminate and carpets throughout
- 'Staging' for sale





Development complete:

January 2017

Marketing:

Guide price £225,000. Offer of £260,000 accepted following 'open house' February 2017

Sale completed:

May 2017

Overview of figures

Purchase:	**£160,000**
Fees & Finance:	**£19,000**
Renovation:	**£29,000**
Staging:	**£1,000**
Sale price:	**£260,000**
Profit:	**£51,000**

Worked with JV partner so split profit 50/50

You can find out more about this strategy with the YPN Guide to Refurbishment Projects

Click here to subscribe to Your Property Network for access

YPN *Strategy*

Commercial to Residential Conversions

Accelerate Your Profits from Refurbishment Projects

Commercial to residential conversions are a step up from buy-to-sell and flip projects. The principle is the same – you take a rundown property and refurbish it – but instead of hunting for an unloved residential property, you look instead for an unloved commercial property.

The beauty of this strategy is that you can usually create more than one unit from the property, thus increasing the potential profit from the deal.

Relaxation of planning rules in recent years has meant that such conversions have become popular with investors. They can be very lucrative too. You might be able to do some conversion work on certain commercial buildings under permitted development, or 'PD', though in other cases or where there is a significant increase in proposed size of the building, you will need to submit a planning application. Working with a planning consultant will help you find your way around the planning rules.

Is this a strategy for beginners? Perhaps not for your very first deal, but plenty of investors have taken the plunge at an early stage in their journey. As well as the technicalities of converting, say, an old office into apartments, you'll need to understand the ins and outs of how to finance projects of this type. A specialist broker can help with development finance and as you gain more experience, you can do what many others have done, and turn to private investors or joint venture partners.

Costs of conversion tend to be higher than with residential properties, so getting the end product right so that you can achieve the returns you want is key. Things can of course go wrong along the way, so you will need to add a decent amount of contingency to your budget. The risks are higher … but so are the rewards.

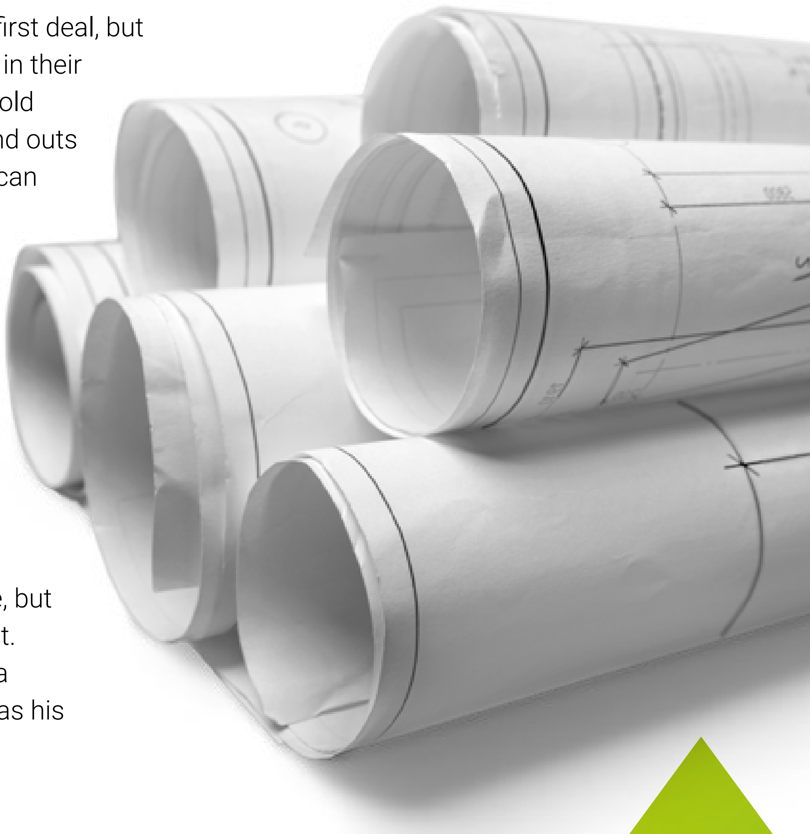
It may seem like a bit to get your head around at this stage, but when a project goes well, the rewards are definitely worth it. Be inspired by the investor in our case study, who took on a commercial to residential conversion – old pub to HMO – as his second ever project!

Pros

- Significant cash profits
- Flexibility for joint venture structures
- Potential for greater returns than on residential refurbishments
- Less competition when buying

Cons

- Subject to market fluctuations if planning to sell the units
- Need excellent project management skills
- Higher conversion costs mean higher risk



Investor case study:

Converting an old pub to a stunning HMO

Simon Roberts purchased a dilapidated and unloved pub on a three-year lease option with the ambition to convert it into a 12-bed HMO for young professionals.

The property – only his second – is in Leagreaves, North London. With only a 38-minute train ride to St Pancras, it's a good location for commuters. There is a hospital within walking distance to attract doctors and nurses to the area (both permanent and temporary). Consequently, there's a buoyant room rental market.

Formerly a pub then a restaurant, the build had been empty for five years before Simon took ownership. It was in a state of disrepair, complete with issues such as damp, rotted woodwork and crumbling ceilings. Vision was certainly needed to see the potential in the building. Simon and his wife used an architect for the basic internal structures, however the finished look was a combination of their imagination.

Simon discovered that in the past, there had been a successful change to a *"commercial down stay, residential up stay"*. Fortunately, the architect had worked on this previous change of use, so knew the building well and also had a good relationship with Luton Council. This meant he could submit the new planning permission request with some confidence that it would be accepted.

As it was such a large project, he wanted to be able to mitigate as much risk as possible. A builder was brought in as soon as the ball started rolling to help prevent costs spiralling out of control. Simon made sure to get a per metre costing from four different contractors to understand what the costs would likely be.

Simon, his builder and the architect became a team and oversaw the project together. The builder was mostly in charge, but Simon ensured that he was on site frequently in case any questions arose and so he could see exactly what was being doing to his property. During the earlier stages, the architect was heavily involved; however, as Simon's confidence increased the architect's involvement decreased but he was still only a phone call away.

> "I'm not in the property business, I'm in the people business"

Unlike many projects of this nature, nothing unexpected reared its ugly head. That was not down to luck; Simon ensured that each detail of the renovation was over-engineered. This came with a cost implication, but for Simon, this project is for life. The small additional costs did not have a huge effect on the end profit.

Simon's mantra for his developments is that each must be better than the last and provide a better experience for the tenant. It's important for anyone starting out to have a clear idea of who their tenant is going to be and to cater the facilities towards them. From the beginning, Simon knew he wanted to provide accommodation for professional people, and the best possible experience of living in shared house. In return, all he asks is that the tenants respect him and the property.

His dream for this property was that it would feel more like 'home' to the tenants rather than 'just a place to have a room for a little while'. As his tenants range from late twenties to early fifties, it's important to include facilities that will suit everyone. Each room is well over the minimum room size, with nine of them large enough to have a lounge area. They are all en-suite, and the kitchen is fitted with two of everything just in case, no matter how unlikely, all 12 tenants want to use the kitchen at the same time. Simon wanted to go the extra mile to stand out from the competition, so there are little extras such as instant boiling water taps to make tenants' lives that little bit easier.

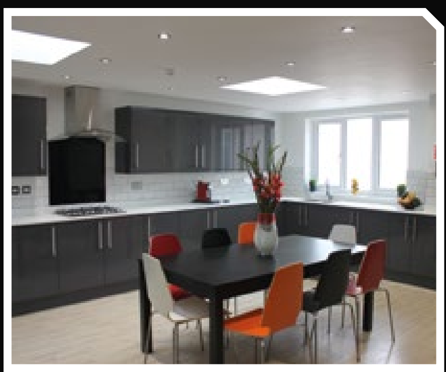
The décor is very different to what would ordinarily be seen in an HMO. It's all part of Simon's goal of making each tenant feel at home. He didn't want the property to have a sanitary, commercial feel. Although the overall colour palette in the house is neutral, each room has an accent wall to differentiate it from the others, along with splashes of colour throughout. The pop art wall in the entrance hall is a feature that particularly stands out. All décor is down to Simon's wife.

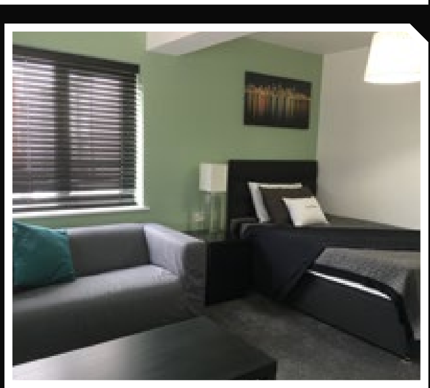
The full story of this commercial to residential conversion is in the December 2017 issue of YPN.

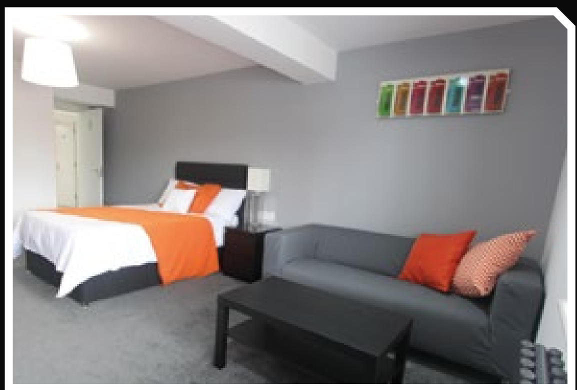
Project Case Study

Numbers

Purchase price	**£285,000**
Refurbishment costs (including breakdown of refurb/build expenses)	**£287,493.68**
Sale price or finished value	**£845,000**
Gross and/or net rental amount	**GROSS: £7,425/Month** **NETT: £3,403.97/Month**
Per room rate	**£500 to £650**
Net profit (on sale or refinance)	**£260,006.32**







Refurbishment Costings

Architects Fees	**£9,505.00**
Skips	**£4,500.00**
Asbestos Survey	**£462.00**
Quantity Surveyor	**£1,200.00**
Damp Survey & report	**£1,224.00**
Site Prep & Demolition	**£9,608.75**
Substructure	**£9,942.15**
Drainage & Incoming Utilities	**£6,274.50**
Structural Works	**£11,141.88**
Superstructure	**£35,090.53**
Doors	**£9,552.15**
Windows	**£750.00**
Roof	**£21,616.46**
Internals	**£33,781.60**
Decoration	**£14,718.41**
Kitchen	**£2,692.50**
Sanitary Ware	**£22,637.00**
Electrical	**£23,804.50**
Mechanical	**£16,168.12**
Externals	**£10,980.41**
Preliminaries	**£7,612.50**
Floor Tiles & Wall Tiles	**£5,032.13**
Bathroom - showers, sinks, toilets, taps, etc	**£8,147.50**
Kitchen - units, taps	**£4,511.64**
Kitchen appliances	**£3,190.00**
Master key entry system	**£936.71**
External signage	**£522.06**
Carpets	**£3,677.00**
Dummy alarms, cctv system	**£292.00**
External lighting	**£39.99**
Blinds	**£1,291.23**
Beds	**£3,505.00**
Furniture	**£2,866.00**
External Furniture, cigarette bins	**£219.96**

TOTAL £287,493.68

DIGITAL DOWNLOAD

You can find out more about this strategy with the YPN Guide to Commercial to Residential Developments Click here to subscribe to Your Property Network for access

YPN Strategy

Serviced Accommodation

Short-Term Accommodation – Long-Term Gains!

How to take advantage of the booming serviced accommodation market

Short-term serviced accommodation is currently one of the hot topics in property investment. From renting out a room in your own home to buying one or more properties specifically for short-term rentals, this strategy is proving a popular alternative to buy-to-let.

Serviced accommodation encompasses holiday lets, corporate lets and accommodating contract workers and business travellers. Airbnb, Booking.com et al have brought about a big change in this sector. It's become much easier for independent operators to get their properties in front of the searching public and though competition is increasing, so is demand for this type of accommodation.

There are potential pitfalls though – it can be easy to fall foul of mortgage conditions or terms of a lease if you don't check the paperwork. And it's essential to get the right property in the right location to attract people to stay there.

In reality, serviced accommodation comes under the hospitality industry rather than the property sector – as an operator you will be welcoming guests into your property rather than tenants. It might be possible to operate one or two properties on a part-time basis but setting it up as a business will without a doubt be time-intensive in the early stages.

The properties you let out will be fully furnished, often to a high standard. Consequently, set-up costs to get the property ready to let are higher, but a higher per-night return can compensate for this. Occupancy rates are one of the most important KPIs.

Pros

- Better returns than buy-to-let if occupancy rates are good – profitscan be **HUGE!**
- Good demand in a growing sector
- You get to work with awesome-looking properties
- You can use the property yourself if you want!

Cons

- Higher set up costs
- Hands-on and time-intensive in terms of marketing, management and customer service
- Can be challenging to finance
- Potential for mortgage, lease and local authority restrictions

Investor case study:
The Hospitality Professional

Lee Pemberton has a background in hospitality so his success in SA isn't surprising.

While working in Asia 20 years ago, he noticed many large hotel chains turning some of their suites into one-bed serviced apartments and spotted the trend. When he returned to the UK, he opened a small boutique hotel with a few apartments and a coach house. He found that corporate guests preferred staying in the apartments as they had the freedom to have their own space and cook their own meals.

He started using rent-to-rent to set up corporate lets, and by 2006 had 150 apartments – a mix of rent-to-rent and properties purchased on a commercial basis in and around Canary Wharf. His business seemed to be going from strength to strength.

Then the credit crunch hit. It taught Lee a huge lesson. His corporate SA contracts were with banks – and his customer base disappeared. He had to give leased properties back to the landlords and couldn't pay the finance on the ones he had purchased. The business went into voluntary liquidation.

He took the time to reassess what he wanted the business to be. Second time around he wanted to concentrate on systemisation so that he could control as much as possible. When Lee started to rebuild the business, he did everything himself: cleaning, answering phones, booking, etc. Over time he got an idea of what the roles consisted of and the time needed, and only then began to

outsource to cleaning companies and call answering services.

Sites like Booking.com and Airbnb have made people aware of what SA is and there is a huge demand for it. On the other hand, finance providers haven't caught up yet. Lee has raised finance for developments from commercial lenders.

> "Lee's model is to aim to make an average of £500 net profit per month on each SA unit, based on 60%-70% occupancy."

SA is not a part-time business. It doesn't make sense as a side-line business as it is very labour-intensive when starting out. It's also very customer-orientated. Lee has a background in hospitality and so has experience in accommodating guests. When doing SA, guests are clients – in his view, it's the job of the investor/landlord to make sure these clients are 100% happy at all times. SA may not be a good fit for landlords who consider the tenant 'the enemy'.

Lee's advice for those starting out in SA is to:

- **Learn the business. Go on a course or shadow someone who's doing it. There's no point trying to reinvent the wheel.**
- **Start with R2R. It's an easy way to learn the business without investing hundreds of thousands of pounds upfront.**
- **Avoid large apartment blocks. Leases often prohibit short term lets and breaching the lease can have serious repercussions.**

There are some bigger operators moving into SA, and Lee suspects that some of the larger hotel chains will look to diversify into the market, but there is still an opportunity for smaller players. Anyone entering the SA industry must be able to be flexible and adapt to changes.

The trick will be to differentiate and have a more unique offering than the big brands by going the extra step. Laundry service? Online shopping? Seven nights for the price of four?

People increasingly want convenience and are happy to pay a premium for it. Lee can see a real potential for opportunities to create a product that gives flexibility and suitability for ever-changing lifestyles.

The full article about Lee's serviced accommodation business is in the February 2017 issue of YPN.

Project Case Study

This was a development of 10 apartments – mixed usage with retail downstairs.

Tenanting this property

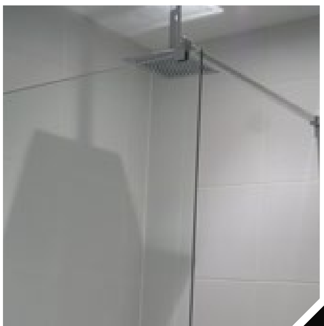
I had a guest staying in one of my R2R properties and happened to notice that she had a corporate email address.

I arranged to do a meet and greet at the property, and as I carried her bags up the stairs, I chatted to her about what she was doing in the area, etc. It transpired that she was one of a group of 10 people about to start a 3-year project.

I explained a bit about what I did, and my development, and they were really interested. They loved the fact that everyone would be housed together within the same block. No hassles, bills included, and with a full housekeeping service, etc.

I managed to secure an agreement for the full 3 years with them paying a monthly fee. They are still with me now. It would be very easy to say, “Lee got lucky with that guest”, but I find the harder I work to create a quality product and offering, and the more I put myself out there, the luckier I get!

I want to explain exactly why our proposition was so appealing for these guests. It's not only about the quality of the accommodation, although that is part of it.

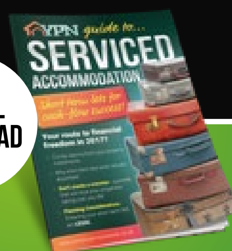


Many corporate guests will arrive on Monday evening and leave on Friday morning, so they actually only stay overnight 4 nights a week. If they stayed in a hotel, they would have to vacate the room and take everything with them. They have the property 7 nights a week from us, and we add in a few extras to really give them convenience of living there.

Our cleaner goes in on the Friday and collects their clothes and checks the fridges, etc. Clothes get dropped off to be laundered, and the cleaner orders an online food shop to be delivered on the Monday. The local laundry service drops off the clean bed linen and the guests' clothes the following Monday. Whilst the cleaner is cleaning the apartments, the clean clothes are hung back up in the wardrobes, and the online food delivery arrives and is put away. When the guests return Monday evening, the apartments are clean, their clothes have been put away, and there are food essentials in the cupboards and fridge.

You can see now how much this varies from a BTL business, and how those wanting to have successful SA businesses must be customer focused.

DIGITAL DOWNLOAD



You can find out more about this strategy with the YPN Guide to Serviced Accommodation Click here to subscribe to Your Property Network for access

YPN Strategy
Rent-to-Rent

Make money from property without owning it (1)

Rent-to-Rent – what it is and what it isn't

Rent-to-rent – a much-debated strategy that is easy to understand, deceptively tricky to implement successfully. Yet many rent-to-rent investors find that their property businesses snowball after they get over that first tricky deal, creating some truly life changing results.

In the pages of YPN we have regularly featured rent-to-rent deals that have bagged our readers upwards of £1,000 per property per month! With those sorts of numbers, how many deals would you need to do to replace the income from your day job?

Put in the simplest terms, a rent-to-rent deal is when an investor (you) rents a property from a landlord, and then lets the property on a room-by-room basis. The difference between the single let rental payment to the landlord and the multi-let rental income from tenants is profit.

For example, you rent a four-bed house from a landlord for £800 per month. You can convert a reception room, thus creating five lettable bedrooms that each rent out for £400 per month. Your total rent is therefore £2,000 per month, leaving you £1,200 minus costs. Generally you (as the multi-let landlord) pay council tax and bills – costs that are included in the rent.

Since you are not buying the property you don't need a large cash pot and there is no need for mortgages. For this reason, rent-to-rent is a great place to start if you are not sitting on a pile of cash or not currently able to get a mortgage.

But wait! Isn't that sub-letting and therefore illegal? This is a common misconception. As long as the original landlord and their mortgage provider are informed and the correct insurance is in place, rent-to-rent is an entirely legitimate business model.

Why would a landlord do this? Usually because they are not letting the property effectively, or are not interested in running an HMO. They are therefore likely to be very attracted to a contract whereby you will guarantee their rent for the next three-five years.

Pros

- Low start-up costs – no mortgages – no large deposit!
- Generates income **FAST**
- Massive returns – you will have very little money locked up in the deal
- A great way to begin to establish yourself as an effective investor to attract joint venture partners

Cons

- A hands-on strategy that involves work to keep the rooms filled
- Explaining the concept to landlords can present a challenge

Investor case study:
The Power of a Niche Market

Giuseppe Leone and his wife Gilly have lived in Bristol since 2004 and started Lion Gate properties in 2014. They specialise in HMOs and serviced accommodation, using the rent-to-rent (R2R) strategy. In 18 months, they grew their portfolio from zero to seven properties.

When Giuseppe started in property he realised that for him purchasing wouldn't be financially viable in his home city. To make the most of his financial assets, he attended a course with Property Mastery Academy, and decided to start with R2R.

Using this strategy has allowed him to build a business with only a few thousand pounds in the bank, and to learn the skills needed to manage HMOs.

Between the two of them, Giuseppe and Gilly speak Italian, Spanish, French and basic Japanese and German. They have used their flair for languages to their advantage to create a niche market, where they're able to connect with potential tenants moving to Britain from abroad.

They market their properties on Facebook groups, and advertise to expats in their own language. Many people come to the UK with a job but no accommodation. Giuseppe and Gilly respond to messages and in addition, offer to a be guide for the city. Tenants appreciate talking to someone in their own language.

As most of their tenants are foreign, their houses have become international communities.

Every tenant understands the struggles of moving to a new country, so Giuseppe shares mobile numbers and/or skype details so potential tenants can speak to someone in the house before they move in.

30% of the time, their rooms are let before the tenants touch down at Bristol airport.

They find properties by approaching landlords through letters, websites (Gumtree & Spareroom) or by landlords getting in touch directly. They send letters to licensed HMO landlords on a regular basis. Presenting themselves as a husband-and-wife team tends to put owners of the properties at ease and possibly helps open some doors.

Once the deal is agreed and they take over the management of the property, they have a maintenance company who are available 24/7. This means they can have someone at a property within two hours if there is an issue. To let the rooms, they have partnered with iLet4u, a bespoke letting agency run for landlords by landlords. They offer a full range of bespoke services, from the standard 'tenant find' to 'DIY' – a service that allows the landlord to upload details of the property so it's automatically published on 34 online portals. They also offer a 'no void, no fee guarantee', which is a complete hands-free solution.

The business's roles are split equally between Giuseppe and Gilly. He takes care of strategy, portfolio expansion, marketing and finance while she runs the day-to-day operations. It allows them to have the perfect family balance.

They initially used their own funds to start the business and then reinvested the profits to grow. At the time of writing, they have reached a point where they want to grow even more so are looking at different funding options.

When Giuseppe left his job in 2017, he achieved a six-figure redundancy package, which he planned to use to buy properties and add value. The goal is to recycle his money several times and end up with a portfolio with little money left in.

On average, their tenants stay between four months and a year. Having a four-month contract suits their international market as they often don't know if they will like the area and want the option to move home in a few months. There is a 10% turnover per month, and all tenants are on individual ASTs.

Guiseppe's full story is in the August 2017 issue of YPN.

Project Case Study

The Property

This is a big 5-bedroom house, which is a licenced HMO in Southmead Road. Originally it was rented by the landlord to the council for young people who needed to be reinstated into society. When I viewed the house there were dirty nappies on the stairs, everywhere was very dirty and in the living room you couldn't even see the carpet as it was covered with boxes!

The landlord has got a fairly big portfolio in Bristol and I got in contact with him through my marketing letters. The timing was great, as he received my letter just as he was having to take the decision on renewing his contract with the council. When we met I explained all the advantages of rent-to-rent, including the fact that the house would be left in a very good state, instead of being destroyed year after year by council tenants. He was very interested and we haven't looked back.

Works completed

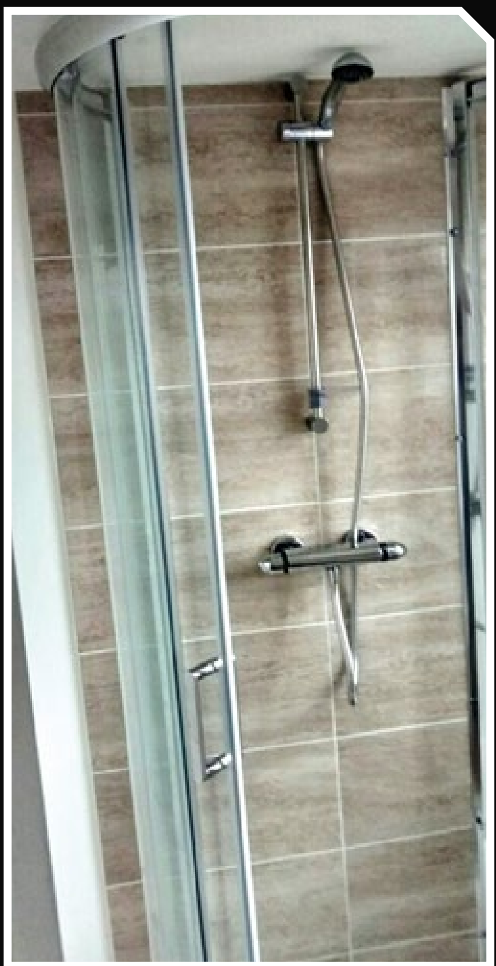
We agreed to repaint the whole house, replace all carpets and we bought brand new furniture and artwork. After the refurbishment the house looked brand new. The landlord was so surprised and said he couldn't remember that it could look so good. He was so happy he agreed on another 2 rent-to-rent deals with us and we are currently discussing taking on others as soon as the contracts with the council need renewing.

The Numbers

Purchase Price (after all costs):	**N/A**
Refurb Cost:	**£4,000**
Monthly gross income	**£2,580**
Landlord rent:	**£1,450**
Monthly expenses	**£336**
Monthly net profit:	**£764**

Timescales

A month - 1 week to do the refurb and 3 weeks to rent the 5 rooms.



You can find out more about this strategy with the YPN Rent-to-Rent pack

Click here to subscribe to Your Property Network for access

YPN *Strategy*

Purchase Lease Options

Make money from property without owning it (2)

An introduction to Purchase Lease Options

What is a purchase lease option? It is a contractual agreement between the investor (you) and the vendor, which gives you the exclusive option but not the obligation to buy a given property, at a fixed price, within a given time frame, as long as you pay a monthly option fee. This fee is normally set at a level to cover the vendor's mortgage costs.

Investors often refer to such a deal simply as an 'option'.

An option is a powerful tool that allows you to invest in property without the need for a mortgage. Options are flexible legal agreements enabling you to take control of properties without buying them straight away. Commonly they are used by investors who are willing to take on the added work of running a large building as a multi-let when the owner does not wish to do so or does not have the cash to convert the property. However, they can also be used to secure control of a building for other purposes; a good example is where planning permission is required to make a deal profitable and the investor does not want to commit to buying the property before gaining this consent.

How an investor benefits:

- **Cash flow – from converting a single let into a multi-let that generates a great return; the profit is the difference between the option fee and the monthly rental income (minus usual costs)**
- **Capital growth – because the option is at a fixed price the investor, should they chose to exercise the option, will benefit from any capital growth during the option period**
- **Control of the building without buying immediately – allowing time to gain planning consent or carry out refurbishment works**

Vendor benefits:

- **Mortgage covered**
- **Responsibility to the tenants and building passed to investor**
- **Potentially some share in the profits if this is agreed in the option price**

Pros

- Control of property without the need for deposits or mortgage finance
- High cash flow for potentially limited capital input
- Capital growth from property you do not own

Cons

- Difficult concept to convey to vendors and estate agents
- Potentially hands-on HMO management
- Specialist solicitors required

Investor case study:
The Property Sharp-Shooter

How to replace your salary within 12 months

After a military career as a Royal Marine sniper, Mark Redfern settled in Plymouth and turned his hand to property investing in this coastal city. It may seem a tame way to earn a living compared to what he was doing before, but he applied his sharp-shooting skills with military precision to hit the target of replacing his salary within a year.

It was an intense 12 months, but he surrounded himself with knowledge, support and the right people by going on a year-long education programme (Simon Zutshi's Mastermind) to accelerate his journey. He and his wife had become accidental landlords a few years earlier and had bought another rental property along the way but these were not generating much cash flow, so buy-to-let alone would not get him to his target.

Mark moved away from the buy-to-let model towards alternative acquisition and higher cash flow strategies. That led him to use purchase lease options and rent-to-rent (R2R), which don't necessarily need a huge amount of money upfront, to acquire properties to rent out by the room. In addition, purchase lease options, his preferred route into property investment, would also mean that he could control the asset and retain equity if the value went up; R2R properties, though great for cash flow, would mean losing out on any potential equity gain.

"Maintenance – or more pertinently, cost of maintenance – can be a tricky issue in lease option deals"

Mark makes sure that this is covered in the agreement. In his view, the best advantage for the seller is when the option-holder takes over all aspects of maintenance and associated costs, which can be particularly attractive if the former has had problems with the property. *"If you can structure the deal so that you take over all the costs, which is what I try to do with mine, so they have the lease fee coming in every month and nothing going out, it can work a lot better. The content is so flexible on lease option and management agreements that you can thrash out with the owner what's going to work best for everybody. I like to take everything on because of the responsibility to my tenants. It also makes it easier for the seller and I can negotiate a better lease fee."* He mitigates the risk of bigger costs by insuring as much as possible, for example, taking out boiler cover. This approach avoids the potential of disagreements between Mark and the owner over what repairs need to be done, which could delay work and lead to unhappy tenants.

His target for the year matched that promoted by the education programme he attended – £1m in property, £50,000 income. *"I thought that was a bit of a stretch, but nearly got there! My income by the end of the year was just under £50,000 and, depending on how the properties are valued, I control and have the option on about £1m worth of property. Although I don't own it yet, any increase in value will be locked in as long as I exercise the option."* He is earning more now than he did before – an impressive and inspiring feat by any standard.

With his wife still working full time, an added bonus for Mark is that he is available to look after the children, managing all the property work while they are at school. "Not many dads get to do the school run so I feel quite privileged – and I'm making more money at the same time!" In fact, the family is his whole *"reason why"*, something he believes is very important for this type of venture, "to keep you going when things get tough."

The full article of Mark's hectic year can be found in a back issue of YPN.

Project Case Studies

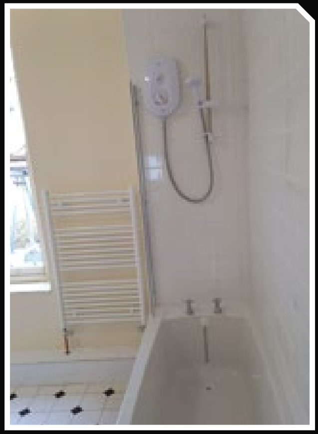
11-Bed House

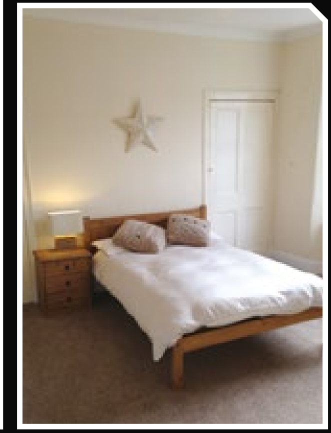
Option fee: £1
Agreed purchase price: £415,000
Term: 5 years
Estimated current value: £395,000
Refurbishment: £5,000

MONTHLY FIGURES

Rental income
(11 rooms @ £433): £4,766.67
Lease fee: £2,000
Bills: £934.99
Net income: £1,831.68

When the property is let as a student house again next year, he will no longer have to pay council tax so the bills will be lower and he anticipates a cash flow of around £2,000 pm.





7-Bed Student House

Option fee: £1
Agreed purchase price: £220,000
Term: 4 years
Estimated current value: £220,000
Refurbishment: £0

MONTHLY FIGURES

Rental income (rooms @ £433): £3,033
Lease fee: £1,500
Bills: £436.20
Net income: £1,096.80

You can find out more about this strategy with the YPN Guide to Options

Click here to subscribe to Your Property Network for access

YPN *Strategy*

Development

Developing for Profit

Where to start with new build development and major refurbishments

'Development' is such a broad term that it encompasses a whole host of strategies that you can adopt with even having to lift a trowel!

As well as the more obvious back-to-brick refurbishments or new build housing, there are development sub-strategies that you can profit from even if you don't want to get involved in the build. For example, some people search for opportunities where they can add value by getting planning permission, then selling the property on to a builder or developer. Another sub-strategy is land assembly, where the investor negotiates with a number of neighbouring owners to collate adjoining parcels of land to create a plot on which they apply for planning permission, again selling on to someone else once they've created the value in the plot. As you might imagine, negotiating with several people can take patience and such deals can be a long time in the making – but when they happen, they can pay off big time!

With the government keen to encourage homebuilding in the UK, development has become a very popular strategy for investors. Key skills are seeing the potential in a site, valuing the site, project management and being able to fund deals as well as having an understanding of the build process. Perhaps more than with any other strategy, you'll need to work with a team of experts who can advise you on the specialist and technical aspects of the project.

Development also opens up opportunities to joint venture with other people. While developers frequently seek joint venture partners to fund their deals, as a beginner, being a funding partner can be a way of shadowing a project and gaining experience if you are new to it.

It's not the best strategy to start with if you're low on funds, but if you are keen to head in this direction, consider starting with a small refurb to get some experience.

Pros

- Potential to create **MASSIVE** profits
- You can make a profit from 'planning gains' without getting involved in the build
- Great for creating cash lump sums
- There are ways to mitigate the risk of not getting the desired planning outcome

Cons

- Capital intensive
- Project management skills essential
- Specialist teams and skillsets required, depending on size of project
- Can be challenging to finance without experience

Investor case study:

From Tiny Refurbs to Multi-Million Pound Developments

Over the past few years, father and son team Peter and Dick Dabner have progressed from refurbing properties to rent out, to building to sell, to more recently building to rent.

When they started investing in property over 15 years ago, their dream was to build a property portfolio worth £1m. After the 2007 credit crunch, however, they couldn't keep all the properties they were refurbishing so they started selling some units and put the proceeds towards a development site – their first proper new-build project.

This deal was a pair of semi-detached houses that already had planning permission in place for eight two-bedroom flats. Their target sale price per apartment was £250,000. In the end, they sold on average for £244,000. As Peter and Dick were the freeholders of the building, when any flats were resold, they were able to monitor the values. Only a few years after completion, apartments were selling for £300,000.

Spotting the trend, this sparked the idea to start building to rent. They still build to sell as well as for rent though, and choosing which strategy to use for a project comes down to several different factors. In terms of design, the finished product doesn't vary.

The end-user demographic tends to be young working professionals regardless of whether they are selling or renting. They use their own design matrix, developed over several years. This contains a list of standard products they know are of high quality. If selling, they may decide to finish with a slightly higher quality to achieve a premium on the development whereas when renting, it's important to get durable, easy-to-maintain items.

They tend to budget between £1,200-£1,500 per square meter for a build. They calculate costs by starting with end values, taking off 20% for profit and working backwards to check off all works and costs, plus a contingency, to the beginning. They sometimes negotiate a delayed completion with the vendor, by offering at least 10% deposit with permission to start works.

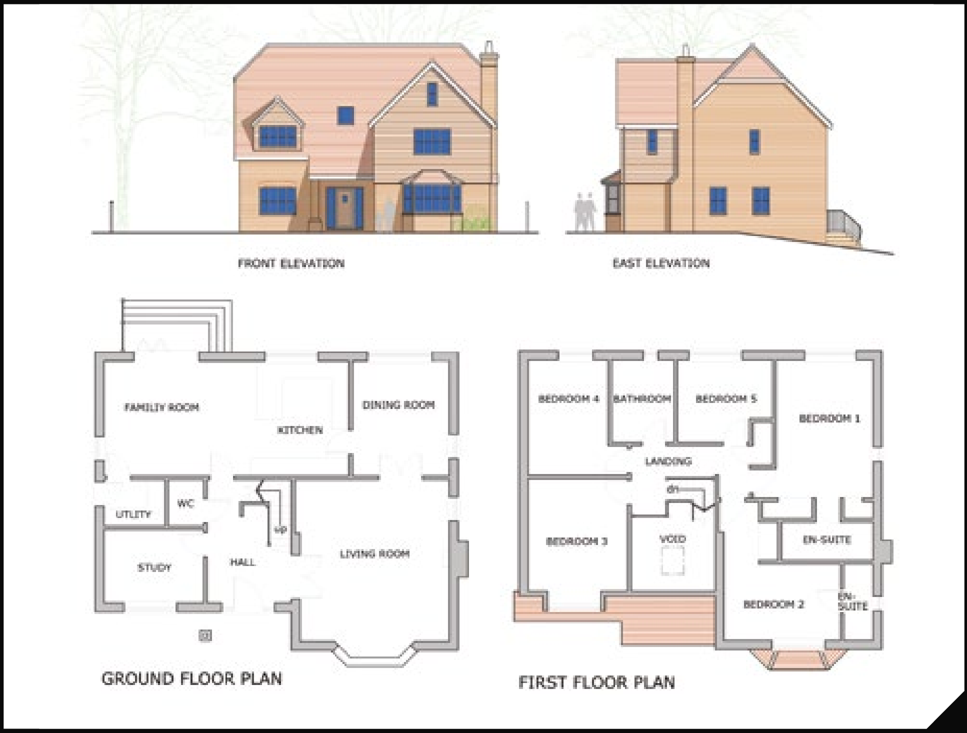
You can read the full story of Peter and Dick Dabner's property journey in a back issue of YPN.

Project Case Studies

Furzefield

This bungalow had a large back garden. We purchased it subject to planning for 2 x executive new build 5-bed houses on the land to the rear, and also refurbished the bungalow.

- Date: **2015/16**
- Purchase price: **£740,000**
- Build budget: **£900,000**
- Renovation budget: **£80,000**
- Projected end values for new builds: **£2,400,000**



Watford

This site was purchased as a pair of semi-detached houses with planning permission for 8 x 2-bed flats, so it was a demolition and new build scheme.

- Date: **2013/14**
- Purchase price: **£495,000**
- Build budget: **£900,000**
- End values on sale: **£2,013,750**

YPN *Strategy*

Joint Ventures

The Keys to Joint Venture Success

Property investing may seem a rather lonely occupation when you start out. However, hopefully some of the case studies we have shared in the pages of this guide have shown you how the best deals often come about when investors work together.

Joint venture investing is not an investment strategy in the same way as buy-to-let or rent-to-rent. It's more of a skill that will soon become a critical part of your investor toolkit should you wish to continue to scale your property business.

The facts of the matter are that we are all working with limited resources. Three of the potentially scarcest resources for your average investor are:

- **CASH – A great deal might be on the table but all your funds are tied up in other projects.**
- **TIME – You might have a career that takes time priority over your property interests**
- **EXPERIENCE – You might be limited by your concerns about the risks in property and want to work with someone who knows what they're doing to make the most from your funds.**

The great news is that you are not alone in the property world. Have you ever considered attending one of the two hundred or so monthly property networking events across the UK? There are literally thousands of investors looking for joint venture partners to overcome the obstacles above. Having said that, it can take months to find the right combination of deal and potential investing partners. Establishing the right working relationship with your joint venture partners is critical to a successful outcome.

Joint venture partnerships work best when it is very clear what each party is bringing to the deal and the outcomes everyone is looking for are aligned. All the parties should be working towards a clear Plan A result.

Successful investors appreciate that working with other property people to create shared profits is much more lucrative than regarding all your peers as potential competition.

Investor case study:

What Makes for a Good Property "Marriage"?

Alex Seery and Simon Platt have been working together for a couple years, so far without a cross word.

Alex is based in Nottingham and has made great progress in property in a short space of time. He has acquired six HMOs through rent-to-rent and by purchasing with Simon.

Simon has been involved with property for over ten years and has vast experience in refurbishment and developments. He is based in the Bournemouth area.

Together, they invest in professional HMOs in Nottingham. As Article 4 is in place in the city, they seek out suitable properties to convert into HMOs outside of the restriction area.

They met through a property mastermind education programme. Alex decided he needed to work with an experienced investor and began putting feelers out. Simon replied promptly, and their values matched up. Alex was looking for someone who was reliable and could communicate effectively, and Simon was happy to work with an individual who was dedicated and willing to work hard.

At the beginning, they aimed to get one property and make it work for them both. That would set a precedent for working together, establishing a model they could continue to replicate.

The essence of a good long-term relationship is groundwork, boundaries and teamwork and here they share some tips on how to best get the results from working within a JV structure.

1. **Assign roles and responsibilities.** Clear guidelines on who does what and who is responsible for what are an essential step to avoid stepping on toes. Trust is a big player – you must each be confident in the other's ability.
2. **Work as a team for the common good.** Long term business relationships demand a different approach from short term JV projects. Each putting in 100% yields 200% in results. Look at what you can give each other rather than what you can take from the partnership.
3. **Have a clear model to make your money go further.** Running out of money is frustrating and can quickly reveal any cracks in a relationship. Alex and Simon tend to buy rundown properties BMV to convert into boutique HMOs. Once tenanted, the property is remortgaged.
4. **Agree the financial structure.** Alex and Simon's agreement is that Simon funds the project and Alex does the practical work. The profits are divided 50/50. Any money left in a deal is treated as a loan from Simon to the project at a lending rate that covers his borrowing cost.
5. **Put good systems in place.** An HMO portfolio can be a headache if not properly managed. Alex ensured that management would not be an issue in the JV, and has created well-organised systems. They have a maintenance team on standby, key safes and the tenant management system is online.

6 **Know your patch. At least one partner must know the investment patch inside-out.** Alex is thorough in testing tenant demand before making a purchase in a new location within the city. Simon, who is new to Nottingham as an investment area, trusted Alex's due diligence.

7 **Work through the challenges.** Simon and Alex have not experienced any interpersonal issues since working together, but they have encountered plenty of other issues. They rely on each other's strengths and experiences in their relative fields to be able to overcome any obstacles without pointing the finger of blame.

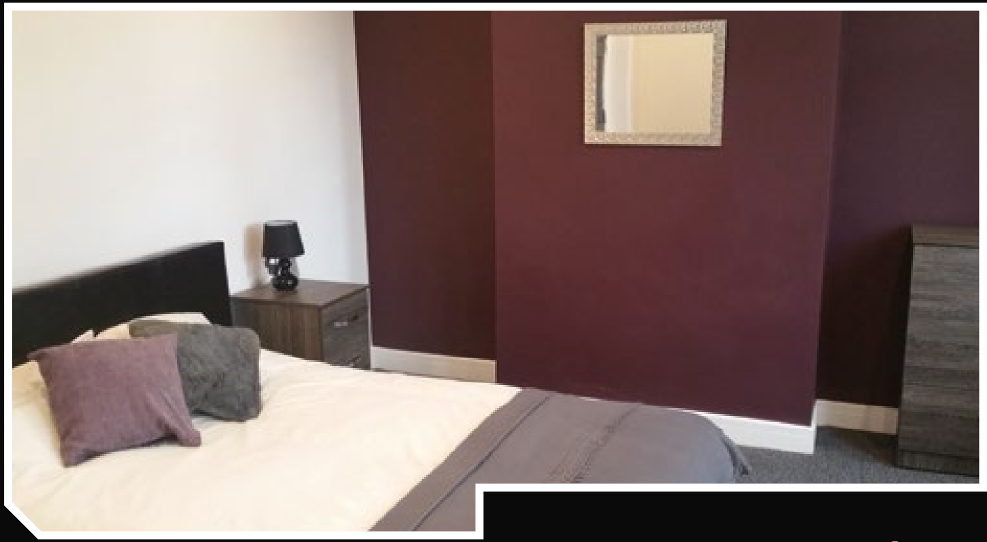
The legal structure of a partnership is a big issue. Each party must protect their interests not only for their own benefit, but also their families.

Alex and Simon sought professional advice from accountants and solicitors. Each partnership will be different, based on people's individual circumstances. Simon buys property through a limited company, and Alex has a Deed of Trust and a commercial agreement to manage the property for the company.

Never go into a JV based on valuation only. Aim for a relationship where you can learn from each other, communicate effectively and, most importantly, have a laugh.

Simon and Alex have a long-term partnership and have become life-long friends as a result. In a JV, aim to be respectful of the other person, be transparently honest and share the same values.

The full story of how Alex and Simon work together is in the June 2016 issue of YPN.



Project Case Study

10a Portland Road

Purchase price	**£107,000**
Deposit	**£26,750**
Refurb cost	**£40,383**
Total money in	**£67,133.50**
Rents	**£2,350**
Bills	**£425**
Mortgage	**£204.96**
Voids	**£0**
Profit	**£1,720.04pcm**

50/50 = £860.02pcm/£10,320.24pa

ROI	**15.3%**
Remortgage	**£155,000**
(on a bricks and mortar basis)	
New mortgage	**£131,750**
Pay old mortgage off	**£51,500 left to pull out**

£15,633.50 left in the deal

Rent	**£2,350**
Bills	**£425**
Mortgage @ 4.69%	**£514.92**
Voids	**£0**
Profit	**£1,266.25**

50/50 = £633.13/£7,597.50

ROI	**48.5%**

Please note that this property has not had a void period since we bought it

DIGITAL DOWNLOAD

You can find out more about this strategy with the YPN Keys to Joint Venture Success

Click here to subscribe to Your Property Network for access

YPN Strategy
Sourcing

Sourcing Properties for Cash Flow

Finding property deals is an essential skill for property investing. However, it is possible to boost your income by sourcing deals for other people as well as yourself. And it's something you can do with very little outlay.

The amount that you can earn varies from around a £100 or so for an unqualified lead, to several thousand pounds for a fully packaged deal. In essence, the more work you put into the deal, the greater the return.

There are lots of ways of finding deals, ranging from door-to-door leafletting to advertising in corner shops to working with estate agents – in YPN readers keep us up to date with what methods work for them in their areas – and you'll need decent negotiating skills to get the property at a good price. But to sell a deal on, you also need to be aware of the rules and regulations. The penalties for not doing so are high.

In the following article (the full version is in the March issue of YPN), Tina Walsh explains how she got into deal sourcing for other people, and also outlines what you need to know before you get started.

In YPN, we regularly run specialist articles to help you to stay up-to-date, covering legislation updates, market trends, changes in lending criteria, tax changes and implications and a host of other subjects.

Pros

- Can start with little or no funds
- Can generate significant cash flow within a few months

Cons

- Need to be aware of legislation before starting
- Keeping the balance of a pipeline of deals and investors who want to buy them

Investor case study:

How to be an Ethical Property Sourcer

SETTING UP A SOURCING BUSINESS

Tina and her husband invested in property before the crash in 2007. Then, like many, they were badly affected by the recession. They loved the property sector but were nervous to start personal investment again. After speaking to a mentor, they discovered deal sourcing.

The first year of this new business was spent networking with investors who might be interested in generating good returns by investing in the north. During the same period, former police officer Tina took time to investigate the regulations to make sure the business was compliant and legal. A sourcing business must have the correct forms, contracts, Ts and Cs, registrations, policies and procedures in place.

As a company, they endeavour to understand what investors are looking for and whether their chosen strategy will work in their area. Most clients come via word of mouth, and therefore they gain trust quickly. Getting the first property for a client is always the most difficult, but after they tend to relax and trust Tina's judgement.

Keeping the pipeline vs deal purchaser balance can be a challenge for sourcers, but Tina's way of working is to source directly for the investor rather than finding a deal first and then sending it out to multiple investors.

They tailor evaluations of deals based on the clients' criteria and calculations. They ask a stack of questions to elicit motivation and goals: why start investing? Why use this service? What are their short, medium and long-term goals?

With the answers to these questions in hand, Tina focuses on what a client wants a property to do for them, then follows on by asking about financials: how much do they have to invest? How will they finance any further investments?

When Tina started her sourcing business, information about the legislation wasn't easily accessible at all. Since then, guidelines have been published and can be found with a simple Google search. It took her a while to be fully compliant as she was learning as she went along – it took about two years to get everything in place.

When Tina and her team create presentations for an investor, she produces a detailed document filled with information on the boiler, roof, wall cracks, etc. She provides tradespeople if anything needs a further look. This ensures that the client has the full picture and understands any costs of refurbishment required on the property.

Tina has authored a book on how to make property sourcing compliant. It's her goal to make as many sourcers as possible aware of the risks of not being compliant and to therefore raise the standards of the industry. She now educates investors on how to tell if their sourcer is legitimate.

The essentials

To become a sourcer, you must:

- **Register with one of the ombudsman schemes (The Property Ombudsman or Property Redress Scheme)**
- **Register for data protection**
- **Register for Anti-Money Laundering supervision**
- **Have professional indemnity cover for at least £100,000**

Failure to register with an ombudsman scheme can result in a fine of up to £5,000, while breaches of regulations could land you with an unlimited fine. A serious breach of Money Laundering Regulations can result in up to 14 years in prison.

Registration is just the tip of the iceberg – after that it's necessary to be able to prove that regulations, policies and procedures are being followed on a day-to-day and client-to-client basis. Once your business is set up correctly, it's a case of monitoring any changes of regulations.

Legally, sourcing is considered the same as an estate agency. The only difference in definition is that an estate agency is contracted to the seller of the property and sourcers are contracted to the buyer/investor.

Tina's advice for new sourcers to stay on the right side of the law:

1. **Registration with the appropriate bodies (outlined above) and implement their codes of practice.**
2. **Treat sourcing as a business, not as a quick way of making money.**
3. **Be professional.**

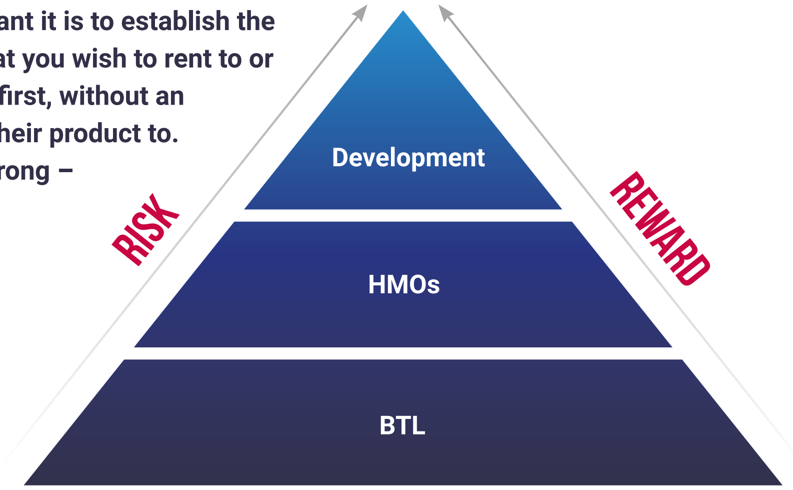
You can find out more about this strategy with the YPN Property Sourcing 101 guide

Click here to subscribe to Your Property Network for access

Choosing the right strategy for you

By **Mark Lloyd**

I have written in previous articles about how important it is to establish the profile (avatar) of the type of customer (tenant) that you wish to rent to or sell to. I see too many investors focus on strategy first, without an inkling of the type of customer they want to offer their product to. Think like a business, however, and it's difficult to go wrong – customers come first!



PROPERTY PYRAMID

Here are a couple of questions for you to consider:

- **What is Property Investing?**
- **What is the difference between a Landlord and an Investor?**

Property Investing is the purchase or control of a property in order to make a return on capital employed (ROCE).

Are you a Landlord or an Investor? In general a Landlord invests locally, controls his/her properties themselves and self-manages them. A Property Investor could invest anywhere his/her market analysis dictates, and will delegate the running of their portfolio to a third party. This could be an agent or a directly employed person. Both Landlord and Investor are fine, but which do you want to be?

Once you have decided where you sit and the type of customer you want to deal with, then it is time to consider a strategy. So here is a list (not fully inclusive) of some of the more well known strategies. Take a look at the schematic to the right, where I have given three different strategies to highlight risk vs reward:

You can see that risk often reflects lenders' attitudes to lending. Low risk items are relatively easy to get lending for; medium risk not as straightforward; and high risk harder to get lending.

Let's take a brief look at some of the strategies ...

MEDIUM TO LONG TERM (OWN)

BUY-TO-LET. The bread and butter of property investment. Buy a property and let it out to one customer (individual or family).

Good for first time and 'armchair' investors. Set up correctly, needs little managing, but if you fall into the investor category then you should consider an agent or equivalent arrangement – the last thing you want is to be woken up in the early hours with a maintenance issue!

MULTI-LET. Also known as HMO. Letting out rooms can make considerably more money than single buy-to-lets. However with extra income comes more risk. HMOs take more time to manage and are increasingly more regulated. Many HMOs require local council licences. In some areas you need planning permission to convert a house into an HMO (Article 4).

Good for maximising income, but higher risk and consumes time. You need to know what you are doing and to be successful, customer profiling is essential in my view.

You will also need good management and if you are using an agent, select carefully. HMOs are about building a community of people who enjoy living together. The more attention you pay to creating a community, the longer your customers will stay.

Not for the amateur.

MEDIUM TO LONG TERM (CONTROL WITHOUT OWNING)

LEASE OPTIONS (ALSO KNOWN AS PURCHASE OPTIONS). The property owner enters into a formal agreement with you, giving you the right (but not the obligation) to buy the property over a particular timeframe (months/years) at a particular price (the option). You pay an agreed amount each year (the lease). There will be an option fee payable up front, which can be as little as £1. You can invoke the purchase option of the property (ie, buy it) at any time during the option period at the agreed price, and you can rent out the property during the intervening period.

The key here is that you control the property for little money. A useful strategy when you cannot buy a property at a discount but the seller wants to move on. Wait for a few years for property prices to rise, buy the property at the agreed price (and make a profit) – or potentially sell on to a tenant buyer.

Good for investors with little funds. Use specialist solicitors.

RENT-TO-RENT (HMO MODEL). Rent a property, committing to one or more years and paying a discounted single occupancy rate. Convert the property into an HMO and rent out rooms. The landlord will need lender's consent to do this – and that may not be likely. Best to focus on existing HMOs or properties that are unencumbered.

Good for investors with little capital, to produce good cash flow. Need to understand HMO risks and build good negotiation skills. Can take time and effort to find the right deals and is more hands-on.

RENT-TO-RENT (SERVICED APARTMENTS MODEL). Rent a one- or two-bed flat, then rent it out by the night. Good for investors with little capital, but can be very labour intensive until volume is reached. Again lender consent may be needed (and possibly planning consent).

SHORT TERM

FLIPS (BUY-TO-SELL). Buy a property, renovate and sell on. Key is speed of turnaround. You make a profit when you buy at a discount that is greater than your renovation and legal costs. In a rising market where it is difficult to buy at a discount, the skill is to identify areas where properties done up well will sell at a premium.

Good for building capital.

LAND ASSEMBLY. Controlling land without owning it, getting planning and selling for profit.

Good for building capital.
Low capital input.

DEVELOPMENT. Buying a property and adding value which is more than just renovation. It may involve:

- **Extending without planning**
- **Getting planning for change of use**
- **Getting planning to extend or convert to flats**
- **Green/brown field planning to build new**

Good for building capital. Not for new investors!

TRADING. Buy property and resell it with little or no work done to it. Not for the faint-hearted!

SOURCING. Find people who wish to sell their property and match with a buyer. There has been a growth in these 'off market' property deals (sold not through estate agents). The sourcer gets a fee when the deal is completed.

Good for professionals with limited cash who can focus on a particular area, find deals and have access to the network to be able to find buyers. Please note that in order to be compliant, you should have the following in place (see this month's article on *How to be a professional property sourcer* for more information on this):

- **Membership of a redress scheme**
- **PI Insurance**
- **Register with HMRC for anti-money laundering**
- **Register with Data Protection Registrar**

Low start-up costs.

COMMERCIAL. Similar to the buy-to-let model but for commercial tenants. The main difference is that commercial tenancies are longer and the tenants are responsible for maintenance and insurance.

Considered by some to be higher risk.

These are the main strategies – but there are many others!

Which strategy is right for you? This depends on:

- **Are you looking for income or capital growth?**
- **How active an investor do you want to be (how much time do you have)?**
- **How hands-on do you want to be (landlord vs investor)?**
- **How much money do you have access to (yours or others)?**
- **What is your risk profile – and what do you enjoy?**
- **What are your key strengths and skills?**
- **What is your location?**
- **What are your property goals (how much do you want to make and over what period of time)?**

NOTE: When you have chosen a strategy, stick at for it for at least a year. Many people change strategy each month and wonder why they aren't succeeding!!

This is just a brief synopsis of some of the more popular strategies, it certainly does not cover all of them.

YOUR PROPERTY
ACTION PACK

YOUR PROPERTY NETWORK