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# How To
# Make Money
# From Property

## By Ajay Ahuja BSc ACA

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*I dedicate this book to Hana*
*who has helped me all the way through this book from*
*endless cups of tea to providing ideas and inspiration.*
*Thank you.*

PROPERTY BUSINESS TYPES

1. Residential Owner (Rent-a-room)
2. Residential Owner (Bed & Breakfast)
3. Property Trader (Flip)
4. Property Trader (Enhance)
5. Property Trader (Options)
6. Property Investor (Short Term Let)
7. Property Investor (Buy To Let)
8. Property Investor (Student/HMO Let)
9. Property Investor (Pension)
10. Property Investor (Lease Options)
11. Property Sourcer (Client Facing)
12. Property Sourcer (Property Facing)

# Property Business Types

## 1. Residential Owner (Rent a Room)

**I Vital Statistics**

| | |
|---|---|
| Earning potential before tax | £2,500 to £20,000 per year per property |
| Capital Required | £10,000 to £50,000 |
| Skills Required | None |
| Qualifications preferable | None |
| Competitiveness Low/Med/Hi | Low |
| Risk Low/Mid/High | Low |
| The Business Model in a nutshell | To buy a property to live in and rent out |

| | |
|---|---|
| | the rooms for maximum profit |
| Potential gaps in the market and suggested USPs | • Monday to Friday rent a room for workers<br>• Overseas students<br>• Special event hire i.e. Wimbledon<br>• Men/Women Only<br>• Luxury professional market |

**II Introduction**

Rent-a-room, sounds simple doesn't it? Well it is! You are expected to own a property when you become an adult so this is just going a little bit beyond what is expected of you. It wont hurt I promise.

The first ever rent cheque I ever got was from this method. I always wonder if I never rented out a room would I ever entered the world of property. This way of making money from property is probably the simplest way to do it.

Now I am going to tell you the way to make the most money you possibly can from this method as that is the way I am wired up however some might find it a bit extreme so you can tone it down to suit.

**1. The Formula**
*To buy the biggest property that you can afford with the least amount of money returning the maximum amount of profit*

Let me breakdown the formula for you:

To buy the biggest property – you want to get the most rooms for your buck. The more rooms you have the more rent you can get. The idea is to get the most rent for every pound spent on the property.

That you can afford – you will need to get a residential mortgage to buy this property. Residential mortgages are given based on affordability. It will be a multiple of your gross annual salary however this is the only way you can buy this property and live in it. This is of course assuming you do not have bundles of cash!

With the least amount of money – a smart person will put down the least amount of money to buy a property. The less you put down the more you can buy! This ensures you get the highest return on your investment of your cash. The more you have put aside for when things go wrong the more chance you have of success.

Returning the maximum amount of profit – rent less expenses equals profit. You want to buy where not only the rent is a decent amount but the costs are low. The costs being the mortgage costs, council tax, insurance and other costs associated with running a home are at a level which makes sense when looking at the potential rent receivable.

**2. Choose the right property**

LOCATION

This decision is unfortunately pretty much in your court. It is difficult for me to tell you where to live. There are too many factors to influence this decision such as friends, family, work etc. This decision takes in to account non-business factors so analysis of the numbers exclusively will not take you to the right decision.

However I am going to ignore all those non-business factors! I am going to assume you are a mercenary individual who wants to make as much money as possible from this venture. If you apply the principles that I am about to tell you then you will be able to moderate to suit your own personal circumstances.

FINANCIALS

You should choose a location that can return you the highest profit figure. The way you establish this is to calculate my magic number called:

YIELD

Yield is calculated as:

Annual Rent divided by purchase price.

So you need to first calculate the annual rent. This is quite simply:

52 weeks x weekly rent x (number of bedrooms minus one)

You minus one from the total number of bedrooms as this is where you live!

So if you have found a property with 6 rooms and you can get on average £50 per room then the annual rent will be:

52 x £50 x (6-1) = £13,000

If you wanted a more accurate number then you could split the rooms in to single and double rooms and allocate their respective rent to each one. So if this 6 bedroomed house had 2 double and 4 single rooms and you was going to reside in one of the double rooms then the annual rent would be:

52 x £40 x 4 = £8,320
52 x £60 x 1 = £3,120
TOTAL £11,440

Now lets assume the total rent you can get from the property is £13,000. Is that good? Is it profitable? Is it worth it?

The key question is:

How much do I have to pay to get this £13,000 income?

This is where the calcualation of yield is so great. It tells you in neat percentage terms how much rent you get relative to the purchase price. So lets say to buy this property that can return £13,000 for £130,000 then the yield is:

£13,000 divided by £130,000 = 10%

Now lets say we found another property that can deliver £13,000 rent every year but we can buy it for £260,000 then the yield for this property is:

£13,000 divided by £260,000 = 5%

So comparing the two property's yields you have the first property yielding 10% and the second property yielding 5%. It is quite obvious to say that a property that yields higher than another property is superior to that property.

That is to say the property that yields 10% is better than the property that yields at 5%.

AJAY'S TOP TIP

THRESHOLDS

A good yield for rent-a-room is 12%. It ensures that there is enough profit for you after all costs and expected interest rate rises. It is very easy to calculate. If you see a property that is advertised for £100,000 then knock off the two zeros to get £1,000 and if you can rent it for at least that then it is a good buy!

Or looking at it another way if you found a property that can rent for £1,000 then add two zeros and if it can be bought for £100,000 or less then it is a good buy.

Now I have made a big assumption here. I am assuming there is equal demand for these rooms. This could be a big assumption to make. If you buy bang in a city centre then demand for these rooms will be pretty much solid so it would be a safe assumption to make. However if you compare a city centre house with a suburban house out of the city centre demand might vary.

If you want assess demand before you buy I always perform this little trick. I place an advert in the local press which costs max £25 and I see how many calls come in. If your phone gets swamped you know demand is good and you will rent the rooms out. Try to be as specific as possible in the advert. State the road the property is in so the caller is quite clear where the property is located.

If you do not want your phone bombarded then consider using gumtree.com and putting your email address as the main point of contact. Then you could simply log the number of emails that come in.

And remember do this all BEFORE you buy. This small action can save you making some very expensive mistakes.

SIZE

Generally the more rooms you have the more money you can make. You will find that additional bedrooms beyond a 3 bed go up in price by a less amount. You usually find that housing estates which have a selection of 2, 3, 4 and 5 bedroom houses are priced as such:

| No of beds | Price | Cost per room |
|---|---|---|

| | | |
|---|---|---|
| 2 | £120,000 | £60,000 |
| 3 | £150,000 | £50,000 |
| 4 | £175,000 | £43,750 |
| 5 | £195,000 | £39,000 |

So the more rooms the property has the cost per room goes down. This helps your yield massively. But remember the more rooms means more management on your part.

| AJAY'S REAL LIFE STORY |
|---|
| Meeting my second mum<br><br>When I was training to be a chartered accountant in Cambridge I rented a room off a couple. They had up to four tenants at a time and we virtually lived as one big happy family. I lived there for 5 years and this couple are still my friends today. I consider the landlady my second mum as she really looked after me.<br><br>It was kind of handy that he was a chef and she loved the concept of having a son she never gave birth to!<br><br>There are definitely by products to this business. You can make some real friends for life as you get to know each other so well. |

Examples of properties found:

| Town | Price | Number of rentable | Rent | Yield |
|---|---|---|---|---|

| | | Bedrooms | | |
|---|---|---|---|---|
| Northampton | £90,000 | 6 | £1558 | 20.7% |
| Cumbernauld, Scotland | £70,000 | 5 | £1299 | 18.5% |
| Harlow, Essex | £170,000 | 5 | £1732 | 12.2% |

So we can see that from Scotland down to Essex there a potential rent a room properties as they all exceed a 12% yield. This search was conducted January 2010.

**3. Finance the property**

Unless you have bundles of cash you are going to have to get a mortgage to buy your chosen property. The whole concept of getting the right mortgage is to get the one that suits you. Now I can tell you what suits me:

The cheapest!

The cheapest should be what suits you. If we look at this venture as a business and not you buying a house and renting out some rooms then we can apply so hard and fast rules.

Now I am going to give you a brief lesson on mortgages.

*Residential v buy to let*

The mortgage you need to get is called a residential mortgage. Do not confuse it with a buy to let mortgage. You want to buy a property that you want to live in. Whenever you buy a property to live in you have to get a residential mortgage.

*Deposit Levels*

Residential mortgages require the least amount of deposits out of all mortgages. You used to be able to borrow more than the value of the property itself in the old days before the credit crunch. Now the most you can get is 95% of the purchase price. So deposit levels start at only 5% of the purchase price.

*Affordability*

The amount you can borrow will be based on:

- Your salary and your partner's if you are buying together
- Your outgoings
- Your current liabilities i.e. loans, credit cards, HP agreements etc.

The lenders look to multiply your gross salary less you annual payments to your current liabilities by around 4 to come to the amount they will lend to you. There is some flexibility as they can take in to account your overtime and bonuses and they look at the security of your job etc. It is best you see a broker to help you out to get an exact figure of how much they will lend.

There are a new breed of "rent-a-room" mortgages appearing which will add the rent you will get from renting out the rooms to your income so you can borrow more. Do not forget to ask your broker about these as they may just let you borrow that little bit more which make properties you thought impossible to buy possible.

*Interest only v repayment*

The monthly mortgage payment you make can either:

Pay the interest charge only
Pay the interest and the capital

Paying off the interest only results in a lower monthly payment. Very handy if you are running a business. A low monthly payment means a lower cost base and thus an overall higher monthly cashflow. I would highly recommend you adopt this type of payment if you get the option.

It just means that the capital never gets paid off. Now this is not a problem no matter what anyone tells you. It is unlikely you will own this property for 25 years for you to come up with the amount you borrowed at the end of the 25 year period.

What usually happens is that you sell the property and buy somewhere else once the market has risen. Therefore there was no need to pay off any debt in the first place. This saving by not paying the capital every month can be used to cashflow other eventualities like repairs, non payment of rent or even further business ideas!

*Fixed, Tracker or Variable*

This relates to the interest rates. These are the main types of rates you can get:

Fixed – As it sounds the rate is fixed for a period of time. So if you want your monthly cost to be a certain figure then consider going for fixed periods. You do not need to worry about interest rate rises as these will not affect you during the priod it is fixed. Outside the period is another story! So if you are really risk averse go for a long period. The maximum period you can get is 25 years.

Tracker – tracker rates track an official rate. An official rate can be the the bank of England's rate, LIBOR or the lenders Standard Variable Rate (SVR). This is not an exclusive list as lenders can be very sneaky so make sure you find out what the tracker rate tracks. The rate moves in line with this official rate. I always try to get a tracker rate to avoid these private banks deciding one day to push my rate up when they feel like it.

Variable – this is a rate set by the lender. The lender has full freedom to increase or decrease this as and when they like. Most lenders do not do this but they have the power to do so. In this environment we are in I would avoid these if you can.

The Mortgage To Get

I hope from my little education in mortgages you can see that you should be going for a:

95% residential mortgage
Interest only
Tracker or Fixed (whichever is lower)

This will ensure you have to put the least amount of money in to the venture and you will get the lowest monthly payment possible.

## 4. Getting the property ready

So you have just picked up the keys to your brand new multi-roomed property what is next? The mortgage payment is due next month so you have to get your act together and prepare the house for occupation!

### Amenities

I am going to assume you will have the normal utilities connected to the house. So I will assume:

- Each room has heating
- The house has running hot water
- There are basic cooking facilities
- There is refridgerators at the property

Extra amenities you could consider are:

Sky/Cable TV – if you want your tenants to stay they will really appreciate having more than just the 5 channels.  If you do not want to pay out for a contract then freeview would be a great start.  You can upgrade your aerial to a digital aeriel (if the area permits) and then install £15 freeview boxes in each room.  Or you could go the whole slog and get multi-roomed sky full package with LCD TV!  Sit down and do your sums.  If it costs £10 per week extra per room and you can get £15 extra rent then it is worth it.

Wireless Broadband – if you want to appeal to students or workers then having broadband will be a great selling point.  You could your own WiFi sign up and be just like StarBucks!  I know that I would not move in to a property without broadband.  I think I would die.

Additional Cooking Facilities – you could add another microwave or cooker depending on how many people you have in your house.  I reckon one cooker and microwave per 3 people would do.  Also a big chunky American style fridge freezer can fend off a lot of future arguments.

Washing Facilities – having a washing machine and tumble dryer for use.  It beats going down the local laundrette and the lodgers will certainly appreciate it.  For this reason you can charge more rent for this privilege.  Washing Machines and Tumble dryers cost around 10p an hour to run plus there will be additional maintenance costs due to heavy usage.  Make sure you factor this in to your costings.

Showering Facilities – having a shower has double benefits.  Lodgers love showers.  It is quick.  Perfect for their busy lives.  And as a landlord it cuts your bills massively as showers are cheaper than baths.

**Decorating**

If the property is not already decorated then please follow this really easy step:

Keep it Neutral

That is:

Walls to be magnolia or white
Flooring to be beige or brown or wooden flooring
Bathrooms to be white
Kitchens to be modern

No one can argue with neutral. It is completely inoffensive. I kind of know you know this as it is stated on every property programme out there.

**Furnishing**

I will assume you will furnish the common rooms such as the kitchen, living room, dining room and bathroom as you want. Just make sure they are hard wearing. However there is the choice of what to do for each room. I suggest as a minimum:

one bed – put a single bed in a single room and a double bed in a double room.
One bedside table – you will only need one regardless of whether it is a single or a double.
Curtains and curtain pole – they need to be able to get some sleep!

That's it. The less the better. There is less for the lodger to break and it leaves the lodger to make their own stamp on the room so they can make it their home.

Do not buy:

Duvets or duvet covers
Towels
Desks

as they will take them with them when they leave. These are easily bought cheaply by the tenant. They won’t ask you to buy them for you as it will seem too cheeky.

Optional purchases:

Wardrobe and/or chest of drawers – they might ask for wardrobes so supply one if they ask

This should keep your upfront costs right down which is important when you start. If you do not control costs at the start it is easy for them to get out of control.

**Signage**

This is very important. You want to put a friendly sign which can be seen when you open the front door and enter the house so no one misses it. Title it “HOUSE RULES” and then state each rule by number.

Things to consider are:

1. Visitors – when they are allowed in and till what time. Also the procedure of requesting an overnight visitor.
2. Noise – what time music can be played until and at what volume.
3. Rubbish – when to empty bins in the room and kitchen
4. Food – rules about communal food and not
5. Payment – when to pay rent and by which method
6. Chores – if there are any communal chores to do please state them and how allocation of tasks is done.

**Cleaning Services**

You might want to consider taking on a cleaner. You want to keep the house clean and tidy if you are going to charge rent for it. You do not want the tenant's leaving due to poor hygiene. It just takes one messy or dirty tenant to spoil it for the rest. So if you have an effective cleaning strategy (like Doris the cleaner!) it might prevent the mass exodus because of stinky Joe.

After you have done all of the above you are now in a position to fling open your doors to whoever will pay you rent……. Well sort of!

**5. Finding & Choosing the right tenants**

Demand for rooms to rent could not be higher. There is a shortage of properties to let hence they are expensive. There are plenty of people who simply cannot afford or refuse to pay rent for a self contained flat or house.

A long time ago there used to be a stigma associated with sharing a house. Now it is the norm. I have heard of headmasters and senior doctors sharing a house so it is a far cry from the old days.

So where do all these quality tenants look for a place to live? Read on! I have isolated the best 7 ways of finding nice, friendly and credit worthy lodgers for your multi-roomed house:

1. Internet

There are plenty of paid for and free advertising websites where you can advertise you room to let:

1. in the window – you can use your ground floor window as an excellent way to get passers by. Completely free and very effective.
2. Local press – costs anywhere from £5 to £50 to advertise.
3. Large Employers – contact the large employers in the area and ask for HR department. They may be willing to add your property to their intranet advertising for free.

4. Shop windows – they cost max £1 per week. Tescos, Off licences, corner shops etc.
5. Universities, Colleges & Schools – if there is a school or Uni nearby then a little poster can work wonders. Also you could speak to the accommodation officer and list your room with them
6. Word of Mouth – ask your current lodgers if they know anyone and offer them a trip down the pub as a reward if they manage to find anyone. It will work wonders for lodger relations!
7. internet – there are plenty of sites set up to cater for this. Just type in “rent a room” or “find lodger” in Google and they will all come up.

**Choosing the right lodger**

I think it is very important to have a picture of how you want the house share to be. If you picture a chilled bohemian crowd then it is easy to spot the right lodger when they walk through the door.

The various general themes are:

Monday to Friday workers – the exact of opposite of unemployed tenants. These tenants are rarely in the house, expect hot water between 7am and 9am and 5pm and 10pm for their showers and live their own lives. They pack to go home on a Thursday night and you do not see them till Sunday night sometimes even Monday night.

Students – it may be that you want to run a student house. Everyone will be of young age and have times when they want to study. It may be a less formally run house with less rules.

Events – If you are located to certain establishments (like Wimbledon, Wembley Stadium etc.) then you will have certain type of people you will be expecting to be wanting to rent your room (like tennis fans or construction workers).

Luxury – This is where you just go for lodgers of a certain income bracket. Your lodgers may be of the same class, profession or earning potential. Only the best will do for these people!

Men/Women Only – If you want to be gender specific then that's ok! Its your house and if you are a woman and want women only tenants (because men smell!) then so be it.

Age – you are seeing a lot of over 50 type of accommodation. This could be a good way to tap in to that sort of market especially if you are of that age. You will probably have the same bedtimes etc. Or you could do a young house which could be a lot more fun and relaxed.

So once you have decided on your theme (and it is very important you do) then you can start short listing your prospects.

Selection Process

You will start to get enquiries quite quickly after you have placed your ad. I am quite sure of that. Now always be open minded. Let ANYONE view, even if you do not like the sound of them. You can never tell from just a phone conversation. Unless they drop real clangers like "I am moving because my previous landlord is chucking me out as I haven't paid the rent and I wrecked his house because of a party I had last Saturday". Then of course end the conversation politely.

The idea is you have to get someone interested in living at your gaff first. Once you have got interested parties do you start filtering them out.

Once you have someone interested I suggest you do the following in this order:

1. Check they have any cash!

The amount of people that ring up to rent a property from me who do not even have £5 in their pocket is amazing. They call up wishing to rent a 3 bed house and my team ask if they have a deposit of the first week or month's rent and they say no. they always state they can get it next week but always want to move instraight away. Funny that!

So explain to them the deposit is 4 weeks rent and the rent is payable once a week. So they need 5 weeks worth of rent to pay UPFRONT before they can move in.

If they do not flinch then you are getting warm. If they state they can pay this then on to stage 2.

2. Credit check them

If you want to be safe I suggest you get a credit check. They are really cheap and you can get the lodger to pay it. It costs £10 or so and will give you a snapshot of how they conduct their finances. To get a credit check visit:

3. Get a reference

If they work ring up their employer. Just have a quick chat. Check the number they give you corresponds to their place of work. A quick verbal should be ok. If you want it in writing then write to their employer.

4. Use your instincts

If you get a funny vibe and you can hold out for someone else then do so. I do say have an open mind but your instinct is a powerful thing. Remember this is your home and you want to feel comfortable. You also want your other lodgers to feel comfortable also.

So if you go through those 4 steps I reckon you will be ok. The worst case scenario is you ask them to leave. Remember a lodger has no rights to occupy your property. You can give literally hours notice for them to leave. So it is very difficult to get this business that wrong. There are loads of people who just do this to supplement their income and have nice holidays from the income this produces. There are others who have 12 bed terraced properties in bedsit cities and earn a very nice income indeed.

Now remember. Do not get the idea of moving out and renting the other room and think your rights stay the same. As soon as you move out the property becomes a House In Mutiple Occupation (HMO) which has a whole set of different rules regarding eviction and licensing.

**Profit Forecaster**

Insert the figures to work out how much you can expect to make from renting out your rooms:

| | | | | |
|---|---|---|---|---|
| Income | | | | |
| | Enter Rent per week below: | Multiply by: | Annual Income | |
| Room 1 | | X52 | | |
| Room 2 | | X52 | | |
| Room 3 | | X52 | | |
| Room 4 | | X52 | | |
| Room 5 | | X52 | | |
| Total | | | | (A) |
| | | | | |
| Expenses | Enter Amount below: | Multiply by: | Annual Cost | |
| Monthly Mortgage | | X12 | | |
| Monthly Council tax bill (10 | | X10 | | |

| | | | | |
|---|---|---|---|---|
| installments) | | | | |
| Monthly Gas Bill | | X12 | | |
| Monthly Electric Bill | | X12 | | |
| Monthly Water Bill | | X12 | | |
| Monthly Sky/cable bill | | X12 | | |
| Monthly Telephone | | X12 | | |
| Monthly broadband bill | | X12 | | |
| Sundry/other | | | | |
| Total | | | | (B) |
| ANTICIPATED ANNUAL PROFIT >>>> | | | | (A-B) |

You can get an electronic version of this by joining my newsletter at www.ahuja.co.uk

**Lodger Agreement**

# HOUSE/FLAT SHARE AGREEMENT

**for a room in a furnished house or flat – resident owner**

**Dated** ________________________________________________________

(Insert date of agreement)

**The Property** ________________________________________________________

(Hereinafter“the Property”)

_____________________________________________________

**The Room** Being the room at the Property that has been nominated by the Owner
(Hereinafter
and agreed to by the Sharer:- “the Room”)

_____________________________________________________

(Identify the Room, e.g. by number/location)

**The Owner** _____________________________________________________
(Hereinafter
“the Owner”)

_____________________________________________________

(whose address is the Property above)

**The Sharer** _____________________________________________________
(Hereinafter
“the Sharer”)

_____________________________________________________

(*Delete as appropriate)

**The Period** _________ weeks / months* beginning on _____________________ (Hereinafter
“the Period”)

**Early Termination**

Either party may at any time end this Agreement earlier that the end of
the Period by giving to the other written notice of ___ weeks / months*

**The Payment** £___________(___________________________________________)
(State amount in
figures and words)
per week / calendar month* payable in advance on the ____________ of each week / month*

**Important:**
(1) The Payment is INCLUSIVE of / DOES NOT INCLUDE* utility bills [e.g. electricity/gas].
(2) The Payment is INCLUSIVE of / DOES NOT INCLUDE* water bills.
(3) The Payment is INCLUSIVE of / DOES NOT INCLUDE* Council Tax.
(4) The use of telephone is NOT included in the Payment.

**The Deposit** £___________(____________________________________________)
(State amount in
figures and words)

**The Inventory** Being the list of the Owner's possessions at the Property, which has been signed by the Owner and the Sharer

**Signed by the Owner:-**
________________________________ ________________________________

**Signed by the Sharer:-**
________________________________ ________________________________

THIS HOUSE/FLAT SHARE AGREEMENT comprises the particulars detailed above and the terms and conditions printed overleaf whereby the Property is licensed by the Owner and taken by the Sharer for occupation during the Period upon making the Payment.

**IMPORTANT NOTICE:**
(1) This form of Agreement is for use in those cases where the Room is part of a House or Flat which the Owner occupies as his/her only or principal home so that an Assured Tenancy is not created.
(2) This form of Agreement does not require either party to give any form of notice to the other at the end of the fixed Period, but if either party wishes to end this Agreement early, then written notice should be served for the period as stated in the Early Termination clause.

## Terms and Conditions

**1.** The Sharer will:
**1.1** in conjunction with the occupation of the Room only be

allowed to share with the other occupiers of the Property the use and facilities of the common parts of the Property (including such bathroom, toilet, kitchen and sitting room facilities as may be at the Property)

**1.2** pay the Payment at the times and in the manner aforesaid without any deduction abatement or set-off whatsoever

**1.3** make a proportionate contribution to the cost of all charges in respect of any electric, gas, water and telephonic or televisual services used at or supplied to the Property and Council Tax or any similar tax that might be charged in addition to or replacement of it during the Period.

**NB** STRIKE THIS CLAUSE if the Payment is inclusive of all household bills as referred to in definition of the Payment overleaf

**1.4** keep the Room and share with the other occupiers of the Property the obligation to keep the interior of the Property in a good, clean and tenantable state and condition and not damage or injure the Property or any part of it and if at the end of the Period any item on the Inventory requires repair, replacing, cleaning or laundering the Sharer will pay for the same (reasonable wear and tear and damage by an insured risk excepted)

**1.5** yield up the Room at the end of the Period in the same clean state and condition it was in at the beginning of the Period

**1.6** share with the other occupiers of the Property the obligation to maintain at the Property and keep in a good and clean condition all the items listed in the Inventory

**1.7** not make any alteration or addition to the Property nor without the Owner's prior written consent do any redecoration or painting of the Property

**1.8** not do or omit to do anything on or at the Property which may be or become a nuisance or annoyance to the Owner or any other occupiers of the Property or owners or occupiers of adjoining or nearby premises or which may in any way prejudice the insurance of the Property or cause an increase in the premium payable therefor

**1.9** not without the Owner's prior consent allow or keep any pet or any kind of animal at the Property

**1.10** not use or occupy the Property in any way whatsoever other than as a private residence

**1.11** not assign, sublet, charge or part with or share possession or occupation of the Room or the Property or any part thereof

**1.12** pay interest at the rate of 4% above the Bank of England base rate from time to time prevailing on any payment or other money due from the Sharer under this Agreement which remains unpaid for more than 14 days, interest to be paid from the date the payment fell due until payment

**2.** In the event of the Payment being unpaid for more than 21 days after it is due (whether formally demanded or not) or there being a breach of any other of the Sharer's obligations under this Agreement, or in the event of the Sharer ceasing to reside at the Property, or in the event of the Sharer's death, this Agreement shall thereupon determine absolutely but without prejudice to any of the Owner's other rights and remedies in respect of any outstanding obligations on the part of the Sharer

**3.** The Deposit has been paid by the Sharer and is held by the Owner to secure compliance with the Sharer's obligations under this Agreement (without prejudice to the Owner's other rights and remedies) and if, at any time during the Period, the Owner is obliged to draw upon it to satisfy any outstanding breaches of such obligations then the Sharer shall forthwith make such additional payment as is necessary to restore the full amount of the Deposit held by the Owner. As soon as reasonably practicable following termination of this Agreement the Owner shall return to the Sharer the Deposit or the balance thereof after any deductions properly made. No interest will be payable to the Sharer in respect of the Deposit

**4.** The Owner will insure the Property and the items listed on the Inventory

**5.** The Owner hereby notifies the Sharer that any notices (including notices in proceedings) should be served upon the Owner at the address stated with the name of the Owner overleaf
**6.** In the event of damage to or destruction of the Property by any of the risks insured against by the Owner the Sharer shall be relieved from making the Payment to the extent that the Sharer's use and enjoyment of the Property is thereby prevented and from performance of its obligations as to the state and condition of the Property to the extent of and whilst there prevails any such damage or destruction (except to the extent that the insurance is prejudiced by any act or default of the Sharer) the amount in case of dispute to be settled by arbitration
**7.** As long as the reference to a notice of early termination in the definition of the "Period" overleaf (the "Early Termination Notice") has not been deleted then either party may at any time during the Period terminate this Agreement by giving to the other prior written notice to that effect, the length of such notice to be that stated in the Early Termination Notice, and upon the expiry of said notice this Agreement shall end with no further liability for either party save for liability for any antecedent breach
**8.** The Owner may at any time nominate for the Sharer another Room in the Property in replacement of the Room occupied by the Sharer until that point ("the replacement Room") and all reference in this Agreement to the "Room" shall thenceforth be deemed to refer to the replacement Room and this process may be repeated by the Owner any number of times during the Period PROVIDED THAT the Sharer may after such a nomination give to the Owner an Early Termination Notice as referred to in clause 7 above and be allowed to remain in the Room occupied prior to the said nomination until the expiry of the said Early Termination Notice
**9.** The Sharer shall not have exclusive possession of the Room and the identity of the other occupiers of the Property shall be in the absolute discretion of the Owner
**10.** Where the context so admits:
**10.1** the "Property" includes all of the Owner's fixtures and fittings at or upon the Property and all of the items

listed in the Inventory and (for the avoidance of doubt) the Room

**10.2** the "Period" shall mean the period stated in the particulars overleaf or any shorter or longer period in the event of an earlier termination or an extension or holding over respectively

**11.** All reference to the singular shall include the plural and vice versa and any obligations or liabilities of more than one person shall be joint and several and an obligation on the part of a party shall include an obligation not to allow or permit the breach of that obligation

source: www.limecastle.co.uk

# 2. Residential Owner (Bed & Breakfast)

I Vital Statistics

| | |
|---|---|
| Earning potential before tax | £7,500 to £50,000 per guest house per year |
| Capital Required | £20,000 to £75,000 |
| Skills Required | Food, Hospitality |
| Qualifications preferable | Hospitality, Travel & Tourism |
| Competitiveness Low/Med/Hi | High |
| Risk Low/Mid/High | Low |
| The Business Model in a nutshell | To buy a property to live in and rent out the rooms on a per night basis |
| Potential gaps in the market and suggested USPs | • Various modern day themes and niches<br>• Boutique type B&Bs<br>• |

II Introduction
This is like rent-a-room but on steroids. That is to say you can earn many times the amount you would have made if simply rent out the rooms to lodgers. Why get £50 a week rent when you can get £50 a night!

Now before you get pound signs in your eyes I have got news for you:

Running a B&B is a job!

So the rewards are higher but so is the effort. So it is not simply a case of flinging a resident a key and telling them to get on with it. When you run a B&B you will get a very high turnover of residents and you will need to be on their beck and call. Also the guests will need feeding!

However if you get good at it the income you can get from it can be very respectable. If you get really good at it you can scale up and own hundreds as some big players do.

Now there are high advertising costs, conforming to regulation and long hours. But if you are up for it the rewards are there. If you like people then this could be the business for you.

**1. The Formula**

*Buy a well located multi-roomed property, theme the property to stand out and price discriminate to maximise profit*

Let me break this down:

Well located – you need to have a fairly decent occupancy rate for this to work. There has to be demand for the rooms in order for you to cover certain fixed costs over and above the mortgage such as advertising costs, food preparation, higher rates etc. This can only be achieved by a well located B&B.

Multi-roomed – again you need a decent number of rooms to make this work. I would say a minimum of 3 rooms is really necessary to make the numbers stack. I will show you what thresholds need to be met further down below.

Theme – the B&B needs an edge. It is a saturated market so there needs to be a reason why potential customers would choose you over others.

Price Discriminate – this is so important. This means you must alter your room rates depending on the time of day and where you are in the year. This is sometimes the difference between profit and loss.

Maximise profit – you must chase profit not turnover. To do this you chase revenue and control costs. It is easy to over spend but very difficult to keep costs down but also deliver a great service and make a profit.

**2. The Numbers**

So what makes a good B&B? Well in my opinion it is one that can deliver a 33%
yield. That is to say the anticipated annual revenue from the B&B should equal approximately one third of what you can buy the property for.

Now you have to be careful here. This is not a simple case of multiplying the number of rooms by the nightly rate and then multiplying it by 365 to give you the annual revenue!

So for example if there was a 4 roomed B&B which has advertised rates of £60 per night then the anticipated annual revenue would NOT be:

4 x £60 x 365 = £87,600.

The reason for this is because it assumes

a) full occupancy
b) no price discrimination

Full Occupancy

In the above example we have assumed that the property has a100% occupancy rate.  This means the rooms are full every day of the year.  Now this could be the case but it is crazy to assume it.  What needs to be calculated is the occupancy rate.  Now occupancy rates can be found for various sectors of the hotel market namely the B&B market and they analyse right down to the geographical towns and cities.

Now the data is as good as what is inputted by the subjects.  The validity of the data is down to you to decide.  However getting occupancy rates can be great to give you a guideline of what to expect when it comes to occupation.

Price Discrimination

Now most of the time your published prices will remain static.  However there will be times when the prices will change.  This will be because of:

- Prices going up due to increased demand because of special events nearby or school holidays
- Prices going down due to lack of demand due to the time of year

Now the idea is to push your prices up in high demand periods and push your prices down in low demand periods. If you do not you will:

- Miss out on additional revenue over and above the published room rates in the high demand periods
- Lose out on the room rate altogether in the low demand periods

So the idea is to get your anticipated revenue based on these fluctuations to get a more accurate figure for revenue.

**Building The Anticipated Revenue Figure**

Now this is so important. You must build an accurate revenue figure. If you can get this figure right then the rest is simple mathematics. If you are able to build the anticipated revenue figure more precisely than others then this will enable you to spot an opportunity over others.

Now if you do not know how to use Excel then do so. Excel is a piece of software which assists you in building spreadsheets. You can create forecasting spreadsheets which you can use time and time again. If you join my newsletter at www.ahuja.co.uk I will send you one for free!

Excel is quite simple to use. Simply do a search on “how to use excel” on the internet and you will get hundreds of guides.

The sheet you need to create needs to look something like this:

| | Room 1 | Room 2 | Room 3 | ……Room x | Total |
|---|---|---|---|---|---|
| Week 1 | | | | | |
| Week 2 | | | | | |
| Week 3 | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| …..Week 52 | | | | | |
| Total | | | | | |

And then you have to fill in the gaps. So the first box is for room 1 in week 1. The figure that goes in here is what you can achieve as a room rate for the first week of the year (week 1) for the room in question (room 1).

You would isolate the weeks where there is high demand and low demand and adjust the room rates accordingly. So let us say you was considering buying a B&B near Wimbledon then you would isolate the three weeks in summer when the tennis tournament is on as high demand weeks. If you were considering buying a B&B in Clacton then you would isolate the school holidays as high demand weeks and the weeks during winter as the low demand weeks.

Some of this work may have been already done for you. If you visit potential competitor's websites they may have a room rate table which you could view so you could see when they charge more and less for the rooms.

Now the actual room rates you charge will have to be an estimate. The easiest way to estimate is again to look at what your competitors are charging of similar quality. So if a 3 diamond/star guest house is charging £50 per night then you could assume the same rate if the B&B you are thinking of buying is a 3 diamond/star guest house.

Now assume full occupancy for all the weeks. We will take care of occupancy levels further down. So in the above example if the room rate is £50 per night for week 1 for room 1 then the figure that goes in the first box is:

7 x £50 = £350.

If there was more demand at the weekend for the room and the room rate is £70 on Friday and Saturday then the figure would be:

(5 x £50) + (2x£70) = £390

Now you have to do this for every week. It does sound like a mammoth task but a lot of the weeks will be the same. The only time you have to tweak it is in the high and low demand weeks.

So an example of what your spreadsheet would look like is:

| | Room 1 | Room 2 | Room 3 | Room 4 | Total |
|---|---|---|---|---|---|
| Week 1 | £350 | £390 | £350 | £420 | £1,510 |
| Week 2 | £350 | £390 | £350 | £420 | £1,510 |
| Week 3 | £350 | £390 | £350 | £420 | £1,510 |
| Week 4 | £350 | £390 | £350 | £420 | £1,510 |
| Week 5 | £350 | £390 | £350 | £420 | £1,510 |
| Week 6 | £350 | £390 | £350 | £420 | £1,510 |
| Week 7 | £350 | £390 | £350 | £420 | £1,510 |
| Week 8 | £350 | £390 | £350 | £420 | £1,510 |
| Week 9 | £350 | £390 | £350 | £420 | £1,510 |
| Week 10 | £300 | £320 | £300 | £350 | £1,270 |
| Week 11 | £350 | £390 | £350 | £420 | £1,510 |
| Week 12 | £350 | £390 | £350 | £420 | £1,510 |
| Week 13 | £350 | £390 | £350 | £420 | £1,510 |
| Week 14 | £350 | £390 | £350 | £420 | £1,510 |
| Week 15 | £350 | £390 | £350 | £420 | £1,510 |
| Week 16 | £350 | £390 | £350 | £420 | £1,510 |
| Week 17 | £350 | £390 | £350 | £420 | £1,510 |
| Week 18 | £350 | £390 | £350 | £420 | £1,510 |
| Week 19 | £350 | £390 | £350 | £420 | £1,510 |
| Week 20 | £350 | £390 | £350 | £420 | £1,510 |
| Week 21 | £350 | £390 | £350 | £420 | £1,510 |
| Week 22 | £350 | £390 | £350 | £420 | £1,510 |
| Week 23 | £350 | £390 | £350 | £420 | £1,510 |

| | | | | | |
|---|---|---|---|---|---|
| Week 24 | £350 | £390 | £350 | £420 | £1,510 |
| Week 25 | £350 | £390 | £350 | £420 | £1,510 |
| Week 26 | £500 | £550 | £600 | £650 | £2,300 |
| Week 27 | £500 | £550 | £600 | £650 | £2,300 |
| Week 28 | £500 | £550 | £600 | £650 | £2,300 |
| Week 29 | £500 | £550 | £600 | £650 | £2,300 |
| Week 30 | £500 | £550 | £600 | £650 | £2,300 |
| Week 31 | £500 | £550 | £600 | £650 | £2,300 |
| Week 32 | £600 | £650 | £700 | £750 | £2,700 |
| Week 33 | £350 | £390 | £350 | £420 | £1,510 |
| Week 34 | £350 | £390 | £350 | £420 | £1,510 |
| Week 35 | £350 | £390 | £350 | £420 | £1,510 |
| Week 36 | £350 | £390 | £350 | £420 | £1,510 |
| Week 37 | £350 | £390 | £350 | £420 | £1,510 |
| Week 38 | £350 | £390 | £350 | £420 | £1,510 |
| Week 39 | £350 | £390 | £350 | £420 | £1,510 |
| Week 40 | £350 | £390 | £350 | £420 | £1,510 |
| Week 41 | £350 | £390 | £350 | £420 | £1,510 |
| Week 42 | £350 | £390 | £350 | £420 | £1,510 |
| Week 43 | £350 | £390 | £350 | £420 | £1,510 |
| Week 44 | £350 | £390 | £350 | £420 | £1,510 |
| Week 45 | £350 | £390 | £350 | £420 | £1,510 |
| Week 46 | £350 | £390 | £350 | £420 | £1,510 |
| Week 47 | £350 | £390 | £350 | £420 | £1,510 |
| Week 48 | £350 | £390 | £350 | £420 | £1,510 |
| Week 49 | £350 | £390 | £350 | £420 | £1,510 |
| Week 50 | £350 | £390 | £350 | £420 | £1,510 |
| Week 51 | £350 | £390 | £350 | £420 | £1,510 |
| Week 52 | £350 | £390 | £350 | £420 | £1,510 |

| | | | | | |
|---|---|---|---|---|---|
| Total | £19,200 | £21,330 | £19,900 | £23,380 | **£84,210** |

So the total anticipated revenue if the B&B is 100% occupied would be £84,210. However as mentioned earlier you have to apply an occupancy rate multiplier to this figure. Now lets just say the occupancy rate for the particular area is 72% then we would perform the following calculation:

£84,210 x 72% = £60,631

So the anticipated revenue is £60,631.

We use this rental figure to calculate the yield. Yield is:

Anticipated Revenue divided by purchase price

So if you could purchase the property for £200,000 then the yield would be:

£60,631 divided by £200,000 = 30.3%

So this B&B would fall short of the 33% yield threshold. It would not be worth buying unless the price went down to:

£60,631 divided by 33% = £183,730

So the B&B needs to be priced £183,730 for it to be worth buying.

**Why Use Yield As The Threshold**

You may have noticed I have ignored the other costs involved. I am sure you are thinking why has he not included the other costs such as:

Rates
Food costs
Mortgage Costs
Utilities
Etc.

There is one good reason why. Yield takes care of all that. The threshold yield is set at a rate which allows for costs of all of the above. If you can get a 33% yield then you will have to seriously mismanage the other costs before you lose. If you can get 33% you can make all the mistakes and still survive.

If you accepted a lower threshold (which you may do in the future) then there is no margin for error. So when:

Interest rates go up
Electricity bills rise
Unexpected repairs need doing
Occupancy rates drop

Your anticipated profit could soon be a real loss.

You still have a chance with a 33% yield. Looking at it as a rule of thumb you have:

33% - 6% = 27% of the purchase price to run the B&B. 6% being the borrowing costs.

So if the purchase price was the amount mentioned earlier of £183,730 you would have:

27% x £183,730 = £49,607 to play with.  Lets call it £50,000.

So if you can provide a B&B service for less than approximately £50k the difference will be your profit.

So how do you run a B&B efficiently so you make a profit?  Well that is largely down to you.  Hard work and rather than paying someone else will hold you in good stead.  However I will give you some pointers further below in chapter x but next I want to tell you where to find the right B&B.

## 3. Finding The Right B&B

You have two choices; the hard way or the easy way.  The hard way is converting a residential property in to a B&B.  The easy way is to buy an existing B&B.  Lets look at the hard way first just to see how hard it is.

Converting a Residential Property in to a B&B

If you want to convert your home in to a B&B it is possible in some authorities to do this without planning permission if you want to have no more than 3 rooms.  In all other circumstances you will need planning permission.  It is best to run any idea through the planning department just to make sure.

You will need to get a change of use from residential use to commercial use.  How easy it will be able to get depends on the potential impact your B&B will be on the rest of your neighbours.  Things like parking, potential noise and the impact of having a commercial premises in the area will all be taken in to account.

I would suggest you use the skills of a planning consultant as they will have direct access to the planning team and will be able to save you valueable time and effort trying to gain planning permission for something they know will not get approved.

You may have to move a few walls around in order to make your living quarters fully self contained. The alterations will have to comply with building regulations so using an architect would be adviseable.

Now my advice is unless there is a specific reason to buy this residential property and convert it to a B&B (because of the location, you already live there or you got it really cheap) I would avoid going down this route. I would aim to go for an existing B&B that is up for sale. There is no change of use application nor any major building works.

Buying an Existing B&B

There are many benefits to buying an existing B&B. There is no planning required and it is all set up. There will be an immediate cashflow when you purchase as the business is all set up. Now it will come to no surprise to you that most are not worth buying. That is they are too expensive as they will fail the 33% yield test based on the declared income from their business accounts and based on the anticipated revenue calculation you would calculate.

However there will be times where you can spot opportunities where you can get a higher revenue thus a higher yield. This will be your belief in your abilities to turn a B&B around.

Things to consider when looking at potential B&Bs to buy:

Reason For Sale

If they are selling because the business does not work then that would be a big clue that it isn't going to work. They will not tell you this directly but you can quickly establish this by looking at their accounts. If it appears that the business didn't work try to see the reason for failure. Was it a simple case of bad management or had the B&B lost a lot of trade due to the large Travel Lodge erected next to it last month!

Reasons for sale that should not alarm you are when the owners state retirement, ill health, relocation, alternative investment or some other reason which does not seem related to the actual business. You have to be shrewd and read between the lines. If a major attraction is closing down next month then this will directly affect your revenue and the owners will not volunteer this information.

View The Accounts

The accounts they have will be sole trader or partnership accounts. They will not be audited and are prepared on the information and statements provided by the owner. Now there are some owners who do not declare all their income as sometimes they receive cash and do not declare all the income. So the figures may be understated.

To verify the revenue you could ask to see copies of the signed VAT returns or even better official documentation from HMRC showing their turnover levels. You could also ask to see copies of their tax return or even better would be their SA302 from HMRC which will show their tax computation based on their profit for the last tax year.

Watch The Property

Spend an evening opposite the B&B and see how many people arrive to check in. if the owner says we are fully booked every night then lets see the foot flow to match what he says. If there are 5 rooms in the B&B then you should expect to see 5 different residents enter or leave the building during the course of the evening.

Size

They fall in to really two sizes:

Less than 5 rooms

This size is manageable by you and you only. So it can be fully owner operated without the need for any staff. This size will not take over your life and the breakfast, laundry and cleaning can be managed by you and/or your spouse.

More than 5 rooms

This size requires a bit more effort. You will need to take on a cleaner and/or cook to help out during the busy times as a couple will not be able to do all the work. You will need a decent sized kitchen to cater for the greater number of guests and you will need to think about parking. However bigger sizes means you can benefit from economies of scale and take on group bookings.

If you look at an average cost per room you will find the higher number of rooms the cheaper cost per room. So will see 5 bedroom B&Bs going for £200,000 and 10 bedroom B&Bs going for £300,000. So the smaller B&B room purchase price is £200k/5 = £40k but the larger B&B room purchase price at £300k/10 = £30k.

So there are real reasons to go for it BIG style as it will be easier to break the 33% yield threshold.

**4. Choosing The USP/Theme/Niche**

I have spoken about themeing the B&B. You should really expand that out to either one of the following:

USP – USP stands for unique selling proposition. There should be a reason why people come to your B&B which is unique to your business.

Theme – this could be the décor you use within the B&B. You see the hotels in Las Vegas all having their own crazy theme to lure you in.

Niche – this is where you focus on certain groups of people with a common interest.

| USP/Theme/Niche | Description |
|---|---|
| Price | You can be the cheapest or the most expensive. Either way you will have a reason for people to come because people just like to have the cheapest or most expensive in the area. |
| Quality | Do you want to 5 star or unclassified? Positioning yourself as the highest quality is a common way to stand out. Think Hilton Hotels and you'll get the idea. |
| Location | Do you want a B&B in the dead centre of where it is all happening? People will pay a premium to be in the heart of it. |
| Food | Do you do a mean English Breakfast? Let your sausage be the talk of the town and watch them pile in from all over. |
| Age | You could run a really funky young B&B or one that focuses on families or even single parents. |
| Out Doors | You could one that focuses on specific out door activities such as rock climbing or bird watching etc. |

| | |
|---|---|
| Sports | Focus on specific sporting activities such as surfing or snow boarding. |
| Sexuality | Gay B&Bs are quite common in Blackpool and Brighton. Does your area lack a gay B&B? |

Nothing I have said is ground breaking it is just common sense. But do not get caught out and get what is technically called "stuck in the middle". Differentiation is key so there is a reason to come to you.

**5. Maximising Revenue**

You get customers from the following sources:

Foot flow
Website
Online Networks
Offline ads
Tourist Board
Word of Mouth

| Customer Source | How to increase it |
|---|---|
| Foot flow | Make sure your B&B has kerb appeal. So nice and clean exterior with an attractive sign to catch the attention of passers by. |

| | |
|---|---|
| | Make sure your sign “No Vacancies” is turned round the right way! |
| Website | You should definitely have a web presence. Nice clear pictures of the outside, the rooms and the communal areas will eliminate any objections they might have.<br><br>Have a capture form to capture their details like email and telephone number so you can get back to them if they enquire.<br><br>Consider sending a newsletter once a quarter for anyone who does enquiry emailing them with your latest offers.<br><br>If you can have a 24 hour answering service so yu never miss a call.<br><br>If you are brave enough you could have customer feedback rating but make sure you monitor it. A negative response could kill enquiries. |

| | |
|---|---|
| | Use Google Adwords to promote your site. You can read my book called "How To Make A Fortune On The Internet" which will show you exactly how to create an online presence. |
| Online Networks | There are plenty of networks out there. The one I use is laterooms.co.uk. you can get an excellent amount of leads and some only charge per lead or even per booking. |
| Offline ads | You could write articles or pay for ads in the magazines and newspapers that specialise in your niche or theme. |
| Tourist Board | Listing with tourist guides or the tourist board can generate enquiries and the great thing its completely free! |
| Word of Mouth | The best form of advertising. If you do provide a great service then you can be sure your B&B will get repeat bookings. |

Additional Streams of Revenue

If you want to top up your revenue then here are some other ideas on how to get your turnover up:

Sell memorabilia/goods to guests – depending on your theme or location you could benefit from selling goods which you know your customers could potentially be looking for.

Offer Food and or Alcohol – you could expand the kitchen to offer lunch or dinner and even be able to offer them a glass of wine to go with it.  Margins are very high on food if you keep an eye on wastage and the margins on alcohol is even better!

Broadband – you could offer metered access to broadband.  Some hotels charge £10 for 24 hours so there is nothing stopping you doing the same.

**6. Compliance**

Running a B&B you are going to have to comply with certain regulations and guidelines.  They fall in to 3 main categories:

Fire
Food&Hygeine
Health&Safety

<u>Fire</u>

You will need a fire officer to come and visit so the officer can assess the fire risk.  You will need to

install fire doors as the internal doors
have emergency lighting
have protected fire escape routes
put up signage in case of fire in all rooms
have a fire blanket at high fire risk locations like the kitchen
install fire extinguishers in the hall way
have a mains wired fire alarm system with smoke detectors

Food&Hygeine

You will have to comply with the regulation regarding cooking and food with regards to:

Storage of supplies
Preparation of food
hygiene (both personal and of equipment)
Waste disposal
Cleanliness of water supply

Health & Safety

Areas where the guests can enter such as the rooms, communal areas and hall, landing and stairs need to be:

Free from trip hazards
Have a full electricity safety certificate
Electrical goods must undergo a 5 year electrical test
Anti-slip mats in bathrooms

Consult H&S professional to do an assessment on the property to make sure you have covered all bases.

Being able to perform first aid would be advisable even though not a legal requirement.

Now all this compliance costs. It is important you comply but cost effectively. I set the 33% threshold yield suitably high to take in to account the high costs of compliance. A B&B is not your normal buy to let. There is plenty of regulation to adhere to.

# 3. Property Trader (Traditional)

I Vital Statistics

| | |
|---|---|
| Earning potential before tax | £5,000 to unlimited per property |
| Capital Required | £nil to £50,000 |
| Skills Required | Ability to act quick |
| Qualifications preferable | None |
| Competitiveness Low/Med/Hi | High |
| Risk Low/Mid/High | High |
| The Business Model in a nutshell | Buy extremely cheap and sell cheap<br>B2B Trader |
| Potential gaps in the market and suggested USPs | • Auction to Auction sales<br>• Portfolio break up |

Introduction

You will like to hear what I have to say about this business model:

A LOT of money can be made if you know what you are doing.

The reason being is that trading properties is just that. You do absolutely nothing to the property. You simply buy and then sell. No refurbishment, no extensions, no loft conversions etc. There is no need to pander to the whims of an owner occupier interested in your property regarding décor or location as you will be dealing with property businesses.

The success of this business is all in the buying. If you buy right then the rest is all taken care of. So what is buying right? Buying right is:

CHEAP!

The property has to be bought cheap so as it can be sold cheap. You make small margins on each property and you focus on volume. That is to say you are better of selling 10 properties to make a quick 10% on each one rather than holding out for 100% profit on one property and realising none.

There are plenty of buyers of cheap properties even in a credit crunch. As long as you have bought well enough to even factor in a further decline in prices then you will make money.

I know of property traders who are able to buy properties at 15% of market value. Yes 15% of market value. These guys are committed to the deal. When they get whiff of a bargain property and they know that the vendor perceives their options as limited they show no mercy! They will pay the least they can. This game is for vultures who are determined to succeed.

1. The formula

You have to:

a) buy at maximum 50% of market value
b) sell at minimum 60% market value
c) do it in the quickest time possible

If you can achieve this then you will become wealthy. I know of plenty of property traders who do just this. NEVER getting their hands dirty. Just shuffling a few bits of paper between solicitors and lenders and creaming off 10 to 20% gross profit each time they trade.

And remember we are not talking 10% of a small figure. We are talking property prices. So assuming an average transaction value of £100k then each trade can make you £10k a go and sometimes a lot more.
Now let me explain the formula in a bit more detail and why it is so.

a) buy at maximum 50% of market value

This game is all about buying right. I deem right as 50% of market value. This means basically half price of what a property is worth today. This means any property. Take the following properties available in a property auction:

Fire Damaged 3 bed semi in Grimsby – Guide £5,000
City Centre apartment in Glasgow 2 bed – Guide £50,000
2 bed house in Hull rented for £300 per month – Guide £25,000

Do you think those guide prices are reasonable? Do you have any idea or would you be just guessing?

Now you have to know what each property is worth in its current condition in todays market to spot whether it is a bargain. This I will show you how to do. It involves getting in to the mind of an investor to really work out what these properties are worth. It is these investors who will buy from you so you need to know what makes them tick.

Now before you wonder why an investor will not buy a property before you then think again. The property market is a very imperfect market. That is to say true market prices are hard to realise. The property game does not have the equivalent of the London Stock Exchange where a near perfect market exists.

The Property market exists as a mass of mini platforms such as property auctions, estate agents and private sales. All littered with arbitrage possibilities. That is to say you can buy from one mini platform and sell to another and make a profit for doing so.

So as long as these mini platforms exist then there will always be opportunities to make money simply by buy and selling properties. This is a B2B trader game. Nice and clean and plenty to make.

b) Sell at minimum 60% market value

I deem 60% market value to be good for 2 reasons:

1. it guarantees you at least 10% profit on your deal. 10% will net you at least 5% profit after all fees on an average purchase price of around £100k. This equates to £5k per deal which really should be the minimum you should expect from each property transaction.
2. 60% of market value is a bargain to an investor. There should be no reason why you should accept anything less. If the investor is the end user i.e. the investor expects to buy it and hold on to it then they will be more than happy to accept something that is at 60% of market value. If they want more of a discount they are simply being greedy and tell them so……and if you are not brave enough say I said so!

60% of market value should result in a swift sale which is what any property trader would want. I will explain the reasons why in the next bit.

c) do it in the quickest possible time

A trader makes their money by selling. If all a trader did was buy then they would make nothing as they would not have realised a sale. So for example if you had a trader who bought correctly at 50% of market value but wanted to sell only at 100% of market value then this trader could wait a very long time.

During this time the trader would make no money as no sale has taken place. In the meantime the following could and/or will happen:

1. the property market in general may have dropped – this will mean you will have to revise your asking price downwards. If you do not then you will never sell until the market recovers and that could be ages away.
2. the property itself degenerates – the longer you hold the longer something can go wrong. As the owner you assume all the risks of ownership. This means if there is a burst water pipe destroying all the fixtures and fitting then you have to pick up the bill. If you have insurance then you may be covered but there are quite a few exclusions so be prepared to pick up some of the bill.
3. The longer you hold the more interest costs you pay. This cost directly eats in to your margin. So if your interest costs are £1,000 per month and you think it will take you 6 months to get £3,000 more on the selling price then is it really worth it? A trader should always want to minimise their holding costs and opt for a swift and quick sale.
4. Exposure – this is a term to state whether a trader is in the market or out. If you are a trader holding £1m worth of property that is up for sale then you are in the market. You are exposed. No lets just say the credit crunch hits. Now depending on how quickly you can sell by slashing prices and cutting your losses you could find yourself in the bankruptcy courts. This has happened to a lot of these traders who simply got too confident. As a trader you want to keep your exposure to the minimum. If you had sales going through at 60% market value during a credit crunch you would still be able to sell probably as the buyers would still appreciate that it is still a bargain regardless of the climate. There is enough of a safety buffer zone for everyone when you are at 60% of market value.

So I hope you can see that the idea of a trader is to buy very cheap, don't be greedy, sell cheap and do it very quickly.

So lets get in to what is very cheap. You need to be able to work out what market value is with a certain degree of accuracy to then establish what very cheap is.

2. Determining Market Value

So what is market value? When you are a B2B trader I deem market value to be what market value is to an investor. An investor deems market value to be what sort of return they want to get from an investment.

Returns Wanted By Investors

The minimum return on average an investor wants from an investment is:

12%

Now there will be variations to this. In some areas a higher return is wanted and in other areas a lower return is wanted. So for example where I invest in Hull I would want a 15% however another place I invest is Harlow and a 10% return would do. But on average a 12% return is pretty damn good.

In pre-credit crunch days a 5% return was touted out as good. All change. Sensibility has come back to the market. I would never buy at such a low return and nor did any professional investor back then.

Market Value of Rentable Properties

So accepting that a 12% return is universally acceptable to a professional investor you can then work out what market value is. You simply fill in the missing numbers to this equation:

Market Value = (Monthly Rent x 12) divided by 12%.

So if there is a property that commands a monthly rent of £500 then its market value would be calculated as:

(£500x12) divided by 0.12 = £50,000

So the price to pay for this property is 50% of this market value. So the buy price is:

Buy Price = 50% x £50,000 = £25,000

So if you see the property for sale at anything below £25,000 then grab it. You will find an investor who will pay at least 60% of market value being £30,000.

Now this would assume it is in rentable condition. Properties that require work need to calculated in a different way.

Market Value of Properties Requiring Work

Now lets say the same property that commands a rent of £500 a month has now been seriously fire damaged. The cost to repair is £20,000. Then the price to pay is:

Buy Price of Property Requiring Work = Buy Price - cost of refurbishment

So the buy price works out to be:

£25,000 - £20,000 = £5,000.

So if the fire damaged property came to auction (which is where they usually end up) the max price that can be paid id £5,000.

If the refurbishment cost was £30,000 then you would have the buy price of the property requiring work as:

£25,000 - £30,000 = -£5,000

That's a minus figure. Hence the property is worthless and you would have to be paid £5,000 to take it on. This explains why there can be plenty of properties that will just sit empty as they will never find a buyer. The only way these sort of properties can ever come back to life is if the council provides grants to would be purchasers. If these grants are not forthcoming then the bull dozers come in and knock the properties down.

Now you have to be able to estimate what the cost of the works will be. This is where the skill comes in. if you over estimate you will deem the buy price too low. If you under estimate you will deem the buy price too high and end up buying something you cannot sell.

Now there are plenty of books that can help you estimate the costs but as a rule I use this scale:

Full redecoration of a property - £10k
Fire damage - £20k
Re-kitting out a shell of a property - £40k

These are very rough prices and I have ignored size. I just attribute a general figure which I apply to any property that comes my way. So if I see a 2 bed flat which has old décor then I would guesstimate the cost of the refurb as £10,000. I know I could do it for less than that but it allows for any unexpected problems.

Now these refurb costs assume a housing benefit claimant living there. So the finish is basic. Do not expect to get a Versace bathroom out of these budgets! If you are thinking of trading anything over a purchase price of £125k then I would adjust the refurb costs to match the intended person who will be living there. So if a fire damaged flat in Mayfair comes up expect to spend a little bit more than £20k!

3. Finding the properties

It will come to no surprise to you that the UK is not overflowing with properties at 50% market value! There are 2 sources of bargain properties:

i). Auctions
ii). Desperate Sellers

i). Auctions

The reason why bargain properties can be grabbed here is because reserve prices can be low and the competition can be low. Sellers in auctions are:

Banks
Other investors

A property ends up in auction as a last resort. Auctions are great for sellers as exchange of contracts happen at the fall of the hammer and the buyer is financially committed to the purchase.

If you compare that to the traditional way of buying where exchange of contracts does not happen until the near end of the purchase. Lots of sales fail to make it to exchange as buyers change their mind, fail to get finance etc.

So a seller entering their property for auction is already primed up to accept a lower price. Some sellers may even be desperate and this is the sellers only chance of realising some cash quickly.

Banks only really care about getting the amount they lent back plus fees. This could mean only £25,000 is needed on a property worth £200,000. So a property could be entered worth £200k with a reserve of only £25k. This property will be sold to the highest bidder. If there aren’t many bidders then BINGO!

This all results with some, but only some, properties with low reserves. It is these properties that can be had as bargains.

Now it is not enough to find properties with low reserves. If there are plenty of bidders in the auction room then the property will get bid up and sell for well in excess of the reserve.

You want to find auctions where there are not only low reserve properties but:

Few buyers

Imagine an auction hall that is empty and there you have the perfect auction hall. This will mean that you will be the highest bidder in every scenario and all you need to do is name your price. When your named price is in excess of the reserve then you have a match! Now most will not but some will.

Now what I have described is an imaginary situation. However there can be times when there are:

i) few buyers for specific properties
ii) few buyers in general

You want to be in an environment where either of the situations above can occur. This is when there are few buyers for specific properties or few buyers in general. This can occur in the three different types of auctions.

There are three types of auctions:

National
Regional
Local

National auctions are where properties from all over the UK get auctioned off at one Auction event, usually in London, and are used by big sellers such as the well known banks and large investors.

There are times when you may get a property in a little known town being auctioned off sandwiched in between a mansion in Hampstead and a Block of apartments in Birmingham City Centre.  This little property may have low interest levels and Mr Local Landlord from this little town is simply not there to bid.  So this property will either get no bids (which is very common) or your bid!

So look out for these large national auctions.  It is here where you can benefit from the situation of having few buyers for specific properties.  If you have the time and are patient you could just grab a bargain that everyone else misses.

Regional Auctions

These are auctions that are held regionally.  So typical regions are:

Scotland
North West
South East
London

These auctions can be as large as the national ones.  They can throw up some bargains if there a few people attending.  Going to these auctions during the summer months and the ones either side of Christmas can be great.  While the others are on holiday you can be buying!

It is here where you can benefit from the situation of having few buyers for specific properties.

Local Auctions

These are auctions which sell local properties only. So these will be town or city specific. Now these auction halls can be baron. There can be as few as 10 people in the room and you will find that a couple of them will buy nearly everything and leave the rest because they run out of cash or just do not favour the property.

It is here where you can benefit from the situation of having few buyers in general.

So remember you want to find properties with low reserves within a room of few buyers. Then the bargains can be had.

You can find these local auctions in the reference chapter along with all the regional and national auctions.

ii) Desperate Sellers

Desperate sellers are private indivduals who have or about to default on their mortgage commitment. They may have lost their job or have over borrowed and can no longer afford to pay their mortgage.

These buyers want out quick. They do not have money to get a HIP, time to muck around with prospective buyers looking for a home or the patience to deal with estate agents!

They want a buyer who will give them the best price which will clear their mortgage and give them a little bit on top so they can go on holiday.

Your only competitor at this stage are other buyers like you. To beat the competition at this game you need to be fast.

How To Find Desperate Sellers

You need to advertise to find these sellers. The best methods to advertise are:

1. The Internet
2. National & Local Press
3. Leafleting

The Internet

Just type in google "sell home fast" or "sell home quick" and you will see plenty of websites that will come up offering to buy your home. Study these as the wording they use you should use. So things like:

No HIPS
We will complete in 7 days
Up to 90% of market value paid
We pay all fees

They all have an easy to fill out form prominent on the site to capture the desperate seller's details. It is these details that will make you the money. So once you have their details you need to follow up with a phone call ASAP.

National & Local Press

If you look towards the back of any tabloid newspaper you will see the ads next to all the unsecured loans and business opportunities. Again they will have the headlines "SELL HOME FAST" etc. To advertise here costs around £200-£500 per day. You can specialise by region to get a cheaper price.

If you want to start off gently you could consider local advertising. Every local paper has a classified section and usually they have a property section. The section you should be going for is "PROPERTIES WANTED" and again use a catchy title that will attract a desperate seller to pick up the phone and call.

You could consider display advertising but remember this is expensive. You have to have your business model down to a tee if you are going to do this. You should be quite clear how many leads you expect to get for every pound of advertising. Display advertising is the logical next step once you have made the classified advertising work.

Leafleting

This is where you print up some leaflets and get them delivered to your chosen area. Again you would put something attractive such as sell your home fast etc. and your phone number. You could use a call centre and use an 0800 number. Then the call centre will send on the message via email and the call would have cost the home owner nothing.

Always put an alternative number such as a mobile as well. Some owners may have had their phone cut off and all they can use are their mobiles and some mobile companies charge hefty for numbers that start with an "08".

If you are going to give this to someone else to do make sure they are trustworthy. You do not want to find them in the local bin or spread across the playground park. I know some people offer the person dropping the leaflets a £100 bonus for every deal they find as a result of their leafleting. Not a bad idea me thinks!

4. Financing the Deal

Cash is the best way to buy these deals but I am going to assume you have very little. Even if you do have bundles of cash it is always best to think you do not so as to get the best return on your money by using other people's money.

The three ways you can buy properties using other people's money is:

a. buy to let mortgage
b. Commercial finance
c. bridging finance

d. venture capital

a. Buy To Let Mortgage

If I told you the buy to let mortgage market had shrunk over the years then that would be an understatement! We had 4,000 buy to let mortgages back in 2007 and now at the time of writing we have exactly 59. The good thing is the only way is UP.

We have several new buy to let mortgages coming on every week and the list is growing. The one I want to talk about are the refurbishment buy to let mortgages. These are offered by two lenders but I suspect more will follow:

Northern Rock
The Mortgage Works

These refurbishment mortgages allow you to buy properties that are unlettable by putting down only a 30% deposit. The mortgages remove the risk of a valuer knocking back a property because of its condition. When you are trying to buy at 50% of market value it is likely there is going to be some refurbishment required even if it is just light. This includes even tenanted properties. The amount of times I have had properties that have been tenanted and perfectly liveable (as proved by the tenant) knocked back by a surveyor as unmortgageable has been quite a few.

These refurbishment mortgages enable you to buy without this worry. Since you are trying to buy and then sell you want to use a mortgage lender that is not going to baulk at the first sight of a damp patch on the living room wall.

They also give you a back up strategy if you are unable to sell as these lenders will lend you 70% of the value of the property post refurbishment. They sometimes give you the value at the same time when they value it when requiring work and you sometimes get the absurd happening when the valuer values the property a fair bit higher than what you paid for it.

So for example you could find a property to buy at £50k and they say post refurbishment it will be worth £100k.  If it only takes £5k to refurb then you will have the following:

Purchase Price: £50k
Mortgage Lender lends: 70% x £50k = £35k
Post refurbishment Loan from same lender: 70% x £100k = £70k

Cashback of £70k - £50k- £5k = £15k

If this opportunity arises where the valuer gives a generous valuation post refurb then please be clever enough to spot it and change the strategy (like buy, refurb and sell to first time buyer etc.) to get a better return.

Now you still need to come up with the 30% deposit but it is better than coming up with the full amount.  The great thing is it is easy to rack up a big credit limit with these lenders.  They will probably lend 70% to every 30% you can find.  So if you can get your hands on £3m I would not be surprised if they lent you £7m.

b. Commercial Finance

Commercial finance is where lending is conducted outside of the CML (Council Of Mortgage Lenders) rules.  All buy to let and residential mortgages follow these rules.  The great thing is there are mortgages that do not have to follow these rules.  This is where commercial finance comes in.

Commercial lenders are:

RBS
NatWest
Lloyds

Barclays
HSBC
Bank Of Scotland
Clydesdale Bank
Bank Of Ireland
Allied Irish

I am sure there are more. Any bank that has a high street presence and is not a building society seems to have a commercial division. These banks can grant commercial mortgages. These commercial mortgages can be struck based on commercial terms rather than CML terms. Now here are the three really cool things about commercial mortgages:

1. No minimum valuation – This is how I built my portfolio quickly. A lot of properties fall under lenders minimum valuations. Most have the minimum valuation of £50,000 and very few have £40,000. So if a property worth £60,000 comes up for sale for £30,000 then you cannot get a mortgage from a regular CML buy to let lender. However commercial lenders are a lot more sensible and will happily lend up to 70% of ANY purchase price.
2. No 6 month rule – This 6 month rule has caught a lot of property people out. The 6 month rule means you cannot remortgage or purchase a property that has been owned for less than 6 months. So if you wanted to buy a property worth £60k for £30k and remortgage a day later at a value of £60k you would not be able to. You would have to wait 6 months to do so. With commercial lenders you do not need to wait.
3. Tailored Service – the terms agreed are set by you and the lender. So you agree the rate, LTV, arrangement fees etc. It is up to you to strike a good deal. They often offer as a margin over base and you can actually get deals that are much better than your standard buy to let lenders.

Now I bet you are desperate to contact your nearest branch and get some commercial mortgages however here is the bad news:

- You need to have an existing minimum borrowing level of min £250k usually £500k. They like to deal with full time property people. A certain level of borrowing usually indicates whether you are serious about investing or just playing. If you are currently doing property as a hobby but want to be full time can I ask you to re-read part II of the book. Believe me it can be well worth it just to get access to commercial finance.

- Reapyment mortgages only. These lenders hate interest only. I have tried to get interest only many a time but the best you can get is a couple of years interest only and then it reverts to capital and repayment.
- Max term 20 years. My commercial mortgages are 15 years repayment. They result in hefty monthly mortgage payments even though the rate is at a sensible 3% borrowing rate. I am smply paying back the capital over a short period of time. So make sure you sell the property quick!
- Loan to Values (LTV) are usually around 60%. So in some circumstances you can get 70% ( I have heard of 80% but is very very rare) but expect 60% as a typical LTV.
- You may need to open a bank account with them. Depending on how pushy they are being they may want you to switch your business account to them and then charge their banking fees. Do your sums. If it is your only option then you just have to do it. Having a commercial lender is VERY beneficial in the property world.

So weigh up the pros and cons of commercial mortgages and decide on whether it is right for you. If it is contact a high street branch and they will point you to the right department. My broker also has links with commercial lenders in specific branches so we can you approved also so do not be afraid to ask!

c. Bridging Finance

Bridging finance is short term finance that people use to buy at auctions. They advance the money fast to ensure you adhere to the tight completion deadlines set by the auctions.

Bridging finance is fast but not cheap! They charge you:

Valuation fees £500
Legal Fees - £1,000
Arrangement Fees – 3%
Exit Fees – 1%

Interest – 1.5% PER MONTH

So you can see the costs can add up.

So you must be wondering why I am recommending bridging finance? The best thing about bridging is that some lenders offer:

70% of the valuation of the property.

So if you had managed to get a property worth £100k for £70k the bridging company would lend you 70% x £100k = £70k. This is 100% finance. A bridging lender will lend 100% of the purchase price if the valuation is significantly in excess of the purchase price.

Traditional lenders would only lend you 70% x £70k = £49k. So you would have to find £70k - £49k = £21k as a deposit. If you do not have £21k then no deal unless of course you have access to bridging finance!

The sky really is the limit. As long as you can find the deals then there is no limit to how many you can buy. The only real limit is the total credit limits set by all the bridging finance companies that want to work with you.

So do you maths very carefully on this one. I mentioned above you want to sell quickly in this game. If you get bridging finance then you want to sell doubly quick as you are paying 1 to 2% a month. On a £100,000 loan that is £1,000 to £2,000 per month holding cost – ouch! So try and buy really really cheap to factor in a hold of 6 months. 40% of market value would be a good threshold but ultimately its your call.

d. Venture Capital

You may have heard of this type of financing. If you know the BBC programme Dragons Den then the Dragons offer venture capital. They venture their capital on your idea. And guess what your idea is?:
Buying & Selling Property

Now before you reach for the business plan creating software I will let you know that most investors do not property trading or investing ideas. I am not sure why but whenever I have looked in to the venture capitalists criteria they all say no property business plans. It could be the climate we are in or the fact that most plans require additional borrowing which scares them as the risk profile changes massively.

However you may be able to find less formal venture capitalists. This could be:

The Bank of Mum or Dad
Early inheritance from Grandma or Grandad
Friends
People you meet at networking events

There are lots of people around you who want to make money but cannot be bothered to work for it. They may have some cash tucked away and they want to put it to work. So a venture capitalist could be closer than you think!

Now I do not have to explain the delicate nature of going in to business with friends or family but just remember to be clear from the start and put everything in writing ESPECIALLY if they are related to you or you know them well!

5. Selling The Property

Now as explained earlier you need to sell the property QUICK. This means you may not get necessarily the highest price but it will mean you can make a very healthy living.

My strategy to get a quick sale is not to put all your eggs in one basket. I recommend you use every selling avenue at your disposal. This involves:

| | |
|---|---|
| Estate Agents | There is no sales commission to pay with an estate agent until you sell. So you can list your property with as many estate agents in the area.<br><br>I recommend you go multi-agent and explain you want a quick sale. You will not take the property off the market until exchange of contracts.<br><br>You will have to pay for a Home Information Report (HIP) which is about £250.<br><br>Set the price at around 75% of market value and let the prospective purchasers bid you down. |
| Auction | Even though you have found a bargain at Auction you can still sell at auction also. You simply want to do the opposite of what I told you earlier. You want to place your property where there will be many bidders for the property.<br><br>Examples of this are:<br><br>• Putting a property from a local auction in to a regional auction where there will be more buyers<br>• Keeping a property in the same auction but avoiding |

| | |
|---|---|
| | August and December Sales<br><br>The great thing about auctions you do not need to wait for the sale date. You will get plenty of bids prior to auction if you are not greedy. |
| Property Sourcers | Property sourcers (like me!) have plenty of hungry clients who will take your property if the figures stack. I know I can sell any property that yields 7.5% and is at 70% of market value within 2 hours.<br><br>The reason for this is that kind of property is attractive to around 80% of the investors out there! So price it right you can get rid of deals in a few hours. That is why so many property dealers in the UK work with us is because we have so many clients who buy. |
| Private Ads | It can be worth advertising in local papers and websites. For ads that cost less than £25 you could get a profit of £10k. It is kind of a no brainer isn't it? |

With all of the activities above you should give yourself the best chance of getting a sale. And remember what I said all the way through this: DON'T BE GREEDY!

# 4. Property Trader (Enhance)

I Vital Statistics

| | |
|---|---|
| Earning potential before tax | £5,000 to unlimited per property |
| Capital Required | £nil to £50,000 |
| Skills Required | Project Management |
| Qualifications preferable | Building Trade, Surveyor, Architect |
| Competitiveness Low/Med/Hi | Med |
| Risk Low/Mid/High | High |
| The Business Model in a nutshell | Buy property needing work, refurbish and sell to first/second time buyer or investor. |
| Potential gaps in the market and suggested USPs | • Sell to DSS landlords<br>• Package deal up so no money in by purchaser |

**Introduction**

The market has changed since mortgage lenders introduced the 6 month rule. This means that any property that is being sold must have been owned for at least 6 months if the purchaser wants to get a mortgage on it. It can be safe to say that the majority of refurbished properties are sold to the end user (i.e. they will live in it!) and the majority of these will require a mortgage.

Therefore we have to take the 6 month rule very seriously. Otherwise you will end up holding a property far longer than you expected.

There are three strategies you can adopt to make money in this business all with increasing amount of enhancement:

1. Refurbishment – this is sometimes called “a lick of paint”. All you do is a cosmetic refurbishment, smarten up the kitchen, change bathroom, paint walls, new floors and a nice shiny paint on the front door. You can do this very quickly and cheaply and add many times your investment in refurbishment as profit.
2. Conversion – this is where you convert part or all of the property such as a loft conversion or split in to flats to realise a profit due to the conversion you apply.
3. Extension – this is where you add floor space area to a property realising your profit due to the enhanced value you give the property by extending it.

All exciting stuff! Those of you who like to see a finished product will love this game. There will be plenty of ups and downs but for those who persevere and know what they are doing can make some serious money.

## 1. The Formula

a) determine which enhancement method you want to follow. Either Refurbishment, Conversion or Extension.
b) Work out the buy price, enhancement cost and sell price
c) Enhance
d) Sell

So the first part is working out what type of enhancement you want to do and then the rest is just following through. So I am going to help you decide which one is right for you then tell you how you go about each method to make sure you make some cash.

## 2. Refurbishment, Conversion or Extension?

Each method is attractive. However they have increasing levels of enhancement which result in greater levels of risk which are compensated by increasing levels of profit!

<u>Refurbishment</u>

Now the attractive thing about this enhancement is no planning permission is required. You can buy, refurbish and then sell. If you have an eye for interior design then you can make decent profits just like Sarah Beeny does.

Refurbishment can involve:

1. Painting & Decorating
2. Plumbing
3. Installation of new bathrooms and kitchens
4. Flooring
5. Basic Electrics
6. Installation of gas central heating
7. Installation of new windows
8. Basic exterior work

Now these can all be carried out by various subcontractors or you can instruct a building company to do the whole project.

Now if you are new to the enhancement concept then I suggest you choose this method. I would also try and stick to finding properties that only require 1, 2, 3, 4 & 5 above needing doing to it. It is best you break yourself in gently.

If you have done a few refurbs before and want to get top dollar for your property then 6, 7 & 8 can be worthwhile.

Being good at enhancement is all about project managing. If you feel you have this skill then enhancing properties could be the way forward for you. Paperwork is minimal and you can just crack on with the project as soon as you get the keys.

It is the lowest risk way of adding value to a property and is the usual way property developers start off. So if you have a sneaky desire to be like Donald Trump and build tall skyscrapers then here is a great place to start.

<u>Conversion</u>

Conversion is the natural step after you have mastered refurbishment. This involves:

1. Knocking down and erecting walls
2. Creating bathrooms and kitchens out of empty rooms and spaces
3. Seeking planning permission from the council
4. Dealing with the land registry with creating titles

Now you might be able to see why most people do not do conversions. It is not a simple case of splashing a bit of paint. You need to have not only project managing skills but:

a) good paperwork skills – there will be a lot of paperwork being shuffled between different departments such as architects, solicitors, land registry etc. to get planning permission. You will have to be organised. So if your mantra has always been “I hate paperwork” then this enhancement might not be for you.

b) Good negotiating and people skills – you will have not only to deal with subcontractors such as builders and plumbers etc. you will have to deal with white collar professionals such as architects, council officers, fire officers etc.  Persuasion rather than instruction works with these type of people and you need to use the power of influence if you want to get what you want.
c) Persistence – if you thought refurbishment projects were fraught with problems then doing conversions can be worse.  There is a procedure that needs to be followed and each section needs sign off before the next stage can begin.  Also when you are trying to create rather than replace a whole load of other problems emerge.  So a fair degree of persistence is required to see the project through.  There are plenty of abandoned projects for sale auction I hope you know.

So if you have got a few refurbs under your belt and you are looking for that bigger return then conversions can deliver the goods.

Extensions

Extensions require all of the above plus:

1. The building of foundations
2. The building of walls
3. Construction of roofs

This is serious stuff.  So again you would need all of the above skills plus the ability to manage another contractor or contractors to do all of the above work.  The projects usually take longer and cost more but the rewards are naturally higher if you get it right.

So which one?

So which one floats your boat?  Refurbishment, Conversion or Extension?  I will leave it up to you.  I think it is a progressive thing.  That is to say you start off with refurbishment and then progress to conversion and then on to extension.  The next stage beyond extension is property development i.e. building flats and houses but that is another book!

## 3. Refurbishment – How To Make Money From It

The enhancement game is all margin led. You have to know what you want to make as a profit before you start.

The best way to express what you want is as a percentage of the eventual selling price. This eliminates the obvious mistake many novice refurbishers make by chasing absolute figures. You see non-business people use Mummy and Daddy's money developing a £1m property to make £10,000. For those who do not know that is chasing a 1% return. The slightest problem will bring the project out of budget and in to loss. So having your margin being set as a percentage is a rule set in stone. Please do not deviate from this.

It is also best based on the selling price as this is market led. It is the selling price that you should be focused on as this is the only figure really out of your control. If you invest time in determining what the selling price is then it should reduce the margin of error.

The margin I reckon you should aim for is 25% of the selling price. So if a property has an estimated selling price of £100,000 then you should expect to make £25,000 profit before tax but after all direct expenses.

It is set at 25% to allow for:

1. You estimating the selling price to be wrong
2. A fall in the market during refurbishment
3. You over spending on the project

So if you were 5% out on the estimated selling price, there was a 5% fall in the property market during refurbishment and you over spent on the refurbishment by 5% based on the estimated selling price you would still make:

24% - 5% - 5% - 5% = 10%

So if you estimated the selling price to be £100,000 you would still make:

10% x £100,000 = £10,000.

So considering the only figure out of your control is the selling price lets look at all the other costs.

Now I am going to create something you are going to love which will take all the hard work out for you. It is called a cheat sheet. You just fill in the blanks. Once you have filled in the blanks you will derive the price that starts the whole thing off:

The buy price.

If you buy right then even if you make a pigs ear of the refurbishment you can still make money. I think the reason why I have been so successful in property is that I am so damn disciplined when I buy.

I do not like to buy at fair value or even cheap I like to buy dirt cheap. This does not make it likely that I will make money but it ensures it. That is why I hardly buy anything and I believe more than 99% of properties are simply not worth buying.

So here is my cheat sheet to fill in. I have filled it in as an example:

| Notes | Income and Expenditure | Amount £ | % of selling price |
|---|---|---|---|
| | **INCOME** | | |
| input what you think you can sell the property for here. | Estimated Selling Price (A) | 100,000 | 100 |
| Input your estimated cost of the HIPs which you will need when come to selling the property | HIPS (B) | 300 | |

| | | | |
|---|---|---|---|
| Input your estimate of what your solicitor charges for selling a property for you | Legal fees (C) | 600 | |
| This I have estimated as 2.5% of the estimated selling price. | Selling Commission (D) | 2500 | 2.5% |
| Input a sundry amount for unforeseen expenses. | Sundry (E) | 500 | |
| Put this as 25% of the estimated selling price. | Margin (F) | 25,000 | 25% |
| | | | |
| This figure is what you can spend on the whole project | Contribution To Project (G)<br>(A-B-C-D-E-F) | 71,100 | |
| | **EXPENDITURE** | | |
| This is the legal fees to purchase the property | Legal fees (H) | 600 | |
| This is the stamp duty payable to buy the property:<br>0% - <£125k<br>1% > £125k<br>3% > £250k<br>4% > £500k | Stamp Duty (I) | 1,500 | |
| This is an estimate of what you think the refurbishment costs will be. This cost is directly linked to the estimated sales price. So if you have factored in a plush | Refurbishment Cost (J) | 10,000 | |

| | | | |
|---|---|---|---|
| bathroom to get the estimated selling price then make sure it is budgeted for in here. As a rule of thumb for a basic refurbishment:<br><br>Decorate and carpet Bedroom/Living Room, HSL(Hall,Stairs, Landing) or reception room £1,000 per room<br><br>Kitchen or Bathroom £2,000<br><br>Install Gas Heating £2,500<br><br>Install New Windows £2,500 | | | |
| An estimate for unforeseen costs | Sundry (K) | 500 | |
| Financing costs of holding property. This will be a minimum of 6 months because of the 6 month rule. I would budget for 9 months. | Interest costs (L) | 2,000 | |
| A percentage of the amount borrowed usually between 1 and 3%. | Mortgage Arrangement Fees (M) | 1,000 | |
| An estimate of the survey cost | Valuation Costs (N) | 500 | |
| An estimate of the mortgage broker cost | Broker fees (O) | 500 | |

| | | | |
|---|---|---|---|
| | | | |
| Sum of the costs | Total Purchasing & Refurbishment Costs (P) (H+I+J+K+L+M+N+O) | 16,600 | |
| | | | |
| Derive the buy price of the property. | Buy Price: Amount left over to purchase property (G-P) | **£54,500** | |

Looking at the figures the following should be noted:

1. A buy price of anything less than £54,500 is a good buy price
2. You would need to achieve at least £71,100 to not lose any money

Now you can get this cheat sheet for free by visiting my website www.ahuja.co.uk and joining my newsletter which will perform the calculations automatically.

Now be prudent with all your estimates. This will mean you will see opportunities go by but it is better to let 10 opportunities go by than buy a dud. It is a patience game. That deal will come along and remember there are millions of properties for sale quite literally so take your time and hold out for the property that can give you an estimated 25% return.

You only ever become involved in a property deal once you buy. Like I said before if you buy right EVERYTHING is taken care of.

## 4. Conversion – How To Make Money From it

Conversions can be:

Loft Conversions
Garage to room conversions
House to a number of flats conversions

They simply use the current space of the property in a more commercially better way.

This game is all about seeing the value of space in a given location. You need to calculate the value per sqft and see if by enhancing the current space you can achieve the value per sqft and make a profit.

So think of a flat in Oxford Circus with a loft above it. How valueable do you think that space is? I hope you can appreciate if you were able to convert that loft space in to another room or even another flat you would certainly add some value. The cost to do it will be your only cost as you already own the space. So it is a simple calculation of:

Value created by conversion – cost of conversion = profit

Now the profit has to be worthwhile. So the question is:

To convert or not convert?

This depends on where the property is located. I have come up with a neat way of determining whether a property is worth coverting or not. You have to determine whether the property sits on desired land or not.

The way you work out if the property is on desired land or not is to work out the market value relative to the rebuild cost. So you would perform the cslculation:

Current Market Value divided by Rebuild Cost

So you would use establish what current market value is by visiting land registry sites such as houseprices.co.uk and then the rebuild cost is approximately £100 per sqft. Then if the ratio is greater than 1 then the property sits on desired land and is worth potentially converting.

So for example:

There is a four bed property worth £300,000 for sale. It has a large loft area totalling 1,000 sqft and the property living space is 1,500 sqft. You would then do the following calculation:

£300,000 divided by (1,500 sqft x £100) = £300,000/£150,000 = 2

So on the face of it it appears that it is worth developing the loft. For every £1 spent you will get back £2.

The higher the number the more reason to convert. So take my Oxford Circus flat example. Lets say the flat is worth £1m and the flat is 1,000 sqft and has a loft space of 1,000sqft then the ratio is:

£1m divided by (£100 x 1,000) = 10

So every £1 spent you can expect to get £10 back. That is a very nice profit!

Now I have assumed a £100 per sqft rebuild cost. It will be cheaper if you are doing a loft conversion or garage conversion but more expensive if you are doing a split of house in to flats conversion. £100 is just a ball park figure to firstly determine whether it is worth converting or not.

I would set a threshold of 2. This will cover you quite safely. So if Market value divided by rebuild cost is greater than 2 then it is worth buying in this area to seek developments.

As a rule of thumb the nicer desired areas to live are worth developing and the not so nice areas are not. It is kind of obvious that that would be the case however I do see some strange conversions going on where I invest. I invest primarily in cheap undesired areas so the choice whether to develop is an easy one as the ratios are always well under 1. I see some terraced properties being converted in to 2 x 1 bed flats where the only real gain is a bit of extra rent which will takes ages to pay back the cost of conversion.

So once you have isolated the areas which meet this greater than 2 threshold it is time to get in to the specifics.

**Return Required**

You will need to set a target return to aim for. The target return to go for is a 30% profit margin on the selling price. I have set it higher than the refurbishment threshold as there are more things that can go wrong with a conversion. You may not get the planning you require or the conversion may be restricted. This will affect your selling price. So in the worst case scenario that planning is refused you can just refurbish and aim to at least get your money back.

I have created a cheat sheet for you and you can just fill in the blanks. This will give you the maximum price you should pay to get the target return.

| Notes | Income and Expenditure | Amount £ | % of selling price |
|---|---|---|---|
| | **INCOME** | | |
| input what you think you can sell the converted property for here. If you have converted a 3 bed 1 bath | Estimated Selling Price (A) | 100,000 | 100 |

| | | | |
|---|---|---|---|
| to a 4 bed 2 bath property or a 4 bed house in to 2 x 1 bed flats then it should be easy to get comparables. | | | |
| Input your estimated cost of the HIPs which you will need when come to selling the property | HIPS (B) | 300 | |
| Input your estimate of what your solicitor charges for selling a property for you | Legal fees (C) | 600 | |
| This I have estimated as 2.5% of the estimated selling price. | Selling Commission (D) | 2500 | 2.5% |
| Input a sundry amount for unforeseen expenses. | Sundry (E) | 500 | |
| Put this as 30% of the estimated selling price. | Margin (F) | 30,000 | 30% |
| | | | |
| This figure is what you can spend on the whole project | Contribution To Project (G)<br>(A-B-C-D-E-F) | 66,100 | |
| | **EXPENDITURE** | | |
| This is the legal fees to purchase the property | Legal fees (H) | 600 | |
| This is the stamp duty payable to buy the property:<br>0% - <£125k<br>1% > £125k | Stamp Duty (I) | 1,500 | |

| | | | |
|---|---|---|---|
| 3% > £250k<br>4% > £500k | | | |
| These are the costs to convert. Include:<br><br>Architect Fees<br>Legal fees to get planning<br>Planning Application fees<br>Building works<br><br>As a rule of thumb use these costs per sqft:<br><br>£40 per sqft for loft conversions<br>£50 per sqft for garage conversions<br>£65 per sqft for conversion in to flats<br><br>This would assume at least one bathroom being installed. | Conversion Cost (J) | 20,000 | |
| An estimate for unforeseen costs | Sundry (K) | 500 | |
| Financing costs of holding property. This will be a minimum of 6 months because of the 6 month rule. I would budget for 9 months. | Interest costs (L) | 2,000 | |

| | | | |
|---|---|---|---|
| A percentage of the amount borrowed usually between 1 and 3%. | Mortgage Arrangement Fees (M) | 1,000 | |
| An estimate of the survey cost | Valuation Costs (N) | 500 | |
| An estimate of the mortgage broker cost | Broker fees (O) | 500 | |
| | | | |
| Sum of the costs | Total Purchasing & Conversion Costs (P) (H+I+J+K+L+M+N+O) | 26,600 | |
| | | | |
| Derive the buy price of the property. | Buy Price: Amount left over to purchase property (G-P) | **£39,500** | |

Again do not forget to be prudent! It is better to under estimate the selling price and over estimate the costs. This way you will ensure your chances of success.

This cheat sheet is available for free by joining my newsletter at www.ahuja.co.uk

## 5. Extension – How To Make Money From It

Now this is similar to conversion except you are adding space to the property. The same rules apply regarding desired land. i.e. you need to calculate the ratio of market value to rebuild value.

Now since the costs are higher for extensions I would set the threshold to 2.5. That is to say the ration of market value to rebuild cost should be greater than 2.5. So for example take the following property:

Market Value: £400,000
Rebuild Cost: £200,000

Then the ratio is:

£400k/£200k = 2

So yes the property is on desired land but the decision to extend is not worthwhile.  For all the extra effort of effectively developing a property you should want a safe return as these projects can take a long time sometimes in excess of 1 year so you want a comfortable margin.

There will be fewer areas than all of the other areas identified above for refurbishment and conversion.  Again think of the nicer areas as these will be the areas which have ratios greater than 2.5.

What properties to extend

The properties you should aim to extend are:

Small properties

Looking at the opposite end of small lets say you have a 10 bed property.  How much value do you think you will add if you add another two bedrooms? Probably not as much as if you added 2 bedrooms to a 2 bed house.

So the smaller the better as you can effectively make a small house in to a large family house and double the value of the property without spending that much.

How To Extend

Extensions that really add value are:

Bedrooms
Bathrooms

I suggest you flick through Rightmove.co.uk and do the following test:

Ascertain the average price of:

2 bed 1 bath properties
2 bed 2 bath properties
3 bed 1 bath properties
3 bed 2 bath properties
4 bed 1 bath properties
4 bed 2 bath properties
Etc.

And then compare the price differentials to give you the potential value you could add by adding bedrooms and bathrooms.

So for example lets say you want to buy and extend a 2 bed 1 bath property and the average values in that area are as follows:

2 bed 1 bath properties £100,000
2 bed 2 bath properties £125,000
3 bed 1 bath properties £135,000
3 bed 2 bath properties £160,000

4 bed 1 bath properties £160,000
4 bed 2 bath properties £185,000

Then you would create this Add Value Table:

| | +1 bath | + 1 bed | +1 bed +1 bath | +2 beds | +2 beds +1 bath |
|---|---|---|---|---|---|
| 2 bed 1 bath | £25,000 | £35,000 | £60,000 | £60,000 | £85,000 |

Which is simply the value you would add by adding a certain number of bedrooms and bathrooms to the property.

You would then compare this to your estimate for doing the works. So say for example the costs to do the above would be:

| | +1 bath | + 1 bed | +1 bed +1 bath | +2 beds | +2 beds +1 bath |
|---|---|---|---|---|---|
| Cost | £10,000 | £20,000 | £40,000 | £30,000 | £60,000 |

So the respective profits from the proposed extensions would be:

| | +1 bath | + 1 bed | +1 bed +1 bath | +2 beds | +2 beds +1 bath |
|---|---|---|---|---|---|
| Profit | £15,000 | £15,000 | £20,000 | £30,000 | £25,000 |

Which is the value added less the cost.

It can be seen that the optimum extension to do is to add 2 bedrooms only as this is the highest profit. It is this extension, assuming you have done your research properly, which will deliver the highest profit of £30,000.

**Required Return**

I believe you should aim to get 33% of the selling price as your profit. I have created another cheat sheet for you to use (available for free by joining my newsletter at www.ahuja.co.uk) so you just fill in the blanks:

| Notes | Income and Expenditure | Amount £ | % of selling price |
|---|---|---|---|
| | **INCOME** | | |
| input what you think you can sell the converted property for here. If you have converted a 3 bed 1 bath to a 4 bed 2 bath property or a 4 bed house in to 2 x 1 bed flats then it should be easy to get comparables. | Estimated Selling Price (A) | 100,000 | 100 |
| Input your estimated cost of the HIPs which you will need when come to selling the property | HIPS (B) | 300 | |
| Input your estimate of what your solicitor charges for selling a property for you | Legal fees (C) | 600 | |
| This I have estimated as 2.5% of the estimated selling price. | Selling Commission (D) | 2500 | 2.5% |

| | | | |
|---|---|---|---|
| Input a sundry amount for unforeseen expenses. | Sundry (E) | 500 | |
| Put this as 33% of the estimated selling price. | Margin (F) | 33,000 | 33% |
| | | | |
| This figure is what you can spend on the whole project | Contribution To Project (G)<br>(A-B-C-D-E-F) | 63,100 | |
| | **EXPENDITURE** | | |
| This is the legal fees to purchase the property | Legal fees (H) | 600 | |
| This is the stamp duty payable to buy the property:<br>0% - <£125k<br>1% > £125k<br>3% > £250k<br>4% > £500k | Stamp Duty (I) | 1,500 | |
| These are the costs to convert. Include:<br><br>Architect Fees<br>Legal fees to get planning<br>Planning Application fees<br>Building works<br><br>As a rule of thumb use these costs per sqft: | Conversion Cost (J) | 25,000 | |

| | | | |
|---|---|---|---|
| £100 per sqft. | | | |
| An estimate for unforeseen costs | Sundry (K) | 500 | |
| Financing costs of holding property. This will be a minimum of 6 months because of the 6 month rule. I would budget for 9 months. | Interest costs (L) | 2,000 | |
| A percentage of the amount borrowed usually between 1 and 3%. | Mortgage Arrangement Fees (M) | 1,000 | |
| An estimate of the survey cost | Valuation Costs (N) | 500 | |
| An estimate of the mortgage broker cost | Broker fees (O) | 500 | |
| | | | |
| Sum of the costs | Total Purchasing & Conversion Costs (P) (H+I+J+K+L+M+N+O) | 31,600 | |
| | | | |
| Derive the buy price of the property. | Buy Price: Amount left over to purchase property (G-P) | **£31,500** | |

So if you can acquire the property for less than £31,500 it would be worth extending.

Now I know what I have said is a lot to digest but please try to understand the numbers. I do not want you to be appearing on the next Property Ladder episode hoping for a property boom to rescue you from under estimating the building costs and over estimating the selling price!

## 6. Financing The Project

I spoke about the refurbishment mortgages above in the Property Trader (Flip) section (see page xx). The biggest thing that will slow you down is the fact that the capital you use for deposits and refurbishment take at least 6 months to come back to you.

So you need to raise as much cash as you can outlined in Part V of this book and then see if the figures still work. So for example if you can raise £100k and you estimate you need £50k a project then you can only do 2 projects at a time. If each project has an anticipated profit of £25k each then the most you can earn is £50k every 6 months maximum. Will this be enough? You need to decicde. If not you need to raise some more cash.

If raising cash is not an option then you can go down either the bridging finance route, the commercial mortgages route or venture capital route. I have spoken about these types of financing in the Property Trader (flip) section but I will go in to how it can work for converting properties.

Bridging Finance

This is great for this type of buying and selling. Remember bridging is not expensive it is damn expensive. Speed is everything. You want to have that property finished so it can be marketed asap and sold just after the 6 month rule expires. Every month you hold could cost you 2% per month!

You can get all your refurbishment costs and fees paid if you buy significantly under value as they lend 70% of valuation not purchase price.

Commercial Finance

Commercial lenders are happy to lend on properties requiring work or mini projects but make sure you tell them. They like to know what your plans are otherwise they will just knock back any properties you try to mortgage as they need work.

Venture Capital

You need to convince the investor that you know what you are doing. If you have done projects before make sure you have pictures and figures. They will want to see that you handled the job and made a profit.

## 7. Getting Planning

Planning is not required if:

- The extension or conversion does not add more than 10% to the building if terraced or 15% if semi-detached or detached if the property is not in a conservation area
- There is no change of use

However my advice is always seek permission just in case. It can be a simple letter with a simple drawing just to have piece of mind. I am sure you have heard the horror stories of town planners demanding the demolition of someone's beautiful extension because the roof was one inch too high.

**If you need planning**

When planning is sought I would use the skills of a planning consultant. They have direct access to the planning department and frankly know what they are doing. They can save you a lot of time and cost of submitting applications they already know will get knocked back.

Also instruct a good architect. A good architect will:

Design a layout which will be friendly to the planners
Design a layout which will add the most value to your property
Design a layout which will comply with building regulations

If these three conditions are met then you can say hello to making lots of money. It all starts with the architect. If you get a good one he will make your ideas become reality.

## 8. Selling the property

You will get the best price by selling to the end user. The end user will usually be found by an estate agent. They will know how to market your property to get the best price.

Choosing the Right Agent

There are no right agents. I would choose them all! For the reasons outlined in the property trader (flip) section it is important to cover all bases or not put all your eggs in one basket.

You are more likely to find a buyer using all the estate agents in the area and get a 1% higher price than using one agent in the area and get a 1% discount on the selling fee.

So lets say multi-agent fee is 2.5% and sole agency is 1.5% then you are better of listing it with all agents and asking for 1% more on your asking price.  This means the net price you receive is exactly the same.

The reason for this is each estate agent have their own set of skills being:

- Some spend more on the internet marketing than others.  So they will be on not only Rightmove but also other portals which interface with other sites.  I use propertyfinder.co.uk to advertise which interfaces with MSN.co.uk.  This means when I advertise on propertyfinder you will find my property on MSN.
- Some spend more on offline advertising.  So your property will feature in the traditional advertising such as local press, brochure mailouts etc.
- Some have bigger client databases.  So as soon as your property comes on to their books it is immediately fired out to whoever is matched to your property.
- Some agents are part of a bigger network.  Your property will get marketed in neighbouring estate agency branches if it is part of a chain.  This will increase your property's exposure.
- Some agents have a better high street presence.  There are estate agents that have a better location and hence get higher foot flow.  This will mean more people will see your property which increases its chance of selling.

There are plenty of reasons why you should use multiple agents.  I always come back to this principle.  I have tried to use one agent to get a better deal but it always ends up better using many agents.  The agent you think will least likely sell your property usually ends up selling it.

Setting The Price

Its simple:

HIGH!

There is no point putting the selling price at any other figure. You are constrained by the 6 month rule so the earliest you can sell is 6 months from when your name was registered in the land registry (so make sure your solicitor registers it pretty damn quick as some solicitors leave this to well after completion).

Now I would hope you would have realised that it is good to market a property even if you have not finished. You can sometimes sell a property before the work has even started!

So you have time to fish out for a buyer who can pay top money. The worst thing you want to do is undersell the property. The only way that can happen is if you price the property too low.

Go in high and skim the price down. That is how every self respecting business operates. You do not see the latest cars or new properties in the area going for cheap prices and selling out overnight. The sale comes later if ever.

If an agent knocks you back because they refuse to list at that price then do not worry, there are plenty of agents who will take it on. Sometimes estate agents are poor visionaries. They cannot see what you can see. That is why they are an estate agent and you are a property trader!

# 5. Property Trader (Options)

I Vital Statistics

| | |
|---|---|
| Earning potential before tax | £5,000 to unlimited per option |
| Capital Required | £2,000 to £20,000 |
| Skills Required | Communication |
| Qualifications preferable | None |

| | |
|---|---|
| Competitiveness Low/Med/Hi | Low |
| Risk Low/Mid/High | Low |
| The Business Model in a nutshell | To acquire long term options on properties that will rise in value quickly |
| Potential gaps in the market and suggested USPs | • Education then acquire |

**Introduction**

Options, lease options, sandwich options and management agreements. You may have heard about these from a friend, a colleague or even me! It is the answer to all your dreams…..well kind of anyway. If used properly you can make money. A lot of it. Especially if we see a boom in prices over the next 5 years or so.

So first I must define what these things are before I go on about how great they are. You will soon see what I am talking about. I am going to start with options as opposed to lease options and sandwich options which is further on in this course as this is the most simplest and an excellent place to start.

**Options**

An option is exactly that. It is a legal document that gives you the option to buy a property at a set price within a set period of time. That's it. Let me show you some examples.

| Address | Option |
|---|---|
| 5 London Road | You can buy this property for £250,000 if you complete by 1st January 2011. |
| 12 Acacia Avenue | You can buy this property for £200,000 if you complete by12th December 2015. |
| 4 Jones St | You can buy this property for £55,000 if you complete by the 30th June 2020. |

These are all examples of options. It is a legal agreement between you and the owner of the property. It specifies:

1. the *price* you have agreed called the exercise price
2. the *period* which can be a date or a period amount of time from the date of signing.

Please note you never have to buy the property. It only gives you the right to buy (but not the obligation) this property within the time period.

So if someone goes on about options to you there should be TWO key parts to the option:

The PRICE and
The PERIOD

Think of these as the 2Ps of options or think of a 2 pence coin as soon as the word option is mentioned.

The 2Ps are everything when it comes to options. If the Price is good and the Period is good then you have a very valuable option. If the Price is bad and the Period is bad then you have a worthless option.

So what is a good price, bad price, good period and bad period? Well you have to look at the both together as they are correlated to determine whether you have a valuable option.

I want you to have a think about what a valuable option would look like. I am hoping my explanations above will give you a clue to the answers as it seems obvious to me. It might explain why you can “buy a house for a £1”!!!!

**Valuing Options**

A valuable option has a good price and a good period. Now let me make it simple for you. Always remember this:

A good price is a *cheap* one
A good period is a *long* one

You can remember that can’t you?

You want to have the price of the property bought as cheaply as possible (no surprise there!) and you want to be able to do that over the longest period of time. That is where the negotiation comes in.

Look at this example:

A property has a market value today of £100k. You find a seller who will grant you an option to buy this property in 5 years time for £110k.

So the Price is £110k
And the Period is 5 years.

Now you have to decide whether you think:

The Property's price will rise in excess of £110k over the next 5 years or not.

This is the key question you have to ask yourself. If you say I don't know then this is a good answer! No one knows.

However lets just say you think the property will be worth £150k in 5 years then the option could generate you a profit before fees of:

£150k - £110k = £40k.

So the option can make you a good return if you can keep the exercise price as low as possible and the period for as long as possible.

So to increase the value of this option of £110k over 5 years you could:

Decrease the exercise price to £108k
Increase the period to 7 years
Or decrease the exercise price AND increase the period to 6 years.

All of these things will increase the value of the option.

The key point to note is the option still may be worthless. The reason being no one knows what the property prices are going to be like next year, the year after or the year after that!

So if after a 5 year period property prices have declined and the property is now worth £90k then the option to buy at £110k is worthless. You would simply offer market value of £90k.

So I hope you can see that valuing an option is not an easy thing. It largely depends on where you think property prices are going to be. The longer the period you set the more assurity you have that prices are going to rise as property prices rise in the long term.

A typical property cycle lasts around 10-15 years so you have to say if you had an option for 15 years and property prices were currently on the line of the long term average you would be assured the long term average rate (2.9% p.a.) of property price inflation.

So the big question is:

What would you pay for an option to buy a property for £110k within a 5 year period that is currently worth £100k?

Now let me tell you the owner of the property is going to want something off you. The owner is not going to give you the option for free!

**The 4 steps to valuing an option**

To value an option properly you have to:

1. come up what you think the minimum price you think this property will be in 5 years
2. Calculate this profit element after all fees
3. discount the profit based on inflation
4. incorporate a risk multiplier

And then you will get the value of an option! Sounds tough doesn't it? However let me remind you that the options game is very risky. All you own is the option. You do not own the property. Once the period expires and you haven't exercised your option then anything you paid for the option is lost. An option is a bit of paper and it only comes to value when you exercise it (assuming that it is worthwhile).

So bear with me. If you want to get good at this you have to apply those 4 steps above so you can be sure you will make some money.

So lets take the example of an option of £110k in 5 years on a property worth £100k today.

Lets say I think the property will be worth £150k in 5 years. Then the profit is:

£110k - £150k = £40k

Then deduct fees of buying the property and selling the property say £5k. So the profit is:

£40k - £5k = £35k

Then you have to discount that £35k profit in the future in today's terms. I am going to assume an inflation rate of 3%. To do this you need a scientific calculator to do this (you can get one in my package) and perform the calculation:

$(1-0.03)^5 = 0.85873$

So a £35k profit in 5 years time is actually worth:

0.85873 x £35k = £30,055

Now you have to apply a risk multiplier to this. As this £30,055 is not money in the bank and in no way guaranteed. So you have to multiply this by a suitable percentage.

Now if you are looking to me for this percentage then you would be mistaken! This is your call.

Lets just say you was 100% sure of this profit. Then an asking price of anything less than £30,055 would mean you would profit.

If you were less than 100% sure then you have to decide what you want to pay for it. Whatever you paid for it you would deduct from the £30,055 and this would give you the profit from the option.

Now if I were getting in to this game I would be extremely pessimistic. Only pay for an option what you are prepared to lose. It is a form of gambling in a strange kind of way unless you get a really long period where the volatility is evened out and the price is within the long term average.

If you paid 10% of the expected profit for an option you could not argue that was an unfair bid. So in the above example a fee of £3,005 (10% of £30,055) for the option would be a fair price if I thought the property would be worth £150k in 5 years time.

The good thing is you can exercise your option anytime within those 5 years. So if there was a mini boom after 1 year you could make around £35k less the price paid for the option. Not bad for shuffling a few bits of paper about.

**Finding Property Option Deals**

1. Generate your own leads
2. Qualify other people's leads
3. Buy leads

4. Estate Agents

1. Generate your own leads

You can do this by:

a) advertising offline in newspapers (local and national) – this can be an expensive way of doing things but can be very rewarding if you get it right. I know of some traders who spend £50,000 per month on advertising but I know it is worth their while.
b) leaflet dropping – you can get 5000 leaflets for £50. so if you can be bothered to do the rounds or trust someone to do it for you and it is well targeted you could see some good leads generated by this method.
c) advertising online – this is a steep learning curve. I will be sending you my book "How to make a fortune on the internet" which will teach you how to create and promote a website for maximum profit. That is in a few days time.

2. Qualify other people's leads

There are businesses that do all of the above and generate their own leads. They are one man bands right up to mini corporations! Now they have leads that they may not want, do not meet their strict pricing criteria or simply out of their region where they buy.

You can approach these businesses and ask for their leads and do a kind of a joint venture. You can offer them a fixed fee or a percentage of purchase price of any deals you do. I am relying on your business savvy here so do your best!

3. Buy leads

There are companies out there like mentioned before whose sole business is to geerate leads for people like YOU. They will want anywhere between £25 right up to £200 depending on the lead quality.

This could be an excellent way to get in to options without investing too much time. If you find that you have the knack for it you could then start generating your own leads.

4. Estate Agents

You can approach estate agents and ask them if they would be interested in putting offers on your behalf. If an option sale is agreed you will pay their estate agency fees and an option fee to the owner. As long as you set the price and the period right then covering the estate agency fees should not be a problem.

**Negotiating The Best Deal**

Without stating the obvious about negotiation techniques the following can help you specifically when negotiating property options:

1. Cash is KING!

This is what happens from the vendor's point of view when an option deal is struck:

a) Deal is signed
b) Cash is put in to the vendors pocket

That's it. This is all that could happen during the duration of the whole period of the option. From the vendor's point of view it could really be "money for nothing!"

So highlighting this point to the vendor may be quite persuasive to get the deal signed. If they are in financial difficulty then you could be the person who has come along and saved them from repossession.

2. Education

Options are a new thing.  Most investors do not know how they work.  Even fewer owners of properties know about them.  You could spend an evening with them explaining how they work or you could give them a copy of this report!

Whatever you do you have to bring them up to speed.  They are naturally going to be sceptical.  You may want to offer they seek legal advice which you will pay for if they go forward with the deal.  Then there is no risk on their part.  Just make sure you send them to a solicitor who understands options!

3. No Survey required – it's a done deal

The deal can be done quick.  There are no surveyors, lenders or solicitors (if you choose) involved.  Just a few simple searches (title and environmental), registering the option with the land registry and a signature and the deal is done.

4. Buy out

The vendor may be worried that they might change their mind and not want to sell.  The vendor does not have to sell.  They can buy their way out of the deal at a mutually agreed price.  You could agree this break clause fee and make it part of the contract.

**Selling Options**

The whole strategy to make money by being an option trader is to buy and SELL options.  If you buy right then you will make money.  There is a ready and growing market for options so as long as you are not greedy you will be able to make regular and consistent profits.

I have identified 2 ways of selling options:

1. Selling to the end user
2. Selling to another trader

The end user is someone who wishes to live in the property and the trader is someone who wants to make money from the transaction and either sell it on or exercise the option at some point in the future. The way you find the buyers are very different.

When you are trying to sell to the end user they must find you.

When you are trying to sell to a trader you must find them.

1. Selling to the end user

Options are a relatively new thing. Estate agents do not understand them yet so even though they would be your obvious choice I think it will be a while before they start selling these options for you.

The most effective way to sell options is via the internet. You need to:

a) Create a website and display the properties
b) Promote the website via google adwords
c) Educate the reader about options – you can include this report within your website!
d) Process the leads that come in

Now this is not an easy step! It is a steep learning curve and there is too much to go in to here within this report. But do not worry I will be sending you my book “How to make a fortune on the internet” later in this series so you can start building and promoting a website sooner than you think!

For those of you who want the easier option (pardon the pun!) then why not consider selling to another trader…..

2.Selling to another trader

If you want to avoid having to educate people about options you consider selling to another trader. They may simply may buy your option straight off you making you a nice profit or they might ask to market your option to their database of clients and charge the client a sourcing fee.

We do the latter. If you want to sell an option just give on of my team a call on 0870 990 3205.

**Exercising Options**

If you are unable to sell the option then assuming you cannot go back and vary the option with the owner then you have 2 choices:

1. Letting the period lapse
2. Exercising the option

1. Letting the period lapse

This is a do nothing strategy. If the value of the property is not in excess of the option price then the option is worthless. You will struggle to sell it as people who buy options are not mugs!

If you did not pay a lot for the option (like £1) then its no big deal. You risked £1 and got nothing back. I think we can all live with that.

If you paid more than £1 then unfortunately you have to put it down to experience. You got the market wrong. Next time try and make the period longer or the price lower. Please remember what I said earlier about getting value from an option. You have to make the price low and the period long.

2. Exercising the option

If the option price is lower than the value of the property then you should consider exercising the option. You can buy the property and then sell it to realise your profit (being the value less the option price less fees).

To exercise the option you must serve notice to the owner and complete within 28 days. I suggest you get your mortgage in place before you serve notice so you can complete as agreed.

Once you become the owner then there is no clock ticking away. You now own the property but you also own all the liabilities that come with it! I will assume you know about owning properties so I will not insult your intelligence here.

**Power of Attorney**

There are occasions when the owner of the property disappears which means you cannot exercise you option. The way round this is to obtain power of attorney.

A legal document called “A Lasting Power Of Attorney” needs to obtained and registered with the Office of the Public Guardian (OPG).

Try and get someone who is on your side to be on this document. If the owner goes astray you can utilise this document with the person you have appointed as the power of attorney to exercise the option.

If there is more than one owner of the property then each owner needs a power of attorney individually. I recommend you use a solicitor for all of this as it is important you get it exactly right.

**Closing Thoughts**

Trading in options is an excellent way to make a lot of money fast. If you are confident about which way the market is going (and you are right) then the only limiting factor is the amount of option fees you can pay.

It is possible to have options on properties worth hundreds of thousands of pounds for a few thousand pounds. If you see a modest 25% growth in the next 5 years you could see astronomical returns on the small money you have outlaid.

Good luck!

# 6. Property Investor (Serviced Apartments)

I Vital Statistics

| | |
|---|---|
| Earning potential before tax | £5,000 to £25,000 per property per year |
| Capital Required | £10,000 to £50,000 |
| Skills Required | Interior Design |
| Qualifications preferable | Hopsitality, Travel & Tourism |

| | |
|---|---|
| Competitiveness Low/Med/Hi | Med |
| Risk Low/Mid/High | Med |
| The Business Model in a nutshell | To buy a centrally located property and rent to business people as an alternative to a hotel. |
| Potential gaps in the market and suggested USPs | • Cities other than London & Edinburgh<br>• Houses in the suburbs |

Introduction

A serviced apartment is an apartment that is available for hire for a short time from as little as one night. It provides an alternative to staying in a hotel and offers the resident:

- A home from home experience – if you already live in a flat then the transition can be seamless! No need to experience the sterile environment of a hotel anymore.
- Lower cost – serviced apartments can and often are cheaper than a hotel room of equivalent quality.
- More privacy – you can come and go with no one at reception raising an eye brow…..
- More space – you do not get just a room with a bathroom, you get a living room and kitchen and sometimes a dining room too!
- Cooking facilites – you can cook for yourself. So no more rich fattening food from the hotel restaurant. You can make your very own healthy pasta dish right from the fully equipped kitchen.
- More entertainment – there is usually broadband, Sky TV and DVD collections in situ to keep you entertained.

I hope you can see that serviced apartments are the way forward. It is a growing market and has been really pioneered by the Americans. It has been here for at least 10 years but I think this industry will grow big time as the reasons to take on a serviced apartment far outweigh the reasons to stay in a hotel.

So if you want to grab a piece of this market then read on. Now this is not a passive investment. This is a business. So expect this business to disrupt your life. If you are just in love with the concept of owning a swanky apartment but don't want any hassle then this business is definitely not for you.

If however you are willing to put in the hard work, the emotional ups and downs and have thick skin then there will be a pot of gold for you in the end.

**1. Choosing The Right Property**

Hotel users fall in to one of two categories:

Business
Leisure

These two markets are both worth chasing. I would want you to get a bite of both cherries. Now it will come to no surprise to you that the:

Business bookings are in the week (Mon-Fri) and
Leisure bookings are at the weekend (Fri-Sun)

So if you choose the right location you will be booked all week! If one market were to suffer you would still have the other market to fall back on.

**Location**

The locations where there is a market for both business and leisure residents are:

London
Brighton
Edinburgh

These are the obvious ones.  Then you can go for locations which are near national event centres or have a thriving business sector as well as nightlife like:

Cardiff (Millenium Stadium)
Birmingham (NEC Centre)
South London/Kent (O2 Centre)
Liverpool (Business/Nightlife)
Manchester (Business/Nightlife)
Glasgow (Business/Nightlife)

**Size**

Most serviced apartments are studios or 1 bedroomed.  A studio flat can sleep 2 but throw in a sofa bed in a 1 bed flat in the living room and now your 1 bed flat can sleep 4.

So I recommend you go for a 1 bed as this makes your apartment attractive to a wider audience i.e. a family or two couples.  Also 1 bed flats are not that much more than a studio and can be easier to sell if you need to realise your asset for any reason.

So hopefully you should be picturing your serviced apartment in the city of your choice and be frantically searching on Rightmove for all the 1 bed flats in the city centre. But before you get carried away I am going to force you to number crunch. I am sorry about that but it has to be done if you are going to make a success of it.

**Return**

Now we need to go for a property with a certain return. This return needs to be a gross 25% return on the purchase price of the property.

So the income is at least 25% of the purchase price of the property. So if you bought a place for £100,000 then you would want at least:

25% x £100,000 = £25,000 income.

So when you search on Rightmove for that property ensure the property can hit this very strict threshold. So for example if there was a property in Mayfair for £500,000 then the rental income you would need to make it work is:

£500,000 x 25% = £125,000.

Expressing that as a daily amount it would be:

£125,000/365 = £342 per day.

Now if you can book a hotel room next door for £170 a night then your Mayfair serviced apartment is not going to do very well no matter how attractive you decorate it.

Now one thing the serviced apartment industry do miss out on as very few do it is price discriminate with precision like the hotels do. Hotels nightly rates fluctuate on a daily basis. They have the capacity to run sophisticated systems where they can flex the price for rooms based on demand.

I want you to do this to really get a good return. If you can flex your prices to meet demand you can really push up your profits. So to get a better picture of what you can expect to get as an income you need to fill out this Expected Income table which will give a better idea of expected income:

| | | Room rate | Multiplied by | Income |
|---|---|---|---|---|
| Week 1 | Sun-Thurs | | 5 | |
| | Fri-Sat | | 2 | |
| Week 2 | Sun-Thurs | | 5 | |
| | Fri-Sat | | 2 | |
| …. | | | | |
| …. | | | | |
| …. | | | | |
| Week 52 | Sun-Thurs | | 5 | |
| | Fri-Sat | | 2 | |
| | | | TOTAL | |

Where you fill out the room rate for each week for the Sun-Thurs room rate and Fri-Sat room rate. Then you can derive the total income expected for that week for the 5 days in the week and the 2 days in the weekend.

You can get this Expected Income table for free by visiting www.ahuja.co.uk and joining my newsletter.

You should then get a total income for the year which will be a true representation of what you can expect to earn from the prospective property.

You can get the room rates by looking at rival competitor sites or simply ringing them up. They may even have a rate card for all the different dates. Periods that get above average demand and thus higher rates are:

School Holidays
Bank Holidays
Event Days (like F.A Cup)
New Year's Eve

So make sure you do not miss them. The internet should be able to throw most dates up that correspond to your location. If you are located near an event centre like the Birmingham NEC or Earls Court then get their events diary. There will be popular events which will really push the rates up so do not miss out on those.

So once the Expected Income table is completed you should be able to derive an expected income. Then dividing the expected income by the purchase price you should be able to come up with the expected return. This expected return should be in excess of 25%.

**2. Equiping the Property**

This business is all about creating a home for your customers. If you love making homes then you will love this business. You customer wants to have the home from home experience. This means fully equipping the home. So as a minimum you will need:

- Beds, bedding, soft furnishing, curtains etc.
- Kitchen with hob, oven, microwave, pots and pans
- Small dining table and 2 chairs
- TV/DVD
- Cutlery & Crockery

Now what I have said above is the bare minimum.  You can include the following extras to get a higher rate and encourage repeat custom:

- WiFi
- Desktop PC or Apple MAC Computer
- Full Sky Package with sports and movies
- Plasma Screen
- TV in bedroom
- Basic food like coffee, tea, milk, biscuits etc.
- Welcome pack
- Parking

And if you really want to go the whole hog you could offer the following services for a fee:

- Pick up and drop off service
- Baby sitting
- Food (breakfast, lunch & dinner) of various cuisines
- Laundry

The easiest way to offer these is to do a deal with a taxi company, restaurant and cleaning company.  You could simply add their numbers to the welcome pack and the customer can deal direct with the contractor.

A word of warning: choose your contractors very carefully.  IF they do a bad job the customer will hold you responsible so tread carefully.  Test them out yourself.  If they are reliable and of sufficient quality then consider using them.  Remember there are many taxi companies, restaurants and cleaning companies so you can shop around.

It is quite a competitive industry. If you can I would book yourself in to one of these apartments on an off peak time. See how they do things. You can check:

- Where they get their goods from by looking at the brands they have bought
- What amount of equipping they actually do
- Any tricks they might use to prevent theft, increase the comfort of the customer's stay with little cost, increase revenue or save cost.
- Chat to the competitors. They will not know who you are. Ask them directly how they do things and what they do to ensure everything runs smoothly.

The great thing about this business is that it is not rocket science. It suits a husband and wife outfit where one spouse does the booking, paperwork and finances and the other does the practical stuff like the cleaning, equipping and customer service. I will let you decide who does what!

**3. Finding customers**

You will get two type of business and leisure customers:

New Customers
Repeat Customers

The idea is to get as much repeat custom as possible. The concept is to attract new custom and keep them! The reason being is basic business sense. Once you have an established relationship you can cut back on advertising costs and the business can run on almost autopilot.

The best repeat customers are corporate customers. They won't just book one night a year on a regular basis. Corporate customers can book your apartment for whole months or even years at a time! So the idea is to:

1. Attract new customers
2. Encourage repeat custom with all customers
3. Establish longer term relations with Corporate customers

Attracting new customers

It all starts here.  Think of yourself as both now a hotel operator and a holiday home owner.  You need to do what both of these outfits do.  Your marketing has to be two pronged:

Online
Offline

Online

- Website – you need to have an online presence.  Plenty of pictures of the flats, the services you offer and most importantly a booking form.  If you think you will have international interest then consider having a translation of your site in their native language.  You could consider having a feedback system and rating facility on the site so customers can leave feedback.  Make sure you police it though as a rouge comment could kill all enquiries.  See if you can get a 24 hour call centre to take your calls so you never miss a lead.  Linking your website with Google Adwords will boost enquiries.  To find out more consider my book "How To Make A Fortune On The Internet" which shows you how to set up a site and start making money straight away.
- Networks – there are plenty of networks which provide customers with a one stop shop to search and compare hotel rooms, holiday homes and serviced apartments.  Sites such as laterooms.co.uk, holidayrentals.co.uk and ownersdirect.co.uk.  Get on to these networks as they can provide most of your business.

Offline

- Mailshot Corporate Customers – HR departments of large employers need to know about you. Send a nice letter explaining about your apartment and how much better/cheaper (whatever your unique selling proposition is(USP)) and how you can work with them. Most will throw your mailshot in the bin but some will give you a call.
- Cold Call – just pick up the phone and try and speak to a Corporate Customer. These will be large employers, relocation agents and travel companies. If you apartment looks better or is cheaper or you have an interesting proposition for them (like a very nice kick back commission for every booking they make) then they just might be willing to give you a go.
- Daltons Weekly etc. – There are plenty of magazines and papers where you can advertise your apartment in the holiday sections. These can be expensive but it can work. You just have to go through the trial and error process of finding that right publication which delivers you customers.

Encouraging Repeat Custom

Now sometimes the advertising which I describe above eats up all your profit. This business model is so competitive that you have to expect that. Where your profit lies is in repeat custom.

There is no major advertising cost to get this sale apart from a bit of printing and postage.

As a minimum you must:

- Capture the contact details of anyone who has used your services. This would be name, email and postal address. Then you can remarket to them by sending them special offers to entice them back in to stay with you. You could extend this out to anyone who shows interest in your apartment. So they may not be a customer now but they will be further down the line. I capture email addresses all the time and remarket to them using emailing software to do it manually and sometimes automatically.
- Provide a welcome pack in the apartment and when they book. This will outline what you offer, the special promotions you have and how to book again as an existing customer. You should send this as an email as a pdf and have a hard copy in the flat for them to take away with them if they wish.

- For corporate customers you should phone them up and ask them what their feedback was. These are your most important customers. Address any negative feedback and if there is immediately offer them some kind of compensation like a free stay or money back. The more you can get on their good side the more they will want to use you.

Establish Longer Term Relationships With Corporate Customers

Once you have a corporate customer you must treat them like king. They have the power to make your life very comfortable. You will be surprised how thankful they are to be able to use your flat on a short term basis. Remember they are saving quite a few quid using your flat instead of a hotel and I am sure the resident is happier being in your flat than in a bland hotel room.

Thinks to consider once you have a corporate customer:

- Visit them in person. A face to face meeting can go a long way. See how you can further meet their expectations on price and quality.
- Offer them a longer term contract at a reduced price. This should help even out the cashflows over the year.
- Offer to buy more flats. If it is working and the demand is there then consider offering them more accommodation.
- Offer additional services that you do not currently offer. These could be services that you offer only your corporate customers and not to anyother type of customer.
- Don't be shy of corporate hospitality. So at Xmas send the HR staff a few bottles of champagne.
- Offer bigger kickbacks in commission if certain sales targets are met.

Its all pretty much common business sense. Remember this is a business and not a passive property investment. Which brings me on nicely to chapter 4 "Running The Business"

**4. Running The Business**

A good business will:

Maximise income
Minimise expenditure

And make sure income exceeds expenditure. That is being successful in business in a nutshell.

<u>Maximising Income</u>

- Keep abreast of the rates you can charge. Look at your competitors and see what they are charging. See if you can add additional items in the flat which result in higher rates being achievable. Everyone is looking for that edge to make their apartment stand out from the rest. Look at other apartments outside of the area and see what they are offering to get that higher rate.
- Something is better than nothing. So if you can flex your rates so they start off high and lower the later in the day it gets. This means you will get something rather than nothing. I think you should set a minimum low amount. You do not want to go too low and attract the wrong sort of customer.
- Accept multiple payment methods. So cash, cheque, credit card, paypal etc. The more methods the more likely it is to get a sale.
- Allow for multiple methods for leads to come in. So give them a booking form online, your direct email address, telephone, mobile, fax and even Skype! The more methods you have for them to get in contact the more leads you get.
- Get them to subscribe to your newsletter/social networking tag. So use twitter, facebook, linkedIn etc. so you can communicate with them regularly with any of your latest offers.
- Try new marketing methods. So if a new network springs up online and they are offering a free trial use it! What is the worst that can happen?
- Get kickback commission from contractors you recommend like taxi companies, laundry, restaurants etc.

I hope the above list acts as a catalyst to inspire you to get creative so that your income is maximised at all times.

Minimising Expenditure

Apart from the obvious costs such as cleaning, mortgage payments and insurance the major cost under your control is the maintenance of the contents of the flat. You really want to prevent:

- Theft
- Damage
- Excessive Wear & Tear
- Poor quality items

Theft – expensive items such as TVs and PCs can be screwed down. It can be done subtly so it does not look like a school or library and will quosh any opportunist getting any ideas of subsidising the room charge with a trip down cash converters with your TV! Expect to lose the odd towel, glass or plate every now and again.

Damage – avoid single sex groups. So a group of lads on a night on the town means coming back to your flat drunk and who knows what else. Your risks are lowered if you go for couples and families. If you are doing the check in and check out (and the customer knows that this will happen) it will mostly prevent any wrong doing. If there were any damages I would not be surprised if they come clean and tell you about it rather than being discovered whilst performing the check out.

Also if you are taking credit card payments you could ask for their credit card authorisation just in case there are any damages to the flat. Just like hotels who take your credit card details in case you decide to run up a massive bar bill or mini-bar bill you can do the same.

Excessive Wear & Tear – it is not rude to ask what the purpose of their visit is. You may get hints that what you expect the flat to be used for may be out of line with what they are thinking which could indicate that this customer may not be worth taking on. Again avoid the single sex groups and should be ok.

Poor quality items – these items will just mean the customer always calling you up reporting a fault. It does you no good in the long run. Stick to brand names and middle of the range goods.

General Advice

- Maintaining Standards – the apartment needs to be tip top clean. You expect it from a hotel and the customer will want this from you. If you are doing the cleaning yourself then no problem but if you have outsourced it make sure you perform spot checks.

- Response – you ideally want to be no longer than 15 minutes away from the flat. If there is a problem you want to be able to solve it fast. The only way you can ensure that is that you or a representative for you is there to deal with the problem there and then.

- Keeping The Neighbours Happy – even though I have mentioned this last this is so important. They can cause a lot of problems for you if you do not keep them happy. If you have a customer that disturbs your neighbours then be apologetic, even send a box of choclates to say sorry. These neighbours can be your eyes and ears which you always need in the property game as they can raise the first alarm.

III Reference Chapter

IV Glossary

# 7. Property Investor (Buy To Let)

I Vital Statistics

| | |
|---|---|
| Earning potential before tax | £1,000 to £7,500 per property per year |

| | |
|---|---|
| Capital Required | £nil to £10,000 |
| Skills Required | None |
| Qualifications preferable | None |
| Competitiveness Low/Med/Hi | Low |
| Risk Low/Med/High | High |
| The Business Model in a nutshell | To buy properties with little money down that return a monthly profit after all expenses |
| Potential gaps in the market and suggested USPs | • DSS let only |

## Introduction

This method netted me a cool £15m. I bought, bought and kept on buying until my portfolio hit 200 properties worth £15m and I started with only £500. If you want a guarantee that you'll be rich and can play the long term game (greater than 10 years) then this model comes highly recommended from yours truly.

The market has changed slightly where property prices were rising when I bought but this does not mean you can not do the same on the way down. The whole industry of Below Market Value (BMV) properties emerged in 2006/7 and purchasing property with sophisticated legal no money down techniques has now become the norm for those people in the know.

Now some of you may be thinking I am encouraging mortgage fraud as there are no such things as 100% mortgages however the opposite is true. All these techniques are disclosed to the lender and are CML compliant. Remember that the transaction of purchasing a property has to go through two solicitors, one for the buyer and one for the seller, and solicitors do not like to get involved in fraud. These techniques are acceptable to the lender at the time of going to print. Until these loopholes get closed down (if ever) you can build very large portfolios in short periods of time.

What I am about to tell you is what I tell my consultees who pay a large consultation fee to find out!

## 1. The Formula

Its simple:

- Decide what you want
- Maximise your starting capital
- Invest Wisely
- Remortgage & Re-invest Aggressively

Now there are key bits in each of the steps which I want to emphasise so you really get it. So lets move on to the first part of the formula “Decide what you want”.

## 2. Decide What You Want

It amazes me how many people I see who do not know what they want. They come and pay for a consultation and I ask them so what is it they want from investing in property and they look at me as if it is a stupid question and they answer:

"Money!"

Now deciding you want money is not very clear. It is taken as a given that money is the goal. The 2 key questions you should be asking yourself are:

1. How much
2. By When

1. How Much

So how much do you want?

Loads?
A little bit more than you have already?
More than your parents or other family member?

All the answers above are WRONG. Why? They are wrong because there are no figures attached to them. You cannot be driven to succeed if you do not know where you are driving to! So here are some ideas on putting a number to your target:

Lump sum – do you want a lump sum of money? A specific amount? For example £1m pounds. Is there something out there (like a dream house to live in) that you want which you can quantify the value and set this as a target.

Equity – equity is the value of the property portfolio less debt.  So if you had a portfolio worth £1m and mortgages totalling £500,000 then the equity is £1m - £500,000 = £500,000.  Equity as a target can be a good target as it sets your net worth.  It can be quite comforting to know that if you sell up you can get a lump sum of say £500,000 being the equity in your portfolio.

Monthly Income – one of my first targets I set was monthly income.  I wanted to match my salary I got when I used to work which was £1,700 per month.  A monthly income is a real income and can be a great motivator as you can spend everything you make!  So do you have a monthly income you would like to make so you can live the life you want?

Number of properties – my current target is to own 1,000 properties.  Don't ask me why!  I like the sound of 1,000.  I believe, wrongly or rightly, that if you own 1,000 properties you are a proper property player.  Whether this is true or not it does not matter as it inspires the hell out of me.  Do you have a target number of properties? 10, 100, 1000, or even 10,000?

Portfolio Value – a lot of property investment clubs used this target to lure you in.  I am sure you have heard of catchy headlines by these companies like "Become a property millionaire" or "Build a million pound property empire" etc.  They were all talking about portfolio values.  Does the size of value of a portfolio float your boat?  I have to admit a big driver for me was to break the £10m portfolio value.  £10m is an eight figured number.  Wow! Now that is BIG!

Rental Income – rental income can be another good target.  It just looks at the revenue you can earn from the portfolio.  It works quite nicely as if all your mortgages are on repayment then you know after the term of the mortgage you can expect to earn that income as pure profit.  And the great thing is rent is inflation proof so the rental income will be a real amount in the future.

2. By When

So once you have established what it is you want you have to put a timescale to it.  Do you want it

next month (!),
next year,

in 5 years,
when you turn age 50,
by the year 2015

there are many milestones you can use. A date needs to be set however as a target means nothing if there is no date attached to it. It is up to you to come up with this date but before you set it I want you to consider one more thing:

Your Attitude To Risk

I want you to bear this in mind when you are putting a date to your target.

If you have nothing and you want £1m and you want it in 6 months then you have to appreciate you are going to have to take some large risks if this target is to have some validity. There are many people who have made £1m in 6 months but they would have taken a fair few chances along the way.

So think about your attitude to risk. The fact that you are considering investing in property means you accept a certain degree of risk but how much? I would categorise your risk profile to be:

LOW – if you do not wish to borrow to purchase a property (0% borrowing of purchase price)
MEDIUM – if you are willing to take out a mortgage to purchase a property (75% borrowing of purchase price)
HIGH – if you are willing to borrow the deposit to put down on a mortgage to purchase a property (100% borrowing of purchase price)

If you have a low attitude to risk then make sure you put a large timescale on your target. If you have a high attitude to risk then you can, only if you want to, put a short timescale to your target. If you have a medium attitude to risk then pitch it somewhere in between!

The Target

So you should be able to create a target with a timescale. Stand back and look at it. Think about it some more and then revise it. This target is going to be your friend all the way through this process so I want you to become a real friend to this target. He is going to be in your back pocket at all times for you to pull out and look at from time to time.

Examples of Targets are:

£1m portfolio by age 40
£5,000 per month income by the year 2014
£2m equity by 30th June 2012
£30,000 monthly rental income in 5 years

Now if you are confident in the target you have set (as you already were halfway there before reading this) then well done. However if you need help with revising your target in to a true friend then read my golden rules of target setting.

My 5 golden rules about target setting

Golden Rule No1: Achievable

If you are unemployed, have no money, bad credit, a low attitude to risk and want a £10m property portfolio in 6 months then you have to admit this might not be achievable. You have to set a target that is achievable. There is no point day dreaming or waiting for a miracle for the target to be achieved.

What will happen is that quite soon you will realise that the target will not be achieved and then you will lose interest. Trust me it has happened to me many a time. I get great ideas, put an ambitious target in place and then find myself revising the targets downwards to keep them within reality to the point where the target doesn't look that exciting anymore!

So factor in all what I mentioned above.  Look at your attitude to risk and your current situation.  If you have £50,000 in the bank, have a medium attitude to risk and want to make £10,000 per month in the next 5 years then your target just might become reality if you stick to it.

Golden Rule No 2: Motivational

The target has to motivate and inspire you.  It has to be something you not just want but really, really, REALLY want.  A well constructed target will motivate you.  Like I said earlier I set one of my first targets as £1700 per month profit which was exactly my net take home pay from my previous employment.  I wanted to prove that I could do just as well being self employed as employed and the best measure of that was to earn my salary from self employment.

This target had meaning.  If I were able to achieve this target then this would mean that self employment had to be better than employment as the same amount of money had been earned however I was my own boss.  This target I did achieve and it was a very powerful statement I said to myself that I could earn the same as I was employed off my own initiative and shrewdness.  If that target was not motivating I do not know what would be!

So choose a target you can get emotional about.  If someone said to you you could never make £1m and it touched you where it hurts then use that negative energy and turn that in to your target and let that energy drive you to your target.

Golden Rule No 3: Understandable

The target has to be easily understood to you.  If you have to pump a whole load of figures in to a spreadsheet to see if you are getting anywhere near your target then the target may be too complicated.  As they say:

Keep It Simple Stupid (K.I.S.S)

The simple ones are the best. One of my best targets was getting my portfolio to 100 properties. There was no financial benefit for the portfolio to be that size. However it was a nice simple target. Ninety-seven, Ninety-eight, Ninety-nine……BINGO! Back in the day I knew EXACTLY how many properties I had and more importantly how many I needed to buy to get to 100. As you could imagine once I had broken the 90 barrier there was nothing stopping me getting to the 100.

So make sure your target is understandable to you. If you are a brain surgeon or rocket scientist then you get a bit more complicated than others but make it something which does not require you reaching for your laptop to track.

Golden Rule No 4: Memorable

It has to stick in your brain. The target as said before is going to be your best friend not someone who you've forgotten their name! So setting a target yield of 11.45% may not be the best of targets. Setting a target of 40 properties by age 40 has a nice ring to it. £50m by age 50 is also quite memorable. It was the target by Jim Moore the founder of Inside Track.

Golden Rule No 5: Measurable

It has to be measurable. You need to know if you are on track. If you say had a target of 40 properties by 40 and you were age 30 and you had 5 properties then you know that this target is measurable and hence trackable. So if you were at age 35 and had 30 properties you were on track to getting to your target. If you only had 6 properties then you know you will have to play catch up.

When it is measurable you can split the target down and plot its route. So if you needed to acquire 30 properties over the next 10 years then 3 properties per year would be the annual target if you chose to grow your portfolio at a steady pace (30 properties divided by 10 years).

## 3. Maximize Starting Capital

The more money you have the more money you can make. No one can argue with that concept. As long as you know what you are doing with this capital then the only thing that stops you from making it is the starting capital. People call this starting capital “seed capital” as it is this “seed” which can grow in to a giant oak tree.

Now I have got around 500% return on my money every year. Doing a few calculations you can see how your seed capital can dramatically affect your wealth. Imagine you were able to get the same return as I did of 500% (which you will learn further in this book!). If you started off with £1,000 then your return over years 1, 2, 3, 4 & 5 is:

| End of year… | Wealth |
|---|---|
| 1 | £5,000 |
| 2 | £25,000 |
| 3 | £125,000 |
| 4 | £625,000 |
| 5 | £3,125,000 |

But if you started off with £3,000 then the figures look like:

| End of year… | Wealth |
|---|---|
| 1 | £15,000 |
| 2 | £75,000 |
| 3 | £375,000 |
| 4 | £1,875,000 |
| 5 | £9,375,000 |

So by simply having a couple of grand more at the start after 5 years you will have an extra:

£9375,000 - £3,125,000 = £6,250,000

That's over £6m!!!

So if you are convinced of what you are doing you should plough ALL you money in to it.

Now I have written a whole section on how to raise a starting capital in part V of this book. Please re-read armed with what I have just told you and go out there and raise some cash. You have to do it. It is the only thing that sets you apart from a day dreamer. There are plenty of people who want to get in to property with absolutely no money. They simply get left behind. To get involved you need some cash behind you to put in to the deal. Like I said the more you can get your hands on the more you can make.

Once you have a bit of cash in the bank you can now enter the arena of investing…..

## 4. Invest Wisely

It is an easy comment to make. Invest wisely. But what is wise? Well a property has to meet the following 2 features:

1. The Yield is in excess of 10%
2. The total money input is less than 10% of the purchase price

I call it my Ten Ten rule. You've heard of twenty twenty vision now its time for ten ten vision! You want:
Greater than 10% yield
Less than 10% cash input

See where the ten ten comes from?

Now I hope you understand what yield is as I have explained it a zillion times in this book but I will tell you briefly once again. Yield is annual rent divided by purchase price. So a 10% yielding property would rent out for 10% of the purchase price. So a property bought for £75,000 should rent for at least £7,500.

10% cash input is that you should put no more than 10% of the purchase price in to the deal. So if a property is being sold for £75,000 then you should aim to put no more than £7,500 in to the deal to cover deposit, legal fees, arrangement fees and any other fee associated with buying the property.

Now before you wonder where you get 90% Loan to Value buy to let mortgages wonder no more. I am about to show you how to structure the purchase so that you put hardly any money in if any. Here are my 6 ways of buying property with very little cash:

| **Type** | **Informal Name** | **How it works** | **Example** | **Time to get money back** | **Pros & Cons** |
|---|---|---|---|---|---|
| **Type A** | 6 month bridge, Open bridge, Traditional bridge | 1. Get property valued up in excess of purchase price<br>2. Buy property using bridging funds at 100% of purchase price as bridger lends based on valuation<br>3. hold property with bridging funds for 6 months<br>4. Remortgage with traditional lender | 1. Valuation of property £100k<br>2. Purchase price £70k<br>3. Bridging Funds released (70% of valuation) = £70k<br>TOTAL MONEY IN: Nil<br><br>6 months later a remortgage is done:<br><br>1. Valuation £100k | 6 months | Pros<br>• Easy to purchase as requires no collaboration with vendor<br>• Can choose any lender after 6 months<br><br>Cons<br>• Have to wait 6 months to |

| | | | | | |
|---|---|---|---|---|---|
| | | | 2. Remortgage at 75% of valuation = £75k<br>3. £75k is used to clear bridging funds of £70k and bridging interest of £5k.<br><br>Total money in: Nil | | get your money<br>• Bridging is expensive (typically 1.25% per month) so need to get high BMV<br>• Property might hae declined in value after 6 months |
| **Type B** | Bridge and Remortgag e, same day bridge, daylight bridge | 1.purchaser gets a valuation in excess of purchase price<br>2.purchaser buys property with bridging funds at purchase price<br>3.On the same day purchaser remortgages the property at the | 1.Valuation of property £100k<br>2.Purchase price £70k<br>3.Buy property with bridging funds £70k<br><br>Total Money In: Nil<br><br>On the same day or 1 day later: | 1 day | Pros<br>• Simple<br>• No need to state purchase price at valuation<br><br>Cons<br>• Limited lenders |

| | | | | | |
|---|---|---|---|---|---|
| | | higher valuation | 1.Remortgage at 70% of value (70% x £100k) = £70k<br>2. Clear bridging funds of £70k<br><br>Total Money In: Nil | | |
| **Type C** | Purchase and further advance | 1.purchaser gets a valuation in excess of purchase price<br>2.buys property at purchase price and puts deposit down<br>3.immediately goes in for a further advance once first mortgage payment has come out and gets deposit monies back from further advance | 1. Valuation of property £100k<br>2. Purchase price at £70k<br>3. Buy property with 30% deposit (30% x £70k) = £21,000<br><br>Total Money in: £21k<br><br>Within 2 months:<br><br>1. Apply for a further advance based on valuation of £100k<br>2. Further advance is 70% of value less outstanding mortgage which is £70k – 49k = £21k<br>3. This £21k replenishes the £21k you used to buy the property with | 2 months | Pros<br>• Simple<br>• No need to state purchase price at valuation<br><br>Cons<br>• Limited lenders |

| | | | | | |
|---|---|---|---|---|---|
| | | | Total Money In: Nil | | |
| **Type D** | Back to Back, assignable contracts, Option Agreements | 1.Middle person buys property from vendor at below market value<br>2.Middle person sells on property to investor at full market value and lends them the deposit<br>3.Mortgage funds raised using this borrowed deposit<br>4. Deposit comes back on completion to the middle person and the rest of the funds go to the vendor | 1.Valuation of property £100k<br>2.Middle person gets the right to buy the property for £70k by using an option agreement<br>3.the middle person sells on the property for £100k and lends the deposit of £30k to the buyer<br>4.sale goes through at £100k and the vendor gets their £70k and the £30k comes back to the middle person.<br><br>Total Money In by buyer: Nil | 1 day | Pros<br>• Higher purchase price great for mitigating capital gains tax<br><br>Cons<br>• Restricted number of lenders |
| **Type E** | Bridged Deposit, Loan Rebate Scheme | 1.purchaser gets valuation in excess of agreed purchase price<br>2.purchase price set at valuation figure<br>3.purchaser borrows deposit from loan company | 1.Valuation of property £100k<br>2.Purchase price £100k<br>3. Buyer borrows £30k deposit off loan company<br>4.Lender lends 70% of £100k = £70k<br>5.£100k goes to | 1 day | Pros<br>• Can use all lenders<br><br>Cons<br>• Vendor needs to use your solicitor |

| | | | | | |
|---|---|---|---|---|---|
| | | 4.vendor agrees to pay loan company a finders fee equal to amount of deposit borrowed by purchaser | vendor and £30k comes back to the loan company<br><br>Total Money in: Nil | | |
| **Type F** | Borrow Deposit | 1.purchaser borrows deposit via remortgaging of current home or portfolio, off credit cards, get an overdraft, unsecured loan or off family.<br>2.Uses these funds as a deposit to raise mortgage<br>3. Remortgage at higher value when property prices rise to clear loan taken out for deposit | 1.Valuation of property £100k<br>1. Buyer borrows £30k from family, credit cards, remortgaging etc.<br>2.Lender lends £70k based on 70% of £100k valuation<br>3. buyer purchases property<br><br>Total Money in: Nil<br><br>6+ months later whenever prices have risen to £150k:<br><br>4.Go in for a remortgage at 70% of value = £150k x 70% = £105k.<br>5. Redeem current mortgage of £70k and £30k additional borrowing from credit | 6 months + | Pros<br>• Can use all lenders<br>• Simple!<br>• Great in a rising market<br><br>Cons<br>• Deposit fund borrowings will have to be paid over a shorter period of time thus pushing up the monthly payments overall |

| | | | | | |
|---|---|---|---|---|---|
| | | | cards etc. Surplus £5k.<br><br>Total money in: Nil | | |

Now these methods are all out there being used by investors all the time. My clients use some or all of the techniques to build portfolios out of their salary or profits from their other businesses. It has helped them build large portfolios that they would not have ordinarily had if they tried to buy the traditional method of putting down a 25% deposit plus fees.

So remember my rule of minimum 10% yield and maximum 10% cash input. Oh and by the way this applies to British properties only. The ten ten rule should not be applied to overseas. If you are going to invest overseas you should be looking for a higher yield of 10% to take in to account the higher risk that you are taking on due to the different laws, management risk, political risk etc. If you have a low or medium attitude to risk I would avoid buying properties overseas. If you have a high attitude to risk then please start off slowly! I have heard the USA is good……

So apply the ten ten rule and use ALL your starting capital to invest. Do not leave anything other than working capital in your bank. This will mean you will get the greatest exposure to the property market as possible which is what you want. High exposure means you will benefit from the boom that will come around at some point in the future.

Now a high exposure means you are exposed to the downfalls as well however if you have bought high yielding properties it really wont make much difference. Yes your portfolio value will go down but on a monthly basis you will not notice anything as the rent will still keep on coming and the costs will be the same.

Once all your cash is invested it is just a waiting game. How long that wait is no one knows but when the wait is over you can say hello to expansion times as this is where you really start to hit your targets. The final part of the strategy is to Remortgage & Reinvest Aggressively.

## 5. Remortgage & Reinvest Aggressively

This is a very key stage in the process. I have seen many investors who could have had more than what I have got but instead they got cold feet, cashed in, spent the money and are now trying to get back in the game. True investors hate selling. They only like to sell when the offer is so good that they think they will not see these prices again for another 10 years or they are retiring. If netiher of these situations present themselves to you then hang on to your properties and do the following:

1. Remortgage the properties to get more seed capital to invest
2. Reinvest exactly like the way you were before following the ten ten rule
3. Do it Aggressively!

Now lets just say you have invested all your cash in to 10 properties worth £75,000 which you have bought for £50,000 and have £50,000 outstanding on them on mortgages. They are rented for £5,000 per year and the mortgage cost is £2,500 per year. Your portfolio will look like this:

Portfolio Value

10 properties x £75,000 = £750,000

Annual Profit

10 x (£5,000 - £2,500) = £25,000

Now you have to wait for the portfolio to grow in value so you can get some cash out. One thing you are guaranteed is that property price growth will happen. I know this because property prices rise in line with general price rises. So as long as a you have wages rising you will have property prices moving upwards.

The long term growth rate is rather unsurprisingly the same as the long term wage growth rate of 2.9%. However property prices like to yo-yo around the long term growth line. Now how and when these yo-yo's occur should not be your concern. Your concern is to pounce when the market rises by remortgaging.

So lets say the market rises by 25%. Then your portfolio grows to:

£750,000 x 25% = £937,500

Now lets say you can get 75% Loan To Value buy to let mortgage then the new borrowing amount you can get is:

£937,500 x 75% = £703,125
The current mortgages are £500,000 so the amount you can release is:

£703,125 - £500,000 = £203,125. So lets say £200,000 to keep the figures simple.

Now can you imagine how many properties you can buy with that? Your portfolio can now grow by 5 times. Lets say each property you are putting in £5,000 then you will be able to buy:

£200,000 divided by £5,000 = 40 properties.

Now each one of these properties will return say £2,500 profit per year then the additional profit you have just added to your personal bank account is 40 x £2,500 = £100,000 per year. Lets say the £200,000 extra borrowing costs you £1,000 per month, £12,000 per year on an interest only mortgage then you have a net benefit of:

£100,000 - £12,000 = £88,000.

Not bad for a bit of remortgaging and reinvesting.

This is how I became wealthy. I kept on doing what I have told you above. I would just keep on raising seed capital from the equity that builds up in the property. And the great thing is lenders will lend. This is because each one of the original properties you buy for £50,000 will still be cash flow positive after the remortgaging. You add another £20,000 loan to each property which costs another £1,200 per year on top of the £2,500 annual mortgage payment but because the rent is £5,000 per year they are happy to lend as the rent is in excess of the mortgage payment (£5,000 - £2,500 - £1,200 = £1,300).

So you can just keep going and going until you hit your target. Isn't that wonderful? I find it so. Your future is really in your hands if you are willing to commit to a 10 year plan. It may take 4 years it may take longer but you can be reasonably sure it will happen within a 10 year period. And you really can do it with only one wave of property price increases. It all depends on your targets but if you buy well and remortgage to the maximum at the right times then you can increase your portfolio by up to 10 times if you get it right.

# 8. Property Investor (Student/HMO Let)

I Vital Statistics

| | |
|---|---|
| Earning potential before tax | £3,000 to £20,000 per house per year |
| Capital Required | £10,000 to £60,000 |
| Skills Required | None |
| Qualifications preferable | None |
| Competitiveness Low/Med/Hi | Med |

| | |
|---|---|
| Risk Low/Mid/High | Med |
| The Business Model in a nutshell | To buy high yielding properties in an area where there is demand for room only rentals |
| Potential gaps in the market and suggested USPs | • Hi tech broadband<br>• Mature Students (over 25)<br>• DSS HMOs |

## Introduction

With the Buy-to-Let market seemingly over saturated, a steady and buoyant student buy-to-let market is one that still offers the potential of good returns.

There are multiple reasons as to why the student buy-to-let is a worthwhile investment. UCAS, the University applications agency, has seen a year-by-year increase in applications. The Increased student numbers are fuelling a rush to build.

It is a well-known fact that in today's competitive market, universities are struggling financially, which is having knock-on effects. In addition to the increased numbers of students, massive student housing shortage and lack of investment in new housing initiatives offered by the universities, the benefits of private investment has never been better.

In some student cities throughout the UK, you can see the private developers building high-rise student apartment blocks as they have latched onto this investment opportunity. Just the other day, I was at Manchester Piccadilly station and out of nowhere, there was a modern, high-rise student apartment block that had sprung out of nowhere to obscure the usual landscape view of the city!

**University town = students = £££!!**

Well, not necessarily. This book will provide an intensive look into letting out your property to students and by the end, you will feel much more confident in what type of student you want, which area and what kind of property will best fit.

The idea of this book is to assist you in your choices and to act as guide. You should keep in mind that there are roughly 200 institutions of higher educations in the UK; some of which are placed in cities where the number of students exceeds the number of local residents, and in other cases, institutions which have been discarded outright in this book due to various reasons e.g. not enough students (or projected number of students) to make the investment worthwhile or sustainable.

Students typically reduce costs by sharing and minimising personal expenditure. Consequently, student houses can improve higher than average yields by maximising the available space. On a less rosy scenario, one must also take into consideration the responsibilities of renting to students, such as higher maintenance; furnishing costs; increased wear and tear, when compared to a professional couple for example.

The location of the property will also be a deciding factor in your purchase; not just on a national level primarily chosen by you, but on a more local level which will be dictated by the campus location, access to local amenities, nearness to bus stops etc

All these issues will be detailed throughout the book, and at the end, you will be much more confident in buying the perfect property and reaping the benefits of student let property.

## Chapter 3 - Finding the right property

Like any property investment, I always apply a rule of thumb, and here it is no different. Here, I call it the rule of 10. It's very simple to remember when looking at properties. Simply calculate the annual rent and multiply it by 10 – this gives you the purchase price. So if you see a 3 bed 2 reception roomed house and you know the room rate is £60 per week then the calculation is:

4 x £60 x 52 x 10 = £124,800.

So if you see the house advertised for £110,000 then go for it! If its for £150,000 then forget it. Speak to letting agents or look in the local press for typical rental values for the area that you are looking at. This yield is also stated as a payback period – the length of time it would take to own the property if you re-invested all the income earned to replenish your savings. You would calculate this like:

$$\frac{1}{\text{Gross Yield}/100} = \text{Payback Period.}$$

This equates to 10 years. 10% is a like-for-like comparison to a bank or building society rate. So if your bank is offering 4% you know that you can earn 2.5 times as much from investing in property. But this assumes that you have funded the whole property purchase out of your own funds. Usually this is not the case. When you borrow to finance the purchase the returns are significantly higher as highlighted in the previous chapter.

It's surprisingly easy to manage a property outside your area once the property is set up right. There are many areas that offer you a return of 10% or greater and student properties can do the same.

Sometimes for student rental, the **AVERAGE** gross yield per year is calculated as:

$$\frac{(42\text{weeks} \times \text{Room Rate}) + (10\text{weeks} \times (\text{room rate}/2)) \times \text{number of bedrooms})}{\text{Property purchase price}}$$

As you can see, the average has been calculated by charging **half-rent** during the summer period. This is whereby the landlord will charge 50% rent during the summer as to reserve the property for the start of the academic year, more commonly known as a retainer. During this agreed period, you are not to let your property to anyone else as this counts as rent. For more information review the chapter on legal issues.

The VarsityLets scheme offered by Bradford and Bingley as described earlier guarantees full rent for the year, and so in this situation, the yields are increased. How much in demand or desirable your property is will considerably have an effect on this average i.e. if my house has all the latest mod-cons, full speed internet access, large bedrooms, newly fitted bathroom and so on, then I would feel extremely confident in charging full rent 52X weeks of the year and can adjust profit and yield figures by +1 or 2%. If I have a squalid property with a hazard-prone shower unit and rusty old kitchen hobs, then expect it to be more desirable if I charged rent for term times only.

As an arbitrary example, we look at a 3-bedroom house[1] at a purchase price of £145,000 in Bristol - and we can see the differences. If the standard room rate is £52/week, then the figures come out as shown.

| | |
|---|---|
| Median Room Rate | £52 |
| Average Yield 1 | 6.7% |
| Estimated Annual Profit 1 | £1,296 |
| Average Yield 2 | 7.5% |
| Estimated Annual Profit 2 | £2,128 |

Where Average Yield 1 is the formula used above and Average Yield 2 is full 52 weeks rent for such a property.

In general, when looking through the university listings, the Yield & profit given are considered as a calculated minimum/average and should be weighted roughly + 1 or 2% if the landlord decides, and have the capability of charging full rent for 52 weeks as demonstrated above.

The example, for Bristol, shows that the average expected yield range is between 6.7% for a three-bedroomed house, but could be as high as 7.5% if 52X weeks full rent is charged. In this example, I personally, would choose not to invest in Bristol.

[1] A 3-bedroomed property plus front reception converted to bedroom, equalling 4 bedrooms in total.

**WHAT ABOUT CAPITAL APPRECIATION, I HEAR YOU SAY!**

Capital appreciation is the amount the property rises in value over time. I never include the gains by capital appreciation in my calculation of yields because it is an unknown figure at the point you make the investment. If there was any certainty of the capital appreciation of a property then the purchase price of the property would include this gain. As there is a lot of uncertainty over capital appreciation because of the numerous variables involved it is very difficult to predict when house prices will rise. And remember the gain is only realised when you sell the property and the difficult thing with any investment is knowing when to get out and sell.

I see capital appreciation as a bonus. I focus on the investment as it stands. If it makes money now it will almost certainly make you money in the future. If the property prices crash – who cares! You are still making money as the rent rises with inflation and the mortgage payment is still the same. If property prices increase again – great! You can realise that equity by remortgaging or by selling and buying further properties! This way there is no downside risk and only upside potential.

Admittedly there is a lot of money to be made in capital appreciation speculation but capital appreciation speculation should be left to the professional property investors. They have the time to research the market and can stomach the loss if there is a property price crash.

**What's so good about Student properties?**

Well, the good thing is the market will always be there! Secondly, if you play things right, you can achieve higher yields than if you were to let the house out as per normal. For example, if I were to let out my 3-bedroom terraced house to a couple with two kids in the area of Withington/Didsbury in Manchester then my average gross income would be say £433 per contract month. However, if I were to let it our to students, I could convert the bottom reception/lounge and rent it out as a house with four bedrooms. For an average rent of £50, this means that I would receive £866 per month – basically DOUBLE! This increased yield can be achieved with the commitment and correct attitude required to attract the right student for the right property.

**WHAT TO LOOK FOR WHEN VIEWING A PROPERTY**

Do not believe the myth that a property is only worth buying if you could see yourself living there.The fact is you aren't going to live there so what is the point of asking yourself if you could live there?You should ask "would *students* live here?"

Matching the right property with your target group is of crucial importance. As commented on before, the image of three or four longhaired, undernourished and scraggy clothed students, willing to live in a shoebox for three years is a stereotype that has washed away with the last decade.

This does not mean that every student would like a penthouse suite with a Jacuzzi; nor does it mean that the trusted old formula of a 3-bedroom house with a standard sofa, kitchen table etc would not be adequate.

What is important is asking yourself how a potential student buy-to-let purchase can be made as competitive as possible within its local setting. For example, if you know that the latest student developments offered by the University will have full access to hi-speed or broadband Internet in every room, then you must provide at least the same.

The best way to find out the demand and suitability of property is to speak to both the university Students Union and the University Student Housing office. This way, I have found that from one perspective, you'll get ideas through the student representation and from the other, a more commercially focused response and suggestions respectively.

When viewing a property check for:

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|---|---|
| **Carpets** | You have a legal duty to provide floor coverings.If there are no carpets then you will have to pay for new ones. |
| **Kitchen** | Is the kitchen big enough to accommodate a small dining table? This is attractive if there is only one reception room and it turns the kitchen into a kitchen diner. |
| **Smallest Bedroom** | If the smallest bedroom is smaller than 6ft 6" in any direction then it is not a bedroom!You need to be able to get a bed in a bedroom hence this room can only be considered as a study or a baby's room.You need to consider this when considering what type of tenant you are looking for – if you are looking for two professional people to share a 2 bed flat then |

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| | the second bedroom must be bigger than 6ft 6”. |
| **Bathroom** | Is there a fitted shower?A bathroom is a lot more desirable if there is a power shower.If there are two bathrooms then the property is very desirable, even if it is only a shower room. |
| **Heating** | Is the heating system old?This can be costly to replace.If possible get it checked prior to purchase.It is your legal duty to provide heating and to issue a gas safety record. |
| **Electrics** | Are the electric sockets old?This will tell you that at some point the whole electric system will require rewiring. |
| **Service Charges** | If it is a flat you will have to pay service charges.Ask the agent if he has any details of the service charges.Some places have exorbitant service charges that render the whole investment unprofitable.Avoid listed buildings as they have frequent redecoration policies that can be expensive. |

If the property is in a reasonable condition then buy it.  If demand is good there should be no problem letting it out as long as the property is in reasonable condition.

**Furnished or not?**

The normal procedure for the student is to start searching for next year's room within a few months of starting their course. In the majority of cases, the student devotes a significant portion of a good couple of weeks, maybe months, in finding that right house. In addition to factors such as location, price etc, a key factor in attracting the right student for your property is how you furnish your house.

So the answer to the furnished or not query is almost definitely, a big yes! A more appropriate question would be *what are the necessary furnishings required to attract the right student*? You must remember that for students, this will probably be their first time searching for a house or room to rent and they will take a tacit interest in the furnishings and fittings upon viewing a house. The key is not to overload the house with junk-shop furnishings and rusty, worn out cookers or freezers. The higher the quality of the property and its entities, the better chance you have of finding responsible students to look after your property.

Is the cooker safe and does it need replacing? What kind of settee can I get that will be reasonably priced but welcoming? What items does the student tenant expect to find in the house? Should I provide a television? These are some key questions that I have asked myself and as there is a requirement to furnish student houses, similar questions should be an integral part of the way you approach the student market. Some key furnishings related to student accommodation include:

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| Kitchen appliances | In general, the provision of a fridge freezer and cooker are always a basic requirement. Often microwaves, washer machines, dryers and to a lesser extent, dishwashers are provided. |

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| | Again, you must remember the necessity of the product to attract the desired student tenant. For example, if you decide to purchase a washer machine, make sure that it is a durable, long-lasting machine intended for heavy usage. Its no good buying one that, despite being very cheap, could cause annoyances and headaches five months down the line.<br><br>Microwaves tend to be a good buy as they add to the aesthetic appeal of the kitchen and can cost as little as £30 for a decent one.<br><br>Another important yet often neglected aspect is the availability of workspace. You could have a kitchen with a new hob or dishwasher; yet no space to butter a slice of bread. This could get frustrating for the tenant and may ensue the usage of your sparkling white new dishwasher or microwave as a cutting board for his or her Sunday roast! |
| Sofas/Couches | With student properties, it could be that the front room reception gets converted into an extra bedroom, ensuing that the second reception becomes a living-cum-dining room. |

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|---|---|
| | A good sofa; one that looks appealing to the eye and is fairly comfortable will suffice. An overly expensive leather sofa is not a necessity and could run up into the thousands of pounds mark if you do decide to indulge. |
| Bedding | If it is a small room, then obviously you'll only have space to accommodate a single mattress. But if it is quite a large bedroom, then try and get a double bed if your budget allows. A double bed will always look more appealing than a single bed, regardless of the tenant being a student or not and the cost difference between the two isn't too much. |
| Television, Sky Digital, | This is where it gets a bit tricky. Is it worth it and can I afford the expenditure? I recall that in my student days (which were a ages ago!), a few of my friends had landlords that provided the set-up for the Sky or cable network and my friends just paid for the monthly billing. I'm a bit wary of installing Sky in student properties, but I know others that have done so and for them, there hasn't been much of a problem to date. You should also consider that you might not always have a |

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| | student tenant from July to September, so you may have to bear the brunt of the costs.<br><br>TV sets are really cheap these days and if you feel that the prospective tenants you are looking for will look after the set, then this will add to the attractiveness of your home. |
| Internet | This will undeniably make your house appealing to all students whereby computer and internet usage has become a mandatory part of university studying. Should you be able to incorporate a way of accessing the internet from every bedroom in the house, the marketing appeal of this will be a huge pulling factor. |

**Location**

As the market swells with buy-to-let investors, you must choose the best area within your budget to ensure that the profitability of the location is worth spending your money, time and dedication. For example, in my humble opinion - and I am sure others would agree - there are very few spots on London that would generate enough yields to compensate for the huge initial investment for a student buy-to-let.

Just glancing at the yields calculated in the listings, the not-so profitable areas include Bristol, Cambridge, Liverpool and Oxford and so on due to the low yields. Like I said earlier, I see capital appreciation as a bonus. If it makes money now it will almost certainly make you money in the future. In areas like Liverpool, as buoyant as the student market is, the whole city is plagued with buy-to-lets. The fact that rent prices cannot keep up with increased house prices has meant that standstill or general reduction of rents is due to this saturation, producing relatively low yields. Despite this remark, if you can still pick up a bargain in a potential or student area, then go for it. If it means that with your purchase you can offer competitive rental rates and still make a profit, then it’s worth a look.

Contrastingly, the University of Brighton and University of Bournemouth have a lack of student housing available and the universities encourages Landlords to register with the university in order to let out to students. The general high house prices will deter those that cannot afford the huge initial outlay, but there are still some good returns on the right property, if it is within your reach.

When considering at the location of the property, it may work to your disadvantage to go for something straight away due to how cheap it may be or how low-priced the properties are in a certain area. If that area is not in demand by the students, then it’s not really worth the effort. Studies[1] have shown that 20% of the 700,000 student lettings offered by traditional landlord sector in the UK are unfit for letting. You don’t want to add your house to be part of that by buying a block of houses in a run-down area or an area that is renowned not to be student friendly.

From my experience, the best areas are immediately next to or near the campus or university lecture halls, followed by houses on or near bus routes leading to the university and town centre. Also these houses tend to have better capital appreciation followed by those that are maybe two to three miles away from campus.

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[1] A news report on student housing, www.guardian.co.uk

**Chapter 4 - Finding the right student tenant**

Finding and attracting the right student tenant for your house depends primarily on three factors:

1. The property
2. You!

**The property**

Getting the right tenant will be significantly determined by the type of property you have. A two-bedroom city apartment may do the trick in attracting the affluent students but could, depending on your financial constraints and mobility, have limitations on the competitiveness of the property towards the student market.

What I have found to be most adaptable and suitable is two-bedroom, three-bedroom and four-bedroom houses. In some cases, even a five-bedroom or more house. My reasoning for this is simple – if I can't find students to let it out to, then I could just as likely let it out to a family who are looking for such a property to rent.

The most popular, it would be safe to say, is the three-bedroom terraced house which becomes a four bedroom property once the living room or dining room gets converted into a bedroom.

**You**

When I used to hear the word 'students', I would automatically convey the image of three chain-smoking, beer-swilling layabouts who would never pay me the due rent! How accurate or not I was in my generalisation is not important. What is important is how I want to run my property and what types of student tenants I want in there.

First and foremost, you have almost definitely bought this book, as you are comfortable with letting your property out to predominantly 18 – 22 year olds.

Secondly, this kind of stereotype described above is in all honesty, a backward approach and such pictures could be painted of different people from different walks of life!!

Lets not ignore the fact that if let out to students, then you must be comfortable with the idea that three, four, five or even twelve or more (!) students in one house will inevitably lead to more wear and tear. You may have to refit the kitchen and bathroom every three to five years, lay new carpets every two to three years and lets not forget that washing machines will be susceptible to heavy usage and will need upgrading sooner than not.

Finally, bearing in mind that there is no longer a one-size-fits-all existence within the student market, you must have a good idea of what type of student you want as your tenant. In general, student rent fluctuations are pretty flat compared to residential and professional lettings and it is fair to assume that the standard prices of rooms vary from £40 to say £80 a week.

**Advertising**

The best way of advertising your property is by using online accommodation websites directed at students; liasing and providing your information through the university housing office; Contacting and advertising your property through the students union (a list of which is provided in the reference section) and through the local newspapers.

Another more creative way of promoting your property is by sticking up information of your property throughout the campus, but check to see if this is permissible with the university authorities first. Maybe even the University Library has a notice board or something similar whereby the students can take your contact details from a handy detailed A4 piece of paper.

Every university has an accommodation office that will help to find suitable, privately rented accommodation as well other useful local information. The best way to find out how things work for each university area and private tenancy is to get in contact with the specific university's accommodation office and get more information. All contact details have been provided for each university.

Some universities offer an affiliated landlord scheme. What this means is that they will let out the your property as a 'university accredited' building – giving the student a sense of security, and for you, a definite plus in obtaining a student tenant – but will also be at a cost or fixed fee to you. It does not necessarily mean that they will collect the rent for you, nor will they show the prospective tenant around the house. For these kind of services, look at 'letting agents' below.

In addition to this, every student union also has a housing officer who is equipped to deal with everything from unhappiness with the room offered to problems with rent and advice on contracts or other legal difficulties with private landlords.

**Advertising in the local and university press**

This is an effective way of advertising. It is best to advertise in a paper that is delivered free locally or is easily accessible to the student population. The main things you should include are:

- **Area –** You must state clearly where the property is situated. You don’t want to spend annoying calls on being asked where the property is exactly and having to regurgitate the same information. In a similar fashion, the student will probably make less effort if he or she doesn’t know where the property is.
- **Furnished –** State what furnishings are included and mention important items like washer machine, dishwasher, hi-speed internet access availability etc
- **Number of Bedrooms –** you must put the number of bedrooms the property has as then readers will know if your property can accommodate them.
- **Price –** in any advert you must put the price. I always quote my properties as weekly rent i.e. £80 per week.This way the tenant assumes that the rent is £320 per month (as the tenant thinks there are four weeks in a month when there are actually 4.33 weeks in a month) when in fact it is £346 per *calendar* month.Your property will appear cheaper than other properties that are quoted per calendar month.If you price your property at £79 rather than £80 the impact is even more significant. You should also make clear as to what is included in your rent. For instance, some landlords include water rates or electricity bills, others don't.
- **Features –** if it’s got a new bathroom then say so! Anything that is not standard with a property like a garage, separate dining room, large garden or new carpets then this will attract more interest.
- **Telephone Number –** do not give your mobile number only! You will get fewer calls as everyone knows that a five minute call to a mobile costs a small fortune, especially to the people that you are trying to target. Put a landline as well as a mobile.

To find out about the local newspaper in the area of the property you have bought or thinking about buying visit www.newspapersoc.org.uk.

**Student websites**

A number of landlords advertise their property through student websites, many of which are available in the listings, relating to that particular town or city. This is great as all students these days access the Internet and their first port of call may be the Internet to browse and see if anything comes up.

In addition to this, the Students Union of each particular university may also be able to give you a comprehensive guide of where to advertise for the university or may even provide information on how you can advertise through them or their website links. A list of student union details has been provided in the reference.

**Through a letting agent**

This is quite a costly affair to find a tenant. They usually charge one month's rent + VAT. However, they will show prospective tenants round, run credit checks, ask for references, arrange a standing order and do an inventory check on the property. I would recommend this if you work or live far away from the property.

The most prominent and latest initiative taken is by Bradford and Bingley Marketplace who have introduced the VarsityLets scheme. The new scheme is specifically aimed at Buy-to-Lets for the student market.

An informative section on Bradford and Bingley Marketplace VarsityLets has been provided in the rent collections section later in this chapter.

**Right student tenant? No student tenants!**

**Drop out rates**

Before you think you've found that perfect house with potential for great returns, a factor that is amazingly overlooked by naïve landlords is considering the drop out rates for the universities. If you have a university where a number of the students don't finish their course, then you may suffer the headaches of being left with an empty property for half of the year. Despite the fact that student rental yields are quite stable and prices do not vary much across the UK, you might find it impossible to find a tenant - With council tax, service charges and maintenance bills, you would end up with a negative return on your investment.

Middlesborough for example, has been in the headlines due to it being a property hotspot. Terraced housing in the centre of town have gained considerable value over the past few years, with buy-to-let investors capitalising on this with view to refurbishment and letting it out to students. On the plus side, Middlesborough has seen accelerated house prices and there is a great number of students there as potential tenants. However, the University is in the process of building new multi-million pound halls of residences to accommodate the projected number of students. Taking this into consideration and accounting for the fact that Teesside University suffers from a 12% dropout rate[2], the shiny prospect of student lets in Middlesborough loses some of its gloss.

Figures show that a considerable number of London universities experience a high drop out rate with the University of North London witnessing 29% of its students dropping out of their course. In contrast, Imperial College has a low drop out rate of 4%. In the North West, 23% did not finish their course at the Bolton Institute of Higher Education. In Wales, the University of Wales Lampeter has a high drop-out of 19% whilst in Scotland, the University of Abertay Dundee sees a 19% drop out rate.

**Can't find a tenant!**

If things do turn sour and the area you have purchased in does see a significant increase of unforeseen dropouts or other negative factors, then the following suggestions are some ways to tackle this:

| Action | Why? |
|---|---|

[2] Higher Education Funding Council statistics for 2001, www.hefce.ac.uk

| | |
|---|---|
| Reduce the rent | If you're having problems renting it out, then maybe you're asking for too much for the student area. Look at rental prices offered by other student landlords and then review your rental demands. Think about reducing the rent; or if you are asking for a full years rent, consider only charging a deposit for the summer weeks when the students aren't there. |
| Promote and advertise your property | If you haven't already done so, consider registering your property with a lettings agent who may have better access to students and will take up a lot of the work for a fee.<br><br>Advertise your property through the student newspapers if possible and post your property details around campus if permissible! |
| Widen the target group | If you are having problems letting it out to students, due to a downturn of student |

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| | applications/numbers, increased accommodation offered by the University or other related factors, then consider renting it out to professionals, families and other possible tenants[3]. |
| Furnish the property | If you haven't already done this, then maybe a few basic additions will increase the marketability of your property.<br><br>Maybe look into installing hi-speed internet access to the property as this is a huge pull to the student market. |
| Sell the property | This should be a last resort, as any decent property should be let worthy to students. Your property |

[3] See 'The Buy-to-Let Bible' by Ajay Ahuja for more information on these types of lettings.

| | |
|---|---|
| | will probably be in demand as it is a student area, so you should find it quite easy to sell. |

**Void Periods**

As we are all probably aware, tenants come in all shapes and sizes regardless of the "student" tag and so you should try and make your property as widely appealing as possible in order to avoid your property being on the cull due to the pink and green striped wallpaper you fashioned during the summer break.

The best advice is to follow the usual guidelines of neutral decoration, minimise junk, investing in high demand student areas and to fully promote your property by using all advertising means possible.

For information on the void period during the summer break i.e. between the academic timetables, view the chapter on "Finding the right property".

**Should I credit-check the student tenants?**

Lets assume everything's going well and you find yourself inundated with potential student tenants wanting to rent your property (!). You will naturally ask yourself whether they can keep up with rent payments and you're not going to end up tenantless halfway through the academic year.

You can check the credit of your tenant like a lender credit-checks a borrower. This costs between £17.50-£94.00 depending on what service you require. But, we're going to have face some facts here. Firstly, it is very likely that university student(s) will have much work history, so credit referencing them isn't going to amount to much use and will be a waste of time and money.

Also, it is well documented that students are experiencing some tough times these days and with the ongoing debate of additional tuition fees, the amount of money they or their parents will invest, there are not many viable options to guarantee rent payment.

The best option is to you get the student tenants to sign one tenancy agreement, whereby if one of the student tenant leaves, then they will all be responsible for the full payment of the shortfall or finding a new flatmate. You may also wish to ensure they provide a guarantor, someone who will be responsible for their deposit and potential dilapidations to your property.

**The relationship between landlord and tenant**

We've all heard of those horror stories where the student tenants have had an all night party, trashed the place and done some serious fire-damage to the property due to their inability to make toast. Then on the flipside, we've also been exposed to stories presented by student tenants on how a crazed landlord has refused to fix the front door despite several burglaries within a week!

These extreme cases should be taken with caution and the point is to not assume too much. Your tenant is not your friend, but nor is he or she out to make life hell for you! Well, here's to hoping not.

Remember that you are in business with each other and that is the only reason why you know each other. For the relationship to last, the following simple contract needs to hold – you are supplying a safe property for the tenant to live in and the tenant is paying you the rent on time.

**University accredited lettings**

You should consider using the university lettings system if you are finding it tough to channel your energies into finding the tenant. They will have better access to the students and with full respect to other landlords, they will be trusted a lot more. However, it is often tough in getting your property registered with the university lettings system, as there is much demand to be on it. They also have strict controls and measures on what type of property they want, so this will make it tougher.

**Checklist:**

| | |
|---|---|
| **Ask around!** | You've read this book – great! Now you'll have a good knowledge of how to go about purchasing a student buy-to-let property. However, you should do other important research in that particular student area you intend on investing in. Ask the lettings agents what the demand is like; Speak to the student's union or university accommodation and see what they say; read around the local and university press to see what the latest reports are. |
| **Check property dimensions** | With the Housing bill set to affect thousands of student homes, make sure your property is habitable. There's no point in buying a house that states three bedrooms but with one being the size of a cupboard. The best properties are those with lots of rooms of fairly equal size because nobody wants the box room.<br><br>Also, two reception rooms are considerably better than one long reception room as you can convert it to a bedroom and improve yields. |
| **Do your sums** | If the going rate around the area is £50 per week, and you have to charge £65 a week to make any profit, you should ask yourself if it's worth it. Assess your sums both short-term and long-term.<br><br>You cannot always be assured of a full 12 months rent, so take that into account. |
| **Find the best buy-to- let mortgage** | The best way to do this is to contact us at www.ahuja.co.uk |

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| **Furnishings** | It's good to furnish the place, but remember not to fill your house with junk or old items from a charity shop that could be a potential fire hazard i.e. old cushioning that isn't fire resistant.<br><br>The higher the quality of the products, the more desirable, the more you can justifiably charge for rent. |
| **Safety checks** | Follow the guidelines as outlined in the legal section and get more in-depth information from you're the local council if you are unsure of anything. |
| **Timing** | Students tend to look for their new homes just after the Christmas holidays, so make sure the property you are to buy is let worthy around this period. |

# 9. Property Investor (Pension)

I Vital Statistics

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|---|---|
| Earning potential before tax | £10,000 to £200,000 per house |
| Capital Required | £10,000 to £75,000 |
| Skills Required | None |
| Qualifications preferable | None |

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|---|---|
| Competitiveness Low/Med/Hi | Low |
| Risk Low/Mid/High | Low |
| The Business Model in a nutshell | To buy a property or properties to provide for you in retirement |
| Potential gaps in the market and suggested USPs | • Executive Let |

**Introduction**

Let me tell you the key findings of a major investment bank's survey:

- Only 1 in 4 workers are set to retire on a pension greater than half their salary
- This means that 3 out of 4 workers will retire on half their salary or less and,
- 1 in 2 workers will retire on less than 40% of their final salary

Can you afford to live on half your salary in today's terms? Or even 40% in today's terms?

The reason for this is that the stock market has not performed as expected. Annuity rates have declined due to people living longer and the situation is only going to get worse with the increasing quality of health care.

I initially invested in property to provide me with a pension 13 years ago at the age of 24. The main reasons why I did were because:

- I didn't trust *anyone* handling my hard earned cash apart from myself

- I thought it was morally wrong for a pension company to take my money and not allow me to have access to it until I was of retirement age

The funny thing is that even though I invested in property initially to provide me with a retirement income, I found that my property income was in excess of my salary so I retired at age 27! Now I own a portfolio of 200 properties that will earn me an income now, in to retirement and beyond.

When you contribute to a pension fund you are investing in to a business (by way of shares) that you have no control of. If the managing director decides to go on a mad shopping spree and bleed the company dry you have no recourse. Okay, the director may go to jail but you won't get your money back. Just have a look at some of the high profile cases – WorldCom, Enron etc. These are the ones that hit the press. There are companies that you probably won't of heard of that a pension fund company invest in that may have suffered the same problems but on a smaller scale.

Property is something you do have control of. It yours! You don't own a piece of paper called a share certificate. You own something you can see, touch and do with whatever pleases you. But simply owning property is not your route to retirement bliss. You need to know how to exploit the opportunities that ownership brings.

The difference between property and any other investment is the ability to borrow. You can borrow to purchase the property and let the tenant pay your interest payments by way of rent, hence it's a self-funding investment. Now you can borrow to buy shares but the dividends receivable are rarely sufficient to cover the loan repayments. Also the maximum any bank will lend to you will be up to 50% of the value of the shares and the interest rate is much higher than a typical mortgage because shares are riskier than property. This begs the question - if shares are riskier than property why do people invest in shares rather than property?

Well there are some answers to this. Apart from the tax breaks you get which make investing in pension funds seemingly tax efficient we invest in shares because:

- We are lazy! Its easier to simply pay over some money and let someone else do the hard work.

- Other people do! We act like sheep sometimes and follow the crowd. If others are doing it we'll do it too.
- We are too trusting of these big pension companies. We fall for their mock caring TV adverts, glossy spreads in the national newspapers and magazines and impressive head offices and branches.

So its time to take up the profession of becoming a landlord and start enjoying the rewards that have been enjoyed by the middle class for centuries - its time to build that property pension!

I wish you the best of luck with your future property purchases.

## 1. Traditional Pension v Property Pension

Pensions are a numbers game.

But its not about how much you put away for retirement. You can heavily contribute to an pension investment fund and it can return you very little in the long term – no matter how many tax breaks, frills or top-ups you receive. There is no come-back or guarantee – it's your loss! There are tax breaks, frills and top-ups there to entice you in to investing in companies which prop up our economy but have no real strategy in providing *you* with a real long term income that is related to your lifestyle or even your contributions.

I can already hear you say – what a cynic! But if you understand the principles involved you may change your opinion. I am going to show you in words, pictures and numbers how property is a better way to invest for your retirement than any other method suggested by below. Its important to understand why:

1. The Government, Pension Companies & The Banks *cannot* deliver you a guaranteed long term income sufficient enough to live a comfortable life and,
2. Property *can* deliver an income for you, *your family and your subsequent family members* that is far in excess of what any of the above can do.

You may think this is a tall order. But if you take the time to really understand how long term income is created you will realise that what I first say, that pensions is a numbers game, is a true statement and you will laugh at what is currently offered to you as a 'pension' from a traditional pension provider.

**Traditional Pension Providers**

There are three broad categories of traditional pension providers:

1. The Government
2. Pension Companies
3. The Banks

Okay, so what is so bad about the traditional providers? Well lets look at what they offer:

| Providers | What they offer |
|---|---|
| The Government | They offer you a state pension. You will get this whether you like it or not. You contribute, via your National Insurance contributions which is deducted at source or, if you are self-employed, deducted from your profits twice a year. The contribution is capped and when you come to retirement they pay a pension currently of around £300 per month. This equates to |

9% to 20% of the average UK annual salary depending on where you live in the country.

Even though the government offer a debatable value on your contributions, being only £300 per month from full service, a state pension is something we cannot avoid so it’s not worth applauding it or rubbishing it as there is nothing we can do about it!

Another incentive they offer is a contribution to a pension fund *if* you contribute to a pension fund. The contribution is paid by way of not having to pay tax. So if you earn £2,000 per month and pay £200 to a pension company then your taxable income is £1,800 being your income less your pension contribution. If you are a basic rate tax payer, then you will save 21% x £200 = £42 on tax. This is then expressed as an additional contribution by the government as if you didn’t contribute you would have only got £158 out of the £200. So it’s a contribution of £158 from you and £42 from the government.

If you’re a 40% tax rate payer the government contribution is even bigger! In the above example it would be a £120 contribution from you and £80 from the government – quite an incentive on the face of it.

But what are they allowing you to contribute to? They are not giving you this money to put away or to invest for your future.

| | |
|---|---|
| | They are saying you can contribute to something that only the government agrees with – their economy!<br><br>This has a double effect. Firstly, it means there is investment in the UK economy which helps our UK based economies grow and increase the tax collected from these UK companies.<br><br>Secondly, it forces the man on the street to take a *risk* on their retirement income rather than have the government take the risk. If the pension fund doesn't grow to the desired level then that's just your misfortune. The government has given you a big incentive to invest in a pension fund but they carry no responsibility if your pension fund is worth zero! To be fair to the government it's not a bad trade off. They lose anywhere between 21% - 40% of your salary, being tax, to mitigate their risk of having to provide for you in the future. |
| Pension Companies | So the government have given you a tax break of up to 40% - what do the pension companies offer you? Well they offer you no guarantees that's for sure. What they will do however is, take your money, charge you a fee for doing so, invest it in companies that they have no control over and hope to return you an amount greater than a building society would. The reality is that in the last 5 years you'll be lucky to get any profit at all! The stock market is very risky even if it is managed by a pension company. You'd have been better off investing in a building society or bank. See next section. |

| | |
|---|---|
| | Please disregard past growth rates of the stock market. Quite impressively the stock market has outperformed every investment out there in the past 50 years apart from the last 10. This is why people have assumed that it is so safe but you must never assume that the past = the future. The stock market has changed dramatically in the way people invest, the type of companies listed, the fluidity in which the market moves and the legislation governing these companies. Dramatic gains are likely to be a thing of the past as most of the gains occurred during the last 50 years. |
| The Banks | If I were to recommend a pension fund other than property then I would recommend a good old deposit account with an established bank or building society. If you want to retire with peace of mind knowing that you will have at least something to live on then this is the safest way. The problem is you have to contribute so much to even come close to an income that will match your current salary that it seems an impossible task. There are no tax advantages of following this route and the rates the bank pay are incredibly low that it doesn't even seem worth bothering.<br><br>Also if you look at any pension fund they have cash reserves. The trend has been off lately to keep most of these funds in cash – and they charge you an annual management fee to do so! This results in the poor performance of the pension fund due to their charges and the lower returns to be had from cash. You have to |

| | |
|---|---|
| | ask yourself - why pay a pension company to put your money in to a cash reserve when you can do it yourself *and* for free! You'll probably get a better rate than them as well. |

**How A Traditional Pension And A Property Pension Work**

The only real competitor to a property pension is a pension offered by a pension company. So it makes sense to look into how both these pensions work and how they compare. Can I warn you that the numbers get quite complex if you're not that numerate. I've tried to keep it as simple as possible so bear with me. I guess the reason why so many people have been duped by the pension companies is because of this very fact! It is easy to get blinded by the science.

Lets look at a traditional pension.

Traditional Pension

Joe is 41. He works in an office earning £30,000 per year and is a basic rate tax payer. He decides to take out a private pension. He comes across a reputable firm offering:

| | |
|---|---|
| Management Fee | 1% |
| Estimated Growth | 5% |

A management fee is the charge a pension company charge to you for managing your money. This seems reasonable from their side as no one would do this for nothing. They invest your money in so called 'safe' investments such as cash deposits, bonds and shares. Some pension fund managers are very good at what they do (even though they are an exception) and are well worth their charge as they can out perform the general market.

Estimated growth is how much the fund manager thinks he can make your money grow. If current rates offered by building societies are 2.5% then a 5% growth is very attractive as it is double what is being offered from a bank or building society. If you took in to account the tax breaks then it seems even more attractive.

Lets assume that the pension company actually achieve their estimated growth target of 5% year on year. If Joe invested £100 per month, increasing his contribution by 4.25% year on year his personal contribution, government contribution and fund value would be:

| Age | Personal Contribution | Government Contribution (tax) | Value of year's contribution at age 65 |
|---:|---:|---:|---:|
| 41 | 1200 | 252 | 4868 |
| 42 | 1251 | 263 | 4833 |
| 43 | 1304 | 274 | 4799 |
| 44 | 1360 | 286 | 4764 |
| 45 | 1417 | 298 | 4730 |
| 46 | 1478 | 310 | 4696 |
| 47 | 1540 | 323 | 4663 |
| 48 | 1606 | 337 | 4630 |
| 49 | 1674 | 352 | 4597 |
| 50 | 1745 | 367 | 4564 |
| 51 | 1819 | 382 | 4531 |
| 52 | 1897 | 398 | 4499 |
| 53 | 1977 | 415 | 4467 |
| 54 | 2061 | 433 | 4435 |
| 55 | 2149 | 451 | 4403 |

| | | | |
|---|---|---|---|
| 56 | 2240 | 470 | 4372 |
| 57 | 2336 | 490 | 4340 |
| 58 | 2435 | 511 | 4309 |
| 59 | 2538 | 533 | 4279 |
| 60 | 2646 | 556 | 4248 |
| 61 | 2759 | 579 | 4218 |
| 62 | 2876 | 604 | 4188 |
| 63 | 2998 | 630 | 4158 |
| 64 | 3126 | 656 | 4128 |
| 65 | 3258 | 684 | 4098 |
| Total | **51692** | **10855** | **111814** |

So Joe's pension fund at his chosen age of retirement, 65, is £111,814. Then Joe has to purchase an annuity, which is a guaranteed annual income till his death, with his pension fund. AXA Sunlife offer £45.78 annual income for every £1,000. So Joe's annual income in retirement is:

£45.78 x £111,814/1000 = **£5,118.84 p.a.** (say £5,119)

Now let me draw your attention to 2 key figures – what you put in and what you get out:

| | | |
|---|---|---|
| What you put in | Total pension contributions for the 25 years | £51,692 |
| What you get out | Annual income from the annuity till death | £5,119 p.a. till death |

These should really be the only 2 figures you should be interested in. These 2 key figures can only ever be the most important figures in the whole pension equation. In fact, these 2 figures are always the key indicators whenever a business person appraises the likely success of a potential investment. A pension fund is an investment so there should be no other way to look at the performance of it.

What you put in is totally **within** your control. Therefore this number is known. It is for you to decide how much you should put away for your retirement. You can be advised on how much you should put away but no one can guarantee what you'll get out of it. However, you can be assured that most sane people want to put the least away for the most gain.

What you get out is totally **out of** your control. Unless you have taken out a guaranteed benefit pension (which guarantees a fraction of your final salary, usually two thirds) which is hugely expensive and normally only available to executive directors, you will have no idea what your pension fund and thus your annual income will be. You can only ever estimate what you'll get out with the accuracy of your estimation increasing as you get closer to the maturity date.

So in the above traditional pension Joe put in £51,692 and he's got out £5,119 p.a. He may get £1,000 p.a. or he may get £10,000 p.a. depending on the performance of his pension fund. But at 5% growth rates he has got roughly **10%** of his contributions as an annual income, being £51,692 contributions and £5,119 annual income. Now we can't say that's good or bad unless we have an alternative to compare to.

Now lets look at a property pension. More importantly – what you put in and what you get out.

Property Pension

So what's a property pension? Well the name suggests it all! It's a fund invested in property that delivers an income from the rent derived from these properties. In other words retirement income from rent. But why is a property pension better than a traditional pension? It has nothing to do with the past. Its to do with the present and the future. If we were to get in to a game of how pension funds have out performed property or the other way round then we would go nowhere. The reason for this is because its historic. Look at this table:

## Table: How pensions and property compare

| Return | Pensions[1] | Property[2] |
|---|---|---|
| Over 5 years | 11% | 92% |
| Over 10 years | 61% | 142% |
| Over 15 years | 191% | 156% |
| Over 20 years | 441% | 358% |
| [1]Average individual pension: income reinvested. Figures do not include tax relief. Source: Standard & Poor's [2]Average UK house price. Source: Nationwide | | |

Both have done well but it depends on which time frame you look at. Over 15 & 20 years pension funds win but over 5 & 10 years property win! So it depends on what time frame you look at. The only common thing between these figures are that they all happened in the past. The only people that benefited form these are the people that made these investments. The key to understanding how you can always win with property is to understand the concept of gearing. Or in other words having the ability to borrow.

The mortgage market has changed dramatically. It is now possible to buy a property with the lender's money based on the rental income only. So you are not expected to earn a certain salary to obtain a buy-to-let mortgage of up to £500,000. The only problem is you need a larger deposit compared to the traditional 5% deposit for a residential mortgage. The least you need is 15% deposit but in some cases you need 30%. Due to the introduction of the buy-to-let mortgage house prices have risen way above wage inflation rates. This is because property prices are now determined by the rental value of the home rather than its desirability.

So lets look at the cashflows. Jill is 41. She works in an office earning £30,000 per year and is a basic rate tax payer. She decides to build a property pension. She can afford to save £100 per month to build a deposit and buy a property costing £30,000. She can rent it out for £2,400 per year which equates to 8% of the purchase price i.e. 8% yield. She decides to buy a property every time she saves up enough for a deposit.

Now I'm going to have to hold your hand through these figures! Jill buys 4 properties over the 25 years with property values rising 5% every year (the same growth rate as the pension fund). She rents them out and allows a 20% loss of rent due to agent's fees, void periods and repairs. Allowing for this she gets an annual profit rising every time she buys a property and allowing for rent inflation (applied every 5 years). So the annual profits after tax (basic rate 21% - average used) are calculated from the following table:

| **Property** | | **1** | **2** | **3** | **4** | |
|---|---|---|---|---|---|---|
| | yrs 0-5 | Yrs6-10 | yrs11-15 | yrs16-20 | Yrs21-25 | Yrs 26 onwards |
| Purchase price | | **30,000** | | | | |
| Deposit (15% of purchase price) | | 4,500 | | | | |
| Debt | | **25,500** | | | | |
| | | | | | | |
| Rent (8% yield) | | 2,400 | 3,063 | 3,909 | 4,989 | 6,368 |
| Interest (5% APR) | | 1,275 | 1,275 | 1,275 | 1,275 | 1,275 |
| Other costs (20% of rent) | | 480 | 613 | 782 | 998 | 1,274 |
| Net Inflow Before Tax | | 645 | 1,175 | 1,852 | 2,717 | 3,819 |
| After tax (21% Basic rate) | | 510 | 929 | 1,463 | 2,146 | 3,017 |

| | | | | | |
|---|---|---|---|---|---|
| Fees | 1,500 | | | | |
| Total Deposit & Fees | **6,000** | | | | |
| | | | | | |
| Purchase price | | **38,288** | | | |
| Deposit (15% of purchase price) | | 5,743 | | | |
| Debt | | **32,545** | | | |
| | | | | | |
| Rent (8% yield) | | 3,063 | 3,909 | 4,989 | 6,368 |
| Interest (5% APR) | | 1,627 | 1,627 | 1,627 | 1,627 |
| Other costs (20% of rent) | | 613 | 782 | 998 | 1,274 |
| Net Inflow Before Tax | | 823 | 1,500 | 2,364 | 3,467 |
| After tax (21% Basic rate) | | 650 | 1,185 | 1,868 | 2,739 |
| | | | | | |
| Fees | | 2,000 | | | |
| Total Deposit & Fees | | **7,743** | | | |
| | | | | | |
| Purchase price | | | **48,867** | | |
| Deposit (15% of purchase price) | | | 7,330 | | |
| Debt | | | **41,537** | | |

| | | | |
|---|---|---|---|
| Rent (8% yield) | 3,909 | 4,989 | 6,368 |
| Interest (5% APR) | 2,077 | 2,077 | 2,078 |
| Other costs (20% of rent) | 782 | 998 | 1,274 |
| Net Inflow Before Tax | 1,051 | 1,915 | 3,016 |
| After tax (21% Basic rate) | 830 | 1,512 | 2,383 |
| | | | |
| Fees | 2500 | | |
| Total Deposit & Fees | **9830** | | |
| | | | |
| Purchase price | | **62,368** | |
| Deposit (15% of purchase price) | | 9,355 | |
| Debt | | **53,013** | |
| | | | |
| Rent (8% yield) | | 4,989 | 6,368 |
| Interest (5% APR) | | 2,651 | 2,651 |
| Other costs (20% of rent) | | 998 | 1,274 |
| Net Inflow Before Tax | | 1,341 | 2,443 |
| After tax (21% Basic rate) | | 1,059 | 1,930 |

| | | | | | |
|---|---|---|---|---|---|
| Fees | | | | 3,000 | |
| Total Deposit & Fees | | | | **12,355** | |
| Annual Profit Inflow | **510** | **1,579** | **3,479** | **6,586** | **10,070** |

Now having calculated the figures above we can derive the key figures in building a comparison with a traditional pension. The key figures being:

- Deposit & Fees put down to acquire the properties
- The profits from these properties
- The purchase price of these properties
- The value of these properties at retirement
- The debt outstanding on these properties at retirement

| **Property** | **Age** | **Deposit & Fees (outflow)** | **Profit (inflow)** | **Net Outflow** | **Purchase Price (5% growth pa)** | **Property Value at age 65** | **Debt (mortgage)** | **Net Value** |
|---|---|---|---|---|---|---|---|---|
| | 41 | | | | | | | |
| | 42 | | | | | | | |
| | 43 | | | | | | | |
| | 44 | | | | | | | |
| 1 | 45 | 6000 | | | 30000 | 83579 | 25500 | 58079 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 46 | 0 | 510 | | | | | |
| | 47 | 0 | 510 | | | | | |
| | 48 | 0 | 510 | | | | | |
| | 49 | 0 | 510 | | | | | |
| 2 | 50 | 7743 | 510 | | 38288 | 83579 | 32545 | 51034 |
| | 51 | 0 | 1579 | | | | | |
| | 52 | 0 | 1579 | | | | | |
| | 53 | 0 | 1579 | | | | | |
| | 54 | 0 | 1579 | | | | | |
| 3 | 55 | 9830 | 1579 | | 48867 | 83579 | 41537 | 42042 |
| | 56 | 0 | 3479 | | | | | |
| | 57 | 0 | 3479 | | | | | |
| | 58 | 0 | 3479 | | | | | |
| | 59 | 0 | 3479 | | | | | |
| 4 | 60 | 12355 | 3479 | | 62368 | 83579 | 53013 | 30566 |
| | 61 | 0 | 6586 | | | | | |
| | 62 | 0 | 6586 | | | | | |
| | 63 | 0 | 6586 | | | | | |
| | 64 | 0 | 6586 | | | | | |
| | 65 | 0 | 6586 | | | | | |
| | | **35928** | **60764** | **-24836** | 179523 | 334316 | 152595 | **181721** |

So Jill's property pension fund is £181,721 being the value of the properties less the mortgage debt. But just like the traditional pension fund we have assumed a 5% growth in property prices. Now, I am not a fortune teller, so I have no idea what the growth rate will be averaged out over the next 25 years. Even though a property pension fund is *greater* than a traditional pension after tax at the same growth rates (£181,721 v £111,814) - the great thing is that IT DOESN'T MATTER!

So why doesn't it matter? The 5% growth is nice and probably realistic but it doesn't provide us with an income. What we're interested in is the rental income. The key figures you should be looking at are the 2 key figures I talked about earlier. Let me remind you – what you put in and what you get out! So here's what we've put in and what we've got out:

| | | |
|---|---|---|
| What you put in | Deposit & Fees less profits from the properties over the 25 years | -£24,836 |
| What you get out | Profits for years 26 onwards | £10,070 p.a. forever |

So with a property pension you actually get money back! What you put in is a negative amount. Your investment in property by way of deposits and fees are replenished by the profits made in property and more. Being prudent, lets assume that the profit just covers the deposit and fees only. This means that over the 25 years what you have put in is still only NIL!

So what have you got out of it? Well a nice income of over £10,000 p.a. which is twice as much as what a traditional pension can offer. And this income is not just for your life but for your descendents after your death as the properties pass to your beneficiaries in your will.

If you do want a risk free pension and want to purchase an annuity then the net value of the properties does matter because you have to sell the properties. The beauty of property is that you can sell when you want to. So you can sell when the market is high or hold when the market is low. The market could be high enough to sell within 15 years of you making the first property purchase or you may have to wait 30 years. Assuming the property portfolio does perform at 5% growth p.a. then the net fund after tax will be:

| | |
|---|---|
| Proceeds of Property Sales | £334,316 |
| Purchase Prices | £179,523 |
| Profit | £154,793 |
| Tax Relief | (£61,917) |

| | |
|---|---|
| Chargeable Gain | £92,876 |
| @40% | £37,150 |

So net proceeds will be:

| | |
|---|---|
| Proceeds of Property Sales | £334,316 |
| Tax Bill | (£37,150) |
| Net Proceeds before Mortgage Debt | £297,166 |
| Mortgage Debt | (£152,595) |
| Net Proceeds | **£144,571** |

Using the same annuity rates as above of £45.78 per £1,000 the risk free pension till death is:

£144,571 x £45.78 / 1000 = £6,618.44 p.a.

**Comparison Tables**

So lets look at a proper comparison table of the figures:

| | Traditional Pension | Property Pension (Buy&Hold) | Property Pension (Buy&Sell) |
|---|---|---|---|
| What you put in | £51,692 | Nil | Nil |
| What you get out | £5,119 p.a. till death | £10,070 p.a. forever | £6,618.44 p.a. till death |

I hope that you can clearly see that property pensions out perform traditional pensions quite astronomically even with all the tax breaks. This is because you essentially put no money in and get more out! Even if the traditional fund did return you a higher income the property pension would win as you haven't put anything in!

This is why traditional pensions are a joke.

But it doesn't stop there! Its not only the numbers that make a good case for a property pension. There are other factors that make a property pension superior to a traditional pension which are in part drawn out from the figures above. Look at this table:

| | **Traditional Pension** | **Property Pension** |
|---|---|---|
| Flexibility | Pensions are inflexible by their very nature, as you can't get hold of your cash until you are 50. And even then its only 25% of the fund. | You can sell your property or properties when you want. So if the market is high or you need the cash then the money can be unlocked relatively quickly whenever you want. |
| Longevity Of Income | The income from a pension stops when you die. Now this may not be a problem for you (because your dead!) but this could be a problem for your dependents. You can get a pension that pays out to | The income streams carry on regardless of your death. Just because you die it doesn't mean your tenant has to stop paying rent. The rent will simply be paid to whoever you leave the property or properties to |

| | | |
|---|---|---|
| | your spouse but you have to pay for it! The annuity rates are much lower. | when you die. This is how some families have become very rich due to the inheritance of property from their ancestors. |
| Income Now | There is no income stream until you purchase the annuity. This may be 40 years after you made the first payment in to the pension fund. | When you invest in property you will get income straight away. If you've bought the right property then you will get an income even after paying out for the expenses such as the mortgage and repairs. |
| Instinctive | How do you choose a good pension fund? Its very hard to choose a good fund. You can use historic data but historic data tells you nothing about future performance. You have to take on the risk that your fund manager will do well with your money. How well he or she will do is impossible to tell. You do | Its easier to pick a good house rather than a good stock or pension company. You will have an instinctive knowledge about property as we have all lived in one! Its something you can touch and feel rather than a paper statement sent to you once a year! |

| | | |
|---|---|---|
| | not even get the chance to meet them! | |
| Income rises with inflation | If you purchase an annuity with a fixed income payout then you will receive a fixed amount till death. You real income will diminish over time due to price inflation. The only way to counteract this is to take out an annuity that pays an income that rises with inflation. But you've guessed it – it costs! So the annuity rates are lower. | Rent rises with wage inflation at the very least. However current demographics show that property is in short supply and the situation is set to get worse. Fragmenting families, increasing population, first time buyers being priced out and building quotas not being met will cause rents to *probably* rise above inflation. |
| Gearing | You are unable to borrow to contribute to a pension fund as there will be no way you could service the loan repayments. | You are able to borrow because the lender takes first charge on the property and knows you can service the debt from the rent paid by the tenant. The potential growth of your property fund is magnified due to the growth being on the whole property price rather than the actual amount invested. |

| | | |
|---|---|---|
| Known retirement income | You will have no idea what your retirement income will be. You can only make an estimation but will depend heavily on the size of your fund and the annuity rates being offered at the time of retirement. | Its easier to predict your retirement income if you choose properties that give you an income you desire now. So for example if you require an income equivalent to your salary of £2,000 per month then choose 4 properties that have a rental figure of £500 each. Then you can be assured that when you retire the rental figures would have risen roughly with inflation to provide you with a real income of £2,000 per month. |
| No cap on contributions | You are capped on the contributions to a pension fund to qualify for full tax relief. You can contribute further but you do lose out on all the tax benefits. | Because you have already factored in the lack of tax benefits in the whole equation then the amount you want to contribute is completely up to you. |
| Not relying on growth | The fund has to grow to a | Growth is nice but you are |

| | | |
|---|---|---|
| | desired level for you to draw an income sufficient for your retirement. This is very difficult to predict which has been shown by all the pension companies offering these type of pensions. | relying on rental income. Rent does not go down – it rises with inflation so you can be assured that the income derived from your properties will be sufficient and growth will be irrelevant. (This is only applicable for a buy & hold strategy). |
| Annuity rates are always inferior to property yields | Annuity rates are very poor but will never exceed 8% for someone aged 65. This is because we live longer. In this example if they gave you 8% then they will expect you to die in 12.5 years. This is just under the average life expectancy of 79 being 77.5 years. They will give you an income based on you living till 90 and hope you die at 79! This equates to a 5% rate. | 8%+ yields are easily achievable – even though property prices are said to be at an all time high. A list of over 350 areas are listed in the reference chapter that offer an 8% yield or greater. Thus property will always be a better investment than an annuity. |
| Risk & Control | You place all the control | You take the risks that you |

| | | |
|---|---|---|
| | with a fund manager. He is in full control of your money and exposes you fully to the risks that only he takes on. | want. You are in full control of the decisions you wish to take. You are exposed exclusively to the risks only you wish to take. |

**Assumptions**

Now there have been a number of assumptions made in deriving these calculations. These are necessary otherwise we could not build a picture of your future income. Here are a list of the assumptions I have taken for each type of pension, how reasonable they are and how relevant they are to the overall performance of each.

<u>Traditional Pension</u>

| **Assumption** | **Reasonable?** | **Relevant to performance?** |
|---|---|---|
| Basic Rate Tax Payer | I have chosen basic rate as I have assumed most people are basic rate tax rate payers which is the case. | Yes. A higher rate tax payer gets a higher retirement income than a basic rate tax payer in a traditional pension example but they still receive less than a property pension. So a property pension is still superior. |
| 1% Management Fee | There are few if any that charge less than 1% and | Because this is the industry standard it is a safe |

| | | |
|---|---|---|
| | there are some that charge in excess of 1%. 1% is the industry norm for pension funds. | assumption as not to distort the figures. |
| 5% Growth of Fund | This is a very difficult question as we are crystal ball gazing. We cannot base it on past performance as that is stupid. The key fact is that it is the same growth rate as the property calculations so neither has an advantage. | No. As both growth rates were set equal. |
| 4.25% growth in contributions | Would seem reasonable due to taking into account inflation and promotional pay increases. | No. As we have looked at the contributions in total over the 25 years the individual contributions over the years are broadly irrelevant as in both examples the contributions were spread out. |
| Start age of 41 | The start age is not really relevant due to the fact that both pensions were being compared. | No. Both start ages were the same. |
| Retirement age of 65 | The retirement age is not really relevant due to the | No. Both retirement ages were the same. |

| | | |
|---|---|---|
| | fact that both pensions were being compared. | |

Property Pension

| Assumption | Reasonable? | Relevant to performance? |
|---|---|---|
| Basic Rate Tax Payer | I have chosen basic rate as I have assumed most people are basic rate tax rate payers which is the case. | Yes. A higher rate tax payer gets a lower retirement income than a basic rate tax payer based on the same contribution level under a property pension but its still in excess of the traditional pension. |
| 8% yield | There are many properties and areas that offer an 8%+ yield. Join my newsletter at www.ahuja.co.uk to get a full list of them | Yes. The higher the yield the higher the profit per year thus reducing your overall contribution. If the yield is 6.75% then the profit over the 25 years matches your contribution to property so that your overall contribution is nil. Below 6.75% yield and you will then have to contribute out of your own pocket. |

| | | |
|---|---|---|
| | | Above 6.75% yield requires no overall contribution.<br><br>Over 75% of properties on the market offer a 6.75%+ yield so there is no shortage of suitable properties. 8%+ just gives you that comfort margin. |
| Fixed Interest rate of 5% APR | A fixed rate had to be used to keep the examples simple. Again we are crystal ball gazing here. 5% APR is reasonable because we can fix interest rates to around this level for a period greater than 10 years. Also, fixed rates are determined by the fixed bond market which is less volatile than the variable rate market. | Yes. The cost of borrowing affects profits quite dramatically if we don't buy at a good yield. If you buy a property in excess of 8% then you can weather interest rate fluctuations.<br><br>You need to consider what you think the average interest rate will be over the next 25 years - and if you know the answer to that then let me know! |
| Interest only mortgage taken out | Interest only monthly payments are less than | Yes. If the example used a repayment mortgage instead |

| | | |
|---|---|---|
| | repayment monthly payments thus monthly cash inflows are higher due to the balance never being reduced. It's a reasonable assumption as all the mortgage companies offer it but it depends on whether you want the property paid in full by the time you hit retirement. | of an interest only mortgage then the profit would be the same but the cashflows would have been different. The monetary difference between repayment and interest only could be considered as a contribution. The beauty is that this contribution can be structured as a voluntary contribution if you took out an interest only mortgage and paid the capital off as and when you wished to. |
| Other costs being 20% of rent | 20% of rent is quite a generous allowance. This equates to 1 month void period, management fees of 10% of rent and 2% of rent spent on repairs. | Yes. The amounts of voids, management charges and repairs affect profit which affect your overall contribution.<br><br>You need to consider if 20% is enough. |
| Professional Fees | I have assumed £1,500 for year 5 increasing by £500 | Yes. The size of your contribution is dependent |

| | | |
|---|---|---|
| | every 5 years. This is a standard charge for valuations, solicitor costs and arrangement fees. Its unlikely that you will face a charge greater than £1,500 and the £500 increase every 5 years is above the rate of inflation so is a prudent estimate. | on the amount of professional fees required. The less required means that you can acquire properties sooner as the requirement to purchase a property is lowered. |
| Deposit Level of 15% | At the time of print there was only one 15% deposit level lender. However the credit freeze is melting and I expect many more 15% deposit products to come on to the market and in the long run be the average level of deposits in the future. | Yes. If you have to find more deposit money then this will affect performance. You could use more complicated no money down strategies to match if not better the performance outlined above. If you want to find out more visit www.ahuja.co.uk and join my newsletter. |
| Property purchase price of £30,000 rising by 5% every year. | I have chosen £30,000 just as a notional figure to compare like with like based on a rough £100 per | No. As the contributions in both examples were the same. So if £90,000 had to be the purchase price then |

| | | |
|---|---|---|
| | month contribution. If a property can only be bought for £90,000 then a contribution of £300 per month is required. | we would have to alter the contributions in the traditional pension example to £300 per month so we could compare like with like. |
| 5% Growth of Property Prices | This is a very difficult question as we are crystal ball gazing. We cannot base it on past performance as that is stupid. The key fact is that it is the same growth rate as the traditional pension calculations so neither has an advantage. | No. As both growth rates were set equal. |
| Start age of 41 | The start age is not really relevant due to the fact that both pensions were being compared. | No. Both start ages were the same. |
| Retirement age of 65 | The retirement age is not really relevant due to the fact that both pensions were being compared. | No. Both retirement ages were the same. |

| | | |
|---|---|---|

Its up to you to think are these assumptions reasonable and/or relevant? Try flexing the numbers to see what other results you get. Do whatever it takes for you to come to a decision on whether what I'm saying has some basis or is fundamentally flawed due to very relevant omissions. Until you do this you will always be waivering between traditional pension funds or property pension funds or even something else! - *and* always kicking yourself for not making the right decision when one of them booms.

**Risks v Returns**

So we have established the returns to be had from a traditional pension and a property pension but what are the risks and are they worth it? Lets look at the risks for each one.

<u>The Risks Involved In Investing In Property</u>

They're a number of fears that people have which are fully justified. They are not dissimilar to what business people face when appraising a potential investment. These are called risks. The difference between the ordinary person and a business person is that a business person:

a. Identifies all the risks involved
b. Mitigates each risk as best he or she can
c. Considers the overall risk based on how well he or she can mitigate each individual risk
d. Makes a decision based on the overall risk

So to build a property pension you need to:

a. Identify all your fears involved in building a property pension
b. Think how you can overcome each fear involved in building a property pension

c. Consider the overall fear factor based on how well you can overcome each individual fear
d. Decide whether you want to build a property pension or not based on the overall fear factor

Fortunately for you I'm not going to ask you to think up all the fears involved, how to overcome these fears and calculate the overall fear factor. I am going to tell you this!

Unfortunately for you I am not going to decide for you whether to build a property pension or not because I am not you! However, I will present a very strong case to you and I will recommend that you build one - but the ultimate decision rests with you.

<u>The Fears and How To Overcome Them</u>

With every fear you can take what I call **Countermeasures** which overcome each fear. A countermeasure is an action you take to counteract each fear. No countermeasure is fool-proof otherwise the fear would not be a fear purely by its definition as it could be fully overcome.

There will still always be an overhang of fear albeit a lot less than the starting fear. This is what I call **Residual Fear**. The residual fear is therefore still present even after the countermeasure and thus is a real fear. You can take further countermeasures to reduce this residual fear but it depends on how far you want to go.

There will always be residual fear however. An example of residual fear that cannot be eliminated is the destruction of your property if there was a war. No insurance company will take on this risk. The only way you could mitigate this risk would be to build a bomb proof shell around your property – but this would be impractical and probably cost more than your property itself!

The fears, countermeasures and residual fears in buying a property are:

| | Fear | Countermeasure | Residual Fear | Further Countermeasure |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| 1 | Cant find a tenant. | Buy a property that can be easily let out, like near a major train station or in a desirable area. | Still cant find tenant. | Reduce the rent. |
| 2 | Interest rate rises beyond affordability | Fix the interest rate for a fixed period of time. | The interest rate rises beyond affordability after the fixed period of time. | Fix the interest rate for the whole term of the mortgage. |
| 3 | Get caught in negative equity trap. | Don’t sell the property and realise your loss. Continue to rent it out. Wait for the recovery and then sell. | It never recovers and you have to sell. | Buy the property without a mortgage so that negative equity is not a possibility. |
| 4 | The tenant does not pay the rent. | Take out landlord insurance that covers your for loss of rent due to tenant default. | None | N/A |
| 5 | Major repair becomes due and can’t afford to carry out works | Take out a thorough and comprehensive buildings and contents insurance. | The policy doesn’t capture every eventuality. | Take out specific policies for specific items i.e. British Gas offer full insurance on your boiler from £8 per month. |
| 6 | Buying a property you | Avoid difficult to sell properties such as studio | Still cant sell it! | Buy a property near a train station city |

| | | | | |
|---|---|---|---|---|
| | can't sell | flats, ex local authority flats, flats above shops, non-standard construction properties or any property that is difficult to get a mortgage on. | | or major road junction. |

<u>Overall Fear</u>

To calculate your overall fear is to gather all the residual fears that remain.  To do this you:

a. Decide which fears listed above 1 to 6 are fears that you actually have
b. Decide what countermeasures you are willing to take for each fear
c. Calculate the residual fear for each fear applicable.

So for example if you had the following fears and were willing to take the following countermeasures then your overall fear is all the contents of the residual fear column:

| | **Fear** | **Countermeasures willing to take** | **Residual Fear** |
|---|---|---|---|
| 1 | Cant find a tenant. | Buy a property that can be easily let out, like near a major train station or in a desirable area and be willing to reduce the rent. | Not being able to find a tenant for a property near a major train station or desirable are even though you are flexible on the rental price. |

| | | | |
|---|---|---|---|
| 3 | Interest rate rises beyond affordability | Fix the interest rate for the whole term of the mortgage. | Nil. |
| 4 | Get caught in negative equity trap. | Don't sell the property and realise your loss. Continue to rent it out. Wait for the recovery and then sell. | It never recovers and you have to sell. |
| 6 | The tenant does not pay the rent. | Take out landlord insurance that covers your for loss of rent due to tenant default. | None |
| 8 | Major repair becomes due and can't afford to carry out works | Take out a thorough and comprehensive buildings and contents insurance as well as specific policies for specific items. | The policies don't capture something you hadn't thought of. |

So the overall fear is the total of the residual fear column being:

- Not finding a tenant even though you have bought a desirable property and you can reduce the rental price asked
- You buy a property that goes falls into negative equity and you have to sell
- You get stung for a repair that you never thought you'd get

You have to make an estimation of how likely these fears will materialise and are the rewards in investing in a property pension are compensatory enough. If you are happy with this overall fear then you will invest in property. If you are not then you won't. If you are not happy with the overall fear then I suggest you take more countermeasures so that your overall fear is reduced. Reduced to a level that you are happy with so you are comfortable in investing in property.

The Risks Associated With A Traditional Pension Fund

Because you transfer a lot of your control over to the pension fund manager there are only two real risks:

| | Fear | Countermeasure | Residual Fear | Further Countermeasure |
|---|---|---|---|---|
| 1 | The fund is not big enough to pay your desired retirement income | Contribute more to the fund | Still isn't big enough | Wait for annuity rates to rise |
| 2 | At the time of retirement the annuity rates are poor | Wait for the rates to improve | Rates do not improve | Contribute more to the fund |

So in summary you can either add to your fund or wait. These are the only two strategies you have!

**So Are You Convinced?**

Well I've laid out both arguments for you but its for you to come to a decision. Do you think property is better than traditional pension funds? I really want you to study this chapter as this is key to your motivation to build a property pension. Once you are convinced the motivation to build a property pension will be there. This is because you understand the uniqueness of property and how property is a superior investment to virtually any of the other investments out there.

The illustration above is only one strategy to achieve a property pension. There are many strategies you can adopt to achieve a retirement income but this all depends on YOU. It depends on how much you are willing to contribute, how much you want and when, your attitude to risk and your level of involvement. Lets look at this in more detail in the next chapter.

## 2. YOUR PROFILE

**Objective**

If you want to build a property pension you need a strategy. A strategy is a method to achieve an objective. So in this scenario the objective is to:

'have an income sufficient enough to meet all your needs in retirement'

This is what a pension aims to do but often fails. This is why there are so many charities to help pensioners such as Age Concern and Help The Aged. So to achieve this objective you need a strategy! The first stage in constructing a strategy is to really think about the objective. The objective throws up some obvious questions you need to ask yourself. The obvious questions that need answering, why and how to answer them are:

| Question | Why | How To Answer |
|---|---|---|
| How much do you need? | You have to know how much you need! If you don't spend the time to think about it then you face the possibility of not having enough. Setting a target income means that you have something to aim for. | On the face of it it seems a difficult question to answer. Your retirement age may be 25 years away and you will have no idea what £1 is worth in 25 years time. The fact is you don't need to! What you can do is ask yourself what will you need in today's value of money. Because rental income rises with inflation then all we have to do is express our desired retirement income as rental |

| | | |
|---|---|---|
| | | income at today's value. So if you earn £25,000 per anumn now and would like to keep the lifestyle you have then you require £25,000 rental income at today's rental market value.<br><br>So how much will you need? Think about your likely monthly expenses of living and what you would like to do in your retirement. So don't forget the obvious expenses such as food, bills and clothing and don't forget to omit your mortgage expense if you plan to pay off your home by the time you hit retirement. If you wish to travel in retirement then allow for that expense. So you should be able to come up with a monthly figure. |
| When do you want it? | You need to know when you wish to retire so you can put a timescale to the objective. You can then set mini-targets within the timescale so | So when do you want to retire? Answering 'tomorrow!' is neither helpful nor practical. Consider your age now, how long you would like to work and what you want to do in your retirement. Remember, retirement can be boring for some people, as |

| | | |
|---|---|---|
| | you can monitor how well you are doing. If mini-targets are not being met you can adjust your strategy to bring you back on track. | many early retirees have admitted. Set a realistic timescale which takes in to account your target retirement income. |

So an example of someone's objective would be:

| | |
|---|---|
| **TARGET RETIREMENT INCOME AT TODAY'S VALUE** | £25,000 |
| **TIMESCALE** | 18 years |

**What's Needed From You To Achieve Your Objective**

Your objective is not going to land in your lap! It requires the following from you:

1. Time

2. Money
3. Acceptance Of Risk

All these factors are correlated. That is to say if you don't have much money to put in then be prepared to put in more time and accept a higher degree of risk. If you increase the time you put in then you won't have to put so much money in or accept so much risk. Lets look at exactly whats expected from you.

**1.Time**

Your time is needed in the following ways with ways to reduce them:

| | **Needs From You** | **Ways To Reduce Your Time Input** |
|---|---|---|
| Acquisition | You need to find the properties that will deliver you an income! This involves researching suitable areas, looking through the local press, speaking and dealing with agents, visiting prospective properties, arranging finance and whatever else is needed from you to acquire a property. | You can approach a property buying company that will do all this for you based on your criteria. This costs! These companies can charge up to 5% of the purchase price so they can work out expensive.<br><br>I offer this service. If you don't have the time and require this service then contact me. My details are in the front of the book. |
| Find a tenant | You have to advertise, do viewings, credit check and take | Use a letting agent. They charge a fee of around 10%+VAT on the |

| | | |
|---|---|---|
| | up references of prospective tenants. | rent collected. |
| Legal documents | You need to prepare the legal documents to bound all parties or to evict tenants. | Use a letting agent. They charge a fee of around 10%+VAT on the rent collected. Or use my documents detailed in the Appendix. |
| Rent Collection | You need to arrange for the rent to be collected. This may be face to face collection from the tenant's doorstep, collection from the benefits office or through your bank. | Use a letting agent. They charge a fee of around 10%+VAT on the rent collected. Or you can use my standing order set up form detailed in the Appendix. |
| Repairs | You need to either repair the problem or instruct someone to do the repair. | Use a letting agent. They charge a fee of around 10%+VAT on the rent collected. |
| Tax Return | You need to declare what you've earned during the financial year in order to pay tax. This requires accounting for all receipts and expenditure associated with the property. | Use an accountant. Or you can subscribe to www.propertyhotspots.net to manage your finances. |

**2. Money**

You need money to buy a property! Here is why you need money and ways to minimize the amount needed:

| | Needs From You | Ways To Reduce The Cost |
|---|---|---|
| Initial investment | You need a deposit to buy a property. At a minimum it will be 15% of the purchase price. You will also need the associated fees that come with buying a property. These are valuation fees, solicitor costs, arrangement fees, finder fees, initial void period and essential repairs required before letting the property.<br><br>You need to save for a deposit if you want to buy a property. | You can borrow the deposit and fund the repayments to the loan from the rent achievable once the property has been bought. This increases your risk due the increased borrowing.<br><br>You can find a property yourself thus eliminating a finders fee to a property agent.<br><br>You can buy a property in a good state of repair thus avoiding any essential repair costs. |
| Monthly contribution | You may have to contribute over and above what is received in rent if you get hit for a large repair bill, interest rates rise, the tenant defaults or you wish to pay off the mortgage early. | Take out insurance on tenant default or any large repairs. This means the insurance company pick up the bill. The cost of this is the insurance premium.<br><br>Fix your interest rate so fluctuations are not a concern. Thus if you have chosen a property that returns a rental income in excess of the fixed |

| | | |
|---|---|---|
| | | mortgage payment then you are assured that you do not have to contribute.<br><br>Take out an interest only mortgage. This keeps the mortgage payment at its lowest possible point so the margin between rent and mortgage cost is at its highest.<br><br>Go for a higher yielding property. The higher the yield the higher the profit margin. Please note – the higher the yield the higher the risk! |

**3. Acceptance Of Risk**

In chapter 1 we dealt with the risks in property. There are always risks of owning an asset but there are also benefits! You can mitigate against these risks and they cost but there will always be a residual risk remaining. So you will always have to accept a degree of risk.

You need to decide what risks you are willing to take as this will determine the strategies open to you.

**The Relation Between What's Needed From You & Your Objective**

Now these three factors, time, money and acceptance of risk have to bear some relation to your objective.

- If your objective is to have a retirement income of £100,000 p.a. at today's value in 5 years and you earn £20,000 p.a., have no savings, no time and willing to accept a very low level of risk then it won't happen!

- If your objective is to have a retirement income of £100,000 p.a. at today's value in 5 years and you earn £20,000 p.a., have no savings, willing to contribute, little time and willing to accept a *high* level of risk then it might happen!

- If you wish to earn a retirement income of £20,000 p.a. at today's value in 15 years and you earn £20,000 p.a., have no savings but the discipline to save, have a bit of time, and willing to accept a medium level of risk then it probably will happen.

So how do know what won't, might or will happen? This is best explained by looking at two extreme cases and what's in between.

| **Target Retirement Income At Today's Value** | **Timescale** | **Time** | **Money** | **Risk** | **Outcome** |
|---|---|---|---|---|---|
| Double income being earned today | Less than 5 years | None | No savings and not willing to contribute | Acceptance of low level risk | Won't happen |
| Equal or more than income being earned today | Greater than 5 years | Have some time | Have some savings and ongoing contribution | Acceptance of medium risk | Might happen |
| Same as income being | Greater than 15 years | Willing to put time in | Has savings and willing | Acceptance of medium | Will happen |

| | | | | | |
|---|---|---|---|---|---|
| earned today | | over all aspects | to contribute ongoing | level of risk | |

So, in my professional opinion, as long as you are willing to earn a retirement income that is what you are earning now, that is 15 years away, have the time, can save and have savings, accept a medium level of risk then it WILL happen.

**Deriving Your Profile**

Based on the above you should be able to build a profile of yourself and your aims.  Your profile should follow the answers to the above prompts.  A profile would be made up of the following:

| Profile | Range Of Answer | Considerations |
|---|---|---|
| **TARGET RETIREMENT INCOME AT TODAY'S VALUE** | 0.5 – 5 times your actual income now | How much do you want based on today's value.  Do you think you will have expensive tastes in retirement? Do you want a simple life in retirement?  Or do you just want what you have now? |
| **TIMESCALE** | 5 – 30 years | How soon do you want to retire?  Is it soon, next decade or next millennium! |
| **TIME** | Low/ Medium/ High | Are you willing to be involved in the buying process, rent collection and repairs?  Or do you work full-time (and overtime!) and want zero involvement? |
| **MONEY** | Low/ Medium/ | Do you have a deposit? Are you good at |

| | | |
|---|---|---|
| | High | saving? Are you willing to contribute month to month? Or do you have no savings and require a monthly profit from the properties? |
| **ACCEPTANCE OF RISK** | Low/ Medium/ High | Are you willing to borrow significantly, accept fluctuations in interest rates, take interest only mortgages and go for less desirable properties that yield highly? Or do you want minimal borrowings, fixed rate borrowings, repayment mortgages and nicer properties near your home town? |

So a typical profile may be:

| **Profile** | **Answer** |
|---|---|
| **TARGET RETIREMENT INCOME AT TODAY'S VALUE** | £30,000 |
| **TIMESCALE** | 24 years |
| **TIME** | Low |
| **MONEY** | Medium |
| **ACCEPTANCE** | Medium |

| | |
|---|---|
| **OF RISK** | |

Based on this profile we can match it to the strategies available. What's your profile? Take your time to really think about what you want. Is it realistic? Will it be enough? Do you earn enough to save and/or contribute? Can you take a higher level of risk?

Based on your profile we can match a strategy or even a number of strategies based on your profile. Chapter 3 has all the answers.

# 3. THE STRATEGIES

**The Three Core Strategies**

There are 3 core strategies to a property pension:

1. Buy & Then Hold
2. Buy & Then Sell
3. Buy, Then Part Hold & Part Sell

There are variations within these strategies but every strategy will fall within these core three. Remember from the last chapter the definition of a pension, being the objective of a property pension:

'have an income sufficient enough to meet all your needs in retirement'

Well the 3 strategies above can meet this objective.

In more detail:

| Strategy | What it entails | Features |
|---|---|---|
| Buy & Then Hold | This involves buying a property (or properties), repay for it in full by retirement and live off the rental income through retirement. | You rely on the property to be an easily rentable property so as to provide a safe income for retirement. |
| Buy & Then | This involves buying a | You rely on the growth of the |

| | | |
|---|---|---|
| Sell | property (or properties), making the repayments during the period of ownership and then sell the property and clear the debt (if any). The balance of the monies are then used to purchase an annuity to provide an income till death. | property to be sufficient enough to purchase an annuity to meet your target income in retirement. |
| Buy, Then Part Hold & Part Sell | This involves doing a mixture of both strategies above. | Combination of both above. |

**Choosing The Right Strategy**

You need to choose the strategy that's right for you based on your level of time, money and acceptance of risk. Here's how these strategies could work with the level of time, money and risk a potential investor has:

| Strategy | Level | | Refined Strategy |
|---|---|---|---|
| Buy & Then Hold | TIME | Low | Buy a desirable property with less than a 9% yield on a repayment mortgage and place with a letting agent to manage the property. The investor understands that he might have to contribute on top of the rent to cover the mortgage payment but has the assurance that the property will |
| | MONEY | Med | |

| | | | |
|---|---|---|---|
| | RISK | Low | be paid in full. It will then provide an income for life. |
| Buy & Then Sell | TIME | Med | Buy a property in a less desirable area but yielding in excess of 10% on an interest only mortgage. The investor will manage the property himself but knows that it is unlikely that he will have to contribute on top of the rent as the property yields high and the mortgage is interest only. He hopes that the property value grows sufficiently in value in order to purchase an annuity to provide him with an income till death. |
| | MONEY | Low | |
| | RISK | Med | |
| Buy, Then Part Hold & Part Sell | TIME | High | He does a bit of both above. He is happy to buy more than one property and manage them himself. He uses the profits from some to fund the others but his risk is reduced due to the investor not relying on one single strategy. Overall risk is medium due to the greater exposure he has to the property market but he can capitalize in each market when the market is high. |
| | MONEY | Med | |
| | RISK | Med | |

So think about whether you want to own and run a property or properties pre and post retirement. Think about how much money you want to put away for saving up for a deposit and ongoing pre-retirement. Think of the level of risk you want to expose yourself to – Do you want only one property or a few? Do you want repayment or interest only mortgages? Do you require a risk free income in retirement?

Based on your own profile and personal preferences you should come up with a strategy you want to go for. To help you decide lets look at some examples. I have decided to ignore tax consequences in these examples to keep the figures simple.

**Buy & Then Hold**

Richard has the following profile:

| Profile | Answer |
|---|---|
| **TARGET RETIREMENT INCOME AT TODAY'S VALUE** | £24,000 |
| **TIMESCALE** | 25 years |
| **TIME** | Low |
| **MONEY** | Medium |
| **ACCEPTANCE OF RISK** | Low |

He has decided that he wants to Buy & Then Hold so he can pass the properties down to his children. But he also doesn't want to pass any debt on so he intends to own the property outright. He works full-time so he doesn't want to manage the properties and he wants desirable properties that are easily let out. He has the ability to save and a willingness to contribute on an ongoing basis if need be.

The strategy would to be buy one or more properties that give a rental income of £24,000. As he is a low risk investor he would buy a low yielding property, such as 8%, on a repayment mortgage. This could be 3 properties costing £100,000 producing an £8,000 per year income. He will also have the property managed by a letting agent.

Using Your Own Home To Provide A Retirement Income

Some people do use there personal home to provide for themselves in to retirement. The theory is that you downsize to a smaller property due to the kids leaving and purchasing a bungalow in a quieter area and rent out your own property.

The key things you need to consider are:

- Is the rental value of your home equivalent to your desired income in today's standards?
- Will the property be paid in full when its time to retire?
- Will you have saved enough to buy a property for yourself to live in?

You can always sell your own home and buy two cheaper properties and live in one and rent out the other. This falls in to the strategy of Buy & Then Sell. But the key things you need to consider above still apply.

**Buy & Then Sell**

Susan has the following profile:

| Profile | Answer |
|---|---|
| **TARGET RETIREMENT INCOME AT TODAY'S VALUE** | £30,000 |
| **TIMESCALE** | 20 years |
| **TIME** | Medium |
| **MONEY** | Low |
| **ACCEPTANCE OF RISK** | Medium |

Susan doesn't earn that much money. She earns £15,000 and cannot afford to contribute anything on a monthly basis. But she does have savings of £15,000 left to her by her late grandmother. Susan want's twice her annual income in real terms in her retirement within 20 years! Funnily enough this is possible due to her attitude to risk.

# 10. Property Investor (Lease Options)

I Vital Statistics

| | |
|---|---|
| Earning potential before tax | £5,000 to unlimited per option |

| | |
|---|---|
| Capital Required | £nil to £10,000 |
| Skills Required | None |
| Qualifications preferable | None |
| Competitiveness Low/Med/Hi | High |
| Risk Low/Mid/High | Low |
| The Business Model in a nutshell | To acquire options on property with the view to buying or selling them in the future |
| Potential gaps in the market and suggested USPs | • The mere fact you are doing lease options is unique already as a very nich industry |

1. **Inroduction**
2. **Lease Options**
3. **Buy properties for 50p**
4. **Say good bye**
5. **Yours and the vendors responsibilities**

6. **Determining and finding the right properties to get an option on**
7. **Renting out the property**
8. **Grooming yourself for purchase**
9. **Sandwich Options as a last resort**
10. **Closing thoughts**

## 1. Introduction

Trading options are a great way to make money quickly however for those of you who want to build a property portfolio and collect rent every month as a way to live then investing in options is the way forward.

I am a long term player. If you invest rather than trade then the rewards can be much much higher depending on your timing. It is the easy way to make money. Think of the fable of the tortoise and the hare. I am always the tortoise as a methodical approach with calculated risks will generally out perform the quick wins.

The way you win big time is by acquiring lease options.

## 2. Lease Options

What are *lease* options? Well the clue is in the name! It is an option but also you get control of the property by leasing it for the period of the option.

So now you have an added dimension to the standard option. It is the lease element of it. This fast forwards your ownership of the property without really owning it.

Examples of lease options are:

| Address | Lease Option |
|---|---|
| 5 London Road | You can rent the property for £400 per month and you can buy this property for £250,000 if you complete by 1st January 2011. |
| 12 Acacia Avenue | You can rent the property for £500 per month and you can buy this property for £200,000 if you complete by12th December 2015. |

| | |
|---|---|
| 4 Jones St | You can rent the property for £100 per month and you can buy this property for £55,000 if you complete by the 30th June 2020. |

Now before in “How To Become An Options Trader” I spoke about the two Ps in options being:

1. Price
2. Period

Well I have another P for you:

3. Profit!

Profit is based on the difference between what you can rent the property off the owner for and what you can get on the open market. So look at this example:

A property has a market value today of £100k. You find a seller who will grant you an option to buy this property in 5 years time for £110k.

So the Price is £110k
And the Period is 5 years.

He will also let you rent the property off him at £300 per month as his mortgage payments are £300 and he just wants rid of the property.  You know that the property will rent out no problem for £500.  Then the potential profit to be made every month is £500 - £300 = £200.

This profit is possible every month for the next 5 years.  So the overall profit would be the total number of months in 5 years multiplied by the monthly profit being:

5 years x 12 months x £200 = £12,000.

So if we were to stand back and look at the deal now the 3Ps would be:

1. Price: £110k
2. Period: 5 years
3. Profit: £12k

Previously I valued the option (without the lease element) at around £30,000 potential profit. (see How To Become A Options Trader). Now we can include the potential profit of the renting of the property which is £12k.

If we were to ignore inflation for a minute we would have a lease option with a potential profit of £30k + £12k = £42k.

**Why Lease Options Are So Exciting**

The reason why lease options are so exciting is because you can get on with your investing without the need of finance straight away. They fast forward your buying as you can take control of many properties very quickly and literally build massive portfolios in months even weeks.

The reason why I use the word invest is because as long as your options have the correct Ps being:

Price
Period
Profit

Then you will own that property without a doubt. I really want you to understand what I just said there. It is vitally important that you do understand that last sentence. You can own the properties which you are controlling by way of lease options.

Now there must be quite a few questions pinging in to your head right now. Trust me, it happened to me. It is a normal reaction! If no questions have arisen in your head then either:

1. you do not understand it
2. it is not for you

If you are in category 1 I suggest you re-read what I have spoken about on options as this is only the theory. It is important to understand the theory before you embark on purchasing options.

If you are in category 2 then this is ok. It is not for everyone. It can seem a lot of faffing about however it is only an invention from necessity. Once the mortgage market comes back then we are back to normal however lease options can be a true no money down system without the need for finance.

3. **Buy properties for 50p**

This is the real reason why you can become very wealthy with lease options. You can take FULL control of a property by paying a notional sum like 50p AND end up buying it. This is no joke.

This is best explained by way of an example. Let's just say you have found John who is in the following predicament:

John has lost his job
His mortgage is £100k
Value of home is £75k

John is trapped in negative equity. He cannot afford the mortgage and just wants rid of the property. He cannot sell as the mortgage company will not let the shortfall become an unsecured debt. This property is unsaleable. Or that is what John thinks anyway.

What John needs is someone who will pay his mortgage for him. This is where you step in. You can propose the following to him:

I will buy your property from you at £100k in X years AND I will pay your mortgage for you up until I buy.

From John's point of view this is as good as selling. There is no more financial liability falling on to John. John is FREE!

What you have now is the liability. You have to pay John's mortgage but this is no problem as you can rent it out to cover the mortgage payments and then some.

So where does the 50p come in then? Well if you think about it how much do you think John needs you? He needs you more than you need him. So effectively John would pay you to take on his mortgage! However John has no money and you are not willing to part with any cash so a notional amount is prescribed to make the contract valid.

Contracts need a thing called consideration. Consideration means there has to be something in it for both parties to make a contract valid. So John gives you his property and you give him 50p! Sounds crazy but houses are exchanging hands for very small sums of money!

But remember once you pay the 50p the property is yours.  Now before you get visions of handing over a 50 pence piece and getting the keys there are a few more steps in between – like using a solicitor.  However you can say good bye to quite a few people that used to be involved in buying properties.

### 4. Say Good Bye

When you buy a property you needed to follow this pattern or thereabouts:

View property in Estate Agents (cost to vendor up to £5,000)
Instruct broker to get mortgage (cost to purchaser 1% of loan)
Instruct survey (cost to purchaser up to £500)
Mortgage application and arrangement fees (cost to purchaser up to £3,000)

Well you can say GOOD BYE to all those costs. Neither the vendor nor you have to pay for any of these costs as you are not actually buying the property YET. These costs will come in to play (apart from estate agency fee) when you exercise your option to buy.

But not only can you say good bye to them they now lose the power they had over us investors before. The power to say:

Surveyor: No, this property is not worth what you think it is
Mortgage Company: No, we will not lend to you

They have no power as they are not needed for the deal. This is a great feeling. If you have tried to buy you will know how frustrating it can be. Here at the Lease Options Brigade we like to say YES!

So you can say:

YES, I will take your property on
YES, I will buy your property in the future at the price you want now
YES, I can set you free

You are no longer a greedy investor to them but a saviour. How nice are you?

So who do you need to do lease options. You need only one professional:

A solicitor.

I strongly recommend you use one. They will make sure that searches are done on the property, the option is registered with the Land Registry and they will include all the things you have agreed with the vendor in the correct legal way. You can use my preferred solicitor if you wish. Visit: www.ahuja.co.uk/promo/options

A solicitor will register the option which prevents the owner obtaining more finance or selling the property without your knowledge. This is VERY important as an option without registration means you have no protection. You then are only left with Court as your only remedy which can be expensive and no guarantee of either a win or successful payment of damages.

You could to be extra safe and instruct a basic survey. This will ensure that the property is mortgageable. Most properties are but the property could be suffering from subsidence which can be difficult to spot so it is best to be sure. Using a surveyor is recommended but again not essential.

You need the property to be mortgageable to purchase the house in the future when you exercise the option.

**5. Yours and the vendors responsibilities**

Ok, so you now have control of the property. What happens next. If the property burned down tomorrow are you at a loss?

There are many things that need to be set out so everyone is clear about who is responsible for what. This will all be taken care of by the solicitor however I want you to not forget these basic principles:

- The property is still owned legally by the person who granted the option NOT you.

- You only have control of the property and the right to buy the property at an agreed price within a certain time period

Your Responsibiities

You have to make sure that:

- You pay the mortgage on the property.  I would suggest you pay the mortgage company direct. This way you know the mortgage is being paid.
- The property is maintained.  So the day to day risks of ownership fall to you.  So if a tenant reports a leaking tap then you have to fix it.
- You are available to speak to the owner of the property.  This is a relationship you have here.  The property still belongs to the owner so it is only right that you are available to speak to them.  Circumstances  can change and you need to be able to communicate and adjust if the need ever arises.

Their Responsibilities

- They have to make sure the building is insured.  There must be at least buildings insurance to cover for Fire, Lightening, Explosion & Aircraft (FLEA).  The cost for this should be agreed between the two of you.  I would recommend you pay this and pay it direct to the insurance company and keep a copy of the cover note or insurance certificate.
- To get permission from their mortgage company that they can let the property.  This is quite important as if the owner does not get permission and they find out they can demand full repayment of the loan.  In this climate that could be disastrous.

### 6. Determining and finding the right properties to get an option on

There are plenty of properties for sale out there. MOST are not worth buying! If I were to estimate the percentage of properties that are for sale and are worth buying I would say it is about 0.7%. That is to say about 1 in every 140 properties on the market are worth investing in.

The way you determine what is worth buying is looking at the yield. Yield is defined as:

Annual Rent divided by purchase price.

Simple is it not.

So a property that rents out for £5,000 per year and costs £50,000 to buy has a yield of:

£5,000 divided by £50,000 = 10%

So that's what yield is. So what is a good yield? Well this is where most properties fall down. A good yield is:

10% or greater

So a property that rents out for £5,000 is worth buying if it costs £50,000 or less and not worth buying if it costs £50,001 or more.

I really want you to master this calculation. There are plenty of others but this is the key one. If anyone has a property for sale my first question is "what is the yield?". If they cannot answer I ask the questions so I can determine the yield which is what is the price and what will it rent for.

Over my time as an investor I have found that properties priced less than £100,000 have the potential to yield over 10%.

I would aim for these sort of properties. Properties with a 10% yield will give you good positive cashflows in the long term. You do not need to worry about interest rate rises (unless it goes beyond 10%) as the rent will more than cover the mortgage which you are now responsible for paying.

7. **Renting out the property**

With options you are effectively renting out properties you do NOT own. This has implications. You cannot create a tenancy with a tenant just because you are paying the owners mortgage.

What you need to do is:

1. Position yourself as a letting agent and get a “Management Agreement” in place with you and the owner. Then have a clause in it where you are entitled to keep the surplus of the rent over the mortgage costs as a management fee.
2. Create a tenancy with the tenant and the owner

A management agreement contract is included within this package as well as an Assured Shorthold Tenancy agreement so you can start earning from your lease option as soon as you find one!

**8. Grooming yourself for purchase**

I am not sure if you have ever been on the receiving end of a police officer for a minor altercation but message is the same as his:

"STAY OUT OF TROUBLE"

What I mean is do not get in to trouble with any company that can affect your credit file. It is the credit file that lenders use to determine whether you are a good bet and this file records what you have been up to for the last 6 years.

To stay out of trouble you need to:

| | |
|---|---|
| Pay your debts on time | This means settling your credit card payments, loan repayments and mortgages on time and in full. If you are going to be late try and find out how late you have to be for it to be reported to the credit file agencies. |
| Stay out of court | This is good general advice. You do not want to be |

| | |
|---|---|
| | sitting in court with a Judge who has the power to award you with a nice fat CCJ (county Court Judgement).<br><br>If you do get one of these pay it within one month. Then you can get the Judgement removed from the register and will not show up on your file. |
| Do not ignore demands | Did you know that if you fail to pay the congestion charge they drag you through the county courts and not the magistrates? One of my friends has a CCJ with the transport for London.<br><br>Also pay private car parking fines as they will take you to county court and you will probably lose.<br><br>These small CCJs are enough to put a lender off. Lenders will be spoilt for choice and they will look for |

| | |
|---|---|
| | anything to determine the best borrowers. Stupid I know! |

Also a few other pointers regarding your credit file:

| | |
|---|---|
| Electoral Roll | Lenders check to see you are on it. Get on the electoral roll. All you need to do is request forms from your local council. |
| Searches | Try not to make too many searches if you can help it. They stay on record for a year and lenders do not like |

| | |
|---|---|
| | to see multiple searches. |
| Stick to the truth | Do not exaggerate or change your details to fit the circumstance. These credit file agencies share information and inconsistencies show up. |

The only thing that stands between you and a mortgage is your credit file. Look after your credit file and your credit file will look after you. Then when the lenders come back you will be one of the first to get funds.

# 11. Property Sourcer (Client Facing)

I Vital Statistics

| | |
|---|---|
| Earning potential before tax | £5,000 to £1m per year |
| Capital Required | £nil to £10,000 |
| Skills Required | Communication |
| Qualifications preferable | None |
| Competitiveness Low/Med/Hi | Med |
| Risk Low/Mid/High | Low |

| | |
|---|---|
| The Business Model in a nutshell | To assist investors building their property portfolio |
| Potential gaps in the market and suggested USPs | • Specialist property like HMO<br>• Portfolio building and sourcing<br>• Overseas |

How To Become A Property Sourcer

1. What is a property sourcer
2. Finding the right clients
3. Finding suitable properties
4. Presenting the deals
5. When you get a match
6. Keeping hold of your client base

**1. What is a property sourcer?**

A property sourcer is someone who:

Finds an investment property for an investor matched to the investor's requirements.

A good property sourcer will:

1. understand the level of the investor's knowledge
2. identify the client's needs and objectives
3. create a medium term strategy for them (if required)

4. plot the first 12 months of the working relationship between you and the investor
5. identify the type of investment properties the investor needs to fulfil their objectives
6. source these investment properties from property finders, estate agents and/or packagers
7. See the property purchases till completion and introduce the investor to a property manager or letting agent

In essence you are like a marriage bureau. You are finding properties that you hope will have a long and lasting relationship with the owner!

Specialisation

There are 4 ways you can set your business up:

1. Specialise in the type of client you have and let them dictate the properties you find for them (specialised client, non-specialised property)
2. Specialise in the type of property you find and allocate across your client base (non-specialised client, specialised property)
3. Specialise in the type of client and property (specialised client, specialised property)
4. No specialisation (non-specialised client, non-specialised property)

So examples of specialised clients and specialised properties are:

Specialised Clients

Self employed only
Location specific (i.e. London)
Professional only
Young

Old
Women only
Escape rat race
Wealthy

Specialised Property

Low value high yield
No money down
HMO (house in Multiple Occupancy)
Luxury
Location specific (i.e. London)
Portfolios
Overseas

There are many other specialisations other than the above. It is key you get this bit right. You have to make sure your specialisation is specific enough to attract a decent number of clients but not too specific as not to appeal to anyone other than you!

**2. Finding the right clients**

The right clients are based on two factors:

a) You
b) Them

b) You

The right clients depend on you. What type of clients do you feel you best work with? Now before you say anyone or everyone who is willing to pay me think again!

People come in all shapes and sizes and they have different needs and wants. You need to think about:

1. Your skill set. If you choose to work with clients who need a lot of hand holding and education then you will need a fair degree of knowledge and be able to deliver this information in a way which they will understand. Your skill set must match what is expected from your target client base.
2. Your personality. There are some clients who need someone to chat to. They need to feel like you care. There are other clients who have no need for small talk and will get annoyed if you engage in such talk! Be aware of personality types and home in on the ones you know you click with.
3. Your presentation. Certain clients want a certain degree of professionalism. This varies widely. Some clients are ok with a phone call, a nod to say the the property is fine and everything is done on trust and by word. Others want everything in writing, tip top manners at all times and a professional presentation every time. These are the extremes but there are all the in betweeners also. How you present yourself will hopefully attract the right clients for you. So if you are a bit jack-the-lad do not set up a classy flashy website attracting etonian types as you will be unable to keep up the image.
4. Your peer group. You offer a personal service. Personal services work best when empathy levels are highest. If you come from similar backgrounds then a positive working relationship will probably follow.

These are not hard and fast rules but are worth considering. The most important thing is you deliver to the client what they want which you need to understand. But don't forget it is the exception that proves the rule!

c) Them

Clients can only be clients if they actually buy property. For a potential client to buy property they MUST possess the following features:

1. They are ready to buy. If they have no investment properties but have been looking to get in to buy to let since 1996 then you best stay away from this client. They will take up all your time and not buy. Paralysis by analysis they say. Your client base must be made up of property buyers.
2. They can get a mortgage. They must have buying power. This can be in the form of cash (very rare) or be able to get a buy to let mortgage. You should see evidence that they can buy like a recent credit score an existence of a buy to let portfolio.
3. Right mindset. If a client is stating that they are using you to find the perfect investment property so they do not lose any money then their expectations are misguided. A property sourcer never takes on a client's risk. The client takes 100% responsibility for the risk. Your job is to present property deals to them for the client to make the decision. The right mindset is knowing that a property sourcer can provide you deals not ensure you do not lose money.

Based on all of the above you can find these clients by incorporating what you have learnt above and using the right wording on your marketing materials.

If you want to deal with self-employed clients only you can state that. If you want to deal with only wealthy clients you can state that also. Whoever you wish to gun after make sure it is obvious by the way you market. This will work wonders for generating leads.

The methods I recommend to use to get clients are:

1. Internet. This is where I get most of my leads. I created a website, drive traffic to it by Google Adwords, capture their email addresses and market to them regularly. I can build all this for you or you can read my Book How TO Make A Fortune On The Internet.

2. Referrals. You set up Joint Venture or Introducer agreements with businesses or people who might know of potential clients. Mortgage brokers, solicitors, accountants, other property investors, estate agents etc. Whoever comes in to contact with people who want to buy investment properties can refer to you clients.
3. Your competitors. This is quite unique to this kind of business. You will find that some potential clients will want to work with certain type of property sourcers. If you can get a competitor to refer your business for a fee then it an work both ways. This way everyone wins. I often do this with other property sourcers.

I have tried to do offline advertising such as magazines, exhibitions and newspapers but it just hasn't worked for me. Online advertising is just so effective that the internet brings in enough leads for my organisation to deal with. When I have ideas to expand even further will I look at perfecting offline advertising.

**3.Finding suitable properties**

Properties can be found from the following sources with their respective market share:

Estate Agents (91%)
Property Finders (<1%)
Lead Providers (<1%)
Auctions (6%)
Private Ads (<1%)
Solicitors (<1%)

Estate Agents

Rightmove has 90% of the Estate Agency market. Therefore roughly 80% of properties for sale can be found on this site (91% x 90%).

The rest can be found on other sites such as:

www.propertyfinder.com
www.findaproperty.com
www.primelocation.com
www.globrix.com
www.vebra.com
www.s1homes.com

Then you have more localised sites in Scotland such as:

www.gspc.co.uk
www.espc.co.uk
www.aspc.co.uk

A full list of estate agents via area can be found at www.ukpropertyshop.co.uk

There are some estate agents who do not advertise on the internet (yes there really are!). These can be gold mines. They are found in very small towns where one agent pretty much deals with all the transfers of property in that town and surrounding villages. These agents are one man bands and they keep the crème to themselves. However you can get a look in if you strike up a rapport with them. Keep these gold mines to yourself.

Property Finders

You can find deals from people whose profession is property finding. They hunt their local area to find deals. They advertise locally (sometimes nationally), leaflet drop and buy at auctions. If you come across their marketing give them a call! They might have some deals which he or she does not want and your clients could lap up.

Lead Providers

These businesses generate leads via the internet.  They get leads of varying quality from people who want to sell their property quick for whatever reason.

These leads, apart from having the normal property data such as address, postcode etc., have data such as:

- the likely price they are willing to take
- the owners estimated market value
- the owners outstanding debts

The owner usually makes multiple enquiries to other lead providing companies and it is not uncommon to see the same lead being offered by the two or more lead providers.

To do well this way is to buy many and quickly.  You want to get the first bite of the cherry so speed is everything.

Auctions

You can find plenty of cheap properties at auctions.  Now depending on your client base will determine which auctions you go to:

- Local auctions. These specialise in properties which are local to the area (surprise, surprise!).  If you have specialised as a local property sourcer then these will be perfect.  You can alert your client base to these properties and charge a fee.
- National auctions.  These come from all over and you can get a lot of repossessions as the big banks use the big auction houses to sell.  Bargains can be had here.  Localised properties are put in national auctions.  So a little

market town property finds itself listed next to a large commercial portfolio in Central London. There are very few buyers hence you can get these properties at bargain prices.

To get alerts of EVERY auction in the UK you can subscribe to www.eigroup.co.uk

Private Ads

People are refusing to pay estate agents fees. You can sell your property by simply placing an ad in a local or national newspaper or on a website and save thousands. Just do a quick search in google for “sell house privately” and you will see all the sites that come up. Real bargains can be found this way. Also give www.ebay.co.uk a try. You never know!

Wherever there is a classified section you can find deals. Other publications you could try are:

www.adtrader.co.uk
www.loot.com

Solicitors

Solicitors come across deals due to:

- Aborted sales. Sometimes sales fall out of bed and the purchaser cannot buy however the deal is still a good deal. A solicitor can give you a call and you could put in place your willing and able client.
- Death. Beneficiaries to a will sometimes inherit a property. They do not want to own or co-own property and want a quick sale. This is where you come in with your army of clients!
- Entrepreneurial Solicitors. Some solicitors make as much money placing deals as they do doing the conveyancing! Try and get to know these sort of solicitors. However do not let them act for you!

**4.Presenting the deals**

There is no such thing as too much information when it comes to presenting a deal.  As a minimum you should supply:

- Picture of outside
- Full address and post code
- Price
- Size of property
- Condition

Any professional investor can make a decision based on the above.  Some can decide on even less.  I have bought properties knowing just the size, location and the price.

Other details you can include are:

- Rental price
- LHA rental price
- Calculated yield based on both rents above
- Estimated Value
- Potential selling price in “x” years
- Calculated mortgage cost
- Monthly profit
- Capital required to purchase
- Description of features i.e. double glazing, gas central heating

- Pictures of inside the property
- Crime stats for the area
- Neighbourhood profile
- Recent sold prices of similar properties in the area
- Comparable properties on the market

We do a lot of this for our clients. We try and include as much info as we can to help them make a decision. You want the client to have all the data they need to make a decision. It is when they make a decision is when you make money. If they never have the info to say "Yes I want that property!" you will not make any money.

**Formats**

We provide our deals on a pre-made template designed by our graphic designer. This is converted to a pdf and sent to the client via email. We find this works well. However there are many ways you can present a deal:

- Word document
- Video uploaded to Youtube
- Printed out and posted
- Graphic images
- SMS text message
- Facebook, Myspace or Twitter
- Email

How you send out will be based on your client base. You will quickly see what works as a well presented deal will sell presuming you have met the clients requirements.

5.When you get a match

There will be appoint where your client says:

"I want this property! What do I do now?"

Now you should be prepared to put the wheels in motion as quickly as possible. The reason I say quick is usually a good property deal does not hang around for long so you have to act fast. We sometimes lose deals as we simply weren't quick enough. I am always emphasising this to my staff. Speed is everything in this business.

You need to do this in order to secure the deal

1. get a commitment from your client. The way we get a commitment from our clients is by taking the sourcing fee upfront. If you are uncomfortable with this you can ask for some of it upfront or getting them to sign or confirm something via email. It is important however that the client feels they are committing to the deal otherwise they are not vested in the deal.
2. Inform your source from where the property came from as soon as you get a commitment.
3. Introduce the client to the source.
4. Introduce the client to the mortgage broker to get an application under way.
5. Introduce the client to the solicitor acting on the purchase.

You will also need to see the following happen over the next 4-8 weeks:

a) the client gets approved for a mortgage
b) a survey gets instructed within 2 weeks of accepting the deal
c) the solicitor receives all documentation from the client to cover themselves against money laundering
d) contracts for exchange go out to vendor and client
e) survey results come back in

f) mortgage offer gets issued
g) contracts get exchanged
h) property completes.

I employ a facilitator to do this. I make sure my facilitator irons out any problems that arise and prevent problems arising. It is quite a stressful job and takes a certain degree of persistence however it needs to be done. There is many a slip between cup and lip. It is too easy for a client to say “yes I will have that” and nothing else happening afterwards. Remember your fee is only really earned once purchase happens.

**6. Keeping hold of your client base**

There are many property sourcing companies out there to lose business to. What will set you apart from the rest will be:

- Getting them the exact deals they want. Try and get the client to be as specific as they can. The more you match a deal to their requirements the more pleased they will be.
- Being at the end of a phone. No one likes answer phone messages, endless ringing tones or even worse a dead phone line! You have to be responsive in this game. Answer the phone and act. Even if all you have to do is reassure them that the property you have found them is right for them. Clients need love!
- Make regular contact. If you can do a newsletter which keeps them informed of their market they will appreciate this. It lets them know you are on the pulse and aware of what is going on in the industry. They are relying on you to bring their attention to anything significant in the industry.
- Having good third parties. Your client base will call upon you for recommendations for services like letting agents, mortgage brokers etc. Make sure they are good! Even though you are not liable for their actions they do reflect heavily on you. “Show me who your friends and I’ll tell you who you are” rings so true.

Once you have mastered keeping hold of your client base only then should you think of expanding it. A very small client base can provide you with a significant income. Say for example you have chosen to go for wealthy clients who only want portfolios and you are earning 1% of the sale price then you can effectively live off one client doing one deal a year! There really are sourcers in this and other industries who broker very few but very large deals.

**Closing Thoughts**

Property sourcing is a growing industry. Once the property boom takes hold again we will see quite a few springing up. If you want to get in before the rest I suggest you start now.

Good luck.

# 12. Property Sourcer (Property Facing)

I Vital Statistics

| | |
|---|---|
| Earning potential before tax | £5,000 to unlimited per property |
| Capital Required | £nil to £50,000 |
| Skills Required | Speed |
| Qualifications preferable | None |
| Competitiveness Low/Med/Hi | High |
| Risk Low/Mid/High | Med |

| | |
|---|---|
| The Business Model in a nutshell | To find property deals and sell them on without ever owning the property. |
| Potential gaps in the market and suggested USPs | • Property Specialisation like HMO<br>• Price threshold i.e. buy properties up to a certain value<br>• Specific locations |

Introduction

This is the business of finding properties and selling them before you even own them. It is done by using 4 methods:

1. Selling the Lead only
2. Assignable Contracts
3. Sub Sales
4. Option Agreements

Each method offer increasing returns as listed but with added complexity. However if you can get this right you can make millions from it as there are some currently doing so as we speak.

This is perfect for those who love the chase, the hunt, the deal. You do not need much to get going and if you focus on territories you know big returns can be had if you act fast.

You have to buy at below market value to be able to sell them before you own them. i.e. they have to be sourced at a bargain price and sold at a bargain price.

### 1. getting the leads

I have identified 11 ways you could get below market value properties:

1. Estate Agents – I have built an extensive portfolio and I have bought most of my properties from estate agents. Just because they are on the open market does not mean they are not cheap. If you have signed up to Rightmove alerts you will be alerted to a deal as soon as it comes on. Only yesterday I got an alert from Rightmove for a 3 bed flat for £23,000. My offer went in that day!

   I know of some sourcers who keep the estate agents very sweet. Free trips to tanning salons (as most of the agents are girls aged in their 20s) bottles of champagne, box of chocolates etc. Whatever gives you the edge so that the estate agent calls you as soon as a deal comes on.

2. Letting agents – if ever there was a source of ready made investments then look no further than a letting agent's book! They will have properties which are tenanted and managed and they may just have a landlord who wants to sell because of ill health or retirement. So get to know all your letting agents in your area.

3. Auctions – I have spoken about auctions before in Property Trader (Flip) section on page xx. Please re-read to see how you can bag a bargain by finding properties with low reserves with low bidding demand. Also sign up to EIG to get auction alerts. EIG are a one stop shop for auction properties as they gather data from every auction house and present the information to you in real time.

4. Private ads – some people simply refuse to pay estate agent fees. Also with the recent introduction of HIPs and Home Reports the opportunists who do not want to fork out up to £1,000 to sell their home private ads have seen a little surge. So

check the classified sections of your local press, Daltons Weekly, Loot, Friday-Ads, eBay, HouseLadder.co.uk etc. Just search for "sell my house privately" in Google and all the sites will come up.

5. Developers – Developers want a quick sale. They would rather have someone else manage the sale for them than having to deal with 10 to 150 different buyers all with their own different set of gripes! They will usually offer a discount of at least 15% but in the current climate 40% discounts have not been unheard of due to the lack of finance for new builds.

6. BMV lead providers – there are companies out there that are great internet marketers and are able to get leads of desperate sellers. They charge anywhere from £10 to £200 for a lead and they have all the information you need to decide whether it is worth purchasing. Now a word of warning. They do not have exclusivity on the lead. This desperate seller would have done the rounds so you could buy the lead and find out the property has been sold. The best way to test this is to buy quite a few and then see if it has paid off. Expect to get a 1 in 7 hit rate. That is to say expect that 1 lead you buy in every 7 will result in a deal being done.

7. Solicitors – Solicitors come across properties where the owners want a quick sale. Take for example a brother and sister who inherit their parent's home but neither want the property as they live elsewhere. They tell the solicitor they want a quick sale and ask him if he knows anyone who buys quickly without fuss. This is where the solicitor should be on the phone to you! Big, big discounts can be had as all they want is a quick sale with minimum hassle.

8. Internet – if you are good at internet marketing or have search engine optimisation skills then building a site to capture property leads could be a good way to get property deals. It is very competitive out there. So search engine optimisation (which is all about getting your site listed top in Google) will take a minimum of 6 months or if you do pay per click with Google it will cost you at least £50 a day to get some decent leads. However it can be an excellent way to get leads as you will be getting them fresh. It could be that they have only made an enquiry on your site so if you are serious about becoming a property sourcer then I would recommend persevering with this method. Also, as mentioned above, you could sell unwanted leads for up to £200.

9. Other Property Sourcers – it is an incestuous business! IT is one of those businesses where it makes sense to do business with your competitors. Tread carefully here like protect your contacts, clients, sources etc. however there will be times when a property sourcer has stock he cant sell. You may be able to take on their deals and punt them out to your sources and split the fee.

10. Leaflet drops – Get some leaflets printed stating "We buy homes quick" etc. and target areas where you think you can sell. You can either deliver them yourself our incentivise someone paying them minimum wage plus a £500 bonus for any properties that result in a deal.

11. County court repossessions – This involves going to county court and looking for repossession cases. You need to find cases that are listed with the bank v the home owner so Barclays Bank v Joe Bloggs, Woolwich Building Society v John Smith etc. You also need to be armed with a sale contract and you can approach Joe Bloggs or John Smith and say I will buy your property. Then Joe and John can go in to court and present your sale contract to the judge and he has to halt repossession.

## 2. turning leads in to deals

So you now know how to generate property leads how do you turn them in to deals? Well you need to do the following 3 actions:

1. Qualify

2. Visit

3. Secure

1. Qualify

You need to check that the deal "stacks". Stack is a term used by the industry to check that the figures actually work. This means the lead is:

a) below market value
b) mortgageable
c) has enough equity to be sold on

If the lead is all of the above then you have a green light.

a) Below Market Value (BMV)

To establish whether the property is below market value you need to establish the market value and the price the vendor is willing to accept.

The great thing about the internet is that market value can be determined very quickly. All you need is the postcode, the street name and the size of the property and you can use www.houseprices.co.uk or Rightmove to get an idea of what properties have sold for in the area.

Also you can visit all the property portal websites and see what properties in that street are going for now. You will quickly be able to establish market value from seeking information from these sources only.

So once market value is established you need to compare this to the price the vendor will accept. To establish this you need to ask them what they will accept. This would have either been already asked or you will need to obtain this information from them. A simple phone call or email will do. You need to get this information very quickly. There is no point listening to the vendor on the phone about what a great area or property it is. It all starts with the price. If the price is good then you can keep on listening!

b) Mortgageable

Now if the price they want is below the market value you have established then you are getting warm. You also need to find out if it is mortgageable. Now this can really only be established by a surveyor but you can ask certain questions to help you establish whether it would pass a survey like:

- Is it lived in currently? – this would establish that it is at least, on the face of it, habitable.
- Does it suffer from any subsidence? – properties that are subsiding are not mortgageable so it is good to get this question in early.
- Does it suffer from damp? Surveyors put on retentions (an amount withheld from the mortgage advance to reflect the work required) or request remedial works are carried out to make the property mortgageable due to damp issues.
- Does it require any work? Retentions and remedial works will be requested by the surveyor.

If the outcome to the questions above are favourable then you need to find out whether the vendor can sell it on.

c)Has enough equity to be sold on

A property can only be sold on as long as all debts secured on the property can be cleared. So if the mortgage is £75,000 and the vendor has agreed to sell the property for £70,000 then the vendor needs to come up with another £5,000 as there will be a shortfall. Most of the time vendors do not have this shortfall so the deal cannot happen.

So you need to know all the debts secured on the property. So ask them what the size of the mortgage is and if they have any other debts secured on the property such as 2nd charge loans.

If the price that you are willing to pay is greater than the total amount of debts on the property and is within the ball park figure of what the vendor will accept then the property requires a visit.

Visit

This is where you see the property with your own eyes. You will quickly be able to establish whether this property is going to work. You have to try and view it from a surveyors point of view as they have all the power. Do you think it value up?

When you meet the vendor this is your time to start the negotiation. You need to convince them that your offer is:

Genuine
The best they can get

Remember you may not be the only person they have seen. Ask them have they seen anyone else. Let them do the talking. Things to help you make the deal sway your way:

- Offer to pay their legal fees
- Let them name the exchange and completion date
- Show off your credentials i.e. show them a bank statement with the cash to buy the property (if you have one) or how you have a ready bank of investors lined up already to take the property.

Once you have agreed a price it is then tme to secure the deal.

Secure

To secure the deal you need to bring paperwork with you. The paperwork you bring will depend on how you wish to sell the deals which is dealt with in the next chapter but bringing the paperwork is vitally important.

You want a signature there and then.  People can change their minds all too quickly however the act of signing a piece of paper cements things in the vendors mind.

If they wish to think about it then say that is ok but inform them that you are seeing other properties and since you have limited funds you may not be able to buy theirs when they do decide to give you the call.

Now if you are lucky enough to have secured a deal now you just have to get rid of it……fast!

**3. how to monetise the deals**

Now you have a deal all signed up you now need to sell it.  Speed is everything in this game.  You do not have the luxury of not being able to sell it.  If you compare this with the Property Trader (Flip) method where you own the property if the property does not sell then you just put it back in the next auction.

With deals the clock is ticking.  You need a sale as quickly as the contract you signed.  So if you agreed a completion in 8 weeks you need to find a buyer who accepts the price AND can complete in 8 weeks.  If there was ever pressure in a property business then this would the one!

Let me explain how deals are sold.

Deals can be sold by one of three ways:

Assignable Contracts

Sub Sales

Option Agreements

Assignable Contracts

An assignable contract is a contract which you can assign to someone else. So lets say I have secured a property for £100k. I can then sell this contract to another investor for a fee. All that needs to be in the contract of sale is that the contract is assignable.

So if you have bagged a deal and just want to get rid of quickly and simply you just assign the contract to another investor for a fee. They will then step in to your shoes and perform the contract.

If you have structured the deal as a no money down deal you can still assign this contract to another investor.

Sub Sales

A sub-sale is where A contracts to sell a property to B who then contracts to sell the property to C before completion of the A to B contract.

You are B. The Middleman. B's transaction never gets registered on the land registry. There are ways you can do this so the purchaser C does not fall foul of the 6 month rule. I have heard you need two fax machines and two people faxing at the same time to stay the right side of tax law!

So for example you have found a property you can buy for £50k and you have found a buyer for £70k. you would:

Have a contract to buy for £50k

Have a contract to sell for £70k

And the purchase and sale would occur simultaneously netting you a £20k profit. Nice! Now if you were able to get a valuation for £100k then you would be able to structure the purchase for the end user no money down.

Option Agreements

I talk about options further in this book but basically an option gives you the right but not the obligation to buy. So you can sell this option on to another investor.

If you are willing to provide bridging deposit finance (by teaming up with a bridging finance company) then you can structure the deal no money down which makes the deal very attractive. This again requires a valuation in excess of the purchse price.

Now you have to find a solicitor who understands these type of purchases and sales. They are quite fiddly and deals will fail. It is just the nature of them. Due to lenders changing the rules all the time, vendors not understanding what is going on and certain rules needing to be followed with precision it is natural for some deals to fail. However it is worth the persistence as the rewards can be very high.

### 4. finding buyers

Now you need to find buyers for the deals. They will be investors generally. You may be able to find owner occupier buyers but I will warn you they are VERY difficult to deal with. They will need a lot of hand holding and they will be buying based on non-financial reasons which can be difficult to grasp when you just want a quick sale! So my advice to you is stay away from these sort of buyers. The clock is ticking when you are a property sourcer so you want people who know what they want and can buy fast.

I have my own hierarchy of buyers. They are ranked as such:

1. cash buyers

2. credit worthy buyers with deposits

3. credit worthy buyers with no deposits

4. soon to be any of the above

1. Cash Buyers

Not a lot can go wrong with these buyers. They do not need finance as they have the full asking price to put down CASH! So deals can be done quickly and neatly. Some buyers can complete in 7 days. Now these cash buyers know they have the highest status and boy don't they know it! Do not expect them to pay the price you want. They hold all the negotiating power. However if you can agree on price and you are not greedy you can make regular hassle free profits.

A lot of these cash buyers have facilities with commercial banks. They can simply write cheques for the full amount as the bank has security over their portfolio. They have whats called hunting licences which enables them to go out and hunt for deals and pay cash so they can complete quickly. If you can get to deals before them then they are forced to pay your fee.

2. Credit worthy buyers with deposits

This is the next best buyer. At the mercy of a lender but nevertheless able to buy. The good thing is they do not need any complex no money down structure so they are able to purchase in the normal fashion. Their deposits may be tied up in equity in their current portfolio so be sure to classify how much they have in liquid reserves and how much is equity tied up in their properties.

Expect a buyer like this to take anywhere between 4 and 12 weeks to complete on your deal.

3. Credit worthy buyers with no deposits

At least these people can get credit!  Now they will need to use a no money down scheme so the transaction will be a bit more fiddly as mentioned earlier but they may be less fussy on the deal you have got.  As long as the deal is 25% BMV then it can be done without the need for the investor to put in a deposit.  Because the nation is not overflowing with these sort of deals this buyer will usually jump at a deal like this as they do not come up very often.

We specialise in deals like these for our investors. 90% of our buyers fit in to this category.  Not to say they do not have any money it is just they want to get the highest return on any cash input they have to put in so they want near 100% financing as possible.  Very sensible in my opinion!

4.Soon to be any of the above.

You may come across buyers who are potential buyers.  That is to say they are not in a position to buy at the minute but will be soon.  These buyers are your pipeline.  So keep in contact with them to see when their circumstances change so you can start offering them deals when you get them.

So how do you find these buyers?

Well you have to become a property sourcer (client facing) or contract with a property sourcer (client facing).

My organisation is a property sourcer (client facing).  We work with plenty of property sourcers (property facing) and are always looking for more!  So if you want access to buyers please contact us at www.ajayahuja.co.uk.

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