

WRITTEN BY INDUSTRY EXPERTS COVERING ALL ASPECTS OF BUY-TO-LET

MAY 2015

# LANDLORD

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# INVESTOR



**THANK GOODNESS THAT'S ALL OVER:  
GENERAL ELECTION 2015**

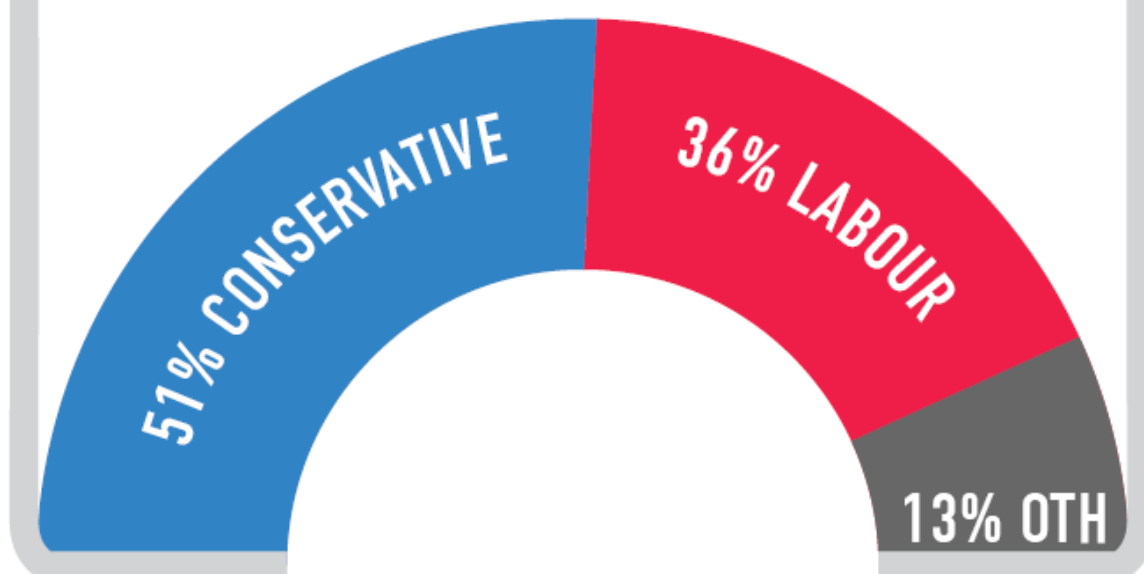
- Peter Littlewood

**PROS AND CONS OF BUY TO LET  
FOR PENSIONS**

- Tom Entwistle

**CRAZY OR CRACKING?  
SURREY BUY TO LET ANALYSIS**

- Kate Faulkner



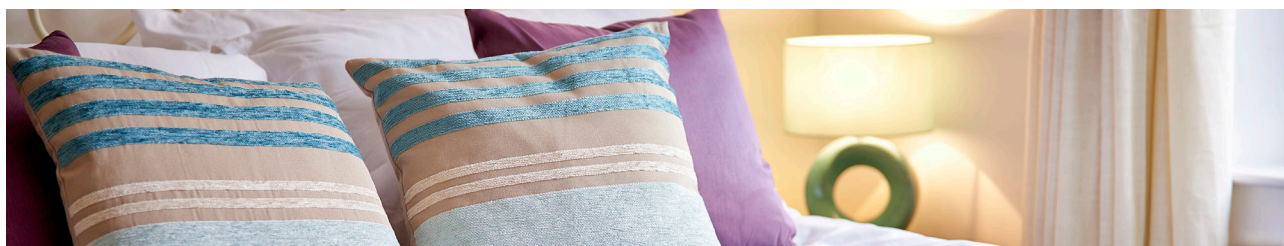
## WILL THE NEW GOVERNMENT WORK FOR YOU?



# BUY TO SELL TO MAKE SERIOUS POTS OF CASH!

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The Good Property Company

*In this series of articles, we are covering the 7 Stages of a successful Buy to Sell Strategy. Last month we covered Building your Team and Sourcing your Deal. This month we focus on finance and running the refurbishment project, all super important for your success in delivering your Buy to Sell Strategy.*



## LET'S START WITH THE MONEY...

*To help you, here are the categories of costs you will incur in buying the deal:*

- FINDING THE DEAL
- OFFER COSTS, PRIOR TO EXCHANGE
- EXCHANGE COSTS
- COMPLETION COSTS
- FINANCE COSTS
- REFURBISHMENT COSTS
- STAGING COSTS
- SELLING COSTS

### FINANCIAL ANALYSIS

To make sure your property project is profitable you need to know the costs you will incur and your end selling price. Often investors consider the obvious costs, purchase price and refurb costs. However, there are the (as my Uncle John would say) 'Crud and Corruption' costs, meaning all the other 'gubbings' involved in Buying and Selling Property that people often forget to consider. Typically these add around £8k to a project of around £100 - £150k purchase price.

Before that scares you off, just remember knowing your costs are all part of a process. Once you've bottomed out your costs, there is a simple formula to profit. Make sure your margin is 20%. If all of the costs above add up to 100k you need to be sure you can sell it for 120K, otherwise walk away...

## WHY DO WE NEED THAT MARGIN?

- 1) To make profit, and
- 2) To give yourself a safety buffer. In property there's always an obstacle to give you sleepless nights; roofs leaking, rot discovered, builders being slow.... This 20% margin allows you a safety net for costs overrun as well giving you great profit.

## FINANCING THE DEAL

Which are the routes to financing the deal, and which do I prefer? Let's review the options...

**CASH;** is great because you get easy fast decisions, you are often the preferred buyer so you are likely to be able to buy great deals. The down side is the level of cash you have will limit your purchasing power. In addition, you compromise an efficient ROCE (return on capital employed), as the capital you are using is significant.

**MORTGAGES;** are definitely not the right financial product for BTS as they are about long term lending not for short term in and out projects. Occasionally, mortgage companies do authorise mortgages for BTS projects, so if you insist on using a mortgage check in advance. Be conscious of redemption costs and that mortgages can take time to set up which could impact on your ability to buy the project quickly.

## BRIDGING AND SHORT TERM LENDING;

scary as bridging may sound, this is the right formal financial route to take as it is set up for short-term projects. You get some great banks like Shawbrook, here at TGPC we're a real fan, their rates are good and they have sensible additional fees rather than the large chunks of cash that bridgers used to take, for the 'hidden' cost of surveys and legals.

The risk for you is if the deal does not sell. You will need to move from short term to long term funding such as a buy to let mortgage. If you have bought well in a good location, it's hardly a difficulty to retain an asset and manage it as a buy to let property instead bringing you monthly income, a step known as Plan B!

**"ALWAYS HAVE PLAN A (SELLING IT) AND PLAN B (RENTING IT)"**

**PRIVATE INVESTOR;** working with private finance can give you flexibility and improves your scalability. You reduce the amount of profit you get from each project but if you do multiple projects you'll end up with a higher overall profit. Be aware, that the down side is a serious risk to reputation if any project doesn't work out which can happen as, well, this is property! Working with private finance takes a lot of time managing good quality relationships, but can be a great way of proceeding with BTS projects. Please be aware of legislation surrounding PS13/3 and ensure compliance.

## SO, WHAT DO WE DO?

Well, we use a mixture of cash, bridging/short term funding and private finance, depending on the project and our situation at time of purchase!

## REFURBISHMENT.

Well done, you've found the project, funded it and now you're about to make it beautiful! Here we go, this is the craft in the project, and you need to get it right...

This is about managing the refurb successfully, on time and to budget. Project scheduling is an important skill, akin to herding cats if you are working with individual tradesmen.

I suggest that everybody learns how to manage individual trades on the first couple of projects. That way, you will be so glad to contract with a builder and really respect the hard job he has in scheduling and organizing the talented trades to deliver a project on time. In an ideal world, the schedule would look like the list below although often you'll get overlap between one stage and the next.





## PROJECT SCHEDULING

**1. Correspond with Building Regs people and apply if needed**

**2. Rip Out**

**3. Initial structural build**  
Building Regs in to check structural strengths (gallow brackets, RSJs)

**4. Windows, Roof, Wind and Water tight**

**5. First Fix – electrics and plumbing**  
Building Regs in to check installation satisfactory before the work is covered up

**6. Kitchen and bathroom installation**

**7. Plastering, tiling**

**8. Garden and external work**


**9. Second Fix – electrics and plumbing**  
Building Regs in to check final systems install is satisfactory before work is covered up

**10. Painting and carpets**

**11. Snagging**

**12. Gas, Electric and Building Regs Certificate received**

**13. Final Sign Off**

Next month I will conclude our series on Buy to Sell, with a focus on the soft stuff – how to ‘retail’ the property. I will highlight the process of conveyancing, a step many developers miss, and I will share some tips on how we look to have a fast sale, with no delays from our buyer. 

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