The 7 Pillars of Successful Property Investing

a 17 page ebook for the armchair property investor

by

Saj Hussain & Andy Duncombe
The 7 Pillars of Successful Property Investing

This report focuses on 7 rules for successful property investing.

Although each of the 7 pillars are a fantastic guidance in their own right, it is the combination of the 7 pillars together that brings real success.

Who are we?

Profit from Property is run by a small team of professionals with specialist knowledge in property and finance.

We'll help you make the most out of your property investments by getting to know you and developing a relationship with you.

For an initial, no obligation discussion, we would be delighted to hear from you.

www.profit-from-property.com
1. **Buy at a Discount**

You make your money when you buy

During a rising property market, such as between years 2000 to 2007, pretty much any purchase you made, even one that was over priced would provide you a potential profit over a period of time.

For no other reason than the prices were going up anyway! However, in the present more static market it is even more imperative that you get a good deal.

This really should be done by ensuring that the price paid is less than what is considered the open market value - this ensures that you have a safety buffer in the form of equity from the offset. However, establishing the open market value is not so easy. In reality this is simply an opinion and is not a scientific calculation.

In the sellers opinion the value should be higher, in the buyers opinion the value should be lower.

Actually when buying property the only opinion that is important and valid is that of the chartered surveyors (RICS).

*Therefore, when negotiating a discount it is important that you ensure that the discount will come off the surveyors’ valuation.*

This also ensures that your discount is genuine and not a discount off an artificially inflated price!

After all, what’s 10% off nothing?
2. Strong Rental Demand

When you purchase your investment property it will probably be done so using bank finance.

This loan then needs to be repaid on a monthly basis. As the investor you may be looking for long term capital growth but whilst waiting for that growth the loan will need to be serviced.

This is usually achieved by having tenants in the property that will pay a rent.

*It is therefore necessary to have the investment property located in an area of strong rental demand.*

This will ensure there is always a willing supply of potential tenants available for the property.

**Location, location, location**

It is often possible to find a property that is available with a substantial discount off its asking price.

*However, unless it is also located in an area that has a good rental demand the discount in it self is meaningless.*

A property located in an idyllic, small village may seem perfect. But, the rental demand in the village may be very low.

*Rental demand is higher in areas were there are good transport links, numerous employers, local shops, large populations etc.*

**Supply and demand**

Another reason why an apparently good rental area may suffer from poor demand is when there is an over supply of rental properties on the market.

For example it was common during the ‘buying off plan’ era that market rental figures were presented to an investor that looked sensible.
But, once the units were built and available the investors would put them on the market to let.

As a block of 50 or so units may have been completed at the same time and most of them released onto the market at the same time this created a massive oversupply.
Pre-credit crunch many investors were using a strategy that relied solely on rising property values.

A net rental profit each month was less of a concern.

In fact many investors subsidised the rent to cover the monthly mortgage payments!

This strategy not only misses the point of having income generating assets but in this current market would be very high risk.

The rental income generated by a property should be used to pay the monthly mortgage payment and the balance is the gross profit.

This gross profit (positive cashflow) is what can easily build up to become a substantial passive income.

Yield

The annual gross rental profit is often expressed as the 'yield'.

It is calculated by taking the total annual income, dividing it by the total investment and then multiplying it by 100

Of course, in reality there are other costs that need to be considered, e.g.

- insurance
- management fees
- voids
- etc.

**A Yield Workings Example:**

£600 r/p/m = £7,200 p/a

Property purchase price: £100,000

The gross yield is:

\[(£7,200/£100,000) \times 100 = 7.2\%\]

This simplified example demonstrates the principle and the key point is that the rental income is where the profit comes from.
**Rental coverage**

Mortgage lenders often look for a ‘rental coverage’ of 125%.

This means that they expect the market rent to be at least 25% more than the monthly interest-only mortgage payment.

*This is in fact not only prudent lending but sensible investing.*

It ensures that there is a buffer to cover unexpected eventualities that may arise such as property repairs.

**Interest Rates**

At the time of writing, the Bank of England base rate is currently 0.5%.

It’s been hundreds of years since it was last this low.

Nonetheless in these uncertain times there is one certainty... at some point interest rates will rise!

Traditionally in this country the norm has been somewhere around 6%.

*It is really important to consider interest rate rises in your calculations when looking at cashflow figures.*

Remember - a 1% interest rate rise on a £100,000 mortgage would increase the monthly payments by over £83.
4. Long term Strategy

The long term strategy for many investors is to create a replacement for their current pension.

Many of us have realised that it is highly unlikely that the Governments’ state pension will be able to maintain us in the lifestyle we have become accustomed to.

As safe as houses

In this country, time and time again we have seen house prices on average double every 10 years.

This does not mean that they will double in the next few years it does however mean that there is an established trend.

One thing that we are all sure about is that property investment is a good long term investment strategy.

Monthly Income Vs Capital Growth

As investors we are aware of the potential for massive capital appreciation in property.

Yet we sometimes forget that we need to hold these assets for the long term for the real rewards. Some investors purchase properties that deliver high monthly rental profits others focus solely on the long term capital growth.

However, it is perfectly possible to have a balance of the two.

In fact we are of the opinion that it is important for your success that there is a balance of the two rewards.
The exit strategy

How will you get the big pay off?

Whilst the monthly income can be fantastic it is no comparison to huge chunks of cash.

The locked in profit in the property will be in the form of equity.

The chunks of cash will come when you can realise that equity. It is normally realised either when you sell or when you remortgage.

Two key considerations are:

- The timing of your exit is crucial in tax planning and...

- The consideration of who and how they will benefit from your property investing after your demise.
5. Low Risk Property

2/3 Bedroom Houses

2 or 3 bedroom houses are generally regarded as having the lowest risk profile.

*Look for houses in popular, established residential areas and constructed using traditional bricks and mortar.*

The vast majority of our population lives in this type of property and that proven popularity provides an assured and steady demand that, over the years, produces sustainable capital growth.

Flats & Apartments

Many traditional apartments in the London area enjoy a similar risk profile to 2/3 bedroom houses but **outside of the capital a good deal of caution is required!**

In recent years we have witnessed an explosive growth in city centre apartments, built in previously non-residential areas and supply has exceeded demand.

Care should be exercised with regard to onerous lease covenants, repair liabilities, service charge and remaining term on the lease.

New Build and Off Plan

The investor should be wary of the premium prices asked for new builds. The builders marketing strategy may include sweeteners such as a small contribution to the deposit, white goods, carpets or landscaping but rarely can these enticements add to the future capital value and it may be several years before a new build shows any capital growth.

An off plan investment holds many of the same disadvantages with the added risk of delays, failure to meet promised standards and even non completion.
Commercial Premises, Shops and Offices

This is a more specialist area of investment that, whilst offering potentially good returns to the experienced commercial investor, carries a higher risk profile.

Commercial property values are based on their rental return rather than on bricks and mortar.

As such, the value of an investment will be affected by the quality of the tenant and the terms and length of the lease.
6. Property Preparation

Make it Attractive yet Cost-effective

As we all know, first impressions count and tenants will pay more to get more.

A property in excellent condition is going to let more easily, quickly and will encourage the tenants to look after it.

Externally

This is the first view your prospective tenant sees;

› Ensure that the garden area is well maintained, is clear of rubbish and attractive to the eye

› External woodwork, door and window frames should be clean with all paintwork in good condition. Repair any holes, cracks or blemishes.

› Garages and any outbuildings should be tidy and clear of any rubbish

Internally

› Kitchens and bathrooms are the main selling points so refurbish where necessary and a hint of wow factor will attract tenants and command top letting rates.

› Interior decorations should be in good condition, with a plain, light and neutral finish.

› Ensure carpets are in a good clean condition, ideally in one plain neutral colour throughout the house
Set Clear Goals for your Standard of Finish

Set clear standards that can be applied without emotion to all your property refurbishments.

› select a flexible range of kitchen and bathroom fittings that can be applied to all your projects
› define your carpet quality and colour
› set out standard decoration finishes for walls, ceilings doors and woodwork
7. Have an Effective Property Management System

There are essentially four paths from which to choose;

- Self-management
- Rent collection service
- Full management service
- Hands-off Rent Guarantee Scheme

The choice will depend on how much time you are happy to devote to your properties, how comfortable you are in dealing with tenant’s issues and problems, whether your investment strategy is for maximising cash flow or to maximise capital growth with minimal input.

**Self Management**

This is clearly the cheapest option that will maximise cash flow. You will need to collect the rent, monitor for partial or late payments and deal with arrears.

New tenants will have to be found from time-to-time and you will need to be familiar with the required paperwork. Tenants will contact you directly for property maintenance and you will need to comply with legal requirements for gas safety inspections and energy performance certificates.

**Rent Collection Service**

Employ a letting agency to collect the rent and inform you of any partial, late or missed payments.

You then take responsibility for dealing with the arrears and all other property management responsibilities.
Full Management Service

A letting agency is appointed to look after all matters on your behalf.

You will need to monitor their performance and provide additional funds for property maintenance when required and cover for any rent arrears.

Guaranteed Rental Scheme

Your investment property is leased back to the scheme provider for a fixed period of time with a guaranteed rent.

The provider takes complete responsibility for the tenants and for the property (aside from structural issues covered by your insurance policy). Your rent is guaranteed even if the tenant fails to pay and all maintenance is looked after.

This is the ideal solution for hands-free property investment with a guaranteed income and is the perfect vehicle to enjoy leveraged investment in property without any responsibility for day-to-day management.
A bit more about us…

Profit from Property is run by a small team of professionals with specialist knowledge in property and finance.

**How we help you invest in property**

As investment property consultants we specialise in finding, financing and managing investment property for our clients.

Our unique and personal service enables our clients to build and grow their property portfolios to suit their exact requirements.

**Property Acquisition**

We source quality Buy-to-Let properties, at a discount, in the wider Midlands area of the UK.

The properties are sourced only from the secondary market (no new apartments or “off plan” new builds).

We take care of the entire purchase process making it easy for our clients to build and grow a profitable property portfolio.

We can even prepare everything remotely for our client, which means they do not even need to visit the property should it not be convenient.

**Property Management**

Our management service provides a completely hands free investment service.

With Profit from Property, our clients can enjoy the full benefits of investing directly in property whilst we take care of every aspect of maintaining the investment.

With our prudent approach to investment property together with our specialist knowledge our clients are rewarded with above average yields, return on investment and capital gain.
Get in Touch…

Web  www.profit-from-property.com

Saj Hussain

Direct Dial  0121 444 1000
Mobile   07973 758 301
Email  saj@profit-from-property.com

Andy Duncombe

Direct Dial  0121 228 8494
Mobile   07770 382 263
Email  andy@profit-from-property.com

Address  Profit from Property
The Exchange
149-153 Alcester Road
Moseley
Birmingham
B13 8JP

© 2010 Profit from Property

No material may be reproduced without prior permission