Property 101

Property Essentials Guide

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This Property Essentials Guide is designed to inform those of you that are brand new to the world of property investing. Sometimes we can overlook the simple stuff and jump straight into something before we have the fundamental knowledge. This guide is here to give you a basic fundamental of understanding the world of residential property investing. It is not for everyone and is not for those that already understand property investing.

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Investing 101

Around 90% of the world's millionaires have invested in property and it's easy to understand why. There are numerous strategies within property that are profitable and can allow you to reach your personal and financial goals. To work out which option would be the best for you, you must first work out your long term goal and the type of income you would like to receive.

Buy-To-Let

Buy-to-lets are properties which are purchased with the intention to let out. By setting a rent that at least covers your monthly costs, buy-to-lets produce an income stream as well as a capital gain once the property has increased in value over time and is eventually sold. Consider how much you'll spend on buy-to-let mortgage payments, insurance, repairs and agent's fees when setting rental costs, factoring in the effect of any periods when the property is vacant.

Flipping

Flipping is when an investor purchases a property with the intention to resell. The goal is to find a property which is in need of a refurbishment or home improvements, and then sell for a profit. There are numerous factors which contribute to a successful flip, including the location of the home, how much money will need to be spent on renovations as well as well as how easy it will be to increase the overall value of the property. Some excellent deals on property are available which makes flipping a realistic and profitable avenue for many investors.

Rent To Rent

Rent to rent is an interesting model which allows investors to receive a steady income stream. Rent to rent is the process of renting a property from a landlord, usually for 3-5 years, and then finding tenants to live in the property and pay you a higher price than what you are paying to the landlords. Whatever is left over from what you pay the landlord is your profit. Rent to rent is a good business model as it can be profitable in the first few months and little money is required to start.

HMO

A HMO (house in multiple occupation) is a property or part of a property which is occupied by more than one household. This can mean that more than one household shares an amenity such as a bathroom or kitchen or that the property does not entirely comprise self contained flats. You will need to apply for a license for a HMO, however they remain very popular amongst property investments due to a decreased likelihood of void periods and rental arrears.

Property Purchasing Process

Pre Offer

1. Get your deposit ready and a mortgage in principle. You should remain in your job at least whilst you're getting started in property investment as you will need income to live on, as well as money for future investments/ refurbishments. It is also a lot easier to invest in property whilst employed, as you are seen as less of a risk for banks when they are lending money, therefore it will be easier to secure a mortgage with lower interest rates.

2. Find an ideal area for you to start in. Many investors choose properties in the North due to their lower prices, however there are many good investment opportunities all over the country depending on your budget and how much you would like to make in profit.

3. Find the property for you. Use websites such as Rightmove, Zoopla, On The Market etc to find and compare properties.

4. Assess the property and get an estimate for the costs of any refurbishments which need to be done. If it works within your budget and has the capability to give you your desired profit, place your offer, negotiating where necessary.

Post Offer

1. Instruct your solicitor and introduce them to your broker. Your solicitor will act on your behalf by communicating with the sellers' solicitors as well as taking you through the conveyancing process, so don’t worry too much if you don’t fully understand this process as a good solicitor will provide you with lots of guidance.

2. After instructing your solicitor, a Memorandum Of Sale will be sent out by the agents.

3. Vendor’s solicitors will send your solicitors a ‘draft contract’ which allows your solicitor to raise enquiries. These are simply questions raised by your solicitor to the seller's solicitor to answer any outstanding questions about the property.

4. Searches will be conducted - these are checks on the local area where your property is. They're basically done to check if any future planning developments or historical problems in the area might affect the home you're buying.

5. You may decide to book an optional survey for the property to ensure that you are aware of any improvements which need to be made. If you are purchasing with a mortgage, your lender will instruct the surveyor to value the property.

6. After this contracts can be signed, exchanged, and the purchase completed (this is when you celebrate).

Renovating A House

If you're wanting to add value to a property (which is key if you're then looking to refinance it and pull equity out), then you need to make sure you have a plan. Renovating a property can be both a very rewarding and challenging process, however having a clear plan of how to renovate your property will help to ensure that your project runs as smoothly as possible. No two renovations are the same, so it is imperative that you have a clear idea of what you are hoping to achieve through this project.

After assessing the property's potential and finding out what improvements need to be made via a survey, a budgeting plan should be made in order for you to gain a clear idea of exactly how much each improvement should cost and therefore how much profit you can expect to make (you can use our renovations calculator to get an estimate). Ensure that you have also accounted for other costs that come with purchasing a property such as stamp duty, legal fees, surveys etc. Renovations can range from cosmetic improvements which include painting and fixing flooring or fittings, to structural renovations such as extensions and redesigning floor plans. Ensure that there are no structural issues with the property that you do not want to fix prior to buying in order to avoid any hidden costs as these issues can be expensive to fix. Compare quotes from several builders and look at examples of their previous work. Increasing a property's curb appeal and ensuring that the kitchen is modern are two great ways to add value to your property and attract potential buyers / tenants.

5 Things To Consider When Buying Property

1. Where Is The Property Located? - What's the area like? Is it easy to get to by public transport? Are there shops nearby? Is there parking? Is the property near a noisy road or bars that may get rowdy late at night and cause unhappy tenants if renting?

2. What Is The Property's History?- If the property is being marketed, when was it first listed? Have there been any price decreases? How much are similar properties in the area selling for and how quickly? Don't be afraid to ask questions.

3. Is The Property Structurally Sound? - No big cracks and check that the flooring is in good condition as this can be expensive to replace

4. How Many Renovations/ Repairs Are Required?- Have you factored these costs into your budget? Especially if the property is needing work on kitchen/ roof/ bathroom as these can be expensive

5. Is There Scope For Extensions/ Structural Renovations?- Is there space for a conservatory or a single storey extension? Is there a loft that is suitable for a conversion? Extensions and creating more space within a property can increase value by up to 20%, so this may be worth considering.

How To Quickly Scale Your Portfolio From 1 To 10 Houses

To scale your property portfolio from 1 to 10 houses, you will need to focus on finding below market properties, increasing its value and releasing that equity to reinvest in your next property purchase. Buy-to-lets are usually considered a success if the owner can intake £200-£250 a month in rental income once the mortgage has been paid. To scale to a six figure property business at £250 profit per month per property, you'd need 34 properties in your portfolio. To scale to seven figures a year you'd need 334 buy-to-let properties, which would be difficult due to the logistics of renovating and managing those properties, as well as finding that number of available properties which meet your criteria. Most investors who flip houses will want a £10k-£20k profit to even consider a deal. To make six figures with this strategy, you'll need to successfully flip 5 properties a year and to make seven figures you'd need to flip 50.

To scale quickly, you will need to define your strategy. Some investors invest for cash flow, others invest to see an increase in the value of the property (capital gains). It is possible to benefit from both strategies by diversifying your investments, which can also help to eliminate your risks. Using an amalgamation of different investment strategies can increase profit made as well as secure a steady cash flow, just ensure that all of your investments align with your end goal.

Tips For Scaling Your Property Portfolio Fast

1. Understand the market in your area and who you want to attract. Are there Universities nearby? Are there many local schools which attract families to the area? Ensure that the property that you are purchasing is suited to the market audience.
2. When renovating, keep decor neutral so that everyone can envision themselves living in the property. This will help you to sell or rent quicker, therefore increasing your profit and money available for you to reinvest and scale quicker.
3. Don’t quit your job whilst building your portfolio. Whilst the shared dream of most property investors to quit their 9-5 and live off of their investments is amazing, you should keep your job whilst you initially scale. This will help provide money for you to invest, give you some more security and also enable you to secure a mortgage for your investment properties. Also, having enough money for a higher deposit will help to lower your interest rates on your mortgage.
4. Continue finding properties below market value and increasing their value through renovations. Once the property has been sold or rented, release that equity and use it for the next property. Regardless of your strategy, buying below market value is imperative to increase profit margins and therefore the funds available to reinvest.
5. NETWORK. Building relationships with other investors is pivotal to scaling your portfolio.