10 Tips to Prosper in Buy to Let

Peter Jones BSc FRICS

First Published 2006

First Revision 2012

Second Revision 2013

Third Revision 2014

Fourth Revision 2015

Fifth Revision 2017

Sixth Revision 2018

More Than Two Publications, Nottingham

FOREWARNING

THIS PUBLICATION DOES NOT CONSTITUTE ADVICE WITHIN THE TERMS OF THE FINANCIAL SERVICES ACTS (OR ANY SUBSEQUENT REVISIONS, ADDITIONS, OR AMENDMENTS).

The contents are a general guide only and are not intended to be in substitution for professional advice. All readers are strongly advised to take advice from their solicitor, accountant and surveyor before proceeding with any property purchase.

Contents

About The Author 4

Ten Tips to Prosper In Buy to Let 5

If buy to let is so easy why are so many getting it so wrong? 5

Number One – "All Property Investors Need to be Clear on What They Really Want from Buy to Let" 7

Number Two – "When You Buy Property, Always Think About Investment Fundamentals" 10

Number Three – "Understand and Appreciate The Power of Gearing and Don't be Afraid of Taking on 'Good' Debt" 11

Number Four - "Always Plan for the Long Term, Many Investors Only Plan for the Short to Medium Term" 15

Number Five –" It's Good to Buy at a Bargain Price but Don't Become Obsessed with the Idea of Buying 'Below Market Value'" 17

Number Six – "Make Sure You Don't Over Estimate Your Cash-Flow" 20

Number Seven - "Don't Be Drawn to Properties Which You Would Like to Live In, Instead Find the Type of Property Your Tenants Want to Live In" 22

Number Eight "Always Properly Research Where Prospective Tenants Want to Live, and What Type of Property They Want to Live In." 24

Number Nine - "Don't Rely Too Much on the Judgment, Advice and Efforts of Others" 25

Number Ten "The Most Successful Investors Continually Upgrade Their Education." 28

Bonus: Number Eleven - "Successful Investors Make the Effort to Decide Which Financing Option is Best for Them, and To Get the Best Terms" 29

Make This Year Your Year of Success 31

How I Bought £2m of Buy to Let Property in 4 Short Years and How You Can do The Same 32

How to Receive Your FREE Copy of 38

"The Five Capital Value Power Plays of Successful Property Investors" 38

About The Author

Peter Jones is a Chartered Surveyor, an author and a serial buy to let property investor.

He has been involved in property for over 30 years having graduated from the College of Estate Management, Reading University, and then qualifying as an Associate member of the Royal Institution of Chartered Surveyors in 1983, before being elected a Fellow in 1992.

By the age of 35 he was a Salaried Partner in a well respected firm of Chartered Surveyors, and was managing partner of their West End of London Office. His specialty was commercial property but during the recession of the 1990's his specialisation became redundant, and so did he.

Finding himself with no regular income, and with no savings, but with a wife and 3 young children to support, he borrowed some money from a relative and bought a house to refurbish and sell-on. That was the start of his own property business and, despite starting with none of his own money, he quickly assembled a multi-million pound property portfolio.

Peter is still actively involved in buying and renovating property, and regularly flips properties for profit.

Peter has written a number of successful property books. The first, *An Insider's Guide to Successful Property Investing*, was first published in 2000 and was one of, if not the very first, book of its kind which was written for what we'd now call buy to let investors.

On the back of its success he was invited to be a guest writer for Property Secrets, and wrote Spanish Property Secrets, French Property Secrets, and Portugal Property Secrets.

He is now a guest blogger for Property Secrets.

He has since written a number of other successful titles dealing with UK investing including *63 Common Defects in Investment Property and How to Spot Them*, *The Successful Property Renovator's Workshop,* and the highly acclaimed *The Successful Property Investor's Strategy Workshop* in which Peter describes step-by-step how he built his own property portfolio, starting with virtually none of his own money. Details of his books can be found at:

www.ThePropertyTeacher.co.uk

He has also written for Property Investor News, Property Auction News and Hot Property Alert, and has been a guest blogger for Progressive Property and LandlordZONE.

He is also host of the Progressive Property Podcast.

Peter's blog can be found at www.ThePropertyTeacher.co.uk

And his Facebook page www.Facebook.com/PropertyTeacher

Please also visit Peter's YouTube Channel - The Property Teacher

Ten Tips to Prosper In Buy to Let

If buy to let is so easy why are so many getting it so wrong?

Property is back in fashion. In fact, more accurately, we should say that it's always been in fashion but those who have wanted to buy property, like first time buyers, just haven't been able to raise the finance to do so.

For different reasons the finance is now available again and the buyers are coming back into the market.

First time buyers are returning to the market, transaction levels are up from the credit crunch, mortgage lending has recovered and stabilised from where it was immediately after the last crash.

As demand from owner occupiers increases, house prices will increase, and many who have been considering buy to let, but have perhaps been putting it off and waiting for the market to stabilize (it's amazing how long the press have been telling us that the property market is about to crash again, when in reality that was never likely to be the case) can now buy with confidence.

And that confidence is no doubt fuelled in large part by persistently low interest rates, which look like they will be low by historic standards for a good few years yet.

There are some who are saying that this will all end in tears, but in the meantime we are likely to see a feeding frenzy, because the British public will only be denied owning property for so long.

As the property market continues to improve, and is evidently doing so, there are many who would not naturally put their money into property who may now be tempted to do so. There are many people who are keeping their cash in the bank but, with interest rates destined to stay low for years to come, it will be more and more obvious to them that if they want to get a decent return on their money, they are going to have to take it out of the bank and put it into a more tangible asset like property.

For the last few years, non-geared returns from income like rent on property have averaged around four to eight percent, which is already a significant margin over the average return of a cash deposit in a bank, which can be less than one percent and not much more even in a structured saving scheme like an ISA. But if an investor knows what they are doing, and they are prepared to gear up (in other words borrow money to add to their own, otherwise known as take out a mortgage) then the geared returns can be two or three times the non-geared return, or perhaps even higher, depending upon what they buy, where they buy it and how they buy it.

Then there are those who have their money in the stock market. It always makes me laugh when I see articles and headlines saying that the stock market has out-performed property over any given period of time. Let's just put this into some perspective. On December 31st 1999 the FTSE 100 stood at just under 7000. At the same time, according to the Nationwide, the average price of a house in the UK stood at around £60,000.

Today, as I write the FTSE 100 stands at about 7,400, not much different from where it stood at the beginning of the millennium.

By contrast, today, according to the Nationwide, the average price of a house in the UK is now £211,000, over three times the value back at the beginning of year 2000.

I rest my case.

Buy to let investors who bought property a while ago are already enjoying positive cash flow, and are now seeing increasing equity. Equity can be defined as the difference between the value of the property and any mortgage held on the property, and so it is, in a sense, "the wealth" of the property owner. Yes, it's true that this "wealth" is on paper only, until they sell. But an alternative to selling is that, as prices rise, they can re-finance and take out that extra equity as a loan and use it as a deposit to buy another property and so increase their cash flow.

The point is that existing buy to let investors need little convincing of the power of buy to let, and many current landlords have been, and will be, buying more properties to expand their portfolios.

I could go on and on, but the truth is that there are multiple drivers in the market which are together acting to push demand and to push prices. The only slight fly in the ointment are the changes to the way mortgage interest can be offset against rent, as announced in the budget in July 2015 by then chancellor George Osborne.

The tax consequences are actually surprisingly complicated, and now isn't the time to go into the ins and outs. However, the received wisdom within the property investing community is that the best way to mitigate the effects is to hold properties within a Limited Company and not in one's own name. There is no ideal when it comes to tax planning – there never has been, and there are disadvantages with using a Limited Company, not least tax being payable when you take money out of the Company. Even so this still seems to be the best way for most investors (but you need to check with your accountant).

So if that's all good and buy to let is booming, where is the problem?

Succinctly put, it is probably this: because the UK public has always been fascinated with property ownership, and because many of us are familiar with property ownership through owning our own homes, buy to let all seems a little bit too easy. In other words many buyers are lulled into a false sense of security and either think they know more than they do, or are careless about how they apply what they do know.

Put even more succinctly, everybody thinks they are a property expert when in fact they are not. We know this because the results speak for themselves.

I know that when I started investing for myself I made a lot of mistakes which cost me dearly and which inhibited my progress. This was despite the fact that I had professional qualifications in property.

As a mentor, and as an author, I've been able to teach many others not to make the same mistakes I have made, allowing them to progress far more quickly than I did and with more confidence. But conversely I've been able to learn from the mistakes of other investors as well. What I find interesting is that 'experienced' investors are just as likely to make mistakes as newbies – it's easy to get into the 'know it all' mentality, and bad habits, once established, are hard to shift.

The biggest mistake I see time and time again is that buy to let investors put very little thought into what they buy or why they are buying it, with the consequence that <u>many</u> buy the wrong property or properties. They buy properties which are totally unsuitable for their needs.

This goes against what I often say, “The secret to being successful in buy to let is buying the right property”.

This short eBook is an introduction to 10 things all buy to let investors should know and, just as importantly, consider before they act and buy a property, especially if they really want to succeed, prosper and make real money in buy to let.

As I say, this is based on my own experiences and from sharing and learning from the experiences of many others whom I’ve met through mentoring or whom I have come across in my own property journey.

I also want to make clear that I haven’t written this eBook to be critical, far from it. After all, I’ve made all the mistakes. Instead, if I can help anyone to avoid the mistakes I’ve made, I’ll feel like its been a job well done.

So, in no particular order, here are the 10 things all (buy to let) property investors need to know to succeed in buy to let.

Number One – “All Property Investors Need to be Clear on What They Really Want from Buy to Let”

In my experience, one of the most common mistakes made by property investors is that they don’t have a clear idea of what they are trying to achieve, and as a consequence, they don’t really have any sort of a plan or strategy. As the old saying goes “if you don’t have a destination in mind, any road will get you there”.

If you were to ask a random sample of buy to let investors what they are trying to achieve, you’d probably hear answers like “security”, “income” or “increased net worth”, but if you pressed further and asked for details such as “how much income” or “how much net worth” or “by when do you want to achieve that figure”, the chances are they’d not be able to tell you.

The truth is that many property investors I meet and mentor don’t have a clear idea of what they are trying to achieve. They have a vague idea that they’d like to be successful in property, or that they’d like an income from property, or that they’d like to own a few properties so that they can have some capital growth and something to look forward to in the future. But it’s all a bit vague and wishy-washy. The problem is that if you’re not really sure what you’re trying to achieve then buying any old property will do, which happens all too often.

The answer to this is to set ‘clear and focused’ goals and to know why you want to achieve those goals. What I see time and again is that most investors don’t set goals, and even those property investors who do set goals (and I think there’s not that many of them) set fuzzy, unfocused goals. Then they wonder why they can’t, or don’t, achieve as much as they’d like to.

Why does this matter? Simply because study after study has shown that those who set clear and focused goals *always* outperform those who don’t, and by a significant margin. So it makes sense that if you want to succeed you should take this seriously.

Now, before I start, you might be thinking, “Not more stuff about goals. There’s loads of material available about goal setting”. But please, don’t switch off because what I want to tell you IS important.

Here's why most investors’ property goals don't work. This is an example you might be able to relate to; I certainly know that I set goals like this in the past, before I discovered how important it is to be totally clear and focused.

"I will buy 10 properties this year" or "I will own 10 properties by 31st December 2018"

This is the problem, it's all too vague. Look at it this way.

What does owning or buying 10 properties mean?

Does it mean owning 10 large, luxury, detached, executive houses or 10 two bedroom terraced houses?

Does it mean buying 10 properties for cash which are free and clear of mortgages, or buying 10 which are mortgaged to the hilt and have no equity?

Is it 10 properties with a significant, positive cash-flow or 10 properties which barely break even, or perhaps are even cash-flow negative?

Perhaps 10 properties let to tenants on benefits, or 10 properties let to working tenants?

I could go on and on but I won't, I'm sure you get the idea. It's all too non-specific and makes setting the goal meaningless.

By the way, I'm not knocking or criticising anyone who sets goals like this, the fact they are setting goals at all is highly commendable, but it's a shame it won't help them to achieve what they want to achieve. But if you set the right goals, and then follow-up with the right plan and actions, you are pretty well assured success.

Rather than setting a goal of owning 10 buy to let properties a better goal would be to add a financial value to it and a time limit for it's achievement, such as "within 10 years I will own 10 investment properties with a total capital value of not less than £xm".

However, I suggest that we can be even more specific than that and a much more useful measure would be to combine the income and equity, and set a goal such as:

"By 31st December 2018 I own 10 investment properties, each worth £125,000 and with a total equity of £350,000 and cash-flow (net profit from rent) of £3,500 a month"

Or even:

"By 31st December 2018 I have £750,000 equity of buy to let properties and receive £3,500 a month in 'passive' income from them".

This leaves the number of properties unspecified and gives more flexibility. I don't have time to go into it now but from experience I know that what you achieve from your properties is far more important than the number of properties you own. By the way, if you're not sure, equity in this context is the balance left when the amount of any outstanding loan is deducted from the capital value of the property. This is, in effect, the net worth to the investor.

The goals are also stated in the present tense as if you've already achieved them, and they are written. Both of these are important, again for reasons I don't have time to go into now. If you follow the model and write your goals, and write them in the present tense as if they are already achieved, you will make considerably more progress than before.

Why is that? Because with clear goals in mind we can now start looking for the properties which will help us to achieve our goals. If our goal is mainly income, we can discount all properties which don't cash-flow well. If our goal is mainly equity, we can discount all properties in areas where there is likely to be poor capital growth. It's really very basic but many, many buy to let investors don't think this way.

There are two other things we need to think of now, which I've already alluded to.

Having a goal on its own isn't sufficient to achieve its accomplishment. You need to know 'why' you want to achieve it. There needs to be a big and compelling reason why you want to achieve your goal.

The 'why' behind the goal adds power to the goal, it's the fuel that makes it happen. If you think about it, this makes sense. If you're really not that bothered whether you achieve a goal or not, if it's not that important to you, if there's no real reason why you should achieve it, guess what? You're probably not going to achieve it. You'll probably even forget you set the goal in the first place.

But if your financial future depends on achieving that goal, if the life you want to give your family depends on that goal being achieved, you're much more likely to get stuck in and to keep on going towards its accomplishment, especially when things get tough or difficult.

Put another way, to achieve your goals you need to be motivated. So, when you write your goals make sure that you are totally motivated to see it through, and not just writing it down because you think you should, or because it's a nice a idea, or for some other equally weak reason.

The second thing we need to think about is making a plan to achieve our goals. Writing your goals is a great start but now we need a plan of action. The easiest way is to look at the goal and then to plan backwards to the present day, and to think of the steps you need to take in between to accomplish it.

This can form the basis of the plan and you can then go into greater detail by breaking each of those steps down into tasks and putting dates on them for their accomplishment.

For example, if your goal is to own 5 properties producing £1000 a month net income by the end of next year, the steps between then and now might be:

*Set my goals

*Make a plan to achieve my goals

*Talk to a mortgage broker

*Release equity from my own home to pay for deposits on my buy to let properties

*Choose my investment area

*Research my area

*Find a suitable property in my area

*View 100 properties, offer on 10, buy 1

*Finance it

*Renovate it

*Let it

*Appoint managing agent

*Talk to my mortgage broker and refinance it

*Find another property

*Repeat the process

All of these ‘steps’ can be broken down further. For example, ‘Research my area’ could and should include

*Drive my area to get a feel for it and the type of properties available

*Visit at least 3 letting agents to find out what types of property rent well, at what rent, and in which streets

*Visit at least three estate agents and find out about properties in those streets and establish the typical selling price

*Do my due diligence to work out whether those properties provide sufficient return to achieve my income goal

And so on.

And all these tasks can then be assigned a date to do them by.

Earlier on I said we need a ‘plan of action’ and I used the term quite deliberately. Action is the key. You can do all the planning you like but if you don’t take action it all means nothing.

Having a plan like this will help you to avoid procrastination and overwhelm, and will help you to keep track of what to do next to progress.

Number Two – “When You Buy Property, Always Think About Investment Fundamentals”

If you don’t think about investment fundamentals when you buy, you are more likely to buy in a random and haphazard way. Sadly, this is the case for many buy to let investors.

Let me give you an example of what I mean by this. I’ve met investors who own property but they’re not entirely sure why they own them. They’re not sure whether they are going to give them much in the way of cash flow, and quite often the figures suggest that the returns are actually very poor. And they are not sure whether they are going to give them very much capital growth; quite often they are in areas where capital growth could well be limited. And on further questioning they are not really sure why they actually bought them in the first place. It’s kind of like it was the house down the street and, “I thought I’d buy it because it would be handy to manage”. Or perhaps, “My managing agent had a client who was selling a property and offered it to me and so I bought it”.

Or perhaps, more common, is that they may go to the local estate agents and look at the pictures in the window. They see what looks like a nice house in an area that they are familiar with and they go in and ask the estate agent if they can look at the details. So the estate agent passes the details across the desk and they may say, “Okay, I’ll buy it”. If they’re feeling really sophisticated they may offer 10% less than the asking price, and may end up buying it at 5% less than the asking price, and then they’ll feel that they’ve bought themselves a real bargain!

I have to confess that when I started in buy to let, I did exactly that before I realised I had to buy in a much more systematic way and be far more aware of the investment fundamentals.

Although no doubt well intentioned, very few buy to let investors buy correctly, using thought through investment criteria, backed by a process to make sure that they buy properties that fit these criteria.

The vast majority will make their investment decision something like this.

"I'll buy a property and then I'll wait for it to go up in value".

If that is the extent of their investment rationale, then this is no more than speculating, particularly as many will do only rudimentary due diligence, if any due diligence at all. For many, any property will do.

Now it might sound like I'm being very critical and somewhat gloomy. What I would say, to try and redress the balance, is that they have at least taken action. One of the biggest stumbling blocks I see in property investment is those with a desire to be involved but who procrastinate, or who are bound by fear, and who never take action. I read once that taking action is the sign of a superior person, and so in that regard they should be applauded. But there is no point in taking action the wrong way, colloquially that is known as "getting it wrong", which is something we all want to avoid.

Believe me, when I started, I got it wrong a lot of the time, so I fully understand how it can happen.

As a very minimum, a buy to let investor should be thinking of:

*The gross yield or return they'll receive from the property, in other words, the rent expressed as a percentage of the capital value, and how this compares with returns from other properties (of other types and in other areas) and other types of investment

*The return on their own cash invested. I'll talk more about this, and gross yield, in the next section.

*The prospects of future capital growth (for that property, and in that location)

*How easy it will be to achieve the required level of rent

*How easy it will be to keep the property occupied by the right type of tenant

*How easy it will be to sell the property if they ever need to exit and to sell in a hurry

It's only when they can answer these questions that they should then think about offering on a property.

Number Three – "Understand and Appreciate The Power of Gearing and Don't be Afraid of Taking on 'Good' Debt"

I'm now going to tell you probably the most important secret known by and used by all the great property investors.

It's this. "Using other people's money can make you rich".

If you think that sounds a bit hyped up let me put it another way.

"Using other people's money will greatly increase the return on any of your own cash which you put into a property deal".

In other words, taking on debt and using debt for property investing is a good thing.

Some investors who are new to property, or even some old hands who don't truly understand the game, might be thinking "I hope you are not going to encourage me to take on (more) debt". This is because they don't understand the beneficial effects of 'gearing' and of using debt.

The trouble with using other people's money is that debt makes us squeemish. From an early age we are told that debt is bad and should be avoided and this is true, or at least partly true. There are certain types of debt that we should avoid at all costs but, like it or not, any businessman will tell you that most businesses cannot grow without the proper use of investment debt.

This is especially true of property where the sheer scale of the figures involved mean that only the super rich can afford to be seriously involved without some form of debt. If you want to build a sizeable and profitable property investment portfolio the truth is that you will require some short term debt.

The good news is that borrowing the money you need is probably easier than you think.

The reason why investing in property works better when you use someone else's money is gearing, and this really is the star of the show. Let me show you the amazing and powerful affect that it can have on your property returns.

Gearing or, as it is also known, 'leverage' the American term, can be defined as *using borrowed money to increase the returns on your own money invested*.

There are two principle ways that gearing can boost our returns.

*It can increase the return on our own money invested derived from the rent

*It can increase the return on our own money invested derived from capital growth

And this is best illustrated by looking at and comparing:

*The gross yield

*The return on our own capital invested

Let's use a simple example. Let's assume we buy a property for £100,000 and rent it out for £600 per month. To keep the maths simple we'll ignore fees and other costs, but even when they are calculated in, the principle is still the same.

Let's assume that we are cash-rich and buy the property using only our own money.

The return from the property, from the rent, can be calculated like this:

Gross yield = rent/purchase price x 100

Gross yield = £ 7,200 (which is 12x £600)/100,000 x 100

Gross yield = 7.2%.

Because we have put in all the money, the Gross Yield is the same as the "return on our own money invested" known as the cash–on-cash return. So the return on our own cash is also 7.2%.

OK, that's much better than we'd get in the building society but let's now gear up by borrowing some money.

Let's assume we borrow the maximum amount we can. Our buy to let lender will lend us 75% LTV meaning we can borrow £300,000 if we use the £100,000 as a deposit. So, we can purchase 4 small properties for £100,000 each or one large property for £400,000.

To keep the example simple we'll ignore costs for now, and we'll assume that we buy the 4 smaller properties, as real life experience suggests this will give the greater return.

We'll also assume that our lender will grant us an interest only loan at 3.25%. Let's see what happens to the return on our investment now – remember, that is the return on the money we put in.

The rent we will receive is £28,800 (4 x £7,200) each year. However, we will need to pay the mortgages. This will be 75% of £400,000 which is £300,000.

Rent received	£28,800
Less mortgage interest £300,000 x 3.25/100	£ 9,750
Net profit	**£19,050**

The return on our own money invested = 19,050/100,000 x 100

ROI = 19%.

So, by using borrowed funds, and by buying multiple properties, we are able to increase the return on our investment derived from rent from 7.2% to 19%.

However, as I said earlier, the return from the rent is only one of the returns we can expect to enjoy from our property investing. The other principle return is long-term capital appreciation. Let's see how gearing affects that.

Let's assume the value of the properties increase in line with long-term growth trends in the UK. For the last 50 or so years the average rate of growth in UK property values has been at around 8% even accounting for the crash of 2007/2008.

As I say, this is an average. In some years values grow by more than 8%, in some years by less than 8% and in some years values have fallen. However, taken as an average, including the years when values have fallen, UK property prices have grown at around 8%.

At the moment it might be hard to imagine consistent future growth in property prices but we do know that the economy, and with it the property market, is cyclical and inflationary. There will always be periods of growth, and periods of contraction.

However, for those who remain pessimistic about the potential for future growth rates I'll compromise and will adopt an average growth rate of 5% instead.

So if we purchase one £100,000 property for cash and it increases in value by 5% then the return on our money due to capital appreciation will be as follows:

Purchase price	£100,000
Value after one year	£105,000
Increase in value	**£ 5,000**

As we put £100,000 of our own money in, the return from our own money invested is

5,000/100,000X100 =5%.

Now if, as before, we borrow to fund more purchases and use our money as the "deposit" then we can buy 5 x £100,000 properties, assuming we can get mortgages with 75% LTV.

Purchase price	£400,000
Value after one year	£420,000
Increase in value	**£ 20,000**

As we put £100,000 of our own money in, the return on our own money invested will be:

20,000/100,000 x 100 = 20%

In other words, by gearing up, the return on our own money invested derived from capital appreciation jumps from 5% to 25%.

When we aggregate the returns from rent and capital appreciation we can see that our "non-geared return" on our own money is 12.2% but our "geared return" is 39% (19% + 20%).

In other words the return on our own money invested is **over 3 times higher**.

However, even returns on our own money of 48% are unexceptional in property, when we buy the right property and start to use gearing to its full potential.

As a final thought, suppose we were able to buy 4 £100,000 properties using 100% finance. What is our return on our own money invested then, if we can get 100% finance?

Well, yes, clearly it's a nonsense question – if we haven't put any money in then by definition there can be no return to calculate on our own money invested. However, the received wisdom is that the return to us, in terms of the money we have put in (or not put in, to be accurate) is infinite.

If we put none of our own money in but get some money out, then the return to us is infinite.

And this is how property investors become millionaires; when they either gear their own funds to increase their returns or, even better, buy properties using 100% financing.

How do you achieve 100% finance? The easiest way when you start is to borrow the deposit (the £100,000 in our example) as a mortgage or re-mortgage against your own residence, for example.

When you have become more established and have several buy to lets all increasing in value, you can refinance them, draw out the equity, and use that to fund deposits on your next purchases.

Alternatively you can use your own money for the initial purchase (if you have it) but then borrow all of the money back out again after purchase, (at the time of writing most lenders require a borrower to have owned the property for 6 months before they'll lend) leaving none of your own money in the deal. At that point your return becomes "infinite".

Number Four - “Always Plan for the Long Term, Many Investors Only Plan for the Short to Medium Term”

Many investors, even when they set their goals and plan for their achievement, fail to give themselves enough time to make their goals happen. They fail to appreciate that property works best when it is treated as a long-term investment.

Or perhaps they do appreciate it but circumstances change which mean they need to sell or, sometimes they just can’t resist the temptation of cashing-in early and taking their profit.

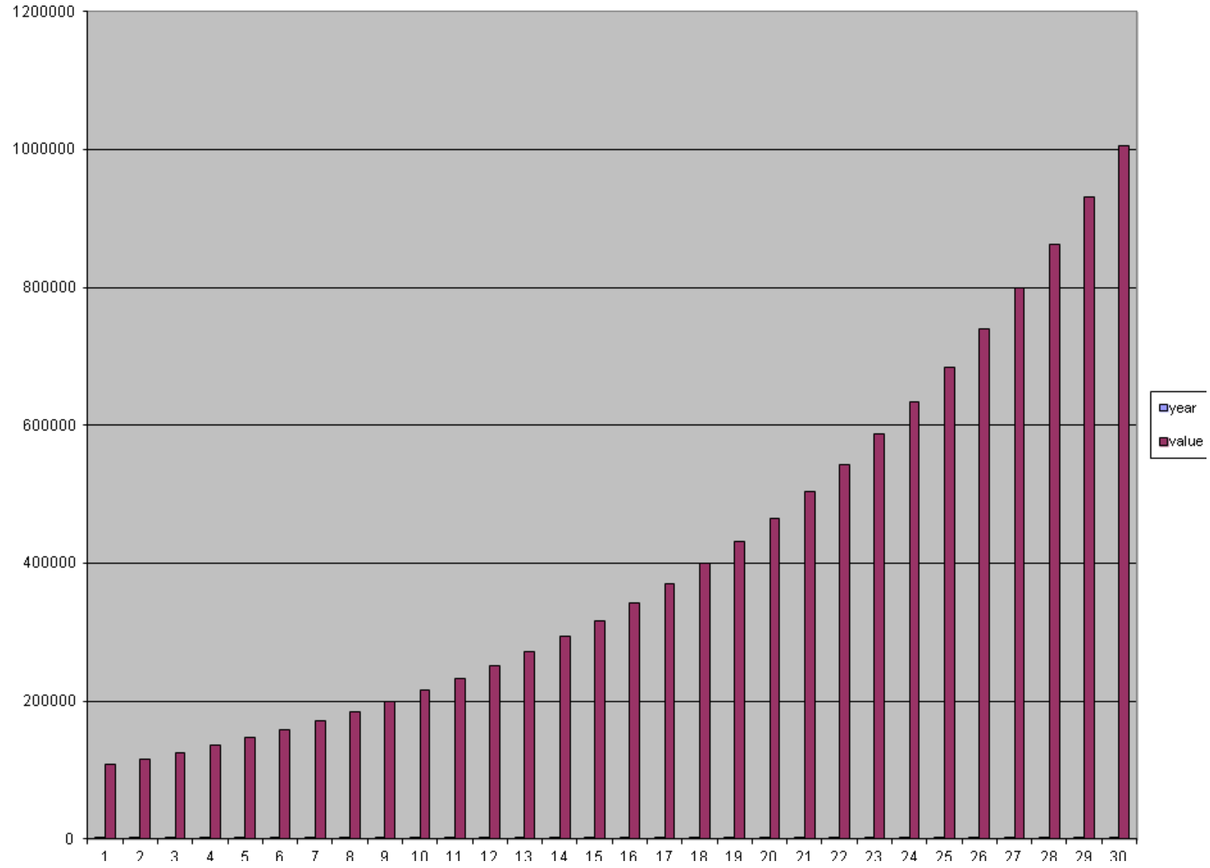
This isn’t to say that trading property is a bad thing to do. If your preference is for buying run down properties, doing them up, and selling them on, that’s fine. And so is “buying low and selling high”. But as I say, that is trading and not investing, and making a strategic decision to trade is different from buying to hold and then selling early.

Property investing is a long term business, and the greatest benefits are obtained in the later years and not the early years. There’s an old saying that “problems compound with time”. I’m glad to say that’s equally true of property values. Over the last 60 years property values in the UK have risen by about 8% per annum on average. Over the last 100 years the rate of growth has been about 10% per annum.

Both of these growth rates take into account the falls in value in the great depression of the 1930’s, the recession of the 1990’s and the latest “crash” in 2007/2008. Now no one can truly predict what the future may hold, as IFAs have to say “Past performance is no guarantee of future results” etc, but most experts agree that this trend of increasing property values will continue, albeit with short-term blips.

This makes property an ideal medium through which to catch all the benefits of compounding.

Look at the graph showing the value of a property valued at £100,000 today and growing at 8% per annum.



You'll see that the growth is exponential and not linear, in other words the growth accelerates over time. For example, by year 10, the value has grown to £215,892. By year 20 it has grown to £466,095 which is more than double the year 10 figure. However, if you leave it just another five years, the value grows to £684,847. This means that the value grows almost as much in last five years as in the whole of the previous ten years.

The mistake made by many investors is to sell too early, before they have benefited from this compounding effect. The question which has to be asked is, "Why sell at all?" The answer is usually, "I need the money", and sometimes circumstances makes that unavoidable. But an alternative, and often better way to release equity from a property is to refinance. In a way this is having your cake and eating it. You can have most of the net worth out of the property now, and still retain the benefit of the future compounding growth in capital value.

There's another saying in property that "no one ever regretted buying a property, only selling it". I'm not sure that I'd always agree with this, but I understand the sentiment behind it.

The solution, yet again, is simple. Don't buy any property without first considering the long-term implications. When setting your goals, look at least five, preferably ten years ahead. And resolve never to sell unless there is no other option. Instead, if you need to take your equity out, think about refinancing instead if circumstances allow.

Number Five –" It's Good to Buy at a Bargain Price but Don't Become Obsessed with the Idea of Buying 'Below Market Value'"

We live in the BMV (below market value) age. No self-respecting investor would attend his or her local property networking meeting, or post on any property forum, if they weren't negotiating furiously for 20%, 25% or 30% discounts from *Market Value*. Didn't buy it BMV? Then hang your head in shame. That's just not how it's done any more.

The fact is that sometimes it can make perfect sense, and can be entirely appropriate, to buy at full market value, and sometimes at even more than market value.

I'll get into that in a moment but let's explore the whole concept of BMV a little more closely.

The premise behind buying BMV is built on sound principles, and let me stress that there is nothing wrong with aspiring to buy BMV. After all, everyone wants a bargain.

We are often told by the property gurus and experts that "*The profit is made on the purchase*". What this means is that if you can buy at a genuinely cheap price, then you won't be relying on a rising market or other factors to generate your profit when you sell. That may happen as well, depending on what you buy, when you buy it, and what you do to it but, if all else fails, by buying cheap enough at the start, you are guaranteed a profit from day one. The profit is built-in on the day of purchase.

As I've already alluded to, unless there are particular circumstances where it makes sense to buy at market value or more, the default setting for most investors is now to adopt buying BMV as one of their principle buying criteria.

But, potentially, there are some flaws with BMV.

The first is that some buyers, particularly new or inexperienced investors, can mistake buying BMV for buying *BAP*, or *below asking price.*

The assumption, of course, is that asking price equates to value. It doesn't, or at least, it might or might not. We can't assume that the asking price reflects the true market value. Chances are that you'll not know who has set an asking price, or how they came up with that figure. The asking price might be too high, or it could be too low, or it could be just right.

Proper due diligence will give you a feel for how close to true MV it is, but don't ever assume anything.

The second and more important major flaw is that *Market Value* is hard to quantify. What do I mean by that?

The RICS (Royal Institution of Chartered Surveyors) defines Market Value as:

> "*The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion"*.

So it's easy to define but what does this mean in practice? Sadly, I'd argue not a lot.

Most valuers (who are mostly Chartered Surveyors operating under the RICS definition), and I'm talking about the 'valuers' who undertake valuations for mortgages, and not the ‘valuers’ who estate agents send out to suggest an asking price when you put a property on the market, (although they, too, could be RICS qualified), will use evidence provided by recent transactions.

In other words, they’ll be mainly guided by the sale prices of other, similar properties in the locality.

In a slow market with less sales providing only limited market evidence, it’s more difficult for them to put a figure on a property.

So the less evidence there is, the more they have to rely on their own judgement, experience (or lack of it) or prejudices.

Then there’s the quality of the evidence. The RICS definition assumes *willing sellers acting without compulsion*. It’s a nice thought but not practical. We know that, especially in a slow market, a lot of sellers sell because they are ‘under compulsion’, perhaps because they are in financial difficulties and need to sell quickly, although this is only one of many reasons why a seller might want to drop their price to get a quick sale.

When a valuer looks at evidence provided by recent sales prices there are no notes on the system to tell him or her why the sellers sold at that price. He or she doesn’t sift the evidence and discard the sales where the seller was ‘under compulsion’, what we’d call, using the jargon, a ‘motivated seller’.

So in a falling market, or a static market, there’s almost certainly a distortion of values downwards because most of the evidence used by valuers will be provided by sales prices agreed by ‘sellers under compulsion’.

My point? My point is that under slow market conditions values are hard to assess and are based on ‘impure’ evidence.

In addition, how that evidence is used is open to interpretation by the individual valuers. That’s why there is no single number that all valuers will arrive at. Valuation is very imprecise.

Back in the 1990’s I was involved in providing expert evidence to the High Court which was considering a number of negligence claims against valuers. One of the considerations the Court passed judgement on (in a number of reported cases) was how much margin for error a valuer has. The usual presumption of plus or minus 10% was hardly questioned and, in one case, the Judge opined that when undertaking an unusual or a complex valuation, the margin could be up to plus or minus 25%! I think that was extreme and I don’t think his comments created a legal precedent but, even so, with just a 10% margin of error, a valuer can value your £100,000 house at anywhere between £90,000 and £110,000 and still be right.

Throw in evidence provided by a couple of sales where the sellers needed to “get rid” quickly at £75,000 or £80,000, or a repossession down the road which sold at auction at a 40% or 50% discount to the price you’re paying, and it could be anybody’s argument about what the real value is.

So the question is, what is the value? If you are buying BMV then that’s a foundational question.

There’s another flaw in BMV which we need to be aware of and that is that the BMV sales themselves can set the tone of value, rendering the price paid the true value, and not a discounted value.

Let me explain. Let’s assume you buy a property, say a flat, in a reasonable sized development. You are told by the agent this is great buy to let opportunity and the flats are available at a discount of 25%. They’ve got the RICS valuation to prove it.

20 out of 25 flats are then sold at this discount to investors like yourself.

Now here's the thing. As many investors have experienced, the valuer has come along, has seen that most of the apartments are selling for 75% of £X instead of £X, and so now concludes that there's an overwhelming weight of evidence suggesting the true value is now 75% of £X. It makes sense, doesn't it, because that's what most of these flats are selling for.

The investor may argue that a few months previously another RICS qualified valuer had been out and had valued the apartments at £X, but it won't make any difference. When the valuer undertook that valuation none of the flats had sold and so there was no evidence within that development. He or she might have had to rely more on his or her own experience and judgment (or lack of it), or on evidence provided by sales at other developments. Now, though, there have been 20 sales, all at 75% of £X, so the evidence is conclusive, a 'slam-dunk' case.

The result? The BMV is now the actual MV, the B has disappeared. One of the major advantages for the investor in buying this property, that of obtaining built in equity, "making the profit on the purchase", has now evaporated almost overnight.

This was a problem back in the day when the financial crisis first hit and a large residue of 'off-plan' deals were still progressing through the system. Today it is still potentially a problem, not so much for investors buying off-plan, as they are few and far between, although the numbers will increase as the market recovers.

Instead there are an increasing number of new and completed developments being offered to investors with bulk sales of individual flats or houses.

If you think that's harsh, how about this for an argument? Many leading thinkers in the property world would argue that the same argument applies even where there is no mass sale of property. For them, a single sale will set the tone of value.

So, for example, they would argue that if you buy a property at a BMV price, in reality the property isn't worth the pre-discounted price and, instead, you have just set a new level of value, which is lower than the previous level. Same argument but requires less properties to prove the point!

If you think about it, there's some sense to this. Putting the official RICS definition of MV to one side for a moment, I'd guess that most of us would agree with the sentiment that the value of a property is what someone is prepared to pay for it. That being the case, if you are only prepared to pay 30% below what was previously the accepted MV, then the MV must now be 30% less.

This is how the banks operate, in the sense that a mortgage offer will invariably be made against the value or the purchase price, whichever is the lower. The bank won't, on day one, accept that the property is really worth 43% more than you're paying for it (mathematical proof - a 30% discount from £100,000 is the same as a 43% increase on £70,000, when you reverse the sum) although they might accept it after 6 months, which is the minimum time-frame in which most banks will now allow you to refinance. But they'll be more inclined to accept it if you can show them you've done something to increase the value, like refurb it.

Why does any of this matter? Mainly because some investors are buying property, lured by the prospect of having a significant discount to value when, in reality, the figure they are using for MV is far from certain.

This can be particularly true in the case of properties sourced, packaged and offered by 3rd parties.

It can also be the case where investors source their own properties, in areas where evidence is far from conclusive, and especially where sales are few and far between.

And in either case, the problem is more likely to occur where the investor is slack in doing their due diligence.

When you are offered properties by those dealing in packaged buy to let opportunities, I doubt any of this will be explained to you, at least not in any great detail. Truthfully, many of the agents might not even have had reason to even think about it, and might not even understand it.

If you're buying for the long term there may be no practical consequences other than '*the profit you've made on the purchase*' might, arguably, be just a figment of your imagination but, if you hold the property for the medium to long-term hopefully you'll come out ahead anyway when values increase, even if there wasn't really a discount to MV.

On the other hand it's possible that you'll find that it impairs your refinancing options later. This could make life tricky if you were hoping to pull your money out and go again to build a portfolio.

Otherwise, hopefully, when values rise, market evidence will once again suggest a value at or above the pre-discounted price, and you can tell yourself what a great bargain you bought.

Finally, let's consider the problems with buying below market value in a rising market.

Under any market conditions there will always be vendors who need to sell quickly for a number of reasons, and who are prepared to discount the price to get a quick sale.

But logic suggests that in a rising market, with more buyers chasing properties, most vendors will know that they don't have to discount the property as much, or even at all, to sell.

Where an investor may have expected 25-30% discount in a slow or falling market, they may routinely get only 15%, or 10% or even no discount at all in a rising market.

Finding vendors who are willing to discount is now much harder work, and there'll probably be more competition from other investors.

So an investor has two principle options:

First, put in the hard work to find motivated vendors and move extremely quickly on any opportunities they find.

Secondly, adapt to the circumstances and find a new strategy. Perhaps buying nearer market value and relying more on market movements to increase equity. Or perhaps looking for situations where they can add value (or equity) by buying properties that need repair or modernisation, or where they can title split (e.g. convert a house into two flats and sell them on individuality).

Number Six – "Make Sure You Don't Over Estimate Your Cash-Flow"

Hand in hand with buying BMV, since the credit crunch, the investing community has embraced 'going back to basics' and concentrating on 'the fundamentals'. In particular, most, if not all, investors are intensely interested in cash-flow.

Depending on their goals, as a minimum, investors want to buy property which at least breaks even, although many will not be satisfied unless they find a *property which gives a positive cash flow, month after month*. And many, want a good positive cash flow, and rightly so.

Let's think about what *positive cash-flow* actually means.

The simplest definition is "what is left over when outgoings have been deducted from the income".

You'll regularly see properties, particularly packaged properties, offered with a stated positive cash-flow. For convenience, because rent is usually paid monthly, market practice is usually to quote positive cash-flow figures monthly, although sometimes you may see them quoted on an annual basis.

In theory the maths for calculating monthly cash-flow should be very simple; take the monthly rent and then deduct all the costs.

A problem is that in practice there isn't a standardised definition of 'positive cash flow'.

So, unless you do a little digging, you won't necessarily be sure of what someone is talking about when they talk about positive cash flow.

Does this matter? Sometimes no, but often very definitely YES! Especially if someone is trying to sell you a property and one of the attractions is the amazing positive cash-flow they are quoting to you.

Here's what I have noticed. When someone selling a property gives a positive cash-flow figure it's sometimes calculated as being monthly rent less mortgage interest.

Sometimes it will include a deduction for management fees but not always. More often than not the positive cash-flow quoted is usually only *rent less mortgage payments*.

If finance isn't arranged yet, which is usually the case, then the assumption will be that mortgage payments will be interest only.

There will also be assumptions about the interest rate to be charged on any mortgage but often these won't be stated.

The reality is that if you bought this property you'd soon find that a positive cash-flow calculated on this basis doesn't have any bearing on reality.

To know the true likely cash-flow for a property account needs to taken of:

***Letting fees.** These are often charged at 1 months rent, but on top of that you need to add VAT. Agents will also charge for the preparation of the tenancy agreement and some agents will try and get you to agree to the preparation of an inventory at an extra cost. They'll also charge for insuring the tenant's deposit.

***Insurance** – buildings insurance, contents insurance, landlord's liability insurance and perhaps rent insurance.

***Void periods** (in other words, when the property is vacant). No property has 100% occupancy.

***Management fees** which can range from 5% to 15% of the rent, plus VAT.

***Repairs -** If you find you need to replace the boiler (which you will, one day) that could be 15 months positive cash-flow gone just like that.

In fact, the subject of repairs is a minefield in itself. In theory the amount you spend on repairs should be directly related to the age of the property and the condition it is in when you first let it. Obviously you'd expect an old property in poor repair to cost more in ongoing repairs than a brand new property with a NHBC guarantee. What a lot of 'investors' don't think about is the scale of repair they may be in for. It's not just about the small things. At some stage the windows will need to be replaced, the roof will need to be overhauled or renewed, the wiring will need to be upgraded.

***Sundries** like the cost of the annual CP12 (gas safety certificate), an EPC (Energy Performance Certificate), electrical certificates and so on. Believe me these things add up.

***Council tax and utility bills** whilst the property is empty between tenancies and whilst you refurb it after purchase.

***Licences** - depending upon what and where you buy, you may need a licence from the local authority either for an HMO, or for a single family residence in 'an area of low demand'. In fact, some local authorities are now requiring <u>all</u> landlords in their areas to be licenced, regardless of whether the property is an "area of low demand" or not. Expect this trend to spread (e.g. Liverpool and Nottingham).

***And last, but certainly not least, mortgage payments**, which are usually the single biggest, consistent monthly cost.

When a positive cash-flow of £200 a month is quoted you can see that, when you start to look at the detail, you aren't going to be receiving £200 a month positive cash-flow in many months.

Investors should be buying based on genuine cash flow, and not the best possible cash-flow if you have no voids, no repairs and manage the property yourself (meaning you don't have to pay management fees).

That's why doing due diligence is so important. You need to ignore the claims and research for yourself what you are really buying.

I've said that I've seen agents make inflated claims about cash-flow but investors who source their own properties also need to be careful.

It's easy to gloss over or overlook figures, especially when we get emotionally involved with a property.

Or, perhaps, through inexperience, some investors will be unaware of all the true costs of holding a property and really 'want' to buy it.

With negative cash-flow you are potentially heading to bankruptcy so you need to make sure you avoid it at all costs.

Number Seven - "Don't Be Drawn to Properties Which You Would Like to Live In, Instead Find the Type of Property Your Tenants Want to Live In"

A lot of investors fall into the trap of buying only those properties that they, the investor, would aspire to live in. As a general rule, as we are conditioned to be looking to constantly move up the property ladder into bigger and better properties, many investors apply this yardstick to their investment purchases.

When they do so, they often end up with properties that are unsuitable for letting. Often, these will be the more expensive properties in their chosen areas, and will inevitably produce a lower return than could otherwise be achieved from a smaller and cheaper property. As a result they pass up many decent properties which are extremely rentable, and which would be extremely profitable.

Here's a simple truth about property.

All other things being equal, the lower the price of the property, the higher the yield or return it will give.

The converse is also true that ***all other things being equal, the higher the price of the property, the lower the return or yield***.

In other words, the return from a property is in inverse proportion to its price or, where applicable, its value.

Going back to point number one "All Property Investors need to be Really Clear on What They Want (From Buy to Let)", they can use this rule of thumb to guide them to the right type of property, rather than buying on emotion.

If they are principally after income, they'll be looking for cheaper property.

If they are principally looking for equity through capital growth, they'll be looking for more expensive properties.

So let's think about income.

Because the return is the amount of rent you will receive expressed as a proportion of the purchase price, it means that the lower the price, the more rent you will receive as a proportion of the purchase price.

If there is a presumption that these deals are going to be financed with a mortgage then, not only does a cheaper price mean taking out a lower mortgage, but also the cheaper the price the more rent the buyer will receive relative to the mortgage, making it easier to pay the mortgage. That's the theory anyway.

You can also see that if 'positive cash flow' is in part calculated as *rent less mortgage*, then buying cheaper property in cheaper areas should boost cash flow.

So should an investor always buy cheaper property instead of more expensive properties if their primary goal is income? The simple answer is "yes" but unfortunately life isn't always that simple. The reality is that cheaper properties can be more prone to problem tenants, to longer void periods when the property is empty, and to more ongoing repairs.

So really this takes us back to our earlier point that cash-flow might not always be what we think it will be.

It's true that better quality properties can also be prone to these difficulties but the probability is that cheaper properties are more likely to be affected.

There's also another drawback of buying cheap property in cheap areas. As and when the market recovers these properties are more than likely to experience less than average rates of capital growth. In other words prices (values) are likely to increase more slowly in these areas than in areas of more expensive property. If you're buying purely for cash-flow and understand this risk, that's fine, but if you were hoping to see your capital grow in the future you might be disappointed by future growth rates.

The solution to this dilemma is to take your time and do your market research before you buy any property. There are two fundamentals to bear in mind. Firstly, any property you buy should fit with your goals and strategy. So, if you primarily want income from property, you should be looking for cheaper property. If you primarily want capital growth you'll probably need to look for more expensive property, subject to the proviso that you need to make sure there's sufficient rental demand to keep it occupied.

Secondly, you should always do your research, for example talking to at least 3 different letting agencies in each area to find out what type of property is actually in demand from tenants, and at what rent. Don't buy a property and then hope for the best and try and let it. Buy the properties that you know tenants are looking for. And if those properties don't fit with your goals and strategy, move onto an area where properties that do fit with your goals and strategy are in demand from tenants. Talk to as many letting agents as you can, and find out what tenants are looking for in your chosen area.

This advice goes hand in hand with …

Number Eight "Always Properly Research Where Prospective Tenants Want to Live, and What Type of Property They Want to Live In."

Find out what types of property are in greatest demand from tenants, and in shortest supply, <u>before</u> you buy. You may fancy a 4 bedroom, detached house as a chunky investment, but you'll possibly find there are ten times as many tenants looking for two bedroom flats or terraced houses.

Time for a real live case study. Along the banks of the River Thames in suburban London, in areas such as Kingston, Thames Ditton and Barnes, stand many high quality, 3 and 4 bed houses. They all have two things in common; a decade ago they were empty, and they were for sale.

These houses were purchased for 'Buy to Let' but many were never let. At that time, to break even and cover the monthly mortgage, the owners needed to net between £1,500 and £2,000 a month after costs. Quite simply, there were too few prospective tenants looking for 3 and 4 bed houses; and of those tenants that were looking for this type of accommodation, even fewer were prepared to pay rent at that level.

As a result, many of these properties were sold on without having once been occupied, and the owners were lucky to get all their money back out after allowing for stamp duty, legal fees and mortgage costs.

The truth is, that under most market conditions, there are many more tenants for lower value properties than for high value properties.

This trap of aspiring too high is easy to fall into. In a "hot market", when prices are increasing at 10% or 20% a year, there is a logic to buy bigger and better properties. Buy a property for £300,000 and watch it grow in value by £60,000 in a year. Very nice.

But if you can't find a tenant, and you have no rent to cover the mortgage payments, then you will end up in the classic "asset rich, cash poor" nightmare as your dream investment eats up any surplus income or savings you have. If you have none, then you will soon be financially ruined if you can't resell quickly enough.

If you have already put your money into high value property and are finding it difficult to keep it tenanted and cover your costs, the only solution may be to cut your losses and sell, and reinvest your capital into something more suitable.

In a study I made a few years ago of rents for two bedroom, new build flats in city centre locations, I found that 2-bedroom flats with sales prices of £300,000 plus achieved only double the rents of cheaper 2 bedroom flats costing £100,000 or less.

Unless the investor understands this, and has a clear idea of the likely rent, this can come as a nasty shock. In effect, the investor will get less income for his money (in relative terms, anyway) the more he spends on a property.

This means that pro rata, the mortgage (as we have already seen, having a mortgage is more desirable than paying all cash) represents a larger percentage of the rent received. In relative terms there is less rent to pay the mortgage. This also applies to the other costs as well. So there is less left over as ‘profit’ for the investor.

This reinforces my opinion that more investors will get further, more quickly, if they just lower their sights and start with less expensive properties.

With apologies to Tyler G Hicks, author of the excellent “ How to Make Million$ in Real Estate in 3 Years Starting With No Cash ” :

“a pound of income from a less expensive property is the same as a pound of income from a high value house. And what’s more, the income pound from a lower value property will probably be a much more profitable pound to you because less of it will go for paying various expenses. By this I mean you’ll be able to spend on yourself 20 pence to 30 pence of the pound you get from a lower value income property. But you’ll be able to spend only 3 pence to 6 pence of the pound you get from high value, newer properties”.

In my experience, there’s a lot of truth in this.

Number Nine - “Don’t Rely Too Much on the Judgment, Advice and Efforts of Others”

Nowadays there are many providers of ‘Bespoke Buy-to-Let’ investment properties, and deal-packagers.

Now I want to stress that many do provide an excellent service. However, it’s also true that some exist purely to line their own pockets. Amazingly, a large number of otherwise intelligent investors part with large sums of money to a packager or agent without knowing very much at all about their chosen ‘property provider’.

But first, what do these companies offer? The main service, with some variations, is this.

They will offer to source, renovate, and let a property for you, after which they will maintain it and manage it for you. Often you will be shown that the end value after refurbishment will be high enough for you to be able to refinance and recoup both the original purchase price and the cost of the refurbishment, meaning you can then purchase a similar property.

In theory, if you have the cash for the first purchase, you should be able to go on refinancing and gearing up, until you have a sizeable portfolio.

Typically, you will be expected to pay a single sum, an ‘all inclusive price’ which includes the property purchase price, your legal fees, and the cost of the refurbishment. The refurbishment price will also include the agents ‘project management fee’ (well, you wouldn’t expect them to do it for nothing, would you?) and if they propose letting furnished, the cost of the furniture. Sometimes they’ll also throw in the first year’s property insurance.

For your peace of mind the payment will be to a solicitors client account. Usually you’ll be invited to use this solicitor for the conveyance, but you can use your own solicitor if you want.

The appeal to investors of these packages is:

*They promise relatively high yields

*They suggest that by re-mortgaging after the refurbishment is completed you should be able to get back most, or even all, of the money you have invested.

In theory, if you could do so every time, you can build a sizeable portfolio for the price of just one property

*Prices are cheap; you can often buy a two or three house or flat for as little as £50,000, certainly under £100,000. This means property investing is no longer just for 'the rich'

*Convenience – you have to do very little, they do all the work. I have heard numerous stories of investors buying 'unseen', literally just sending the cheque and never even inspecting the property, which is about as hands-off as you can get.

The disadvantages are:

*The properties are usually in low value areas where, traditionally, capital growth has been slow or in some cases, negative

*Arranging finance at the lower end of the market isn't always straight forward

*Although the gross yield is very attractive many buyers do not have realistic expectations of the real, or net, return they will achieve. They completely overlook budgeting for voids, repairs or tenants defaulting on the rent. All or any of these will substantially reduce the real net yield.

*A large proportion of potential buyers are geographically distant from the areas in which these companies operate – mainly cities in the north. As a result the buyers often know little about the areas in which they are buying, and frequently buy in unsuitable locations.

*Although some of these firms offer a reasonable and competent service, some do not, and buyers have little chance of obtaining the returns promised. The worst of these companies have been known not to refurbish or let the properties. In other words, it's easy for passive or naive investors to be ripped off.

*Once the property is purchased the buyer can find that the management is lack lustre or, at worst, non-existent.

Unfortunately you can't tell from the glossy company brochure what level of service you can expect. My advice would be to take your time doing thorough research before you part with your money. Don't take anything at face value. Question everything and always ask for documentary proof of all 'facts' and figures.

Always take time to research the different suburbs in which you are offered property. My advice is to speak to everyone: the planners in the town hall to see if there are any specific proposals for that area such as regeneration or improvement schemes; the police – the local crime prevention officer will be able to tell you whether it's a problem area or not (you can't always tell by looking); local estate agents – chances are they'll know of the 'provider', especially if they are selling properties to them, and their reputation.

Would I buy from one of these firms? Well, yes, actually I have. But I have always done my homework first. Would I buy from a firm like that again? Probably not now because I prefer to source my own properties, and I especially enjoy that I keep all the profit for myself. But having said all of that, if I genuinely didn't have time to source my own properties, I would use an agent if I knew I could trust them.

Some investors use agents and packagers when they genuinely don't have the time to source properties for themselves. That makes perfect sense as long as they "go in with their eyes open" and do enough research to make sure they are dealing with someone reputable. Others go to sourcers because they can't find deals nearer home.

Before you go farther afield and buy from a third party, make a detailed study of your own area, up to a distance equivalent to 20 to 30 minutes driving time. Are you sure that there are no properties fitting your purchasing criteria? If there are, you can consider sourcing and managing them yourself. If you don't fancy undertaking the day-to-day management, you can at least source them yourself, and perhaps organise the refurbishment before putting them in the hands of a managing agent.

If you are already the owner of one of these 'bespoke packages' and it's not performing as you'd hoped, the answer may be switch to an accredited firm of managing agents. If things have deteriorated so that you doubt even a new managing agent could sort things out, you can try 'shaming' a sourcer into buying the property back from you. Often they will, but on terms that suit them. Don't expect to make a profit. If you get your original cash back out, you've probably done well.

Things have certainly improved since I started investing over 20 years ago. Back in the day buy to let was like the wild west; there were all sorts of rogues and scoundrels taking advantage of the unwary, and there were few resources deployed to keep them in check. There probably still are rogues and scoundrels, but at least now there's a better chance that someone's going to catch them, and the internet means it's more likely they'll be "named and shamed".

I remember the horror stories.

I spoke to one investor who paid a sourcing company, I think, £30,000 for a property which they were going to renovate and let out for him. He was lured by the promise of a rent guarantee and later found out that they bought his property for £10,000 at auction, and left it vacant and not renovated, paying his guaranteed rent out of the £20,000 profit. In the mean time the property was broken into and used as a playground by the local kids who systematically took it to pieces, until it was only fit for demolition.

A similar story involved an investor I spoke to who bought an apparently rented property for what, with hindsight, was a very full price. After a few months of ownership he went to visit the property only to find it all boarded up. When he knocked on the neighbour's door to inquire about what had happened to his tenant, he was told the property hadn't been occupied for 6 years.

Sadly fraud and scams were commonplace and made all the more easy by the number of cash buyers who were prepared to buy unseen, on trust.

They were also prepared to buy, apparently, without doing their own due diligence. If they had done even a few basic checks they would more than likely have seen they were paying well over the odds for their property.

Eventually, partly as a consequence of investigating promises of unsustainably high yields made by several sourcing firms, the authorities acted and the DTi, as it was then, closed several firms, and the police raided the worst with individual directors being prosecuted and receiving jail terms.

Of course, things are much better today. Or are they? I'm not aware of any sourcing companies pulling the same scams, but then again, I haven't been looking.

Having said that I want to make clear that I'm highlighting the problems with the worst of agents and am making my point using extreme examples; there were many, and there still are many, who were, and are, above board and who act with integrity. As ever, the unscrupulous few ruined things for the scrupulous many.

Infractions might not be so blatant today but there are still a few agents who, in my opinion, sail too close to the wind for comfort. I stress, this is just my opinion and I'm not stating any of this as fact. You will need to make your own judgement.

Number Ten "The Most Successful Investors Continually Upgrade Their Education."

Continuous education is essential. We live in a changing world, not always for the better, and we must learn and adapt with it. If we don't we'll be left behind. What was true 20, 10 or even 5 years ago is not true today.

Just look at the impact of the internet. A few years ago I couldn't really see the point of it. Now I do transactions by email, I source properties direct from estate agents web sites and Rightmove and other portals. In the future more and more of property investing will be web based. Without blowing my own trumpet, if I didn't make a conscious effort to keep up through educating myself, I would have been left far behind long ago.

It's not just technology that's changing. Property investors have to be aware of:

*Changes in fashion and demographics – we're seeing significant changes to the way that people live, which is impacting directly upon the type of the property they want to live in

*Laws and regulations are constantly being introduced, updated or amended, and which can have a serious impact on our activities, strategies and techniques. Just think of clause 24 which restricts how much mortgage interest an investor can off-set against rent. Who saw that coming? And the result is many investors are now buying through limited companies and need to understand different criteria around financing and tax.

*The property market changes and investors need to adapt and to adopt new ways to transact business.

Even if you ignore all these changes, the truth is none of us know all there is to know about property investing. I have been in the business over 35 years but still read as much as I can on the subject. I listen to podcasts and audio books, watch DVDs and YouTube channels, attend seminars and workshops, and trawl the net looking for things which will make me a more efficient and knowledgeable investor. I am still coming across new ideas and techniques, almost weekly.

There's the old saying "the man who doesn't read is no better off than the man who can't read".

Yes, books, DVDs, podcasts, CDs and mp3s and seminars can all cost money but, as the self-help gurus say, 'this isn't a cost, it's an investment'.

So make it a goal to learn as much as you can. They say that if you read for an hour a day for two years you'll become an expert. If you read an hour a day for three years, you'll become a world expert. Why not in property investing?

Bonus: Number Eleven - "Successful Investors Make the Effort to Decide Which Financing Option is Best for Them, and To Get the Best Terms"

In my experience, inexperienced or unsuccessful investors make the mistake of not shopping around for the best LTV (loan to value ratio) or the best interest rate (½% over 20 years makes a lot of difference) or finding the loan with the least penalties if they ever want to swap or pay it off early.

Experienced and successful investors will always take the time, or obtain the advice, to get the best possible terms

A more sophisticated investor will also consider whether to opt for a repayment loan or an interest only loan. There are benefits and disadvantages with both.

The positives of opting for an interest only loan are:

*You literally only pay the interest on the loan. Unlike a standard residential mortgage, where lenders require the loan to be backed by an endowment policy or some other means of paying the capital element at the end of the term, most Buy-to-Let lenders don't need to know how you intend to repay the loan. They just take it on trust that at the end of the term, you will repay the capital. This means that your cash-flow is even greater; there's no payment towards the capital or to an associated savings scheme, and so you get to keep more of the rent each month.

Of course, you will still have to pay the loan back at the end of the term – we'll talk about that in a minute.

*As things currently stand now, you are allowed to offset interest on your loan for tax purposes. However, with Section 24 (introduced in the July Budget 2015) the amount of mortgage interest you can off-set against you rent when calculating profit is limited and is being phased out completely by 2021 (if you own a property in your name).

By contrast the principle benefit of a capital repayment mortgage is:

*As each monthly payment is made up of interest, plus a contribution towards the capital element of the loan, over time you will gradually pay off the loan. At the end of the term there is no more to pay. So with each repayment, you are increasing your equity in the property; in other words, your net worth increases with every payment.

Of course, this leads to one obvious and one not so obvious disadvantage:

*Because the monthly payment includes capital as well as interest, you pay more to the bank each month than if you were just paying interest. So your net cash-flow each month will be reduced, and you get to keep less of the rent whilst the bank gets to keep more.

*At the beginning of the term most of the monthly payment is interest, so in the early years a large proportion of the monthly payments can still be offset for tax purposes (subject to clause 24). However, during the loan period, the proportion of capital paid against income increases until, towards the end of the loan, you will be paying more capital than interest. This means that as time goes on, you'll be able to offset less and less interest against income and so your tax liability will increase**.**

The key question is "which type of loan is best for investors?" There are two views on this:

Firstly, there is perceived security from paying down the loan with a capital repayment mortgage. Every month you owe less and are worth more. At the end of the loan period you own a totally unencumbered property.

But is this realistic? If you think about it, in some circumstances paying off the loan doesn't make a lot of sense. If you are a serious investor you will be regularly refinancing your properties as capital values rise, and use the money drawn down as deposits for your next purchases. What is the point of paying capital back to the bank, only to take it back out again a few months later, and incur the costs of refinancing? You would be better off keeping the money in your bank account where you can access it easily and quickly when you need it.

Secondly, the diminishing ability to offset interest against income is significant in the last few years of the loan period; so much so that some 'experts' say this is reason enough for opting for interest only loans.

If you, like me when I first heard this argument, are wondering how you will repay the capital at the end of the loan period, 'the pro interest only lobby' argue it this way.

Remember that on average UK house prices have increased by around 8% per annum over the last 60 years, even taking into account the credit crunch. So if you were to buy a property worth, say, £100,000 with a Buy-to Let loan of 75% LTV, you'd owe £75,000 (I've kept the example simple by ignoring bank, legal and valuation fees). If this is an interest only loan for 20 years, at the end of 20 years you will still owe £75,000. The point is though, that during the same period property values will have increased (hopefully) by an average of 8% per annum and your property will now be worth £466,000. Now the loan, as a proportion of the value, will be only just over 16%.

And that's not the end of it because, at the same time, something else will have been working in your favour – *inflation.* The Bank of England is currently charged with keeping inflation at 2%. Whether they can achieve this in the long-run, only time will tell, but let's assume they can over the next 20 years. Even at 2% per annum the real value, or buying power, of your pound will be reduced by an equivalent amount. This is the opposite of compounding. It means that at the end of 20 years the loan of £75,000 will be worth only around £50,000 in today's spending terms.

Looked at this way, they argue, will you really care about the loan in 20 years time? If you want to pay it off, the sale of just one property from your, by then, extensive portfolio may clear all or most of your outstanding loans.

So which way is best? Well, I'm not an IFA and so can't give advice but my opinion is that I still think that it depends on you and what you are trying to achieve. For the more adventurous, interest only loans might be better. For those of us who are a bit more timid, there is some security in knowing that each month you owe less against your existing properties. So a combination of the two may be appropriate;

split the portfolio between say, high yielding, low value properties on capital repayment loans and high value, low yielding properties on interest only loans.

As always it comes back to goal setting. When you set your goals think through which financing package best fits with what you are trying to achieve. If you already have property, think about switching either the type of loan, or the lender, or both, until you have the combination and terms that are best for you. If you aren't sure what you need, consider using a good mortgage broker, who can give you expert advice.

Make This Year Your Year of Success

If I were to summarise what I've tried to impart in this eBook it would be:

*Why you need to set your property goals and plan to achieve them

*Why you need to think medium to long term, and not concentrate on the 'here and now'

*How and why you should measure your progress

*Why you should never plan to rely only on capital growth and equity

*Why you need to make the effort to find the best finance deals

*Why you need to set your emotions to one so side so you can make the best investment decisions

*Why you need to understand what your tenant wants before you part with your money

*Why you'll never get to keep as much rent as you think you will

*Why you need to prepare a detailed budget and know your costs inside out

*Why you need to rely on your own judgment and not look to others to make decisions for you

*Why you need to invest in yourself and enjoy continuous education

If you can incorporate these into your day-to-day investment activities, then you'll be taking a major step on the road to property success.

How I Bought £2m of Buy to Let Property in 4 Short Years and How You Can do The Same

When I started I bought £2m of property in 4 years, and that was with starting from scratch and using none of my own money.

"Why did you use none of your own money", you may ask, "Is that even possible?" Well, yes, it is possible, I did it. And I did because I had just been made redundant, and I had no savings.

Ironically, when I started out as an investor I was broke and barely employed - I was working part time as a consultant doing the dross jobs my peers didn't want to do, and I was paid a pittance for my troubles. That's why I literally had to start with no money of my own.

I now have property with a combined value of over £5m. Not bad considering I started with nothing, other than the house I live in.

But I'm not saying any of this to boast. I just happened to stumble across a system for buying investment and buy to let property that works, a system that has been used probably by every successful property investor.

And I'm going to share that system with you.

Looking at the market now, there are many similarities to when I first started, and many experts agree that if you want to be financially free using property, now is the best time in years in which to buy.

The same techniques and strategies I used then STILL WORK JUST AS WELL TODAY. In fact, I am still using them to buy even more property now.

That means that, if the experts are right, this is the perfect opportunity for you to do the same as I did and put together your own multi-million pound property portfolio, should you want to.

Or perhaps you'd just like a few buy to lets to supplement your income or to help with your pension?

Whatever your reasons for buying and investing in property I can help you to put together your portfolio much more quickly and simply than I did, and I'll show you how in a moment.

But why do you need my help? Surely buying property is easy?

Good question, so let me ask you a question in return:

"If property investing and buy to let is so easy, why do so many people get it so wrong?"

I meet a lot of people who jump into investing but who just don't get it right. I'm often surprised that so many people will commit to spending such large amounts of money, but spurn the chance of getting help and advice first.

In my experience, when things do go wrong it's often because of one or more of the following three things.

Firstly, many people think that buying a buy to let investment is like buying their own home.

It isn't!

Buying an investment property isn't anything like buying your own home, but many investors treat them both the same.

Big mistake.

Perhaps being a nation of home owners makes us a bit complacent and makes us think we know more than we do? After all, a little bit of knowledge is a dangerous thing, especially when it comes to spending large amounts of money on investment properties.

There is a fundamental truth about property investing which I discovered in my role as a consultant and it explains why some investors make it, while the majority don't.

And it's this: "Anyone can buy a property, but not everyone buys the properties that are right for them".

In my opinion, that is the difference between success and failure, or the difference between doing okay and doing very well indeed.

Do you think successful investors buy "the house next door", just because it happens to be the house next door so it's easy to manage? Do you think they buy a property just because it looked cheap? Do you think they'd buy a property just because they could get a discount from the developer?

No, of course they don't.

They have strict buying criteria based on investing fundamentals, and which fit the system I discovered, and which I am going to share with you.

They know exactly which properties they need to buy to attain their goals; they know how to find those properties; and they take the necessary steps to acquire them at the right price and on the right terms.

Anything less than that and they won't buy. It's as simple as that.

Unlike the unsuccessful majority, they don't just happen to stumble into deals. Successful property investors know their strategy, they have a plan, and they take actions that are consistent with their plan.

It's not down to luck that they are successful. They have planned for success. And I will show you how you can plan for YOUR property success.

Secondly, many people try their hand at property investing without really knowing what they want to achieve from property. Sure, they may have vague ideas like 'I want to get into property' or 'I want to be a property investor' or 'I want to buy a few properties', but it's all a bit wishy-washy.

They might think, "I know what I want, I want to make some money from property". But does that mean make some income from cash-flow, or by building up equity, or even by making cash lump-sums from developing and trading?

Each answer would require following a different strategy and buying different types of properties, possibly in different locations.

Unless you are clear on why you want to buy, the most likely outcome is you won't get the results you hope for.

Third, if you don't really know what you want to achieve, then how can you choose the right strategy to achieve what you want to achieve? And if you don't have a strategy, how can you possibly buy the properties that are right for you?

The truth is that you can't!

After all, if you don't really know what you want, then any property will do.

And as we've already seen, buying any old property is a sure way to fail.

Believe me, I've seen it happen far too many times.

Many investors ignore or don't understand these basic truths and principles and, far from being financially free in property, they end up stressed and wondering why they can't make it work.

The good news is I'm going to show you how you can use the system I discovered to put together your own cash-flowing portfolio, and avoid all of these mistakes.

And if, like me, you are starting with little or none of your own money, you can still do this!

Having built my own property portfolio from scratch, and starting with virtually none of my own money, I've constructed my very own 'course in a book', all in one easy-to-absorb volume (although it is big – 178 pages of A4), so that you can have all the information you need at your fingertips.

I've called it ***The Successful Property Investor's Strategy Workshop*** and in it I tell the story of how I built my portfolio and I'll show you exactly how *you* can do the same.

It's not rocket science. Anyone can do this, but you have to go about it the right way.

Indeed, you can copy my model, if you want. That's why I'll show you everything I did, right and wrong.

Everything I did right, so you can do the same.

And everything I did wrong, so you can save time and money and avoid the mistakes and pitfalls.

I've even included real-life examples of actual properties I've bought, so you can see how it all works in practice so that you can do the same.

It took me years of trial and error to learn the system (the best part of 4 years, with many sleepless nights and much wasted time and money) so let me save you from all of that by sharing my experience with you.

The Successful Property Investor's Strategy Workshop is available as an eBook to download now and to read on your Mac, PC, ipad or tablet, for only £29.97.

Or it's available in Hard-copy, as a manual in a 4-ring binder, for just £49.97 inc p&p.

If you're serious about property you'll find this small investment to be invaluable.

So to order your copy now, please go to:

www.thepropertyteacher.co.uk/the-successful-property-investors-strategy-workshop

PLUS! Order Now And You'll Receive These Valuable FREE Bonuses as A Special Gift From Me

As a 'thank you' from me for buying, ***The Successful Property Investor's Strategy Workshop*** I've put together two special bonuses for you, each of which are worth at least £49.97, and which I know you'll find extremely helpful.

Special FREE Bonus Number One

"How to Always Get The BEST Finance For Your Property Deals" – top tips from a top UK mortgage broker.

First, you'll receive a free copy of ***"How to Always Get The BEST Finance For Your Property Deals".***

This an MP3 audio file of an interview I conducted with one of the UK's top experts on buy to let finance, in which he covers many of issues around buy to let, and gives his top tips for successfully raising ALL of the finance you need.

I have considered selling this as a **product in its own right for £49.97** because it contains so much great information but, when you order your copy of ***The Successful Property Investor's Strategy Workshop***, you will receive it as **FREE gift from me**.

Special FREE Bonus Number Two

"Your 'Must Know' Answers to the Top 14 Most Common Property FAQs" – Audio file download

An audio file download, **value £49.97**, containing the 14 top Property FAQs, with 'must know' tips and information, based on the questions YOU ask me.

Whenever I meet and talk to fellow investors, **the same questions always come up**, time and again, including:

Where will I find the best property deals?

What if my strategy doesn't work where I live?

Where should I be buying, and how do I find my properties?

Should I buy at auction?

How much should I gear up, and how much borrowing is safe?

Should I still be using interest only mortgages, especially if tax relief on interest is to be limited?

How do I structure my property business, and own or hold my properties?

What if the market crashes in the future?

What is the most tax efficient way to own property?

And many more. In fact, I cover, and answer in detail, the top 14 questions I am always asked.

You'll receive this Audio Download as a **FREE SPECIAL BONUS** when you order your copy of ***The Successful Property Investor's Strategy Workshop.***

So to order your copy of ***The Successful Property Investor's Strategy Workshop***, and to start building your own property portfolio, please here:

www.thepropertyteacher.co.uk/the-successful-property-investors-strategy-workshop

60 Day, No Quibble, No Questions Asked, Full Money-Back Refund Guarantee

I know that the information in the *Successful Property Investors Strategy Workshop* is of immense value to all property investors. All I'm ever interested in is value-for-money, and that applies whether I'm buying (especially property), but also whether I'm selling.

So, naturally, there's a full 60-day no-quibble money-back guarantee of complete satisfaction (which I trust you won't need, but it's there anyway), so there's really nothing for you to lose when you order your copy.

If for any reason you're not happy with your copy just email me if you order the ebook version, or return the manual if you order the hard-copy version, within 60 days of receipt, and I'll give you a full, no questions asked, refund.

PLUS, you can keep the FREE bonuses as a 'Thank you' from me for trying it.

So you can order, read and enjoy your copy completely risk-free.

Here's to successful property investing

Peter Jones

Peter Jones B.Sc FRICS
Chartered Surveyor, author and property investor

www.ThePropertyTeacher.co.uk

PS Don't forget, for your copy of my best selling eBook ***The Successful Property Investor's Strategy Workshop,*** PLUS the special bonuses including the audio file of my interview with one of the UK's top buy to let finance Experts**,** please click the link below

www.thepropertyteacher.co.uk/the-successful-property-investors-strategy-workshop

How to Receive Your FREE Copy of

"The Five Capital Value Power Plays of Successful Property Investors"

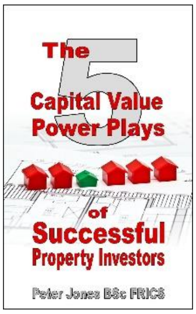
Since the down-turn of 2007 average UK property values have recovered in many parts of the UK over the last few years.

But the problem with looking at averages is they don't tell the full story. More recently in London, parts of the south east of England, and in a few other select areas, property values have stagnated whilst in the Midlands and the North they have continued to increase, albeit more slowly than we have seen in the past.

But despite what the press and the doom and gloom experts and economic think tanks tell us, I am convinced that in the long-term property values across the UK will continue to increase. That might sound like a very bold statement but this isn't based this on wishful thinking but on sound property fundamentals.

So wouldn't you like to make sure that you are in the best possible position to make the most of the ongoing upturn?

In my short eBook, ***The Five Capital Value Power Plays of Successful Property Investors,*** I will show you amongst many other things:



First, just in case you aren't convinced, I will prove to you, by reference to those property fundamentals, why there is an inevitability that property values generally will continue to increase.

By the way, this isn't the usual stuff you hear about "population growth" – there's another driver of property values which is arguably more important, but no ever talks about it! ;

Second, I'll show you why we could be in for a big jump in values in some regions over the next decade. And I'll tell you where.

And thirdly, I want to show you how to buy now in order to make the most of a rising market, so that you can see your equity (which is effectively your wealth) grow exponentially.

In fact, I'm going to show you why by doing just a little more due diligence BEFORE you buy you can increase the returns from each of your investment properties exponentially.

Of course, a question I can't answer is, "When are property values going to increase and by how much?" To a large extent the answer is in the hands of the banks who control the credit the property market desperately needs if sales are to be maintained and prices pushed upwards.

But if we know that values will continue to increase, as they must (I will show you why in detail) surely it makes sense to take full advantage now?

I don't know about you but too often I've found myself missing out because I've only woken up to opportunities too late in the day whilst others, who were in the know and who were fully prepared, have prospered. Having the proper knowledge and education is the key to NOT missing out.

That's why I am going to show you in your FREE copy of "The Five Capital Value Power Plays of Successful Property Investors**":**

*The factors that drive property values and why these are all pointing towards a jump in prices. These aren't the ones you usually hear about like the lack of new development or an increasing population. Important though they are there are other factors which have a more profound affect on property values.

*Why property in the UK is not overvalued despite claims by some that it's 20% over-valued.

*Why interest rates aren't at an 'artificial level' and what this means for property values.

*Why trying to crash the market is a dumb idea!

*The Five Capital Value Power Plays used by many successful investors and how just a few minor 'tweaks' can change your outcome by millions of pounds (it probably sounds unbelievable but it's true, as I'll prove to you)

*The ultimate 'recipe' for property success

So please download your FREE copy of "***The Five Capital Value Power Plays of Successful Property Investors***" NOW so that you can fully appreciate and understand the opportunity in the UK property market.

Just click here and go to: www.ThePropertyTeacher.co.uk/freereport and enter your name and email details in the box provided and I'll send your copy over to you.

Here's to successful property investing

Peter Jones

Peter Jones B.Sc FRICS
Chartered Surveyor, author and property investor

www.ThePropertyTeacher.co.uk

PS Please grab your FREE copy now at www.ThePropertyTeacher/freereport and I'll show you how to exponentially increase the returns from EVERY property you buy