

LEGACY™
Education Alliance, Inc.

The Home Truth About Property Investment

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INTRODUCTION

The first in this series of Brick Buy Brick educational books has been written in association with Legacy Education Alliance UK, the UK's most respected provider of professional training programmes.

Legacy Education Alliance and its associated network of industry experts and partners have a wealth of property investing knowledge. Legacy Education Alliance trainers and customers derive from all ages and backgrounds and have over a decade's experience of working with new and existing investors from all over the world.

This first Brick Buy Brick book, over 10 summary chapters, covers the general kaleidoscope of property investment basics that aspirational property investors may wish to refer to as a starting point.

The subsequent books in the Brick Buy Brick series will specifically focus on key investment strategies taught by our valued team of trainers: from Distressed Property to Commercial, this series will offer detailed approaches for property investors at every stage of their investing career.

For more information about Legacy Education Alliance UK and to give us any feedback on your reading experience please visit:

www.brick-buy-brick.co.uk.

CHAPTER ONE

CREATING AND PROGRESSING YOUR PROPERTY INVESTMENT KNOWLEDGE

It's all in the mind...

Some people think positively – some people think negatively. It's a fact of life. We all know those that 'can do' and those that 'never can.'

If your glass is always half empty you should perhaps look away now as this book may not be for you.

If, on the other hand, you know you're a 'can do' person (you may always have displayed those attributes or know that you have them but they haven't yet flourished) please read on, you may learn something.

But let's not get carried away. We are not promising this book is the key to untold riches. We may all want to become millionaires but miracles don't happen overnight - they have to be earned.

We are not promising a multi-million pound property portfolio overnight. Neither are we going to pepper this book with clichés and superlatives which, on further analysis, offer little substance.

What we are promising, (whether you have very little money or millions of pounds) are strategies and a way of thinking which can and will grow your financial wealth in a sustained and positive way.

Let's get one thing clear straightaway, there are no get rich quick (and stay rich) schemes in life. Unless you are born into wealth, which most of us aren't, you have earned your money by hard work and you are not going to throw it away.

However, you may have reached a point where you are looking for new opportunities and a different lifestyle. You may be looking to give up the day job or cut down on your hours at work to spend more time with your family.

The lifestyle you aspire to will help determine how far you want to go to achieve your goals. But all goals need a positive mind set coupled with ACTION.

What is Financial Freedom?

You may hanker after financial freedom – the point where you can earn enough money from property and investments to give up the day job and let your money work for you – hopefully while you get a good night's sleep.

But is becoming financially free attainable by investing in property?

The answer is yes, providing you have the right mind set and the right knowledge. Going into any venture without the proper education and advice is a recipe for failure, as would be the case with any sector of specialisation.

Ever since the Domesday Book, the wealth of the Englishman (and Welshman) has been measured by the land and property they own. Some of the world's most successful people have built their fortunes by investing in property.

The Duke of Westminster is one of Britain's wealthiest individuals owning vast swathes of upmarket Mayfair and Belgravia in Central London. The Duke is now diversifying all over the world and has built up a property empire worth many billions of pounds (or equivalent in local currency).

The bedrock of the Queen's financial success is built upon owning prestigious addresses on Pall Mall, Regent St and St James's St in Central London plus a massive number of buildings within 300,000 acres of urban and rural land in England, Scotland and Wales.

While these huge portfolios are the exception rather than the norm it doesn't matter whether you are a big or small investor, property in the United Kingdom is a consistently wise investment, over time. National statistics (in the main) will reflect that property prices in some areas will double their worth every seven years.

Despite the recent economic downturn many people would rather put their money into bricks and mortar than stocks and shares or a savings account.

In the buy-to-let market alone there has been a recent upturn in cheaper mortgage products being offered and reports that people are returning in large numbers to property investment. In the short term you may not get the capital appreciation on a property there once was but there are investment opportunities. It is just a matter of seeking them out and balancing your desired outcome (long or short-term) with the right strategy for you.

The People Plan – Power Teams

Investing in property is much more than just bricks and mortar. To become a successful investor it is just as important to invest in people. Really successful property investment comes from the investor's attitude and their network of contacts or 'Power Team' they build in order to grow their portfolio. It can be a portfolio of million pound properties or one of £50,000: the basic rules are the same. Here is a basic overview...

- 1) Create a trusted Power Team including estate agent, solicitor, builder, letting and management agent, surveyor, architect, mentor, broker and lender.
- 2) Know your strategy.
- 3) Know your areas.
- 4) Know your market.
- 5) Know what figures will make the deal work.

An investor doesn't need millions to invest but a positive mind set, an eye for detail, a degree of financial acumen and the determination to succeed. For the average investor it should not be deemed a get-rich-quick scheme but a long term strategy built from secure foundations. Some investors can be financially free in two years but for others it can take longer.

Do not rely on capital appreciation of a property over a short period (though this is likely over time) but concentrate on the rental yield that can be achieved. Set your goals – write them down and work out how to achieve them.

Ask yourself certain questions: Do you want your property 'empire' to provide a little bit of cash to help you out at the end of a long month? Or do you want to build it up

so that it allows you to leave the day job and give you financial freedom and positive cash flow while you sleep?

Constantly review your expenditure – do you need to buy the £15,000 car, the plasma screen television or go on an extravagant family holiday to Florida? If you can reduce your outgoings your income will increase and you will have more money to invest.

Just remember YOU are YOUR business so be prepared for lots of rejection but stay motivated and determined. It is up to each individual to decide whether they have the drive and focus to make a success of themselves.

CHAPTER TWO

WHICH PROPERTY INVESTMENT STRATEGY IS RIGHT FOR YOU?

As an initial starting point we should clarify the different types of property investment deals available to us, to include the following (and our Advanced Training Programme covers these topics and more):-

1. BUY-TO-LET

What is it?

A form of residential investment where you buy a property; normally with the aid of a specialist buy-to-let mortgage and then rent it out.

Pros

Lower risk compared to other types of investment as it is easier to spread your investments.

There are more lenders in this market than many other types of investment.

It can be the most cost effective way of entering the property market and there is the opportunity to build from a small base into bigger investments.

Many landlords, rightly or wrongly, believe tenants are more reliable in this sector as they tend to be in employment.

At present very few areas of the UK require the landlord to be licensed although we would always recommend that a landlord become accredited and follow compliance and professional/legal requirements.

As well as an income from rent, investors hope there will be the opportunity for capital growth of the property. Therefore, many investors consider their property/properties will earn money for them in two possible ways: a steady income stream which covers mortgage payments/maintenance etc. as well as providing

something extra and also the longer term benefit of buying something which you will be able to sell for a profit further down the line.

Cons

Being a landlord can be a hassle. Managing a large number of properties is time consuming. Such is life.

Buy-to-let often has lower returns than other property investment.

Costs of getting a mortgage can be higher than conventional owner/occupier mortgages.

2. HOUSES OF MULTIPLE OCCUPANCY (HMO)

What is it?

HMO's are three or more people in one property making two or more households.

Pros

Rental yields can be much greater than buy-to-let.

Landlords have often bought in more desirable areas as an investment and then in later years turned the HMO into a family home.

Cons

Greater regulation (fire doors, fire alarms, living space must have natural light and natural ventilation).

A HMO licence may be required from the council so check before purchasing. In some areas the location may be under an 'Article 4 Direction' which means if an investor is changing the use of a dwelling from a family home to a HMO they would need planning permission.

It is necessary to check with the local authority about the policy towards granting planning permission for a new HMO. The Council may not be granting any more licences so permission for a change of use would be denied.

Only buy where you know there is definite demand.

As a general rule, for HMO's there is higher maintenance than buy-to-let.

As properties are generally larger than those in buy-to-let it may be more costly to invest.

Often tenants are aspiring to move into individual accommodation and landlords can find tenancies are more fluid and can be for shorter periods than buy-to-let, thus property and tenancies can require greater management.

Generally there are fewer mortgage products for HMO's in comparison to buy-to-let.

3. SOCIAL HOUSING

What is it?

Public Sector housing or homes provided by Housing Associations and other Registered Social Landlords.

Pros

In many areas of the country there is a high demand for social housing, especially in urban areas, so therefore it is more 'recession proof.'

As house prices and rents have increased in many areas of the UK putting property out of the reach of many people, this type of housing not only attracts people on welfare payments but also increased numbers of employed people who require Government subsidy to pay rent.

In many urban areas there is an acute shortage of housing and long waiting lists of people needing accommodation. Therefore in these areas the demand for homes is great meaning landlords offering accommodation are also in demand.

Rent can be guaranteed by the council and paid directly to the landlord.

Sweeteners

Councils/housing associations will often offer incentives to private landlords.

Some landlords find that tenants often stay for a longer period than buy-to-let or HMO's as rent is being paid for them.

The satisfaction of helping those less well off.

Multiple exit strategies for landlords.

In some areas it is possible to lease the property to the council or housing association for a number of years. Agreements will often provide a guaranteed rent even during periods when the property is empty plus there is often no need for the homeowner to manage the property or have any dealings with the tenants.

Cons

Often insurance companies will charge more to insure this type of house.

It can be harder to get a mortgage from the bank for this type of property. Some lenders are anti-housing association and local authority lets.

Welfare reforms may mean less money for rent in certain areas. For example, in 2013 Westminster Council, London, announced it will not pay large amounts of rent to house people in Central London areas as the cost is so high.

Tenants are generally on a fixed low income so landlords can find rent arrears are more likely.

As this property is generally in socially deprived areas, landlords tend to find more issues of misuse of property, for example running a business, sub-letting, overcrowding etc.

4. COMMERCIAL

What is it?

Retail property including: shopping centres, supermarkets, rental warehouses and High St shops.

Office property: purpose built for businesses.

Industrial property: industrial estates and warehouses.

Pros

Lower void periods as businesses tend to be on longer leases. In the UK, offices are generally rented for eight years rather than six months to a year in residential property.

As leases for businesses tend to be longer there is a greater responsibility on the tenant to carry out maintenance which can be written into contracts.

Changing face of the High St – there could be government incentives to turn retail into residential so check where you invest.

Change of usage – for example, many hotels in traditional seaside resorts convert easily to HMO's because they are frequently large properties, already divided up and are likely to have similar safety regulations. It is worth approaching the Council as it could help with their social housing policy.

Due to current legislation most residential property cannot be sold within six months of purchase however, commercial property is not subject to the same rules. For example, if a landlord purchased a commercial property, rapidly added value to the property and wanted to quickly sell on for a profit this type of property is not subject to the same 'six month' restriction as most residential property sales.

Buying property portfolios in bulk could result in significant discounts. Portfolios can often be repossessions and frequently all the receiver wants to do is sell them off as quickly as possible.

Sellers can often be distressed as their business may have experienced financial difficulties. Therefore, they may be more motivated to sell in order to raise capital.

Some freehold buildings can be bought cheaply and divided up into leasehold residential property which can increase value. These flats can then be rented or sold off separately.

It may be easier to show to a lender that value is being added to a property and therefore easier to remortgage to free up capital for the next venture. There is the potential to add value to a property by simply changing the terms of the lease, getting a different tenant or changing the building usage.

Cons

Property is generally of a higher value.

The greater capital investment needed may put this out of reach for many investors.

5. LEASE OPTIONS

What is it?

When a person, investor or tenant enters into a legal agreement with the owner of a property and commits to purchase the property at a pre-agreed price at a certain point in the future. There are many different variations.

Pros

This can enable a person to take control of a property without taking out a mortgage therefore, no deposit is required nor a perfect credit score.

It's possible to acquire properties with the potential for good cash flow without major investment.

You can transfer the option to purchase to another buyer at a higher price.

The option to buy could be exercised in a number of years by which time there could have been capital growth within the property.

Cons

An option could become completely null and void if a person is declared bankrupt. A mortgage company will always have first charge over a property.

Make sure you find a solicitor who understands lease options and has explained to the property owner the ins and outs of a lease option. This is because some owners may claim they didn't understand what they were signing and therefore not be bound by the agreement.

With little government regulation of how lease options work, there could therefore be less legal protection for all parties.

6. FLIPPING

What is it?

Finding an undervalued property and selling it on for a higher price, usually after adding value.

Pros

These are often quick in and out deals meaning no long-term management of properties and dealing with tenants.

Flipping can generate quick profits to invest in other opportunities.

Investors are less likely to be saddled with an underperforming property portfolio.

Find below market value property, refurbish and sell on for a profit.

Cons

The UK's Council of Mortgage Lenders has a rule that a purchaser's solicitor must inform the lender if a house has been bought within the last six months. Lenders are unlikely to lend if this has been the case. In effect, residential property cannot be sold within six months of purchase. This has prevented investors effectively selling on the property to another buyer between exchange and completion. This was a prevalent practice during the boom years of the London property market.

Two sets of fees, probably within a short period of time in order to buy and sell.

Make sure you pick the right mortgage and don't get tied into long-term deals with redemption penalties if you plan to sell quickly.

You may have a liability for capital gains tax or income tax if carrying out a large number of transactions.

CHAPTER THREE

SHOW ME THE MONEY!

'If you want to be rich you need to be financially literate,' says financial guru Robert T. Kiyosaki. Kiyosaki says that people are confused by the difference between assets and liabilities.

Most people think their home is an asset – well, Kiyosaki says it isn't because each month it takes money from your pocket in the form of a mortgage payment. Even when the mortgage is paid off you still have to pay for maintenance and insurance. The middle classes are often led to believe that their home is an asset but in reality it is a liability.

An asset is a house, stock or other investment that doesn't cost you anything but gives you cash each month. According to Kiyosaki, the author of the international bestseller 'Rich Dad, Poor Dad,' the rich don't buy a house to keep it in order for its value to appreciate, they buy, ideally with other people's money, for its cashflow potential. Any business must cashflow – otherwise it will go bust.

Raising funding

There is a multitude of ways to raise capital to set you on your personal investment journey: Banks, friends and family, joint ventures, sourcing property, Angel investors, commercial loans, credit cards and bridging loans amongst others.

1. Banks - Traditional method

Ups - Lots of mortgage options in the marketplace to suit your needs.

Downs - Must have capital to lend in first place and lending criteria can be stringent.

2. Friends and Family

Ups - Good rates of interest.

Downs - Defaulting could be embarrassing.

3. *Joint Ventures - going into business with at least one partner*

Ups - Spreads the risk.

Downs - Spreads the profit. Contractual arrangements are needed to protect investors.

4. *Sourcing - finding property for others and taking a fee*

Ups - Low risk as not investing.

Downs - No assets and less profit.

5. *Angel Investors - People prepared to lend you money for your business*

Ups - May lend to you if you don't meet lending criteria of banks.

Downs - High rates of interest.

6. *Credit Cards*

Ups - Improve your credit rating and if managed correctly a good source of finance.

Downs - High rates of interest. Risky if not managed properly.

7. *Bridging Loans - loans from financiers which a mortgage will not cover. For example, refurbishment costs or mortgages under £50,000 (most banks won't lend below this figure).*

Ups - Can get finance when banks won't lend.

Downs - High rates of interest can eat into profit.

The key to investment is to go low risk to high risk and small to big in order to build a pyramid shaped business with firm foundations.

Don't throw all your money into one investment - spread it out and, at first, buy a number of cheaper properties in order to build a strong base for your business. So, if possible, divide your money into a number of pots to use as deposits to purchase a number of properties, thus spreading the risk.

If you decide to rent these properties out and one is void for a period there should be enough money from the other houses to cover the costs.

Whichever way you invest you must do 'the numbers' to work out whether the deal will work for you. If the deal doesn't work, walk away because, as they say, another bus will come along soon.

In the typical example highlighted below it is necessary to add value to a property in order to refinance after the initial purchase. So, after checking comparable sales in a street you have found a property that once refurbished will have a fair market value (FMV) of £75,000.

You have worked out you can put in a new bathroom and generally improve its appearance for £5,000.

Legal fees and surveys are likely to cost £2,000.

So start the calculation with the end in mind and then you can work out the amount of money you can pay for the property.

So let's work backwards and do Stage 2 of the calculation first.

Fair market value (FMV) - £75,000

Loan to value (LTV) 75% - £56,250

Deposit 25% - £18,750

A) **OUTGOINGS** at this value if rented out.

Annual Mortgage (5%) = £2,812.50

Monthly mortgage payment = £234.38

Estimated management, maintenance and insurance = £90

Total Monthly outgoings = £324.38

B) **INCOME**

Annual Rent = £5,400

Monthly Rent = £450

Total monthly income = £450

C) MONTHLY NET PROFIT

Total monthly income - Total monthly outgoings = £125.62

So, now it is possible to work out your ideal purchase price so that you can refinance and not leave any of your deposit, refurbishment and fee costs in the transaction. Therefore you can then move onto your next property investment.

Stage 1 calculation:

LTV based on FMV – refurb costs and fees = **Maximum Offer Price**

$£56,250 - £5,000 - £2,000 = \textbf{£49,250}$

Therefore, LTV (75%) = £36,937.50

Deposit (25%) = £12,312.50

Therefore, the amount borrowed is originally £36,937.50. Following refurbishment the property is remortgaged for fair market value of £75,000.

The new mortgage value is £56,250 giving the investor £19,312.50 which covers a deposit of £12,312.50, refurbishment costs of £5,000 and fees of £2,000.

This investment is now an asset not a liability as it is making you money each month and costing you nothing.

CHAPTER FOUR

MENTORS – THE KEY TO FINANCIAL FREEDOM

At this point, it is a good idea to highlight the important role a mentor can play in any successful enterprise.

Many people have mentors: captains of industry, politicians and sports stars have all sought advice from one or more people in whom they trust to give them the confidence and knowledge to succeed.

The importance of a coach to guide and advise cannot be underestimated as by definition you are cutting down your chances of failure. It's all about taking the right advice and getting the right education.

Why do you need a mentor to invest successfully when you are already gaining a great deal of knowledge? Surely you can do it on your own?

It is a bold statement to say that mentors hold the key to financial freedom but a good guide is imperative especially when you are starting out. An experienced guiding hand will question your strategy in the way your family and friends either don't want to or don't have the knowledge to.

Not only does a good mentor set you goals, a good mentor will break down your plan and assess your strengths and weaknesses.

-Where do you want to be financially and personally?

-What goals have you set?

From then on a mentor can analyse your investment strategy in detail to work out whether it will work. Mentors give you confidence to go out and put your plan into action guiding you through the sourcing, negotiation and buying process, hopefully putting you on the road to successful investment and building the lifestyle you have worked hard for and deserve.

Even the most experienced investors need a mentor to guide and educate them at different times. Mentors ensure that investments are as safe as they can be by making sure that due diligence is done on each investment and that you are building wealth over time.

CHAPTER FIVE

STRATEGY

It's a simple analogy. Before every football match top class managers like Jose Mourinho and David Moyes plan their strategies to determine how their teams will take on and beat the opposition.

With their trusted management teams they will analyse in depth player statistics (tackles made, how far players run, goal assists) about their own teams and their opponents. They will also work out the strengths and weaknesses of the opposing team to establish where they can be exploited.

They will then pick the team which they believe will best accomplish these objectives.

The strategy you choose will determine how successful you are in property investment. The point is to plan and execute this strategy. Too many people have invested in property without a proper plan and are then saddled with the burden of property that is not cash flowing for them.

They may have built up a portfolio of properties but for various reasons because it has been ad hoc and without proper thought their property investments aren't working or being maximised.

Analyse each type of property investment and work out what will work for you. It may be one buy-to-let or a mixture of buy-to-let and HMO's. You need to work out your numbers and the risk and reward which will work for you.

Forced Appreciation

A straightforward strategy is to source distressed property below market value so you can force its appreciation. That may not sound easy but it is a question of knowing where and how to look. It all comes down to the knowledge you build up.

Find out if the seller is distressed – they may be in financial difficulty or it could be a probate issue and they need to sell for tax reasons.

One of the most important things to do is get to know the seller. Find out why they are selling. Go and meet them without the estate agent and build a relationship. There could be a multitude of reasons they want to sell and you may be able to help them.

Or is it the property itself that's distressed. It may have an overgrown front garden, a kitchen with mould growing all over the plates and a green 1970's bathroom suite.

If it smells of cats, has a Union Jack flag displayed in the front window and lots of cockroaches, all these things can be fixed. Don't be sold on the perception or the initial appearance of the property and don't become emotional about it.

Ask yourself - Can you buy it cheap and sell it high?

Is it in the right area to rent out to young professionals, families or your chosen market?

Can you get it at the price where the numbers work for you?

Will you be able to get your money out of it once it has been refurbished?

Your exit strategy may be to:-

- 1) Buy – refurbish – sell
- 2) Buy – refurbish – refinance – rent
- 3) Source property for investors and take a sourcing fee.

The investor needs to be able to add value to the property and be able to show to your lender that you have added value if you intend to remortgage and take your initial investment money back out. You won't always be able to get all your money back out so you should be prepared for this.

CHAPTER SIX

HOW TO BUY THE IDEAL PROPERTY INVESTMENT

Most experienced investors look for distressed property they can purchase below market value in areas which have a high rental yield (calculated as the net rental income divided by the cost of the property).

Investors need to work out the 'UPWARDS' in any deal.

U – Is the area **Up** and coming? (There may be incentives from the Government, regional, leisure or educational development grants)

P – What is the **Potential** for development of the property?

W – Has the property been **Wrongly** valued by an estate agent?

A – Buying at **Auction** can be great fun and bargains can be picked up but make sure you have done your research and have finance in place.

R – **Reversion**. What are the uses for the property and exit strategies?

D – Is the property **Distressed**?

S – Is the **Seller** motivated? How can you structure the deal to help them?

By combining one or more strands of the UPWARDS formula you can increase your chance of success. If two, three or even four strands of UPWARDS come together in one property that maximises your profit potential.

What increases desirability?

Off street parking? Yes.

Electricity pylon? No.

Loft conversion? Yes.

High crime area? No.

River views? Yes.

Cemetery views? No.

Is the property near good schools? If you don't know check the local Ofsted reports.

You need to do the research to find out what is good and bad in an area. Use the internet to research the history of the property with the estate agent.

There will be a ceiling value on rental properties within a street so find out what it is. Compare the property you are looking to invest in with others on the same street. This can easily be done by checking websites like Zoopla or speaking to agents.

The Yield

The areas with some of the greatest residential buy-to-let yields may come as a surprise.

As property prices are so high in London many of these properties do not currently offer the best yield (the net rental income divided by the value of the property) although you may see the greatest capital growth.

According to a recent survey (2013) by one of Britain's biggest high street banks, some of the best places to invest in buy-to-let were northern cities and towns, such as Manchester, Nottingham, Blackpool and Hull and more generally seaside resorts.

However, it was Southampton on the south coast which topped the list with a rental yield of nearly 8%. The average Southampton property cost about £140,000 while the average rent was a meaty £900 a month.

Making up the rest of the top five were northern areas: Blackpool for instance has an average property price of £76,000 and rents of £494, giving it a rental yield just fractionally behind Southampton. Due to holiday rentals and seasonal work, many seaside towns turned out to be the best buy-to-let hotspots with 17 of the top 50 areas found on the coast.

However, it is difficult to pick entire towns as good investments as demand for rents and property can differ from area to area and from street to street. In many places

demand can differ greatly just within a few hundred yards so doing research is the key to investment.

Areas change so what's hot one month may not be a great investment the next because the market may become saturated quickly and demand decrease. So it is important to know the demand for property and the type of property needed. It is necessary to do your own research by talking to estate agents and letting agents in areas you want to invest in.

Are you renting to students and is the property in the right part of town? In university towns students often want to live in a certain area near to all the right bars. Just a few streets away could lead to no rents for your HMO.

Who is going to be using the property and where are they travelling to? Has it got good transport links? Know your strategy, identify the area and just remember a house or a flat is a box to make you money. You should treat it like this.

CHAPTER SEVEN

NEGOTIATING AND PURCHASING

To successfully negotiate you need to understand the type of person you are trying to strike a deal with. Most people tend to think negatively and the majority of communication is done by actions and tone rather than words.

If you can work out how the person you are negotiating with thinks and behaves there is a better chance of establishing a rapport and negotiating a good deal.

Different people behave in different ways. It may be necessary to adjust your approach depending on the type of person you are dealing with. It could be you have to spend more time with a vendor who analyses everything down to the last detail or you may be dealing with someone who wants to drive a quick deal so requires action immediately.

Never underestimate the power of a personal relationship as it could well put you in front of another buyer. If a vendor trusts you it can only work in your favour.

The Deal

If you have found your area but can't find a property, put an advert in the local paper saying that you will buy any property. A tip is to put a female name on the advert as property investors will tell you this tends to get a greater response.

So now you have found a potential investment opportunity. You take your clipboard round to the house. You meticulously flush all the toilets, run all the taps, check for damp and work out your exit strategies. It looks like this property has prospects for you.

You have made a detailed report and got an estimate of repairs and costs.

So you are ready to negotiate and are looking to incentivise the vendor. Say to the vendor or their agent: "If I came up with cash today could you drop the price by...?"

What's your bottom line? How low can you go to make it work?

What's the difference between an obscene offer and a cheeky offer? Nothing - it is just the way you pitch it.

If there is a property on the market for £200,000 you may make an opening offer of £180,000.

Them – £190,000

You – £181,000

Them – £185,000

You – £181,500

Them - £183,000

You - £181,750

Show the vendor all the time you are close to your limit. The person who appears to need the deal most will often lose.

CHAPTER EIGHT

THE BRIEF INS AND OUTS OF RENTING

The Refurb

Your offer has been accepted and you can't wait to get to work on the wreck of a property you are about to buy. A quick tip now is that on exchange of contracts get a 'keys undertaking indemnity' with the vendor whereby you take responsibility for the property between exchange and completion allowing you to carry out work.

Also, there is no hard and fast rule that you have to pay a 10% deposit so why not negotiate a 5% deposit, freeing up your money for the refurbishment costs?

You need to find a good builder. If you don't know one, venture down to the local builder's yard and find out the ones who are regularly loading up their vans. Ask to see the properties they have worked on and the work they have done. If they are good builders they will be pleased to show you their work. Always get quotes not estimates from builders and get a detailed schedule of works drawn up. When you are furnishing the property, IKEA furniture (sorry about the plug) is best.

Always budget an extra 20% of refurbishment costs for the snag list at the end. Builders tend to want to leave jobs part finished so you need to work out a payment plan which incentivises and ensures final payment isn't made until all the work is completed.

CHAPTER NINE

PUTTING THEORY INTO ACTION – CASE STUDY – SILAS J LEES

Working as a surveyor sounds like a profession which will easily pay the mortgage and set you up for life. However, after qualifying with a degree from the University of Wolverhampton, Silas J. Lees was finding it difficult to make ends meet.

Silas, 34, says: “My lifestyle before was very tough – I did not have a large amount of money as I was trying to survive on a wage that didn’t cover my expenses. I did not have the money to have nights out with friends and family and it was a dark time for me.”

Silas knew there was money to be made in property so five years ago he managed to cobble together enough money for a deposit on a three-bedroom terraced property in the West Midlands. Despite being a costly renovation – Silas says the electrician cried when he checked the wiring – he managed to achieve a good rent for the property. From that point onwards Silas had identified the strategy that would work for him: acquiring run down buy-to-let homes at auction and renovating them.

“I started investing in late 2007 just before the market crashed and operated in the West Midlands area. I managed to build a substantial portfolio in a downwards market which I am particularly proud of. The portfolio offers consistent monthly income and allows me to be financially free at an early age,” says Silas.

But Silas is not just motivated by acquiring wealth for himself but also out of social responsibility for those less well off. He added: “I wanted to provide good quality and decent homes for those who are unable to afford the very best in life.”

“I do this by acquiring ex-local authority properties in a run-down condition, renovate them and then rent them out to housing benefit tenants. In return, I also wanted to provide myself and my family with a substantial income to cover all our expenses so that we can choose when to work.”

“Whilst I haven’t achieved the ‘rock and roll’ lifestyle of absolutely unlimited financial abundance, I am in a much better position financially and have the confidence to be able to start a new business and generate cashflow from it without worrying if it will fail! I know in five years’ time I will not be able to comprehend where I am financially as it will be in such a different place to where I am today.”

However, Silas puts a lot of his success down to the education he received, especially at the beginning of his investing adventure. He says if he hadn’t taken a property training course he would never have achieved the substantial rent on his first property which gave him the money and confidence to re-invest.

“The course really helped me to understand what to do, the right properties to buy and how to run the business; something that was an alien concept to me previously. I have achieved a lot and more importantly have been able to pursue different skills such as public speaking which I would not have thought about five years ago. I have also developed the courage to pursue my goals and dreams and create a life that I truly love to live.”

Silas has two top tips for any aspiring investor:

1. Get educated on how to invest properly
2. Go and take massive action towards your goals with the new knowledge that you have learnt.

CHAPTER TEN

ONGOING MAINTENANCE

Regular portfolio review

The rationale of all investment is to build from the base upwards and not to purchase property where the numbers do not work. Always have any property you have bought under review. Is it cashflowing? Is it still in a profitable area? Is it easy to rent?

Some properties may work well for years but then the local nursing unit moves to a new site and there is less demand for HMO's. It is vital to keep on top of local market conditions so be ready to act because you may need to put the house in the 'flog bin.'

There is a need to constantly monitor and develop properties in the portfolio. Every return or yield from any property can be 'driven up' by increasing rents and decreasing costs. A good investor constantly improves returns.

For instance, will the two-up, two-down terrace in Abergavenny be better rented as a family home or will you get more cash if you put one person on the ground floor and another on the top floor and they can share a bathroom? Two rental incomes means more cashflow but the downside is the property may take a bit more managing.

Each property you buy should have a number of exit strategies. What uses can a new buyer have for the home? Can it be turned into flats, a family home, a HMO? The more exit strategies you have the easier the property will be to sell. Do not hang on to properties for sentimental reasons – if they do not fit the strategy get rid of them.

You are your business

'Failing to plan is planning to fail', so make sure you don't cut corners and protect yourself and your investments.

Join a landlord's association and make sure you have the necessary insurance in place for boilers, electrics and buildings.

Plan for void periods, rent arrears and damage by tenants - make sure you have the resources to cover these costs.

Do you need to pay a managing agent or can you manage the property yourself? At the beginning it is a good idea to be hands-on with your portfolio.

Just remember almost everything is tax deductible if it is a genuine business expense.

Poor planning can lead to poor performance so it is important to carry out your own meticulous research.

It's always a good idea to get the right education in anything you do. Speaking to experienced people and gaining knowledge will only increase your chances of success in anything. Investing in property without the necessary planning and team in place to ensure success could result in poor investments and wasted opportunities.

Seeking out the right knowledge, getting the relevant education, trusting in your power team and being prepared to invest your time will set you on your path to financial freedom.

If you were Sue and Perry what would you do?

Married Sue and Perry, aged in their late 30's, live in a £350,000 house in suburbia in South East England. They have an interest only mortgage for £230,000 and two children about to end secondary education.

Perry wants to give up work in a couple of years while Sue works part-time in the local store. They have savings of £55,000 and cash ISA's and buy a new car every three years because it helps with Perry's image.

Sue is very risk-averse but Perry is willing to risk it all to get out of work. Perry is under pressure not to fail and they want to have enough income for him to leave work and have an enjoyable lifestyle. For this they need £5,000 per month.

They usually go out for dinner on a Friday night each week and otherwise have time at the weekend for family.

How can they improve their situation?

Sue and Perry need to first work out their exact cost of living or 'financial freedom figure' and that also means looking at cutting out some of the unnecessary luxuries they are used to such as eating out on Fridays. They may then discover that their initial target figure is a lot lower than £5,000 and therefore more easily achievable.

Perry may not like his job but he is the biggest breadwinner right now and it will take longer to replace his income than Sue's. It may be that by reviewing their expenses and with a few changes, they can actually save the equivalent amount of money that Sue is currently earning allowing her to resign from her job and focus all her time on property investing.

Perry, on the other hand, needs to make his job more endurable and improve his approach towards it. It is advisable to stay in employment and have an income as this is a pre-requisite of some buy-to-let lenders and will give them a greater choice of mortgage products to choose from.

Over time, and with the help of a good accountant, they can create an income stream and a set of accounts from property-related or other businesses that lenders will accept as regular income.

They have two children that are about to end their secondary education so university fees may need to be factored in, as well as other possible future expenses that are not accounted for in their life game plan.

Sue and Perry have a certain amount of equity in their home they could release and also have some savings.

However, they may need help to determine an area and strategy that will get them to reach their financial target figure. Sue will soon have time during the week to do the research and they have spare weekends to arrange viewings together in their chosen areas.

In terms of choosing where to invest they have friends and family near York and Manchester and with property prices being lower and rental yields being proportionately higher in those parts of the country, they ought to focus their initial searches there. Not only will that give them somewhere to stay on visits but may offer them some local knowledge of areas as well.

To find their investment territory they should initially pick five sub-areas in and around York and Manchester. They should then research the areas using the internet and knowledge of local lettings and estate agencies to determine where the best rental yields are and where the greatest demand is for rentals and sales.

Having shortlisted the two where the numbers work best, they should then narrow this down to one to begin their campaign to find Below Market Value properties.

Because they have no practical experience it would be advisable to cut their teeth on cheaper, simpler buy-to-let properties initially. They can also intersperse these with ones they buy-to-sell for profit. These will give them pots of cash to reinvest and will also give them lifestyle money for larger outgoings like education fees for their children, a new car or holidays.

As they grow in knowledge and confidence they can then look at higher earning strategies such as HMOs or Commercial Property. There could be the opportunity to look at a student HMO in the town or city where the children opt to go to University which could be a good strategy to pay for their accommodation and even contribute towards their living expenses whilst away from home.

In order to determine how long it will take them to reach their financial freedom figure, they should calculate the net income that can be earned from each type of rental property in their area and then work out how many of each they'll need to achieve this overall figure. The speed with which they can buy them will depend on

how many pots of cash they are able to get access to at any one time and how well they manage their power team.

As Sue is a bit nervous and risk-averse it would be advisable for her to attend networking groups to surround herself with like-minded people that are already doing what she aspires to do and who can support her.

Perry may benefit from reading relevant books and attending courses in personal development techniques to overcome his fear of failure.

So what will your Brick BUY Brick story look like?

This book is the first in the Brick Buy Brick series, created in association with Legacy Education Alliance UK Ltd, who has been at the forefront of investment training since 2002.

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