Property Secrets
Property Developer Secrets

How to make money in the UK Property Market TODAY!

By Richard Davies & Neil Lewis

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www.propertysecrets.net

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As authors we have endeavoured to deliver information and advice of the highest quality, however you are advised not to rely on this book as your sole source of advice.

The basic principles in this book are founded on substantial experience and backed up by statistical evidence. However, please take care - not every property behaves as the 'average' - there are always lots of risky options around and we encourage you to take full and good advice on any investments or purchases that you intend to make. Equally, the nature of markets is that they are unpredictable.

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Table of Contents

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1 Introduction & Review Of The Opportunity

Welcome to Property Developer Secrets - How To Make Money In The UK Property Market Today! ...your insider guide on how to make money without risk (well, at least, the absolute minimum).

In a nutshell, by the end of the book you will know how to: take a £160k property and spend £40k and sell it for £240k. It's as simple as that.

What this book sets out to prove is that despite rising property prices and increased interest rates, it is still possible to make money from property in the UK today.

Granted, it is not as easy as it once was, when any Tom, Dick or Harry could buy a property and do it up to sell it for a profit.

Those halcyon days are over and nowadays profits are squeezed by higher property prices and ever increasing interest rates.

And so the serious property investor shouldn't be put off by the current climate - it simply presents more of a challenge than it did before and makes it even more imperative to turn any investment project round quickly and efficiently.

The amount of work involved in buying a property, doing it up and selling it on, is vast – let's make no bones about it - it is not for the faint-hearted. Time is money at the end of the day so no matter what level of experience you bring to the table, you need to be prepared to work fast and keep up the pressure on other people involved in the project, in order to maximise profit.

If ultimately, you decide to make a career out of property development, then the financial rewards could be much higher.

There are other rewards too: it can be immensely satisfying to see a creative project through from start to finish. If you choose to refurbish the house in which you're living, you also get to live in a lovely home, with the knowledge that any money you make when you sell will be tax-free.

More and more people are seizing on property as a means of developing an extra income, escaping their current career or as a means to financial security. Anyone thinking along these lines is in good company. Many entrepreneurs have built their fortune by renovating houses and selling them on for a profit.

There is a long history of property development and investment in the UK and over recent years, changes in demographics, flexible loan packages and increasing demand for housing continue to create great opportunities for developers and landlords, whether part-time or full-time.

The recent changes to interest rates have certainly altered the property market, but we will show you how to make money in the current climate. In fact, we will show how to make money whatever the market does.

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Key Tip

Never forget that you are a property developer - not a property speculator. If the market prices keep increasing then that is an added bonus and very welcome. However, follow the lead of the professionals and never bank on the market increasing.

If you invest your time well and learn about property development, then almost anyone can be successful. Never forget Roosevelt's wise words: 'To learn from your own mistakes is smart - to learn from the mistakes of others is genius.'

So regard this book and software as tools to help you through the process of buying, developing and selling your investment property.

But before we start you need a strategy. Your strategy needs to ensure that you can maximise your returns and minimise your downside. We are now going to share with you the professionals' secret to making money without risk.

1.1 How This Book Is Set Out

The book is split into the following sections:

Introduction - a background on what's happening in the property market place

Planning your Strategy – it is vital to be prepared before you start looking for individual properties. This chapter tells you what you need to do beforehand and how to avoid making costly mistakes

Raising the Finance – an overview of the many different ways of raising the money for renovation

Finding the Right Property – not as easy as it sounds and competition is fierce for the most lucrative deals. This chapter will tell you how to make sure you're first in line

Buying the property – the nuts and bolts of the purchasing process

Renovating right – in this chapter you will learn where to spend your money when renovating a property to get the best returns

Selling the property – this chapter will give you the knowledge you need to sell your property quickly and at a good price

Property development as a career – you want to give up your job? This section will tell you how to get your new business up and running

The future of property development – the key issues likely to affect the business in the immediate future

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Spreadsheet appendices – how to use the software to enhance your developer know-how

1.2 Review Of The Market

Key Tip

Spend time reviewing and understanding the market forces that create booms and busts. Your skill at reading the market will be significant in your ability to reduce your risk.

1.2.1 1990s to the present day

In the first half of the 1990's the housing market was burdened with high interest rates, designed to slow down inflation. Job insecurity and a general lack of confidence resulting from a depressed national economy stopped many people from taking the decision to move. Others decided to rent rather than buy to avoid a long-term commitment.

Across the country, house prices fell, leaving many homeowners with mortgages higher than the value of their property ('negative equity'). Some who were unable to meet their mortgage payments had their homes repossessed.

By the mid-1990's inflation was falling and so too were interest rates. The ratio of house prices to average earnings was at its most favourable level for 30 years. By mid-1995 the combination of low inflation, attractive interest rates and mortgage packages, and improvements in the economy (i.e. increased confidence) had created the right climate to bring buyers back into the market. However, sellers were slower to gain confidence and a shortage of supply started to increase prices.

Between the late 1990's and early 2000's, the property market segmented. Running up to 2001, property in London and the South East grew very strongly, whilst the rest of the country achieved moderate growth.

Since 2001, growth has moderated (or temporarily stalled in Central London) in London and the South East, whilst the North, Scotland and Wales played catch up. But this time around, the success of the UK regions was not just a matter of prices 'rippling out' from a London peak.

Government policy combined with an increased desire to escape the density and 'tough' lifestyle of London to create a net inflow of people into areas such as the North East. This is the first time it has happened in a long time and prices in the regions boomed.

Between 2000 and 2005, the UK saw unprecedented price increases.

In 2006, the market levelled out at around 10% annual house price inflation. For the first time in a number of years, **2007** has seen house price increases falling below 10% as the country reels from five interest rate increases in less than a year.

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It is anticipated that the market will continue to stall into **2008 and beyond** as the country holds its breath to see how the economic climate improves, if at all.

1.2.2 Factors fuelling the recent boom in property

As with every business, the rise in house prices was a matter of supply and demand:

1. A massive shortage of housing (traditionally in London and the South East), but across other areas of the UK too (such as the South West, South Manchester, Leeds, Edinburgh and numerous university towns - such as Cambridge, Oxford and Guildford). This shortage is due to demographic changes - such as more people living alone;

2. A severe lack of space and the protection of green land which requires the redevelopment of existing properties - especially run down or dilapidated properties;

3. Rising incomes and employment levels - this leads people to demand larger houses and better living conditions.

4. Net Population growth – the population of Great Britain is forecast to rise from 58 million in 2001 to almost 62 million in 2021. The population growth is driven primarily by white collar adult immigrants who take up well paid employment and who need and expect quality housing.

5. Shift from the Social Rented Sector – in 1981 32% of housing was government funded council housing. In 2002, this figure had dropped to only 20%. These people have become property owners!

1.2.3 The effect of interest rate rises

There is no doubt that price growth has begun to level off and even fall slightly in some areas.

Estate agents report that fewer people are registering their interest in buying or selling, and both asking prices and final sale values are unremarkable when compared with the recent past.

Furthermore, a look at first time buyer activity reveals that fewer people in the sector have been able to buy their first home; in fact, according to recent statistics more than a third of working households under the age of 40 cannot afford to buy their own home.

Despite a slight increase in the market share of first-time buyers to just under 10% the sacrifices being made by first-time buyers are high. According to research by Bradford and Bingley, in some areas of the UK, almost one in five first-time buyers have two jobs, a reflection of the growing cost of property ownership in the UK.

1.2.4 Other influences on the market (and why there won't be a crash!)

There are a number of other factors to consider when assessing the housing market.

Employment levels – the crash of the late eighties was precipitated by high unemployment levels of 10%. Today that figure stands at just over 5%.

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Household incomes – rose at 4% between 2005 and 2006 according to government statistics.

Consumer debt – e.g. credit cards and personal loans. The government and many economists are worried about the level of consumer debt in this country. By the end of March 2007 personal debt levels in the UK had soared to over £1.3 trillion, which reflected a rise of £1.16 billion or 10.5% over the previous twelve months.

Interest rate rises have done little to curb our borrowing habits but in order to avoid a massive 'repayment crisis,' rates are highly unlikely to rise too much higher.

Long-term housing demand – a serious worry for the government but good news for the property investor. According to statistics, at least 20,000 new homes a year are needed to keep up with demand, and in response to this, Prime Minster, Gordon Brown recently announced that in total three million new homes would be built by 2020 - up 250,000 from previous plans.

The attitude of mortgage lenders – they are increasingly extending the multiple on which they will lend, which is likely to have a favourable impact on buyer confidence. House prices may not see the huge rises of recent years, but in order for there to be a crash we would need to see a doubling of interest rates and massive unemployment levels. Buyer confidence is important, because it slows the market down. But it is not, in itself, enough to crash the market.

1.2.5 Localised influences on the property market

These are factors which impact on the market in your immediate area, and it is vital that you make yourself aware of them. A new or expanding university could have a major influence on property prices, for example, as the demand for student housing goes up and the students' spending habits start to generate more business for the local economy. Conversely, imagine the impact on house prices of the closure of a major local employer.

1.2.6 The cyclical nature of the property market

Property developers can and do make money at all points of the cycle. The skill is in applying the right strategy at the right time.

From the late nineties to early 2004, Britain enjoyed a period of low interest rates and high buyer confidence, combining to create a strong market. Many developers appeared to make money on the back of that rapidly rising market, but their next development always cost more to buy so their profits were illusory to some extent. Speculating – as opposed to developing – is a risky game.

We are now facing a somewhat static market, where sentiment is poorer and growth is slower. Your profits will be made when you buy your development, not sell. You will take advantage of that dip in confidence and make suitably low offers, thereby protecting your profit margin.

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1.2.7 More ways to reduce risk

1. Buy a property that is suitable for both resale and rental (this will ensure you have the broadest market possible and give you a safety net should you have any difficulty selling);

2. Buy a property for location - well located properties sell even in bad markets;

3. Buy at a price that assures you a 20% return on your investment after costs (this not only gives you a decent return, but also protects you against a fall in the market);

4. Build flexibility into your finance package - things go wrong, builders don't turn up, people lose their jobs. Make sure that your finance allows you to flex the payments if necessary;

5. Don't rush into the first property you see - take your time to find the right property. The more you look, the better you know the market - the better your judgement becomes. If it takes a year to find the right property - then give it the whole year;

6. When you have found the property you want - move very quickly;

7. Renovate for maximum profit - not for personal taste;

8. Control your trades' costs - set out an agreement, do not change your mind, and hold back the payments until you are satisfied that each stage of the work is complete;

9. Stay on top of your tradespeople and the quality of their work;

10. Sell quickly

11. Don't be greedy on the sale price

1.3 Can You Do It?

Property development is not a lottery. Regardless of your background, with the right skills and discipline you can minimise your risk and make great returns.

When you look at the different types and kinds of people from all walks of life that have successfully made money by developing property, the answer is a resounding, YES! You can do it.

This book and software contains many of the secrets of the successful property developers, people who have made great money in good markets and still made fair returns in bad markets.

Many people have made money without applying these principles and rules. However, if you apply these principles and rules consistently for a sustained period, you will decrease your risk and make more money than if you operate without guidance or a plan.

Unfortunately, risk is inherent in any venture, but if you speak to the top people they are very 'risk conscious' as opposed to 'risk averse'. In other words, they accept that risk is part

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of business, but they are focused on constantly minimising their risk. Anyone who wishes to be successful with property should learn to think in the same way.

Facing risk is more sensible than burying your head in the sand and ignoring it. If it's going to get you, then better you know about it and prepare for it the best you can!

Find out why you are doing it:

If you are a **first-time buyer**, how do you get onto the ladder with prices so high? After all, you still need to live somewhere and you know that renting means money down the drain.

Perhaps you **need to move to a larger property** - but are finding the additional cost too much to bear and are considering a property to develop?

Maybe you are a parent looking to set up a son or daughter with accommodation at college and **looking to generate an asset.**

Are you considering adding an **extra income** by developing your own or another property in your spare time?

Perhaps you **enjoy DIY** or are **fascinated by the property market.**

Are you **ready to launch a new career** developing property and escape a dreary job or stagnant career?

First-time buyer? Would-be developer or seasoned professional? Your background doesn't matter. If you take good advice and use the tools we've provided, you can master the property game.

Key Tip

Learn to be 'Risk Conscious' - not 'Risk Averse'. If you never take a risk, you'll never make a gain. The difference between successful and unsuccessful people is that the successful people take risks whilst constantly looking to minimise their risk. You will find throughout this book tips on removing and reducing risk. Apply these tips and any more that you discover, and you'll do fine.

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2 Planning Your Strategy

Once you have read and digested this chapter, you will be able to:

- decide what kind of property to develop
- make money whatever the market does
- minimise your risk by targeting a 20% investment return in section
- identify the importance of buying below market value

2.1 Starting At The Appropriate Level

Property development provides great long-term returns.

If you are new to property development, the key is to start small and build up. As you grow in experience, and benefit from the profits of your early projects, you will be able to take on more ambitious challenges.

By aiming for a 20% return on your investment (more about this later), you give yourself leeway to make a few mistakes and still make a reasonable return.

With proper planning and preparation, you can make great profits in the long term, while earning a good return from the very beginning. This is one of the reasons why a growing number of people view their property investments as their pension.

If you are new to property, consider starting with your own home or a small, one bedroom flat or two-up, two-down in a good location.

A property's location is more important than its condition, as a property in a good location will be easier to sell, and sell faster. Also, well-located property tends to be more resilient to market weaknesses.

If you have some experience and financial muscle, consider a two bedroom flat in the best area of town or a two or more bedroom property in the £200k bracket.

Although requiring a larger up front investment, the returns generally increase when you move to the best streets in town.

Another reason for choosing to develop flats and smaller houses is that government statistics indicate this is where the demand is. More and more of us are choosing to live alone, and we need to live somewhere!

Key Tip

It is generally a better bet to take on a smaller number of more expensive (£200k plus) properties, than many cheaper ones (of under £150k), as there will be less work involved and you'll achieve as good, if not better, returns.

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Once you have a lot of experience, you might start to look at multiple property developments, rebuilds, substantial renovation works or even commercial/retail property.

The key in choosing where to start with property development is to view your first properties as a learning experience and always buy the best location possible for the money you have available. As you grow, you can buy better locations and slightly bigger properties.

Key Tip
Expect to learn 80% of everything you'll ever learn about buying, renovating and letting on your first property. So start with something small and relatively easy to manage.

2.2 Develop a second property or your own home - which is best?

Your circumstances may already dictate your options. You may be comfortable in your current home and looking to make a property investment - in which case developing a second property is the route for you.

Alternatively, you may be looking to develop your own home as a way of affording the kind of home that you want to live in.

If you are undecided, consider the following tables that contrast the pros and cons of each.

Own Home

Pro	Con
Cheaper Finance (a homeowner mortgage is among the cheapest kind of borrowing.	Tendency to spend more on developing the property than is necessary (therefore you lower your return - but hey, you have to live there too).
Gains are not subject to Capital Gains Tax.	Only see the financial return of your development work and investment once the property is sold (maybe one year or many years later).
You get to live in the home and enjoy the developments.	You have to live among the chaos while the work is carried out!
Can purchase a property with a very small deposit (although you do pay a fee - called MIG (Mortgage Indemnity Guarantee - lovely name, nasty expense).	Others living with you may not be so keen on the developing of your own home.

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You can take your time as you are not carrying finance costs.	It is easier for costs and deadlines to spiral out of control.

Second Property

Pro	Con
Easier to develop quickly (no furniture to move!) and no need to worry about teams of builders all over the property.	Risk - if the bottom falls out of the market - you may not be able to repay your finance (although, there are many things you can do to minimise this risk).
You can sell relatively quickly and realise a quick profit.	Finance is more expensive, at least 1% over the base rate.
All costs can be offset against tax (including things like your telephone bill and car running costs).	Need to provide a deposit of at least 15% of the value of the property yourself.
If you are unable to sell quickly, you can place the property on the rental market to pay for finance.	You are in a hurry - every month that you have to pay for the finance without selling the property will eat into your profits. The ability to move fast on a problem (like builders not showing up - surprise, surprise!) is essential to protecting your return.

Key Tip

If you decide to develop your own home, seriously consider moving out whilst the work is completed. Even better, arrange for a team of builders to complete the work before you move in. This is the most effective way to take the stress out of developing your own home. Remember to build any bridging or renting costs into your plan.

2.3 How To Make Money Whatever The Market Does

Every market, wherever it is in terms of its growth cycle, represents opportunities for the long-term property investor. And the UK market right now is no exception.

Contrary to current popular belief, there are good profits to be made in today's market but the key is to make the right investment. This means steering away from off-plan investments which not so long ago were extremely lucrative - but in an ever-changing market, this is now no longer the case.

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Why? Well, the reason for off-plan investing is that when property prices are roaring ahead, it is the most efficient way of maximising your return. You put down a minimal amount of money and receive the benefit of high capital growth during the construction phase on the whole price of the unit.

Plus you can add in the further likely rise when the unit is completed, as well as the lift the local market will receive from new builds coming to market.

In addition, high capital growth allows you to disregard the usual negative cashflow you'd expect during the early years of most off-plan investments.

However, if we take the general rule that for off-plan to be an effective investment we need to anticipate at least 10% annual growth over five years, then the UK doesn't currently offer this kind of growth.

So does this mean investing in the UK property market is not a sensible option? Absolutely not! But it does mean that you need to plan long term and you need to achieve positive cashflow so that you will not be forced to sell at the wrong time.

The key to making money whatever the market does, is to plan carefully for a realistic rate of return, and retain the flexibility to adapt to changing circumstances. This section outlines how to do this in practice.

2.3.1 House price surveys

We've touched on the importance of tailoring your strategy according to the market. In order to do that effectively, you need to look behind the media headlines - the ones that talk of booms and busts as if they were the only ways property markets could operate.

House price surveys can be useful indicators into the state of the market, but take care to read the actual surveys, as well as media interpretation. Learn to read between the lines.

Key Tip

When looking up surveys on each of the websites, also check out their 'press release' or 'media' section. Sometimes (but not always!) the press releases are easier to understand than the tables of statistics themselves.

Land Registry's Residential Property Price Report

This survey is widely considered to be the most reliable. When a property is sold, the sale price is logged with the Land Registry, which then divides the total value by the number of properties sold. This is the average sale price.

It's a good indicator of the market because the survey is based on the sale price rather than the asking price. It offers a breakdown of the market at national and local levels.

On the down side, figures are only released once every three months, so can be out of date by the time you read them. You can find the reports on their website: www.landreg.gov.uk

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Royal Institution of Chartered Surveyors (RICS)
This survey is based on the confidence in the market of estate agents and surveyors. Three hundred property professionals across England and Wales are asked if they think prices are falling or rising, and the results often provide an interesting picture of sentiment. This survey is frequently the first to show any obvious changes to the market. The reports are published on www.rics.org

Nationwide and Halifax
Britain's two biggest mortgage lenders base their surveys on the price agreed after a survey by their own mortgage customers. Their results are often alike, but although these surveys are well-publicised, they are limited to property financed by lending; cash sales (25%, remember!) are left out. See www.nationwide.co.uk and www.hbosplc.com/economy/housingresearch.asp

Hometrack
This website collects data from 3,500 estate agent offices across England and Wales, asking whether asking prices are rising or falling. Their site is www.hometrack.co.uk

Rightmove
Another website, Rightmove tracks the asking prices for houses placed on its own sales site over the previous month. Of course, it doesn't reflect the actual selling prices. It does claim to display over a third of all homes for sale at any one time in the UK, so it does have a decent sample size. You can find their research on www.rightmove.co.uk

2.3.2 Pinpoint your position in the current sentiment/interest rate cycle

Clearly parts of the country have experienced some falling off of prices, and we believe the evidence points to a static or slow growth year in 2007 with the possibility of a recovery in 2008 and beyond. This is not an issue for the property developer – you must add value to your property by developing it, not by relying on a rising market.

By ensuring your profit margin will be 20% of the sale price, even a gently falling market shouldn't sting. Remember, developers make money whatever the market does and you can too.

More importantly, buyer confidence is significantly lower than of late and it can be harder to sell. This is good and bad news for the developer.

The good news: this is the time when you will be able to bag a bargain. There are simply more bargains to be had when sentiment is poor, because sellers worry that their house will be left on the shelf. Don't be afraid to put in cheeky offers (20% or more lower than the asking price).

The bad news: you will have to work that little bit harder at ensuring your property is extremely saleable, because you don't want to be one of those sellers looking at a cheeky offer from a buyer! This means renovating your property for broad appeal, and spending your budget wisely.

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2.3.3 Target a 20% return on investment

The bottom line as far as you are concerned should be your return on investment. That is the profit you make after you have sold the property and paid all your costs (except tax). This is typically called net profit.

A 20% return means:
Your (net) profit was 20% of the total amount you invested in the house.

Total Costs £200,000 (property purchase = £160,000, other costs = £40,000)

Sale Price £40,000

Net profit £40,000 from a £200,000 investment

Therefore, the return is 20%

Why do we always look for a 20% return? We suggest this rate of return based on experience of property markets over the last 20 years. Property markets crash! They always have and will continue to do so. A 20% margin is a good compromise between providing a safety cushion in case of sudden changes in the market, and being an achievable and maintainable target.

2.3.4 Minimising your risk

To paraphrase Alan Greenspan, the Head of the Federal Reserve in the US (the man in control of the world's finance): 'Markets will boom and markets will crash for as long as human emotions are subject to excitement and disappointment'.

In other words, he is saying you can never eliminate risk, but by being prepared you can minimise its impact.

So what happens if the worst comes to the worst, and the property market does crash as hard as it did in 1989? A 20% margin will cushion you from all but the severest of corrections in property prices.

If you work on a 20% margin then you will either make good money in a good market or make sufficient money in a bad market.

Obviously if you firmly believe that the property market is about to crash, you wouldn't invest. However if you stick to the 20% rule you will learn to be highly disciplined and effective in your negotiations. Crucially, you will learn to walk away from a deal when it is too risky.

Key Tip

Be prepared to walk! If the market is overheating and the opportunity of a 20% return is not available, then walk away. Wait until the market is in a better condition before you purchase your property.

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2.3.5 How mortgage lenders cover their risk

Major mortgage lenders also use 20% of a property's value as a buffer against risk. We can see this clearly in the terms for standard mortgages.

In order to get a mortgage, a lender will offer you better terms if you put up 20% of the property's value – in fact, when it comes to refurbishment or buy-to-let mortgages, many lenders insist your deposit is 20%.

This is based on the mortgage company's assumption that the market is highly unlikely to drop more than 20%, so that even if the mortgage holder (i.e. you) went bust, the lender would still get their money back by selling the property and keeping the deposit.

Look at it another way. For a standard homeowner's mortgage, the company will charge you an insurance fee (MIG) to cover their risk that the market might fall. If you offer a 20% deposit they will waive this charge as they consider the loan to be free from this risk.

These mortgage companies got badly burned in the early 1990's with falling property prices and large numbers of repossessions. Many people walked away from properties that were worth significantly less than their loan. These lenders are not willing to encounter the problems with repossessions that occurred during the early 90's. Therefore, they approach the market with caution.

If mortgage companies use 20% as the level at which there is no real risk, then so should you.

Key Tip

Apply this principle – aim for a 20% return - you will be drastically reducing your risk exposure.

2.3.6 Using the rental market as a fail-safe

The key to success in this area is to understand the relationship between the buying and rental property markets. Property markets are (crudely speaking) driven by the balance between the cost of renting and the cost of buying.

If you take on a property that you can resell for a profit, but the market crashes, you can rent it out and still make money. In this way your investment is practically risk-free.

Let's look at this in more detail. The figure below examines a typical scenario.

Rental and property sales work conversely. Like old-fashioned scales - when one goes up the other goes down and vice-versa. Bear in mind, though, that the swing is not instant and can take a few months to come through.

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Case study

Property prices grew rapidly in the early 2000s but the increase in rents failed to keep up. As a result rental yields have been falling.

However, now that house price increases have peaked and with rising interest rates, a growing number of first time buyers are staying out of the market.

Hence, the rental demand for 1 and 2 bed properties is picking up. Given time, this will, in turn, translate into increased rental prices and higher yields.

In time the property market will recover and then there will be a shortage of properties to buy. This will drive prices up at which point you will be able to sell your rental property for a good profit.

The key to minimising the risk of your property investment is to ensure that you can let your property (i.e. no legal clauses preventing you) and generate sufficient rent to pay your costs - even if mortgage rates rise again.

Key Tip

You should equally understand the rental market for your local area as well as the market for sales, even if it's your intention to sell.

When you find a property that you want to purchase, you are able to do so with speed and knowledge.

2.3.7 Developing your own home – rental options

If you are planning on living in your property whilst you renovate it, then your attitude to rental will be slightly different. However, you still have the option to rent a room in your home if the interest rate-hike causes a problem:

As long as the home is your place of residence and you let the room for residential purposes (i.e. not to be used as an office), then you can claim a tax-free element up to £4,250.

If your rent is greater than £4,250, you pay tax on the amount above or you can calculate the income and offset costs in the normal way.

2.3.8 Advice from a professional developer - the risk-conscious approach

When buying a property always look for the downside. When you are calculating potential returns from rental always take a pessimistic view.

Test your ability to finance the property under the worst possible conditions. Assume that interest rates are substantially higher and that rental values just about hold current market rates (although they are likely to rise).

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Also, assume that you will only let the property for 9 - 10 months of the year. Also, don't forget that you are required to pay tax on any rental income, but can offset the costs of the finance (or the interest element).

If after these pessimistic calculations you can still make a return (i.e. the rental income at least covers the finance costs) then you can go ahead on your development knowing that even in a worst-case scenario where the bottom falls out of the market, you will not lose money.

The crucial thing is that this level of security will enable you to hold onto a property until the market corrects itself (as it always does). Essentially, the rental option just buys you time.

2.4 Analysing Potential Purchases

Refurbishment costs	You must have an accurate idea of how much each part of the project will cost. The best way to do this is to get estimates.
Time scale	Don't be too optimistic when it comes to estimating how long the renovation will take. Listen to your tradespeople as a guide, but unless you are an experienced project manager (or you employ one!) you will inevitably find there are days which are unproductive.
Control of builders and other trades	This comes down to planning. If a tradesperson lets you down at the last minute, the whole project could be put back weeks while you try to find another. Make a realistic assessment of your project management skills.
Knowledge of the market	Have we emphasised this point enough yet?! Don't guess at the final value of the property. Be 99% sure of what you can achieve before you buy.
Control of finance	Build some flexibility into your finance. Consider capped or fixed rates to make it easier to calculate the cost. And ensure that you have a contingency fund of at least 10% of the refurbishment cost.

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Key Tip

The way to weather this flatter period of growth, and to ensure that you can hold your investment long term in order to take advantage of the next property market upturn, is to concentrate on being cash positive. This is the number one consideration.

Keeping the cash positive concept at the forefront of your mind will ensure that you make the right investment. This is another reason for avoiding off-plan buys in the UK right now - high service charges and high initial purchase prices.

2.4.1 Buying below market value

To maximise cashflow you need to look at other sectors of the market.

One highly effective way to increase your yield is to buy below market value (BMV). How do you achieve this? By buying a property and refurbishing it - a 'refurb' as it's known in the trade.

Key Tip

The combined cost of buying plus the amount you spend carrying out the refurb must be less than the finished product is worth. This is how buying BMV is achieved.

All this means getting your sums right and having meticulous estimates carried out before you agree to take on a project.

The other factor in all this is to put down a larger deposit than you would when the mortgage market is looser. This is probably the simplest and most immediately effective way of raising cashflow.

But when you take the refurb route - so long as you can achieve BMV and positive cashflow - then you have a strong case for UK investment.

Maximise gearing

The essence of this approach is that if you can buy, refurb and ensure that the total spend is, say 10% below market value of the finished product, then you are able to gear more highly, maximise your return and not worry. This makes a great combination of high gearing and a strong yield.

So how is this achieved? First of all, start with an area you know well. Look locally and look at lots and lots of properties to give yourself a feel for buying below market value.

You also need to build good relationships with estate agents to ensure they know you are a serious buyer. This way they may steer you towards an attractive BMV buy.

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You may also decide to look at auctions especially around the November time as a lot of people will be frightened off by the expected introduction of 6% base rates around this time. This should help to reduce the amount of competition in the market.

Another crucial factor is to employ a like-minded builder who knows that you want the best job at the cheapest possible price.

As interest rates remain high and continue rising, the speed with which you can turn a project around will be crucial. The longer you have your property standing empty, the more money you will need to recoup later. So you need to learn to move fast, and that means having all the necessary players lined up and ready to go before you buy.

Most of all you need to know how much it will cost you to get into the project and out of it.

No one has a crystal ball, but if you follow the tips in this book you will be well on the way to acquiring the skills necessary to formulate an effective strategy.

Put your strategy in writing...in other words, compile a business plan. For more on this, take a look at section 6.

Without even the most basic of plans, you may deviate from your strategy for the wrong reasons.

Some flexibility is a good thing in property development. You need to be able to adapt to a changing market, for instance, or a change in builders, or even a change in the weather!

But your long term goals of making a 20% profit and renovating for a broad market should always be in the back of your mind.

If you take the time to write a business plan, you are less likely to alter your course when you find yourself tempted to install a top-of-the-range Italian kitchen into your student flat.

Congratulations! You've finished chapter 2. You can now:

- decide what kind of property to develop
- make money whatever the market does
- minimise your risk by targeting a 20% investment return
- identify the importance of buying below market value

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3 RAISING THE FINANCE

Once you have read and digested this chapter, you will:

- Understand the pros and cons of the different methods of finance in section 3
- Be able to decide whether or not to use a broker in section 3.8
- Appreciate the insurance costs involved in section 3.8.5

Having established the ground rules for your business plan, now you should work out how much you can borrow and how to manage the associated costs.

There are various ways you can fund your project, and you must be absolutely clear of the pros and cons of each before you make a decision.

Most developers will use a combination of the different methods but you must decide what is right for you.

3.1 Cash

If you have enough cash to buy your property outright AND fund the development, this might appear the simplest route. There is certainly a lot to be said for this strategy:

- You may be able to negotiate a lower price for your property because without a mortgage to arrange, you should be able to exchange and complete on the sale quickly. (Although there's nothing to stop you negotiating and buying with cash, and then refinancing once the property is yours)
- You don't have to spend valuable time applying for funding
- You are answerable only to yourself – if you make a bad decision and (heaven forbid!) the property swings into negative equity, you do not have to find money from other sources to pay back the mortgage lender

Before you opt for this route, however, there are some other points to consider:

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Paying for your property and refurbishment costs with cash is an inefficient use of your money. Why? Have a look at the following example:

Example 1

- You buy a house for £160,000 with cash.
- You spend £40,000 doing it up (using cash).
- You sell for £240,000.
- Which is £40,000 profit.

OR

Example 2

- You buy TWO houses for £320,000 (using 50% cash of £160,000 and 50% mortgage of £160,000).
- You spend £80,000 doing them up (using cash).
- You sell them both for £480,000.
- Which is £80,000, less the interest you've paid on your 50% mortgage (over a 6 month period, this is unlikely to be more than £6,000).
- Which makes your profit £74,000.

Okay, we know this is a simplistic illustration. But the fact remains that your profits could be much higher if you use your cash wisely. By gearing your money, you have the potential to make more money than if you pay for the whole project with cash. The greater your borrowing – for both the property AND the refurbishment costs – the greater that potential.

Another reason to borrow funds to finance your project is a tax one. You must obviously pay tax on your profits, but if you borrow money to finance your development you can offset the cost against your tax bill and so you will pay less tax.

3.2 Mortgages

3.2.1 Homeowner

If you are developing your own home then you have the cheapest kind of finance available to you, whether you move in before, during, or after the works are complete.

If your credit rating is good, you should be able to find a mortgage at the base rate or less, depending on any incentives. If you are a first-time buyer it particularly pays to shop around as lenders are very keen to get your business.

You will generally be asked for a 5% deposit minimum, although some lenders will offer 100% mortgages. Unfortunately, properties which need renovating tend not to be funded 100%.

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In fact, if your property is in an especially bad way, you may encounter one or both of the following:

1. A retention
This is where the mortgage company doesn't release some of the funds on completion, but retains a portion until you have carried out whatever works it deems necessary. Examples might be an electrical rewire or a new roof. If you encounter this, you will need to find an alternative source of funds until the works are complete, and the mortgage company hands over the retained portion.

2. An undertaking
This is a sort of promise on your part to carry out certain works by certain dates. It will be written into your contract and after those dates, a valuer may pay you a visit to check the repairs have been completed. No money is held back on completion, but you will be in breach of your mortgage contract if you don't do the work in time.

Do pay special attention to any 'lock-in' periods. If you plan to sell your home after a year, you may be penalised financially for doing so. If you are unsure, then find a deal which allows you to surrender your mortgage at any time.

The Financial Services Authority is responsible for overseeing the sale of new homeowner mortgages which means in theory you should never be sold an inappropriate mortgage that you can't pay. To check that your lender is registered with the FSA under the system, go to its website www.fsa.gov.uk . The site also has very comprehensive 'best-buy' tables for this kind of mortgage.

3.2.2 Buy-to-Let

If you are looking to purchase a second or additional property as an investment then this is an option – even if you think you might sell the property immediately on completion. At an interest rate of around base + 1%, this is the next cheapest option after a homeowner mortgage.

Lenders do frown on this practice, however, and if you carry out more than once the cycle of taking out a buy-to-let mortgage and then selling the property as soon as it's refurbished, they will get wise to you and may refuse you finance in the future.

Typically you need to provide 20% of the property value as a deposit. So, if you wanted to borrow £80k to purchase a flat and £20k for development (total £100k), then you would need to provide £20k deposit. Some lenders ask for 15%.

Once you have this basic deposit, the mortgage company will loan an amount based on the rental income of the property you are purchasing, where rental income must be a minimum of 130% of the mortgage payments.

Remember in your calculations to make absolutely sure that there are no mortgage redemption charges (otherwise you will be penalised heavily if you later decide to sell the property).

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If you intend to apply for this type of mortgage – whether or not you plan to sell after you have developed it – you must research the rental values in your area. The mortgage company will check your figures and refuse to lend you the money if your calculations are wrong.

A buy to let mortgage may not be suitable for your property if it is in a very bad state of repair, as mortgage companies will refuse to lend on a property without a working bathroom or kitchen. You could, of course, choose to switch to this kind of mortgage once you have installed a bathroom/kitchen.

One word of warning: while homeowner mortgages are overseen by the Financial Services Authority, Buy-to-let and Commercial mortgages are not. The FSA makes sure that homeowners are sold 'suitable' mortgages they can afford, ensuring lenders make it absolutely clear what is fact and what is subjective advice. But buy-to-let and commercial mortgages aren't covered by the FSA's beady eye, unless 40% of the property is being used as a residence by the borrower or family member.

3.2.3 Commercial/renovation mortgages

Mortgage lenders have been a bit slow to wake up to the fact that an increasing number of people are buying property specifically to renovate and sell on. In the last couple of years, however, several products have been established which should be of interest to the developer.

A quick search on the internet will reveal a huge number of brokers now willing to offer commercial mortgages to first time developers, but some of the better deals can be found with the high street banks. They will almost certainly want to see some kind of financial or business plan.

The best kind of packages allow you to draw down money in stages, as the work progresses, which means you're not paying interest on money you don't yet need.

These packages are tailored to the developer's requirements. They are relatively quick to arrange, the lender knows you will sell once the work is complete, and they know, too, that the house could initially be a bit of a wreck. They tend to divide borrowing into two amounts, ring-fencing one amount for the purchase of the property, and another amount for refurbishment costs.

On the down side, these mortgages aren't cheap. You are looking at up to 2.75% above base rate, and may only be able to raise a 60% loan this way so you will need to be able to find the remaining 40% from another source.

3.2.4 Re-mortgaging an existing property

If you have equity in your own home, or another house you own, it may be possible to re-mortgage in order to get the cash you need for your development property. This could simply be a matter of ringing your existing lender and getting a revaluation, or if they prove unhelpful, you could re-mortgage with another company.

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Either way, check with your lender that you won't incur any penalties by doing this – you may have locked yourself into an agreement for a certain period when you first took out your mortgage.

Refinancing is likely to mean an arrangement fee and/or a valuation fee so don't forget to check with your lender and include that when you're number crunching.

Also, a second charge on your home like this ISN'T covered by the FSA's new rules regarding mortgages. It means that unscrupulous lenders could potentially recommend an unsuitable and unaffordable mortgage, although thankfully this is rare. Just make sure you read the small print and shop around before signing.

3.2.5 Why interest-only mortgages?

Developers almost always use interest-only mortgages, for three reasons.

1. Unless you plan to live there, you will not own the house for long enough to pay off any significant amount of the capital debt. If all goes well, you will be selling the property within six months. Repayment mortgages are structured so that you pay off the vast proportion of the capital towards the end of the term. Almost everything you pay in the first few months and years is interest.

2. Your money will go further – yes, we're back to gearing again. If less of your money is tied up with mortgage repayments, you can invest more of it in property. (See the section 3.1on buying with cash.)

3. You pay less tax. Only interest repayments can be offset against your tax bill. In effect, capital repayments come out of your profits. See our sister publication Buy to Let Secrets (available from www.propertysecrets.net) for more on this.

3.3 Home Improvement Grants

If you can pay for some of the work on your property with grants, then grab the opportunity with both hands and don't let it go! There are some suggestions below of where these might be appropriate, but be warned: home improvement grants are not designed to help property developers. They are often means-tested, aimed at owner-occupiers, and topped off with a copious amount of red tape.

Renovation grants

Assessed by the local authority, these will pay for up to 100% of the cost of major renovation work including damp-proofing, repairs to the roof and even the installation of kitchen and bathrooms. In order to qualify, you must have owned the property for the last 3 years during which time you or a member of your family must have lived there. The grants are means-tested which can take 6 months or more to assess. Contact your local council for more information.

Listed buildings grants

The planning authority will also be able to tell you if you are eligible to apply for a grant to pay for essential structural repairs to a listed building. English Heritage may be able to offer you a grant if your property is of outstanding interest. You don't necessarily have to be an owner-occupier for these grants, so it's worth pursuing.

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Disabled Facilities grants
If you are renovating for a specific person who has particular needs e.g. wide doorways and ramps, your buyer may be able to get help with the cost. You have to be registered disabled to apply, but if you intend to let out the property instead of sell, you may have a case for applying as a landlord. Contact your local authority.

Grants for landlords
These include a percentage of the cost of repairs to the common parts of buildings containing one or more flats, and also a grant for Houses of Multiple Occupation. Check with the local authority if you think you might be eligible.

3.4 Home Improvement Loans

This is only really suitable if you are living in your property and they don't come cheap when compared with a homeowner mortgage – around base + 1 or 2%. You may also be tied in for a certain term, so do check the conditions.

But as a short-term measure, it may give you the cash you need to start refurbishment.

'Unsecured' loans are not available for 'speculative or business use,' so that rules them out.

What you are looking for is a loan 'secured' on your property, and even if you already have a big mortgage, it's worth noting that some lenders will in fact loan up to 125% of your property value. Depending on your financial circumstances, you could borrow anywhere from £3,000 - £50,000.

Start with your mortgage lender as often they will be prepared to lend on the most favourable terms. But compare all rates with others on the market, either by consulting the property press in the national papers or checking out the internet on sites such as www.whatmortgage.co.uk.

There are two ways in which you might want to consider utilising a loan:

Option 1 – A loan against the future value of the property

For example, rather than calculate the amount that you can borrow against a property on the basis of its purchase price, you can argue that the surety for the loan (the property) is actually worth more than the asking price. It will be worth the asking price plus the value that you add to it. In this case you are asking the lender to provide a loan against the future value of the property.

For example:

- You are only able to raise 70% on the value of a property;
- Buy property for £100k;
- Deposit £10k;
- Add work to the value of £20k.

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The property is now worth £160k and you can arrange finance based on this figure. This does require an 'understanding' bank and a good credit history to obtain this sort of finance.

Option 2 - Use a home improvement loan and then refinance

More typically, if you are relatively new to property development you might take this route:

1. Buy property, using a mortgage, based on the purchase price.
2. Take a loan (not part of the mortgage) advance for home improvement.
3. Refinance the mortgage to include the home improvement loan based on the property's new value, now that the work is complete. (This is worth doing because the interest rate on a home improvement loan will be significantly higher than a mortgage loan. So, by refinancing, you can cut your finance costs.)

3.5 Bridging Loans

This type of loan can be useful if you are waiting for the sale of your own home, but have already spotted a suitable property you want to buy. It’s not cheap (around 1-2% a month) but you can pay it back as soon as your own home has sold. They may insist on a minimum (around £30,000 is usual) and will only lend around 60% of the equity in your own home.

3.6 Other finance

3.6.1 Credit cards

Whilst you couldn’t take out a home improvement loan or a mortgage on your credit card, there’s nothing to stop you running some of your household bills through your card until you save the cash you need.

We’re not saying that it’s an advisable strategy.

We’re just saying that if you get into a tight spot and need money fast, it’s possible.

3.6.2 Borrowing from a business partner/relative

This is a very common way of raising the money to put down a deposit on your first development property, and it can work well. The key is to agree exactly what your partner will get out of the arrangement and to put it in writing.

If you intend to split the work and profits, what proportion of time and money will you both invest? How will you divide the profits? Crucially, make sure you both understand who will undertake which role.

Who will project manage?
Generally, it’s sensible to appoint one of you to take charge of day-to-day decision-making so that you don’t find yourself arguing over details. Sit down together before you have even exchanged contracts and agree broadly what work needs to be done e.g. new roof, kitchen and sand floorboards, and then leave the detail to the project manager.

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Will either of you do any labouring, skilled or otherwise?
Don't allow a situation to arise where one of you feels hard-done-by because you are always up to your elbows in wallpaper paste. Identify who will do what physical work, and then don't grumble about who has the toughest job!

What proportion of the profits will be paid to a 'sleeping' partner?
If your partner doesn't do any of the work, you could simply arrange to pay back his or her investment when you sell, plus a generous interest repayment. Or you could pay them back monthly, over an agreed term. Or you could hang on to their money for an agreed period of several years, reinvesting as you go, and then give them a share of the profit at the end of that term.

Iron out these and any other details with a solicitor, even if you are working with a spouse or other close relative. It's simply not worth the hassle of making it up as you go along. There's too much at stake.

3.7 Summary Of Finance Raising Methods

Finance	Purpose	Typical Loan to Value (LTV)	Finance rate	Pros	Cons
Cash	Property purchase Renovation budget			Flexible May help negotiate lower purchase price Quick	Inefficient use of money if you don't combine with a loan
Homeowner mortgage	Property purchase Renovation budget	125% max (if house in good condition) 95% more usual	Around base rate, depending on personal circumstances	Cheap finance Mortgage lenders and advisers regulated by the FSA, so you shouldn't receive bad advice	The cheapest deals may require lock-in period Funds may be retained until you complete the work Usually based on your personal income

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Finance	Purpose	Typical Loan to Value (LTV)	Finance rate	Pros	Cons
Buy to let mortgage	Property purchase	85% max	Base + 1%	Isn't based on your salary but on the ability for property to pay for itself	Must be able to achieve rental income of 130% of mortgage repayment
Commercial mortgage	Property purchase Renovation budget	60% max	Base + 2.65%	Tailor-made for developers	Need a hefty deposit
Re-mortgaging	Property purchase Renovation budget	Up to 100% if homeowner 85% if investment property	Anything from base upwards. Check with lender	Could be arranged very quickly if use current lender	Will raise payments on your own home
Home improvement grants	Renovation budget			Free money!	Very strict criteria Lots of red tape Slow
Home improvement / secured loan	Renovation budget		Base + 1% upwards. Check with lender	Quick to arrange	May be locked in for a period of years Limited to small amounts of up to £50,000
Bridging loan	Property purchase	60% of equity in your home	1-2% a month	Quick to arrange	Expensive Limited amount you can borrow

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Finance	Purpose	Typical Loan to Value (LTV)	Finance rate	Pros	Cons
Credit cards	Property purchase Renovation budget		Anything from 0% upwards.	If you chase the 0% rate deals, it could be the cheapest option	Complicated to organise Could easily spiral out of control Slow
Business partner	Property purchase Renovation budget	100% if they have deep pockets!	Depends on your partnership arrangement	If using cash, may help negotiate lower purchase price Quick Development could benefit from partner's expertise	You will hand over some control of development to a second or third person Puts relationships under a lot of strain

3.8 Mortgage Brokers Vs Self-Arranged Finance

In the past, property developers have been limited to a choice of only two schemes, one suited to investments of under £100,000, and the other for larger investments.

Nowadays there are hundreds of lenders, offering literally thousands of different schemes. While you can arrange finance on your own, you may benefit from the experience of a good broker in navigating the plethora of available deals. Often, brokers will have access to offers that are not available to the general public - even if you were to contact the lender direct.

3.8.1 Arranging your own finance

Financing with an existing lender
If you are currently with a good mortgage lender it might be worth asking them if they can put together a special deal for you. Lenders are much more open to negotiation than they used to be.

Be certain that their offer is the best deal for you before you sign on the dotted line. You are looking for:

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- A good rate of interest
- Ideally no lock-in period – you want to keep your finances flexible

Searching for the best deals yourself

It is unlikely that you will find a single website or newspaper which covers ALL the potential finance sources we have identified, so searching for the best deals yourself will be time consuming.

However, whether or not you go to a broker, it is an excellent plan to have some knowledge of the different rates available, so it is worth making the effort to do a bit of homework.

All of the broadsheet Sunday national papers and even some of the tabloids list the best homeowner mortgages, buy to let mortgages and credit card rates. Some also identify the best secured loan rates of the moment.

As well as information on lenders, there are other useful sites, such as Council of Mortgage Lenders (www.cml.org.uk) – which has useful information if you are in dispute with your mortgage lender.

3.8.2 Using a broker

Brokers are particularly useful when your criteria don't fit the normal circumstances. For example:

- Buy-to-Let schemes; as Buy-to-Let loans carry a broad range of criteria and requirements, it is easier and quicker if you can get a broker to do the legwork for you
- Newly qualified solicitors - start on a salary of £30k and in 1 year can earn £100k - they can get 6/7 times their income multiple
- Foreign nationals looking to buy a 600 to 700k property - but don't want to sell their home abroad (US & Australians etc)

In the case of a straightforward loan to buy your own property, sometimes you can find marginally better products by going direct to the lender - especially if you go to your existing lender.

3.8.3 How brokers are paid

If you deal with a mortgage broker, the brokerage has two methods of making money:

- Fixed fee – paid by you to them
- Commission – paid by the lender to them for selling their mortgage

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Similarly it is important to know how the individual broker is remunerated:

- Salary only
- Salary plus commission
- Commission only

When the broker is paid purely on commission from the lender, there can be concerns that this might influence their advice, so be careful to check that you have information on all appropriate deals. Make sure that you find out the basis on which the consultant is paid.

If you are at all concerned, get an alternative quote from another brokerage and compare the two offers.

3.8.4 Choosing a broker / consultant

To choose a mortgage broker/consultant you need to decide on your firm and the individual separately.

The key things to look for in a quality firm of mortgage consultants are:

Independence (as opposed to tied to one particular lender). You may end up buying other financial products (such as life or critical illness insurances) and you want to make sure that the broker is free to offer best advice on these products too;

Don't charge you a fee (i.e. they collect commission from the loan company) but this must not be at the expense of good independent advice;

Have a reputation for good advice and a list of satisfied clients (preferably clients like yourself intending to develop a property and sell on);

With information systems with access to latest market rates. In a modern brokerage, if computers break down then the brokers all go home!

And can offer a full range of schemes – e.g. Commercial or Buy-to-Let mortgage.

In addition, a good broker:

- can meet early and late (when you are available)
- doesn't mind working hard - a tricky mortgage can take up to 10 hours just to arrange
- is a good negotiator
- has good knowledge of what is happening in the local market and the development market in particular

The broker often operates as a conduit. They are there to make sure everything gels and the finance is available on time. Often your broker will negotiate with both the agent and mortgage company on your behalf.

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As well as being able to provide the basic service, a mortgage broker's experience can be of great value to a property developer. They will know how to get a mortgage application approved by the lender even though some of the key criteria are being broken. And they should be able to give you a valuable second opinion on the viability of your property plans.

If you intend to be in the business of property development for any length of time then you should cultivate a good relationship with your mortgage broker. Treat them like a financial consultant to your property business.

Key Tip

A mortgage broker will be able to tell you how busy the property market really is - based on the number of mortgages sold or application made. If you build a good relationship with a broker, he or she is much more likely to give you an honest and straight answer about the state of the market than an estate agent.

When first looking for a broker, speak to at least three and ask them how they conduct business and whether they are willing to meet for a brief introductory discussion.

- Tell them what you intend to do and ask them their advice. Then sit back and listen to what they have got to say
- Then ask them about how they see the development markets moving
- Then ask them how many lenders they can deal with suitable for your needs

Although there are creative ways in which you, together with a good mortgage broker, can maximise your available finance, it is vital that you never lie on a mortgage contract. It is a criminal offence and you will go to prison. Never sign your name if the details are not correct.

3.8.5 Insurance and other costs

As well as having to bear the cost of finance (interest payments) between buying and selling the property, there are other service costs to include in your calculations.

Buildings insurance
You need to insure the buildings from exchange of contract. However, make sure your insurer knows if the property is going to be empty, as cover for some risks (like vandalism) is restricted when a property is uninhabited for any length of time.

Employers Liability insurance
If you are directly employing trades to carry out work, you will need to cover yourself in case they have an accident on your site. If your tradespeople are self-employed (and this is more likely) they will have their own liability insurance.

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Public Liability insurance
This is usually included in your Buildings Insurance but do check. It covers you against the risk of a member of the public being harmed by something that happens on your property, e.g. a falling roof tile.

Contents insurance
Only worthwhile if you are ‘dressing’ the property with a magnificent American-style fridge freezer and antique furniture, for example. Or if you are spending a lot on carpets and floor coverings. If you are sticking with cheap and cheerful, it probably isn’t worth it.

Above are the ones that will probably apply to you; but if you want to, you can insure yourself against all sorts of weird and wonderful improbabilities – from the risk of discovering that you have inadvertently bought land of archaeological importance, to the risk of finding asbestos somewhere in your property!

You could, however, consider insurance against:

- the theft of tools (worth it if you have built up an extensive collection)
- personal accident (if you’re project managing the development which would stall if you weren’t on site)

Council tax
Here’s a bit of good news...check with your local authority, but if the property is empty or uninhabitable, then it’s highly unlikely that you’ll have to pay full council tax – if any.

Congratulations - You've now finished chapter 3.
But before you go on, check through the key principles you've learned and commit them to memory. In particular make sure you:

- Understand the pros and cons of the different methods of finance
- Are able to decide whether or not to use a broker in section 3.8
- Appreciate the insurance costs involved in section 3.8.5

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4 FINDING THE RIGHT PROPERTY

Once you have read and digested this chapter, you will be able to:

- Identify your buyer in section 4.1.1
- Locate an up-and-coming area in section 4.3.1
- Get estate agents to show you the best properties in section 4.13
- Have your offer accepted in section 4.15

This is the bit that could take you the longest period of time. It takes patience and tenacity to hold out for the right property, but if you follow our tips you can be confident that you will eventually find it.

4.1 What Kind Of Property Should You Look For?

You are looking for the right kind of property at the right price. As we said before, that means a property that can deliver a 20% return on investment.

4.1.1 Identify your buyer

So what counts as the right property? Well, different properties appeal to different groups of people. And no single property will appeal to everyone!

That means that when you look at a property you should consider the target market that it would (or could) appeal to and to what extent it will appeal.

The danger with an exercise like this is that it is all too easy to stereotype. We are not looking to 'pigeon-hole' people and there will always be exceptions. You may even disagree with some of our generalisations, given that you will be getting to know your locality intimately by now. However, all successful developers do have a talent for spotting which groups of people are drawn to certain homes. It's a talent that you must cultivate too.

Ultimately, the more groups you can target, the more chances of success you will have when it comes to finding a buyer. It is perfectly feasible to refurbish a property that will appeal to house-sharers, professional couples and young families, for example, thereby increasing the number of people who will come to view.

Key tip

Never narrow your market too far, so that your property will only sell to a handful of people. Develop your property to appeal to as many different people as possible.

Young professionals

This group of people are likely to be in their early 20s and may be first-time buyers. They could well have just left university or the parental home and are keen to take their first step on the property ladder.

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This is a fantastic market to target, as they are unlikely to be in a chain and the sale of your property should go through relatively quickly. With limited funds, they are also looking for a home which is low-maintenance.

When it comes to cosmetic decoration of your development, it's crucial that you get it right for this section of the market. Their taste will be modern and you can't afford to get it wrong.

So when viewing properties for this group, bear in mind the cost of updating features which are serviceable but old fashioned; a dated gas fire, for instance, or an avocado bathroom suite.

Many people in this section are happy to live in flats as they tend to be low-maintenance and cheaper than houses. A good social life will be important, so if there are no bars nearby they will need good transport links so they can get to and from the nightlife hotspots with ease.

Second or third-time buyers and young couples

For the sake of argument, these buyers are likely to be in their late 20s and early thirties. With a bit more disposable income, this bunch will demand a better quality finish and more space.

Many will continue to choose flats or apartments – although ones finished to a higher standard.

Other people in this group will be looking at one or two bedroom houses with gardens and more entertaining space.

Like the previous group, they will still expect modern fixtures and fittings, and ideally be looking for a location near bars and restaurants.

House-sharers

The recent hike in property prices has forced buyers to consider letting out a room of their new home from the outset, or even buying together with a friend.

This group of people have the same needs and demands as first or second-time buyers but there are a couple of extra things to think about if you want to target this market.

Firstly, a two bedroom home must have two DOUBLE bedrooms – you will not attract house-sharers if one room is significantly smaller than the other.

Secondly, watch for poorly set out bathroom arrangements. Don't even contemplate buying a property where the only bathroom is accessed via one of the bedrooms, unless you plan to change the layout. Ideally, there would be two bathrooms, but one decent one should be sufficient.

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New families
With the arrival of a third member of the family comes a change in location.

This market is perhaps less interested in nightlife (although transport is still crucial for working parents.)

The standard of nearby schools becomes critical, as does the safety – or the perceived safety – of the area.

Perhaps start your search by looking for two bedroom houses with gardens.

Established families
Older children require more space, and the development of a three or four bedroom home can be quite a financial undertaking.

Once again, good schools are important.

Many families prefer to live near other families, so look for established residential areas.

Separate living space has become valuable by this stage, so don't start knocking down too many walls!

Outside, a garage will be a bonus – if there isn't one, consider the space to build.

Older people
By the time the children have left home, people may start thinking about scaling down their house, especially if retirement is on the horizon.

This section of society will be looking for a low-maintenance home in an area with a low crime-rate.

Don't go for cutting-edge design ideas; incorporate neutral and traditional schemes with good-quality finishes.

People with disabilities
Of course any one of these groups of people may have special needs, but it is more likely that older people may be unable to get around easily.

You cannot possibly customise a property on the off-chance that it is bought by someone who has a particular disability as this would be narrowing your market too far.

But when renovating for older people you can certainly bear in mind ease of access; wide doorways, for instance, and the ability to park a car close to the main entrance. Avoid tiny rooms to allow for wheelchair usage and consider putting in a ramp to at least one of the entrances.

A main interior staircase isn't necessarily a problem - although bungalows are indeed popular with this group of people. However, do be wary of properties which are accessed via a number of steps outside.

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Students (landlords)

If you intend to sell your finished property to a student landlord (or parent of a student), be aware that standards are much higher than they used to be five or ten years ago.

Students will no longer accept dingy bedsits as a matter of course. Go for large houses of three bedrooms or more, bearing in mind that often one of two reception rooms can be converted into a bedroom. If all the bedrooms can be doubles, so much the better.

There needs to be at least one bathroom for every three bedrooms, but do be aware that an increasing number of landlords want en suites to ALL the bedrooms, so that they can ask a premium rent.

Developing a student property can be expensive, even if you consider that the finish does not need to be as good as for any of the other target markets.

The kitchen should be a decent size, as does any living room.

But a garden is actually a liability to student landlords, so go for something that has a yard at most. Large terraced houses are popular with this group.

4.2 Location, Location, Location

It’s a cliché, but we’re going to use it anyway!

Everyone knows the three most important factors in selling and valuing a property are location, location and location. However, this doesn’t mean the same to everyone.

Depending on the type of buyer you are trying to attract, you should focus on different locations.

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4.2.1 Location - what matters most and to whom

Score

3*** Very important 2** Important 1* Quite important

	First-time buyers Single people Young professionals Couples	Families	Older people People with disabilities	Students
Amenities				
Sports clubs	**			
Bars/clubs	**			***
Shopping centres/cinemas	*	**		
Local shops	*	*	**	**
Restaurants	***	**	*	*
Supermarkets	*	**	*	*
Children's amenities		***		
Quality schools		***		
Medical facilities		**	**	
Universities/ Colleges				***
Transport				
Access to bus/train links	***	**	***	**
Access to motorways	**	*	*	
Access to airports	*	*	*	
Immediate environment				
Rural location		*	**	
Urban location	***			**
Low crime rate	*	***	***	
Low traffic roads		**	**	
Parks and open spaces	*	***		

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	First-time buyers Single people Young professionals Couples	Families	Older people People with disabilities	Students
Period properties	**	**	**	

First-time buyers, young professionals, singles and couples

In big cities, transport links must be second to none for this group, both for the commute to work and travel at night. City locations are often popular because of the social aspect but do pay heed to our little tip below on the subject of bars.

Key tip

You will often hear about the importance of the proximity of bars, pubs and restaurants. It may sound obvious, but do be aware of the different *types* of bars in your area.

What will appeal to one group of people (say, students) may be a turn-off for another (like young professionals.) Research the kinds of people who visit the nightlife in a particular area as part of your drive to identify your target market.

If you can find an area enjoyed by more than one group, you're onto a winner!

Families

The quality of local schools is of prime consideration for this market and you will invariably find that homes close to good schools are easiest to sell and command the best prices.

All schools nowadays must publish their 'results,' i.e. allow people to see what kind of standard their pupils are achieving in a range of subjects. The government organises these results into so-called 'league tables.' The higher up the league table, the more popular a school – and homes in its catchment area - will be.

A recent government survey found that some parents are paying nearly £50,000 extra in property prices to guarantee their children places at top primary schools, so find a property in a high performing area for local schools and watch the money come rolling in!

You can find out these results in a number of ways.

- Firstly, www.upmystreet.com has an overview of school results within a postcode area, when compared with the national average. Think carefully before buying in an area where the school performance is below average
- For a more detailed look at where a certain school appears in the league tables, take a look at the government's website at www.dfes.gov.uk/performancetables/

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- Ofsted, a government body which inspects all educational establishments, reaches its own conclusions about the standard of a school. It publishes its findings at www.ofsted.gov.uk/reports/

Older people and people with disabilities
Older people tend to prefer living in areas where the crime rate is low. Try putting a postcode in www.upmystreet.com and have a look at some of the crime statistics when compared with national averages.

Don't make the mistake of assuming all older people want to live by the sea/in the countryside – many youthful, active retired people relish the buzz of city life.

Like young professionals, this section of the market also requires good transport links. The two groups differ in that while professionals need speedy commuter trains and buses into towns and cities, many older people prefer to use public transport to get to the shops and to socialise. Therefore, you are looking for a good network which links local amenities. People with disabilities, of course, may require both.

Students
Students too, don't tend to travel by car as much as other groups and so need access to a good local bus, train or even tram network, particularly if their university or college isn't nearby.

If you want to develop for this group, your best bet is to identify existing student areas; of all people, students are less inclined to stray too far from the pack.

And while we can't believe this hasn't already occurred to you, we should point out that pubs and nightlife will be of prime importance!

4.3 Development Opportunities

The simplest and most attractive properties (from a development point of view) are generally located in good or improving locations and are in poor condition. Remember, it should offer a 20% return on investment for immediate resale.

These types of property tend to offer good returns for the developer:

- Old-fashioned property that needs updating
- A property that has been decorated unusually
- A property that has been hanging around on the market
- A property which the occupants want to sell fast
- Vacant property

Look for run down properties in up-and-coming areas, towns and cities. In particular, look for homes and flats in towns with young and fast-growing industry (e.g. IT towns, often near universities with good IT courses or on motorway junctions).

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4.3.1 How to identify an up-and-coming area

Finding a project in an up-and-coming area will help protect your profit margin. The property should sell easier when you've completed the development, and most importantly it should sell at – or near – the asking price. During boom periods, these are the properties which frequently sell above their asking price.

So how do you identify such a place?

- Find an area which has already up and come, and look closely at neighbouring districts. When people can't afford to live in a popular region, they tend to widen their searches to nearby locations...the next stop down on the commuter line, perhaps, or on the underground.
- Watch out for any investment plans. Keep a close eye on any planning applications and read the local press. You're looking for anything from major housing developments, to retail investment, to corporate expansion. If big developers are putting big money into an area you can bet they haven't chosen their little corner of the UK at random. That's not to say that experienced developers get it right every time, but make it your business to find out what they know.
- Investigate regeneration schemes. Often led by local government, these plans often mean money will pour into a disadvantaged area to raise standards there. Housing stock may get an overhaul, schools given financial packages. And property prices may start rising as a result. Do be aware, however, that it can take a long time for sentiment to change in these areas. If a district has a reputation for being unlovely and unloved, it may take more than a cash injection to change that.
- Listen out for impending improvements to transport links. This technique is especially effective in commuter belts. If you hear that a region is to get an airport, a high-speed train stop, a tube station or even a channel tunnel station (just look at what's happened to Ashford!) then start checking out estate agents windows quick smart.
- Take a wander down the high street. If you are faced with charity shops and everything-for-a-pound stores, perhaps this region has some way to go before it's upping or coming. If you're looking at newly-opened swanky coffee shops and well-known retail chains, it might be worth a second look.

4.4 Urban Vs Rural

Many developers choose to operate in cities and large towns, but there is no rule that says you must. You may find the market moves slower in rural areas than urban ones and anything too remote may limit your market, so consider carefully the wisdom of buying an isolated cottage. But otherwise the same rules apply to town and countryside alike.

Good investments in the country include stone farmhouses (as long as they're not too close to any working elements of the farm), old churches, vicarages, and any detached homes with half an acre or more of land.

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4.5 Properties To Avoid

Properties with major structural problems (e.g. drains or foundations). Unless you are experienced, it could take too long to repair and mean that you have to carry much heavier finance costs. If you plan to tackle a substantial refurbishment, our sister publication *Renovation Secrets* is invaluable.

Property in depressed areas. With growing unemployment or stagnant wage inflation (remember growth in incomes is a key component to property price rises). Without income growth, property prices will remain very flat.

Property near pylons or mobile telephone masts. Many people take the view that these contribute to cancer risks and are not willing to live near them.

Properties below £50,000 - these are being passed over by typical first-time buyers and are failing to find a strong market.

4.6 More Features That Bring Down The Value Of Property (And May Make It Harder To Sell)

These are the negatives to either avoid or to have a plan to minimise:

- Noise, be it traffic, neighbours from hell, aircraft, trains etc.
- Arterial roads make the surrounding areas dirty and unattractive as well as polluting the immediate environment.
- An area of high crime puts your property at risk whilst you own it, discourages buyers and also increases insurance costs.
- Late night noise from bars and restaurants is not a good idea. People like to be close - but not next to - bars and restaurants. A nightclub next door is likely to have a major impact on the value of a property and make it unsuitable for families and older people.
- Commercial areas tend to contain ugly buildings and become desolate at night (with a potential security risk).
- Houses near sports stadiums can be unpopular, even for fans. Parking is tricky when a big game is on, and the sheer number of people walking past the front door puts many people off.
- Garages or rear access to the property can pose a crime risk.
- Don’t go for anything with a risk of flooding or subsidence; at best, you will find it hard to sell and expensive to insure; at worst, it will flood/subside during the period of your ownership. And this is particularly significant with the current erratic climate in the UK.

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4.7 Features That Make A Property A Good Buy

- Garden (preferably south or west facing)
- Roof terrace or outside access from a flat
- Off-street parking
- Room size - a double room is at least 100 sq feet - that's 10ft by 10ft
- A good height to the rooms - gives a more spacious and airy feel
- Plenty of natural light
- View from the windows
- In the catchment area of a good school
- Good transport links

4.8 Properties Needing Planning Permission

A detailed look at the process can be found in section 5.3.1, but you should be aware of the main implications of a planning application before you consider putting in an offer on a property.

If the property is a straightforward refurbishment, you are unlikely to need planning permission. But if you intend to develop by extending outwards or upwards, or alter the appearance of the building from the outside, you MAY need an okay from the local planning authority.

A quick phone call to them should tell you one way or another.

Don't write off the project just because planning permission is needed, although do bear in mind that your timescale will undoubtedly be affected.

Most local authorities will tell you the process of applying for permission will take at least six to eight weeks. There is always the chance that your first application will be refused and you will need to resubmit altered plans, adding a further six to eight weeks to the process. Make sure you allow for increased finance costs over that period as well as the cost of drawing up any plans and making the application.

The good news is that the building doesn't have to be yours before you make an application. In a stagnant or weak market, it makes sense to put in an offer subject to planning permission – in other words, you agree a purchase price with the vendor and then apply for permission before any contracts have been exchanged. This means that you won't be paying any mortgage costs while the application is considered.

In a stronger market, you may want to consider exchanging contracts first (but not completing) although of course you risk losing a significant sum if you decide to pull out.

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Taking on a project that needs planning permission isn't for the faint-hearted, but you may decide the results will more than compensate for the extra time and money when you come to sell.

4.9 Listed Buildings

The word 'listed' is enough to make many seasoned developers run a mile, but others can and do make money from such properties.

A listed building is one that is protected by law (see section 5.3.3 for more detail) and so you don't have the same freedom to change it that you would for an unlisted building.

It is actually a criminal offence to alter or extend in any manner which would change its character – unless you get authorisation from the planning authority.

A listed building doesn't even have to be old. It is granted such status usually because of architectural or historic interest. Check with the planning office before you make an offer whether or not the property appears on the register.

The local searches made by your solicitor during the purchase process will also show if the house is listed.

Unless you are super-organised, it can be a bit of a performance to apply for permission every time you want to change something about a house you have purchased specifically to develop. As with planning permission, the whole process can be lengthy with no guarantees of success.

In addition, any works you do carry out are likely to cost more than for an unlisted property due to the special materials involved; you may have to use lime mortar instead of modern plaster, for instance. And any tradespeople you employ may have to be specialist in their fields.

So why bother?

Put simply, because a listed building in tip-top condition will fetch a premium when you come to sell, particularly if it is a visually appealing property.

The trick is to check and double check your projected sale price with estate agents. It's also worth checking out if the project is eligible for any grants and if you can claim back VAT on the alterations you want to make (check if you qualify via the Customs and Excise helpline on 0845 010 9000).

As long as your renovation figures are accurate, your profit margin remains at 20%, and you are confident about the permissions for which you need to apply, there is no reason to avoid such buildings.

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4.10 Restrictions Which May Be Imposed By Your Mortgage Lender

Before putting in an offer on any property, check out restrictions on lending with your mortgage company. Warning bells should sound in particular if you are considering any of the following:

- Former council flats within high-rise tower blocks
- Flats above shops or other commercial premises
- Properties that are total ruins
- Flats or houses that have sitting tenants (or squatters!)

Restrictions may not mean the mortgage company will refuse to lend, but they may bump up the interest rates.

Key Tip

Get a free risk assessment of your potential property purchase. Telephone your insurance company and ask for a quote on the property that you intend to buy. If the quote is significantly higher than you normally pay, then you know that there are additional risks involved in the property (risk of burglary, flooding, subsidence etc.).

4.11 How To Judge The Market And Pay The Right Price

Finding the right property is the make or break of being a successful property developer. It is very important to spend enough time getting a feel for the local market so that you know how to find a suitable property at the right price.

A suitable development property may be a straightforward renovation opportunity (remember to aim for a 20% return), or it maybe something a little less obvious.

Case history
A highly successful London property developer bought a large property for £100k. It was massively undervalued because there was an abnormality with the lease. Before this developer saw the property, there was already someone else interested. As it happened, the abnormalities in the lease came to nothing and were sorted out. The developer sold the property to the person originally interested for £260k just 9 months later.

Although that is not necessarily the best type of deal to aim for in your first involvement in the property development market, it illustrates how experience of the market can lead you to spot opportunities that others overlook.

If you want to be successful in property you have to do everything possible to hone your price instinct so that when you are in front of a potential purchase, you know it's a good

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deal and can make an offer straight away. Otherwise you risk losing the purchase to someone else.

It is essential that you also regularly check out local prices and conditions by speaking to the agents directly. Once they get to know you better, they tend to be a little more direct on their assessment of the market.

Key Tip

Spend time (a few months) getting to know the local agents. As they get to know you and know that you are serious about buying, they will start to offer more information about the state of the local market. Also, remember to keep in touch with your broker, as he or she will offer an alternative and independent view on the market.

In addition to speaking to agents and brokers, there are several simple sources of information that will help you to hone your instinct for good property deals, including:

- Newspapers, particularly broadsheets. Generally, the quality broadsheet newspapers do not have the same dependency on property advertising and so the articles are often of greater reliability
- The local press; essential to get a feel for what is happening in the immediate area
- The Internet – a great source of statistics and information which is constantly updated – www.upmystreet.com for example.
- Specialist property papers (e.g. Property Weekly, London Property News)
- Repossession lists - you can find these in the back of local newspapers
- Auction lists - see section 4.14.5
- Websites. See the www.propertysecrets.net for some good examples

They are all useful, but you must be careful of what you read. Many of the houses that are advertised (via magazines, newspapers and particularly on websites) are already sold, but not always at the advertised price. Also, many properties that sell quickly never get advertised at all. Therefore, be aware that you are getting a skewed view of the market.

These property advertisements reflect the prices that sellers would like to achieve - not necessarily the prices for which they actually sold.

Key Tip

Read the local press for a few months running. Try to notice the types of property that keep appearing. That means that they are not selling. Then ring the agent and find out whether it is overpriced, the market is dead or there is a problem that is putting people off.

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4.12 Increase Property Value By Improving The Look And Feel

To ensure that you make a good profit, you need to assess the size of the commercial opportunity the property presents. Basically you need to know:

- The value of that property in that street in really good condition (i.e. once it has been refurbished)
- How much it would cost to get it into a really good condition
- Then you should work out how much to offer for the property, based on a 20% margin

The basic rule of thumb that all property developers use is that you have a good deal if you:

- Buy a property
- Do something to it increase its value (even if it is just perceived value)
- Sell it for at least 20% more than your total costs (buying costs, renovating costs, finance costs etc.)

Stick to the figures in your business plan, and do not be tempted to increase your offer for a property if this would reduce your margin below the 20% level.

Example of how to increase the value
Sometimes, the development doesn't have to be major. Good examples can be found in the second-hand car market:

Two people each want to sell their 3 year-old Volkswagen Golf. Both cars have the same tread on tyres and are in exactly the same condition.

The first person sells the car as it is and gets £3,000.

The second fixes the bumps, makes it clean, makes sure it smells great, has a full service MOT, buys new car tax and sells it for £4,500.

The second person spent £500 and some of their time and they've made £1,000. (If they had bought the other car from the first person they could comfortably make more than a 20% margin in this case).

The key is that most people want to buy something that looks good - not something hat looks poor. In other words it has to LOOK good (that's perceived value).

So 'poorly perceived' cars (and properties) get below market value, and smart and fresh looking properties get above market value. Crucially, the difference in sale price is often considerably greater than the total costs of renovating a 'poor' condition property.

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Key Tip

Never forget that everything is in the perception. You don't always have to spend a lot of money. Your aim is to increase the perceived value as economically as possible.

Don't be tempted to go the 'cheap' route - but go for good quality refurbishment at economic prices.

4.13 How To Get Estate Agents To Show You The Best Properties

The key to being shown the right property is to develop good working relationships with the local estate agents. Ultimately, they will call the person whom they think of first and they know is a serious buyer. It is worth spending a lot of time developing these relationships.

An estate agent office will consist of a manager and a number of negotiators. The manager’s job is to find the properties to sell. The negotiators’ job is to sell the properties brought in by the manager. So spend time with the negotiators, as they are the ones who decide who gets called first.

Crucially, make sure that you convey the impression of a serious property buyer. If the negotiator thinks that you are his/her best prospect, then they will call you first. If they believe, mistakenly or otherwise, that you’re just curious to look round other people’s homes, then you won't get the early call.

Remember also that negotiators are all in competition with each other. So, if you come across as someone who could (potentially) buy straight away, then they will want to call you first.

The golden rule is not to waste an estate agent’s time. Estate agents like to work with people who are decisive and make up their minds quickly. If you can treat your agents like this, then they will always call you first - before they try someone unknown.

Just imagine that it costs the estate agent £100 for each property you view. If you can save an agent from 10 wasted viewings, you've not only saved your time, but also £1,000 of his/her time too.

If you are offered a property that you wouldn't consider buying, then thank the negotiator for calling and remind them of the type of property you are looking for. Don't waste time viewing it.

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Key Tip

The hardest deal to do - is your first one!

Once an estate agent knows you've bought and sold your first property, then you'll get lots more property offers.

Why?... Because estate agents like property developers!

If an agent sells to a developer then the developer will probably sell again within 6 months, that means the estate agent may get to sell the property twice...

...and that means double the commission for the estate agent!

4.13.1 You've got to be at the top of the negotiator's list

To be offered a deal by an estate agent takes time and effort.

The number one rule is: **do everything you can to make yourself attractive to the agent, so that you get the call first.**

Think of it from the negotiator's point of view - he or she receives a new instruction - and thinks that it suits a property developer and it is valued at a good price.

They will want to sell it quickly - before any of his or her colleagues do.

What does the negotiator do first?

- calls best prospect first
- then calls second best prospect second
- then calls third best prospect third

By the time the negotiator gets to their third best prospect, the property has probably found a willing buyer.

4.13.2 How to get to the top of the negotiator's list

The negotiator wants to make the sale and earn the commission. So if the negotiator calls you and you think that the figures stack up then**...visit the property in half an hour!**

Don't say:

- 'can't do tonight'
- 'can't leave work until late'
- 'sorry, got a dinner party the next day' and so forth

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...you just need to drop everything and get to the property first.

When you arrive at the property be ready and willing to offer on the doorstep. This means you need to know your property prices in advance.

Finding a property for development is not like looking for a home - you really need to put yourself out for the negotiator.

Drop everything - there and then. If you don't, the negotiator won't call you first.

In summary, your job is to:

- Convince the agent that you will move quickly
- Drop everything to be at the property in 30 minutes
- Know the market and have the capital available to that you can offer on the property on the doorstep

If you follow these tactics then you will be offered properties with 20% return potential, even in competitive locations.

Key Tip

Make it clear to the agent that if he offers you a property for development that you will give him first opportunity to sell it for you a few months later!

4.14 Viewing Techniques

If you are short on time or new to property development, there are a number of tried and tested techniques to help you get the most out of your estate agents.

4.14.1 Ten in the morning technique

Tell the agent that you are about to buy a property for development or letting. Explain the amount you are willing to pay for a property (roughly). Then explain:

> *"I'm very short on time and want to move fast. Please arrange for me to view ten properties that you think have the best development potential. I'd like to view them this Saturday morning between 9.30am and 11am. Do you think that is possible?"*

It is important to mention that you want to see ten properties in 90 minutes. That way, he/she knows it won't take up all morning, but that you are serious about purchasing a property.

In reality it may take a little longer, but you will get to learn everything that agent knows about the condition and potential of the local market. Also, you can ask the agent why he/she thinks property A or C has the best potential.

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4.14.2 Six months on the market technique

Call the agent and arrange a similar appointment. Explain this time that:

> *"I'm looking for property with development potential. Please show me 10 properties that have been on your books for a minimum of 6 months in the following price range..."*

This technique will bring out the properties that are not selling because something isn't quite right about them. Perhaps they need refurbishing, there may be a structural problem or they may have been decorated in an unusual or atypical style.

Equally, the property owners are probably beginning to think that their house isn't going to sell and they may be open to a cheeky offer.

4.14.3 Seeking out motivated sellers

Your cheeky offers are far more likely to be accepted if they are made to people who are seriously keen to sell. Consider how motivated the following vendors will be:

- a couple splitting up and wanting to move on as quickly as possible
- an elderly person who is planning to move to a care home
- a couple expecting a baby
- the estate of a person who has recently died, which needs to pay the inheritance tax bill

Make it your business to find out why the vendor is selling, either by asking them directly or by speaking to the estate agent. If you sniff even a hint of urgency, try putting in a low offer.

Keep your eyes open for properties which appear to have been empty for some time. You can often find the owner of such a property via www.landregistry.gov.uk, and approach them in writing. Don't mention any sums of money in your letter; simply say that you would be interested in viewing the property if they were interested in selling.

Neighbours of empty properties can be helpful, too, when it comes to locating the owner – few people would choose to live next to a derelict or uncared-for building if there were an option.

4.14.4 Incentives

Whilst you may offer an agency an incentive to sell your property - you might offer a case of champagne - it is more difficult to offer an incentive to a negotiator to effect a purchase on your behalf.

Legally, the Property Misdescriptions Act (1991) requires an agent to disclose any incentive they may receive from the purchaser. It is not illegal to offer an incentive, simply that the law requires that the incentive is declared to the person selling the property.

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If an incentive is declared, of let's say £500, then the property owner will, understandably, ask for £500 to be removed from his estate agent's fee. Therefore, the incentive is of no value to the agent.

If you are unsure about this you are advised to seek legal advice.

However, in the past this has been common practice and it is best to be aware of it in case you encounter an example.

It is quite common, in the current market climate, to offer your property to the agent that manages to find you a property. This is quite legal.

Therefore, the best way to motivate the agent is to get to a position where you are able to make a quick offer and build a reputation for doing so.

4.14.5 Buying at Auction

Auctions tend to offer good bargains. When the market is weak then auctions come into their own. In a strong market, the quality and quantity of property tends to be very poor so you need to make sure you get your timing right.

With rising interest rates and growing speculation that many fair weather buy-to-let landlords are struggling to cope with the time and money required to maintain their portfolios, now may be a very good time to take another look at buying at auction. This is studied in more detail in Section 5.7.

4.14.6 Buying via word of mouth or own sale

It might seem that bypassing an estate agent could be a good thing. You won't have any other buyers to compete against, so you might reason that you'll get a better deal.

Do go into such a transaction with your eyes open, though. If relations break down between you and buyer, you will have no 'buffer' that the agent traditionally provides. You will have to handle any problems yourself and unless you are a consummate diplomat, this may not be as easy as it sounds.

If the sale is simple and clean - then it can often work. More complicated sales often require the distance of a third party to keep the deal on track. You can appoint your solicitor to this role, but remember you pay him/her by the hour, whereas you don't pay anything to purchase through an estate agent.

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4.14.7 Buying directly from the vendor

Pros	Cons
Seller doesn't have an agent cost (this often results in a slightly more favourable price).	If you need to negotiate on the price, or if the deal hits another problem, then you have to handle the negotiations yourself.
No other buyers are bidding against you.	You may need more help from your solicitor to keep the deal on track, costing you more.

If you spot a property which looks ripe for renovation and decide to approach the owner directly, you may have no choice but to negotiate without an estate agent. Make sure you have your finance in place before you make your approach. www.landregistry.co.uk may help you to track down the owner if the property is empty.

If, on the other hand, you make an active decision to go it alone, make this a positive part of your strategy. Let the people in your area know you are looking to purchase a property. Ask them if they know of anyone selling or thinking about selling in a certain road. If you know the roads that you wish to buy in, a leaflet drop can result in a potential seller coming forward. And you can always try the ‘wanted’ column of the local paper.

4.14.8 Buying privately via the web/newspapers

This is billed as a growth area but it hasn’t perhaps taken off to the extent predicted a few years ago. It seems that there are still too few vendors advertising in this way to result in a decent number of search results, although it may be possible to pick up the odd bargain this way if you keep your eyes peeled.

The main benefit is a reduction in estate agency costings for the vendor. Instead of paying an agent anything from between 1-2.5% plus VAT, the seller often pays the web host a smaller fee to advertise their property. Some sites are even offering free basic listings (making their money from advertising on the site). This should result in a lower asking price.

As potential buyers contact sellers directly via e-mail and telephone, many of the considerations of the section above apply.

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In addition, be aware of the following:

- As a buyer, you must be certain that you've done sufficient research into prices. The vendor may not have had any valuations to arrive at his/her price, so you must double check the value of similar houses in the area.
- Check that the description of the property is fair and accurate. Despite the flowery language used by some estate agents, The Property Misdescriptions Act 1991 means that it is a criminal offence to make a misleading statement about a property. The law, however, doesn't apply to individual private sellers.

4.15 Making An Offer (And Having It Accepted!)

There are no guarantees, of course, but there are a few things you can do to help the process of having your offer accepted.

4.15.1 Do your homework

This includes:

- Knowing how your offer compares to other house values in the area
- Knowing the circumstances of the seller
- Understanding the local market

...in short, following the advice in this chapter of Hot To Make Money In The UK Property Market TODAY!

4.15.2 Be aware of the stamp duty effect

The stamp duty thresholds play an important role in the relationship between the asking price and the achieved price.

Upon the sale of a property, the purchaser must pay a government tax which is dependent on the value of the house.

If the house is bought for…	The buyer must pay…
Up to £150,000	Nil
£150,001 - £250,000	1%
£250,001 - £500,000	3%
£500,001 and over	4%

If a house is priced at – or just above - one of the upper thresholds, you can be certain that the vendor isn't expecting you to pay the asking price. No one would pay £251,000 for a

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house, for instance, because they would find themselves having to pay an additional 2% to the Chancellor.

In a weak market, you can also use the stamp duty as a negotiating tool for properties valued more significantly higher than the threshold. Look out for properties with an asking price of up to 10% above the stamp duty threshold.

For example, if something is valued at £265,000, even if it appears to be a bargain already, it is well worth putting in an offer below the £250,000 mark.

It is worth knowing that there are some 'disadvantaged' areas where houses sold for under £150,000 are exempt from stamp duty. See the Inland Revenue's website for a list of such locations (www.hmrc.gov.uk). If you can find a property in such a location – which also happens to be 'up-and-coming' (see section 4.3.1) you could be on to a winner!

4.15.3 Return to previously-viewed houses

This is a technique which may work if a property has been on the market for a relatively long period of time, say six months or more.

Basically it involves returning to the agents of a house on which you have already had an offer rejected a few months ago...and revising your offer downwards. If the seller is motivated and the property refusing to budge, they might just go for it!

4.15.4 Make sure your finance is in place

Don't make an offer unless you are sure you can finance it. You will only succeed in annoying the vendor and – more importantly – the estate agent, with whom you may need to do business in the future.

If you are in a position to offer a cash purchase, make this clear.

4.15.5 Be decisive

Make your offer when in the property - if you can. Tell the negotiator what you are prepared to do or offer on the doorstep. If you need time to consider the amount you are willing to offer, tell them exactly that. Be specific about when they can expect to hear from you.

If you need to bring a builder around before you can offer, tell the agent what you intend to do and, if possible, arrange the next visit before you leave the property.

When you do make your offer, make it to the negotiator directly responsible for the property.

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Congratulations! You now know how to:

- Identify your buyer in section 4.1.1
- Locate an up-and-coming area in section 4.3.1
- Get estate agents to show you the best properties in section 4.13
- Have your offer accepted in section 4.15

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5 BUYING THE PROPERTY

Once you have read and digested this chapter, you will:

- Understand the different types of survey in section 5.2
- Know how to get approval for your development work in section 5.3
- Identify the most suitable conveyancer for your needs in section 5.4

5.1 The Purchasing Process

This section outlines the purchasing process in England and Wales, from offer to completion. It is based on information from the www.rics.org.uk (the Royal Institution of Chartered Surveyors).

Currently an agreement to buy a home in England or Wales is not binding until formal written contracts have been exchanged (which is why "gazumping" and "gazundering" can take place - see section 5.5).

Nevertheless, to avoid arguments and cover potential legal changes in the future, any offer to purchase should be made "Subject to Contract". This means that a sale has been agreed provisionally but it is not yet a binding legal contract; either buyer or seller may back out of negotiations without giving a reason or facing financial penalties.

Once an offer has been accepted the following steps should be taken prior to completion.

- Inform your solicitor of your intention to purchase. He or she will initiate Local Authority searches and carry out pre-contract enquiries on your behalf. These searches are often the lengthiest part of the process and will reveal whether, for example, there are plans to build a new road next to the property, or any legal difficulties. You should also have your solicitor check details such as whether land is suitable for building on – for example, whether any contaminated land has been dealt with
- Finalise your mortgage arrangements or ensure you have funds available from another source
- Instruct a Chartered Surveyor to carry out a survey - if you intend to use one (see section 5.2.4)
- Once your solicitor is satisfied with the title (the seller's ownership and right to sell), you are satisfied with the condition of the property and finance is agreed, contracts can be exchanged. This should be timed to coincide with the sale of your current property (if applicable). A 10% deposit is usually paid when contracts are exchanged. You need to allow for this when you establish your finance. At this point you need to be insured against damage to the building, so make sure this is arranged in advance
- Completion takes place on an agreed date when the balance of the purchase price is transferred from your mortgage lender (or you if you have no mortgage) to the

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seller. It is essential to arrange for utility meters to be read and for home contents to be insured from the date of completion. You have possession of the property from the date of completion.

On completion, you should make sure that you get all the necessary paperwork for any guarantees:

- Gas/ electrical heating and installations test certificates
- Guarantees for any fitted appliances
- Guarantees for double-glazing, damp proofing etc
- Bathrooms, kitchens, floor coverings etc. may all have separate guarantees
- If the home is less than 10 years old, it should also be covered by a NHBC (National House Building Council) buildmark or certificate, which acts as a 10-year guarantee against serious defects

Key Tip

Exchange quickly, but ensure that the completion date fits with the date when your builders can start work.

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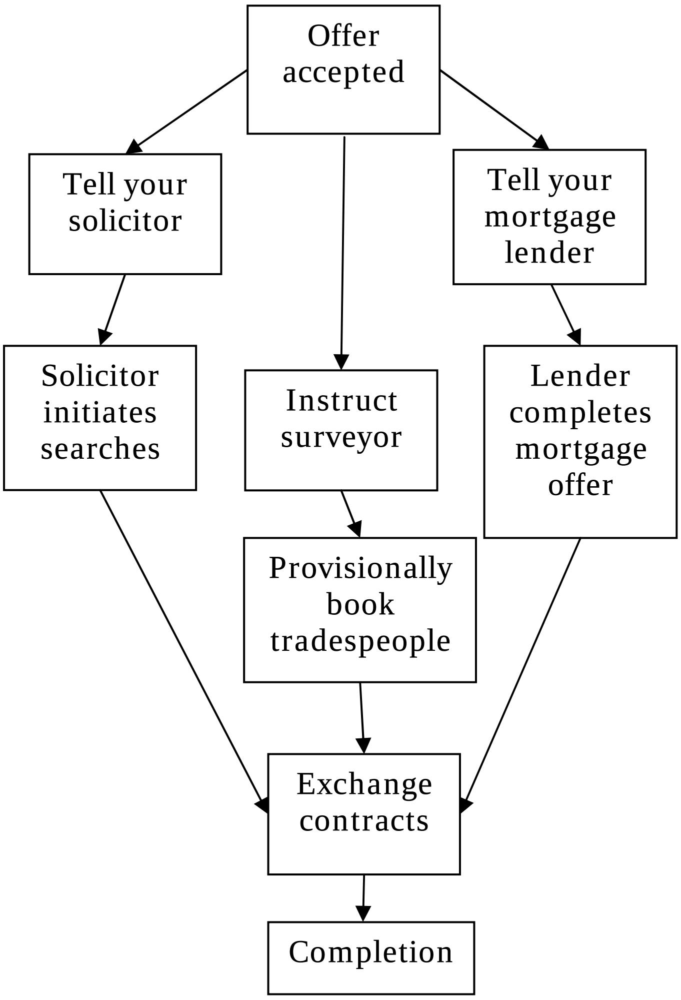
If everything goes to plan, the whole process should look something like this:



5.2 Surveys & Surveyors

Once your offer has been accepted then you need to begin the legal process of buying, setting up the finance and (possibly) conducting a survey.

At the most fundamental level, the mortgage or finance company will require a Chartered Surveyor to view the property to determine whether it is worth the money being offered. This is necessary to arrange the finance on the property and is known as the Basic Valuation. In addition, you may also take out a more detailed survey – either a Homebuyer's report or a Full Structural Survey, to identify any major problems with the property.

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5.2.1 Basic Survey

Unless you are paying cash for the property, your lender will insist on this survey. In fact, the term 'survey' is a bit misleading, as it is a report made purely for valuation purposes. You have no legal recourse, as it is for the benefit of the lender only.

The valuer will take into account factors including:

- The age and type of the property
- Fixtures and fittings
- The construction and general condition
- The immediate locality
- Liabilities such as service charges, ground rent and tenancies

The surveyor will then arrive at a value which he or she believes the property is worth on the open market on a particular date.

If the basic survey arrives at a low valuation, your mortgage lender may impose restrictions or retentions on your loan or even refuse to lend you the full amount altogether. You can use this low valuation to revise your own offer to the vendor, or of course, to pull out of the deal.

5.2.2 Homebuyer's Report and Valuation

The Homebuyer's Report (or survey) is designed as an economy, mass-market service. It is intended only for particular types of home: houses, flats and bungalows which are:

- Conventional in type and construction
- Apparently in reasonable condition

It focuses on essentials; defects and problems, which are urgent or significant and thus have an effect on the value of the property. Because of the practical limits on the type of property and of the scope of its coverage, the Homebuyer Service is priced mid-range - more expensive than a Mortgage Valuation, but less than a Building Survey.

The surveyor also gives his or her professional opinion on the particular features of the property, which affect its present value and may affect its future marketability.

The benefit of a Homebuyer's Report is marginal for flats and apartments, especially if you intend to take out the wiring and plumbing and to replace it all, in which case you just need to know that it is structurally sound. And if your flat is in the middle of a property, then the roofing etc. is the responsibility of the freeholder. This becomes a maintenance issue and should be picked up in the legal searches.

Most subsidence can be relatively easily identified by diagonal cracks in the wall (cracks running up and down are not normally significant). Again, if you are buying a flat, major problems like this should show up in either the valuation report or the searches.

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If you are purchasing a detached property, however, then it is wise to take a full structural survey, as you will assume full responsibility for all the structural work and you need to know beforehand in case you wish to reduce your offer.

Any survey should be carried out, and the findings considered, prior to entering into a contractual commitment. If you find defects then you might renegotiate the price to reflect the necessary repair work.

The drawback with surveys is that they can only comment on what is visible (at the surface). Often, bigger problems tend to come to light as you start major refurbishments and surveys don't necessarily pick up these problems.

5.2.3 Full Structural Survey or Building Survey

A Building Survey provides a fuller picture of the construction and condition of the property. It is likely to be needed if the property is, for example, of unusual construction, is dilapidated or has been extensively altered - or where a major conversion or renovation is planned. It is usually tailored to the client's individual requirements.

A Building Survey is more comprehensive than a Homebuyer's Report and includes extensive technical information on construction and materials as well as details of the whole range of defects, major to minor.

You can expect a decent survey to cover the five key aspects and to ensure the property is:

1. Structurally sound
2. Wind and watertight and free from damp
3. Fit for purpose
4. Not going to involve unexpected maintenance (short and longer term)
5. Worth the money being offered

If you know the property needs work, then ask your surveyor to look more deeply at the potential problems. Often slight dampness or other defects can hide a larger problem.

Brief your surveyor before they visit and arrange a subsequent telephone call. A telephone conversation enables you to discuss the extent of the problems and can often give you a truer sense of the potential risks.

Ask your surveyor to assess the true cost of any work that might need doing. This is a good measure by which to manage your builder. It might also require you to rethink the offer price and gives you strong evidence with which to return to the seller.

If you are looking to resell the property, your surveyor should be able to give you an indication of its likely resale price once the work is complete.

A valuation is only provided as an extra, by agreement.

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5.2.4 Chartered vs Quantity Surveyor

For most residential properties, you will be looking to employ a Chartered Surveyor rather than a Quantity Surveyor.

If you are carrying out extensive building work then a Quantity Surveyor might be better/needed.

Essentially, a Quantity Surveyor tends to work on building sites and is a quantities (of materials) and construction specialist.

5.2.5 How to find a good surveyor

Look for a Chartered Surveyor who is accredited by the www.rics.org.uk or Royal Institution of Chartered Surveyors. This means that you should be assured of:

- Independent advice (under the RICS code of conduct a surveyor must declare any relationship with the property vendor or estate agent)
- Bonded surveyor
- Disputes procedure via RICS
- Professional indemnity (in case a problem occurs later that the surveyor missed)

However, as with all advisors, the quality of advice will vary. Try to find someone through personal recommendation.

Always be aware that in regard to a valuation survey (and some other instances) the surveyor may be acting on behalf of a building society or the buyer.

5.2.6 Resolving Disputes With a Surveyor

If you have a dispute with a RICS registered surveyor you should contact:

Dispute Resolution
drs@rics.org.uk

Telephone: 020 7334 3805

5.2.7 Architect or Surveyor - Which do I Need?

> *"An architect will prepare the picture - a surveyor will be practical - what will work and won't work."*

Jeremy Leaf, Housing Market Spokesman for the www.rics.org.uk

So which should you choose? The answer is largely to do with the scale of the refurbishment?

If you are planning a major structural development (like an extension or major conversion) or spending over £30,000 to £50,000, then you would be wise to involve and pay an

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architect (10-15% of build cost) to ensure that the extension works with the property, maximises light and space, and is in keeping with the property style.

An extension that fails to do both of these will be an eyesore/problem and your potential purchasers will spend their time thinking about taking it down! You simply won't get your money back.

10-15% of the build cost may seem a lot, but architects have trained for seven years or more and have a wealth of knowledge in order to get the job done efficiently.

You don't have to ask one to project manage – perhaps you would prefer they simply produce the drawings – but if you do employ them to oversee a job you will make your life infinitely easier. They generally know if you are likely to get planning permission for your design concept, for example, potentially saving you wasted time and money in trying to get approval yourself.

Make sure your architect is a member of the Royal Institute of British Architects:

(www.architecture.com)

For minor jobs, such as taking a wall out, a surveyor is probably sufficient. He or she will be able to identify whether the wall is a load-bearing wall, whether it is safe to remove it and even produce drawings.

5.3 Getting The Go-Ahead

It might be tempting to avoid the hassle of applying for the various permissions you may need to develop your property, but truly, the implications of doing so could be catastrophic. There are very good reasons for doing things by the book.

- You will be protected from making mistakes such as knocking down a partially-supporting wall (building regulations)
- You will ensure your property is easy to sell (a buyer's survey will pick up the permissions you should have obtained)
- You will avoid the expense of having to undo your work
- Most importantly of all, you will avoid having to pay a fine, or even going to prison!

5.3.1 The Planning Permission process

Planning permission will be needed if you want to make changes that will affect the way your property looks, or impacts on the local area. Check with your local authority to find out if your planned works require planning permission.

If current government proposals become law then the whole process of planning permission for 'minor developments' should become more straightforward.

Under the original system, it could take anywhere between eight and 16 weeks to receive the necessary planning permission and cost up to £1000 in fees. In addition, the old

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system had a reputation for being incredibly inefficient and has been accused of contributing to the housing shortage.

Therefore the new plans are designed to allow most home improvement developments to go ahead immediately provided they comply with what is known as an ‘impact test’ on neighbouring homes.

Whilst this is good news in terms of potentially cutting out a lot of unnecessary red tape, the new plans rely on neighbours making informal agreements between themselves so the key here is - make sure you get on with the people next door!

It is thought that these proposals will apply to more basic home improvements, such as loft conversions and extensions, with building regulations and more complex property changes still subject to the same planning legislation as previously.

Generally speaking, avoid properties that require full planning permission for your first development project as they can involve long delays. As you are paying to finance the property during the delays, it could cost you lots of money.

If you are more experienced or developing your own home, then you might be willing to take on this more extensive development. You can often get an accurate assessment of your development options if you call the Town Hall or Local Authority for advice. Phone up and ask for the Planning Department.

Planning officers will never commit themselves on the telephone. However, your aim is to see whether they are willing to say *'we would welcome an application to do xyz to a property in street A'*.

The planning officers are a bit like accountants. Their main role is to interpret and apply rules. Many officers are helpful and will give you guidance about the rules that apply in that particular area. When you speak to them be courteous and ask them to help you or 'I really need some help'. It is always best if you appeal to their better nature to help you.

Planning departments will often say yes to a development if it helps to bring continuity. Tell them what you intend to do to *'this property in this street'* and find out if they would welcome these plans.

The planning permission process is straightforward, if a little long-winded:

1. Submit an application form; many councils make these available online, or you can ask them to post them to you. You may need to arrange for an architect to produce drawings for you to submit with your application, so make sure you allow for this in your time planning.
2. Application is passed to the planning committee
3. The committee will write to everyone it might affect
4. Committee collects the objections
5. Committee then sits to consider whether or not any of the objections raised meet with the Town Council’s established planning objections

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Planning objections might include:

- Developments overlooking another property
- Developments causing a loss of light to others
- Developments causing noise
- Change of use (particularly from residential to commercial)
- Increase in visitations or traffic or parking problems

1. Committee then decides to overrule objections or not
2. Committee reaches a decision
3. Appeal stages apply (but unlikely)

This process takes about 6-8 weeks - but check with the local council first.

5.3.2 Building regulations

Major repairs to buildings often come under the control of Building Regulations. They concern the safety and structure of a building. If you are considering buying an older property, which requires renovation, it is important that you are aware of the controls governing alterations.

You can view the regulations in local authority offices or in many libraries, although you will almost certainly need help with their interpretation. The Building Control officer at the council is the person to call.

Alternatively, try a chartered surveyor specialising in construction work or an architect.

The process is, thankfully, much speedier than applying for planning permission, but note that there are two levels of building regulation. The building officer will tell you which you need.

1) Building notice
This will be needed if you want to carry out minor work such as moving a bathroom. All you need to do is inform your building officer via a form known as a Building Notice. He or she then visits the site to check that you are complying with the regulations, and signs off the work when it is complete.

2) Full plans application
This is for major work, such as a loft conversion. You will need to send copies of your architect’s drawings or working plans before you begin work. The building officer examines them to check the building will comply with all relevant regulations, and then call round periodically to ensure the works are being carried out satisfactorily. Once again, he or she will sign off the work when it is finished.

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5.3.3 Listed building consent and buildings in conservation areas

Buildings are referred to as 'listed' if they have special architectural or historic interest. If they fall within the boundary of a conservation area, any development work will also be subject to scrutiny.

You can find out if the property you are considering appears on the list by going to the local authority's offices. The solicitor's searches will throw up this information, too.

Don't assume that because the work you want to do to the house is in keeping with its original period, it will automatically be acceptable – once a house is listed, you may need to apply for permission to change almost anything (depending on the level or 'grade' of listing.)

Make any applications through the Conservation officer at the local council planning office. It can also be worthwhile discussing any proposals with English Heritage: www.english-heritage.org.uk (or Welsh Heritage: www.cadw.wales.gov.uk)

Within conservation areas, severe restrictions will apply to the felling of trees and to radical changes of landscape. Check with the Local Authority on the likely level of restrictions in your area.

Without the correct permissions in place, you would be facing a fine, or even prison. It will also make the property impossible to sell!

5.3.4 Party wall agreements

These refer to any work you want to do to walls or boundaries shared with your neighbours.

In the first instance, check with your solicitor whether or not they fall within the scope of the Party Walls etc. Act 1996. If they do, you will be required to give your neighbours two months' written notice of your intentions, together with details of the proposed works.

You will also need to instruct a surveyor to look at the condition of yours and their properties. A letter of agreement is signed by you and your neighbour, insuring that you will repair any damage to your neighbour's property that might be caused by your work.

If you don't have a party wall agreement in place, you may find your development shut down by the district surveyor.

5.3.5 Landlord's approval

If the property is to be purchased under a leasehold agreement (almost certainly the case if you are looking at a flat) you may need to get the landlord's consent for some types of work.

Be very clear what you want to do to the property before you exchange contracts, and check the lease agreement carefully. Even something as apparently innocuous as changing the colour of the walls may need the permission of the landlord.

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Getting approval may be no more painless than a quick phone call, followed by a letter. You must ensure you get permission in writing. You may need the services of a solicitor, however, if the works are more involved and negotiations protracted.

5.4 Conveyancing Advice

Most people buying property do not choose to do their own conveyancing, but pay a solicitor to do this for them.

As a developer, there may be other areas where you would want legal advice as well (e.g. terms of leases).

5.4.1 Choosing A Solicitor For Conveyancing

Personal recommendation is the key to finding a quality solicitor. Ask friends, associates and anyone connected with law. Remember that conveyancing is most often done at a distance - so it doesn't matter if the solicitor isn't local to your property.

Cheapest is not always the best. It is worth spending more if you can find a lawyer who is both quick and efficient. The cost of a deal falling through, bad or slow legal advice is much greater than the extra cost of hiring a quick and efficient solicitor. Taking the cheaper option in the short term can wind up costing you a lot more money down the line.

Expect to pay approximately 0.5% of the property price for a London solicitor and slightly less for a quality regional solicitor. Generally, London solicitors are faster and work longer hours than regional ones. However, this does vary, so check.

If absolutely necessary, a top lawyer should be able to conduct searches on a property by hand and exchange contracts within two hours of the vendor accepting the buyer’s offer. Consider this when discussing turnaround times with your solicitor.

A licensed conveyancer differs from a solicitor in that their area of expertise is restricted to house-buying. Their fees are broadly the same. Whilst you may prefer to employ someone with such specialist knowledge, do bear in mind that it may pay you in the long run to build up a good relationship with a firm of solicitors who can offer advice on a wider range of issues, such as the drawing up of wills.

5.4.2 What to look for in a good conveyancing solicitor

- Thoroughness - it is important that enough time is spent on your case to ensure that the property is not saddled with legal problems
- Promptness - in a competitive market, deals need to be done quickly and to a required timetable. If the deals get held up, it can cost you money or you may lose the purchase/sale altogether
- A history free from negligence claims - you want to know if anyone has ever made a claim against them - even if the claim was not successful, you would be wise to treat this solicitor with caution. Contact the Law Society for information on individual firms

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If you don’t know where to start in selecting a solicitor, you could try the Law Society’s public enquiries department www.lawsociety.org.uk (Tel: 0870 606 2555) for information on how to get a list of solicitors. Make sure you ask whether any firm has a history of negligence claims.

5.4.3 Resolving disputes with solicitors

A claim for negligence can be made to the Office for the Supervision of Solicitors (formerly the Solicitors Complaints Bureau).

The address in case you need it (we certainly hope you won't) is:

Office for the Supervision of Solicitors

Victoria Court, 8 Dormer Place,

Leamington Spa, Warwickshire CV32 5AE

Tel: 01926 820 082

If you are unhappy with the response you get from this body, take your complaint to:

Legal Services Ombudsman

Third Floor

Sunlight House

Quay Street

Manchester

M3 3JZ

Tel: 0845 601 0794

Yes... enough said - the complaint process is worth avoiding - so spend your time finding a good solicitor instead!

5.4.4 Managing your Solicitor

Be clear with your solicitor about any deadlines that you need to meet or whether you are required to complete or exchange rapidly. Make sure that your solicitor is able to meet those deadlines and that they are not about to take a long holiday in the middle of the negotiations.

Stay in contact with your solicitor. If you are expecting papers from him or her, then telephone if they get delayed, don't allow time to drag.

5.5 Gazumping & Gazundering

Neither practice is illegal, so be warned, it might happen to you.

Gazumping - what happens in a rising market

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If your offer to purchase a property is accepted, but the seller continues to allow others to view it and then accepts an offer higher than yours, you have been "gazumped". This tends to happen in a rising market where too many buyers are chasing too few properties. Current legislation does not protect buyers against this practice. It is therefore "legal" but many find it morally reprehensible.

Gazundering - often occurs in a falling market

Immediately prior to exchanging contracts, a buyer offers a lower price than his or her original offer in the hope that the seller will accept rather than lose the sale.

There are now procedures in place set up by the Royal Institution of Chartered Surveyors, in association with JUSTICE, a voluntary group of lawyers dedicated to making the law work more fairly. They have produced a voluntary standard contract to compensate victims of gazumping or gazundering. If the prospective seller and buyer agree to be bound by the contract they can ensure that neither will be out of pocket if the other pulls out without very good cause. Contact the Royal Institute of Chartered Surveyors at info@rics.org.uk for details.

5.6 Own Home - Other Costs Of Moving

If you are selling your own property in order to buy one to develop, don't forget that you will incur additional costs:

- **Redirection of mail:** This will cost around £7 for one month, £15 for three months and £35 for a year
- **Furniture storage:** Expect to pay approximately £10 per container per week. A two-bedroom house will normally fill up to four containers - a three-bedroom house up to six
- **Removal expenses and insurance:** The cost of removing your furniture and other effects to your new home will depend on a number of factors. These include quantity, the complexity of packing and ensuring safe transport, distance and time of the year. Expect to pay around £500 plus VAT and insurance to move the contents of a two bedroom house to another property within a ten mile radius. For a three-bedroom house add at least another £250
- **Services:** There is no charge payable to the electricity, gas, telephone and water companies for reconnecting services, though telephone companies may levy a small charge
- **Bridging and renting:** If you decide to buy a property for development and move in once it is complete (generally a good idea if you want to reduce some of the stress) then remember to allow for renting and any bridging costs you may incur

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5.7 Buying at auction

Buying a property at auction has a number of advantages not least the possibility of getting a real bargain. But you should tread carefully and make sure you do your homework – once the hammer comes down, the deal is done and there is no backing out.

Key Tip

If you are considering buying at auction then the key to getting it right is to do your research beforehand so you know exactly what you are buying.

So where to begin? Information on properties available at auction is provided three to four weeks prior to the auction together with price guides and brief details.

Often at auction you will find repossession properties which can be in very good condition – the owners simply couldn't afford to keep up with the repayments and the bank or building society took possession of it in lieu of the mortgage. A sad fact of life but for the buyer at auction it often means a great opportunity to bag a bargain.

Other properties commonly found at auction are those in need of modernisation and repair which are in too poor a condition to sell on the open market. Again these are the property developer's ideal investment since you should be able to snap them up at auction at a low price and with careful refurbishment they will eventually sell at a tidy profit.

5.7.1 Before the auction

Once you have scanned the auction catalogue and seen what takes your fancy you need to move fast. You can undertake all the relevant steps such as a search and a survey as you would with a conventional sale in order to reduce any element of risk.

Stories of people buying properties at auction unseen overlook the fact that buying at auction needn't be risky – with the right approach you can be as sure as you can with an ordinary sale that you have made the right choice.

Basically the whole process is just speeded up – you have from the moment you receive the auction catalogue to the day of the auction to do your research so you are ready to buy the property on the day.

Having viewed the property, if you like what you see and think it has the potential to be a good investment then the next step is to arrange a survey.

At the same time, you should enlist a solicitor and once you have decided upon a property, you should instruct them to undertake a search and make sure that your mortgage is in place.

The auction house will provide a seller's pack with all the details relevant to the sale - this usually costs somewhere in the region of £10 and is money well spent.

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Obviously this is where the element of risk comes in as you have now spent money both on solicitor's fees and having a survey done, so if you are outbid at the auction this is unfortunately money lost.

But if you did successfully bid for the property and hadn't put these checks in place then you face a far higher risk. Say there was some serious structural problems with the property or it was about to be knocked down for a motorway to be built through it, then you'd wish you had taken the slightly smaller risk of paying out for a survey!

Arrange buildings insurance cover in advance of the auction date in case your bid is successful because the risk will be yours immediately. If you don't manage to secure the property on the day then this can simply be cancelled - but again it is worth putting in place so you are covered from the word go.

5.7.2 Decide on a price – and stick to it!

There is no exact science to what to expect to pay at auction – in a lively market, prices can be as much as 50% higher than the guide price and in a depressed market, bids might not even reach the reserve price.

The guide price is a conservative estimate and shouldn't be taken literally – it normally goes without saying that the price will exceed this on the day of the auction.

A reserve price is agreed prior to the auction between the vendor and the auctioneer and if the reserve is not reached then the property remains unsold. It is possible at this stage to approach the agent with a price and see if the vendor will accept an offer, but don't bank on this happening unless the property has been vastly overpriced.

So basically you just have to work out what you can afford and make sure you stick firmly to whatever price you have decided upon – and not a penny more.

It is so easy to get carried away in the auction room and allow yourself to be dragged into a bidding war – auctioneers are very astute at encouraging bidders – after all it's in their interest to get the highest possible price for the property but be strong! There is a fine line between bagging a bargain at auction and paying over the odds for a property simply to outbid someone else.

Key Tip

It is vital that you work out what you can afford prior to the auction and stick to it – once the hammer comes down you can't back out without losing your deposit.

5.7.3 On the day

The auction itself can prove intimidating to the novice bidder - if you can it might be worth going along to one where you are not bidding just to familiarise yourself with the process.

Bidding is not for the faint hearted and can prove nerve racking so even more reason to get an idea how it's all done beforehand.

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If you really don't trust yourself to hold your nerve then you can always get someone to bid on your behalf - but make sure they are absolutely clear on the price you are willing to pay - and make sure it is someone you can trust!

Alternatively you can bid over the phone or even online, but it is far preferable to be there in person to get an idea of how the bidding is going and if it is worth holding out for your chosen property.

Make sure you take with you the catalogue, the deposit (10%), some form of identification such as a driver's licence or passport, and the contact details of the solicitor you intend to use.

The deposit needs to be paid either by banker's draft or cheque. Auction houses no longer accept cash or card payments. And if you are paying by cheque, then you will need to bring proof of funds i.e. documentation from your bank/accountant proving that you have adequate funds for the cheque to clear.

If your bid is successful you will need to provide a 10% deposit at auction with the balance due on the completion of the transaction.

The completion date (i.e. when you get access to the property) is usually given in the auction documents and is normally four weeks from the date of auction.

5.7.4 Auction Houses

Contact numbers for catalogues:

Allsop & Co, 020 7584 6106

Andrews & Robertson, 020 7703 4401

Barnard Marcus, 020 8741 9990

Strettons, 020 8520 8383

Savills Auctions, 020 7824 9091

Hambro Countrywide, 01245 344133

Congratulations! You now:

- Understand the different types of survey in section 5.2
- Know how to get approval for your development work in section 5.3
- Know how to buy at auction in section 5.4

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6 Renovate Right

Once you've read and digested this chapter, you will be able to:

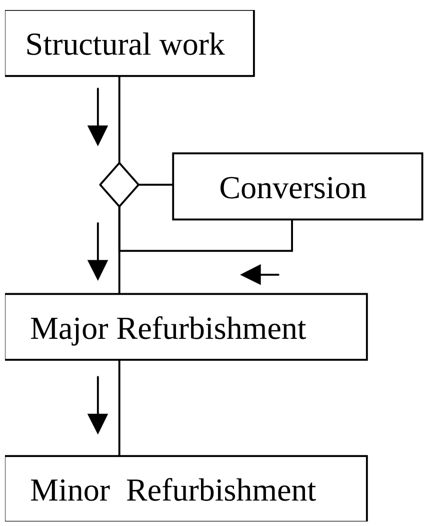
- Recognise the importance of time in section 6.1.1
- Calculate the appropriate level of investment in section 6.2
- Prioritise the renovation in section 6.3
- Identify things that might go wrong in section 6.5
- Choose a builder in section 6.8
- Source your own materials in section 6.9

This is the time to switch from being chief negotiator to rolling up your sleeves and getting down to it.

Renovation covers a wide range of activities, all of which should add considerable value to the property. The diagram below shows the three main areas of renovation work: structural work, conversions and refurbishment.

An experienced developer may take on a property that requires considerable structural work (underpinning, new roof etc.), then converts this to flats (each needing its own central heating, plumbing etc.), then refurbishes them (putting in new kitchens, bathrooms, repainting etc.).

As a beginner you should aim for properties that do not require major structural work, and focus on refurbishment. As you gain in confidence and experience you may move on to conversions, or stick with refurbishment-only properties.



Initial structural work must be undertaken to ensure that the property complies with basic safety regulations etc.

Experienced developers may opt for a property with conversion potential, where they can turn a single property into several, for example.

The refurbishment process involves targeting where best to spend limited resources to maximise the increase in value of the property. It consists of two parts -

Major work - plumbing, wiring, heating.

Minor work - kitchens, bathrooms, flooring etc.

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For your first property, start on a studio or small flat. That way you can afford to make mistakes - because you will. Expect to learn 80% of everything you'll ever learn about renovating on the first property.

Key tip

Renovate for broad appeal

When considering where to spend your budget, it is absolutely vital that you bear in mind your target market(s). Try to make choices that will appeal to at least two of different groups. We cannot stress enough, the problems you could have when you come to sell a property which only appeals to a very narrow subgroup.

6.1 Basic Principles

6.1.1 Time is money

When developing a second property it is essential to finish the renovation quickly so that the property can be sold and the finance paid off.

Every additional month that a renovation takes will cost approximately £600 per £100,000 borrowed (assuming a 7% interest rate). Speed is of the essence.

Focus on the items that have the greatest impact and develop them swiftly. Take on projects that can be completed in a short space of time (4-8 weeks). Leave the larger projects to more experienced developers or tackle them on your third or fourth property.

The exception to this would be if you are developing your own home, and can afford to take more time over the project. If this is the case, you might consider:

1. Extensions
2. Loft conversion
3. Conservatories

6.1.2 Renovating for Rental

Even if you intend to sell the property right away, you should always have rental at the back of your mind too. That way, if the market dies by the time your property is ready, you can still successfully let it out.

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As a landlord, however, you would be bound by statutory obligations. These are outlined in detail in our sister publication Buy to Let Secrets, but the main points are listed below.

- Furniture and furnishings must meet the fire safety regulations
- All gas appliances, boilers and fires must be inspected annually by a CORGI registered engineer, and issued with a gas safety certificate. This shouldn't cost more than about £60 for a two bed house, and would be worthwhile even if you are certain that you want to sell rather than rent
- Electrical appliances must have fitted plugs
- You are responsible for repairs – so create a low maintenance property (new plumbing and heating tend to break down and cause problems less often)
- Smoke and/or carbon monoxide detectors are expected in both developed properties and rental ones

It is worth noting here that both in terms of renting or selling the property, it makes more sense to go for a property with fewer than four bedrooms.

Thanks to recent changes to the Housing Act, legislation has been introduced relating to houses in multiple occupancy (HMOs) which means that there is now a whole raft of additional issues which require statutory compliance. These could prove both costly and time-consuming so it is best to opt for a property which isn't defined as a HMO.

6.1.3 What is a HMO?

Under the changes in the Housing Act 2004, if you let a property which is one of the following types, it is a House in Multiple Occupation:

- An entire house or flat which is let to 3 or more tenants who form 2 or more households and who share a kitchen, bathroom or toilet.
- A house which has been converted entirely into bedsits or other non-self-contained accommodation and which is let to 3 or more tenants who form two or more households and who share kitchen, bathroom or toilet facilities.
- A converted house which contains one or more flats which are not wholly self contained (ie the flat does not contain within it a kitchen, bathroom and toilet) and which is occupied by 3 or more tenants who form two or more households.
- A building which is converted entirely into self-contained flats if the conversion did not meet the standards of the 1991 Building Regulations and more than one-third of the flats are let on short-term tenancies.
- In order to be an HMO the property must be used as the tenants' only or main residence and it should be used solely or mainly to house tenants. Properties let to students and migrant workers will be treated as their only or main residence and the same will apply to properties which are used as domestic refuges.

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6.1.4 Conversions

Conversions typically consist of taking a larger property and dividing it into separate flats. On the simplest level, you might take a small/ medium terrace house and convert it into two flats - one upstairs and one downstairs.

Conversions are more complicated than refurbishments, as they will require you to rewire each flat separately and to create independent central heating and plumbing systems. You may also need to change the layout of rooms and staircases, and will need to bring in additional bathrooms and at least one new kitchen.

Conversions can make substantial amounts of money - if a £200,000 town house converts to two £150,000 flats then you've made £100,000. As you can see, though, the work and time involved can be considerable, and is probably best as a second or third development property.

6.1.5 Refurbishment Opportunities

Refurbishment offers plenty of opportunities for new (and experienced) property developers without having to start complex conversion projects. Smart, well-presented properties command a premium and tend to sell quickly. Most buyers are very busy people with full-time jobs and careers (that's why they can afford to buy!). They simply do not have time, nor perhaps the inclination to renovate their home.

As this scenario has become more common, so the success of the refurbishment-driven property development has grown.

Key Tip

- Speed is of the essence - every month of delay costs you £600 (on a £100k loan)
- Renovate to suit both resale and rentals but stick to properties of four bedrooms or fewer
- Stick to refurbishments for your first 1 or 2 projects

6.2 How To Calculate The Appropriate Level Of Investment

All planned improvements must be in accordance with the price and value of the property.

The biggest dangers of getting it wrong in property development are:

- Overspending
- Failing to complete work on time
- Failure to generate a detailed plan (with schedules, time, labour and materials) for your builder to work to

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There is a tendency to overspend when you lose sight of whether the proposed improvements will be reflected in increased market value or rental rate.

Failure to complete work on time results not only in increased costs of your time but, more significantly, increased finance costs as you cover the interest payments on the mortgage.

6.2.1 Case study: Spending too much on renovations

A very experienced developer who refurbishes large houses in Mayfair/Belgravia decided she wanted to start a rental portfolio. She bought a small one-bedroom flat in Earls Court at a good price but then spent too much money and time on refurbishing it.

The maximum she should have spent was £20,000 (following the principle of spending 10-15% of final value of the property) but in the end she spent nearly £70,000. There is only a certain amount that you can get for a one-bedroom flat in Earls Court so whilst she sold for a good price she definitely did not maximise her profit.

She got £20,000 more on the resale than an average refurbished flat but she spent £50,000 more than necessary. The first £20,000 would have realised her most of the profit that she made, with the following £50,000 only adding £20,000 in value. She lost sight of the principle of ensuring all improvements will be reflected in final sale or rental value.

There is a further rule that was broken here. The 80:20 rule applies in many business situations. Simply put, it states that 80% of the value of any activity is achieved through 20% of the effort. It is the common law of diminishing returns, whereby the more effort, time and capital you put in, the lower the additional return you get. It is vital to keep this in mind when planning renovations.

6.2.2 Building the profit into the property

In planning your budget for renovation, you should look to spend a maximum of 10-15% of final sale value of the property on refurbishment (assuming no major structural work). Final value is the value you realise when you sell the property.

That means:

£6,000 - £9,000 on a £60,000 property

£10,000 - £15,000 on a £100,000 property

£20,000 - £30,000 on a £200,000 property

£50,000 - £75,000 on a £500,000 property

Plan a maximum of 10%, leaving a 5% cushion for the problems you will undoubtedly uncover along the way.

It is important that you judge how much to spend on the property on the sale value, rather than on some other measure such as the physical size of the property. In some areas, for example, a four-bedroom house can be bought for £60,000. In other areas you would need closer to £500,000.

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Expect to pay different amounts for a kitchen or bathroom, for example, depending on the value of the property. A cheap kitchen in a £500,000 house will disproportionately reduce its value when you put it on the market. Similarly, you will probably not recoup your investment on an expensive kitchen for a small one-bedroom flat.

By relating money spent on renovation to final value, you force yourself to assess the value you are adding as well as the cost as you go along. In this way you can ensure that you are building an appropriate level of profit into the property.

Key Tip

The 10-15% refurbishment cost is a rough guide. You may find you can do the work for much less, or if you are buying a wreck expect to spend more. The key is to establish your refurbishment budget up front and then stick to it.

6.2.3 How to assess your building costs

To work out your improvement costs you need to start, as ever, with a clear picture of how you are going to sell it, to which type of person and for how much.

Then you can create a clear picture of how the property needs to be developed to maximise the increase in its value - follow these four steps:

1. Estimate the cost of the **structural work** that needs to be done (e.g. roofing, guttering etc.). Expect these costs to be outside the 10 to 15% budget for refurbishment. Remember that your offer price should reflect this too.
2. Break down the vision you have for the property into a menu of individual improvements you can begin to cost (e.g. new kitchen, extra bathroom etc.)
3. Work out the maximum amount you can spend on the property, in order to get the return you need;
4. Flex the menu of development options to get the best combination for the money you have available, prioritising on the basis of what maximises return on investment.

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There are several ways to estimate your costs:

- When you first visit the property you might take a friend or relative who is experienced at DIY.
- Your surveyor should be able to identify the structural work that needs to be carried out including:

Roof

Damp coursing

Shell of the building – brickwork, need for re-pointing etc

External drainage and water supplies

Windows

Moving walls

Extra staircases (for conversions)

Extra rooms

Speak to your surveyor beforehand and ask them to assess the cost of the improvements that you propose. A good surveyor may be willing to discuss any points raised on the telephone - although you may have to pay for this.

It is very difficult to give any accurate sense of costs for these items as they may involve small amounts or large amounts of work dependent on the condition and structure of the property.

If you expect to spend upwards of £50,000 on building works you should think about employing a surveyor or architect to manage the builders and the costs. Expect to pay between 10 - 15% of the total job price.

If you choose not to use a surveyor, the best way to estimate these costs is to take a couple of builders around the property and ask them to quote for the work. Most builders will happily do this for free. Builders regard viewing your property as pitching for your business and you can expect them to share ideas and suggestions with you. They should also be able to warn you against expensive alterations.

6.2.4 Setting a Development Budget

By now you should have a good idea of how much you are able or willing to spend on your property. It is important that you develop this instinct so that you can quickly assess likely costs when you view or consider purchasing a property. Remember that you need to be able to work out your development costs before you can figure out the price you should pay for the property. You should now be able to broadly outline how much you are going to spend under two headings as follows:

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Structural	Budget	Major Refurbishment	Budget
Roof		Heating	
Damp coursing		Electricity	
Drains and water supplies		Plumbing	
Shell of the building/ brickwork		....	
Windows		....	
....		....	
....		....	
....		....	
....		***Sub Total***	
....		**Minor Refurbishment**	**Budget**
....		Kitchen	
....		Bathroom	
....		Painting/ Decorating	
....		Lighting	
....		Flooring	
....		....	
....		....	
....		....	
....		....	
		Sub Total	
Total		**Total**	

The total refurbishment costs (major and minor) should come to approximately 10% of the resale value of the house, and certainly not more than 15%.

The total structural costs will vary according the work you are carrying out.

Key Tip

- Stay within budget - sounds obvious doesn't it? But don't get tempted to spend more than you planned
- Remember that kitchens and bathrooms are your priority for cash
- If funds are getting low, reduce your spending first on flooring, then on lighting.

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6.3 Prioritising Renovation

When you have decided on the major work to be done on the property, you may find that you only have a small amount left in your budget for more cosmetic work.

There will always be more work that you can do to a property, than for which you have resources. To guide your prioritisation, follow this rule:

> *Only engage in work that will increase the value of the property by more than the cost of the work and materials.*

When you are short of resources, there are a number of quick-win areas where a small investment can make a larger impression on potential buyers/lenders. Focus on the following items to make the greatest impact:

- Flooring and carpets
- Taps
- Colour of walls - keep it fresh. Pale and neutral colours make a room look larger and make the property easier to sell
- Light and lighting
- Focus on keeping and emphasising original features - renovating period fireplaces or stripping floorboards (if this can be done easily and quickly) and panel doors

Key Tip

Be careful when choosing to strip the floorboards. Often the boards will have large cracks between them and probably be stained in odd areas, which can take a lot of time to renovate and make respectable. Often it is easier and quicker to clean the carpet. Also by using a carpet that runs from one room to another it gives the impression of a larger room. Using the same carpet in larger quantities can be cheaper.

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6.3.1 Changing the Layout of the Property

When considering the layout of the property there are a number of common sense rules that are often overlooked. In many properties there may be rooms without windows, or rooms overlooking noisy streets. When you decide on the layout of the house, you must think carefully about what to use each room for to get the most out of the property, and minimise the impact of its shortcomings. For example:

- Bedrooms must have windows
- Kitchens and bathrooms can make do without windows, but must have adequate ventilation
- On a noisy street, put bedrooms to the back of the house where possible
- Your decision as to which rooms should be used for which purposes should also be informed by your thoughts on who will be buying/renting the property, e.g. families, young professionals, older / retired couples
- In central city locations, people often eat out and do not require a large kitchen
- Conversely, families place a disproportionate emphasis on the size and functionality of the kitchen
- Families often value a kitchen that opens onto a garden

6.3.2 Structural improvements

There are many structural improvements you can make to a property, but these may require more time to complete than some of the renovation work that you have planned. Also you may find that you can't start the renovation work until all structural work has been completed. This must be factored into all calculations of timescale and related costs (e.g. finance costs). If you are living in the house while improving it, you have more flexibility.

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The table below outlines some of the structural improvements you could try**. Ensure you assess each one against the clear aim of making a financial return.**

Improvement	Notes
Extra Bedroom	A recent Nationwide study concluded that adding a third bedroom to a two bed property increased its value by an average of 6%. However, in many circumstances the extra time taken to extend a property means the extra value is often lost on the carry costs.
Loft Conversions	Can add a lot of value to a house. Especially if you can offer good access (proper stairs). Decent sized room(s) and a bath/shower room in the loft. You may need to redecorate the whole property after the work is complete as it will be covered in dust. Be careful that you don't overload the house. A six-bedroom house with no garden does not fetch a premium.
Extensions	Usually best when you extend above a garage. Again, be careful of losing too much garden or losing the garage.
Conservatory	Small is beautiful. These don't need to be grand for you to get your money back

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6.3.3 Improvements that will add value to your property

Area	Suggestions
Windows	Windows need to be in keeping with the property (although modern upgrades and larger windows will add value to the property).
Bathroom	An extra bathroom (if more than 3 beds) is a must these days. But make sure it is not at the cost of a bedroom or you won't see a return for your money En suites are especially popular right now and an en suite shower room can be fitted into a relatively small space at limited cost but can add anywhere up to 5% value to the property. New taps - smarten up old bathroom suites with attractive mixer taps. Modern bowl-type basins add value to properties appealing to younger people. Older buyers will prefer traditional basins. Power shower - especially if you intend to sell to business people. White tiles - or paint the old grouting white. New lighting.
Kitchen	Tile the floor. New worktops – the thicker, the better. Replace or paint cupboard doors. Add new lighting.
Bedrooms	Return bedrooms to double bedroom sizes (100 square feet). Add a bedroom (although the extra time taken will increase your finance costs - see below).
Front door	Attractive, weighty front door. After all, it's the first thing your prospective buyer or tenant will see.
Security	Security systems, window locks and deadbolt locks on exit doors reassure buyers and add a sense of security. But don’t go over-the-top – you don’t want buyers to think that crime is rife in the area!

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6.3.4 Improvements that won't give you your money back

'Improvement'
Swimming pools
Jacuzzis, saunas and whirlpools
Electric garage doors (and other expensive electronic gadgetry)
Colours and design that are 'not to your buyer's' taste (so keep it neutral).
Designer labels (go for quality - not designer labels e.g. Buy the non-branded goods at quality stores like John Lewis, rather than the designer labels)
Stone cladding to the outside of the property
Adding a satellite dish may be of benefit to you, but for many people it is an eyesore
Galley kitchens - these make a property much harder to sell
Tiny mosaic tiles - or fancy designs. Instead use 6" white tiles, they appear clean and fresh and allow someone else (the purchaser) to add their own bit of individuality
Avoid internal layout changes as much as possible. Moving one wall is okay - but any more and you'll be into a major refurbishment
Studwork is not greatly expensive but best avoided on your first job because it is messy and is easy to get wrong

Key Tip

Paint your property white from top to bottom. Tell your buyer that you will repaint the walls according to their choice of colours free of charge!

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6.3.5 Stop now and make your plan

This section of the report should have given you plenty of ideas for the kind of work you will need to undertake to add value to the property that you've bought. The key lesson from this chapter is:

'Only invest to make a return'

For every improvement you consider, you should ask yourself *'will this increase the value of the property by more than the cost of the work and the finance costs incurred while it takes place'*.

Prioritise your spending on renovation to maximise your financial return from selling. Do not let yourself be side-tracked and end up pouring huge amounts of money to make the property perfect, then find that the figures just don't stack up.

The only way to avoid finding yourself in this kind of mess is to plan the renovation before you start. As you planned your finances, then planned for the type of property you wanted to buy, now it is time to build a detailed plan of how much you are going to spend on which renovation work.

Successful developers use instinct to tell them where to focus their time and effort, and you will too when you have built up some experience in property development. Even with these instincts, you will still need to make a financial plan, so don't duck out, do it now.

6.3.6 Case Study 1- £60,000 One-Bed Flat

The budget is for renovation, assuming that there was no major structural work to complete beforehand.

Budget: £6,000

Max Contingency: £3,000

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Area	Work	Spend
Kitchen	Replace the work surfaces Replace the wall tiling or floor tiles Replace the doors of the cupboards (repair and mend the base units and not fit a brand new kitchen) Add new lighting	£2,000
Bathroom	Paint the tile grouting Add a wood panel to the bath Add tiles to the floor or paint the boards Add lighting	£2,000
Painting	Wall, ceilings and woodwork in main communal rooms	£1,000
Everything else		£1,000
Total		**£6,000**

For this amount of money you can't afford to rip out the kitchen and bathroom and start again. Essentially you are looking to repair and repaint rather than replace.

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6.3.7 Case Study 2 - £100,000 Two-Bed Flat

The budget is for refurbishment, assuming that there was no major structural work to complete beforehand.

Budget: £11,000

Max Contingency: £4,000

Area	Work	Spend
Wiring and plumbing	Replace wiring and plumbing	£2,500
Kitchen	Replace the work surfaces Replace the wall tiling or add floor tiles Replace the doors of the cupboards Replace damaged units and extend the units Replace taps Replace appliances Add new lighting	£3,000
Bathroom	Replace suite Replace taps Clean up the tiles by painting the grouting Add a wood panel to the bath Tile the floor or paint the boards Add lighting	£1,500
Painting	Walls and ceilings and most woodwork, some coving	£1,000
Flooring	Cleaning and replacing carpets in hallway	£1,000
Lighting	Add new wall fittings and ceiling lamps	£1,000

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Everything else	Various	£1,000
Total		**£11,000**

In this instance, the main focus of the work is on the kitchen and the bathroom (both key drivers of sale price). Essentially you are looking to replace and extend the kitchen and bathroom units.

Remember that it is not necessary to rip everything out and start again. Often you can get as good an effect by replacing only some of the items, and giving the others a fresh lick of paint.

6.4 Development Ideas

You've thought carefully about where you are going to focus your time and effort. You have, haven't you?

You've got a budget and have broadly allocated the costs? Now is the time to start looking at all those bits of refurbishment to see what you are actually going to do. This is the fun and creative bit!

6.4.1 Kitchens

The kitchen is often said to sell a property because it’s easy to make an impact here. You will need to research your market thoroughly, as this is one area that you can’t afford to get wrong. Which style is most appealing to which buyers? Is there a style which will appeal to more than one group of people? Speak to sales staff at several kitchen companies, to get their opinions before making your final choices.

Your budget will largely determine what kind of company you finally use; the choice is between one which will measure, design and fit the finished kitchen, to one which will simply supply the carcasses...and a whole spectrum of companies in between.

In some instances, sales staff will offer to come to you, armed with a tape measure and a laptop, and you can see the results on screen in less than half an hour. This is a fantastic way of helping you to visualise the finished room, but be warned – such sales staff work on commission and will be under huge pressure to get you to sign on the dotted line. Don’t be pressured into doing so unless you are 100% sure you are getting a good deal. That usually means shopping around first.

Many developers buy kitchens off the shelf and get their carpenters/plumbers/ electricians/builders to fit them. This is certainly the most cost-effective way, but you need to be sure of your design skills and your ability to visualise the completed room before you buy.

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If your budget means that you will be sprucing up the kitchen rather than replacing it, bear in mind that it's the small details which will have the most effect. Think about replacing grubby plastic light switches with chrome ones, fixing new handles to the doors and perhaps replacing the worktops.

Facet	Advice
Appliances	Avoid second-hand appliances. Instead go for mid-price range appliances with good reliability records (in case you choose to let the property). Where possible, leave room for a fridge-freezer. Many people currently enjoy the look of big American fridges – if your budget doesn't allow to you invest in one, try and make the space available. A dishwasher will be an essential addition for some buyers. Many families will expect it, as will young professionals at the higher-end of the market. If the purse-strings will stretch, replace a small freestanding cooker with a separate hob/oven/extractor fan or even a large range cooker. It is the one single way that is guaranteed to bring the wow factor into the kitchen.
Units	Look to add extra units or to convert closed cupboard space into open shelving for plates and kitchen items. This can help remove the 'boxed' feeling of the kitchen and allow the buyer to bring their own taste and colours to the room. Shop around for kitchen units - they can vary from £900 per unit (designer) to £125 per unit from a local carpenter.
Wood	If your kitchen has wood - a clean, stain and polish can do wonders for its appearance.
Cupboards	If the carcasses are sound, you should be able to replace the doors fairly easily. It's a brilliant way of giving the appearance of a new kitchen at a fraction of the cost.
Utility room	If space allows, consider a utility room. Be sure not to destroy the shape and feel of the kitchen in the process.
Flooring	Add a stone floor if your budget allows, or go for stone-effect tiles or slate. On a tighter budget, vinyl flooring can be effective.

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6.4.2 Bathroom

This is another room where you can spend huge sums if you want to. Whatever style you pick (and again, you must do your research here), the bathroom suite must be white. The only exception is if the bathroom is aimed at young people, when you could install a modern bowl-type sink made of glass or chrome, for instance.

If your budget seriously won't stretch to replacing an avocado suite with a white one, then just make sure everything looks clean and tidy, and concentrate on another room...we promise you that you will never sell a property based on an avocado bathroom suite!

The most inexpensive route is, again, for you to source your fixtures and fittings, and get your plumber to install them. Unless you want to move things around, this is a straightforward job, and almost certainly the best way to go.

Facet	Advice
Floor	Replace carpet with tiles or vinyl. This is another golden rule (second only to the one about only using white bathroom suites!) Carpet will date your property.
Walls	Use clean white tiles and add colour by use of a blind, attractive fittings and possibly a tiled dado rail. If you are confident of your design skills, consult home design magazines for ideas on more fashionable bathrooms. If you are unsure, stick to white.
Fittings	Unless you are developing property worth over £200k, find a quality but mid-priced suite. Designer toilets can cost £600 and basins up to £400. Non-designer ceramics will cost half that amount.

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6.4.3 Bedrooms

Keep the bedrooms simple. Your time and energy is better spent on the communal areas. You can always indulge your creative side here if you plan to dress the property (see section 6.4.16).

Facet	Advice
Wardrobes	Built in wardrobes are popular and can make the room seem more spacious. But research your market thoroughly: if the style is wrong for your buyers, it will put them right off. Always ensure there is room for an unfitted wardrobe if you don't plan to build fitted ones. It's pretty much the first thing buyers will look for.
Cupboards	Often a smaller bedroom will be used as an office so don't over burden it with cupboard space.
Fittings	Avoid fully-fitted bedrooms. They are too particular a taste and will narrow your market.

6.4.4 Extensions

It is important for an extension to be in keeping with the style and period of the house. Spend an extra 10 to 15% and get an architect to provide you with an attractive solution.

Don't cut corners and use second-rate materials. Only use quality materials in your building work - especially roofing and glazing. It's important that it will last and look good too.

6.4.5 Loft conversions

According to Nationwide, converting the loft can add as much as 20.9% to the value of your home so it is definitely worth considering as an option.

Using the law of diminishing returns, as long as the time and money required is less than the additional profit to be made then it is a worthwhile project to make. And with an extra fifth of the value of the property potentially to be made in profit, on paper it would appear to be an extremely lucrative job to undertake.

With a major overhaul of the planning permission process in the pipeline, converting the loft should, in theory, be a lot easier and more straightforward to do.

Under the proposed legislation, permission for 'minor developments' such as extensions and loft conversions will no longer be necessary so it will just be a question of ensuring the planned conversion conforms to all the necessary building regulations.

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You will need to use the services of an architect - don't be tempted to cut corners because for each designed load placed on an existing floor, a calculation will need to be made to prove that the floor is capable of withstanding it. You will also have to comply with fire regulations at every point in the construction of your conversion.

A good builder should be willing to secure the necessary building regulation compliance by submitting plans to your local authority for checking and approval. This whole process should take between four to six weeks so you need to factor this in when deciding on the time scale of your project.

6.4.6 Conservatories

Recent research by Halifax amongst homeowners, found that conservatories were ranked third in the home improvement most likely to add value to a property, behind a newly fitted kitchen and double glazing.

Whilst you need to take into account the outside space you are losing by creating a conservatory, you are gaining an extra room on the house which can add anywhere between £5-10,000 to the overall value of the property.

The design secret with conservatories is to unite house and garden. Basically, a conservatory should look an integral part of the property, rather than sticking out like a sore thumb.

6.4.7 Painting and Decorating

When the building work is done, then you can begin on your painting and decorating. The golden rule is to keep it simple and keep colours plain. You can always add colour to a room through the use of fabrics.

Keep colours simple and light. Check out home design magazines for ideas - but don't be tempted into something too specialist. Stick with emulsion on the walls and make sure that you test your colour scheme on the kind of people you expect will buy your property before you begin.

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Focus on any special features already in the property. Use decorating to bring them out by contrasting them with the background wall colour.

Facet	Advice
Walls	Avoid expensive wallpaper. Go for plain emulsion instead. Make sure that the walls are smooth before the painting begins. You may want to use the benefits of a plasterer to get the walls to optimum condition before you add your emulsion.
Paint	If you are in any doubt, paint in white - Shows off good plaster to its best Makes the room look spacious Acceptable to everyone and easy for the buyer to add 'their' colour. If you want to use colour in the property then apply these principles: Use bright/strong colours in the hallway and landing (rooms that you move through) Use calm and restful colours in bedrooms and the lounge (rooms that you relax in).

Painting tips
By Peter Richardson, Painter to the Albert Hall and Royal Palaces:

- Use a tack cloth - all woodwork (and sometimes walls) should be cleaned with a tack cloth to remove any invisible dust particles before painting starts
- Strain the paint - use a stocking to strain the paint as this prevents any lumps getting onto the wall and ruining the effect
- Use trade paints as these are of higher quality and spread further.

6.4.8 Flooring

A new carpet in the hallway, the stairs and upstairs landing can dramatically improve the look and feel of a home. (Remember the hallway is the first room your buyer will see).

Kitchens and bathrooms are most important. In the remaining rooms, the visible floor space will be less once you've covered it with furniture and so the flooring will be less important.

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It is worth paying a professional to fit all types of flooring. It might seem a good idea to fit that tiny bit of vinyl into the downstairs cloakroom, but it is harder than it looks to make a good job of it.

Facet	Advice
Wood	If the boards are in good condition you can sand and varnish or paint them. If you don't like the effect, you can still choose to carpet the room afterwards. Be warned that bare boards are cold and in older properties they may cost you a lot more in heating if you decide to let. Avoid soft wood tiles - these stain and mark easily (one pair of high heels can ruin them) and they wouldn't last a letting season.
Tiles	A popular choice in the kitchen and bathroom.
Wood or wood-effect laminate	No longer as fashionable as it once was, but still an effective solution to areas of high-traffic, such as living rooms, halls and children's rooms. In modern apartments, it's worth paying a bit more for real wood laminate rather than the plastic stuff.
Vinyl	This can be in the form of a continuous strip from a roll, or individual tiles. Both are currently popular and would be a cheaper choice for the kitchen and bathroom
Carpet	If you run out of money refurbishing the rest of the house, consider laying a second-hand carpet or at worst give the existing carpets a very powerful steam clean. Only use plain carpets...yes, they may show more dirt, but they make rooms look more spacious and less dated. Sticking to one colour throughout the property will enhance the feeling of space. A neutral colour is best. You can always dress them up with rugs if you feel the need. Add carpets only when everything else is finished!

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6.4.9 Light and Lighting

The feel of a room is largely dependent on its light, and there are several ways you can increase that. A bright room appears much larger.

Facet	Advice
New Windows	Add a window or roof window. If you add a window, make sure that it is in keeping with the rest of the property. These days new period windows are much less expensive and can come with a double glaze.
Paint	The lighter the colour on the walls, the bigger a room will appear.
Electric lights	See below for the myriad of lights you could choose to install.
Mirrors	Mirrors standing above fireplaces – especially period fireplaces - will not only reflect light, but also reflect the warmth of the fireplace too. Oversized mirrors give the impression of wealth and luxury, so don't skimp. Use a mirror to bring light into dark rooms.
Curtains	Wash/remove net curtains. If curtains are necessary - experiment with finer fabrics (they let in more light) or only cover the bottom half of the window.

When you are planning the lighting, think about where to place the furniture and where the lighting needs to fit around it. Remember to be consistent in your use of light fittings. Traditional brass may be the order of the day in a period property marketed to older people, for instance; sleek, modern chrome is more appropriate for a designer apartment.

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Types of lighting to consider:

Facet	Advice
Ceiling Lights	Embedded ceiling lights are an excellent way of unobtrusively bringing light to a dark room; they are currently popular in kitchens and bathrooms.
Wall Lighting	Wall lamps create warmth in a room and remove the harshness of central ceiling lamps. Uplighters can add warmth to a room.
Reading / Task Lights	Reading/tasks (especially in the kitchen) - clean halogen lamps (embedded in the ceiling) Include local reading lamps Place strip lights at high activity points - such as above the sink.
Feature Lights	Picture lamps and mirror lamps are effective at emphasising best points. Consider using small spotlights as well.
Table lamps	Table lamps give flexibility - they can be used instead or as a part of the main lighting. If you think these will be a key source of lighting in the finished home, you must go to the trouble of dressing the rooms to reflect that.
Bedroom lighting	Consider using soft tone bulbs in bedrooms. Dimmer switches can also reduce the harshness of lighting and are useful in children’s rooms.

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6.4.10 Fabrics

It is possible to spend vast amounts on fabrics, but often very little is needed.

Facet	Advice
Blinds	Consider using blinds - they can be either solid material or wooden slatted, but they add colour and style to a room without great expense.
Covers	Use lengths of attractive fabrics to cover beds and tables.
Windows	If you intend to sell the property on, then you don't want the expense of curtains. Install curtain poles instead and drape a long piece of attractive fabric over it.

6.4.11 Fireplaces and Wood burning Stoves

Well-chosen fireplaces add warmth and value to a property. They act as a centrepiece to a room and can make a powerful impact on the look and feel of the room. They also allow you to add a mirror above and/or a few ornaments that bring colour and interest to the room.

If you can place period fireplaces into a period home, the effect will be stunning. They don't necessarily need to be connected to a working chimney - although they look best on a chimney breast as they stand out.

If a real fire is out of the question, a good substitute is coal-effect. These days it is almost impossible to tell them apart from original fires, and you may find families prefer them because mess will be minimised.

Designer-feel apartments can benefit from modern fires, although be careful of imposing your own taste on your prospective buyers.

Wood burning stoves are increasingly popular in large kitchen/diners. They add an authentic touch to this activity area. These fires can produce an immense amount of heat - equivalent to a five bar electric heater - yet are clean and safe. The coal burns behind a glass door - so you can see the real flames and enjoy the heat - but the smoke and ash is kept out of the room.

These are not only popular in cities but in rural cottages, where there is no mains gas supply, they are a beautiful and cheap source of heat. The wood often comes from wastage (off cuts) or replaced trees - so there is no environmental damage. Lastly, you can also install a gas-fired 'wood burner' - if you like the effect but don't want any mess at all.

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6.4.12 Period features

If the property is 'period' (and by this we mean obviously of a particular period, be it Victorian, Georgian, Fifties etc) it is worth splashing out on some authentic features if they have been removed in the past.

Where once it was fashionable to strip a house of all recognisable period features, the opposite is now true, and a period house with period features will fetch you more money than one without!

This may mean some time spent in salvage yards (see section 6.9.4**6.9.4**) hunting down original fireplaces, or tracking down tradespeople who can recreate ornate ceiling roses. Wherever possible, use original features rather than replicas, which look too shiny and new.

But this process need not be too expensive. Many original doors were fitted with flush panels in the 1970s, which can easily be removed; carefully knocking out a too-modern fireplace may uncover the original behind; many beautifully tiled hallways lurk beneath the carpet.

Whatever you do, don't be tempted to put a feature from the wrong period into your property, it will just look weird.

6.4.13 Gardens - The Three Key Things to Do

It is usually the garden that comes last in a refurbishment...but that is a mistake. A garden needs time to mature, and even over the course of a few weeks you will notice the difference.

It is crucial that you don't neglect the garden, no matter how small and inconsequential it seems.

- It is the first thing that a prospective buyer will see
- The most important aspect of the rear garden is the view from the house

Unless you choose to live in the property, you will not be working in the property for more than 3 to 6 months. And as you should wait a full year (one whole growing season) to see what is already in the garden before commencing any grand designs, it is best to stick to quick tips for improving the garden.

Three key activities for making a quick impression on your property's garden

- Quick tidy up
- Use plant pots
- Use mature plants for instant effect

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Quick Tidy Up

Cut the grass - preferably use a lawn mower that will give you a striped effect. If the lawn has been left for a while you may need to cut it 2 or 3 times before it looks good. Also, consider using a strimmer to cut the longer grass on the edges and by the walls which are inaccessible to a normal mower.

Remove the rubbish, trim the shrubs (don't cut them back too much - you'll want to be showing buyers around in a few weeks) and weed the borders.

Sweep the patio (if you have one), weed out any unwanted growth between the stones (with weedkiller) and use a patio cleaner to remove green algae. Make sure any paths receive the same treatment.

Keep on top of any regrowth by mulching or regular hoeing. Done once a week, this is a small job. Left until the end of the project, it may be a big one!

Use Plant Pots

Using clusters of plant pots can instantly add seasonal colour to a garden. Use bricks or upturned pots to raise some plants above others. In many cases, you can use the plastic pots that the plants came in, if you are adding them to an existing border.

Go for the maximum number of plants per pot. The idea is to create a mass of colour - so be bold. Bedding plants are the cheapest, but use them wisely: whilst a riot of all the colours in the rainbow may be to your personal taste, it certainly isn’t everyone’s. Choose a simple theme of two or three main colours, and concentrate on stocking the garden with plants within that spectrum.

Use Mature Plants

Certain nurseries offer mature plants. Whilst these will be more expensive, if used in a prominent position or to hide an ugly feature, they can make a vast difference to the attractiveness of the house.

6.4.14 Off road parking

According to research by Nationwide, providing parking with your property can add up to 6.5% to its value, so before you consider building an extension on your driveway or losing any existing parking provision, make sure what you are replacing the parking space with, is going to add more than 6.5% value to the property or you may just lose out!

Or the compromise may be to make sure that whatever extension or conversion you are planning leaves at least one parking space intact so you can offer the best of both worlds - off road parking and that elusive extra room.

6.4.15 Presentation Before a Sale - First Impressions Count

Known as ‘kerb appeal,’ this is the rule that says first impressions count the most. The vast majority of people will make an emotional decision on buying a house. So giving your property the right look and feel - is the most important thing of all. Of course, it is important that the hard work of plumbing, electrics etc. are complete too - but that is secondary to the feel of a place.

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Aim to give the property a fresh, clean, uncluttered (but homely) look. Yes, it's a tall order, and interior designers study for years to get it right. But there are some things you can do to speed the process along a bit (including studying our section below on dressing the property)!

So long as you decorate in neutral colours and you make sure that all the paintwork gets a fresh lick of paint, then your property should keep a fresh look.

Make sure that the property is cleaned - top to bottom - even if builders are finishing a few bits and pieces - before it is shown to anyone. Making a property look uncluttered but homely is the hardest part.

If you are looking to sell the property, there are a number of simple improvements you can make before the prospective buyers come round. Following these tips will often not cost you any money, but could make a substantial difference to the impression your property makes, and so improve the likelihood of a sale.

Area	Advice
Approaching the house	Keep the garden well maintained - grass cut - shrubs cut back. Keep any rubbish bins tucked away from view. Place a few pots of flowering plants on the path to the front door. Make sure the front door is recently painted and in very good condition. Polish the letterbox and any brassware. Clean the windows. Add flowering window boxes - if possible - to the windowsills.
Inside the house	Keep the entrance and hallway free of clutter, tools and children's toys or prams. Keep all your personal belongings tucked away. Remove any unnecessary furniture - this has the effect of making a room look bigger. Remove any stair gates. Clean the carpets if they are dirty.

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	Air the house beforehand. Lay a dining table for dinner. Lay a coffee table for coffee - add a few books and magazines in neat stacks. Open doors to smaller rooms - it increases the perception of size.
Outside the house	Clear away any rubbish, tools or children's toys. Mow the garden lawn. Keep the plants trimmed back - it encourages healthy growth and makes the space look bigger. Paint any faded windowsills. Creosote or paint the garden fence/gate and shed. Lay a series of large stepping stones (available from any DIY store) in an arc shape leading to a back corner of the garden (again this makes the garden feel longer).

6.4.16 Dressing the property – is it really necessary?

Unless the property is your own home, you face the decision about whether to 'dress' it before showing buyers round. In effect, this means splashing out on furniture and frills which don't appear to add intrinsic value.

There are, however, two things we will point out in favour of dressing the finished property:

- Estate agents invariably say a property is easier to sell 'dressed' than 'undressed.' That is, an empty property can be hard to sell, no matter how beautifully it is decorated.
- Consider why big building companies only show buyers round a show home...and why the show home interior is always carefully designed.

An agent is unlikely to value a property more highly simply because it contains furniture, but there is no doubt that a few well-selected pieces will help you to give that elusive impression of warmth and homeliness.

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As an absolute bare minimum, you should think about using the following:

Area	Advice
Bedroom	A bed. It doesn't have to be an expensive one, but it will help buyers to visualise how the room can be used. Bedding. Steal a duvet and pillows from home, and splash out on a plain cover. Add a contrasting blanket or throw and a couple of cushions. Curtains or a length of fabric at the window. If you doubt your design skills at all, keep the colour plain. Lampshade. Again, unless you are confident in the art of interior design, keep it neutral, simple and frill-less.
Living room	A sofa in a plain colour. If you decide to use a patterned one (second-hand or from home) disguise it with a huge plain throw. It simply isn't worth trying to second-guess your buyer's taste in furnishings. Cushions in a contrasting colour. A big plant. Curtains or fabric at the window. Lampshade. A mirror and/or a couple of pictures. Even in a small room, these should be big. Tiny pictures just look miserly in a sparsely-furnished room.
Dining room	A dining table, appropriately sized. Unless it is a beautiful piece of furniture in itself, drape it with a clean white table cloth and plonk some flowers or candles in the centre. Alternatively, put a bottle of wine and a couple of glasses to one side of the table. Don't bother setting the table for a 9 course banquet. An appropriate number of chairs. A mirror or picture.
Kitchen	A bowl of fruit. Seriously. It adds colour. A big bottle of oil, or some herbs, or a pepper mill etc. Steal

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Area	Advice
	them from home. A high stool at the breakfast bar. If there is a wine rack, stock it with wine. If there are bookshelves, stock them with cook books. If there is a spice rack, stock it with spices. You get the idea. Don't leave shelves empty.
Bathroom	A couple of fluffy towels in a plain colour. A mirror. A shower curtain, if appropriate. Plain white. A few (unused!) toiletries. This is one area where it is worth splashing out on the more expensive and recognisable brands because you want to sell an idea of the fabulous lifestyle your buyer will have if they make you an offer.

You can see that you don't have to spend a fortune, but if you decide to go further and fully furnish the property, you might be able to 'borrow' a number of items from your own home until you make the sale.

Alternatively, there are companies who specialise in renting furniture for short periods.

6.5 When Things Go Wrong

If you have commissioned a full structural survey, it would be unfortunate if you unexpectedly encountered a serious problem on your first project.

Tradespeople are the best people to advise on individual problems, although they will have a tendency to paint a rather gloomy picture in order to get your business! Get more than one quote and consult our sister publication Renovation Secrets to maximise your knowledge on the many things that can go wrong....and how to fix them.

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6.6 Builders

6.6.1 With or Without Builders

There are broadly three options for you to consider when planning how to get the renovation work completed:

- Do it yourself
- Work alongside builders
- Get the builders to do it all

Option	Comments
DIY	You are more likely to choose this option if: You enjoy DIY; You are living in the property you are renovating (so have no finance costs); You have plenty of time to spare; The project is relatively straightforward.
Work alongside builders	This is a good solution if: You don't have time to do all the work; You lack certain skills (e.g. plastering, plumbing) but enjoy other work (e.g. electrical work etc.); The project is not so big as to require you to work full-time as a project manager.
Delegate all work to builders	This is your best bet if: There is a lot of work to be done; Complex work to be done (e.g. roofing); Finance costs are mounting up and you are under time pressure; You don't enjoy DIY (you don't have to do it, if you don't want to).

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People seem to fall into one of two camps - they either love DIY or they loathe it. Be honest with yourself, and then go for what suits you best.

Many people, especially if they are improving their own homes, will work (part time) alongside one or two individuals. It is worth cultivating a couple of one-man band builders that you can work with. You not only get to learn from them, but you can see the quality of their work.

When you work alongside a builder, you have a different relationship than if you stand back. If you can get the work done in time and you don't mind getting involved, then this can be a very successful route to take. It is possible that, in this scenario, you might pay per hour rather than for the job.

You need to decide how you are going to get the work done because it will affect your costs. Doing it yourself is cheaper - but takes longer. Give yourself enough time to complete the work properly and make sure you allow for an increase in your finance costs as the property will be vacant/unsold for longer.

Key things to think about:

Dimension	Notes
Time	How much time can you devote to the DIY? If you work full-time and are a part-time property developer, you should probably bring in the builders.
Speed	A team can work much faster than an individual on their own. Remember that every month your property is vacant will cost you money. Roughly speaking, you will spend £600 every month per £100k borrowed.
Quality	If you do the work yourself, then you know the quality of the work.
Cost	It is cheaper to do it yourself - so long as the cost of carrying the finance doesn't eat up the cash you save on the builders.
Hassle	Builders can cause a lot of hassle and grief, particularly if you are trying to project manage with individual contractors.

6.7 What Kind of Builder Are You Looking For?

As a developer you want a builder who can work fast and complete the work quickly. This seems to be diametrically opposed to how most builders work. They tend to have two or three jobs (at least) going at any one time and switch between them according to their priorities.

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For a builder this means a steady stream of work (which they prefer) rather than periods of lots of work followed by periods of no work.

Finding a way to manage your builder so that the work is delivered on time to specifications is a fine art and one that you need to cultivate.

You are looking for a builder who:

- Can work hard for short periods of time
- Works to a high quality
- Is reliable
- Can manage the work of sub-contractors (if they use them)

The most important element in renovating is to be very clear in your mind what you want to do and what you do not want to do. Changing your mind part or halfway through will prove to be extremely costly.

As soon as you involve someone else, and especially a builder, you need to have very clear plans so that the builder can give you an accurate quote. If you then stick to your plan, the builder will have to stick to the quote. If you change your mind, the builder will change his mind about the quote and that's when you'll lose control of the project. It is crucial to spend as much time as possible refining the specifications of the work you want done.

If you are spending over £50,000 then use a building contract. Ensure that:

- It is legally binding
- There are penalties for late development
- There is an adjudicator (e.g. a surveyor) to agree when contract milestones have been reached

For these substantial projects you should consider using an Architect.

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6.8 Find A Good Builder

Want to hear a funny story?

A good friend recently paid his builder up front for development work on his house. The builder told him that he needed the money for materials and that he could give him a better price. So our friend agreed and went along with the builder's advice.

What do you think happened?

Yes, the builder started work and turned the house into a great big mess and then disappeared off onto another job.

No matter what our friend did, the builder wouldn't come back to finish the job. Finally, when the builder had no more work, he returned to complete most of the work and remove his tools. Our friend then had to pay another builder to come in and complete the job - finishing the work one year later!

The funniest thing about this story is that our friend is a highly successful corporate lawyer.....and he should have known better!

By far the best way to choose a builder is through personal recommendation. Ask around to find other people who have had work completed recently (don't take a recommendation from a builder who is still working on a project).

Ask the person recommending them, are they:

1. Reliable - turn up when they say they'll turn up?
2. Good quality - did they deliver work of high quality with a high quality finish (i.e. they didn't leave lots of unfinished work)?
3. Trustworthy - kept to price agreed?
4. Clean - did they leave the property in a clean and tidy condition?

When you speak to the builder ask them for the telephone numbers of the last three complete renovations that builder has done. Then ring the owners of the property and go round and see them. Go and inspect their work.

If builders can't line you up at least three major examples of their work then it would be better to avoid them. If they can give you telephone numbers then they are probably a good builder. This is a particularly useful test because most people fall out with builders by the end of the job. So, the fact that they have left at least three happy clients behind is a sign that the builder is good quality.

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But remember, good guys go bust too and even the best builders suffer injuries or fall ill and may be unable to complete your job. Always have the numbers of your ‘second choice’ tradespeople to hand, in case of emergency.

It is possible to take out special ‘builder’s insurance,’ whereby for an extra 1.05% of the build cost, you will insure yourself against the builders failing to start or complete the job. You can find out more at www.buildersguild.co.uk/

You can also seek redress through the small claims court if the builder fails to meet the terms of his contract with you, although there are no guarantees you will get your money back.

6.8.1 What you can expect from a quality builder - the Builder's Guild's Code of Conduct

In addition to the above scheme, you can expect a builder - who is a member of the Builder's Guild (or alternatively the Federation of Master Builders) to live up to their Code of Conduct. If they fail to do so, there is a prepared process of managing the dispute.

This Code of Conduct is not only useful when working with builders that adhere to it - but it is also a very good guideline of what you can expect any reliable builder to adhere to.

If the builder tells you that it is not normal practice, then refer them to this section - or look for another builder.

Builder's Guild Code of Conduct

1. Comply with the law

This requirement involves working in accordance with any relevant statutory requirements that may apply to the work undertaken by the Builder.

4. Have particular regard to matters of health and safety

Members must ensure that work is carried out with due care to avoid causing danger and unreasonable nuisance.

5. Provide clients with clear information about services offered and guarantees of workmanship and/or financial protection

Clients must be clear about the nature and extent of the work that will be done. Assurances must be given about the workmanship, materials (which must be fit for purpose) and appearance involved prior to the commencement of any work. This should involve providing the Client with a written Contract. Where appropriate, e.g. large or complex jobs, provide further guidance to clients about obtaining additional professional advice.

Documentation detailing the financial protection provided shall be provided before the work is started. Insurance certificates, warranties, and the like shall be handed over promptly on completion of the works.

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6. Provide clients with clear information of the price for the work to be undertaken and the method of payment

Clients need clear information on the cost involved in doing the work and whether this represents an estimate or firm quotation. Members must agree the price for the job and how they wish to be paid, e.g. on completion or in stages. This should involve providing the client with a written quotation. Full payment should not normally be requested in advance.

7. Provide clients with a clear timetable for any works to include a completion date

Clients need to know when work will start, the particular implications of any stages of work and when work will be finished. Members must provide clients with appropriate information for each job prior to starting any work. Clients will also need to be kept fully aware of any alterations to timetables and explanations for changes should always be given.

8. Work in a competent and responsible manner

Work must be carried out to comply with Relevant Standards. This involves the Builder being confident of his ability to do the work. The Builder shall act in a courteous manner and respect the privacy and property of the client.

9. Maintain skills and knowledge

Members must keep up to date with changes in building practices appropriate to the services they offer.

10. Seek to ensure client satisfaction through the provision of a clear method for handling client complaints

Members must provide a clear method for considering customer complaints and, where appropriate, offer redress. Complaints should be dealt with promptly and within a clearly understood timescale. Members shall inform clients of their right to seek redress from the Guild of Builders and Contractors.

11. Uphold the standing of the Guild of Builders and Contractors Guarantee Scheme

All Members must seek to uphold the standing of the Guild of Builders and Contractors Guarantee Scheme with a view to enhancing its support from clients.

The Federation of Master Builders offers a similar scheme. Check out their website at www.fmb.org.uk for more information.

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Key Tip

Get your financial arrangements right:

- Pay builders in stages
- Hold back at least 10% of the job for snags - the little things that haven't been done - any honest builder will go along with this
- Avoid paying a deposit if at all possible

6.8.2 Why people get tempted by unscrupulous builders

People fall into the hands of unscrupulous builders because they think they can save a bit of money. If your budget is too tight, cut something out of it, rather than risk a bargain basement price with the risk that that entails.

The main temptation and risk is to offer to pay cash for a building job. This means that the builder may not declare or charge VAT.

This is not only illegal but may end up costing you much, much more in the long run.

Key Tip

Don't risk it - use a reputable builder and get three recommendations. Consider using an insurance-backed guarantee scheme and expect to pay VAT.

6.8.3 Managing your Builder

Even when you've chosen and instructed your builder - never rely on them. Your success depends on this builder delivering what they say they'll deliver. Check on their work every step of the way. After all you've got much more to lose than they have.

Don't get too friendly and never go down the pub! Keep it professional. You will need to be able to be firm with your builder and that is a lot harder once you've had a few drinks together.

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There are four key things to remember in managing your builder:

- Agree the specification in writing before anything starts
- Builders are naturally disorganised - it's your job to organise them
- Get your builder to plan out which jobs follow which so that you can follow and check on progress
- Create a building schedule of dates when each element will start and finish.

You are working on a fixed quote - not per day charge. So, you can expect to receive what you've specified. Or at least, if you don't receive the standard of work then you don't pay for it.

Agreeing everything in advance means agreeing everything in advance with your builder. That's absolutely everything. Then, don't change your mind. As soon as you start changing your mind you'll get caught with extras. If you don't think the specifications are clear enough or you are unsure, do not agree anything or let your builder start.

If you can work on the premise that things will go wrong during the building work then so much the better. It puts you on your guard.

Key Tip

Don't change your mind - it is so important - just don't do it!

6.8.4 Paying your Builder

Having agreed a detailed specification and price, you now have to agree how and when the builder will get paid. The more detail that can be built into this specification, the less room there will be for misunderstandings and argument along the way. Agree the specifications before fixing the price.

When the details have been agreed, you should agree a fixed price for the complete work, not a daily rate. If the builder wants to use a daily rate, then get them to estimate the days they will need to do all the work, multiply this by the daily rate and make this the fixed rate for the job.

With a detailed specification you can then agree on staged payments. You should be paying the builders for work completed (never give 50% up front, and always make sure that you owe them money, not vice versa). It is reasonable to pay 10-20% up front for materials, but you should make sure that these are used up (on your property) before releasing more money.

One of the most important things to remember is to hold back 10% of the payment for ‘snagging’. There will always be a snagging list. Near the end of the project you should go round the property with your builder and agree this list. Examples include gaps between woodwork and walls, doors that stick, uneven plastering etc.

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To make sure that all the work is finished per spec, you should give your builder a week to fix the snags before you use the remaining 10% to pay another builder to clear up these problems.

This is perfectly normal practice, and you should not feel intimidated by your builder. Make sure that you agree the basis on which all payments will be made before they start any work.

No matter how reasonable you are (or think you are), it is possible that you will fall out with your builder at some point. Usually this should not be too serious, but you should always remember that you are paying them to do this work for you, and your ability to make a profit on the whole development depends on their keeping to their part of the bargain.

Always inspect quality of work. Be firm if you are not happy. You will find this easier to do if you have not built up a close friendship with the builder.

6.8.5 Dealing with Disputes

One of the most common problems that people have with builders is that the builder will say that the client has changed their mind during the work. Even if you have taken the time to draw up a detailed specification of the work needed, it is likely that there will be disputes about its interpretation.

If your builder starts to say that you are changing your mind, you must, simply must, challenge him. A particularly effective way of resolving these disputes is to take a board and a pen and write the following:

Things that (your name) has changed his / her mind on
1.
2.
3

Now challenge your builder to write a list of the every request you have made that differs from the specification. On most occasions this will stop the dispute in its tracks. The vast majority of builders are not comfortable with putting up a list of issues in public.

If you can, try to resolve the matter on site - after all you don't want to have to go and find another builder.

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If your relationship with your builder has completely broken down, try the following:

- Contact their Guild, ask for a copy of their Code of conduct and start a complaints process
- If your builder is not a member of the Builders Guild or the Federation of Master Builders or similar, then your only redress is through the courts. If your builder has disappeared or run off with your money, then you are very unlikely to get any back. It might be best to start again and next time use a guaranteed builder.

6.9 Sourcing Materials

Tradespeople can often source materials at a fraction of their retail cost to the public, but many trades will also try and build in a bit of profit when they sell on to you.

If you can find the time to source your own materials, you may find you can make significant savings.

6.9.1 Builders' Merchants

Many retail DIY outlets have trade counters, and it is worth investigating how much discount would be available to you as a developer. You may need to open a trade account (see section 6.9.2 below), but some outlets are happy to take your cash and personal cheques. The obvious benefit of these big companies is that they're open long hours and at weekends. They also have a vast stock.

Many builders' merchants such as Jewsons and Travis Perkins have different levels of discount, usually dependent on the amount of business you do with them.

In some areas, they don't tend to be open such long hours as the DIY stores or carry so much stock, but will often order in for the next day if required and deliver.

6.9.2 Opening a trade account

A trade account entitles you to money off the list price, and usually means that you are invoiced for goods taken on a monthly basis which can seriously help your cashflow.

Most builders' merchants will require a couple of business references – one of which could be your bank. If you don't have any other credit accounts elsewhere, you could try asking one of the tradespeople you are working with to be your referee.

You will be set a credit limit, perhaps just £500-£2000 to begin with, which will rise quickly once they see you pay off the balance every month.

Builders' merchants have sales representatives who will call and see you on request, to discuss terms. Bear in mind that terms are negotiable and you can play one company off against another: if, for example, you know you can get a better price elsewhere, tell your rep. who will usually be only too happy to lower his or her price in order to keep your business. It pays to have trade accounts with more than one merchant!

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If you haven't yet opened a business account with a bank, or can't find another suitable referee, it is worth asking if you can open a trade account by paying for goods as you take them. You may still qualify for 5-10% of list price, just by explaining that you are a business.

6.9.3 Finding building materials and advice on the net

A number of the major builders' merchants and DIY stores now offer increasingly comprehensive websites.

The key to evaluating a site is whether or not you qualify for the trade prices. Many companies run two sites - one for the trade and one for private individuals. So make sure you know which one you are browsing!

Among the best of the builders' merchants is Screw Fix. This is a mail order company that now offers its products via the net - so that you can see the items before you buy. They offer trade prices and next day delivery.

The internet is also exceptionally good for sourcing decorative products like wall or floor tiles (many companies will send you samples for free) or lighting. You can browse for kitchens from the comfort of your own home and sales staff will bring sample doors to you. You can even buy pictures and photographs over the net, for when you start dressing your property.

When used efficiently – and it might take a bit of trial and error to find the best sites for your purposes – the internet can save you days and weeks in time. Have a look at www.propertysecrets.net for some ideas, or do an internet search for specific items.

6.9.4 Salvage Yards

If you are renovating a period property to its maximum potential, you will almost certainly need to visit a reclamation yard at some point. The Yellow Pages will list any local to you, but many big companies also have websites from which you can order online; have a look at www.salvo.co.uk for some examples.

You are unlikely to able to negotiate any trade discount, unless you want to take significant quantities of goods. But investing in an original Edwardian fireplace, Victorian door handles, or Georgian ceiling rose could pay off many times over.

This is one area which you can really make your property shine. Buyers have become so used to the typical 'developer' look of cream walls and laminate floors that you must do everything you can to make your property special. Spend an afternoon poking round a salvage yard to pick up an interesting detail or two, and we promise you won't have wasted your time.

6.9.5 Buying materials abroad

There is a commonly-held belief that most of what you can buy in this country is cheaper abroad.

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Unfortunately that is not entirely true, but if you are planning a trip abroad anyway, or are hunting for a significant quantity of one particular item, it is worth doing a bit of investigation.

If your French is reasonable, it might be worth taking a look at www.castorama.fr or www.leroymerlin.fr

Both are major builders' merchants on the continent, and it will give you some ideas of prices.

www.bca-antiquematerials.com is an online source of delicious French reclaimed goods, such as floor tiles and fireplaces from old chateaux. You can choose the English translation if your French isn't up to much.

Designer bathrooms are often said to be cheaper in Germany, and where better to compare prices than a trade fair. A comprehensive list of trade fairs focusing on bathrooms can be found here

www.auma.de/contentDB.aspx?sprache=e&db=md&spdata=e

The same website also lists trade fairs for building materials.

If you are planning a trip abroad you'll find the relevant tourist board helpful, if you give them plenty of time to hunt for the right information; it's best not to assume that your average tourism officer will have the location of a good marble tile supplier to hand, but given time, they will often be able to point you in the right direction.

Key Tip

A couple of words of warning:

1. Depending on where you are buying, your purchases may be subject to tax when you bring them into this country. Check with HM Customs and Excise before you go, and work out if the cost makes it worthwhile.

2. Connection fittings differ from country to country. It sounds obvious, but do check the compatibility of plumbing and light fittings, and make sure you can easily obtain adaptors to fit UK standard fittings, if necessary.

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Congratulations - You've now finished Chapter 6.

But before you go on, check through the key principles you've learned and commit them to memory. In particular make sure you know how to:

- Recognise the importance of time in section 6.1.1
- Calculate the appropriate level of investment in section 6.2
- Prioritise the renovation in section 6.3
- Identify things that might go wrong in section 6.5
- Choose a builder in section 6.6

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7 SELLING THE PROPERTY

Once you've read and digested this chapter, you will be able to:

- Choose when to sell your property in section 7.1
- Price your property to sell in section 7.2
- Choose your method(s) of selling in section 7.5
- Choose and manage your estate agent in sections 7.9 and 7.10
- Choose other methods of selling your property in section 7.13

The key to selling your property effectively is:

- Get offers – it is important to be able to tell subsequent viewers that you have had offers
- Get the right offer – ensure that you have a stream of good prospects to view the property
- Get the right offer from someone who can proceed quickly – time is money

The key to selling a property quickly is to build momentum. If a prospective buyer thinks that a number of people may offer or have expressed an interest in a property, then they will be encouraged to put an offer in quickly.

Also, if they are aware that an offer has already been made on the property (which has not been accepted) then they know that they will need to offer near the asking price in order be considered. Obviously, they know they may lose the property if they delay for too long or go away to think about it.

A ten-week delay in selling your property could reduce your profits by 7.5% assuming you are working on a 20% return.

All your hard work can be lost if you let time eat into your profit margins.

7.1 When To Sell Your Property

Typically, larger family houses form part of a chain and so the purchaser of your property is dependent on the sale of their house.

This is a good reason for choosing to develop one or two-bed flats, as they often can be sold without a chain and so you can negotiate a fast exchange and completion.

Get your timing right.

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Decide who you are aiming this property at:

- Young single professional (often first or second-time buyer)?
- Family with children in school?
- Senior people looking to move after their children have left home?

Young single professional person
A single person or couple without children can move more easily, and the timing of the move is less important - they just book the time off from work.

Selling to families with school children
Timing is more important if you are selling a family home than if you are selling a one-bedroom flat. Once families have children in school then they only want to move in the school holidays - which means August, Easter and Christmas (although very few people want to move in December).

Senior people looking to downgrade
Senior people are more flexible in terms of when they can move, but often they are dependent on selling their family home, so they are more likely to move and sell around the school holidays.

Local factors
Also look for local factors affecting the local property market. For instance, in the City of London bonuses get paid end of February/ March. Therefore lots of city workers go house shopping from March onwards. This can have big impact on West London and trendy districts.

The trend in the last few years is for the market to become more even across the year. Nevertheless you should avoid trying to sell a property in November and December - if at all possible.

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Month	Activity Level	Comments
January	Average	Activity is variable. May be buoyant due to local economic factors.
February		City bonuses paid.
March		
April	Hectic	Best time to bring a property to market. Main selling time for family properties. Make sure your property is ready by Easter at the latest.
May		
June		
July		
August	Average	Holidays - families like to move now.
September	Busy	Second best time to market a property.
October	Hectic	
November	Average	
December	Quiet	No-one is willing to make decisions.

7.2 How To Price Your Property

Invite three suitable agents around to view your property and quote on the likely sale value.

Ask each agent: *'At what price would you market the property?'*

Take an average (or midpoint) of the three prices.

Then adjust your marketing price up or down dependent on the price brackets that people are searching in.

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7.3 Price Brackets

People look for property in price brackets. The level and range of the bracket is dependent on local market conditions so ask your estate agent.

Typical brackets might be:

- Less than £100,000
- Between £100,000 and £130,000
- Less than £150,000
- Between £150,000 and £175,000
- Less than £250,000
- Between £275,000 and £300,000
- Under £300,000

If you price your property in the wrong bracket you won't reach the right audience.

This means that sometimes you should lower your price - but it can also mean you should raise it too!

For example:

If you priced your property at £245,000 for a quick sale - you would miss everyone looking in the bracket £250,000 to £300,000. It may be that the kind of person suited for your property is in that higher bracket.

Unfortunately it doesn't always work this way, and sometimes the property needs to be brought into a lower bracket.

Ask your local agent about the break points and brackets. Find out the brackets that apply to your property.

So, if you are selling a two-bed flat - ask yourself:

'In what price bracket are people looking for 2 bed flats?'

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7.3.1 The influence of stamp duty

It's an issue we touched on earlier but is no less important when selling than when buying.

For many people, it's the stamp duty which will determine their price bracket. Try to avoid pricing your property just above one of the thresholds as buyers may dismiss it before they've even looked round. Pricing just below will get more people through the door.

7.3.2 Ceiling prices

Your research will already have revealed the maximum that people in your area are prepared to pay for a house or flat of the type you have developed. Don't pretend you can sell for £200,000 if nothing else is selling in your street for more than £170,000. No matter how beautiful a job you've done, you can't afford to hope for more than the ceiling price.

The only exception is if you've added a room or a garage, that neighbouring houses don't have.

Trust the valuations offered by estate agents, because if you get greedy, you may find your development languishing on the market (and losing you money) for months. A quick sale at a lower price is likely to give you a better profit than a later sale at a higher price.

7.4 How To Sell Your Property Quickly

Even if you want to sell your property quickly, don't be tempted to give it simultaneously to multiple agents. Think of the impression that you'll give to a potential buyer:

- Mr & Mrs Smith go into the HomeBuyer agency; the negotiators offer your property to view
- Mr & Mrs Smith view your property. Let us assume that they like your property
- However, as they are fairly cautious, they decide to have a look at more properties before making an offer
- When Mr & Mrs Smith go into the next estate agents, they will be shown your property again
- When they visit a third agency they will see your property offered for the third time

The impression given is that you are desperate to sell the property and Mr and Mrs Smith will avoid your property.

The most effective approach to selling a property rapidly is to follow these steps:

1. **Offer two weeks sole agency** (one agent has exclusive access) to whoever is the best estate agent for your type of property in that area
2. Tell this agent, before they start marketing it, that after two weeks **if the property is not sold, then you'll move it on** to their nearest rival

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3. **End the agreement** when you said you would and move it to the next agent

4. **Do the same with the second agent** - give them two weeks before you move onto a third agent and so on

Keep rotating the property. This technique also has the benefit of getting the agent into action straight away and you can be sure that within two weeks they will have called all of the best prospects that they have. If an agent is going to sell your property the likelihood is that they will find a buyer within the first two weeks.

7.5 Methods Of Sale

There are a number of different ways to buy / sell property:

- Estate agents
- Private sale
- Auction
- Internet agent
- Sealed bids

In the following sections, we'll focus on these methods from a seller's point of view.

7.6 How Estate Agents Work

An appreciation of how an estate agent works will help you to manage the sale process and also to identify how well they are performing.

7.6.1 Office Manager and Negotiators

When you choose an estate agent you will meet the office or branch Manager. When viewers are brought to the property, it is the negotiators who will bring them.

It may be that the Manager will tell you that a high price can be achieved, but that the negotiators (who have to actually get the sale) aren't so enthusiastic about the price!

Keep your ears open for these tensions. Generally, the negotiators are the ones closest to the market and it is worth asking their opinions.

Key Tip

Learn the names of the individual negotiators. Ask them if they like the property and what they think it is worth. They are human too and will work harder for a property and client that treats them well.

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7.6.2 Hot Boxes

Every estate agent will have a list (or typically a card index) of all the people who are looking for a property - this is called a hot box.

When you first place your property with an agent - they will turn to the hot box first and start calling anybody whose criteria fits with your property.

When you select an agent, you should look for an agent who has a lot of people on their books (or in their hot box) looking for properties similar to yours and at an appropriate price.

More recently, estate agents have computerised their hot boxes. This means they are probably more efficient and will cover the ground better than an agent using a paper-based method. They should also be able to print out and show you their list of potential buyers.

The increasing use of computer systems means that you can ask the agent how many people are looking for a property in your price range and how recent their enquiry is.

7.7 Promotion & Publicity

The agency will often tell you about the promotion or publicity that they will conduct on your behalf. This is worth knowing. However, in an ideal world (and unless your property is a commercial property or one that is difficult to sell) the property should have offers before the publicity/advertising material is out.

It is best to employ an agent based on the number of active people looking now that they can contact. Your agent will use two methods to contact this group:

1. **Phone**
2. **Mail**

After phoning the hot box list, the agent should mail the particulars to everyone on their database. Often, people are unavailable by telephone - so this is the next step.

To use a mail-shot they need to get the property details out quickly - so encourage them to get the measurements and photographs they need.

The photograph of the property is a major determinant of whether people choose to go and view it.

You should aim to take the photograph with the sun onto the front of the property and blue sky behind. If the agent can't get a good photograph - because of too many grey days, then ask them to return when the sun comes out - take a photograph yourself - or best of all - prepare a great photograph beforehand.

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Key Tip

Take the photograph yourself. As soon as you see a blue sky behind the property and the sun on the front - take your picture!

If you can, take the picture with the trees in full bud - but try not to show a spring photograph for a property in the autumn market - people will smell a rat and guess your property has been on the market for ages even if it hasn't.

This principle extends to when you aim to have people come and view the property. If your property is bathed in light in the early morning - but dark in the afternoon - make sure all appointments are made first thing. Find the optimum time for people to view the property and make sure they come at this time.

7.7.1 Advertising and Passing Enquiries

Typically, if nothing has come from either of these previous two routes, the agent will often move onto advertising.

You want to encourage the agent to get their advertising out straight away - remind them that in two weeks you'll move the property on to their competitor agent - so there is no point in delaying.

If you have developed a property and need to sell it quickly to pay off your finance, it is only worth advertising in the weekly newspapers. Otherwise, you will be moving agents before the advertisement reaches the streets.

Once the agent has run through these three steps, then they can only go back and try again or wait for new enquiries to arrive. Good offices should have a constant flow of enquiries, but if you are serious about selling your property quickly then you will have moved on to another agent by now.

7.8 Three Methods Of Selling Used By Estate Agents

- Bring prospective buyers round one by one - this is favoured by the more up-market agents
- Arrange an open morning/day and book all viewings for the same time - this can create a bit of panic in potential buyers and can either work very well or very badly
- Sealed bids - if your property is highly desirable and you think it will fetch a premium you can opt for the sealed bid approach. In this case all interested parties make their bids by a certain time and the highest bid takes the property (with exceptions)

Decide which method will best suit your property and look for an agent who uses that method successfully.

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7.9 How To Choose An Estate Agency

Choosing a good agent is vital. You should generally not try and place your property with more than one estate agent in an area at any one time, so the decision as to which agent to choose initially is very important.

You should not be shy about asking lots of questions before deciding to place a property with a particular agent. Examples of the type of questions you should be asking, and the rationale behind them, are given in the table below.

Question	Why
How do you compare with your nearest competitor?	Get them to explain why they are the best.
Which agency sold the largest number of properties last year?	Find out who is the best selling agent in the area.
What are the price breaks?	Do people look at 200 – 250k or 200 to 300k? Make sure you are priced in the right price bracket.
How many people do you have in your hot box looking in that price bracket?	This tells you the number of potential purchasers - you want at least 100 - preferably more - and for their enquiry to be less than one month old.
What is your approach? Lots of people around quickly, or selective one by one viewings?	Which technique do they use and does it suit/work with your property/your potential buyers?
How many people do you need to show this property to get an offer (is it 1 in 10 or 1 in 2)?	What is their hit rate?
Which end of the market do you deal with?	If you suspect they may be bluffing with their answer go and look in the window of their agency. If it's mainly small flats - then don't use these people to sell your house. If it's mainly big mansion houses or top of the range prices - then don't ask them to sell your first-time buyers flat.

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7.10 Managing Your Estate Agent

If you set up the relationship with your agent well, then managing the relationship should be just a matter (but a very important matter) of following up.

When you set up the agreement make sure that:

1. You can end the agreement with little or no notice (certainly less than one week)
2. You have explained that they have two weeks to sell your property (and then you are moving it on to their nearest competing agent)
3. You have run through the activity the agent will take and when they will take it

Keep a track of the number of viewings and speak to your agent regularly - every day in the first instance and then perhaps every other day. Keep asking your agent about:

- The hot box and the number of suitable applicants
- The particulars and when they will be mailed out
- Advertising in the weekly newspapers

If you suspect that they are not pulling their weight, tell them and explain that on such and such a date you will move the property to their nearest rival.

Key Tip

Ask your agent for feedback from the viewers after each of the viewings (especially at the beginning). Is there a common thread:

- Too small
- Missing bathroom
- Too expensive
- Don't like it
- Road is a problem/noise
- Location

Your agent is a source of free market information and will help you decide which property to buy next time around.

7.10.1 When things go wrong with your agent

In markets of rapidly changing pricing, it can be easy to get the price too high or too low. Often, if a property isn't moving, the agent will blame it on the price and then recommend that you bring the price down.

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Be careful! It's easy to blame the price but sometimes the property needs an adjustment - like an increase in the lease period - for the price to move upwards.

Other times, the agent may have a valid point and the price needs to move down. When this happens you've really got two options:

- Accept their advice and adjust the price (or a compromise price)
- Move to another agent

If you have been in contact with the agent on a daily basis you will know their activity level. If it has been high, then their advice might be valid (in part at least). If they haven't really pushed the boat out - then it is just an excuse.

Before you decide on a price reduction, you should always speak to your alternative agents first. Find out how confident they are at reaching a given price.

7.10.2 How much time do you give an agent to come up with a buyer?

Answer: Two weeks per sole agency and then move it on to their nearest competitor!

Drastic? No! - Not if you tell the agent up front.

Crucially you want the agent to have maximum motivation to sell your property as quickly as possible. If they know they only have a short window of time, then they will put maximum effort into the beginning of their campaign.

Within two weeks a motivated agent will have called the hot box, mailed the particulars and run some advertising in a local weekly newspaper. Once this is complete, the agent has done 80% of everything it can do. Then it is time to move on to another agent.

Key Tip

When you sign any agreement with the agent it will normally stipulate a cancellation period of between two and six weeks. Make sure that you delete this reference before you sign an agreement.

7.10.3 Champagne Incentives

Offer a case of champagne to the negotiator who sells your property.

This is popular with the negotiators (they get paid less than the boss) and helps to focus the mind, as well as with the Office Manager as it's something with which to motivate his/her team. You could even send them a picture of the bottles - it all helps to keep their mind on the job of selling your property.

Each estate agent has a number (between two and six) of negotiators who are in competition with each other. So offer an incentive to the person who makes the sale.

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Agree this with the Manager of the estate agent. Then visit the agency two days later to speak to and advise the negotiators. Use this opportunity to re-emphasise the incentive. Encourage a little bit of competition within the agency.

Not only do champagne type incentives work, but also they will build your relationship with the negotiators. This will help keep your name at the front of the negotiators when they come across an ideal development opportunity. If you've played your cards right, you should be at the top of the list of the people that they call.

7.10.4 Price Incentives

An alternative is to use the commission as an incentive so that the agency fee is 1.5% for a sale but 2% if they achieve asking price. This encourages the agency to get the very best possible price. It is also a good way to negotiate an agent’s fees down. Essentially you are saying:

> *'If you think you are worth a higher fee - prove it by delivering an asking price offer.'*

Make sure that you are free to accept or decline the offer (if for instance the potential purchaser is unable to exchange and complete quickly).

7.11 If Your Property Isn’t Selling

Selling a property is a matter of luck - you can get great properties that just don't move as fast as everyone expects. This is particularly true of a static market. But of course, you always make your own luck too!

If your property isn’t selling, you should speak to your agent frankly about why it hasn’t been sold. Go through all the questions you asked at the point of instructing the agent, looking particularly at:

- How many people viewed the property
- Comments from the people who viewed the property
- Whether there are any staffing/resource issues
- What will the agent do in the next seven days that they haven't done already

If you are satisfied that the agent is working hard and effectively, tell them that you will give them a further 7 to 14 days and then move the property to their nearest competitor.

You should also consider reviewing the price (and price bracket) of the property, and either raising or lowering the price (yes, raising the price can also change the perception of a property and help it sell, although this is relatively rare).

Go through all the final presentation techniques again. Follow each one of them. I know of a £595k house that wouldn't sell until the children's stair gate was removed from the top of the stairs. Taking the gate away suddenly gave the property a sense of space and width that had been missing before.

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7.11.1 Letting the property

If you had developed your property with the express intention of selling it to make a profit, it will come as a bitter blow to find yourself ringing round letting agents. A property with tenants on a six month contract will almost certainly make it harder to sell (unless it is a property specifically aimed at landlords, of course).

In a stagnant or falling market, however, there may be no other option, so here are a few pointers to help you on your way. Our sister publication, Buy to Let Secrets, is an essential read if you go down this route.

Ten Tips for a Successful Let:

1. Find a professional agent with a good reputation - don't attempt to manage the tenancy yourself on your very first property;
2. Expect to pay 10% commission to the letting agent;
3. Choose an agent with the highest marketing profile for the type of tenant that suits your property - this usually means they have the pick of the best tenants;
4. Don't try to save 3 or 4% on your agent - you will pay in the long run;
5. Take the mid range price for your property - don't be misled by someone offering to rent your property for the highest price;
6. Be realistic; make sure your own research ties in with the rental valuation;
7. Remember speed is more important than the end price - you want a letting office that is geared up to let your property quickly;
8. Remember as the agent is responsible for finding the tenant (although not guaranteed) you can ask them to help if a problem occurs;
9. Make sure you have specialist landlord insurance in place, as well as gas safety certificates, smoke alarms etc. Take advice from your agent;
10. When deciding whether to fully furnish the property, consult your agent again. They will know which rents quickest in your area.

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7.12 Know Your Rights

There are a number of principal pieces of legislation that affect estate agents and which you should therefore be aware of when buying or selling a house.

Act	Requirements
The Estate Agents Act 1979/The Housing Act 2004/ Recently updated as the Consumers, Estate Agents and Redress Act 2007	This requires estate agents to present their terms in writing, including whether or not they are acting as multi, joint or sole agent and what their fees will be. Under the Act they must: Declare any personal interest or influence in any offers made Report any offers (except as instructed by the seller) in writing Have separate accounts for deposits Recent updating of the legislation stipulates that estate agents must make and keep records for a period of six years and also local authorities and the Office of Fair Trading now have broader powers to investigate any breaches of the 1979 Act.
The Property Misdescriptions Act 1991	This states that information of specified types given by an agent must be accurate and not misleading, whether it is contained in sale particulars or given verbally. This also applies to photographs.
The Money Laundering Regulation 2003	Estate agents and solicitors are required to verify buyers' credentials, in a bid to curb money laundering through property. In practice, this usually means buyers and sellers of property must show various forms of ID, and allow them to be photocopied, e.g. passport, recent utility bill, driver's licence.

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7.13 Sell Your Property Yourself?

The internet has encouraged the growth of the self-sell market. New sites are appearing that make it easy and cheap (even free) to advertise your property.

If you are selling your own home then you might want to try this method before you instruct estate agents.

However, if you are carrying finance on an empty property, you need to sell the property quickly and self-selling probably isn't going to happen fast enough.

Pros of Self-Selling	Cons of Self-Selling
Save on estate agent's fee	Buyer might be looking for a better price
Don't have to deal with estate agents	Need to negotiate directly with your purchaser
	Less chance of a quick sale
	Requires more of your time
	Have to set a realistic valuation yourself

If you decide to go this route (you could always choose to use an estate agent at the same time, making sure they don't claim their commission) then you can find some of the biggest UK sites at www.propertysecrets.net

Other websites worth checking out include:

www.houseladder.co.uk

www.housenetwork.co.uk

www.homesonsale.co.uk

www.houseweb.co.uk

www.mypropertyforsale.co.uk

One word of warning though – make sure you read the small print of any websites you look at which claim to sell your house for free – there might be hidden charges!

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Other marketing strategies could include:

- Newspapers, both the local and national press carry private adverts
- Cards in local shops and on notice boards at local workplaces
- A For Sale board outside the house

7.13.1 Writing the sales particulars

Whichever method(s) you choose, buyers will expect a set of sales particulars similar to ones available through conventional estate agency sales.

Without misrepresenting any aspect of the property, these particulars should include:

Photographs	One from the outside, taken on a beautiful day. Two or three from the inside, illustrating the property's best features.
Details of the type of house	E.g. flat, bungalow, semi-detached. Mention the fact that it has been recently refurbished.
Its location	Drawing attention to any nearby amenities. E.g. one mile from village primary school/in the heart of the city's old quarter/ overlooking the river.
Its price	Make it as attractive as possible. E.g. £189,950 rather than £190,000
The number and size of rooms	Preferably in feet as well as metres.
Internal fixtures and fittings	Including the heating system, radiators to each room, flooring type, double glazing.
Garden description	Including the aspect if it's south or west-facing. If it is a particular feature of the property, include a photograph.
Freehold or leasehold	If leasehold, include details of service charge, ground rent and the length of lease remaining.
Your contact details	

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7.13.2 For Sale signs and the law

Believe it or not, you can't put any old sign in your own front garden. In order to comply with the law, your sole sign must be either 0.5 square metres in area, or you may have two boards 'conjoined' together of no more than 0.6 metres squared.

So now you know.

7.14 Auctions

Properties are sent to auctions for a number of reasons:

- Commercial or retail property
- Selling a rental property with sitting tenants (or other legal or structural problem)
- Need an urgent sale (due to death, bankruptcy or repossession)

Unless you fall into one of these categories, auctions are best avoided for selling purposes, as you simply can't gauge how much your property will go for.

If you need a quick exchange, however, the great benefit of the auction is that the deal is done on the day. Completion (and the rest of the money) is available usually 2-4 weeks afterwards. This removes delays and hold-ups at the expense of fetching a good price.

Auctions tend to quieten down in boom markets, but become active in poor or slow moving markets.

Congratulations - You've now finished Chapter 7.

Keep going, you are soon going to be a property expert!

But before you go on, check through the key principles you've learned and commit them to memory. In particular make sure you know how to:

- Choose when to sell your property in section 7.1
- Price your property to sell in section 7.2
- Choose your method(s) of selling in section 7.5
- Choose and manage your estate agent in sections 7.9 and 7.10
- Choose other methods of selling your property in section 7.13

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8 Property Development As A Career

Once you have read and digested this chapter, you will be able to:

- Decide how to reinvest the profit from your first development project in section 8.1
- Know what is involved in giving up your job and becoming a developer full-time in section 8.2
- Know what to put into a business plan in section 8.5

8.1 Your Next Project

As your first development goes onto the market, you may start turning your attention to your future as a developer. If you have enjoyed the process and can see where you went wrong (and we don't believe that you haven't made ANY mistakes!) you have all the makings of a true property developer.

At this stage it's almost irrelevant whether you will make a profit or not when you sell your development. Far more valuable is the ability to see WHY you will (or won't) make any money. More important still, is the skill of spotting how you can make a greater profit next time round.

So if you want to take your career to the next level, read on...

Let's assume you've followed the advice in this book to the letter, and you stand to make a 20% return. You now have four choices.

1. Take that 20%, and use it as a salary while you take on your next development of a similar size and scale to your first project
2. Invest that 20% along with your original capital into a bigger, more ambitious project
3. Invest the 20% and original capital into a similar-sized project in a nicer area
4. Invest the 20% and capital into two smaller projects

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Choice one - take that 20%, and use it as a salary while you take on your next development of a similar size and scale to your first project.

This may be necessary if you intend to give up paid employment in order to focus on your career as a property developer. But it is not necessarily the best option to spend all of your profit in this way, as you will be limited in the scale of the next project you can take on.

Only take this route if you are certain you can work more efficiently – and therefore make more profit – by doing this. Given time, the aim with this strategy would ultimately be to make enough money not only to take as a salary, but also to reinvest in your business.

Choice two - invest that 20% along with your original capital into a bigger, more ambitious project.

Like everything, there are pros and cons to this choice.

A bigger property – say a three bedroom family house – should command a greater profit when refurbished, simply because 20% of £200,000 is obviously worth more than 20% of £100,000.

But do bear in mind the increased costs associated with renovating a bigger property; the kitchen will be more expensive, there may be two or more bathrooms, the garden may need more spending on it etc. Purchase and sales costs will also be greater, including stamp duty, legal fees and the estate agent's charges.

Before embarking on this route, do your sums very carefully. Don't rely on the costings from your first development; start all over again with quotes from builders and the other tradespeople who might be involved.

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Choice three - invest the 20% and original capital into a similar-sized project in a nicer area.

This has a number of things going for it. Like the previous choice, in theory you should make more money because the selling price will be greater than with your first property. This will, of course, also mean higher buying and selling costs, but a small property in a nicer area will not actually cost very much more to renovate than a small property in a not-so-nice area. Therefore many of your costs will remain the same as your first property. You may have to spend slightly more on nicer fixtures and fittings, but labour costs should be very similar. In addition, you should find that a better location makes a property easier to sell, potentially saving you the cost of it 'sticking' when it comes to market.

Choice four - invest the 20% and capital into two smaller projects.

This is only really viable if you had a significant amount of capital to begin with, but it could be the quickest route to a successful business.

The good news is that you would be spreading your risk over two properties, so if one doesn't sell, or one hits unforeseen snags, hopefully you will at least make money on the second.

Also, if you choose two properties close to each other in a similar state of disrepair, you may be able to save some labour costs as tradespeople will be able to work more efficiently.

If all goes well, you stand to make at least double the profit in half the time it would take if you took on one project at a time.

The bad news? It will test your skills as a project manager to the limit. For goodness sake don't risk your hard-earned profit from your first property if you doubt in any way your ability to juggle the purchase, renovation and sale of two properties at the same time!

Whichever avenue you decide to pursue, don't ignore the golden rule of building in a 20% return on your next development.

8.2 Giving Up Your job

A self-employed property developer does not have a regular guaranteed salary; he or she does not have a company pension scheme, or holiday or sickness pay. Giving up the day job is not a decision to be taken lightly, but the rewards can be enormous. If you believe this is the right route for you, this section explains how you get started in self-employment as a sole trader or partnership.

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8.2.1 Legal requirements

- Tell the Inland Revenue within three months of the month you start up. You will face a fine if you don't, and it's a painless process of ringing their helpline 08459 15 45 15 and asking them to send you the right forms. You can also complete the process online. It means (among other things) that they will automatically remind you when you need to fill out a self-assessment for tax purposes. If you think it would be helpful, they will even send someone out to talk you through the start-up process of a new business. More information on their website www.hmrc.gov.uk
- You will also need to register for National Insurance with them. As a sole trader or partner, you will pay two types of NI. So-called Class 2 contributions are a flat rate of £2.20 a week. Class 4 contributions are based on your profits and are paid along with your tax, in January and July
- If you want your business to be called anything other than your own name, you must check that the name isn't one of 150 or so which are considered offensive, illegal or sensitive. Free advice is available from Companies House on 0870 333 3636 or www.companieshouse.gov.uk You don't have to register your business name, but you must print it on any stationery
- If you intend to use part of your home as an office for the business, check with your landlord (if you rent) or the planning office (if you own your own home) that you may do so

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8.2.2 Other steps you might want to take

- It makes sense to open a business bank account. It will make it easier to open and run a trade account with suppliers, and should you ever be investigated by the Inland Revenue, it will also make it easier to show your incomings and outgoings. As you are unlikely to be banking hundreds of cheques, most of the High Street banks will offer you favourable terms, or even free banking for an initial period. You will also be assigned someone from the bank to 'look after you,' which could be useful if you need to raise extra funds
- Find an accountant. If you are a sole trader or a partnership, it is possible to run your tax affairs yourself. But an accountant may save you money in the long run. Speak to several before deciding, or get a personal recommendation from someone else in the property business; you want someone who has experience in this field
- Set up a book-keeping system. This need not be complicated (your accountant will show you how) but is essential if you want to keep on top of your expenditure. Also useful should you ever get a call from a tax inspector!
- Draw up a partnership agreement with the help of a solicitor. Not legally essential, but a Very Good Idea. Even if your partner is 'sleeping' or is your spouse or best friend, it would be wise to put the details of your arrangement into writing. You should include items such as how you will split the profit, how much holiday you will both take, who will be responsible for which areas, if one of you has ultimate control for management of the business and what happens if one of you wants to leave or one of you dies

8.2.3 Tax

To keep hold of as much of your future profits as possible, you must get to grips with the tax implications of your business. To this end, we strongly recommend you read our sister publication Property Tax Secrets and consult an accountant or tax adviser. The Inland Revenue will help with individual queries, too. Contact them at www.hmrc.gov.uk or on their Information Service 08459 15 45 15.

Here are two things you should know to begin with:

- If you live in the home you have been developing for 12 months or more, you are unlikely to face a tax bill when you come to sell. Your own home is what's known as your Principle Private Residence, the sale of which incurs no Capital Gains Tax

- If the property you have developed is NOT the place where you live, you may face a bill, depending on how much you have earned during the year. Once you decide to become a property developer (ie buy, develop, sell), for the purposes of tax you become known as a Property Dealer. This means that you, too, avoid Capital Gains Tax, but you must pay Income Tax on the profit you make. You can offset all purchase/selling/refurbishment costs against that figure. The formula is further complicated for partnerships, depending on the proportion of the property each of you owns

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8.2.4 Sole Trader vs Limited Company

1. There is a belief that forming a Limited Company will not only protect your assets, should things go wrong, but also mean you pay less tax. For some businesses, this would indeed be a boon, but things are not so simple for property developers, and our sister publication, Property Tax Secrets, goes into the reasons in detail.

2. Generally, there are two reasons why tax experts are cautious about buying property – ie appreciating assets – through a limited company, particularly if you are just starting out.

3. It can be difficult to get a mortgage through a limited company, and the interest rate is likely to be higher than if you purchased as a sole trader/partnership

4. The taxes levied on profits from a limited company (Corporation tax and tax on dividends) means that you could end up paying twice if you sell a property and then draw on the profits of that property

It would be more appropriate to operate through a limited company if you didn't intend to extract any profits from your business, but reinvest it.

Also a company:

- Will absorb a lot of time (especially if you are a one-man band or home based business)
- Requires you to meet legal obligations and deadlines. The failure to meet these can be expensive
- Requires you to seek more professional advice (from Company Secretarial services and Accountants) and this will prove a substantial burden on a small company

Speak to your accountant and tax adviser before making any firm decisions.

8.3 Common Reasons Why Property Development Businesses Fail

Okay, so now you think you've got this property business rumbled, let's just take a look at how the mighty tumble.

Developers nearly all start with one small property, they have a stake, they invest in the property and they make a profit - based on a 20% margin.

They then take the original stake and the deposit and buy a bigger property. They then take the profit from this property and the stake and buy two properties and on and on.

5 years later they are worth £2m and it's all invested in property. However, when they started they demanded a 20% return and they now have to accept 10% because the market is busy - and they can't buy properties for a 20% return.

The double-edged sword is that if they stop buying property they would realise their total profit but be out of business. So in desperation they break their golden rule and buy at smaller and smaller margins and if (and when) the market drops they lose everything.

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You have been warned!

It's easy to start disciplined but to lose your way because you think you know what you are doing - so stick to a 20% return!

Although the same principles apply to people developing their own homes, home improvers often have more flexibility and can afford to accept a lower return if they are prepared to live in the property for 3-5 years. This is because a lot of the costs (stamp duty, lawyers' fees and carry costs) are then spread over years not weeks/months. Also, if the market does crash you just hang on and delay your next move. When the market picks up again, then you sell and move onto your next property.

8.4 The Importance Of A Business Plan

Business plans are all about setting objectives.

As a career property developer – and therefore a business man or woman - you will need to do some (or all) of the following:

- Raise finance
- Improve profitability
- Attract investment or grants
- Set goals

A business plan can help you do this.

8.5 What To Put In A Business Plan

Firstly, work out who you are writing it for. If you need to raise funding, perhaps you are writing it for your bank manager. If you are setting goals, it could be that you and your partners will be the only ones to read it. It’s not uncommon to write several different versions of the same plan.

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Here are some chapters you should consider including:

Chapter	What to write
Introduction	A brief summary of what you want your development business to achieve, and how you want to get there. If you are writing your plan to generate investment, this section is crucial in getting your reader's attention. Point out any benefits for the investor, ie what's in it for them.
The business	Describe exactly how you plan to conduct your business e.g. buy using 20% capital, 80% mortgage; renovate using 50% capital, 50% loan; sell; reinvest etc. Use language that your reader will understand - don't patronise, but equally don't assume too much. If you already have a house in mind for which you are trying to raise funding, this is the place to describe it. Why is it a good buy? What needs to be done to it? What is your timescale? How will the project be managed?
Business history	What you have achieved to date. Keep it brief and to the point. Include properties that you have lived in as well as any you've renovated purely for profit, or let out.
The team	Biography details of you and any partners, plus any key employees or sub-contractors in your team. Don't mention every labourer you intend to use, but certainly include project managers, architects and main contractors. Emphasise any specific skills they bring to the job.
The market	Keep it local. Describe why your business is a good idea in the current climate and if you have a specific house in mind, explain why it will sell quickly after you have finished with it.
Prospects	What are the aims of your business in the short/medium/long term? Are you aiming for financial success? Or more time to spend with the family? Or a replacement for an underperforming pension?
Financial section	Include the risk/reward analysis spreadsheet and the cashflow forecast from the software included with this book. Make sure your figures show a 20% return! Also include any written estimates for building work, loan repayment schedules and details of any collateral you may be

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Chapter	What to write
	offering (e.g. equity in your own home.) If you are writing the business plan to raise cash to expand an existing business, include your accounts from the previous year. Include a section on Financial Requirements, where you outline exactly what you're asking for and how the money will be used.
Appendices	Anything else that may be relevant! Supporting documents might include estate agent particulars, architect's drawings and bank statements.

Congratulations! You now know:

- How to reinvest the profit from your first development project in section 8.1
- What is involved in giving up your job and becoming a developer full-time in section 8.2
- What to put into a business plan in section 8.5

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9 THE FUTURE OF PROPERTY DEVELOPMENT

Once you have read and digested this chapter, you will:

- Appreciate the impact of the Government's housing strategy in section 9.1
- Understand the implications of the new Home Information Packs in section 9.2
- Know what the Euro could mean for the housing market in section 9.3

9.1 Demand For Housing

Housing has already proven to be a political hot potato for PM Gordon Brown with housing shortages dominating the agenda. According to research from the Royal Town Planning Institute, the nine largest residential developers in the UK have enough land with planning permission to build almost 225,000 homes. This is more than double the number of houses that are actually built annually.

An investigation by the Office of Fair Trading has been launched to look into these problems with housing supply and in the meantime, Gordon Brown has pledged 3 million new homes by 2020, an increase of 400,000 per annum on the previous yearly target of 200,000.

So what does all this mean for the property investor? Should we brace ourselves for an abundance of cheap property flooding the market? Whilst the market should be closely monitored for any significant shifts, it is unlikely that these measures will have any immediate effect, for a number of reasons.

9.1.1 Long-term housing shortages

Despite government plans to make up the current housing shortfall, it is going to take a long time before the effect is felt on the housing market. According to industry insiders, affordable housing has not been built for some 20 years bringing us to a position where only 3.1 new houses or flats are built every year for each thousand of the population.

Therefore demand is far outstripping supply and this situation looks set to continue for some years to come.

9.1.2 High house prices

This under-supply of housing has led to a massive distortion of the property market whereby house prices in the UK have risen by an unbelievable 676% since 1980. The average cost of a home is now six times the average wage with this figure rising to nine times in London.

Needless to say, the extent of the price growth vastly outweighs any rise in wages, thereby further limiting supply of affordable housing and exacerbating the problem.

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9.1.3 Population growth

According to the Royal Institution of Chartered Surveyors, the number of households in the UK is growing by 200,000 a year with the population as a whole predicted to rise from 60 million in 2005 to 65 million by 2021.

As a result, despite plans to build more houses, with an ever growing population, demand is still likely to continue to outpace supply.

9.1.4 Changing household patterns

Cultural and demographic changes are also creating a disproportionate increase in single person households. Properties with one occupant are currently around the 22 million mark and this is set to rise to around 26 million by 2026.

9.2 Home Information Packs (HIPs)

After much political wrangling, Home Information Packs (HIPs) finally became legal in August 2007 when it became compulsory for homes of four bedrooms and over to have HIPs, with the remaining housing stock being rolled out in phases expected to be complete by March 2008.

So what is the thinking behind HIPs? The theory behind them is to reduce time-wasting, gazumping and the time taken to sell a property. According to government figures, around £350 million is currently lost through house purchases that do not go ahead due to problems found by buyers during the house buying process.

Therefore by providing the purchaser with more initial information in the form of a HIP, fewer people will change their mind later, and the time it takes for the buyer's conveyancer to carry out the legal work should also be reduced.

What is a HIP?

A HIP has to contain the following:

- Details of the title to the property;
- Local and water searches;
- Details of leasehold information;
- An energy certificate;

And it may also contain

- Other searches;
- Commentary on legal title;
- Replies to enquiries and fixtures and fittings lists;

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What does this all mean for the property developer? For the property developer, HIPs should be a good thing. Once a buyer is found, they will help to speed up the sales process, meaning your profit is in your pocket more quickly.

When you're looking to buy a property it should work in your favour, too, helping to cut down time wasted by viewing houses which later turn out to have major structural defects.

Congratulations! You've now (nearly!) finished the last chapter, and you can:

- Appreciate the impact of the Government's housing strategy in section 9.1
- Understand the implications of the Home Information Pack in section 9.2

9.3 The End or Perhaps It's The Beginning?

Now you've come to the end of our advice; all that is left is for you to put it into action.

We hope you'll agree now that in *How To Make Money In The UK Property Market Today!*, you have the ultimate resource to help to manage and remove the risk from your property development and investment.

But now it's time for you to begin. Remember to start small (if this is your first project) - you'll learn 80% of everything you'll learn on your first property.

Here are two great thoughts to leave you with:

"Men and women were born to succeed, not to fail."

George Thoreau

"Life is to be lived. If you have to support yourself, you had bloody well better find some way that is going to be interesting. And you don't do that by sitting around"

Katharine Hepburn

All that remains for us to say is ***thank you for reading this book***. We hope it has given you food for thought, but even more, food for action.

We've had a great time writing this book, we can only hope that you have as much fun and reward by implementing it.

Good luck and all the very best

Neil Lewis and Richard Davies

Congratulations – You have now finished chapter 9.

That's it - this is the end of the book!

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