WHY NOW IS A GREAT TIME TO BUILD YOUR PROPERTY BUSINESS

By Peter Jones

PROPERTY SECRETS

FOREWORD

I had an interesting email the other day from a recent buyer of my ebook, *The Successful Property Investors Strategy Workshop*, suggesting, tactfully, words to the effect that things were easier when I bought my properties because I bought in a boom, so how should he do things differently in today's market?

His comment was prompted by my assertion on my website strategyworkshop.co.uk that market conditions today "are similar to when I first started". Having had time to reflect I stand by my comments.

Actually, it's exciting because, if I'm right, now is a great time to build your property business.

So in this short series of posts I'm going to look at the similarities between the market when I started and the market today.

PART ONE

Thinking about it, one could argue that I "started" on a number of occasions.

I very first started in 1996 when I bought my first renovation project. Because the sales market was slow I rented it out for a year before selling it on, and so got my first taste of being a landlord and receiving passive income in the form of rent.

I then started again in 1998 when I negotiated to buy a portfolio of about 20 rental units comprising a HMO (house in multiple occupation) and 3 other single dwelling houses.

Frustratingly I was 'sucked' in by the vendor who continually delayed the sale, and kept me dangling, before eventually I forced myself to walk away a year and a half later, and say good bye to around £20,000 in abortive legal fees.

Third time lucky (not that I believe in luck), in year 2000, I started putting together the portfolio I now hold.

The jist of the email was along the lines of, "So you bought in the boom of the late 1990's and the 2000s when it was easy to borrow and recycle your money, so although you say 'market conditions are similar' to when you first started, is your ebook really relevant to me and what changes in strategy should I adopt for today's conditions?"

That's a really great question because it allows us to look at so many different aspects of property investing.

Before I get into the nitty-gritty, though, let me say that I used the word 'similar very deliberately. I don't mean identical. Identical would mean 'exactly the same' in all respects.

Of course, things now are not exactly the same in all respects as they were then, but there are a lot of things which are the same, or are almost the same, or which are similar. We'll look at these in a moment and in later posts.

I want to start with his perception that I bought through a boom, with the implication this made it easier to build a portfolio.

The reality is that, when I started buying and holding in year 2000, the market where I was buying was still depressed. Prices had fallen during the 1990's and were now flat. My recollection is that prices or, to be technically correct, values didn't change much probably until around late 2003/early 2004. If we consider the peak of the boom to be in 2007, then we can see that for more than half the period (2000 to 2007) I was buying in a relatively stagnant market. In fact, in 2003 prices there were reported as falling slightly for a short period.

I think it's interesting that, with hindsight, we can label periods of history with facts, figures and statistics but often, at the time, we are unaware of those realities, if that makes sense. It's true that factually we can say the property market boomed between 2000 and 2007 but that doesn't reflect that it didn't boom in all years, or in all areas. For most of the time, when I was starting, it didn't feel like a boom and, looking forward, I wasn't able to see that there would be a boom until relatively late in the day. If I could have done, I might have done things very differently.

So similarity number one is that most of us are experiencing a largely flat or stagnant market just as I experienced when I first started. I realise that for some, such as those in London where prices seem to be consistently rising, or for those in areas where prices are consistently falling, the market isn't flat.

But, according to the stats, for most of us that is the case.

Why is this important?

Simply because I wasn't relying on market movements to increase value, and so facilitate refinancing, when I built my portfolio.

My strategy was very simple but very effective. I'd buy a property, do it up, and refinance to pull out all my money, and then start again. A rising market would have made this process easier but I didn't need a rising market because I was able to create sufficient extra value by renovating.

More important than buying in a boom is to buy the right property at the right price.

next: we'll look at finance...

PART TWO

In the last chapter I explained that, prompted by an email received in which the sender questioned the implicit assertion on my website strategyworkshop.co.uk that now is great time to start in property, after careful consideration I stand by that view.

Last time I pointed out that although the emailer's perception was that it must have been easier for me because the market was booming, the reality is that it didn't feel like a boom when I started. Far from it, in fact.

Looking back one might be tempted to assume that bank finance was easy for me to obtain, easier than it is now. After all, we now see the 'noughties' as being a profligate period for the banks when they indulged themselves in an orgy of reckless lending.

Yes, there are elements of truth to that. I remember in about 2004 being summoned to meet the underwriters at my principle lender, apparently for me to give an overview of my business plan. Ten minutes into the meeting, and nervously trying to explain the detail of what I was doing and why, I was informed with a friendly laugh that I didn't need to say any more. The real reason for the meeting, I was told, was to tell me that I was welcome to borrow far more than the two and a half million pounds I'd already drawn down and I could go to five million with no questions asked.

I was a good risk, I was told.

That certainly wasn't how it was when I started. Back in 1998 when I was first offered finance in principle on the HMO and assorted single residences I was attempting to buy, I was something of a buy to let pioneer. Buy to let had only appeared a couple of years earlier and it was still a long way from evolving into the slick, polished product we now see and take for granted today. Even in year 2000 it was still in it's relative infancy.

And the bank certainly wasn't throwing money at me. Rewind just a few years back from the meeting in 2004 to a phone call I received from my broker in 2001 to say "Now you have half a dozen properties they (my principle lender) want to stop lending to you for a year to see how you get on".

This was hardly helpful and cut right across my business plan. I approached two other lenders, both of whom turned me down before third time lucky (although I don't believe in luck) another lender took me on, but on terms so unattractive that at first I almost declined them. However, it gave me the chance to keep up the momentum but I planned to refinance back with my principle lender as soon as my year long sabbatical was over. I wasn't very happy with them but in the bigger picture it wasn't worth bearing a grudge.

So this was not, for me, a time of easy credit.

With hindsight it's also easy to overlook that in financial terms I had very little going for me.

As it says on the website, I started with nothing, and from scratch. I had very little in the way of savings and a rather tenuous income as a consultant as I transitioned from 'employed', to 'self employed, and then through to 'business owner'. Until 2004 the banks were hardly rubbing their hands with glee when I stepped across the threshold.

So here's similarity number two. Just as today finance is available despite the credit crunch, but one might have to work quite hard to get it, so it was the same for me, then.

Ok, the terms on which they lend might have changed a little but probably not much. Again, it's all relative. If you compare now with 2006/2007 the LTVs offered on buy to let products are generally lower today, although the occasional 85% product comes and goes, even today.

When I started in 2000, which is when we are comparing with, it was mainly 75% LTVs with the occasional 80%. It was a while before I could get my hands on 85% and, when I took my year long sabbatical, my fourth choice lender would only give 70% capital repayment, which wasn't at all what I was after.

The main difference with today is that the "Six Month Rule" wasn't in play (did you know that it's actually a guideline, and not a rule?) but as it usually took a few months to refurbish a property and to organise refinance, I don't think it would have made a great deal of difference to me even if it had been.

So, in summary, similarity number two – finance was available but not easy to get.

PART 3

In the last couple of posts I've been looking at the assertion on my website www.strategyworkshop.co.uk that now is a great time to buy because market conditions are similar to when I first started in property.

We've already seen that finance was not easy to get, even though we now see the 'noughties' as being a profligate time for the banks and also, that when I started, the market where I was buying was flat and not booming. There are some practical implications of this which are worth considering.

Just like today first time buyers (FTBs) were in short supply in the areas where I was buying.

The upshot was that a large minority of the properties were being bought by investors. In many areas, it's the same today. The headlines and surveys tell us that buy to let is a significant driver of the market in many areas, and has helped to compensate for the lack of FTBs.

At first I was very surprised that FTBs weren't competing with me for the properties I was buying. After all, compared to what I was used to (most of my property experience was gained in the south of England), the prices looked ridiculously cheap.

Tangentially, that's exactly why I was buying where I was buying; the cheap prices meant the yields, and in theory, the cash-flow, were excellent.

After puzzling about this for a while I suddenly realised why the FTBs weren't anywhere to be seen. The properties I was buying required renovation; as I explained in my first post in this series, this was all part of my strategy.

The banks were only willing to lend on these properties to the FTBs subject to a Retention, where part of the loan is held back until any necessary repairs are completed. A consequence is, of course, that this increases the amount of cash a FTB has to put down for the purchase.
For example, if the property was worth £50,000 and they were offered a 90% mortgage, they'd have to put down £5,000. However, if there were also a retention of £5,000, which would only be released when the repairs were finished, they'd have to put down £10,000.

Most FTBs didn't have the extra money – for many of them raising the deposit was hard enough in itself without thinking of retentions. Ironically, it actually meant that a more expensive property, which required no repairs, was more 'affordable' for FTBs than a cheaper property requiring repair, as they needed to put in less of their own money.

I suspect that for many FTBs there are similarities today. Banks are imposing strict criteria and, where a FTB qualifies for finance, they are probably more likely to get it for better quality properties.

However you look at it, FTBs were finding it hard to obtain finance when I started, and they are also finding it hard today.

So here's similarity number 3. Many FTBs were unable to buy because of the strict lending terms imposed by the banks, and the much of the slack was being taken up by investors who had more readily available cash to see purchases through.

The lack of FTBs created a drag on the market, like today and meant that my main competition was from other investors, like today.

PART 4

In this mini-series, prompted by an email received in which the sender questioned the implicit assertion on my website http://www.strategyworkshop.co.uk that now is great time to start in property, we are looking at the ways in which today's market conditions are similar to conditions when I first started.

After all, if my assertion is true, then by implication now would be a great time for anyone to start in property, or to accelerate their property activities.

So far we have seen that although it's tempting to look back with rosy coloured specs, the market wasn't booming when I started. Also that finance was not easy to get even though we now view the noughties as being a time of slack and easy credit.

And we saw things were not all plain sailing for FTBs and a lot of the slack in the market was being taken up by investors, who were my main competition.

The lack of FTBs is a partial explanation for why the market wasn't booming and why it would be wrong to assume that, when I started, market conditions made it easier to recycle one's money.

Here's the premise behind what I guess my emailer was thinking.

That I'd buy a property and then, when the market had risen and the value of my property had suitably increased, I'd refinance and pull all my money out, and buy another property.

This process could be repeated ad infinitum until I had purchased multiple properties and had a sizeable portfolio. This was all made possible because I was buying in a boom and so values were rising rapidly, meaning I could refinance and pull my money out extremely quickly.

Well, we've already established that the market where I was buying wasn't booming, in fact it was flat for more time than it was rising.

So here's how I was able to recycle my money quickly and efficiently.

It all came down to following a simple formula.

Buy a property requiring renovation, repair and improvement.

Buy it cheap, often from a distressed seller who just wanted to "get rid".

Do the property up and refinance at the improved value, pull out one's money and start again.

Sound familiar? Let's face it, that's exactly what a lot of investors are doing today under today's market conditions.

I wasn't relying on market uplift but was creating the uplift by buying cheap, what we'd today call BMV (below market value), and by doing the properties up.

Ok, what is different is that today we have the six month rule. As I said in an earlier post, this isn't actually a rule, rather it's a guideline.

True, a lot of banks adhere to it but, depending on the size of the refurb, six months isn't that long to wait before refinancing. After all, the clock starts ticking from the date of the purchase, not the date of the completion of the refurb.

The refurbishment itself could take 3, 4 or even 5 months so most of the six months are gone in a flash.

And, in any case, not all banks doggedly impose the rule. Some will actually take a common sense approach if you show them the extent and the scope of the work, and the affect on value. After all, the main reason the 6 month rule was introduced was to stop investors using bridging and same day refinancing, not to deny property owners the benefit of legitimate increases in their property's value.

Many investors today are using the very same formula, and are sourcing properties where they can buy at significant discounts to the true market value (I realise there's potentially a lot of controversy around a statement like that, depending on how you define market value) and are then renovating and refinancing.

Actually, in many respects, things are not really that much different after all.

In the final chapter we'll look at some of things that are different and why that means that it's easier now than it was then.

PART 5

In this series of posts I've been looking at the assertion on my website strategyworkshop.co.uk that now is a great time to buy because market conditions are similar to when I first started in property. After all, if it's true, then it means that now is a good time for all of us to be thinking about how we make the most of the opportunities arising.

So far the key similarities we've noted are:

- The market was flat when I started, not booming
- Finance was available but not easy to get
- There was a drag on the market due to a lack of FTBs, and the slack was being taken up by other investors, who were my main competition.

Rather than look for more similarities I thought I'd finish this series by highlighting some of the ways in which the market isn't similar.

This is actually an interesting exercise as I'd suggest it implies that it's potentially easier now to get started today than when I first started.

Does that sound like a bold claim? Well let's look at the facts.

The first major difference was that when I started base rate was at about 6% and my first buy to let loans were on rates of base plus 2.5% or thereabouts. I was paying 8½% or more for my finance!

Also, there was only a handful of lenders, so the choice of product was much more limited.
When I first started investing in residential property was a minority sport. At the time most privately owned residential investment property was in the hands of large scale investors and wealthy landowners. Property investing was not for the ordinary 'man in the street'.

Buy to let was still very new and was taking time to get a hold but just think how that has changed. There are now something like 1.44m buy to let mortgages in the UK shared between multiple hundreds of thousands of private investors.

The market is now much more geared up for investors than when I started.

Buy to let finance has evolved into a defined and accessible product and is finance for the masses.

The property industry has geared itself up to support and provide for mass property investing.

Estate agents are much more familiar with the needs of investors – when I first started I was treated with a lot of suspicion and at time muted ridicule when I explained I was an 'investor'.

The legal system is more at ease with acting for individual investors.

The amount of information and advice available for investors is infinitely greater than when I started. In fact, and I don't say this to boast but only because it amuses me, when I wrote my first book, An Insider's Guide to Successful Property Investing ,back in 2000, as far as I'm aware it was the first and only book available which was written specifically with buy to let type investors in mind. Now there are whole libraries of books.

There are property sourcers, property clubs, forums, blogs and so on and so forth.

More importantly, perhaps, the market has matured and the options, if you'll excuse the unintended pun, available for property investors are far greater.

When I started property investing came in one flavour – the vanilla option was to buy and hold and that was pretty much it.

A few years into my journey Light Refurbishment loans became available which made it easier to renovate and refinance, and that was a big leap forward at the time.

Only much later did more creative activities like bridging and same day refinancing appear, with consequences that couldn't be easily foreseen at the time.

Now investors have a 'full tool kit' as the gurus and experts like to tell us and can use delayed completions, options, sandwich leases, JV finance and more so they can put together creative deals and strategies which go far beyond what would have been possible even just ten years ago.

All in all, I stand by my view that the market is similar to when I first started but with the proviso that, in many respects, some things are actually easier, and there are more opportunities for investors today.

So let's get out there and make the most of the opportunities whilst we can.

If you'd like a copy of *The Successful Property Investor's Strategy Workshop* please just click the link

Here's to successful property investing

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