"IT'S NOT ABOUT WHAT IT IS, IT'S ABOUT WHAT IT CAN BECOME"

The Lorax, 1971, Dr.Seuss

By **Arsh Ellahi**

Hi Arsh

When I meet an investor and they talk to me about the potential in a property, I am sometimes too sceptical and struggle to see that potential.

Have you got any advice?

Thanks, Mr Banks (Manchester)

Thanks for getting in contact Mr Banks, and for your interesting question. Property is indeed weird and wonderful. That's why I love it so much!

Sometimes I too question how someone has managed to, for example, convert a church into luxury apartments, where that vision came from, or when they had the 'light bulb' moment. It is a topic I find fascinating.

As the property industry is consistently evolving though, an investor must be able to adapt to survive. That means continually being able to adapt to market conditions.

According to Google, the definitions of *"vision"* and *"creativity"* are:

Vision: the faculty or state of being able to see

Creativity: the use of imagination or original ideas to create something; inventiveness

My definition of these two terms are:

VISION

- **A vivid mental image**
- **Intelligent foresight**
- **The ability to enhance visual images of things or events**
- **Imagination**
- **The ability to visualise something that you own**
- **The act or power of creating something new**

CREATIVITY

- **Cognitive activity resulting in a new way of viewing problems and situations**
- **The ability to think and approach a problem in an original and flexible way**
- **The ability to bring something new into existence**
- **Producing something that is both original and valuable**

So where does it all begin? I will try and break it down into stages in line with my train of thought.

STEP 1 THE IDEA

It all starts off as an idea.

For me, this is when I start to show an interest in a property, whether on Rightmove or attending a viewing with a vendor / agent. At this point, I am assessing both current state and potential.

The reason I look at it in these two forms is simple. I like to add value where possible, so try to look beyond the current state for the opportunity to do that. I also assess the potential of the final product.

A simple example is a 'smelly house', a property that has not been touched for some time and could benefit from renovation. In its current state, it may be worth circa £100,000. However, if we were to spend £20,000 to bring it up to a modern standard, it may then be worth circa £150,000, thus adding around £30,000 value to the property.

At this stage you can decide to either:

- **Sell the property**
- **Refinance against the new market value to recycle your funds for future projects**

STAGE 2 DUE DILIGENCE

This is the most crucial part of the process, as it can make or break any deal / project.

Having viewed the property in Stage 1, I map out exactly what would be required. My due diligence process includes:

- **Speaking to other estate agents to confirm values**
- **Liaising with architects and mapping out floor plans**
- **Touching base with council departments such as Building Regulations and Planning where required**
- **Getting quotes from builders and other tradespeople**
- **Understanding where the funds would come from for the project**

A fair amount of work goes on behind the scenes between Stages 1 and 2. We have created the idea, now this stage looks at how to make it happen by working out how to fit all the pieces of the jigsaw together to create the complete picture.

It is important to have a good 'power team' so you can regularly bounce ideas around with them. Over the years, I have built up a solid team. That now pays dividends because the moment I view a property, I can start calling the relevant people. Long-standing relationships mean they now only charge for the time they spend if I decide to pursue the project.

A prime example is my architect. We look at a few projects each month, but he only charges his time on the one we decide to proceed with. A little like a no win, no fee basis. Of course, I don't ask for full floor plans for each property, but I do ask him to sketch / map out indicative plans, enough for me to assess feasibility. As a result of this great relationship, we have been working together for almost 20 years!

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STAGE 3 CALCULATING THE RISKS

I have always said that property is a calculated risk if you treat it with the right respect.

There are many ways of calculating risks. I look at the different cash flow models and potentials the property can present. I like to see multiple uses and exits. We all know there is no guarantee that a projected development will come off, so by checking all the angles, I can confirm in my own mind that I can still afford to run the risk should things not go according to plan.

RISK ANALYSIS

- **Is this the right property for me?**
  - Does it fit in with my long-term goals and strategies?
  - Is it in the right location?
- **What is the purchase price?**
- **What are the associated costs to purchase?**
- **What's the potential?**
  - Is it a HMO? If so …
    - *How many bedrooms can I create?*
    - *What is the projected cash flow?*
    - *Could I potentially refinance on a commercial valuation within six to 12 months?*
    - *How much will the refurbishment cost (including contingencies)?*
    - *How long will it take for the property to become income-generating?*
    - *Do I envisage any bumps along the road – are there going to be any planning / external forces issues?*
  - Instead of a HMO, could we convert the building into a small block of self-contained units? If so …
    - *What is the projected sale value of each unit?*
    - *Would we get planning permission?*
    - *Does the project have sufficient parking / amenity space?*
    - *Could we sell the units, or would they become a build and keep?*
    - *If kept, what would the cash flow look like?*
    - *What's the likelihood of refinancing to recycle the funds?*

Once I have the answers to most of these questions, I will review to see what makes the most financial, commercial and long-term sense.

STAGE 4 IMPLEMENTING THE IDEA

Once satisfied that the property is the right project, I then go ahead without deviating from the plans or due diligence. I will illustrate this by sharing as a case study: this is one of the projects that I'm most proud of, as it worked out against all the odds.

Case study:

Chapel Ash, Wolverhampton

I had been driving past this building, a former funeral directors', for almost 15 years. It was boarded up. Then in October 2013, an auction board went up on the front.

Out of curiosity I enquired about the guide price. At £48,000-£53,000, I thought it very cheap for a reasonably prominent location. I offered £53,000 immediately.

Unfortunately, the offer was refused just as quickly – I would have to increase it significantly. Within a space of 30 minutes, I increased my offer to £100,000 – even though my brother (and business partner) thought I had lost the plot. *"What,"* he wanted to know, *"was so special about this building? We could do so much more with the money. Let's not risk it,"* he said, *"it doesn't have planning permission, so what happens if we buy it and can't do anything with it?"*

Fortunately for him, I had the vision and creativity to make this project happen. I exchanged on the building the same day, for £100,000.

By looking at the property from the outside, I could see that I could add value by adding at least one storey. Other properties in that row were three or four storeys high, and this building was only two-storey. I had instantly added value without lifting a finger!

I got my architect on the case right away. He downloaded the site plan and started plotting what could be achieved with the new layout. By adding two new floors, we

could get offices on the ground floor and approximately ten one-bedroom apartments. Even with the existing site, we would still be able get the offices and six one-bedroom apartments. That meant I had already a Plan B.

The site also had potential to build small two-bedroom mews-style houses at the rear, but this would eat into the amenity space.

However, being a cheeky chappy, I submitted initial plans for:

- **2 x offices on the ground floor**
- **10 x 1-bedroom apartments above with the creation of two new floors**
- **6 x 2-bedroom mews terraced houses to the rear**

Multiple site visits with planning and highway officers followed. We eventually achieved planning permission for:

- **2 x offices on the ground floor**
- **8 x 1-bedroom apartments above with the creation of two new floors**
- **6 x 2-bedroom mews terraced houses to the rear**

We now had a site with a GDV of circa £1.8 million – all from a £100,000 purchase.

The build cost was calculated at just over £1 million, and I was concerned that we had over-developed the site. As a result, I decided to sell it with the benefit of the new planning permissions. We were inundated with offers and sold it for a profit of over £300,000.

Had we built the site out, we would have ended up with a similar profit, so it made commercial and financial sense to sell it with the offer we had on the table. In the 12 months we held it, no work was done to the property. Everything we did was administrative, and all the time was spent on emails and meetings.

This may have been a needle in a haystack deal, but such opportunities do exist. Sometimes, you have to put yourself out there and take the risk to enjoy the rewards.

One person's gain is another person's loss.

Not everyone shared my vision for this site. As mentioned previously, the property had been vacant for 15 years. It was only after I completed the purchase that another Wolverhampton investor contacted me to ask … *"Arsh – is it true that you have just purchased Hopcraft for £100,000?"*

My response was simply, *"Yes"*. He seemed disgusted – in his view the site was worth no more than £50,000. (This investor was also a letting agent, surely lacking in vision and creativity as his agency had been caretaking the property for 15 years to ensure no one broke into the site. They charged the owner a mere £25 + VAT pcm.) I asked why they hadn't considered purchasing it. They did not think it would ever amount to anything.

He kept in contact and took a keen interest in what I was planning to do with the site. When I informed him of the planning decision, he almost cried. He had had the opportunity to purchase the site for the best part of 15 years at £50,000 – and had rejected it.

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Arsh Ellahi is the author of ***"Boom, Bust and Back Again:* A Property Investor's Survival Guide"**