THE A, B, C PLAN

ARSH ELLAHI

Hi Arsh,

I like reading your column monthly and I like the way you put everything bluntly and to the point. I would like to ask, when you look at a property, do you ever look at it from a single point of view?

Mr U – Peterborough

Thank you for getting in touch Mr U, and thank you for asking such a fantastic question. Let me start off by saying that this is a topic I am very passionate about, and I hope the answer I provide will show why.

As we all know, property can be a risky business if we do not treat it with due care and attention. However, on the other hand, property can also be a very secure business if you calculate everything to the nth degree. Let me elaborate on that.

Whenever I look at a property, I will always look at it in a couple of ways:

- **What is it now? What could it generate as it is?**
- **What could it become? What is its true potential, and what could it generate?**

As strange as it sounds, whenever I look at a property, not only am I looking at the structure, I am also knocking the walls all the way around. This allows me to check which walls are stud-portioned and can consequently be taken out easily, and those that are load-bearing. What I am really doing is mentally recreating the floor plan and trying to maximise it to its full potential.

In the earlier years – back in 2008 or so – I would be looking to turn single-let properties into HMOs. I therefore wanted to maximise the space to create as many rooms as possible. In order to do this, I would consider the:

- **Floor space**
- **Flow of the property**
- **Communal facilities**
- **Current facilities and their condition**
- **Potential to extend – either to the rear or in the roof**
- **The surrounding area, local amenities and transport links**

All the above would have a major influence on whether I should purchase the property and the offer I would put forward.

When looking at every property, I would consider it as:

- **A single let**
- **An HMO**
- **Potential small development of small self-contained flats**

I would do financial forecasts for each of the scenarios above to calculate which strategy would:

- **Generate cash flow**
- **Benefit better for refinance valuations, preferably on a commercial valuation**
- **Provide potential for capital growth**

Thus, I am not only looking at what property strategy to employ, but also the benefits of each and the longevity of the property along with the strategy.

From the early 2000s up until approximately 2015, my strategy was predominantly HMOs as this would naturally provide the maximum number of units along with a fantastic cash flow.

However, I then made a decision to no longer acquire HMOs, and moved into buying blocks of apartments or developing single let properties into small blocks of flats.

In 2015, I came to the conclusion that the HMO market was becoming a tough market and was near enough at point of saturation in my areas. Although I operate at a high 98% occupancy rate, I was finding that tenant enquiries were slowing down. But this was not the real reason for switching strategies. Having spoken to several chartered surveyors in the area, I was informed that they were being instructed by lenders to only value on the bricks and mortar, regardless of the structure, fabric or usage of the building.

Anyone who knows me well will also know that my HMOs do not conform to the usual type. In fact, for each HMO, the following is true:

- **There is no gas in the property**
- **Every room has an electricity supply, with the property being serviced by a three-phase electricity supply**
- **Each room has an en-suite and kitchenette**
- **It does not have a communal lounge**

As a result, it would be pretty hard, if not impossible, to turn any of my HMOs back into a single let. Therefore I demanded commercial valuations on the commercial product I had created. I asked the surveyor:

This is a conversation I have had many times over the years … and have won every time. However, moving forward, I believe that acquiring blocks of apartments is a much easier and safer strategy. And with the effect of Section 24 starting to rear its head, I have found loads of landlords nationwide who are now selling in their droves.

"Which other property on this street has six bathrooms, six kitchens and six electricity meters? If you can find something comparable, I would be happy for you to compare values. However if not, I believe the property should be valued on its own merits upon its income."

Just to clarify, a block of apartments could be:

A purpose-built block of apartments

Or

A house converted into self-contained flats

I tend to find that the converted houses are available everywhere, and the reason why I like them is because the landlord has usually kept them on one title. This instantly allows me to add value, without actually doing any work.

Providing the flats are of an adequate size, I could title-split the flats and then have a number of exit options available to me, such as:

- **Selling off the flats individually**
- **Refinancing against each title**

I have been actively acquiring these types of properties and to date, have not had a single issue with finance either for acquiring or refinancing.

As a deal sourcer, I also find that this style of property is very easy to sell to other investors, as they can very simply be a let-and-forget type of strategy. In comparison, HMOs are still deemed to be very hands on.

If you have any questions that you would like answered in next month's article, please feel free to email me: **arsh@arshellahi.com** and I'll aim to answer as many as I can over the following months.

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

CASE STUDY

I have recently just completed a small development of six flats in Wolverhampton. I acquired the property as a very tired block of four flats for £180,000. See below a basic breakdown of costs, which will give you an indication of what can be achieved with the right vision.

Purchase price:	£180,000
Legals to acquire:	£1,500
Stamp duty:	£6,500
Finance arrangement:	£3,000
Finance costs over 12 months:	£7,200
Architect fee and planning fees:	£8,000
Build costs (materials and labour):	£135,000
Total acquisition and build cost:	**£341,200**
GDV:	**£480,000**

I now have the option of selling the flats individually, or refinancing to pull all of my initial money out.

Here are the figures for each option:

Acquisition and build cost:	£341,200
Title split:	£6,000
Selling fees:	£4,800
Selling legals:	£5,000
Total costs:	**£357,000**

Based on the GDV of £480,000, I would net approximately £123,000 for a small project that took nine months.

As we speak, we currently have the Wolverhampton Wanderers interested in acquiring the property at full value for their club players to use.

On a refinance and let basis, this property would generate:

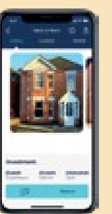
GDV:	**£480,000**
Rental income:	**6 x £500 pcm = £3,000 pcm = £36,000** per annum
Lending @ 75% LTV:	**£360,000** (Please note: I would get all of my money back out)
Mortgage payment @ 5%:	**£1,500 pcm**
Insurance:	**£150 pcm**
Letting Fees:	**£0** (As I own a letting agency)

Cash flow based on figures above: £1,350 pcm = £16,200 per annum

As you can see from the figures, this is a difficult decision as they are both great scenarios. Do I take the lump sum cash now and do another? Or do I refinance, get all my money out and generate a healthy cash flow, knowing that this property does not owe me anything?

What would you do?

I come across properties like this all the time. You can find similar ones on my new Property Investor app. To find out more about this, please visit: **www.propertyinvestorapp.co.uk**



CONTACT

As always, you can connect with me on my social feeds by finding me on:

Mailing List	**www.arshellahi.com/deals**
Facebook Profile	**www.facebook.com/arsh.ellahi.1**
Facebook Page	**www.facebook.com/ArshEllahi123**
Instagram	**www.instagram.com/arshellahi**
Youtube	**www.youtube.com/c/ArshEllahi**
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