

DO I BUY READY-MADE OR BUILD?

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FEATURE

INVESTING AND LANDLORDS

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SPECIALIST COMMENT



Hi Arsh,

I am about to buy my first HMO and was wondering whether I should buy a ready-made HMO or should I convert a property myself?

What are the pros and cons please?

Thanks,

MISS B, STREATHAM

Thank you for getting in touch Miss B! It is a question that I hear a lot and there is no right or wrong answers. However, I will aim to help by providing an in-depth answer for each.

THE WAY I SEE IT, THERE ARE TWO MAIN TYPES OF BUYERS FOR HMOs:

Buyer A – The kind who finds a property to convert into an HMO themselves, either on their own or via a deal packager. They would normally aim to go through an add-value phase in addition to the end cashflow goals. Finally, they would look to refinance the property to pull all if not the majority of their money out of the deal.

Buyer B – This kind of buyer would buy a ready-made and finished HMO, generally referred to as a turnkey-style investment. As the property is already finished, they would usually pay a slightly higher than ‘bricks and mortar’ figure because of the value in the refurb, furniture, tenants and ‘business’ that already exists.

Quite often the HMO developer type of buyer would not be able to justify or could relate to why anyone would pay a premium for a finished HMO when they could add value themselves. And, if everything always went to plan, this would be normally be right.

But, as we know, it's not all plain sailing. Problems can occur such as conversions can overrun, costs can spiral, refinances can come back less than expected and delays can happen. Planning and important factors can also sometimes be overlooked – especially if you're relying on somebody else to manage your project who is local because you live hundreds or even thousands of miles away from the HMO.

As a result of the above issues, a lot of buyers who originally started out as a Type A buyer become a Type B buyer and now opt to purchase finished HMOs as they have had their fingers burned trying to develop first.

Many other factors will play a part in whether an investor purchases a readymade HMO or a property to convert. This could include:

LOCATION

A location and the local legislation will also determine whether it is possible to convert a property under local guidelines. An example of this being, where an area is an Article 4 area, the options available are:

- **Purchase a single let and go for planning**
- **Purchase a ready-made HMO**

The risk with purchasing a single let with the view of converting within an Article 4 area is that there is no guarantee that planning permission would be granted. I have seen many investors who all purchased with the intention of converting it only to find that they are now stuck with a single let that is not producing the returns they anticipated. This mistake can be a costly one and could put a stop to an investor's property journey.

TIME

You must also consider time as a factor. Many property investors are still working whilst trying to build a residual income. A Type B buyer, who would consider the purchase of an up and running HMOs, are investing money made from outside of property. They have successful businesses or jobs in other sectors and they see investing capital for a good return in HMOs as ideal. They don't need to develop, add value, take on risks, or refinance money out. Often, they are not property people.

From my experience, the Type A investor has a very different business model to the Type B investor. I have actually seen some Type As build a business from simply selling their ready-made HMOs they have developed to the Type Bs, and both parties have benefited from the

So, as you can see, there is no right or wrong. It depends on what you want to get out of the deal, the time you have to allocate to the property and whether you have the appetite to develop a property.

I really hope that helped you with your question, and as always, I wish you every success.

If you still have a question which 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.

CONTACT

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

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