Chapter 1

Why do you want to invest?

When I first began investing, I was pretty sure property was a sensible choice because I knew it was an asset class that could provide me with on-going income while appreciating in value to make a nice pension pot for the future. That was in the 'noughties', when the market was booming and buying property was easy, so I simply went out and bought what I knew would rent profitably. What I didn't do until a year or so later was take those vague notions of 'income' and 'pension' and start to make some real sense of them.

It's impossible to make the right investment decisions unless you have sat down and clearly established the financial and lifestyle motivators behind your desire to invest. Property is only 'a sensible choice' if it delivers on your objectives, suits your attitude to risk and personality, works for your lifestyle and – importantly – you understand that it is a business. Far too many people have ploughed their capital into bricks and mortar with barely a second thought and ended up with something that simply makes their lives a misery.

If you don't go about it in the right way, investing in HMOs can be incredibly challenging, time-consuming and labour-intensive. The potential financial rewards certainly make it worthwhile, but only if you're able to set up and manage a system to effectively run your portfolio as a real and profitable business.

I was lucky that when I bought my first few properties the market was rising and it was so easy to essentially buy 'no money down' – I don't think I would have got away with being so relatively unprepared today. In the current economic climate, and at a time when regulation and availability of financing and refinancing is so much tighter, investing in property is a very different thing and, to be truly successful, there's a great deal of work to be done before you even peer in an estate agent's window. And it all begins with *why* you want to invest.

Your goals

What effect do you want property investment to have on your life? A lot of people talk about becoming 'financially free' through property, but the exact definition of that is different for everyone, depending on their current situation, expectations and desires. You need to make a clear list of exactly what you need and want your investment to give you – financially and in terms of lifestyle – and make each item time-specific. It's been proven that the more detailed you can make your goals, the more likely you will be to achieve them, so it really is worth spending time on this.

"Setting goals is the first step in turning the invisible into the visible."
Tony Robbins

If you want income, the key questions you need to ask and answer are: how much and by when? I'm sure you've heard of SMART as a tool for setting goals, and it's certainly a good way to check you're thinking in the right way. Look at each item on your list and make sure it's Specific, Measurable, Attainable, Relevant/Rewarding and Time-bound. So, in the case of income, you might put: 'I will be generating £5,000 monthly income from property within the next 2 years, so I can send my child to private school.' It's important that you're realistic (you're not going to make a million in a year!), but at the same time, don't be afraid to dream big.

"A vision is a clearly-articulated, results-oriented picture of a future you intend to create. It is a dream with direction."
Jesse Stoner Zemel

And people always achieve their goals more quickly if they're motivated by emotion, rather than purely by money, so try to attach some kind of personal element to each one.

Some people make the mistake of leaving out some lifestyle goals, because they think their ideas sound a bit silly or aren't that important, but this is about you, nobody else, and if you want it, write it down. And write it as though you've already achieved it – don't allow for the possibility of failure! For example:

In 6 months' time…
I spend the whole of every Sunday with my family
I have a massage once a week
My wife has the 4x4 she wants

…and then you can work out the income and time freedom you'll need to generate in order to realise those goals.

Once you know where you want/need to be in the next 6 months, year, 3 and 5 years, you can start to break that down into shorter periods of time and set the weekly (or even daily) targets you need to hit in order to stay on track to achieve your goals.

A good device for illustrating your goals and staying motivated is a vision board – and not just one. My home is full of them, ranging in size from A4 magnetic ones stuck to the fridge door to huge 8x4 foot boards that cover entire walls! I'm a big believer in the power of visualisation and I and my family sees the results and benefits of it every day.

"The future you see is the future you get."
Robert G Allen

Why property?

I've already said that I chose to invest in property because it gives me an income and a pension pot, but it's more than that. It suits my lifestyle, work ethic, skills, risk profile, personality, tax situation and inheritance plans for my children – and these are all things you need to consider carefully.

I’m not a wealth or financial advisor and couldn’t even begin to start breaking down the pros and cons of property for every possible circumstance. You need to find financial professionals who can advise you properly and I’ll talk more about that in Chapter 6. For now, I would simply say that you will need some significant capital behind you if you’re serious about building a portfolio (I’d suggest at least £50,000 for each property you intend to buy) and I’d stress the importance of speaking to a wealth advisor. They can look at all your financial interests and plans for the future and help you decide the best way to invest in property to suit your own, personal situation – and whether property is even the right investment vehicle for you.

What I *can* do is explain why ***I*** chose property. Quite simply, it offers the most reliable, tangible, flexible, profitable form of investment I’ve been able to find, and I can break that down into six key aspects:

1. **Leverage:** No other asset class offers the opportunity to leverage in the way that property does. Banks and building societies lend against property at the level they do because property is seen as having a fundamental ‘bricks & mortar’ value. Markets peak and trough but a property will almost always hold a certain level of value, so while maximum Loan to Value

rates may fluctuate (in the past 8 years, I've seen them fall from 125% to 60% and go back to 85%), you can still leverage other people's money to make a better return on capital than you might otherwise – i.e. you can make your money go further. For example, if there was a 15% rise across all markets:

£100k invested in stocks = £15k growth
£100k invested in £25k deposits on 4 properties, each worth £100k = £60k growth

2. **Refinancing:** The ability to refinance a property, as an extension to leverage, means you can end up with an income-producing asset that has none of your own capital tied up in it. You can't achieve this as quickly and easily as you once could, but if you manage to buy a property at a good price and that particular sector of the market rises sufficiently, you should be able to remortgage in time and release the money you originally invested. By reinvesting that money in another income-producing property, you're expanding your portfolio and maximising the return on your capital.

3. **Income:** With all other asset classes, you mainly profit from growth on the capital. Although there may be interest payments on other types of investment, I haven't found any that offer the same income potential as property.

4. **Control:** Unlike most other forms of investment, such as stocks or bonds, you have a high degree of control over the investment returns a property provides. While you can't control either the property market as a whole or mortgage rates, you do have the power to decide:

   - the type of property you buy
   - what mortgage product you have
   - how you let the property
   - the type of tenants you accept
   - the rent you charge (to a certain extent)
   - how much you spend on managing and maintaining the property

   Essentially, you have a high degree of control over income and expenditure, and, therefore, profitability.

5. **Opportunity:** The diversity of opportunity to make money from property is really exciting to me, and one of the reasons it's used by so many people as a wealth creation tool. Whether you want on-going income, short/medium-term gain, a pension plan, a home for your children in years to come or a lump sum return in the future, property can work for you. You can buy to let single or multiple occupancy units; renovate a property and then sell or remortgage; self build or develop yourself; strike a deal to sell property or land

to a developer; get paid for sourcing property; do everything yourself and make it your career, or work with other people to make it a more passive investment… It really does offer a huge variety of options – even one property can allow you to realise different returns at different times in your life, depending on what you need and when.

6. **Systemisation:** This is a big part of why property works as an investment vehicle for me. If you can put the right systems and team in place to effectively source, acquire, refurbish, let and manage a portfolio, you can reap considerable financial rewards for relatively little of your own time. That frees you up to either focus on high-value aspects of your business, or simply to enjoy some of your lifestyle activities. I said earlier that property is a business, and you need to have the ability to establish and manage a 'head office' in a way that works for you. But as long as you can do that, your systemised business should be able to function as a money-earner whether you're there or not.

   I have over 20 people working for me, including a PA, a bookkeeper, a property manager, two lettings negotiators and a maintenance team of more than ten contractors. They take care of my income-generating portfolio, while I spend my time looking for new HMO deals and work on other property-related opportunities.

It's good systemisation that's accelerated the growth of my property business and allowed me to pursue other interests – lifestyle and business - in a way that would otherwise be impossible.

"90% of all millionaires become so through owning real estate (property)."
Andrew Carnegie

Is property right for *you*?

As well as speaking to wealth and tax specialists to help decide whether property is an appropriate investment vehicle from a financial perspective, there are a number of things you need to consider on a more personal level. Investing in high income-generating properties – i.e. HMOs – may suit your financial plans, but…

…are you equipped with the skills to either run an HMO portfolio yourself or effectively manage the outsourcing? Are you:

- Computer & internet savvy?
- A good administrator?
- Organised?
- Motivated?
- Good at time management?
- Able to employ and manage a team of staff?
- Surrounded by a good personal support network?

…is your attitude to risk in line with the fact that property is considered a medium to high-risk investment? Can you accept having millions of pounds of mortgage debt?

…do you have the people skills to build relationships with other property professionals?

…do you have the appropriate general business skills to succeed?

…do you understand financing and how to put together a business plan?

…will the demands on your time – which are considerable in the first two or three years of building a portfolio – suit your lifestyle?

…can you project manage? You can outsource renovation and refurbishment management to a certain extent, but you still need to understand all the elements and be able to manage the overall project.

If this is the first time you've run your own business, you must understand and be prepared for the highs and lows you'll experience in the first few years. Read as many books as you can about start-up businesses and entrepreneurs - Seth Godin's 'The Dip' is a good one to start with - and you'll see that most of them share the same pattern of successes and challenges, and most have failed at some point. To give yourself the best chance of success, I'd recommend that you keep finding out about people who've already succeeded and learn from their mistakes.

"Anyone who stops learning is old, whether at twenty or eighty. Anyone who keeps learning stays young."

Henry Ford

I read at least one book a week to help keep my mind and business on track – and they're by no means all related to property. Some of the books that are broadly considered 'personal and professional development' tools are exceptionally good; some are, frankly, pretty bad, but there's always something that you can learn from even the poorer ones. You can find a list of the ones that I've found particularly helpful – quite a few of which I've read several times - at the end of this book and also on hmopropertysuccess.co.uk.

But I'd say that the best measure of whether you're suited to property investment is the feedback you get from other investors. Spend some time with other people who are already doing what you want to do, talk to them about their property business, see for yourself what's involved in making a success of it and ask yourself whether you can see elements of yourself in them. People have different approaches and not every investor has the same temperament, personal manner, background or goals, but all of them will probably be:

- self-confident
- committed
- hard-working
- self-motivated
- self-improvers
- people who enjoy business
- good listeners
- good negotiators
- well-supported by friends and family

You’ll probably have to pay for their time – and almost certainly to access the best – but it’ll be money well spent, I promise you.

“Business and making money are not so much about what happens to you, or the rules that are out there, but your attitude, perseverance, and desire to succeed.”
Dolf de Roos

Checklist

Is property investment right for you?

Have you done all these things?

Goals

- ☐ Listed financial and lifestyle goals
- ☐ Checked goals have SMART attributes
- ☐ Made some kind of visual illustration to keep you focused and motivated

Investment options

- ☐ Spoken to a wealth manager / financial advisor
- ☐ Considered which type of property investment will suit your goals
- ☐ Identified capital you can access to fund acquisition and refurbishment

Property as a business

- ☐ Understood the potential risks and rewards
- ☐ Considered skills required to run a business
- ☐ Compiled and committed to a reading list
- ☐ Spent a day with more than one successful investor

Once you've clarified exactly why you want to invest and established that property is the right investment choice to help to realise your goals, you need to look at HMO property investment in more detail.