

## **Business of making rental market pay**

*Mark Kennedy-Stewart CA looks at the ins and outs of being a landlord*

The rash of would-be property developers hitting our TV screens proves at least one thing: that there are a lot of people out there who believe that there's money to be made in the property business. What most of these fly-on-the-wall programmes also prove is that it's a lot harder than many people think!

Leaving aside new build development, which is a discipline in itself, with all the issues of land availability, planning consents, infrastructure provision etc, let's look at making money from investing in existing property. Broadly, you can buy to sell, or buy to let.

### Benefits of Buy to Let

Acquiring, refurbishing and selling on a property portfolio relies for its profitability on adding value to create capital growth- which is fine, as far as it goes. Buying a portfolio of properties to let delivers capital growth too- but in addition it delivers regular rental income, which should be adequate to cover borrowing, and all regular business costs such as staff, offices, repairs, maintenance and occasional "voids."

Many people buying property regard it as an investment. It isn't simply an investment, it's a business- and can be very profitable if treated as such.

My own company, for example, started with an original investment of £100,000 and one rental unit in 2002. In 2006 we are operating 100+ units with an equity value of

£2m and a fully-let turnover of £500,000 per annum. This represents an increase in value of the portfolio by a factor of twenty over a period of three and a quarter years.

### Key Factors

In order to create a positive cash flow from a rental portfolio there are several factors which have to be right. These include the cost of a property; the rental return it generates; the requirements of the local rental market; and the level of occupancy it delivers.

There is also the ability to raise appropriate finance to acquire the properties (ies) in the first place: but that's another article, for another time!

Properties which deliver positively on all of the above factors can be found in several of the smaller Scottish market towns –Falkirk, Alloa or Stirling, for example. Here, three bed roomed properties can be acquired for as little as £80,000, offering very positive cash flow advantages. Many of these towns also have good local economies, which deliver capital growth too and a healthy demand for affordable, well presented and well maintained properties. If you can add to your “search criteria” a local train station, local university and a large employer close by....well, you've got a potential property winner!

### Undiscovered opportunity

One such as yet undiscovered Scottish gem is the small town of Bo'ness. Off junction 3 of the M9, just 15 minutes from the massive new HQ of the Royal Bank of Scotland, it enjoys exceptional views over the Forth and is a brief car drive away from the railway station at Linlithgow. Flats here can be acquired for around £40-£50,000.

But if you take that 10 minute drive to Linlithgow you'll pay three times the price for that flat. And in Edinburgh or Glasgow you can multiply that figure by five.

Once you have acquired your portfolio of properties in your chosen town – ideally for less than the market value, giving an immediate capital return, with return of investment in a maximum of two years-how are you going to market and manage it?

### Market knowledge

Local markets have local idiosyncrasies which you have to respond to – so local market knowledge is important. For example, we have found that a flat in Falkirk must be furnished, but in nearby Alloa it must be unfurnished. That said, there are lots of factors common to market towns and their tenants.

For example, tenants like to talk to the owners of the property: they are looking for a home and want to meet the home owner. That makes a local office essential. Tenants also prefer clean, well presented properties. And when things go wrong, as they inevitably will, tenants want to be able to report their problem to a responsible person quickly and get an effective repair/replacement carried out as soon as possible. The quality of service offered ensures a low percentage of “voids” – something every landlord wishes to ensure. Tenants also increasingly search for properties and information on the web – so an effective, well managed website with a good search facility is essential. The web also helps promulgate a strong company “brand”, useful in advertising, mail shots and in creating the identity essential when networking with the local property industry of solicitors, estate agents and surveyors.

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which is a discipline in itself, with all the issues of land availability, planning concerns, infrastructure provision and so on, let's look at making money from investing in existing property. Broadly you can buy to sell, or buy to let.

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properties to let delivers capital growth too, but in addition it gives regular rental income, which should be adequate to cover borrowing, and all regular business costs such as staff, offices, repairs, maintenance and occasional "voids."

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My own company, for example, started with an investment of £100,000 and one rental unit. In 2002, in 2006 we are operating 100+ units with an equity value of £2m and a fully-let turnover of £500,000 a year. This represents an increase in value of the portfolio by a factor of ten over a period of two and a quarter years.

To create a positive cash flow from a rental portfolio, there are several factors which have to be right. These include the cost of the property, the rental return it generates, the requirements of the local rental market, and the level of occupancy it delivers.

You also have to be able to raise appropriate finance to acquire the properties in the first place: but that's another article, for another time!

Properties which deliver positively on all of the above factors can be found in several of the smaller Scottish market towns Falkirk, Alloa or Stirling, for example. Here, entry-level properties can be acquired for as little as £80,000, offering very positive cash flow advantages.

Many of these towns have good local economies, which means capital growth, too, and a healthy demand for affordable, well-presented and well-maintained properties. If

you can add to your search criteria a local train station, local university and a large employer close by... well, you have a potential property winner!

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**Mark Kennedy-Stewart is a chartered accountant and managing director of Falkirk property company Caduceus Investments.**

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