

RESEARCH PAYS!

STUDY IS NOT JUST FOR STUDENTS ...

Interview and words: **Julie Whitmore**

David Croissant reveals how careful research resulted in returns of 37%+ ROI.



Wanting to do more than just work until he reached retirement

age, long time investor David shares in this article how he met his business partner on a training course and how they went on to identify a remote investment area to build a student HMO portfolio. They undertook thorough research and analysis before committing, and once they started, implemented effective, efficient systems and processes to manage the business at a distance.

David also outlines how they have now diversified from their original investment strategy to manage the risk of being dependent on student lets.

YPN: Can you tell me a bit about yourself and how you got started in property?

David: I worked in a corporate environment in IT software development, management and project management. Turning to property investment was a case of wanting to do more and not just work until I was old.

I attended a training course through the Rich Dad Poor Dad brand where I met my business partner Alan Scott. We agreed to JV on the cost of the next level training course and things grew from there.

We went on to buy three houses in Northampton and were looking to

secure tenant-buyers, as this was very much the early days of Rick Otton and lease options and the 'Rent-to-Buy' strategy. However, we struggled to get any tenant-buyers and therefore had to look at alternatives, which is how we started in the student market.

The company I worked for was subject to a takeover in 2010 and the new culture wasn't something that suited me. In addition the new company did not require the number of senior managers currently in post. Given that at this point we had some HMOs operational, it enabled me to leave the environment and made the transition to full time property much easier.

THOROUGH RESEARCH BEFORE INVESTING

YPN: How did you decide on your geographical investment area?

David: We used the Local Housing Allowance rates as a benchmark and compared these against house prices in addition to considering transport links, area growth potential, unified development plans, impact and logistics of travel and how this would work for us in management terms. We then reviewed the information against area rental prices.

The three property purchases were before the area became subject to Article 4.

However we have purchased properties since this came into force and taken them through planning to obtain the HMO licence. We did not buy these with a subject to planning condition though as we would have turned them into family lets if the planning application had been unsuccessful.

The initial properties purchased were all three beds although we also now have properties with more bedrooms. We did not reconfigure them to provide more bedrooms; it was more important to us to consider the space for tenants – you must think about what it's like for the people living in the property. We do not want tenants falling over themselves, and we find that approach helps in terms of desirability and improves tenant retention rates.

We sourced the properties through estate agents (EAs) and are always straight with them – if we say we are going to purchase a property, we proceed. That has helped to build credibility with the EAs.

YPN: How do you manage the business remotely and how are the work activities managed between you and your business partner?

David: We each have line management responsibility for different properties in the portfolio. When you manage remotely, it forces you to think about systems and processes. We use an online fault reporting system that I have created, which is unique and bespoke to our business.

Case Study

ESSEX STREET, NORTHAMPTON

Type of property:	3-bedroom HMO
Year purchased:	2010
Purchase price:	£95,000
Open market value:	£110,000 at time of purchase
Purchase costs:	Legal, broker, survey – £2,000
Funding:	Cash deposit using own funds/refinance – £19,000 80% LTV Mortgage – £76,000
Borrowing rate(s):	4.98%
Total money in:	£21,000
Personal money in:	£21,000

COST OF WORKS

Duration of project:	3 months
Total costs:	HMO conversion costs – £5,000

MONTHLY FIGURES

Monthly income:	£1,389 (Joint AST)
Bills included?	Yes
Monthly mortgage payment:	£315
Monthly costs:	£450
Net monthly cash flow:	£624
Gross yield:	17.5%
Net yield:	7.9%
% Return on money left in:	39.4%

As my background was in IT software development, I had the skills to do this. We also use Trello for tenant enquiries, and that is linked to our suppliers for maintenance etc, enabling all parties to see the workflow. We also have a lead generating site which feeds through to Trello.

YPN: How do you deal with tenant inspections etc, and how did you build a power team remotely to manage the properties?



David: We usually complete a house visit once a month and our team are responsible for the completion of the regular Health and Safety checks. We used to get the maintenance team to visit and go through the house with a check list. This is now set up through Google Docs forms to cover all the checks that need to be undertaken, ie alarm system, lights, carbon monoxide monitor, etc. This also helps to build an audit trail of the inspections.

We have cleaners, a maintenance person who undertakes the day-to-day activities, and build teams completing conversions who can also do the heavier stuff. The maintenance contact will also liaise with other trades when required. It is a continuous effort thinking about the teams and providing cover longer term, as things can start to slip with suppliers.

Sometimes we have found people through recommendation and have also used online sites like Trusted Traders; we have even stopped tradespeople in the street and asked to review their work! We do have a reputation for being quick to pay our bills, which really helps to keep good tradespeople as cash flow is important when you are self-employed.

RAISING FINANCE

YPN: How did you fund your initial purchase and how do you approach funding now?

David: For the initial purchases, we used joint venture cash from family and friends in the form of standard loan agreements from Alan's family. They felt their investment was more secure through a family member, although there were no formal security arrangements in place against the loan.

We have also worked with other joint venture partners, high net worth individuals, and these have been more formalised arrangements and agreements.

In addition to loans, we have done profit splits with funds secured against the asset. These have always been with people who know us and have approached us about investment opportunities. Over time, for the most part we have bought them out by refinancing, and they have walked away quite happy with the money that they have made from residual cash flow and the profit from refinancing. We now have a small amount of money left in from family and friends. In the main, the larger tranches of money have been paid back.

YPN: What is your current focus with regard to acquisitions? Are you still interested in purchasing student properties?

David: We are currently focusing on taking over properties for other landlords because we have the systems and processes in place for maintenance and cleaning etc. That means we can now leverage this for other people and this has been my main focus for nine years.

We hold the student properties in our own names and live off the income from them; we complete self-assessment tax returns. We always consider the requirements for student property along with demand, because of the impact of apprenticeships vs universities. Student numbers are consistent but you need to evaluate the risk of bigger players coming into that space as well, even though their price point is significantly different to the private rental sector.

We are currently looking for property via sourcers in the non-HMO area, and in the last two years we have been purchasing houses and turning them into flats; this forms our current focus.

COVID-19 IMPACT

YPN: Were your properties and rental income impacted during the lockdown period?

David: It was our best year ever, and occupancy was strong for us. There were other properties we could have purchased in terms of house to flat conversions, but we decided to sit on the cash as a bit of a war chest in case it all went south! You currently have the National Union of Students pushing for rental accommodation, the renters' union talking about strikes and student bodies not wanting to pay rent on property where universities are not allowing students to attend on-site.

Our properties have very fast internet services, which really helped to support students working from home. A lot of universities are starting to open again now, including Northampton, whilst others may not be starting face-to-face lessons until at least October onwards.

All our students are UK based although we do have the occasional overseas student. This makes it interesting from the guarantor perspective because they do not have one. You also get UK students with poor guarantors – people that are not suitable. To compensate, we either charge a year's rent upfront or request a rolling three-month advance payment.

We offer 12-month contracts with a half price rent retainer over the summer months. Strong guarantors are the key to student lets. We credit check the guarantors, including a land registry



Case Study

ELYSIUM TERRACE, NORTHAMPTON

Type of property:	6-Bedroom HMO
Year purchased:	2015
Purchase price:	£240,000
Open market value:	£250,000 at time of purchase
Purchase costs:	Stamp, legal, broker, survey – £4,500
Funding:	Cash deposit using own funds/refinance – £36,000 85% LTV Mortgage – £203,995
Borrowing rate(s):	5.19%
Total money in:	£38,000
Personal money in:	£38,000

COST OF WORKS

Duration of project:	Existing HMO – no conversions work needed – new tenants moved in 2 hours after completion!
Total costs:	Some furniture and white goods costs only – about £1,000

MONTHLY FIGURES

Monthly income:	£2,623 (Joint AST)
Bills included?	Yes
Monthly mortgage payment:	£890
Monthly costs:	£600
Net monthly cash flow:	£1,100
Gross yield:	13.1%
Net yield:	5.7%
% Return on money left in:	37.8%

check which some landlords do not seem to do. It is getting more difficult with less people owning houses, in which case we need to see their payslips and understand their employment situation in addition to talking to them – you do sometimes need to take a risk and can get a feel of the person from talking to them. At the end of the day the student is getting a grant for the most part anyway.

Online study is not for everyone as the interaction is all part of the university experience. If everybody wanted to study online they could complete an Open University course. This is something that we have always been aware of: students can save money on living costs and stay at home, working part-time. Going to university is a rite of passage, however; it is the whole experience, including the opportunity of membership to societies in addition to all the other aspects, which make up university life.

YPN: What returns are you achieving on your HMOs?

David: With the HMO properties, we use the rental income as our day-to-day income, so we look at how much we draw out of that part of the business. For other property, I work on a return on capital employed approach (ROCE).

YPN: What is your plan for the next few years, what's your overall goal?

David: We are not driven by numbers, but more by a direction of travel in terms of how many acquisitions we can achieve year on year with the funds we have available. We are self-funding for the main part as these are the funds we

can guarantee, and will work on a rolling five-year cycle for refinancing. We want to grow slow and steady; it's not about growing big and fast – we want to do it with minimum risk. We never set out to create jobs for ourselves; the focus is sustainable income.

In theory we get most of our investment money back out of deals, although we choose to leave some money in, eg £20,000 per flat, as that provides a strong ROCE. We are not using this money for living, it's for compounding growth.

We are renovating to a high design standard on the flats to make them more desirable as rentals and they also let faster. Whilst we have some money left in them, we are also recouping money from the cashflow rental income, and there are other factors to consider as well, such as the impact of inflation. We prefer a lower loan to value and let inflation compound it down for the longer term.

YPN: Did your accountant advise you on the structure you are using with income from the HMOs under self-assessment and other property in a limited company?

David: We did look at various schemes to transfer ownership of the properties into a limited company and carefully considered the benefits it would provide. There were also other considerations such as transferring beneficial interest. The other consideration is how to take the money out of a limited company if you need it for day-to-day living. This is more difficult to do and has a cost impact.

The accountant prepared a comparison report, and I still had concerns. Putting the properties into a limited company, and the process required to do so, was not right for us. There are benefits to both options though, it's not a one size fits all. Some people are touting the transfer as the perfect solution, however in some cases they may have a vested interest in selling a service for this. Everyone needs to look at their own circumstances and do what's right for them.

There are also some hybrid solutions involving the use of an LLP to get the benefits of self-assessment and the compartmentalised part of the limited company as well. This is something that we will review in the future as we grow.

YPN: Looking back, what have been the key lessons for you and what key points would you share with other investors?

David: Streamline communications as much as possible and utilise tools that are freely available to your business, or consider how you can use them to make your life easier, eg Trello. Also understand how to use systems effectively, eg Rightmove.

Give the tenant tools to report issues and keep it frictionless. Make it as easy as possible for them to communicate without having to speak to you, as not all tenants want to speak to their landlord. Providing them with a systemised process removes the need for direct communication. Some tenants can be very wary and suspicious of landlords!

The tools you use must provide acknowledgement and ownership to ensure any matters reported are dealt with, especially when working remotely with teams. It's also essential to make sure that suppliers are paid promptly for the work undertaken. Whilst all our team are self-employed, we manage them as if they worked directly for us. If you give people complicated systems, those systems won't get used and will put people off.

Keeping on top of costs and understanding your KPIs and cashflow forecasting for your business is important. We complete a three-month forecast at the start of each quarter. With HMOs, if you get the cashflow wrong it can knock you out of the game. You need to know your operating costs. Ensure that you get best value for money on services, but not to the detriment of cutting corners on quality of service.

Knowing your numbers as a business helps you scale and grow. Cash and capital are the things that keep you going and keep you growing.

YPN: What do you do outside of property? How do you relax?

David: I am lucky enough to live on the south coast, a couple of minutes' walk from the sea. Walking along the sea front is a lovely way to start the day. I like to eat healthily, go to the gym and I've also practiced Kung Fu most of my life. I try and lead a healthy lifestyle with a balanced work/life approach with my wife Floss. For me, the reward is the journey, not the destination!

Listen to the full conversation with David here.

<https://bit.ly/3xEg6Eh>

