

MOTORBIKING AROUND VIETNAM & RACING IN THE MONGOL RALLY. YES PLEASE.

Interview & words by **Heidi Moment**

Miles **Pattison-Appleton** has a bit of an adventurous streak and after just five years of hard work he can now indulge in travel of the most exciting kind, while his portfolio runs itself. But how did he do it? Read on to find out.

ADVENTURE ANYONE?

This summer I'm taking seven weeks out to race a clapped-out VW Polo from England to Ulan Ude, in Russia, in the Mongol Rally. Four of us are taking on the challenge to drive a car that's under one litre and costs no more than £500, to drive the 12,000 miles to Russia. The car is currently sitting on my drive, totally oblivious to what's in store for it.

As there's four of us in the car, we can only take limited supplies. We're camping the whole way, so we're putting a big roof rack on the top, to carry all our water, tents, and other bits and bobs. We're having to reinforce the under chassis because we'll be going through some pretty remote terrain. We can go any route we like, but we have to be unaided. Those are the rules. Everything else is sort of up for grabs.

"Putting myself out of my comfort zone makes life more interesting"

We're raising money for two charities - Walking for the Wounded and Dementia UK as well as Cool Earth, which is the event's chosen charity. Only about 60% of people actually complete the race each year, so we know we've got a bit of a challenge in store. None of us are mechanics either, so that adds a whole new layer of interest to the adventure. But that's half the fun of why we're doing it - putting ourselves out of our comfort zones. It's going to be really interesting.

VROOM VROOM

This isn't the first motorised trip we've been on. In January, I went travelling for three months, and for five weeks of that time went on a self-sustained motorbiking trek around Vietnam. We got little 110CC Honda Winn bikes that cost about £60, put our nap sacks on the back of the bikes and off we went. We didn't have a route and we didn't really know what we were doing. I'd never ridden a motorbike before going out there, so it was pretty daunting riding around some of the most populated biking cities in the world, such as Ho Chi Minh City. But it was a huge adventure, with lots of problems - we broke down all the time and fell off our bikes loads and smashed them up. But it was such an amazing experience.

I LOVE THE FREEDOM PROPERTY GIVES ME

My whole philosophy of getting into property was for the freedom to go and do these cool things. I'm 24, and my hunger to see the world is very high. I wanted to have the freedom to do what I want, when I want and property allows me to do that, by giving me the freedom I need. This year I will have had almost five months out of the business.

Appleton
Asset Management

I could go away for a year or two if I wanted and not have to work. And I just might, next year!

“This year I’m having 5 months of adventures, next year might be more”

Before property I was at university studying Commercial Property Real Estate. I didn’t want to go into surveying, which is what most people do after the course, so I bought my first property whilst at uni and have never looked back.

I was in a very fortunate position that my parents had a portfolio in Telford, so I already had an awareness of the benefits of property. Plus, I did a year of unpaid work experience with a property professional, Jackie Edwards, where I gained substantial knowledge and experience that supercharged me to pursue this path as a career.

HIGH QUALITY AND LONG LASTING HMOs

Our strategy is high-end professional HMOs. We do large properties that we completely reconfigure, including structural changes, extensions, cellars, attics, garages etc. We convert what we can, wherever we can, to add some significant value, then refinance and pull the money back out if we can or leave a small amount in if we have to. We add ensuite to the bedrooms where possible, we completely rewire, replumb and redecorate throughout, as well as putting in new kitchens and bathrooms.

We started out doing four-storey Victorian properties, but they were getting really expensive to purchase and now we are finding the numbers actually stack better on slightly smaller ex-council style properties.

As more and more people are doing HMOs these days you need to spend some significant cash on making sure you’re providing the best product possible, and having a competitive advantage. It’s not just about turning a couple of spare rooms into bedrooms by putting a bed in there. It’s about trying to put another 25 to 50 years on the life of these buildings.

When I say ‘high-end’ I mean brand new, good quality and long lasting. Some people out there are doing incredibly snazzy interior design. We haven’t gone down that route though, as we prefer to keep our interiors simple and neutral to appeal to all audiences.

CASE STUDY ONE WHITECROSS ROAD

The Property:

A three-storey Victorian house on a busy road in Hereford, with only one off-street parking space. The road was deemed to be quite down-market, very blue-collar worker, Eastern European territory, where old school landlords owned properties they bought in the ‘80s and ‘90s, and haven’t done anything with since. We stayed away from these types of houses for ages, but then a new Tesco Extra opened really close to it, making it a much more appealing location, so we decided to explore it, and we were so pleased we did.

Strategy:

To convert a 3-bed family house into a 6-bed HMO, with four ensuites, renting for £585 (ensuite) and £500 (non ensuite).

Works include:

- Convert huge cellar by digging down, tanking and turning into a bedroom (added significant value at a cost of £15k)
- Turned big front sitting room into a bedroom with ensuite
- Turned dining room into a bedroom
- Built an extension off the kitchen to meet size requirements (as it didn’t meet the HMO regulations of being 18 square metres of communal space), and put in an open plan sitting room in
- Added ensuites to all the bedrooms upstairs, with scope to go into the attic in the future
- Upgraded kitchen - previous kitchen was really good quality, solid oak units, with solid granite worktops so we upgraded it by painting the doors, changing the handles, new tiling, splashback, chrome sockets, floor etc
- Rewiring throughout
- New communal downstairs bathroom
- 4 x ensuites added
- Repaint throughout
- New floor coverings throughout
- New unvented boiler system in (tank in attic)
- Full licensed HMO fire regs throughout (fire doors, fire alarm system, emergency lighting, thumb turn locks. 30 min escape route etc)
- Utility room - Tenants love a utility room - with washing machine, dryer, iron, ironing board and all that jazz.



Kitchen before



Bathroom before



Kitchen after

The Numbers:

Purchase price:	£235,000
Deposit:	£58,750
Procurement costs inc. SDLT (Stamp Duty Land Tax):	£11,700
Initial bridging loan from private investor:	£176,250 (75% LTV)
Bridging loan interest during refurb (@ 1% PCM for 4 months)	£7,050
Build/refurb costs:	£65,000
Total initial investment:	£318,750
Commercial valuation:	£360,000
Uplift:	£41,250
New commercial loan:	£270,000
Money left in deal:	£48,750
Gross rental income:	£3,340
Mortgage (£270,000 @ 4.34%):	£976.50
Interest paid to equity loan investor on money left in @8%:	£325.00
Bills:	£440
Letting agent:	£334 (Paid to own agency)
Maint. & voids:	£300
NET RENT PCM	£964.50 (£11,574 PA)
ROI:	23.7%



Funding:

We funded Whitecross Road with the help of an investor on a private equity loan basis, where we offered a fixed and guaranteed return of 12% for the bridging monies and 8% for the deposit and refurb monies. Once we had refinanced we paid back all the refurb costs, and now we give the investor 8% return each month on the money still left in.

Different investors want different things, but we were lucky with this particular partner as he wanted extra cash each month to bolster his income a bit, so he was happy to leave £48,000 in the deal and get the monthly return.

In the future when the property's gone up in value enough to refinance that £48,000 back out, we will pay him back, which is the most likely option. Alternatively, if the investor wants his money back before the property has gone up in value we can utilise equity from other properties to pay him back, or we can just find another investor who wants to leave money in for a monthly return and just swap them out.

Remortgage:

We added a huge amount of value to the property, through the extension, ensuites, basement conversion and great standard of refurbishment, meaning we were able to go through the commercial refinance procedure straight away, and it was only a matter of weeks between project completion and having the money drawn down from the bank. Fast work.

“We refinanced straight away and pulled the money out in a matter of weeks”

Key learnings:

This was one of the first properties where we were exploring adding more ensuites. Before, we would always, put a downstairs loo and two communal showers in for a 6-bed. But spending £3,000 per room on an ensuite has proved to be hugely beneficial for us, in terms of adding value to the property and increasing the room rates we can charge, so it's definitely something that we're taking forward.

“Adding more ensuites enables us to add more value and charge higher rents”

BUILDING UP A PORTFOLIO TAKES TIME

At the moment I have 77 rooms in Hereford with another 12 about to complete. It's taken five years to build that up, with about three years of very little happening. I bought one in the first year and one the year after. It was very slow and then in the last 18 months we got a lot of momentum. You could say that as we've become more experienced we've tweaked our strategy along the way and everything has just clicked into place. Also in the early days investors are harder to find, especially when you're an inexperienced 19-year old university student. But now we've got a solid track record, some great investor partnerships and a huge supply of cash behind us. So, whenever we find something that fits our criteria we can buy it straight away, which we couldn't before.

“As we started to get more experienced we gained momentum quickly”

CASE STUDY TWO PILLEY ROAD

The Property:

A 1960s 3-bed semi, with a weird granny annex one-bed flat on top of the garage, which was tenanted. We own the property over the road, so we knew the location was good. It was a nice family home but only had parking for one car and double yellow lines outside.

Strategy:

To convert a 3-bed semi into a 6-bed HMO & keep the flat as a stand alone single-let.



We came to a bit of a grinding halt about two and a half years ago, where we were leaving too much money in the deals, sometimes around £100,000, which is just too much and it didn't really work for us, or our investors. At the time we were refinancing on the bricks and mortar value, then we started looking at commercial refinancing, which was a game-changer for us. Now we leave less money in, which works so much better.

“Discovering commercial refinance was a game-changer”

WE SOURCE ONLY THROUGH ESTATE AGENTS

We find all our properties through estate agents. We tried the whole leafletting thing and, quite frankly, it was a waste of time. We stuck at it a really long time and invested a lot of energy into it, but we didn't buy anything. We realised, if someone wants to sell their house they will take it to an agent, so agents have the best supply of houses, and are the best people to go to. It saves a lot of time.

We've built up a great relationship with our local agents and I actually just had an offer accepted on a property brought to us before it went on the market. They came straight to us, because they knew we would take it, which we did. We pretty much paid the asking price for it, because the numbers worked for us, so everyone was happy. We got a great property and the seller and the agent got a quick sale. Happy days.

The Numbers:

Purchase price:	£260,000
Deposit:	£65,000
Procurement costs inc. SDLT:	£13,700
Initial bridging loan from private investor:	£195,000 (75% LTV)
Bridging loan Interest during refurb (@ 1% PCM for 5 months)	£9,750
Build/refurb costs:	£92,000
Interest on short term equity funds from investor:	£7,518
Total initial investment:	£382,968
Commercial Valuation:	£400,000 (down valued)
New commercial loan at 85% LTV:	£340,000
Money left in deal:	£42,968
Gross rental income:	£4,100
Mortgage: (£340,000 @ 4.74%)	£1,343
Interest paid to equity loan investor on money left in @10%:	£358
Bills:	£400
Letting agent:	£421 (again paid to own agency)
Maint. & voids:	£300
NET RENT PCM	£1,278 (£15,336 PA)
ROI:	35.7%

Works included:

We did the works in two phases, starting with the flat, and getting the tenants out. We agreed a vacant possession as part of the structure of the deal and wouldn't complete with them still in. It had a tiny little galley kitchen, big bathroom, loads of airing cupboard space, a big, big sitting room and a good size (12 metre square) bedroom, so quite a spacious flat. Then once that was finished, tenanted and bringing in cash flow we converted the house into a HMO.

FLAT

- Turned one-bed flat into two-bed flat by moving kitchen into large sitting room to form open-plan kitchen dinner and turned existing kitchen into second double bedroom by moving wall back into bath space in bathroom (thus considerably upping capital value)
- Fitted new smaller bathroom in existing bathroom
- Repainted throughout
- New flooring throughout
- Full refurbishment throughout.

HMO

- Stripped everything out
- New kitchen
- Opened up kitchen to form sitting room and fitted French windows for light
- New stud wall to form bedrooms in open-plan sitting room
- Fitted 4 new ensembles (3 downstairs and one off main bathroom upstairs)
- New upstairs communal bathroom for two remaining bedrooms
- Moved two walls to enlarge smaller rooms to become better sized letting rooms
- HMO fire regs throughout
- Turned front garden into parking for 8 cars, lowered curb and new fencing around
- External painting.



HAVING A LETTING AGENCY MEANS I CAN RUN THINGS REMOTELY AND HAVE TIME FOR ADVENTURES

All our properties are in Herefordshire, which is perhaps an unusual place for HMOs as we don't have a university and we've only got around 40,000 inhabitants, but there are some huge employers here, which makes it good for rentals.

We've found the demand is high when you're doing it well. Properties that are a lower standard can be hard to let and even investors who bought five years ago can struggle to let their rooms, due to the fact that standards have improved quite rapidly since then.

"Stopping doing lettings myself was when things started to really accelerate for us"

So far, we've had no problem letting, which not only comes down to the quality of the accommodation, but also our letting agency, who are great. We set them up in 2016 as there wasn't anyone in our market doing what we needed, so we set up our own. I was originally doing it all myself but it is an extremely time consuming job, so having someone else solely focussing on it allows me to have more time to analyse new deals, look at floor plans, work on new configurations and meet new investors, which is where my time is best spent.

The lettings are set up in such a way that I'm not really involved in it. We have a Monday morning meeting, looking at KPIs and the week ahead, but that's it. They do the rest, and they're great.

While I'm away I'll check in maybe once a week (provided the internet works!), to keep tabs on things, but I shouldn't need to do more than that. I'm not emotionally invested in any of our properties. It's just business. So all I'm really interested in is, *"What's empty?"*

What's not empty? How fast are we letting? How many viewings have we got lined up?"

All these kinds of questions, so we can work out if we've got a problem with the room or there's an issue with the ad or the viewing or something like that? We have a weekly bonus system that reduces by the week if they take longer to let rooms, but they're pretty proactive so we usually let rooms within 1 -2 weeks.

I've spent a long time putting operation manuals together, flow charts, checklists, training videos and setting up our CRM system. So in terms of 'Do they need me?' Not really, because it's all been systemised and there's a turn-key solution there for them if there's a problem.

TRIALLING HIGH RENTS PAID OFF

Our room rates are quite punchy - £550 - £600 for an ensuite room, including bills. Non ensuites are around £500-550. Our rooms are all good-sized doubles, but they're not huge (about 9.5 - 10 square metres), but the standard of our properties is much higher than others in the area, so we ramped up our rents to see what would happen. We figured we could always bring them down if necessary. But so far people have been happy to pay the rents due to the perceived quality.

Also they're not just paying for the accommodation, but for the service of the letting agency and things being dealt with quickly. People are sometimes scared to up the rents, and they worry they'll never let their rooms because they're over-charging. But who knows until you've given it a go. We gave it a go and we let everything really quickly. So we've stuck with it ever since and it hasn't proved to be a problem at all.

MY GOAL IS TO GET TO A POINT WHERE I DON'T NEED INVESTORS ANY MORE

When I get back from the rally I'm going to move to London where there's a source of

funds we can utilise more efficiently. Then we'll just carry on with what we're doing. We've found a really good model that is working well for us at the moment, so I don't see why we should change that. Right now I'm not tempted by any other strategies, instead I'm just going to rinse and repeat. We may look further afield, depending on the letability and saturation of the market in Hereford. We've got five offers going through this month and if we do too many more months like that, we're going to have a problem on our hands. It's basic economics. So we may change area slightly, but we'll see.

Then I'll find myself another adventure to go on. Any ideas?

TOP TIPS

- Building a portfolio takes time, a lot of hard work, headaches and some restructuring before you get where you want to be. Just keep going with it and it will happen.
- Don't be afraid to use investor's money. But make sure you know what you're doing.
- Really look at the floor plans to see how you configure the space to get the most return on investment.
- Use commercial finance where possible.
- Be prepared for things to not work out as planned, for example on Pilley Road where we were significantly down valued on what we should have got but you have to just make a new plan and crack on.
- My big game changer was getting a mentor to play devil's advocate and make me think of things differently. Always choose carefully. Pick someone who is succeeding in the strategy you want to do. Get to know them first before committing to anything.
- Get someone efficient and organised to do the lettings. Then you can focus on the bigger picture.

CONTACT

Email: miles@appletonassets.co.uk

Mob: **07772814468**

Website: www.appletonassets.co.uk

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