



Right: inside Miles's conversion



Until recently, professional houses in multiple occupation (HMOs) were 27-year-old Miles Pattison-Appleton's go-to investment. Over the past six years he's built a portfolio of nine in his old hometown of Hereford.

The area once offered a vast pool of potential for HMO conversions, but recent market conditions have led to it becoming overheated and competitive. So, for his latest project, Miles decided to branch out and try something different.

Investing young

Having studied real estate management at Oxford Brookes University, a career in property was inevitable for Miles. He bought his first property at 21 – a four-storey Victorian mid-terrace in Hereford, which he rented out as a six-bedroom professional HMO.

At that time, his main motivation was to fund a car and top up his allowance. He had hoped the inheritance left to him by his grandfather would kick-start his investing ambitions and provide a deposit for the £233,500 property. Yet, with no job or assets to his name, he soon discovered obtaining a mortgage was out of the question.

He grew up watching his parents manage a small portfolio of properties in Hereford, so he called on them for advice. "The simple solution was to set up a limited company," he says. "All three of us were shareholders and directors and I essentially piggybacked off their experience and income, but it allowed me to get a mortgage.

"As it happens, that was a fluke move. It was in the days shortly before Section 24 was introduced and it wasn't long before everybody started to buy properties through limited companies," he says.

This pattern followed for Miles's subsequent properties, with his parents withdrawing from the company a couple of years ago.

Adapting to change

Once he'd finished his studies, Miles moved into investing full time. Alongside managing his own investments, he's set up a HMO management company, a property investment firm for HMOs and flats, and a new-build development company.

He now lives in London, but the attraction of Hereford as an investment location is still strong, thanks to its high volume of professionals and the fact his parents are still there to lend a helping hand. But a lot has changed since he bought his first property in 2015.

At £22,000, refurb costs for his first HMO were low. Fast-forward to today's market and for his most recent HMO – a property of comparable size – the bill came in at £144,000. While a portion of the increase was down to structural changes, the main reason for the uplift was the increased competition in the area, which Miles says has resulted in landlords raising the bar – and costs – when it comes to the internal spec of their properties.

"For the first 18 months to two years, rents were amazing. Then things started catching up and like all good things, people

Moving with the times

HMO developer Miles broke with tradition and took on a multi-unit conversion for his latest project. **Natalie Thomas** finds out how it went



INVESTOR FACT FILE

Name: Miles Pattison-Appleton

Age: 27

Lives: London

Invests in: Hereford

Occupation: Full time investor/ developer

Years investing: five

Strategy: HMOs and flats

Portfolio size: 11

Goal: to do more multi-unit flat conversions

caught on that it was a good area in which to invest," he says.

While Miles is passionate about the finished look of his properties, he knows there's only so far you can go before a property becomes financially unviable.

Latest project

The building Miles bought for his first multi-unit conversion had been on his radar for quite some time. "I looked at the building five years ago, but it was too expensive. It was initially going for £270,500, then was reduced to £250,000. I bought it for £210,000," he says. He put down a 25% deposit and secured a bridging loan with Funding 365 to cover the rest.

The Victorian building had originally been split into four flats, but the current owners had gutted it in a bid to sell as a family home. When Miles bought it, it was almost derelict, but from an investment perspective it offered huge potential.

"It wasn't only the price that was attractive, but from a building regulation point of view it was deemed a refurbishment of existing flats instead of a conversion into four flats – something which lowered cost significantly," he says. He also got a discount on stamp duty since the building was classed as 'uninhabitable'.

Frustrations along the way

Miles got the keys in September 2021 and set a team of builders to work converting the building back into flats. They moved the position of the kitchens in all four flats from their original front elevations to the back, meaning they could create much bigger bedrooms.

Managing the project didn't faze Miles, yet it wasn't without its obstacles: "Like every building project, managing the builder was quite difficult. He wasn't someone we'd used before, so we had to be on site as much as we could."

Trying to get jobs done over the Christmas period also proved to be a challenge: "We split all the services out, taking it from one single supply for gas, electric and water to four single ones for each flat. Due to it being December and the Christmas break, we couldn't get the necessary permits from the council to do the work, which delayed us by about a month," he explains.

With his parents still living in Hereford, Miles's dad was able to be on site day-to-day, with Miles travelling up from London once every few weeks to keep an eye on progress. Not wanting to take any chances, he enlisted the help of a private building control firm.

"We wanted to make sure everything was done to meet building regulations – just small things like using the correct plasterboard," says Miles. "Builders can make anything look superficially good, but you need to know what is behind it and that it is done correctly."

Miles' original budget was £35,000 per flat, but he ended up spending £55,000 on each. With much of the timber in the property around 100 years old, once exposed, it needed replacing. The month delay to the project also meant a month's extra interest was added to the bridging loan.



Kitchen living area in one of the flats



Above: before work started
Left and right: one of the bathrooms before and after
Below: the property (on the left)



"It was a bit of naivety on my part in terms of the costing, as well as lots of unforeseen variations like fitting new floor joists and hanging rafters, at a time when timber costs were rising," he says.

Playing the long game

Everything was ready by the end of January this year and the flats were listed for rent for £775 per calendar month.

Miles already has a mortgage lined up with Kent Reliance for when his nine-month bridging loan comes to an end later this year. His broker secured him a two-year fixed deal at 2.99%

RUNNING THE NUMBERS

This is how Miles's conversion in Hereford stacks up financially:

Purchase price: £210,000

Deposit: £52,000

Stamp duty: £1,200

Purchase costs: £8,495

Finance method: bridging loan then two-year fixed mortgage at 2.99%

Amount borrowed: £357,000 (for bridge) £427,500 (for mortgage)

Total personal investment: £71,695

Conversion costs: £210,000 (reduced VAT of 5%, due to property being empty for two years)

Project duration: six months

Done up value: £570,000

Money left in deal: £8,548

Monthly revenue: £3,100 (four flats)

Monthly expenses: £1,076 (mortgage and insurance)

Monthly net profit: £2,024

for £427,500. The mortgage will cover all the costs of the building work minus a shortfall of £1,195 which Miles will subsidise himself. He hopes to recover the additional costs by pursuing liquidated damages against the contractor for not meeting the agreed completion date.

Despite all the challenges, Miles's sights are now firmly focused on developing more flats. "With the right deal they cash flow better than a HMO for the same – if not cheaper – purchase price," he says.

"While the cost of refurbishment is way higher, the end values are higher for the refinancing. Tenants pay their own bills and the management costs are lower overall. Flats also benefit from lower void periods as single lets, and tenants tend to stay longer as well, giving much better longevity than HMOs for demand."

If you have an interesting property case study (good or bad) we'd love to share your story. Email us with some information and photos and we'll get right back to you: magazine@propertyhub.net