

Combining Franchising with Property

7

This guide outlines just some of the proven methods and processes you will benefit from if you choose to combine the certainty of franchising with the security of property

STEPS TO SUCCESS IN 2020



PLATINUM
PROPERTY PARTNERS


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ASSOCIATE

This guide has been brought to you by the world's first property investment franchise, Platinum Property Partners. Since being founded in 2007, it has become the fastest growing premium franchise in the UK; successfully helping more than **380** franchise partners to build specialist buy-to-let property portfolios, that last year alone generated a combined annual rental income in excess of £26 million.

INTRODUCTION

Franchising is one of the best ways to minimise the risks of starting your own business. By following a proven system that has been thoroughly tested for success, you can achieve a level of certainty that is often lacking when you go it alone.

But not all franchise opportunities are equal. Every sector is different and can fall victim to changes in industry legislation, operational costs and consumer demand that impacts the profitability and sustainability of the business.

This has certainly been the case with the private rented sector, which has seen much change and disruption over the last couple of years. While you'd be forgiven for thinking that property investment no longer provides a secure route to financial independence, even if you join a franchise, this is simply not the case.

If you want a secure way to increase your wealth – not just in 2018, but for the long-term too – then done correctly and with support and guidance, investing in the right type of property strategy is still one of the most robust business models around.

And when combined with the certainty of franchising, your success potential increases ten-fold.

At Platinum Property Partners, our HMO (House in Multiple Occupation) model, generates up to three times more income than standard rental properties, focusing on generating you an income now with capital growth as a bonus!

By effectively maximising the number of lettable rooms in a single property and renting them individually, our landlords achieve average gross yields of 15%. It is these market-leading profit margins that provide a sufficient buffer against fluctuating costs, including tax and interest rate rises, therefore reducing risk.

However, higher returns usually come with a bigger price tag and increased time investment. As well as the time and cost involved in managing multiple tenants in multiple properties, there are also additional planning, licensing and building regulations to consider, so it is essential investors do their homework.

This guide outlines just some of the proven methods and processes you will benefit from if you choose to combine the certainty of franchising with the security of property.



7 STEPS

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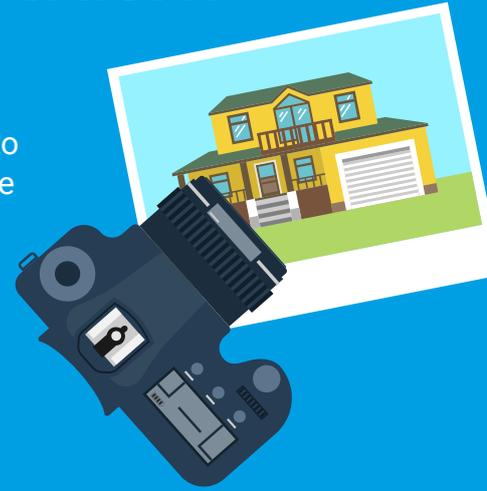
Effective property management

1

LOCATION, LOCATION, LOCATION

Where to invest

Ideally, you want the location in which you live to be suitable for HMO investment. Investing close to home will make the management of your properties easier and more cost-effective, and also minimise market research time. After all, you know the area and the local amenities.



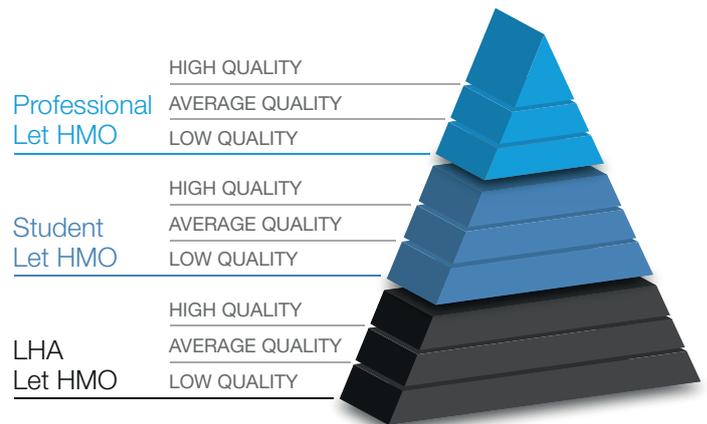
Returns potential is obviously important but not always determined by property prices and rents in your chosen investment location. Great investment areas are not necessarily the most expensive, or the cheapest, and every location has micro-markets within them, right down to certain roads. What matters just as much is whether the property has the potential to be cost-effectively turned into a home for multiple tenants.

Where you invest will also depend on a number of other factors.

LEGISLATION – HMOs are often subject to local authority legislation, which differs up and down the country. Regardless of the size of the HMO you decide to develop, it may be subject to licensing, especially in areas where there are Selective Licensing Schemes in force. Certain locations which are deemed to be over-saturated with multiple occupancy properties may also have an Article 4 Direction in place. This means that anyone who wishes to change the use of a property into shared accommodation for unrelated tenants must apply for planning permission. More information on planning and licensing is covered in section 3.

TENANT DEMAND – When considering investing in HMOs, you must decide on your target demographic, and in order to get the best returns, Platinum focuses on shared accommodation for young professionals and key workers.

LOCAL AMENITIES – Always put yourself in the shoes of your target tenant and ensure that the location is somewhere they will want and/or need to live. Is there a strong job market for example?



The PPP Value

Our experienced mentors have supported franchise partners in purchasing almost 1,100 properties in 100 locations across the UK over the past 12 years. They will provide you with a full location analysis recommending the best investment locations near to where you live and teach you how to further analyse micro-markets within those locations as your portfolio grows.

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WHEN ONE DOOR CLOSSES, ANOTHER OPENS

What to buy

There is no such thing as the perfect property when thinking about converting it into an HMO.



Every shape and size of property could be made to work if you know what you're doing, and of course, what you're trying to achieve.

Before you even start your property search, you should have worked out your numbers – the capital you have to invest, whether you're intending to get a mortgage, and if so, the loan to value, the cash left over to pay for a refurbishment, and the income you'll want to generate once the property is fully tenanted. Only then will you know how many rooms you need to have in your HMO and therefore whether you can achieve that with the properties available to buy.

The key is to identify properties where space can be maximised for as little cost as possible, without sacrificing quality.

The number of rentable bedrooms you are able to provide will ultimately impact the profitability of the investment, and HMOs perform best when there are at least six bedrooms, so this should be your focus.

As a starting point, investors should look at three to four-bedroom semi-detached, detached or end of terrace houses and bungalows with the following features: separate dining rooms, integral garages and/or big enough plots for a single or two-storey extension or the ability to go up into the loft space.

Room sizes are always an important factor though as there are minimum bedroom and communal space size requirements, so older properties with larger rooms may be more suitable.

And even if you don't have to build, you may need to make internal structural changes to make the property more appealing to potential tenants and to allow for en-suites or at the very least, one bathroom for every five people.

Eventually, it will come down to how much you're able to purchase the property for, the cost of the refurbishment to create the additional space and rental income potential of the property.

It might be the case that you're able to work out how to cost-effectively and compliantly turn a two-bedroom terraced house into a six or seven-bedroom HMO – you'll just need to be creative!

So, don't rule anything out and see as many properties as possible within a short space of time. Remember that this should not be an emotional decision and you'll need to act fast. Chances are, the property you want to buy will also be on someone else's shortlist, so if it works, make an offer and show you're serious.



The PPP Value

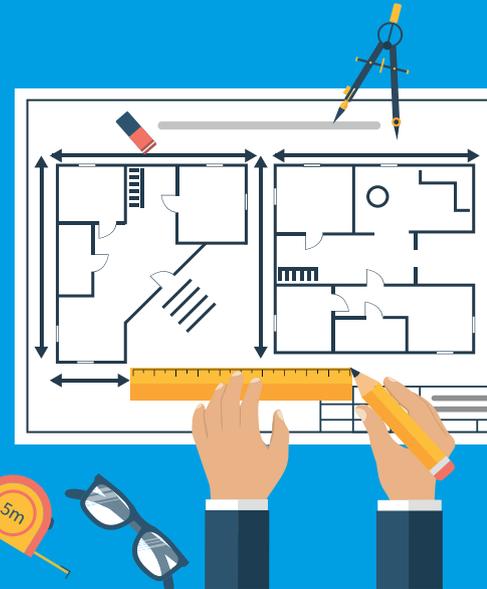
Buying the wrong property is an easy, yet expensive mistake to make if you don't know what you are looking for. With PPP, you will work with a business mentor to establish your budget and goals and the purchase mentor will help you source properties that meet this criterion.

3

LAW AND ORDER

Planning, licensing and building regulations

In comparison to single-occupancy buy-to-let properties, HMOs are often subject to more planning and licensing requirements, depending on their size and location.



In Wales, any size HMO needs planning permission. In Scotland, HMOs with more than five people need planning permission. In England, you may be able to create an HMO for up to six people under permitted development rights but will require planning permission for seven or more people.

This does not necessarily mean that applications for new HMOs will be refused, but it allows local planning authorities more control over the number and type of HMO properties. As such, higher quality HMOs will likely be more acceptable than those aimed at other sectors of the market.

Licensing, which is more concerned with the health and safety of the property rather than the use, means that if you have three or more storeys with five or more unconnected tenants, you will always need an HMO licence. There are also Additional and Selective Licensing Schemes in some local authorities which may require a landlord of any type of property to have a licence to operate.

However, this year will see the introduction of mandatory licensing for any HMO occupied by five or more persons from two or more households (i.e. not related in any way) regardless of the number of storeys.

There is also likely to be minimum national room sizes and changes to the minimum fire safety standards and provision of bathroom and kitchen facilities.

HMO investors should take the time to understand both the national guidelines and local authority standards, which can vary significantly.

Do your research, starting with the planning, policy and HMO pages of your local authority's website, and build relationships with key contacts at your local council to find out what is required to get an HMO approved in different areas and ensure it is operating legally.



The PPP Value

We have a specialist in-house planning department at your disposal, which removes the need for you to spend on external expertise. They will advise you on the requirements in your chosen investment location and support you with planning and licensing applications. They have a 90% success rate in getting first-time applications, amendments and appeals passed, so whatever challenges you might face, they will come up with a solution.



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NOT SO 'GRAND DESIGNS'

Practical and cost-effective conversions

When it comes to turning what is usually a family home into a high-quality HMO, a certain amount of conversion and refurbishment work will be required. However, it is very easy to get carried away with the aesthetics of a design rather than the practicalities and more importantly, the legal requirements.



In most cases, existing layouts will need to be significantly changed to make way for additional bathrooms, larger communal spaces, extra storage facilities and to ensure that bedrooms meet any minimum size requirements. As a result, almost all refurbishment work associated with an HMO conversion must comply with Building Regulations.

Alongside this, you may need a Party Wall agreements for a whole range of both internal and external works and Platinum would always advise on having an Asbestos Refurbishment Survey carried out to ensure properties are compliant with Health and Safety legislation.

All building work must also comply with Construction, Design and Management (CDM) regulations. This is why it is crucial to use reputable contractors (preferably a member of a trade association) who has the relevant experience and qualifications.

HMOs are also subject to additional legal and regulatory requirements, such as fire risk assessments and approved escape routes and the Housing Health and Safety Rating System – which may require you to install further safety features such as hand rails to ensure your tenants live in a safe environment.

So, you can see how the practical elements of a



refurbishment are much more important in the first instance and how all of the above needs to be considered before you've even draw up a floor plan.

The biggest mistake HMO investors make is spending too much money rectifying mistakes, so where possible, invite HMO officers along to the property during refurbishment. This way, you'll be able to find out exactly what standards you should be adhering to.



The PPP Value

You'll be supported by a refurbishment mentor who has led conversions of hundreds of properties. They help you cost work and set budgets, with the aim of making back 100% of the refurbishment cost as a development profit within 6 months.

We also have a dedicated insurance provider who has created a bespoke all-in-one buildings and contents insurance product exclusively for Platinum, that is not available on the open market – which saves you £1,388* off the multiple mass market products you'd otherwise need to purchase.

***Based on five properties over a one-year period.**

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HOMIFICATION Getting 'ready to rent'

The number one rule for HMO interior design is to keep it simple, neutral and nice. You should always bear in mind that you're not going to live in the property and what you like isn't necessarily what your tenants will like, or indeed, need.



Having said that, the quality of the finish and furnishings could affect how much rent you are able to charge. Always think about your target tenant and what it will take to make them feel at home.

PAINT – You don't have to paint the whole house in magnolia, but make sure you opt for a common colour that will always be in stock for touch-ups and go with any colour scheme. This will also make it easier to replace furniture and soft furnishings without the need to match a distinctive gloss or matt. Also try and use anti-mould paint in the kitchen and bathroom or anywhere that might be exposed to dampness.

FURNITURE – Never opt for the cheapest range of furniture available as it will cost you more in the long run for repairs and replacement. Purchasing as much furniture from one supplier as possible will mean you can achieve big savings, but make sure it comes with a warranty. Easy to clean material, such as leather or 'pleather' for sofas are also a good idea.

FLOORING – Tiles, hardwood and laminate flooring looks nice and also avoids the constant use of carpet cleaner, but it can make the house very noisy and cold if used throughout. It's necessary in the bathrooms and communal areas but throughout the rest of the house, use a patterned, mottled and durable carpet. Greys, browns and beiges go with almost anything and most importantly, hide stains well.

FACILITIES AND EQUIPMENT – A fully equipped kitchen is essential of course, as is providing a television in the communal area if you want happy tenants, but it's often a strong broadband connection that makes the difference. Storage, and sometimes specific areas for each tenant, is also important. This includes in the bedrooms as well as the kitchen, and in some instances, outside storage for bikes for example.



The PPP Value

There's no need to spend hours shopping or putting together lists, as we have already done that for you. We've also negotiated many exclusive discounts with suppliers that can save you on average £1,850 per property per year.

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READY, AIM, FIRE

Shop for house mates the right way!

Finding great house-mates is the winning foundation to a HMO Landlord's success.



As well as tried and tested advertising channels, such as SpareRoom.co.uk, the world of renting is now a social media hot topic. Using Instagram, Facebook and maximising your visible on-line profile are all tools you need to explore. Think about your target market and their lifestyle to help you focus on your advertising USP.

Young professionals are attracted to an area with great employment potential, frequently employers have an advertising facility offering and arranging the best accommodation an area has to offer, a great opportunity to explore.

Your photos and advert need to offer a lifestyle not just a rental opportunity and when the enquiries flood in it's about selecting the right tenant. For an HMO, it is so much more than Right to Rent, identity, income, employment and referencing checks. While someone might pass the test on paper, this does not guarantee they will be a good fit with the other housemates, and that can cause you major issues.

Getting the balance right is a skill, and as a result, more involved than you would imagine.

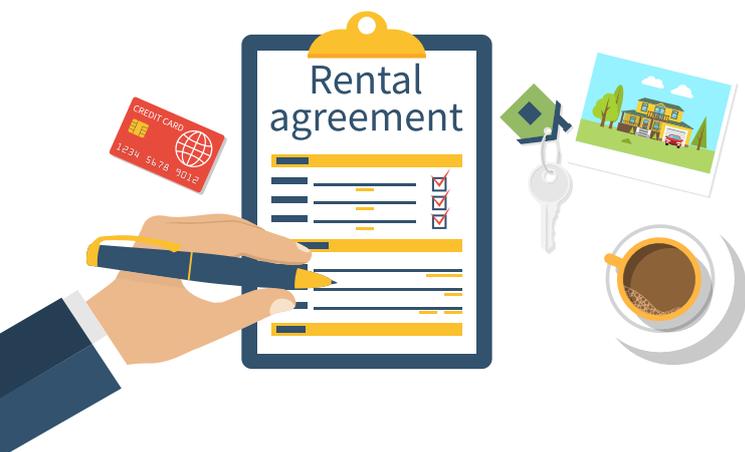
In addition to the required referencing checks, you should get to know your prospective tenant, after all you will be communicating with them for at least the next six months. The first call is an opportunity to ensure they meet the primary criteria for your house – perhaps this includes age, interests and personalities, depending on the current house-mates.

Could you have a coffee with them and do they seem genuine?

Have they house-shared before and what was their experience?

Remember to clarify details of the house and location – often people looking to share are new to the area and may not realise how far the property is from their new job. Being able to find your house easily can make all the difference and reduce the number of no-shows.

The viewing is the best time to manage expectation of life in the house and a positive viewing is the first step into a successful tenancy.



The PPP Value

No lettings experience? No problem. As part of your initial training, you'll attend a Foundation & Lettings Marketing Course and we have an in-house Lettings Advisor to support you throughout your journey. Our franchise partners provide homes to more than 6,000 tenants combined, so we know what we're doing.

7

AVOIDING VOIDS

Effective property management

The great thing about investing in HMOs is that it's highly unlikely you'll experience a 100% void in your property. Letting multiple rooms on an individual basis means that even when one or two tenants move out, the property is still generating a rental income.



Managing an HMO successfully is where we are always a step ahead. Although worlds apart from the steady self-contained property rental it's rewarding and bursting with challenges, regulation and people skills.

We teach you how to successfully source and maintain tenancies effectively and how to manage your HMO, increasing your chances of limiting voids.

- Keeping housemates happy, limits voids, simple, but how do you do that?
- Respond to housemates or maintenance problems courteously and in a timely manner, even if you think it's unjustified.
- Be flexible and responsive to random requests from your house mates builds trust and helps to maintain a positive relationship, such as when a housemate asks to have a friend stay or put up a picture to make it feel homely.
- Maintain the property to a high standard inside and out, and provide a cleaner and/or Gardener.

- Think carefully before you consider a rent increase, keeping good housemates is priceless

Don't delay, when you find yourself in the position of having to find replacement housemates, you should:

- Update your advert and make sure it looks fresh and appealing, add value by setting expectations, such as explaining whether there are additional benefits such as a cleaner and all-inclusive bills.
- Re-market the room as soon as your current housemate gives notice.
- Review the rent to ensure it is set at the right rate for and in line with local market rents.
- Select tenants that you know will work well with existing housemates.
- Be flexible and organised so that when you do have a new tenant interested, everything is ready to go. that



The PPP Value

Our proven method for property management means that PPP landlords lead the way when it comes to service. As a result, they achieve an average of 94% occupancy rates and 99% of tenants would recommend their PPP property or landlord.



CONCLUSION

In summary, when building an HMO portfolio, remember that:

- Deciding where to invest can be just as important as the type of property you buy
- Complying with all planning, licensing and building control legislation is crucial or you could face hefty fines
- Conversion and refurbishment of an HMO should be practical first and aesthetic second
- The interior should attract your target tenant and not necessarily be to your own tastes
- Creating harmonious households is about finding the right tenants for your properties and managing them effectively

But most importantly, if you fail to plan, you plan to fail, and this saying is just as prevalent in the HMO sector as it is in any other business – because investors must remember that this is a business.

You need to decide why you are investing in property at the beginning in order to adopt the right strategy. Is it for an immediate income, long-term capital growth or inheritance planning for the future for example?

Your available capital, potential sources of future funding, individual circumstances and long-term goals will be factors to consider when deciding whether or not to invest in HMOs.

Managing HMOs can also be very time-intensive and if you don't have the free time to be actively involved in the day-to-day running of your portfolio, then the cost of outsourcing this work has to be considered when analysing potential returns.

Once you have clarified what you want to achieve by investing in property, you need to set up the most appropriate business structure.

Help from ethical and professional tax advisors is a crucial first step in building your property portfolio and could limit your tax bill and maximise your profits.



Take the next step

If you want to learn more about starting a franchise in property and share in the success of **Platinum Property Partners**, then we would love to meet you at one of our upcoming Discovery Days.

To book your place call us on **01202 652101**.

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