**Dan Hill 3 Edited v2\_Transcription**

[Daniel Hill] (0:05 - 26:54)

Welcome to the official property entrepreneur podcast with myself, Daniel Hill. On this Strip Back podcast, we're going to be going behind the scenes with special guests to provide insight and inspiration on all things business, life, and the actual realities of high performance in practice. Success and failure are both very predictable.

We hope you enjoy. Afternoon, ladies and gents. Trust you well, and having a great Tuesday.

Hopefully your day's going well. I did a post earlier today, talking about the importance of getting the correct margins and returns, returns on your deals, margins in your businesses, and how in the mass market, if you're getting 10% to 20% end of year triple net profit, that puts you at the top of the UK economy, top of the industries, top of all sectors. You know, 10% to 20% net profit end of year really is top of the pile nowadays.

The way the economy is, the way everything's shifting, changing, the cost of actually running companies now, you know, if you're operating at that level, that is the sort of top of the market. And I put an example on today about how you can get higher than that. So what we do is when we work with our businesses, with our developments, with all of the property entrepreneur businesses that we mentor, we tell everybody that there's higher margins out there.

So there's certain places in the market where you can find really high, lucrative, like genuinely very, very profitable businesses and deals. Equally, there's other places where you'll spend your whole time, you know, running around for running around generating revenue, you're not building a business, you're creating a job. And you know, you're not actually generating enough money to pay the business, let alone pay yourself and make a profit.

The hallmark of a property of the hallmark of entrepreneurship financially, is to be able to build a business that pays you the going rate salary for whatever job you do in the business. And in addition to that, generate the same as an absolute minimum, in end of year profit. So then you get paid for doing a job as if you're employed.

And then you get paid the same again, for the risks, the responsibility, the stress, the headache and heartache of actually building a business. So when you look at that, like, you know, if you're not building a business, it's actually paying an hourly rate plus making a margin, why bother building a business at all, you know, there is an argument say, you might as well go and work for somebody else, you know, why work twice as hard for half as much and be self employed, essentially, where you could just go and get a job and be employed by somebody else. So the hallmark of a business is want to pay ourselves a salary, and then make the same again in profit.

How you doing Nicola? How you doing Catherine? How you doing Anil, Russ, Sue, loads of people online.

So what we're talking about is margins. So margins in businesses and then return on investment in development, or just in any size that you're doing. So the one that I shared with you earlier, so a few of you messaged me on the from the proper entrepreneurs community, and asked with regards to this deal, how does it actually work?

So what I've done is, is twofold. So I've got the figures in front of me. So I'm going to walk you through the figures to understand what they actually look like rather than a snapshot.

And then I'm going to take you through the margins that lots of people are missing. So we spent the last three days at the Belfry, hence the fact my throat's a little bit hoarse, taking proper entrepreneurs through the way to build a business, you know, unique, proven, the proper entrepreneur methodology is without, without exception, the way to build a business. When you understand how to put all these initiatives together, how to build business models, how to look at the market, how to spot waves, how to spot niches, or how to spot waves, how to identify niches, you can put yourself in a really, really lucrative position where, you know, 20% end of year profit would be the absolute start point, you know, we, if we were to if we were to be setting out to do deals and build businesses that generate less than that, you know, there's, there has to be a really, really good reason for it. Because the needle in the haystack, the crest of the wave, the niche in the market is where the profits are, you know, that's, that's what we want to go into.

Building the back office is always going to be challenging. So building the back office is going to be difficult, it's going to be hard work, it's going to take time to get there. Why build a difficult back of house to open the doors and have a challenging sales process, we want to get ourselves in a position where the sales are strong, the markets accommodating and the margins are lucrative.

So if we take this one as an example, so one of the companies that we own is called Manor House Developments. And Manor House Developments is our high density build to rent to sell development company. We do smallest developments.

So the smallest, so this is a small one, the smallest we've done is about six flats, six units. And then the largest at the moment, we've got a hostel going through planning, that's going to be 15 apartments, we're due to get planning for that this month. And we've got we've just finished a block of eight apartments with a four bed HMO in Derby.

We've just finished a care home. So we just finished a 15 unit care home that we're converting to 10 flats. We bought a business center recently, and we're planning for that for 20 apartments.

So that that's the sort of size that we operate in. And there is a sweet spot with all businesses, we call it commercial balance. If we were to do the two small developments, you know, you could make, you could make 30% return on investment.

But if it's only a 100 grand deal, you know, the net return is going to be going to be modest, or you know, the actual pounds is going to be reasonably modest. If you go up too big. So if you take businesses too big, you know, you will start to fall back into that like 10 to 20% margin space, because you've got high overheads, you've got all the compliance or the regulation, you've got all of the framework layers of management that are required to run in a bigger business.

So these sort of developments, you know, they're significantly bigger than your HMOs, but they're not as big as your sort of purpose built PRS or PBS, a bill to rent, you know, schemes in 100. So sort of like five to five to 2030 flats is a good size to be. This is one that so this is one that's now completed, finished, let sold money in the bank.

And these are the end of site accounts. So I'm just going to walk you through the headline figures to give you an idea of how this how these deals work. And then we're going to do is I'm going to tell you about the margins that you're potentially missing.

So some of the messages I got earlier, so one of you, I don't know if Katie's on the call, said about is impossible to get any more than in today's market with construction costs, and the market being quite volatile, it's hard to get even get 20% margin, let alone get 30 or 40% return on investment. It like absolutely, absolutely isn't mass market, but it is absolutely possible. So here's, here's an example.

So this site was a mixed use site that we bought, it was retail, residential and industrial. So as a mixed use site, we paid including purchase costs 153,653 pound 90 pence to acquire it, we then acquired it to get through planning and got planning to put six high density apartments in there. We spent 172,003 pounds on the development.

So our total spend on this one was 325,657 pounds. We then sold it about a year and a half later, a year and a half after purchasing it for 470,000. And then we had some exit costs, agents fees, solicitors fees totaling 6,371.

And then once everything had been divvied up, and the accounts have been released, we made, so the cash is in the bank, now that's completed, we made 137,971 pound profit on the sale. And we made 11,308 pounds on the cash flow. So that's an overall profit of 149,280 pounds.

So that's the actual cash that's left after everything, solicitors, agents fees, legal fees, stamp duty, pre tax, that's everything. So when you look at the returns, when we're saying like 10 to 20% end of year profit margin, in most markets is considered to be top of the pile, highly lucrative. And with developments, you know, in the current market, getting anywhere near 20%, it's gone a bit dark, sorry about that.

In the current market, getting anywhere near 20% for your developments is challenging. This site here was 45 points. So we bought it cash, developed it cash, this isn't like it was highly leveraged with a low investment, it was, it was very low leverage, we used all our own cash for this.

So our return on investment return on cash was 45.84%, which is obviously ridiculously strong. When you think in the bank, the best we could get in the bank for that, like the best would be, you know, single digit returns, like more like probably like sub five. So on this, we've got 45.84% return on investment, and a margin. So where, you know, people are aiming, developers are aimed for depends what size developer you are, but between 10 and 25%. For a margin, we managed to get off this site, including all fees and exit costs at 31.76%. So it's very, you know, these deals do exist, it's very lucrative. This is an example of like that is an example of, that is an example of a very lucrative deal.

You know, we've got we've got deals that are less lucrative than that. Equally, we've got deals that are more lucrative than that. So this is your high density build to rent to sell development.

So with regards to like, what margins are you missing? You know, if you're not achieving these sort of margins, and you're looking at your deals thinking about how does this happen? You know, how are so we had property entrepreneurs stand on stage this weekend just gone, who are making 20, 25, 30, we even had one that was making between 30 and 35% profit before they sold their company that they started on property entrepreneur.

What margins are you missing? That means you're not getting this. And this is where it comes into some of this is about the deal, like you have to be able to get good deals, you have to understand how to stack deals.

But some of it's about understanding where the margins are. It's not just purchase price, bill costs, sale cost, there's other margins, which you might not be considering. And if you can get a little bit of a few of these margins and bolt them all together, they quickly get you up to that 20%, 25, 30, 31% margin 45% return on investment space.

So the first one, so this is these are margins that you might be missing. And you think if you can just get a look at a little bit of these margins to each of your deals, the compound effect is absolutely significant. You know, getting money to that bottom line is the biggest challenge in business.

So with this as a deal, so one of the things, this site was already sold subject to contract, it was off market. So sold subject to contract, somebody else pulled out. So we ended up getting a significant discount, we got nearly a 20% discount on what it was listed at.

So it was listed at over 200,000 pounds, it went sold subject to contract. The deal then fell through, and the agent put it on back at 180,000 pounds to get it sold. We bought it 150.

So the first thing is it was sold subject to contract, the deal fell through and it came on discounted. So what you have there is a motivated margin. The seller is motivated, they've had a deal, they've already started mentally spending the money, the deals falling over, you've then got a motivated margin if you can secure it.

So the motivated seller, that was a discount. So it was on over 200, went off the market, came back on a 180. And then the guy was motivated to sell it, we then bought it for cash.

So he wanted 180,000, which was over 20,000 pounds less than what he sold it for previously, we bought it cash, and we paid 152,000. So that's over 48,000 pounds less than it was originally sold for originally marketed at. So what we got there was the motivated margin.

And we also got the confidence margin, because we were paying cash, we could complete quickly, we were putting our money up, no mortgage, no bridge, no anything like that, we're paying cash, we then got a confidence margin. And we do this all the time, you know, we'll buy cash a lot. And it gets a lot of confidence people because the finance market is challenging, you know, it's, you can be in a great position and finance can still be challenging.

We've had finance challenges, like raising raising finance and dealing with the banks is not easy. So we deal with cash. So there's a cash margin, you know, there's a confidence margin, we get in our size there.

And the risk margin, so we buy all of our sites, pretty much everything that we've bought in the last sort of six months has been unconditional. So this is the risk margin. So we're getting discounts on stuff where we'll buy sites that potentially are only suitable for developers.

But we will buy them unconditionally, you know, we know what we're gonna do, we do our appraisal before we go in, and we take the risk on whether that site is going to stack or not, well, whether we're going to get planning or not. And that gives us another margin that the care home that we bought that we're putting that we've got planning at the minute for 15 flats on that was on the market at 470,000 pounds. And they had offers around 470,000, which was conditional on getting planning for flats, we bought at 445,000 pounds.

So it's stacked at 470. That's why the other developers were buying it. But we bought it at 445.

So you know, we we saved, we made another sort of between eight and 10% margin there, the risk margin, and made ourselves another, say 30,000 pounds, because we took the risk, you know, we took the risk on buying it unconditionally, we secured the site, we got it discounted, there's a risk margin there that we add into the mix, this one unconditional, another risk, you know, the risk, the motivation, the cash, these are all margins that you add in expertise margin, but do you actually know what you're doing with your schemes, whether they're HMOs, flats, flips, tile splits, development, whatever, we do high density build to rent to sell. So we know ours is very, very niche.

But we've got the expertise between myself in our team understand the local plan understand things like minimum space standards, we have that expertise where we can look at a scheme, and we can squeeze extra yield per square foot by understanding how the scheme works. If you take on board if you if you can get the expertise margin in where you know, if you can look at a scheme that's already got planning, and you can optimise the scheme, or you can take a scheme like this, where most people would have been looking at, you know, your minimum space standards and work in there, perhaps their end values off of that, if you understand and have the expertise to optimise those schemes, there's another margin in there. So we knew that this this site was in an area where they didn't have they hadn't adopted the minimum space standards.

So we went for like maximum high density on that, which enabled us to get a really high yield per square foot. So the expertise margin, you do you have the expertise in your team? Do you know your local market?

Do you understand the local plan? Do you understand the initiatives that are available to you like minimum space standards or ways to get around building control regulations, where perhaps you would normally need fire corridors and fire exits? Do you understand how to get around those things?

The expertise margin, you know, that's another margin that can go into the bottom line, if you understand how to work it. The security margin. So a lot of people will go into a site and get that, you know, they'll try and do the best they can to get the best value for money quote, absolutely.

But there's always a risk with the build. So what we do on the build, we do fixed price plus contracts. So we did our build on a fixed price contract.

So when I mean, these commercial developments, you're ripping them all the way back. And it's very rare on the conversions that you don't come across surprises. We'll hedge our bets on the way in and rather than pay top whack, or try and squeeze the pennies for the bottom, we try and find the middle of the road.

And what we do there is we then go on to a fixed price contract, where the main contractor gets a little bit more for, you know, taking on the build. And if it goes well, fair play, you know, they make an extra margin. Equally, if there's some surprises in the build, in the main, they get absorbed by the main contractor.

So there's a security margin there in the build. So we use the fixed price plus contract. So we fix the price.

So that's the security margin, we know, going into it, there's going to be limited slippage on that. And we came in literally like, I've not got the actual budget figures here. Give or take say, 2000 pounds, all things considered, we came in bang on, bang on budget from the day we bought it to the day we sold it, which is you know, that's exactly where you want to be.

The PM margin. So we have a, we have a senior, a full time senior site coordinator in house, who manages our main contractors. What you get there is you get the best of both worlds, you have the project management skills, and the main contractor, if you had to pay a project manager, and then sub all the work out, you would be paying your project management fee.

If you hired a project manager, and then went out to main contractor, there'd be another sort of 10% on your build cost there. We have all of our expertise in house. So we have a full time senior site coordinator, who runs all of our sites.

And that gives us means that we can absorb the project management margin, says the PM margin there that you can absorb it, because we've got the economies of scale to be able to do multiple sites, which weren't having an employer, a full time team member that's employed, that can then manage the site. So we don't have to sub out the PM work, there's another margin there, the holding margin. So the holding margin is where, when you're doing development, especially if you didn't build to sell, you can get your purchase bang on, you can get your planning scheme bang on, you can get your construction costs bang on, the exit needs to be de-risked as much as possible.

If you're not doing build to order, like housing associations, PBSA, forward funding, build to rent, you know, build to rent to set well build to rent forward funding to like a fund. If you haven't secured your exit, you need to be able to de-risk the holding period, because the holding period could cost you your margin. It's not uncommon for development sites to get left with one or two units.

There's a site around here in Nottingham, big, literally just around the corner, big five beds, detached eco homes, 15 on the plot, that build was finished about three years ago, without exaggeration. This is Woodborough Road. So this is we're in Mapley now, Woodborough Road, up the top of Woodborough Road, there's the eco home development.

Without exaggeration, that site was finished between two and three years ago, two and a half years ago, they've only just sold the last site. If you think about the impact that has on compressing your yield, compressing your return on investment, diluting your margin over the build, that holding period can really, really can really, really compress your end of site margin. What you want to do is be able to de-risk your exit.

So what we do is we do build to rent to sell. So this site sold twice, we were selling to cash buyers only. But it sold twice, the first deal fell through.

So it took probably a year from when we completed the build to when we actually sold it. Now that was half a million pounds worth of cash or whatever it was. If we had £330,000, £340,000 tied up in a site, laying dormant, waiting for it to sell, the yield over the spread would be significantly compressed.

Whereas we de-risk our site, so there's a de-risking margin, the holding margin, we do build to rent to sell. So we'll rent it out for the period. So as soon as we finish the build, we rent it out.

And then it starts cash flow. And so after we pay an interest rate on all of the capital that we've put in, so all of our capital, by the time the build's finished, point of year one, we start paying interest on the money, you know, it's still money, even though it's Manor House Development's capital, it's still got to honour the money that's in there. For the period from when we completed the build to we sold it, we made £11,308 profit after refinancing the whole building and paying finance on every month, on top of actually selling it.

If we'd have held that empty, you know, there would have been, well, the cost of finance plus, you know, the cost of finance plus the capital sitting there not earning anything, that would condense your margin. The fact that as soon as it was finished, we rented it out, and then it made basically a £1,000 a month profit every month we held it until it sold. There's your holding margin there, which, you know, most developers don't get.

So, you know, you're de-risking your exit by having that holding margin in there. You throw that in the mix as well. And then finally, probably two more, so it's a premium price margin.

You know, you can fight in the mass market, go for what everybody else is selling, or you can go for a luxury premium bespoke niche. Everything that we do on these sites is niche, it's crest of a wave. There is no mass market playing in this point.

So we get the premium price point margin. And then finally, we exit using the, we exit and make the yield margin. So rather than sell it as a residential block of flats, we get the yield because of the way that we develop them because of the yields, the gross rents that we achieve, because of how well these high density builds rent to sales cash flow, we also then get the yield margin.

So we buy on the void industrial or the void mixed use per square foot price per for the site, we then build it out and pay our per square foot development for the site. But then rather than sell it on the residential value, which would be what most developers are looking at, which makes a lot of these sites unviable, we exit on the commercial value. So we sell it to an investor based on the net yield and multiply the net yield rather than the benchmark local market comparable residential valuation, which is what you would do with is very similar to your single let multi let model, you know, HMO holds a commercial valuation, a single let holds a bricks and mortar residential valuation.

There's 1, 2, 3, 4, 5, 6, 7, 8, 9, there's 10 margins there that you might be missing. So when we say, you know, most people in the market are making 10 to 20% net profit or 10 to 20% return on investment is absolutely realistic to be making, in this case, 45.8% return on investment, or 31.76% end of site, all done and dusted margin. But they're not everywhere.

And you do need to know what you're doing, you have to understand how this all comes together. Success and failure are both very, very predictable. And the methodology that we train our property entrepreneurs on is exactly this.

It's literally how do you look at your market? How do you build your strategy? How do you create what we call a business model?

We spent the last three days teaching this to property entrepreneurs at the Belfry on our three day accelerator. And next month, we're starting our 12 month program where we'll be taking 60 people through the program start to finish to show you how to do this. You know, property entrepreneur businesses start at 20% profit margin, absolute, absolute minimum, you really want to be building these businesses up into the 20, 25, 30, 40.

We've even got one business model that does over 50% net profit. It's not easy. These aren't on the open market, you won't, you won't find out about them in the mass market with huge confidence.

You know, these are niche strategies that crest of a wave that behind the scenes, and you've got to understand all of these mechanics to pull it together to actually achieve that. So hopefully that gives you some insight, you know, there's 10 different margins there that you could probably be missing. And if you add those up, you wouldn't need to add many of them into your development strategy or your deal appraisals to enable you to squeeze the margins and make these deals you're doing more lucrative.

And if you've not already signed up for the property entrepreneur program starting in October, go to the website now www.property-entrepreneur.co.uk. If you enjoy these videos, subscribe to the YouTube channel, I try and do at least a few of these a week. Subscribe to the YouTube channel, and you'll never miss them. Again, we do deals, business, entrepreneurship, finance, leadership, recruitment, anything you want to know about property entrepreneurship, we share on there.

And join, make sure you join the Facebook community. If you haven't, if you're watching this video on YouTube, and you haven't joined the Facebook community, search for the property entrepreneurs community. Join us in there, there's nearly 2000 members now in September 2019.

And you'll get a lot of value in there from the content and posts we have and, you know, connect with me on Facebook and LinkedIn. Gladly help you with any of this. Hope you're all having a good day.

Hopefully that's given you some insight into where these margins are that you're actually missing. I wish you the very best of luck with all your developments. And I'll see many of you on the property entrepreneur program.

The gold rush is coming 2020 to 2025. This is only going to get bigger, it's only going to get better, it's only going to get more lucrative. Don't be the one that missed the boat.

Catch you all again soon. Thank you for listening to the official property entrepreneur podcast. Trust found value and insight in the topics discussed.

And as always, very much welcome your comments, feedback and any suggested guests or topics you would like us to consider. Please give us a review and let us know what you think. Follow me on social media, Daniel here on Facebook property entrepreneur on Instagram and YouTube.

And if you'd like to hear more, please share, subscribe, and look forward to seeing you on the next one.