**PEP 129 Edited\_Transcription**

[Daniel Hill] (0:05 - 25:35)

Welcome to the official property entrepreneur podcast and myself, Daniel Hill. We are now rated in the top 10 of all business entrepreneurship podcasts in the UK. Last year, we were rated the seventh most popular property podcast.

And every month by downloads, we are rated in the top 5% of most popular podcasts in the entire world. Thank you all for your support for sharing and subscribing to these podcasts. This is literally my life's work broken down into simple blueprints for you to execute everything that you want, be it wealth, health, or life by design.

Success and failure are both very predictable. Let's get into it. Hello, and welcome to the next episode of the official property entrepreneur podcast.

Hope you are very well and enjoying a great week. It is Tuesday, it's time for the next episode. And in this podcast, I'm going to talk about why private schools.

So many of you will have seen on Facebook and Instagram, if you don't already follow me on Instagram, it's property entrepreneur underscore, and Facebook, Dan Hill, you have seen me posting about private schools that we've been buying. And lots of people have inquired as to why private schools, what's the interest? How does the strategy work?

What's the appeal? So what I'll do is I'll just do a quick 10 minute overview, give you an introduction to it. And then if it's of interest, let me know, drop me a message on social media.

And we'll do a bit more detail to give you a bit more insight. I hope you have had a chance to listen to the last episode we did two episodes ago, I think it was called the 10 layers of wealth. So again, had lots of various comments, questions, emails into the office around 10 layers of wealth, and specifically the financial fortress.

And what we're actually going to do is I'm looking at the moment in probably starting in March, doing a small mentorship, small group, take about 12 people through over maybe seven or eight weeks, the process that's required to put together your financial fortress. Now, this is literally 20 years worth of work. I've been teaching it for 10 years on the board level.

And it's the whole strategy and structure that I've used to build my portfolio to create wealth, to manage wealth to diversify risk. And it's basically a dashboard, there's about seven or eight sections to it. And once you've built it out, it just makes your strategy, your decision making process, your rules, and your returns, black and white, really clear.

And whether it's one year, five year, 10 year plan you're looking at, it will have it in there, start to finish. Now, it's gonna be quite a small group, it will only be for high net worth individuals, unless you're already making about 100,000 pound a year, this is probably not suitable for you, it is a very much an advanced thing. If you're interested in that, drop me an initial message on Instagram or Facebook.

And then when the details come out, we'll send it over to you and see if it might be for you. So moving on to today's podcast, talking about private schools. So what is the appeal of private schools?

So I started looking at private schools about six to nine months ago, and recently completed on our first one we exchanged in December, we completed in January. And we have our second one due to complete on the last working day of this month. So what is, what's the appeal?

Well, to start from the top, I get presented with loads of opportunities, lots of deals, lots of businesses to buy, sell, invest in. And as many of you will be aware, I'm a reasonably sort of conservative investor, I don't do hugely high risk deals anymore. And I don't do a lot of deals, I might get involved in maybe five different deals, businesses outside of my existing sort of portfolio stuff each year.

But when I find one that meets my criteria, I absolutely go for it. Because the explicit thing I'm looking for, there's no shortage of opportunities. You don't have to look very far, whether it's in property or business.

There's opportunities everywhere. But what I'm really looking for is those needle in the haystack niches. So if you look at all of our businesses that were built over the last 20 years, all the businesses that I've invested in, angel investor in, incubators, companies that I currently own, or the ones that I've sold in the past, they've all been highly niche businesses are very, very niche, very strategic, very well positioned, very crest of a wave normally.

And there's something very unique about them. Now, when you find these businesses, they're highly lucrative, they're very well positioned, low competition, high margins, so many reasons why you'd want to do them. But they're not everywhere.

You know, you won't, the reality of finding 20, 30, 40% margin businesses is reasonably slim, the reality of finding highly lucrative property deals or development deals in a competitive market is quite low. But when you understand how to use a niche, and you find that little sweet spot that nobody else really understands, that's where it all comes together. And this is one of those I was presented, this is one of the ideas or one of the opportunities I was pitched last year.

And would you be interested in buying private schools? Initially, I was like, need to understand what the model is. But it's, you know, my initial thought is I can see why there's a, an appeal in there.

And then after a period of about three to six months, getting into the detail, understanding the market, looking at some deals is one that I've decided to go ahead with. It's worth acknowledging in this, this is definitely one of those opportunities where you need a business partner. And my business partner in this who bought the opportunity to me is a chap named David Allison, he is heading up the private school group, he is running the operations of the schools and companies.

And he's bringing the education sector expertise to the party. He's got a lifelong experience in running schools being headmaster, building schools, opening schools, launching and building portfolios to schools, buying and selling overseas, and presented this opportunity to me. He's done it for decades, and has seen an opportunity to now do it in the UK, the market timing is correct, the niche and the crest of wave positioning is perfect.

And a combination of his expertise in the sector, and my expertise in investment, put those together, and it bodes for hopefully a very lucrative and very well structured partnership opportunity. So how does it actually work? You know, what is the appeal?

Why does it make this a needle in a haystack business? Well, the basic structure, and the strategy is the structure, if you like, is in fact, now I'll talk about the strategy first, sort of the avatar, like what is this sweet spot that we're looking for? Well, there's no shortage of people interested in private schools, there's a big fund backed, established asset class, profile of stock, you know, there's lots of funds, lots of national and international groups that build schools, buy schools, run portfolios of schools.

But as with everything, there's a certain point, which it's not similar to development, small developers like me will operate in that sort of 1 to 10 million pound sweet spot, whereas the big developers wouldn't look at anything that's less than maybe 15, 20, 30 million pounds. It's known where those spots are most of the big funds, the big groups, the pension backed PLCs that invest in these things tend to go for the bigger deals. So maybe 3-5 million pounds upwards, and that's the sort of space they play in the UK and overseas.

So the little niche that we're operating is the smaller one. We're not looking at groups at this stage, we're just looking at independents. And what we're looking for is independently owned private schools that are well established, so longstanding track record, normally owner operators, so they've owned the business or the school for 20, 30, 40 years.

Quite often the story is that he's the headmaster, she's the secretary, or she's the headmaster, or she's the owner and her daughter's the headmaster. There's normally some sort of legacy piece there, father and son, husband and wife, some sort of legacy piece to do with the ownership. And what tends to happen is they've run it forever.

So it's really well established, trades on reputation, and because of its credibility, it does quite well. Equally, it's probably due to the ownership being decades rather than days. There's probably opportunities to improve it.

So things like social media, sponsored ad clicks, pay-per-clicks, more active digital marketing. Equally behind the scenes, if it was run on a more traditional style of operations, so maybe paper files and manual bookkeeping, there might be behind the scenes an opportunity to increase some of those things. But because it's been there a long time, it's worked reasonably well.

But they're getting to a point now where they really want to sell. And because they want to sell, sorry, because there is this sort of emotional buy-in, because they've run it for 10, 20 years, 30 years, in most cases, their children went to the school and they've now got older, maybe even had children of their own, their grandkids are at the school. Maybe they're going to retire and they're moving around the corner.

Lots of reasons why they've got an emotional attachment to the building or to the school. So for that reason, they don't want to sell it to a developer because they're going to move around the corner. They don't want to evict all the kids.

They've got a legacy piece there. They want to see it go on to the next level, and they don't want to sell it to somebody who's going to knock it down and put 50 houses on it on the football pitch. Equally, because it's quite small, and it's independent, and perhaps it's not, or it might be small, it might not be of interest to the funds, because it's perhaps it's not optimised or as lucrative as it could be.

It may not be something that's of interest to a normal small sort of armchair or retail investor who's just looking for a return of capital. Because it's a very niche industry and sector, there's not many people going out and buying and running these schools because they're very labour intensive. You have to really understand operationally how to run them.

You couldn't just move out of a retail background or an investing background or a business background and then go in to start running a school because it's an education piece. It's a very specialised sector. So what it means is they don't have a huge amount of options to sell.

Not even if they discounted it, they wouldn't be able to sell it because what they're looking for is somebody to take it on. Just jumping in quickly with two things. So the first is if you're enjoying these podcasts, and you haven't already ordered a copy of my brand new first ever released book, Karma Credits, please go to Amazon now and order yourself a copy of Karma Credits by Daniel Hill, and it'll explain to you the universal law of wealth, health and happiness.

And the second, if you want a free report that you can read straight away, go to www.boomorbust.co.uk to understand the five things that I'm doing as we head into this next phase of recession. Back to the podcast. So it's a very, very niche part of the market.

There's a very clear avatar of the people that we're working with. And we're a very specialist type of buyer whereby, because at the minute, obviously, commercial finance is not fantastic. If these schools are quite old, you've got PropCo, you've got OpCo, perhaps you've got high overheads, but limited margins in the operations, the finance opportunities and commercial rates at the minute are just whilst buy to let and retail rates are coming down.

That commercial space is still real, real heavy on, you know, it's not uncommon for them to be getting into digital double digits now, which can make it difficult for a leverage purchase. So we're in a pretty unique position. We've got David who knows how to run schools.

He's done it for his whole life. He's got experience doing it in the UK and overseas. You've got me who's got access to capital, looking to buy low yielding, low risk return stock.

And it just makes a lot of sense. So what we do here is we have been buying these schools off of the outgoing sellers. And what we're looking for is a genuine, only works if there's a genuine sort of win, win, win.

So what we're looking for is a win for the like the seller wants to keep the school open. They want to see it go on to the next level. And they want to keep that legacy piece going.

And they will obviously want a private and confidential sale. We can tick all of those boxes, whereas very few people would be in a position to a win for the buyer. So obviously, because we are a niche buyer, there's not a huge amount of other opportunities.

The prices that we're acquiring these are significantly more discounted than they would be if you were to value them on either EBITDA or the commercial valuation of the building or the bricks and mortar price of the land and estate. We're buying them significantly discounted on that. And it's a win for the school and the pupils, because we're going in there with both the intention to retain operation as a school, but also optimize it.

So bring things in like streamlining efficiencies behind the scenes, making the customer experience better for the parents, making the experience within the school by investing in the school better for the pupils, bringing in higher student numbers, moving it higher towards its operational potential or its operational capacity, which brings in more operational and overhead budget, which means we can invest more in XYZ, whatever we choose to take the school forward, whether that's in the grounds, in the buildings, or it's more support and sort of team resourcing by way of teachers' expertise, experiences within the school. So that's the sort of position in the market and what we're working with.

And if you're not already following me on social media, go on there, you'll see it shared on my stories, things like that. You'll see the schools, the buildings. These are real trophy piece acquisitions.

So the first one we completed on was 7,500 square foot detached building on three acres of land. It's got private woodland, gated estate, football pitch, swimming pool, tennis courts, outbuildings, forest school, music center, et cetera, et cetera. It's an amazing, amazing, amazing site.

So you can see those on my social media. And what we're doing strategically is purchasing the building and I'm basically buying it cash. So buying them unencumbered because finance opportunities aren't fantastic at the minute.

So buying them cash, which obviously means you can move a bit faster as well. And then what I'm doing is we're putting the building in PropCo. So I own the building in PropCo, moving the assets, the trading assets, the IP, the operations into OpCo.

So you have two limited companies, PropCo and OpCo. And then putting a lease between PropCo and OpCo, so a 10-year lease. And then the appeal, obviously, for PropCo is you've got a bit of business there that's established for 10, 20, 30 years, and it's got a 10-year lease on an asset.

So for me, for my financial fortress, parking my pension fund in a state that I'm buying that's significantly below market value. So on the balance sheet, you're already acquiring 100, 200, 500,000 pounds worth of equity on the balance sheet, which isn't realized today. But obviously, whenever you choose to exit, until then, there's a notional equity there that you can either leverage up against, or you can just have sitting on your balance sheet.

So that's the win for step one. Step two is then a guaranteed yield. So for the asset layer, so layer three, if you've not already listened to the financial fortress, or when we talk about the 10 layers of wealth that I talked about previously, when you're getting up to that top layer of asset, you've got the asset, which is below market value, real estate, real nice prime properties.

And then you're leasing it onto a 10-year lease with the OPCO, which gives you a stronger return than you would on most other low risk, low return investments. That's a FRI index linked 10-year lease, which is a really attractive position to be in. And then third, you've got OPCO, which is an operating trading company, which you may or may not have paid a huge amount for.

And that would then generate 10, 20, 30,000 pound a month in operational profits, which is the third appeal or fourth appeal. And then the final one is, if you choose to roll it up, there's a good multiplier. Although these sites are too small to be of interest to the funds, you do a roll up, which is what we did with Multi.uk, rolled up 10 different businesses and then exited it to a larger one. Would be exactly the same with the schools. Take the OPCOs, roll them up, and then probably sell the OPCOs to a fund or to a larger investment group, and then keep the PropCo as either a pension fund, things like that. And you can use, there's other advanced models here where you can use things like SASSs and stuff like that to make it more lucrative or to leverage it up and roll up the returns.

So there's a few phases to this. So we're, as with anything, we'll sort of have a strategy. We've got a short, medium, and long-term strategy.

Immediate plan is to complete on the first two schools, which will be done by the end of this month, and then get those bedded in, make sure operationally everything looks in real terms as good as it looks on paper. Obviously, we're into it for several million pounds, so don't want to run before we can walk. Bed that in, phase one proof of concept.

Assuming that works, we'd then move up to five schools, and then what we'd be looking at there is an OPCO valuation of around 10 million. So looking to roll up a group of individual private schools, five schools each doing X amount in profit, look at the OPCO model then with five PropCos, five OPCOs in a small privately-owned group structure. And then finally, phase three would either be an exit to then exit to a fund, or if there was additional economies of scale, if the market positioning was still attractive and lucrative, might be to scale up, add more, and just look at is it time then to scale, or is it time then at phase three to sell?

Hopefully, that gives you a bit of insight into the appeal of them. So they're really great properties, really great assets and estates to own. In the future, if it did need to be a plan B, I mean, one of the reasons that we're able to do these deals is our primary objective is absolutely not only to keep the schools going, but also to take them to the next level.

But should there ever be a problem economically or locally, for whatever reason, they're great assets to hold, they're great potential development opportunities as a second strategy, but that's not why we're getting into it. You've got the PropCo and OPCO arrangement where you can get your balance sheet value up, you can get a solid yield on your low-risk, low-return asset investment. You've then got your OPCO, and then you've got a potential multiplier up, roll up for a potential exit in a phase three.

Hopefully, that makes sense and gives you a bit of insight. If you want to know more about the model, the margins, the returns, the buildings, the sites, how we go about it, what infrastructure we're looking at putting in place operationally, how we're taking the schools and the pupils and the experience and the education to the next level, just drop me a note in direct messaging on social media and on Instagram or Facebook, and I'll put together a bigger podcast for that, maybe get David on, and we'll do a bit of a Q&A and answer some of your questions on that. A few top tips as with anything with this. The first thing is that you really do want to be looking for niche strategies.

Every idea and every opportunity is not a good idea and it's not a good opportunity. What you're looking for is successful people say no to most things, very successful people say no to almost everything, and you want to just be finding that real needle in a haystack, that one thing that nobody else is doing, where you can tick a few boxes that other people can't like this, and it's just an absolute no brainer. Making money is the last problem you need to have.

All businesses are noisy, challenging, dealing with finance, brokers, solicitors, et cetera, et cetera. It's always going to be hard work, but you want to make sure you're doing it for something that is always going to turn a solid return. The second is make sure you've got the expertise that you need.

So either you're well read on it yourself, practiced a decade in, decades, not days of knowing what you're doing, or you're partnering with someone who's got those, who's bringing that wisdom to the table. You can't teach experience. And if you're partnering with somebody that's got 20, 30, four years experience in an industry, that really is worth its weight in gold.

And a strategy like this, you just wouldn't, there's no way I would do it on my own. There's the idea of me running private schools is destined for failure. So what I'm not necessarily saying is go and do private schools.

What I'm saying is take the logic and the fundamentals of this strategy of finding these niches, creating a partnership opportunity, and then capitalizing. But don't play games you don't understand. Even if you see loads of people making money out of it, it just will not work for you.

I don't know anybody else who this strategy could work for unless you had a high net worth individual with resources that they're willing to park for low risk, low return investment, and somebody in that field of expertise, in this case education, who's got experience in both running schools and being a headmaster and buying and building and opening and launching schools in this country and overseas. You want to find that partnership in what you're doing, whatever it is, consultancy based, professional services, certain investment strategies, high density development, PBSA, find your niche, find your strategy, find the thing that you're the best in the business at, or somebody else is the best in the business at, and then put yourselves together and you're on to an absolute winner.

And then finally, and this is something that I've tuned into recently, last six to 12 months, I've said it for a long time, but when we're talking about deals and strategies, it's very easy to get deal heat. And the final top tip is just generally about deals is don't get caught up in the excitement. Don't get caught up in the deal heat and don't feel like you have to be doing, don't feel like the ego needs to be 20 deals a year.

You're better off to do one deal every two years that makes you 5 million pounds than you are running around trying to buy a property a week. And the mantra really is don't do deals that don't make money. The amount of deals that I see and I look at and that I don't buy because they just don't make money is the difference between creating genuine, long-term, sustainable and scalable wealth and just being a busy fool running around buying deals for the sake of it just to put stuff on Facebook.

So number three is just don't do deals that don't make money. That's the fundamental rule of investing. I hope you enjoyed that.

And like I say, if you didn't listen to 10 Layers of Wealth, go check that podcast out. It seems to have gone down really, really well. That is why we buy private schools.

If you want to hear more, drop me a message on social media. Otherwise, I will catch you on the next episode and all the best until then. I hope you enjoyed this episode of the Official Property Entrepreneur Podcast.

If you are not already subscribed, click subscribe now to make sure you never miss an episode again. If you're not already following me on social media, Instagram is propertyentrepreneur underscore. Facebook is Dan Hill.

And if you're not already in the Official Property Entrepreneur community on Facebook, there's over 8,500 of us in there now. Join that group. And if you're not in one of the private WhatsApp groups, maximum of 20 people in each group, in the show notes, type VIP podcast and send it to the number that's in the show notes on WhatsApp and we'll get you to one of the private VIP WhatsApp groups where you can request your own podcast.

It'll be dedicated to you and your business. And every Tuesday, I'm in there answering questions, giving you one-to-one direct support. And we don't know how long we're going to keep these open for.

Success and failure are both very predictable. I will see you on the next episode.