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[Daniel Hill] (0:05 - 28:00)

Welcome to the official Properties 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. In this podcast, for the first time ever, we're going to be re-releasing a previous episode. In 2019, I recorded a podcast called The Margins You're Missing.

And the content in this is as valuable today as it was then. For those of you that are in property development, you would appreciate that risk returns reward. And whilst we do not want to expose ourselves or risk losing our shirt, if we can manage those risks accordingly, we can genuinely go from the average margin of 15% to 25% up to the potential margins of 50% to 100% return on investment.

Development is not for the faint hearted, and the risks should not be underestimated. But when you can manage them effectively, you genuinely can create market leading, highly lucrative deals and investments. In this podcast, over the next 25 minutes, I'm going to take you through the 10 different margins you're missing within your developments that you can apply today to increase the margins you're making.

I hope you enjoy it and I wish you the very best of luck putting it into practice. 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 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.

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, if you're operating at that level, that is the sort of top of the market. And I'll 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 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 running around generating revenue.

You're not building a business, you're creating a job and you're not actually generating enough money to pay the profit. 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're getting paid for doing a job as if you're employed, and then you're getting 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, if you're not building a business that's actually paying an hourly rate plus making a margin, why bother building a business at all? There is an argument to say you might as well go and work for somebody else.

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 we 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 from the Property Entrepreneurs community and asked with regards to this deal, how does it actually work?

So what I've done 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 property entrepreneurs through the way to build a business. Unique, proven, the property entrepreneur methodology is without exception, the way to build a business.

When you understand how to pull 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 20% end of year profit would be the absolute start point. If we were to be setting out to do deals and build businesses that generate less than that, there has to be 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. 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 market's accommodating, and the margins are lucrative.

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

This is a small one. The smallest we've done is about six flats, six units. 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. 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've just finished a 15-unit care home that we're converting to 10 flats. We bought a business centre recently.

We're planning for that for 20 apartments. So that's the sort of size that we operate in. There is a sweet spot with all businesses.

We call it commercial balance. If we were to do two small developments, you could make 30% return on investment. But if it's only a 100-grand deal, the net return is going to be modest.

In actual pounds, it's going to be reasonably modest. If you go up too big, so if you take your businesses too big, you will start to fall back into that 10% to 20% margin space because you've got high overheads, you've got all the compliance, all the regulation, you've got all of the framework layers of management that are required of running a bigger business. So these sorts of elements, they're significantly bigger than your HMOs, but they're not as big as your purpose-built PRS or PBSA bill-to-rent schemes in the hundreds.

So sort of like five to 20, 30 flats is a good size to be. 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 these deals work.

And then what I'm 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 it's impossible to get any more 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 absolutely isn't mass market, but it is absolutely possible. So here's an example. So this site was a mixed-use site that we bought.

It was retail, residential, and industrial. So it was a mixed-use site. We paid, including purchase costs, £153,653.90 to acquire it. We then acquired it, took it through planning, and got planning to put six high-density apartments in there. We spent £172,003 on the development. So our total spend on this one was £325,657.

We then sold it about a year and a half later, well, 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 had been released, we made – so the cash is in the bank now.

That's completed. We made £137,971 profit on the sale, and we made £11,308 on the cash flow. So that's an overall profit of £149,280.

So that's the actual cash that's left after everything – solicitors, agents' fees, legals' 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, 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 very low leveraged.

We used all our own 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 single-digit returns, more like probably like sub-five. So on this, we got 45.84% return on investment and a margin. So where developers are aimed for, it 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 these deals do exist. It's very lucrative. That is an example of a very lucrative deal.

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 what margins are you missing, if you're not achieving these sort of margins and you're looking at your deals thinking, well, how does this happen? 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.

You have to be able to get good deals and 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 these are margins that you might be missing.

And you think, if you can just add a little bit of these margins to each of your deals, the compound effect is absolutely significant. 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 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 deal's 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 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 were paying cash. We then got a confidence margin.

And we do this all the time. We'll buy cash a lot and it gets a lot of confidence people. Because the finance market is challenging.

You can be in a great position and finance can still be challenging. We've had finance challenges, like raising finance. Dealing with the banks is not easy.

So we deal with cash. So there's a cash margin. There's a confidence margin we get in our sites there.

The risk margin. So we buy all of our sites pretty much. Everything that we've bought in the last 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. We know what we're going to do.

We do our appraisal before we go in and we take the risk on whether that site's going to stack or not, or whether we're going to get planning or not. And that gives us another margin. The care home that we bought that we've got planning at the minute for 15 flats on, that was on the market at £470,000.

And they had offers around £470,000, which was conditional on getting planning for flats. We bought it at £445,000. So it's stacked at £470,000.

That's why the other developers were buying it. But we bought it at £445,000. So we made another sort of between 8% and 10% margin there, the risk margin, and made ourselves another, say, £30,000 because we took the risk.

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, the risk, the motivation, the cash. These are all margins that you add in.

Expertise margin. 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 and 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 can get the expertise margin in, 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 your minimum space standards and working 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 site was in an area where they hadn't adopted the minimum space standards.

So we went for maximum high density on that, which enabled us to get a really high yield per square foot. So the expertise margin, 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, 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 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 taking on the build. And if it goes well, fair play, 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 used a fixed price plus contract.

So we fixed 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 £2,000, all things considered, we came in bang on budget from the day we bought it to the day we sold it, which is, that's exactly where you want to be. The PM margin.

So we have a full-time senior site coordinator in-house who manages our main contractors. What you get there is you get 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 a main contractor, there'd be another 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 means that we can absorb the project management margin. So it's 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 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're doing 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, build to rent to set, well, build to rent forward funded 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 a 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 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, if 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, a 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 flowing. 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.

It's still money, even though it's Manor House Developments capital, it's still got to honour the money that's in there. For the period from when we completed the build to when we sold it, we made £11,308 profit after refinancing the whole building and paying finance on it every month, on top of actually selling it. If we'd have held that empty, 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 £1,000 a month profit every month we held it until it sold. There's your holding margin which most developers don't get. So 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 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 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 mixed use per square foot price 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 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 is 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, their crest of a wave, they're 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 enjoyed 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 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 you 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 Hill on Facebook, Property Entrepreneur on Instagram and YouTube.

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