**PEP 47 Edited\_Transcription**

[Daniel Hill] (0:05 - 32:11)

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. Hello, and welcome to this next property entrepreneur podcast. What we're going to talk about in this property entrepreneur podcast is when to sell.

It's the question on everyone's lips, if the secret sauce is to buy low, sell high, when do we buy, and when do we sell? There's lots of ways to approach this, but over the last five years or so, I've applied a calculation to my portfolio, and it gives me a pretty clear strategy and understanding as to what to hold, what to flip, what to buy, and what to sell. Specifically, in this podcast, what I'm going to do is look at when to sell and what we call the 10-year rule.

On Property Entrepreneur, we use a thing called the 10-year rule, and it gives you a crystal clear, hard, and fast way to distinguish whether you should sell a certain property or whether you should potentially keep it. I'm going to go through this. Before I do, make sure you hit the subscribe button.

If you're not already subscribed, the official Property Entrepreneur podcast has now been rated in the UK's top 10 podcasts in the property and investment and entrepreneurship field. Make sure you subscribe, and every Tuesday, tune in. We're going to be ramping these up now, and every Tuesday, I'll be releasing a small podcast between 15 and 30 minutes of insight, inspiration, investment, behind the scenes, models, frameworks, hacks, strategies, all the things you need to get ahead in your life, business, wealth, health, and life by design.

In this one, I'm going to look at the 10-year rule and, well, when to sell, and I'm going to dedicate this to Hugh Davis, who is on our Property Entrepreneur program. He's a first-year property entrepreneur, and on our budget review war room in the week, I shared about the 10-year rule and how to calculate which properties in your portfolio to sell and which ones to hold, and he actually posted some follow-up questions, having applied it to his own portfolio, and I thought I'd do him a podcast and share it with all of you to give you some further insight on how to apply this in practice.

So what we're looking at here is when to sell certain properties in your portfolio. Some properties you will hold for the medium to long term. So as long as your liquid, your balance sheet's nice and strong, you're servicing your debts, and you've got a good balance over your collateral and your equity and your interest rate contingencies, we use a mechanism within the financial fortress called the war chest and the working capital.

As long as you've got this good structure of sustainability and security to your portfolio, some stock you'll hold for the medium to long term. Other stock, however, might be built for the short or medium term, but actually, in the long term, could actually be a risk to your portfolio. So the sort of stuff you might hold for the long term would be, say, singlets, or so I've got singlet properties that I've bought various areas around the UK, never seen them, never had any issues with them.

Some of them, the same tenants have been in for 10 years, and they don't cause me any issue. They're long term pension pot investments. Maybe they make me 6%, 8% yield or minimum 8% return on investments, my criteria for singlets.

Also, I've got things like vanilla singlet blocks of flats, things like that that I'll hold in my portfolio forever because they're good, stable, long term, secure stock, whether it's for rentals, or you could sell them onto the residential market, or sell them onto other buy to let investors. Good, mainstream, macro, mass market stock. So you keep them forever.

Low risk, low return, long term pension pot asset investments. Other portfolios, however, you might have more of a short term view on. There's other strategies where actually you can go for the higher returns, and you can gear the portfolio up.

You might gear the portfolio up by using things like density. You might increase the density of a portfolio and have apartments that are perhaps below the minimum space standards, or micro apartments, or high density. Now you can't actually build these, but up until April this year, 2021, you could build them.

You gear these portfolios up to be purpose built for a certain market, and it gives them a higher yield. So you take a higher risk. You maybe make a higher upfront capital investment.

But the outcome of that is you get a higher yield on your capital. So this would be things like a HMO portfolio, or a service accommodation portfolio, or high density portfolio. Any stock that's really been geared up to generate a higher cash flow due to a certain market condition.

So if there's an area where there's high demand for labourers, it might be used for service accommodation, or an area that's really high demand for students. So you might have student accommodation, whether it's PBSA or HMOs. And these are really quite short to medium term investments, more maybe medium term investments, because they rely on the market conditions of this year, next year, the next five years.

But actually, if you wanted to hedge your bets on the market being the same in 20 years or 30 years, you'd struggle in most cases to have that level of confidence to hold them. So first is, if we know when to sell, it's also thinking about what we want to sell. And when we're going to apply the 10 year rule, this is the main thing is understanding what to sell.

So what we want to sell is these higher risk properties. Properties that potentially make good cash flow today, but actually wouldn't be around in 5, 10, 20 years with absolute certainty, like perhaps a single letters. So we think we'll understand that, that's the stock that we might consider selling.

But why is that? Why are we going to sell that? Well, what we want to do here is a few things, is you're getting a return today.

So it's worth having a HMO or service accommodation, high density blocks of flats, student accommodation, because it cash flows today. But actually, it's a risk to your long term wealth creation or your long term wealth sustainability or your long term financial fortress. Because you want to, as you develop your portfolio, the aim of the game is constantly to be de-risking.

And there's a big difference between having 100 grand income a year from four really highly optimized service accommodation units or HMOs or having it off of, say, 30 or 40 single letter properties, semi-detached, rented out to families, young professionals, things like that. So what we want to do is establish where, what's the reason for selling these? So the first is to de-risk the portfolio, is to get to a point where you're starting to, as your reliance on the high cash flow portfolios reduces, you can actually start to de-risk the portfolio, move away from cash flow strategies into perhaps more asset based and pension pot strategies.

So the first thing is, with regards to why to sell, is to actually de-risk the portfolio, move away from those high risk, high return strategies and portfolios, properties into lower risk. The other thing is, we also want to take money off the table. So one of my business partners actually calls this notional equity.

And this is, we are getting to a point in the market now where we're seeing this yield compression. And I'll come on to commercial valuations in a moment. But at some point, you want to take money off the table because you could be a gazillionaire on paper.

But until that cash is in the bank, it's just notional equity. And you see this notional equity a lot in commercial valuations, in commercial valued HMOs, in commercial property, where because of a certain market condition, even in the equity markets, people get really excited about a market or an industry or a sector or a new crest of the wave that the commercial valuations go through the roof to a completely, to be frank, unsustainable level. And actually, there is a time to look at that and think, do you know what?

Even by my gauge, these revaluations I'm getting are starting to look pretty high. It might be an argument then to take some money off the table because that valuation is only notional. You know, that equity you've created is only on paper until you get in the bank.

And at best, the market drops. And actually, you lost some of that notional equity. And actually, you didn't tap out of the top.

And you've lost that margin. At worst, you've geared yourself up on these commercial valuations that are heavily reliant on today's market. And actually, when the wind changes or the market shifts or the funds come in and do a build to rent scheme of PBSA or PBPA or care or extra care or whatever in your area, it completely impacts the stock that you've got.

And actually, that valuation geared up commercial valuation you're relying on is actually is no longer there. It's disappeared. It's the whole, I forget what they call it.

It wasn't the poppy. It was the flower that begins with L. Those of you that know what I'm talking about, sitting there thinking, showering it at your iPhone or your car radio, passing the, it wasn't passing the poppy.

It was passing the tulip. It was the tulip thing. There was this tulip investment where tulips just kept going up and up and up.

People were buying them and then selling them straight on. And actually, the person who got left holding the tulip at the end was the one who lost. One of the reasons we want to sell is we want to take money off the table because if this is as good as we get, we want to tap out of the top and say, do you know what?

This has been crazily overvalued. I don't even think it's worth that. Or it's not going to be worth that in five years or 10 years or 20 years.

Let me just tap out of the top, hit the button, exit the market and take some money off the table. So they're the reasons why you might sell is look at something and say, right, great valuation today, may not be that good tomorrow or in a few years, the market might change. HMOs might not be as popular.

Service accommodation might get regulated, whatever. It's an opportunity to tap out of the top. So that's why we sell.

We're talking about the stuff that we sell is the high risk stock, high density, HMOs, service accommodation, retail. You think about shopping centres is a great example. If you were a pension fund and you tapped out four years ago when the Trafford Centre or the or into portfolio was worth the 25 billion or 85 billion, it was valued when it went into administration, all the pension funds lost 30, 40 billion on the balance sheet because it was just completely overvalued.

That's an example of a high risk asset where it's just riding on a current market condition and people just got a bit a little bit heavy on it. Anything to do with those commercial valuations are the things we're talking about selling. When we're thinking about when we're going to sell it, so we've covered why to sell and we've covered what to sell and we've covered why to sell it.

When we think about when to sell it, there's two things here. So the first is the market and the second is the margin. So nobody knows when to buy and when to sell.

Nobody really knows. But one and a half is worth two in the bush and it's not worth anything until it's cash in the bank. So when we're looking at the market, it's like you want to understand how a market curve works and understand you've got the introduction phase, the growth phase, the maturity phase and then the decline phase.

There's certain parts of certain markets at the minute where you should probably be looking at and thinking, do you know what? That's making me a little bit nervous. Like PBSA, PBSA has got to be on its last legs of maturity because I don't know which cities you're based around, but any of the big cities I go to just seem to keep banging up more and more student accommodation.

And eventually those secondary locations outside of the city centre that were built first when the developers were buying £50 a square foot using B1 to C3 PD and developers were doing that, flipping onto the funds after like three years of established records, they're going to start dropping in value. And that sort of model makes me nervous. Even if you read the big reports, a lot of the areas are fundamentally mature and actually heading towards that maturity or even saturation and declines situation.

So understanding how the market works and understanding when to sell, when to tap out at the top. So looking at your portfolio and thinking, where is this in the market? So if you're doing pop-up SA, so one of the strategies we recommend at the moment is pop-up SA.

Looking at where these big infrastructure projects are going to be, look at where these big hospitals, prisons, infrastructure, even nuclear power plants. We all know that labour and trades has been fundamentally undersupplied for a while and actually going into this next phase of the build back better and bounce back boom strategy is going to be further undersupplied unless we change the immigration laws or policy, which, to be honest, should have made an appearance in last week's budget if you wanted my input because certain sectors, hospitality, logistics and drivers are just fundamentally undersupplied. Labour is going to be transient. People are going to have to relocate.

If you look at the BAE, for example, at Baron and Furness, perfect example where everybody's contractors, everybody stays in service accommodation. That market is working really well. There's a point where that doesn't work.

So with BAE, for example, I looked at doing a big development of about 120 flats up there and it was two years until the BAE's contracts ran out with the Ministry of Defence to produce the submarines. So I looked at that and thought, you know what, that's really not the time for me to be getting into that market. Actually, that's probably potentially the time to be looking at getting out of that market because there's a risk element in there.

If BAE pulled out of Baron and Furness, there would be pretty much, apart from a little retail area, I'm pretty sure they're the main employer. So it'd have a huge impact. If you're looking at doing pop-up service accommodation around those key development areas, freeports, logistics, the prisons, the hospitals, the things I've just mentioned, then that would probably be a good time to be getting into a market.

If, however, you have been investing in student HMOs in a established city where you've got 20, 30, 50,000 students and your HMOs are on the outskirts and every year it starts to get a little bit harder to fill them, you're looking at more PBSA going up in the city centre and you're thinking, you know what, I think the legs on this student market might be on its way out. But you're looking at the commercial valuations of what your property's worth as a student property at the moment with a HMO licence on the open market. And for example, in Nottingham, you're looking at 50, 60,000 pound a room and you're thinking, you know what, I paid 120,000 pound for this five years ago as a four-bed or 128 years ago as a three-bed house or five-bed house.

It's now valued up at, in fact, let me give you a different example, a real-life example. We've got some clients at the minute exiting the HMO market. We built their portfolios for them and without exaggerating, here's some numbers to sort of rattle off with regards to tapping out at the top and seeing that the market seems, the commercial valuations seem to be right up there.

This property, one off the top of my head, we bought for 100 grand, spent another 100 grand on it, in for 200, just gone on the market and gone under offer at 380. So it's 180 grand capital gain. Another one bought at 180, spent 105 on it, so in for 285, just been revalued up at 390.

Another one bought at 125, I believe, or 150, spent about 25 on, all in for about 175, just gone on the market or actually sold at 285. And what you're looking at is you're looking at these properties, you're thinking twofold. One is if I sell this property now, I'm going to make 100 grand on it.

Now, if that were a residential house, you could probably refinance it, release the capital, and it's a three-bed, semi-detached house you're going to rent for the next 100 years. You'd probably refinance it and keep it. If, however, you're looking at HMO and you're thinking, do you know what?

Those ones I've just rattled off to you have probably got between 70 and 150 grand, and not even equity, but capital growth, or it's not even capital growth. It's commercially inflated, notional equity. It doesn't exist until it's sold, but the market's saying, due to what we call yield compression, the compression is coming down so much.

And also, there's some aggressive investment markets really of, if you do the numbers, don't actually fundamentally make sense. If you've got the option of, one, making six figures by cashing out, but also looking at that property and saying, do you know what? I can't believe this is worth 300 grand because next door's only worth 170, but because this has got HMO license and got C4 planning, it's actually worth X amount more.

Now, in some cases, that commercial valuation is valid when it generates a solid, logical, strong net return on investment. For example, I've got a 28-person HMO. It was on the market.

It's taken off the market now. Sold it at 1.08 million. It's 18 bedsits with a license for 29 people, I think it is, and sold it at 1.08 million. When you look at the numbers, that's leased out for 86,000 pound a year on a lease, five-year lease, FRI lease. So no voids, no maintenance, no management costs, no running costs, no arrears. It's just on a five-year lease, guaranteed income.

And when you work that backwards, it's about a 7%. It's like a guaranteed net 7%. I think we actually sold it at 7.4% net. Now, if you think a single-let property would normally do about 6% gross, net down at maybe you'd have to do the numbers. It depends where you are. But 7.5% guaranteed return on investment in anyone's book against a five-year lease with a national housing association is a good, solid investment. Makes a lot of sense. Works well. That makes a lot of sense.

If you go to the outskirts, so that's in Nottingham City Centre, it'll always let, whether it's students or we're using it for emergency accommodation or if that's homeless, I believe it is, it's leased out to a housing association. If you go half a mile or a mile or two miles out of the city centre into the outskirts of Nottingham, obviously Nottingham is one of the areas I know reasonably well. I've been investing there for about a decade.

You go to the outside areas and you're looking at houses where we actually developed one and bought it for 108, spent about 80 on it, in for 180, sold it at 305. Now, the houses next door to that are worth about 125. And you look at that and you just think that doesn't fundamentally make sense.

By the time, granted, you could get a gross yield of 9.5% or 8.5%. When you net that down after, and this is a professional HMO, net that down into management costs and voids and arrears and maintenance and all of these costs that come with operating those sort of properties, the actual commercial valuation is based generously on a very strong market. Now, would you want to have 10 of those and retire to the other side of the world for the next 30 years, relying on it making money? Probably not.

Would you want to run the numbers on that and pay 300,000 pound plus for that property in that location when next door is worth 125,000? Probably not. And this is where we start to come into this what to sell element is basically these commercial valuations where in today's market, they're worth a lot of money on paper, like your shopping centers, like your Tesla stock, these things.

You think, actually, at the minute, it's going really well, but it could take a bit of a dip. And these are the sort of things we want to think about selling. When to sell them is about getting this market timing right, understanding where you are in the curve, and you want to sell it on the way up rather than on the way down.

Even if it means somebody else gets two, three, four good years out of it after you, you've got to make that call to tap out of the top. And this is where the 10-year rule comes in is what we say is, I'm a property entrepreneur, our mantra is with this stock, this commercial valued stock, this medium term investment stock, this HMO, service accommodation, high density, retail, shopping centers, whatever it is that's leaning on these commercial valuations that relies on a good market, if you can get a margin of 10 years profit, that's the time to hit the button.

So if you know that in today's market, a property is making you 25 grand, as an example, net, or let's say, let's use a HMO as an example, it's making you a grand a month after everything, so it's making you 12 grand a year. If you could flip it on and make 120 grand, that's the time to tap out because you're holding that every year in a risky market, whether it's HMO or service accommodation, it's a risky market. You know, there could be compliance change, there could be minimum room standards could change, the licensing criteria could change, single banding could come in for rooms.

The funds could come in and do a ginormous co-living PBPA scheme on your doorstep and flatten the market and that 300 grand HMO is now only worth 125 grand. The time to tap out is if you can get 10 years profit in one year, that's the time to sell it. So Waterloo Crescent, I just referenced to you there, that HMO that I've got, 28 person, 18 bed, cost me about 500 grand, worth about 1.08 million, or sold it at 1.08 million, makes me after finance costs, so the gross is like 86, something like that, or that's the net yield, or thereabouts the net yield. But if you were to do net income after finance, things like that, it nets down about 50 grand, 48 grand I think it is, so that makes 48,000 pound a year. If I can flip it, so if that's worth making me 48 grand a year, it's currently worth 1.08 million, it only cost me half a million, it's in a fantastic location, it should last forever, but actually if I bought it for 500 grand only a few years ago, it could again be worth 400 grand, when do I tap out? Well, in its top form, unlikely to make any more money than it is now, it's making 50 grand a year net, 48 grand a year net, if I can sell that for half a million, I've not only taken cash off the table, I've de-risked my portfolio, and I've tapped out at the top, and I've moved out of a medium term stock, which could have risks with regards to HMO licences, housing associations, minimum room sizes, council tax banding, whatever you want, and I can move that 500 grand profit out into single lets, and with 500 grand I could buy about 15 single lets, three beds, semi-detached, 150 grand sort of thing, kick out 250 quid a month with a mortgage, have them forever, let them for the long term, never hear a problem, and you take that money off the table. Same with HMOs, if you can make 10 years profit from tapping out at the top, that's the time to sell.

Service accommodation, retail centres, anything that you're looking at, you're thinking, you know what, in the long term this is not going to stand up, in the short term this is when I tap out and take the money off the table. You don't want to stay at the roulette, you don't want to spin the roulette wheel forever. Finally, how do we go about selling?

So I would suggest one of the best strategies, especially for those of you that are developers out there, my development strategy is build to rent to sell, which basically means build the equity into it, 20, 30, 50, 100% return on investment, get that slab of 100 grand, 500 grand, million pounds worth of equity in the build. So if you're a developer, that's great. De-risk the exit by not doing build to sell, do build to rent.

So build to rent, build them up, get them ready to go, rent them out as I do housing associations, charities, homeless, I lease out to service accommodation companies. Charities, basically anything I can lease out to, to get that cash flow income. And then what I do is work out, once I've refinanced this, for the long term, how much will this make me a year as cash flow?

And then I look at what's that times 10, and if I add that on top of what it's cost me to build, what's that going to be worth listing on the market? And then pretty much actually, every site that I've developed, I'm just trying to think, every site that I've developed, apart from one that we did, apart from two blocks of flats that we did for clients, that we sourced and developed for clients, every development I've done, I've built it, I've rent it, and then I've put it on the market at the top of the market. Now, obviously some of them sell, in which case it's at the top of the market.

I've got my 10 years, I've cashed out happy days. Some of them, I mean, a call with Jen who runs our portfolio building company and manages my developments for me, and one of the ones on the market, it's been on the market for about six months or a year, but I don't really care, because it's leased out for 70 grand a year, and it's like, if it sells, fantastic, we'll take a quarter of a million quid off the table. If it doesn't, no worries, it's just bringing in X amount a year.

So it's like, have it on the market, at top whack, in fact, those figures aren't right, it makes £25,000 a year. That one's leased out to us, that's eight flats, and I'd have to get the figures out, eight apartments and a four-bed HMO, I think it is, on the top floor, grade two listed building, and I think it makes us, after financing all costs, yeah, that's right, refinanced it at about 5.5%, after all costs, including finance, I think it makes about £27,000 a year, and we've put it on the market at £250,000 more than it cost us to build.

So if we sell it, great, 10 years profit, if we don't, absolutely not bothered at all, it's got a five-year lease on it, we'll just cash flow it in the medium term. Build to rent to sell is a great way to do that, because it's as close to having your cake and eating it as I've found. If it sells, great, get another slab of equity, move that into single lets and move it up the wealth hierarchy.

If it doesn't sell, cash flow it, and happy days. Finally, who to sell it with, you really want to sell with people who know how to use commercial valuations, so either commercial agents or investment groups. Quite a few of our board members are selling through the property brokerage at the moment, run by a guy called Mark Barrett.

If you look for Mark Barrett on Facebook, from the property brokerage, he's one of our property entrepreneur board members, and he's doing a lot of deals with overseas investors now, Chinese, people from China, people from Hong Kong, and the prices that they're paying just to get money into the country is crazy. And with that yield compression, it really is a great opportunity to tap out of the top, and quite a few of our board members are actually selling stock. In fact, a lot of our board members are selling stock through Mark at the moment.

So commercial agents, people who understand commercial valuations, private brokers, small brokerages like the property brokerage. In fact, Mark Barrett is going to be doing some podcasts with us soon, talking you through some deals, taking you through the numbers, letting you know how they work, and you'll get a bit more insight. But work with somebody like Mark who knows how this works, and they'll get you out at the top of the market.

So in summary, hopefully that gives you the insight, and it answers Hugh's questions about when to sell. Because buy low, sell high is what we all want to achieve. But the reality is not many people play that strategic game.

And I would encourage you to think about looking at your portfolio and thinking, what is your short term? What is your medium term? What is your long term strategy?

Short term should be cash flow. Medium term should be making lumps of profit. And then long term should be moving that up into assets.

So basically short term is back to back leases, HMOs, service accommodation, anything that creates a nice strong yield or a nice strong cash flow. In the medium term, you want to be flipping those things off and using commercial valuations to make some slabs of cash. You know, cashing out 50 grand, 100 grand, 500 grand, cash in the bank.

And then finally, moving that capital from profit in the long term into assets. And assets are your boring vanilla, single let blocks of flats, single let houses, three bed semis. You know, the sort of stock that's low risk, low return, but it's going to be around forever in a day.

And you can really lean on it and create that generational wealth. You can't skip the gears. Success and failure are very predictable.

You have to go through the motions. But hopefully that gives you an insight into understanding what to sell, when to sell it, and how the 10-year rule works. If you've enjoyed this and you've got other investors and people in your network that are interested in investment, wealth, health, and life by design, please do share the podcast.

Send them a link to this one if you think they'll find it interesting and hit subscribe yourself. Otherwise, I will see you next Tuesday on the official Profit Entrepreneur podcast for the next episode. So all the best till then.

I'll catch you again soon. And remember, success and failure are both very, very predictable. 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.

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