**PEP 55 Edited v2\_Transcription**

[Speaker 3] (0:05 - 0:25)

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.

[Mark Barrett] (0:25 - 0:57)

Hello, and welcome to the second Property Entrepreneur Deals, Deals, Deals podcast with me, your host, Mark Barrett. We're going to go behind the scenes of some of the UK's most creative, lucrative, and award-winning property deals. My second guest is a friend of mine and fellow Property Entrepreneur board member.

I'd like to welcome Andy Babayan. Andy, how are you doing?

[Andy Babbayan] (0:58 - 1:00)

Hi, Mark. How are you doing? Thank you for having me on.

[Mark Barrett] (1:00 - 1:46)

Very good. Very good. I've been really looking forward to this, Andy, because I appreciate how experienced you are.

You've done a lot of developments, and it'd be great to just go through about your background because I know you've had quite an interesting background before getting involved in property, and also so we can learn about how are you going through your property, investing at the moment, and looking at a particular deal of yours, which is a fantastic deal, and also some of the top tips you've got for us. For those that maybe haven't come across you before, would you give a personal introduction?

[Andy Babbayan] (1:48 - 5:51)

No problem, Mark. My name's Andy Babayan. I'm based down on the South Coast in Brighton.

I've been a landlord for coming up 20 years. I graduated, I did a business degree in Manchester. I then, like my dad, I then went to Sandhurst and then commissioned into the Royal Engineers where I worked for a small amount of time in heavy construction project management, which helped to increase my awareness of project management and also working with trades.

But I didn't enjoy that as much as I thought I would, so I then moved into EOD and bond disposal where I spent the rest of my military career. So I then served from 2002 up to the end of 2009. When I left, I'd had a really interesting time.

I've been away a lot, Iraq, Afghanistan, Kuwait, Oman, lots of other places as well, lots of exercises. So it was a really busy time, but I left to get married. And then very soon after, my wife Kate and I moved over to the Middle East where I continued my career, this time working in commercial defense embedded within their armed forces.

It was a really, really good time for me in terms of working out what I wanted to do with the rest of my life, but I didn't realize it wasn't going to be commercial defense. I found it quite frustrating, but I loved the experience. I loved the location.

We spent a lot of time traveling. We used it as a base to go all over the world, and I've always loved traveling. We both have.

So I then sort of started to build the idea of turning from what I was a landlord. I used to develop properties with my brother. We used to use the sort of regimental minibus, take trades people down and do our properties.

But I was sort of interested in turning it from very much a sort of low level landlord into doing on a slightly more commercial basis. So the idea for that was born in the Middle East. We then moved back with just before the birth of our twin sons and set up Target 5 in Brighton.

The aim really there was to set up something that was going to enable ourselves to grow our own portfolio, but also develop properties for other people. And the key focus was making money, obviously, but making money in the right way. So we wanted to have a sort of focus on our core values.

So the reason behind the name was to target, to look for the five core values of honesty, integrity, respect for ourselves, respect for others, and ambition. And we saw our main client base as being ex-forces and expats. And that's really where the name came from.

As it was, our first clients were from that background, but sort of subsequently that changed like lots of the business. So since then, since 2013, the business was incorporated. I've then been growing my own portfolio and been developing for other people as well.

So Target 5 sources and develops properties for ourselves and others, right the way across the South Coast from Bognor to Eastbourne, so really across Sussex. And we've been really busy. We've carried out more than 400 developments across student HMO, new build, residential conversion, residential consolidation, and commercial conversion.

And now we've focused almost entirely on commercial conversion and land development. So that means new build, but also planning uplift and selling stuff with planning.

[Mark Barrett] (5:51 - 6:01)

Okay, wow. So it's a great experience you've got there. Just to recap on the property entrepreneur side of things, when did you join the program?

[Andy Babbayan] (6:02 - 6:54)

So I joined the program three years ago. And since then, we've sort of built the property entrepreneur methodology into all areas of our business. So that means my own personal business.

I've got a group of companies that I own with my wife, with our kids set up in trust. And we go through the process of setting targets each year and running through the seasons. We do exactly the same for Target 5.

In fact, my business partner, Tina is on advanced. Sven is on the program. Tim is on the program.

And yeah, we've had other people last year on the program as well. So it's completely implemented now and integrated within our businesses. And ditto with Sussex Property Partnership, the letting agency, which will have sort of people going on it next year.

That's the plan.

[Mark Barrett] (6:54 - 7:11)

Oh, fantastic. And you're a mechanic, is that right? You're a wealth dynamic profile?

Exactly, yes. Yes, I'm a mechanic. How do you find with that?

Does that help you to implement the blueprint, having the mechanic profile?

[Andy Babbayan] (7:11 - 7:58)

Yes. Yeah, it has. I think having this, we've got a decent mix across the...

We've got Allure. We've got, I'm unsure, the various sort of Tempo. We've got Tempo.

We've got a couple of places as well. But yeah, for me, I mean, it's good because I sort of have that sort of creator side and lots of ideas. But then also, I really like the sort of the blueprint and being able to implement that type of thing as well.

So that's been quite critical. And I love, I do enjoy this season that we're in now.

[Mark Barrett] (7:58 - 8:12)

Yeah, yeah. Okay, excellent. So just moving on now to sourcing.

Obviously, you've done a lot of property deals. How do you go about sourcing projects at the moment? What are the main ways?

[Andy Babbayan] (8:12 - 9:14)

We use a number of different ways to source our deals. So we do direct-to-vendor campaigns. We work very closely with UK Property Angels.

I'm on their board of advisors. And also, we were their sort of pilot negotiator down across a number of BN postcodes. And that works really, really well.

So we do a lot of stuff on the commercial side with them. And we're moving into doing stuff on land. We write our own letters for land as well.

We then work with agents. We work with the commercial agents, land agents. And we're looking for pre-market opportunities.

We'll buy stuff on market if the numbers work, but we like things pre-market. Yeah. So you've got less competition.

We also work with the sort of lettings and management arm of the commercial agents. Also letting agents as well on the residential side to buy ex-rental stock, which works really well. So it's all about relationships and processes for us.

[Mark Barrett] (9:14 - 9:29)

Yeah. So if you've sourced a deal, then let's just have a look at how you stack the numbers. What's kind of like the process that you go through now and looking at possibly any tips that you might be able to give people on this?

[Andy Babbayan] (9:30 - 11:33)

So it's really, really important that you understand what the properties are worth, what they're worth, what you need to be buying at, and what they're going to be worth when they're going to be developed for the various different type of properties you're going to develop. So that means really knowing the area and knowing the square foot values. So everything starts for us in understanding the square foot value for residential.

So for example, I know that in Worthing, which is one of our towns, the square foot value for residential is between 360 and 420. In Brighton, it's between about 425 and about 600, depending on the area. I know Little Hampton is between 320 and 370.

So it's like, I know straight away that's in my mind. So then we're then looking, and you know then what the conversion costs are. Conversion costs can be anything from sort of 75 up to about 150 pounds a square foot.

So it's in just sort of being able to see, really need to know what the values are at the end. That's what you're going to be able to refinance or sell it for. What are you going to have to spend to make it that and any other additional costs?

Because if you know that, then you can work backwards and work out what you need to buy at. I bought stuff and paid market price for something. It's been on the market, look at it.

Fine, that works. We'll pay that because we know exactly what we need to pay. So everything we do is very bookish.

You know, Sven who heads up the property intelligence is very steely in his sort of approach. And he is really sort of focused on those figures. And that's how we operate.

We know exactly what we're going to do. We don't tend to go to viewings unless we know roughly, you know, the sort of the figure that we need to pay is sort of somewhere within the ballpark of what they're looking for. Because otherwise we're wasting everyone's time.

So, yeah.

[Mark Barrett] (11:33 - 12:13)

Okay, that's good. So obviously, I think for people that kind of like maybe starting out or getting into a new strategy, it'd be finding out what properties available, you know, whether it's a cost per square foot per square meter that they can buy for and then what the end values are that, you know, so well based on your areas, what the bill costs are to be able to then work out the margins and what they can offer. So that's good. As far as then structuring a deal, so you've made an offer, you've had it accepted.

How do you normally structure your property deals as far as how you hold them and then also how you fund them?

[Andy Babbayan] (12:14 - 14:07)

Okay, so I tend to put anything that I plan to hold long term, I'll put into my holding company. Anything that I plan to turn, we're going to development company. In terms of how we operate on JV basis or through Target 5, we tend to set up SPVs for each project.

In terms of myself then, I mean, I tend to finance stuff where possible, put a good relationship with Lloyds Bank. You know, I've known Elliot, who is our local relationship manager for a long time. You know, he's a keen cyclist.

I'm a keen cyclist. We know each other well. And, you know, we've worked very closely and he's worked very closely with us on structuring deals.

So where possible, I will use Lloyds on the way in. They've got decent products at somewhere, you know, just over 6%, use typically 65% of the total cost or 60% of GDV, depending on the deal. Otherwise we will use a private lender who is a local developer who did very well over the past sort of 20, 30 years.

And there's now him and his business partner are essentially cashing out. They've retained, you know, as many people are doing, they've retained a sort of small, you know, a small portfolio that will serve them. And then they act as lenders.

So they will work basically in the same way as a typical sort of bridging company, except they don't have any of the fees attached and they can get very quickly. So the quickest deal we've done with them has been four days. Then otherwise we'd use other bridging companies.

The bridging companies typically tied to family offices only because it tends to be slightly more personal level. And also it's the fees with bridging that can kill things. So those companies tend to work well.

[Mark Barrett] (14:08 - 14:14)

And private finance, what kind of like rates and loan to values would you pay on something like that?

[Andy Babbayan] (14:15 - 15:00)

It depends on what it is. So the senior debts, then it would be typically sort of 70% loan to value and then 100% of development. And then the rates range from sort of eight to 10, 11%.

But what we always look at is what the sort of, you know, what the overall cost is of the lending. So it's just building in all of those fees. I don't tend to like anything that goes into double digit, but then in some situations, if you've got something that's particularly sort of fruity, then you can find that you do that.

But if we do something expensive, we tend to have an exit to move something onto reasonably quickly that reduces that cost.

[Mark Barrett] (15:00 - 15:17)

Okay, excellent. So what I'd like to do is if we can go through one of your recent projects, and I think the one on George Street and Hove was the one that you've mentioned. So could you just give us a bit of an overview as to what the project is and how you sourced it?

[Andy Babbayan] (15:18 - 17:53)

Okay, so 53, 54 George Street in Hove. George Street is one of the main pedestrianized streets in Hove, just south of the station between the station and the sea. So super, super busy, loads of footfall.

And the building was a bank, there's an ex-bank, Royal Bank of Scotland, been empty for a couple of years. And we targeted it along with a number of other properties in the area and wrote to the owners, we wrote to the landlord. As it was, the owner had just put the property on the market discreetly with an agent sort of based around the Gatwick area.

We then were able to step in, or I was as a personal purchase, step in on a sale that was proceeding. And to buy it for the same price from Martin, who is the chap selling it, who's a London-based lawyer, very experienced. We bought it reasonably quickly, was able to structure it through Lloyd's and push it through quite quickly.

I knew the opportunity was there because we like to buy banks because they generally occupy a really big footprint, lots of ancillary accommodation. You tend to get ancillary accommodation with banks because they don't tend to have residential or anything else above it because of the risk for people sort of drilling through and sort of robbing them or whatever it is. Lots of space.

And I knew from looking at the planning register that had been a planning secured for two flats above the bank, we do a lot of stuff, a lot of permitted developments, completely aware of what we can do in terms of class G, what's class M, now MA, and the various different permitted developments. So I knew that under class G, I could vary the planning permission that was already there. I could get two flats above, but then also partially implement the planning condition, which means I was able to add an extension on the back and the roof terraces.

So instead of having two flats above, I would then turn it to four flats above, four one-bedroom flats. And then we split the bank into two on the ground floor, two commercial units. And that's what we now have, is two commercial units and four flats.

[Mark Barrett] (17:54 - 18:13)

Excellent, excellent. So you sourced it, you knew your numbers. And this was a property that you was going to keep.

So we talk about the kind of like the wealth pyramid, cashflow, profit, and assets. So where did that fit with the, this was an asset to hold, is that right?

[Andy Babbayan] (18:13 - 19:05)

Yes, and that's it, but very, very much an asset to hold. And I sort of keep a system within my own personal portfolio of, I have some properties that, you know, are really sort of high yielding, probably in slightly less attractive areas. And they're really useful for now, you know, we're paying kids through school and things like that.

Whereas, you know, for me, properties like this on George Street sit sort of right at the top of the pyramid because they're, you know, long-term assets, you know, essentially four single lets and two commercial units that are relatively easy to let, very, very close to the, you know, they're not going to move the train station, they're not going to move at sea. So they're sort of in, you know, they're sort of in the perfect location. So it's those type of properties that I look to sort of, I can imagine, you know, holding for, you know, potentially, you know, the rest of my life.

[Mark Barrett] (19:05 - 19:22)

Okay, that's excellent. So let's just go through about the executing the project. How did you, do you have like in-house team of builders or project managers and then just going through the project and what kind of challenges that you came up against?

[Andy Babbayan] (19:23 - 22:25)

Yeah, so Target 5, we've got the full infrastructure. So we have a property intelligence department. So even though I dealt with it by myself, I've got Sven, who's also on the program and heads up property intelligence.

He, his team helped me to analyze the deal. We then have Tina, who's on the advance, my business partner, but she looks after conveyance and also finance. So she was able to help me getting that through.

And then Tim, who's on the program, runs our project management department. So he then managed the project through, in fact, his business Brighton Renovations in this instance was also the main contractor. So typically we'll have a project manager and a main contractor.

Just so happens that Tim was sort of double hatting on this one. So, you know, I was able to use the sort of the full team and I pay my, I pay Target 5 fees to do this. I pay my own business much in the same way, you know, as I would do another business.

It's worth it for me to have, you know, to have that team on it because, you know, each person who does or carries out the role is sort of specialist in that area. And there were some challenges. It was, you know, going through COVID, there were challenges around materials, challenges around, you know, staff and illness.

And, you know, it was really, you know, Stuart, who is Tim's business partner, who's also on the programme, unfortunately he had a personal loss, which was really sad. And, you know, there were lots of things that happened. And I think we've all experienced, you know, a lot, you know, and over the last couple of years, there were some, we then had some, just some challenges around planning.

So even though we were able to go through Class G, you know, and essentially just to enact the new use, you know, without any sort of further prior approval, we then had an enforcement letter, which just is, again, quite standard. When you've got one planning permission in place and then essentially something else enacted, it's just a matter of process for there to be some form of enforcement. We've got a good relationship with the council and this specific lady I know well, but still that took some time, which meant that it delayed the refinance.

So the refinance took quite a long time on this. So it was sort of, it was, the project took a while to do. It probably ran over by two or three months on the development.

And also it ran over by a good couple of months on the refinance. So it was, those was, you know, those were sort of some of the frustrations, but that's, you know, unfortunately typical with what a lot of other people have been experiencing up and down the country. Yeah, absolutely.

Yeah.

[Mark Barrett] (22:25 - 22:36)

So just then going through the exit, can you just go through, so this, you wasn't selling this to be retained. Do you have like a, go through the numbers with us?

[Andy Babbayan] (22:36 - 23:59)

Yeah, of course. So the property was bought for 582,000. The usual sort of stamp duty and fees.

In fact, I was able to go through a stamp duty reclaim for multiple dwellings on this. We then, I then spent, I think, all in just over 300 on the development. So the property stood in 900,000 or smidge over.

I refinanced it with Interbay at 1.35. So just shy of 450,000 net profit, essentially equity that goes into my portfolio. Or, you know, so basically as it was, I refinanced out and was able to sort of, I didn't leave any money in. That's awesome.

And then rent, the rent is just over 86,000. So that's the gross rent. Yeah.

Refinance payments 38 grand a year. So then allowing for the management fee, obviously I don't pay my own letting agent a huge amount of money, but I do pay some management. I allow a little bit for maintenance.

So it brings me in just over 3,000 pounds a month profit.

[Mark Barrett] (24:00 - 24:16)

That's awesome. Yeah. So that's none of your money in, over 3,000 pounds a month, which is what a lot of people kind of like can earn from like the job and 450,000 equity.

[Andy Babbayan] (24:16 - 24:32)

Exactly that. And then able to sort of, you know, leverage a lot of my time as well by, you know, using the team. So, you know, obviously I would go there, but I didn't have to go there all the time.

Yes. You know, Tim is far better at that than I am.

[Mark Barrett] (24:32 - 24:46)

Yeah. Congratulations. That is an awesome deal.

So well done. Thanks Mark. So thank you for your time today.

Just before we finish, I'd just like to go through your three top tips that you could give.

[Andy Babbayan] (24:49 - 26:02)

Yeah, no problem. I mean, so in terms of investing, I think that, and I always sort of give the most important one first, but it's focus, which is knowing what it is you're trying to do. So that's focusing on a strategy and really understanding that and being really deeply competent in that area.

That means knowing, so for example, if you're focusing on commercial conversion is understanding in and out what you can do under permitted development, you know, and how and what you need to do to implement it. Yeah. Because I see so many mistakes being made and I take no pleasure from that at all.

So it's people where they don't have the focus, they don't understand what they're doing. So have the focus. Second one is the location.

Yeah. And getting that because you see people trying to implement what, you know, in their area, what people do and make successful in other parts of the country. And that isn't always appropriate.

So making sure that the area is aligned to your focus and get to know that area. That means know all of the agents, know all of the other developers and get to know those people and work with them where you can, because it's always better to have cooperation and not competition.

[Mark Barrett] (26:02 - 26:03)

Yeah.

[Andy Babbayan] (26:03 - 26:47)

And then the final thing is funding. So you need to have some access to some money. Now, there are ways that people can do this in terms of working with people, leveraging other people's wealth and experience.

But at some point, someone's going to have to part with some money to buy something and you need to know how are you going to do that? Because if you're able to have a solid funding line, have people that you can work with and have the backing, it makes it, you know, you then become a very attractive proposition when you go and talk to agents. You know, they understand that you've got that money available.

For us, we've got a great track record. So, you know, it's, yeah, if you have those three things, then life becomes a lot more easy.

[Mark Barrett] (26:48 - 26:59)

Excellent. And for anybody that wanted to contact you, so you work with people, what investors and people looking to do their own projects as well?

[Andy Babbayan] (27:00 - 27:58)

That's right. So we, as it is now, we put about 67% of everything we do, we develop in-house now. So we're looking for investments.

We've recently set up our own company, SAS. We're looking to set up a property fund at the end of the, well, probably the middle of next year now. So that's happening.

We'll be looking for investment in that. And, you know, I'm happy to give as much information as we've got, you know, at the time the SAS is open now. We're also, we source and develop properties for other people on a, you know, as a service.

So, you know, people are welcome to get in touch and, you know, we can tell them some more about what we do. We have regular investor days. We ran one yesterday.

So we do those as well. So we're always keen to hear from people and to be able to communicate.

[Mark Barrett] (27:58 - 28:20)

Okay, excellent. Thanks for your time, Andy, and good to catch up. So that's the end of our second Deals, Deals, Deals podcast.

If you've got any questions or you'd like any particular types of deals, then please get in touch. You can email me at info at property-entrepreneur.co.uk. Thank you for listening.

[Speaker 3] (28:25 - 28:50)

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