**PEP 64 Edited\_Transcription**

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

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.

[Mark Barrett] (0:30 - 0:54)

Hey, it's Mark Barrett, and this is the fourth Deals, Deals, Deals podcast. And looking forward to welcoming our next guest is a friend of mine and fellow Property Entrepreneur board member, Max Scott. Hey, Max, how are you doing?

Very well. Thank you, Mark. How are you?

Yeah. Yeah. Excellent.

Excellent. Not as, probably the weather-wise, not as good as you.

[Max Scott] (0:54 - 0:55)

Looks like you've got- I'm breaking through.

[Mark Barrett] (0:56 - 1:21)

Yeah. Yeah. Yeah.

Yeah. Very good. So I'm not North-South divide there.

I'm already up North. But good to welcome you onto this podcast and really excited to go through your deal that we're going to cover. But first of all, for the people that don't know you, would you like to give us a bit of an introduction to yourself and your kind of background and how have you got involved in property?

[Max Scott] (1:22 - 2:23)

Sure. So I'm Max. I'm from Brighton, 33.

And I've got involved in property. There was two sort of turning points, really, that led me to here. So one is that at university, I was on the Property Entrepreneur's Society, sorry, the Entrepreneur's Society.

And through there, we had guest speakers and I met a professional gambler and we decided to set up a website together, teaching people how to make some money, which free from gambling, which is basically taking the bonus money when you sign up to a new place. And through that, I was introduced to my current boss, the majority owner of the Star Group and a very large professional gambler himself. So that was one key moment that led me here.

And the other was when my mom got me Rich Dad, Poor Dad as a book, which sort of changed my mindset, the way I viewed things. And then I was just on Facebook one day and saw a little Rich Dad advert pop up and it was an introduction to property courses and that was when my career pathway changed.

[Mark Barrett] (2:24 - 2:37)

Fantastic. Which university do you go to? University of East Anglia.

And what was that studying? Business Management. Very good.

Very good. And so how long have you actually been in property, would you say?

[Max Scott] (2:38 - 2:44)

So I started in property in 2013, so pretty much bang on nine years.

[Mark Barrett] (2:44 - 2:45)

Yeah. Very good.

[Max Scott] (2:45 - 2:45)

Fantastic.

[Mark Barrett] (2:45 - 2:49)

And you just welcomed your first child, your daughter as well?

[Max Scott] (2:49 - 2:57)

I have, Margot, eight weeks old this week, a lovely little girl and we're out of sunshine in our lives. Yeah. So we've got a family now.

[Mark Barrett] (2:57 - 3:07)

Excellent. Excellent. Okay.

So you joined Property Entrepreneur in 2020. What was your thinking behind that?

[Max Scott] (3:08 - 4:02)

So I joined Property Entrepreneur because we were leveling up quite quickly. We've started quite a few businesses under the star property. Our main aim is always to grow the investment side of the business and a passive income.

And then in order to support and accelerate that growth, as well as to do with some challenges we are facing with external service providers, we started setting up a few businesses. And being someone that worked in the star group pretty much fresh out of university, I lack experience elsewhere. So everything that I've done, and sometimes that can be a massive advantage, you don't have a set way of doing things.

Other than that, you often just don't know how things can be done. So I know that one of Dan's strongest skills, if not his strongest skill, is taking complicated ways of doing things, scenarios, boiling it down into a very small, simple blueprint to follow. And I thought, how can that not help me execute all the things I'm currently doing?

[Mark Barrett] (4:02 - 4:11)

Yeah. Okay. Good.

And as far as wealth dynamics, you're a Dynamo star creator, is it?

[Max Scott] (4:12 - 4:24)

Dynamo. Yeah. So pretty much all on the star and creator, very equal on the two of those.

So that's why I've got plenty of shiny penny syndrome, always chasing new things and just about learning to execute as I go along as well.

[Mark Barrett] (4:24 - 4:45)

Yeah. Okay. Good.

And you joined the board in just gone September, October time. Is that right? Yeah.

Yes. Yes. So autumn 2021.

Very good. So for those you mentioned about the star group, do you want to just tell you what your role is in that business and what the structure is?

[Max Scott] (4:45 - 5:26)

Yeah, sure. So we've got very, very simple business model. I started off on the betting side of the business, very quickly moved over to property as I did the courses following on from me doing that Rich Dad Poor Dad seminar, which I think was Tigran at the time.

So the model of the group is quite simple. The betting side make money, they pass it over to the property side, I invest that into property to give us long-term ROI and it's seen as like a pension pot and a steady source of revenue for the group of businesses, for the shareholders. Okay.

So I'm the CEO of Star Property. So my role is I'm responsible for the investments, everything under Star Property, all the businesses as well.

[Mark Barrett] (5:27 - 5:29)

And you built a team now, haven't you?

[Max Scott] (5:29 - 5:39)

We have. We've grown quite quickly. The amount of investments we're doing per year has gone up quite a lot as well.

And the businesses that we've started under us is quite significant now.

[Mark Barrett] (5:40 - 5:45)

How many would you say is in the team at the moment? About 21. 21.

Yeah.

[Speaker 4] (5:45 - 5:45)

Okay.

[Mark Barrett] (5:46 - 5:50)

And what level of deals are you doing, would you say?

[Max Scott] (5:50 - 6:53)

So we've grown up quite a lot in what we're looking at. I think one of the things is, as we've had more money available to invest, so what's been quite nice about my journey is that the star group, both me, my skills on executing property deals, and the betting side have kind of grown in line with each other. They've had more money, I've been able to execute, I've learned, and we've kind of moved forward together.

So last year we bought about 20 million quid's worth of property. So that was the level of growth that we got to. Our biggest deal to date is one that we did for 2.7 million, and we have had offers accepted on 30 million pound deals, but I don't believe that one's going to go ahead now, it's one we've been working on for a little while. And it's just a case of trying to do that level of deals in small deals is really hard work. So just trying to balance off some sweet and juicy little fish with some big wins, which help reduce your deficit on your buying target.

[Mark Barrett] (6:54 - 7:32)

Yeah, yeah. Okay, good. So I think anybody that's kind of like listening, and they kind of maybe started out on the property journey, there's different ways that you can actually go about that, and one of it could be kind of like going out on your own, doing your own thing.

Some people partner up with other people in a similar position of like their property journey, and then yourself, you've kind of gone into working with, you know, a high net worth person, and help to establish the property company, and there's a massive kind of like growth in that. Obviously, you've got a small percentage of that, but it's a small percentage of a huge pie, isn't it? So it's a different way to approach things.

[Max Scott] (7:32 - 8:32)

So it's a completely different way of approaching things. And one of the things that stuck with me when I was about 18, is I heard the expression you can get paid in life in two ways. One is money, and one is experience.

And maybe in the early days of investing, I got paid much more experience, because I bought a volume of deals, I bought over, you know, 100 properties now, well over some of those have multi units in them, and 16 million quid of property, that's given me a huge amount of experience. Also, you know, it can be quite hard to get started, if I'm being completely honest, that a lot of people that I see do property courses, ones that I did them with, there's a few that break through and become very successful. There's a few that don't quite manage to make it work.

And I think to learn and get some experience, while you learn off someone and get a bit of a salary can just reduce that risk, if you can find a property investment company to work for, you can kind of get a bit of the best of both worlds. But that's just how I've done things.

[Mark Barrett] (8:33 - 8:40)

Yeah. Okay, that's interesting. Yeah.

So as far as the strategy for the business now, what would you say your focus is?

[Max Scott] (8:43 - 10:53)

So one of the reasons I've started out the business, I'll give you the star law, for example, right? So we started that when I had this list of fees was 1200 quid on a refinance. And we're bridging was a grand a week, so it's quite a big deal.

And they said, I've got all the information I need to do the report, but I'm busy. So I'll do it in two weeks time. And that cost me two grands.

And for 1200 quid fee, I felt like I've wasted two grand, that's quite a lot of money, so it's really frustrating. So then I was out in Brighton, and I bumped into this list that I knew quite well, but we weren't working through. And I said, is there any way I can employ someone to sit in the office next door to me?

It's been quite a lot of deals. That quality of service, speed of service is really important. And we struck up terms, and then we hired someone to go in an office next door to us and work on our deals only, and then to fill the gap, take on some external clients.

And then before we knew it, that become a business in its own right. Off the back of that, I then realized, because of our volumes, we can de-risk starting a business. So we've got Star Insurance now, our own portfolio covered about 40% of the year-on-cost, plus then our network, that can bring in more opportunities as well.

And then I thought, well, why have I done this? I started the law because it was strategic. So with the growth of the business, it was only five years ago, we bought maybe a couple of 2 million pound of property in a year.

If Star keeps growing exponentially as it has done, I think in the next five years, I might have to buy 50 or 70 million of property in a single year. That's incredibly hard if you're using all external service providers. So we've now built the Star Property Hub, it's a head office that houses all of the property companies, the vetting, and it should help us execute very large deals, a large volume of deals in the future.

So strategically, those things are now in place. So my main focus is always on building the investment side of the business and the portfolio, but the businesses, they're going to help us execute, not only now, but more so in the next few years.

[Mark Barrett] (10:53 - 11:00)

Yeah. Okay, good. So talking about you kind of doing more deals.

So how do you source those deals?

[Max Scott] (11:03 - 12:39)

So sourcing deals has come from a couple of different places. I do use sourcing agents. I think the advantage is normally in something being pre-market, off-market.

I love it when it's, here's a deal you can buy at this price. Now, I don't think it would sell for massively more if it went onto the open market, but what you have is you save time. Because I remember one year, I think it was just as a stamp duty change for coming in, I went to auction and I was the second highest bidder of 10 properties in a row.

I thought, I might as well not turn up for work in the last three months. So to get that, especially when you've got a large buying target, that this is available at this price. So I pre-agreed the price with the vendor, because that's what I think I can send out.

That's really useful as well. We've also got a partner in Ireland, who sources our properties there, and that's kind of a joint venture structure, a blend of interest rate and equity, and that works for both sides as well. And then I do a lot of post-auction.

I find with auctions, there's a bit of a reverse psychology. If it's in really cheap, everyone thinks that's a deal. But then everyone spots it, everyone spots it's in cheap.

30 people go and view it, do their due diligence, read the legal pack, and the price goes up, up, and up. If something's priced too high, no one's interested in it, we kind of monitor it. And then when it doesn't sell, go through the legal pack in half a day, and often go through it quickly, and then by the end of the day, the seller's not been able to sell the property, the price comes down, and there's no interest.

So they think it's not worth what they put it up at, and you can kind of get a deal there. So it's about boxing cleverly.

[Mark Barrett] (12:39 - 12:50)

Yeah, that's a good idea. Yeah, okay. So let's say you find a deal, how would you then stack it?

What kind of process do you go through to ascertain as to whether it's a deal for you?

[Max Scott] (12:52 - 13:37)

So we're probably in a slightly different position to a lot of people in that because we have a separate trading business that funds our deposits, we don't need to get all our money out. Our focus is on a return on investment. And if I've got 10 million quid coming over from the betting, I don't want all the money out, because then I'm just doubling my property next year.

So our target is 14% return on investment. I do stress test that quite heavily. So it's probably, by most people's standards, near 16.

And that means that we're getting good compound interest long term. And then on some deals, of course, you've got uplift, and that's a massive factor as well. The more work I'm doing on a deal, the more return I want.

[Mark Barrett] (13:38 - 13:48)

Yeah, okay. So you have set appraisals that you go through, different types of strategies that you do, and look at then the return on investments based on that.

[Max Scott] (13:49 - 14:28)

Yeah, I mean, as I said, I've got a shiny penny syndrome, and that's something that really hindered me in my early part of my journey. I couldn't quite sit still and just focus on one thing. So I ended up quite distracted.

But then as we came into more money, it just meant we had more opportunities to execute the best deals in those categories. So we don't really do boxed and buy to let anymore. But I've moved up to blocks and flats, title splitting, commercial to residential conversions, commercial with development potential above.

There's not really HMOs. There's not really anything that I haven't done now. So new build I haven't done, and that's probably the only thing.

[Speaker 4] (14:28 - 14:29)

Okay.

[Mark Barrett] (14:30 - 14:46)

Yeah. Okay, good. And then structuring.

So when you actually structure the deals, how do you have different companies to hold different types of properties, like trading, those to hold different SPVs?

[Max Scott] (14:47 - 15:13)

Yeah, we have different SPVs under the main parent company. For our Airbnbs, that is allowed by the government because you can then sell the SPV. So that helps with the back threshold and things like that.

We've also got the title splits. The best way in terms of avoiding double paying stamp duty is you buy the block of flats in one company, and then you sell newly sold titles into another company. And then we've got companies in different countries as well.

[Mark Barrett] (15:14 - 15:32)

Okay. Yeah. Good.

So just moving then on to a particular deal. So we're going to discuss Knighton Chambers in Goddard-Bognor Regis. Do you want to tell us then how you come across this deal?

[Max Scott] (15:32 - 17:22)

So this was a pre-market deal. The seller wasn't going to go to market if they got the right price. We actually agreed a price of 360.

It was offices at the time. It was very nicely laid out for a residential conversion because they were all in office pods of about the right size. By the time we agreed that deal, there was no minimum room sizes on a commercial to residential conversion.

And so I looked at it and I thought, right, we can get 15 units out of this. It's all kind of structurally laid out, so that should help a lot. And the LHA rate, which actually went up during COVID, which is over the time we did this deal.

I can't remember what it was before, but it was quite a big increase. It went up to £623 a month after we agreed. So that was £112,000 a year if we got 15 units out of it.

So at 350, you've got quite a good buffer on costs and risks and everything else that come out of it. I think it was about 98 before COVID. We got 15 units out of it.

So we reverse stacked it on that method. So I've got a spreadsheet which I use, which has inbuilt mortgage calculators and stamp duty calculators. You put in the different expenses and it spits out different ROIs, etc.

But essentially, I thought based on that level of income, and the LHA should be your worst case scenario, although with studios, it probably is sometimes a bit of a premium because of just the way the BRMA works and they calculate LHA rate for one bed of studios together. So we thought it's got to be worth at least a million quid, 10%. That's got to be the absolute worst case scenario.

Surely it's going to be worth even more than that. And at 350, 360, that gives you a huge buffer on accelerant costs. We spoke to a couple of different people who gave us a range of what they thought it would cost per unit to build and all of them gave us plenty of margin.

[Mark Barrett] (17:22 - 17:23)

Okay, yeah, good.

[Max Scott] (17:23 - 18:10)

And how did you actually source that property then? Was that through a sourcer? So yeah, it was pre-market.

So it was a commercial agent. So there was no kindness fee. He just said, like, vendor wants this done quickly.

And then COVID meant it slowed down a little bit. And also what we'd offered on was on the basis that it could be converted. Now, as we started going through the legals, there was one unit which has obtained planning to be, I think it was D1 surgery, dentist surgery or something.

And that scuppered the permitted development for that unit. And then we got less units out of it. So we actually, but it hadn't been implemented.

So it's still being used as an office. So we offered conditional on that being a certificate of lawfulness was used as offices and therefore we could convert the whole building together.

[Mark Barrett] (18:11 - 18:18)

Yeah, okay. So what happened then? So did you exchange subjects to that?

And then they got the certificate of lawfulness?

[Max Scott] (18:18 - 18:34)

We did it. I've never got a seller to do it. I get all the information we require of them.

But unless they're quite experienced, they wouldn't want to do it. They were at risk. So if you just pay for it and say, we're pretty sure if you can give us this that we can do it.

So we'll take care of that.

[Mark Barrett] (18:34 - 18:39)

Okay. And that takes eight weeks, but can take longer. So how long did it take?

[Max Scott] (18:42 - 19:01)

I'm pretty sure it took eight weeks. And one of the things, the certificate of lawfulness, it's not that it's different to planning. It's that they kind of, if you prove the balance of probability, has it been what you say it has been?

If you provide enough evidence for that, it's one of the ones that in my experience doesn't get extended.

[Speaker 4] (19:01 - 19:01)

Yeah.

[Max Scott] (19:01 - 19:08)

So it's much more likely on a certificate of lawfulness to come through in the time it's meant to. I mean, obviously the last day, but yeah. Yeah.

[Mark Barrett] (19:08 - 19:24)

Okay, good. Good. So you've got the deal.

You've run the numbers. Based on your initial thoughts, you've got like a minimum 14% return on investment. What was the numbers on that?

[Max Scott] (19:25 - 20:43)

This was a very different property. Obviously 14%, that's great. That's some quite quick conversions.

This ended up being, when we exchanged conditionally, we didn't have to have all the money then, building up on the property. It took about nine months to plan the works and execute on them. So we wanted a bit more out of this one.

And I knew this was going to be one of the juicy ones we'd done. This is actually one where we didn't hit 14%. We hit an infinite level because of the amount of value we added.

Boggles is not somewhere to have offices. It was like 70% vacant. So we bought it really well on that basis.

And I don't think the seller knew about change of use or that it could be done to studios that at the time with permitted development, you could get quite a lot of studios in there on the LHA rate. So we kind of had quite good ways of adding value on this property. So the conversion, the development costs were 505 grand.

Architects, we didn't expect a seal payment and I don't think you have one on permitted development, but because it was in a conservation area, that costs, I think it was 800 quid a unit, about 13 grand. All in all, our project cost was 893,000.

[Mark Barrett] (20:44 - 20:53)

So we were- Less than the kind of the million pounds that you was kind of like thinking, more part figure, less than that. So that was good.

[Max Scott] (20:53 - 24:12)

Yeah, exactly. But also that was kind of, that was a worst case scenario figure when you, if you get 10% yield up, you're going to get a really good ROI. It's quite hard to value those sorts of buildings or at least you don't know how a value is going to value them.

I'm sure everyone's experienced this when you can get very wild ranging valuations, especially on something where it's not easy for them to have a like for like comparable. So this one there wouldn't have been any. Because it's studios, one of the lessons that I learned the hard way is if you've got a lot of a, let's call them a low grade of tenant in one building, it can be a bit of a problem managing them.

And if you have one bad tenant, that can really cause you a problem. We therefore looked for what I would term an internal repairing lease on this property. So we have a couple of contacts that we go to for that.

And we started the process nice and early because I've learned on another property that we did that running with one person, they've got to go and get board approval and it fell through and it was quite stressful waiting for that internal repairing lease. One of the reasons I like them is that I would take off quite a lot of cost of property. You've got your voids and your bad debt and your management fees and your insurance and your maintenance of the property, which even if it's low initially after development at some point you're going to have to do a refurb again.

So that might be 33% of the rent that you take in expenses. Now if you can get internal repairing lease depending on the end user, often it is at market value and they cover the cost because they're getting enhanced rent because they're providing additional service. So we had a couple of offers just under 90,000 and then by the time we let a little bidding war come out our highest offer was 94,000 so we had two different types of people.

One was at the council supported living in the market which I'm quite happy with and one was at the student end of the market which I didn't expect. We went with the student offer for two reasons really. One, there's less likely of damage.

So whilst you would have its internal repairing, which means the tenant pays for everything other than the structure of the building, the roof, the window, the electrics is that you've got that slight comfort there. It's cheaper on insurance and it's easier to finance. So that means we've got a higher loan-to-value on the finance as well.

I didn't have many options the last time I let it to a long-term lease. Banks can be quite nervous about vulnerable tenants and the IPR being kicked out and then being dragged through the newspapers if that, because banks will get everything that you're going to default on the mortgage. So I'm really pleased with it.

94,000 and with a yield of I think it was about 7% so 1.4 million. And we went with Shawbrooke and they gave us a loan of £1,050,000. So we pulled all of our money out and just over £150,000 as well.

So that's by far the best deal I've ever done. Boom! Boom, exactly.

4.34% interest rate on interest.

[Mark Barrett] (24:13 - 24:27)

Fantastic. Congratulations, that's a great deal. Yeah, I mean to get all your money out in a deal is awesome but also to get £150,000 out as well is phenomenal.

[Max Scott] (24:27 - 24:35)

And on a big deal as well. It's one thing doing it on a £200,000 property but on a deal like that that's really, I was really pleased with it.

[Mark Barrett] (24:36 - 24:54)

Yeah, so a few things to know about this deal. You did this before the minimum space standards came out. So now on an office conversion you wouldn't have been able to do 15 studios and you'd have had to do like a minimum 37 square metres.

How do you think that would have played out now?

[Max Scott] (24:55 - 25:31)

Yeah, I mean that would massively change the numbers on this deal. So apart from I think I'd get 8 units. Maybe you'd get a little bit more but that would massively reduce the rent, reduce the end value and you'd probably have higher bill costs as well.

So it would completely change the shape of this deal. I think it would mean that I wouldn't hit these sorts of numbers on something in this area again. Maybe up north there's a few more opportunities and bigger buildings where you can still get in a good number of dense properties but ones that meet the minimum room standards.

So that had a big impact.

[Mark Barrett] (25:32 - 26:02)

Yeah, yeah. I think also the point about the lending is very valid. Anybody that's looking to do commercial conversions and potentially leasing out to a supported living provider then the options as far as funding is reduced.

We had the added kind of complication that we had like commercial on the ground floor basically we were limited to two.

[Speaker 4] (26:02 - 26:03)

Really?

[Mark Barrett] (26:03 - 26:25)

Two lenders. So Shawbrooke and Cabridge and County. So it is worth checking beforehand before you go with a lease provider what your options are.

Maybe there are providers with the student. What was the angle on the student lets? What were they doing?

[Max Scott] (26:26 - 26:49)

So one, I think they had a letting agency so they knew the rents much better than us. They were based in the area. We were about an hour and 15 minutes from the area.

So they could have a more proactive involvement on the management. And I think they went for the overseas students higher end market. Typically one self-contained unit rather than that shared unit.

[Mark Barrett] (26:50 - 26:58)

Excellent. So we've gone through how you sourced the deal, how you structured the execution. Was there any issues as far as execution?

[Max Scott] (26:59 - 29:44)

Yeah, tons. Anything that you get the best return solving more complex problems. If it was easy, everyone would do it.

The first one was that the permitted development rules got announced before I'd submit the application. So I sort of had this flutter of panic. So we had to jump on the case, really make sure we got it through early because it was only a few months beforehand.

But we got it through so we had the permission before the rule change was enforced. So that was the first thing. We also had the COVID uncertainty.

We actually took £10,000 off the price because of that because it was office-based. So I used that argument up there. There were two tenants on that property inside the Act on offices, which basically means they have renewal rights.

Now you can get them out based on if you've got permission to develop or you're going to develop the property, but their lease end date. So we could have ended up sitting on that property for a really, really long time. Two things made me think I could get them out.

One is that the service charge was quite high on that property and the other is their rent was so low that the worst-case scenario and I paid for a year's rent for them at another office and it would have been £10,000 which could have neatly absorbed in the deal. There was the fact that it wasn't permitted to develop because one unit had a different use class. We got round that with a certificate of lawfulness.

Two big challenges, really. One was on the utilities. We need massive amounts of power upgrades and it's just in front of me.

It's not a busy, like a fast busy road or like a really heavy trafficked road but it is one of the main seafront roads of Bognor and it was over the summer and they didn't want to close that road for a day when they had summer traffic so there were delays and delays there and also one of the things I found is anything that you need to happen which relies on one government-based organisation like Land Registry or in this case UK Power Networks just means they'll come back to you when they want and so you can't really force anything through so that causes quite a few delays and actually quite a few issues because we were told we could do it by a certain date the tenants lining up for students and then we couldn't do power upgrades so we had to put in temporary measures there was a little bit of a rent reduction there was only £2 or something so that was one and the other was builders so they absolutely promised us that they would have it done by a certain time and even towards the end of next week and like four weeks later there were still issues so that affected the moving wasn't very smooth but because we'd gone for the student option we couldn't just delay the start the whole year so that was a challenge but it was a bit stressful but it all worked out in the end

[Mark Barrett] (29:44 - 29:56)

Good, good so congratulations again on the deal is there any three tips that you could give people that are investing in property or looking to start out?

[Max Scott] (29:57 - 32:03)

Yes, I've got three tips and this took me a bit of cave time to work this one out and it was I don't know what everyone else is like but if you've got a bit of money and you want a deal I can get a bit of deal anxiety when I haven't found one straight away and then did a couple of deals and then more deals started coming and it is the best way to get deals is to do deals so if you're known as someone that do deals and does certain type of deals then generally speaking you'll put the word out in a community and they'll come to you so the best way to do deals is to get deals the best way to get deals is to do deals the other one is don't wait to buy property and I think there's quite a famous saying I'm not sure who came up with it originally one of the reasons I did that is you've got a time where you're in an interesting time in the market and we've just come through an interesting time with COVID and I wrote an article just as we were coming out of the first lockdown, property booms as the recession looms and I was predicting, I personally exchanged for a property to live in we had to complete just in the first lockdown and 15% deposit I thought I could be under here predicting a crash and property is something where they're quite good at maneuvering the levers that control property, they don't want another crash the financial crash was a massive deal and I don't think, I think they put in place measures to stop that from happening again so we decided basically though we knew a recession was coming in case I was wrong on my prediction, to carry on doing deals but to stress test a little bit more to cover off more what ifs, to not be highly leveraged through that time so if you've got a time of uncertainty if you're predicting doom and gloom if you predict that three years too early the market's probably gone up and when it crashes it's still ahead of where you predicted it to go wrong anyway so if you're worried about the market just go a little bit steadier and stress test a little bit more but the main thing is to always buy

[Speaker 4] (32:03 - 32:04)

okay

[Max Scott] (32:06 - 32:21)

and this is one about risk management, actually risk management is going to be the the topic of my next YPN article and have you heard of the infinite monkeys on a typewriter

[Speaker 4] (32:22 - 32:23)

no

[Max Scott] (32:23 - 33:51)

so if you've got a monkey that goes up to a typewriter they'll probably press a letter they'll press a couple and then they'll go away again they're not going to write anything meaningful if you've got infinite monkeys they'll write that they'll write every poem, they'll write every book they'll write every song, they'll write every email that's ever been written and ever will be written ever now that's a very, what it does is it changes the way you view risk because with enough scenarios there's always a chance of something happening nothing is ever ever 100.000 or 0.000% chance of happening and that leads me on to my next bit which is a pre-mortem if you say right I'm doing this deal but in 18 months it's all gone wrong how did it go wrong and then, because what you can do is you can get blind this can't go wrong, that can't go wrong I've had refinance exits be pulled I've had finance pulled at the last minute from banks and they're not telling you why and just something can go wrong so just make sure that you've looked at the deal critically and said what can go wrong here and that you've covered it so we take quite a lot of risk but we know what risks we can take and it's just I think I'm happy to go at the riskier end of the market and the riskier end of managing things but you make sure you've got some more hips covered so infinite monkeys pre-mortem

[Mark Barrett] (33:51 - 34:07)

okay, cool just before we finish there was one thing you said I think it would be quite interesting just to drill down on you said that you allow a third for kind of when you're looking at deals for deduction, do you want to just run through those numbers just for people that are listening

[Max Scott] (34:07 - 34:52)

yeah sure, so I do 7% on management maintenance sorry, 7% on voids and bad debt I've got 12% on management which is about 10% plus that which is up to 19% and then I do 15% on insurance and operating costs now if you've just done a refurb it's never going to be 15% and we worked out ours was about 6.5% but in 10 years time you are going to have to do a big refurb again that's not going to compare to your rent roll on a maintenance basis so I kind of try to take a long view it might be overly harsh but I like looking at that and that's about a third deduction so if you can get a lease at the same price it's 50% higher you don't have the responsibility of the out rowing bill

[Mark Barrett] (34:52 - 35:11)

yeah okay, very good very good, so thanks Max for running through that deal fantastic deal again and anybody that wants to connect with you, I know you also work with other investors as well as your main source so how would people contact you

[Max Scott] (35:11 - 35:42)

yeah so we they can email us at hello at star-property.co.uk or if it's specifically about deals deals at star-property.co.uk our Instagram is starpropertyuk and LinkedIn is starpropertyuk as well so we're always after deals and new business opportunities, we've got a number of different services and companies under the investment arm from insurance to legals etc so anything you need I'm sure we can help so get in touch

[Mark Barrett] (35:43 - 35:44)

alright, cheers Max

[Max Scott] (35:44 - 35:45)

cheers Mark, thank you very much for having me

[Daniel Hill] (36:13 - 36:15)

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