**TBP 179 Edited v2\_Transcription**

[Daniel Hill] (0:05 - 16:33)

Welcome to the Blueprint Podcast. In these episodes, I'm going to share with you my life's work boiled down into simple blueprints that I used to build a 10 million pound portfolio and retire with financial independence at the age of 35. You can listen to these podcasts in any order, and I guarantee you that when you execute them in practice, you will see that success and failure are both very predictable.

Let's get into the next blueprint. My million pound mistake. Success and failure are both very predictable, where it doesn't matter how long you've been in this game.

It is still very possible to make mistakes, and the most important thing is how you deal with them. In this podcast, I'm going to talk you through how I spent 1 million pound cash in the middle of lockdown that cost me 10,000 pounds a month for a year, and how I turned that around to make nearly a million pound gain, a 20,000 pound a month difference, and how you can do the same. So in this podcast, I'm going to take you through my million pound mistake.

I don't know how many of you have done a significant mistake recently, but a million pounds is a lot of money in anybody's book. And what I'm going to take you through here is the deal that I've alluded to in many podcasts, which is Mancore House. So in the middle of the pandemic, I purchased a number of sites, obviously, observe the masses, do the opposite, be greedy when others are fearful, be fearful when others are greedy.

And while everyone else was locked down, running for the hills and panicking, we went on quite an aggressive deal spree, buying spree, and actually had a lot of successes in that process. Now whilst this is a million pound mistake, and nobody wants to lose a million pound, it's not as bad as it sounds. And the reason for that is that money is made when you buy the property.

And in the middle of lockdown, because we were buying in the middle of a pandemic, because we were buying cash, because we were buying unconditionally, we got some fantastic deals. And the site I bought, Mancore House, is 30,000 square foot, B1, what was previously mainly B1, and light industrial, office block, if you imagine a big L-shape, two stories, smack bang in the middle of town center, next to McDonald's and Tesco's Extra. And we paid a million pounds for it, I paid 960 grand for it, plus fees and stamp, et cetera.

So I'm in for about a million quid. And when you work that back over 30,000 square foot, it is, I actually worked it out yesterday, is less than 30 pounds a square foot. So a million pounds divided by 30,000 square foot is 33.3 pound a square foot. Now that is absolutely cheap, it's a bargain. You can build it for four times that, the rebuild value on it is about 3 million pounds. Not that that's always a thing to go by, but I know that I can buy, I've bought sites in this sort of location and loosely in this area for up to 90 pound a square foot in the past.

I went to look at a building that's suitable for development as in it's fit for purpose, it's existing use, it's got electric utilities, it's up and running with compliance. It is a well suited to a residential scheme as in it's got multiple aspects, it's got windows. You just look at it and think this is absolutely a development site.

When anything starts with a three or a four, you know it's an absolute, or I know it's an absolute no brainer for me with the schemes that we do. So I paid a million pound for it, which in anyone's book would be cheap as chips. And my sort of logic was I could knock it down and sell the bricks for that and probably get my money back.

So buying that in the middle of the pandemic didn't make me hugely nervous. It was already trading as a business center, bringing in about 90 grand a year. It wasn't fully tenanted, the rents were really low, textbook asset management play.

And the aim of the game was I knew that A, B plan, A, B, C, D or E would work, so I wouldn't catch a cold. So I paid a million pounds and then what I did was I set about doing a very advanced permitted development scheme where I was trying to get A, B, P, D on the airspace in two phases, well on the airspace in one phase. Then I was going to split the title once I got the A, B, P, D, split the title into two freeholds and I was going to use M, A, P, D to do two lots and two phases of what's now E class, E class to C3, M, A.

So it's a very complicated thing, very complex, et cetera, et cetera. Anyway, the plan was to go through that process. I went through that process, prepared the drawings and because it was airspace, it required a lot of additional design, surveys, drawings, structural reports, traffic reports, a lot more than you'd normally need for permitted development and that took me about six to nine months.

Then in order to qualify for M, A, P, D, I needed to evict the tenants, so I evicted the tenants and had that building empty, then did M, A, P, D and because of a number of challenges, two issues in the application, one was around the A, B, P, D, it has to be on a semi-detached or a terrace building, whereas because we own the entire block, it's actually detached, so I would have had to split the freeholds to make it two semis. Then you've got a question whether that is actually legit, et cetera, et cetera.

Then also that we claimed it was E-class of use, commercial use, but then the local council, which is not a great council to work with, they've got a very challenging track record in this area, they wanted proof that going back for the last 10 years that the building has established use as E-class because they believe because of the actual planning that was given 40, 50 years ago, that it was a factory, that it didn't meet that criteria. Now, there's a number of reasons how that can be challenged.

There's also a number of challenges why that couldn't be progressed. Actually, I got to a point where I'd had it empty for a year, including the voids and the operating costs, it cost me and the interest on the debt, it had cost me and my management charge, it cost me £10,000 a month roughly for 12 months, £120,000. I got to that point and I was like, do you know what?

All things considered, the complexity of the PD scheme, the requirement to split the title and split it into two, the challenges that we're having with ABPD, it would actually end up being nearly a full application anyway. I thought what I'll do is after a year of messing around, losing money, I thought I'm going to draw a line in it, I'm going to tenant it to buy me some time and then do a full planning application. Now, this is a serious, significant development.

It would be 80 to 100 apartments. It's not going to be a quick four-month application. If it goes to appeal, it could be as long as two years.

So I thought what I'll do is I'll fully tenant it and then I'll do the full planning application at the same time, it de-risks it, it makes some money along the way and it just takes the burn off the site. Now, not only was this my biggest million pound mistake as in buying that, the real angle that I now found, which was one of my biggest mistakes in the last 12 months, I got asked in an interview recently, what was my biggest mistake in the last 12 months? As we went to start re-letting it, we got a couple of surveys, a couple of rent valuations, got a survey to value the rents.

As we started to let it and advertise it, we actually realized the demand for the site as commercial was very strong. And because of the location of the building, because of the size of the units, because of the tenant profile, because of the lack of similar competition in the area, the demand was actually quite high. And in my head, I spent a million quid.

If we get a hundred grand a year coming in on the rent, I'll be happy. That'd be a 10% gross yield. They're on FRI leases.

So it would actually be nine or 10% net, which is a great position to be. It would actually be a really strong yield. And we've got it valued at 120.

Then we've got it valued at 150. Then we started laying in and we're now up to tracking at 160. If we get all the highest rents that we're forecasting, we could be as high as £175,000 a year.

And the second mistake that I made was I bought this building. I was going to spend £8 million developing it. However, as I started to let it, I realized actually without even hoovering the building, having spent £100,000 in idiot tax over the last 12 months, tinkering around with advanced permitted development schemes, et cetera, trying all these new things that I've not done before, just opening the doors, listing it on Gumtree and with one local commercial agent, putting a few signs up without even pretty much hoovering the building, the rents are going through the roof, the losses have disappeared. And actually because of the strength of the rent role, the capital value has increased significantly.

And this was one of my biggest mistakes this year was thinking that commercial property has to be converted into residential. Now if I'd have developed that building, yes, we probably would have made £3 to £5 million on the equity. However, to get there, it would have taken the plan application, the risk, and it would have taken about £8 million in development costs, including airspace construction, a significant amount of development, there's risk involved.

Now that is probably still the way we'll go in the medium to long term. However, at the moment, having gone through that process, we're now looking at tracking a potential of between £160,000 and £175,000 gross rent. And if I run you through the numbers on this, just from having a different mindset and also the benefit of having a plan A, B, and C, we've gone from a site that nearly cost me or did cost me £10,000 a month, a million pound development site that I bought and actually made a mistake thinking the only way to make money or the best way to make money was conversion.

We're now in a position that the site cost us £1 million. The rent role, it should be fully tenanted by the end of this month. And we should get to about £175,000.

Let's say worst case, we only get to £160,000, which I don't think we will. I think it'll be closer to £175,000 than £160,000. But that on its own would be a 16% gross yield.

And if you think about the buy-to-let market at the minute, where with property prices and rents, you're lucky if you get maybe a 6%, maybe 7%. And with interest rates at 5.25%, buy-to-let mortgages are going to be 5.5%. If it goes up again, going to be 6%. You've got a gross yield of 6% and a finance or 6% or 7% and a finance cost of 5.5% or 6.5%. There's no margin in there between gross yield and finance. Whereas if you look at a gross yield of 16%, it doesn't matter if your finance cost you 7% or 8% or 10%. It obviously depends what products you're going to get. But if your gross yield is 16%, that's absolutely crazy.

And because they're on full FRI leases, index linked, which basically means full repair and insure leases, they pay for the repairs, they pay for the insurance, they pay for their own utility bills. We basically just provide the building and I insure the building. Some of the larger tenants pay a contribution towards that.

The net yield is very similar to the gross yield. All of our buildings are leased out, FRI, 12-month index linked rent reviews. That gives you a net yield of say 15%, which is 150,000.

Now, going from a position of making £10,000 a month loss to now being let out £160,000 a year, that takes the net position from... Assuming a finance cost, granted some of it's my own debt, so it's cheap. But the average debt cost on that building for that million pounds is 5%.

We bought it in the middle of the pandemic. You wouldn't be able to do that now again, unless it was with your own cash and you're only charging 5% as well. But that would go from losing £10,000 a month to making £8,000 a month, which is a net difference of over £200,000 a year and puts you in a position where you're making about £100,000 a year profit.

So go from losing £120,000 to making £100,000, over £200,000 net increase from the position that you were in before. I was in before. And then if you look at the asset value, it depends what you can sell it for.

What's the market like, et cetera, et cetera. But if you would sell it on a 10% net yield, working on that net yield only, that would be a value of 1.5. If you could sell it at 9% net yield, it'd be 1.67. If you could sell it at 8% net yield, it'd be 1.87. All of a sudden, that million pound development, even at a 10% yield, whether that's to refinance or sell, refinance at the minute, depends how strongly they value the FRI leases, might have to push that to 12. But for a sale value at 10%, two years FRI leases, guaranteed income, that would put your sale value at 1.5 million. If you could compress that yield down to 8% to a fund or a family office or a high net worth investor or an international investor, you'd be looking at a valuation of 1.87 million. So based just on those forecast figures, so again, we're expecting to be slightly higher on the rent roll, and based on the net figures, working on net yield, net income, not the gross, you're looking at making between 500,000 and 870,000 pound in equity, plus 100,000 pound a year profit without even hoovering the building, let alone spending 8 million pounds in a two-year significant, not high risk, but medium risk development scheme. So hopefully that gives you an insight.

And I suppose a few points to note on that is one is you make your money when you buy. If you're buying something that you can knock it down and sell the bricks for cheaper, you're going to do well. The money's made when you buy.

The second is the reason we buy cash and unconditionally, but also get high margins is because we have a plan A, B, C, and D. And you heard my A, B scheme didn't work. My M, A scheme didn't work.

A, B, trade it as it is. Scheme C, and all of a sudden we're still, we're definitely not losing money, and we're still making very good margins because we've got plan A, B, C, and D. And then the final sentiment is no problems, only solutions.

It doesn't matter what goes wrong. It doesn't matter what happens. We've been doing this for 20 years now, whether it's been a recession, a credit crunch, a lockdown, a pandemic, whatever, rising interest rates.

When you're highly strategic and you're well-considered and you have a plan A, B, C, and D, as long as you've got the mindset that there's no problem, only solutions, when that still goes wrong or that planning doesn't come through, as long as you've de-risked it, you've planned it, and you've covered yourself, there's no problems, only solutions. Approach it with that mindset, approach it with that strategy. And what could have gone for being my million pound mistake that cost me 10 grand a month ended up being between 500,000 and 870,000 pound in equity and 100 grand a year profit from not even hoovering the building.

So hopefully you got value from that. That's my million pound mistake. Any that you've had, I hope that is going to help you to give you confidence on the strategy and the approach to achieve it.

And I hope you got value from this episode. Remember, development, property, business, success and failure are both very predictable. And I look forward to seeing you on the next episode.

I hope you enjoyed this blueprint podcast episode. If you're not already subscribed, sharing these, this is my lifetime's work. And every Tuesday, I'm giving you one blueprint away for free.

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