**TBP 188 Edited\_Transcription**

[Daniel Hill] (0:06 - 0:46)

Welcome to this month's Deals, Deals, Deals podcast hosted by my very good friend, Mr. Mark Barrett. Mark Barrett is a longstanding property entrepreneur board member, has successfully started, systemized, scaled and sold his property management company. Mark now spends his time building hands-free portfolios for high net worth individuals for his company, The Property Brokerage, and through these monthly Deals, Deals, Deals episodes, you're going to hear some of the UK's most lucrative, most strategic, award-winning and market-leading deals to inspire you and educate you in how you can do exactly the same.

Over to Mark.

[Mark Barrett] (0:50 - 1:28)

So I'd like to give a warm welcome to my latest guest, who is Tom Appleton. Tom recently joined the Property Entrepreneur Board, just gone in October, and that was after joining the Property Entrepreneur Program in 2019. Tom's based in Leeds and is actively doing plenty of deals up there, so looking forward to this one.

Hey, Tom, how are you doing? I'm really good, thanks, Mark. How are you?

Yeah, very good. Yeah, looking forward to this. So plenty of things that we can go through on.

So anybody that doesn't know you, can you just give us some of your background, please?

[Tom Appleton] (1:29 - 2:02)

Sure, yeah. So obviously I grew up in the Wakefield area near Leeds, came from a bit of a footballing background, so played for Huddersfield Town when I was younger. What was your position?

I was centre forward, sort of number 10. Oh, yeah? Yeah, yeah.

So football obsessed, big Leeds fan, so yeah, sort of my whole childhood. My dedication went a bit to an inch, when I was about 16, 17. So went to university, did some studies and stuff, and then I decided to go and play a game.

So I moved over to America and started playing over there with the AIDs.

[Speaker 4] (2:02 - 2:03)

What did you study?

[Tom Appleton] (2:04 - 3:25)

I studied sport science, physical education. Oh, right. Yeah, yeah.

And obviously, again, the sports sort of background. I really enjoyed it, sort of got all of that out of my system and sort of really realised, you know what, I should be doing something with this football. So sort of, like I said, moving to America with the idea of trying to get back going again.

I was coaching a bit as well at the time, and I ended up getting a serious injury to my hip. So I ended up sort of trying to get that sorted out, seeing different surgeons and things and ended up just coaching there for nearly five years. Whereabouts was you?

Where was you playing? I was in Los Angeles. Oh, wow.

Yeah, it was a great experience, loved it, in my early 20s, so yeah, a really good time. Learned a lot, grew up a lot, met a few big property investors and developers over there. So I learned a lot over there on the business side of things.

Obviously, because I couldn't play anymore, I really wanted to find a new avenue. And yeah, got a lot of experience, learned a lot about purchase lease options and things that are quite common over there. Yeah, right.

And then I came back to England in 2012 and sort of started my property journey when I came back.

[Mark Barrett] (3:27 - 3:43)

Wow, amazing. Yeah. It just shows you sometimes you have kind of like a major milestone in your life, which, you know, you as your hip injury, and you just think, oh, that's it, that's kind of like, you know, it's all over.

But it's strange how things can then come from that.

[Tom Appleton] (3:44 - 4:57)

Yeah, definitely. There's two big learning things, things I learned from that, basically, two big things in my life. Number one was a failure in mindset, because at 16, 17, I was playing professional team and had sort of all the talent to be able to move and have a good career, and my dedication and mindset let me down.

So because of that failure, as life's gone on, I've got older, I'm still sort of dedicated to that personal development and mindset side of things now, because I'm sort of fully aware that no matter how good you are at something, if you don't have the correct mindset to go and achieve something, you'll never do it. And then the second one is, you're completely right, when I decided to go back and play football and think I need to do something with this, it then got taken away from me because of the injury, I couldn't do it physically anymore. And that was a big lesson.

It was obviously a really hard time in my life, but it's sort of, those hard times sort of build your character massively, and it really gave me that desire and motivation to find something else in life and do the best I could with it. And obviously, I found business and property. So yeah, two big early lessons in life there, which has really sent me, put me in good stead, basically.

[Mark Barrett] (4:58 - 5:07)

Very good. So you came back and you got into property, and then what kind of, what was you doing in property when you got, when you came back?

[Tom Appleton] (5:07 - 5:59)

Yeah. So because I had gone to university in Leeds, I knew the area extremely well, a lot of, I knew all the streets sort of off by heart, so that area was perfect because I was living in HMOs and house shares at university. It was, I loved the concept, I had a great time myself.

So that investment strategy was brilliant. I'd learned a lot in America about multifamily apartment blocks. So that multiconceptive, obviously that's more of apartment blocks, but in England, that sort of transferred to the HMO model.

So yeah, it really suited what I was looking to do. Didn't have lots of capital and all that type of stuff. So the sort of strategy I went with, was with purchase lease options and delayed completions.

So in my early days, I was scaling the HMO portfolio using that strategy, basically.

[Mark Barrett] (6:00 - 6:28)

Yeah. So for anybody that is not aware of that, that's where you basically negotiate terms with the seller to be able to control the property through an option, with then an option to purchase it in the future. So it's a great way to control the asset.

So that's good. And then just fast forward then to 2019, what made you kind of want to get involved with a property entrepreneur?

[Tom Appleton] (6:28 - 6:42)

Yeah. So I'd sort of built my portfolio over the years. I'd met Dan Hill back in 2013, 14 at various different property meetings.

I was aware of Dan and done some of his courses in the past.

[Mark Barrett] (6:43 - 6:46)

Which one? Did you do the systems course?

[Tom Appleton] (6:46 - 6:48)

I did, yeah. The one day systems, which was excellent.

[Mark Barrett] (6:49 - 6:49)

I did that.

[Tom Appleton] (6:49 - 7:30)

I learned a lot, yeah. Yeah, I did. Yeah.

So like I said, I've known Dan and known of him for a long time and used to see him around now and again. I'm very impressed with his work and what he was doing. So I'd sort of built the company to a certain point.

Obviously, because I'd lived in Los Angeles, I always wanted to set up my company there and start investing over there. So I've done that. And a big reason for me going on to property entrepreneur was really learning how to systemize and put the processes in place to be able to leave the business and smoothly without you.

So that was the big motivation to sort of join PE at the time. It was a great decision, yeah.

[Mark Barrett] (7:30 - 7:35)

Very good. So what are you up to now then? What are you investing in at the moment?

[Tom Appleton] (7:37 - 7:58)

All sorts to be honest. So again, we're still investing a lot of HMO properties, various different strategies. I invest in single let properties, sort of my own sort of little portfolio on the side of the HMOs as well, and commercial to residential properties as well, which we've got one in the city center of Leeds at the moment, which is a good project.

[Mark Barrett] (7:59 - 8:23)

Okay, very good. So we're actually going to cover a few different projects of yours. We're going to cover actual portfolio as well as the adding value in the Article 4 area.

Just before we go on to that, though, we do talk about wealth dynamics. I know you did it before you joined Property Entrepreneur, but what's your profile as of interest?

[Tom Appleton] (8:24 - 9:06)

Yeah, so I'm a creator dynamo. I first did it I think in 2014, and then a lot of Roger Hamilton stuff. And then in 2019, as part of PE, obviously it's a big part of it as well, and sort of honed in on it even more so during that period as well.

Yeah, reading that was a big eye opener back then. I think when you spoke about it, it's just like you're reading and you're thinking, does this person know me? Yeah.

Yeah, so it was really good, and it's a great tool to use, obviously, knowing your strengths and weaknesses. Yeah. Obviously, I know I've got a lot of weaknesses.

He's hiring those people around you to cover those weaknesses and getting a great team around you.

[Mark Barrett] (9:06 - 9:16)

Do the things that you don't enjoy. Yeah. Do the things that you don't enjoy, and then you do the things that you enjoy.

So what would you say is, what's the stuff that you enjoy, what's your strengths that you like to do?

[Tom Appleton] (9:17 - 9:54)

Yeah, so as a creator, I love getting things going. So a new deal, this is how we're going to structure this deal. So purchase lease options and delivery completions, I love sort of constructing those and putting those deals together, putting the renovation plans together, and then really sort of getting things going, scaling the businesses, and then passing it on to the team.

So passing it on to the team to do the renovations once we've put the plans together, and then the operations team to manage the assets and deliver the profits, basically. So that's sort of not my strength. So having that team in place and having them do that is super important.

[Mark Barrett] (9:56 - 10:04)

Very good. So we'll look at the portfolio, first of all. So how did this come about?

How did you actually source this?

[Tom Appleton] (10:05 - 11:05)

Yeah, so this deal, I originally saw the... So this is a portfolio of 5 HMO properties, a total of 32 rooms. So I saw the first property online on Rightmove.

So I booked a viewing, went down to have a look at the property. I initially was just looking because it was a 7-bedroom HMO, and it had the front section of the basement wasn't developed out yet. So there was a kitchen in the back basement.

And I originally went there thinking that could potentially be a good deal for a 7- to 8-bed, sui generis HMO, having that as a bedroom for the value, which was true when I got there. It was on the market for around 450,000, which is quite well priced, but it was still not enough for me to structure what I wanted. So I put an offering of 360,000, quite a bit lower than the asking price.

And I was surprised, actually, they accepted straight away. So I got the...

[Mark Barrett] (11:05 - 11:10)

Was there anybody else viewing it? Was there any other offers? Why do you think they...

[Tom Appleton] (11:10 - 15:07)

They wanted, yeah. So I was late to find out the reasoning behind this, but on that one, a sale had fallen through. Okay.

So the vendor had become quite motivated and sort of sick of the waiting around, things happening like that. So basically, on those viewings as well, I was asking a lot of questions, which I always do. So find out as much information as I can.

Who's the landlord? What do they do? How many properties have they got?

I know because I've been investing in that area for such a long time, I know a lot of people around there, a lot of investors, a lot of the agents. So I asked these questions thinking, do I already know them? I didn't know this person at the time.

But the agent gave me quite a bit of information saying, yeah, she's absolutely got 4 of the properties that she's trying to sell and they've all fallen through. So I obviously agreed to the purchase on this first one. I was like, oh, I'll be interested in the rest of them.

Can I go view them? So I viewed the rest of the properties, tried speaking to the agent about potentially structuring a deal for the whole portfolio. The agent wasn't the easiest to deal with on that.

So basically, I got the first one going through and then I knew the letting agent of the other 4 properties. So I went to go speak to them and had a chat with them and said, what's the landlord like? Could you get me in contact with them?

I'm interested in the rest of the portfolio. And they said to me that she's actually pulled the rest of them off the market now and potentially looking at renting them out. So I was like, okay, brilliant.

Get me in contact. So I gave her a call and she was still interested in selling the rest of them. So I arranged a meeting with her that next week.

I think it was. We sat down and had a chat. And the best way to structure a purchase or a portfolio deal and I was wanting to do the rest on a purchase lease option deal.

So we're really finding out what is this landlord's motivation? What are you looking to do? Turns out she's a super successful investor and had a big portfolio over the years.

Very wealthy lady. And she was wanting to sell a portfolio because she's wanting to retire. Quite concerned about the capital gains tax implications, but she didn't really know how to get around it and all that type of stuff.

So basically, I put a deal together where I would do a deal on the whole portfolio. So I'd buy the first one that I'd already agreed and then a purchase lease option on the other four on a five-year term. And I agreed a 4% interest rate for the lease payments on the other four, basically, which was for around 1.7 million, the option price. So basically, I agreed that we did the contracts and everything. I put a £25,000 option fee down for the deal. So basically, that went through within a couple of months.

So I got that £25,000 back within five or six months. The students moved out this year. Basically, all the properties were full of students.

So they moved out in July this year. So the seven-bed one that I originally bought for £360,000, we've done an £80,000 renovation on that, converted the basement, added the extra eight-bedroom, got the HMO license, etc. That literally just got valued at £600,000 last week.

So we'll be refinancing all the capital out of that and probably slightly more. And then the rest of the four properties, we've given them light renovations. And we've re-rented them all out at a higher rent.

So we've added a bit of value on those ones as well. So the original price for the portfolio was probably just over £2 million. And now the GVV is probably more than £2.5 million. And I've still got four and a half years to go on the option terms as well. So yeah, it's a good deal.

[Mark Barrett] (15:08 - 15:20)

Yeah. So that's fantastic. So let's just go through a few of those points then.

How did you get to the 4% interest rate? How did that come about?

[Tom Appleton] (15:22 - 16:19)

So basically, at the time of speaking to her, interest rates were going up. And she was sort of interested in making sure she had a decent amount. So I got quite lucky.

It was before the interest rates started really going up. I was negotiating this. So basically, we were treating it like a mortgage.

So if she had no mortgages on the properties, they were all unencumbered. So basically, she was acting as a bank on this. So I obviously wanted the lowest possible price.

I think interest rates had come to about 5% at the time. So I spoke to her and said, look, I think that might be slightly high for the valuations you want on the option price, etc. And we sort of came to a middle ground on 4%, which is a great deal.

But looking back now, obviously, fixing that into 4% was good timing, basically.

[Mark Barrett] (16:19 - 16:26)

And then how did you get to the 25k? Did she need some money then? Was that just a sign of commitment?

How did that go back?

[Tom Appleton] (16:26 - 17:03)

It was more a sign of a commitment on this one. So it depends on the deals you're doing. Most option deals I do, I don't bring anything down.

But because of the size of this one, she wanted to see some sort of financial commitment. So I think she wanted 100,000 initially. So I sort of negotiated that down to 25.

Basically, on any purchased lease option deal or delayed completion deal, I have a rule of thumb where I want all my capital back on renovations, etc. Back within 12 months. With that 25,000, obviously, I got it back within around six.

But yeah, that's sort of how I tried to structure them.

[Mark Barrett] (17:04 - 17:14)

Okay. That's a good rule of thumb then. So any down payment, any option payment, and any refurb, you look to try and get back within the 12-month period, yeah?

[Tom Appleton] (17:14 - 17:31)

Yeah, definitely. Yeah. So for example, if you've got a six-bedroom HMO and it makes you, I don't know, £1,500 a month, and you do a renovation of, I don't know, 15,000, 20,000, I want to make sure that obviously that will be made back within that first year.

And then any time after that period is all profit, basically.

[Mark Barrett] (17:32 - 17:48)

Yeah. And then the five-year period, how did that come about? Was she not bothered about staging those in separate tax shares?

Although the CDG rates, CDT rates have changed. Was that not an issue as to doing that?

[Tom Appleton] (17:48 - 18:40)

Basically, at the time when we were negotiating this, it was more about... We did the five years and I said to her, I will buy them one every different years, basically. So I can do it at any time within those five years.

The great point with this deal as well is I actually have a clause in there saying I can extend it for another five years as many times as I want. Yeah, which was a big kicker on this deal. I've never been able to do that on a previous deal.

And because she is extremely wealthy, she's done that. She just wanted it solving and not having to deal with it anymore. We've got the original five years.

So I'll buy one per year, staggered over that time frame. So I'll probably extend for another five years and buy the rest of them over that time. And then just try and maximize her capital gains tax, basically.

[Mark Barrett] (18:41 - 19:00)

So how did you do the five-year extension? What I found doing options is people... If you use the word standard, people like that.

They kind of get used to that and that's okay. So yeah, the standard terms are we pay a pound or we have an extension. So how do you go about it?

[Tom Appleton] (19:01 - 20:04)

Yeah, so normally on mine, I have a two-year extension on all of them. So normally I will say if something happens in the market during that period, then obviously we want to extend for two years and it recovers and we can still make the purchase and things like that. I go to every purchase lease option thinking I'm going to buy it.

So on this one specifically, she wanted the five-year extensions also at the time because she was happy making this interest rate. You think she's got this portfolio now and it's running completely free without her. So it's cash flow, yeah.

So it's cash flow completely. She's not having to do anything. She's got the prices she wanted on there.

So at the time, she was very open and actually wanted me to have these five-year extensions because she was sort of the mindset, well, the longer I do that, she'll still make the profits and I'll still make the purchases. Yeah, she's a very, very intelligent investor as well. She's very, very clever, knows what she's doing.

So I think she saw that side of it and the positives of that side of it, which worked perfectly for me as well, obviously. That's the only one I've actually got that clause in. So yeah.

[Mark Barrett] (20:05 - 20:14)

Brilliant. And then to say like your normal two-year extension, is there like a fee that you have to pay to extend that?

[Tom Appleton] (20:14 - 20:29)

Normally, not normally. No, I've not had any of mine where I've had a fee, but I would do. I would put that in there if they negotiated and it was worthwhile having that clause in there for the extension, I would pay something as long as it works from my perspective as well.

Yeah, definitely.

[Mark Barrett] (20:30 - 20:36)

And is there any mechanism that the price increases if the terms are extended?

[Tom Appleton] (20:37 - 20:49)

No, no, not on mine now. So on that specific portfolio deal, it's the prices are set, those numbers. Yeah, and all the ones I've done, actually, I've just had to set prices.

[Mark Barrett] (20:50 - 20:55)

So based on that, you could extend it for 25 years, pay 4% on it.

[Tom Appleton] (20:57 - 21:29)

Yeah, technically, yeah. Now, I think she's in her early 70s now. So she's late 60s.

So yeah, I wouldn't be extending that and also the other side of it, I think I want to get them purchased and in my name after a certain period of time anyway. And obviously, you can then do your refinances and have capital equity that way. So yeah, technically, I could do that.

But I think within the next 10 years, I'll definitely abort them all.

[Mark Barrett] (21:29 - 21:51)

Yeah, then how do you structure that? So for anybody that's looking to do a similar deal, let's say if no increase in value over that period, would you buy that casual bridging and then refinance then? Because the purchase price will be lower than the valuation or how would you do that?

[Tom Appleton] (21:51 - 23:31)

Yeah, so a number of things on that. So all the purchase lease options I did in the past would have gone up in value enough where I would work with an investor, they would invest the capital, give them a great interest rate, I would make the purchase, renovation, refinance, and then the investor gets the money back. In the event where say there's a market crash or the values are not there, that's where the extensions are there, what they're there for.

So for this one specifically, because I can keep extending, obviously, I wouldn't necessarily get a call on that one. But the great thing with options is me as the investor, I have the option to buy that anytime during this period. The vendor can't sort of pull out.

They don't have the option to do that. So I don't have to buy them if I don't want. But like I mentioned, every time I do a purchase lease option deal, I have full intentions to be making the purchase.

But in the event that happens, I would still make the purchase. If they went down in value, I would raise the capital or use my own capital, make the purchase. Probably even potentially because of the quality of the assets.

Now, it just depends on how good the property is. And these four specifically, they're all very good in very good areas. So it'd be worthwhile in the short term thinking where I've got to put some capital, I might not be able to get it back straight away, but it's worth making a purchase.

And then over the next year or two, they will recover. And you can look at potentially getting your capital back. So yeah, I think it definitely depends on the property and the type of dealers.

[Mark Barrett] (23:32 - 23:35)

Do you have a clause in that you can assign the contracts as well?

[Tom Appleton] (23:35 - 23:45)

Yes, I can assign them to somebody else if I want to as well. So if I want to flip them or whatever it might make a piece in between. Yeah, I can do that.

[Mark Barrett] (23:46 - 24:22)

Okay, very good. So that's a great deal. And so let's go on to the other types of deal you've been doing, where you've been looking for the four beds in Article 4 area, and then looking to add value, which is one of the strategies that Dan was talking about too, as far as cash flow, but also it's an asset play as well by creating the value.

So could you go about how you've done that? And I know you've got like three examples for us. So it'll be interesting, first of all, as to how you actually came across these properties.

[Tom Appleton] (24:23 - 24:52)

Yeah, definitely. Sorry, I'll just touch on that portfolio before I go on to that. I didn't mention the gross revenues are just over £19,000 a month.

Sorry. And profits are around £8,500 to £9,000 a month. So it's super lucrative on the cash flow side of it, which is the primary reason for initially doing obviously purchase lease options.

So I just wanted to make that... Obviously, that's a big positive of doing that, because you get a lot of capital in there initially, and you're making that cash flow very quickly, basically.

[Mark Barrett] (24:53 - 25:26)

I deal with a lot of clients that are looking to build a portfolio. And the common numbers that we've come across is somebody who wants to make $3,000, $5,000 or $10,000, or it could be more if they've got a big business and they're generating more than that, they want to match that. So based on that number, that's kind of like 100k a year.

That will get most people... That one deal will get most people, if they wanted to, out of the job or give them the time freedom to be able to reduce the hours if they wanted to just on that one deal. Yeah.

[Tom Appleton] (25:26 - 25:33)

Yeah, definitely. Yeah, on that one deal, I think probably most people could retire on that one deal, I suppose. Yeah, definitely.

[Mark Barrett] (25:33 - 25:35)

Yeah. Amazing.

[Tom Appleton] (25:35 - 25:35)

Yeah.

[Mark Barrett] (25:37 - 25:43)

That puts it in context. One deal, four properties. Was it four HMOs?

Yeah.

[Tom Appleton] (25:43 - 25:47)

Five altogether, including the purchase. Oh yeah, the one purchase. Yeah.

[Mark Barrett] (25:48 - 25:58)

And also, I think the other thing to note is it was on Rightmove. So that's how it came about.

[Tom Appleton] (25:59 - 27:19)

Yeah, definitely. Yeah, the initial lead there was just something to... Definitely, yeah.

So yeah, regarding the current deals I'm doing at the moment. So yeah, where I've sourced these, I've got a decent relationship with a letting agency known for quite a long time in the area where I invest at Headingley. And my electrician actually was working on the property, doing some work there.

And he was speaking to the agent that I know. And my electrician had mentioned to him that I'd be interested. So he gave me a call, the letting agent, said, there's this four-bed property, it's tired.

This agency rents to students primarily. So I couldn't get students in for the year. It was a tired property.

And he mentioned that the basement is completely free. So I was quite interested thinking, Oh, actually, this is a quite interesting deal, potentially. So I went to go view it, looked at the property.

It was in okay condition. So from ground floor up. So it was ground floor, first floor, second floor in okay condition.

Three good size rooms and one smaller, one bathroom. And then down in the basement, the whole basement was completely open and empty. So the next thing I want to do, that's obviously you've got a four-bedroom HMO there.

[Mark Barrett] (27:20 - 27:25)

So just so somebody can just picture that, what was the layout of the house?

[Tom Appleton] (27:26 - 27:41)

So yeah, so you walk through the front door, you're in the dining room, living room. And then you walk to the back of the property. You've got a big size kitchen.

And then the stairs down to the basement and down through that kitchen. And then as you go up the stairs.

[Mark Barrett] (27:41 - 27:45)

And the basement, what kind of head height was that? Could you stand up in it?

[Tom Appleton] (27:46 - 31:39)

Yeah, so you can stand up in it. So we actually are going to dig down and create more head height. I think it's just about regulations.

But because we're going to dig down anyway and insulate it and all of that stuff, we're going to lower the head height and make it that big. Well, just for quality purposes. I don't know if I mentioned, but 9.9 times out of 10, any deal I do, I'm looking at the long term to hold. So adding that extra quality of the head height down there, making the property as good as possible. Yeah, that's exactly what we're looking to do with it. So yeah, if you go from the first floor of the property, you've got two bedrooms, one very large, one smaller, and the bathroom.

And the top floor, you've got two bedrooms, which are both a really good size. So we're currently on with the renovation on this one now. We're just digging down in the basement.

So we're going to create two en-suite bathrooms down there, make it a six bedroom. And then we'll renovate the rest of the property. So the renovation is going to be probably around 70,000, 75,000 in total.

So we've agreed a price of 240,000, 75,000 grand renovation. End value is probably going to be around 450,000 pounds. So I've already got a six bedroom HMO on that street, which got valued at 4.5 about 12 months ago. So being fairly conservative, say 450,000. So we'll be looking at pulling all the capital out of that once it's done. And we'll be renting out for between 3,500 and 3,700.

Is that like the working tenant model that you go for? Yeah. So professional tenant.

I do my whole HMO portfolio to professionals, basically. So a good opportunity in the market is you see it all the time, is your old school landlord renting students, the houses get battered over the years, and eventually it gets to the point where they can't rent them out anymore. So the opportunities I've seen, I'll talk about two other very similar deals I'm doing as well, is because of the interest rate hikes, these older school landlords, or all landlords really, this specific landlord has been in the game for 20 years, I believe, had this property for.

Interest rate hikes are really squeezing the four beds. So obviously you've got four beds becoming tighter, it's becoming harder to rent, interest rates are going up. So they've got mortgages on there still, and it's completely killing the profits on the four beds.

And obviously with most HMOs, the fifth and the sixth room is normally where the most profit is, or where the profit is. So I've just seen in the current market with that interest rate hike, the four beds are taking a hit. So if you can see this opportunity where the four beds are taking a hit, the landlord is getting more motivated, and he's got space in the basement to do a loft conversion to add the extra bedrooms.

So it's a good opportunity in the moment. But the key to this deal is, because a four bedroom HMO doesn't need a HMO license. So you could apply for HMO license, and the key and backup to that is having a certificate of lawfulness on the property.

So this one specifically didn't have a certificate of lawfulness on there. But because I knew the letting agent so well, a very good letting agent in the area, he managed this property for over 15 years, had the whole history of tenancy agreements, of the proof of use. So we've got all of that and applied for a certificate of lawfulness as the purchase is going through.

So we have that in place to then move the property from a four bed. So the proof of C4 planning, proof of use, and then it's basically a four bed to a six bed, and then we'll apply for the HMO license. So that's the key to be able to do these deals as well, is either having a certificate of lawfulness in place, or the proof of use to be able to apply for them, and makes you be able to do the six bedrooms basically.

[Mark Barrett] (31:39 - 31:53)

Yeah. Okay. Very good.

So one thing I was thinking about that is, what's in it for the letting agency? Is he going to lose the lettings? And in which case, what motivates him?

[Tom Appleton] (31:54 - 32:48)

Yeah. So in this instance, I think he's getting a fee basically. So he's an actual estate agent as well.

So he's getting a fee from the vendor to sell the property basically. I'm not actually paying a sourcing fee for this. I know him really well.

Yeah. He's happy getting his fee as an estate agent to the vendor. I think primarily in this instance anyway, if the property wasn't so tight, if the vendor wasn't expressing what to sell, he's going to lose the property anyway, because he'll put it on with an agent somewhere else.

He can speak to me as an investor and say, he can make a fee on it. So basically he can give me a call. Are you interested?

If it's actually yes, and he can then sell it and make a fee, it's better than him just losing the property on the management side anyway, and then another estate agency making the fee. So that's where the motivation is on these.

[Mark Barrett] (32:49 - 33:01)

Okay, that's good. So anybody that's listening that wants to do similar deals, not only estate agents, but also letting agents to try and build connections and relationships.

[Tom Appleton] (33:01 - 33:49)

Yeah, definitely. A good way with letting agencies, I would be open to them managing it. Obviously I have my own operations team and we manage it in-house.

We have a management company called Cali Living, which just manages my portfolio, my JV partner's portfolio. But as part of a deal with the letting agency, if they brought me a deal and said, we still want to manage it. If that worked for me, the operations are taking care of it, that's perfect from what I'm looking to do.

As a creator of Lowell Dynamics, I want to get the deal done and then pass it on to the operations for them to look after it. And I want to be going on to the next thing I want to do. So I wouldn't be against it, as long as they're a good agent, which I know this company is.

Yeah, I would be more than happy to do that as long as I got a deal done. So yeah.

[Mark Barrett] (33:50 - 33:55)

Yeah, that's good. That's good. And then the other two deals, Dan, that you're doing at the moment.

[Tom Appleton] (33:55 - 35:29)

Yeah, very similar. So this was two at the same time, the same landlord, exact same circumstances, tired of properties, struggling to rent them out for this student year. Older school landlord, the same agent called me again.

I'd just done the deal on the four bed that I was talking to you about there. Literally about a month later, as that's going through, he called me. So I've done these deals in the last eight weeks.

So he called me maybe 10 weeks. He called me literally with these next two. I've got two very similar properties.

Would you be interested? I said, yes. Went down and looked at them both.

Very similar location. So they're in the Hyde Park area of North Leeds. Tired four beds, both with basements ready to convert.

One was a very similar basement to the one I was just doing. And the other one was actually converting to an apartment. So it's technically a four bedroom HMO with an apartment below it.

But basically with both of them, what I'll do is I'll just create both of those basements into the two more bedrooms and create two six bed HMOs. Again, knew the agent, had all the proof of use, tenancy agreements, etc. On this instance, I actually said to him, I want the vendor to apply for a certificate of lawfulness as we're purchasing.

So they're actually going through right now. And the certificate of lawfulness is going to go through before we actually complete as well. So they're actually in place, ready to go.

And then we're going to start with the renovations.

[Mark Barrett] (35:30 - 35:39)

Is the deal subject to that? And what would happen if they sometimes... We've done a certificate of lawfulness, sometimes it can take a bit longer.

So how do you go on?

[Tom Appleton] (35:41 - 36:47)

Primarily they'll take around eight weeks, but obviously sometimes it'll take longer. I did one in Wakefield, it took 12 weeks. It's not subject to, because the agent has got, again, he's managed these for over 10 years.

I think it's 12 or 13 years, he's got tenancy agreements for. So I would be more than confident, the same as when we've just done, I'd be able to get that certificate of lawfulness. It was just the vendor is now paying for that to be done.

And also it's getting done during the process and we're buying, obviously getting the mortgages in place, etc. The only time I would do that subject to is if they were missing tenancy agreements. So for example, if he's got tenancy agreements from 10 and nine years ago, but he's missing years five, six, and seven, and then he's got them again, there could be a bit of a risk involved.

So it's all risk management. So if I thought there was a bit more of a risk there, then I would make it subject to... I was confident we would get it, but yeah, that's when I would sort of look at making something subject to being done.

Okay.

[Mark Barrett] (36:48 - 37:00)

So these type of deals where you're buying at kind of like 240-ish mark, and then you're doing the refurb, how are you actually funding those? Is it like a mortgage? Is it bridging?

How do you do those?

[Tom Appleton] (37:01 - 37:29)

Yeah. So we're doing bridging on one of them and then normal mortgages on the other two. So the first one I was talking about there, that's with a JV partner of mine, Garrett Pierce.

Obviously, you know well as well. So JV partnership with Garrett on that one, we've got a bridge and we're doing the renovation. And then the other two is just normal mortgages.

We're actually using Kent Reliance on those two. Are you doing refurbs on those?

[Speaker 4] (37:30 - 37:30)

Yeah.

[Tom Appleton] (37:30 - 37:40)

So refurbs on all three of them. So each refurb is a similar amount. They're all very similar sized properties.

They're all going to be between 70,000 and 85,000 around that mark each.

[Mark Barrett] (37:41 - 37:54)

So those that you mortgage with Kent Reliance, well, like 75% loan to value of purchase. And then what is it, cash then for the refurb? And then can you get then a further advance?

[Tom Appleton] (37:55 - 38:38)

Yeah. So on the one with the JV with Garrett, we have a partnership where the capital is getting put in. We're doing the purchase, the deposit has been put in and the renovation.

With the other two, I'm raising the capital from an investor I work with, giving them a really good interest rate on their money. So we're getting the lending with Kent Reliance, no tie-ins. So there's no tie-ins on the mortgage there.

So basically we're making the purchase. We'll do the renovations and then probably look to refinance. So yeah, I'm working with an investor I work with, I've worked with for a number of years.

So they're putting the capital in, getting a great interest rate on the deposit and the renovation capital. And then when we refinance, they'll get everything back plus their interest.

[Mark Barrett] (38:39 - 38:58)

Okay. Sounds good. And then how, when you're doing these conversions, so you're adding value, you're going from the four to six, you can either do it in the basement or you can do it as a loft conversion normally.

What kind of like ballpark figures do you work with as far as those costs?

[Tom Appleton] (38:58 - 39:42)

Yeah, so the three ways of adding the value and adding the bedrooms, like you mentioned, you mentioned two of them is basement conversion, loft conversion and then extensions as well, if they've got big gardens. And so on these basements, they're probably going to cost anywhere between 20 to 25, maybe up to 30,000 on the basement conversions. We have our own teams.

Basically, we've been doing renovations around there for a long time. So we manage it ourselves. We don't put it out to a contract where it necessarily might be a bit more expensive.

So we're looking around that for the basement conversion and that's basically from the ripout, the dig down to building it back up and then plumbing, electrics and getting it ready to go.

[Mark Barrett] (39:44 - 40:01)

Sorry, just on that as a ballpark figure, then if you look at 30,000 to create two en suite rooms, that's average of 15,000. And then the end values, what are they per room? Are they about 75, I think on some of the valuations?

[Tom Appleton] (40:02 - 40:20)

The per room? Yeah, basically on that specific one there, the first one we're doing in there. So yeah, that's what it will cost.

So we'd buy that for 240 and the end value would be around 450. So for an 80, 75, 80,000 pound renovation, yeah, the biggest- It's about 75.

[Mark Barrett] (40:21 - 40:31)

So you're spending 15,000 to create another room that's going to be valued at 75. Yeah, yeah. Those costs.

So yeah, it's amazing.

[Tom Appleton] (40:32 - 40:56)

Yeah, definitely. I mean, rents have obviously gone up a lot over the last couple of years as well. So for en suite rooms around Lees now, on one of those, that portfolio deal, for example, one of those is a six bedroom all en suite.

And for every en suite in there, we've got 695. So rents are really good at the moment. So we're targeting around that similar price for these two en suites in this one as well.

Very good.

[Mark Barrett] (40:57 - 41:09)

Yeah, so that was the basement. And then you mentioned then about the loft conversion and then the extension. So loft conversions, what's like the ballpark figures that you work to on those?

[Tom Appleton] (41:10 - 41:45)

Yeah, so loft conversions, probably slightly cheaper than basements we've done them for. So we're looking more at your 20,000 mark, 25 maybe. If you've got two up there, if you're putting en suites in, obviously the costs go up.

I don't necessarily put all en suites in mine. But if we do go to the trouble of doing a conversion like that, we will normally look at doing it. So yeah, I'd probably look at 20,000, 25,000 on more of a conversion like that.

Is that for one or for two rooms? For two, yeah. So similar concept again, we're adding a lot of equity for sort of 12,500 pound a room.

[Mark Barrett] (41:46 - 41:54)

Yeah, it's crazy. And then what size of rooms do you need to do in Leeds? Is there like minimum space standards that you need to hit?

[Tom Appleton] (41:54 - 42:43)

Yeah, to be honest with you, my strategy, I don't look to invest in any properties that have got smaller rooms. So you sort of... Yeah, the smallest room in these ones, for example, they've all got one smaller room, which you've got to sort of take with these properties.

You're probably looking at eight square meters, something like nine, which is the smallest. So I typically look at... Because I want to keep all of mine long term.

Operationally, I want them as smooth as possible. If I see a property, even if it's a good deal, but every room's tiny, you're on the border of minimum room standards. I wouldn't necessarily be interested.

I'd probably look at flipping that on or sourcing it to deal to somebody else. And it wouldn't be something I'd take on myself. So yeah.

[Mark Barrett] (42:43 - 42:50)

Okay. And then the extensions, are you doing that on the permitted developments or are you doing that with planning permission?

[Tom Appleton] (42:50 - 43:11)

We've done both actually. So permitted development is obviously super easy. You can just do a small extension on the back.

Normally we'll do that on smaller ones and you sort of create the living room or the kitchen diner at the back there and you can add that room in. But we've done a full extension. We've gone for planning permission as well.

It depends on the deal and how much value. So yeah, it does depend really.

[Mark Barrett] (43:12 - 43:22)

Also, just how you review when you're kind of appraising a property. I think you said you had like two metrics. Do you want to just go through those?

[Tom Appleton] (43:23 - 44:18)

Yeah, definitely. So whenever I'm looking at deals, literally the simpler the deal can be made, the better in my eyes basically. So whenever I'm looking at deals, I try to not make things complicated.

And the two things I look at is, one is the capital employed and how quickly can I get that back? So deposit in the renovation, how quickly can I get my capital back to then deploy it again somewhere else? And that's number one.

And then secondly, is obviously return on investment on that capital. So what returns is that asset going to make once it's done and is it worthwhile? So they're the two metrics I look at.

And anything, especially on HMOs, I'm looking at 12% plus. That used to be when I first started, 20%. So yeah, it's come down a bit.

But yeah, I think that's still always a really good deal. But yeah, they're the two things that I look at.

[Mark Barrett] (44:18 - 44:23)

And then what's the period that you want your capital out repaid?

[Tom Appleton] (44:23 - 45:23)

Yeah, as quick as possible. But normally I will factor in anywhere between six to 12 months. So six is obviously super fast depending on the size of the renovation.

But I would say typically between nine and 12 months, the normal purchase refinance, getting the capital back would take. And I think I've already mentioned my rule of thumb on more creative deals, like a purchase lease option or a delayed completion. Any capital I put in there based on if I need to put an option fee down, small deposit, and then legals, and then obviously a renovation.

I want to have that capital back within 12 months. So if I do a five-year option deal and say, I think I mentioned, so it's say the HMO makes two grand a month profit. I don't want to be spending any more than 24,000 pounds on that to then make it back.

And then the remaining four years are all profit, basically. So you want the renovation to be a five-year renovation to get you to that point. And then, yeah.

So the four years are all profit.

[Mark Barrett] (45:24 - 45:28)

Okay. Any tips on making offers that you can offer?

[Tom Appleton] (45:29 - 46:49)

Yeah, definitely. So I normally will do three or four offers per property. So I'll go in initially with a low BMV, sort of 25%, sort of test the waters.

I will then go in with something a bit less maybe if the deal's worth it. So 20%, 15% below market value. And then I'll also offer a purchase lease option or a delayed completion if I think...

Once you've gathered enough information, which is really the key to these types of deals, what is the person looking for? So a great one with purchase lease options is if they don't have a mortgage on there and you find out and you do below market value offers, they're probably thinking, no, I'm not motivated by having to pay a mortgage or anything like that. If you say to them, well, I'll give you...

On that portfolio, I gave 4%, but even if it was 6% on your capital, sell this property and put it in the bank, you're going to make X amount in the bank less. So why don't you just keep it? I'll give you the price you want for this interest rate.

And then you're making this amount of capital on your money over a period of time. So I will always do a delayed completion type deal offer as well and see which one suits them best.

[Mark Barrett] (46:50 - 47:01)

Okay, that's great. And then as far as the refurbs, you say you don't use main contractors, you've got subcontractors. Any tips that you can offer on those?

[Tom Appleton] (47:01 - 47:59)

Oh, yeah. The hardest thing in property, I would say is the renovations because obviously you've got to go through teams, etc. Now, I've been doing this quite a long time, so I've got a good team.

I've got a lot of good contacts and things. I don't necessarily use main contractors because we can do it ourselves. So I know that many now.

We can subcontract them out. I've got good guys. We'll sometimes hire a foreman to work there on the job.

So tips really is being persistent with it, I suppose, because you're going to have tradesmen letting you down. It's human nature. People let you down.

So having two or three contractors per job, so say if you've got a joiner on the job and they start letting you down, you've got someone there who can jump in and replace if needs be. Now, after a few years and you get in the right people, that will happen less and less. But, yeah, I think it's definitely one of the hardest things I would say in what we do is managing that because, yeah, I'm not sure what it is, but a lot of contractors will let you down.

[Mark Barrett] (48:00 - 48:16)

Yeah, I think that's just part and parcel of the process, isn't it? I think the other thing we found is that if you've got a good contractor, they will know other good contractors as well. So asking for referrals from them is good.

[Tom Appleton] (48:16 - 48:35)

I'd say word of mouth on contractors is so important because jumping on the internet and scrolling through all the different websites and trying to handpick somebody, you don't know who they are, what they're like. We've not had much success with that, I'd say. So definitely word of mouth with contractors is a really, really good point.

[Mark Barrett] (48:36 - 48:41)

Yeah, okay, great. So just to round off, if you could go through your top three tips, Tom.

[Tom Appleton] (48:43 - 49:28)

Yeah, so I had a good think about this. So I'd say my number one top tip, I'll just sort of mention it there, actually, is persistence. Persistence in business, in general, being an entrepreneur and in property investment, persistence is absolutely everything.

When you go through those hard times or things are not going your way, which always happens, you're not having a good day, or a project's going wrong, just having that persistence to never, ever give in is absolutely essential. I'd say that's probably one of my biggest strengths. And again, we went over the wealth dynamics, you've got your strengths and weaknesses.

I'm super stubborn and super persistent, and I think that's really held me in good stead. So many times where things are going wrong and you feel like giving in or whatever it is. So yeah, I'd say the most important thing, and this is definitely persistence.

[Mark Barrett] (49:28 - 49:32)

Yeah, okay, very good. And then your second one.

[Tom Appleton] (49:32 - 50:23)

Yeah, so the second one, I'd say it's clarity. So clarity on your vision, on your goals, and on what you want to do. So I think we spoke about this in the past, but Dan Hill mentioned often, if you chase two rabbits, you'll catch none.

So I think it's super important to be completely clear on exactly what it is you want to do. So this is the type of property I'm going for, this is the strategy I'm doing, this is the amount of capital I need. I speak to so many investors and entrepreneurs, and one minute I'm doing service accommodation, the next minute I'm doing commercial to residential, the next minute I'm doing HMOs, and you're never really getting traction in any of them.

So I think having that clarity is so important because then you wake up every day, you know exactly what you're looking for and exactly what you need to do to get it. So yeah, I'd say that is really, really important as well.

[Mark Barrett] (50:24 - 50:56)

And that's something that we're kind of like going through at the moment. We do this on an annual basis on Property Entrepreneur, and it's like going through what the strategy is for the next year. And we were just talking about it, we're actually going away for a long weekend, which is always good value and having great value conversations, but also running past ideas with other people, what your strategy is going to be, headline and direction of the business, yeah.

[Tom Appleton] (50:56 - 51:26)

Yeah, definitely, yeah. I mean, you mentioned there, Mark, we spent three months looking for clarity. So that's how important it is.

We're doing, we're getting our journals and writing out exactly what we want to try and think, what we think we want for the next year and really honing it in and making sure when you come to the end of it, you know exactly what you want to achieve. And then you call it by execution. So you're not chasing those two rabbits, you know exactly what it is.

And I think it's so important. Clarity is everything really.

[Mark Barrett] (51:26 - 51:31)

Yeah, very good. And then the third one, Tom.

[Tom Appleton] (51:31 - 52:42)

Yeah, I said the third one is top quality partnerships. So over the years, he's getting really, really key quality partnerships with people. So I've got so many good ones, but some of the big key ones for me, like a JV partnership with Garrett Piers.

So we buy properties together in Leeds and in London. And we actually, I'm looking at investing with him over in Dublin and Ireland as well. That partnership is super important.

We've got a great relationship. We're looking at sort of building on that. And then obviously a partnership with my investors.

So I work with a lot of investors who invest for an interest rate and it's really maximizing and compounding their capital, which is obviously really sort of rewarding as well. But they're really key partnerships as well in what we're looking to do. And in those partnerships as well, it's I think the key to it is making it fun.

Like making it fun, like having those partnerships with people you respect and you really enjoy spending time with makes the journey fun. Like Garrett, a JV partner of mine, he's primarily, he's a really good friend. We're a super good friend.

We really enjoy investing together and building the company together. So I think that makes the journey worthwhile as well. And I think it's so important.

[Mark Barrett] (52:43 - 52:46)

And you met him on Property Entrepreneur, is that right?

[Tom Appleton] (52:46 - 52:57)

Yeah, I did. So my first year on Property Entrepreneur, I met Garrett, yeah, this was four years ago. And yeah, done lots of deals together and looking at really building a JV company together.

[Mark Barrett] (52:58 - 53:05)

Excellent. So anybody that does want to contact you, have you got your details?

[Tom Appleton] (53:06 - 53:31)

Yeah, so you can contact me on social media. So LinkedIn, Facebook, both Tom Appleton. My Instagram, which is probably a good way to message is TomAppleton10.

And then my personal email address. So that's Tom.Appleton01 at gmail.com. So that's one I sort of have access to.

So yeah, if anyone's got any questions or want to get in contact, they're the best ways.

[Mark Barrett] (53:32 - 53:42)

Okay, great. We'll put those show notes, those details in the show notes. And is there any particular types of people that you'd be particularly interested in speaking to?

[Tom Appleton] (53:43 - 54:03)

Yeah, definitely. Yeah, so obviously we work with investors. So anyone who's looking to invest and got capital to invest and looking at maximizing returns and compounding the capital and wants it to be passive so they can sit back and just enjoy the return, which obviously we do with a number of people.

Yeah, getting contacts, definitely looking at work with more quality people on that side of things, definitely.

[Mark Barrett] (54:03 - 54:04)

Yeah.

[Tom Appleton] (54:04 - 54:26)

And deals as well. Are you also looking at- Yeah, any deals. So in Leeds, London, Wakefield areas, looking at deals of anything from single let, HMOs, commercial to residential, apartment blocks.

We're looking at investing in all those areas at the moment. So yeah, any deals that people have got, yeah, get in contact, definitely.

[Mark Barrett] (54:27 - 54:40)

Okay, very good. Thanks for sharing those. There's a lot of great information there.

So a lot of great content. Huge congratulations on those and I look forward to seeing you soon, Tom. Brilliant, thanks a lot, Mark.

Absolute pleasure.

[Daniel Hill] (54:43 - 55:26)

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.

These things are unique. They're proven. They've enabled me to build over a 10 million pound portfolio in a few short years.

And over the last 20 years, start, systemize, scale and sell over 40 different companies. If you like them, share them, subscribe, make sure you don't miss a single episode and tune in every Tuesday for a brand new episode and then follow me daily on Instagram for free content, post twice a day, completely free of charge. Success and failure are both very predictable.

I'll see you on the next episode.