**TBP 255 Edited\_Transcription**

[Daniel Hill] (0:00 - 15:42)

When people ask me, what do I think about HMO portfolios? I say there are only two things I can think of that are worse than owning a HMO portfolio. One is running a service combination portfolio.

And the second would be running lettering agencies. At my peak, I had over 1,000 units in that space. So I understand the headache that comes with it.

And nowadays, you do not need to put yourself through that to complete level one, which is cash flow. In this podcast episode, I'm going to take you through the easiest way to replace your income and create a cash flow business using back-to-back leasing. Service accommodation and HMOs have tenants, voids, utility bills, insurance policies, nightmare, headaches, all the stuff that comes with a cash flow business, whereas back-to-back leasing has significantly less than that.

I will start again today. I would not do HMOs. I would not do service accommodation.

I would do back-to-back leasing. And in this podcast, I'm going to take you through what that is, why it's beneficial, and how you could go and do the same. 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.

So in 2026, we started doing this by accident in Bedford. We had an office in Bedford and we had a block of apartments that we leased from a landlord, and we were looking to rent it out as a professional HMO. And through Rightmove, a private company got in touch with us who said they wanted to lease the whole building.

I think it was three flats with five rooms, so 15 rooms in total. And they would pay above the market rent, they would take the lease for three years, and they would pay the utility bills, they would pay the maintenance, they would pay the insurance, and they would basically take all the pain, headache that comes with doing a cash flow business, but we would get all of the profit. Now, this sounded absolutely bonkers.

And I'm not saying that there's any such thing as free money. There's challenges with every strategy. But I have bought and sold letting agencies around the country.

I've had over a thousand HMO rooms under management at one point. I've bought those deals. I know the benefits, but I also know the challenges.

And if I was starting again today, there is no way I would go into HMOs. There is no way I would run a service accommodation portfolio. And there was no way I would build a letting agency.

When you're at level one cash flow, the only thing you care about is buying back your time. And the aim of this is you've got to do something that's hard work, noisy, stressful, to pay the bills, pay the mortgages, pay the overheads, so you can buy back your time, move to level two, which is profit, level three, which is asset, and actually become a high net worth property entrepreneur. At level one in the current market, and I said exactly the same last year, the only strategy that I would be considering, which we coined on Property Entrepreneur is back-to-back leasing.

So what we do here is you would have heard of rent-to-rent, and this is probably very similar in structure. But what we do is back-to-back leasing is we lease a house or a block of apartments or a building off of a landlord, and then we lease it on to somebody else. Now, if this was rent-to-rent, you would lease from a landlord, lease a six-bed HMO from someone like me, pay me two grand a month for the building, and then you would let all the individual rooms out and you would put the nice pillows in and the air fresheners and clean the fridge out and all that sort of stuff that comes with it.

You do the viewings, you do the lettings, you do the credit control, you do the maintenance, you do all of this stuff. You do the tenancy agreements, you do the voids, you pay for the gas and electricity bills, and you would make money. You would pay me 2,000 and maybe you would make 500 pounds or a grand a month for running around and doing the noisy cashflow bit, because there's an asset margin, which is level three, which is the level I play at, where I buy assets and I get a return for owning the asset.

And then there's the cashflow margin, which is level one, which is those people who are starting out, run around, running a business, doing the work to make the money. And it's where we all start, but it's not where we stay. Where rent-to-rent and HMOs and service accommodation and letting agencies fall short is they're too noisy.

Now, you've got voids, maintenance, utility bills, insurance, all of the headaches that come with a noisy cashflow business. Back-to-back leasing is one of very few strategies that gives you the same return as those strategies, maybe even higher. But the biggest thing is with less of the headache.

I'm not saying it's no headache. I'm saying there's work to do and it's not easy. Otherwise, everyone would do it.

But I'm saying, once you've set it up, it must be 10% of the work to run as the other portfolio types would be. So what is back-to-back leasing? Well, back-to-back leasing is leasing a building from a landlord like me, or like the one I told you about in Bedford, leasing it from me.

And then rather than renting out the six rooms or renting out the three flats, you go and find somebody who would lease it from you onwards, but they will pay the utility bills. They will pay for the compliance. They will pay for the maintenance, the management, and they basically lease it from you, but then they run it themselves.

And this is a very niche strategy. It's very unique. We've only really been pushing it for four years or so.

But in my experience, and from all of the property entrepreneurs who've gone and done it, it is the only cashflow strategy that I think is worth doing at level one, because it's easiest, it's the most lucrative, it's the less headache. And what you do is you'll lease it from somebody like me, and then go and lease it to an operator. The operator might be, so on Deals, Deals, Deals podcast coming up, we've got one of our board members who won dealer of the year this year.

He leased a block off of a landlord. He then leased it on to the council and a private operator. One was a block of apartments.

The other one was a commercial building. And he's making nine and a half thousand pound profit a month by leasing it off one person, then leasing it on somebody else. Absolutely bonkers.

We've got people on property entrepreneur program. We've got people on property entrepreneur advanced, on the masterminds, on the board. They're doing this strategy and they're making 500, 1,000, 2,000 pounds per site just by locating the property, leasing off the landlord, then leasing it on to the third party.

So what are the properties you want to lease? Well, it could be anything, but in most cases, it will be houses. You can take a single house and lease it onto a council or lease it onto an operator who's going to put a family in there.

You could have HMOs where you lease six rooms or eight rooms in a HMO, and then you lease it onto a third party and you'll make a margin in that. Or it can be blocks of apartments, blocks of apartments where you lease it off someone like me. You go and find a third party operator who's going to pay a premium.

And then you make your margin for arranging the operator and managing the operator. I make my margin for owning the block. And it genuinely is a win-win-win.

It's a win for the person who owns the asset because you can pay them a good rate. It's a win for you because you create a margin between you and the operator. And it's a win for the operator because they're making their money or they're serving their purpose or they're delivering on their requirement in many cases by having those sites that you've identified for them.

So as far as the operators, who are the operators? Well, we have private operators who are third parties like yourselves. They could be housing associations who have got homeless people or are allocating emergency accommodation or secondary housing.

People who've come out of homelessness moving through the rented sector. They could be charities, they could be care, they could be social housing, they could be supported living, they could be public sector, they could be the council, they could be anything. We've got operators of all sorts of shapes and sizes, but they're going to pay a rate which is based on what they can get.

Some of these operators might be able to get £1,000 per apartment, so they can pay us £700 per apartment or could pay you £700 per apartment. And you could pay the landlord £500 per apartment. I've got a block of apartments that I lease to somebody and their sole intention, which I'm aware of, is to then go and find an operator that will lease it to lease it off them for a higher amount.

So it's all about the stock, the operator, and you basically sit in the middle for creating this lease. Just jumping in quickly with a opportunity for you. So in Profit Entrepreneur, we use a scorecard called the Life by Design Scorecard, and it shows you exactly where you are excelling in life and where you have the opportunity to improve.

We created this two years ago and it uses every single life mapping, matrix and psychometric testing that is out there to rate your life and show you where you currently excel and where you have the opportunity to improve. If you want to do yours now, go to the show notes and visit www.lifebydesignscorecard.co.uk. Now there's a link in the show notes, you can click it and in less than five minutes, it's completely free. You'll get a full bespoke report and it will show you exactly where you're excelling in certain parts of your life and which specific areas you need to pay more attention to.

It's completely free. We've never shared it before outside of Profit Entrepreneur. Go into the show notes now, click the link.

It's www.lifebydesignscorecard.co.uk. Back to the podcast. The work that you've got to do is minimum. So it depends how you run your business, but we aim to have, and again, we're not doing back-to-back leasing to be clear, we own the assets.

But when we were doing it, we would aim to have as little responsibility in the middle as possible. So ideally, we would, the reason I call it back-to-back leasing is the lease that you have with the landlord. The landlord says to you, you need to pay the gas bill, the utility bill, the maintenance bill.

You need to look after the garden. You need to redecorate every five years. You need to pay on the 28th of the month.

What we aim to do is back-to-back the lease. So basically copy and paste those terms and find an operator that will take the block on exactly the same. They pay the compliance, the utilities, the maintenance, the management.

They pay on the 28th of the month and you try and back-to-back it as much as possible. The only thing that's different in those agreements is the name of the people that are party to it and the price they pay. And ideally, you want the operator paying you 10 grand a month and you paying the landlord six grand a month, or the operator paying you two and a half grand a month and you paying the landlord 1,500 pound a month.

That's the only difference. And that's why it's called a back-to-back lease. Now to get up and running, there's work.

Yes, you've got to find the operator. You've got to go through the council, postcode checks. You've got to negotiate.

You've got to have inspections. You might have to add some compliance. You have to go through the rigmarole of basically dealing with public sector service.

So whether it's housing association, council, charity, whatever, they're not private sector. They're not speedy, savvy, deadline driven. They operate in a different space.

But once you've climbed that mountain, got over the top and got the thing set up, for three to five years afterwards, it's reasonably easy money. Now, it's up to you what you do after that. You might audit the compliance.

You might have to do some compliance. It depends what deals you cut. But we would aim to have minimal involvement, do six to 12 months inspections.

We personally would choose to audit the compliance because although it's not our legal responsibility, we believe it's our moral responsibility. And across all of my blocks, whether they're private schools, blocks of apartments, large bedsits, homeless, business centres, whatever, when the tenant's responsible for their own compliance, we still audit it because I want to know that even though it's not my responsibility, that my business and my buildings and my tenants are safe and secure. And I don't have any sleepless nights because I choose to do that.

And the margins you want to aim for, we would aim for per site. So if you're doing little houses or little HMOs, a minimum of £500 a month. There's still work involved.

You still got to set it up. If you can't make £500 a month, I would probably say it's not worth doing. And per unit, so whether it's apartments or it's bedrooms, we would aim for an absolute minimum of £150.

So if it's a six bed property, you're going to be making £900 a month profit. If it's a block of 20 apartments, you're going to be making £3,000 a month, minimum of £150 a unit. And you can push that up with some operators, £170, £200, £250.

Now it's not straightforward. There's obviously challenges, but all things considered, I would say it's more lucrative. It's easier.

It's less headache. It's more sustainable. It's more predictable than HMOs, service accommodation or letting agencies, which I just think are a lot of hard work, are really noisy.

And there's easier options out there, in my humble opinion. Back to bad leasing. That's what it's called.

That's how it works. Have a think about it if you're at level one. And just remember, it's where we start level one.

It's not where we stay. You want to pay your cash flow, cover your overheads, buy back your time, and as quick as possible, start doing wealth generating activity, large capital events, flipping businesses, packaging deals, flipping sites, build to sell, refurb and exit, anything that creates 50 to 500 grand per deal a year. That goes on the balance sheet.

Use that to buy assets. And then that's real financial independence. Nobody wants to have a huge cash flow portfolio that eats you alive.

You want to own the assets, get to that top level as quick as you can. Hope you enjoyed that. Sorry to all of you that own HMO portfolios and service accommodation.

If you do relate to that and resonate to it, and you are in the place where you've built a portfolio, same as I did, you don't have to start again. You can just lease the properties out. I'm yet to see a HMO property or portfolio that performs worse on a lease than it does operating separately.

So if you've got a six bed, an eight bed, a 10 bed, even if you spent a hundred grand refurbing it and making it look nice, there's operators out there that will take it on, they'll pay open market rent, and they'll absorb the operating costs. In most cases, voids, maintenance, utility bills, insurance, compliance, management, et cetera. And you go from having 10 tenants to one tenant.

You don't have a headache of running the block. Honestly, go and have a go. See what you think.

Speak to some of the property entrepreneurs because they're all doing it and it works. And I wish you the best of luck. I'll see you on the next podcast.

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