

YOUR PROPERTY PROJECT

A CONVERSION FIT FOR A KING!

Interview: Ant Lyons and Angharad Owen Words: Angharad Owen

Before making his way into the property sphere, Michael Breen spent his days working as a freelance IT project manager. He worked with large companies such as HP, BP, Bupa and Unilever. And previous to that, he was a jobbing actor for three years, having graduated from drama school. Talk about a change of career ...

Enough about the past – Michael decided to make the transition from his day job into property full time 18 months ago. This wasn't the first time he had taken time off work to pursue some personal passions, having founded a few start-up companies around classic cars. He's always had an interest in property, and wanted to be more involved to eventually leave his job.

There is an abundance of strategies out there, so Michael looked at his skill set and tried to find a strategy that would suit him best. He attended meetings and spoke to other property professionals and decided to start looking at developments. He was a project manager by day, and so felt he had all the skills necessary to lead a team and take a property project through from start to finish. His experience meant that he was comfortable dealing with finances, analysing data and he considered himself confident that he could see where possible problems could appear along the way.

He took a few courses and started reading some books on the subject, and in June 2017 he decided to finish his final contract to take time out to focus on property. He attended Whitebox Property Solutions' build-to-rent course and subsequently joined their mastermind programme.

He started looking for properties before he had finished his final contract, but realised that he hadn't been running the numbers correctly. For him, this cemented the fact that he needed to leave his job full time to do it properly. When he started attending courses, he was taught not to rush into anything, but having left his job he was itching to find something.



Property can be expensive to get wrong, but also can be a huge confidence boost when you get it right. Making a lot of mistakes along the way can make it that much harder to move forward. Only two months after leaving his job did Michael find his first property – and luckily, it was right around the corner from where he lived in Hampton Court Village.

To allow him time to take time off work to start his property business, Michael remortgaged his own home. He gave himself a 12-18-month time limit to concentrate on property with limited distractions. It wasn't his intention to tie up his own money in the project, but when the building came up for sale he could see the potential in it. The rest of the money came from bridging finance and a private investor. Investing his own money into the deal gave the funding investor some comfort and showed the bridging company that he was confident, because raising finances for the first time can be tough.

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68 BRIDGE ROAD, EAST MOLESEY, SURREY, HAMPTON COURT VILLAGE

Type of property:	Freehold, detached 3-storey building with a mansard roof (x3 apartments)
Relevant history:	The front ground floor fascia of the building is Grade II listed (Georgian). The rest of the building was built up around this in 2008.
Purchase price:	£655,000

SDLT (Stamp Duty):	£22,250
Conveyancing (Inc VAT):	£5,250 (and £2,600 Bridging Co)
Architects fees:	£3,500
Planning costs:	£1,500
Planning duration:	4 months (2 month delay)
Total Cost of refurb & conversion work:	£45,000
Furnishing:	£15,000



THE PROPERTY

Michael had always been aware of the building. It was originally a single-storey ground floor retail unit, and in 2008 it had been subject to a major redevelopment to turn it into the three-storey unit that's there today.

The front of the building is Georgian Grade II listed. Michael wanted to be sympathetic to the building's history so he replaced the two half glass doors to that of an older style, more in keeping with the Georgian period and restored their fan lights that had been covered up previously.

Having a small window in the middle, which retail owners had not been not allowed to increase, always made the building look more like a residential property than a commercial unit. This became one of the stated reasons

in Michael's justification letter to the LPA to gain permission for change of use.

The shop was leased by a high-end kitchen company, and the lease wasn't due to end until 2021. The company owner, however, was delighted to get out early, as there had been low footfall traffic over the past few years and it was being used for storage. The building had been on the market for several weeks – perhaps the idea of a long lease and being in a conservation area had put other potential buyers off. Being in a conservation area means that permitted development isn't allowed, so it's necessary to apply for planning permission to make any changes.

He bought the property without securing a change of use from commercial to residential. If his application to convert the ground floor retail unit into a residential space wasn't accepted, his plan B was to use it as

his own office, and to only refurbish the top two apartments

His original plan for the building was to convert it into three apartments and then sell them on for a profit. However, he is a regular attendee at the Epsom property meet, where the hosts run a serviced accommodation business. As Hampton Court Village is a highly popular tourist destination, he realised it would make more financial sense to utilise the apartments for SA.

The property is right on the border between Richmond and Kingston Borough council, a London borough, and Elmbridge borough council in Surrey, split by the Hampton Court bridge. The difference between the two councils is the 90-day rule. Had the property been on the Richmond and Kingston side of the bridge, Michael is confident that the lending company would not have offered him the product.



DESIGN

As can be seen from the pictures, Michael's apartments are impeccably decorated and dressed. The same colleagues from the Epsom property meetings introduced him to an interior designer, who took responsibility for the look and feel of the place. Although the overall design is out of Michael's comfort zone, they worked together to create something they were both happy with. He came up with the colour scheme throughout the apartments and hallways ... although the first colour he chose turned out to be a light pink by mistake.

It was important to Michael that the stairwell is welcoming and ties in with the apartments. To do this, he painted it in the same colour and lay down a high-quality carpet so that guests feel a sense of luxury as soon as they enter.

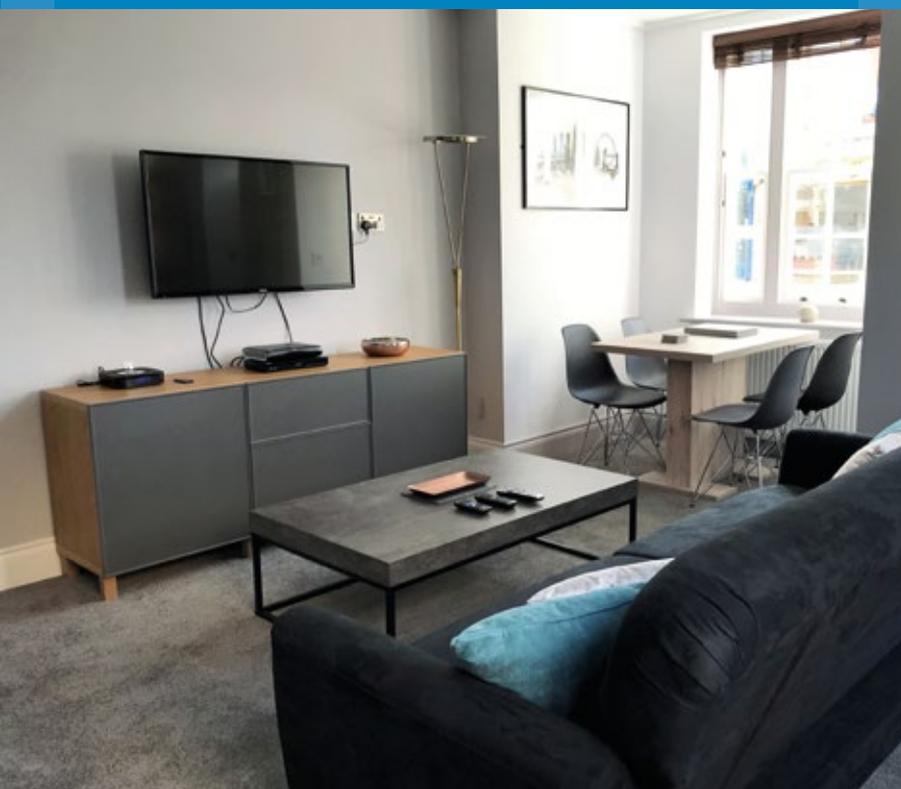
Michael's design budget wasn't particularly high as the apartments themselves are relatively small. There wasn't as much work needed in the old retail unit as he had anticipated, so he had a bit more than expected to spend on the final touches. There wasn't a finite budget for the interior, he just wanted it to look and feel luxurious, as they are aiming for the high-end market.

Due to the apartments' proximity to Hampton Court Palace, most of his guests are tourists. It's only 25 minutes on the train into central London, so it is also a good respite for commuters. He's found that tourists tend to stay on average for two to three days, whereas guests who are visiting the area for work will usually stay longer. He also has had some international students staying there while looking for a house as it's close to Kingston University.

RENOVATION

The first apartment to be completed was the top floor one-bed as it had its own entrance. This allowed him to open it to the public while continuing to refurbish the other two apartments without disturbing guests. As a project, it was relatively simple – the apartments on the first and second floors were already there and only needed updated kitchens and bathrooms. No structural work was needed throughout the building, and the only exterior work that was needed were the new doors.

With the benefit of hindsight, Michael is happy that his first project was straightforward and relatively simple. He believes that one learns the most when in at the deepest end, but it wasn't a conscious decision for him to pick up this project for that reason. It was just the way it fell.



Funded by 75% LTV bridging loan @ 1% pm:	£495,000 (Day one drawdown £420,250)
Deposit:	£65,500
Private investor:	£200,000
Personal investment:	£78,750 (initial deposit £62,250)
Duration of project:	9 months (Inc 4 month planning)
RICS valuation for refinance:	£950,000
Interest only mortgage at 75% LTV @ 5.99%:	£719,500 (Inc £7,500 arrangement fee)
Bridging loan repaid after 11 months:	£493,000
Investor loan repaid after 9.5 months:	£232,000
Cash release on refinance:	£-16,500
Monthly mortgage payment:	£2,990 (1% deferred from 5.99% for 24 month duration)
Equity:	£230,500
Equity less personal investment:	£151,750

FEATURE

RANT

BEGINNERS

DEVELOPMENT

INVESTING

FINANCE

LANDLORD

EDUCATION

EVENTS

MANAGEMENT

Michael oversaw all the hands-on work in the apartments, and now that they're up and running, he works with a company to manage the apartments. However, he still visits regularly to make sure everything is up to his standard, and communicates regularly with the management company.

Having spoken to the cleaning team, most tenants leave the apartments in a relatively good condition. He thinks that when they walk into a nice place, they respect it and try to leave it as they found it. The management company charges a £150 deposit upon checking in. At the time of writing, Michael believes that they have only had to withhold some of the deposit once due to a guest smoking inside. Guests tend to look after the apartments, especially if they have a deposit on the line.

But the last thing he wants to do is make guests feel like they need to tread on eggshells. After all, it is their home for however long they're staying there.

A small amount of wear and tear is expected when in the SA industry, but if Michael and his management team remain vigilant, it's relatively easy to keep on top of any problems. The maintenance company has a handyman on call who fixes and sorts out any issues. One of the advantages of SA is that a cleaner goes in every two or three days, so it's being cleaned and inspected regularly.

His management company is currently marketing directly to Hampton Court Palace, Pinewood Studios, Shepperton Studios and other local businesses as one of the places they can recommend visitors and workers to stay.



FINANCIALS AND REFINANCING

When it was time to refinance the property, Michael had to retain £78,000 in the deal due to a shift in the market. He would have liked to get more of his own investment out of it, however the property was valued lower than expected by both a local agent and the surveyor. The surveyor had said it would be worth £990,000 if completed to a high standard. At the end of the project, and although graded to a high standard, the figure of £950,000 was returned. Unfortunately, the refinancing then had to be revalued on that.

The valuation was based on bricks and mortar. In a year or two, when the business has had time to build, Michael hopes that it will be worth more. The market isn't ready to value SA properties as a business just yet, however the indications are that may change in the next few years.

Hampton Court Village is a strong area with traditionally robust capital growth. As the apartments have just opened, the rooms are priced very competitively so he can focus on providing a good service and continue to get the reviews in. Soon, he anticipates that the room rates will increase as the business grows.

Despite his hard work, this project alone is not enough for Michael to replace his income from his previous career. It brings in a small amount each month, but then again, the last apartment only went live at the end of August. At the moment, it's hard to see exactly how the property is performing, but he can take an average from the other apartments.

Generating a lower-than-expected ROI per month, surprisingly, hasn't affected his financial situation. He looks back and sees what he's achieved in the past year and feels proud because he now owns an attractive building comprising three apartments in Hampton Court Village and is making a profit.

ADAPTING TO PROPERTY FULL TIME & LOOKING FORWARD

Some investors find the transition from corporate life into doing property full time difficult, however Michael didn't struggle. He often worked from home when working within project management, so he has had plenty of time to master self-discipline and get the work done without getting distracted. He can find himself working longer as he has no commute, and he's just as busy as he was when he was working full time, but with the flexibility to take his son to school, which he says is his favourite part of the day.

Moving forward, Michael is looking to start working on some small new build developments. He has acquired a couple of pieces of land recently, and one is in the process of going through planning permission for four new builds and the refurbishment of an existing house. His most exciting project coming up is a development for 30 sustainable homes. He's teamed up with someone who has plenty of experience in this type of construction in the USA. It's in the very early stages, so keep your eyes peeled.

Through this conversion, Michael has encountered a steep learning curve. It sounded simplistic; buy a building, get finance, do it up and then balance the books. However, this was a larger building and needed a change of use. He needed imagination to see what it could become. He learned by doing in most part, how to raise finance, how solicitors work, and who to talk to. He has also learned to trust his instincts.

Michael advises others who want to go down a similar path to him to surround themselves with good people and attend reputable training courses. It's only by doing this is it possible to build a team and learn to know when something doesn't feel right. There are always people to ask for advice. *"In all aspects, you learn from the get go."*

VALUATION & INCOME

Re-mortgage amount:	£719,500 (Inc £7,500 arrangement fee)
Rate:	5.99% (1% deferred)
Money back out:	Nil
Money left in:	£78,750
Monthly income estimate:	£2,800 x 3 = £8,400
Monthly mortgage payment:	£3,600
Monthly costs (estimate):	£4,200
Net monthly cash flow:	£1,200
% Return on money left in:	1.52%



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