

The Great Buy to Let Scam



**And How
To Avoid It**

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About The Author

Peter Jones is an ex Chartered Surveyor, an author and a serial buy to let property investor.

He has been involved in property for over 30 years having graduated from the College of Estate Management, Reading University, and then qualifying as an Associate member of the Royal Institution of Chartered Surveyors in 1983, before being elected a Fellow in 1992.

By the age of 35 he was a Salaried Partner in a well respected firm of Chartered Surveyors, and was managing partner of their West End of London Office. His specialty was commercial property but during the recession of the 1990's his specialisation became redundant, and so did he.

Finding himself with no regular income, and with no savings, but with a wife and 3 young children to support, he borrowed some money from a relative and bought a house to refurbish and sell-on. That was the start of his own property business and, despite starting with none of his own money, he quickly assembled a multi-million pound property portfolio.

Peter is still actively involved in buying and renovating property, and regularly flips properties for profit.

Peter has written a number of successful property books. The first, *An Insider's Guide to Successful Property Investing*, was first published in 2000 and was one of, if not the very first, book of its kind which was written for what we'd now call buy to let investors.

On the back of its success he was invited to be a guest writer for Property Secrets, and wrote Spanish Property Secrets, French Property Secrets, and Portugal Property Secrets.

He is now a guest blogger for Property Secrets.

He has since written a number of other successful titles dealing with UK investing including *63 Common Defects in Investment Property and How to Spot Them*, *The Successful Property Renovator's Workshop*, and the highly acclaimed *The Successful Property Investor's Strategy Workshop* in which Peter describes step-by-step how he built his own property portfolio, starting with virtually none of his own money. Details of his books can be found at:

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He has also written for Property Investor News, Property Auction News and Hot Property Alert, and has been a guest blogger for Progressive Property and LandlordZONE.

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Please also visit Peter's YouTube Channel - The Property Teacher

The Great 'Buy to Let Scam' and How to Avoid It

There's no doubt that buy to let has been phenomenally successful in the UK. As I write it's estimated that there are almost 2 million buy to let mortgages which suggests that we are well on the way to seeing probably close to ½ million buy to let landlords.

Love it or hate it, it now has a place in UK society and culture. Many buy to let landlords have stepped into the breach and are now providing social housing which was once provided by local authorities. Governments of different colours tell us of the importance of the private rented sector to the economy in allowing flexibility in the workforce, and in providing good quality accommodation for those who are unable to buy.

Even so, that buy to let is still with us is something of a miracle. Buy to let finance took a pounding in the immediate aftermath of the financial crisis back in 2007/2008 when the number of available products fell from around 2000 to 150.

The press had a field-day predicting the demise of Paragon, one of the largest, independent bespoke buy to let lenders who thankfully, after a spell out of the market, have come back in to resume lending.

Other big name lenders, like Mortgage Express and Bradford and Bingley, were less fortunate and have now disappeared, and Capital Home Loans, another prominent bespoke lender, stopped lending back in 2008.

Talk was rife in the press and the media that buy to let was all but doomed and the inevitable consequence would be financial hardship and misery for any investor stupid enough to have been involved.

True, sadly some investors did succumb; I have every sympathy for them and wouldn't wish that on anyone.

But most investors didn't and, despite the odds, and despite the relative difficulty of obtaining finance at that time, buy to let has not only survived and recovered but has gone from strength to strength.

Many alternative investments are performing very badly in comparison making buy to let significantly more attractive.

Some buy to let landlords look on it, and use it, as a means to provide a full time income. Others see it as a way of supplementing their income, or as a way of helping their children through college. Still others, aware of the increasingly poor returns generated by traditional pension funds and policies, see it as a way of supplementing their pensions, either now, or as a nest egg or source of income for the future.

Many people with cash are putting it into property, and many existing landlords are expanding their portfolios.

All in all everything looks rosy, or does it?

Before we go any further let me assure you that I'm not against buy to let, far from it, I'm a big fan. I've been in property for over 35 years, and for over 20 years I've been an investor in my own right.

I've built up a substantial portfolio of properties in the UK and it's fair to say I'm more than a fan; property is my life.

So please don't infer that, because I've written this report, I'm against buy to let, but there are aspects of buy to let which I find disturbing. Without wanting to

sound overly dramatic, at best some investors are making mistakes which will cost them thousands of pounds in the long-run whilst, at worst, some are being ripped off and are being scammed.

As so often happens any distortion of the truth is often just a minor distortion and if you didn't know what to look for you'd be forgiven for not noticing it. Why should you? Everything sounds very plausible, everything looks like it is above-board and beyond reproach, because mainly it is, but there are several fundamental misunderstandings which seem to be increasingly embedded in buy to let culture.

It's about time something was said about this.

Buy to let, done properly, is great, but there are things we need to be aware of so we can avoid them.

In my opinion there are several major 'flaws' in the way buy to let deals are looked at which leave investors either open to making mistakes, or open to being conned, plus several smaller 'infractions' which, together, I consider constitute *The Great Buy To Let Scam*.

At best a lack of understanding of these can encourage investors to buy totally unsuitable properties.

At worst, they allow the unscrupulous to take advantage of the unwary. So let's have a look at each of these.

Number One – The BMV Smoke and mirrors

We live in the BMV (below market value) age. No self-respecting investor would attend his or her local property networking meeting, or post on any property forum, if they weren't negotiating furiously for 20%, 25% or 30% discounts from *Market Value*. Didn't buy it BMV? Then hang your head in shame. That's just not how it's done any more.

Besides the fact that sometimes it can make perfect sense, and can be entirely appropriate, to buy at full market value, and sometimes at even more than market value, the BMV culture we live in has made it easier than ever, in some instances to, at best, confuse or, at worst, dupe unsuspecting buyers.

I'll get into that in a moment but let's explore the whole concept of BMV a little more closely.

As I said earlier the premise behind buying BMV is built on sound principles, and let me stress that there is nothing wrong with aspiring to buy BMV. After all, everyone wants a bargain.

We are often told by the property gurus and experts that "*The profit is made on the purchase*". What this means is that if you can buy at a genuinely cheap price, then you won't be relying on a rising market or other factors to generate your profit if and when you sell. That may happen as well, depending on what you buy, when you buy it, and what you do to it but, if all else fails, by buying cheap enough at the start, you are guaranteed a profit from day one. The profit is built-in on the day of purchase.

As I've already alluded to, unless there are particular circumstances where it makes sense to buy at market value or more, the default setting for most investors is now to adopt buying BMV as one of their principle buying criteria.

But, potentially, there are some flaws with BMV.

The first is that some buyers, particularly new or inexperienced investors, can mistake buying BMV for buying *BAP*, or *below asking price*.

The assumption, of course, is that asking price equates to value. It doesn't, or at least, it might or might not. We can't assume that the asking price reflects the true

market value. Chances are that you'll not know who has set an asking price, or how they came up with that figure. The asking price might be too high, or it could be too low, or it could be just right.

Proper due diligence will give you a feel for how close to true MV it is, but don't ever assume anything.

The second and more important major flaw is that *Market Value* is hard to quantify. What do I mean by that?

The RICS (Royal Institution of Chartered Surveyors) defines Market Value as:

"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

So it's easy to define but what does this mean in practice? Sadly, I'd argue not a lot.

Most valuers (who are mostly Chartered Surveyors operating under the RICS definition), and I'm talking about the 'valuers' who undertake valuations for mortgages, and not the 'valuers' who estate agents send out to suggest an asking price when you put a property on the market, (although they, too, could be RICS qualified), will use evidence provided by recent transactions.

In other words, they'll be mainly guided by the sale prices of other, similar properties in the locality.

In a slow market with less sales providing only limited market evidence it's more difficult for them to put a figure on a property.

So the less evidence there is, the more they have to rely on their own judgement, experience (or lack of it) or prejudices.

Then there's the quality of the evidence. The RICS definition assumes *willing sellers acting without compulsion*. It's a nice thought but not practical. We know that, especially in a slow market, a lot of sellers sell because they are 'under compulsion', perhaps because they are in financial difficulties and need to sell quickly, although this is only one of many reasons why a seller might want to drop their price to get a quick sale.

When a valuer looks at evidence provided by recent sales prices there are no notes on the system to tell him or her why the sellers sold at that price. He or she doesn't sift the evidence and discard the sales where the seller was 'under compulsion', what we'd call, using the jargon, a 'motivated seller'.

So in a falling market, or a static market, there's almost certainly a distortion of values downwards because most of the evidence used by valuers will be provided by sales prices agreed by 'sellers under compulsion'.

My point? My point is that under slow market conditions values are hard to assess and are based on 'impure' evidence.

In addition, how that evidence is used is open to interpretation by the individual valuers. That's why there is no single number that all valuers will arrive at. Valuation is very imprecise.

Back in the 1990's I was involved in providing expert evidence to the High Court which was considering a number of negligence claims against valuers. One of the considerations the Court passed judgement on (in a number of reported cases) was how much margin for error a valuer has. The usual presumption of plus or minus 10% was hardly questioned and, in one case, the Judge opined that when

undertaking an unusual or a complex valuation, the margin could be up to plus or minus 25%! I think that was extreme and I don't think his comments created a legal precedent but, even so, with just a 10% margin of error, a valuer can value your £100,000 house at anywhere between £90,000 and £110,000 and still be right.

Throw in evidence provided by a couple of sales where the sellers needed to "get rid" quickly at £75,000 or £80,000, or a repossession down the road which sold at auction at a 40% or 50% discount to the price you're paying, and it could be anybody's argument about what the real value is.

So the question is, what is the value? If you are buying BMV then that's a foundational question.

There's another flaw in BMV which we need to be aware of and that is that the BMV sales themselves can set the tone of value, rendering the price paid the true value, and not a discounted value.

Let me explain. Let's assume you buy a property, say a flat, in a reasonable sized development. You are told by the agent this is a great buy to let opportunity and the flats are available at a discount of 25%. They've got the RICS valuation to prove it.

20 out of 25 flats are then sold at this discount to investors like yourself. Now here's the thing. As many investors have experienced, the valuer has come along, has seen that most of the apartments are selling for 75% of £X instead of £X, and so now concludes that there's an overwhelming weight of evidence suggesting the true value is now 75% of £X. It makes sense, doesn't it, because that's what most of these flats are selling for.

The investor may argue that a few months previously another RICS qualified valuer had been out and had valued the apartments at £X, but it won't make any difference. When the valuer undertook that valuation none of the flats had sold and so there was no evidence within that development. He or she might have had to rely more on his or her own experience and judgement (or lack of it), or on evidence provided by sales at other developments. Now, though, there have been 20 sales, all at 75% of £X, so the evidence is conclusive, a 'slam-dunk' case.

The result? The BMV is now the actual MV, the B has disappeared. One of the major advantages for the investor in buying this property, that of obtaining built in equity, "making the profit on the purchase" has now evaporated almost overnight.

This was a problem back in the day when the financial crisis first hit and a large residue of 'off-plan' deals were still progressing through the system. Today it is still potentially a problem for investors buying off-plan and new builds, as off-plan deals and new builds are making a comeback.

There are an increasing number of new and completed developments being offered to investors with bulk sales of individual flats or houses.

If you think that's harsh, how about this for an argument? Many leading thinkers in the property world would argue that the same argument applies even where there is no mass sale of property. For them, a single sale will set the tone of value.

So, for example, they would argue that if you buy a property at a BMV price, in reality the property isn't worth the pre-discounted price and, instead, you have just set a new level of value, which is lower than the previous level. Same argument but requires less properties to prove the point!

If you think about it there's some sense to this. Putting the official RICS definition of MV to one side for a moment, I'd guess that most of us would agree with the sentiment that the value of a property is what someone is prepared to pay for it.

That being the case, if you are only prepared to pay 30% below what was previously the accepted MV, then the MV must now be 30% less.

This is how the banks operate, in the sense that a mortgage offer will invariably be made against the value or the purchase price, whichever is the lower. The bank won't, on day one, accept that the property is really worth 43% more than you're paying for it (mathematical proof - a 30% discount from £100,000 is the same as a 43% increase on £70,000, when you reverse the sum) although they might accept it after 6 months, which is the minimum time frame in which most banks will now allow you to refinance.

Why does any of this matter? Mainly because some investors are buying property, lured by the prospect of having a significant discount to value when, in reality, the figure they are using for MV is far from certain.

This can be true in the case of properties sourced, packaged and offered by 3rd parties.

It can also be the case where investors source their own properties, in areas where evidence is far from conclusive, and especially where sales are few and far between.

And in either case, the problem is more likely to occur where the investor is slack in doing their due diligence.

When you are offered properties by those dealing in packaged buy to let opportunities, I doubt any of this will be explained to you, at least not in any great detail. Truthfully, many of the agents might not even have had reason to even think about it.

If you're buying for the long term there may be no practical consequences other than '*the profit you've made on the purchase*' might, arguably, be just a figment of your imagination but, if you hold the property for the medium to long-term hopefully you'll come out ahead anyway when values increase, even if there wasn't really a discount to MV.

On the other hand it's possible that you'll find that it impairs your refinancing options later. This could make life tricky if you were hoping to pull your money out and go again to build a portfolio.

Otherwise, hopefully, as values rise, market evidence will once again suggest a value at or above the pre-discounted price, and you can tell yourself what a great bargain you bought.

However, the next element of the great buy to let scam does have practical implications which can seriously hurt an investor's finances.

The big danger of buying BMV

Let me reiterate – buying BMV can be great if you can do it, there's lots of positive reasons to buy BMV. But a major, major problem can occur when an investor becomes so focused on buying BMV that other investment fundamentals get forgotten. Can this really happen? Yes, I've seen it time and again.

Here's how it usually manifests itself. An investor buys BMV, and slaps themselves on the back thinking of what a great job they've done. Perhaps they bought off-plan from a developer who told them they were getting a 15% discount (and the RICS valuation commissioned by the developer confirms that).

Or perhaps they found a motivated owner-occupier who wanted to/needed to sell quickly and who was prepared to accept 20% BMV.

The trouble is, buying BMV is only part of the story. It's a great start but assuming you are buying to let, it means nothing if you can't let the property out after you've bought.

I've seen this happen so often; an investor gets so excited thinking they've bought a bargain but they take their eye off the ball and forget their basic due diligence.

So they end up buying a property which is hard to let (or even un-lettable).

Assuming they purchased using finance (i.e., a mortgage – and they should have purchased using a mortgage but that's a story for another time) they are now going to find themselves heavily subsidizing this property, possibly out of their regular income, or from the rents of other assets. This is not a great situation to be in and, depending upon how much (or how little) income they have from other sources, it could be disastrous.

Even if the property is rentable there's the possibility that in their excitement of buying BMV, the purchaser over estimates the rent they'll receive, or don't consider the rent (or lettable) at all.

Understanding the rental market, being confident of tenant demand, and knowing the rent that can be achieved is basic due diligence that needs to be done no matter how much of a "bargain" price you are able to agree.

Similarly, what about your exit? What if you ever need to sell? If you buy a poor property that's hard to sell, it's going to be hard to sell at any price.

Let me give you an example I've seen. I invest mainly in the north east of England around Newcastle. There are many small mining villages out in the countryside where you can buy a typical terraced house for next to nothing. Many are in picturesque surroundings and the houses themselves provide good quality accommodation. But, and here's the big BUT, if you can buy one you'll find it hard to rent out. Why? Because, lovely though the surroundings are, no one wants to live there. There's no employment, and they are too far out of the city. Indeed, working people and professional people who commute into the city tend to live in higher quality suburbs.

So you can buy one of these houses at what looks like a bargain price, but you'll struggle to let it. And if you decide to cut your losses and sell, it's anyone's guess if you'll ever get all your money back. Who is going to want to buy it off you?

So, in summary, the key points:

Number 1 – Buying a poor property at a cheap (BMV or bargain price) will not make it a bargain.

Number 2 – If you're buying to hold and to let rent out, cash flow and tenant demand has to be the main consideration. Buying cheaply (BMV) only makes sense when you've ticked that box.

Number Two - Cash flow Confusion

Hand in hand with buying BMV, the investing community has embraced 'going back to basics' and concentrating on 'the fundamentals'.

In particular, most, if not all, investors are intensely interested in cash flow.

As a minimum investors want to buy property which at least breaks even, although many will not be satisfied unless they find a *property which gives a positive cash flow, month after month.*

Let's think about what *positive cash flow* actually means.

The simplest definition is "it's what is left over when outgoings have been deducted from the income".

You'll regularly see properties, particularly packaged properties, offered with a stated positive cash flow. For convenience, because rent is paid monthly, market practice is usually to quote positive cash flow figures monthly, although sometimes you may see them quoted on an annual basis.

In theory the maths for calculating monthly cash flow should be very simple; take the monthly rent and then deduct all the costs.

A problem is that in practice there isn't a standardised definition of 'positive cash flow'.

So, unless do a little digging, you won't necessarily be sure of what someone is talking about when they talk about positive cash flow, and which costs they've accounted for.

Does this matter? Sometimes no, but often very definitely YES! Especially if someone is trying to sell you a property and one of the attractions is the amazing positive cash flow they are quoting to you.

Here's what I have noticed. When someone selling a property gives a positive cash flow figure it's sometimes calculated as being monthly rent less only the mortgage interest.

Sometimes it will include a deduction for management fees but not always. More often than not the positive cash flow quoted is usually only *rent less mortgage payments*.

If finance isn't arranged yet, which is usually the case, then the assumption will be that mortgage payments will be interest only.

There will also be assumptions about the interest rate to be charged on any mortgage but often these won't be stated.

The reality is that if you bought this property you'd soon find that a positive cash flow calculated on this basis doesn't have any bearing on reality.

To know the true likely cash flow for a property account needs to taken of:

***Letting fees** are often charged at 1 months rent, but on top of that you need to add VAT, and some agents will try and get you to agree to the preparation of an inventory at an extra cost. They'll also charge for insuring the tenant's deposit.

***Insurance** – buildings insurance, contents insurance, landlord's liability insurance and perhaps rent insurance.

***Void periods** (in other words, when the property is vacant). No property has 100% occupancy.

Management fees which can range from 5% to 15% of the rent, plus VAT.

***Repairs** - If you find you need to replace the boiler (which you will, one day) that could be 15 months positive cash flow gone just like that.

In fact, the subject of repairs is a minefield in itself. In theory the amount you spend on repairs should be directly related to the age of the property and the condition it is in when you first let it. Obviously you'd expect an old property in poor repair to cost more in ongoing repairs than a brand new property with a NHBC guarantee. What a lot of 'investors' don't think about is the scale of repair they may be in for. It's not just about the small things. At some stage the windows will need to be replaced, the roof will need to be overhauled or renewed, the wiring will need to be upgraded.

***Sundries** like the cost of the annual CP12 (gas safety certificate), an EPC (Energy Performance Certificate), electrical certificates and so on. Believe me these things add up.

***Council tax and utility bills** whilst the property is empty between tenancies

***Licences** - depending upon what and where you buy, you may need a licence from the local authority either for a HMO, or for a single family residence in 'an area of low demand'.

***And last, but certainly not least mortgage payments**, which are usually the single biggest, consistent monthly cost.

When you see a positive cash flow of £200 a month being quoted you can see that when you start to look at the detail you aren't going to be receiving £200 a month positive cash flow in many months.

Investors should be buying based on genuine cash flow, and not the best possible cash flow if you have no voids, no repairs and manage the property yourself (meaning you don't have to pay management fees).

That's why doing due diligence is so important. You need to ignore the claims and research for yourself what you are really buying.

I've said that I've seen agents make inflated claims about cash flow but investors who source their own properties also need to be careful.

It's easy to gloss over or overlook figures, especially when we get emotionally involved with a property.

Or, perhaps, through inexperience, some investors will be unaware of all the true costs of holding a property and really 'want' to buy it.

With negative cash flow you are potentially heading to bankruptcy so you need to make sure you avoid it at all costs.

Number Three - The Mystery of the 'Disappearing Costs'.

When you see an investment or buy to let property advertised for sale you'll often see the potential or anticipated return or yield quoted.

However, you should never take this at face value. Instead you should ask yourself 'How has this been calculated' and 'What has been taken into account in calculating this return?'

Often the return quoted is just the rent as a proportion of the purchase price. That's fine as long as you understand that, and also that you understand that won't be the true return to you.

When calculating the true return to you account should be taken of all of your costs including:

- *The legal fees on purchase

- *The costs of arranging the mortgage – these will include the lenders fee, valuation fees, survey fees, your mortgage brokers fees, and legal fees for dealing with the mortgage

- *Any finder's fee charged by the sourcing company.

- * Stamp Duty Land Tax - prior to March 2016 SDLT was only charged on residential properties sold for £125,000 or more. At £125,000 the rate charged was 1%.

NOW, (since March 2016) there is a 3% surcharge on investment properties and second homes (presumably to punish or deter landlords/investors) meaning properties worth/sold for between £40,000 and £125,000 are subject to SDLT at 3%, properties worth between £125,000 and £250,000 SDLT is 5%, and over £250,000 it's 8% (13% over £925,000 and 15% over £1.5m).

The good news is there is NO SDLT on properties worth less than £40,000 if you can find them. As an aside, they do still exist but they aren't necessarily the bargain they might seem to be.

Invariably these costs are either disregarded by novice investors sourcing their own properties or, when they are buying from a 3rd party agent, they will be disregarded by the agent when quoting an indicative yield (return).

So, where a return is quoted, the actual return received by an investor and the quoted return will often be poles apart.

For example, if you buy a property for £100,000 which produces £7,200 per year (£600 per month) in rent, the gross yield will be calculated as:

$$£7,200/£100,000 \times 100 = 7.2\%$$

BUT the true return to you could be calculated using all of the capital costs:

SDLT	£3,000
Legal fees	£ 800
Mortgage fees	£3,000 (bank fees, mortgage broker and valuation fee)
Finders fee	£3,000
Total	£9,800

True return to you:

$$£7,200/£109,800 \times 100 = 6.6\%$$

Number Four - Minor Infractions

Things have certainly improved since I started investing over 20 years ago. Back in the day buy to let was like the wild west; there were all sorts of rogues and scoundrels taking advantage of the unwary, and there were few resources deployed to keep them in check. There probably still are rogues and scoundrels, but at least in the social media age there's a better chance that someone's going to catch them.

I remember the horror stories.

I spoke to one investor who paid a sourcing company about, I think, £30,000 for a property which they were going to renovate and let out for him. He was lured by the promise of a rent guarantee, he later found out that they bought his property for £10,000 at auction, and left it vacant and not renovated, paying his guaranteed rent out of the £20,000 profit. In the meantime the property was broken into and used as a playground by the local kids who systematically took it to pieces, until it was only fit for demolition.

A similar story involved an investor I spoke to who bought an apparently rented property for what, with hindsight, was a very full price. After a few months of ownership he went to visit the property to find it all boarded up. When he knocked on the neighbour's door to inquire about what had happened to his tenant, he was told the property hadn't been occupied for 6 years.

Sadly fraud and scams were commonplace and made all the more easy by the number of cash buyers who were prepared to buy unseen, on trust.

They were also prepared to buy, apparently, without doing their own due diligence. If they had done even a few basic checks they would more than likely have seen they were paying over the odds for their property.

Eventually, partly as a consequence of investigating promises of unsustainably high yields made by several sourcing firms, the authorities acted and the DTi, as it was then, closed several firms, and the police raided the worst with individual directors being prosecuted and receiving jail terms.

Of course, things are much better today. Or are they? I'm not aware of any sourcing companies pulling the same scams, but then again, I haven't been looking.

Having said that I want to make clear that I'm highlighting the problems with the worst of agents and am making my point using extreme examples; there were many, and there still are many, who were, and are, above board and act with integrity. As ever, the unscrupulous few ruined things for the scrupulous many.

Infractions might not be so blatant today but there are still a few agents who, in my opinion, sail too close to the wind for comfort. I stress, this is just my opinion and I'm not stating any of this as fact. You will need to make your own judgement.

This is my grievance with them. Aside from the probability that claimed discounts against MV can be meaningless, and that stated cash flow will prove to be no more than wishful thinking, for the reasons we looked at above, they are encouraging those who know no better to buy in areas which are totally unsuitable.

What do I mean by that?

By and large the areas in which many agents offer pre-packaged deals or leads are cheaper areas, areas of low quality housing.

This is for a very good reason. Here's a simple truth about property.

All other things being equal, the lower the price of the property, the higher the yield or return it will give.

The converse is also true that ***all other things being equal, the higher the price of the property, the lower the return or yield.***

In other words, the return from a property is in inverse proportion to its price or, where applicable, its value.

So why is that important? Because the return is the amount of rent you will receive expressed as a proportion of the purchase price it means that the lower the price, the more rent you will receive as a proportion of the purchase price.

If there is a presumption that these deals are going to be financed with a mortgage then, not only does a cheaper price mean taking out a lower mortgage, but also the cheaper the price the more rent the buyer will receive relative to the mortgage making it easier to pay the mortgage. That's the theory anyway.

You can also see that if 'positive cash flow' is defined as *rent less mortgage*, then buying cheaper property in cheaper areas should boost cash flow.

Unfortunately life isn't always that simple. The reality is that cheaper properties can be more prone to problem tenants, to longer void periods when the property is empty, and to more ongoing repairs.

So really this takes us back to our earlier point that cash flow might not always be what we think it will be.

It's true that better quality properties can also be prone to these difficulties but the probability is that cheaper properties are more likely to be affected.

There's also another drawback of buying cheap property in cheap areas. As and when the market recovers these properties are more than likely to experience less than average rates of capital growth. In other words prices (values) are likely to increase more slowly in these areas than in areas of more expensive property. If you're buying purely for cash flow and understand this risk, that's fine, but if you were hoping to see your capital grow in the future you might be disappointed by future growth rates.

I'm not the only one who's worried.

A couple of years ago Birmingham Midshires and The Mortgage Works, two of the largest buy to let lenders, changed their lending criteria to exclude properties sold by sourcing companies. Other major lenders have done the same.

The reason? Simply that they questioned the quality of the properties and the terms they are sold on. From now on, unless the mortgage application form states that the property was sourced by the borrower direct from an estate agent they may have difficulty convincing a lender to lend.

One could argue that this is 'throwing the baby out with the bath water' as not all property sourcers, agents and property clubs are rogues and villains. Many, as I've already said, are totally ethical but unfortunately this seems to be a blanket policy.

It also means that many lenders are also suspicious of other arrangements such as deals negotiated direct with a vendor, who might have been found by way of leaflets or newspaper adverts, but that's a discussion for another day.

And, of course, it's not helpful for investors who don't have the time or the experience to source their own properties and who want to use the services of a (bona fide) property sourcer.

What does all of this mean for us?

Some investors are buying properties thinking they are buying at a discount whereas the reality is that the apparent discount is, in some cases, purely a figment of someone's imagination.

Sadly if the buyer were ever forced to sell they may find that the market value that was used to calculate the discount was no more than wishful thinking – it's easy enough to stick a figure on a property but the acid test comes when it's offered to the market, and it may become all too apparent that the valuation is only theoretical.

At the same time investors are being seduced into buying by the promise of cash flow which is rarely calculated realistically. Management fees, voids, repairs, letting fees, insurance, safety certificates and other costs are often ignored, often the only deduction made is the mortgage.

Many pre-sourced and packaged properties are in cheaper areas where there is the real possibility of more frequent and/or longer voids, higher repair bills and so on, plus the prospect of more limited capital growth in the future.

What's the solution?

I think there are two main solutions.

The first is, if you are thinking of buying a pre-packaged property, make sure you know who you are dealing with. Ask to talk to other clients to make sure they are satisfied. Do your own research to make sure the figures you are being given are realistic. Make them go through the figures with you and ask the awkward questions. Definitely ask for rock solid proof and facts and figures, and don't accept 'opinion'.

As a minimum you must also do your own due diligence. I can't stress this enough. Never take any facts and figures at face value. Satisfy yourself they are right and if necessary be prepared to pull out if you can't corroborate the figures.

The second solution, which I think is the better solution, is to source your own properties rather than use an agent.

Again, the key to buying yourself is to do proper research and due diligence. It's impossible to eradicate all risk but doing proper research, in advance, will greatly minimise the risks.

A big advantage of sourcing your own property is that you'll make more money as you'll save on finder's fees, which can be several thousand pounds per property. You'll also save on other hidden costs that you won't always be aware of like project management built in to any refurbishment costs charged by the agent. risk-free.

Here's to successful property investing.

Peter Jones

Peter Jones

(ex) Chartered Surveyor, author and property investor

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Copy My Plan! How I Bought £2m of Property in 4 Short Years Starting With None of My Own Money

When I started back in year 2000 I bought £2m of property in 4 years, and that was with starting from scratch and using none of my own money.

“Why did you use none of your own money”, you may ask, “Is that even possible?” Well, yes, it is possible, I did it. And I did because I had just been made redundant, and I had no savings.

Ironically, when I started out as an investor I was broke and barely employed - I was working part time as a consultant doing the dross jobs my peers didn't want to do, and I was paid a pittance for my troubles. That's why I literally had to start with no money of my own.

I now have property with a combined value of over £5m. Not bad considering I started with nothing, other than the house I live in.

But I'm not saying any of this to boast. I just happened to stumble across a system for buying investment and buy to let property that works, a system that has been used probably by every successful property investor.

And I'm going to share that system with you.

Looking at the market now, there are many similarities to when I first started, and many experts agree that if you want to be financially free using property, now is the best time in years in which to buy.

The same techniques and strategies I used then STILL WORK JUST AS WELL TODAY. In fact, I am still using them to buy even more property now.

That means that, if the experts are right, this is the perfect opportunity for you to do the same as I did and put together your own multi-million pound property portfolio, should you want to.

Or perhaps you'd just like a few buy to lets to supplement your income or to help with your pension?

Whatever your reasons for buying and investing in property I can help you to put together your portfolio much more quickly and simply than I did, and I'll show you how in a moment.

But why do you need my help? Surely buying property is easy? Good question, so let me ask you a question in return:

"If property investing and buy to let is so easy, why do so many people get it so wrong?"

I meet a lot of people who jump into investing but who just don't get it right. I'm often surprised that so many people will commit to spending such large amounts of money, but spurn the chance of getting help and advice first.

In my experience, when things do go wrong it's often because of one or more of the following three things.

Firstly, many people think that buying a buy to let investment is like buying their own home.

It isn't!

Buying an investment property isn't anything like buying your own home, but many investors treat them both the same.

Big mistake.

Perhaps being a nation of home-owners makes us a bit complacent and makes us think we know more than we do? After all, a little bit of knowledge is a dangerous thing, especially when it comes to spending large amounts of money on investment properties.

There is a fundamental truth about property investing which I discovered in my role as a consultant and it explains why some investors make it, while the majority don't.

And it's this: "Anyone can buy a property, but not everyone buys the properties that are right for them".

In my opinion, that is the difference between success and failure, or the difference between doing okay and doing very well indeed.

Do you think successful investors buy "the house next door", just because it happens to be the house next door so it's easy to manage? Do you think they buy a property just because it looked cheap? Do you think they'd buy a property just because they could get a discount from the developer?

No, of course they don't.

They have strict buying criteria based on investing fundamentals, and which fit the system I discovered, and which I am going to share with you.

They know exactly which properties they need to buy to attain their goals; they know how to find those properties; and they take the necessary steps to acquire them at the right price and on the right terms.

Anything less than that and they won't buy. It's as simple as that. Unlike the unsuccessful majority, they don't just happen to stumble into deals. Successful property investors know their strategy, they have a plan, and they take actions that are consistent with their plan.

It's not down to luck that they are successful. They have planned for success. And I will show you how you can plan for YOUR property success.

Secondly, many people try their hand at property investing without really knowing what they want to achieve from property. Sure, they may have vague ideas like 'I want to get into property' or 'I want to be a property investor' or 'I want to buy a few properties', but it's all a bit wishy-washy.

They might think, "I know what I want, I want to make some money from property". But does that mean make some income from cash-flow, or by building up equity, or even by making cash lump-sums from developing and trading?

Each answer would require following a different strategy and buying different types of properties, possibly in different locations.

Unless you are clear on why you want to buy, the most likely outcome is you won't get the results you hope for.

Third, if you don't really know what you want to achieve, then how can you choose the right strategy to achieve what you want to achieve?

And if you don't have a strategy, how can you possibly buy the properties that are right for you?

The truth is that you can't!

After all, if you don't really know what you want, then any property will do.

And as we've already seen, buying any old property is a sure way to fail.

Believe me, I've seen it happen far too many times. Many investors ignore or don't understand these basic truths and principles and, far from being financially free in property, they end up stressed and wondering why they can't make it work.

The good news is I'm going to show you how you can use the system I discovered to put together your own cash-flowing portfolio, and avoid all of these mistakes.

And if, like me, you are starting with little or none of your own money, you can still do this!

Having built my own property portfolio from scratch, and starting with virtually none of my own money, I've constructed my very own 'Home Study Course', all in one easy-to-absorb volume (although it is big – 178 pages of content on A4), so that you can have all the information you need at your fingertips.



I've called it ***The Successful Property Investor's Strategy Workshop*** and in it I tell the story of how I built my portfolio and I'll show you exactly how *you* can do the same.

It's not rocket science. Anyone can do this, but you have to go about it the right way.

Indeed, you can copy my model, if you want. That's why I'll show you everything I did, right and wrong.

Everything I did right, so you can do the same. And everything I did wrong, so you can save time and money and avoid the mistakes and pitfalls.

I've even included real-life examples of actual properties I've bought, so you can see how it all works in practice so that you can do the same.

It took me years of trial and error to learn the system (the best part of 4 years, with many sleepless nights and much wasted time and money) so let me save you from all of that by sharing my experience with you.

The Successful Property Investor's Strategy Workshop is available as an eBook to download now and to read on your Mac, PC, iPad or tablet, for only £29.97.

If you're serious about property you'll find this small investment to be invaluable.

So to order your copy now, please go to:

www.thepropertyteacher.co.uk/the-successful-property-investors-strategy-workshop/

PLUS! Order Now And You'll Receive These Valuable FREE Bonuses as A Special Gift From Me

As a 'thank you' from me for buying, ***The Successful Property Investor's Strategy Workshop*** I've put together two special bonuses for you, each of which are worth at least £49.97, and which I know you'll find extremely helpful.

Special FREE Bonus Number One



I've put together a **series of 4 videos** (with over 90 minutes of content) to explain why strategy and property strategies are so important and to help you to choose from the different property strategies the strategy or strategies which will work for you.

I will be adding to this library of videos on a regular basis and you will have permanent access to them all.

Special FREE Bonus Number Two



“How to Always Get The BEST Finance For Your Property Deals” – top tips from a top UK mortgage broker.

First, you’ll receive a free copy of ***“How to Always Get The BEST Finance For Your Property Deals”***.

This an MP3 audio file of an interview I conducted with one of the UK’s top experts on buy to let finance, in which he covers many of issues around buy to let, and gives his top tips for successfully raising ALL of the finance you need.

I have considered selling this as a **product in its own right for £49.97** because it contains so much great information but, when you order your copy of ***The Successful Property Investor’s Strategy Workshop***, you will receive it as **FREE gift from me**.

Special FREE Bonus Number Three



“Your ‘Must Know’ Answers to the Top 14 Most Common Property FAQs” – Audio file download

An audio file download, **value £49.97**, containing the 14 top Property FAQs, with ‘must know’ tips and information, based on the questions YOU ask me.

Whenever I meet and talk to fellow investors, **the same questions always come up**, time and again, including:

- *Where will I find the best property deals?***
- *What if my strategy doesn’t work where I live?***
- *Where should I be buying, and how do I find my properties?***
- *Should I buy at auction?***
- *How much should I gear up, and how much borrowing is safe?***
- *Should I still be using interest only mortgages, especially if tax relief on interest is to be limited?***
- *How do I structure my property business, and own or hold my properties?***
- *What if the market crashes in the future?***

****What is the most tax efficient way to own property?***

And many more.

In fact, I cover, and answer in detail, the top 14 questions I am always asked.

You'll receive this Audio Download as a **FREE SPECIAL BONUS** when you order your copy of ***The Successful Property Investor's Strategy Workshop***.

So to order your copy of ***The Successful Property Investor's Strategy Workshop***, and to start building your own property portfolio, please click here now:

www.thepropertyteacher.co.uk/the-successful-property-investors-strategy-workshop/

I know that the information in the *Successful Property Investors Strategy Workshop* is of immense value to all property investors. All I'm ever interested in is value-for-money, and that applies whether I'm buying (especially property), but also whether I'm selling.

So, naturally, there's a full 60-day no-quibble money-back guarantee of complete satisfaction (which I trust you won't need, but it's there anyway), so there's really nothing for you to lose when you order your copy.

If for any reason you're not happy with your copy just email me if you order the eBook version, or return the manual if you order the hard-copy version, within 60 days of receipt, and I'll give you a full, no questions asked, refund.

PLUS, you can keep the FREE bonuses as a 'Thank you' from me for trying it.

So you can order, read and enjoy your copy completely risk-free.

I hope you have enjoyed All About Buy to Let Finance and How to Get It. By following a system and a plan, all things are possible, and property investing is no exception. I hope it has given you a few ideas and insights and I look forward to hearing all about your future property success.

Here's to successful property investing.

Peter Jones

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(ex) Chartered Surveyor, author and property investor

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PS Don't forget, for your copy of my best-selling Home Study Course ***The Successful Property Investor's Strategy Workshop***, PLUS the special bonuses including the audio file of my interview with one of the UK's top buy to let finance Experts, please go to:

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