STRUGGLING WHITE LION REBORN AS TWO HIGH-YIELDING MULTI-LETS NETS £2K PER MONTH

Billy Turriff explains how he converted a struggling old boozer into two high-yielding multi-lets on the outskirts of Manchester.

Interview & words: **Heidi Moment**

STRATEGY

Over the years I've been involved in various different property strategies. My main aim is to have cashflowing assets, so I've got a mixture of single-lets and multi-lets. Multi-lets (or HMOs) are great for bringing in cashflow. At the moment we've got approximately 150 rooms, which are rented to both students and professionals.

WHY PUBS?

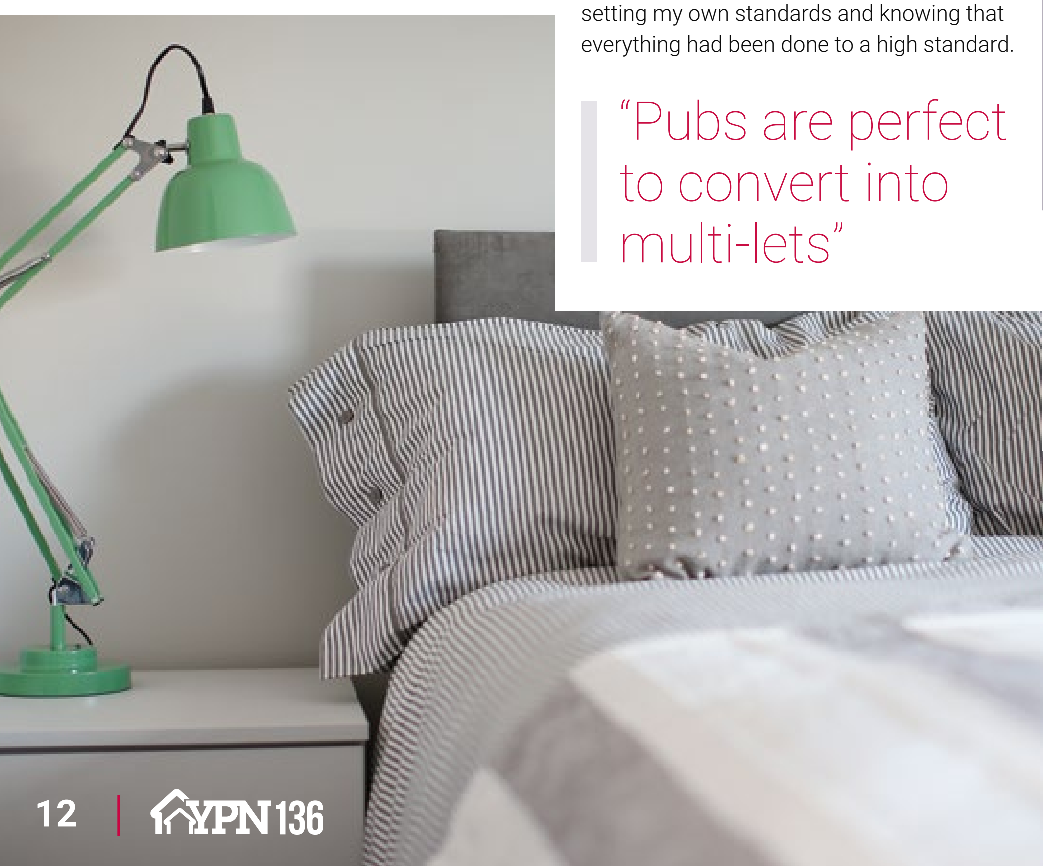
Pubs lend themselves very well to being converted into multi-let rooms. They're big buildings that can get you anything from seven to 20 units, which is perfect for multi-let, but not too large to manage.

We've always been keen to add a pub or two to our portfolio, and as our high streets change and many pub landlords are forced to sell, there are some really amazing buildings coming up for sale that are just begging to be developed.

The first pub I bought was The Nag's Head in Liverpool. It had been converted into three apartments, which were then split into 17 multi-let rooms. This was one of the few developments I bought that had been developed by someone else, and it caused me nothing but grief. The developer hadn't done a good job and there were plenty of issues, including wet and dry rot in the timbers, and a lot of ongoing maintenance issues that we hadn't expected.

It wasn't the best introduction to pub conversions, to be honest, but it didn't put me off. Instead I vowed that on the next one I'd take it back to brick and start again, setting my own standards and knowing that everything had been done to a high standard.

> "Pubs are perfect to convert into multi-lets"



THE WHITE LION

When I came across The White Lion in Eccles, Manchester, it was still running as a pub but wasn't trading successfully – on the day of the viewing the only two people in there were the landlady and one punter sitting at the bar.

The building was a good size. It was a traditional pub split into two large main rooms – the lounge and the bar, with the toilets through the back and stairs going up to the owner's accommodation. It reminded me a lot of the Queen Vic in EastEnders!

LOCATION

We typically select areas just on the outskirts of the city centre - one train stop, or ten minutes in the car, close to universities, shopping districts and places of work.

The White Lion matches this criteria, being close to the Trafford Centre and having a tram and mainline train that goes to Manchester City Centre.

Exterior Before

THE PLAN

The brewery that owned the pub wanted to sell it without planning permission, which seemed to be putting other developers off. We weren't put off by this but wanted to make sure we had several exits if our preferred route wasn't approved.

We worked with our architect to do a feasibility analysis and we came up with three options for development:

1. **Convert into two five-bed multi-lets (our preferred route)**
2. **Convert into a five-bed multi-let, a commercial unit at the front & two micro-studios behind**
3. **Convert into a five-bed multi-let and two small commercial units**

> "Letter from the brewery helped to get planning"

LETTER FROM BREWERY

We agreed to purchase the building unconditionally and began the planning process. As part of the planning application the brewery provided a statement explaining that they weren't making any money from the pub and wanted to cease trading and sell the building. We agreed to pay them for this service (only a couple of hundred pounds), as we believed it would help us to get the planning permission granted.

It was money well spent. Our research and relationship with the seller paid off and we got permission to convert it into two five-bed HMOs, our option one, and we were lucky enough not to have to go to committee. So, we were really pleased.

SELL OR DEVELOP?

Once we got planning approval to proceed, we considered the option of selling it with planning and taking the planning gain, which we estimated at the time to be around £60,000 (in fact, it would have been £63,000 so we weren't far off). I tested it locally with people who I knew could sell it on to other investors and we had a couple of offers. It was very tempting to just sell it and pocket the profit, but this doesn't really work with my cashflow strategy, so we developed it out, as planned.

DEVELOPMENT

Pub features

It's always nice when you buy a building like this to try to retain some of the original features. With this one we kept the front door and signage, which are very visually appealing. We kept all the outside features too and we repainted the outside to make it look like a pub again.

The inside was a different story though. There weren't really any nice features to keep and the way it was laid out in lots of small rooms meant that we couldn't keep the original layout anyway.
The upstairs had been the landlord's

Exterior After

apartment and was pretty grotty so it all needed ripping out and starting again. We removed some walls and reconfigured the space to make it into two separate apartments. That also meant moving the staircase, which was quite a big job.

Communal space

In our experience the communal area is important, as that's where people spend a lot of their time, cooking, chatting or watching TV together, so we always try to have large, open-plan living and dining areas so our tenants can enjoy this space together. We find this is strong selling point for potential tenants.

In the two apartments we've got large funky living rooms and large dining kitchens, with enough seating for everyone to eat and socialise at the same time.

The communal areas are located to the front of the property, facing the road, which gives good lighting and a good view, whilst allowing the bedrooms to be at the back where it's quieter.

Bedrooms

The bedrooms are all 12 to 15 square metres and are pretty much self-contained. They are fully furnished, with good beds and mattresses, good wardrobes and desks and they all have en-suite shower rooms with shower, basin and toilet. All our furniture is fitted and sized specifically to each room.

Fifth bedroom

In the ground floor apartment we had no problem fitting the five bedrooms in, but on the second floor we had a bit of an issue. We were going to build the fifth bedroom onto the outrigger, but when building control came out to check the site they identified that the foundations of this part of the building wouldn't be strong enough to hold an extra floor, so would have to be rebuilt. This would have been difficult to do as it was at the back of the building and access was limited, and from a cost point of view the extra work would have hiked up the costs. So much so, that the extra bedroom became no longer feasible. So whilst we had been planning for two five-beds, we ended up with one five-bed and one four-bed.

Instead of the extra bedroom, we put a nice patio area on top of the outrigger, which has gone down really well with the tenants, so it's all worked out in the end.

Basement

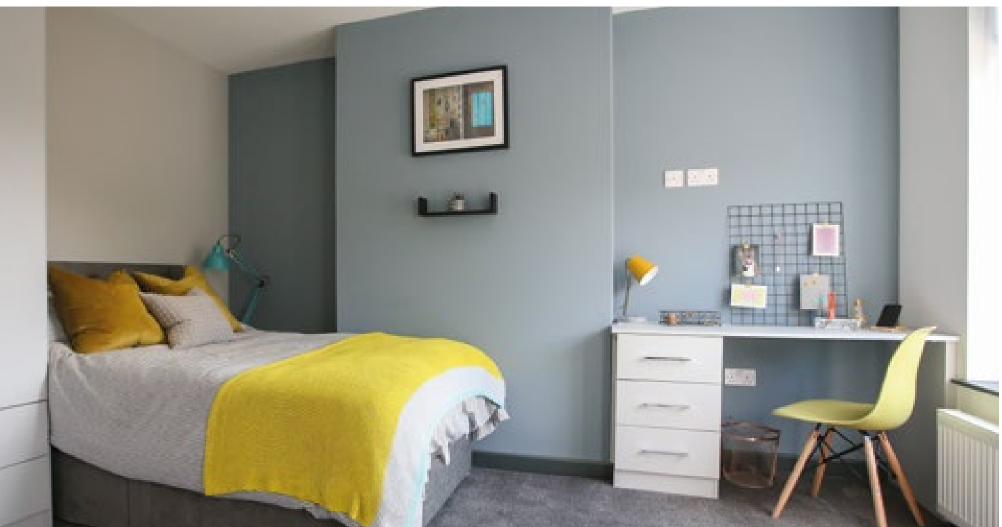
As you might expect, the pub came with a big basement, which we considered developing, but it wouldn't have been cost effective, so we've just got the gas and electric meters down there and it's locked off, so the tenants don't have access.

TENANTS

Our tenants are typically young professionals. Due to the location of this one (close to the Trafford Centre in Manchester, and one stop from the city centre on the train), we've attracted a mixture of different professions, including police officers, people working at the Trafford Centre and local call centre operatives. It's a good mix.

Some of our tenants are from abroad, from countries like Spain and Portugal. They may work here for a year or two and then move elsewhere as part of their travelling lifestyle or go back home once they've saved some money.

Our HMOs are a good first step for people who are earning reasonable money but can't afford their own place yet. At £500 per room, they can still afford to live as well as to go out and socialise. It's significantly cheaper than renting a place on their own and also enables them to save some money too.



MULTI-LET TENANT LIFECYCLE

Rent room in multi-let » rent apartment on their own » buy apartment / house

They rent a room in a house when they first leave home or go to a new city. They stay there until they have enough money to rent their own place, which they do for a bit and then eventually buy their own place. This can take anywhere from six months to two years with us and we're happy to have them for as long as they want to stay.

ROOM RATES

The average room rate is around £520. The lowest is about £500 and the highest is about £580. This is at the top end of what you would get for rooms in this area.

We always test our room rates in the area before rolling out all of the rooms. We dress a couple of rooms and market them, trialling different prices to see if we get any interest. Then we do viewings and get them tenanted and then roll the rest out at the same price or slightly higher, depending on demand.

We've noticed that the first time you market a house you get higher room rents, because it's completely new, it looks brand new and you can control the staging. After you've been running for 12 months or so and tenants start moving on, you sometimes find that rents start to drop. We've found that on this one, especially now that the market is getting busier, some room rates have dropped by £10 or £20 per month.

Seasonality also affects prices. In summer you can charge up to £30 more for your room than in January or February. Summer also has fewer voids, whereas January and February have higher voids. So we always try to keep people in our rooms until after March to minimise the void period.

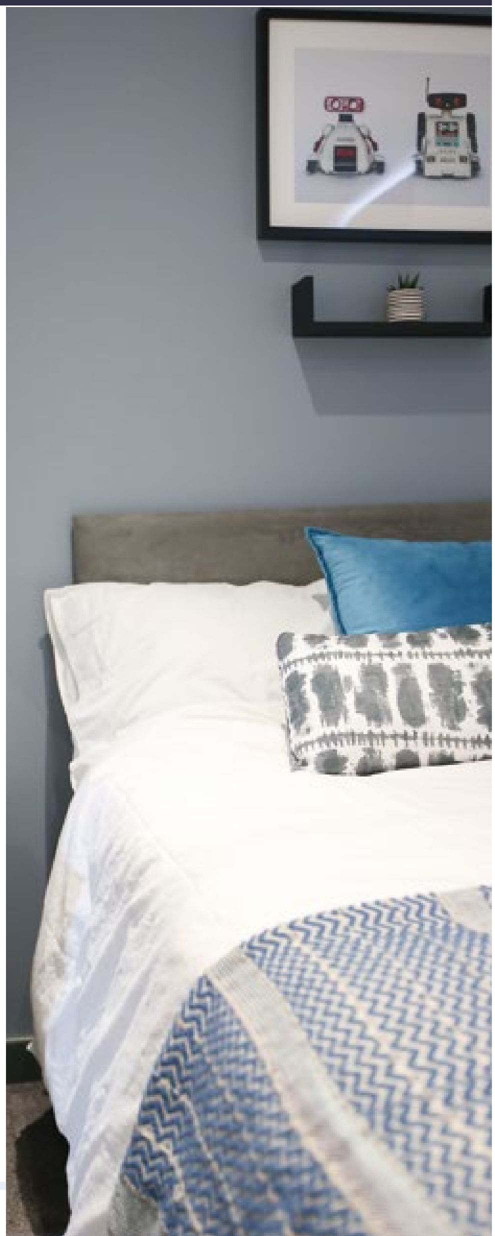
NUMBERS

Open market value (with planning):	**£220,000**
Purchase price (incl. all costs):	**£125,000**
Refurb costs (incl. finance):	**£200,000**
Total costs:	**£325,000**
End value post refurb: **(we thought this was low and were expecting closer to £450,000)**	**£400,000**
Gross monthly rental income:	**£4,680**
Monthly bills:	**£760**
Monthly finance:	**£1,250**
Letting agent:	**£650**
Monthly profit:	**£2,020**

TIMINGS

Stage 1:	Purchase, planning & procurement of building contract	**6 months**
Stage 2:	Build	**7 months**
Stage 3:	Finishing (snagging, staging etc)	**1 month**
Stage 4:	Letting	**2 months**

From purchase to being fully let out, it took 16 months in total. A significant part of this was due to the council not adhering to their internal timelines for reviewing planning applications, and in hindsight I should have managed them more tightly (something I will remember on future projects).



FUNDING

In terms of financing, we usually buy things cash because it's quicker and easier and we can do that with our own or investors' funds. On this occasion we used our own funds to buy it, namely profit from a previous development.

Then we got a bridge to term product from Shawbrook Bank. It's a great finance product where they lend you money to the end value of the property post refurbishment. So they come out to look at your property and tell you what they believe it will be worth once you've refurbished it, then they give you a bridge, at a reasonable rate (equivalent to 9% annually).

Once we had planning permission, they gave us a post-refurb valuation of £450,000 and a bridging loan for £200,000, which effectively paid for the refurbishment.

Unlike other bridging products where you pay fees at various points along the way, with this product you only pay the product fees once, which is great. Also the product fee is based on the bridge rather than the refinance so there is a reasonable saving there as well.

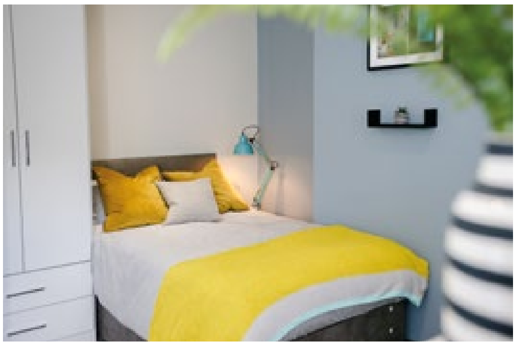
The £450,000 was based on having 10 bedrooms, and we only ended up with nine, and got an end valuation of £400,000, which was slightly lower than we expected, but that's the market at the moment and many properties are getting downvalued. It is what it is.

We paid back the bridge and got a mortgage at 75% LTV for £300,000, leaving £15,000 of our own money in the property. I have no issues leaving some funds in deals as it shows I have skin in the game. Also, the lower the mortgage, the higher the profit.

FUTURE PROJECTS

We'll definitely convert another pub, if one comes up in the right area. In fact, we'll do most things at the right price. Our strategy is always evolving and we're currently looking to diversify our portfolio a little. We always said we didn't want to hold more than fifty units, and we're up to forty now, so we're looking at alternative ways to develop each unit to bring in more streams of income – the next ten properties are going to be a mixture of commercial and micro-apartments.

We're keen on helping to rejuvenate the high street creating communities. We can do this by getting the right businesses in to make the high street more boutique. We've started this strategy with a café/bar we've just bought. The guy who runs the bar has just extended his lease from two to 12 years and has carried out some work to the interior. It looks great and he's doing well. There's currently an office upstairs, which we're going to develop into two micro-apartments. This will allow us to access a part of the market that is underutilised, as well as branching out into a different sector for us.



TEAM

This project was a great one for us. It was one of our first in Manchester, so it was treated as a good showcase and during the process we managed to set up a new local team. The majority of our other developments are in Liverpool, so we needed to recruit a new local architect, build team, letting agent, interior designer, etc. This is all set up now and we're ready to do more projects there.

"As passive as possible"

The way we work is certainly not passive, but it's as passive as possible. We see ourselves as property investors, developers and project managers. We put all the bits together. We don't take the management of everything in house, like some investors do, as it's just too time consuming. The architect manages the procurement process for the selection of the build team and then oversees their work. Therefore we only need to visit the site when key decisions require our input.

Using an architect also ensures completed works are assessed and approved before payments are made so keeps both sides honest in terms of invoicing and payments. We'd much rather pay someone with the skills and experience to manage projects for us and ensure everything is tip top, as this helps to protect our company from error. It enables us to utilise our time and efforts to find other deals, which is a much better financial use of our time.

TOP TIPS

- **Planning is complex, make sure you have a good architect or planner to guide you through the process. Keep in contact with the planning department to ensure that they are meeting their timescales.**
- **For projects this size, appoint an architect or quantity surveyor (QS) to manage the build team and ensure a robust process is in place for change orders.**
- **Where feasible, split into multiple units rather than one large unit as people would rather share with 4-5 people than with 10.**
- **Manage the admin process such as VOA, change of address, business rates/ council tax tightly so you aren't delayed when it comes to refinancing.**
- **Appoint a good interior designer to ensure your end product has a wow factor.**

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