



Taxcafe Property Guides

**How to Build a £4 Million
Property Portfolio:**
Lifetime Lessons of a Student Landlord

By Tony Bayliss

About the Author

Tony Bayliss has been a landlord for over 20 years and his father was a landlord and businessman before him.

Tony trained as a teacher of physical education and drama at Loughborough in the late 1960s, where he obtained a First, and for the following 27 years had an extremely successful career in education, teaching, advising, and inspecting in various parts of England.

In the 1980s, after moving from London to the Midlands, he re-mortgaged his home and bought his first rental property, which he let to students from the local university. Two years later, he bought two more properties and, after ten years, he gave up his full-time job to concentrate on developing his business, going on to create a portfolio of 21 student properties, worth over £4 million.

His teaching background and skill as a communicator made him a natural spokesman for local landlords grappling with emerging legislation, accreditation schemes and other housing initiatives. Amid the frenzied growth of 'buy-to-let', Tony found himself being used increasingly as a consultant to other landlords and as a speaker at training events.

As well as his background in education and property, Tony was a top-class sportsman in his younger days.

He is also an accomplished author, having published poetry in various anthologies, contributed to numerous books, magazines, and Government reports on education, and had two full-length works of fiction published in 2005.

He lists among his interests, world travel, sport, the arts, photographing wildlife, antiques, and DIY.

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Introduction

I am not an expert on the property market. There is no such animal. Those whom the media put forward as experts have been shown time and time again to be no better than the rest of us at making forecasts.

Take, for example, the legions of experts who lined up in the spring of 2005 and told us unequivocally that a property crash was imminent; and yet they were all wrong. It didn't happen.

But after a brief period of rehabilitation, those same 'experts' will soon be coming out of the woodwork to frighten us with their next piece of fortune-telling, and they may still get it wrong!

The only pattern I have observed time and time again is that when property prices change, they hit London like enormous waves. They have dramatic peaks and troughs, but by the time those waves have reached the Midlands and the north, they are just tiny ripples.

If you want drama, buy property in London. If you want a more peaceful, more predictable life, go to the provinces!

My knowledge of the subject is not based on studying market trends, economic forecasts or consulting tea leaves, but on thirty-five years of buying, renting and selling properties. I am a doer, not just an observer.

As a young teacher in 1971, I scraped together £500 (almost a year's salary!) as a 10% deposit on my first property, a £5,000, two-bedroom flat near the Slough Trading Estate, which was more dreary than even David Brent would have us believe.

But much to my surprise, there followed a property boom and, two years later, I sold the flat for £9,500 and moved to the Midlands. There I bought a proper house for £2,000 less and kept the change to buy furniture and my first colour TV.

And so it went on. I rose quickly to the top rungs of the education career ladder, necessitating several moves to different parts of the country in the process.

Because my growing family needed ever larger houses, I always stretched myself to the limit in buying the biggest and best property I could afford. This included two moves to London, labouring under the burden of very painful mortgages.

But after 15 years I owned outright the house I lived in and ten years after that, when I had left my full-time job, I suddenly realised that my home was worth more than all the money I had earned throughout my entire career in education.

So it was my own experience, not the tips and forecasts of experts, that showed me that the £500 I had first invested had grown to over £300,000 in just over twenty five years, an increase of nearly 60,000%!

Did you get that? SIXTY THOUSAND PERCENT!

It was this realisation that persuaded me to chuck in the full-time job and turn my hobby into my second career. In any case, the prospect of surviving one day on a meagre teacher's pension was not one I could get very excited about.

From Home Owner to Landlord

My interest in letting had been instilled in me since childhood. My father had managed to buy an enormous old house in the early 1950s and had converted parts of it into flats for families from the local air force base. They had their own entrance so we shared no communal areas but I have fond memories of always having people around, especially other children.

So, to supplement my own family income there had often been lodgers in my own house too, and my children loved it just as I had done.

But it wasn't until I moved away from the south-east for a second time in the mid-Eighties, exchanging a fairly substantial semi in Harrow for a cheaper nine-bedroom mansion in the Midlands, that we got into lodgers in a big way.

The local university was frantically advertising for rooms, claiming that vast numbers of students faced the prospect of sleeping on floors for want of local lodgings.

So I offered a rather pokey attic bedroom that my family didn't use, and had nearly a hundred phone calls within a week of it being advertised.

I suddenly realised there was money to be made here, and the seeds of my new business were sown!

For the following four years there was a succession of student lodgers, but I eventually summoned up the courage to buy my first student house in 1991 by re-mortgaging my own home.

In those days, buy-to-let mortgages didn't exist and re-mortgages had to be for a specific 'approved' purpose. But given that I owned the house outright, there was plenty of equity available for the loan, and I took three further extensions to that loan over the next few years.

In the early Nineties, property prices were low and going nowhere. London was still recovering from a crash in the late Eighties, and with thousands of people in negative equity, there were lots of repossessed properties being pushed on to the market by the lenders. So bargains were easy to find, even though prospects for capital growth seemed gloomy.

But I wasn't thinking about capital growth at the time. All I cared about was getting the new house tenanted to cover my monthly mortgage repayments and other costs, and to make a little profit each month.

In the event, some student friends of one of my lodgers came to view the house even before I had exchanged sale contracts and they signed tenancy agreements on the spot. That pattern was to repeat itself many times in the years to come.

The value of that first house didn't increase at all for six years. But after fourteen years I sold it for four-and-a-half times the purchase price. I had made a healthy profit each year from rental income too, with rents rising and mortgage repayments dropping as interest rates went down.

Such was the demand from students for good quality accommodation that I bought two more properties in 1993 and another two in 1995, all by re-mortgaging my home.

Buy-to-Let Mortgages

By the late Nineties, buy-to-let mortgages arrived and with them, a discernible change of attitude among the lenders.

Previously, a loan on a property that wasn't your own home meant signing away your life with extra cover, being forced to take out the ill-fated endowment mortgages, finding guarantors, or promising that you changed your underwear at least once a week.

When buy-to-let mortgages arrived, the lenders were falling over themselves to give away money without any reference to your income, age, sex or any of the myriad checks they had insisted upon previously.

Now, almost anyone can borrow money to buy a house to let, just so long as it values up to the purchase price and has the potential to earn more rent than the monthly loan repayments.

Unlike some investors, however, I didn't throw caution to the wind when buy-to-let mortgages arrived and go for massive expansion. I moved along slowly, choosing properties that were in the right area and of the right type, making sure there was still an on-going demand from students for what I was offering.

And because I was now doing this full time and being on the wrong side of fifty, there was a limit to what I wanted to take on.

By 2004 I had 21 properties and decided that was enough. Others, younger and more ambitious and maybe more reckless, would have gone on playing re-mortgage leapfrog, and good luck to them, but that wasn't what I wanted.

The fundamental difference in what I did compared with most landlords with a reasonably-sized portfolio, was to continue to manage it all myself, and that is what a lot of this book is about.

Chapter 1

The Buy to Let Property Market

Following the slump in the property market in the late Eighties, which by no means affected every type of property or every geographical area, investors saw the Nineties as a good time to buy.

I would argue that, provided you are sure of your rental market and choose the right kind of property in the right location, it is always a good time to buy.

Nevertheless, I managed to find some real bargains back in those heady days. I was buying properties for £30,000-£40,000, spending £10,000 on refurbishment, and taking gross annual rents that were around 15% of my outlay.

At the time of writing this book, rental yields of 5-8% are more the norm. But that doesn't take account of capital growth of course which, provided you hold on to the property long enough, has shown consistently since the Second World War that property is one of the best places to put your money.

In the 20 years that I have been buying and selling rental houses, my average annual gain in capital value has been 12% (based on actual selling prices). This was despite frequently breaking the golden rule of not selling within three years and thus not getting any capital gains tax taper relief.

So even given today's low rental returns, my experience is that, taking rent and capital growth together, the buy-to-let investor can reckon on an overall minimum return of around 17% a year. As rents start to climb, that figure can easily exceed 20%. During boom times it can even approach three figures.

The arrival of buy-to-let mortgages in the late Nineties saw a massive growth in the number of landlords, many owning only one or two rental properties, who cashed in on the property price boom that occurred between 2000 and 2004.

In London, the number of registered landlords offering student properties doubled in that period. This figure didn't take account of the large numbers of parents who bought a house for their children to live in while at university.

But when the doom merchants started talking up a property price crash in 2004 there was a mass exodus, the number of registered London landlords dropping back by 25%. This pattern appears to have been replicated in many other parts of the country.

New Regulations

Another factor contributing to this exodus was the proposed housing legislation, which talked about a national licensing scheme and hung over landlords like the Sword of Damocles for nearly three years.

Thanks to pressure put on ministers by The Residential Landlords Association and other lobbyists, the proposals were eventually watered down to something more reasonable and manageable.

But when it became clear in early 2004 that properties with three or more storeys and five or more unrelated tenants would fall under the licensing scheme, many landlords, including myself, dropped this type of property from their portfolios.

Obviously some landlords were simply not prepared to upgrade their properties to meet the new standards. But even those landlords who could comply decided to sell because of the on-going cost of licensing, the form filling and the extra rounds of inspections.

It was simply more hassle than it was worth. I happen to know that only one of the people who bought one of the larger properties I sold has bothered to apply for a licence and non-compliance with the licensing scheme is already becoming a problem.

But why bother buying these very large houses anyway? Students have changed a lot over the years, and their needs and requirements now drive the market. Most don't like living in very big groups.

I used to have houses offering six, seven, eight, and even one with nine bedrooms, which had been a former nursing home. But they became less popular and now most students seem to want to be in groups of no more than five, with properties for two to four being the most popular.

Obviously this has implications for the rent you can charge, because the overheads on a small house are pretty much the same as on a large one. But despite what you may read about students being poor, there will always be those who will pay for the right property.

Local Councils have the authority to extend the licensing scheme, and while at present it is restricted to three-storey properties with five or more tenants, in areas where there is a glut of student housing, local authorities may feel justified in extending it to include all student properties.

I am sure this will happen in some areas and it pays to be ready for this. It's easier and cheaper to refurbish a property to the right standards when it is unoccupied than to do first-aid work when it's let or furnished.

So check on standards required by the licensing scheme and in the local accreditation scheme and try to meet them from the outset. Not only will your tenants be safer. It will make your property more marketable.

Tony's Tips

- There is never a bad time to buy property.
- Ignore the 'experts' predictions about price rises and falls – they are more often wrong.
- Anticipate an extension to the licensing scheme by refurbishing your student property to the highest possible safety standards.

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