

## HOUSE IN MULTIPLE OCCUPATION **HIGH RENTAL YIELDS**

Replace your current income with 1 property



Total rental income PCM: **£2340**

**Yearly return on initial cash investment : 8.28%**

**£165,000**

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## Business Strategy

Student Houses in Multiple Occupation (HMO) has been smashed apart by the building of “Student Pods”. This has left student HMO’s harder to rent year on year. More and more Landlords are exiting this market due to these harder rental conditions. Student HMO’s from being sold at a premium are now coming on the market for a lot lower price than has been seen for many years.

The NGU Group has seen this change in the market and has moved to fill this gap by buying and sourcing these properties and turning them into professional furnished luxury HMOs.

The old student HMO market was about cramming in as many rooms into a property with separate bathrooms and toilets to accommodate these rooms. The student market of the past worked so well because the properties are located in sought after areas, right on the door step of Newcastle City Centre. Students however, now have an alternative option due to new “Student Pods”.

The NGU Group has grasped this opportunity and produced a very simple business model that works:

- “Old and tired” student HMO properties are bought in the sought after area of Heaton, right on the door step of Newcastle City Centre.
- We add value to the property by changing the layout to add an additional room.
- We expand into the loft where ever possible to add additional rooms to add value onto the property.
- The property is refurbished to a boutique standard.
- All bedrooms are ensuite.
- Each room is fully inclusive, so a tenant pays only one fixed fee per month. This includes rent, gas, electric, water, fibre optic internet, sky television, council tax and a fortnightly cleaner.
- The property development is done to offer the best accommodation you will find in Newcastle.

By adding value with more rooms and offering a boutique refurbishment, rents of £50.00 per week per room are the thing of the past. The average rent per room for a fully furnished ensuite bedroom that the NGU Group develops sees an increase in this rent to an average of £90.00 per week per room. This added value and increase in rents not only produces extremely high rental yields but also sees properties go up in value to allow the potential for a “no money left in” or “little money left in” finance strategy.

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## Local Area: Newcastle



## Background

Newcastle is situated in the North East of England, in the county of Tyne and Wear. The city and metropolitan areas, during the latest census, had a population of 799,000. The city itself is situated off the A1 which stretches from Edinburgh in the north to London in the South.

## Highlights

The city has a strong sporting tradition, hosting a Premiership football and Premiership rugby team. There are also two universities, Newcastle University and University of Northumbria which makes the city quite diverse and vibrant. The city has a reputation for being fun-loving with many bars, restaurants and nightclubs.

There has been lots of recent regeneration where former shipping premises have been converted into new office developments. The quayside has been redeveloped, including the world famous Baltic Centre for Contemporary Art. As a result the city is a thriving, cosmopolitan area, with an abundance of bars, restaurants and public areas.

## Map of the Area










*Newcastle, and surrounding area*










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## You have the opportunity to own a HMO in the North East

### Nearby transport

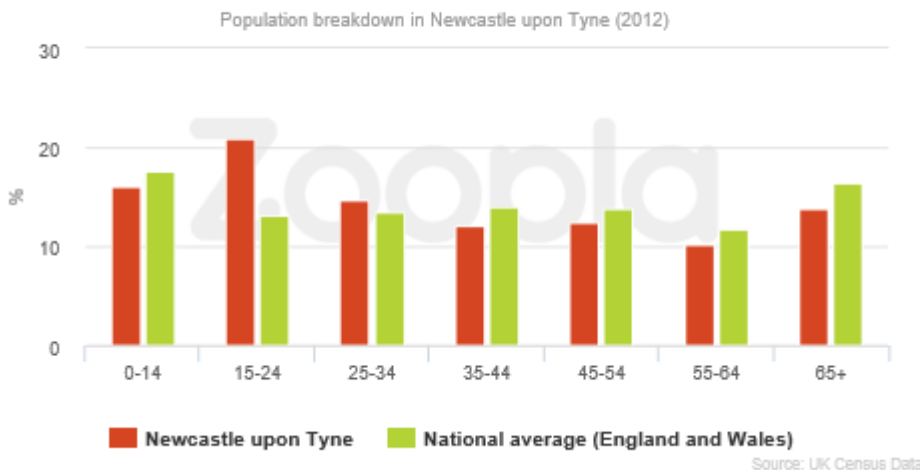
-  Manors (0.8 miles)
-  Newcastle (1.4 miles)
-  Heworth (2.3 miles)
-  Newcastle Airport (5.9 miles)
-  Durham Tees Valley Airport (33.1 miles)
-  Leeds Bradford International Airport (77.0 miles)
-  Newcastle International Ferry Terminal (5.6 miles)
-  North Shields Ferry Terminal (5.9 miles)
-  South Shields Ferry Terminal (6.0 miles)

### Nearby schools

-  Hotspur Primary School (0.1 miles)
-  Gateshead College (1.1 miles)
-  Central Newcastle High School (0.8 miles)
-  St Teresa's Catholic Primary School (0.3 miles)
-  Heaton Manor School (1.1 miles)
-  Newcastle-upon-Tyne Church High School (1.0 mile)
-  St Catherine's RC Primary School (0.4 miles)
-  Benfield School (1.4 miles)
-  Northern Counties School (1.2 miles)

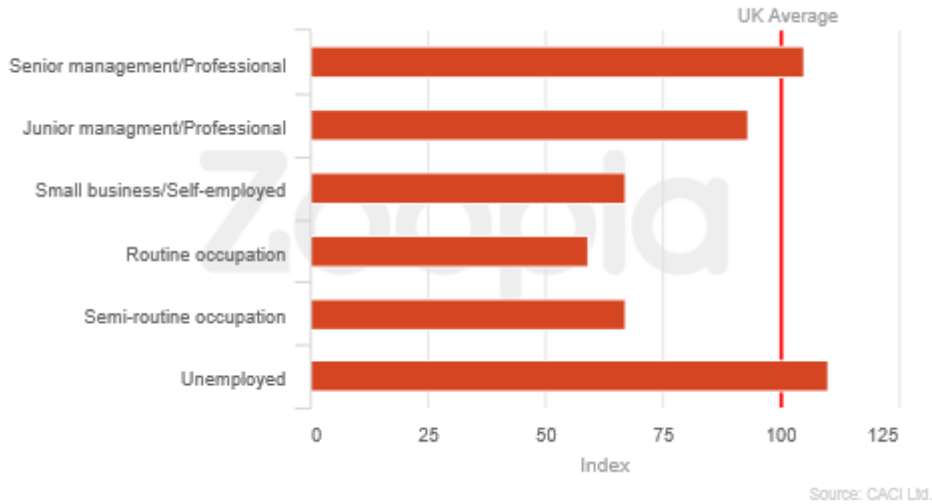
Note: Distances are straight line measurements

## Population breakdown in Newcastle vs the national average



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## About the neighbourhood-employment



## Market value analysis-RIGHTMOVE comparable



**£260,000**  
6 bedrooms | Terraced  
LESBURY ROAD HEATON

Archived

Marketed from: 04-07-2014 to 25-10-2014 (113 days)

**Sold STC** THIS ELEGANTLY PROPORTIONED EDWARDIAN SEMI DETACHED HOUSE HAS AN ABUNDANCE OF CHARACTER FEATURES AND IS LOCATED IN A MUCH SOUGHT AFTER STREET IN A POPULAR RESIDENTIAL AREA. THE PROPERTY REQUIRES A CONSIDERABLE AMOUNT OF UPDATING AND MODERNISATION AND WE HAVE A CONSULTING ENGINEERS REPORT AVAILABL...

[Full brochures, extra picture, Floorplan and map available](#)

Marketed by Bowes Mitchell, Heaton. Telephone .

Hide Summary:

Sold Price History: 19 Dec 2014: £250,000 Show:

Select



**Guide Price £259,950**  
6 bedrooms | Terraced  
Stannington Avenue, Heaton

Archived

Marketed from: 07-10-2014 to 26-01-2015 (112 days)

**Sold STC** INVESTORS! // TERRACED HOUSE IN POPULAR HEATON AREA! // FULLY TENTANTED UNTIL SUMMER 2015 WITH STRONG ANNUAL RENT AND 8.4% GROSS YIELD! // VIEWING RECOMMENDED!

[Full brochure, extra pictures, Floorplan and map available](#)

Marketed by Walton Robinson , Newcastle Upon Tyne. Telephone 0191 687 0577 (BT 4p/min).

Hide Summary:

Sold Price History: 23 Jan 2015: £245,000 29 Oct 1999: £75,000 Show:

Select



**£250,000**  
6 bedrooms | Terraced  
Stannington Avenue, Heaton, NE6

For sale

Marketed from: 06-02-2015

**INVESTORS! // PRIME STUDENT LOCATION // MAJOR BUS ROUTES // LOCAL AMENITIES // 7.38% GROSS YIELD**

[Full brochure, extra pictures, Floorplan and map available](#)

Marketed by Walton Robinson , Newcastle Upon Tyne. Telephone 0191 687 0577 (BT 4p/min).

Hide Summary:

Select



**£249,500**  
5 bedrooms | Terraced  
Rothbury Terrace, Heaton

Archived

Marketed from: 18-04-2014 to 05-09-2014 (140 days)

**Under Offer** Spacious five bedroom family home situated within a popular residential area of Heaton. In need of modernisation, the property offers ample scope to create the perfect family home. Expanding over three storeys, the accommodation is close to all local amenities, good schooling and transportation l...

[Full brochure, extra picture and map available](#)

Marketed by Signature By Mark Small, Jesmond. Telephone .

Hide Summary:






Sold Price History: 17 Sep 2014: £250,000 Show:

Select

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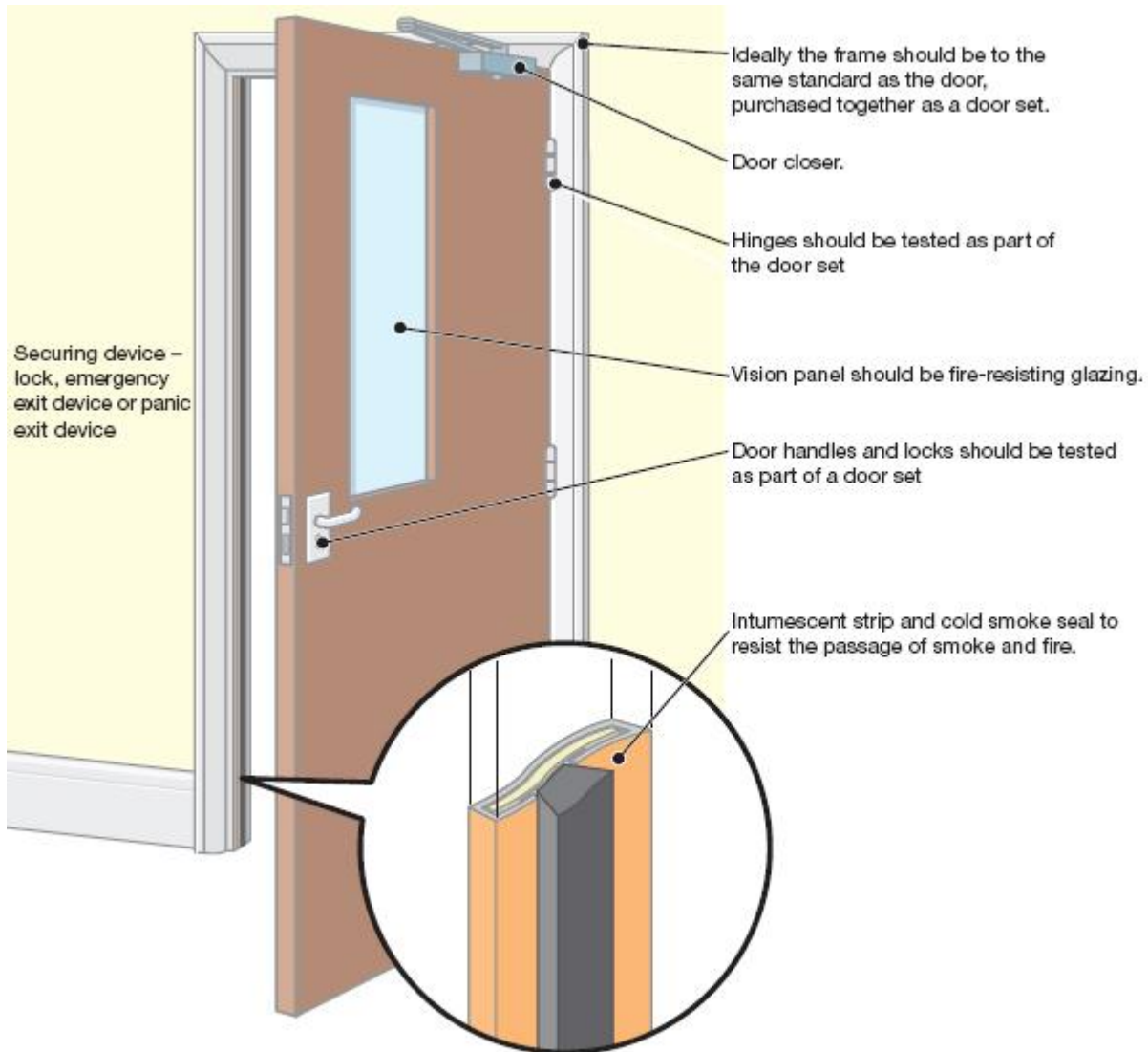
## Rental analysis per room for a professional HMO

Heaton (NE6)	Free to Contact	NEW
<p><b>Young Professional Houseshare in Heaton (ENSUITE)</b>            ~ ULTRA INCLUSIVE RENT ~ Professional Houseshare ~            Excellent Location ~ Close to Local Amenities ~ Award            Winning Agency ~ Weekly Cleaner We are delighted to            present this huge en-suite room in...</p> <p><b>BILLS INC.</b> Double room £485pcm</p>		<p>Available Now</p>  <p><a href="#">More info</a></p>
<p>Heaton (NE6)</p> <p><b>Double room in a large homely house in Heaton</b>            A double room is available in a large homely house with a            garden near the Blue Bell in Sandyford. The house is a ten            minute walk from the city center and the Quayside. The            house is well furnished with...</p> <p><b>BILLS INC.</b> Double room £480pcm </p>	<p> Early Bird (?)</p> <p>NEW</p> <p>24 Jan</p>  <p><a href="#">More info</a></p>	
Heaton (NE6)	Free to Contact	New Today
<p><b>Luxury En-Suite Fully Furnished Double Bedroom</b>            Professional Furnished Luxury Rooms. This exclusive            bespoke, fully furnished, large en-suite double bedroom            is located on the sought after street of Cardigan Terrace            in Heaton, right on the door...</p> <p><b>BILLS INC.</b> Double room £450pcm</p>		<p>28 Apr</p>  <p><a href="#">More info</a></p>

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## Examples of what modifications are needed in a HMO

The right fixture and fittings-fire doors throughout



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The right protection-hard wired smoke alarms and emergency signage in communal areas



Electric lock door systems so there is no need to change locks when a tenant leaves.



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## NGU Homelettings-getting you a tenant

### Back ground

- NGU Homelettings is approved by ARLA (Association of Residential Lettings Agents)
- NGU Homelettings manages over 600+ properties throughout the North East
- We are landlords ourselves and own over 150+ properties
- In 2014, only £53.00 of rear arrears was written off across the company owned properties

### Tenant Find

- Professional tenants-credit checked, employment checked and must earn a minimum of 30x the monthly rental income
- Tenant find fee-£100.00 plus VAT per tenant

### Fully Management

- Reactive maintenance care
- In-house rent collection
- Rents paid monthly
- 12% plus VAT full management

## Queries

If you have any queries regarding this property, contact us on:

**Tel. 0191 491 0344**

### Note:

In accordance with the Property Mis-descriptions ACT (1991) we have prepared these sales particulars as a general guide to give a broad description of the property. They are not intended to constitute part of an offer or contract. We have not carried out a structural survey and the services, appliances and specific fittings have not been tested. All photographs, measurements, floor plans and distances referred to are given as a guide only and should not be relied upon for the purchase of carpets or any other fixtures or fittings. Tenure and boundary information are given as a guide only and should be checked and confirmed by your Solicitor prior to exchange of contracts

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## How the process works

### THE BUYING STAGE

We present the financial figures showing how much it will be to purchase, convert and the rent that can be achieved on your selected property. We aim for any HMO Property that we source to be refinanced (if desired) to allow the purchase price and development costs to be taken back out through the up lift in the property's value after the development. Our aim is for any HMO property that we source to be "NO MONEY LEFT IN" or as near as possible after the development.

Before we can source a property we must see proof of funds to confirm any investor is in a position to buy. We do this to confirm an investor is a "Serious Investor". There is a waiting list due to the interest that we are currently receiving. The reservation fee that will be required is £1000 which will be deducted from the final development and project management fee.

We can recommend a mortgage advisor for you at this stage if you need to speak about finance options if you are not a cash buyer.

Once you have confirmed you are happy with the property we have presented to you, we will put an offer in on your behalf which hopefully will be accepted. We work closely alongside Estate Agents in the area and due to them knowing that we have investors waiting for properties that are suitable to convert to professional HMO's; they often present the properties to us first before they go onto the open market.

We both sign contracts agreeing that NGU Homelettings will project manage the conversion into a HMO. The property completes and you are now the legal owner.

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## CONVERSION INTO A HMO

NGU Homelettings re-confirms the initial development costs to convert the property into a HMO and confirms the time frames for the completion of the development. This is produced in a document called “a property condition report costing” and is signed by you to confirm that you agree with the terms and conditions of the HMO project development.

A HMO project development takes 14 weeks from start to finish (in week 11-12 the development of your property will be finished and we will be furnishing it ready to be let).

We have specialist HMO tradesmen that only work on this side of the business. To make sure HMO developments go to plan, we need a minimum of 30 days’ notice to fit any new HMO development project into our current schedule of work.

You pay 50% of the development costs before work can start. Once the property development has been completed, the remaining 50% balance needs to be paid within 7 days (please note you must have the finance to pay for a project development and it must not be reliant on a refinance strategy).

## TENANT FIND AND FULL MANAGEMENT

We will advertise your new HMO on all of the relevant websites to get it rented quickly with quality tenants. Advertising for your property begins at week 12, giving us 2 clear weeks to find you tenants before the development is finished.

All rooms will be “staged” to provide professional photographs to attract the best working tenants on the market. We will credit check all new tenants and verify their employment details and sign them up to a 6 month short hold tenancy agreement.

An inventory will be provided of the communal areas which will be updated annually. A furniture inventory will be made of the communal areas which will be updated annually. A separate inventory will be performed on individual rooms when a new tenancy agreement begins.

NGU Homelettings details will be provided to your new tenants so we can collect the rent and organise any relevant maintenance when it occurs.

Your property will then be inspected once a month by a member of the NGU Homelettings team. This inspection will be an informal visit and feedback will be provided verbally. An NGU representative will also collect any money that is received from the washer and dryer use (£1 per washer use and £2 per dryer use).

Your HMO property will have the communal areas cleaned every 2 weeks and the tenants will have the option of having their own room cleaned for an additional £5 extra per week on their rent. Every 6 months a formal property inspection can be organised to confirm its condition (we highly recommend this) and then we will organise an annual inspection thereafter.

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## Finance Options

### 1) Cash

Example Illustrated –

Purchase for £165,00

Development costs £62,500

Total Cost - £227,500

Annual Rent Estimate –£28,080

Annual Estimated Running Cost - £4620

Annual Return on Investment – 12.34%

### 2) Bridging/ HMO Commercial Finance – Stages Explained

You can finance the property with bridging finance. The usual deposit required for bridging is between 20-30% of the purchase price.

- The buying and development process is complete.
- Different lenders have their own formulas for calculating the end value, on average we find that they will calculate the end value using “Annual Rent x 9 multiplier”
- Using this calculation the commercial end value would be approx. £252,720
- Once the development is complete you can refinance on HMO commercial finance, allowing you to potentially refinance up to 85% of the end value ( £214,812 )
- This allows you to repay the bridging loan and recoup the development costs.

## **NO MONEY LEFT IN OR LITTLE MONEY LEFT IN**

Example Illustrated–

- **Potential Value - £250,000**
- **Potential Refinance Limit - £212,500**
- **Refinanced Amount - £47,500**
- **Amount Left In The Deal - £15,000**
- **Annual Rent Estimate –£28.080**
- **Annual Estimated Running Cost - £4620**
- **Annual Return on Investment – 13.21%**

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## Deal Structure

<b>HMO Deal Machine</b>			
<b>Number of Bedrooms</b>	6		
<b>Purchase</b>			
<b>Potential End Value £</b>	250000	<b>Cashflow</b>	
HMO Finance LTV	85.00%	Price Per Room	41666.67
<b>Potential Refinance Limit £</b>	212500	Monthly Average Rent Per Room £	390.00
<b>Deposit £</b>	37500	<b>Total Monthly Rent £</b>	<b>2340.00</b>
Stamp Duty £	500	Monthly Management	12%
Development + Sourcing + Furniture Fee £	62500	Monthly Management Fee £	280.8
Brokerage Fee £	500	Monthly Bills £	385
Survey inc VAT £	250	Monthly Insurance £	40
Legal's £	800	Service Charge and Ground Rent £	0
<b>Total Buying Costs £</b>	<b>102050</b>	Finance Interest Rate	5.25%
<b>Cashflow Summary</b>		Monthly Finance Payment I/O £	929.69
Gross Yield	11.23%	<b>Total Month Cost £</b>	<b>1635.49</b>
Net Yield	3.38%	<b>Monthly Net Profit £</b>	<b>704.51</b>
<b>Annual Return on Investment</b>	<b>8.28%</b>	Occupancy to Break Even	70%
		<b>Annual Net Profit £</b>	<b>8454.15</b>

<b>Monthly Net Profit:</b>	<b>£704.51</b>
<b>Net Annual Return Investment:</b>	<b>8.28%</b>

\*The deal structure above is an example and the figures are based on our estimates. To ensure the conversion is possible, and the figures stack up, we recommend our property project development department surveys the property.

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