Buy to Let
on a Budget
How <u>You</u> Can Invest in Property with Minimal Finance!

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Introduction

Firstly, let me make it clear that the ‘Buy to Let’ property business is a very long term investment. And don’t think that you need to be ‘clever’ to get into it - anyone can do it! I know what it’s like to be unemployed with no qualifications and own absolutely nothing and I managed it, as have many immigrants who arrived in the UK penniless. You just need a bit of ‘drive’ and ‘vision’ - and of course the correct information, as found herein.

Saving for a pension the conventional way and then buying an annuity invariably incurs many hidden fees, but probably the worst thing is that you don’t even have complete control of the situation, whereas with property this is not the case. If you start investing in property at age 45 - 50 or less, you should easily fund your pension far more effectively and far more affordably than any typical private pension scheme. And then you are free to buy an annuity as and when you wish, or not at all.

Many property investors are criticised as being ‘fat cats’ full of greed, which I think is grossly unfair as they provide a very valuable social service as any honest ethical business does. Sure they make a profit, but if they didn’t, the essential service they offer would cease to exist.

But in order to be successful, you must get the balance right - follow the guidelines as herein, provide good, clean accommodation at a fair rent and you will be respected by both your tenants and your bank manager.

Forget wasting your money on designer clothes, expensive cars or overpriced meals, all of which are a complete waste of money. If you want financial independence, get into property and in a few years you can have all the other stuff without getting into debt.

Chapter 1

Buying

When to Buy

Needless to say, the best time to buy is near the bottom of a property crash. Judging exactly when this is is any ones guess, although after a big drop in prices you should be fairly safe. But even then you need to squeeze the price as low as possible.

Will prices ever rise again?

After every property boom and bust we are told that that's it for property prices - and we'll never see these sorts of rises again. Well I'm 63 years old (advancing steadily) and I've heard this said numerous times. Historically property prices double more or less every 7 or 8 years - this is fact! Check it out if you don't believe me. Sometimes the rise is constant and gradual and other times there are long 'flat' times of inactivity followed by sudden and substantial rises and then often a slight downward adjustment. But the underlying trend is always upward.

The truth is that we're constantly fed bull****! One moment we are told that property is at an all time high, then the next day or week we are told that there is an enormous shortage of housing (which is true) and that the population is exploding out of proportion and within the next 20 years or so we must have hundreds of thousands of new properties, just to stay as we are. And of course fuel and building costs are constantly going up in price and building land is becoming more and more scarce - so of course **property prices will continue to rise! This is a certainty!**

When asked 'how should one deal with negative equity?', even the worst pessimists who come out with all the negativity will say that if possible you should sit it out and wait for prices to rise again - even they know this is inevitable!

What to Buy

The best type of property to buy obviously depends on your finances and what type of tenants you hope to attract. Any property is rentable, but the size, location/convenience and quality will have a bearing on the price and how quickly the property will be let out. And of course it must be targeted to the right type of tenants.

Basically the choices are:

- Purpose built flat or studio;
- Flat in converted house (or over shop);
- House for multiple occupancy;
- Small house for single/couple occupancy;
- Family house;
- Holiday let - UK or Abroad;
- Garage or Parking Space.

Whatever you buy, look into any parking issues, and always buy with view to future selling, which one day will occur! And remember that in all cases (except land/garage) gas safety certificates will be required.

Purpose Built Flat or Studio

The big disadvantage of purpose built flats can be the management charges. Often these can be £1,000 per annum or more and this will generally be paid by the landlord - one more expense that you don't need! Also most flats tend to be leasehold, which can be a problem when you want to re-sell if there is less than 70 years left. But having said this, purpose built flats with a good management committee and reasonable charges do exist and can be a good bet.

Studios are quite rentable, but watch that you buy for a good price as they can be very difficult to resell. Some banks/building societies won't consider mortgaging them and these may also have expensive communal charges and ground rent.

The one property that I still let out is a stone built ground floor flat with its own entrance, garden and garage surrounded by parkland within only a 5 minute walk of Sheffield city centre - a superb investment property.

Flat in Converted House (or over shop)

Flats in converted houses or above shops, may or may not be leasehold and will probably not have communal charges. However, it needs to be clear exactly who is responsible for what. For instance, if your flat is downstairs, do you have a joint responsibility for repairing the roof and gutters? This is where a good management arrangement/committee is essential. With the above problems sorted, these can be ideal properties for investment.

House for Multiple Occupancy

If buying this type of property, your potential tenants would be either: students; single young professionals; or single unemployed, but probably not all together. The location of the property would determine which tenants it would be best for. But either way, this type of property could be the most profitable - see yields shortly.

If the property has 2/3 bedrooms and 2 reception rooms, the normal thing to do is to use one of the downstairs reception rooms as an additional bedroom and keep the other and the kitchen as communal areas.

An important point to bear in mind with this choice is that they are governed by strict 'fire regulations' which you must adhere to. These change regularly, so check before you buy. But basically, this could mean the compulsory installation of fire doors to all rooms and any rooms above the first floor will require a fire exit, so basically forget renting out attics.

Generally, with shared houses, the landlord pays the fuel bills, council tax and water rates, so these must be geared into the rent.

Another type of multiple occupancy property would be one that is split into self contained bed sits or flats. Then no communal areas (apart from the entrance hall) would be necessary and these could have their own utility meters. In most cases these would then be individually liable for council tax.

Personally, I've steered away from the multiple occupancy properties, but this has mainly been because I've always been too busy with other concerns. But there is no doubt that these *can* be the most profitable - but also the most hassle.

Small House for Single/Couple Occupancy

These are probably my favourite choice as they attract the tenants that I prefer. I've owned a few modern one bedroom properties which have the advantage over flats that they are usually freehold; don't have communal charges and often have their own off road parking.

I've also owned two bedroom Victorian terraced properties which can be good, but can also be money pits if you get it wrong (from the maintenance point of view).

Family House

This could be anything from a 3 bed ex council house upwards and of course is ideal if you want to attract family tenants either DSS or professionals. These properties would most likely be suitable as unfurnished lettings and in this case the tenants would probably stay for a longer term. These can be an excellent proposition if bought for the right price.

Holiday Let - UK or Abroad

Holiday lets come into a different category from all the others and most landlords would choose to deal in only one or the other but rarely both, although I have.

If you happen to live in a holiday location then these can be a superb proposition, but the majority are seasonal, meaning you would achieve high rents (usually weekly) during the season and little or nothing off season.

The other downside is that they're much more labour intensive, as you would have to arrange laundry and cleaning virtually every weekend in the summer months. Plus of course there would be much more administration and advertising involved.

Forget caravans unless you own the caravan site or unless you live in a holiday destination and have one in your garden - then you could be on to a winner. But on a caravan site, the site fees, initial purchase cost and depreciation make these totally unviable from a business point of view - the only winners in this situation are the site owners.

One of the best propositions shown in one of the recent TV house buying programmes was a terraced property in Ross on Wye with a self contained one bedroom chalet at the end of the garden - a home with an income! - Superb!

Properties abroad can be fraught with dangers. They are rarely what they seem and always involve hidden buying and selling fees. This generally makes them unprofitable and bad investments or in some cases a complete disaster.

I've personally owned properties in France, Spain and Cyprus. I did make profits in Cyprus, but it has to be said that I would have made much more had the same funds been invested in the UK property market during the same period.

The problems with letting foreign properties are:

a) If you live in the UK, you will probably find clients fairly easily, but are likely to have problems with cleaning and maintenance;

b) If you live where the properties are, you will be able to deal with the cleaning and maintenance issues yourself easily, but are likely to have problems finding clients as they are reluctant to phone non UK telephone numbers;

c) Either way, you will still be liable for income tax either where the properties are or in the UK (but not both) and some countries charge an annual tax based on the property value regardless of whether you rent them out or not.

I've done this both living in the UK and in Cyprus and I can tell you that by and large it's a lot of grief for a low reward.

These 'buy a house in the sun' T.V. programmes make me laugh when they say how much rent a holiday property will supposedly return - it's possible to make anything look good 'hypothetically'!

If buying abroad consider the following:

a) Don't buy without titles deeds. This rules out many off plan new properties;

b) Make sure that titles deeds are what you think they are. This rules out Northern Cyprus as the deeds are issued illegally;

c) Never borrow money that is reliant on rental income;

d) Think very carefully before taking out a non sterling mortgage;

e) Check for debts tied to the property. In Spain if you buy a property, you also buy all the debts that are attached to it, and these could be far more than the value of the property;

f) Make sure that the property has the full legal building permission both locally *and* nationally;

g) Have the property surveyed. I've seen numerous foreign properties literally falling down through incompetent builders;

h) Have a legal Will drawn up in the country in question;

i) Double check all buying AND selling fees. In Spain you can typically add about 14% on top for buying fees, but what no one will tell you is that there will be a retention on selling in lieu of capital gains tax which theoretically you can claim back but in practice costs more than it's worth in legal fees;

j) Make sure that the price you pay is the price that is declared in the contract and entered on the deeds. It's common practice to under declare to avoid property tax, but they simply get this back through capital gains tax when you sell;

k) In most countries local solicitors will simply deal with the purchase, but won't necessarily advise you if you are buying a 'lemon' or that the seller actually owns the property. And very often they will have the seller's interest in mind and not yours. Use a UK solicitor who specialises in foreign property sales;

l) Remember that in some countries you can be imprisoned for debt.

If you need to know more about Cyprus see my guide 'Living and Working in Cyprus - the Good, the Bad and the Ugly'. Much of the information in this guide also applies to other foreign destinations.

Garage or Parking Space

Don't laugh at this option. If you cannot get finance to buy anything more, town centre parking spaces or garages usually return the highest yields and can be a low cost step into the property game!

Similarly even a paddock or woodland could also offer a worthwhile yield - check it out!

How to Buy

Before we discuss *how to buy,* we'll briefly look at how *not* to buy.

With any worthwhile venture, there will always be sharks out there waiting to rip you off. Just before the last property price crash, such sharks were there selling seminars for £2,000+ where they promised to give the latest inside information and sell ideal properties 'at rock bottom prices' that were 'guaranteed' to increase in value . Most of these properties turned out to be purpose built city centre apartments that were often badly built, hugely over priced and had grossly over inflated management charges.

No doubt these companies produced glossy brochures with attractive looking but totally unrealistic profit projections. As I'm sure you are aware, after the crash, many of those taken in by these scams went bankrupt, losing not only their investments, but also the homes that they lived in. Then the clever investors stepped in and bought up these properties for less than half of the original price!

My advice to you would be, stay away from seminars, buy in an area that *you* know, and trust your own judgement! You would be mad to buy in a town that you knew nothing about. *You know* the desirable/undesirable areas in your locality and where the students and young professionals hang out! *You know* the areas where you'd be lucky to make it to the end of the road if walking after dark! But don't think that you have to buy in the best areas, just not the worst!

But most importantly, only buy what you can comfortably afford. No doubt at some time you've played Monopoly where everyone starts off with the same £1500, yet all the property prices vary. Have you noticed that winning Monopoly, in most cases is achieved by buying the low to mid priced properties and plastering them with hotels? Buying the high priced ones first will just get rid of all your cash leaving you with nothing to expand with. Doing it for real is actually easier as you're not so reliant on the 'luck' of the dice and you've less chance of ending up in jail - but don't rule this out!

I've found that for the best deals you need to find either empty properties (perhaps where someone has died) or properties where the sellers are desperate to get out (for whatever reason).

Check price web sites (such as http://www.zoopla.com) to see what similar properties have sold for recently in the same vicinity and obviously take into account the condition of the property and how much it would cost you to bring it up to spec. And check potential rents and yield (which we'll deal with shortly).

Of course you should make all the obvious checks for damp; subsidence; wood rot; dodgy electrics and roofs etc. You will be forced to pay for a basic valuation if you are borrowing from a bank or building society and although this may highlight anything really negative, you are recommended to have the next level of inspection, such as the Homebuyers Report. Although this may cost a bit more, it's also better to have this done independently of the mortgage valuation (if applicable). In some cases a full structural survey is advisable and in many cases the cost of these can be reclaimed by re-negotiating the purchase price as a result of the surveyor's findings.

Having found a suitable property, arrange a mortgage 'in principle' with your bank or building society, making it clear to them that you are 'buying to let'. Then make your first bid ridiculously low. Don't worry about being laughed at or insulted. And don't feel intimidated by the seller's agents. Every property that I've ever bought has been under priced and the way I see it, it has just given me a fighting chance. Remember you can always increase your bid if you really want to, but you can rarely lower it again. And if you don't get the deal you want - walk away - there will be more!

One of my better deals was for a modern one bed townhouse where the owner had been taken into a nursing home. The relatives, who showed me round, told me that all the proceeds of the sale would be taken by the social security to fund the nursing home, so they said from their point of view they didn't care what it sold for. The asking price at the time was £28,500. I offered £15,000 and the agents laughed at me, then the offer was accepted (I wish I'd offered less). Not expecting to be successful, I had no financing in place, so I put it on a credit card for a couple of years bouncing it between cards to get 0% interest, then (as I didn't particularly want it anyway), I sold it on complete with tenant for £30,000. And as it was in joint names with my wife, we also avoided all the capital gains tax - more about this later.

Buying at Auctions

The first thing that you need to be aware of when buying at auctions is that you will have effectively exchanged contracts at the fall of the hammer and consequently will be committed to complete the purchase. Fail to complete and you will lose your 10% deposit and possibly also get sued for further costs. So you must get your finances in order *before* you bid. If you need a mortgage or loan this will probably mean paying for a survey on the property even though your bid may be unsuccessful. And if arranging a mortgage in principal with your bank, make sure that you have something binding in writing before bidding. I've twice been promised a 'mortgage in principal' only to be let down at the last moment, fortunately, not when I'd been bidding at an auction. This is the sort of reliability that you can expect from the banks - I've learnt not to trust any of them!

I'm sure that there are good deals to be acquired at auctions, but I would be inclined to leave it until you have at least six properties and are able to buy cash, or at least by releasing equity.

Solicitors

In order to buy safely, you will need the services of a solicitor or conveyancer. I've often thought about doing all this myself, but there are so many potential pitfalls, it's simply not worth it.

As with all professionals, their fees vary considerably, for basically the exact same service, so shop around. I've used expensive ones and cheaper ones and to be honest there's not a lot to choose.

My personal experience of solicitors has not been good. Out of the ones I've used:

- One ended up imprisoned for multiple murder (he's probably out now so watch out for him);
- Two were imprisoned for embezzlement;

- One absconded to South Africa with over £1 million of clients funds;
- Two lost my title deeds (incredible but true); and
- One totally messed up the property searches, and then denied all knowledge of it.

Maybe I've just been unlucky, but for me the joke: '99% of solicitors give the rest a bad name' - is true!

I did actually find a very good one called Mike Haslam, but unfortunately I don't know where he is now.

Chapter 2

Yields

The yield is the single most important factor to consider when buying a property - ignore this at your peril. The yield (or rather *potential* yield), is the percentage of rent received in relation to the purchase price of the property. For instance if the purchase price is £100k and the annual rent is £5k, then the yield is 5% - although you would rarely achieve this!

When considering buying, I would always be inclined to include any essential refurbishment costs on top of the purchase price, before calculating the potential yield. And always be realistic when considering the potential rent - look at what similar properties in the same area let out for and never be over optimistic.

When interest rates are low a 5% yield may seem attractive, but remember that yield is **not** profit, nor is it guaranteed. Very often cheaper properties with low rents have much higher potential yields than better, more expensive properties and therefore can often be far better investments. On the surface it doesn't seem to make sense.

Net Profits

In the first few years it's doubtful that you'd get anywhere near making a net profit even if your property is fully let for every month in the year. So you may ask - why do it? The answer to this is, for long term ***capital*** appreciation which is not shown in the annual profit/loss accounts, but is the main factor that most investors are in the business. And of course while ever you don't make a net profit, you won't pay any income tax.

We'll now look at a few hypothetical examples and see how they pan out.

Example 1

Assuming a property costs £100,000 and achieves an annual rent of £4,800 (4.8% yield), was purchased with a 75% mortgage at 6% interest and is let out for the full 12 months. The annual summary of accounts would look something like the following chart:

Total Income (12 months)	£4,800.00
Less 10% Wear & Tear	£480.00
Total Income (12 months)	£4,320.00
Agents Fees 10%	£480.00
Mortgage Interest	£4,500.00
Gas Certificate	£100.00
Repairs/renewals	£200.00
Buildings Insurance	£300.00
Expenses	£5,580.00
Net Profit/Loss	**-£1,260.00**

In all the examples I have assumed full 12 month occupancy but you must be prepared for unoccupied periods which most certainly *will* occur. I've also included a few obvious estimated expenses, but again you must be prepared for more.

It can be seen from these figures that a loss has occurred even though the maximum rent has been achieved. However a saving could be made by not using an agent and the 10% wear and tear allowance is simply a tax allowance that you would not have actually paid out. Taking these into account the loss would have been less.

But, before you get too excited, none of the examples include the *capital* payments on the mortgages which are not a tax deductible expense and therefore not included in the tax accounts summary. This amount would be nil if you have an interest only mortgage (not recommended), or initially £2,038 per annum gradually increasing as the interest reduces which will be explained later.

So it should be clear that a 5% yield is far from self financing and could be far worse if you didn't receive the income as predicted (for whatever reason), or had any unexpected repairs.

But don't despair, as there are real profits in the form of capital growth in a few years - remember it's not a short term investment! In 7 - 8 years this property will probably be worth £200,000, giving you a 100% capital gain and the rent will also have potentially increased, but your mortgage repayments will be the same (apart from any mortgage interest rate fluctuations up or down)!

Now we'll look at another example with a lower purchase cost but a higher yield.

Example 2

Assuming a property costs £50,000 and achieves an annual rent of £4,200 (8.4% yield), was purchased with a 75% mortgage at 6% interest and is let for the full 12 months. The annual summary of accounts would look something like the following chart:

Total Income (12 months)	£4,200.00
Less 10% Wear & Tear	£420.00
Total Income (12 months)	£3,780.00
Agents Fees 10%	£420.00
Mortgage Interest	£2,250.00
Gas Certificate	£100.00
Repairs/renewals	£200.00
Buildings Insurance	£300.00
Expenses	£3,270.00
Net Profit/Loss	**£510.00**

In this example the annual capital repayments would initially be £1,019 per annum making this property much easier to cope with should things not go according to plan, but of course the capital gain would be only half of the last example.

Now we'll look at an example of a multiple occupancy property.

Example 3

Assuming a property costs £80,000 and achieves an annual rent of £12,000 (15% yield), was purchased with a 75% mortgage at 6% interest and is let out for 12 months with full occupancy. The annual summary of accounts would look something like the following chart:

Total Income (12 months)	£12,000.00
Less 10% Wear & Tear	£1,200.00
Total Income (12 months)	£10,800.00
Agents Fees 10%	£1,200.00
Mortgage Interest	£3,600.00
Gas Certificate	£100.00
Utility Costs	£2,000.00
Council Tax	£1,200.00
Repairs/renewals	£200.00
Buildings Insurance	£300.00
Expenses	£8,600.00
Net Profit/Loss	**£2,200.00**

This is based on a three bed property with 2 downstairs rooms, one of which is used as an additional bedroom, keeping a communal lounge, kitchen and bathroom.

In this example the capital repayments will initially be £1,631 per annum and would also have a good potential capital gain.

Notice here that you will also normally have to pay the council tax and fuel costs (unless you can figure out a way of doing it differently), and this of course is the reason that tenants will pay £250 per month for a room as these other costs are normally inclusive in the rent.

Obviously, the last example appears to be the most attractive, especially when you deduct the £1,200 wear and tear allowance and possibly the agent's fees.

But this doesn't mean that I particularly advise the multiple occupancy route. Although potentially very profitable, it can also be fraught with many problems, especially if dealing with DSS tenants or students, who would be the main clients for this type of tenancy. Plus you would also have to deal with additional fire regulations.

Having said this, if you get it right it can work very well. I actually lived in one of these houses many years ago and the guy who owned it also lived there. Everyone was friends with one another, making it a great place to live and the owner ended up getting his property basically for free courtesy of the tenants who were all very happy to live there.

Example 4

Typically the rent you'd get per month for a normal let you'd get per week for a holiday let, but not all year and as mentioned earlier you'd have to arrange cleaning/laundry etc. or do it yourself. And remember that the utilities and council tax (or business rates) would be payable by you, so all of these would need gearing into the rent. Consequently the chart shown maybe a long way from the actual figures, but will give you a rough guide only.

Assuming a holiday property costs £100,000 and achieves an annual rent of £8,400 (8.4% yield), based on 7 months occupancy at an average of £1,200, was purchased with a 75% mortgage at 6% interest.

In this example the capital repayments will initially be £2038 per annum and the property would also have a good potential capital gain.

Total Income (7 months)	£8,400.00
Less 10% Wear & Tear	£840.00
Adjusted Income	£7,560.00
Advertising 10%	£840.00
Cleaning/maintenance	£1,000.00
Utilities	£1,000.00
Mortgage Interest	£4,500.00
Business Rates	£1,200.00
Insurance	£300.00
Gas Certificate	£100.00
Repairs/renewals	£200.00
Expenses	£9,140.00
Net Profit Loss	**-£1,580.00**

Do remember that in all cases as time passes and the value of your properties increases, affectively so does your yield. For instance the property that I have retained was originally purchased in 1997 for £28k and is now worth approx £110k and returns a rent of £550 which equates to 5% at today's valuation but 20% on the original price!

Increasing Your Portfolio

Once you've established your first letting property, it's surprisingly easy (possibly too easy) to expand. And the more you expand the easier it becomes. As soon as your first property has appreciated in value by 20 - 30% (in maybe 2 - 3 years), the equity could be used as a deposit for your next property and the projected yield could be included in your income computations. Then in another 2 - 3 years you should have even more equity from your first property, plus also some from your second, possibly enabling you to buy two more etc., etc.

BUT, don't get too greedy and always be prepared for non payments of rent for whatever reason, unexpected repairs and the next property crash. When you have *unused* equity in at least half of your portfolio, you will be in a fairly safe position and should easily be able to cope with any problems.

Eventually, your main problem will be how to minimise your capital gains tax liability when you decide to 'cash in' your investments, and then it all becomes worthwhile. But even this should be planned by taking the correct actions right at the beginning, which could save you literally thousands. Full details of this will be dealt with in a later chapter.

Chapter 3

Property Vs Commodities

You may or may not know how commodity trading works, so I'll explain it as briefly and simply as possible.

A commodity could be any*thing,* for example: orange juice, wheat, barley, gold, silver oil etc. Most of these are listed in the Financial Times commodity trading pages.

Obviously at some point these commodities are actually bought by bakers to make bread, jewellers to make jewellery and oil companies to make petrol etc. But along the way they are traded back and forth by numerous speculators.

You may have heard of the term *'futures'* in relation to commodities. This is when a commodity is *'sold'* for a future delivery date at a price determined and fixed in the present.

What the heck has this got to do with property?

A lot! - Please just stay with me and you'll see the very important comparisons.

For our example we're going to use gold. We'll assume that you have done a great deal of research and you are absolutely 100% convinced that gold is grossly undervalued and will rally in price at some point during the coming year.

We'll assume that gold is trading at £950 per troy ounce (I know it's not but let's just assume that it is, to keep the figures fairly simple) and a gold contract on the commodity market consists of 100 ounces (£95,000).

Now if you had £95,000 you could simply buy the contract for immediate delivery, sit on your gold bars and wait for them to increase in value. Job done!

But if you didn't have £95,000 you could by the *right to buy* and/or trade a gold contract for future delivery, say in 12 months, but at *today's* price. As there is a time element in the deal, the cost is increased to take interest into account, so the gold price in this event will be £1,000 per troy ounce (£100,000 for the contract).

In order to enter this arrangement you would have to pay a deposit, which is called a margin and this is likely to be about 5% - £5,000.

Now it's important to understand that this will give you the *right to buy* or trade the gold contract at today's price at any time during the life of the agreement. But just as importantly you will also be *obligated to buy* it at the agreed price at the end of the agreement unless you settle and close the position beforehand.

And having entered into this agreement, you would benefit from any future price rises and suffer any price reductions.

Ok, so having entered this agreement, let's assume that after say one month the price of the gold (futures) increases to £1050 per troy ounce. Your position would then be *in profit* to the tune of £5,000 as shown in the chart below.

First Position						
	Margin	1st Price	2nd Price	Positions	Exposure	Profit
	£ 5,000	£ 1,000	£ 1,050	1	£ 100,000	£ 5,000
Tls	**£ 5,000**			**1**	**£ 100,000**	**£ 5,000**

Now you could then close the position and take your £5,000 profit along with the return of your margin which computes to a 100% profit in one month, even though gold prices have only increased by 5% - not bad eh?

But having seen the potential of all this, you're far too greedy to leave it at that and anyway you are convinced that gold is going to skyrocket, not just go up a measly 5%. So instead of closing the position and taking your profit, you leave the position open and use the profit (which you'd be allowed to use) as the margin for an additional position (this time starting at £1,050 per troy ounce).

Now assuming during the next month that gold prices continued rising as you anticipate and reach £1,100 per troy ounce. Your positions would show another £5,000 profit on the first position and a further £5,000 profit on your second position as shown below.

Second Position						
	Margins	1st Price	2nd Price	Positions	Exposure	Profit
	£ 5,000	£ 1,000	£ 1,100	1	£ 100,000	£ 10,000
	£ 5,250	£ 1,050	£ 1,100	1	£ 105,000	£ 5,000
Tls	**£ 10,250**			**2**	**£ 205,000**	**£ 15,000**

Again, you could close your positions and take your profit. But you're far too greedy for that, and anyway you are still convinced that gold prices will increase far more. So you use your profits to buy a further two contracts.

And as you anticipated, prices rose again to £1,150 and then £1,200 as you carried on doubling up your positions as shown below.

Third Position						
	Margins	1st Price	2nd Price	Positions	Exposure	Profit
	£ 5,000	£ 1,000	£ 1,150	1	£ 100,000	£ 15,000
	£ 5,250	£ 1,050	£ 1,150	1	£ 105,000	£ 10,000
	£ 11,000	£ 1,100	£ 1,150	2	£ 220,000	£ 10,000
Tls	**£ 21,250**			**4**	**£ 425,000**	**£ 35,000**

Fourth Position						
	Margins	1st Price	2nd Price	Positions	Exposure	Profit
	£ 5,000	£ 1,000	£ 1,200	1	£ 100,000	£ 20,000
	£ 5,250	£ 1,050	£ 1,200	1	£ 105,000	£ 15,000
	£ 11,000	£ 1,100	£ 1,200	2	£ 220,000	£ 20,000
	£ 23,000	£ 1,150	£ 1,200	4	£ 460,000	£ 20,000
Tls	**£ 44,250**			**8**	**£ 885,000**	**£ 75,000**

Now you will see that you could close these positions and take profits at £75,000, which you have to admit is an amazing return for your original £5,000 margin. But note also that at this point your exposure in the market is £885,000.

But you're on a roll and still convinced that gold prices are well on the up, which they are, so you carry on as shown in the next few charts.

Fifth Position						
	Margins	1st Price	2nd Price	Positions	Exposure	Profit
	£ 5,000	£ 1,000	£ 1,250	1	£ 100,000	£ 25,000
	£ 5,250	£ 1,050	£ 1,250	1	£ 105,000	£ 20,000
	£ 11,000	£ 1,100	£ 1,250	2	£ 220,000	£ 30,000
	£ 23,000	£ 1,150	£ 1,250	4	£ 460,000	£ 40,000
	£ 48,000	£ 1,200	£ 1,250	8	£ 960,000	£ 40,000
Tls	**£ 92,250**			**16**	**£ 1,845,000**	**£ 155,000**

Sixth Position						
	Margins	1st Price	2nd Price	Positions	Exposure	Profit
	£ 5,000	£ 1,000	£ 1,300	1	£ 100,000	£ 30,000
	£ 5,250	£ 1,050	£ 1,300	1	£ 105,000	£ 25,000
	£ 11,000	£ 1,100	£ 1,300	2	£ 220,000	£ 40,000
	£ 23,000	£ 1,150	£ 1,300	4	£ 460,000	£ 60,000
	£ 48,000	£ 1,200	£ 1,300	8	£ 960,000	£ 80,000
	£ 100,000	£ 1,250	£ 1,300	16	£ 2,000,000	£ 80,000
Tls	**£ 192,250**			**32**	**£ 3,845,000**	**£ 315,000**

Seventh Position						
	Margins	1st Price	2nd Price	Positions	Exposure	Profit
	£ 5,000	£ 1,000	£ 1,350	1	£ 100,000	£ 35,000
	£ 5,250	£ 1,050	£ 1,350	1	£ 105,000	£ 30,000
	£ 11,000	£ 1,100	£ 1,350	2	£ 220,000	£ 50,000
	£ 23,000	£ 1,150	£ 1,350	4	£ 460,000	£ 80,000
	£ 48,000	£ 1,200	£ 1,350	8	£ 960,000	£ 120,000
	£ 100,000	£ 1,250	£ 1,350	16	£ 2,000,000	£ 160,000
	£ 208,000	£ 1,300	£ 1,350	32	£ 4,160,000	£ 160,000
Tls	**£ 400,250**			**64**	**£ 8,005,000**	**£ 635,000**

Now you will see that you could close these positions and take profits at £635,000, but if gold prices really did rally as you anticipate and rose to £2,000 per troy ounce the profits would be £4,975,000 as shown below - phenomenal!

Seventh Position (Alternative 1)						
	Margins	1st Price	2nd Price	Positions	Exposure	Profit
	£ 5,000	£ 1,000	£ 2,000	1	£ 100,000	£ 100,000
	£ 5,250	£ 1,050	£ 2,000	1	£ 105,000	£ 95,000
	£ 11,000	£ 1,100	£ 2,000	2	£ 220,000	£ 180,000
	£ 23,000	£ 1,150	£ 2,000	4	£ 460,000	£ 340,000
	£ 48,000	£ 1,200	£ 2,000	8	£ 960,000	£ 640,000
	£ 100,000	£ 1,250	£ 2,000	16	£ 2,000,000	£ 1,200,000
	£ 208,000	£ 1,300	£ 2,000	32	£ 4,160,000	£ 2,240,000
Tls	**£ 400,250**			**64**	**£ 8,005,000**	**£ 4,795,000**

But, unbeknown to you Richard Branson with his team of experts is up on the moon in his space rocket. He's gone to the far side of the moon where no one else has been before and low and behold he discovers that it's not made of cheese as previously thought - it's made of gold! That's why it's got that sort of golden shimmery look to it! Any fool could have figured it out!

Now not only has he found the stuff, he also announces that he can bring it all down to Earth very economically. So what happens now? Gold prices take an unprecedented overnight dive to £500 per troy ounce and this happens so quickly that no one has time to close their contracts.

So what happens to you? You've shit it BIG TIME as shown in the next chart - **minus £4,805,000.**

Seventh Position (Alternative 2)						
	Margins	1st Price	2nd Price	Positions	Exposure	Profit
	£ 5,000	£ 1,000	£ 500	1	£ 100,000	-£ 50,000
	£ 5,250	£ 1,050	£ 500	1	£ 105,000	-£ 55,000
	£ 11,000	£ 1,100	£ 500	2	£ 220,000	-£ 120,000
	£ 23,000	£ 1,150	£ 500	4	£ 460,000	-£ 260,000
	£ 48,000	£ 1,200	£ 500	8	£ 960,000	-£ 560,000
	£ 100,000	£ 1,250	£ 500	16	£ 2,000,000	-£ 1,200,000
	£ 208,000	£ 1,300	£ 500	32	£ 4,160,000	-£ 2,560,000
Tls	**£ 400,250**			**64**	**£ 8,005,000**	**-£ 4,805,000**

You don't even have enough noughts on your calculator to work out how much you're in debt! Never mind: 'Show me the way to Amarillo', it's: 'Show me the way to Beachy Head' (or Flamborough Head if you live up North)! I suppose you could max out your credit card one last time and get off to Paris and jump of a bridge there - but you'd be 'in Seine' if you did so!

This is God's way of kicking you in the nuts for being greedy!

You may be familiar with the Gospel according to St. Marmaduke, chapter 15 verse 12: *"And thy greed will be rewarded by a kick in the bollocks!"*

It's frightening to realise how quickly profits *and losses* can be generated in this business. In fact all of the above could have happened in a single day. And this is basically how 'rogue traders' lose all their money (or rather somebody else's money).

You could have incidentally, protected the positions by buying *'long put options'* and saved yourself the inconvenience of suicide. But this is another story altogether and of course these come at a premium.

Ok, but what the heck has this got to do with property?

Well, it may not be listed in the Financial Times commodity section, but property *is* a commodity, although fortunately not as *volatile* as most. And if you buy it with a mortgage you are buying a *'future'*.

You must realise that if you buy property on a mortgage, **it doesn't belong to you** - it belongs to the bank or building society! Your position would be exactly the same as shown above. All you are buying is 'control' of the property and the right AND OBLIGATION to buy it at the sale price at a later date (the end of the mortgage).

Sure if you have a repayment mortgage, you will be making payments off the capital throughout, but if you have an interest only mortgage as many investors go for (which I don't recommend incidentally) the position is exactly the same as a *'future'*.

And if you use all your equity, to increase your portfolio then you will be doing exactly the same as the examples shown and would be exposed to a similar risk (dependant on how many properties you buy).

Don't get me wrong, I'm not suggesting that you shouldn't do it - far from it. I'm just warning you of the risks in the unlikely event that you over expose yourself at the wrong time.

But as I said earlier, property *will* continue to increase in value, but as with all *commodities,* there will be upturns, downturns and times of non activity.

Never forget the Gospel according to St. Marmaduke chapter 15 verse 12! And make sure that you always keep Beachy Head programmed into your 'satnav'- just in case!

And if you make a disastrous mistake in some foreign countries, you won't have to worry about how to commit suicide; they'll take care of it for you!

Chapter 4

Tenants

Obviously the tenants are the life blood of the whole business, so you must be aware of the different types of tenants and market your properties accordingly.

Tenants fall into the following categories:

- Unemployed;
- Students;
- Professional couples;
- Single professionals;
- Families with children;
- Executive lets.

We'll look at these in more detail.

Unemployed DSS Claimants

When I first started work in the mid 60's I was shocked to see adverts for housing in the London Evening Standard and Evening News which regularly stated 'no blacks' and even used words that I dare not repeat. Although clearly racist and clearly wrong, at the time this was considered quite normal.

Obviously, now to even speak in such a way would be an illegal act, but apparently it's still ok and apparently quite normal to openly put 'no DSS' in housing adverts. Unfortunately, these poor souls have few rights. This is clear discrimination, but unfortunately these individuals have no-one to speak up for them.

Having said all this, renting out to anyone on benefits can be a problem as the rent will be set by the housing department (who will pay the rent) and *they* will decide what a fair rent is. In many