Property Investment Guide

Investing Today, To Make Tomorrow Better!

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Introduction

Property Investment is a powerful way to build wealth, but different strategies come with varying levels of risk and reward. This guide explores all major property investment strategies, their pros and cons, and ways to reduce risk.

It is always best, regardless of the investment strategy you use, that you seek special education within that field of investment. All investments come with risk, but it is always about how can you reduce that risk. The best ways to reduce risk in all aspects of life is to invest in yourself. The biggest investment you can ever make is the investment in your own knowledge. Always remember:

"Knowledge is only potential power; it becomes power only when it is organised into definite plans of action"

Napoleon Hill.

Buy-To-Lets

This strategy involves purchasing a property either for cash, or on a buy-to-let mortgage. The goal is to generate passive income monthly and to benefit from capital appreciation. Typically buy-to-let mortgages require a 25% deposit.

Pros

- Monthly cash flow – Rental income provides a consistent revenue stream.
- Capital appreciation – Property prices typically increase in value over time.
- Tax Benefits – Depending on your current situation, they are many loopholes and tax advantages to this strategy, using a knowledgeable accountant is a great tool for this.
- Leverage – Use borrowed money to control an asset.

Cons

- Tenant issues – Late payments, vacancies and property damage can occur.
- Market fluctuations – Property values may drop during economic downturns.
- Liquidity risk – Selling a property can take time if you need cash quick.

Risk Mitigation

- Choose a high-demand area – Ensures strong rental demand and price growth.
- Screen tenants carefully – Conduct background checks to avoid problem tenants.
- Set up emergency funds – Set aside around 10% of monthly profit towards maintenance and void periods.

Flips

This strategy works by buying a property below market value in either below average condition, dated condition or with serious problems such as structural issues and renovating it then selling for a profit.

Pros

- High profit potential – Can generate quick, large profits.
- No long-term commitment – Avoids tenant management.
- Increases property value – Adds value to neighbourhoods.

Cons

- High capital requirement – Requires significant upfront investment.
- Market timing risks – If markets shift, this can affect property prices and profitability.
- Tax implications – Short term capital gains may apply.
- Unexpected renovation costs – Budgets can over run if invisible problems are found.

Risk Mitigation

- Accurate cost estimating – Use builders to quote before hand and set a contingency for repairs.
- Buy below market value – Can increase the chance of profitability even if markets drop.
- Choose the right location – Demand should be high for quick resale.
- Have multiple exit strategies – How else can you make a profit if flipping becomes unviable.

BRRR

This strategy is similar to flipping, but instead of selling, you refinance the property after renovation and rent it out, pulling out as much equity as possible to fund the next investment. Properties can be virtually bought for free if all money is pulled out and provides a monthly cash flow too.

Pros

- Builds wealth quickly – You can build a portfolio without using new cash.
- Retains ownership – Benefit from appreciation and rental income.
- Uses other people money – Refinancing returns capital for reinvestment.

Cons

- Requires expertise – Finding the right properties and managing renovations can be complex.
- Financing challenges – Banks may have strict requirements/valuers.
- Market risks – Property value may not increase as expected.

Risk mitigation

- Buy at a discount – Buy below market value to increase chance of profitability even if markets drop.
- Refinance at the right time – Avoids market downturns.
- Use experienced contractors – Prevents delays and mistakes.
- Run Conservative numbers – Don't overestimate the done-up value and always use best case, likely case and worst-case scenarios.

Short-term rentals

This strategy can be very lucrative in many ways. It can be done via rent to rents or by purchasing a property in a certain location and listing it on Airbnb or sites similar. Acquiring the right property in the right area can result in very high profitability if done in the correct manner.

Pros

- High rental income – Profits tend to be more than standard buy-to-lets.
- Flexible use – Can use the property yourself when required.
- Market demand growth – Travel trends favour short term stays as does the business sector for busy professionals who work away from where they are based.

Cons

- Management – Requires frequent cleaning and guest handling.
- Regulation risk – Some areas have strict short stay rules or bans and these regulations are constantly changing.
- Seasonal demand – Income may fluctuate during high and low peak seasons.

Risk mitigation

- Research local rules – Ensures compliance with short term stay regulations.
- Automated operations – Using management companies, smart locks and online automations will help make it as passive as possible.
- Diversify listings – List on multiple platforms to increase bookings.

HMO's

This strategy is where you rent out a property on a room-by-room basis, often with shared facilities. This strategy can be done using the BRRR and rent to rent methods making it a very lucrative strategy.

Pros

- High rental income – Typically provides higher income than standard buy-to-lets.
- Diversified rental income – If one tenant leaves, others are still paying rent.
- High demand – Popular in busy locations by students and professionals.

Cons

- Management intensive – Frequent tenant turnover and maintenance.
- Strict regulations – Many areas require HMO licences and compliance with health and safety.
- High initial costs – Setting up an HMO can be costly in the beginning with furnishings and decoration required.

Risk mitigation

- Ensure compliance – Obtain the necessary licencing and always check local rules.
- Use a management company – Reduces hassle from tenants and makes it more passive.
- Provide high standard rooms – Attracts better tenants and reduces void periods.
- Choose the right location – Ensures strong demand.

Deal sourcing

Finding property investments for other investors is a great way to build capital. This can be done as a strategy on its own or whilst finding your own deals, you may come across a great deal that wouldn't work for you but may work for someone else. These can be passed on for a fee of roughly £2,000-£3,000.

Pros

- No capital required – No need to own your own property.
- Quick Profits – If the deal stacks and you have investors, passing these on for a fee can be a rapid way of building capital to invest in your own portfolio.
- Decide which deals to keep or sell – The beauty of this strategy is if a deal is too good to pass on, you can keep this deal for yourself.
- Using deal sources – Prevents time and travel wasted viewing properties and phoning agents.

Cons

- Not passive – Being a deal sources is technically a job, when not finding deals, no money is coming in.
- Using deal sourcers – Some deal sourcers are not compliant and scam artists.

Risk mitigation

- Understanding compliance – Make sure you are compliant to be a deal sourcer.
- Build an investor list – Ensures quick deal sales.
- Qualify deal sourcers – Make the the sourcer has correct compliance and built a reputation of finding good deals and following through with completion of deals.

Final thoughts

The best strategy depends on your goals, risk tolerance and experience. By applying risk mitigation methods, you can build a successful property investment portfolio while minimising potential losses.

Beginner-friendly strategies

- Buy-to-lets.
- Deal sourcing.

Advanced strategies

- HMO's.
- BRRR.
- Flips.
- Short term stays.

High risk, high reward Strategies

- Flips.
- HMO's.
- Short term stays.
- BRRR.

If you would like help selecting the best strategy for you, NHResidential offers meet ups and zoom calls designed to provide the best information to align your investment strategies with your financial goals.

Contact – property@nhresidential.com