Building your perfect Rent to Rent Portfolio

Here at Kendall Bailey, we highly recommend that you only add perfect Rent to Rent deals to your existing portfolio (and that you always take on the perfect deal if it's your first one).

I'd love to share a few points from our 'Ideal R2R Deal Criteria' with you, so you can ensure that all deals you take on moving forward are deals that you will be glad you've signed for years to come.

1. Never (ever) pay a deposit for your Rent to Rent properties

As a company, you should never pay a deposit for a Rent to Rent property. In over six years, we have paid one deposit (which was my first ever deal – as I was willing to do whatever it took to get it over the line!).

Primarily, a deposit is used to protect the landlord from non-paying tenants, and/or any damage caused to the property. As a company, you will be collecting a deposit from each tenant – so this is completely covered. If the landlord wishes to have the deposit held in their own Deposit Scheme for extra security, they are more than welcome to do so.

A standard letting agent doesn't pay a deposit when managing a property – so why should you? Especially when you are providing a service that is 10 times better, by guaranteeing the landlord a long-term monthly rent and investing capital into their property. I believe that after all you have put into the property - for someone to request a deposit from you on top of this is a little outrageous. Your investment into the property is like a deposit in itself. If you are going to invest somewhere between £2,000 - £6,000 into a property, you are going to look after it as if it's your own.

2. Stack each deal up very conservatively

You need to be extremely conservative when it comes to stacking up your deals. When we talk about how much profit each deal should make you, we are using the figure after all expenses, including putting by enough each month for potential void periods and then deducting a further 20% for (potential) Corporation Tax. If a deal doesn't make you at least £600 per month after these costs, it's not a good enough deal.

3. Work with existing HMOs wherever you can

We often work with people who have historically been implementing the Rent to Rent strategy by turning a family home (C3) into an HMO (C4) – which in many cases (especially Article 4 areas) will require you to apply for Planning. Depending on the size of the property, you many also need to apply for an HMO licence, and if the property is on a residential mortgage there will be implications and changes to be made there too. This is before you have even worked out the cost of bringing the property up to the correct Fire & Safety Regulations for a House of Multiple Occupation and potentially needing to do some internal configuration too.

> ***'A standard Rent to Rent refurbishment shouldn't cost you more than £5,000 - £6,000 in total.'***

Converting a C3 into a C4, in many cases (not all – so please don't be put off completely) is usually much more time consuming and expensive, compared to finding an average existing student house or

HMO, carrying out a light cosmetic refurbishment, and re-filling the old student rooms with full-time working professionals – so if this is something you can do, we highly recommend you do so.

If you live in an area where there are no existing HMOs, then converting residential properties into HMOs will work fabulously. There is just no need to do it that way if you are surrounded by existing shared houses. The upside to converting is that the market rent will be lower and therefore your profit should be slightly higher, so it all evens itself out in the end.

4. NEVER take on a below average deal

It can sometimes be tempting to take on a deal because it means you've done another deal and it feels like your portfolio is growing nicely. It's the easiest trap to fall into, and there is nothing more frustrating than being stuck with an underperforming deal. Especially when it takes up just as much time and energy as the exceptional deals … and you are stuck with it for 2 – 5 years plus.

Ensure all deals make you an absolute bare minimum of £600 per calendar month after all expenses (including voids and tax) and be certain that the landlord is someone you want to go into business with as you'll be working with their property (and them) for (hopefully) a very long time!

5. Never overspend on your refurbishment

A standard Rent to Rent refurbishment shouldn't cost you more than £5,000 - £6,000 in total. I feel a grey hair popping through when I hear about people that have spent £15,000 or £20,000 on a property that they don't even own. Please don't get me wrong – as in certain individual cases, when the return on investment is outstanding and it completely stacks up … or if you are in an area (which is rare in the UK) where it's completely impossible to work with existing HMOs, you may need to spend a little more. If this is the case though, you need to ensure the return on your time and money invested is 100% there.

In general, 80% – 90% of your deals should be existing HMOs, that just need a light, cosmetic refurbishment – i.e. a fresh lick of paint throughout, new carpets, possibly some new furniture and some gorgeous finishing touches – and this really shouldn't cost more than £5,000 - £6,000. If bigger things need to be done (i.e. the bathroom or the kitchen) – then ideally, it's the landlord's responsibility to cover this as it's their asset for life, not yours.

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