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v0.1	Darren Green	23 rd July 2018	1 st Draft
V0.2	Gillian Green	10 th September 2018	Added in questions for asking an Estate Agent.
V0.3	Gillian Green	18 th August 2022	Updated various sections

Desk Research

Work Instruction

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1. Scope

To describe the stepped procedures for carrying out property searches to identify suitable deals in line with relevant strategies. The document will cover the following processes:



1. Creating searches on Rightmove
2. Qualifying a shortlist of suitable properties
3. Carry out primary deal analysis

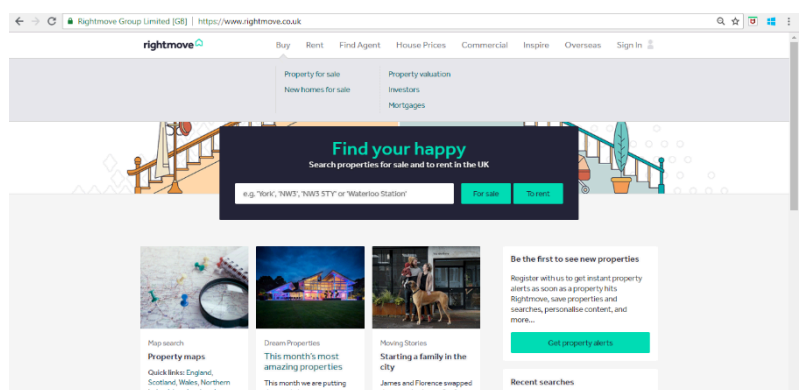
2. Search Areas and Criteria

The current search areas are listed below alongside our specific criteria relevant for all searches on Rightmove/Zoopla.

Strategy	Areas	Additional Criteria	Property Types	Bedrooms	Price Range
BTL's (BRRR)	South, East and North Ayrshire, Glasgow, North Lanarkshire, South Lanarkshire, Paisley and Renfrewshire, Fife & Clackmananshire.	Monthly Cashflow > £200 3 Year Payback minimum	Prefer 2-4 bed houses in ex council areas nearby schools, public transport	2-4 beds	End Value up to £120,000 PP up to £70,000
FLIPS	South, East and North Ayrshire and South Glasgow	Minimum Profit (before tax) £20,000	Prefer 2-3 bed houses in areas near good schooling and infrastructure that are in high demand from the average family to buy	2-3	PP up to £150,000 End Value up to £250,000
Serviced Accommodation	South, East and North Ayrshire, South Glasgow and Fife	If in Fife must be somewhere we'd want to use also.	Houses or blocks or guest houses	Depends	Depends
Commercial	South, East and North Ayrshire, South Glasgow	Either > 10% Yield or BRRR model with cashflow > £1000pcm Ideally something with multiple units or ability to split up	Commercial	N/A	Yield – up to £100,000 For others it depends on the deal

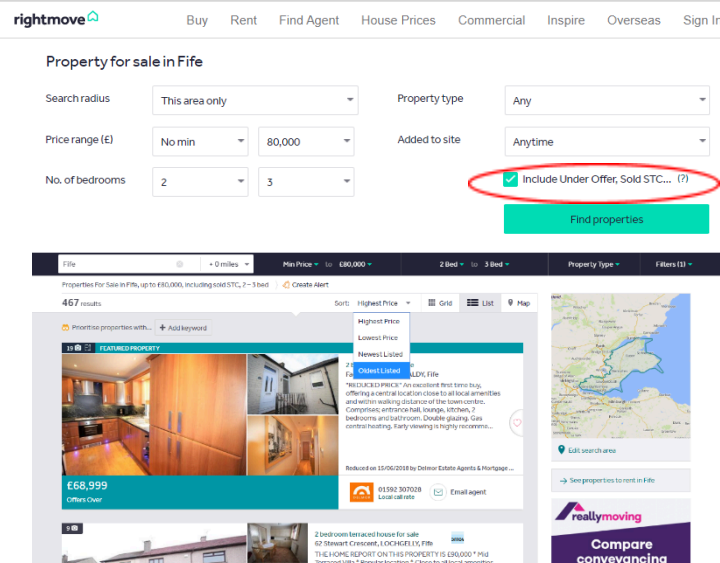
3. Creating Searches on Rightmove

Searches are largely conducted for domestic properties via www.rightmove.co.uk although www.zoopla.co.uk can also be used for



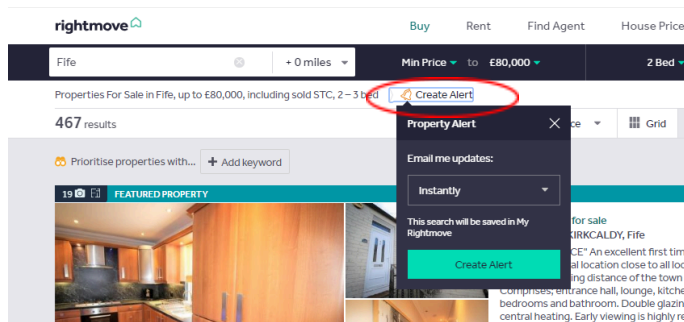
similar purposes. The website can be accessed by clicking on the link above. It is recommended that you access Rightmove through a laptop or desktop. Do not access rightmove via a mobile or tablet through their app as this does not display all properties through a search.

You can create a search by selecting the search window, typing in your desired search area (either town/city or postcode), and click on the 'For sale' button to the right-hand side.



Once selected, you will be presented with another screen that allows you to refine your search criteria. You can widen your search area beyond the previous selection; adjust the price range to suit the desired strategy; adjust number of bedrooms in the properties; filter for specific property types (i.e. flats or detached houses); and filter out based on when the property was added to Rightmove. There is also a check-box to include properties that have already been sold. **This can be important to identify properties that may be under offer but may fall through at some point in the future.** Once you are satisfied with your selection hit 'Find properties'.

Now you should see a screen showing a list of properties which you should sort based upon 'Oldest Listed' as per the adjacent above picture. The reason for this is because if the property has been listed for a while there's a greater chance of being able to get it for below market value (BMV).



Once you are happy with your search criteria, you can now set up an alert to send you suitable properties direct to your email without the need to continually search on the website. These emails should be sent to a Mila Homes email address to ensure consistency. A search should be created for each area in Section 2 and it is still advised that a website search is completed at least once a week.

4. Qualifying a Shortlist of Suitable Properties

Now you have your list and set up an automated process for feeding them to your email, a shortlist of suitable properties needs to be established that meet the strategy at the time. As the existing strategy is for monthly cashflow, a list of properties should be collated using the search criteria in Section 2 above. There will be hundreds of potential properties for sale across the search areas listed, however, Mila Homes is specifically looking for properties that need some significant upgrading.

Firstly, sort your list in Rightmove to oldest listed and look for properties in need of upgrading. Signs of upgrading could include, but not limited to, the following: swirly 80's carpets; old fireplaces; overgrown gardens; single-glazing; old electrical

system; green bathroom suite; and so on. Generally, if it looks like it needs some money spent on it then it's worth shortlisting initially to enquire with an Estate Agent. Examples of properties previously offered on or purchased can be found in the offer tracker and pictures can be seen on Rightmove Sold House Price section

Once you have a list of properties, it is now worth enquiring over the phone with Estate Agents whether it is worth pursuing further to view the property. Before phoning the Agents, all information about the property needs to be loaded into the Offer Tracker file. Here you will input the property location, type, agent selling and advertised price with some comments as to the state of the property and works required.

Offer Tracker

Property Address	Town	Postcode	Mileage	Agent	Type	Viewing Date/Time	Viewed?
1a Burns Street	Irvine	KA12 8RW			Resi	17-Jan	Yes
14 Talisman Road	Paisley	PA2 0BY			Resi	16-Jul	Yes
43 Hunter Drive	Irvine	KA12 9AU			Resi	13/07/2018	Yes

The type of questions you may ask to work out if there is any room to negotiate/whether it's worthwhile viewing the property include:

1	What is the vendors position?
2	Why do they want to sell?
3	Is there an outstanding mortgage?
4	Would they be open to negotiate on price?/open to offers that may not be at the HR value?
6	Ask for Home report ahead of viewing

If you are checking a lot of properties it may be worth simply emailing the Estate Agent and requesting the home report, completing the Primary Deal Analysis and then calling the Estate Agent to ask the questions that establish whether there is room to negotiate for example, because you can then agree a viewing on the same call if the response to the questions is positive.

5. Carry out Primary Deal Analysis – BTL (BRRR)

Once you have a list of properties you believe could fit the strategy, you need to further refine to identify what ones are likely to be able to be bought for the price Mila Homes are willing to pay. Now although you haven't viewed the property, you can still get a rough idea of the price we want to buy it for by carrying out a primary deal analysis. This can be done on a laptop using Rightmove.

For each of the properties in your initial shortlist you need to understand what the end value of the properties are because this is the starting point to establish any future offer price. The purchase price is not determined by the existing valuation in the Home Report but more the estimated value once refurbished to a high standard. The high-level calculation for all deal analyses is:

Done Up Value (After refurbishment)

*** 75% (the BTL mortgage amount we will be paid by the bank)**



- Refurbishment Costs

- Borrowing Costs

- Legal Fees / LBTT/Stamp Duty

+ what can you leave in the deal?

= **Target Purchase Price**

We'll run through an example of how to get to the Target Purchase Price later in the document but first let's run through the individual components of the calculation.

Done Up Value

The Done Up Value (DUV) can be identified from a search of Rightmove Sold House Prices. Go to the Rightmove home page and select *House Prices > Sold House Prices*. In the free text box on the next screen type in the name of the street for the property you want to establish a DUV for and select List View.

You'll then be taken to a page with all the properties that have sold on that street going back as far as there are records. Now the price a similar property sold for in 1980 is not really relevant for helping establish a credible DUV for our investment property. Therefore, you need to apply some filters:

Radius: Within ¼ mile

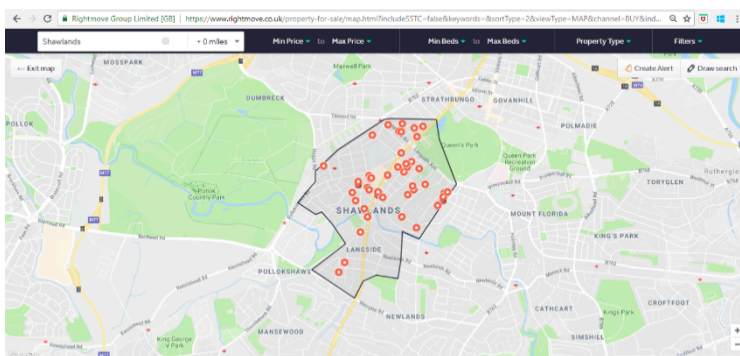
Sold In: Last 1 Year

Type: Any

Now you should have a list of credible comparable properties that have sold recently. Some of the properties may have pictures showing what they look like, and others are blank. In order to see if they are a similar property type as your potential investment property, you can use google street view to check the address listed on the sold prices. You also need to ensure the property is finished to a high standard. Remember you are looking for a comparable for your investment property after refurbishment.

The first screenshot shows the Rightmove website with the 'House Prices' tab selected and 'Sold house prices' highlighted. The search bar contains 'G46 8UE'. The second screenshot shows the search results for 'Kilmarnock Road, Shawlands, Glasgow, G43'. The results are sorted by 'Date Sold' and show a list of 265 sold properties. The third screenshot shows a map view of the Shawlands area with red dots indicating sold properties.

Address	Price	Type	Date Sold
21/1, Skirling Street, Glasgow G41 3YN	£144,000	Residential	21 May 2018
1, Carment Drive, Glasgow G41 3PG	£196,000	Residential	04 May 2018
10, Regwood Street, Glasgow, G14 1TX	£100,000	Residential	20 Apr 2018
	£100,000	Residential	22 Mar 2016
	£86,000	Residential	14 Jan 2015



You can also do the exact same process for properties that are up for sale now near the street your potential investment property is on. You can do this by replicating the steps in Section 3 and 4 although use the Map view to drill down into the radius of ¼ mile from where the investment property is.

You should make sure to select the tick box *Include Under Offer, Sold STC* as if any of these may have sold recently they will not appear on your Sold prices search but the estate agent for the sale may tell you what it sold for if you explain that you are looking for a comparable.

You should now have a list of several properties that have either sold within ¼ mile radius or are for sale right now. The reason this is important is that any surveyor authorised from the bank will go through the same process when they estimate the value of your investment property after refurbishment. As you are trying to replicate the surveyor's process you need to prioritise these comparable properties by date in the following order:

- 1) Sold on street within last year
- 2) Sold in ¼ mile radius of street in last year
- 3) Selling in street now
- 4) Selling in ¼ mile radius of street now

Now you should have a prioritised list of comparable properties that reflect what your investment property will be worth once you have refurbished it. To identify what the DUV is you need to take the average price of the top three properties based on the propriety order above.

75% Mortgage

This is the first calculation to carry out once you have your DUV from the preceding step. The rationale behind this is to ensure there is adequate equity in the property on exit. Our purchases are driven from private investment and our goal is always to exit the project with 25% equity in the property, with all debtors paid from the 75% mortgage from the banks.

Most BTL mortgages are based on a 75% LTV although depending on where we are in the property cycle this may increase closer to 100% LTV. Nonetheless, Mila Homes will continue to use 75% LTV for all mortgaged exits as this is a prudent level of financial leverage (or debt) to mitigate any fluctuations in property prices in the future.

In summary, if your DUV for the investment property is £100k you would multiply it by 75% before taking off other costs. This is because the objective is to own 25% of all investment properties on exit, with as little money left in the deal as possible.

Refurbishment Costs

Refurb costs will vary from property to property. However, the crib sheet which is included in the excel 'Offer Template' will be your guide to estimate the initial refurb costs. This estimate will obviously get refined as we progress from offer, through to acceptance and ultimately completion for the property purchase. It is expected that this figure will go up or down but should be within 10% of the final refurb cost.

Fig. 1 Costings			
Area	Level of work	Cost Per Room	Refurb Cost
Roof	Full replacement	£ 5,000	£ 5,000
Gutters	Full replacement.	£ 500	£ 500
Windows	£250 fitted per window (£300-350 if larger windows)	£ 250	£ 1,500
Doors	£550 each front and rear	£ 1,100	£ 1,100
Electrics	Consumer unit / partial rewire	£ 750	-
Electrics	Full rewire	£ 2,500	£ 2,500
Electrics	Multi Let (re-wire) - smokes etc	£ 3,500	-
Gas Central Heating	Boiler fitted and warranty	£ 1,300	£ 1,300
Gas Central Heating	Radiators (each)	£ 180	£ 1,440
Plastering	Full boarding and skimming. Hallway/landing separate rooms (£300 per month)	£ 300	£ 1,800
Plastering	Just skimming. Hallway/landing separate rooms (per rooms)	£ 180	£ 1,080
Kitchen	Including oven, hob and extractor supplied and fitted	£ 2,500	£ 2,500
Bathroom	Full suite	£ 1,750	£ 1,750
Ensuites	Extra 15% rental per room with ensuite. £2k each	£ 2,000	£ 2,000
Flooring	carpet £150 to £175 per room	£ 175	£ 1,050
Decoration	Flipping use professional	£ 250	-
Decoration	Use a jobby for rental	£ 150	£ 900
Rip Out		£ 300	£ 600
Damp Proof Coursing	chip off, inject and replaster over	£ 1,500	£ 1,500
Structural - could be anything!			
Garden tidy up		£ 100	£ 200
Normal Internal Doors (each)		£ 75	£ 450
Internal Fire Doors (each)		£ 200	-
Fire Alarms		£ 250	£ 250
Miscellaneous (Boxing in)		£ 1,000	£ 1,000
SUB-TOTAL			£ 28,420
Contingency	10% of sub-total		£ 2,842
REFURB COSTS			£ 31,262

Rooms	6
Rads	8
Rip out days	2
Garden days	2
Internal Doors	6
Fire Doors	0

The checklist for the refurb should be completed at the property with copies of the estimate saved into the respective offer folder for that property. In this example let's assume £20k refurb costs.



The refurb costs should then be subtracted from the DUV*75%.

Borrowing Costs

As previously mentioned, all finance for property purchases comes from loans: either private investment from 'angel' investors; or mortgages or bridging products from banks. Both will come with associated costs of a loan by way of an agreed interest rate per annum. For our initial offer price for all projects this is assumed as an 8% interest rate per annum for 8 months.

For a property valued at £100k DUV, the borrowing costs would be $\text{£100k} * 75\% \text{ mortgage exit} = \text{£75k} * 8\% / 12 \text{ months} * 8 \text{ months} = \text{£4k}$. So in this example the £4k would be deducted from the DUV*75%-Refurb costs figure.

Legal Fees / Stamp Duty / LBTT

The only other considerations to get to the Target Purchase Price (leaving no money in the deal at the point of refinancing) are the costs involved with buying properties namely solicitors and the tax man. For the latter, no LBTT is required for any property under £40k but will be charged at 4% of the purchase price over £40k. Solicitors costs are usually about £800-1,000 per property and don't tend to fluctuate unless there are exceptional circumstances with the property.

In this example we expect the DUV to be £100k so we would expect to pay ADS at 4% of the purchase price. As you don't have the purchase price yet, take 4% of the value at the end of the first 3 steps and deduct this figure and the legal costs off the total.

You now should have your TPP, but let's run through it in total rounded to the nearest thousand.

DUV	-	£100k
75% Mortgage	-	£75,000
Refurb @ £20k	-	£55,000
Legal costs @ £1k	-	£54,000
Borrowing Costs (4k)	-	£50,000
ADS @ 4% (£2k)	-	£49,000

= TPP of £49,000

You now need to decide how much you want to leave in the deal at the point of refinance as quite often it is unlikely that you will be able to buy the property for the purchase price whereby you pull all your money out at refinance. Another way to look at it is how much are you willing to invest to get the cashflow in the deal per year.

100% ROI – Means all of your investment is paid off from the annual cashflow within 1 year

50% ROI – Means all of your investment is paid off from the annual cashflow within 2 years

33% ROI – Means all of your investment is paid off from the annual cashflow within 3 years

25% ROI – Means all of your investment is paid off from the annual cashflow within 4 years



20% ROI – Means all of your investment is paid off from the annual cashflow within 5 years

You can work out how long it will take to pull your remaining investment out by calculating the annual cashflow and dividing this by the amount left in. E.g.

£10,000 left in the deal at refinance

Annual Cashflow is £2,500

This would be a 25% ROI because it would take 4 years to pull out your investment left in at refinance.

