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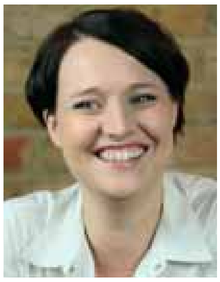
Mixing Property With Entertainment



Kelly Lemon talks with Nellie McQuinn

If the last two years are anything to go by then 2018 should be an exciting time for Nellie McQuinn and her property company, Property 165. She's just won the New Investor of the Year award at the Property Investor Awards in London and after chatting through her various deals it's not hard to see why. However, she's not necessarily your typical property investor. "I came from a family steeped in entertainment and to be honest it never crossed my mind that I would do anything other than that! My mother was an actress, my father a producer, my grandmother was a ballet dancer in the original Australian Ballet and my grandfather one of the first television directors in Australia."

After being born and raised in Sydney, Nellie moved to the UK at the age of 17 whilst on a gap year. "I trained as a dancer and an actress and started producing for my production company, Grass Roots Media, when I was 19. Since then my production company has specialised in creating YouTube videos for children (along with other content). The channels we create content for have over 7 billion views. Entertainment has always been in my blood, however working as a producer made me realise that whilst I love the entertainment industry I also love business and management just as much. Jumping from here into property was an easy transfer of skills. I also still run my production company so I get the best of both worlds!"

With such a family background in the arts I am curious to know why she ever became interested in bricks and mortar. "I was very lucky and had two incredibly strong women raise me; my gran and my mum. I didn't realise it when I was growing up but my gran was an entrepreneur. She started her own business (a chain of dancewear stores) and also invested in property. Her biggest investment was our family home - in the 1950s she bought a riverfront property in Sydney for £6,000 despite everyone's protestations.

It was incredible for a woman in this era to have such gumption and it was from the sale of this property that I got my first pot of money to invest. It was gran's stipulation that this money HAD to go into property – she knew that this would set me up for life. I believe that if she were a young woman in this day and age she would have been an incredible property investor. My drive in property partly comes from a massive desire to do her proud. I was also exposed to property through my mum. We would watch all of the property refurbishment shows together when I was young and talk about what we would do if we were on the show. We used to drive around to open days in Sydney on the weekends for a bit of fun. The housing market in Sydney is very different to the UK. Properties have open days but you don't need to register and can walk in to view from off the street. We would look at the local papers, select a couple and go from house to house. I was always imagining how I would reconfigure the properties – now I get to do it in reality."

> **"All that we needed to do was to convince the vendor to go ahead with a non-conventional strategy"**

Nellie is now in her early thirties and used the pot of money from the sale of her gran's property to buy her first residential property in 2014. After researching the market she chose to buy in Tottenham Hale, an area that at the time was better known for the riots in 2011. In fact, that was the very reason Nellie chose the area as she believed prices would eventually recover after the memory of the riots had faded, and she was right. In 2015 Nellie remortgaged that property so she could buy her first buy to let property. After a few months hunting online Nellie found an ideal flat in Walthamstow that she believed was undervalued when looking at other properties in the area.

"I loved the thrill of buying that flat from doing property viewings to the offer process. However, it was a very long and drawn out process after our offer was accepted due to a difficult freeholder and very slow management company. The process took nine months and I had everyone telling me to walk away. My mortgage offer expired, my solicitor, broker, even the estate agent all told me the sale would never happen. But I remained convinced that it would be a good purchase and I stuck with it finally buying the property in January 2016. It turned out to be a catalyst for my property journey so I'm extremely glad I did persevere. It was also revalued [in June 2016] at nearly £90,000 more than my purchase price."

Nellie still holds that property today as a long-term rental. "However, a few months after the purchase the vendor got in touch saying he had two additional flats in the same building that he was looking to sell. They were in terrible condition with parts of the ceiling falling in, tiles were falling off the wall – it was a developer's dream come true! He wanted to offload both of them and realistically they were un-mortgageable. I had no cash for a deposit let alone enough to purchase them without a mortgage, however I couldn't stop thinking about the potential of this deal. I started reading and read about a delayed completion strategy. This outlined how a broker called Kevin Wright brokered a deal where the buyer exchanged on the property, did the work and then had the valuation done on the value of the property prior to completion and post refurbishment. This meant that a 75% LTV on the GDV covered 100% of the purchase price and refurbishment costs. The only money required to make the strategy work would be the refurbishment cost.

"I was talking this through with my mum and she offered to lend us the money to do the refurbishment as she too could see the potential in the deal. All that we needed to do was to convince the vendor to go ahead with a non-conventional strategy. Part of the negotiations hinged on him agreeing to a £1 deposit per flat. We couldn't afford to have 10% of the purchase price sitting in a solicitor's account – this was our entire refurb budget! Because of this we also needed to negotiate a forfeiture clause to protect ourselves that covered the cost of the refurb. Otherwise the vendor could have walked away just prior to completion and we would have refurbished the flats for him for free. Part of our negotiation strategy was to offer the same for both parties and this made it a win/win for him. If we walked away from the deal he got not only the flats fully refurbished but he also got the forfeiture amount too. Finally we sweetened the deal by agreeing to liaise with the tenants on his behalf and cover the bills during the hold period and some small amounts owing to the freeholder."

So in October 2016 Nellie and her husband to be, Mathew, exchanged on both flats for £1 each with the agreement that she would do the works and they would use bridging funds to complete the sale after the refurbishment was complete.

"After the exchange took place we got in there and started work. Work itself was fairly straightforward with no massive surprises except how untrustworthy our builder was. This was really the only hiccup in the refurb – he misquoted us initially and found a lot of things that cost extra and we had to spend time and money putting a few things right after he left. We also had a couple of the builders calling us directly saying that he hadn't paid them which was really hard for us as it wasn't our fault and we had already paid for the work. We fought their corner as much as we could and employed a few of them on some other smaller jobs although I don't think it made up for it and I felt really bad about it. Lesson learnt for when vetting builders.

"Once the refurb was coming to an end we started pulling our bridging application together. Our intention was to bridge on the GDV and then sell the properties on. We had a Decision in Principle (DIP) and were fairly confident with our timings and application. However, timing was not on our side and the bridging company was going through a massive internal ▶

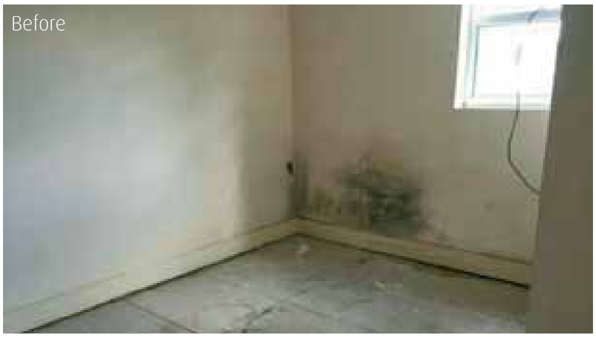
Walthamstow Flat B

The second flat in the deal.

Purchase price (including bills during hold): £156,431 (December 2016)
Refurb Cost: £16,364
SDLT/Purchase/Sale Fees: £11,288
Sold for: £246,000 (August 2017)
Net Profit before tax: £61,917

PROJECT SUMMARY:
TOTAL SPEND: £368,484
TOTAL GDV: £518,500
TOTAL NET PROFIT: £150,016


Before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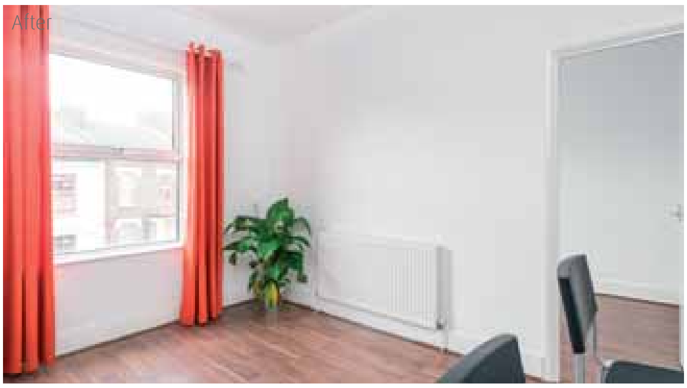
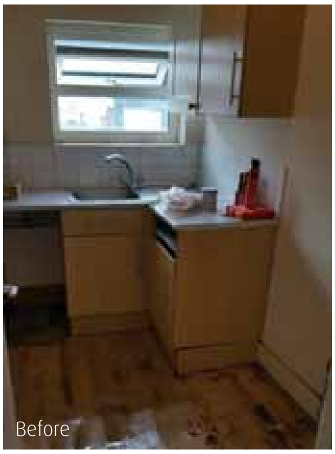
After


After

Walthamstow Flat D

This property was bought as part of a two flat package deal where we utilised a delayed completion strategy. The property was handed over to the Property 165 team at exchange and work commenced immediately, with our only spend being the cost of refurb. Valuation was done just prior to completion (with 75% LTV covering more than our total spend up until that point). The properties ended up being financed via a JV (as opposed to the original plan to bridge) and were put straight back on the market.

Purchase price (including bills during hold): £156,431 (December 2016)
Refurb Cost: £16,364
SDLT/Purchase/Sale Fees: £11,606
Sold for: £272,500 (May 2017)
Net Profit before tax: £88,099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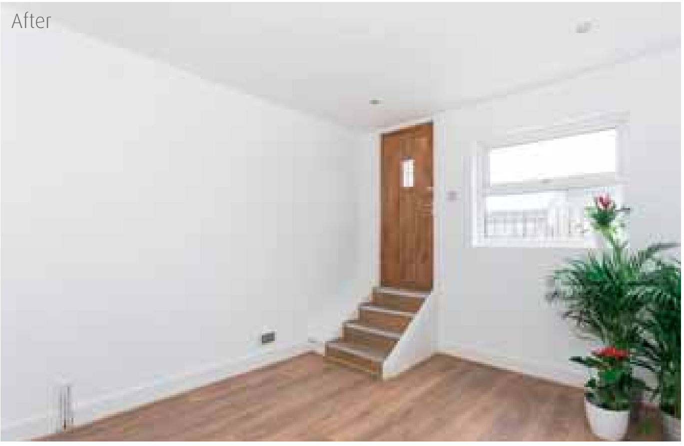
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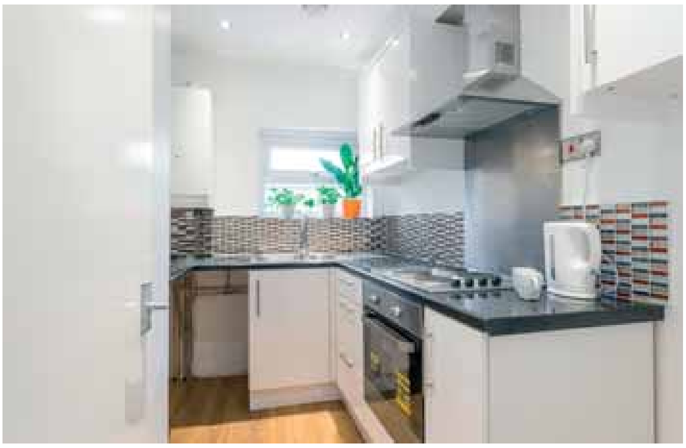

restructure. This meant that at about the time we were expecting the money we got a whole new round of paperwork requirements including some documents we needed to get from our other lenders which could have taken weeks. It was an extremely stressful time and we were not only approaching Christmas but Mathew and I were planning our wedding and we were also renovating our own house (which we had just bought). The forfeiture clause that was designed to protect us was actually looking like it was going to massively hurt us – if we couldn't complete we would have done all the work on the properties AND we would need to find the refurb budget again to pay the vendor on top.

"We were very fortunate and managed to raise the finance through a JV partner, someone we knew. We were down to the wire and the bridging wasn't looking like it was going to happen and as it turns out we completed just two days late. Cue sigh of relief!

"We put both of the flats back on the market. One was sold five months later and the other was sold two months after that. They made us a hefty profit which I'm very proud of. I also learnt a lot throughout the process and I am continually taking this forward with me as I assess new deals.

"After this double flip we bought another flat in the same building, despite my promise to myself that we would start moving our investment locations (we had moved from North London to Surrey during this time). It was a great deal and was on the market for a bargain – I couldn't resist. We were able to snap up the property using cash with the profits from the first flips. We have accepted an offer for £60,000 above the purchase price and the sale is going through now. More recently we have also bought a 2-bedroom semi-detached house closer to where we live. Our investor from the original flips rolled her cash into this next deal and this one will sit as part of the BTL portfolio."

So after buying her first buy-to-let flat in a building with a particularly difficult freeholder Nellie saw an opportunity to make a profit. She spotted the first flat by looking at what else was selling and she realised the first flat presented an opportunity. After sticking with a difficult sale she demonstrated her ability to persevere with the vendor. That in turn led to him offering her a further two flats which she was able to structure in a way that appealed to the vendor. After experiencing major issues with bridging finance and being saved at the last minute with a JV investor, Nellie and Mathew were able to uphold their part of the deal and complete on both flats after an exchange with a delayed completion.

As you can see from the case studies, Nellie and her now husband made a £150,000 pre-tax net profit across both flats. So it's not hard to see why Nellie won the award for New Investor of the Year. Since then she has bought a fourth flat in the same building and is in the process of flipping it. Again, Nellie has made a profit by understanding the local market and knowing when a unit is underpriced and taking advantage of that.

With a complex and stressful start in property I am keen to know what Nellie would have done differently. "Paperwork, paperwork, paperwork! I would have got our paperwork together sooner. We waited until towards the end of the refurb before we started to pull together our bridging application. Traditionally this would have been enough time but because the bridging company was restructuring internally their criteria changed and we were left scrambling to get everything together in time. As a standard I now prepare all the paperwork as we go along - as we're buying I'm preparing for sale!

This means that I am ready for any curve balls thrown at us by lenders. I also learnt it's essential to interrogate your builders at the outset. We went with a builder that wasn't as expensive as the other quotes we had though it turned out he didn't know what he was doing, hadn't quoted properly for the job and didn't treat his staff well. We spent money to fix all the problems and in the end spent as much as we would have if we'd gone with the other builders in the first place; and we would have had considerably less stress."

Nellie and Mathew kept their first investment flat in the building, however, they chose to sell the second, third and fourth flats. I am curious to know why. "Whilst the whole strategy on our first flip was fairly advanced it was our first foray into serious property investment and I wanted to make sure we stayed ahead. We started with NONE of our own money in the project and I wanted to return the money to our investors and then I wanted to repeat the process. Selling the properties was a way to return the money and also grow our pot so we could do the next deal with our own capital. Also, the two flats looked fabulous and I knew they would generate a healthy return in their recently refurbished condition."

As a new investor Nellie is keen to expand her skillset and portfolio of deals, however, she also knows the importance of having cash. "My ultimate objective is to do much bigger deals and that is leading us down the route of commercial conversions where the returns are bigger despite the amount of work being relatively similar. Residential flips are very hands on for us at the moment, bigger commercial projects wouldn't be. That being said I would like to continue to do residential flips as that generates good, regular income for us and keeps the business ticking over. 2018 will see many more flips during which our processes are being systemised so we can streamline everything."

Like many investors Nellie mixes business with pleasure. Over the past year she has worked with her mum as a JV partner and though her husband may not be at the forefront of the projects he certainly plays an important role behind closed doors. "I couldn't do it without him, he is my rock. Part of my job is presenting myself as cool, calm and collected. In both my businesses I oversee everything, I put things in place but I really only get relied on when the xxxx hits the fan. However, I am only human so behind closed doors it's Mat who holds me together. He is my sounding board, he's the voice of reason when my ideas are firing and he's the one who picks me up when I am doubting myself."

Nellie has learnt a lot on her journey so far and she has made a healthy profit in the process. However, when it comes to flipping property, she admits it isn't always as easy as it seems. "You don't know what you don't know. A lot of the properties we look at are in terrible condition and a lot of the time there isn't opportunity to fully delve into the things that could be wrong with it. That's one of the biggest things I'm cautious about and we haven't been in the business long enough for me to walk into a property and know what the potential problems are and their costs – I'm still learning. Every project we do I learn a bit more and I have to be patient whilst I learn (I'm not naturally a patient person). I am as a result very generous with budgets and contingencies because I calculate worst-case scenarios. I know this means I have walked away from some deals that could have possibly been OK but on the flip side I sleep a lot easier at night when I do put in an offer as I know it stacks up!"

> **"I believe we will see more properties coming on the market from the accidental landlords who need to consolidate"**

When it comes to other investors looking to do the same Nellie encourages them to lean on the side of caution. "Assume things will take longer than you think. Everything has taken a lot longer than I expected and sometimes it's hard to pinpoint who is holding up the process. Because of this keep your power team on your side! Don't be rude and demanding, they are the ones that can make the process go faster. I'm not just talking about tradesmen, it's essential that your broker and solicitor are working seamlessly as well. We went with a different solicitor on one sale because our usual firm wasn't on the lender's panel and it was such a big mistake. They dragged their feet and weren't listening to what I was saying regarding the sale and our position - as a result I ended up not trusting their counsel which made the whole process very difficult. We're processing a sale at the moment and it's such a relief to be back with our original solicitors."

For the foreseeable future, flips are a key part of Nellie and Mathew's journey, especially in a climate of political uncertainty and with rising interest rates on the horizon. "The increase in interest rates is only going to put more pressure on landlords, especially in London. Coupled with the recent tax changes landlords are going to feel the pressure. I believe we will see more properties coming on the market from the accidental landlords who need to consolidate. This means there will be opportunity for the professional landlords. Buy to let has never been a large part of our strategy, I think of our BTLs as a fund for a rainy day and as long as they cover their costs then I'm happy. This is why I prefer flipping. Because we only hang onto properties for six or so months I can judge the market value pretty accurately at the outset. I always allow for contingency and (touch wood) the markets don't fluctuate outside of this in such a short time. Any major changes to the market, I believe we will know about prior to purchase. In short, rising interest rates hasn't had a massive impact on our strategy because I've always been conscious this would happen and have tailored our strategy to insulate against it from the start."

Family is important to Nellie and the memory of her gran and her entrepreneurial spirit is something that Nellie tries to continue today. "Subconsciously I was around a woman who worked for herself and generated a business for our whole family to work in. My passion for business has stemmed from this. Additionally, she created a pension plan through property that has helped my mum retire and allowed me to start my own property journey.

"I bought my first flat with inheritance from the sale of the family home I grew up in (which was purchased by her gran). Incidentally, the address of our family home was number 165 and this is where the name of my company, Property 165 comes from – as this is what gave me my start." PIN