

CPC Property Investor Day
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HMO Brainstorm

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FOR INVESTMENT PRODUCTS, THE OVERALL COST FOR COMPARISON IS 5.8% APR. FOR SHORT TERM PRODUCTS, THE OVERALL COST FOR COMPARISON IS 12.2% APR. THE ACTUAL RATE AVAILABLE WILL DEPEND UPON YOUR CIRCUMSTANCES. ASK FOR A PERSONALISED ILLUSTRATION. ANY PROPERTY USED AS SECURITY, INCLUDING YOUR HOME, MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR ANY OTHER DEBT SECURED ON IT. EARLY REPAYMENT CHARGES APPLY TO INVESTMENT PRODUCTS ONLY. A BROKER FEE MAY APPLY.

SHAWBROOK BANK 

HMO LANDSCAPE

Topics for discussion

THE HMO JOURNEY with Shawbrook

- The opportunity
 - The rise and fall of residential investment trends – why HMO's
 - Using Short Term Loans to buy or refinance to convert to an HMO
 - Using our Term finance for HMO's to maximise returns
 - Common obstacles when converting from Short Term Finance to Term
- How HMO's are assessed
 - The difference between Planning and Licencing
 - Different types and classification of HMO's
 - What type of valuation report do we require
 - What Shawbrook will consider lending against
 - Common obstacles when valuing HMO's
- Legal Considerations
 - Different types of conveyancing - Non- Rep vs Fully Represented
 - What is Title Insurance and when can it be applied
 - Common obstacles with legals

THE RISE AND FALL OF RESIDENTIAL PROPERTY INVESTMENT TRENDS

The rise of the HMO (Houses of Multiple Occupancy)

- HMO investors are providing better quality accommodation to maximise tenant demand
- The back drop of capital growth HMOs continue to offer strong yields
- Growth of the 'young professionals' seeking affordable rents in good locations
- Trend towards HMO living becoming a 'lifestyle' choice

Investors beware!

- HMOs are subject to legal and planning requirements
- Cost of repairs can be in multiple, should consider 'net rents'
- May need to 'manage' tenant disputes and/or multiple voids
- If seeking finance – be clear on how HMOs are valued

SHAWBROOK SHORT TERM FINANCE



- Used for purchase or re-finance of properties quickly
- Loans from £50,000 to £15m
- Planning gain to add value
- Change of use i.e. single to HMO
- Permitted development
- Auction purchase
- Pay off development finance
- Light and Heavy refurbishment available
- No minimum term
- No early repayment charges
- 100% Funding with additional security

SHAWBROOK TERM FINANCE

RESIDENTIAL INVESTMENT

- We lend on a number of properties from simple single investment properties, portfolios, multiple units and HMO/student lets. We can lend to individuals, limited companies and expats.
- Loans from £50k to £750k up to 75% LTV
- 30 year interest only option available
- Fixed rates available
- Dedicated products for loans over £750k

MIXED USE AND COMMERCIAL INVESTMENT

- We fund both commercial and semi-commercial properties with a choice of term and repayment options. This can be on 3, 5 or 10 year interest only basis, part capital repayment or full capital repayment facilities with terms from 3 to 30 years.
- Loans from £75k to £5m
- Up to 75% LTV
- Fixed rates available
- Specialist teams with in-depth experience

Current LIBOR: 0.60%. Shawbrook apply a minimum rate of 0.75% to the term rate margin.

SHAWBROOK ADDITIONAL BENEFITS

- Existing Customer Discount

0.25% reduction on margin OR arrangement fee for customers with another Shawbrook product

- Customer Solicitor Panel

Available to offering cost savings, speed and efficiency

- Solicitor “non-representation” service (refinances)

By electing not to have solicitor representation and proceeding under the guidance of the broker, the customer saves on the cost of an independent solicitor making the journey to completion far more efficient and significantly faster. (In house solicitors act for Shawbrook).



SHAWBROOK SHORT TERM CASE STUDIES



STL1

Existing customer, Auction on 15th April, given the statutory exchange period of 28 days. Shawbrook were able to provide a LTV of 70%, at 0.69% per month. Deal completed in **14 working days**. Property required no refurbishment and was purchased with planning gain to be sold once in place at a higher value.



STL4

Refinance to repay existing loan and raise £2.1m to purchase and refurbish additional two bedroom flat. Surveyor comfortable with works and future demand for sale at circa £8m, with 30 days to complete. Loan released to clear existing debt and form new deposit and we were able to wrap the first loan and advance full sum for purchase of the new property. Option to transfer to Shawbrook term product gave additional comfort.



STL6

Experienced customer converting former chapel into 4 duplex style properties. Shawbrook provided 66% LTV at a rate of 0.89% per month – took comfort from the portfolio gearing to assess affordability of the mortgage.

HMO Licensing versus HMO Planning

Licensed HMOs & The Housing Act 2004

The primary piece of legislation relating to licensing is the Housing Act 2004 where a HMO is broadly defined as follows:

A building or part of a building (i.e. a flat), that:

- is occupied by two or more households, and where more than one household shares – or lacks – an amenity, such as a bathroom, toilet or cooking facilities
- is occupied by two or more households and is a converted building – but not entirely self-contained flats (whether or not some amenities are shared or lacking)
- are converted self-contained flats which have toilet, washing and cooking facilities for the exclusive use of its occupants

Sui generis planning permission: no Permitted Development Rights for change of use e.g. from a single dwelling house to a large HMO (and vice versa).

HMO VALUATION

Small HMO, no Article 4 or planning exists, fabric of building remains largely unchanged - lending is against value as a Private Dwelling.

- If the property is not in an area with an Article 4 Directive in place and the works required to convert into a HMO are minimal, it is logical that the property does not necessarily have an independent value as a HMO. An investor is more likely to purchase a cheaper property in the same street and convert this to a HMO than pay a premium price



HMOI - PD

The security can be used as a HMO but:

- The works to convert are minimal and it is logical that an investor is more likely to purchase a cheaper property and convert than pay a premium price.



HMO VALUATION

No Article 4 or planning exists but there is a demand for this property as a HMO, the fabric of the building has changed - lending is against Market Value.

- Where the property is not in an area with an Article 4 Directive in place. If specialist/extensive works are required to convert into a HMO and the security is in an area that supports HMO demand, it is logical that the property will have an independent value as a HMO. As such, any investor is likely to recognise the need to pay a premium



HMO2 - MV

- No Article 4 planning exists but there is suitable demand for HMO property
- Fabric of the building has undergone significant change to be used as a HMO which would mean an independent valuation and a price premium for use as a HMO

There must be viability for this to be sold as a HMO with the valuer to consider comparables and yields, taking into consideration Gross and Net rental amounts.



HMO VALUATION

Article 4 is in place - lending is against Market Value.

- If the property is in an area that has an Article 4 Directive in place, it is in an area where a HMO is clearly a viable investment and will have an independent value as a HMO. As such, any investor wishing to run a HMO in the area understands there is likely to be a premium price to the value



HMO3 - MV

An Article 4 is in place and therefore the property is clearly viable as a HMO investment. There would be the demand to justify paying a premium for this in order to get the higher returns.

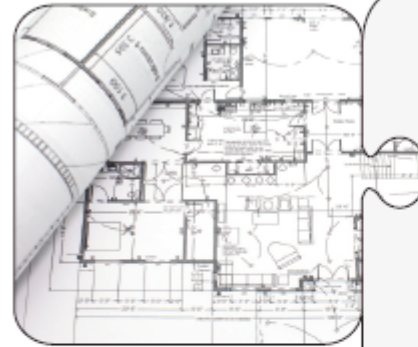
Valuer to consider comparables and yields, taking into consideration Gross and Net rental amounts.



HMO VALUATION

Sui Generis planning is in place –
lending is against Market Value.

- Planning is in place to use as a large HMO (7 beds +), and will have very specific structural changes to be utilised as a HMO



HMO4 - MV

Where planning is in place to be used as a large HMO (Sui Generis).

Valuer to consider comparables and yields taking into consideration Gross and Net rental amounts.



Different types of conveyancing

We have produced Legal Guides to assist solicitors in understanding the Shawbrook Bank legal process for purchase cases and to give those solicitors access to some of Shawbrook's legal requirements at an earlier stage in the transaction. The idea being that the legal process can be progressed by the borrower's solicitors even if the credit process is not advanced enough for the Bank to instruct its own solicitors.

One of the guides relates to purchase transactions that are eligible for Shawbrook's 'Fast Track' title investigation process and contains a helpful summary of what loans qualify. The second guide relates to all other purchase cases where the loan does not qualify for the 'Fast Track' process.

At the back of each guide is a set of standard loan enquiries applicable to each type of transaction with the idea that the borrower's solicitors can answer the same and provide these to Shawbrook's solicitors at an earlier stage. The loan enquiries are set up as form fillable documents to make completion of the enquiries more efficient.

Title insurance - In a nutshell

- Block title insurance is used by Shawbrook because it speeds up the legal due diligence process
- It requires a limited due diligence exercise as prescribed by insurers. Provided the insurer's minimum steps are complied with, the lender will benefit from insurance cover if an unknown title defect results in it suffering loss

- **Minimum steps include:-**

- Compliance with current money laundering legislation
- Confirmation that the borrower is registered as proprietor of the property at Land Registry
- Where non-owners reside at the property, that those occupiers consent to the mortgage
- The borrower confirming that it acquired the property at arm's-length for full market value
- Confirmation that the mortgage deed has been adequately executed
- Obtaining clear Land Registry priority searches before completion
- Clear Bankruptcy searches

Limitations

- **There are limitations to cover. It is not an all-encompassing solution**

- **No insurance cover is available for the following:-**

- Where we are aware of a defect in title or are aware of any on-going claim or dispute or notification relating to a defect in title
- Future defects in title e.g. unlawful change of use of the property after completion
- Where we are aware the property is being used otherwise as set out in the valuation report. In such instances if we are aware that the valuation report use is inaccurate, then we will not be covered under the insurance policy

Title insurance - In a nutshell

We are aware of a defect in title or any on-going claim or dispute or notification relating to a defect in title.

- In simple terms: if we **know or are put on actual notice** there is an issue, we **will not** have insurance cover for it.
- Examples include knowing the property does not have adequate planning, being aware of enforcement notices or disputes with the local planning authority.
- General comments by valuers do not mean that we are put on notice of a defect. Examples include:
 - The valuer states that “building works have been completed at the property and that further investigations should be made to ensure all relevant consents and/or permissions have been made”.
 - The valuer states that “the property requires rights or easements over other property and that further investigations should be made”.
 - The valuer has enquired with the Local Authority and is unable to establish whether the property benefits from consents and/or permissions for the insured use and/or any building works at the property.
 - The valuer states “the property is leasehold and that the Bank or its solicitors should ensure the terms of the lease are acceptable”.
 - The valuer states that “the property shares certain common areas or access ways and that the Bank or its solicitors should check that adequate rights and/or covenants are in place in that regard”.
 - The valuer states that “they have not seen the title plan to the property and that the Bank or its solicitors should refer the title plan back to the valuer for approval”.

Title insurance - In a nutshell

On the other hand, the following statements by a valuer/borrower will be regarded by insurers as putting us on actual notice of a potential defect in title:

- The works do not have the benefit of planning permission
- The works are outside the scope of the relevant planning permission
- There is an on-going dispute/dialogue with the Local Authority as to the works

(Please note this list is not exhaustive).

Future defects in title are not covered under the policy.

The block title insurance policy only provides protection for existing title defects i.e. those in existence at the date of completion of the loan.

If you are aware that the property is going to be subject to works after the completion of the loan, we will not be able to rely on the block title insurance to provide cover if these works breach planning law or any restrictions on title.

We will not be covered where works have not been completed.

It does not matter that the works are 99% complete e.g. only the carpet fitting or light-fittings remain outstanding.

Where recent works are relevant, we require an unqualified statement from the valuer confirming that there are no uncompleted or on-going works.

Practical guidance

If we are aware that the property is subject to outstanding works, do not instruct the valuation until the works have been completed.

If works were outstanding at the time of valuation but finished before completion, we need the valuer to confirm in an unqualified statement that there are no uncompleted or on-going works:

The valuer may need to make a another site visit in order to give this confirmation; or

The valuer may be prepared to rely on photographic evidence that the works have been completed.

However, in both cases, the statement must be absolute and unqualified. Statements such as “the works have been completed” or “there are no on-going works” are acceptable.

ROLE OF THE ADVISER in partnership with CPC

- The role of the broker is key to securing the best options for the client
- They would have better access to the market and specialist products that support the clients commercial needs
- Most lenders are dependent on the input from brokers as they add value to the transaction
- Help clients navigate their way through valuations and legals on more complex property transactions

**CPC can help provide solutions
for your investment needs!**

THANK YOU

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