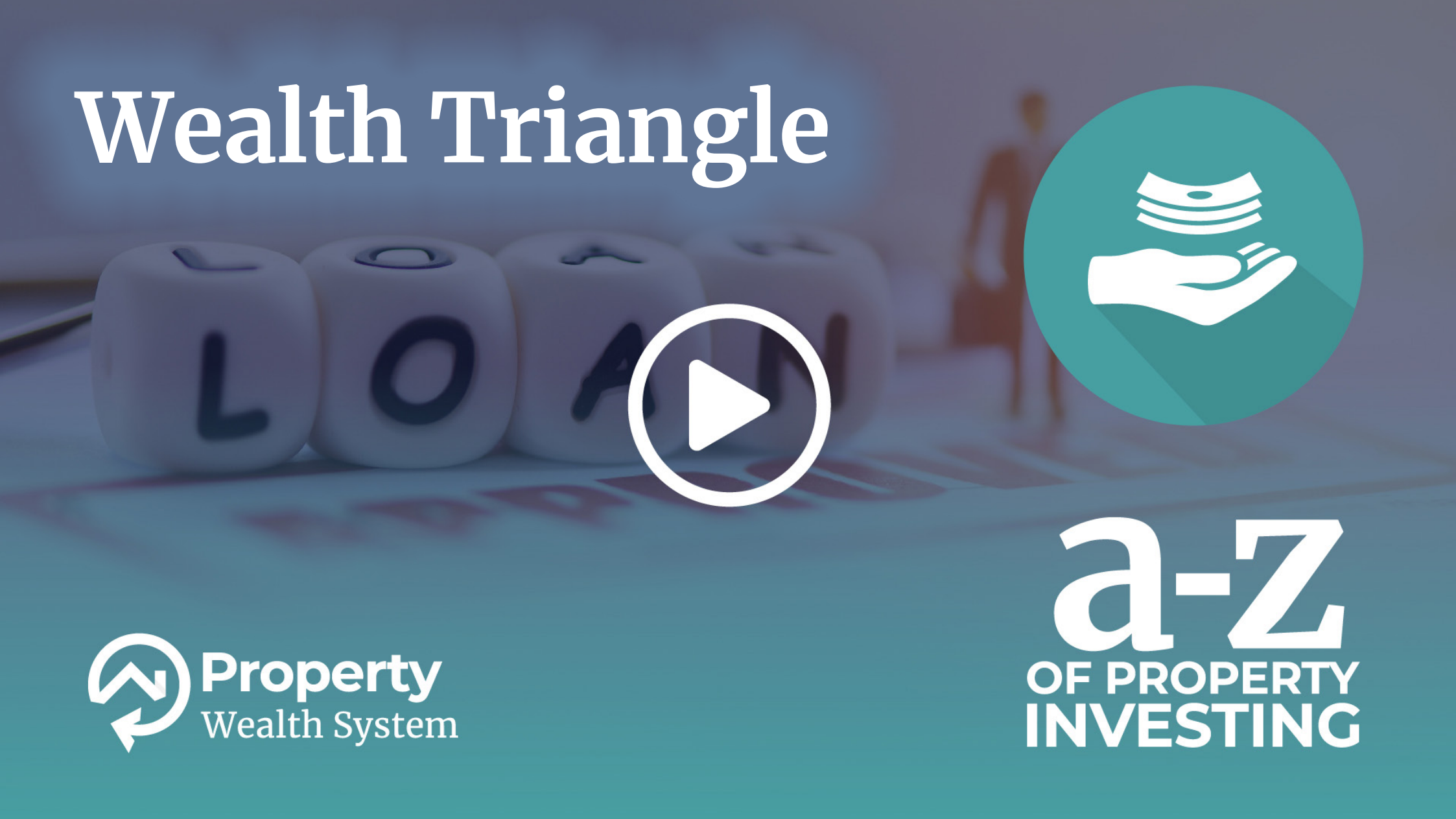
Wealth Triangle



W' for 'Wealth Triangle

'Wealth Triangle' is a structure and foundation we can relate to and progress through, for the different stages and strategies of property investing. There can always be a natural path that this is taken in property, starting from the bottom of the wealth triangle where the investing is easier in terms of the involvement; processes; structure and also the finances involved.

There are normally 'buy to lets', where there are smaller cash injections, but a lower reward at the end and less risk involved in these smaller deals. Then we can naturally progress upwards to much larger projects like developments, which you can imagine have a few more pieces of the puzzle and rules and regulations, time, and there's also the money involved.

So, the wealth triangle works in a way that the lower down the triangle you are, the lower cash injections that are needed to buy a property and renovate it. So, the risks of doing a basic one or two-bedroom flat or house are low, as there are not many moving parts involved. But the higher up you go, the more risks are involved with construction planning and more finances are needed to get into the project, but there's a greater return at the end with your profit. So, it's the old saying of risk versus reward.

The structure and strategies we adopt, can be crucial in our development in property investing and outcomes, to develop a diverse portfolio that can cover all bases and help us reach our desired goals and outcome - it's about tailoring the wealth triangle to you. There is no point trying to copy someone else and what they do, as they might not want the complete same aspect as your own investing. You have to have a different start point. You might have different experiences as well as the team and finances that you have available at your disposal.

So, to begin at the base of the wealth triangle, these are buy to lets. These are staple and bread and butter investment properties. The demand is at its highest for these properties due to a majority of the population needing to rent their home, due to not being able to afford to buy.

Buy to lets are properties that are rented out to an individual or family. These are normally at the lower scale of purchase price, and returns are going to be around 150 to 200 pounds cash flow per property, if it's a one or two-bedroom property.

These figures that I'm giving are all general basis, but there will be some fluctuations throughout the country.

So, we want to establish and buy 'buy to lets' consistently through our investing lifetime, as these almost run themselves with minimal input or effort on a monthly basis. They can be turned around with around three to four weeks' worth of works depending on the size of the project. But it can be a very quick process and there will be a low expense.

Next in our wealth triangle, we would place 'sourcing' as second in the structure. Sourcing in the means of finding the deal; negotiating; securing that property, then we can pass this property on to another individual, charging them a fee for us doing the hard groundwork. This is a great way to make quick capital without taking it on and having the responsibility of buying a property and owning it.

Some individuals solely use the strategy of sourcing, due to the lack of finances they have available to buy a property themselves, or they might have previously had bad credit which then would hinder the ability for them to gain any finances from lenders. So, having small pots of capital can be built up again and again by sourcing on properties to an individual. You can expect to make around two to five thousand pounds per source, depending on the size, but this can sometimes be greater if the project is of a larger scale.

We then move up onto 'social housing'. So, this is the next strategy where it can be very hands-off. I love this strategy and I've used it a lot in my investing over time.

So, this property strategy is identical to buy to lets. The only difference is that instead of us renting it to a tenant (and we're using a letting agent to do this), we're going to be renting the property to a council instead (who is going to be of the local area). So, they are going to house the tenant for us.

They will normally give a longer-term contract for leases anywhere from two to even 10 years contract length, to have the property in their books. So, as you can imagine, having a place looked after taking control, with a guaranteed rental, is a strategy which a lot of people would like to adopt and use for the hands-off approach. This is why it is so popular. The rental amount achieved is normally lower, compared to the current market value. However, with the council taking control, we don't have management fees, we don't have to pay any maintenance costs, so this is taken care of as the council would look after it.

This means that we only have the expense of a mortgage (if we take one out). The rest is our profit as cash flow.

So, pricing wise this is all dependent again on the size of the property you're renting, but I would say a minimum cash flow to making using social housing strategy would be 250 pounds and then upwards for slightly bigger properties.

As we move on to the next level in the wealth triangle, we're going to be looking at 'trading property'. So, this is basically the means of buying and selling a property. This is a fantastic way to generate large lump sums of capital, to either use as a salary or we can reinvest it back into other properties. We would say looking at between 15 to 20,000 pounds profit is a good base. Of course, if the property is of a much smaller scale then ten thousand pounds would be suitable also. I never like to look much less than that, just because there's that little bit more of a risk factor involved.

So, for flips, we would normally put this type of renovation and standards, slightly higher than our buy to lets, due to being for a long-term family home that someone is buying. So, the results mean that there is a higher cost involved in the offset. After this stage, we then go into the bigger scales type of properties and projects.

These strategies are more complex and detailed, hence why they are further up the triangle, as having a good amount of experience and knowledge in the field will benefit greatly. 'HMOs or houses of multiple occupancy' is next on the wealth triangle stage. This is where a house of three or more people share together. They rent each room and share the living room, kitchen, and sometimes the bathrooms. This is most commonly seen with students or young professionals that are living here for a short-term basis. There are a lot more rules and regulations to adhere to with this type of strategy, and you need to make sure that these are covered correctly.

It is also more advanced with the rules that are involved, but also the scale of these projects, as can be removing walls, chimneys, and going back to brick to rebuild again. So, the cost and financial outlay is again another step up from the previous strategies discussed. You can be expecting to make between 500 to 850 pounds and then onwards for larger types of properties, but this is all dependent on the size.

The final top tier is commercial and developments. Now this is a whole different ball game and structure involved.

This can be converting old hotels or commercial offices into residential apartments, or even building brand new homes out of the ground, on empty land.

You can imagine this step-up of gear from a small one bedroom to a larger scale development, that the complexity involved in planning; council; grants; build teams and finances involved, are massive. This is not for the faint-hearted, but there can be some incredible opportunities here with building incredible accommodation and earning tens if not hundreds of thousands of pounds in the process of profit. You naturally would have had a lot of experience under your belt and been investing for some time and have mastered all the other strategies as mentioned previously before dipping your toe into this.

So, when we're looking at our wealth triangle, and the possibilities available to us to invest in, we always need to make sure we have the solid foundation and fundamentals which come from buy to lets. The more experience you gain, the higher up the level the wealth triangle you will travel. It increases the risks that might be involved, as it also needs more capital involved, but ultimately the bigger returns are there to be made.