

Executive Overview

Property118 Portal Ltd “the portal”



Introduction

The first two decades of Buy-to-Let as we now know it generally involved properties being purchased with vacant possession. Most of these properties have been retained as tenanted and where sales have occurred the vacant possession method of sale has been favoured.

However, the market has evolved, investor buyers now fall into three distinct groups:-

- 1) Those with low or no mortgages, often retirees who have purchased property for income due to low returns on other secure forms of investment. It has been reported that as many as 50% of all rental properties are free of mortgage.
- 2) Companies – these are few and far between but this is likely to change as larger landlords begin to incorporate for tax reasons.
- 3) Individual landlords with high gearing strategies. It is reported that over £200 billion of Buy-to-Let mortgage debt exists.

It is likely that as the market continues to mature, more landlords will be looking to sell for other reasons, e.g. death, divorce, retirement, changes in tax legislation.

Our revised business model caters for selling to both investors AND owner occupiers, utilising the exposure of Rightmove and Zoopla Group without any cost implications to vendors listing their properties for sale via Property118.

The changes proposed in the Summer Budget 2015 have already had a major impact on the thought processes of highly geared landlords referred to in category three above.

Regardless of whether the proposals are amended, implemented as proposed or scrapped completely, confidence has been affected. Opposition parties have even more draconian policies than those proposed by Chancellor George Osborne. Several landlords are already considering their exposure to mortgage debt. Larger portfolio operators are seeking specialist advice on how to incorporate their businesses and how to avoid CGT, SDLT and the need to refinance.

The Founder of Property118

Mark Alexander is a world renowned property blogger, accredited Google News publisher and business consultant. His clients include:-

- Cotswold Barristers (*see PrivateProsecutions.org and LitigationWarranty.co.uk*)
- Hawkins Ryan solicitors (*see BuyToLetConveyancing.co.uk*)
- Landlord Action & The Sheriffs Office (*see EvictingTenants.net*)
- Azure Group (Malta)
- Auction House (UK)
- Several large portfolio landlords

In 2003 he incorporated a commercial finance business, in which he was senior partner, into a Plc based on a professional valuation of £10.8 million. He avoided having to pay CGT and SDLT. That business went on to rank #38 in The Sunday Times Profit Track 100 in 2008. Together with his professional clients he is currently working with several landlords (*portfolio values worth in excess of £5 million gross*) to help them do the same.

Mark plans to emigrate to a Mediterranean tax haven in the near future in order to avoid paying CGT on the sale of his own property portfolio, which he needs to do in order to complete a financial settlement from his divorce which dates back to 2008. This will not affect Property118 because all he needs is an internet connection. Many of his larger clients have homes in the Med and he often meets them there, otherwise they travel to visit him.

Property118 Portal

Buyers search the property portal by postcode or Town. They are subsequently invited to set up email alerts so they are notified when a property matching their purchasing criteria is listed.

Consider how much money buyers and sellers of tenanted property could save in terms of rental voids and agents fees as a result of buying and selling with reliable tenants in situ.

For maximum exposure, vendors and their agents will also be offered a zero cost, zero commission opportunity to have their properties marketed on other major portals including Rightmove and Zoopla. Where this option is selected, prospective purchasers are invited to bid for properties in an ebay style online auction. The software to extend listings to other mainstream portals, the bidding process and block viewings (to minimise tenant disruption) are handled by Auction House UK. The vendor sets both the reserve and guide prices. If the reserve price is not reached the vendor pays nothing. The winning bidder pays fees on conditional exchange, similar to the way buyers premiums are charged by car auction companies. Property118.com receives 0.5% of the sale price.

We anticipate Letting Agents to use the Property118 model as an aid for business retention and future growth. They and their landlords retain cashflow whilst the property is being marketed and the agents will also benefit as a result of receiving enquiries from investment purchasers to whom they can pitch for future lettings and management business. Agents will also be able to charge their existing landlord clients commission for managing sales, without the ongoing cost of membership fees to Rightmove and Zoopla.

Our conservative projections are that just 4% of properties listed will sell via the conditional auction model. There are significant prospects for increasing this, especially due to market conditions which may follow the 2015 Finance Bill.

Further monetisation

There is no cost associated with the creation of an advertisement or sharing links to property listings via social media. Nor is there any cost associated with using the conditional auction model.

However, for advertisers to gain maximum exposure for their property from searches conducted in the Property118 Portal, in response to awareness marketing campaigns, they will be able to upgrade to a premium listing at a cost of £11.80 per week. This will ensure their property appears at the top of search results in their area.

Our conservative projections assume 20% of advertisers will upgrade to premium listing status for an average period of four weeks.

Search Results

These are ordered by showing the nearest premium listings first (in distance order) followed by free listings (also in distance order, nearest first. Therefore, free listings appear a long way down the Property118 search results page, after all premium listings.

After prospective buyers complete a search they will be prompted to set up Alert notifications. By entering their contact information they will receive an email notification whenever a property is advertised which meets their search criteria.

Projections

The following snapshot should be read in conjunction with the projections spreadsheet which is available on request.

	Year 1	Year 2	Year 3	Year 4	Year 5
Turnover	£266,384	£2,058,834	£3,074,174	£4,061,362	£4,061,362
Gross Profit	£221,986	£1,715,695	£2,561,812	£3,384,468	£3,384,468
EBITDA	-£162,566	£566,156	£780,012	£1,512,177	£1,512,177
Bank Balance	-£12,566	£288,658	£783,978	£1,558,914	£2,255,433
Corporation Tax	£0	£153,032	£163,803	£317,557	£317,557
Dividends paid	N/A	£111,900	£273,922	£583,486	£815,658
Projected dividends per £1,000 of investment	£0	£75	£183	£389	£544
Projected company value based on 10X EBITDA	N/A	£5,661,562	£7,800,125	£15,121,765	£15,121,765
Projected value of initial £1,000 investment	£1,000	£3,774	£5,200	£10,081	£10,081

Exit Strategy

Property118 Portal Ltd. has been created with a view to completing a trade sale within three to five years. Offers to purchase are most likely to come from one of the following groups:-

Investment Groups – institutional investment groups purchase companies where there are synergies amongst clients and services provided, and where opportunities exist to leverage economies of scale.

Conveyancing Groups – for every property transaction there are two conveyancing transactions. It is also important to consider that behind every viewing is a person who is likely to purchase a property, whether the property they decide to purchase is listed with Property118 or not.

Insurance groups – Owning Property118 Portal Ltd is a cost effective way for insurers to connect with a large and active database of property owners.

Financial services groups – this could include banks, IFA's and estate planners – all of which target property owners for new business opportunities.

Other portals – history has proven that the established portals are more likely to acquire successful niche portals than to build their own

Service providers – utility companies are always looking for new routes to market and are particularly interested in data concerning changes in property ownership

Landlord mindset

When private landlords consider selling a Buy-to-Let property via conventional means they are immediately faced with a list of dilemmas:

1. Will our tenant(s) cooperate with viewings?
2. Will our tenant(s) move out and leave us with a rental void and negative cashflow?
3. If the property is unoccupied what will happen to insurance cover?

When a Buy-to-Let property is listed for sale on the Pproperty118 portal we share tried and tested tips to make certain that the process of selling runs as smoothly and profitably as possible. We also share tips for due diligence with prospective buyers.

It takes just a few minutes for users to upload key data to create an advertisement for a property for sale. The advertisement is then auto-enhanced using algorithms that curate data from trusted providers to provide analysis on risks and returns using key demographics based on postcode.

The Market

On the 22nd October 2014 The Telegraph Newspaper reported as follows:-

“An army of two million private landlords now own and rent out five million properties, according to the report by mortgage lender Paragon. This means 18pc of households now rent from private landlords. And the proportion is growing, as investors continue to see property as a source of future income and profit.”

The Private Rented Sector has been growing rapidly since the phase “buy-to-let” was first coined by the Association of Residential Letting Agents in 1996. Major disruption is anticipated following the Summer 2015 Budget which plans to restrict finance cost relief for individual landlords. Companies and owners of rental property without mortgages are not be affected. There is a strong possibility that several individual landlords will reduce their gearing by selling some of their properties, whilst the larger operators will incorporate. This is likely to occur regardless of whether the new tax regime is implemented as proposed or even scrapped completely. Confidence amongst highly geared landlords has been severely dented.

Newcomers to the private rented sector are savers seeking better returns on their cash. Over 55's using the new pensions liberation rules to purchase rental property to provide income in retirement will also create impact, especially as they are more likely to want to purchase established rental property with a management structure in place to benefit from a relatively passive investment. The lower rates of corporation tax will benefit incorporated landlords, allowing them to use retained profits to grow their property portfolios.

Despite the potential disruption to the market resulting from proposed changes to taxation policies we have estimated that at least 60,000 UK families are forced to consider the sale of BTL properties every year. The following provides simple, albeit morbid logic to support that notion

In most cases, private landlords do not buy enough life insurance to repay their mortgages, which means their families need to sell some or all of their properties when they die in order to repay mortgage lenders. Even if every landlord sold none of their buy-to-let properties prior to death, and if we assume that death will probably occur within 60 years of becoming a landlord, that's 33,333 landlord deaths a year and circa 83,333 property sale related dilemmas to be considered, i.e. whether to sell conventionally with vacant possession or tenanted. Not all landlords will hold onto their BTL properties until the day they die so it stands to reason that far more rental properties change hands every year.

These figures are supported by the following data from HMRC which was published on 21st April 2015.

Number of residential property transaction completions with value £40,000 or above for the tax year 2014-2015 = 1,204,320

Based on 18% of all households being in the Private Rented Sector (according to data produced by Paragon Mortgages Plc) this suggests that 216,777 sales have historically fallen into the target market for the Property118 portal every year.

TV Advertising

We are aiming for awareness across the mass markets so digitally targeted TV regional advertising is an obvious first choice.

The rule of thumb used by the TV advertising fraternity is that it costs circa £5 to reach 1,000 viewers watching live TV. This is why it is more expensive to advertise in the intervals in Coronation Street than at 4am on a more obscure channel. Nevertheless, the same rule of thumb applies to all channels, i.e. smaller channels receive less advertising revenue.

A specialist agency will be appointed to optimise returns, which will include monitoring the advertising patterns of established brands pitching at the same audience, e.g. Direct Line Landlords Insurance and British Gas Landlord packages.

People watching catch-up or recorded TV are a free bonus, assuming they don't fast forward through adverts of course.

TV is considered by many to be the fastest way to reach out to the masses and for this reason we plan to invest the majority of our marketing budget into this advertising medium. However, we will also trial pay per click and other forms of marketing to test this theory and to allow for our strategy to evolve.

A £25,000 a month advertising budget should have a reach of 5 million live TV views per month, i.e. the number of times the advertisement is viewed on live TV.

Between them, Rightmove and Zoopla invest around *£3 million a year into this form of marketing. Our business plan shows that by month 24 we should be in a position to match the advertising budgets pound for pound. * *Source: research completed by Property TV*

The other Directors

Svetlana Alexander CIMA MA is the CFO, she has a Masters Degree in International Business Finance & Economics and is member of the Chartered Institute of Management Accountants (CIMA part qualified). Russian born, educated in the UK, wife of Mark Alexander.

Neil Patterson has had an operational, banking and finance background since 1991 and is a co-founder of the Property118 news and forum functionality.

Mike Woodfine is a private landlord and was a founder member of the National Association of Commercial Finance Brokers, now semi-retired and acting as a non-exec Director.

Tax Breaks

Due to having been granted HMRC advance approval for [SEIS](#) status, investors in Property118 Portal Ltd will receive 50% tax relief on their investment (regardless of what tax band they fall into). For example; if you invest £10,000 your tax bill will reduce by £5,000.

SEIS is a Government tax incentive scheme to encourage investment into start up companies, the full name of the scheme is Seed Enterprise Initiative Scheme. You can obtain a full explanation and examples by visiting the .Gov website via [THIS LINK](#)

If you have made a capital gain on the disposal of an asset and use the amount of the gain in making a SEIS investment into Property118 Portal Ltd you will not pay capital gains tax on 50% of the amount you invest either – in other words, you get an extra benefit.

Example; if a taxable capital gain has already been made of £10,000 (after deducting in the annual CGT exemption) a CGT liability of either £1,800 (18% basic rate tax) or £2,800 (28% higher rate tax) will arise. In this scenario, the £10,000 invested results in 50% of the capital gains tax being saved as well, i.e. £900 or £1,400.

The maximum tax relief that can be obtained if an SEIS startup succeeds is 50% income tax credit PLUS 14% (50% of 28%) capital gains tax relief = 64% tax relief.

After three years, no capital gains tax is payable on the future sale of the shares.

If the business were to fail then CGT loss relief could be claimed to reduce future CGT. This has the effect of increasing the tax relief by a further 18% or 28%.

More information

Mark Alexander is available to speak with potential investors during normal business hours. Telephone 01603 425 501 or email mark@property118.com to set up a telephone conference.

Shares can be purchased via the Seedrs crowd funding portal - [LINK](#)