

# SPLITTING PROPERTIES INTO SELF-CONTAINED STUDIO FLATS FOR RENTAL TO LOCAL HOUSING ALLOWANCE/ HOUSING BENEFIT TENANTS

**Paul Galbraith shares his experiences of converting houses into self-contained flats and renting to people in receipt of local housing allowance (which replaced housing benefit in April 2008).**



Paul has been self-employed, full-time in the property business for the last 8 years, and has spent the last 6 years concentrating on providing accommodation to Local Housing Allowance (LHA) / Housing Benefit (HB) rental sector. He has now streamlined his business to ensure he concentrates on providing the right range of accommodation, in the right locations and to the right standard in order to run a very successful business. He has found that converting houses into 1 bed self contained flats in the right areas where demand is high provides a successful business model.

Why consider this as an option? Bottom line - profit! By creating additional lettable units for benefit tenants Paul can increase his monthly return on an £80,000 property from £500 to up to £1,800 a month - after running costs, mortgage interest, paying letting agents for full management, voids, repairs etc a profit of £1,000 a month can be achieved. This enables the investor to potentially pay the 75% mortgage of £60,000 (say £300pcm @ 6%) for example in 60 months & own the property outright within 5 years!

The key to understanding the benefit market is the fact that irrespective of value of house, the amount of local housing allowance paid to tenants is the same. Furthermore - the demand for single person accommodation is on the increase as the council are not building enough housing stock to meet the increasing demand. Consequently the type of house and area of search is key to success in this market. Paul buys property below stamp duty threshold - £125,000, however this is not possible in some areas of the country, nevertheless the guiding principle is to buy cheaper houses in poorer areas of a town/ city, but with local amenities in place, good access to bus routes AND laundrettes (which mitigates the need for

supplying washing machines in properties). Housing estates on the edge of towns are best avoided as tenants prefer to be centrally located. LHA is based on Broad Rental Market Areas (BRMA) which in many cases can cover whole cities. The rate payable is based on the number of occupants in the dwelling, with age & sexes of occupants taken into account.

To find out what LHA claimants are entitled to, visit the website: [www.LHA-direct.voa.gov.uk](http://www.LHA-direct.voa.gov.uk). This website will give you details of rates payable by the local council in a town/ city & there is a useful calculator that will help you work out an occupants entitlement.

In regards the achievable rent for the property, a key factor in regards what a landlord can charge is based on whether the accommodation is shared or self-contained in regards use of facilities eg. Bathroom, kitchen, bedroom/ living room. LHA payable for self-contained accommodation is approximately 37% higher than shared accommodation. So it is in the landlords interest to make single person accommodation self-contained where possible if they intend to maximise the rental profits from their property.

Self-contained accommodation is a lot less management hassle than shared accommodation. By splitting houses into flats/ self-contained units as opposed to multi-letting them as shared accommodation, the landlord does not need to deal with common complaints applicable to shared accommodation & shared use of facilities.

Paul buys Victorian terraced and semi detached properties which are often ex-council properties. He looks for cheaper properties that are structurally strong buildings.

Buildings with taller ceilings are better as flats

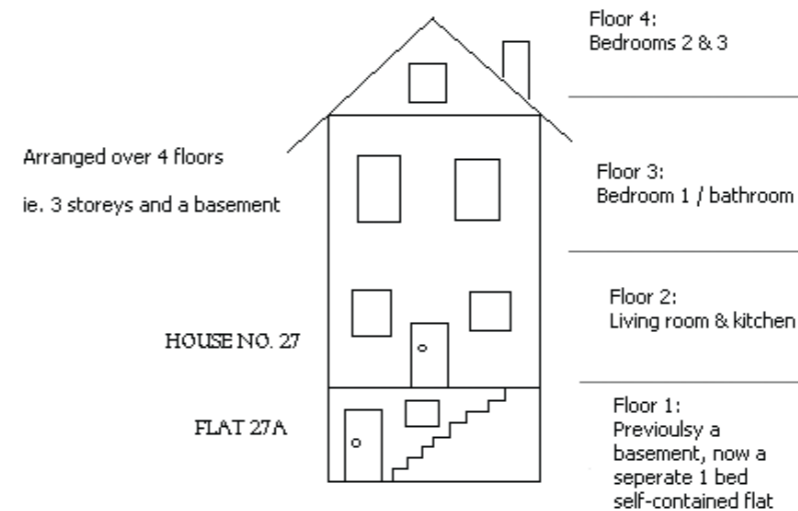
require noise insulation. Paul replaces the ceiling so that it will be fire retardant & compliant to fire safety regulations. Standard construction is 15mm noise reduction plasterboard, with 12.5mm fireboard creating a second layer. Rockwool insulation is put in between floor joists and acoustic rubber matting is used on the floor under carpet on the flat above. By removing ceilings & replacing them to a fire retardant standard while removed, it gives the opportunity to split the wiring for the properties.

Whilst the property is not classed as a licensable HMO, Paul renovates close to that standard (ie. compliant with 1991 Building regulations, & the Housing Act 2004, Housing Health & Safety Rating System - HHSRS) and provides a hard wired smoke detection system and fire doors. These standards are compliant with local landlord accreditation scheme standards. To find out about your local landlord accreditation scheme & if there is one in place locally to a property you own, visit [www.ANUK.com](http://www.ANUK.com)

Paul controls renovation costs by buying all general DIY parts from [www.ToolStation.com](http://www.ToolStation.com). He provides catalogues to trades people, asks them to order what is required so he pays direct without having to pay the tradesmen extra to go & buy the parts. The parts are then delivered to the relevant property as [www.ToolStation.com](http://www.ToolStation.com) provide free delivery for orders over £10.

All renovation must be cost effective. The standard to be achieved is the cheapest cosmetic standard that is good quality with maximum durability. No washing machines are supplied (due to hassle factor of maintaining them) and tenants are encouraged to use the laundrette - hence the importance of buying properties in the locality to amenities.

Example of a typical 3 bedroom terraced house with basement converted into a self-contained flat



As the property is NOT shared accommodation, NO HMO License is required!

Property Value: £80,000  
75% LTV mortgage payment at 6% rate: £300pcm  
Market rent for private tenant: £500pcm

Rent achievable for LHA tenant : £600pcm (Based on 3 bedroom entitlement)  
Cashflow: Private tenant = £200pcm  
LHA tenant = £300pcm

By splitting the basement into a self-contained flat, the basement dwelling can rent at £450pcm.

This means the property can generate:  
£600pcm + £450pcm = £1,050pcm if renting to LHA tenants  
£750pcm cashflow AFTER paying the interest only mortgage

*cashflow: £700pcm*

Paul also looks for existing buildings that have already been converted subject to planning considerations addressed below.

In regards providing heating for houses split into flats there are 3 options:

1. Fully centrally heat the property and put a device on the boiler to lock the controls to control the temperature, the landlord is liable for the bill and re bill tenants. Not the preferred method due to cost.
2. Remove the existing boiler and heating system in the entire property and insert electric storage heaters in each individual flat. Subject to the occupants fulfilling the criteria for eligibility to qualify for mains wired electric storage heaters via [www.WarmFront.co.uk](http://www.WarmFront.co.uk) this can be done for FREE.
3. Electric panel heaters are wall mounted on a temporary basis until the electric storage heaters are installed if there is a delay in processing of the WarmFront grant.

The types of area you choose will have an impact on the letability / demand for your flats - areas that already have several buildings converted or where landlords are already present will have an existing reputation for flat accommodation. Paul avoids areas dominated by owner occupiers.

In order to maximise the LHA payments, the kind of person who you attract as an occupier for your 1 bedroom flats is key, for example:

1. Single people aged over 25 years who are in receipt of welfare benefits e.g. Job Seekers Allowance, Employment and Support Allowance - are entitled to the 1 bed room LHA rate as opposed to younger people who are entitled to the shared room rate which is 40-50% less. The number of bedrooms does not affect the benefit paid to a single person
2. People who are in need or in receipt of floating / social support.
3. Single homeless people.

Paul has found that there is a considerable difference between Market v LHA rent. For houses in the lower end of the market, the LHA rental is higher than market rent in these areas to a tune of 10 - 50%. He has found that this additional profit more than makes up for the additional administration involved with benefit claimants.

As regards planning permission, the conversion of houses to flats results in additional dwellings that require planning permission. Previous conversions become immune from enforcement action and no longer require express consent after 4 years occupation that can be proved in terms of LHA payments, council tax, leases etc. Whilst it is not illegal to convert houses to flats without obtaining planning permission, should

permission be refused and appeals dismissed you do run the risk of being required to reinstate the house!

1. Due to demand, Paul has released a training course for those interested in letting to LHA tenants who wish to maximise their rental profits.
2. The training course covers technical issues such as Local Housing Allowance legislation & planning permission. Attendees are given a 200+ page manual & electronic template letters they can use to manage their own LHA tenancies.

To find out more about the workshops, please visit the [www.Landlord-Training.co.uk](http://www.Landlord-Training.co.uk) or email Paul directly: [Paul@EyeBuyHouses.co.uk](mailto:Paul@EyeBuyHouses.co.uk). You can also call the office 0871 288 3016

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