THE FINANZE FRAMEWORK

READER PREVIEW | RIGHTS AND READING NOTICE

Permissions and accessible-format enquiries:
alastairhoyne.com/contact/
Official book page:
alastairhoyne.com/the-finanze-framework/

CHAPTER 1

From Trading Floors to Terraced Houses

Before I spent my days discussing rental houses, development sites and the financing of property portfolios, I worked in global markets. My working life took me through London, Paris, Hong Kong, Singapore and New York, across origination, coverage and structuring desks. The transactions were complex, the institutions large and the numbers sometimes difficult to connect to anything outside the screen.

What stayed with me was not the scale. It was the discipline of asking what stood behind a return.

Who was paying it? What could interrupt it? How long would the money be committed? What would happen if the original plan stopped working? A persuasive presentation was never an adequate substitute for those answers.

When I began looking seriously at property, I assumed that something I could walk around would be easier to understand than the financial instruments I had worked with. A terraced house appeared reassuringly straightforward. There was a building, a price, a tenant and a rent. Surely the difficult part was finding the right one and arranging the mortgage.

That assumption did not survive close examination.

The building was only one part of the investment. Around it sat a business, a set of legal obligations, a financing arrangement and someone's plans for their future. Understanding how those pieces fitted together became the reason I founded Finanze. It is also the reason this book begins with how you think, rather than with a particular property or loan.

The illusion of simplicity

When I entered the property world, I encountered the same stories that attract many new investors. Someone had replaced their salary. Someone else had accumulated an extraordinary number of properties. Another had refinanced a building and recovered what appeared to be all the money they had put into it.

Some of those achievements were substantial. But the headline rarely told me enough to understand the investment.

A rental figure did not reveal the cost of keeping the property occupied and maintained. A portfolio valuation did not tell me how much was owed against it. A successful refinance did not explain whether the owner had created a stronger business or merely increased the borrowing secured on the same assets.

So I approached the stories as I had approached investments in financial markets. I built spreadsheets and examined the assumptions. I allowed for higher interest costs, longer periods without rent, more expensive repairs and delays to building work. I looked at the terms of the debt and what the investor expected to happen when that debt needed replacing or repaying.

Often, the opportunity remained attractive. Sometimes it improved when the financing or the proposed work was reconsidered. In other cases, almost the entire return depended on a favourable valuation, an uninterrupted rental income or a timetable with no allowance for delay.

The difference was not always visible in the property photographs.

This was the first lesson I carried into my work with investors: examine the investment behind the appearance of success. You should be able to explain why it works without relying on a rising market or another person's confidence.

Four ideas worth bringing with you

My previous career gave me four useful starting points: risk, return, liquidity and time. None requires a background in banking. Each becomes more practical when you connect it to a property you might actually own.

Risk is the possibility that the outcome differs from the one you planned, and the consequence for you when it does. A refurbishment costing more than expected is inconvenient if you have a reserve. The same overrun can stop the project if all your money has already been committed. Understanding risk means considering both the event and your ability to respond.

Return is what the investment gives back for the money, work and uncertainty involved. Rent is part of that picture, but rent received is not the same as money available to spend. Repairs, management, borrowing costs and tax all affect the outcome. A sale may produce a worthwhile profit, while a long-term investment may justify itself through a combination of income and growth. You need to know which result you are pursuing.

Liquidity means access to usable money. A valuable building does not necessarily provide cash when a bill falls due. Selling it takes time, and borrowing more against it requires a lender's agreement. An investor can therefore own substantial assets and still struggle to pay an unexpected expense. Money reserved for your household should not quietly become the contingency for a property project.

Time affects the other three. A return earned over several years is different from the same amount earned over a few months. A building project that takes longer may require additional interest, insurance and other holding costs before it produces any income. Your own time matters too. A strategy that demands frequent decisions and site visits must fit around the rest of your life.

These ideas are connected. Increasing borrowing may leave you with more cash at the outset, but it also changes the cost and risk of the investment. Spending more on a property may improve its income or value, but only if the improvement is one the market will pay for. Waiting can allow a good plan to mature, or allow an unresolved problem to become more expensive.

From theory to kitchen tables

Part of my banking role was to develop relationships with non-bank financial institutions, including hedge funds and asset managers, by looking across the bank rather than at one desk. Foreign exchange, rates, credit and derivatives could sit alongside transaction banking, securities services and private-banking distribution. Understanding the client's whole business helped identify combinations which were more useful than selling each service separately.

That structuring mindset became central to Finanze. I wanted to understand what an investor was trying to create, then connect the property, legal interests, funding and repayment around it. The specialist products later in this book grew from that habit of asking whether the financing could be designed more intelligently around the opportunity.

I founded Finanze to bring that kind of connected thinking to property investors. By institutional thinking, I do not mean making a small purchase unnecessarily complicated. I mean applying the same seriousness to someone's first investment that a professional should apply to a much larger commitment.

The conversations were different from those I had known in global markets. A landlord might begin by asking about a mortgage and eventually explain that their real concern was whether they could reduce their working hours. A business owner might be considering premises while also thinking about retirement. An established investor might have enough property, but no clear plan for how their family would manage it.

The request for finance was often the beginning of the conversation, not its full subject.

That matters because two people can buy similar buildings for entirely different reasons. One wants dependable income alongside a demanding career. Another wants to improve and sell properties to build capital. A third is creating a business that their children may eventually inherit. The same borrowing arrangement will not necessarily serve all three well.

Your circumstances belong in the investment decision. The amount you have saved matters, but so do the demands on your income, the time you can devote to a project and your willingness to live with uncertainty. An investment that fits someone else's skills and family situation may be a poor fit for yours.

This is where property became more interesting to me than a collection of assets. The numbers had a purpose. Improving the financing of a portfolio could change the owner's working life. Making the structure understandable could make a difficult future easier for their family.

One landlord brought that distinction into particularly sharp focus.

The landlord who looked successful

Mark had been investing for fifteen years.

His portfolio included single-let properties in the North of England, meaning properties let to one household, together with shared accommodation. He also owned his home with a modest mortgage.

To friends and family, he was the person who understood property. He had bought consistently, accumulated assets and stayed involved for years. From the outside, his position looked enviable.

When we spoke, he described something rather different. The rent arrived and the mortgages were paid, but he rarely felt that he was getting ahead. A substantial repair or a period without a tenant could absorb the money he thought he had available. He was worried about higher borrowing costs and about what his family would face if he could no longer manage everything himself.

He was busy enough keeping the properties running that he had little time to examine the whole portfolio.

We began with what he already owned. For each property, we compared the purchase price with a reasonable estimate of its current value. We recorded the debt, the interest rate, the type of loan and the relevant product dates. We examined the rent alongside realistic costs for maintenance, management and periods without income.

Then we stepped back. Were too many properties exposed to the same local market or the same lender? Which assets justified the attention they required? Which loans remained suitable, and which had simply continued because nobody had made reviewing them a priority? What issues needed to be considered alongside his tax and estate planning?

Once that information was visible together, the reason for his frustration became clearer.

The total value of the portfolio looked substantial. Its dependable surplus was much less impressive. Some properties consumed disproportionate time. Others were financed on terms that no longer fitted well. His estate planning had not kept pace with the assets and obligations he had accumulated.

The response was not to add another ambitious acquisition.

We identified underperforming properties for possible sale, improved the financing of others and began rebalancing the portfolio towards assets with stronger fundamentals. Alongside that work, we opened a serious discussion about how the portfolio could eventually be passed on.

The direction changed from accumulating more to making the existing portfolio work better.

There is a lesson here even before you own your first property. Mark had not failed to work hard. He had not lacked commitment. What he needed was a clear view of how his individual decisions had combined over time.

A property portfolio is the sum of its buildings, debts, obligations and management demands. Each purchase changes that combination. An asset that seems acceptable on its own may add an awkward loan expiry, a demanding refurbishment or more exposure to a market you already depend on.

The size of a portfolio is not the same as the strength of its owner's position. Mark's experience made that distinction impossible for me to ignore.

Why the finance changes the opportunity

The conclusion is not that borrowing should be avoided or that ambition is dangerous. Finance is one of the reasons property offers such a wide range of possibilities.

It can allow you to acquire an asset before you could afford to buy it outright. It can support improvement works, help you reorganise existing borrowing or enable you to retain a property rather than sell it to recover your capital. Used well, it can leave you with options that a cash-only approach would not provide.

What matters is how the borrowing fits the investment.

Imagine an investor buying a tired building with a clear plan to improve it. A loan that gets the purchase completed is only part of the answer. The investor also needs to know where the works money will come from, when it will be available and how the borrowing will be repaid after the improvements are finished.

This is why I became interested in designing finance around the work an investor intends to do, rather than treating the purchase as an isolated event.

Some opportunities involve a physical change. Others involve improving legal rights, reorganising ownership interests or strengthening the income attached to a building. Those changes may affect what the property is worth and how it can be financed. The challenge is to establish which changes are deliverable, what evidence supports the value and how the investor reaches that position.

The Finanze Framework is the name I give to that connected approach to strategy, structure and finance. Its specialist applications come later in this book, after the foundations needed to understand them.

One of the possibilities we will examine is 100% net loan-to-purchase-price, usually shortened to 100% net LTPP. In plain English, that means the money available towards the purchase, after the deductions specified in the illustration, equals the purchase price. On suitable transactions, finance may also support the works. The amount, timing and method of release depend on the facility.

The appeal is obvious. Less of your own cash may need to be committed to the price, and a planned improvement may be supported by finance as well. But the description is precise for a reason. It does not mean every cost is paid, that you need no reserves or that the loan equals the entire value of the property. The result depends on the transaction, the supported valuation and the terms approved.

You will see the detailed illustrations, deductions and conditions in the specialist chapters. At this stage, the important point is that capital efficiency and caution are not opposites. Keeping some money outside a project can make you better equipped to handle it. Using every pound released to take on another obligation can have the opposite effect.

I am interested in what finance makes possible, but also in the position it leaves you in afterwards. Completing the purchase is an important milestone. It is not the final measure of success.

Your starting point

Before looking for a property, write one paragraph describing what you want property to do for you. You might want income alongside your profession, capital from improving and selling buildings, or fewer demands from a portfolio you already own. Describe your circumstances, not someone else's ambition.

Then set out what you can commit in money, time and attention. Separate investment funds from money needed for your household, tax, existing obligations and business expenses.

Consider what you would find difficult to absorb. Could you tolerate a delayed return of your capital? Could you keep a property if selling became unattractive? What other commitments would be affected?

You do not need complete answers yet. As you read, this starting brief should become more precise. If you already invest, ask whether your portfolio serves today's objectives or the ones you had when you began buying.

My move from global markets to property reinforced the value of understanding a commitment before making it. That understanding should help you act, not leave you permanently on the sidelines. The next chapter turns it into principles for choosing, owning and financing property.