

Episode 214

What self-builders can learn from commercial land buyers – with Rob Wiggans from RMP Property

The show notes: www.houseplanninghelp.com/214

Rob: I actually come from a law background. I did Law at university and I never envisaged ending up in property or land. I actually did Law as a good standing degree and then when it was coming towards the end of my degree, I applied for graduate schemes and the first one I applied for was actually for a house builder, Taylor Wimpey, and I got on their national graduate scheme and did two years with that. It's like an apprenticeship. So I visited all the different offices throughout two years, lived in multiple locations and worked in every department. It was like a two-year apprenticeship whirlwind on housing development.

I ended up in Strategic Land to begin with and did best part of two years with Taylor Wimpey, the department there in the north-west, and then came into property investment through Rob Bence and RMP Property.

Ben: I'm quite interested in how they prep you up when you're going into housing. What sort of things did you do in that graduate scheme? This is quite typical isn't it? Sometimes if you're going to take over a business or a management role, that you'll go in different areas, so tell us about those.

Rob: Yeah. You get given a timetable, like a two-year timetable so you know where you're going to go and when. I started off in production and I physically worked out on site for three months in Yorkshire, working alongside the site manager and then progressed into sales and working in the sales office across multiple sites. Working weekends and greeting customers and getting the sales experience and then went into the office itself, the business unit for Yorkshire and Midlands, Leicester, and worked in finance. I worked in the technical department.

Each time you go in a department you just shadow various people. I pretty much got to see every key role in a housing development,

which was an amazing opportunity. It gave me a great standing and understanding of everything to do with house building right from the ground up (pardon the pun).

Ben: Did you choose the land route or did that just happen almost by accident?

Rob: I was quite fortunate in that I chose it. There was an opening there and yeah, I originally started out in strategic land down in Warwick in the office, working in more of a commercial role and then progressed into strategic land in the north-west where I was physically going out and finding land.

Ben: How many people would they have in a team or because it's split up amongst offices, does it end up not being that many in each?

Rob: It's a good question and it depends on obviously each region is slightly smaller or larger than others, but typically a national house builder, the likes of Taylor Wimpey, a region would have – I'm just going to paint the picture of the numbers first, then go onto staff. It would have in the region of about 15 live sites at any one time. Could drop down to 12. It might go up to 18 but the median is probably about 15.

And then each site would obviously have subcontractors on there. It's only the management that are directly employed by Taylor Wimpey. It's all subcontracted out, the various trades. So you've got 15 site managers there across the sites and then in the actual office you probably have in the region of 30 to 40 staff. If you include sales staff as well obviously working out in the sales offices, you probably go up to about 50.

So yeah, it's not an army of hundreds by any stretch. It's more management and professional roles that are directly employed by Taylor Wimpey. Then when it comes to the trades, physical building of the houses, that's subcontracted out and then obviously you could go into the hundreds if you included them.

Ben: Let's talk specifically land then from here on in. Who makes up a land team?

Rob: A land team is very small. So in a typical office you'd have the immediate land guys. They buy land that's 'oven-ready' as it's known in the industry. That's sites with a physical planning ticket. You probably have two to three Land Managers and then the Land Director, an Estimator as well who works alongside land departments. So about five in the immediate land team tops, and then you would have two to three in strategic land. Two or three

Strategic Land Managers. So a team would be made up of definitely no more than 10 in any region.

Ben: The names are great, but they actually mean very little to me. Estimator? What does that one do? Maybe you can go through these roles and what these people would be doing?

Rob: Sure. A Land Manager would have the relationship with the agent and they physically negotiate the deal and assess the viability of a deal.

An Estimator runs the numbers. Actually spends 99 per cent of his (or her) time physically running the numbers on spreadsheets. All they're doing in simple terms is making sure that land is viable. What I mean by 'viable' is there's enough profit in it and there's enough in it for the land owner and that the build costs are correct. I'm digressing here, but I'll explain just the very broad basics of land value.

On a site you have the total sales cost of all your houses. So the total revenue – GDV, as it's called: Gross Development Value, and then less all your physical build costs and then less developer's profit which, dependent on the site, is probably anything from gross profit 20 to 30 per cent. Then the last portion goes to the land owner. So if you've got a site that's way too high in build costs and there's nothing in it for the land owner, then it's what you call an 'unviable' site. Clearly a land owner's not going to sell for nothing. That's just a quick whirlwind on land value.

Ben: How do they make sure then that they've always got enough land to build their houses or does it just ebb and flow?

Rob: Taylor Wimpey saw the light in strategic land before most of the major house builders. Most house builders now, because they've all cottoned on to the idea, it's a two-pronged attack. You have an immediate land bank and you have a strategic land bank.

What I mean by 'immediate' is land that they own, that's got planning, that's good to go. Literally they're ready to go and put the spade in the ground. That comes from most of the time the agents that cast it across all the national developers.

Then you have strategic land. What I mean by that is they don't own the land most of the time. Sometimes they do, but most of the time they don't. That is land that's got no planning. It's just a green field (or brown field it could be) that they're progressing through the planning system and promoting it for development. That's all long-term stuff that might not come forward for 10, 20, 30 years. The

reason that they can progress it and don't own it is because they have what you call an 'option agreement.' That option agreement is with the land owner and to give you a picture of what an option agreement might look like – So I'm a farmer that owns hundred acres of fields and Mr Developer knocks on the door and says, "Oh hi, I think your site's great for housing, we'll promote it through the planning system for you. It might not happen tomorrow. It will happen in 10, 15 years' time. So what we'll do, we'll give you an initial payment of £10,000. Great. Good few holidays there. Then in 10 years' time, if we haven't progressed and we still haven't got planning, we'll give you another 10 years' time. Give you another £10,000 for a further 10 years" So it will look like £10,000 upfront for 10 years. Then £10,000 again for another 10. Then £10,000 again for another 10.

What they'll say is if we're successful in planning, we'll get a discount off land value. So once we come to agree the land at that price when it's got planning, we'll get a 20 per cent discount of the site because of the significant cost involved with promoting it through the system, which is hundreds of thousands.

Now, the great thing about it is a win / win for everyone. The land owner does nothing and sits back and lets the developer do all the work, at the developer's cost. The developer takes the risk, which for the likes of Taylor Wimpey, a few hundred grand is a drop in the ocean, but the end game for the developer is they get 20 per cent off the land value, which is a significant amount of money if you're looking at a hundred-acre site. So the developer gets huge value for some risk, but not great because they're not physically buying the site until they have planning. Mr Farmer gets several million in the bank once they get planning for nothing out of his back pocket. That's a quick whirlwind on strategic land.

Ben: Now there's no danger here of the farmer thinking, "Oh, I'm going to be able to sell my land and then actually the planning is..." You'll focus somewhere else. You can't keep your eye on sorting out the planning and getting it through because there's also no rush, is there?

Rob: That's a great point. It all depends. When you come to agree the option agreement, most of the time the farmer will have an agent who advises them. Actually developers always say it's best for the land owner to get an agent so that they can't be seen to be taking advantage of them, if you know what I mean.

So, in the option agreement we'll agree an amount of time to update them. We'll say, "We'll give you an update every six months or

every 12 months.” That will correspond with the position of the local plan, so the big opportunity that developers have of getting land for development to be included in a local plan to be brought forward for residential. It might be that the local plan is going to come forward in three to four years’ time so there’s a great initial four year window to bring it forward for development. Then that local plan might last 10 years. Then if they don’t succeed initially, it’s going to be a good few years’ away until they succeed again. So right upfront a developer would always approach land owners it’s got a good short to medium term opportunity and should they miss the first time, they know that they’ve got another go in terms of the structure of the option agreement.

When I was out looking for land, from a long-term perspective, I would look at sites where local plans have an opening coming forward in the next three to five years, where we can promote it. That will be submitting representations to the consultation that any local plan would have.

Ben: Just sticking with that overriding plan then, are you always going into land transactions once that’s in place or are you hedging your bets? How does that work?

Rob: From an immediate land perspective or strategic land perspective? On both sides there’s deals going all the time. We’re always looking for immediate land. We’re always looking for strategic land. It’s quite a fine balance between the two, but to give you an idea on percentages of strategic against immediate, a big national developer might have in the short to medium term 50 per cent of their sites coming from strategic land and 50 per cent coming from immediate. And that’s growing greater on the strategic side, 40, 50 60 per cent, for a lot of house builders because they’re seeing it as an opportunity to gain much more value rather than purchase it ‘oven-ready’ where there’s not as much value.

Ben: And just finally before we try and relate this all back to self-builders, are you on a strategic basis really looking for things that are on the edge of current dwellings, developments? We’ve got one in our neighbouring town where they’re building 3,000 homes but it pretty much completes the circle of the town.

Rob: Yeah, that’s right. When you’re looking for strategic land, you are looking at edge of settlements that are really sustainable. To give you a great example of how we look for strategic land. Say a new link road is announced in a local area, then all the land coming off that immediately becomes very sustainable and very well connected naturally through it being a link road. So land off that will

generate both employment land and housing. So you'll always see an announcement when a new link road or bypass is announced. "Oh, this will mean that 'x' amount of pounds will be generated in commercial sites coming forward and new jobs and also 'x' amount of houses." So we're always following where the growth is going in terms of infrastructure.

Or it might be a new railway station or it might be a new railway line or tram network where sustainability has just become very prominent in that area or it's about to be. But as with everything, that road might take five years to be built. Take HS2 for example, is going to unlock a lot of land naturally through the stations. So that's the path we follow. So it's edge of settlements, but the thing about edge of settlements is you've got to be careful about bringing two settlements together. Without going too deep into planning policy, you can't bring two settlements together or merge two settlements, as it's called. It's all about sustainability fundamentally.

Ben: You mentioned that at one point you were out there looking for the land. Let's spend the last part of this – we've done episodes before on land. We're aware of the due diligence although this cannot be stressed enough, all of these sorts of things. What about that initial stage of actually finding something that you think is good? How are you doing that?

Rob: Sure. The thing about land is it's about the early bird catches the worm. That's all built around the strength of your network. It isn't what you know really, it's who you know. That way, you find out about land opportunities very quickly because in any area – so in the north-west for example, where I base myself – the land and planning network of professionals is very, very small. Everyone knows everyone. So when a good land opportunity comes round, it's very quickly passed around and everyone knows about it.

So it's about being in that network fundamentally. When I say, 'early bird catches the worm,' a great example is when I monitor planning applications and when a site is notified that it's got planning application, a planning decision granted, I would approach the landowner. So the first site I bought for RMP was exactly that. I approached the land owner once he'd got planning. Again, early bird catches the worm.

Ben: Let's look at this for a second because this is interesting. I tried this when I was looking for land. I know we're much further down the scale and in some respects, okay, you're going to get doors slammed in your face. But I felt like if I were at the other end, opening that door, I'd be saying, "Oh, this is interesting." And then I

would put it on the market. I wouldn't deal with someone who's come and knocked at the door.

Rob: Yeah, that's a great point. At the end of the day, the landowner wants maximum value for it. If you're able to demonstrate speed and you're able to do the transaction, and that you are providing a good land value and can demonstrate that, then you are in with a chance being the first person through the door because by putting it to market you've more cost. A large percentage of the time you'll have agent's fees to pay, which is typically anything from one to three per cent. So you're losing one to three per cent of your land value by bringing it to the market.

So by doing it off the market, you've met someone, you've not done any work and he's willing to move quickly. Job done. So there's a big opportunity there, for any sized site really, but I guess it's just a case of being persistent. Even if you did get a door slammed in your face, maybe don't give up. Write them another letter. It's about being persistent and having the right positive mindset. Mindset is a big part. So just making sure you don't give up.

Ben: So there's a sales mentality almost, isn't there?

Rob: There is. You won't get anywhere by just... the land won't come to you. It's about looking where people might not always look and being a bit quirky about your trail of thought. Planning applications is a big one. It's in the public domain. Every single local authority's got their own planning portal.

Then there's other ways you can do it. Agent network - I've just touched on network – but agents is a big one. Get to know all your local land agents.

Ben: How do we do that? Again, this is the sort of thing that agents... I'm sure, I Googled that. I tried to come up with people who might help me with my land search and I failed on this one. I know what we're going to get to in a minute. You're going to say, "Don't buy anything that's advertised on the market." That's what we ended up doing.

Rob: It's a good point. Did you say you 'Googled' and rang up and tried to create the relationship and you didn't succeed on that? I think that might be that moment in time and what's available in that particular area is a little guess, but again persistence with that one.

Ben: I'm not sure I even understand that process. How do you find a reputable agent?

Rob: In terms of finding an agent, it's a bit hard for me to answer that because...

Ben: It's network, isn't it? You're going to tell me...

Rob: Yeah, because I automatically had a network built around me when I joined a national developer, so maybe I've had an easy ride with that. But every local area will have a local RICS surveyor. When I say 'agent,' I don't mean your typical high street agent. You will get land through them, but local land agent, surveyors, that specialise in land is what you want.

It's about establishing a relationship with them. I can't give any examples because it's just dependent on that particular area.

Ben: What about this then? Agents. Do you think they'll deal with us? We're small fish really.

Rob: Yeah, it's a good point. An agent's typical fee structure is percentage of value. If you're buying a piece of land for £100,000 and they're getting two per cent, three per cent, but then they might have land that's worth £5 million and they're getting the same percentage, you can understand where their interest lies. That's one potential, but at the end of the day it's a fee opportunity. So they're going to get paid, they should be driven by it.

Ben: What are your other routes then? We've talked about network. We've talked about agents.

Rob: There's other ways. Auctions is a big one. People are always saying – and it's true, "When anything goes to auction, from a land property perspective there's always something wrong." But that doesn't mean it's automatically not an opportunity you should pursue, because there's a huge value there. It might be that the landowner wants a quick sale and can't be bothered with putting it to market. The circumstance means they need a quick sale, so there might not be anything too much wrong with it, but if there is something wrong with it, can you solve it? Can you get the value? You're not going to pay full value for it with it being at auction and it might be you strike lucky that day and no one else is interested in it and you get a bargain.

Or, if a site doesn't sell at auction – and this is another way I've bought land – you like a site but there's a few unknowns, and you haven't got the time to do the due diligence. You watch the auction. If it doesn't sell, pick up the phone, say you're interested and then buy yourself some time to do the due diligence – which is what I did

again and purchase the site through that way. It's just about 'can you solve the problem with an auction?'

Then the other way is similar to monitoring planning applications. If you spot a piece of land, go on Land Registry and set up an account, which is pretty straightforward to do, and you can find out the land owner for as little as £3. Contact them and say, "Hey, I really like your land. Are you interested in selling it?" That's a very basic way of door knocking and going direct for that piece of land you've seen that you really like.

In simple terms, don't see any barriers. Try and think outside the box. How can you get in contact with people for the land that you want?

Ben: And planning applications too can be useful. I didn't go down this route in a big way, but how would you start down that process of assessing good ones over bad ones?

Rob: This is where due diligence comes in and having the right team around you. A planning application will always have a load of documents with it on the portal, plans, surveys, etc. Planning applications vary in quality quite dramatically, and I guess it's just about being a bit of a detective and seeing what may be wrong with it.

In terms of one single plot of land, obviously the due diligence is not going to be as huge as it would be on a large site, but things I would look for is access, ground conditions, ecology, drainage. So can the site drain? Service connections, so where's the nearest service connection if it's quite detached from that particular area? You'd be looking at a rural plot of land, it might be that the nearest water connection is a quarter of a mile down the road and you've got to pay to connect into that network.

So there's a lot of things to consider that on the face of it might look all great. It's a nice, idyllic flat piece of land, but people always say, "All the issues are below the ground, not above it," and when it comes to land, it's very true. It's about trying to uncover the unknowns.

Ben: I feel like we've got around to here talking about due diligence and perhaps planning mixed into this. Would you fancy coming back another time, somewhere down the road? I think we could go another half an hour at least on this.

Rob: I absolutely agree. Due diligence is such a huge thing and very costly mistakes can be made if you don't do it and you buy land at a whim. So more than happy to discuss that another time.

Ben: Yeah, it's one of those things that we've obviously talked about it before, but just I think your angle is slightly different to how we look at things as a self-builder. So although we have talked about, I'm sure you're going to shed some new light and I can throw some things at you, like I've done today.

Maybe, just finally, are there any ninja tips that you think might help us on this small scale as self-builders? I don't know, maybe nothing comes to mind. Maybe we've already talked about them.

Rob: Yeah, key tips. I touched on due diligence, but I'm just going to relate to it very slightly. Trust your gut – it sounds a bit daft to say that because you can say that in any context, but in land and property investment, I've found that when you think to yourself, "There's something not right here," and you don't know what it is, if you don't know and you still have that feeling, don't do it. Trust your gut is probably one of the biggest pieces of advice I could recommend.

And grow your team before you go into it. So make sure that key team members, whether you're building one plot or a hundred, is a good lawyer. I don't mean your typical conveyancing lawyer that does your house. I mean someone who works in land conveyancing day in, day out and you've got recommended from someone and you know is highly regarded. You can't beat a good land lawyer. The transactions I've done, I've uncovered some big things from a legal perspective by having a good lawyer.

Secondly, planning consultant is a big one, or architect. Architects do planning applications but I would always have a planning consultant on board. There's plenty of them. Plenty of good ones and they're not too hard to find. Architect is a big one and an agent as well to bring you land.

So they're the key players I would say you need whether you're building one plot or a hundred, because they can... albeit you'll pay them all a fee, you could save yourself some significant headache in the future by having them around you.

Also, in terms of self-build obviously you're building it to live in yourself more often than not. Have a clear exit plan. So what's going to happen when you get planning? How are you going to

build out, is a big one. Don't just say, "Yeah, I'll get planning and deal with the build later." Start preparing that.

Ben: Our exit plan is to sit happily in our houses and enjoy it and not think, "Oh, my goodness. How much money have we poured into this?"

Rob: Yeah, a great thing to say about that exit plan. I know you'll live in it, but to touch on an exit plan is make sure you start engaging with reviewing build costs right away and getting a good flavour of cost before you spend too much money. That's a big one. If you live in it yourself or you're going to sell up, yeah, an exit plan is a big one. Don't just say, "I'll deal with that later," and do the planning first.

Finally, know when to bin it, is a big one as well. What I mean by that, if you really like an opportunity and you're toing and froing with the negotiation or there's something not right about the site. Something's not quite working. Don't spend months and months and months and months or however length of time still keeping at it, because know when to bin it. Know enough is enough now. Let's move on. With land there is always plenty of opportunities around the corner if you look in the right places. So don't waste too much time on an opportunity that won't come off.

Ben: Rob, been a really good chat today. Thank you so much for your time. Appreciate it.

Rob: No problem at all. Thank you, Ben.