

JV Equity Structure & Exit Options

Leveraged HMO Strategy (UK Standard)
60% Investor / 40% LNDN Base

1. Overview

This structure is designed for investors seeking **long-term income and capital growth** through a **BRRRR-led HMO strategy**:

Buy → Refurbish → Rent → Refinance → Hold or Exit

Each investment is executed via a **dedicated UK SPV**, created for a single project. The SPV acquires and holds the property, arranges financing, and governs ownership, capital flows, and exit rights.

Because **LNDN Base signs the Personal Guarantee (PG)** on the bridging loan and assumes execution, delivery, and lender exposure risk, the equity split is fixed at:

- **Investor: 60%**
- **LNDN Base (Operator): 40%**

Returns are generated through **rental income, capital recycling, and capital appreciation**. This is an **equity joint venture**, not a lending or interest-bearing structure.

2. Project Type — HMO Conversion (Value-Add)

Asset Type

- Licensed House in Multiple Occupation (HMO)

Room Creation (Illustrative)

- Existing single-dwelling property converted into a **7-room licensed HMO**
- Target configuration:
 - **7 lettable bedrooms**

- Mix of ensuite and shared-bathroom rooms
- Communal kitchen and shared living space

Scope of Works

- Internal reconfiguration to create and optimise room count
- Fire safety upgrades and full HMO compliance works
- Kitchens, bathrooms / ensuites
- Furniture and full fit-out

Objective

- Create a fully licensed **7-room HMO**
- Maximise rental income and refinance value

3. Legal Structure

- Property acquired and held via a **UK SPV (Special Purpose Vehicle)**
- Equity split:
 - **60% Investor**
 - **40% LNDN Base**
- Operator arranges and **personally guarantees** the bridging loan
- Investor provides equity only and remains fully passive

4. Roles & Responsibilities

Investor

- Provides all equity capital
- No operational involvement
- No Personal Guarantee exposure

Operator — LNDN Base

- Deal sourcing and due diligence
- Refurbishment and HMO conversion
- Licensing, compliance, lettings, and asset management
- Arrangement and guarantee of bridging finance

5. Key Commercial Principles

- This is **not a loan**
- No interest is paid to the Investor
- Returns are generated through **equity participation**
- Investor capital is **repaid in priority** before profit distribution

6. Capital Structure (*Illustrative Example (£450,000 Purchase)*)

Purchase Funding

- Purchase price: **£450,000**
- Bridging loan (70% LTV, Operator PG): **£315,000**
- Investor equity (30%): **£135,000**

Additional Investor Costs

- Refurbishment (15%): **£67,500**
- Fees, interest & contingency: **£45,000**

Total Investor Capital Deployed: £247,500

7. Value Creation & Refinance Value

Following refurbishment, HMO licensing, and rental stabilisation, the property is assumed to achieve a refinance valuation of:

Post-Conversion Value (GDV): ≈ £900,000

This value underpins the refinance and capital recycling stage.

8. Capital & Payment Timeline (Illustrative)

Month 0 – Acquisition

- 10% deposit paid at auction or exchange
- Balance of equity paid at completion
- Bridging loan drawn at completion

Months 1–6 – Refurbishment & HMO Conversion

- Refurbishment and compliance costs deployed progressively
- No income generated during works phase

Months 4–6 – Letting & Stabilisation

- Rooms let progressively
- Rental income begins to stabilise

Months 6–12 – Refinance

- Long-term mortgage arranged ($\approx 75\%$ LTV)
- Bridging loan repaid in full
- **£207,500 returned to Investor**
- **£40,000 retained in SPV as working equity**

⚠ Timing is indicative and depends on execution speed, licensing, and lender processes.

9. Refinance & Capital Waterfall

At refinance:

1. Long-term mortgage arranged
2. Bridging loan repaid
3. Investor capital partially returned

Illustrative Outcome

- Mortgage raised: **£675,000**
- Bridge repaid: **£350,000**
- Capital returned to Investor: **£207,500**
- Capital retained in SPV: **£40,000**

10. Rental Income (Post-Stabilization)

HMO Income Assumptions (Illustrative)

- 7 rooms \times £900 / month = **£75,600 gross p.a.**
- Operating costs (management, utilities, maintenance, voids) \approx **£20,000 p.a.**

Net rental income: \approx **£55,000 p.a.**

Investor share (60%) \rightarrow \approx **£33,000 per year**

11. Exit Options — Investor-Led

The Investor retains full control over exit timing and strategy following refinance. Three primary exit routes are available, consistent with standard UK professional HMO investments.

Exit Option 1 — Refinance & Hold (Income & Growth Strategy)

Under this option, the Investor elects to remain invested following refinance.

- Approximately **84% of original capital** is returned at refinance
- **£40,000** remains invested in the SPV as working equity
- Investor retains **60% equity ownership** in the asset

Investor benefits

- Ongoing net rental income (\approx **£33,000 per year**, illustrative)
- Continued participation in long-term capital appreciation

- Retained capital:
 - Is not a fee
 - Does not earn interest
 - Forms part of the Investor's equity
 - Generates rental income and value growth

Capital recycling

- Capital returned at refinance may be:
 - Withdrawn, or
 - Reinvested into new projects at the Investor's discretion

Reinvestment decisions do **not** affect the Investor's rights in the original asset.

Exit Option 2 — Equity Buy-Out (Planned Liquidity Event)

Under this option, the Investor exits the project via an equity buy-out, typically between **12 and 36 months** after refinance.

Who buys the equity

- LNDN Base or A third-party investor

Pricing mechanism

- Based on current market valuation, or
- A pre-agreed valuation methodology set out in the JV agreement

What the Investor receives

- Full retained capital (**£40,000**)
- Plus the Investor's **60% share of capital appreciation** since refinance
- Plus any accrued rental income up to the exit date

📌 Capital previously recycled into other projects is entirely separate and does not reduce amounts due under this buy-out.

Outcome

- Investor exits the asset completely
- All remaining equity converted back into cash
- No further exposure to the asset

Exit Option 3 — Asset Sale (Full Disposal)

Under this option, the property is sold on the open market, typically between **12 and 36 months** after refinance.

Sale process

1. Property sold
2. Outstanding mortgage repaid
3. Net sale proceeds calculated

Distribution of proceeds

- Net sale proceeds split:
 - **60% Investor**
 - **40% LNDN Base**

What the Investor receives

- Economic value of the retained **£40,000** equity
- Plus the Investor's **60% share of net sale proceeds**
- Including any capital uplift achieved since refinance

Key point

- Capital previously recycled into other projects is entirely separate and unaffected by the sale of this asset

12. Returns & Capital Summary (Illustrative)

12.1 Outcome Summary — Investor Snapshot

- Total capital invested: **£247,500**
- Capital returned at refinance: **£207,500**
- Capital retained: **£40,000**
- Capital recycled in Year 1: **~84%**
- Equity ownership retained: **60%**

12.2 Cash Yield Summary — Rental Income

- Net rental income: **£55,000 p.a.**
- Investor share: **£33,000 p.a.**
- Yield on original capital: **~13.3% p.a.**

12.3 Capital Growth (conservative UK — 2.5% p.a.)

- Estimated value after 5 years: **≈ £1,018,000**
- Total uplift: **≈ £118,000**
- Investor share (60%): **≈ £70,800**

13. 5-Year Hold Scenario — Rental Income & Equity Value (Illustrative)

This table illustrates the outcome if the Investor elects to **hold the asset for 5 years following refinance**, receiving rental income throughout the period and retaining equity exposure.

13.1 Rental Income — 5-Year Hold (7-Room HMO)

This scenario assumes the property operates as a **7-room licensed HMO** throughout the hold period.

| Item | Amount |
|-------------------------------------|---------------------------|
| Number of letting rooms | 7 rooms |
| Average rent per room | £900 / month |
| Gross rental income | £75,600 per year |
| Operating costs | ≈ £20,000 per year |
| Net rental income (property) | £55,000 per year |
| Investor share (60%) | £33,000 per year |
| Rental income over 5 years | £165,000 |

✖ Rental income represents realized cash received annually and is independent of exit timing.

13.2 Capital Position — 5-Year Hold (Illustrative)

| Item | Amount |
|--|----------------|
| Retained equity after refinance | £40,000 |
| Estimated property value after 5 years (2.5% p.a.) | £1,018,000 |
| Total capital uplift (5 years) | £118,000 |
| Investor share of uplift (60%) | £70,800 |

📌 Capital appreciation is unrealized until equity buy-out or asset sale.

13.3 Combined 5-Year Outcome — Investor Perspective

| Component | Investor Amount | Nature |
|---------------------------------------|-----------------|-----------------------|
| Cumulative rental income (5 years) | £165,000 | Realized cash |
| Capital appreciation (Investor share) | £70,800 | Unrealized until exit |
| Total economic value (5 years) | £235,800 | Combined |

14. ROI Summary — Investor Perspective (Illustrative)

| Metric | Amount | Comment |
|---------------------------------------|-----------------|-------------------------------|
| Total capital invested | £247,500 | Equity deployed pre-refinance |
| Capital returned at refinance | £207,500 | ~84% recycled in Year 1 |
| Capital remaining invested | £40,000 | Ongoing equity exposure |
| Annual rental income (Investor) | £33,000 | From 7-room licensed HMO |
| Rental income (5 years) | £165,000 | Realised cash |
| Capital appreciation (5 years)* | £70,800 | Investor share (unrealised) |
| Total economic value (5 years) | £235,800 | Rent + equity growth |
| ROI on original capital (5 years) | ~95% | Economic value ÷ capital |
| Average annual economic return | ~13–14% p.a. | Blended return |

Who This HMO JV Model Is Best For — Summary

This model is ideal for **hands-off investors** who want **strong UK rental income and long-term capital growth** without managing property or signing debt guarantees.

Best suited to:

- **Overseas / international investors** seeking GBP income and UK exposure
- **High-net-worth individuals** looking for income + inflation-hedged growth
- **Family offices & sophisticated investors** wanting scalable, SPV-based structures
- **Business owners** seeking passive income without operational involvement

Why it works for them:

- No personal guarantees on UK debt
- Professional operator manages everything
- Early capital recycling (~84% in Year 1)
- Stable income from a **7-room licensed HMO**
- Multiple investor-led exit options