Permission to profit

Funding expert Kevin Wright explains how to transform these property pariahs into cash cows.

Residential properties that have been converted into flats are great buy-to-let purchases, but a conversion done without planning permission can make for a nasty surprise when buyers try to get financing and finalise the purchase.

The problem is that some illegal conversions don't come to light until the owner tries to sell, when the buyer's surveyor discovers that the property is listed as a single residence with no planning permission for the conversion. Because council planners have the right to order illegally altered properties to be restored to their approved state – that of a single-family dwelling in the case of flat conversions – no mortgage lender will finance property where that threat exists. But does that mean you're out of the running unless you've got loads of cash to close the deal? Not necessarily.

Divide and conquer

It doesn't take a financial wizard to figure out that it's more profitable to divide a single family dwelling into two or more flats than to let the property as a whole, so it's no wonder that some owners end up converting their property without getting proper planning permission. Whether owners fail to realise that planning approval is required for conversions, or they unwisely assume that it's no problem as long as the exterior of the building remains the same, you'll likely discover such illegally converted properties throughout the UK.

So what should you do if you have a potential investment property lined up, but find that no mortgage lender will touch it because it's been converted without planning approval?

A problem shared...

The first step is to recognise that the seller of an illegally converted property has a problem, too: their unapproved conversion has made their property unmortgageable, closing the door on all but purchasers who don't need a mortgage. That's bad news for the seller because cash buyers can leverage their position to chip away at the price. While the seller's dilemma is a limited market and diminished value for their property, the inability to mortgage is a dealbreaker for most buyers. For those who've done their homework, though, a little property investment wizardry could reform such an illegally converted property into a lucrative bargain.

If you have the mystical powers of a burgeoning bank balance, great! But you don't have to be a cash buyer to operate like one. You can use bridging finance to work a little magic of your own, and put yourself in just the same position as a cash buyer for this sort of property. For the savvy investor, bridging finance stands in for those powerful cash reserves and can make an illegally converted property a wise investment – as long as you don't get left holding the bag with the planning department.

A residential conversion done without planning permission can make for a nasty surprise.

A retrospective view

Used in conjunction with bridging finance, retrospective planning permission is key to successfully rehabilitating an illegally converted property, and knowing how to get it is the other trick up your investment sleeve. There's no guarantee it will be awarded – and an application by the original owner is unlikely to be approved, given the council's dim view of those who fail to get prior planning permission. However, for a potential buyer, a meeting with the council's planning department is a good way to test the waters and get a sense of whether the council might be inclined to give it a chance.

Start out by explaining the intention to buy, outlining the problem, and asking if, in principle, the council would be willing to consider an application for retrospective planning permission. Each planning department has its own requirements, and you won't get a firm "yes," but you should get an indication of whether your application might be considered favourably.

If possible, demonstrate that the property has been in continuous use as flats for a number of years. This may be for as few as four or as many as ten years, depending on the local council's policy. One way to demonstrate established use is to show that the individual tenants have paid council tax, which proves that the property has been inhabited as separate units. Strangely, the council tax department doesn't report changes of use or occupancy to the planning department!

Once financing is in place and planning approval awarded – Abracadabra! – the property becomes mortgageable. That provides the means to repay the bridging loan. It also brings the property value right back up, which opens the door to a world of opportunity for the investor who knows the alchemy of pairing bridging finance with retrospective planning permission. If you're considering a buy-to-let purchase of flats that have been converted without planning permission, it's a formula you can use to turn property investment lead into gold.

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