

# FAIL TO PLAN? = PLAN TO FAIL



By specialist property accountant Stephen Fay ACA

Starting and growing any business requires careful planning - it's all too easy to focus on the 'here and now', and not consider the bigger picture. Successful, sound businesses have clear business objectives, a clear strategy, & regularly assess performance against budget.

YPN readers can download a FREE 'Property Planner' model from our website ([www.fyldetaxaccountants.co.uk](http://www.fyldetaxaccountants.co.uk)) - this allows a detailed year-by-year plan to be created, covering all aspects of property portfolio planning.

## Why should I budget & monitor my property business?

Tightly managing the growth & ongoing performance of a property portfolio is essential to ensure survival into the long-term. Almost every successful business has had, at some point, its 'wobbles' - what separates the successes from the failures is simple - **PLANNING**.

Property investment is a long-term game - most investors make their real profits by staying in the game for 20+ years - and the asset and debt values for property investors are often large in the context of their wider finances. Property investing is a high-stakes game - one or two bad decisions can wipe you out - so do what Sir Richard Branson does: 'protect the downside'.

In other words ... think The 6 P's - **'Preparation & Planning Prevents a Pretty Poor Performance'**.

## Business objectives

Take some time to set out some clear objectives for your property business.

If it's immediate profits, this should focus on income & net rental profit, so think multi-lets, property development & trading, high-yield single-lets. Many investors don't need an immediate income from their portfolio, & so can concentrate on fewer units that may have lower yields but better capital growth prospects.

Be realistic about what you can achieve - better to have an OK plan that is implemented than a grand plan that is not!

## Creating the plan

The key benefit of business planning is to create a focus for the direction of the business & provide targets to help the business grow. This enables the business to achieve the owner's objectives.

Our Property Planner tool (FREE to download from our website [www.fyldetaxaccountants.co.uk](http://www.fyldetaxaccountants.co.uk)) sets out a professional-standard 5-year Forecast Plan. This is an annual business plan to provide a clear direction of where you are now, and where you will be each year for 5 years.

The Forecast Plan covers:

- Number of properties to purchase
- Prices, valuations, initial mortgages, remortgages
- Deposit and refurb funds = cash requirements

- Monthly rents, voids, letting costs
- Rental profits and cashflow expectations
- Key Performance Indicators - yields, interest cover, expense ratio, return-on-investment

A word of warning - creating a solid business plan is a serious exercise that requires time & effort to work through the numbers & create a credible plan. Many businesses devote a full day once a year to developing their business plan - it's not something to be 'cobbled together' in front of the TV!

Work through the plan with a business partner or spouse, discuss options & strategies, and then enter the decisions into the Property Planner tool as you go.

Once you have a decent plan, you can then start to break it down into bite-size chunks.



## Acting on the plan

Starting & growing a business, or a property portfolio, is hard work! But the very act of creating a business plan helps to crystallise vague thoughts into a coherent plan that can be acted on.

For most investors, deposit funds are the main constraint - but see this as a positive - you now have a plan that has highlighted the single factor that is holding back growth. Your job as the business owner is to find ways above, under or around that obstacle. No one can do it for you - & those that succeed tend to be those that won't take 'no' for an answer. Ultimately the business will be the sum of the quality of your decisions & the work ethic of the owner.

## Key Performance Indicators ('KPIs')

Understanding and monitoring the key 'drivers' of your business helps to measure the impact of increased costs, interest rates changes, void and yield fluctuations & gearing levels. Think of your KPIs like a car dashboard - monitoring speed, fuel level and revs help to ensure you arrive safely & on time.

KPIs are 'quick & dirty' ways to provide an early-warning of problems so that fixes can

be made - or in many cases certain properties, locations, tenants, building ages & types to be avoided in future.

## The business planning cycle

Business planning is an ongoing process - seeing problems in advance rather than reacting to events as they happen. Typically, a business plan is reviewed annually - perhaps after the tax year has ended so that the business accounts can be promptly drawn up to help with the review.

The annual review covers:

1. Actual performance against plan / targets
2. Checking new opportunities & business threats
3. Re-visiting business objectives - do these still apply?
4. Checking on resource limitations - notably deposit funds
5. Updating the next year plan (& beyond) with new targets

## Using the Portfolio Planner to 'model' your portfolio

As well as providing a base plan, the Portfolio planner allows the investor to 'model' their desired portfolio. By changing

purchase price, LTVs, refurb costs, rents & expenses etc, the user can see the impact on their cash requirements, rental profits, interest cover, equity & costs.

This allows experimenting with various options - such as comparing 2 HMOs with 4 single-lets - to settle on a property plan that combines achievability with the investor's wishes. Maybe funds won't stretch to providing deposits as well as big refurbments? Maybe HMOs don't stack up in your area? Use the model to provide projected answers based on what you input.

## Summary

Many investors talk about operating a solid professional business - but the reality is sometimes different! All businesses should start with objectives and a plan - and set targets that ensure the business is built to meet the owner's requirements. Some recent high-profile bankruptcies have highlighted the importance of solid foundations. Property investing is a numbers game - make sure you know your own numbers!

Visit our website ([www.fyldetaxaccountants.co.uk](http://www.fyldetaxaccountants.co.uk)) for our FREE Property Portfolio Planner to help you to plan and grow a sustainable & profitable portfolio - that will stand the test of time.

## Attention Landlords & Property Investors

# How many properties is enough? FREE Portfolio Budget Tool



Stephen Fay ACA

Savvy investors build their portfolio on solid foundations - by working to a 'Portfolio Budget':

- ✓ Simple tool to work out how many properties YOU need
- ✓ Calculates deposits & refurb funds needed, rental profits, expenses, remortgages ... & more
- ✓ Provides business-like structure and discipline to portfolio growth

To obtain your FREE Portfolio Budget Tool go to [www.fyldetaxaccountants.co.uk](http://www.fyldetaxaccountants.co.uk)

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