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You & Your Property - a Long-term Relationship

Specialist property accountant **Stephen Fay ACA** comments

Many property investors are keen to expand their property portfolio and so are often mainly focussed on the acquisition side of property investing. But much of an investor's long-term success, or otherwise, will depend on how they manage their new property, mortgage, and tenant. This article reveals how property investors can ensure they enjoy a positive long-term relationship with their property.

Tip 1 - Income, income, income

In most businesses, it is easier to cut costs than increase income. But, as property investors usually have a fairly fixed cost base (assuming fixed rate mortgages), unlike other businesses, there are fewer opportunities to cut costs.

Few investors focus on increasing the income they receive from their property. Over many years, this can be a source of significant extra profit. Not all properties are identical - and neither are all landlords! So, market and present your property to bring out its best features and 'sell yourself' as a landlord. Many tenants are more concerned with security of tenure - and having a decent property and landlord - than they are with the price.

Tenants are often quite happy to pay a little extra to secure a quality property - and pay a premium for a 'good landlord' - don't be afraid to ensure that your pricing reflects the value you can provide.

Generally, in business, customers are far less focussed on price than many business owners think!

Do: Set top rents for top properties - be brave

Don't: Expect to achieve top rents for average properties

Tip 2 - Mortgages CAN be paid off!

Most investors use interest-only mortgages to finance their property investments. This enables maximum financial leverage, and so enables a larger portfolio to be built. But debt is like a knife - used correctly, it is a very useful tool, but used incorrectly, it can cause serious damage.

> **"Debt is like a knife - when used correctly, it is a very useful tool, but used incorrectly, it can cause serious damage"**

At the moment many investors are enjoying very low mortgage interest payments, but this is only a temporary situation as most investors realise. Once interest rates rise some investors will struggle to remortgage or afford their new 'normal' repayments.

Partly the answer is to provide a quality product (your property) - and maximise rents. But obviously this can only help so much - ultimately most properties cannot sustain high levels of debt.

Investors should try if at all possible, to pay down their mortgage debt to a level that the property can stand - which depends on the income generated. HMOs and Multi-Lets may stand 80%-plus LTV, whereas, realistically, the rents for many single-let properties can only support around 60-65% LTV - once all costs are factored in.

A final point about mortgages - the drip, drip, drip effect of paying off a little each year is relatively painless, yet builds equity and improves cashflow, making it progressively easier to pay a little more each year. It's no coincidence that most residential lenders want borrowers on repayment loans - because they know that, left to their own devices, most borrowers would never get around to repaying the capital!

Do: Start chipping away at your mortgage debt - a little at a time

Don't: Keep putting off making capital repayments - if you have some spare cash

Tip 3 - Keep properties in tip-top condition

Keeping your properties well-maintained will always be money well-spent. Tenants appreciate a landlord that cares for the property, especially if improvements are made proactively. This ensures that a tenant has no need, or wish, to move out - since they are getting a superior property.

Ongoing maintenance is almost always a 'revenue' expense for tax purposes, and with many landlords making big rental profits and rapidly running out of any previously built-up rental losses, why not 'invest' in your properties and avoid paying tax while improving your business?

Many improvements are very cheap in the grand scheme of things (compared to, say, Mortgage Arrangement Fees), and makes charging a premium rent easier to justify.

Finally, well-maintained properties need far less management - meaning less cost and an easier life!

Do: Allocate a percentage of rental ▶

profits towards maintaining your properties

Don't: Neglect your property - unloved buildings WILL cost you more in the long-run

Tip 4 - Keep yourself 'liquid'

Working capital is the term for the amount of cash needed to keep a business working day in, day out. Investors should estimate the amount needed by considering the number of properties, value of rents and costs, likely maintenance spend, and your personal 'comfort factor'.

There are no right and wrong answers here. More working capital means fewer cashflow problems. This needs to be balanced against the low return that on-hand cash will provide. Beware of relying on credit lines for urgent access to cash - if these are pulled, could you survive?

Do: Think about how much cash YOU need to ensure the smooth running of your property business

Don't: Stress yourself out by never knowing if you have enough cash to pay your bills

And finally ...

Really think about whether each property is 'paying its way'. Many landlords miss out on the extra profits that higher rents can provide. Remember - the aim of the game is to make money - so set your stall out to deliver a quality product and try to compete on other factors than price alone. While times are good, try to repay mortgage debt, and treat your properties to tax deductible maintenance - tenants appreciate it and happy tenants make for happy landlords!

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