

A PROPERTY INVESTOR'S GUIDE TO FINANCIAL SURVIVAL

Many property investors have moved on from simply owning one or two properties and are, effectively, running a small business. This means better financial management skills are needed. Specialist property accountant Stephen Fay ACA looks at how today's property investors can avoid becoming tomorrow's distressed sellers.

Rule Number 1 Ignore yield at your peril

It sounds obvious - but it's surprising how many investors buy properties that are not suitable as investments. Usually, this is due to poor rental demand, meaning poor rental yield, meaning rental losses. After maintenance costs, voids, letting fees etc, many properties become a financial millstone - not a route to financial freedom.

Such 'dog' properties should be avoided - just one or two of these can seriously drain cashflow. There are millions of properties to choose from - so be choosy. If your main aim is long-term capital appreciation, ensure that you survive that long!

Do: Ensure every property has a good rental yield

Don't: Buy vanity properties to impress your friends!

Rule Number 2 REALLY understand your cashflow

Remember: Turnover is vanity, profit is sanity, but **cashflow is reality**. It's not the size of the portfolio that matters - it's the quality.

Cashflow is the lifeblood of your business. Investors should use a simple cashflow tracker, to track future rents and costs, for a minimum twelve months. This allows the current and future cash position, and the effect of cash shortfalls on the business to be easily monitored. Our website has a FREE CashFlow Tracker tool to help investors manage their cashflow.

The end is night once control over cashflow has been lost! It's rare for failed property investors to succeed a second time around.

Do: Set up a cashflow tracker & check your cashflow every day

Don't: Think that monitoring cashflow is for nerdy accountants!

Rule Number 3 Treat your property investing as a business - NOT part of YOUR finances

Most property investors don't operate as a limited company (nor should they) - but should still operate their personal and property business finances separately. As a minimum, a separate bank account should be used to operate the property rental business. Nothing fancy, just a simple personal current account, with online access, cheque book and debit card.

Check the account every day (depending on number properties held) - make it part of your daily routine. Update the CashFlow Tracker tool every day, and monitor the cash position of the business.

Do: Have a separate property bank account with online access

Don't: Mix your personal finances up with your business

Rule number 4 Get some 'working capital'

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 on-hand cash to pay your bills

Rule number 5 Manage your income

A property rental business is a 'fixed cost business' (similar to hotels and airlines). This means profitability is tied to 'bums on seats' i.e. high occupancy at decent rates. Know your local competitors' rents, & where your property sits in the 'pecking order', and price accordingly.

Treat tenants like the customers that they are. Consider rental incentives, moving the rent date to suit the tenant, and being flexible with rents.

Daily cash monitoring allows non-payment to be picked up quickly. Operate an 'escalation process' with tenants: phone call, then friendly letter, then not so friendly letter! Work out what YOUR typical tenant responds to. But, remember - the tenant is NOT your enemy!

Do: Be polite but firm when dealing with late-payers

Don't: Bury your head in the sand / alienate your tenants when rents are late

Rule number 6 manage your debt

Property investors need to be excellent debt managers. Every investor should know their debt position inside out - the amount, the rate, fixed or variable, the revert rate, portability etc.

Although most lenders insist on direct debit, many are flexible as to which date the payment is made. Spreading payments between the 1st, 15th and 31st of the month will reduce the working capital needed, and allow investors more flexibility.

If cashflow deteriorates, stay in contact with

the lender. Lenders generally don't inform credit reference agencies about missed mortgage payments if the payment is made before the end of the month (hence the need for a debit card for those last-minute mortgage payments!).

These days, lenders will work with investors who 'show willing' and propose a credible, costed-out arrears repayment schedule. Penalty charges should be challenged in writing - lenders often waive these once a repayment plan is agreed, and is honoured.

Do: know your numbers & stagger mortgage payments throughout the month

Don't: Bury your head in the sand - lenders really don't want to repossess if at all possible

Rule number 7 take professional accounts and tax advice

For most investors, the CashFlow Tracker tool is sufficient to manage the business (few investors need a full profit and loss account and balance sheet, although, commercial lenders sometimes expect this). This should allow monthly cash & profit figures to be estimated and a

sensible tax provision made, at whatever tax rate applies to YOU.

Use an accountant that specialises in property investors, but ensure you understand the advice given. File your tax returns, and pay your tax, on time! But, don't just think about the annual income tax bill - longer-term planning to mitigate capital gains tax and inheritance tax is also important, and the right tax strategy can take several years to complete.

Do: Understand that professionally-run businesses use specialist advisers

Don't: Forget that you don't know what you don't know!

Rule number 8 make life easier

Running any business is hard work, and investors should develop tricks and shortcuts that will ease their admin burden. For example, set up a single portfolio insurance policy, paid for by monthly direct debit, with all policies renewing on the same date.

Similarly, set a single 'Gas Safety Renewal Date' for the portfolio, to avoid needing to track multiple dates (this will involve a little extra

expense as each certificate date is synchronised). Deal with property inspections and regular maintenance work at preset dates to make the best use of your time.

Do: Streamline your business to minimise the management effort required

Don't: Allow the portfolio to run away from you ... it will out-run you if you let it!

And finally ...

If you are serious about treating property as a business, spend time putting in place the financial and management strategies that will help you to do this.

Visit our website for a FREE CashFlow Management template, get your working capital right, and manage your tenants and lenders professionally.

The best businesses have the best managers - and the best managers work hard and smart.

Attention Property Investors and Landlords

FREE tools to help property investors manage their portfolio & tax bills!



Stephen Fay ACA

- ✓ **Property Cashflow Tracker** A simple tool to manage your day-to-day property cashflow
- ✓ **Property Expenses Checklist** A comprehensive guide to tax-deductible expenses for property investors
- ✓ **Tax Return Preparation Template** A simple tool to present your tax year-end info to your accountant
- ✓ **And more useful stuff ...** All created by our Principal, STEPHEN FAY ACA

To obtain your FREE RESOURCES, go to www.fyldetaxaccountants.co.uk

Fylde tax accountants
property tax & small business specialists

Tel: 01253 350 123
Email: stephenfay@fyldetaxaccountants.co.uk