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Financial Management for Property Investors

Stephen Fay ACA, of **Fylde Tax Accountants**, shows how investors can improve their financial management skills and become the 'financial controller' for their property rental business.

Many experienced property investors have moved on from simply owning one or two properties, and now effectively run a fully-fledged business. Better financial management skills are needed to run a business than to run the household finances. This article looks at how today's property investors can avoid becoming tomorrow's distressed sellers.

Turnover is vanity, profit is sanity, but cashflow is reality

Everyone has heard the phrase 'cash is king'. For property investors, it is the lifeblood of their business. For most investors, the large majority of overall property profits come from their equity gains, which grow over time. 'Staying in the game' requires good cashflow management for years on end. Once control over cashflow has been lost, lenders will soon close in and in most cases this will spell the end of the property rental business - with painful consequences!

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 of properties held) - make it part of your daily routine. This is the daily, boring reality of life as a business owner!

Use a simple cash forecasting spreadsheet, which should have all rents, mortgage and finance payments and other commitments, carefully and accurately logged for six to twelve months (one sheet per month). This enables, at a glance, the current and future cash position to be seen, and the effect of cash shortfalls on the business. Visit our website for a FREE CashFlow Management template.

How much 'working capital' do YOU need?

Working capital means the amount of cash needed to keep a business working day in, day out. For investors, the amount needs to be estimated by considering the number of properties, value of rents and

finance payments, likely maintenance spend and running costs, and your own personal 'comfort factor'.

There are no right and wrong answers here. The more working capital you have, the less likely you will have cashflow problems. However, this needs to be balanced with the need to have your capital working for you, as working capital will earn a low return as a current account balance.

Managing your rental income

A property rental business is a 'fixed cost business' (similar to hotels and airlines). This mean 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 customer and being flexible with rents. Daily cash monitoring allows non-payment to be picked up quickly. Operate an 'escalation process' with late-paying customers: phone call, then friendly letter, then not so friendly letter, then eviction! Work out what YOUR typical customers respond to. But remember, the tenant is NOT your enemy!

Managing lenders and 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 who propose a credible, costed-out arrears repayment schedule. Penalty charges should be challenged in writing - lenders will often waive these once a repayment plan is agreed, and is honoured.

Accounts and tax

For most investors, the cashflow management spreadsheet is sufficient to manage the business (few investors need a full profit and loss account & balance sheet, although, commercial lenders sometimes expect this). This should allow a monthly profit figure to be estimated and a sensible tax provision made in cash (using a simple, separate savings account), 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, so ensure you have an overall tax strategy.

Easing the admin burden

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 properties expiring 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 and make best use of your time.

And finally ...

If you are serious about treating property as a business, spend time putting in place the monitoring tools and 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 customers and lenders professionally. The best businesses have the best management! 