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A Simple Guide to Property Cashflow Management ... and Filing Systems



All property investors manage their cashflow - some do it well, for others it's a daily source of pain! Just like any business, managing cashflow well is essential to the long-term survival of a property portfolio - property accountant **Stephen Fay** ACA comments

Why should I manage my cashflow effectively?

This might sound like a strange question. Many investors have moved on from owning a couple of properties and are now effectively running a small business.

Effectively managing cash becomes more difficult as a business grows - in property, understanding the profitability of each unit, maintaining adequate cash in hand, and protecting the investor's credit record, is crucial to ensuring long-term success.

Signs of poor cashflow management

Missing mortgage, loan and credit card payments...delaying payment to tradesmen and suppliers...insufficient cash to 'invest' in the fabric of properties...unforeseen but modest, extra bills, squeezing cashflow.

All these are classic signs of 'over-trading' i.e. a business in need of help before problems spiral out of control. Many businesses that enter administration or receivership experience such problems - and business owners that don't put in place proper processes and controls pay the price.

Tracking cashflow - looking backwards AND forwards

We have developed a simple FREE 'Cashflow Tracker' that enables income and expenses to be recorded and, crucially, forecasted. This enables investors to view a simple summary of the Year to Date (YTD) cashflow and the Forecast for the remainder of the year - with cash shortfalls highlighted automatically in red. This provides

investors with a 'warning system' for the year ahead - and increases familiarity with the portfolio finances.

The Cashflow Tracker is completed directly from the bank statements, and provides an easy-to-understand Profit and Loss Account in a recognised format.

This also enables 'GAAP' ("Generally Accepted Accounting Practice") accounts to be prepared quickly - for example, if a lender wants to see a 'mid-year' position to support a new loan.

“ Maintaining adequate cash in hand, and protecting the investor's credit record, is crucial to ensuring long-term success ”

Set-up and data entry

Just like any business, there is a need to set aside some time to familiarise yourself with whichever software or tool that is selected in order to manage the business. Some investors are quite happy to 'get their hands dirty' and do their own day-to-day book-keeping - whereas others prefer to delegate. Either option is fine - so long as somebody does the job!

Personally, I think investors should be checking their bank (using an online access facility) on an 'each banking day' basis- and updating the Cashflow Tracker with the day's entries. This allows an almost 'real-time' view of the cashflow position.

Working capital - the oil in the machine

Working capital is the 'cash on hand' that enables modest fluctuations in cash receipts and payments to be tolerated. As it earns little return (being liquid cash held in a current account), minimising working capital frees up more cash for further deposits, maintenance, debt repayment - or even spending!

How much working capital is needed? There is no 'right or wrong' answer. The profitability and size of the portfolio, ongoing maintenance needs, the tenants' payment record, any reliable borrowing facilities, and the investor's risk appetite all play a part. Many investors start with a simple figure such as £1k per property, and then tweak the total to reflect their own experience over time.

Other record-keeping - KISS principle

The KISS Principle, of course, stands for 'Keep It Simple, Stupid!' This is sound advice where business records are concerned. The following is a quick summary of a simple 'filing system' for a property investor:

File #1 - Current AST & Tenant Documentation File

This simple lever-arch file contains file dividers for each property, with the landlord's copy of the current Tenancy Agreement (AST) in each section, Inventory Check-In Report, along with the tenancy application. This means all current tenant information is immediately to hand - these original documents are valuable,

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especially in the event of rent arrears court action or a need to involve a guarantor.

Investors that have cause to use the County Court in relation to a tenancy will be glad they looked after their original copy tenancy documents!

File #2 - Current Certificates File

This file contains the key safety documentation for each property: CP12 Gas Safety cert, NICEIC electrical certs, Fire Safety certs etc. It should also include building insurance policies, white goods policies, and the like. There is nothing like a fire at a property to strike fear into a landlord & prompt two checks - (1) was there a Gas Safety Certificate in place, and (2) is the property insurance going to pay out? Trust me - you want to be able to find these certificates quickly!

File #3 - Current purchase invoice file (& rent statements)

Original 'purchase invoices' should be numbered sequentially and filed. If it's not obvious which property the invoice relates to, mark the invoice with the property address. General bills that don't relate to one property can be marked as 'general'. The reference for each invoice can be added to the Cashflow Tracker so that individual expenses can be easily found. Rent statements from Letting Agents are also stored in this file.

File #4 - A 'Permanent File'

This file contains everything else - purchase documents, old mortgage and remortgage offers, deeds, legal papers, old CP12s & certificates etc. As each tenant moves out, and each certificate expires, and each tax year ticks over into the next, old papers can be moved into the permanent file. This file can be kept in storage (the loft?) & added to

as the 'current files' are cleared out - perhaps every year.

This file will prove useful - for example, when defending a tax investigation or checking back through old expenses, or even in defending a Court action.

Summary

Managing cashflow effectively and putting in place 'back-office' systems is often neglected as the day-to-day business of property investing takes priority. Most businesses that fail, including property businesses, do so as a result of poor cashflow management and inadequate business processes. It's a surprisingly pleasant feeling once these systems and processes are set-up and operating - and makes for an easier life for the investor - but does require a bit of effort. The glamorous life of a landlord, hey?! PIN

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