Property Secrets

Property Management Secrets

92 ways to actively manage property for maximum profit

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Table of Contents

1 WHAT IS PROPERTY MANAGEMENT? AND WHY YOU NEED IT…

There are two sources of profit from investing in property. There is capital growth, realisable when you sell or when you re-finance, and there is rental income.

It's true to say, that ultimately most investors are almost exclusively interested in maximising capital gain.

But for someone who is using all the advantages of property investment wisely – gearing, leverage and re-financing – it is the rental income that will make their portfolio ambitions come true.

Maximising rental income is usually what comes to mind when we talk of successful property management. But this is far too simple a definition.

The target is almost always to manage income to maximise cashflow, certainly – but this is done in order to create the circumstances for maximum capital gain.

So, by this definition, we can see that successful management might, in certain circumstances, not mean creating positive cashflow – not, if the capital gains are so high that you need to accept (and it's well worth accepting) negative cashflow.

Positive cashflow = rental income that pays for or exceeds your mortgage payments. Negative cashflow = rental income that falls short of your mortgage payments.

What we would try and achieve in these circumstances is the best cashflow we can over a sustained period.

So keep in mind that the endgame here is always to actively manage in order to keep you invested so you can achieve capital gains. High rental income is not usually the end in itself.

The ways of maximising income are not always as straightforward as they might appear. For example, you may not have considered that lowering the rent you charge on a property might actually increase your cashflow, either on one property or on your portfolio as a whole.

Successful property management is, however, about more than simply raising the cashflow of every property you buy to cashflow positive.

But even if it was possible to manage your portfolio using the strategy of only accepting cashflow positive investments, and you adopted it, you'd be missing out on great capital gains because of it.

Think of markets where capital growth is exceptionally strong – think many of the markets of central and Eastern Europe – but where cashflow is going to be weak.

This is essentially the way markets work – very strong cap growth equals much weaker rental income and probably, therefore, weaker cashflow.

So, good management, which is ostensibly about month to month management, is actually management that leads to maximum capital gain, however this might occur.

Good management can achieve this in two different but parallel ways -

First, by carrying out actions to maximise cashflow that allows you to stay invested and to therefore maximise capital growth profits.

And second, good management should be about long term planning, or managing your portfolio strategically to maximise your ultimate profits and to use those profits in the way you want to.

Probably the best method of achieving both these goals is to learn from experts - and by experts we mean people who've made mistakes and learnt from them. People who been there and done it. That's what this book contains: other people's experiences.

Many of the secrets of maximising profits may seem like just plain old common sense. But that doesn't mean you will have either thought of them, or, more importantly, done them. As is so often the case, what is common sense seems that way only in retrospect.

Don't be deceived!

We often come across the kind of attitude that says: 'Oh, sure, that's pretty obvious.'

'So, you've done that already, have you?'

'Well, no, not as such; at least not yet.'

So, where does the common sense occur here then? In the understanding of what to do, or doing it? We'll leave you to figure that one out.

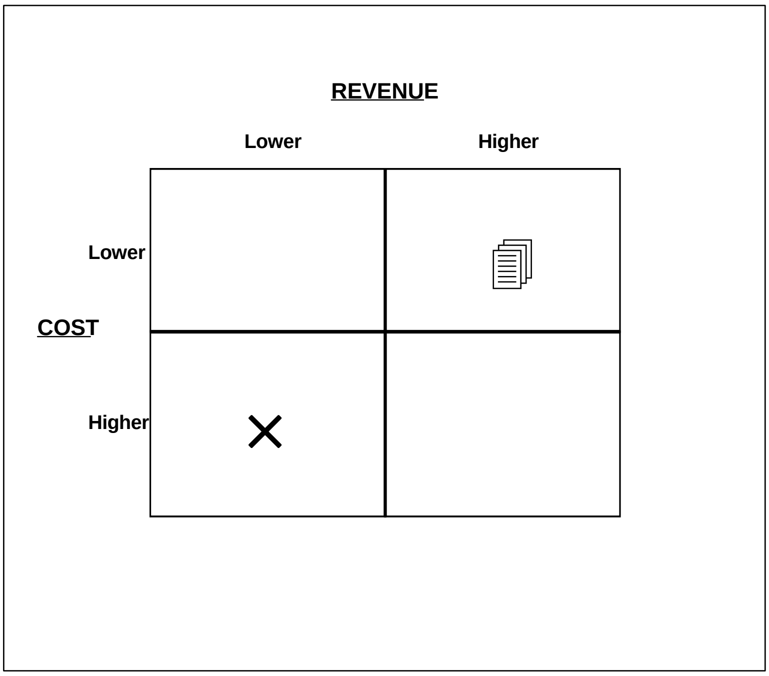
Of course, when yields are compressed and capital growth is slowing or is sluggish, then optimal property management becomes even more important – because the aim is to stay invested and strong cashflow is the key to this.

Remember, this guide is about two kinds of management – cashflow management AND long-term portfolio management. They go hand in hand.

1.1 It's Not Just About Saving Money Or Cutting Costs

Cutting costs and trying to pare back spending is only one aspect of good property management, and, in fact, such actions can often be counter-productive and end up costing you more money.

Here's a simple way of displaying the relationship we need to keep in mind.



So, we're trying to raise revenue relative to costs and NOT simply cut costs. This is a very important concept to grasp – simple, perhaps, but easy to lose sight of.

We need to be ready to spend more money – but only where and when it results in increased cashflow.

This is extremely important to keep in mind, and often takes a certain amount of nerve to put into practice.

When times are tough, for example, there is a natural resistance to spending more unless the end result is very clear, well understood and, of course, beneficial.

But whether your portfolio consists of one, one-bed ex-council flat, or a 150 investments scattered around several countries, you can still benefit from applying the techniques of sensible and smart property management.

Apart from the obvious reason that if there's a legal and easy way of increasing rental income any savvy investor would want to apply it, there are other reasons that are key, and, once again, they apply whether you own one or several hundred properties:

- A single property or a vast portfolio can lead to financial ruin if mismanaged recklessly. Conversely, canny management can protect your single unit or your huge portfolio when yields are squeezed. Box clever and you can easily take advantage of the lean times as well as those when there are rich property pickings.
- Successful property management is really the key to building a multi-property portfolio, because even if you are seriously rich, you will need at some point to release capital from your properties to increase the size of your portfolio. At the very least you cannot endlessly go on adding properties that do not pay for themselves – by which we mean cover the costs of finance. You need investments that IN TOTAL are cash positive or at least cash neutral.

1.2 Property Management Secret #1

Before we get into the detail, let's just start by pointing out something that might seem blindingly obvious - because actually it isn't!

Before you can even begin to consider revving up your property management skills and squeezing the last penny of profit from your investments, you must know what your liabilities are.

When times are good – yields are high and capital growth is storming ahead - it's easy to put aside the importance of this discipline.

But the real skill in being a successful investor long-term is to be able to weather the more challenging periods.

Proper costing is where you need to start.

And we don't mean how much you owe the bank in mortgage loans. We're talking about confronting the hidden or forgotten costs of your investments.

Some of these may be very small, some quite large, but previously overlooked. Now is the time to get out your laptop, open up a new spreadsheet and itemise everything.

If you haven't yet invested, then you need to be scrupulous in including all the costs you will incur, and if there are unknowable costs – such as repairs – then you need to make costing allowances for them.

If you're already invested, then you need to go back over the last year, say, and itemise everything.

1.3 The Six Types Of Cost

Generally speaking, costs will revolve around the following areas:

- The need for ongoing maintenance of property
- Dealing with tenants' problems
- Dealing with letting agents and paying them
- Loss of rental income during void periods when you are between tenants
- Legal responsibilities.
- The cost of your mortgage

Of course, many of these costs will be tax deductible. But for the purposes of creating a comprehensive picture of your costs, you will need to map out everything – and then work out how to mitigate them!

1.3.1 Maintenance

Whatever the age or state of repair of your property – or properties – there will always be the need for some ongoing maintenance. If you're lucky, this can be minimal, but it will never be none!

Even if nothing ever breaks, malfunctions or leaks, remember that between lettings you'll need to have a place professionally cleaned – or at least cleaned to a professional standard; and even if you do it yourself, this should be counted as a cost if it deprives you of doing something else that would earn you more than the cost of cleaning!

You may need to re-decorate – you certainly WILL need to decorate every few years, if you want a place to let well. You may be able to get away with a quick lick of paint, or you may have a rotten floorboard or two under the bath.

Even model tenants rarely take care of a place as they would their own home, as first time landlords quickly discover.

So, you will be well advised to use the cost of maintaining your own home property (and then adjusting this according to the relative size and age of your home compared to the investment property). And one you've worked out that cost, you can pretty much add around 30 per cent to it.

It's not just about tenants who don't alert you to the first sign of wear and tear or damage or who are careless; it's also all the other things you will need to spend money on that come under the heading of maintenance – an annual inspection of the gas boiler by a qualified professional, for example.

And, while many tenants won't bother you at all by alerting you to problems before they escalate, others will be ultra-zealous and demand immediate attention to seemingly trivial repairs, plus other more serious matters that will need professional (and therefore expensive) attention:

- Broken taps
- Broken windows
- Central heating failure
- Broken washing machine
- Non-flushing loos
- Burst pipes

And so on…

1.3.2 Tenants

We used the term "tenants' problems" above rather loosely because within this label we're including finding them in the first place!

But, whatever way you look at it, tenants are a cost centre.

The main costs associated with tenants are:

- Finding them in the first place
- Replacing them
- Dealing with bad ones

Every six or 12 months, or every couple of years, you're going to need a new tenant for your property. If you have a large portfolio, there might only rarely be times when all your properties are full.

You can do go about this in two ways, one cheaper than the other in immediate costs (but potentially more costly later).

You can go through an expensive letting agency, or you can go out and get the tenants yourself, which will take up more of your time and involve advertising costs, but will be cheaper overall. Except if you get a bad tenant, of course.

If you do this, then you could end up wishing you had paid the extra and used a reputable letting agency who took up references and had the experience to vet properly.

We generally recommend that landlords use a letting agent and there are a whole bunch of reasons for this, mainly to do with achieving the highest rent and avoiding the dreaded bad tenant. But, we accept that, dispensing with a letting agent does save cash and can work if you're a more experienced landlord or just one who knows how to source and check out good tenants. We'll give you some tips on this later.

In addition, under tenants, you should include all the minor – but cumulative - costs such as phone calls and travel.

1.3.3 Agents and letting agents

Letting through agents can save you a great deal of time and angst (and possibly cash) at one extreme, or it can leave you feeling that you're paying money for nothing at all at the other.

The difference between these two experiences is that you either have or have not chosen your agent carefully.

Whether your agent is useless of the best of the best, you still have to pay. The difference is that a useless one may actually cost you a great deal more in the longer term, especially if they don't assist with solving tenant problems – caused by tenants they have selected!

We'll go into this area more when we run through 91 ways to actively manage your property for maximum profit. But suffice to say, at this point, the best advice for choosing a good agent is threefold:

- Invest as much time as it takes in asking around locally until one name comes up repeatedly as the best in the area
- Don't select on price alone – this could well be a false economy
- Don't automatically select the agent who offers to achieve the highest rent for your property, in fact rarely do this!

1.3.4 The dreaded V word

The V word is going to come up a lot in this book.

Voids – simply, periods when your property is without a tenant – eat into the yield on your investment dramatically and almost imperceptibly, like moths munching on clothes in a drawer.

Voids are really unavoidable at some stage, but minimising them is probably the most effective way of keeping your yield optimal.

Yield = the rental return on either your investment or the value of your investment property expressed as a %.

It is commonly expressed as gross yield – before all costs have been deducted.

To calculate gross yield:

(Annual rent / Cost of Property) x 100 = Gross yield

Or the yield on your investment:

(Annual rent / Amount You Invest) x 100 = Gross yield

For example – a property costs £200,000 and achieves an annual rent of £10,000:

(10,000 / 200,000) x 100 = 5%

For a full explanation of yield, see 2.1.1

Even without running the numbers, any experienced landlord can explain that all the most effective yield raising measures aim to reduce voids to a minimum.

Your anticipated pattern of void periods will depend on the type of property you have and the type of tenants you are targeting.

For example, if you're letting to students you might have to allow for long voids during holidays (although more students are now prepared to rent a place they like and want to keep year-round.)

Holiday lets or short term lets of a week or several will generally attract more void periods – and higher rents when they are let, of course.

It is crucial to be organised ahead of a tenancy changeover, allowing prospective new tenants to look round the property in good time. Also, as we said above, it's important to do necessary repairs and redecorations, etc, as quickly as possible between lettings.

1.3.5 Liabilities

This is an area of cost that, while unavoidable, is at least fairly predicable.

As a landlord you must ensure that your properties meet a number of standards and requirements, as defined by law. And you frequently have to pay a to prove that this is the case.

You must have yearly checks carried out by a Corgi registered engineer.

All furniture must be certified fire resistant (to appropriate government standards)

These jobs are very important, but relatively minor in terms of time and money requirements.

Usually arranging these checks can be passed on to your letting agents, but the legal liability will remain with you.

Also in the legal category, we need to include insurance – buildings, and contents if the place is furnished. Additionally, you can take out insurance against tenants defaulting on rent payments, or insurance against the need to carry out repairs to electrical goods or plumbing, etc.

Of course, if you haven't yet bought your property, you must factor in solicitor's costs, stamp duty (if any), survey fees, council tax until the property is let (unless the property is unfurnished and empty and exempt), utilities connection charges and so on. This list is by no means exhaustive.

1.3.6 Mortgage costs

This is pretty self-explanatory, but don't forget to factor in arrangement fees, commissions, special insurance charges, application fees and so on and so on!

1.4 The #1 Aim – Avoid The Voids!

We should probably say 'avoid the voids – as much as possible' because that's more realistic.

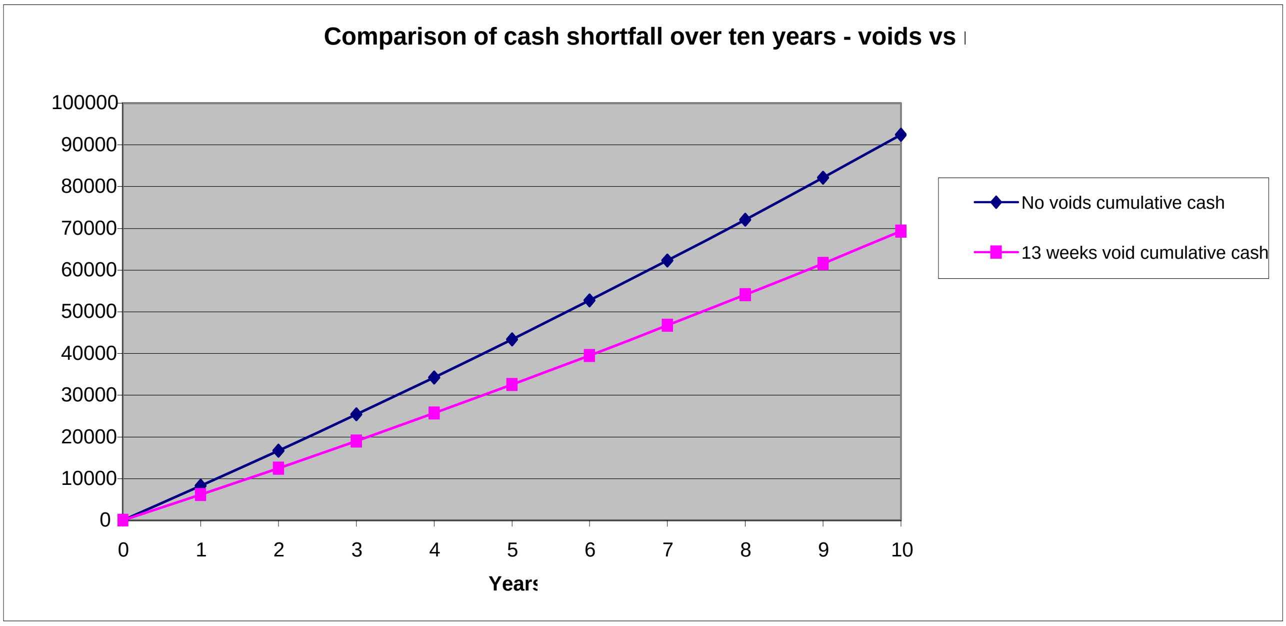
As we implied earlier, you will find that many, many roads that lead to optimal yield also lead to minimising voids.

The rate at which voids can eat into your cashflow is quite staggering, and very often surprises new investors.

Just to be absolutely clear then, a void is a period when your investment property is not earning any income from rent.

The property may well be earning you a great deal of money, of course, because it might be growing in capital value. But the essence of building a property portfolio – and indeed the great advantage property has as an investment asset – is gearing and gearing depends on cashflow.

Let's look at how voids can wreck your cashflow and leave you without income to cover your monthly mortgage and maintenance and service costs.



Assumptions

Cost of property	£150,000
Yield	5.50%
Cashflow / year	8250
Void (weeks)	13
Cashflow / year - inc void	6188
Rent inflation rate	2.5%
Loss over 10 years	£23107

Anyone must agree, then, a sizeable shortfall!

Of all the things that can go wrong, an extended void period will cause you the greatest problems because it can ruin your finances very quickly.

1.5 Avoid High Service Charges

After voids and mortgage costs, the next biggest impact on your cashflow will be the service charges levied by an apartment - particularly the new developments that include parking, gyms, and sometimes pools and gardens.

Facilities like these do command higher rents, but rarely in our experience sufficient to make the extra service charge economic.

Generally speaking, it is always bets to avoid high service charges whatever they are paying for because they are not recouped in rent.

1.6 Every Market Has A Ceiling – Know What It Is

Knowing a market's rental ceiling is vital. If you get this wrong, all your cashflow calculations can go awry.

The ceiling applies in different ways to different markets – the market characterised by slow capital growth and those characterised by very rapid growth.

But in both cases it's really all about first time buyers, affordability and the fear factor.

There's one other factor, too, that applies to the slow moving market – the lifestyle choice; but this is a less significant driver of the rental market.

1.7 Rental Ceilings In A Rapidly Rising Market

In what we might call an immature market, we can see the development of a simple rental ceiling.

If you're planning to rent out a property outside of the luxury end of the market, there will basically be a rent above which you cannot go.

This is because this figure will represent the level at which buying becomes affordable. And in a market that is rising as rapidly as those in many cities in Poland, for example, anyone who can afford to buy will do so. Period.

Rentals in a market like this (outside the luxury sector, which we're not concerned with here), will depend on first time buyers who cannot yet quite afford to get on the property ladder.

As more and more people enter this sector of the market, so, quite clearly, will the rental market grow. We can consider this a maturing of the market and it is what we can see taking place in several parts of Poland, for example.

These will be prospective tenants who have a budget of, let's say the equivalent of £250; and they will keep looking until they find a place for that amount. They won't go over that level because if they could do that, they'd buy instead. And they'll buy because they fear not being able to afford even more properties they like if they delay.

In a market characterised by rapid capital growth, such rental ceilings can be static for long periods, and we can see this phenomenon in many central and East European markets.

1.7.1 Rental expectations

Of course, if the rental ceiling stays static and capital growth is rising, yields will be compressed. And it's important to try and allow for this happening, even though it can be difficult to do so.

Knowing the ceiling in a market is easy if you're buying on the secondary market – you just ask a few letting agencies: what's the top price here for a two-bed, two year old apartment five kms from the centre of town, within one km of a metro station, etc, etc.

The problems arise when you are doing rental forecasts for your off-plan investment.

Your property has risen fast in terms of capital value, but your rental expectations must come down. You will need to be realistic about this and make allowance for it in your cashflow calculations.

What is hard for some investors to realise is that in such a market the rent commanded by a unit is often not a reflection of its capital value. In other words – low yields. That's the price you pay for accelerated capital growth, and, at the end of the day, for almost all investors, it's capital growth that counts.

Which is fine, so long as you calculate your cashflow on this basis. So, you will need to build into your calculations conservative rental expectations and then some!

1.8 How Ceilings Change

In a market in which property values are rising rapidly, ceilings can be static and even fall.

But they can also rise.

There are two reasons why this might happen – neither of these causes will have a sudden effect on a market, though.

1.8.1 The affordability barrier

The first factor is actually the same one that acts for a while to keep ceilings static. Rising capital values of property, which draw more and more buyers into the market, will eventually create an affordability barrier.

As the number of first-time buyers who cannot afford to buy immediately increases, so the balance between buyers and renters will be gradually tipped so that renters dominate and we will see a demand tug on rental prices, which will start to rise.

1.8.2 The fear factor

The other way the ceiling will rise is through the fear factor.

This is quite different from the affordability factor, because it's not about hard numbers. With affordability, you either have the deposit or you don't – you either earn enough for the loan repayments, or you don't.

The fear factor is instead driven by sentiment. It's the fear that prices will start to fall, perhaps; or that interest rates will climb to a point where affordability does become an issue. Or fear may be created by factors not directly connected to the property market, such as a general uncertainty about an economy, which means people worry about their jobs.

All these elements conspire to create negative sentiment and lessen the appetite of first time buyers to take on debt.

So, it's an anticipation of what will happen that causes first time buyers to hold back and rent instead to bide their time.

The single most important spur to the rise of the fear factor is a climate of rising interest rates.

But it's important to realise that there will always be a lag between one factor or the other becoming present in the market and its effect on rents.

Both the affordability barrier and then the fear factor were and are, to an extent, apparent in the UK market during its period of rapid growth in the 90's and the early part of this decade, followed by its current more sedate growth.

It has developed the characteristics of what we might call a mature market.

Remember, too, that the fear factor can also drive rents down – fear of being left behind, of being unable to get on the property ladder at all, can drive first-time buyers to increase the income they set aside to buy as well. This will weaken the demand for rented accommodation.

1.9 Rental Ceilings In A Mature Market

A mature market is simply one that has moved into a phase of more stately capital growth – even a phase of static prices, interspersed with periods of more rapid growth.

These periods of growth may even be annual double-digit growth, but they will rarely if ever be in the same league as we have seen in many central and East European markets, for example. Think the UK and Irish market over the last ten years or so (very strong growth), but much weaker than the kind of turbo-charged growth we've seen in many Polish cities, or Latvia, or Romania, for example.

The same affordability phenomenon applies. First time buyers who cannot yet afford to buy what they want will opt to rent – either that or they will buy a more modest property than they had hoped to buy.

The difference in this market – let's say London - is that ceilings will generally be confined to specific areas. Above a certain rental level in one area, a potential tenant will realise that, if they move a mile down the road, they can buy an identical property for the same monthly outlay, and they will probably do just that.

Or they may choose to rent because of the fear factor – worries that interest rates will rise or their job is uncertain. If either of these groups continues to grow, it will start to lift the rental ceiling at some point. But, again, there will be a significant time lag.

In a mature market, like the UK, there is, as we mentioned earlier, another category of renter – **the lifestyle renters.**

These are usually young professionals who choose to rent because it allows them to live in a location they could not otherwise afford. They DO want to buy, and can afford to, but not in the area where they want to live. And their desire to live in a specific area means they are willing to defer buying.

The key difference between a market that's experiencing accelerated capital growth and one that isn't, is that the one that isn't will develop a rental ceiling that is more reflective of the value of properties.

This is why in a slow moving market, where capital growth slows, yields tend to gradually rise. But the emphasis is on 'gradually'. There is a lag of many months for this pattern to develop.

1.10 What Effect Does This Have On A Landlord's Calculations

The 'so what' element to all this is simple to understand, but hard to get right.

If you buy off plan into a market where capital growth is exceptionally strong – like the main cities of Poland, Romania, The Czech Republic, Latvia or Slovakia – you need to lower your expectations of the rent your units will command when they are ready to go to market.

In a market in which prices are rising rapidly, the rental market will be created not by a person's lifestyle choice, not by a fear factor, but by the affordability factor – if people can afford to, they will buy.

This means there will be a very rigid rental ceiling and this ceiling may not move at all during the time your off-plan unit moves from start to completion.

So, we would advise that you establish what the rental ceiling is now and forecast that it won't rise at all during the construction phase of your off-plan unit.

Of course, the positive side to this is that the more rapidly capital growth occurs, the more people will be driven into the rental market by the affordability factor. Meanwhile, if the rent level is static, you know that the capital growth is almost certainly strong.

Of course, if interest rates rise, the fear factor will kick in and renters will delay buying.

But both these points do not need planning for – they will simply be bonuses. What does need planning for and including in your cashflow calculations is the rental ceiling of your property at the time it goes to market.

2 Why Cashflow Matters So Much – Up To A Point!

We've mentioned cashflow a lot. Let's take a closer look at cashflow and why it's so very important. Important, that is, up to a point.

If your aim is to build and maintain a successful residential property portfolio over the long term then the number one rule is this: Cashflow is King.

Now it may be that if you are buying into a very rapidly growing market, like those in central and Eastern Europe, the capital growth you gain will be so excellent that you can afford – or should at least budget to afford – to set cashflow concerns aside to a degree.

You may decide the rewards are so great that it's worth subsidising your investment for a while. You may even decide that the market is moving so fast you want to buy to flip – sell your off-plan property before completion.

That's fine for when the opportunity presents itself.

But you can't do this in all markets at all times. And, if you're a serious investor looking at carefully compiling a large and very profitable portfolio that will eventually provide you with financial freedom, you will almost certainly have to take a more measured, less rapid approach.

And without attention to cashflow you simply can't apply the basic principles that allow a first time investor to build a vast and hugely profitable property portfolio with minimal outlay.

Notice we say 'minimal' – very different from 'nothing'. Don't be fooled - even with so-called 'nothing-down' deals, there is always the need to spend.

The reason why cashflow is so important is all to do with gearing.

Perhaps you already know all about gearing, in which case, feel free to skip this section.

However, in our experience, many investors who believe they grasp it's mechanics and its importance, in actual fact do not. Only you can decide.

2.1 It's All About Gearing

As we never tire of saying at Property Secrets, gearing is the one thing that puts property investment, in the medium and long-term, streets ahead (pun fully intended) of other forms of investment.

So what is gearing?

In fact what is really important about gearing is not what it is, but what it allows you to do!

Gearing is the way that property financing can allow you to do more with less.

Let's take an example. The actual numbers are not important. It doesn't matter whether you have £1,000,000 to invest or £10,000. What's important to grasp is the principle of gearing and how it can be used.

Let's say you have £10,000 to invest.

You consider three options – leaving it in an online bank paying perhaps 5 per cent interest year; investing it directly (and wisely) in the stock market and getting a yearly 10 per cent return; or using it as a 20 per cent deposit to buy a property with a sitting tenant and a yield of 8 per cent.

Which is the most lucrative option? On the face of it, the stock market looks the best. But this is where gearing comes in to skew the picture in favour of the property – big time!

Let's work each one through using simple, rather than compound, interest.

The Bank

20,000 x 4% = 20,800 after 1 year.

Gain - £800

The Stock Market

20,000 x 10% = 22,000 after 1 year.

Gain - £2,000

The Property

20,000 used as a 20% deposit on a 100,000 property

The yield is 8% x 100,000 (NOT 10,000) = 8,000

Gain - £8,000

Even after costs are deducted, the property's return is still spectacularly better than the other options. And this is taking no account of the possibility of capital growth. If the property increases in value by 5 per cent in your first year of ownership, then you can add another £5,000 on to make your gain £13,000.

The concept of gearing is where you use your money to take control of an asset with a value far greater than you have at your disposal.

2.1.1 Yield

The yield on any investment is basically the annual income you can expect from it expressed as a percentage of what the investment costs you to buy.

The average yield for a let residential property in the UK in 2007 is around 6 per cent, depending on location and type of property, obviously.

Bear in mind, though, that this is only an average.

There are two types of yield to think about.

- Gross yield, which is simply annual rent / price paid for the property x 100
- Net yield, which is annual rent *less expenses* / price paid for the property x 100.

It is, of course, the net yield that will tell you most about the realities of owning and running a property. And it is also the net yield that will vary according to your own outlay, i.e. it will vary depending on how highly you're geared. If you borrow more, you will have greater monthly outgoings to repay the loan and these will lower the net yield.

2.1.2 Gross Yield

Although the national average for domestic properties may be around six per cent – around 5.5 per cent for flats and 6.3 per cent for houses (according to mortgage lender Paragon), buying a property below market value obviously puts you in a strong position immediately.

Your initial outlay is lower, therefore your yield is pushed up.

Sometimes, particularly at auction, properties come up with sitting tenants, a known level of rental, and it's not uncommon to see yields of 40, 50 and 60 per cent.

So, is a gross yield of 60 per cent the answer to your property management prayers?

Probably not!

Such high yielding properties almost always are high yielding for a good reason – and that is that their capital value is very low or they will be extremely difficult to sell.

There are two elements to consider here.

First, the high yield is almost certainly linked to high risk, perceived or real. High risk because the area is run-down and crime-ridden, perhaps, which quite possibly means there's a high risk of tenants defaulting on their rent.

It also means you are more likely to encounter the need to evict, anti-social behaviour (which you may need to deal with in the first instance), and so on.

The other element, of course, is that no one wants to buy a property in this area, which is why it's cheap and why the yield is high. Capital growth on such a property – located, let's say, in an inner city sink estate – will quite possibly be zero.

As you might expect – if you buy a property that is expected to grow in value at high speed, the yield will be commensurately much lower.

So, it's high capital growth and lower yield or low capital growth and higher yield. Rarely can you have both.

2.1.3 Net Yield

Really, in property management terms, the gross yield is fairly unhelpful. We're not that interested in it. What counts is the net yield because it is the net yield that will actually deliver the £££s into your pocket – or not!

So, when we talk about increasing profits through property management, we're only really talking about something that raises the net yield.

The big difference between the gross yield and the net yield is that to arrive at the net yield you have subtracted all your expenses. The figure you're left with will of course be lower. It may even be a negative net yield.

Here's how it's worked out.

Let's take an example of a gross yield of six per cent.

A property generates £500 per month

Therefore, (multiplied by 12 months) = £6000 per year

The property costs £100,000 to buy,

So gross yield = £6000 ÷ £100,000 = 6%

Working out the net yield

Cost of buying property is:

Cost of property	£100,000
Refurbish costs	£3,000
Buying costs	£3,000

Actual cost of property now = £106,000

Gross rent per year = £6,000 (assuming 6% gross yield)

Service and agent's costs	£1,300
Future refurbish costs	£1,500
Mortgage costs	£4,800 (6% of £80,000)
Allowance for void periods	£300

Therefore, net income = (£1900)

Therefore net yield = (£1900) ÷ £106,000 = (1.79%)

Net yields also need to take account of:

- Management costs (through an agent
- Re-letting costs
- Building insurance and repairs

2.1.4 Cash-on-Cash Return

An alternative way of assessing how good a property looks as an investment is to use the cash-on-cash model. This solely looks at the cash you've used to buy the property – typically a deposit plus legal fees and stamp duty – and the cash you get out of it every month after paying costs.

To work it out, take the annual rent, less mortgage payments and other costs, divide this by the amount of money you invest in the deal, and multiply by 100.

Let's say your annual profit after all costs is £1000 and you put down £20,000 of a £100,000 property. So:

(1000 / 20000) x 100 = 5%

You need to bear in mind though that this is a very limited method of measuring return and only becomes valid when a property is actually let.

Also it takes no account of renovations, capital growth, tax and so on.

In order to factor these variables into your calculations, you need to move to the more sophisticated Internal Rate of Return (IRR). Unless you are an accountant or business advisor, this is best calculated using a specialist software package that will do it for you.

If you have enough information to figure out future income and costs for a property, an IRR calculation will give you a much deeper insight into your potential returns.

2.2 Capital Growth Is Usually What Really Counts

But, unless you specifically have a strategy to buy low growth / high yield properties, perhaps by renting to students or setting up other HMOs (Homes of Multiple Occupation), it is important when concentrating on property management and maximising yields, not to get over-focused to the exclusion of what really matters.

And what really matters to almost all property investors is, of course, capital growth.

Even if a property is cashflow negative, after the period of investment it can have been cashflow positive in retrospect. This is especially the case if you invest in overseas markets where no interest only mortgages are available.

So, while the amount you are paying off the loan capital every month might take you into cashflow negative territory each month, when you sell and pay off your mortgage, you will have commensurately less to pay. So, spread over the time of the investment, this can make the investment cashflow positive.

Ultimately, this is just another way of saying that the growth was worth the fact that you had to subsidise the investment every month.

So, maximising yield is indeed a way of increasing profits – but not necessarily rental profits, but profits overall.

This is because the aim of maximising the net yield should not necessarily be to make a property profitable from a month to month rental point of view, but rather to make it affordable.

This is important to remember, even in a slow-growing market, because one of the key attributes of the successful long-term property investors is doggedness.

The phrases 'don't give up,' 'hold on in there' and 'keep the faith', tend to be heard when times are a little tougher – slower growth, higher interest rates, etc. And they are actually well worth bearing in mind.

Certainly you can make quick short-term gains in property, but the real spoils from a substantial portfolio come from long-term capital growth, which means seeing through all points of the growth cycle.

2.2.1 Capital growth long-term

Even at modest levels of growth, over the long term, geared property investment is about capital growth.

Take the average cost of a property in the UK, which is now (2007) just a few pounds short of £200,000 – by the time this report is through the production stage – the price will have no doubt broken through the £200,000 barrier!

Let's assume five per cent growth, and that's modest – 2006, a year of higher interest rates and predictions of gloom and doom , actually saw growth of just under 10 per cent.

On a long-term basis, a growth rate of five per cent is very modest indeed. But, even at that rate, the returns are impressive over the long term, let's say 15 years.

Let's use the example of a 20 per cent deposit on a £150,000 property, so you put down £30,000 and borrow £120,000.

The property's value will go from £150,000 x 5% compounded over 15 years = £312,000. That figure represents profit of £162,000 - the property has more than doubled in price.

More interestingly is your return on investment, or how many times your £40,000 stake has increased against itself. This is the measure serious property investors use to assess investments.

In this case, the ROI is £312,000 minus the original loan of £120,000 = £192,000.

(£192,000 / £30,000) x 100 = 640%

So, this kind of ROI puts a cashflow shortfall into perspective. The important thing is that by adjusting cashflow you want to be able to allow yourself to afford to take advantage of this kind of return.

2.3 When Cashflow Matters More

Ideally, the rental income that your investment properties produce each month should be more than enough to cover the cost of financing, and the cost of managing and maintaining them.

In the real world, that often isn't going to happen.

It certainly won't always happen if you invest in a market where capital growth is very rapid and the rental market hasn't yet become established. The rental market will eventually be created because of the affordability barrier – but there will be a lag, as we've explained.

Certainly there are circumstances where you might feel it's fine to subsidise a property for a period of time – this is likely to be the case in to take advantage of the extraordinary capital growth in central and east European markets, for example.

2.3.1 Cashflowing in the early years

This is known as cashflowing and is a common part of investment strategy in rapidly rising markets, especially in the early investment years.

But this makes cashflow highly important – you will want to optimise it, even if it is negative initially.

In the UK market at the time of writing we are entering a period of slower capital growth and yields are compressed – some regions have been in this phase for a while now. In this situation, a small increase in yield equals a big impact on profits.

You can't do a lot about cap growth if you're already invested, but you can have an impact on a yield.

High capital growth means frequent refinancing and repurchase.

Conversely, weak capital growth means refinancing is restricted and an investor will instead look towards:

(i) Security

(ii) Future refinancing

Yield is therefore much more important, which means active management is vital.

2.3.2 Avoiding cashflow crisis – think like a business

Every business knows that cash flow can make the business or break it. It doesn't matter that a business owns substantial assets, or is owed money - if it can't pay its suppliers and staff when it needs to, then eventually it must take action, or it will go bust.

And to pay its overheads a business needs money coming in all the time; minimally enough to cover all expenses. It also needs a vision of where it is going.

When you build a property portfolio, using finance, the same principles apply.

If you can't keep up the mortgage payments on your property or properties (which should be your biggest outgoing), the lender will take them away from you and you will be a credit pariah for the foreseeable future.

You also need to have a view on where you are going with your investments.

Strong businesses use excess cash flow to acquire new assets that then create additional cash flow.

Likewise as you build a portfolio you should be able to refinance your properties to acquire additional ones that will at least pay for themselves - hopefully with some excess, which again will let you acquire more in the future, or at least provide you with a safety net.

But, as we said earlier, for most property investors this represents an ideal world and at an ideal phase of growth in a market.

While it is wise to think and plan like a business, there is a subtle difference between a business and a property portfolio, and that is that primarily you will be looking for a capital appreciation of the property assets over time - rather than profitable income (as this is taxed at 40%), at least when you start out and begin building the portfolio.

Later you may choose to take more income by paying down the debt, but often this is the beginning of an exit strategy for many and a time when the capital growth is being, or has been realised.

When interest rates are low and property is inexpensive it should be pretty straightforward to buy and then let a property that cover's your expenses. The sums are easier.

In times when interest rates are increasing or high, then you need to exert some controls over how you acquire, finance and rent your investments.

UK and Eurozone interest rates are rising (although we are still in a relatively low interest rate environment and are almost certainly nearing the top of the cycle in he UK). Property prices (particularly in London, for example) have shot up in the past year.

Certainly the banks will be becoming more cautious.

Irish banks are making their big property players leave cash on deposit before they lend on property.

There are two reasons for this:

1. Because property prices have risen astronomically and have compressed yields down to around two percent; and
2. Because they are worried that if the market falls dramatically they will have highly geared clients on their books with 30% less on their balance sheets. I.e. investors near to, or actually in negative equity situations.

When banks cover their backs, so should you!

So, we need to be sensible and do all we can to minimise cashflow shortfall and, if possible turn our investments into cash positive ones. Obviously, this is easier when interest rates are low.

That is why is makes sense to use cashflow positive periods to store cash reserves to take you through the negative times.

Typically, cashflow will be at its least attractive at the start of an investment and will gradually improve over time.

As a rule, for cash flow during the first couple of years, you will be lucky if your rent pays for all your costs. Bear in mind, however, that the amount you have borrowed stays the same and rents will go up and cash flow should catch up with costs in the coming years.

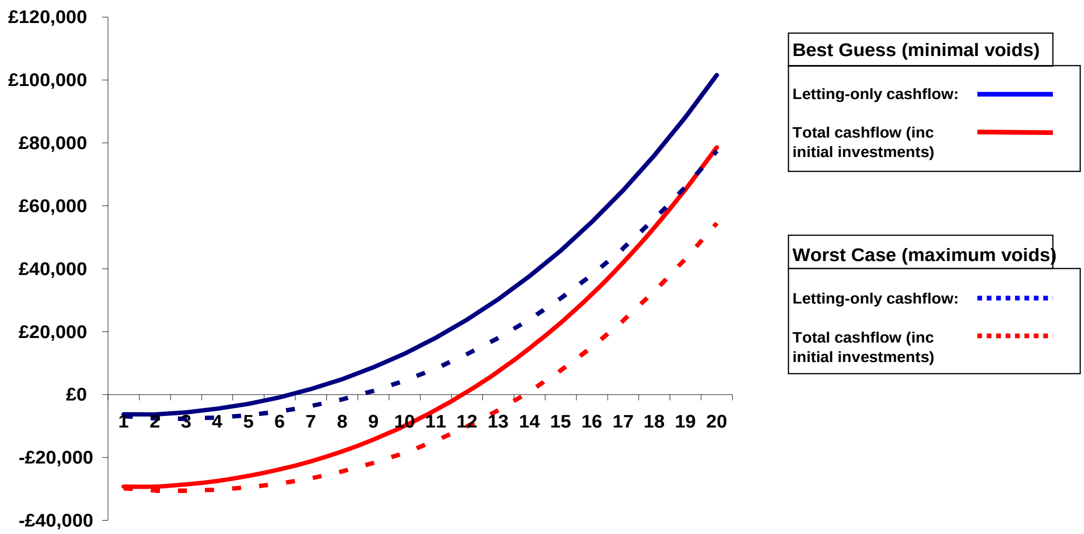
The cash flow will sort itself out eventually - so long as you can put up the rents every year. And a frequent rent increase will mean that you need to keep your property in good condition (i.e. you need to spend reasonable sums maintaining it) over the years.

Right now – in Q2 2007 – we find ourselves, in the UK market at least, in which yields are squeezed, due to slowing capital growth and higher mortgage repayment costs because of higher interest rates. But, crucially, we are almost certainly (nothing 100 per cent certain, of course), but almost certainly at or very near the interest rate cycle peak.

In markets overseas that are of interest because they represent accelerated capital growth, yields will typically be squeezed for the opposite reason - because the cost of capital is cheaper and easier to access, and everyone wants to buy if they possible can afford to do so.

So, the key objective remains – how to increase profits by maximising your yield.

Cumulative Cashflow



2.3.3 Can you put up the rent up every year?

It is normally stated in a letting contract that the rent will go up with the Retail Price Inflation (RPI) if you are doing a lease extension.

However, some years it can go up a great deal more than that. Other years it might not increase at all.

The biggest influence on rent increase is supply of available property for rent.

If lots of new properties to rent have just appeared next to yours, then increasing rates will be difficult.

Conversely, when the cost of buying property increases too sharply, more people stay renting and so the extra demand often feeds through into higher rents being achieved.

Bear in mind that the increase will be uneven. It is also easier to make larger increases when you change tenant.

2.4 Cash Flow Forecasting

Let's now project our cash flow. This will show you how much money you really need. Not just the initial investment, but to keep the project running.

The key thing to remember when doing this calculation is that you'll always need much more money initially than the price of the property or just the deposit.

As we mentioned, there are two main types of costs that you'll incur:

- Purchase costs and set up costs.
- Maintaining the monthly interest payments and maintenance costs (less rental income)

These costs are relatively easy to forecast and measure – even so, many property investment plans forget key items.

It is best to remember that there will always be something that you forgot! Therefore, leave yourself a margin of error.

It is a good idea to project your costs from a best case, worst case and mid-case scenario. The 'mid case scenario' being what you think will actually happen.

The worst case scenario demonstrates the cash flow you'd need to have available if everything went against you. It needs to be realistic, in the sense that it could happen, but not needlessly pessimistic.

For example, at the time of writing – early 2007 – a cashflow forecast probably needs to project cashflow based on a base interest rate rise to 5.5 per cent (what we think is likely), as well as a worst case scenario of a rise to 6 per cent – something we feel is highly unlikely, but we would want to be covered for.

The question you need to answer is – how would an investment stack up under the stress of a worst case scenario?

Please use the spreadsheet to predict your cash flow.

2.4.1 Management spreadsheet

	A	B	C		D	
10	Worse Case Scenario no of week let per year	44	<= Insert the worse case sce			
11	Value of Property		£	105,000	£	108,150
12						
13						
14	**Results (Best guess)**					
15						
16	Year			1		2
17						
18	Rent yield					
19	Potential Rent - per year		£	9,000	£	9,900
20	Actual rent (after void periods)		£	8,308	£	9,138
21	Percentage of year let			92%		92%
22						
23	Letting Agent Fees		£	976.15	£	1,073.77
24						
25	Service Charge £		£	750	£	750
26	Property Insurance - annual cost		£	221	£	227
27	Legal Insurance		£	60	£	60
28	Upkeep / Repairs (per annum) £		£	525	£	541
29	Refurbishment costs (per annum)		£	1,575	£	1,622

Use this spreadsheet to manage your property including the amount you'll spend on letting agents and the amount of money you will set aside to refurbish your property and so maintain its rental value and also to keep void periods to a minimum.

This sheet also allows you to forecast a worse case for your rental property in which you suffer an extended period of voids.

These two scenarios (best guess and worse case) will show up on your **cashflow** chart. Use this to ensure that you have sufficient funds to enable you to see out any period of voids.

2.5 What's Your Break Point?

Another way of tackling cashflow, but taking a different approach is to calculate your break point.

This is one of the best ways of mitigating against the negative effects of cashflow creep, rate rises and void periods. It is to know at exactly what point you reach your break-point.

What exactly is Break point?

If you are using every penny of every single credit line available to you, and your rentals are just about covering your debt costs every month, and you have absolutely no spare cash to re-invest or save for maintenance work, then your finances are like an over-tensioned guitar string.

That is an example of finances that have reached their break-point. One more small rate rise, one more unexpected maintenance bill, one badly-timed void period, and the whole pack of cards will come down.

This is clearly a place no property investor wants to be.

2.5.1 How to work out your own Break-Point

This is a simple, three-step process to calculating your break-point, and how close you are to it.

- Review your situation at your current mortgage rate. To what extent is your rental income covering your property costs?
- Run some what-if scenarios. What if rates go up 0.5 per cent? Another one per cent? Another two per cent? Your break-point is the point at which you can no longer make the repayments. (At the time of writing (March 2007), we believe base rates will go no higher than 5.5 per cent, so you need take your what-ifs no higher than a mortgage rate of 6 per cent, and this is to be ultra-safe). If you still feel comfortable at this level, you can stop here.
- If your rents are barely covering costs, or not at all, you're at your break-point already!

3 But What About A Crash? Shouldn't I Just Sell Up And Get Out Of The Market?

Will there be a property market price crash?

This is a question that has exercised so many investors and taken up more column inches of the property pages in newspapers than any other over the last few years, especially concerning the UK and Irish markets.

But we do need to consider it in the context of managing your investment properties for maximum yield.

Why?

Because if you really believe here will be a crash, then why carry on managing your investments?

If you really believe a crash is around the corner, why not just sell up, take what profits you can and then re-enter the market when you believe it has reached rock bottom?

Do this if you feel confident enough to make calls like this accurately.

In fact, if you feel confident to make calls like this concerning any property market, we're surprised you've read this far! You certainly don't need to read on, because you're an investor in a million!

We certainly can't do it and, to be honest, we don't know anyone who can do it either. You'd need to be both very skilful AND very lucky.

So, with this is mind, we take the view that the way around the worry of 'will there be a crash' is to invest for the long term, during which the trend for property prices is inexorably upwards.

End of story – stop worrying.

Believe it or not, this is an important aspect of successful property management. Because you have to believe in property as an asset class in the long term. We don't mean by this that you have to take a leap of faith, but you do have to be clear on why the argument for long term property price growth is sound.

If there is to be a so-called crash, the secret is to be able to survive it in order not to have to sell.

But, first, let's take a look at what a crash is and why they don't actually matter.

3.1 What Exactly Is A Property Market Price Crash?

The first thing to grasp here is that property price crashes don't just come out of a clear blue sky.

When pilots talk about plane crashes they acknowledge that almost always they are caused not by one thing going wrong, but by a whole series of mistakes that eventually lead to a catastrophe.

It is the same with property markets.

Despite the constant hype in large sections of the media, spurred on, it must be said, by a number of academics and often interested parties, property price crashes do not occur without an obvious cause.

Let's look first at what a crash actually is. Historically, whenever a so-called property price crash has occurred in the UK, prices have generally slipped by 15 per cent and no more than 20 per cent on average. 30 per cent at the extreme. Of course this is a lot, there's no denying it.

Even so, this puts things into some perspective because it is all too easy to associate the word 'crash' with a stock market crash in which equities might plunge by considerably more.

This is the first thing to bear in mind.

Having said this, property markets do crash, so let's look at the series of events that cause a crash to happen so we can use these to check at any times for danger signs. Of course, what you do if you see the danger signs is another matter. We'll come to that shortly.

3.2 What Causes A Crash?

Prices will fall and continue to fall so long as supply exceeds demand – in other words when more people want to sell than want to buy. Actually, that is not quite correct – a crash does not happen because of over-supply. This will only lead to a price correction. A crash is not about people 'wanting' to sell – it is about people having to sell.

If you ask the Council of Mortgage Lenders (CML), they will tell you that the key reason people default on their mortgages is because they lose their jobs (not because property is over-valued or even because interest rates go sky high).

That is why the CML has been pushing the concept of income insurance for a mortgage for many years.

Losing your job is the number one reason for a forced property sale.

And a large number of forced property sales can create a loss of confidence and negative momentum.

So, if the level of UK unemployment suddenly races up (from the current level of around 5 per cent to over 10 per cent, as in 1990), then, yes, we would expect property to start falling in price as an increasing number of people simply could not afford to pay their mortgages whatever sacrifices they made, and this would be because they had no or insufficient wages coming in.

So, this is the first area we need to examine: is there evidence of rapidly rising unemployment, or a fall in the number of people employed? And, if so, how serious and rapid are these trends?

In fact, it is the total number of people employed rather than the number of unemployed – within reason – that is more important because, in the UK, for example, unemployment has reached such a low level that many believe it can never go lower due to the number of people who will always either be between jobs, chronically unemployable or unwilling to work.

Connected with this factor we need to look for salary growth and whether it is keeping pace with inflation.

So, instead of talking, as so much of the press does, about the ‘real value’ of property or property being ‘over-valued’, neither of which terms has much meaning in an economic sense, it is better to talk about market value – what someone will pay for something is it’s true worth at any one time.

And the twin factors of employment and salary combine with other key elements to create affordability – the real measure of where prices are going.

3.3 Tipping Points – Why And When Emotional Markets Crash

As we said earlier, we do not advocate trying to call the market if your investment strategy is based solely on the ability to get this right. This is mug’s game. No one can get it right all the time.

But, a wise investor will look out for the danger signs that a sharp correction may be coming, or plan, at the very least, for a period when affordability becomes much tighter – this is the way they can successfully take the necessary steps to increase cashflow and maximise yield in order to steer their portfolio through the lean times.

The way a property crash occurs is somewhat different from other markets. It is a linear process based on rational behaviour only up to a point; after this, we believe that the property market is an emotional market, much more so than most other asset classes.

This is important because in a highly charged emotional market property owners will hang on to their property – their home - in all but the direst of circumstances.

And, if people refuse to sell, then prices can’t plummet.

So, a property market will not crash until there are large numbers of people no longer able to afford their properties (i.e. who can't pay the mortgage) and have no real prospect of being able to do so (e.g., they've lost their job and have little likelihood of finding a new one).

And, if large numbers of home owners are forced to sell, then other home owners – who might previously have hung on in the hope of a recovery, will give up sooner; and so the process snowballs into a crash.

The point, at which large numbers of home owners give up on their properties and sell with negative equity, is called the tipping point.

It is also the point at which prices will drop almost overnight. Think of a seesaw. No matter the weight on either side of the seesaw, it will not tip until the lighter side becomes slightly heavier than the other side.

3.4 Boom Or Bust? Will There Be A UK Housing 'Bust' In The Next Couple Of Years?

Prices have fallen fairly heavily in the UK twice in the last 35 years – most recently in 1990 and before that during the oil crisis of 1972. And, of course, there's no guarantee it won't happen again.

In fact, the probability is that it will!

No one can predict when but we can make educated assumptions about the near future based on the way economies and property markets have worked in the past.

So, are we going to reach a tipping point in 2007 or 2008?

Well, ask yourself: will two million jobs be lost and interest rates hit, say at least eight per cent in the next two years?

It will take shocks of this size to push the market past the tipping point – not just the economic arguments and highly sophisticated economic models of a few pundits.

Currently, there is no evidence to suggest that a crash will happen.

3.5 Do You Need To Worry About A Price Crash Anyway?

One key reason why property is different is that it is not a liquid asset like gold or equities.

Not only is it not liquid but it's also an asset with a use - people live in it!

So, it doesn't actually matter whether the average first time buyer buys because they believe that property will become their single most important asset, or not.

They cannot simply cash in a property and put the cash into something else.

Well, they can in a sense, but they will still have to put money into the housing market one way or another - because if they don't buy, then they will have to rent.

Housing isn't an option - you have to live somewhere (those who opt for cardboard boxes excepted).

And if the balance shifts in favour of people renting rather than buying, this will drive up rents, gradually depress price growth and therefore push up yields.

3.6 Corrections Are Not Crashes!

One thing we do need to be clear on though is that price corrections are not crashes – whatever the media and some commentators would have you believe!

Price falls (or price adjustments as estate agents often call them), or nil real growth, are caused because a significant number of people simply cannot afford to pay more until an available multiple of their salary, plus interest rates, plus their ability to raise a deposit, etc, all add up to affordability.

A crash, on the other hand, is caused when a tipping point is reached – when people are forced to sell due to dire economic circumstances - unemployment, very high interest rates and so on.

These are very different beasts, and it is worth always remembering that a general reversal in the property market - a crash - does not occur without a general reversal within the economy - i.e., a recession. A slow down, or a price fall here and there, can be caused solely by interest rates rising and is not indicative that a crash will follow.

For a sustained crash, you need a recession, which leads to widespread unemployment – a recession in which a significant number of people simply cannot any longer afford to meet their mortgage commitments.

At this point they are forced to sell and as this trend increases, so price falls will be inevitable. And it will often be the case that the deep correction will be faster and further than underlying fundamentals say it should be, because it will driven as much by sentiment as by economic reality.

Right now, we are not experiencing a recession and, while no one can predict the future, there are no serious signs on the horizon to indicate that the UK is heading for a recession. In fact, the economy continues to jog along quite nicely and even the Bank of England has indicated that we are at or very near the peak of the current interest rate cycle because inflation is under control.

3.7 Does A Price Adjustment Matter?

It's worth considering whether a price adjustment is actually a big deal anyway if you're invested in property?

Let's not lose sight of the long-term nature of successful property investing.

Over the last ten years or so, we've grown used to hearing tales of people who have achieved what seemed like overnight financial success from property speculation. It can be done.

But for most of us risk-averse investors - with an eye perhaps on retirement - the aim is slow, careful and steady progress. So, if your strategy covers a 15-plus year horizon, why worry about temporary blips?

This is such an important point and so easy overlooked, that it cannot be repeated enough.

<u>It's a long term game!</u>

Ask yourself this - will my London property turn out to have been a cracking investment 10 or 15 years from now, or not? What are the odds, based on historical facts? It’s not a difficult call, is it?

What is clear, though, is that right now, when constructing a balanced portfolio, the UK market element must be regarded as a long-term proposition. This means that off-plan investing for fast capital gains is best reserved for fast growing markets elsewhere, like those of central and Eastern Europe.

It also means that in the UK especially, as yields are compressed, managing your property portfolio for maximum yield becomes increasingly important.

The important thing is to remember that property only needs to grow by seven per cent a year to DOUBLE IN VALUE EVERY TEN YEARS.

So, so long as you don't overpay when you buy, in any given market climate, you will succeed long term....probably. No one can guarantee the future, not even an economist! But, based on what has gone before, the chances are very strongly in your favour.

But, in order for this to happen, you need to ensure that your cashflow doesn’t creep up behind you and clobber you when you’re not expecting it!

You need to maximise your cashflow to get you through the tougher times.

If you’re thinking about setting up a property portfolio for the short term, there’s a chance you’ll be caught in, and hurt by, any price correction. But if you’re in it for the long haul, and you have things set up correctly and with the right balances in place, then short-term corrections shouldn’t present a major problem.

The key is to put yourself in a position whereby you do not need to sell – that way you are able to ride out any short-term price correction. And you do that by ensuring you have done everything possible to maximise your cashflow.

4 92 Ways To Actively Manage Your Property For Maximum Profit

So, here are our 92 tips on how to manage your investment properties for maximum profit.

Some of our recommendations may not apply to your particular circumstances, but many others will certainly do so.

Some of our recommendations, like those concerned with capital gains tax, may save you thousands and increase your net profits. So it's not just about cashflow during the term of the investment.

Other suggestions may save far, far smaller amounts, but these are cumulative and, as any experienced landlord can verify, such small measures mount up and can have a really important impact on yield.

We don't present our suggestions in any order of importance, instead you can navigate through the list using the table of contents at the start of this book.

Look upon this as a potential to do list.

And bear in mind that some tips may appear to contradict one another. This is because the right course of action often depends on context – where you are within the timescale of your investment plan, your attitude to risk, the size of your portfolio, external factors like what kind of market you are invested in all affect what is the right course of action for you or what is right in a particular market at a particular time.

For example, a cashflow measure that is precisely appropriate for a market in which prices are growing slowly may be counter-productive in the long run for a fast growing market.

What is certain is that, however experienced you are as an investor, within this list there are certainly sufficient actions that you can take NOW to make a big difference both to maximise your cashflow and to maximise your final profits.

Other pointers might lead you to think of other avenues to explore to maximise your profits through active management.

1) Get into gear!

The average buy to let investor in the UK now has ten properties in their portfolio. And one thing is certain: they didn't accumulate that number by buying each one outright with all of the available capital in their bank account!

As the name suggests, gearing is a means of getting out more than you put in.

Using smaller deposits on several properties, rather than paying a higher deposit on fewer properties, means the greater the potential for a higher return on investment.

Why? Because investors can gradually expand their portfolio using less money, acquire greater rental income and a greater volume of capital growth because they own a larger number of properties.

What is gearing? Need a recap, see section **2.1**

BUT…

Geared investment involves a higher risk (rental income must meet mortgage payments, unless you are equipped to accept a shortfall in the fastest growing markets).

But higher risk can often means greater rewards.

If mortgage payments increase and become burdensome, a property that has shown positive capital growth can always be sold and profits used to lower LTVs elsewhere.

The secret of safe gearing – which some believe is a contradiction of terms – is to borrow within a financial comfort zone.

In other words, generally you should buy properties with the best combined potential for rental income and capital growth.

You should also try to keep voids and overheads to a minimum and monthly mortgage repayments at least twenty per cent less than monthly rent levels.

That's an ideal and is designed to provide a cushion against the tough times.

This formula provides a financial safety net for those occasions when the housing and/or rental market struggles to perform.

However, you may choose to cast all this aside in a market that shows exceptionally strong capital growth. In fact, you would be wise to do so – so long as you can manage the cashflow.

In these circumstances, careful balancing of rental income and mortgage payments may not be necessary or even desirable – but only if the capital growth justifies it.

But the best management, over the long term, and across your portfolio as a whole, requires balance.

2) Don't delay re-letting

Every day your property stands empty, it costs you money and your annual yield reduces.

From the moment you know an existing tenant is going to vacate, begin preparing to re-let the dwelling.

Have advertising text drafted, decorators on stand-by and 'to-let' boards cleaned and ready for installation.

Voids – periods when your property is untenanted – are the biggest threat to your cashflow.

3) Renegotiate management agency fees

If you use a management agent, you'll find that most agents are happy, during tough market conditions, to reduce their percentage fees by a small amount to acquire your business.

And bear in mind that even a one per cent reduction on management fees can increase your annual rental income by a considerable amount.

For example, five units let at £500 a month with management fees reduced from 10 per cent to nine per cent (+VAT), will result in an annual increase in your income of over £350. Add to this the reduced tenant-finding charges and your saving increases even more.

But take care with this strategy – time your negotiations according to market conditions and consider very carefully applying this strategy to a letting agent. See: **Always use the best letting agent around and never try to cut costs!**

4) Renegotiate again every time you add to your portfolio

Agents are also usually keen to encourage loyalty from investors who intend to expand their portfolio, because this means more commission in the long term.

Every time you buy another property for letting, renegotiate the letting agency charges to secure the best possible deal.

A landlord with ten properties should be able to negotiate letting and management agency fees down to at least seven per cent.

In the example above, that would result in a saving of £2,000 spread across the entire portfolio over just 12 months, and more than enough to finance a refurbishment of at least one of the properties.

BUT - see: Always use the best letting agent around and never try to cut costs!

5) Buy properties in the same block

If you plan to expand your portfolio substantially, buying properties in the same location with the same internal style and layout can save you a small fortune.

Furnishings can be bought at bulk discount and you can negotiate a better deal with decorators and builders, who can be brought in to operate on a single contract.

Additional savings can be made on almost everything you need to 'buy-in' for each property; even services such as legal, surveying, marketing and a letting agency.

Plus, if you are managing the units yourself, having all the properties in a single location will save on travel expenses and your own valuable time.

6) Suite your locks

Keys are a costly and frustrating expense for all landlords and the more properties you have the greater the expense.

Tenants and agents misplace keys on a regular basis and the cost of replacement locks can mount up quickly. Suited locks for properties in different locations not only reduces the outlay of forever having to copy new keys or replace locks (because all the keys have been lost), it also makes for easier management.

If all your properties are in the same block or next door to one another, suited locks operating under the same single key will cause a security problem, so suite each property separately.

7) Renew rather than re-let the tenancy

Re-letting a property is expensive.

Agency fees for tenant-find services and other charges for advertising, referencing and drafting agreements can adversely affect the annual yield.

If you add to these expenses at least a month's lost revenue while the property stands empty and the shortfall can build into hundreds of pounds.

It is often economically advantageous to evaluate why an existing good tenant has decided to leave a property.

If it is purely borne out of a desire for cheaper accommodation, it may be appropriate to consider offering a small reduction on the rent.

For example, reducing the rent from £650 to £600 a month could be an incentive that keeps them in the property for a further 12 month tenancy.

Although this would cost you £600 in lost rent, it would save you much more than this in new tenant-find and empty period expenses.

Sometimes it is better to recognise that an existing tenant is an asset worthy of long term investment.

8) Beware adverse end-of-tenancy dates

The fixed period of tenancies can be manipulated to your financial advantage.

If a tenant requests a tenancy from you, calculate when the tenancy is likely to end given the tenant's duration request and the likely start date.

Tenancies that expire during October, November and December invariably involve the landlord or agent trying to find replacement tenants during the gloomiest months of the year when tenants are thin on the ground.

Instead of offering a standard six month let, increase the fixed period offer accordingly so that expiry of the term moves forward or backward into more lucrative times of the year. This will improve your chances of finding new tenants faster and reduce the likelihood of expensive and prolonged voids.

9) Paint rather than wallpaper

Forget fashionable wallpapers when preparing a property for letting.

Wallpaper costs more to buy, it becomes discoloured and scruffy looking and decorating charges are higher because it takes longer to put on the walls.

Conversely, paint wins every time in terms of speed and cost, because it is easier and faster to apply and much more economical to renew.

And another tip … whatever paint you use, always keep a little safely stored in reserve to cover any minor scuffs and blemishes caused when tenants move furnishings in and out.

10) Beware artificially low new-build service charge fees

Most new properties built within city boundaries are leasehold with a service charge and/or management charge attached to them.

These fees cannot be passed on to tenants separately or as part of the rent, because local market forces dictate the level of rent and service charges are contractual, so property owners are legally responsible for paying them.

Most new developments built have a service charge subsidised by the builder for the first year while construction is underway and while the builders are on-site to deal with general maintenance and minor repairs.

Service charges are also artificially reduced during the first three years, because while the properties and common parts are new, there is less work required and fewer replacements such as hallway carpets to deal with.

As the site and individual properties age, so costs rise and - in equal measure - the service charge for each individual unit.

It can be cost-effective to buy a property over three years old, rather than one newly built, since by this time the true level of service charge will be established and won't come as a shock to your buy to let investment strategy.

Even if you don't do this, you should take account of the rise in service charge when you do your calculations.

11) Buy according to postcode

Insurance premiums are post-code based and priced according to risk.

Buying a property in the wrong post-code can cost you a substantial sum above the fees associated with other post-code areas.

The amount of loss is quantifiable and can considerably affect annual yield.

Bear in mind that the post-code not only influences the price of premiums for buildings and contents insurance, but it can also have an impact on other landlord policies such as legal, indemnity, public liability, appliance warranties and rent protection cover too.

12) Employ an experienced property solicitor

It is often uneconomical in the long term to employ a cut-price legal advisor or conveyancer when letting or investing in buy to let property.

In this instance, quality and experience are more valuable assets.

One piece of bad advice over a defaulting tenant or a purchase that becomes protracted due to lack of interest or incompetence can cost a fortune, so it's sometimes a case of better the devil you know and trust than one that comes a bit cheaper, where property is concerned.

13) Buy higher

There are some advantages to buying a ground floor apartment.

For example, they are more likely to attract elderly or infirm tenants or those who want direct access to a garden area.

However, it is usually more prudent to buy a top floor apartment, as these don't suffer from the inevitable leaks arising from shower units, baths and water tanks belonging to upper floor neighbours.

Moreover, the higher the apartment, the better the view usually is; which means a more desirable property resulting in fewer voids and higher annual rental income.

14) Negotiate stamp duty and land tax down to nil

Stamp duty land tax (SDLT) is a costly element in many buy to let purchases and pushes what may first appear to be a sound financial investment into less profitable margins.

SDLT currently begins at one per cent for properties purchased between £125,001 to £250,000.

With the average price of a house in the southeast now standing at £230,000, this adds £2,300 to the cost of buying such a property. On the other hand, negotiating a reduction in the price of just £5,000 would actually save you £7,300 in total.

15) Buy in disadvantaged areas to lower stamp duty and increase yield

There are also some regions of the UK that are designated as ‘disadvantaged areas’ and these currently attract no stamp duty at all for properties sold beyond the normal £125,000 threshold and up to £150,000.

The ‘disadvantaged areas’ are spread throughout the UK and apply not only to the extended neighbourhoods of some towns and cities, but also certain roads or even parts of a road.

Buying with so-called disadvantage area relief effectively cuts the SDLT bill that would ordinarily apply to nil.

To find out if a property you may be considering falls into one of these areas, visit HM Revenue and Customs website at www.hmrc.gov.uk

16) Buy in cheaper council tax bands and areas

Many novice landlords forget the cost of voids, which are often at least one or two months a year in highly competitive areas or locations and periods when supply outstrips demand.

During ‘empty periods’, the council tax normally paid by the tenant is charged to the property owner and even the often discounted ‘empty’ rate can punch a sizable hole in the anticipated annual yield forecast.

Unless other considerations dictate the region of investment and size of property, it is worth researching areas carefully to identify the best location to buy in.

Each local authority charges different rates for property bands and in some cases the savings made on shopping around can be substantial.

For example, the current bands for properties in England are:

Band A: up to £40,000

Band B: £40,001 to £52,000

Band C: £52,001 to £68,000

Band D: £68,001 to £88,000

Band E: £88,001 to £120,000

Band F: £120,001 to £160,000

Band G: £160,001 to £320,000

Band H: £320,001 and above

A property purchased at £69,000 would jump into band D instead of band C if the price wasn't successfully negotiated downwards by just £1,000.

If this same property were located in let's say the southeast instead of Yorkshire, it would cost about £285 more every year for the bill payer.

Even with a 50 per cent empty rate reduction, the landlord would be liable to pay about an **additional** £50 for a two month void just because of where in the country the property happened to be.

Given the average annual council tax for band D in the southeast is £1,275 (2006/2007), the landlord could expect to pay over £100 in discounted council tax for the void period.

17) Let unfurnished to avoid council tax completely

Some local authorities reduce council tax to nil if a property is unfurnished and unlet. This can represent a big, big saving during void periods. Check with the LA in the area you are considering buying in.

18) Join a local landlords' association

There are landlord and investor groups scattered throughout the UK and all operate as self-help groups for the would-be property entrepreneur.

Some have hundreds of members, while others just a few; but all are valuable sources of knowledge and have local expertise that can help cut your annual expenses several times over – and reducing your expenses will increase your annual profit by a proportionate amount.

Landlord associations usually negotiate preferred rates with insurance brokers, suppliers and service providers exclusively for their members.

These savings alone will offset any membership fees and more, but the real advantage is gained through talking with like-minded people and acquiring insider and experienced knowledge about upcoming developments and areas with higher than average rent levels.

Learning from other people's (often costly) mistakes is a sure-fire way of preventing the same things from happening to you.

And more experienced landlords are usually only too happy to help, given a convivial environment and friendly welcome.

Check local newspapers or the local environmental health office for contact details of a group operating in your area, or post an enquiry on the Property Secrets forum, which is, in itself, a form of landlords' association.

19) Pave over that garden

Landscaped gardens might be an asset to some tenants, but most will be quite happy just to have somewhere to lounge during the warm summer months.

The gardens of buy to let properties are often best designed with ease of maintenance in mind, as this will help keep them looking attractive even when the property is empty.

It will also mean less time and money needs to be spent on acquiring contract gardeners, if you don't intend maintaining the grounds yourself during the occasional void period.

Even an expansive garden area can be transformed into eye-catching courtyards and patios with the right style of paving, which removes any necessity to attend the property every weekend to cut the lawns and weed borders.

20) Go frost-free when buying white goods

Tenants rarely apply the same care and attention of landlord supplied appliances as they would if they owned them themselves, and this is most certainly the case with items such as a freezer unit.

Unfortunately, the usual pattern of behaviour for tenants is to wait until the last day of a twelve-month tenancy before they remember to defrost the freezer.

They then make a complete hash of the job, because so much ice has built up; so they break the pull-down drawer units by forcing them and attack the ice with the biggest bread knife they can find.

More often than not, they irrevocably damage the unit and render it useless.

Even though frost-free units cost a little more to buy, they are worth their weight in gold and are more likely to survive the rigours of several tenancies, rather than just one.

It often makes financial sense to employ preventative measures than deal with bigger problems later on.

Some may think ‘if the tenant destroys an appliance, the tenant will pay for it as a deduction from their security deposit’.

But the advent of Tenancy Deposit Schemes in 2007 is likely to thwart that belief, since deductions of 25 per cent depreciation a year plus fair wear and tear will undermine the cost of buying replacement items – and that assumes the landlord is able to prove the loss was caused by the tenant’s undue care and attention in the first place.

21) Never supply a television set

Unless the buy to let you are investing in is at the very top of the rental supply ladder, don’t supply a television set with the property.

Hi-tech equipment is expensive to supply and difficult if not impossible to repair when it breaks down, which means it usually has to be replaced.

In addition, the landlord will be liable to provide evidence of having a television licence during periods when the property is untenanted. These extra expenses are unwarranted and merely serve to reduce annual profit.

22) Buy property in local currencies

Buying property in markets overseas usually allows you to choose whether to obtain a mortgage in sterling or the currency of the investment country.

It is generally better to opt for the local currency, as this prevents any uncertainty arising over fluctuating exchange rates.

In some markets, however, another alternative may exist – borrowing in a third currency, which may make the borrowing rate very much cheaper and so be worth any element of currency risk.

Generally, though, borrowing in the local currency is to be preferred. For example, if both the property and mortgage are in euros, any variability in the currency value becomes irrelevant, because the value of the property and the size of debt rise and fall in equal measure.

Conversely, if the mortgage is taken out in sterling and the euro falls in value against the pound, the property at disposal will be undermined when the gain is converted into sterling. This is because the loan debt remains the same and therefore accounts for a larger proportion of the property’s value.

Plus, while some investors may be happier taking out loans in the UK to buy property abroad, better deals can often be found by dealing with a bank pertinent to the country of investment.

23) Install card-meters

There are three advantages to converting gas and electric meters to pre-pay card-meters in buy to let properties.

Firstly, if you are managing your own property, it saves both the time and cost involved in taking meter readings and informing the utility companies at the start and end of each tenancy.

Secondly, as tenants tend to vacate leaving a small amount of credit on the meter, there is usually enough of a surplus to provide lighting and background heating between tenancies, while the property is empty and being viewed by prospective new tenants.

The standing charge and cost of energy consumption between tenancies would ordinarily fall as a charge to the landlord, but this arrangement prevents such a liability arising.

Finally, the gas and electric suppliers will never again try chasing you for unpaid final bills belonging to the vacated tenant.

This often happens with tenants that have absconded mid-way through their tenancy or those that leave without providing a forwarding address.

The utility companies have no right to seek recompense from you (unless the contractual supply account has been left in your name), but this doesn't always prevent them from trying.

24) Stagger property disposals to save on capital gains tax

Capital gains tax (CGT) is payable on the profit made when selling a property, unless that property has been nominated and is approved as your only or main residence by definition.

There is a tax-free band of CGT relief available to everyone to offset the tax burden, but – just like income tax banding - this relief can only be claimed once in any twelve-month period (the tax period).

So, you either use it or lose it.

If you intend to dispose of several properties, it may be better to sell one in year one, the second in year two, and so on, so you are able to claim the full extent of annual CGT allowance for each transaction.

25) Protect bathrooms

Tenants never take quite the same care in a rented property as you might in your own home and bathrooms are typically problematic.

Splashes and leaks from basins, baths and showers often go unreported until tenants get fed-up with the irritation, which means any carpet laid to the bathroom gets saturated, stained and mouldy.

Even worse, if left long enough, a small leak can cause floor and dry-lined wall timbers to rot.

These are expensive and common problems for many landlords and since prevention is always better than cure, laying vinyl instead of carpet is an easy and economical remedy.

Where possible, run the vinyl up the skirting a few inches to stop water getting underneath to the floorboards and joists or alternatively fill the gap with flexible silicone after painting the timbers.

26) Keep alarm codes secure

One of the more recent changes to letting law has seen the mandatory requirement for landlords to supply tenants with manuals or written instructions for all appliances and equipment.

This requirement includes intruder alarm systems.

Most manuals include the procedure for altering the entry code and some tenants take advantage of this information, changing the number issued at the start of tenancy to one that is easier to remember.

Unfortunately, they rarely let the landlord or the agent know what new number they have installed before leaving the property, which leaves the landlord with an alarm system that has to be returned to the manufacturer's setting by an electrician at considerable cost.

This situation can be avoided by photocopying the original manual with the code-change procedure blanked out, thereby saving the unnecessary additional expense of reinstating a 'known' code.

27) Claim the 10% tax allowance against furnishings

Landlords can claim total expenses for furniture renewals and replacements as part of their year-end self-assessment allowance for deductions against income tax, but some may benefit by claiming the annual fair wear and tear 10 per cent allowance.

The attraction of claiming the latter is that landlords don't have to spend anything to receive the 10% deductible allowance for tax purposes against rental income. Once claimed, the allowance is granted regardless of how much or how little wear and tear is actually incurred.

28) Save your sofas by having fitted covers

Sofas and chairs are a major expense and smart new suites can quickly become stained and shabby over the course of a six or twelve month tenancy.

Replacing them every tenancy is not a viable or economic option, but leaving grubby furniture in the property may discourage new prospective tenants taking up occupancy and cause prolonged voids.

This situation is best avoided when stocking your property with furniture by purchasing suites with washable loose covers.

These can then be professionally laundered at the end of each tenancy, which is a great deal cheaper than having to replace the sofa and chairs every time.

29) Reduce accountancy fees by keeping good records

Although it is not essential to have an accountant prepare and submit annual accounts to the tax office on your behalf, there are advantages by employing an accountant to provide this service.

And, of course, in an overseas market, such as Poland, for example, the services of an accountant are virtually impossible to avoid.

An accountant in any market will help ensure you claim everything you are entitled to, so that your annual income tax bill is reduced to the smallest amount possible, driving up net yield.

Accountants can also guide you to arrange your financial affairs in the best way to minimise the effect of capital gains tax.

Accountants usually charge by the hour for their time spent on preparing accounts.

This bill can usually be significantly reduced by landlords submitting neat, organised and comprehensive records, rather than just an ad-hoc and disorganised collection of notes and receipts.

Proper book-keeping involves putting an hour or two aside each month to record income and expenses in a logical format and check that the original receipts and invoices are readily available.

This simple process makes the accountant’s job a great deal easier, which in turn results in a smaller charge to you.

Also remember to keep the invoice from your accountant as this professional fee is an allowable tax-deductible expense.

30) Set up a separate business bank account

Getting organised can save you money! This applies whether you have one BTL investment property, or 200. The money you save will be on your accountancy fees – these guys charge by the hour, remember.

Pay the rent into your business account and all payments should come out of the same account.

If there is a shortfall, you top it up from your personal account. That way you can keep track of your true costs.

This will help you:

- Accurately measure your return
- Simplify your accountancy

31) Think back seven years and claim pre-trading expenses

If you bought your property within the last seven years, you may be able to claim tax deductible expenses that you have thus far failed to claim, including any that you incurred through buying and letting it.

Some can be held over against capital gains tax liability when the property is sold, while others could reduce your annual income tax bill.

To make a viable claim, you will need to have strong evidence of what was spent, where the money went and what it was for.

32) Prevent maintenance costs by eliminating the cause of damp

Dampness in let properties can be a real headache and an expensive one to remedy, if left unattended.

Everyday cooking in kitchens as well as the steam from bathroom showers are major sources of condensation and unless the high levels of humidity are vented out, severe damage can occur to decoration and even to the fabric of the building, causing rotten window frames and crumbling plaster.

Landlords and their agents might be diligent enough to ensure the exterior and interior are painted on a regular basis, but rarely do they follow it up by checking that windows still open – and tenants don't often complain about what they perceive as a minor detail.

The result is a bathroom or kitchen that locks in condensation, becomes damp and falls into disrepair.

The first time the landlord realises there is a problem is a year or so later when timber frames start falling apart.

Even if windows do open for ventilation, tenants tend not to use them during cold winter months. The best solution is to have an extractor-fan fitted that is linked to the lighting circuit, so each time the light is switched on, steam in the bathroom or kitchen is automatically vented out.

33) Buy terraced houses rather than semis or apartments

Although much depends on the type of tenant in high supply in a particular area and the style of property they are looking to rent, statistical data from online buy to let mortgage specialists, Loansite, point investors in the right direction to gain maximum profit.

They suggest terraced houses are the highest yielding properties in the UK, realising about 8.4 per cent on average per annum.

Compare this with the average buy to let yield across all properties standing at around five to 5.5 per cent, and buying terraced houses instead of other dwelling types might help widen your profit margin.

Don't forget, though, do your research locally.

34) Claim your research costs

Professional landlords and property investors can claim some if not all expenses relating to learning about and researching this specialised subject as allowable deductions against income tax.

This includes seminars and conferences they might attend, magazines and books purchased on the subject and even membership of invaluable sites like Property Secrets!

It is sometimes difficult to make a distinction between allowable costs, which are those relating to anything that expands or improves your knowledge and is therefore intended to improve your investing skills, and those the taxman prohibits. These generally relate to acquiring entirely new areas of knowledge – but one thing is certain - if you don't ask, you won't get.

35) Consider a standard residential mortgage

Unless circumstances dictate that you apply for a specialised buy to let mortgage, you might consider the advantage of a standard residential loan instead.

Even the best-value buy to let mortgage can have an interest level anything between 0.5 per cent and three per cent higher than a standard loan, making monthly repayments higher and cash flow more difficult.

One often overlooked advantage of a standard mortgage is that they provide more flexibility for the landlord to opt out of hiring an expensive agency to manage the letting of your investment property and instead do it yourself, and so save a considerable amount of money and so increase end of year profit.

This is because most buy to let mortgages insist that property management is undertaken by a professional letting agent and there are usually other restrictive conditions attached as well, such as a restriction on the type of tenant and the type of property.

36) Buy blinds instead of curtains

Window blinds are usually cheaper to buy than curtains, unless the windows in your buy to let property are of a standard size that allows you to buy off-the-shelf.

Blinds are also more fashionable for modern properties and can be wiped clean at the start of each new tenancy.

If you feel curtains are more appropriate, look for unlined machine washable fabrics to save on professional laundering costs.

37) Make sure you claim all professional fees

The fees charged by solicitors, surveyors, estate agents, mortgage lenders, brokers and other professionals when buying a property can be claimed against the capital gains tax liability at the point of disposal, so keep a record of all expenses involved with the purchase and sale.

A lot of people forget this when it comes to selling – and those that don't often haven't kept the relevant paperwork.

Other routine charges by management and letting agents, accountants, reference companies, debt collectors and legal advisors involved in drafting tenancy contracts can all be claimed as allowable deductions against annual income tax liability.

The golden rule is: keep all receipts and paid invoices and submit them with your yearly self-assessment tax return.

38) Deduct the cost of future repairs

We have all heard about creative accounting, which is a way financial advisors exploit the tax rules to gain maximum benefit for their clients.

There is nothing illegal about this. It is simply a means of working within the confines of the taxation system, but taking advantage of anything the system might offer.

The problem most people have is that the tax laws and regulations are so complex, few of us are able to recognise and so take advantage of the many hidden rewards they contain.

Providing a repair is deemed legally required, the cost of it can be accounted for in one tax year to offset the total amount of income tax liability for the following tax year – even though the expense has yet to be incurred.

This not only helps improve cash flow, it can also prove beneficial by reducing the amount of tax paid if the first year's profits are expected to be higher than those of the following year.

This not uncommon tax balancing procedure has been employed by many professional tax advisors to help their property investor clients pay less tax than would otherwise normally be required.

Here's how it might work in practice.

A tenant complains to his landlord in January 2007 that the roof is leaking in several places and closer examination by a builder confirms the roof needs completely replacing.

Delays cause the tenant to go to the local authority's environmental health officer to complain and consequentially the local authority issues the landlord with a statutory repair notice.

On 4th April 2007, the landlord receives an approved estimate from the builder to undertake the work for £3,500.

The landlord can make provision for the £3,500 in his accounts for tax purposes for the year ending 5th April 2007, even though this expense has yet to be incurred.

This will become a deductible expense and reduce the tax burden for 2006/2007, despite the fact the actual bill will only be paid during the 2007/2008 tax year.

39) Buy properties in the same country

Huge savings can be made and there are other considerable advantages to grouping your investment properties in the same country, even if you have several groups in several different countries.

Generally speaking, the most successful property investors accumulate and apply knowledge about market forces pertinent to their area of speciality, whether that speciality involves holiday lettings, refurbishments, buy to let or some other property related operation.

It is much more difficult to gain insight into laws, regulations, customs and market forces when properties purchased are spread through several countries, than it is when a portfolio is contained within a single country.

By restricting your investment strategy to one country, you can become more familiar with how the property market operates in that country and act faster to buy, sell or let - thereby reducing the likelihood of long voids, expensive overheads or missing economic fluctuations that could potentially damage profit levels.

Plus, you can employ the same professionals to deal with your property transactions and create good business relationships.

The need to employ a translator can also be reduced or eliminated, because you can become more familiar with the language and even develop your fluency skills to second language standard. Even if this is not possible (as it won't be for most people), the expense spared by only needing to translate from and into one language will often be considerable.

Buying groups of properties in each country, rather than spreading your portfolio thinly over several countries, may seem a little like many eggs in one basket.

And there might be adverse consequences if the economics or politics in one of markets you have chosen to major in start to deteriorate. But with greater knowledge and awareness, any impending signs of deterioration will be picked up faster, allowing you to sell-up or change your investment strategy earlier, thus averting any complications.

In other words, keeping diversity in check means you will be able to keep track of your portfolio more readily, with large potential savings in time and money, both in terms of management and profits at the point of sale.

40) Spend 50 per cent – gain 100 per cent!

Landlords whose properties have become a little out-dated and tired may suffer from longer voids between tenancies, because even if viewings remain high, tenants may be more reluctant to take the property.

This can be exacerbated if a tenancy ends during winter, when traditionally the market slows down.

A three-month void causes the loss of 25 per cent of the annual rental income and can bring about severe hardship for buy to let investors if the situation is repeated over consecutive years.

However, acting fast and investing some of the potential loss can remedy the situation, turning a shortfall into profit.

For example, a property let at £500 per month would lose £1500 if it fell empty for a three-month period at the end of a long tenancy.

Being prepared to spend £500 during the first week of the empty period (to significantly improve the appearance of the property) would encourage faster take-up by prospective new tenants.

By securing a new letting by the second month, £1000 in lost rent is saved – at the cost of spending only £500.

As we said near the beginning of this book – increasing profits is not just about cutting costs. Often it is about doing the opposite – spending for greater gain. Or, as in this case, spending to limit loss!

Significant improvements might include:

- New carpets
- Redecoration
- Updating a bathroom or kitchen
- Installing new bathroom fittings
- Replacing a worn-out sofa….etc

It is often better to make an impact by undertaking a major improvement in a single area, rather than make more but smaller improvements throughout the property.

Over-familiarity with the internal appearance can make property owners blind to obvious faults; so, ask friends, colleagues or your letting agent to provide an unbiased opinion on where to concentrate any improvement work.

And don't forget, the cost incurred for replacement or reinstatement work can be claimed as deductible expenses when completing your tax return, thus saving you even more by the end of the year.

41) Rent rooms instead of separate dwellings and get £4,250 tax-free!

The 'rent a room' initiative means that if you take in lodgers in your own home, you can earn up to £4,250 per annum tax-free.

And you don't have to own the property to take part in this scheme, you could for example be a tenant and still claim the tax-free allowance (but you would need formal permission from the landlord).

A disadvantage (possibly the only one) is that 'rent a room scheme' participants cannot claim any expenses as deductions against tax for earnings above the £4,250 limit. It is worth calculating carefully in advance whether opting into the scheme would be advantageous in each particular case, given the amount a lodger might be expected to pay.

42) Bathroom tiling – plan it carefully!

Fully tiled bathrooms look stylish, are easy to keep clean and usually provide landlords and their tenants with many maintenance free years.

What's more, full floor and wall tiling also helps protect the fabric of the building from damp caused through condensation and it also restricts any water escaping from showers, baths, basins and WC's.

Unfortunately, tradesmen have a tendency to tile over boxed pipework as well, which can cause havoc if a year or two later one of the joints springs a leak.

Tiles then have to be smashed off as an emergency measure and, once the leak is fixed, reinstating the boxed out pipework can be expensive – particularly if the original tile design is no longer available.

Preventing this kind of potential expense is very straightforward, providing instructions are given to the builder at the outset that boxed pipework must be tiled on separate sections of timber.

These can be fixed into position with concealed screws or magnetic fixings so that easy access is available to the pipes underneath, if needed, and without causing any damage.

43) Weed out potentially troublesome tenants

Bad tenants always prove more costly than good ones in the long run, so thorough referencing of applicants before considering whether to accept tenants is an essential and worthwhile expense.

However, a trick of the trade sometimes allows landlords to thin out applicants in advance, thereby reducing the cost and time taken to reference. Alternatively, this is a good additional check on potential tenants.

Once prospective tenants have viewed a property and have expressed an interest in taking a tenancy, ask for their name and address and offer to deliver application forms in person.

By visiting the applicant(s) in their current accommodation, landlords can assess how they are living, whether they are adopting a responsible attitude and taking adequate care of the property – and get an idea of how they might behave if they were to occupy your property.

It may be a little inconvenient if applicants live some distance away, but this procedure is one that can prove even more informative than formal referencing.

The golden rule is this: avoid bad tenants if you possibly can.

If an agent ever says – or even vaguely suggest – that they are not quite sure about a potential tenant, then do follow their instinct. The chances are that they are right and something about this tenant is wrong!

Follow this guidance even if the prospective tenant offers full rent.

It is much better to go with a good tenant for a little bit less money than a less certain tenant who may be offering more rent.

44) Keep all buying and selling receipts

Most expenses incurred for buying and selling a property are allowable deductions against capital gains tax (CGT).

CGT is payable on the gain realised when a property is sold, which is the difference between the original purchase and final selling price. Investors that retain ownership of a property over several years may realise a considerable profit and therefore anything that helps reduce the CGT liability is useful.

Purchase receipts and records can easily become misplaced over such a long time, so hand them to your accountant and keep copies stored in a home safe or boxed in the loft.

45) Swap to an interest only mortgage

Although the entire amount of mortgage repayments cannot be claimed to offset income tax liability, the interest element of repayments ARE allowable deductions. So, if annual profit and cash flow are temporarily more important than paying off the capital element of a loan, consider swapping to an interest-only mortgage.

Even if this is only a short-term measure, it may help those landlords that have suffered from a particularly long void or bad tenant and consecutive poor annual returns. This is one way of clawing back cash to create a financial buffer, which may be enough to get your property investment strategy back on track.

46) Make a gift to save on tax

Property given as gifts between married couples and civil partners is tax free, so planning to distribute assets and other wealth elements in appropriate amounts allows couples to take advantage of the full amount of tax allowance and relief available to each of them.

Done properly, one or both partners should be able to reduce their annual tax bill and CGT liability by a substantial amount.

Reorganising investments has other complex legal and pecuniary implications and getting it right is crucial to the level of benefit received through such an undertaking, so consult your financial and legal advisors before proceeding, and check out our two best selling eBooks – **Inheritance Tax Secrets** and **Property Tax Secrets**.

47) Don’t chase rent arrears – just get bad tenants out fast!

Bad tenants with rent arrears seriously affect property investment returns – obviously!

The most important action a landlord can take in such situations is to regain possession of the property, so that new (good) tenants can be installed.

This is more of a priority than chasing arrears, because no rent means no income – and the uncertainty of getting the arrears within a limited period of time puts an investment strategy in severe jeopardy.

A meticulous plan of action to deal with bad tenants should be prepared in advance and then rigorously adhered to.

If tenants' rent is a day late, send a reminder letter and keep a copy.

If the rent remains unpaid after seven days, begin formal possession proceedings by issuing notice (if possible) – the earlier this can be undertaken, the sooner you will regain possession of your property.

Possession can be gained through the courts under mandatory ground 8 if rent remains unpaid for two consecutive months and remains outstanding at the time of the court hearing.

Alternatively, possession might be gained for late payments or intermittent arrears under a number of the discretionary grounds, which is why it is important to keep copies of reminder letters and a record of late payments and arrears.

Landlords that use assured shorthold tenancy agreements with a six month term are often able to take advantage of the fast-track accelerated possession procedure (APP).

This usually can take place without having to attend a court hearing.

Although rent arrears cannot be used as a reason for regaining possession using the APP, the APP can be employed when two months' notice is issued to bring the tenancy to an end at the end of the fixed term and where tenants then fail to vacate.

This is often the best possible solution, as the property is returned to the landlord quickly, so it can be re-let to new tenants. And it allows the landlord to follow-up any rent arrears with the vacated tenant at leisure, through the small claims court.

48) Resist letting to family and friends

It usually proves bad business practice to let to family and friends, because if they default on rent payments, chasing them through the courts for arrears and/or possession can be especially awkward.

It potentially would also irreparably damage the prior good relationship you may have had. However, taking them to court is *exactly* what you would *have* to do, to prevent your business and annual profits collapsing. It is probably wise to avoid this situation at the outset, rather than have to face the consequences of dealing with family and friends who try to take advantage of your good nature…at your cost.

49) Switch your letting strategy if the going gets tough

Traditional furnished letting in popular city, seaside or countryside areas can occasionally go through a 'sticky patch', when high competition and over-supply of similar accommodation causes voids to increase and profits to fall.

This is a good time to consider changing to an alternative investment strategy, such as short-term holiday lettings.

The actual cost involved in changing from one to the other is usually minimal.

Although a few additional items might have to be purchased, most furnishings and appliances will already be in place.

The biggest change is likely to come from having to supply more intensive day-to-day services, such as weekly cleaning and laundering; but if you haven't the time to provide these yourself, you can always employ outside contractors.

Furnished holiday lettings provide two distinct financial advantages over traditional residential lettings:

- the amounts charged are generally substantially higher;
- there are considerably more tax benefits.

There is also a valuable safety net connected with furnished holiday lets, which often allows you to offset any losses against other forms of earned income.

This can prove very useful to those who are already employed full-time or who are self-employed or receive income from other forms of investment, as their annual tax liability can be reduced by a measure equal to the loss arising from the holiday letting.

This benefit is not available to traditional buy to let investors, which might make changing to holiday lets a somewhat more attractive option.

50) Undertake all viewings at the same time.

If you have been trying to sell or let your property for some weeks with little success, try the 'open house' method.

This form of property selling and renting is widely used in other countries, such as the US and Australia, where a dwelling is advertised for two or three weeks beforehand and respondents informed of a viewing date.

Rather than providing individual appointments, the date designated for viewing is, of course, the same date and time for all interested parties to attend.

All potential buyers or tenants being in the property at the same time can create frenzied competition.

The level of rivalry can be enhanced when two or three people think they might lose the deal unless they make a high offer to secure the property at the outset.

When there is enough interest generated through initial advertising, the 'open house' system can produce offers at and sometimes well above the asking price.

51) Charge interest on late rent payments

Make sure your tenancy agreement includes the provision to charge interest on any overdue rent payment - and then steadfastly enforce it.

If tenants feel they can get away with paying late, they will progressively do so until they eventually fall into serious arrears.

If you make it clear at the outset that there will be financial repercussions to any late payments, your tenants will think seriously about their tenancy obligations and are more likely to pay promptly.

52) Claim expenses for using your own home as your office

If you use an area of your home to oversee your property letting, undertake management tasks or complete monthly and annual accounts, you can claim a percentage of some household expenses incurred against your income tax liability.

Unless the property investment operation is successful enough to finance running a separate office elsewhere, most self-employed landlords and other property speculators deal with their administration and management issues from a small study or the back bedroom of their own home.

In such situations, the Inland Revenue allows some household bill expenditure as tax deductible.

The way the tax office calculates allowable percentages depends on the number of 'habitable' rooms, not counting kitchens and bathrooms.

For example, a property with three bedrooms (one of which is used as an office), a kitchen, bathroom and living room, would qualify as four 'habitable' rooms.

The four rooms make up 100 per cent.

Since only one of these rooms is used as an office, the tax office would allow 25 per cent of household bills to be deductions against income tax liability.

Expenses might include council tax, part use of a telephone, gas, electric, repair or maintenance costs and insurance. You may also be able to claim some capital expenditure such as buying a computer or computer programs – and some consumables such as paper and ink – if parts of your administration duties require the exclusive use of this type of equipment.

53) Let your own home - then sell it - and claim Private Letting Relief

If a property is jointly owned and has been let out and also lived in, then both owners can each claim Private Letting Relief against capital gains tax (CGT) up to a maximum of £40,000 at the point of sale.

The Inland Revenue states that private letting relief can be used where you sell a dwelling house which is, or has been, your only or main residence, and part or all of it has at some time in your period of ownership been let as residential accommodation.

The amount of private letting relief that can be claimed cannot be greater than £40,000, and it must be the lowest of £40,000, or the amount of private residence relief that has already been claimed, OR the amount of any chargeable gain that is made due to the letting. That is, this is the amount that is attributed to the increase in the property value during the period it was let.

Given the right circumstances, and used carefully and appropriately, Private Letting Relief can reduce CGT liability to nil.

54) Always employ two solicitors when buying overseas – or use experienced representatives to oversee and guide the purchase

Buying property overseas is becoming increasingly popular, even with first time buyers, who have found it viable as a means of getting onto the property ladder.

However, foreign customs and laws – and particularly those involving taxation and property ownership – are often vastly different and conveyancers more accustomed to dealing with transactions in the UK can quickly find themselves out of their depth.

Communication problems can also add to the difficulties faced by overseas investors, if the country of purchase is not English speaking.

Employing two solicitors, one in the country of purchase and one in the UK, not only resolves the language barrier – it is crucial to help ensure the legal implications of any unusual or unfamiliar procedures and documents are explained and understood before investing.

Some foreign solicitors may expect you to have a grasp of their property laws and customs, which means they may not explain everything in fine detail – your UK solicitor will however anticipate this fact and draw your attention to matters they feel relevant.

In addition, some countries do not have rigorous planning regulations, so checking the stability and safety of the dwelling is essential.

The registration of title (ownership of the land or/and building) may also be complex and, in many cases, a thorough investigation will be required beforehand to verify the vendor has legal entitlement to sell the property.

Spending a little extra on a UK and an overseas solicitor will help prevent your investment deal turning sour and it could save you thousands of pounds.

At worst, it will be reassuring and help smooth the buying process through to a legally sound conclusion.

55) Never buy blind at auction

Auctions are rapidly developing into the favoured route for investors looking for low priced properties.

However, unlike the relative slow pace of traditional buying, auctions are fast and furious affairs and once the hammer falls the property is sold to the highest bidder.

The danger of this is:

1. a) It is easy to get carried away and bid more than intended for a particular property.
2. b) Some might be tempted to bid on an attractive sounding description alone, without actually having viewed the property itself

Property auctions are advertised in advance and a catalogue produced listing the dwellings likely to be included in the event.

If you intend going to an auction, make sure you obtain a catalogue and view each property that interests you.

If you have friends or colleagues who are builders or surveyors, take them along with you on the day, because their advice will be invaluable and it may help you avoid making a futile purchase.

More importantly, don't be tempted to bid on a property you haven't viewed or surveyed, no matter how attractive it might appear at auction. If you do, you could end up with an extremely deflated yield. For more information on buying at auction, see **Property Auction Secrets**.

56) Replace old windows with new and get tax back!

The distinction between making an improvement or a repair is an important one for buy to let investors in the UK.

While an improvement is considered a capital expenditure (deductible against any eventual capital gains tax liability), making a repair is usually an allowable expense that can reduce the annual income tax bill.

HM Revenue and Customs has recently decreed that old single-glazed windows can be replaced with modern double-glazing and the cost will be considered a revenue expense.

In other words, you can replace your old rotting timber frames with UPVC double glazed units, reduce your painting and repair costs and claim the entire amount spent back in income tax allowance.

57) Reduce the cost of insurance premiums

If your buy to let property is situated in a HomeWatch Scheme area (look for signs on lamp posts nearby), you may be able to claim 10 to 15 per cent off your insurance premiums.

Insurance can also usually be reduced by having a burglar alarm system installed, exterior security lighting or even just through having seven lever instead of five lever locks on external doors.

Check with your policy provider and remember to inform them of any changes you make that improve security.

58) Get yourself a Mercedes, BMW or Porsche rather than a Renault, Ford or Vauxhall

Most property investors use a car to undertake at least part of their property associated work, such as buy to let management and house hunting.

Self-employment adds to the expense of buying and running a car, because the higher benefits offered by employing companies are not usually available to the self-employed.

However, there are some capital depreciation allowances available – but these have an upper ceiling limit that often means any benefit is wiped out by more than the ‘real’ depreciation of the vehicle.

It can therefore be prudent (though not necessarily affordable) to buy vehicles that depreciate less, such as Mercedes, BMW’s and Porsches, as these can work out cheaper in the long run.

That aside, most property investors can claim some vehicle running costs as part of their deductions against annual income tax liability, providing they can prove the percentage claimed for petrol, road tax, etc., were incurred as essential travel costs and helped generate rental income.

59) Invest by predicting future property value increases

On average, properties double in value every twelve years. The period it takes to realise one hundred per cent capital growth can be dramatically reduced by choosing properties within predictable development zones.

This might not be month to month management, but, as is so often the case, management begins even before you buy!

Foretelling which areas will become popular in the future is a sure-fire way of maximising capital growth – and that's good management.

For example, in Manchester the electric tram system began some years ago with a single line linking the north and south areas of the city.

When proposals were first announced, most people grumbled about the disruption to roadways that construction work would cause – but property investors saw an opportunity to buy houses along the route, which they realised would later increase in value when the tramway system was up and running.

In the end, those investors realised huge profits due to their early insight and investing acumen.

The tramway operators have since extended the line several times and each time a new branch is announced, property prices start to rise.

More recently – and widely covered by the national press – there have been reports suggesting the BBC may move its London headquarters to Salford Quays.

Again, investors have recognised the effect this would have on property values and they are now buying up dwellings in the area, hoping to make a fortune if the deal comes off.

Recognising where the next property hotspot is likely to be is one of the best ways of acquiring accelerated capital growth.

It's pointless buying into a hotspot when it's already started cooling off – you need to be in there early to reap the rewards, so keep a close eye on what's happening in your region and be prepared to act fast if a new opportunity presents itself.

Sometimes there are waves of opportunity that ripple out from an already glowing hotspot, so look to the surrounding regions to see if there are signs of an area rising in popularity and temperature.

And one of the best ways of keeping an eye on what's on the move is by logging on to www.propertysecrets.net

60) Buy to let all-electric properties

The Gas Safety Regulations require that landlords have an annual gas safety inspection of their property conducted by a Corgi registered engineer. And you need an up to date certificate proving appliances and pipework conform to the safety standard.

Currently, there are no equivalent regulations for electricity – the law simply states that electric installations and appliances must be provided in a safe condition for the occupier's use.

The cost of the gas safety inspection and certificate varies widely. It also increases proportionately according to the number of gas fires, boilers and other fixtures contained in a property. It is worth bearing this in mind when investing in a buy to let unit, because this annual expense can be avoided completely if you buy properties that are 'all electric'.

61) Go commercial!

If you are considering a commercial investment, look at buying a shop unit that has space above suitable for converting into residential accommodation.

The 'Flats Over Shops' initiative enables property owners and occupiers to claim up-front tax relief on their capital spending on the renovation or conversion of vacant or underused space above shops and other commercial premises to provide flats for rent.

The initial capital expense allowance is rated at 100 per cent or 25 per cent per year for qualifying applications.

There is every good reason to take advantage of this exceptional concession and particularly if you are already thinking about putting a toe in the commercial sector.

62) Avoid tenants that need a guarantor

Tenant screening and selection are primary and influential factors in all successful buy to let operations.

Get a good tenant and profits rise; get a bad tenant and profits fall. It's a simple and accurate golden rule.

When applicants have a poor credit rating, inadequate personal funds or uncertain employment, a letting agent will usually suggest the applicant provides a guarantor to support the application.

Landlords often agree to such an arrangement, even though it complicates a tenancy and can substantially add to the expense of providing a tenancy to the particular individual.

When a guarantor is required, both the applicant and the guarantor require full referencing – so there is double the usual expense – and a considerable delay in arranging the start of the tenancy while reference results are being obtained.

Landlords should consider the fact that if a letting agent suggests an applicant requires a guarantor, the applicant has already been considered unsuitable as a tenant – so why proceed further?

Save the added cost and complication of guarantor situations by declining the applicant and securing a more appropriate prospective tenant.

63) Get agents to deliver potential buyers or tenants to your doorstep for free

Generally speaking we recommend that using a letting agent will make your letting more profitable and more efficient in the long term.

But doing without an agent is certainly one possibility, and there are some circumstances when this can work.

For example, if your property is in a popular development, you can save advertising costs by putting up your own homemade or bought 'for sale' or 'to let' sign.

Then, sit back and wait for the telephone to ring, because estate agents and letting agents (who spend a small fortune on advertising) will deliver prospective buyers and tenants to the area to view their clients' properties.

Common sense dictates that those same buyers and tenants will probably see the sign outside your property, realise it is a similar style and size of dwelling and contact you to arrange a viewing.

If your property favourably compares to the one the viewer has already seen, you could gain a new buyer or tenant, thanks to the agent, but without having to pay for the service!

64) Claim working tax credit – if you can!

Providing you only own one or two properties and letting is your only source of income, you may be eligible for working tax credits (WTC).

Anyone who earns less than £5,220 and who works more than 16 hours a week to create the income can claim the full amount of working tax credit.

Even if the rent you receive is more than £5,220 per annum, deducting allowable expenses may bring your actual earnings within the threshold limit, so you could still claim the maximum or a lesser amount.

WTC can make a significant difference, as the current basic amount payable is £1,665 per year, which rises according to income, age, disability, whether the applicant has children, and other qualifying elements.

65) Ask for a bigger deposit

Consider asking for six weeks deposit at the start of tenancy, instead of the more usual one-month's rent equivalent.

This will help you avoid the scenario where tenants default on the last month's rent payment, leaving nothing in the pot to pay for damage to the property when they vacate.

Things may change considerably when the new Tenancy Deposit Schemes are introduced in April 2007, but until then deposits are within the landlord's control – so take advantage of this now, while you have the opportunity.

66) Don't sell - reinvest and expand instead

The capital gains tax (CGT) regime is so complex, it is difficult not to get trapped by it when disposing of property.

The most successful property investors do their utmost to avoid CGT by not selling anything – they use the growth in capital value realised by a property to support financing the expansion of their portfolio.

In many ways, this is not so much CGT avoidance, rather more a delaying tactic – but the system works for many and is certainly a plan worthy of consideration.

The only risk is that CGT may become more onerous through tighter regulation as the years pass by.

The way this system of re-financing rather than selling works best is as part of a strategy in which you leave the UK and live in a low tax regime overseas for a minimum of five years and then dispose of part or all of your portfolio all at once.

This is because if you are non-resident in the UK for five years or more, there will be no capital gains to pay on property investments disposed of in the UK.

67) Choose your HMO investment location with care and save thousands on licensing

Landlords in England and Wales must be licensed if they own a property defined as a house in multiple occupation (HMO).

And the definition of an HMO is a property that has three or more storeys, five or more people and two or more households.

Local authorities enforce the charge for licensing and have discretion to inflict it on other HMO landlords as well as those above, but the level of the license fee varies according to each local authority.

Choosing to buy or operate an HMO in a particular local authority charging area will determine the degree of adverse impact on annual profit.

For example, all Cornish authorities currently charge £140 per property, whereas Newcastle council charges £1,100 per property.

Taken over an average investment period of five years, a HMO landlord in Cornwall will save £4,800 over his Geordie counterpart.

68) Cut your business banking costs

The days of being loyal to a particular bank are long gone and the competition amongst different financial institutions is at an all time high.

Some banks offer some free services, while others charge for what many consider essential facilities such as being able to pay bills and transfer funds online.

Amongst the best at the time of writing is the Alliance & Leicester Free Business Current Account, which has won awards for four years running and offers the lowest cash handling fees on the market, free Internet banking and free and unlimited standard non-cash transactions.

Deposits up to £1000 per month are free, as are standing orders, direct debits, BACS transfers and ATM withdrawals.

Landlords should keep their rental funds in a separate business account, so that accounting procedures are simple and straightforward. If you currently bank with one of the big four - HSBC, Nat West, Barclays or Lloyds - it may be worth looking more closely at what other smaller players have on offer, because it could save you a substantial sum over the next year.

69) Buy property in council areas with generous voids policies

Always check the policy of your local authority with regard to empty properties and the payment of council tax. Some authorities offer 100 per cent refunds on properties that are unfurnished and unoccupied.

This might not be THE deciding factor when you're deciding where to invest, but it's worth consideration if you're deciding between two seemingly equal properties in different areas.

It might also be an influencing factor when you're considering whether to let furnished or unfurnished.

70) Always use the best letting agent around and never try to cut costs!

You can, of course, opt to dispense with the services of a letting agent all together, as we have suggested elsewhere in this book.

This is certainly one strategy and it will mean you spend less. But whether it will mean better earnings at the end of the year is quite another matter.

Our preference is always to use a letting agent.

Not only do we suggest using one will be the most profitable strategy in the long term, but we also advise that you use the best one in an area and that under no circumstances do you try and haggle down the agent's fees.

We say this for a very simple reason.

If the agent is getting a smaller commission from the successful letting of your property, why on earth would you expect him to put your place at the top of his to do list.

Like anyone else, a letting agent will be influenced by money.

Make sure your property is given priority by making sure the agent is properly motivated to see it successfully rented out.

Always go to an agent with a good local reputation, someone who is well established in a the locality.

If the most reputable costs a little more, so be it. The chances are that these extra costs will pay for themselves over time by fewer voids.

Expect to pay around 10 per cent commission, plus VAT.

If an agent is charging significantly less, then they are probably cutting corners on tenant checks and that means you may get a bad tenant after all.

A good letting agent should also be able to give you up to date advice about the conditions of the local market.

71) Take an agent's middle price

In the long run it will always pay you to be realistic about what rental your property can achieve.

Don't waste your time – and dramatically increase the chances of voids – by being misled by an agent's inflated estimate of what your property will rent for.

Trying to push up the market is a mug's game because the time you wait for a tenant who's willing to pay over the odds will cost you in lost (more modest) rental income.

Remember the golden rule – speed to letting is almost always more profitable than end price.

72) Use an agent to get you a better class of tenant

Any experienced buy to letter will tell you that a good class of tenant is worth more than a good rent.

OK, within reason!

But, it's a truism that is well worth keeping in mind, because the hassle and the expense of dealing with difficult tenants or tenants who are less than scrupulous about paying on time, can cost you a great deal of time and money (and time is money, of course).

An agent is almost always in a better position than the private individual to hunt out the better class of tenant.

It also depends at what end of the market you are targeting your property. If you're after students, then you don't need a letting agent, you need to go through the nearest university and maintain contacts there.

Generally, though, if you are looking for professional tenants with good credit habits and good references, these people will tend to go straight to a letting agent to look for a place to rent, So, it's through the agent that you'll be most likely to connect with them.

73) Use an agent to cut out the cost and hassle of dealing with a tenant in the right way

Agents are able to 'improve' a tenant, and for this reason alone, their fees can turn out to represent a saving on what you might otherwise spend, in terms of money and time wasted that could have been spent more profitably, dealing with tenant-related problems and disputes.

Basically it is good to have an independent third party between you, the landlord, and the tenant.

Landlords should avoid as much as possible having contact with their tenants. It is always much easier to go through an agent who knows what to say to a tenant in certain circumstances and, just as importantly, how to say it.

Certainly, it is a good idea to have as little direct contact with tenants as possible. One of the worst things possible is to become friendly with tenants. If this happens it is all too easy for there to be constant problems over money and tenants do not always clearly understand where their responsibilities lie.

If there is an argument, for example, over fair wear and tear, then the dispute will boil down to a question of what constitutes fair wear and tear.

An agent, with years of experience and hundreds of properties let, will know and will be able to give credible examples to back up the argument with the tenant.

And if an agent tells a tenant that worn carpets aren't regarded as fair wear and tear and that he should pay for the damage, the tenant is much more likely to accept this because it is the agent that is saying it.

The bottom line is that it is much harder to achieve a resolution if you, the landlord, have to negotiate directly with the tenant. And, clearly, the way to maximise profits through good management is to keep such disputes to a minimum and when they do arise to have them dealt with as quickly and advantageously as possible.

74) Achieve the highest rents possible

Sound like a no-brainer? Well, in a way it is. The real question is how?

One way, certainly, is all down to a good agent.

Using a letting agent has many advantages other than the amount of rent you can achieve, as we've discussed.

But, you should always expect an agent to achieve a higher rent than you would otherwise achieve if you handled tenant finding yourself.

In fact, you should expect that a good agent will achieve the same net rent as you'd have got had you handled the letting yourself.

In other words, after his cut, you should have the same amount of money in your pocket as if you'd rented the property out by yourself. And it's a good idea to make this clear to an agent.

Check private ads for properties similar to yours and use the asked for rent as a guide.

So, why is it that an agent can almost always achieve a higher rent than you?

Well, there are several reasons.

People who go to an agent to find a property generally will accept that they will pay more than if they go through the small ads in the local paper, for example.

As a rule they are the busier people who want other to do the work of finding accommodation for them and are willing to pay for the service. Those people looking to find somewhere to rent privately will generally be looking to save money.

75) When NOT to use an agent

While our view is generally an agent will maximise your profits, this is not always the case, and there are circumstances when you will need to become directly involved in the letting of your property.

This usually applies when you are letting to:

- Students
- DSS claimants
- Possibly some other situations as well - for instance when you are letting single rooms in a house

In these instances, you need to be willing to be much more hands on and advertise the property yourself because very often it won't be economic to pay an agent for the service. Or at least, it will be hard to find someone who will as careful as you would want for the salary they can expect.

But, if you're letting to professionals, then in almost all cases, the rule is – use a professional to find a professional; in other words, use a good quality agent.

Of course, if you have a buy to let mortgage, it may well be that the contract stipulates you must let through an ARLA, NAEA or RICS approved agent.

But, if you are not restricted in this way, the following chart can help you decide whether to use an agent or not:

	Advantages of a good letting agent	Disadvantages of Self let
Speed	Can act quickly (should have lots of applicants on their books)	May take longer to find the right tenant - meanwhile you are paying finance charges without any rental income
Company lets	Companies will use a good agent	No access to the company/ corporate letting market
Advertising	Only get paid for a successful let	May have to risk money up front on adverts (with exceptions - such as Loot and some internet sites)
Risk of a bad tenant	Reduces risk as they know how to credit reference a tenant and are familiar with good and bad tenants.	If you are unfamiliar you may end up with a poor tenant who doesn't pay bills or causes a problem.
Time	Take lots of work off your hands	Need to get meters read etc yourself
Contract cost	Offer contracts at a good price	Need to employ a solicitor to draw up the contract - which usually costs considerably more than allowing the agent to do the work

The major reason for landlords to go the self-let route is not to save money, but due to bad experience at the hands of a letting agent. So, if you can find and work with good agents, then this is by far the best route to maximising your overall profits.

76) Always consider selling or re-financing to maximise profits long term

Once upon a time lenders were happy to lend property investors 95 per cent, even 100 per cent, of the value of a property. No longer. Now, you may even have to struggle to source 85 per cent LTV.

The key, as always, to creating the conditions for a successful investment is to buy at a good price - hence the old adage that you make your money when you buy. And you should preferably (in more subdued markets), buy at a discount.

Now, unless you have only recently begun to build a property portfolio, the chance are that you will have some locked in equity within at least some of your properties.

Ultimately, your profits will depend not on cashflow, don't forget, but on capital gain – and, generally speaking, the more properties you have making those gains, the more profit you will make.

So selling one property to help the cashflow of another should not be a first option strategy, but rather refinancing should.

Even so, there may be times when selling is a good idea.

If your portfolio is not generating sufficient total income to cover outgoing payments (not just finance costs remember), even after you have taken all measures to reduce costs and increase income, you are left with only one real alternative.

You need to reduce the gearing on your cashflow negative investments; and there are three clear ways of doing this.

One, you inject some spare cash to reduce the debt to a point where the rent does cover outgoings.

Two, you re-finance a property that is cashflow positive and use the equity withdrawn to pay down some of the debt on your cashflow negative property.

Three, you sell a negative cashflow property and use the profits to pay down some of the debt on another property that's not generating enough income and transform it into cashflow neutral, even cashflow positive.

It may be the case that paying off some of your mortgage debt will trigger penalties and early repayment fees and these will need to be taken into account.

But, assuming the numbers stack up and you are allowed to make capital reductions on your mortgage, this can be a great way to mitigate rises in interest rates.

If a forthcoming rate rise will push your cashflow into the red, then aim to repay the exact sum that will reduce your repayments by the same amount as the rate rise will push them up.

Here's a hypothetical example.

The loan is for £150,000 at a rate of 6.25 per cent on an interest only basis (i.e. not a repayment mortgage). The monthly repayments would be £781.25.

If your mortgage rate were to increase to 6.5 per cent, the monthly repayments would go up to £812.50. Assuming you were comfortable with paying £781.25 a month, paying off £5815 now would make your new loan balance £144,185 and at a rate of 6.5 per cent, your monthly payments would be back to £781.25!

This has two positive results:

- No change in the monthly payment even though the interest rate has changed, and
- You've repaid some of the loan, thereby increasing the amount of equity in the property.

Remember, you can always re-mortgage the property again later to release your increased equity.

77) Create a long term cashflow strategy

It's important to plan beyond simply reckoning whether each property you add to your portfolio can pay for itself, otherwise you don't invest.

Remember what we made clear at the beginning of this guide.

Good management, which is ostensibly about month to month management, is actually management that leads to maximum capital gain.

We can achieve this in two parallel ways -

By actions to maximise cashflow allowing you to stay invested and therefore to maximise capital growth profits.

And by long term planning, or managing a portfolio strategically, to maximise ultimate profits and to use those profits in the way you want to.

'The way you want to' is important here.

And it's important because you can't form a strategy unless you're clear about why you're investing. And the answer: to make as much profit as possible isn't really adequate either!

Here's an example of how to think and manage strategically, long term.

Imagine you need to cashflow your £5 million portfolio by £1,000 a month, but you calculate that the properties you have bought will appreciate strongly. Let's say by 10 per cent a year. That's £12,000 a year that you need to find!

Now, it may be that this amount is simply impossible for you to contribute – you may simply not have the money! And, if that is the case, then a strategy of reducing the negative cashflow is needed.

But, the fact that this portfolio is strongly negative in terms of cashflow does not mean that trying to create positive cashflow at the expense of maximising profits is a good idea because that £12,000 cashflow shortfall is actually a terrific investment.

That £12,000 is directly leading to £500,000 in equity in a year. Most definitely worth the investment if you can afford to sustain the cash flow.

This is a worthwhile strategy while you can afford it and while capital growth is your number one strategic priority.

Later, your strategy may change full circle and your priority will be income generation. At this point you will want to sell and pay down some debt.

So, remember, what you want from your investments should, as far as possible, dictate how you deal with cashflow.

78) Shop around for finance

Huge savings can made by taking advantage of the best finance deals on the market and it is worth always keeping up to date with available offers and products by adding yourself to the emailing lists of large BTL specialist brokers.

Be careful, though, of headline rates and make sure you're fully aware of overly-high arrangement fees, high exit fees and other penalties.

Remember though that a one per cent on a million pounds worth of borrowing amounts to £10,000 a year! Equally, a one per cent arrangement fee on the same mortgage amount can cost you ten grand! So, take care!

79) Stockpile cash during the good times

A worthwhile adage for business, often attributed to Rupert Murdoch, is that you should spend during the lean times and make cutbacks during the good times.

To a point this works well, too, with property management. The best time to invest is certainly when prices are depressed for whatever reason (so long as there is every chance they won't stay that way ad infinitum!)

And it is a good idea to practice the discipline of efficient management when times are good, cashflows are strong and/ or capital growth is powering ahead.

Use this opportunity to make efficiencies and plan for when the market is flatter. Stockpiling cash is a pretty good way of preparing for those lean times.

So, it is best to make sure you can afford to bail yourself out of cash flow worries caused by voids, rising interest rates or sudden repairs.

The equivalent of three months' outgoings, kept in an easily accessible account, is reasonable. Six months and you should be fine. Also make sure you have landlord's insurance to cover things like floods.

You can also insure against voids and rental loss with some companies, but these may be so expensive as not to be economic.

80) Lower the rent

Lowering the rent at times when cashflow is tight may seem like a bad idea. but this action really relates to voids and your cashflow, not over a month or two, but over a far longer period.

Empty periods between lettings are expensive and they can cause a serious tightening of the annual yield on a property.

Over the last few years, tenant fixed-term letting periods have gradually become shorter and the average is now just six months.

Although some tenants renew for another six months, some don’t, and this produces at least two periods every year when the landlord or their agent has to find new tenants.

Finding new tenants also causes additional costs.

Voids are a natural and routine part of all buy to let operations and they can usually be absorbed into a business plan, without causing too much difficulty.

But if voids become frequent and prolonged, it may be an underlying sign of something more insidious affecting a landlord’s letting strategy. More often than not, the root cause will be a market that has turned from over-demand (lots of tenants and insufficient properties to let) to oversupply (too few tenants and too many properties).

One action in these circumstances is to lower the rent.

This is actually probably the fastest way to compete in a tight rental market.

Reducing the rent level might be the easiest and fastest answer to high local competition, but if other landlords suffering long voids have the same mode of thought, this short-term resolve will take you back to square one and will create an even worse situation – an oversupplied market with lower rents.

Even as a temporary measure, lowering the rent could be disastrous to annual profit, if the income versus expense balance of your investment was already tight.

This strategy should only be considered if the oversupply of rented accommodation is expected to be temporary, for example, owing to an unforeseen influx of properties entering the market from a developer or a big reduction in interest rates that has encouraged new buy to let investors to enter the market.

In both these situations, once the impact of a sudden high volume of available properties has fallen away, the local market should swing back to a more stable supply and demand position.

81) Upgrade your rental property

When oversupply and the voids that result are focused on a particular rent band and perhaps property type, changing (i.e. raising) the profile and appeal of your property might lift it out of this rental bracket and give it more tenant pulling power.

It may cost you money – but this may pay for itself so long as you spend wisely and target the correct sector of the rental market.

Major improvements are probably going to be needed to make a substantial difference, so we are talking here about more than mere redecoration or new carpets. Set aside a workable budget and aim to update furnishings, improve facilities or add a feature such as a conservatory or kitchen extension.

82) Always consider diversification

As with all investments, so it is true with property – if you spread your investments, you'll spread your risk.

Now, a little while back we pointed out the advantages of clustering your investments – buying in the same country, the same area, even the same block. This represents a good way of minimising costs.

But it may be that, when you examine the market carefully, you find there is a systemic problem and that simply lowering costs and perhaps also lowering rents will only lead to a vicious circle of ever decreasing cashflow.

An oversupply of accommodation aimed at one group of tenants, such as students, might be accompanied by an undersupply of places for other types of tenant.

If such a situation exists and appears to be entrenched in the local letting market, then it's possibly time to alter the style, the furnishings and the way you advertise your property to meet the demands of an alternative group of tenants.

This may also be an opportunity to raise the rent level, as well as reduce persistent voids.

83) If you're in the big league, get into the insurance world!

Few of us like paying for insurance – guarding against something that may never happen. And paying an advisor on top of the premiums can really hurt!

But when it comes to property an advisor can be invaluable. After all, how much do you know about your legal obligations as a landlord when it comes to insurance?

What is public liability insurance, and do you need it? Can you insure against arrears? Against squatters? How does a house of multiple occupation differ in insurance needs from a house, or a flat, or a block of flats, or a pub?

Knowing what you know is not so important; it's knowing what you don't know, and then knowing someone who does know what you don't that's vital.

If, despite all this, you still need another reason for finding a good insurance agent, try this. Once you have a sizeable portfolio up and running, ask your insurance advisor to make you an agent.

Even if you never find any business from your fellow property investors, at least you'll get the commission from your own renewals every year. And that's an income stream for simply doing something that you'd do anyway!

84) Never take advance monies in the form of a cheque

This tip actually amounts to a safeguard – maximising profits by not allowing them to be destroyed by bad management decisions, in other words.

Once you've identified your tenant – or your letting agent has – and all he relevant checks have been carried out, it's time to arrange for the security deposit to be paid along with the first month's rent to be paid in advance.

At this point do not be tempted to accept payment by cheque – tenants will often offer a cheque and many agents will try and persuade you to accept one. It's a mistake.

If you have an agent, you should insist that it is their responsibility to acquire cleared funds before the keys are handed over to the tenant.

However model the tenant may seem, cheques can and do bounce – usually it's a genuine oversight…

But if a tenant moves into your property on the strength of a personal cheque and four days later that cheque bounces, then you have a potential squatter problem!

85) Use a managing agent

To maximise your profits, always follow this maxim – use a different management company to the letting agent.

Letting agents tend to be estate agents, all of which are, by their very nature, sales organisations. They typically 'bolt on' the property management business to their core business, and employ mainly school leavers who still live at home, and are clueless about managing a property!

Instead, look for a management agent that is just that, and nothing else. Such operations are often small, one- person bands run by a middle-aged or retired person. They'll charge you between three to five per cent and they'll probably do a wonderful job.

86) Take Out a Fixed Rate Mortgage

Take out a fixed rate mortgage or remortgage to a fixed rate product. Make sure you can do this without penalties and, if there are penalties to pay, make sure they're not so high as to make the move unfeasible.

The point of such a move is often to save you money each month; but even if this is not the case, what it can do is stabilise your monthly repayments. This is essential for creating useful cashflow projections

When you own more than one property you could choose a fixed rate for some of your properties, but leave the others on variable loans.

Alternatively, within a single mortgage you may be able to take half the mortgage as fixed and half as variable, so giving you the flexibility to re-mortgage should you want to make another investment.

87) Using P&L projections to manage Your Portfolio

Even if you're in a position to accept a degree of negative cashflow because you are invested in a market in which prices are rising rapidly, it is vital not only to be able to monitor cashflow at all times, but also to be able to project it.

Profit and Loss (P&L) forecasting is a tool to determine cashflow, now and in the future.

Imagine a timeline.

It begins the first moment you put your hand in your pocket and invested in your fledgling property business. It doesn't really matter how small that beginning was – it could be the moment when you subscribe to **www.propertysecrets.net**

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This timeline ends as far in the future as you can project with degree of accuracy or sense. Perhaps two years, maybe five, even ten.

Somewhere on the timeline is a point called Now, and it's forever moving forward.

Everything between the beginning and Now should be completely accurate (barring the early months or years, where you may not have recorded at the time and your memory of the details has faded, and the latter days or weeks, where you may not be completely up to date with your records).

Everything between Now and the end, way in the future, will be a mixture of educated guesswork, pattern continuation, wishful thinking and made-up numbers.

As the Now moves constantly from Past to Future, so your projections of the Future crystallise into a record of the Past.

A good P&L forecast will record and take into account historical patterns of income and expenditure. It will also try to make informed projections into the future of how these patterns will morph and change (or continue unchanged, in unusual circumstances) over the coming months and years.

So what do we need to consider when creating and maintaining a forecast?

This is where patterns come in useful.

If your portfolio is up and running, you'll be able to see patterns of when bills come due, when the mortgage payment goes out, when the rent comes in and so on.

If you're just setting up now, you'll be able to visualise these patterns by writing down the dates of incoming and outgoing standing orders and direct debits.

These are the regular items that are relatively easy to project forward in a forecast for the coming year, say. You can also see where the income could stop (at the end of a tenancy), and where expenditures arise on a six-monthly or annual basis (such as insurance payments or letting agent fees).

All these will form the basis for your P&L forecast. But don't be fooled into believing this is everything!

Once you have these plugged into your forecast, go back over them and check them for accuracy and to see how realistic you are being by asking yourself difficult questions:

- Are your income projections realistic?
- Do they take into account the market conditions, both now and in the coming months?
- Are you being overly optimistic on voids?

88) Major repairs

There are two ways of dealing with planning for the expense of major repairs and other 'irregular' expenditures.

You can try to define what will need doing and when, costing these pieces of work out for your forecast. The downside of this is that it can take no account of fire damage, storm damage, or any other catastrophe that may befall your property.

Or you can pick a figure – the more cautious and risk-averse you are, the higher this figure will be – and try to keep this back as a fighting fund to cover the expected extra expenditures and, perhaps, cover even the unexpected ones.

Your decision over this will, of course, depend on the properties you own. If you are focusing on buying discounted new-builds off-plan, then you can quite safely assume that there will be no major repairs, and those that do crop up will be covered under guarantee.

In such a case, your fighting fund for major repairs may well be much smaller (if, indeed, you have one at all) than if you have a portfolio of older properties that you know will need re-roofing before you come to dispose of any of them.

89) Forecast the impact of the next property on your Portfolio

The 'building' part of building a property portfolio requires that you add investment properties to your portfolio whenever you can afford to do so.

Part of the value in having a P&L forecast is to figure out the right pace and the right timing for your Portfolio.

For every property you buy you'll need funds to pay for transaction costs, the deposit, perhaps the first couple of months' repayments while you find a tenant, and so on.

Ideally, your P&L forecast will allow you to design a portfolio with a positive cashflow, which in turn will build up a cash surplus for you.

Part of your planning process will be to see when this cash surplus will be large enough to handle another purchase, and you can start to look around and prepare the ground a few months ahead of time.

Be aware that every new purchase will have a short-term negative impact on your cashflow as the extra expenses kick in before you have a tenant in place.

90) Managing the Rate of Growth

How fast, or slow, should you build your portfolio in an ideal world?

The answer to this question is highly personal, and lies at the point where your goals and your risk profile meet. In other words, the answer is a function of what you want, and how much risk you're prepared to take on board in order to get it.

However, as a broad idea, consider increasing your portfolio by four properties a year. This is a fairly fast pace, and not for the faint-hearted!

On the plus side, if each of the properties are worth £150,000, which is about £15,000 under the UK average at the time of writing, then you're looking at adding £600,000 a year to your portfolio value. In five years you'll reach £3,000,000 (assuming zero capital growth).

In general, the more properties you own, the more growth there is within the portfolio. And the more growth there is, the faster you can extract money to buy more properties.

If you're quite happy with a reasonable level of risk, and you roughly follow the four-properties-a-year pace, then after a relatively short time, your multiple £150,000 properties growing at just 5% p.a. will produce enough capital growth to release each year to fund the four new purchases.

Let's see how long exactly.

	Properties	Growth	Releasable Equity	No. of Deposits
Year 1	4	5%	30,000	1
Year 2	8	5%	61,500	2.5
Year 3	12	5%	94,575	3.8
Year 4	16	5%	129,303	5.2
Year 5	20	5%	165,268	6.6

Here, we are assuming the purchase of four properties a year, all at £150,000, and a constant 5% growth rate. The releasable equity demonstrates the power of compounded growth and assumes that no equity is taken out through refinancing in the interim years.

In terms of deposits, we are assuming £25,000 for a £150,000 property – 15% deposit, plus a generous £2,500 for costs.

As the table shows, under these conditions your portfolio can fully fund the next batch of four purchases very early on in Year 4.

By using your P&L forecast, you can see when your cash reserves will fund further purchases, or help you decide when to invest more of your own funds to grow your investments. Excellent active property management!

91) Know Your Assumptions!

In life in general, and in forecasting in particular, we need to make assumptions.

Assumptions have something of a bad press, but they are useful tools, *providing you are fully aware of the assumptions you are making.*

They can really trip you up, though, if you make them semi or sub-consciously, and never take time to examine them in the cold light of day.

So, look at your P&L forecast and, at the very least, delve into the assumptions that lie behind each row of figures. In some cases, you may need to examine the assumptions that lie behind individual figure.

Each time you identify an assumption, make a note of it and sense-check it. How realistic is it? What's it based on? How might it change?

The type of assumptions that can often lurk unchecked involve:

- rental income
- void periods
- management costs
- other costs

And then there are the areas that cry out for conscious assumptions to be made about them, and are all too often ignored, such as

- interest rate rises
- big repairs

92) Buy a Cash Generating Property

If your portfolio feels too focused on capital-growth, then look to find a cash-positive investment as your next addition. This may help to redress a general cashflow imbalance within your portfolio.

This might mean moving to student or DSS property, but, if backed with a local authority guarantee, you can cut the hassle in half but still picking up a cash positive property.

5 AND FINALLY…

So, why not 100 ways to actively manage property for maximum profit?

Well, we had to stop somewhere!

But, seriously, this guide is only the beginning of 1000-plus ways to maximise cashflow and, ultimately, maximise the overall profits on your property investments.

Experience creates other lessons and generates new understandings and insights. If you have any tips to increase cashflow, raise yield, or ratchet up capital gain, why not let everyone know by posting on the Property Secrets website forums?

See you there!

Meanwhile, the best of investment luck and success – from the Property Secrets team.