The Money Centre

The Complete Solution for Landlords

The Essential Property Investment Strategy

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INDEX

Background

Why property investment makes so much sense

Have a 10 – 15 year strategy

Release equity whenever a realistic opportunity to do so presents itself

Cash is King: Build a rainy day fund

Rental demand

Interest only

What about negative equity?

Why there is never a bad time to buy

If you had known then what you know now ……….

Portfolio review

Background

In the early years of The Money Centre's establishment around two thirds of our work involved providing financial rescue advice. It was the early 1990's, property values had plummeted and interest rates had soared to 15%. The investors who faced financial ruin all had one thing in common and it wasn't what you might think. It wasn't high gearing; it was a shortage of cash. Investors with high gearing and high liquidity (cash in the bank) fared well. This taught us that "Cash is King" and that equity left in property is subject to high risk.

Over the years we have continued to observe the mindsets of our most successful clients and implement the best practice. This has led to an evolving strategy which we share freely.

Our business model has evolved too. For over a decade (1996 to 2009) our main focus was finance broking. Over 230,000 unique users utilised our online buy-to-let mortgage quotation software and thousands of people every year attended our workshops. In this period we arranged literally £ billions of lending. One thing has always set us apart from our competitors though, our expertise. Our new business model enables us to offer 'The Complete Solution for Landlords' by facilitating introductions to our preferred suppliers of specialist services. This publication provides a useful synopsis of our strategy; however, if you require a personal consultation we will be pleased to arrange a Property Portfolio Review. You will be amazed at the extent of our commitment to providing you with the best available service.

Why property investment makes so much sense

History has proven time and time again that UK property doubles in value every 10 – 15 years. Vast quantities of people choose not to own their own home for a variety of reasons and prefer to pay rent for the privilege of occupying property. In fact, in the early 1900's over 90% of people in the UK lived in rented accommodation. This fell to a low point in 1973 to just 7% of the population but has grown steadily since then to around 12%. However, when compared with other European countries the UK private rental sector, as a percentage of the overall market for residential homes, is comparatively very low. For example, the private rental sector as a percentage of overall accommodation in Germany and Switzerland is over five times that of the UK. The need for accommodation in the UK is growing out of control and demand for accommodation is projected to out strip supply for several decades. Accordingly, this underpins property values and rents in the UK, thus providing excellent prospects for long term growth.

Rental income is utilised by investors to service mortgages and the management, maintenance and insurance expenses associated with property ownership. Over time, inflation and other factors increase the value of the home and the rent. However, mortgage balances remain constant, assuming of course that only interest is paid. Therefore, as the years roll on the gap widens between the rents received and the total outgoings thus creating an improved cash flow position. Rising property values also increase the investors' net worth. A strategy of borrowing 'cheap money' to purchase property is, therefore, an effective method of accelerating wealth by using other peoples' money, providing of course that the cost of borrowing is lower than the rental yields.

Have a 10 – 15 year strategy

Property investment requires a long term strategy that will cover at least one property market cycle. A shorter term strategy is not property investment at all, it is property speculation. Our role at The Money Centre is to provide information to help you develop a strategy to minimise your risks and maximise your returns. It's far more effective to learn from other peoples experience than it is to make mistakes of your own.

The Money Centre's recommended suppliers are able to arrange most forms of funding along with a panel of Independent Financial Advisers (IFA's) who will be pleased to help you explore, and minimise, additional risks that you may never have previously considered.

Release equity whenever a realistic opportunity to do so presents itself

This has always been a fundamental component of The Money Centre's property investment strategy. It's all about transfer of risk. If equity is left in the property and the property reduces in value the equity may no longer be accessible, thus the investor is taking the risk. However, once the property is refinanced, the investor has liquidity and the risk is transferred to the lender. Borrowing as much as possible is known as 'high gearing'.

The following simple example might explain this better.

Let's assume that two couples each owned an investment property worth £100,000 with no mortgage. We'll call them Investor A and Investor B.

One morning they wake up, turn on the TV and watch the news which announces that property values have fallen by 50% since they purchased them.

Both properties are now worth £50,000.

The difference is that Investor B had become a client of The Money Centre whilst their property was worth £100,000. Investor B had followed our strategy, raised a mortgage of £75,000 and kept the money in the bank.

They now have a property worth £50,000 and a mortgage of £75,000, therefore they have £25,000 of negative equity!

Is Investor B at risk though? Remember, they have £75,000 in the bank.

So what are their choices?

1. Investor B could feel sorry for the bank. After all, the bank are now carrying the risk. If this is the case Investor B could repay the mortgage and be in the same position as Investor A, or,
2. They could simply keep the money in the bank, or
3. They could use part of the money to buy more cheap properties and keep some on one side for a rainy day.

Now Investor B is in control.

Poor Investor A will now find it difficult to raise money as the banks will be nervous about lending. If Investor A does manage to get funding they will probably pay more for it, additionally, if Investor A borrows 75% of the value of their property, as Investor B did, Investor A will only manage to raise £37,500.

If the market goes the other way and property values increase then another window of opportunity may well open to release even more equity.

Cash is King: Build a rainy day fund

Whether you are in the market to buy or whether you are dealing with the unexpected it is always better to have cash in the bank. If you don't there is always the risk that you will not be able to borrow, and where might that leave you?

A strategy of high gearing is all well and good but only when combined with a risk reduction strategy of high liquidity, i.e. money in the bank. Many investors get greedy and over accelerate the growth of their portfolio by investing all monies raised as a result of high gearing into further purchases. The Money Centre strategy is to retain a substantial level of monies raised from remortgaging and to reinvest the remainder into purchasing more property.

Rental demand

Whilst the general trend for rental values is that they track inflation, rental demand will fall from time to time depending usually upon the availability of property to rent. This is another good reason to build a 'rainy day fund'. Rental voids can best be avoided by offering available properties at rental levels slightly below market comparables. This position can be recovered by gradually increasing the rent to slightly above market averages over a period of time.

The cost and hassle of moving out of a property is usually a good enough deterrent for tenants not to move out just because other properties are a few pounds cheaper down the road. When a tenant does give notice it is imperative to market the property aggressively from that point onwards and not to wait until after the tenant has moved out.

Tenants can easily be incentivised to help this process by offering them a financial incentive if they can assist the re-letting of the property within seven days of their move out date. Another way to incentivise prompt payment and longer tenancies is to offer tenants a financial incentive in the form of a small cashback if they occupy the property for at least 15 months and make all rental payments on time.

Interest only

Many investors have become cashflow beneficiaries of the ‘Credit Crunch’ due to the lowest interest rates in history. A question we are often asked is, “Should I use the extra cashflow to reduce my mortgage balances?” We appreciate that one day interest rates will go back up again and the base logic for the incorrect decision to repay debt now is to reduce payments in the future. However, as property values fall it gets harder to borrow. When dealing with a crisis position, e.g. a desperate need for cash or unaffordable mortgage payments, would you prefer to have a slightly smaller mortgage or extra cash in the bank?

As Property Investment involves taking money out of properties by refinancing whenever an opportunity to do so exists as a result of capital appreciation there is no sensible argument for making capital repayments on the mortgage.

What about negative equity?

If the strategy is never to sell, the only damage that negative equity can cause is the prevention of refinancing. Having a liquidity reserve is therefore beneficial to reduce negative equity if an unexpected need to sell a property occurs.

Why there is never a bad time to buy

When the property market is booming this is usually coupled with widespread availability of competitive mortgage products. This market is, however, ‘counter-cyclical’, which means that when property values are stagnant or in decline, the availability of mortgages is also much tighter. The impact of such ‘supply and demand’ makes borrowing more expensive in recessions and less expensive in boom times. Wise investors use buoyant property markets to accelerate the growth of their portfolio using a high gearing and high liquidity strategy in conjunction with easily accessible and highly competitively priced funding. They also accept that when funding is more expensive and credit controls are tougher that they will be in a position to acquire property at ‘bargain basement’ prices. When the markets become stronger again they refinance and once again revert to the high gearing and high liquidity strategy.

If you had known then what you know now ………..

We recently asked one of the founders of The Money Centre whether he would have still purchased all of his properties if he knew then what he knows now. He purchased several properties in the boom period and many are now worth less than what he paid for them. He explained why he felt that he had not made a mistake. Although some of the properties he had purchased were overpriced, compared to today’s values, the mortgages were under priced and far more competitive in every way. He also explained that if it wasn't for properties being over valued that he wouldn't have been able to refinance to replenish his liquidity reserves and to fund the deposits to expand his portfolio in the first place. We asked him whether his mortgages had got much cheaper since the beginning of the credit crunch and what impact the interest rate reductions had made to his cashflow. His rent has been virtually all profit for quite a while. His cashflow is good because he has good mortgages.

Portfolio review

We've been reviewing our client's property portfolio's now for 20 years and making recommendations that have transformed many of our clients to millionaire status. However, we've now developed a way to enable us to help far more clients in the future.

Do you have a system to forecast when you will be able to release further equity from your properties or what the effects of inflation, property growth and changes in interest rates will have on your liquidity, equity, profitability and tax position?

Our new Property Portfolio Review provides you with an opportunity to meet face to face with one of our Consultants at a time and place of your convenience to identity all of the following:-

- Opportunities, now or in the future, to raise cash to fund further purchases or to enhance your liquidity position by refinancing or taking further advances
- Potential inheritance tax liabilities based on future property values, ways to avoid these taxes and why now is the perfect time to plan
- Methods to let properties quicker and reduce rental voids
- Ways to minimise lettings and management costs
- Minimising risks and maximising returns

Not only will you have an opportunity to discuss all of the above and much more with one of our Consultants, you will also receive the following:-

- A detailed report and analysis specific to your portfolio
- Referral to all of the companies, products and services identified in the report to assist you to raise extra funding, save money and/or minimise your risks

This service is available at a cost of just £495 and comes with a **money back, total satisfaction guarantee.**

We are so confident that you will be impressed, if you are anything other than completely satisfied with your Review, simply write to us telling us why within 28 days and will refund your fee without challenge.

An example of the report you will receive following a Portfolio Review follows.

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Example Portfolio Review

Raise Funds, Reduce Costs, Minimise Risks, Maximise Returns

Prepared by: Your Consultant

Prepared for: Mr John Smith Mrs Jane Smith

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EXECUTIVE SUMMARY

All assumptions used are substantiated throughout this report.

You currently own 8 properties.

The equity in these properties is currently worth £418,300.

It is projected that in 24 years time the value of this equity will have risen to £5,054,301. This is after having released £1,102,392 from the portfolio as a result of refinancing and profits of £230,923 from rental income.

The overall return from your portfolio over 24 years, when expressed as an averaged simple return against your current equity, is 70.5% per annum.

Opportunities exist to improve on these returns.

With returns like this you should consider buying more property.

Subject to criteria, there may be an immediate opportunity to release £144,992 by refinancing.

You should also seriously consider exit strategies and the implications of passing on your legacy as it is very clear that an inheritance tax problem will occur without proper planning.

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Assumptions

You have asked us to use the following assumptions in our projections to compile this report. These can easily be amended to create an alternative set of projections, please don't hesitate to request additional forecasts based on alternative assumptions.

You predict that property will double in value every 10 years which equates to annual compound growth of 7.2%. We have used this figure to project the future value of your buy-to-let portfolio and your own home.

You predict that mortgage interest rates on your buy-to-let portfolio will average 6.5% over the next 24 years. We have based our projections on interest rates you are currently paying for the next three years and your predicted average interest rates thereafter.

You predict that underlying inflation rates will average 2%. We have used this figure to project future rental streams, increased portfolio related expenses and other net assets excluding property.

Our forecasts assume that you will follow The Money Centre's strategy to maintain high gearing and high liquidity by releasing equity from your portfolio as a result of restructuring your finances every three years, subject to there being a window of opportunity to do so.

Maximum funding has been calculated assuming that you will borrow the lower of 80% of the value of your properties or the maximum available based on your prediction of average interest rates being 6.5%, your rental income representing a minimum of 125% of interest only costs and subject always to your cashflow not falling below £0 per month.

The average occupancy period of your tenants is 13 months.

Unless you have provided specific figures we have used the national average, costs of finding new tenants, property maintenance, ground rents and management charges.

Unless you have provided specific figures we have used figures provided by the Association of Residential Letting Agents to calculate the average void period based on an average of 27 days per annum per property.

Unless you have provided specific figures we have based the initial cost of property insurance at £1.50 per £1,000 of property value. This is very typical but you should note that by switching to our block policy you could reduce this by as much as 30%.

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Profile & Projections

Initial Investment Profile

Property Value	£1,333,000	
Existing Mortgage	£914,700	
Estimated Rental Income	£8,595 pcm	£103,140 Per Annum
Allowance for Void Periods		£7,630 Per Annum
Rent Net of Voids		£95,510 Per Annum
Initial Interest Rate	2.68%	
Required minimum cashflow net of interest, insurance, Rent On Time and Refurbs	£0 pcm	£0 Per Annum

Cashflow

Mortgage Interest	£2,040.54 pcm	£24,486.50 Per Annum
Management cost @ 10% of rent	£859.50 pcm	£10,314.00 Per Annum
Find a Tenant cost		£991.73 Per Annum
Assumed Annual Maintenance Cost		£690.72 Per Annum
Assumed Property Insurance Premium	£166.63 pcm	£1,999.50 Per Annum
Total Annual Costs		£38,482.45 Per Annum
Annual Cashflow		£57,028.02 Per Annum

Thereafter

	Year 3	Year 6	Year 9	Year 12	Year 15	Year 18	Year 21	Year 24
Property portfolio value assuming 7.2% growth per annum	£1,642,156	£2,023,014	£2,492,202	£3,070,206	£3,782,265	£4,659,467	£5,740,116	£7,071,393
New Mortgage	£1,313,725	£1,412,286	£1,498,729	£1,590,463	£1,687,812	£1,791,120	£1,900,751	£2,017,092
Cash Out from Refinancing	£399,025	£98,561	£86,443	£91,734	£97,349	£103,308	£109,631	£116,341
Equity Retained in Property	£328,431	£610,728	£993,473	£1,479,743	£2,094,452	£2,868,347	£3,839,365	£5,054,301
Gross Annual Rent	£101,356	£107,560	£114,144	£121,130	£128,545	£136,412	£144,762	£153,623
Gross Annual Expenses	£100,245	£107,560	£114,144	£121,130	£128,545	£136,412	£144,762	£153,623
Annual Profit from Rental Income	£1,112	£0	£0	£0	£0	£0	£0	£0

Assumptions

Property will double in value every 10 years which equates to 7.2% average growth rate per annum

Interest only will be paid throughout the term of all mortgages

Properties will be owned indefinately

Rental income, property insurance, maintenance costs, and Find a Tenant costs will rise annually in line with an inflation rate of 2%

The cost of Management will remain constant at 10% of rent

Interest rates will remain constant at 6.5% per annum after the first three years

Required minimum monthly cashflow will remain constant at £0 per month

The buy to let property portfolio will be refinanced every 36 months to release the maximum amount of cash assuming an interest rate of 6.5%, interest cover of 125% and gearing at 80%

Lenders fees are assumed to be paid up front and are not included in these calculations. The lender may allow you to add these fees to the mortgage advance. Your broker will be able to discuss these with you and to provide you with an alternative illustration of mortgage costs including all fees on request.

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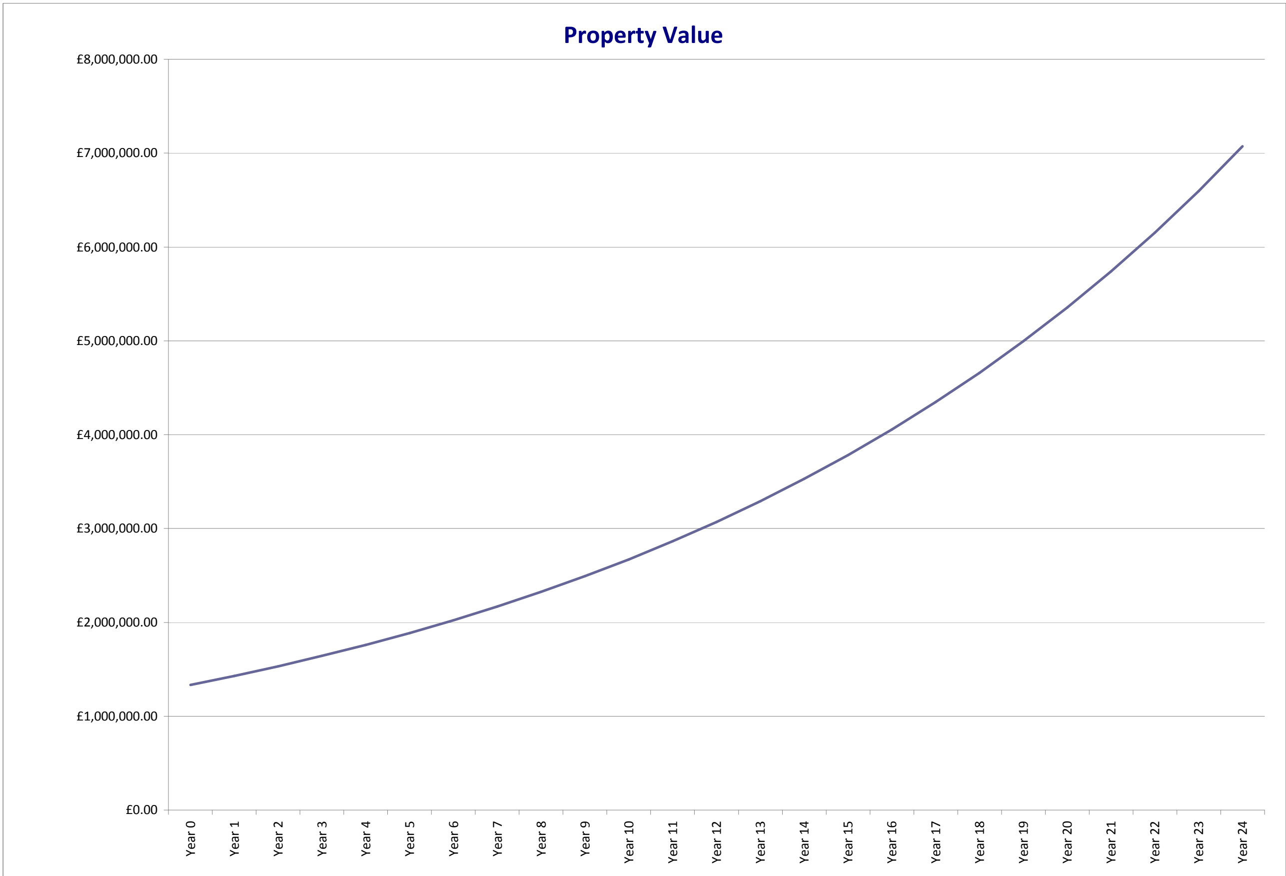

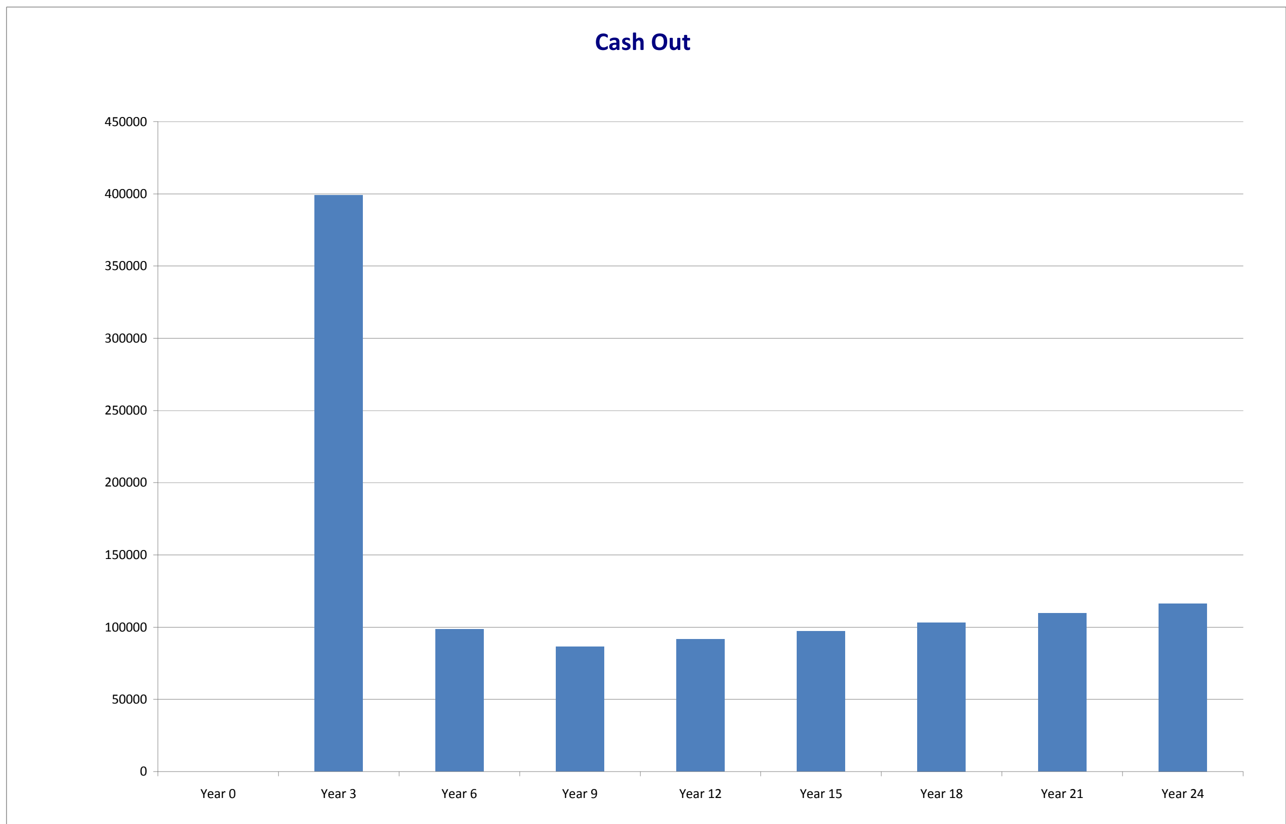

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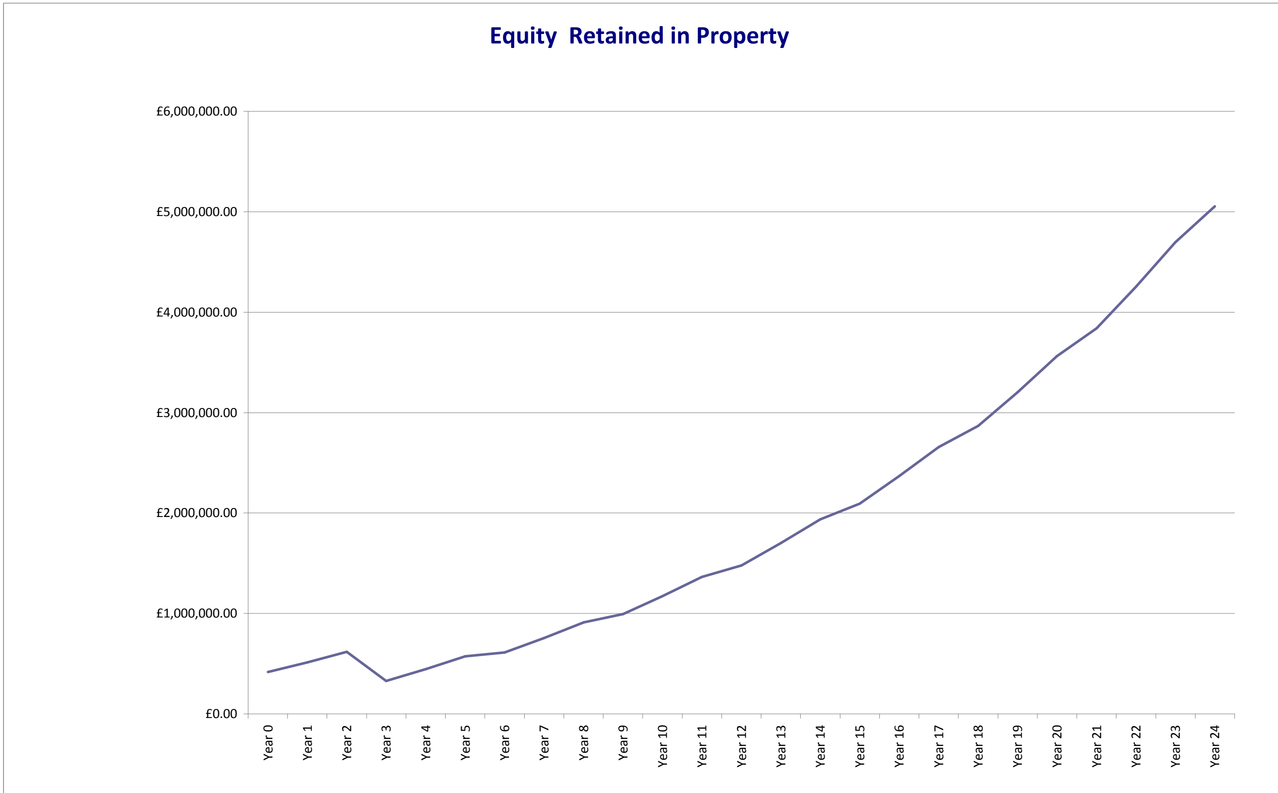

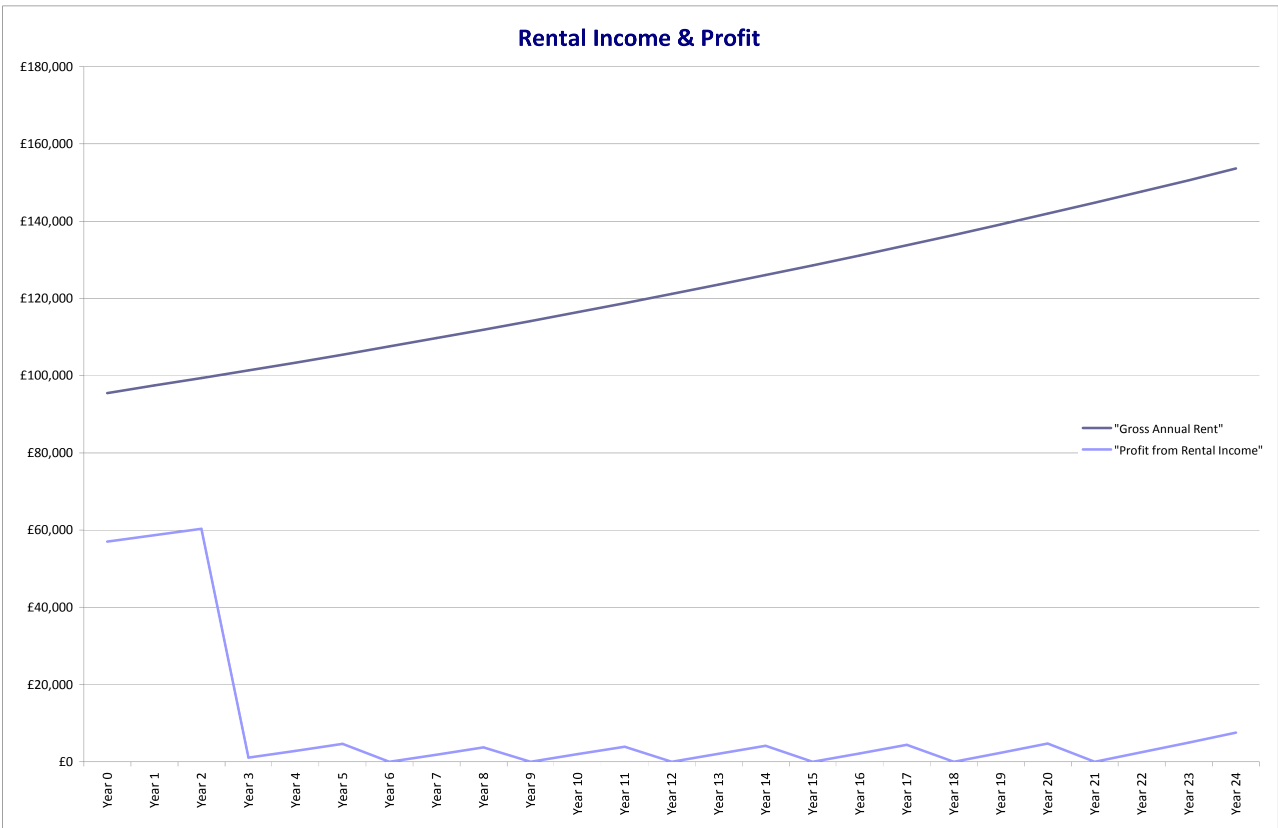

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Returns on Capital Invested

(in respect of your property investment portfolio only)

Over a 24 year period, based on the above assumptions, your net rental income will be £230,923. This equates to an average return on current equity of 2.3% per annum.

Over a 24 year period, based on the above assumptions, your net 'cash out' as a result of refinancing will be £1,102,392. This equates to an average return on current equity of 11.0% per annum.

Over a 24 year period, based on the above assumptions, your capital gains (not taxed unless you sell) will be £5,738,393. This equates to an average return on current equity of 57.2% per annum.

The combined return of all of the above, over a 24 year period, will be £7,071,708. This equates to an average return on current equity of 70.5% per annum.

Note. By reducing annual rental profits, or subsidising rental losses, overall returns may be significantly enhanced.

Opportunities

It would appear that you may have an immediate opportunity to release up to £144,992 by refinancing the properties noted in the property schedule where it is recommended that you consider releasing equity.

It is difficult to predict potential savings on insurance premiums without providing a full quotation, however, our experience has shown that, in many cases, savings of upto 30% of annual premiums may be achievable. In your case these savings could equate to somewhere in the range of £199.95 to £599.85 a year.

Growing your Portfolio

Based on the assumptions you have made, your property portfolio should provide an excellent income in future years, a very comfortable retirement for you and a wonderful legacy to leave for your loved ones. Have you achieved your goals? Do you want to buy more properties? If you do, we will be pleased to help you source, finance, let and insure these properties by introducing you to our preferred partner companies. If you can buy below market value you may well be able to recover your deposit after just 6 months or so by refinancing.

You also qualify for a full Financial Review, FREE of charge, with our recommended Independent Advisors who fully understand our strategy. They will be pleased to advise you how to use Government Legislation and other products and schemes to your advantage in order to minimise tax and protect your assets. They will also be pleased to discuss investment into property using pensions.

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Projected Value of All Assets

Private Residence & Second Home(s)

	Year 3	Year 6	Year 9	Year 12	Year 15	Year 18	Year 21	Year 24
Value(s)	£800,751	£986,466	£1,215,252	£1,497,100	£1,844,315	£2,272,058	£2,799,006	£3,448,166
Mortgage(s)	£325,000	£325,000	£325,000	£325,000	£325,000	£325,000	£325,000	£325,000
Equity Retained in Property(ies)	£475,751	£661,466	£890,252	£1,172,100	£1,519,315	£1,947,058	£2,474,006	£3,123,166

Potential Inheritance Tax Issues

	Year 3	Year 6	Year 9	Year 12	Year 15	Year 18	Year 21	Year 24
Combined Property Values	£2,442,908	£3,009,480	£3,707,454	£4,567,306	£5,626,580	£6,931,526	£8,539,122	£10,519,560
Combined Mortgages	£1,638,725	£1,737,286	£1,823,729	£1,915,463	£2,012,812	£2,116,120	£2,225,751	£2,342,092
Combined Equity	£804,183	£1,272,194	£1,883,725	£2,651,843	£3,613,768	£4,815,406	£6,313,371	£8,177,468
Net Value of Other Assets	£424,483	£450,465	£478,037	£507,297	£538,347	£571,298	£606,267	£643,375
Projected Net Value of All Assets	£1,228,666	£1,722,659	£2,361,762	£3,159,140	£4,152,115	£5,386,704	£6,919,637	£8,820,843
Potential IHT Liability	£361,466	£559,064	£814,705	£1,133,656	£1,530,846	£2,024,682	£2,637,855	£3,398,337

Assumptions

Property will double in value every 10 years which equates to 7.2% average growth rate per annum

Interest only will be paid throughout the term of all mortgages

Properties will be owned indefinately

Net assets shown in the Net Worth statements (excluding equity in properties) have been increased in line with projected inflation rates of 2%

For the purposes of calculating the potential inheritance tax position it has been assumed that all surplus income and all cash out from refinancing will have been spent at the point of death. The only additional assets or liabilities which have been taken into consideration when arriving at this calculation are those declared in the Net Worth Statement.

For the purposes of calculating the IHT liability we have assumed the use of just one nil rate band allowance. A further £325,000 nil rate band allowance may be used by couples if the ownership of the property has been correctly structured.

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Estate Planning

As you can see from these calculations, the equity in your property portfolio grows substantially. Based on current tax law (April 2010) we have calculated your Inheritance Tax liabilities, based on the assumptions using this spreadsheet, at £3,398,337 in 24 years time.

You could of course take advice regarding Inheritance Tax and estate planning from your existing solicitor and/or accountant. However, do they specialise in providing advice to property investors?

The price of advice is substantially less than the effects of doing nothing. A well structured Will and Lasting Powers of Attorney (to deal with your affairs when you are not able) is absolutely essential.

Premium Estate Planning Service

Most landlords are property investors for two main reasons:-

1) To make retirement provisions
2) To leave a legacy

As a client of The Money Centre you will no doubt have a lifetime property investment strategy. Therefore, you will want to be sure that the right assets go to the right people at the right time.

Estate planning isn't just about making a Will, deciding who your money will go to when you die and appointing guardians to look after your children. What if you are unable to look after your personal affairs due to having an accident, a stroke or developing a mental illness? Did you know that if you don't make the right provisions (Lasting Powers of Attorney) that your spouse may not be legally allowed to act for you and your personal welfare and affairs could be in the hands of a Civil Servant?

Inheritance Tax is also a major consideration. If property values double every 10 years your portfolio will be worth four times what it's worth today 20 years from now. The most cost effective time to start planning is whilst your equity is at its lowest point and you are healthy and able to do so.

It is all too easy to ignore mortality and to defer planning for another day. It's an old saying but it's true, "people don't plan to fail, they simply fail to plan".

It is common knowledge that most solicitors provide Inheritance Tax advice based on a clients current net worth position. That's all very well if their client dies very soon thereafter but isn't of much use to a property investor if he lives for many more years and his properties continue to double in value every 10 years or so.

A Property Portfolio Review projects how the net value of your estate will increase over the years, based on your own assumptions in terms of inflation and property growth. The projections are very complex and account for rising costs of insurance, inflation of rental income, lettings costs etc. and can even project net asset values if your intention is to follow The Money Centre's strategy to continue to release equity by restructuring your finances whenever a window of opportunity exists to do so.

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To create our Platinum Estate Planning Package we have formed a Joint Venture with Heritage Legal & Financial and Overburys solicitors.

Overburys utilise the Property Portfolio Review to structure their advice with a view to minimising your IHT liabilities based on both todays net asset values as well as projected net asset values. There is no 'one size fits all' as the planning very much depends on factors such as; when the property was purchased, the increase in value from the purchase date, whether you want/need to retain the rental income, whether the property is mortgaged and whether you intend to increase the debt on the properties. Ages of clients will also affect recommendations, for example, an investor in his 30's who is still growing his portfolio will probably want a lot more flexibility than a landlord in his 70's, far more aware of mortality and morbidity, who has repaid all mortgages and whose primary concern is leaving a legacy and protecting his estate from the powers of the crown.

Note that advice from The Money Centre, Heritage and Overburys is completely independent. None of the firms are authorised to sell life insurance so the advice provided will only recommend life insurance if that's the best thing for the client. Also note that Overburys have sought Council's opinion on all schemes they recommend. Overburys have over 300 years of experience with a very valuable reputation to protect in the area of Estate Planning. They also carry substantial Professional Indemnity Insurance which provides extra piece of mind, i.e. if their advice to their clients turns out to be wrong, their insurers will make good any losses.

The cost of instructing an accountant/IT contractor to replicate the software we use to produce Property Portfolio Reviews would be circa £15,000.

The cost of advice on IHT to the levels provided by Overburys would normally be in the region of £18,000.

Our Platinum Estate Planning package costs £2,000 + VAT and includes:-

1. A full Property Portfolio Review
2. Joint Wills and Lasting Powers of Attorney
3. Clearly documented advice on IHT from Overburys.

If you take up the advice and further legal work is required in respect of drafting additional documents such as Trusts a further £1,500 + VAT is payable.

The reason we are so cost effective is economies of scale, for example, the costs of IT development and Council's opinion is spread across several landlord clients. We specialise in advising landlords and our advice is, therefore, pre-researched and pre-tested. Other solicitors don't have many landlord clients and as a result their clients have to pay them to research the issues, take accountants and barristers advice and even spend hours trying to understand property investment before they can even contemplate giving advice. This all costs money and is not spread across multiple clients. It's also very easy for them to get it wrong as each case is likely to be their first of its kind.

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Paying Less Tax

A vital component of a landlord’s success is keeping on top of the performance of your portfolio by maintaining up-to-date portfolio accounts and having quality tax advice.

Don't lose out on saving tax because your accountant is a general advisor rather than a property investment specialist.

Getting the right property tax advice is like going to the doctor - your GP deals with day-to-day symptoms but has to send you to a consultant for specialist treatment.

Property tax advice from a specialist firm combined with systemisation could substantially reduce your tax bill as well as your accountancy costs.

We’ve formed an alliance with an accountancy business that specialises in advising landlords. With your permission we will be delighted to facilitate an introduction.

The principals own substantial portfolio’s themselves and one of the directors is author of the best selling “Understanding and Paying Less Property Tax for Dummies’

Standard charges are £50 + VAT per property per annum and £100 + VAT per tax return.

How does that compare to what you are paying at the moment?

The package includes a tax review, letting accounts broken down by property and by owner and self-assessment tax returns with the relevant UK property or foreign income pages completed for each owner.

All customers referred by The Money Centre who take up this service will be offered a FREE review from a property tax professional who will report any improvements that can be made to save income tax and capital gains tax.

Don’t worry about switching from your current adviser – they will handle that for you for free as well, including informing HMRC of the change.

The service includes tax advice regarding second homes, inherited property, holiday lets, HMO's and property development/refurbishment, but sometimes these cases are more complex and generate specialist work which will be quoted for separately. As a guide the costs are similar to those quoted above plus an extra £20 per hour plus VAT added for the extra administration time. Property companies will also be quoted for separately as extra regulation means more complicated accounts and tax returns.

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Financial Services

As a generalisation it is probably fair to say that most property investors steer clear of Independent Financial Advisers (IFA's). This is based on a common perception amongst property investors that IFA's have a limited understanding of property investment and prefer to recommend other forms of investment. However, not all IFA's are the same and we know the ones who do understand both the mindset and the needs of property investors. For example, if you have over £100,000 in bank or building society accounts, these funds are at risk if you go into long term care and there may be more appropriate ways to secure your liquidity without having to give up accessability.

Another example is pension schemes. If you do have over £100,000 invested into pensions it is possible that our recommended advisors may enable you to use the funds for commercial or overseas property investment. We should also point out that if it has been two or more years since you reviewed your life insurance and familiy protection, or indeed if your advisor was not independent or didn't have a good understanding of your property investments, you should book another review immediately.

Initial consultations with our recommended IFA's are usually free of charge. Further into this report we have included a case study which provides a good insight into why financial planning for landlords is so specialised.

Portfolio Continuity

Our investment strategy assumes lifetime ownership. You should seriously consider the implications of death and serious illness. We will be pleased to refer you to an IFA who understands property investment to discuss your insurance provisions. We will be equally pleased to refer you to our recommended suppliers for estate planning.

Our philosophy is that debt should be repaid at the demise of the borrower. This is because the intended beneficiaries may not have a sufficient credit score to refinance the loans against the portfolio in their name. Ever since we have entered the Credit Crunch, lenders have been keen to reduce their exposures wherever possible and death is a good excuse for them to call in loans, especially if the beneficiaries of the portfolio have a low credit score, a lack of experience in property investment or a low income. This could be disastrous if the intention for the intended beneficiaries is to keep the property portfolio intact. The question to ask yourself is “How would my beneficiaries cope if my mortgage lender would not allow them to take over the mortgages on my portfolio. What level of finance could they raise elsewhere and would this finance cost more or less?”

It is vital that life insurance is written in to Trust. If it isn’t it will form part of your estate and may well be tied up in probate. This could significantly delay the intended beneficiaries from getting their hands on the money when it is needed most. Worst still, if the insurance payout is not written in to Trust it could attract Inheritance Tax. It is, therefore, imperative that professional advice is sought. This advice can be provided by an IFA on our panel.

Another consideration for landlords, especially those who choose to manage their own properties is, “If my health were to deteriorate to a point whereby I could not manage my portfolio, how much would the management and maintenance cost to outsource?” An associated question is, “Do I want my family to carry this risk or an insurance company?” An IFA on our panel may be able to help and we would be more than happy, with your permission, to pass on your details to a qualified Adviser to discuss protecting you against these potential risks in more detail.

None of us are immortal or exempt from serious illnesses. Therefore, if you choose to invest in property to provide financial security for yourself and your loved ones you should also consider insurance and estate planning provisions. The choice you have to make is whether to pay the premiums or to pay the price of inadequate provisions. Please don't make the mistake of choosing price over advice. Cheap insurance can be purchased over the internet and even from supermarkets these days; however, will the checkout operator or the web-site you choose to visit really understand the complexities of your property portfolio strategy and your estate planning requirements?

Another common mistake that property investors make is to appoint their accountants and/or their bankers as executors to their will without understanding the cost implications. We have seen examples of probate taking several years to be granted, the associated costs of which can be upwards of 10% of the value of the estate. Investigating the full extent of the estate is a common cause of high costs. By utilising 'The Complete Solution for Landlords' offered by our recommended suppliers these costs may be significantly reduced.

Barry's Story

Barry's Story was written by the founding Partner of Innovative Landlord Solutions LLP. The dates, times and people are fictional but the story is based on real life events.

Barry is a typical landlord with a modest portfolio. He's 53 years old and married to Sharon. They have three teenage children; twin girls aged 15 and a 13 year old son. Barry worked as a self employed salesman in the plant hire business. Sharon had a part time secretarial job in a local school.

Barry and Sharon purchased their first investment property in 1996. Since then they have followed our strategy.

As property values have risen they have continuously remortgaged and used a proportion of the equity released as deposits to purchase additional rental properties. They also saved a proportion of the equity released for a rainy day. To accelerate the growth of their portfolio Barry and Sharon raised extra cash for deposits by remortgaging their home. The profits from Barry's plant hire business covered the family's commitments comfortably. As property values have risen they have continuously remortgaged and used a proportion of the equity released as deposits to purchase additional rental properties.

By August 2008 they had accumulated a portfolio of 23 properties with a combined valuation of £1,650,000, against which they had mortgages of £1,400,000. The portfolio produces rental income of £87,000 per annum. Their rainy day fund amounted to just over £64,000. By having all of the above in place you would be forgiven for thinking that they had set themselves up with a very safe future.

On Sunday December 21st 2008 Barry had a bad day. He was on the way home that evening having just been out to fix a tenants leaking shower tray when the traffic on the M6 came to a grinding halt. Barry managed to stop his car, avoiding the lorry in front of him, but the car behind ploughed into the back of him, wedging his car under the lorry.

The emergency services managed to free Barry from the wreck and his only injuries were shock, whiplash and major bruising to his legs. Two days later Barry collapsed whilst out shopping for last minute Christmas presents. He was rushed to hospital where it was discovered that a blood clot in Barry's leg had passed to his brain. Barry had suffered a major stroke. He lost his speech and most of the use of one side of his body. The family were in tatters. Sharon had to give up work to care for him. Their claim for disability benefit for Barry and carers allowance for Sharon took an age to be processed! These benefits will not keep the family in the standard of living to which they have become accustomed.

Up until having a stroke Barry had managed the property portfolio and taken care of most of the maintenance himself. Could Sharon care for her husband, her family and the management and maintenance of the property portfolio too?

They considered putting the properties on the market but soon realised there would be no takers at the prices they needed to achieve. Sharon has had to employ a lettings agent to manage the portfolio. Since then it has cost the family an average of over £3,000 a month for management and ongoing maintenance.

Fortunately there has been some good news, at least financially. Firstly, the reducing interest rates have meant that Barry and Sharon's mortgages have got much cheaper. Some of their mortgages have reverted to tracker products due to their fixed rates coming to an end. The family have resigned themselves to the fact that they probably have negative equity now and they will not be in a position to sell up in the foreseeable future. They are focussing on Barry's recovery and looking forward to the remainder of their fixed rate mortgages coming to an end. What will happen when interest rates go back up again though?

The real saviour for the family has been insurance. Fortunately, Barry and Sharon were astute enough to insure against these eventualities. Barry and Sharon took out life insurance policies that pay out a regular monthly income right up to Barry's 65th birthday. These policies were written on the basis that they also pay out in the event of a critical illness. The family are, therefore, confident that these provisions will see them through these troubled times and out the other side. They will then revert to plan A which was to live off surplus rental income over and above the mortgage payments on their portfolio or to sell the properties and live off their gains.

What insurance provisions have you made for your family?

How are you investing the windfall of increased cashflow that record low interest rates have produced for your family?

Have you been as financially astute as Barry and Sharon? If you haven't it may not be too late, we want to help. If you have already made some provisions we would like to introduce you to an IFA on our panel to review your policies to make sure they are competitive and that the right person gets the right money at the right time.

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An Independent Financial Advisers recommendations based on Barry's Story

To address the risks identified within Barry's Story, an Independent Financial Adviser on our panel would have recommended the following:

1) First they would have reinforced our property investment strategy, i.e. to have a 10 - 15 year strategy, high gearing combined with high liquidity, cash is King hence the strategy of an interest only loan structure, building a war chest or a rainy day fund to allow for the unexpected, release equity whenever a realistic window of opportunity exists and keep buying. These clients were doing everything right but it was equally important that they also pointed out the risks and provided the solutions.

2) They would have geared all of the insurance recommendations to match with the couples 15 year investment strategy which coincidentally would take Barry to a normal retirement age of 65.

3) If they had not already done so they would recommend Barry and Sharon make a will, Lasting Powers of Attorney and plans to avoid leaving their loved ones with an Inheritance Tax problem.

4) They would suggest to Barry and Sharon that they should speak to their lenders about adding their children to the buy-to-let mortgages and to the title of the property at the age of 18 so that in the event of death, the children could talk to the lenders about keeping the mortgages, assuming of course they are still competitive. Without this provision there is a greater risk that the lenders would demand repayment which could force the sale of the properties or refinancing. Good mortgages are a great asset.

5) They would recommend that all life insurance policies are written into a flexible Trust to mitigate against any potential Inheritance Tax liabilities. By placing the life insurance policies into Trust before they are claimed upon involves the transfer of an asset with no value, hence no tax needs to be paid. When the policies then pay out they no longer form part of the insured person's estate. Failure to write life insurance into Trust could result in up to 40% of the proceeds being paid in Inheritance Tax instead of passing to the intended beneficiary!

6) The first priority in terms of insurance would have been to ensure that Barry and Sharon can keep a roof over their heads. They would have recommended a joint life policy for 15 years for Barry and Sharon for £174,000 to repay the mortgage in the event of death, prepaid in the event of critical illness.

7) They would pass the risk to an insurance company on Barry losing his ability to manage his property portfolio in the event of a critical illness. Therefore, they would have recommended insurance policies for Barry to produce a benefit of £35,000 per annum up to Barry's 65th birthday, paying out in the event of death or critical illness. They would have recommended product providers whose policies also provide critical illness benefits for their children. This is because it can be devastatingly traumatic, not only emotionally but also financially, when parents have a sick child and need to choose between going to work to pay their bills or being by a sick child's bedside. The selected product providers could provide all of the recommended life insurance and critical illness policy recommendations under a single plan, thus reducing policy charges.

8) Barry's net income excluding rental profits is around £50,000 per annum. To insure the family against Barry's loss of income due to death, terminal illness or critical illness they would have arranged insurance of 10 times his income, i.e. £500,000 to cover these risks. This could then be invested and drawn upon to supplement Barry's financial contribution to the household to his retirement age.

9) They would have recommended a Family Income Benefit policy for Sharon to produce a benefit of £1,000 per month to Barry's 65th birthday, paying out on the first event of death or critical illness. The purpose of this policy being to pay for a house-keeper to do everything that Sharon does if she is unable to do so in the event of a critical illness, and to cover her financial contribution to the household.

Finally, and most important of all would be the presentation of the recommendations. Taking out the right insurance for the right reasons is a matter of life and death. It is vital that the right advice is given to ensure that the right money goes to the right person at the right time. Good financial planning involves a substantial but affordable financial commitment to address the risks that we all face in life.

In our experience, over time, people forget why they took out the policies. It is in the interest of both the client and the IFA that this does not occur, otherwise they may be cancelled. This is why IFA's produce a much more detailed account of the above, together with Key Features Illustrations and a Statutory 'Reasons Why' letter. They would then advise Barry and Sharon to keep this document in a safe place with the policy.

Email info@themoneycentre.com or call us on 0800 374611.

Exit Strategy Planning: Releasing Equity

Could Equity Release mortgages be the ultimate exit plan for property investors?

Have you given much thought to the many exit strategies that exist for your buy to let portfolio?

The vast majority of buy to let mortgages have been taken out on an interest only basis on the expectation that repayment of the mortgage will eventually come as a result of sale of the property at a point when capital values have grown substantially

Is a sale absolutely necessary though? It might be if the loan term comes to an end and the property can't be refinanced

However, a sale could well trigger a capital gain and associated taxation

We have, therefore, projected* below the future capital values and rental income from your portfolio assuming that property values double every 10 years (averaged compound growth of 7.2%) and the effects of 2% inflation on rental income. The results come out as follows:

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	Year 3	Year 6	Year 9	Year 12	Year 15	Year 18	Year 21	Year 24
Property value assuming 7.2% growth per annum	£1,642,156	£2,023,014	£2,492,202	£3,070,206	£3,782,265	£4,659,467	£5,740,116	£7,071,393
Gross Annual Rent	£101,356	£107,560	£114,144	£121,130	£128,545	£136,412	£144,762	£153,623
New Mortgage	£1,313,725	£1,412,286	£1,498,729	£1,590,463	£1,590,463	£1,791,120	£1,900,751	£2,017,092
LTV	80%	70%	60%	52%	42%	38%	33%	29%

As you can see from these figures, even if you keep remortgaging to release as much as possible, as time goes on the difference in rental growth compared to property growth will eventually restrict maximum funding and your equity will build very rapidly. At the same time your loans will reduce as a percentage of the value of your portfolio. There may, therefore, be an opportunity for you to switch your funding to a Lifetime Mortgage model. This is where interest rolls up, thus reducing your monthly interest payments to nil and substantially improving your cashflow and retirement income. As the interest is still being charged but not serviced, it can still be offset against income so your improved cashflow should not result in any increased taxation and, over time, could even reduce your income tax liabilities.

The same capital growth might also apply to your private residence thus giving you the opportunity to consider equity release as an exit route for the mortgage too.

None of us can take our money with us, even if we do believe in life after death. If you believe in having a life BEFORE death, the above may form a part of your medium and long term strategy.

There are several strategies that you can utilise to fund your retirement whilst enjoying your life now, however, some are less obvious than the others.

Please note that the minimum age to qualify for an equity release mortgage is 55.

** Calculations used are based on example only*

We aim to be your chosen 'partners' in every decision that you make in terms of your property portfolio and related finances. We provide 'The Complete Solution for Landlords'.

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Property Schedule

Address	Postcode	Account Number	Ownership	Lender	Property Type	Original Purchase Price	Estimated Current Value	Rent Per Month	Mortgage Outstanding	Interest Rate*	Monthly Interest*	Mortgage Type	Actual Monthly Mortgage Payment	Gearing	Potential cash out from refinancing
Totals						**£720,000**	**£1,333,000**	**£8,595**	**£914,700**	**2.68%**	**£2,040.54**		**£2,040.54**	**69%**	**£144,992.31**
AGGREGATED MORTGAGES															
Flats 1,2,3 & 4 Manor Court Any Town	ZZ1 9ZZ	12345678	Joint	Made up Bank	Block of 4 Flats on single Freehold	£120,000	£420,000	£2,100	£350,000	2.25	£656.25	Interest Only	£656.25	83%	
6 High Grove & 72 The Street Any Town	ZZ1 9YY	87654321	Joint	Made up Bank	HMO	£320,000	£650,000	£5,420	£400,000	2.75	£916.67	Interest Only	£916.67	62%	£120,000.00
INDIVIDUAL MORTGAGES															
One mortgage per property															
123 High Street Any Town	ZZ9 2AA	56329872	Self	Made up Bank	2 Bed Flat	£115,000	£86,000	£400	£90,000	2.50	£187.50	Interest Only	£187.50	105%	
237 Any Street Any Town	ZZ9 5TT	23454965	Partner	Made up Bank	3 Bed Semi	£165,000	£177,000	£675	£74,700	4.50	£280.13	Interest Only	£280.13	42%	£24,992.31

Net Worth Statement

Assets	Amount His	Hers	Joint	Total
Property portfolio	£86,000	£177,000	£1,070,000	£1,333,000
Private residence	£0	£0	£500,000	£500,000
Second home(s)	£150,000	£0	£0	£150,000
Cash in banks and building societies and national savings	£20,000	£12,000	£120,000	£152,000
Pension schemes	£25,000	£25,000	£0	£50,000
TESSAs, PEPs & ISAs	£0	£35,000	£0	£35,000
Vehicles	£50,000	£0	£0	£50,000
Insurance bonds	£0	£0	£0	£0
Jewellery	£0	£25,000	£0	£25,000
Stocks & shares	£0	£0	£0	£0
Land	£50,000	£0	£0	£50,000
Net business value	£0	£65,000	£0	£65,000
Premium bonds	£0	£0	£0	£0
Unit trusts	£0	£0	£0	£0
Endowment policies (surrender values)	£0	£0	£86,000	£86,000
Gold	£0	£10,000	£0	£10,000
Antiques & valuables	£26,000	£0	£20,000	£46,000
Directors loan accounts	£173,000	£150,000	£0	£323,000
Net assets	£580,000	£499,000	£1,796,000	£2,875,000
Net worth	£2,000	£420,300	£721,000	£1,143,300

Liabilities	Amount His	Hers	Joint	Total
Property portfolio mortgages	£90,000	£74,700	£750,000	£914,700
Private mortgage(s)	£0	£0	£325,000	£325,000
Second home mortgage(s)	£0	£0	£0	£0
Personal loans	£0	£0	£0	£0
Average credit card balances	£18,000	£4,000	£0	£22,000
Average overdraft	£0	£0	£0	£0
Vehicle finance	£45,000	£0	£0	£45,000
Unpaid tax	£0	£0	£0	£0
Film partnership liabilities	£425,000	£0	£0	£425,000
Other debts over £5,000	£0	£0	£0	£0
Net liabilities	£578,000	£78,700	£1,075,000	£1,731,700