How to Create a Property Business Plan

LandlordVision

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Make no mistake, property investment is a business. Successful property investors and professional landlords don't risk 'winging it'. They have a solid plan in place from the beginning and they continually review this plan as the business grows.

"Failing to Plan is Planning to Fail"

Not having any kind of coherent plan is a recipe for disaster. You don't need a 500-page document outlining every last detail, with colourful graphs included, but you do need a clear statement of intent.

People who go ahead without a plan are guaranteed to fail at some point. And they usually lose a lot of money in the process.

Creating a Property Business Plan

There is no right or wrong way of creating a business plan but bear in mind that a lender may want to see your business plan before they commit to offering you mortgage funding. Therefore, it's a good idea to be as thorough as possible. Do your research, include pertinent facts and figures, and be willing to back these up with evidence.

To help you get started, we will outline the basic steps to follow below.

Step 1 – Your Current Situation

Where you are right now is the foundation for your business plan.

- How much money are you planning to invest?
- Where is this money coming from – a BTL mortgage, inheritance, savings, etc.

- How much time are you willing to spend on your business? For example, if you want to run your portfolio part-time, you will probably need to use a letting agent, so you'll need to factor in their costs.
- How much experience do you have?
- Do you require any training?

Be honest when answering these questions. This business plan is your blueprint for the way forward.

Step 2 – Where do you Plan to be in 3, 5, or 10 Years?

Think of your property business plan as a road map. Your starting location is where you are now. Your final destination is where you hope to be in three, five, ten years or more.

This is when you need to think carefully about your goals…

- How many properties do you plan to add to your portfolio?
- Do you plan to manage your portfolio full-time?
- Do you need a set income from the business?
- Is this a long-term capital investment designed to supplement a pension in years to come, or a short-term profit strategy?

Answering these questions is a good opportunity to flesh out your long-term goals. Put a lot of thought into where you hope to be in X number of years. Write it down and discuss it with friends, family, and mentors. The more you discuss your strategy, the easier it will be to spot any potential holes in the plan.

Be realistic about your goals. It's one thing to say "I want to own a portfolio worth £1.5m in five years" and quite another to achieve this goal. Still, it's good to be ambitious, as long as you have a realistic strategy in place.

Step 3 – Creating a Property Business Strategy

Your business strategy is how you meet your goals. This is where you come up with solutions to problems. For example, if your savings are relatively meagre, your strategy needs to address the problem of funding. It tells you how much work you have to do to meet your goals.

In the early stages, it isn't necessary to come up with a detailed business strategy. Simple is good. It means you can remember it and use it to inform the decisions you make on the fly. However, once you have your main goals fleshed out, it is sensible to go into greater detail on the what, when, how, and why.

Problem-solving is a lot easier on paper using imaginary scenarios, than when faced with the stress of a real life problem. Try and think through every possible thing that might go wrong. Plan ahead and work out different investment strategies, so you can see which one works best.

Step 4 – Cash Flow Projections

Successful property investment relies on adequate cash flow. Do the maths. Plug in numbers and see which properties generate the best rental yields. Check out mortgage deals and see whether using one property to finance another is an option. Figure out what your expenses are likely to be and how much rental income you need to cover these and still give you a decent return.

Factor in personal expenses too. Remember that you'll need to cover your own bills if something goes wrong. For example, if you lose your main job or get sick, can you afford to live and continue managing your properties?

Speak to a Financial Advisor

Since financing a property investment portfolio is critical, it's worth speaking to a financial adviser when preparing a property business plan. Run through different funding options. Check out available financing deals with different lenders. Take advice on the best way to finance your investment plans. For example, you may be considering using an equity release scheme to free up some money from your family home. Now is a good time to find out whether this is a smart idea, or not.

Always speak to an independent advisor if you want objective advice.

Strategize different investment models. For example, compare the potential rental yields from an HMO compared to a house suitable for families. There may be a higher up-front investment required to convert a property into an HMO, but in the long-term, it could generate a better return on investment.

There are many different investment models worth considering. HMOs are one, but others include property flipping, student lets, buying properties at a discount, perhaps via auction, and then adding value.

Now is the time to work through your options and decide which one is right for your individual circumstances.

Building a Property Portfolio

Making a property business plan prior to investing in a single property doesn't need to be too comprehensive. All you really need to think about are funding, management, and what type of property you want to buy.

Building a portfolio of 3+ properties requires more thought, however, and if your long-term plan is to own a portfolio of 20+ properties, then this will need a more advanced business strategy.

Talk to Other Investors

Other investors have been where you are now. You can learn from their experiences, good and bad. Use this to help you strategize. Don't make the mistake of treating their business plan as your strategy, as their skills and experience won't mirror yours, but it is helpful to see how other investors manage their businesses.

You might discover that something you planned to try isn't profitable in your area. This is where local knowledge comes in handy. For example, perhaps you see HMOs as a gold mine, but after chatting to letting agents and other investors, you realise that the market is oversaturated and there are already too few tenants, whereas demand is high for one and two-bed flats for young professionals.

It's better to find out now before you spend a fortune converting an old Victorian property into an HMO rather than subdividing it into self-contained flats.

Take Your Time

Don't rush the process of creating a working business plan. Begin with your current situation and decide where you want to be at a predetermined point in the future. As long as you have a clear – and realistic – way of making that journey, the rest should all come together.

And finally, be flexible and willing to make adjustments to your business plan. The best-laid plans don't always work as intended. Things change, unexpected problems arise, and your goals may change for reasons you hadn't considered. As long as you are adaptable and willing to roll with it, none of this will matter too much.