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Your Next Refinance Starts Today

Preparing a property portfolio for its next round of debt

By Kiran Patel ACA, Co-founder, Venture Finance

> *Most landlords start thinking about a refinance when the renewal letter arrives. By then, the best options may already have gone. Chartered Accountant, portfolio landlord and Venture Finance co-founder Kiran Patel ACA explains why a portfolio's next round of debt should be planned years, not weeks, ahead.*

As an auditor, I learned that the numbers at year end are mostly decided long before year end. The same is true of a refinance. The rate, the loan size and even whether a lender says yes are largely settled by decisions made months or years earlier: how the portfolio is held, how the rents are set, how the accounts are kept and when the fixed rates fall due.

Across our own portfolio and our clients' deals, the pattern is consistent. The refinances that go smoothly are the ones prepared for well ahead. The stressful ones are those left until the product transfer letter lands.

This article is about the first kind.

Why refinancing has changed

For much of the last decade, refinancing a buy-to-let portfolio was close to automatic. Rates were low, rental cover tests were easy to pass and values were rising. A landlord could release equity on most renewals and barely think about it.

Three things have changed that:

- **Stress rates.** Lenders test rent against a stressed interest rate, not the pay rate. When base rates rise, so does the stress rate, and the maximum loan a property can support falls, even if the rent has not changed.
- **Interest cover.** Most buy-to-let lenders want rent to cover stressed interest by around 125% for limited companies and 145% or more for higher-rate taxpayers borrowing personally. A portfolio bought on cheap money often fails these tests on today's numbers.
- **Maturity clustering.** Many landlords fixed several mortgages at the same time. When those fixes end together, the whole portfolio is exposed to one moment in the market.

The result is that a refinance is no longer just a rate decision. For many portfolios it is a question of whether the existing debt can be replaced at all, and on what terms.

What a lender looks at in a portfolio

A lender refinancing a portfolio is not lending against one house. It is lending against a business. The questions change accordingly.

Test	What the lender is asking	What to have ready
Loan to value	How far can values fall before the debt is at risk?	Realistic current values for every property, not the figures from the last boom
Interest cover	Does the rent cover interest at a stressed rate, property by property and in total?	A current rent schedule with tenancy dates and arrears
Portfolio cash flow	After all costs, does the business make money?	Two to three years of accounts and a simple forecast
Concentration	Is too much of the income in one area, one tenant type or one property?	A summary by location, property type and tenant profile
Borrower strength	Who is behind the business, and what else do they own and owe?	A statement of assets and liabilities and a clear group structure
Experience	Has this borrower managed property through difficult periods?	A short track record: acquisitions, refurbishments, how voids and arrears were handled

Most of this is information landlords already hold. The difference is having it organised, consistent and ready to send on day one. A lender who receives a complete, credible pack prices the risk better than one who has to chase for it.

Individual mortgages, a portfolio facility or a revolving credit facility

Once a portfolio passes a certain size, the way it is financed matters as much as the rate on each loan. There are three broad routes.

	Individual buy-to-let mortgages	Portfolio facility	Revolving credit facility
How it works	One mortgage per property, each underwritten separately	One loan secured across many properties	A credit limit secured on the portfolio, drawn and repaid as needed
Cover tested	Property by property	Across the whole portfolio	Across the whole portfolio
Best for	Smaller portfolios with simple, high-yielding stock	Larger portfolios with mixed yields	Active investors buying and refurbishing regularly
Strengths	Wide choice of lenders, competitive pricing	Strong properties support weaker ones, one set of terms, one renewal	Capital ready to deploy without a new application for each purchase
Watch-outs	Low-yielding properties fail cover tests on their own	Fewer lenders, more complex legals, cross-charges between properties	Non-utilisation fees, annual reviews, covenants tested regularly

There is no single right answer. A portfolio of high-yielding terraces may be better off on individual mortgages. A mixed portfolio, where some properties carry the others, often refinances more easily as one facility. An investor who buys several properties a year may gain more from the speed of a revolving facility than they lose in its cost.

Worked example: one portfolio, two ways to refinance

Take an illustrative limited company landlord with 12 properties worth £2.0m in total and existing debt of £1.40m, all fixed rates ending within the same six months.

- **8 terraced houses**, each worth £120,000 and let at £800 a month
- **4 larger houses**, each worth £260,000 and let at £950 a month

Assume a lender lends up to 75% LTV and needs rent to cover interest by 125% at a 5.5% stress rate.

	Individual mortgages	Portfolio facility
Terraced houses	£90,000 each, capped by LTV (£720,000 in total)	Tested together with the rest of the portfolio
Larger houses	About £166,000 each, capped by interest cover (£663,000 in total)	Tested together with the rest of the portfolio
Maximum new debt	**About £1.38m**	**£1.50m**, capped by LTV across the portfolio
Against existing debt of £1.40m	About £17,000 short	About £100,000 of headroom

Illustrative figures for a fictitious portfolio, before fees. Real stress rates and cover tests vary by lender.

On individual mortgages, the four larger houses fail the cover test at full LTV, and the landlord has to find cash to refinance. Tested as one portfolio, the high-yielding terraces carry the larger houses, and

the same properties refinance with headroom to spare. Nothing about the properties has changed. Only the structure has.

A 12-month checklist before your fixed rates end

This is the timetable I would follow for any portfolio with significant debt coming up for renewal.

1. **12 months out: map the maturities.** List every loan with its lender, balance, rate, end date and any early repayment charges. Look for clusters and decide whether to stagger them.
2. **9 months out: test the portfolio.** Run every property through current stress rates and LTV limits. Identify the properties that fail on their own and those that carry the rest.
3. **6 months out: get the paperwork in order.** Up-to-date accounts, a clean rent schedule, tenancy agreements, compliance certificates and a statement of assets and liabilities.
4. **6 months out: review the structure.** Decide whether individual mortgages, a portfolio facility or a revolving facility suits the next five years, and take tax advice before moving any property between entities.
5. **3–4 months out: go to market.** Present one consistent pack to the right lenders and compare total cost over the term, not just the headline rate.

Landlords who start at step one rarely face a forced decision. Those who start at step five often have to take whatever is available.

Plan the debt like you plan the property

No landlord would buy a property without checking the rent, the condition and the exit. The debt deserves the same attention. A refinance planned a year ahead is a choice between several good options. A refinance planned a month ahead is often a choice between whatever is left.

> *The best time to prepare for your next refinance was when you took out the last one. The second-best time is today.*

About the author

Kiran Patel ACA is a Chartered Accountant and co-founder of Venture Finance, a Sheffield-based debt capital advisory firm arranging £1m–£50m of real estate debt for developers, investors and portfolio landlords. His background spans audit, in-house accounting and hands-on property investing. Alongside his wife and co-director Joanne Patel ACA, he has built the couple's own property portfolio from the ground up.

kiran@venturefinanceuk.com · 0114 453 5067 · www.venturefinanceuk.com

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