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Looking Long

News of an improvement in buyer sentiment may have raised considerable excitement in some quarters. In recent months there has been a rise in buyer enquiries, a jump in actual sales in February according to the National Association of Estate Agents, plus surveys showing that more people want to invest in the buy-to-let sector.

Young Group's study showed that more people plan to buy in the next 12 months, with a corresponding expectation that prices will rise. Both of these sentiments were significantly stronger in London than elsewhere. But the Association of Residential Lettings Agents (ARLA) indicated that such an increased desire to buy is already being acted on, with more members of the body buying property than selling it for the first time in two years.

Some may wonder why, at a time when rents have been falling and prices are still coming down, investors may buy now. Discussing this, ARLA's operations manager, Ian Potter, stated that serious buy-to-let traders *"realise that the rental return on those properties is still quite keen in comparison to other investment opportunities around in the marketplace and long term"*.

The long term, he noted, is the key, stating: *"They don't buy with a one to five-year plan; they buy with a five to 15, perhaps even 20, year plan. They would expect property prices to make a recovery in the long term. Whilst there's an argument that property prices could still go down, there is an even stronger argument on supply and demand that property prices in the long term will go up."*

Such thinking about prices would also justify buying now. It could be that recent developments in the property market are an indication that the bottom has been reached or soon will be, in which case there need be little fear of prices falling and every hope of them increasing. But, as Mr Potter explained, those who are buying over a period of years and even decades could absorb any further drops in value in the coming months in the knowledge that the rebound will come eventually and they will benefit from it.

Some recent evidence has suggested that sellers are also optimistic about prices, with Rightmove finding in March that the average asking price for a property was 0.9 per cent up on February at £218,081. Such a demand may be premature, given that recent house price figures have shown further falls. But even if this optimism is unjustified in the short term, those whose focus is on a longer future and where property values and rental income levels may stand a few years hence need not depend on things getting better quite so fast.