

The Landlord Law Blog

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Twist Stick or Bust? How Landlords should deal in the Rented Property Market Summer 2009

Much has been written about the state of the Housing Market in England and Wales during 2009.

Over the last few weeks data that has been released has edged towards the positive. Although some opinion is predicting that further falls are inevitable, more commentators such as the Nationwide Building Society and the RICS are predicting an end to the fall in prices, and even a slight rise by the end of the year.

How have Landlords fared in all this uncertainty and what are the prospects for Landlords for the rest of summer 2009?

Landlords have certainly not been immune to the falls in the Housing Market. As confidence and turnover fell in the Housing Market, so then as a direct result we have seen an oversupply of rented properties, leading to a reduction in rents achieved.

We have heard tell of a swelling in the numbers of Landlords, the so called new breeds such as the distressed Landlord; the reluctant Landlord and the accidental Landlord. These Landlords i.e. those who did not want to sell in a failing market now sit alongside the more traditional investors and professional Landlords.

What then are the Prospects for the rented property sector?

Clearly, the love affair that the British enjoy with property shows no sign of diminishing. A recent Mintel Poll in the Sunday Times showed that 33% of adults believe now is a good time to invest in property and more than 50% say property is still a good long term investment, despite the recent crash.

It is suggested that large institutional investors are now looking towards the rented sector where they can now see an improvement in the potential yields available, rising on average from 4% to 6%.

The RICS has also indicated that as property transactions begin to rise from their very low levels, the influx into the rental market has slowed as the market reaches equilibrium with supply able to match demand.

The Young Group, a leading Property Investment Group, carries out a quarterly survey of investor market sentiment. Their 2nd quarter report contains upbeat news. 52% of investors are considering purchasing additional residential property assets within London during the next 12 months, compared to 30% who are looking at opportunities in the UK outside of the capital.

Sentiment among Investors remained strong and that 99% of investors intend to hold their residential property investments for the next 12 months. 41% intend to

hold their assets for at least 10 years and 12% of private residential property investors intend to retain their property investments for the next 20 years or more.

On average, residential property investors expect to hold their investment assets for the next 10 years.

What are the barriers to improvement in the rented property sector?

The oversupply of rented properties in certain areas will not abate for some considerable time, and this will continue to exert downward pressure on rentals achieved. This is particularly the case with two bedroomed flats in urban areas.

Even where more saleable houses are involved, the market is unlikely to see rises sufficient to tempt the reluctant, distressed or accidental Landlord to cash in on their investments. Some Landlords may well have favourable tracker or low fixed interest rate mortgage and are well placed to ride out the storm.

The shortage of mortgage finance will also be a barrier to Landlords. Mortgage approvals, for which part will be investors looking to add to their rental portfolios, were again up visibly but the shortage in funding is evident in the number of buy to let mortgages declining according to moneysupermarket .com from 4690 to 177 in the last 2 years. Of those mortgages that are available at the time of writing, the Nationwide has a buy to let mortgage at 3.69% but with conditions, and a whopping 3.5% arrangement fee.

Unemployment has not yet bottomed out, and there may be more people forced to sell their properties, further dampening the prospects for a rise in rental income.

TWIST, STICK OR BUST THEN?

It may be dangerous to give too broad a conclusion. Certain parts of the country will be faring better than others. Locally, here in Bristol and South Gloucestershire the outlook for rents are good. Local estate Agents and Letting Agents are reporting that properties coming on the market to rent are letting relatively quickly. Rents have held strong and there is no evidence of a decline in rents achieved.

As ever, events may still derail any nascent stability. Unemployment may lead to lower, reduced prices and plentiful tenants taking the opportunity to buy rather than rent. Mortgages are still are hard to come by.

The Rental Index from the property portal FindaProperty.com published last week states that the UK rental market is stabilising. Although the supply of rental properties doubled between May 2008 to May 2009, stock levels have now declined for two consecutive months. This may be an early indication that the chronic over supply might be at an end.

Rents fell sharply during the period by an average 5.5% or £48 per calendar month. Since then, their Rental Index has shown a small increase of £6 pcm.

The low level of first time buyer activity continues to contribute to demand in the private rented sector.

If you are one of the distressed, reluctant or accidental landlords, who wish to get out of the market, there may be better news than of late. The sentiment, that the bottom of the market is near has been reached means now could be a good opportunity. Although it is still obvious that, if you bought within the last 2-3 years, you will almost certainly be unable to realise as much or any profit from selling now.

For most landlords who are successfully renting (albeit at perhaps less than their last rental), provided their gearing is manageable, they will be well able to ride out the storm and await a more obvious recovery.

For the continuing landlord investors with cash in hand or large deposits, there are bargains to be had, although they may have already missed the best bargains.

For traditional landlords the outlook is still positive and unlikely to force or change their outlook.

It may not be radical to suggest, but the best advice may be to "stick".

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