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# A busy summer of short supply and increasing rents

The weight of '9/11' means we naturally overlook '9/15' and so the second anniversary of Lehman Brothers' bankruptcy passed quietly a few weeks ago. However, 9/15's repercussions are still pervasive as the Oxfordshire rental market illustrates. In the past two years the supply of private rental stock has swung greatly in the wake of the financial "meltdown". We discuss this and other trends from Quarter 3 across eight specialist letting offices:

### LACK OF SUPPLY IS THE MAIN STORY IN TOWN...

The lack of rental stock is evident both locally and nationally. The demise of Lehman Brothers begat / accelerated[1] the recession, and in turn this has a) reduced new build levels, b) reduced buy-to-let investment, c) made people more nervous and prone to staying put, d) reduced job moves which decreases the supply of homeowner rental stock, e) increased mortgage deposits and so decreased first-time buyer volumes, and f) decreased mortgage lending.

In the winter of 2008/9, f) was dominant alongside shattered buyer confidence. The sales market stalled and the rental market was flooded with failed sales. In 2010, a) to e) have worked to reduce new rental instructions; many reluctant landlords from 2008/9 have tried to sell; and now the oversupply post-Lehman seems a distant memory. It has been a very changeable market. Interestingly, the spike we saw of c) in Q2 (people renewing their tenancies rose 18% year on year[2]) has gone in Q3 with renewals flat year on year.

### ...WHILE RENTS ARE UP, WE DON'T HAVE THE ALLEGED MELODRAMA OF LONDON...

Prices respond directly and quickly to market forces and rents have been increasing. However, Oxfordshire has not seen the reported stories of applicants in London going to sealed bids and "queues around the block" for some properties. Even allowing for Estate Agent Exaggeration[3] (EAE), these are remarkable tales, perhaps linked to the return of the corporate tenant who has always paid the top rents in prime central London.

In Oxfordshire, rents have been more prosaic but productive. Increases are greater on re-letting than renewal. For example: solid 2-bedroom Bicester houses in good condition moving from £725 to £775 – a 7% increase; a 2-bedroom Oxford furnished house with study up from £1095 to £1250; a Grade II 4-bedroom Brill home achieved 7% more than last year after a new bathroom and redecoration (Photo 1).

1 *Delete according to your macro-economic rationale*

2 *March to May 2010 vs the same period 2009, Finders Keepers internal data*

3 *A mild virus prevalent in the property business which subtly distorts reality*

### ...ALTHOUGH A 100% TRUE 'RENTS ARE UP' GENERALISATION REMAINS ELUSIVE

We've tried, believe us, to deliver a caveat-free trend on rents. However we take regular medication to ward off EAE and so we can report the fact that rents on some Banbury properties have been trimmed in Q3 to secure tenancies. The planning policy legacy of the last two decades is of a town with a relatively high volume of 2-bedroom apartments.

### THE SALES MARKET SEEMS TO HAVE TWO SPEEDS, BOTH OFFERING OPPORTUNITIES

Unsurprisingly the two speeds are 'sold' and 'stationary'. A lot of good quality property has sold well this year and the 'sold-and-renting' applicants have been wonderful to work with in Q3. They tend to have solid funds available, clear completion deadlines and no desire to rush into buying again. Three examples: a modern 5-bedroom home in Sutton Courtenay where the owner is renting to experience a smaller home before deciding what to buy; an Appleton home marketed at £1895; a great 2-bedroom conversion in Abingdon centre marketed at £1300 (Photos 2, 3 & 4).

'Stationary' sales property became increasingly prevalent later in Q3. In Witney, Bicester and Banbury particularly, buyers and sellers seem to be involved in a Mexican standoff with sellers unwilling to forego equity built up over the last 10 years. Where sellers prefer income over stasis, we are finding good tenants. For example, one Bicester client decided to sell his 4-bedroom home and had zero viewings in eight weeks. We politely pursued the issue and soon found an American gentleman who wanted lots of space. Photos 5 and 6 are both in Oxford's centre and did not find buyers. We marketed them at £2300 and £995 respectively and re-let them effectively to appropriate tenants and our clients now enjoy the income. Photo 5 saw a rent increase of 15% on the previous tenancy.

### LACK OF SUPPLY LEADS TO DELIBERATE OVERQUOTING ON VALUATIONS

While EAE is generally harmless, it costs landlords time and money when inflated rental valuations are used to secure an instruction. Inflated asking rents leave a property empty; an empty property earns £0; the landlord suffers. For example, a month ago we valued a pleasant but unremarkable 3-bedroom ex-council house in a village outside Oxford at £850pcm. Another agent promised £1100. You know what happened next: nothing. *Prospective landlords should do their homework: the rental market does not throw up huge price anomalies.*

### OUTSIDE OXFORD, CORPORATE RELOCATIONS ARE SURPRISINGLY BUOYANT

Corporate tenancies are an indicator of the economy. They dip in a recession as firms freeze hiring and internal relocations. While the volume is still relatively small, Q3 saw an increase of corporate lets, mostly outside Oxford across sectors including education, pharmaceutical, engineering and technology. Such lets increasingly require extra work and investment from landlord and agent to satisfy the customer's accommodation policies. The extra work is justified by the rent premiums possible and the security of the corporate rent guarantee. For example, a 1-bedroom Banbury apartment increased its rent 16% when selected by a corporate tenant.

### LOOKING FORWARD

Common sense says that substantial public sector cuts and the VAT increase will affect tenant demand in a county with so many employees in the education, police and health sectors. However, common sense has not always predicted letting market behaviour in the two years since 15/9/08. We expect supply to increase slightly due to failed sales. Successful landlords will not just watch and wait but proactively manipulate their portfolio for the months ahead.

**STOP PRESS:** Finders Keepers wins a South East Regional Training award from the prestigious National Training Awards scheme. See finders.co.uk/news for more details.

### HMO LICENSING – AN UPDATE

At 07:50 on 1st October BBC Radio 5 discussed a "legal challenge" to Oxford City Council's scheme to introduce additional licensing to all Houses in Multiple Occupation from 22/10/10. This challenge was by a group of agents and landlords, of which Finders Keepers is a part.

By 18:00 on 1st October the City Council had released a statement to say that the new scheme was going to be postponed.

Now that the media spotlight has gone, landlords with property in Oxford might appreciate the facts:

1. The stereotype is that an HMO is an 8-bedroom home full of students. In fact an HMO is *any rental property with 3 non-blood-related occupants*. So a 2-bedroom flat with a couple and a friend is an HMO.
2. An HMO licence is granted after an inspection by the local council who assess the property on 29 grounds.
3. Currently:
   - Only owners of HMOs with 5+ residents and 3+ storeys need a licence
   - A licence costs £700-800, plus £20 for each bedroom over 5.
4. Under the Council's now-postponed new scheme:
   - Every HMO property needs a licence
   - The fee became £1200 for 5 years.

### OUR VIEW:

1. We strongly support efforts to improve property standards for tenants. Indeed, our clients over the past 38+ years can attest to our determination to ensure that homes are kept in good condition.
2. With no licence the landlords cannot legally issue Section 21 notices.
3. The scheme risks reducing the supply of property for sharers since with no licence a property could not legally be let to sharers. In a climate of short rental supply this would be counter-productive.
4. The £1200 fee would decrease – not increase – rental standards by reducing landlords' funds available for maintenance. There is a risk that the costs are passed onto the tenant.
5. The scheme offers few substantial powers to curb anti-social behaviour which has been cited as one of the driving forces for the scheme.
6. We hope that common sense will prevail and a more appropriate, more affordable scheme can be phased in over the next few years.

### NEXT STEPS:

Oxford City Council is considering the scheme further and new recommendations will be put to the full Council on 18 October. It may be that these recommendations will include the withdrawal of the current licensing designation (due to come into force on 25 October) and the making of some alternative designations to introduce HMO licensing over time.

**BORN LETTING SPECIALISTS**: Over 35 years ago we started out as a property search service, buying homes for people. Our customers then asked us to let and manage their homes, and we quickly evolved into a specialist letting operation. From day one we applied a highly professional approach to both properties and people. Today we have the same high-standards ethos, but we're a bit bigger with 8 offices and expert furnishing, investment and building divisions.


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