

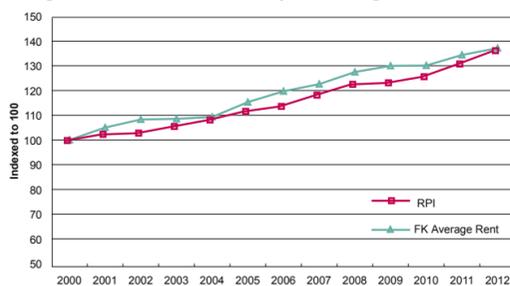
A busy market but let's talk realistically about rents

A 24% rent increase in our lets in Quarter 2 compared to last year seems to reinforce recent press reports of rapidly escalating rents. But this is only one perspective; certainly it is not the whole picture. So do not be misled by superficial data. As always, the devil is in the detail, as reported by our eight offices.

A sharp increase in new lets but rents are not "shooting up"

Since cavemen rented caves to each other, rents have been "talked up", but we believe the facts need some sunlight. For the past few years our average rent has risen by approximately 3% a year, as has inflation. Figure 1 plots the relationship between RPI and our portfolio for the past 13 years¹. So you see that – for this data sample in Oxfordshire – rents have changed in price in a manner similar to other household expenses.

Figure 1 – RPI vs Finders Keepers Average Rent



Rent changes are split into re-letting (when a new tenant moves in) and renewals (when the tenant stays put but signs a new tenancy agreement). Here the figures diverge: the re-letting average for Quarter 2 this year was an increase of 4.3% against 3.49% the year before. So demand is solid. Renewals rents rose 2.3% this year against 2.2% last year.

1 RPI data from the ONS website; Finders Keepers data is internal based on a revolving portfolio

The 24% increase in new lets in Quarter 2 is unexpected and does not correlate with web traffic to finders.co.uk rising 15% year-on-year. Interestingly, the volume of renewals in April and May decreased slightly; the first time this has happened in five years. Figure 2 shows which part of the market moved fastest in Quarter 2 in our offices. The demand for 1 bedroom homes in North Oxford is partly driven by the HMO regulations which have decreased the supply of 'sharer' homes. We acquired a tired house for a client and converted it into six sharp micro-flats and then let them all in two weeks in May (Photo 1) with rents between £725 and £950².

2 All individual rents in this report are pcm and marketing rents

Figure 2 – What let quickly in Quarter 2

OFFICE	TYPE
Abingdon	3 bedroom unfurnished houses
Banbury	2 bedroom unfurnished houses
Bicester	2 bedroom unfurnished houses
Witney	2 bedroom unfurnished houses
North Oxford	1 bedroom furnished apartments AND 4+ bedroom unfurnished houses
Central, West & South Oxford	2 bedroom furnished apartments
East Oxford	2 bedroom furnished apartments



Only good upgrades make rents "shoot up"

If a property is significantly improved between tenancies (eg. new kitchen and bathroom, carpets, redecoration) you might see the rent increase sharply³. Our building team are upgrading a property in Jericho, which was let with an increase in rent of 32% before the works were completed (remember the Government is desperate for landlords to improve their rental stock but provides little incentive to do so), and Photo 2 in St. Clements was transformed courtesy of some excellent furnishing. As we've written many times over the past five years, tenants will pay more for new interiors.

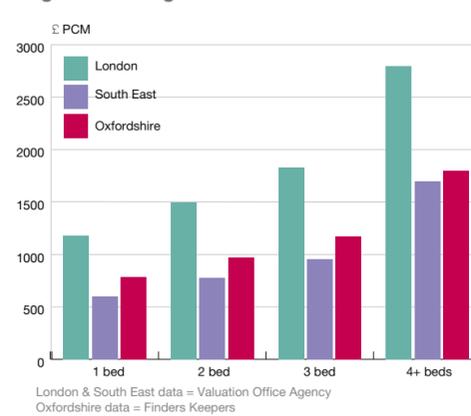
Clear daylight between Oxford and London

A natural question is "How do our rent figures compare with other parts of the UK?" The only 'actual rents' data comes from the Valuation Office Agency⁴ and Figure 3 shows data for London and the South-East for May 2013 against our data for Oxfordshire. Those who complain that Oxford is

3 Assuming the upgrade is designed with tenants' tastes in mind and executed well

4 Valuation Office Agency press release, 30/5/13

Figure 3 – Average Rent Values - Quarter 2 2013



London & South East data = Valuation Office Agency
Oxfordshire data = Finders Keepers



just a London suburb should feel reassured. It is interesting to note that the percentage difference in rents between Oxfordshire and the South East is greatest for 1-bed properties, reinforcing the point above about a general shortage of this type of accommodation.

Why are our Oxfordshire figures higher than the South-East? Factors might include us working harder with our landlords to keep their properties in the best condition possible, the strength of the local economy and the low supply of new housing. Our recent survey of 600 tenants⁵ found that 'price' was a slightly less important factor when choosing a rental home compared to 'location' and 'quality of the interior'. This places the emphasis on 'value for money' rather than price.

The North / South divide is reversed as 'Weekenders' return

Last year larger houses were letting faster in South Oxfordshire than in the North of the county, but this year the tables have turned. Our Banbury office let 40% more homes in Quarter 2 this year than in last year, including a number of 4+ bedroom houses.

5 Finders Keepers tenant survey 2012



This is partly driven by net migration into the area from major local employer recruitment, partly by the good value that Banbury presents (4-bedroom houses can start at £850) and partly by the welcome return of our friends, the 'Weekenders', from London. This segment of tenants has been scarce since 2008 but some are now renting wonderful barns and farmhouses within striking distance of J9 and J10 of the M40. Photos 3 and 4 both let recently marketed at £3500 and £1800 respectively.

A busy sales market affects the pattern of high-value applicants

Families wanting a new home for September tend to fall into two categories: "organised" and "trying to buy". The former make decisions early and hence in April and May we let some fantastic homes quickly, for example Photo 5 went on the first viewing at £7000. In 2013 more high-value rental applicants than in previous years are "trying to buy". Some are succeeding; some are now trickling back asking for help. This reduced applicant base means the pricing must be very accurate for any home over £2500 in Oxford and £1750 outside Oxford.



Sales market indicator: sealed bids on a 1-bedroom apartment

It is not just families managing to buy. A number of 'reluctant' landlords sold their rental properties in Quarter 2, often using the residual equity to buy their own home for the next chapter of their lives. A zeitgeist snapshot is an ordinary 1-bedroom flat in central Oxford being marketed at £275,000. Within two weeks it sold via sealed bids at £299,000. Similarly a standard 2-bedroom apartment near the station was pitched at £280,000 and sold for £299,000. Pessimists dust off those "property bubble" predictions now.

Finally, Bicester comes of age

We've promoted Bicester for a while and a good recent Financial Times article captures the town's momentum⁶. New homes, new services, new transport. Sainsbury's opened on July 10th, the 7-screen cinema will follow and hopefully Bicester will soon shed its 'Tesco town' image. Houses on the new Kingsmere development continue to sell well and we are finding that tenants appreciate the good build quality. The 5-bedroom house in Photo 6 let in Quarter 2, marketed at £1950.

6 Financial Times, Saturday 7th June, see <http://tinyurl.com/k79972q>

Recommended Rental Reading

- RICS. "More Good Homes and a Better United Kingdom". This contains much common sense about increasing housing supply.
- Mayor of London. "The Mayor's Housing Covenant – Rented Sector." A very sensible mandate for organising the rental sector which is relevant outside London.

Find links to both at finders.co.uk/news