13 thoughts on 2012

Our brand identity may be different but our Quarterly Review stays the same: insightful and spin-free. We believe that 'telling it as it is' pays off in the long-term and according to your feedback this is appreciated. These 13 views on 2012 are a mix of trends and predictions from our senior staff across our offices. *Of course we can help you take action to avoid and exploit these trends.*

1. The 'psychologically poor' vs rent increase paradox to continue…

In the blue corner we have the gloom: Euro uncertainty; only 0.7% GDP growth[1]; the worst jobs market in 20 years with unemployment rising to 8.8% nationally[2]; and more public sector job cuts to be felt. In the red corner we have the defence: good demand from young professionals, academics and young couples; a relatively strong local economy where unemployment rates are under 50% of the national average; and continued reduction of mortgage affordability.

The results: reduction in supply as gloom breeds inertia and people stay put; peak demand for well-presented 1- and 2-bedroom properties (Photo 1 shows a Witney development of such homes) leading to rent increases; confusion among those who feel poorer as inflation outguns earnings growth while they face rent increases upon tenancy renewal.

2. ….although tired properties will struggle…

Lack of investment will be a false economy in 2012. The supply / demand balance is not so strong that tired properties will command good rents. Continued investment is needed in the presentation and fabric of much rental stock to maximise income. 'Wow' rents are difficult if the property has no 'Wow factor.'

3. …running costs will increase as an issue for applicants…

More applicants in 2012 will be worried about utility costs and ask for the EPC[3] as a proxy. Hence energy efficiency becomes more of an issue for landlords wishing to be successful. For some people utilities are a deal breaker – one Banbury house was rejected as its electric heating was perceived to be expensive. Estimating running costs is not advised: an 'average cost' will by definition – over a large sample – mislead 50% of prospective tenants. Action point: ask your agent for pragmatic energy efficiency measures – they need not cost a fortune.

4. …and the 'Rent Rung' will be slippery for many young people

We talk about first-time buyers getting on the 'property ladder', but the first rung is actually now the 'Rent Rung'. With unemployment at record levels among 18-24 year olds[4] and graduate recruitment not back to pre-recession levels, providing a rental deposit and moving into a rental property will be difficult for many people in 2012. Living with Mum and Dad can be tricky for both parties. You might call this "paRenting".

5. 'Vanity-rents' for top-end properties will be ill-advised

Photos 2 and 3 are high-quality houses which let in Q4 2011 for solid rents amid a flaky top-end of the market. This 'flakiness' will continue in 2012 due to fewer high-value sales, flat corporate transactions and decreased 'weekender' second-home tenants. Lovely homes with inflated 'vanity rents' (whether dictated by the landlord or proposed by the agent to seduce the landlord) will remain empty, irrespective of how gorgeous they look online.

A hot market can validate top-down pricing ('What I want') but a flaky market works best with a bottom up approach (What people will pay).

6. Keener sales rather than bargains

Outside the golden triangle of Central North Oxford, which attracts motivated parents, London exiles and overseas purchasers, there seems little evidence for house prices rising in Oxfordshire in 2012. The usual dominant voices[5] are predicting mean national sales prices to stay relatively flat. Opportunistic buyers in OX postcodes can take advantage of low volumes to gain keener prices. However, 'bargains' might be a step too far.

7. Local schemes moving forward from 2008/9

The recession froze funding for many local mixed-use schemes. In 2012 the financial thaw is a positive sign for the county: the £4m development of Abbey Shopping Centre, Abingdon, starts in February; the £70m scheme in central Bicester should finish this year; Science Vale will start moving towards its planned 200,000 sq metres of development and 8040 jobs. Many of the 1585 houses at Kingsmere, Bicester, will also come on-stream.

8. Tuition fees will not sabotage student rents

The initial reaction to our student property launch in December, 44 lets in 3 days, (Figure 4 shows the first group through the door) makes us cautiously optimistic that the student market can withstand the new £9000 fees at Oxford and Brookes Universities, which start in September. The private rental sector offers 2nd and 3rd year students the independence and camaraderie which bedsit blocks often lack. However, as their costs rise students' propensity to challenge deposit deductions and quality expectations will also rise. Poorly presented student homes will still struggle: just because a property passes HMO regulations does not guarantee that it is an enticing home.

9. More experienced developers will build-and-rent…

Attitudes do change. We are working with some very sharp developers who now build-and-rent rather than sell. What would have been unthinkable ten years ago is now a boon for the rental sector which needs high-quality stock. The product mix will and should vary according to the target market.

10. …individual investors will increase in number…

Expert and novice investors grew in 2011 (30% of our Witney office's instructions in Q4 2011 were bought-to-let) and this will continue. Equity market volatility is one cause as gross yields of 5% appeal to long-term investors. Two units in Figure 5 have been bought for clients recently and let swiftly at a 5% yield.

11. …but the City's focus on residential property will lag behind

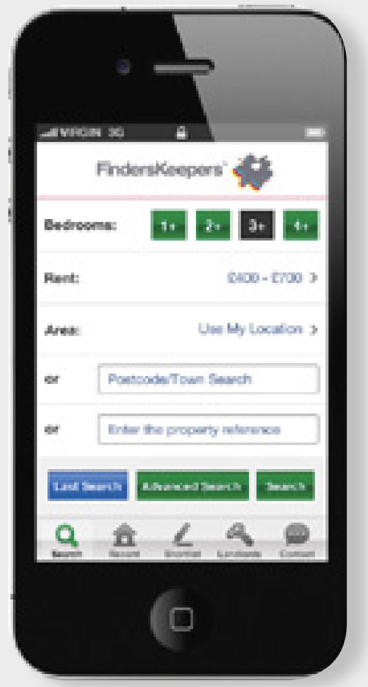
Institutional investment in the private rental sector is coming, but slowly. The Government claims to be stimulating action. Yet while November's Housing Strategy contained one world-class sound bite, ("We have lenders who can't lend, builders who can't build and buyers who can't buy[6]") it has little of substance to stimulate Real Estate Investment Trusts to include more residential property in their asset allocations in 2012. The Strategy is going to analyse "the drivers for and barriers to investment[7]" in the private rental sector, but no timetable is given.

12. Tired Britain to down tools during the Olympics

Just as Kate and Will's wedding turned into a 3-week hiatus for Brits bored of recession blues, applicant demand will drop in July and August as the Olympics become the perfect excuse to go-slow. Action point: change letting lead-times accordingly.

13. Your tenants and buyers will be mobile

The revolution has landed. The 'Smartphone' term will disappear as all phones will be smart. Apple, Microsoft, Google (who now own Motorola Mobile), Samsung, Nokia and Blackberry are in the mother of all battles and innovation is phenomenal. If your property is not viewable on mobile devices in 2012 – both via apps and optimised mobile sites[8] see below – you will be seriously disadvantaged.



1 Office of Budget Responsibility, December 2011
2 Chartered -Institute of Personnel and Development predictions for 2012, 28/12/11
3 Energy Performance Certificate, which is compulsory for all sales and rental properties
4 Chartered -Institute of Personnel and Development report, 28/12/11
5 Nationwide, Rightmove, Halifax, National Association of Estate Agents; all quoted in The Guardian, 20/12/11
6 Said by Cameron and Clegg across numerous media outlets, 21/11/11
7 'Laying the Foundations: A Housing Strategy for England", HM Government 21/11/11
8 A website which displays a bespoke site on a mobile device. See finders.co.uk on your phone.

The Next 40. As we hit 40 in April the question is "How will the market change in the next four decades?" Customers will demand substance not spin, hence our obsession with NFoPP qualifications; funding models will mutate, hence our Inspired Investment and Corporate services; tenants will expect added value, hence our relentless focus on quality of tenant and presentation. Many more trends will arise, but rest assured we'll be the first to let you know (some things won't change).