Finders Keepers

Winner Sunday Times Best Innovation 2011
Winner Sunday Times Best Student Letting 2011
Winner National Training Awards South East Region 2010
Winner Sunday Times Best UK Letting Agent 2009
Winner Negotiator Magazine 'Employer of the Year' 2009

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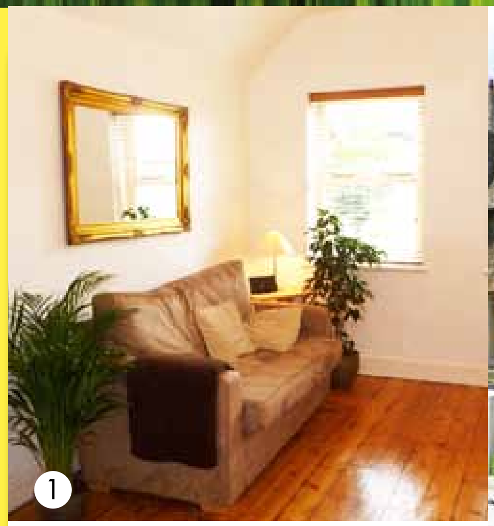
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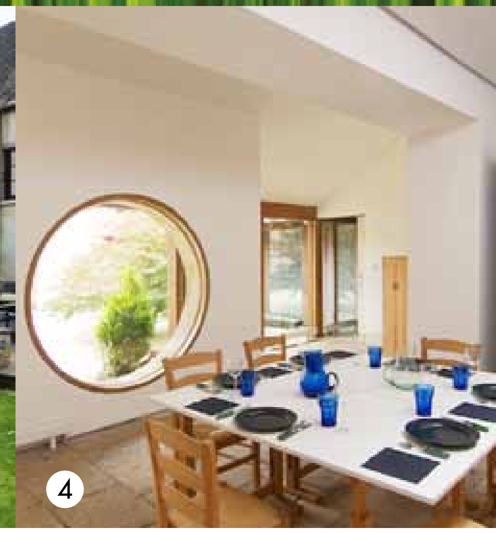
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Mixed messages as the summer peak passes

On one level this report has been like a stuck record for the last 12 quarters, saying *"While the world / Greece / Europe / the City implodes… the Oxfordshire rental market is holding up (surprisingly) well."* The same record is playing in Quarter 3 yet with different behaviour on the dance floor: there are better signs from investors and worse signs at the top-end. Here are trends felt across our eight pure letting and management offices:

RENTS HOLD UP AS THE SUMMER PEAK PASSES

The letting market peaked in May with average re-letting rent increases of 3.5% across our portfolio. Demand has slipped in Q3 with the re-letting rent increase at 2.75[1]% in August, a shift reinforced by similar drops in web traffic, web leads and telephone enquiries. May and June are the months when organised people take a property to start in September. August is normally quieter as holidays arrive.

Why is Oxfordshire not experiencing the kind of "record rent increases" you are hearing about in the news? The letting market is more stable in our fair county and rents have not really dipped in the past 10 years overall. On the other hand Central London rents fell 20% from 2007 to 2008 as the corporate market froze, and now it has bounced back – bear in mind that most journalists want to write about Central London rents and house prices. Volatility is glamorous when the wind is at your back.

One national agent reporting record rent increases also stated that 10.7% of rent was unpaid at the end of July in the UK[2]. We argue caution as this is highly unrepresentative of life in Finders Keepers. We collect 99+% of rent on-time.

QUALITY IS THE BEST FORM OF ATTACK

Top quality properties, when marketed at good but not silly rents, have performed strongly. Quality destroys hesitation and reassures applicants' desire for value. Quality thrives across geography and property type, for example this quarter: a high-spec Central North Oxford house at £6750[3] let in a week; a cute 1-bedroom apartment in a leafy Abingdon street at £695 had been for sale for months yet we had 10 enquiries within 24 hours and the landlord had a choice between two suitable tenants (Photo 1); period homes in the Cotswolds command a premium over modern homes – character persuades (Photos 2,3); a converted wing of a glorious house at £2750 near Bicester has unique style (Photo 4); a distinctive converted school in Temple Cowley let on the first viewing (Photo 5).

Conversely, applicants can sniff out 'below par' properties and viewings decrease. 'Below par' can be due to a tired kitchen or bathroom; an ugly carpet; or a real need for re-decoration. 'Par' is not attained just by adding a new sexy TV: today's tenants expect more for their money.

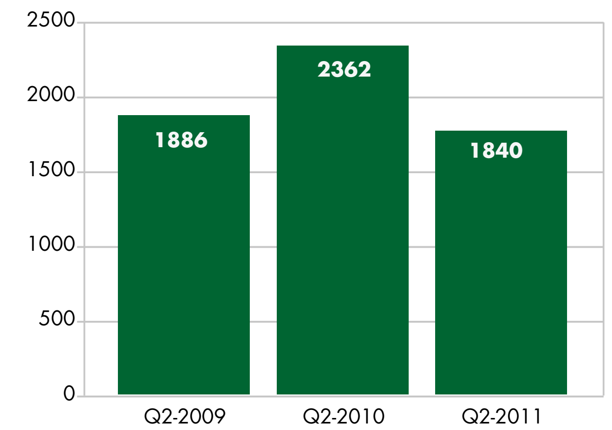
DEMAND IS HEALTHY IN THE MID-MARKET

Financial and demographic trends are combining to delay the average age of the first-time buyer. The result is that over half of our tenants are 'singles' and 'couples' and their preferred homes have let well in Q3. For example, a modern 3-bedroom Banbury house increasing 9% in rent upon re-letting (Photo 6); 1-bedroom homes in Abingdon letting almost instantly; the 1-, 2- and 3-bedroom homes in Witney up to £1100 driving the market.

ECONOMIC CAUTION IS HITTING THE TOP-END

Any decent market expert knows that demand for high-value homes has fallen in 2011. This happened in the winter of 2008/9 but for different reasons: then it was the flood of 'failed sales' which increased supply greatly. This year there are fewer applicants in three key segments who historically occupy the top-end: 'weekenders', 'sold-and-renting' and 'corporates'. Londoners who want a weekend bolthole are thin on the ground, and it is difficult to blame anything beyond the economy. Oxfordshire property sales fell 21% in Q2 versus the same period in 2010 (Figure 1) so there have been fewer successful sellers wanting to bide their time in a rented home. The corporate market has plenty of life in it and is providing some very good tenants but budgets and volumes are slightly down in 2011.

Figure 1: Property Sales in OX Postcodes



Data from Land Registry

The result: quality will always shine through (see examples above) but rents are down 5-10% for some good-but-not-great homes. As ever, good letting requires the three Ps of great Presentation, accurate Pricing and Persistence.

INVESTORS FEELING AND BEHAVING POSITIVELY

Whether due to equity market aversion, low interest rates deflating savings or mortgage criteria slowly relaxing, investors have been active in Q3. Their target is the 'mid-market' as described above, with 1- and 2-bedroom homes with outside space the most common acquisitions. We acted for one client who has made a significant long-term bet on OX1. They – and we – believe that overseas, corporate and young professional tenants will continue to want to live centrally in Oxford. Four units came on-stream in September, and all let at the top of our rental estimates within two weeks, for example 2-bedroom, 2-bathroom apartments letting at £1500 with no parking. The 'financial crisis' can be both an accelerator (property seems secure, relatively) and brake (capital pressures inhibit lending) to property investing, but for now velocity seems to be slowly increasing.

DOVETAILING SALES AND LETTING TAKES SKILL

Very few landlords sold rental properties in 2008 and 2009 due to market conditions. This created a well of mildly frustrated landlords who, when the sun came out in the Spring of 2010, put their properties on the sales market – many of them successfully. Over Q3 this year we have clients who would like to sell and half of them are not succeeding. An empty property earns nothing, so we try to help clients prosper. While a lovely apartment in Oxford Castle was for sale (Photo 7), we negotiated a lucrative short let with the sales viewings built into the tenancy agreement. When buyers did not materialise, we advised to let again before demand dips in Autumn and quickly a tenant was found in September at £1775.

NEW HMO ADDITIONAL LICENCES START TO INFLUENCE STOCK

From February 2012 any property with three or more unrelated sharers in Oxford will need an HMO Additional Licence. There may also be restrictions on how many properties will get such a licence, for example a maximum of 20% in any one road. We spent much of June and July campaigning against this policy (see www.finders.co.uk/hmo) and the City Council will publish its recommendation in January[4].

Already in Q3, more landlords have declined to apply for an HMO licence due to the cost and/or the hassle. Sharers will suffer under the new HMO policy as the pool of 'sharer homes' reduces. Contrary to common opinion, 'sharers' are not always in their 20s and the definition includes those who take in lodgers. We hope that common sense will prevail in January.

AND FINALLY….CAN YOU STAMP OUT OVER-VALUING?

The Office of Fair Trading wants to punish estate agents who over-value property just to win the business[5]. This is also a problem in letting and it benefits no-one. Sadly it will be a tricky nut to crack for two reasons. First, how do you distinguish between deliberate misinformation and incompetence? Second, over-valuing often works as gullibility and greed have been a potent mix since our ancestors sold caves off-plan (Photo 8). Pride often prevents those fooled by high valuations admitting their error. Solutions on a postcard to the OFT.

1 Internal Finders Keepers data across all offices

2 LSL press release, 20/9/11

3 All rental figures in this report are marketing rents and pcm

4 www.bit.ly/plrAjC has the timetable for the Sites and Housing Policy

5 www.oft.gov.uk/OFTwork/consultations/current/estate-agents/