

The forecast for 2014

Predictions, trends, crystal balls – isn't it funny how we all turn into visionaries at the start of the year? Not wanting to feel left out, here are some of our 2014 predictions and trends for the rental sector and the wider property industry.

House building rhetoric will overshadow reality

It is easy for a politician to say they will build 200,000 new houses a year¹, but harder to implement. Only 115,000 new homes were started in the year to September 2013². While the major developers are keen to capitalise on current high demand, increasing supply depends on the planning process, a reduced supply of skilled labour in an industry which is far smaller than in 2007 and the desire from the volume house builders not to over-extend as they did from 2004-8.

On a national level, new build volumes will be a political football. On a local level the bigger issue is: "How much new housing does Oxfordshire need?" In 2010 the coalition ripped up the local targets which had taken – literally – years to write (Regional Spatial Strategies) and the 2009 Strategic Market Housing Assessment is now out of date. In spring 2014 a new SMHA will be published with new recommended housing targets, funded by the main local councils. The current flooding represents another problem - the volume of Oxfordshire under water illustrates the danger of building on low-lying land. Of course a report is one thing, but having the land, money and permission to build is another...

Oxford's Green Belt should feel rightly paranoid (again)

Each year we write about the Green Belt but in 2013 the Planning Minister Nick Boles parked his tanks firmly on the 13% of the UK³ which is protected as Green Belt. Mr Boles (Photo 1) wants 388,000 ha of UK countryside to be developed and he has made

1 Ed Miliband pledge, Labour Party Conference, September 2013
2 Financial Times, 29/12/12, "Labour Party aims to add details to house building plans."
3 DCLG figures



changes to simplify the planning process (eg. direct recourse to a minister for projects over 150 units). For context: the Oxford Green Belt is 66,868 ha, about 0.5% of UK land area⁴. While the national politics are interesting (Conservative have often been accused of NIMBYism), on a local level the Grenoble Road site between Oxford and the Baldons will come under renewed pressure as the lure of 2000+ new homes is too powerful to leave dormant. The different landowners have previously used the legal system to communicate and this seems likely again as currently Oxford City Council wants to build and South Oxfordshire District Council does not.

Help to Buy will not skew rental demand

Help to Buy is high-profile as critics fear it is inflating house prices. It aims to help buyers get on the housing ladder by offering either a 20% equity loan or a 15% mortgage guarantee. We do not think that Help to Buy will make a significant dent in rental demand in Oxfordshire (by taking potential tenants out of the market) as the projected Help to Buy volumes are lower than you might think – so far 6,000 offers have been accepted nationally⁵.

Elsewhere we expect rents in 2014 to rise by 3-5% upon re-letting (assuming the property is in good condition) and 2-3% upon renewing a tenancy. Demand should be similar to last year: GDP is

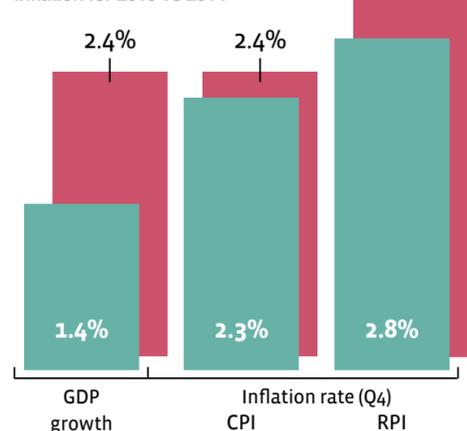
4 CPRE figures
5 <http://www.bbc.co.uk/news/uk-25572757>

set to rise nationally (see Figure 1), the local economy seems strong, and none of the other strengths (schools, quality of life, location) are set to change. On the other hand, supply will be constrained slightly due to the lack of new build (see above) and the buoyant sales market.

A continued good environment for property investors

The combination of low mortgage rates, low savings returns and an upturn in that indefinable thing called 'confidence' means we saw more property investor enquiries in 2013 than in any year since 2007. While not the most earth-shattering trend, we expect the same in 2014. Interest rates may rise but we doubt they will rise quickly and there seems to be a growing realisation that current mortgage rates may have bottomed out. The challenge for investors remains the lack of new build property and locating value in a market full of opportunistic selling prices, particularly in OX1 and OX2. You need your ear close to the ground (pun intended) and our Inspired Investment team are still managing to connect new build schemes with buyers.

Figure 1: Forecast GDP and inflation for 2013 vs 2014



* Independent averages based on forecasts made in the last three months (from 25 banks and think tanks)

Buyers will be drawn to the train

People like certainty. While many major Oxfordshire projects are uncertain – eg. delays with the Westgate, the pipedream of unblocking the A34 / A40 – it is fairly certain that the new train from Water Eaton (near Kidlington) to Marylebone will start in 2015⁶. Certainty breeds confidence and properties within cycling distance of Water Eaton (Photo 2) will be increasingly interesting to homeowners, landlords and tenants.

The Capital Gains Tax changes will not be market-changing

Two changes are upon us: the time in which you can define a second home as your Principle Private Residence and avoid CGT is being halved to 18 months and from April 2015 overseas landlords will have to pay a to-be-determined level of CGT if they sell their property. About 15% of our clients live abroad and, based on current feedback, we estimate about 3-5% of them will sell due to the April 2015 deadline. Extrapolated on a theoretical basis, this equates to ~0.5-0.75% of rental stock being sold which is interesting but not a material shift.

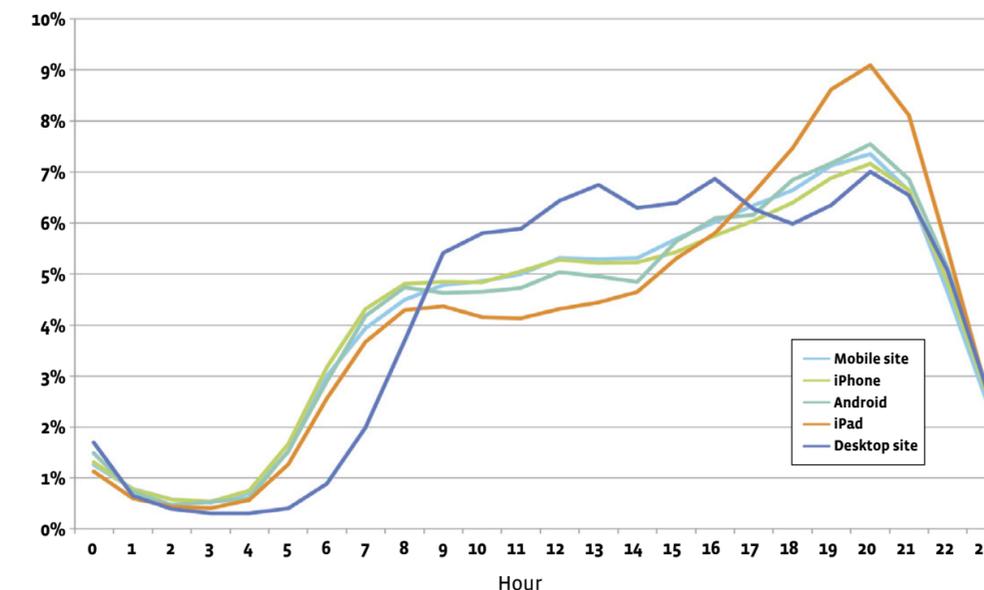
The sensible Tenants' Charter will struggle for awareness

The Tenants' Charter is an output of last year's Commons Select Committee on the Rental Sector. The Charter is sensible and is best-practice rather than legislation, and it includes advocating longer tenancies for families. However, the challenge for the Tenants' Charter is communication. Good letting agents are already doing what the Charter wants and bad agents will not be interested in changing their ways. The target tenant audience – family tenants with unscrupulous landlords – will not easily come across the Charter's content. Policy is easy, behaviour change is hard.

6 Chiltern Railways latest estimate



Figure 2: Rightmove browsing by time of day - Autumn 2013



Property websites to be the new Coronation Street

Ten years ago some media guru coined the phrase 'double screener' – someone watching television and their mobile simultaneously. We laughed then, but now, for many of us, two screens are not enough. We have added in a tablet – probably an iPad – and this is changing the dynamic of how we consume properties. Figure 2 shows usage by time of day across Rightmove by device; iPads are increasing property viewing online at night, particularly around 9pm. While some of these 9pm users will be applicants needing a new home, a sizeable chunk will be looking at properties just for fun. Online property = cheap entertainment for millions of people.

Retro and 'pseudo-Nordic' to be trendy, but beware

Furnishing and interior design has seasons and fashions just as the clothing industry does, except the changes in aesthetic tend to be lower profile than the 'change your wardrobe every 6 months' charade curated by Vogue et al. This year the retro designs of the 1950's and 1960's will be 'on trend' in furniture design, almost aping the classic Sputnik designs. However, at Decorum Interiors we will advise our clients to avoid these trends – good rental furnishing creates an aesthetic that outlasts short-term fads and attracts the target tenant for 5-10 years (Photo 3).

