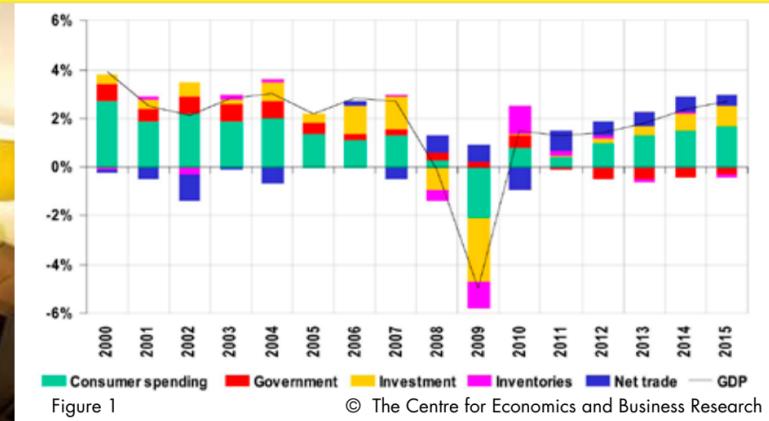


Silver Sunday Times Medium Agency 2010
Silver Sunday Times Property Management 2010
Winner Sunday Times Best UK Letting Agent 2009
Winner Negotiator Magazine 'Employer of the Year' 2009
Silver Sunday Times Training & Development 2009



Q4: the storm before the calm?

Although the Comprehensive Spending Review was launched in October, its recommendations did not come into force in the last quarter of 2010. The result was three months of good tenant demand and an increase in stock levels. Trends experienced across eight specialist letting offices include:

MORE STOCK FROM FAILED SALES

The increase in available property was welcome and more subtle than in 2008/09 when a flood of failed sales drowned the rental market. The trickle of new property was invariably from unsold property where owners feel satisfied they "at least gave it a go" over the summer months.

DEMAND IS SOLID WITH LARGER HOUSES LETTING UNUSUALLY WELL

With the local economy performing well, fears about 2011's lack of growth on hold and the media full of 'rent increasing' stories, tenant demand was very solid in Quarter 4 with property of all shapes and sizes moving swiftly off the market. The 'let on 1st viewing' tag became more prevalent as applicants had to make decisions or miss out. Our average rent across eight offices is up 2% year-on-year (note: this includes many properties which have not been re-let

in the past 12-24 months). An apt story is a Dorchester home on with multiple agents. We organised viewings, referencing and tenancy agreement signing in 48 hours and the tenant moved in within the week, just before Christmas. Decisiveness succeeds.

A big difference in 2010 was the high volume of larger properties (over £1000 pcm) let in Quarter 4 against previous years (double for our Abingdon and Banbury offices, quadruple for our Witney office). Traditionally rural family homes and winter letting do not mix well. A smorgasbord of factors created this year's demand: corporate relocation, sold-and-renting, escaping London, migrating back to the UK, deciding to rent for a while and upscaling.

Photo 1 is a house near Charlbury with a lodge and a case in point. The two separate sets of tenants moved out of London to the property at the same time to try-before-they-buy. They have both since sold in London, bought in the Cotswolds and moved out in Quarter 4 to their next chapter. Group dynamics at work? Photos 2 and 3 show other examples let in the £2000 to £3000 bracket near Burford and Chesterton respectively.

FURNISHED PROPERTIES INSIDE OXFORD MOVE FAST...

City centre tenants tend to travel light and do not pack furniture. The better the furnishing, the better the tenant, and Photo 4 is a good case study. Furnished by Decorum Interiors, this very smart 2-bedroom duplex

overlooking the canal was marketed for £1695 and let well – a decent rent for a 2-bedroom home.

...BUT OUTSIDE OXFORD FURNISHED PROPERTIES ARE HARD WORK

After October furnished properties outside Oxford suddenly became much harder to let than unfurnished homes. Normally younger tenants don't mind furnished properties, but not in 2010. The cause? Perhaps the (inaccurate) perception that unfurnished properties are cheaper.

STUDENTS ARE MORE RESPONSIBLE THAN STEREOTYPES SUGGEST

Undergraduates spent Quarter 4 soaking in negative national publicity, but in our humble letting and property management world the news was good. The first maintenance inspections of the academic year saw only 1% of properties being a real concern. Most students keep their homes in good order – a story unlikely to make the front pages.

MOULD AND CONDENSATION WILL FOLLOW THE COLD WEATHER

This is slightly nerdy, but there is no shame in being a property management enthusiast. A long bout of cold weather will create more mould issues as tenants keep windows shut for long periods. Ensure that your property manager is giving the right advice to your tenants: good ventilation is essential to help stop mould.

8 THOUGHTS ON 2011

1. Rent increases to slow down as more failed sales come to the market and the Comprehensive Spending Review takes effect.

- a. The sales market will slow due to the persistent low level of mortgage lending, high mortgage fees, budget-induced job cuts and a general mood of caution.
- b. More failed sales will come to the letting market and increase the supply of rental stock. This increase, allied to reductions in public spending affecting tenant demand, will blunt the edge of the rent increases seen in 2010.
- c. The role of public spending in delivering GDP growth is shown into sharp contrast by Figure 1. The slide shows GDP growth by year and what contributed to that growth: compare the (red) public spending in the boom years of the last decade against 2011.

2. Interest rates and inflation will be a crucial lever in the market.

- a. Low interest rates have been a godsend for many landlords, enabling them to avoid some of the financial pain of the last two years.
- b. However, if inflation keeps above 3%, there is a chance that interest rates will rise. Arguably, this is the biggest economic issue of 2011.



A busy year ahead for the Monetary Policy Committee

- c. If the interest rate rises to 4% or 5%, many landlords (and homeowners) could become distressed sellers, flooding the sales market and removing necessary rental stock from the market.

3. Renewal rates to remain above-average as caution takes hold.

- a. Renewals (tenants extending their tenancies) are influential since they remove available rental stock from the market.
- b. Our renewals rose 7% year-on-year for April to October in 2010 due to people putting job moves and life decisions on hold.
- c. In 2011 we anticipate similar caution, low levels of job relocations and more renewals.

4. International tenants will still come to live in Oxford, despite economic concerns.

- a. Oxford is a global city: 65% of our Central Oxford office's tenants come from abroad, and this office has seen 99+% occupancy rates for the past 18 months. New lets for June and July were up 27% year-on-year.
- b. Oxford University remains the dominant attraction and employer, particularly the post-graduate courses, many of which run counter-cyclical to the macro-economic trends.
- c. Despite the 40% cuts to higher education budgets we expect a similarly high number of international tenants in 2011.

5. Despite the climate of prudence, Energy Performance Certificates (EPC) will fail again to gain traction.

- a. Logic says that applicants (potential tenants) would use the A-H rating on an EPC to assess if they want to take a property or not as a worse rating means higher utility bills.
- b. In fact, since 2008 when EPCs became compulsory, very few of the 8,500+ applicants we have worked with have asked for the full EPC.

6. The overall quality of private rental stock in the UK will not improve, due to the lack of tax breaks and the VAT increase.

- a. The new government wants to improve the quality of private rental accommodation, but it has issued zero policies and incentives to help in this regard in 2011.
- b. So we cannot see any scenario in which hundreds of thousands of landlords change their behaviour related to upgrades and capital investment in their portfolio.

7. Landlords to unfairly remain social pariahs.

- a. The public – or the media – want a scapegoat for the shortage of (affordable) housing in the UK. When the sales market was buoyant, estate agents were seen as the personification of evil.
- b. Now it seems that private rental sector landlords are the new pariahs, with the inaccurate and negative stereotype of the equity-rich buy-to-let landlord ubiquitous.
- c. In fact, 55% of stock is owned by landlords with fewer than 5 properties¹ indicating that the majority of landlords do not sit on large portfolios.
- d. However, the landlord cohort lacks a unified, compelling voice, and in 2011 it will not succeed in tackling the negative media stereotype. (Editor: FK is trying to be a positive voice in this regard).

8. The social housing rent cap will not be 100% enforced: the government will not evict families with no alternative accommodation ready.

- a. No matter how urgently the government wants to decrease the annual £21 billion housing benefits bill, it will find it difficult to introduce Local Housing Allowances caps if the tenants involved have no home to move to.

¹ Rugg Review 2008, Dept. Communities and Local Government