

RENTAL



Buy-to-let investors in Edinburgh's New Town, long regarded as the safest area to invest in property, could find there is a shortage of people with the money to rent the high value flats there. Picture: Rob McDougall

The golden age of the landlord could be in decline

Buy-to-letters beware, the future's not so rosy for those at the high end of the rental market, writes **Kirsty McLuckie**

Unlike the property sales market, 2008 was, in general terms, a good year for residential letting in Scotland. Rental prices rose, year on year, 4.3 per cent in the third quarter of 2008 and demand increased by 38 per cent over the same period, according to figures from Citylets. It is easy to see why; fortunate potential housebuyers with funding in place were holding off until they perceived house prices to be bottoming out. The less fortunate were stymied by lack of deposits, lack of credit or both. Landlords directly benefited as people chose or were forced to carry on being tenants rather than become home owners.

But buy-to-letters shouldn't rely on the sector remaining strong and 2009, according to some letting professionals, may be the year that the letting market is thrown into turmoil. For the legions of

amateur landlords who entered the sector in the last decade to provide themselves with a nest egg, things might be about to get worse.

While it is true that the increase in demand from those who have lost jobs and houses continues, what is becoming apparent is that the supply is increasing too. By the third quarter of 2008, Citylets figures showed supply in Scotland had increased by 55 per cent year on year and this trend is expected to continue and, critically, outstrip rising demand throughout 2009.

William Walters, of Edinburgh-based The Flat Company, says the rise of supply is across the board, although some sections will be hit harder than others. "Demand for executive lets, typically large New Town apartments, has fallen away and in Edinburgh is set to become weaker

as the fall-out from the collapse of HBOS and RBS becomes apparent." Walters believes the very flats that many landlords were told were a safe place for their investments, the traditional Georgian property, are likely to be hardest hit because they would probably be let to high-worth finance workers on short-term contracts.

He believes, however, that another sector of the property market will fare better. "The lower end of the market will witness both an increase in demand but a more limited increase in supply." This section of the market, according to Walters, will see demand come from former owners who have had their homes repossessed, those unable to secure finance and also potential buyers watching the market.

"On the supply side, small private developers unable to sell will put developments on the letting market. And lending institutions who financed residential property development are taking control of the developments and moving them on to the lettings market until they can be sold," says Walters.

One UK company, Property Portfolio Rescue, says that many landlords are insulated at the moment by the low interest rates, but once they begin to return to nor-

mal, their investments could be repossessed. Their estimated figures see landlords making up over 20 per cent of all repossessions by the end of 2009, due not just to the oversupply, but an increase in tenant redundancies. Nick Hopkinson, director, says: "Landlords are experiencing falling demand and an increase in void periods, but those on tracker and variable rate deals have been given a reprieve by falling interest rates, and are enjoying a period of strong positive cash flow. Interest rates will not stay at this level indefinitely, however, and when borrowing costs increase again investors will find themselves with insufficient equity remaining to remortgage."

He counsels investors to act cautiously over the coming months while rates remain low, taking advantage of a temporary boost in income to bolster their cash reserves. "Interest-only mortgage borrowers might consider making overpayments to reduce their debt, increasing equity and improving their chances of qualifying for a good fixed-rate deal when interest rates start to rise."

If 2009 looks increasingly gloomy for Britain's army of buy-to-let landlords, the longer term result is much more positive

for those who stay the course. Some predict that Britain in the future might move further towards being a nation of tenants and it is already happening in some regions. According to Savills, the English housing market has witnessed a fall in owner occupation in just two years, declining from 70.9 per cent in 2006 to 68.3 per cent in 2008.

One of the key factors is the market shift away from lenders offering large loan-to-value mortgages so people have to save over a number of years to fund a deposit. William Walters believes this cultural change will mean longer term prospects for the letting market are good. "Some landlords will have to sell up (in 2009) because they are unable to afford to sustain payments or are unable to refinance their borrowings. Those remaining who can look forward three to five years should gain."

For the time being, he says, rental increases are set to remain close to neutral and in many sectors of the lettings market, especially the upper end, will actually fall during 2009. But it may be the unfashionable areas, ignored by many developers and landlords that prove the most resilient during this downturn.