

## A Landlords View of the Current Housing Market is Both Pessimistic and Optimistic Landlord

I'm an optimist by nature. I have already lived through one housing depression during the early nineties. Some economists predicted at the time that house prices would fall for a decade. I ignored the doom mongers and instead started to build my residential investment portfolio. How wrong they turned out to be with residential property prices subsequently tripling in value in most part of the U.K. Like most landlords and property investors I don't believe the hype spewing out from the over excitable media machine talking about impending house price crashes or even some misguided pundits that were predicting only a few months ago that the next boom was only just around the corner. I like to take a slightly more considered view of the state of the housing market. Investing wisely involves perspective and foresight. For instance, it may be raining now, but one knows that it will not rain for ever. In fact paradoxically the chances are if it is raining now it means it is just as likely to have stopped in an hour's time when you want to go outside. Predicting the U.K's weather and trying to guess the future direction of the housing market are both imprecise sciences. However here are a few of the current factors that have a big impact on the value of on UK housing: Credit Crunch Those residential property investors that think that the credit crunch has run its course will be sadly disappointed. After years of lenders falling over themselves to lend money to: businesses, property investors, consumers, other banks; all in the sound knowledge that they would make money by doing so and trusting that the borrower would be able to repay their debt. This trust has suddenly evaporated. Like a long-standing marriage where one partner discovers the other has been cheating on them. Once revealed the parties may stay together but things will never go back to the way they were and the trust could take years to return. Any property market needs credit to feed it so the drying up of funds will be potentially a real drag on the housing market for years to come. Where can I go for an unbiased view on buy-to-let finance? The Government are idiots & the economy is suffering I knew from the beginning back in 1997 that the present Government were going to screw up. The miracle is that they have hidden their inadequacies for this long. The apparent prosperity that we have all enjoyed over the last 10 years is based on a global cut in interest rates following the 'dot com' crash in order to avoid a global economic depression along with booming economies in China and India. All factors outside UK government control. A strong and growing economy with rising incomes is the fundamental driving force for growing property prices. Good old Gordon has now taxed and spent or should I say frittered away the proceeds of growth, so Government finances can no longer be counted on to get the economy out of a hole. It's what you get when you trust the running of a country to academics and political dreamers rather than practically minded business people. The result of this is a government that is broke and looking to increase taxes and a faltering economy putting personal incomes under increasing strain meaning all of us has less to spend on housing. The death of 'property porn' The last few years has seen the explosion of what can only be described as 'property porn'. Sarah Beeny's Property Ladder, Phil and Kirsty's Location, Location, Location to name but a few. All predicated on the fact that by buying bricks and mortar you will make yourselves rich and take your life to catatonic highs of ecstasy each time you walk into your period lounge or look at your garden through your french doors. The proliferation of these TV shows has similarities with the top of the stock market when the whole world tells you to buy shares because you can't lose; even the proverbial 'bell boy' starts giving you share tips – this is a sure sign of an overheated market. Look out for the demise of 'property porn' which should help to enable housing to revert to a place to live for property owners and tenants as well as a solid long-term investment. Things are not all bad in the UK housing market! There are still some positives for the UK housing market: \*

Unemployment is still low which means that generally most home owners will be able to muddle through and meet their mortgage payments even if their repayments rise considerably at the end of a discounted period. This means that the large scale repossessions and foreclosures that we have seen in the US should be avoided. \* Government incompetence has led to a massive increase in immigration both legal and illegal which means that demand for residential property far outstrips supply. This is likely to get worse in the short –term as house builders respond to falling demand from house buyers by cutting production \* Again government incompetence in tinkering with the planning system means that their efforts to make the process more 'accountable' has slowed down the planning process whilst their efforts to force builders to produce more environmentally friendly & accessible (all houses now have to have a downstairs toilet under the DDA) makes them more expensive to produce. The upshot is more expensive residential properties and less of them meaning that demand for existing properties should stay strong. This is important to remember when reading some economists who try to draw convenient parallels between the fortunes of the US and UK housing markets. Landlords should remember that the US has a far more responsive housing market and as a result one factor that continues to push down prices is a large over supply of housing particularly in certain areas. These to my mind are the important factors that will be pushing and pulling the housing market up and down in the coming months and years. Should landlords be looking to buy? The question on many landlords' lips is; should they be actively seeking opportunities to buy? The property market by it's' nature means that there are always opportunities whatever the overall climate. Distressed property sellers are an unfortunate buy-product of a slumping economy and housing market and many of these properties will end up in the auctions. However, landlords should not be duped by short-term weakness in the housing market and therefore expect a quick rebound. Many landlords have only been investing for a relatively short time and their perception of house prices is that they go up relentlessly pausing only slightly before charging on to the next high. My experience is otherwise. The early nineties shows that prices can fall and fall for a considerable period of time – several years in fact before real house price falls reversed. The message to landlords that I want to give is it probably is not a great time to invest, unless you can get a real buy-to-let bargain. I'm talking a genuine 15% below the market value. Currently gross yields are holding up at around 6% whilst encouragingly rents are rising. I think that landlords should be targeting nearer 8% gross yields before a really strong investment case can be made. Want to calculate you long-term property investment returns In the property price balance The one factor that will ultimately decide the fate of the housing market and the value of a landlord's residential investment property is confidence. So far this appears to be holding up, but if house prices do start to fall sharply then will the banks, property investors and homeowners retain their confidence in this asset class? As an optimist I do hope so, but like any

future projections only time will tell.

### About the Author

Chris Horne helped to create the FREE property management software that calculates a landlords tax liability, creates tenancy agreement, inventory forms, section 213 notices and other landlord forms. Soon to be launched FREE bespoke inventory creation software at <http://www.propertyhawk.co.uk>

Source: <http://landlord.co.uk/articles>