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LandlordZONE

RENTAL PROPERTY KNOWLEDGE

Introduction—Dark Clouds Looming, but there's Opportunity as Well

Modern economies need credit like we all need oxygen—to sustain growth and prosperity - whilst governments and central banks must juggle interest rates and money supply for control. But when these things get out of hand these institutions are still, it seems, quite impotent, at least in the short term. Writing in 2005 (Crunch Time for Credit) author Edward Chancellor says: "The credit bubble that has developed in the UK and US economies over recent years is unsustainable and has 'badly corrupted' the economies of the two countries, with potentially serious destabilising results... [the] Housing markets look particularly vulnerable". Quite prescient at the time. The Bank of England is now worried that slowing growth and rising inflation pose risks to the UK and the global economies (Inflation Report November 2007) Despite the markets expecting 3 cuts in interest rates by this time next year, a general slowdown now looks inevitable.

Welcome

It's not all doom and gloom, though you might think so reading some parts of this Newsletter and the press this last week. But to the contrarian investor it's times like this that present real opportunities—as John D Rockefeller said—buy straw hats in winter. Markets always overreact and there will undoubtedly be some real bargains to be had when property is no longer a topic of popular conversation. Established landlords know how to weather a storm like

It's unlikely these cuts will reduce borrowing costs significantly, if at all, as further tightening of lending criteria will continue, following the so called Credit Crunch. There could be trouble ahead, for residential and commercial landlords—is it batten down the hatches time?

For residential property investment the boom all started with Margret Thatcher's deregulation of the UK financial markets in the 1980s, her shorthold tenancy and ARLA's buy-to-let mortgage. The result - an unprecedented availability of credit for UK property. Add to all this demographic changes which favour renting, low inflation and low interest rates and it all helped fuel an unprecedented property boom, which even extended into continental Europe. The new breed of buy to let landlords threw caution to the wind and many borrowed big because the economics meant that rental income could easily finance the mortgage and



letting costs—it's no longer all that easy. As Lesley Henderson so rightly points out (see book review) "property remains a game of risk and don't let anyone tell you otherwise...Knowledge is the only way to reduce risk". Successful landlords realise the value of learning and long-term they know they can make money in good markets as well as bad. In this month's Newsletter we will look at the benefits of using property auctions as a means of acquiring and disposing of property. At this time there's no doubt some will be looking for a neat and quick means of disposal, whilst others will be looking to pick-up bargains—auctions offer a unique solution for both.

this because they know their markets, they know how to manage tenancies, they keep costs under tight control and they have kept their borrowing within sensible limits. Some will even be fortunate enough to strategically pick up bargains and grow their portfolios over the coming months and years. If you are unfortunate enough to find yourself in difficulties there just two options: (1) pull all the stops out to meet those mortgage payments and see it

though by marking personal sacrifices, or (2) cut your losses before you lose it all. Just to cheer us all up the [Landlord Show](#) will be held 6th December at the NEC Birmingham with a record number of exhibitors and registered visitors. I shall be giving a seminar on "Selecting Tenants & Managing Tenancies" [in good times and bad] so don't miss it. Tom Entwistle, Editor

The Auction Solution

Buying at auction is not for the faint hearted and requires a fair amount of research and preparation to avoid the possible pitfalls as an investor.

Traditionally the realm of the seasoned professionals, the auction house has become more accessible and accommodating of late to the amateur and less experienced property investors.

However, now that the buying frenzy is over—many property auction prices for both residential and commercial have been beating those on offer in high street agencies

over recent years—it is now possible to pick up some more sensible buys again.

There's certainly no shortage of property on offer—just get hold of some of the auction catalogues, often printed in Estates Gazette but also available on-line from the auction house web sites.

The auction sale offers a neat solution to both buyers and sellers—once the hammer falls there's no further long-winded negotiations, gawping or failure to complete—money in 28 days. This is the reason they are so

popular for repossession disposals by the financial institutions when the high street agency fails to perform quickly enough. They are often willing to forgo on price for the certainty of completion and cash flow.

If you're a desperate private seller the auction offers some advantages, but there's a definite drop off in successful sales at recent auctions, in some cases as much as 50% from last year. Auctioneers are blaming vendors still clinging to too high a valuations and reserves.



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Renting out a property can be a lot harder than it looks. Long-term landlords need to treat rentals as a business and run it professionally. You also need to be ready to tackle several challenges in a competitive market – a company such as **LettingAgent.com** can help you overcome each of them.

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Repossessions

The fall-out from the property boom-bust scenario is without doubt being evidenced by the rise in repossessions, bankruptcies and IVA agreements. One recent auction reported 65% of the sale stock as repossessions as more institutions place properties at auction when they fail to shift quickly on the high street. Repossessions have been above trend this year, but The Council of Mortgage Lenders (CML) is predicting a 50 per cent increase in repossessions in 2008, as well as rising lev-

els of arrears and a fall in house prices in real terms. The hardest hit are likely to be borrowers in the "adverse credit sector", or "sub-prime area", who are facing a large increases in their monthly payments as fixed rates end. Some of this will inevitably include landlords with buy to let loans, especially where they have experienced tenancy problems. But one unfortunate consequence is that perfectly innocent rent-paying tenants will have their lives

seriously disrupted as the properties are repossessed from their landlords. If you are in the position of a forced sale, the starting point is to seek the advice of the auctioneers and ask around several auction houses—make sure they already deal with your type of property—most have extensive marketing facilities to help the sale. Pick a firm with a reputation, try to gauge their efficiency and don't go for the cheapest one.



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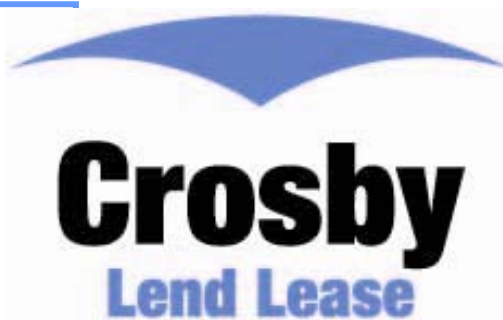
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Crosby Lend Lease, the award-winning property developer, knows everything there is to know about property investment.

Our wealth of experience in the UK property market means we're ideally placed to ensure you make the right investment decision. So whether you're looking for a first time property investment, or already hold an established portfolio, Crosby Lend Lease is ready to help build your business.

So now you don't have to join a property club to get the best deals – speak directly to one of our sales negotiators to find out about our latest investment opportunities.

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Research and Due Diligence

Investment & Disposal

If you want to be successful as a property investor-landlord you need to develop a mind-set which is risk averse and risk limiting—always mindful of the downside and the “what-if” scenarios if it all goes wrong. Look hard before you leap! What's your escape route, where's your parachute?

Yes, as an investor you cannot avoid taking some risks, but these should be calculated ones. Risks you have thoroughly researched yourself by walking the streets and based on advice from several of those you can trust—people in the know with reputations to keep, like established local agents and investment advisers, all with experience of the direct market you are in.

Amateurs focus on buying a property, they get carried away with the emotion of the purchase, they fall in love with the looks of the place, they often overpay, even though they think or they are told they see a bargain.

Professionals focus on TENANTS! Without tenants, without that income stream, an investment property is almost worthless, in fact worse—it's a liability.

They thoroughly research tenant demand, until they “know”

it's there, property location, market price comparables.

They calculate accurate costs, budgets, re-payments and realistic incomes.

They calculate what they can afford to pay and, within reason, they stick to it. This is particularly important when buying at auction.

Is the area sound? Is it improving or declining and are there any new developments which could help or hinder investment quality?

If you are buying an investment property, i.e. one with a tenant in place, then there are more “due diligence” checks you must make:

Is the rent being paid and on time, is the rent amount realistic and what the vendor claims for the type of property / business?

This is particularly important in the case of a commercial property where rent claims can be inflated to give the appearance of a good investment yield at auction.

Where a business, particularly a limited company, is involved as tenant, do the necessary credit and financial background checks to make sure the business tenant is solvent and that there are no

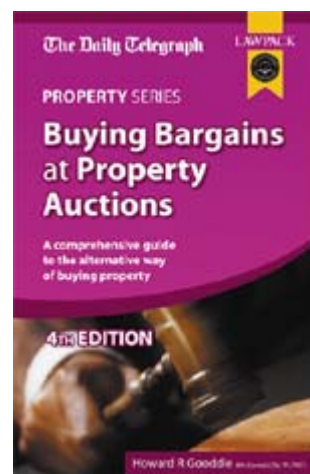
financial problems involving that business.

Where the business tenant is part of a larger chain, visit other parts of the business to get a feel for the operation. If you have doubts make further inquiries—ask staff, customers and suppliers for their views and experiences.

Check with neighbours and the local authority to make sure there are no anti-social behaviour problems or planning issues and user clause issues.

When buying (or selling) at auction accurate market data is vital. One excellent source is the Essential Information Group, a website based subscription service which gives access to all UK auction sales, month by month and area by area. For disposals, they will advise on the best route to market and provide comparable sales prices for similar properties UK wide.

For anyone thinking of buying or selling property at auction there's one book which is perhaps the bible on property auctions for investors—certainly the most comprehensive—Howard Goodie's *Buying Bargains at Property Auctions* published by LawPack



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Landlord Manager

Landlord Manager V2

Visionbase software Limited have been producing property management software since 1995 and is therefore one of the older established software products producers aimed specifically at landlords.

The latest version of **Landlord Manager**, which has just been announced, uses a simple user interface to allow you to record property income and expenditure for any number of properties.

With numerous drill down facilities, reports and graphs you can easily track the pro-

gress of your rented property.

Other features include a Rent Centre that will track your tenants and their outstanding rents as well as the ability to print tenancy agreements and section 21 notices.

An Alert Centre records those critical events such as safety checks.

The program is designed to help you complete SA105 an SA801 tax returns.

You can also track VAT transactions and export your data to a Sage compatible file to give to your accountant

There's a Multi Currency facility for those with properties let in virtually any country in the world.

Multiple drill-down reports give you important data at a click of a button and will save you valuable time and money, keeping you on top of your portfolio at all times. Another useful feature is the ability to synchronise your details with Microsoft Outlook ensuring you don't forget critical events and easily transfer contacts. You can download a free evaluation copy at:

landlord-manager.co.uk



Hammersmith & Fulham Direct Lettings

Borough of Hammersmith and Fulham's

Direct Lettings for Landlords

A rent deposit guarantee scheme that was launched in April 2003 and has ensured that over seven hundred households have entered into Private Sector tenancies.

Our aim is to assist families who are deemed capable of maintaining a Private Sector Tenancy by providing an rent deposit guarantee and in-borough housing benefit 'fast-tracking'.

We have been working hard in partnership with private landlords and lettings agents but due to the increased popularity of the scheme we have a growing number of applicants which are currently outnumbering our portfolio of available properties.

Landlords!



Do you have a property to let in Hammersmith & Fulham?

We offer you:

- Competitive rents
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- Rent deposit guarantee
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- 'Better homes grant'.

For more details contact the direct lettings team at Hammersmith & Fulham on 020 8753 4166 or email: direct.lettings@lbhf.gov.uk for more information. www.lbhf.gov.uk

Next Month— The New Local Housing Allowance

The December 2007 issues of the LandlordZONE Newsletter will look at the implications for landlords of the local housing allowance.

You might think that this does not concern you if you don't let to Housing Benefit tenants.

Don't you believe it! Any tenant at any time can become a HB tenant if they fall on hard times—if their partner leaves them or if they are

suddenly made redundant.

You need to be aware of the new rules if you are to manage the situation well.

Renting to Housing Benefit tenants could be an attractive proposition to many landlords and depending upon the area where your property is situated, it may be ideally suited to your market.

If you work closely with the local authority such as the Hammersmith and Fulham

example advertised in this issue you should have no trouble keeping your properties 100% occupied as housing shortages mean there is a steady demand.

One aspect that's worrying many landlords is the requirement that the allowance is to be paid direct to the tenant—we will explore the issues and available options with this in the next issue.



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What's in the News for Landlords?

The Land Registry Removes Deeds from the Internet—Following a spate of scams involving mortgage deeds and payouts (our money) to the tune of £25m, the Land Registry has realised that it's plan of having deeds and leases available on-line, complete with signatures, was not such a good idea after all. It seems that a combination of on-line transactions and information means there's no end to the ingenuity of fraudsters. One fraud (just one of about 70 over 3 years) has resulted in a tenant taking out a £140,000 mortgage on a property he occupied and then disappearing with the funds. It took the owner landlord months of struggle to reclaim his ownership and to get the Land Registry to accept responsibility and pay out compensation. The worry is these documents are still available if you know how to get them, a potential goldmine for identity fraudsters.

One Third of Lenders Drop out of Commercial Property Market—Savills research shows that around 30 lenders have pulled out of the commercial property lending business following the credit crunch. The ones that are still lending are being more selective, looking for higher quality deals and smaller lot sizes to spread risk, lending at higher margins with lower loan to value ratios. Though some deals are falling through due to tighter lending criteria, some of the more enterprising banks are still lending to investors and are still seeing opportunities out there to make money.

Retail Commercial Leases Shorten as Times Get Tough—Lease lengths continue to shorten as retail shop leases show their biggest decline in over 5 years says Estates Gazette. They have dropped from an average of 7.8 years in 2005 to just 7 years according to the British Property Federation's Investment Property Databank. For all commercial property types including retail as well as offices and industrial, lease lengths have fallen from 6.2 years to average 5.7 years in 2006/7. More than 2/3rds of all leases granted Jan 2006 to March 2007 (9580) were less than 5 years.

Woman Fights to Keep Pony in Flat—A disabled woman is suing her landlord for infringing her human rights by refusing to allow her to keep a miniature horse in her home, to help her pull her wheelchair, says the Daily Telegraph, 14 November. The lady who lives in Waitsfield, Vermont, USA, paid \$1,000 for the 32 inch gelding, which she wants for trips to into town, but the managing agents are denying her request to keep the animal in her home. They have pointed out to her the hazards of dung, hay storage and lack of grazing space, but she insists the animal is house trained and will be happy in the stall she built in her living room. She claims she is being denied "reasonable disabled accommodation"

Landlord Show—Birmingham NEC—6th December 2007

Manage your tenancies effectively, keep up to date with **new legislation** and protect your investment. But where do you find all the information to help you gain maximum benefit from being a landlord? **The Landlord Show** gives you access to all the advice and support you will ever need.

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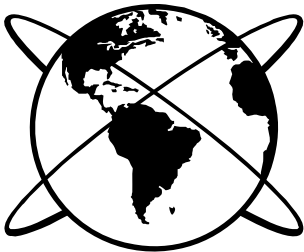
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- Over 5000 student landlords already registered and using our site.

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Property Tax Portal was founded in September 2003 by Amer Siddiq who is the managing director of the parent company Tax Portal Ltd. Amer, a former IT professional and property investor himself, is supported by a team of highly qualified tax professionals. They produce the highly successful Landlords Property Tax Manager Software and now run regular Tax Seminars for Landlords and Property Investors. The website is packed full of useful information and products to help minimise your tax payments.



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