Landlords - Damage Limiation Time!

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For every Zig, there's a Zag. For every Bubble, there's a Burst. And, unfortunately, that's right where we are now folks: inside that popped bubble, with nothing to sustain us on the near horizon. For those of you who have read my Landlord's Survival Guide' you will see – written eighteen months ago - a soft early warning. Back then though, the cultural shift was too strong to hear warnings of any sort. Prices kept on soaring.

Theoretical paper profit piled up. Everyone who warned of possible problems was a foolish Pollyanna: an unadventurous twerp who lacked the entrepreneurial skills to appreciate self certified liar loans, let alone the glorious operational freedom of 125% mortgages.

What's more, equity withdrawal was a peach till recently, encouraging mounting pyramidal debt on pinpricks of initial 'real money'. I was someone who challenged a bandwagon that'd made people paper rich. To climb aboard this lucrative gravy train, some landlords had been persuaded to borrow against the family home to raise deposits. Other 'Seminars' by 'Experts', insanely suggested raising initial capital to 'climb this magical ladder' against their credit cards at 20% p.a. interest!

No surprise that as the tide turned, these 'advisory experts' went bust quicker than the bubble. Their Golden Apple had rolled away, leaving nothing more than a fusty core for its victims to chew over.

The men with the Porsches were moving on to the next scam. (And might I now suggest as I did on BBC Radio last December, that anyone sold a 100% interest only mortgage on a BTL basis should try bringing a case before the Financial Ombudsman, or the FSA, unless their lender provided written warnings that, without any capital repayment provision, this 'little 'gem' borrowing arrangement could only ever work in an endlessly rising property market).

Never forget - Banks do not LEND money….they RENT it.
And make a profit by doing so.
From you!

Of course, those of us with the odd wrinkle have seen it all before though never on such a scale and never involving so many honest, hard working people who saw final salary pension schemes collapsing all round them and did no more than try to protect their families from an uncertain financial future by widening their options. It was, in principle (and still could be), a great concept.

Applied as recklessly as it has been, it's about to become a personal disaster for many…and not just for landlords. Every re-possessed property leaves good tenants who paid their rent on the nose, out on the street through no fault of their own.

However, leaving aside the recent 'Smoke and Mirrors' act. here's a solid fact, conveniently forgotten for almost a decade.

There is NO SUCH THING as a PERMANENTLY RISING MARKET. NEVER was, NEVER will be. Markets endlessly adjust to prevailing conditions.

Builders, following BTL buyers like lemmings and turning most of our City Centres into replicas of East German housing projects are also going under. Deep in the Anglo Saxon DNA, the ideal dwelling is and always has been ‘Hearth and Home’. Anglo Saxons don’t take well to being stacked in crates – even crates with window boxes.

But ‘experts’ working in packs have created the nonsensical myth that the ideal property to buy was a 2 bed flat – it’s a nonsense (the rental sector’s incredibly diverse), which has permeated an entire ‘new’ rental sector.

From planning, through production, abetted by reckless lending and encouraged by inexperienced and often unregulated agents, the worst of all market conditions has been recently created – vast oversupply of a single commodity. A GLUT!

Eighteen months ago, I warned that Buy To Let was a new financial formula, dreamed up (alongside so many others, we now learn) to make long term money for everyone – brokers, finance houses, agents of every type- in fact, everyone but clients. As I pointed out then, Buy To Let Landlords were financial guinea pigs, testing an untried concept, encouraged by government as a way to keep building Council Houses off the Public Accounts.

Well that was then, and this is now. And the problems it raises are, frankly immense. I can only offer shavings in a short piece like this.

So, that’s the problem, you’re asking, where’s the solution? Unfortunately there’s no simple answer – just a complex blend of common sense and gritted teeth. Because, here’s another forgotten truth. Banks are NOT Property Companies.

They don’t WANT hundreds of repossessions, the hassle, the courts, the years of chasing borrowers for shortfalls. They want common sense solutions that keep their accounts looking healthy.

Top of my priority list would have to be DON’T SELL – not for the next few years. The only buyers out there now are Vulture Funds, big and small.

Auction experts who swoop in with small silver coins between their sharp claws, leaving you with years of backlog debt if your borrowings are large, because they rarely offer more than 50% of asking prices. Hammer Down! Done Deal! Next Property Please…..

Next would be CUT YOUR COSTS TO THE BONE. Drop expensive agents – they’re your largest saving – get yourself a DIY management book, roll up your sleeves and get cracking.

Now unfortunately, here comes the unfortunate sounding ‘plug’—- I’ve written the only practical DIY book that undoes the practicalities you’ll need to learn. Luckily, I don’t rely on royalties – my income comes from rentals in a family with hundreds of years’ expertise between us, and that’s before I even get to cousins!

But letting out property really is money for jam– why do you think there are so many top line cars parked outside agents who didn’t exist till the Nineties???? Blood and sand, before things were so easy, letting agents were like pearls in oysters. And always remember, what they can do, you can do BETTER. They live on a slice of YOUR RISK. Keep the slice and use it to help cover your own costs, not theirs.

Last comes the hardest tip of all. DROP YOUR RENT until your unit is occupied. Week on week, keep dropping until you find a suitable tenant. Forget what you were ‘promised’, rental property has no fixed value – it’s only worth what someone will pay you there and then – that very week. And we may well be talking about huge cuts here – sometimes of up to 50%.

But half of something is always better than 100% of nothing. Cut down on other living costs to subsidize the rent. Just hold out - whatever it takes - through the next few years shakeout. By then, the weakest will have gone to the wall and this wretched ‘glut’ should have resolved itself, leaving only the tough nuts – the real entrepreneurs who did what it took, standing. Nuts like you!!!

Finally good luck. There are a huge number of fab tenants out there. Go find yourself some, accept what you can get for your units, and then, talk to your lender and realistically negotiate either a longer term or possibly a better deal.

Good risks, those who always made their payments on time, always get a hearing. I repeat, banks don’t want the hassle of taking your building away, they do want the rent on their own capital repaid, and that’s fair enough. Hone your skills and join the independents who work out real ‘win win deals’.

Article supplied by Leslie Henderson. Leslie is a contributor to several BBC radio programmes on property and the Credit Crunch and author of “The Landlord’s Survival Guide” from www.HowtoBooks.co.uk Leslies is planning a series of half-day seminars to help landlords survive using tried and tested methods. You can contact her through LandlordZONE