



## What Does the “Reverse Brain Drain” Mean for The London Rental Market?

Recent data suggests that an influx of high earning, senior professionals from abroad continue to settle in the UK, mainly London. This reverse brain drain has doubled over the last decade giving the economy a £9 billion a year boost. Indeed 92,000 'executive inpats' relocate every year. They typically live in the UK for three years and employers can spend £500,000 providing for the needs of them and their families.

French and German employees make up the majority with Americans third, although post September 11th their numbers are continuing to swell. The UK provides a unique opportunity due to the strong economy and pound. Although corporate budgets are not back to 1999 – 2000 levels they seem to be climbing.

The majority of these 'inpats' rent exclusive apartments or family houses often paid for by the company. How can landlords or potential buy to let investors take advantage of their swelling numbers?

### Location

Inpats have the budget to live in the most exclusive areas, they generally favour well established, well connected, well to do, exciting locations. Furthermore there must be plenty of international shops and a cosmopolitan feel. Check the local newsstand: if you can buy an international newspaper, inpats are in the area. Their companies or friends arrange the process of looking, and they will only be shown locations perceived to be historically and traditionally acceptable.

Education is vital to families and international schools generally reflect the geographical scattering of inpats. Demand dictates they are only located in areas of high density international population. Furthermore they symbolise a strong history of community.

**American schools:** four in Surrey, one in St Johns Wood NW8, one in Hampstead NW3, one in Holland Park W11, and one in Waterloo SE1.

**French schools:** one in Ealing W7, one in South Kensington SW7, one in Clapham SW4, one in Hampstead NW3, and one in Hammersmith W6.

**German school:** There is only one German school in London located in Richmond TW10.

So if you live East of Camden, or in South East London, your chances of a wealthy inpat family renting your property are limited. However North West and West London especially Hampstead NW3, Belsize Park NW3, St Johns Wood NW8, Maida Vale W9, Kensington W8, Chelsea SW3, Fulham SW6, Notting Hill W11, Hammersmith W6, Camden NW1, Regents Park NW1 and Primrose Hill NW1 are assessable to an abundance of schools and tend to be the traditional inpat areas.

The young professional couples, or singles, are also attracted to these areas. By locating to the popular inpat areas they'll have an almost guaranteed network of friends, and will be close at hand for socialising. However, unlike families, they are not averse to living in the heart of the West End such as Soho W1 and Covent Garden WC2. Proximity to the City drags them to Tower Hill E1, the Isle of Dogs E14, and Clerkenwell EC1. The Jubilee line is a huge pull for

inpat professionals. It's unique in providing access to Canary Warf, the City, the West End, and highly desirable North West London.

### **Price**

Inpats generally are not price sensitive, especially if the company is paying. Well-appointed family homes typically fetch from £1000 per week up to £5,000 per week plus, although only for top MD level employees. Families from Europe are heavily attracted to large apartments often duplexes or penthouses commanding a similar price.

Couples and singles generally rent apartments along the duplex or penthouse line also. They pay anything from £400 per week to £700 per week for a two bed and £550 per week - £900 per week for a three bed. Indeed the high middle to mid high-end rental market has been very strong this year.

### **Spec**

Inpats demand the highest of standards from their rental properties. Family houses must be immaculate and decorated with fresh neutral colours. Apartments must be very modern clean and fresh.

- Absolutely no more 10 minutes walk to a tube; the Jubilee Line is a special favourite.
- No carpets in bathrooms or kitchens.
- Large rooms especially bedrooms.
- Kitchens to be of the highest standard with as many gadgets as possible. For families double berth appliances or two of each.
- Lower ground or ground floor is generally unacceptable.
- Bathrooms must have powerful power showers, and there should be at least 2 bathrooms to every three bedrooms.
- Wood floors are a must.
- Security is absolutely vital, good Balham's, alarms, window locks, even CCTV are a must. A porter and gates also goes down well.
- A genuine London feel especially for Americans, they love Georgian streets just like in the films or Christmas cards featuring London.
- Plenty of open space, London houses tend be thin and narrow creating a bitty living environment. Hence large apartments especially in grand Mansion Blocks are often favoured.
- A study is always much appreciated.
- Have broadband and cable preinstalled, busy executives need constant information supply.
- Privacy and an abundance of 'like minded', 'like wealth' individuals is very desirable. Exclusive areas generally have wealth density so high flyers won't feel out of place.
- Some outside space is preferable and a garden vital for families.

### **Furnished or Unfurnished?**

Furnished is still the most popular, especially for young professionals and totally furnished with absolutely everything not just a bed and a sofa. Include all cutlery, all plates, all utensils, sheets, cushions, duvets, and alike.

Families are more likely to have their own furniture but it really depends on the individual. A £5,000 per week furnished house will demand the best possible furniture, good as it is, IKEA simply won't satisfy.

## What Are They Like as Tenants?

In truth, hard work but only if things go wrong. Like anyone paying a great deal of money for a service, they demand the best.

If the boiler breaks during January in a £5,000 per week home you can't put the job off for a week. The tenants are usually of senior management level so know when and how to firmly negotiate. Still, if the landlord provides a good service, parties should generate a mutual respect. (But don't engineer a serious fault just to prove your efficiency!)

However, the rent is virtually guaranteed especially when paid by a company. Indeed large companies often pay quarterly in advance generating good cash flow for landlords. Companies rarely pay the traditional deposit but prefer a deed of guarantee, essentially agreeing to pay for any damages post tenancy upon invoice receipt.

Companies may insist upon using their own lease, it's best to have a solicitor check any agreement prior to move in.

## Why Do They Rent?

**Speed:** Europeans generally do rent and often find home ownership an odd British foible. The majority only stays in the UK for two to three years so decline the hassle of buying then selling. Indeed they are often relocated at a moments notice therefore need to move in fast, then out fast. For them, the UK home buying system is just too slow.

**Stamp duty:** to buy a suitable property might cost £600,000 – £2,000,000 donating £24,000 to £80,000 to Mr Brown. Generally buying would cost approximately a years rent, if they only stay for two to three years it's just not worth it.

Indeed if the market drops during an inpat's stay their losses could be astronomical. If an inpat couldn't sell their property, or had a sale fall through, but had to relocate back home or abroad quickly, they would have an unwanted property languishing in a foreign country.

**Estate Agency fees:** typically 2%+VAT, estate agent fees would quickly eradicate any short-term capital gain or amplify capital losses.

**UK credit system:** it can be difficult to even obtain a mobile phone with no UK credit history, mortgage lenders generally require at least 6 months credit history to consider offering an overseas national a mortgage.

Company tax laws make it far better for companies to rent a property for employees than buy one. The cash flow implication for any business mean renting is the easier alternative.

## Should I Buy a £2 Million House as an Investment?

The demand and rental price appear to make sense but there are drawbacks for the typical buy-to-let investor.

Most lenders will only lend 75% of the property value above £500,000 using a buy-to-let product. Therefore a £500,000 deposit is needed to buy a £2 million property.

Stamp Duty will generally absorb close to a year's rent. Indeed £80,000 for a £2 million property, or £1538 per week.

Any property you buy will almost certainly need considerable refurbishment including new kitchen, new bathrooms, and full redecoration to bring it to the required standard. Furnishing a suitable property can be extremely expensive.

Any voids are very painful. Indeed, just a three-month void could cost up to £29,250 using our £2m property example and assuming a rent of £2250 per week.

Maintenance costs of large premises far outweigh smaller units.

Such properties are hyper-market sensitive. A stock market crash, or similar economic event, could see your tenants relocated and tumble weed rolling through the high-end rental market.

You will almost certainly have to use an estate agent and pay between 7%+VAT and 15%+VAT to find tenants and possibly manage the property. Properties at this end of the market require considerable and expert marketing, a small ad in the Loot will not suffice.

If you decide to try such an investment seek expert advice. Such rental investments are only for the very brave, the very wealthy, and the very market savvy.