

Market Review of Q1 2005

Following an upbeat end of 2004 the Cambridge Letting Market has continued to show a steady uplift in demand by prospective tenants. The sales market has become increasingly patchy, and the thought of a short term capital gain has been rejected by all but the most optimistic of purchasers.

Ambassador's New Website

We invite all our clients (and potential new clients) to have a look at our new website. It has been redesigned to provide what we hope will be both an easier and more thorough journey through all aspects of the professional letting and management of residential property. This summer we will be adding a section on Buy-to-Lets and Self Invested Personal Pensions, so please do keep a look out on the website, which is updated daily.

Insurance Protection Scheme

This is a note to remind you that from January 2005, under the Financial Services Act, Ambassador has been an Appointed Representative of Letsure, an insurance broker specialising in all aspects of residential letting insurance. A copy of the letter that we sent to all our existing landlords, outlining the details of the new regulations, can be found on our new website under Landlords.

Buy-to-Lets

We were pleased to see that in May the Department of Trade and Industry rooted out five property investment clubs that were blatantly fraudulent operations to all but the most naive investors (albeit some £4M of private individuals' monies was already found to have been wasted in such schemes). Even the Financial Services Authority have decided to divert some of their 400 staff from the Insurance Protection Scheme (see above), on to what we consider to be a much more worthy recipient of taxpayers' money.

The Law Commission

Their project "Renting Homes", is moving closer to becoming law. The initial consultation paper was published in April 2002 and is designed to simplify and in some cases make incomprehensible statutes useable. The impact upon tenancy agreements will be to make "core" parts prescribed by statute in standardised and easily understood terms which reflect the purpose of the underpinning legislation (the Housing Acts). Ambassadors' draft tenancy agreement can be found on our new website, so there is already plenty of opportunity for both tenants and landlords to scrutinise the "core" elements, before there is any signing on the dotted line.

The Association of Residential Letting Agents

As you are probably already aware, Ambassador is a member of ARLA (and of the Royal Institution of Chartered Surveyors). It may well be of interest to our clients that their June magazine had a section headed "Throttled by Red Tape?" There is an element of preaching to the converted in it, but we would like to take the opportunity to remind our clients that in providing a professional service, we are obliged to ensure that all the "Red Tape" is taken seriously, and that as it increases, so does the level of service that we need to provide. The "Red Tape" includes: FSA Insurance regulations; Part P of the Building Regulations (Electrical Safety in Dwellings); The Furniture & Fire Regulations; The CORGI Gas Safety Regulations; Housing Act 2004 Houses in Multiple Occupation (HMOs); Condensing Boilers Pt L1 Building Regulations; Stamp Duty Land Tax; Disability Discrimination Act 2005;

Residential

Letting & Management

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Survey & Valuation

Consultation



Chartered Surveyors



Association of Residential Letting Agents

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Housing Act 2004 Tenancy Deposit Scheme. Some of these are already in place and others are scheduled to become enforceable within the next twelve months or so. Penalties for not complying with some of these regulations are severe, which include heavy fines and imprisonment.

Interest Rates & Property Values

The base rate has remained at 4.75% since Summer of last year. The majority of commentators are now forecasting that the next movement will be downwards, as retail consumption figures show significant downturns in much of the retail sector. Already, the annual reports and forecasted reports of some building companies have been unfavourable. The RICS survey of both residential sale values and market activity have been mostly downwards over 2005 to date. We also believe that the next movement of the base interest rate will be downwards; the uncertain element being "when" not "if".

"A" Day

There are mixed messages coming from commentators on the impact of the new Private Pensions Legislation from 6 April 2006. In simple terms, from this date, private individuals, through a Self Invested Pension Plan Scheme, may invest up to 100% of their annual income (max £215,000) in residential properties (and other new asset classes such as antiques, vintage cars & holiday homes). Furthermore, up to an extra 50% of their fund may be supplemented by a tax free repayment loan. Thus, in the case of a £215,00 fund a further 50% or £107,500 may be borrowed, totalling a fund value of £322,500. This is enough to buy two good quality residential investments in Cambridge per annum, producing a gross rental yield in excess of 5% pa, plus any capital gain (albeit not much expected in the short term). Of course, for the higher rate tax payer, there is the immediate advantage of a 40% discount on capital invested, plus a tax free repayment of any mortgage and/or tax free rental income. Some commentators have

suggested that there could be an extra £10B being inserted into the residential property market from 6 April 2006. However, we think it impractical that everyone will have a SIPP in place on or before that date. Conversely, those that do, will probably be able to take advantage of their purchasing power to best effect. If any of our clients wish to pursue this further, please contact Graham Clarke for more information.

Financing Residential Property

For those that currently have Buy-to-Let mortgages on their rental properties, it is becoming ever more important that these are reviewed on a regular basis. With lenders competing hard for business, interest rates are beginning to fall to exceptionally competitive levels, and if you have not reviewed your mortgage arrangements recently, especially if they are no longer attracting their initial discounts, it is prudent to review these now. The saving could amount to well over £1,000 p.a saved in interest charges. Andrew Bentley, of MPI Direct, our recommended independent mortgage broker, can review your current and any future arrangement, and he can be contacted direct on 01638 717828.

Forecast for the remainder of 2005

It is anticipated that interest rates will soon start to fall again and consumers will continue to tighten their belts leading up to Christmas & New Year. The residential property sector may be expected to continue in its current state, with sales volumes and values both being down on last year. Lettings will continue to pick up with both demand and values increasing, but not at a hectic rate. Tenants will continue to expect good value for money, as supply may be expected to increase resulting from unsuccessful sales ending up in the letting market, until the sales market picks up (in Spring 2006?).

This newsletter has been prepared from a combination of Ambassador's experience in the Cambridge market place and information in the public domain. However, no responsibility can be accepted for any errors or omissions in this newsletter.