FAMILY OFFICES

CONSOLIDATING PROPERTY PORTFOLIOS

By Jo Eccles

The property market has presented multiple challenges to buyers and landlords throughout 2023. Increasing mortgage costs and falling confidence in the wider economy has prompted buyers and sellers to sit on the side lines until the outlook improves, whilst many landlords have had to contend with falling returns and rising costs.

The sales market has been very discretionary, particularly in the prime and super prime price brackets where many sellers own their properties outright with no borrowing and are relatively insulated from rising interest rates. This has resulted in fewer forced sales than might be expected elsewhere. In H1 this year, 71% of prime central London transactions were bought entirely with cash, compared to 60% in the same period last year - and among our own clients the cash/mortgage split is around 50/50.

Since the start of the year, there has been a stand-off between the price buyers are willing to pay and what sellers will accept, which has reduced the number of transactions as a result. With careful searching and tact, genuine sellers and good purchase opportunities do exist, but they require a strategic and considered approach.

Family offices are assessing their portfolios

Whilst more turbulent market conditions will always present some good buying opportunities, they have been relatively few and far between in prime central London. Portfolio landlords, including family offices, have spent this year in consolidation mode, undertaking thorough reviews of their portfolios with a view to selling off underperforming assets and boosting their cash reserves to help service higher interest rates on the assets they plan to keep long term.

Many highly leveraged landlords are coming under serious cost pressures as their fixed rate mortgage deals come to an end, and stress testing by lenders mean some landlords are finding they can borrow 30% less than previously, forcing them to make up the shortfall or sell. We are seeing very few new buy to let purchases. Yields in prime central London remain low and capital growth for mid-market flats is likely to remain limited over the next three years. Landlords can now earn higher returns on their cash, without having to invest in property or other assets. This is playing into the decisions by individual landlords and family offices to consolidate their assets and deleverage.

The importance of landlord and tenant experience

Those landlords remaining in the market for the interim or long term are focused on minimising costs and maximising net yields. As well as consolidating their assets, we have also seen a growing trend towards streamlining the running of their portfolios by replacing a multitude of different letting agents and property managers with a single firm.

Landlords are having to be much more mindful of tenant experience, which is crucial for keeping good tenants for the long term and achieving rent increases of 15% or more, which is the average we have been securing for our landlords at renewal.

With tenants at home more due to being based in the office less, they are increasingly demanding about maintenance, and good property manager relationships are essential to maintain goodwill and ensure the smooth running of the property. We have welcomed a number of new landlord clients to our portfolio recently who were seeking a higher quality management service under one roof, many of whom cited inexperienced property managers as the reason for the switch.

A second objective for a having single property management firm is the ability to take a holistic view of the entire portfolio, with robust data on everything from yields and performance to maintenance expenditure and rent increases. Detailed reporting helps landlords identify strengths and weaknesses within their portfolio, make decisions around the sale and acquisition of assets – and understand whether they are on track to achieve their investment goals.

What next for the autumn market?

As we head towards the winter months it's encouraging to see a step change in activity, with more buyers who have been sitting on the side-lines for most of this year, making the decision to enter the market.

Two main factors have contributed to this increase in buyer confidence. Firstly, the Bank of England's decision to maintain the base rate at 5.25%, indicating that interest rates may have peaked and could start to fall towards the end of the year. And secondly, recent reassurances from the Shadow Chancellor, Rachel Reeves, that the Labour Party will not be pursuing a Mansion Tax policy, which had been playing on the minds of buyers.

As for landlords, higher mortgage rates will continue to pose a challenge, but many are optimistic that borrowing costs may start to come down over the next few months, easing the pressure. They have also been reassured by news that the Government is scrapping net zero targets that would have required them to upgrade to an EPC 'C' by 2028. While few had already invested in making the required upgrades, the rule change has given landlords some welcome breathing space.

For those that have made the decision to remain in the market, rents are at record highs and landlords who are focused on delivering an excellent property management experience and securing high quality tenants for the long term, will find themselves in a stronger position heading into 2024.

Jo Eccles is the Founder and Managing Director of prime central London buying agent, Eccord. In addition to property search and acquisition, Eccord also manages a £1.5 billion portfolio of residential property for landlords, family offices and prime homeowners.

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