Capital of Cash?

The worldwide economic crisis isn't necessarily a disaster if you've squirreled away some money. So for many of our readers – this could be a fabulous opportunity to invest in London property that you once deemed too expensive. Jeremy McGivern, MD of Mercury Homesearch gives Confidential readers a guide to buying property during a recession.

Before one attempts to buy a luxury property in prime central London, there are some fundamental rules that should be adhered to avoid making any catastrophic mistakes.

If I can take you back to 1993, the depth of the last recession and housing crash was, in hindsight, a great time to invest in property. At the time anyone who bought property was regarded as insane. However, the contrarians proved to be not only sane, but exceptionally shrewd.

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Consequently, the number one question we are asked at the moment is "When will the market bottom?" or "Is now a good time to buy?"

Asking these questions is missing the point. Those who bought in 1993 did not know it was the bottom of the market and probably still don't - let me explain.

We are swamped in property statistics. One day Nationwide will be releasing its figures, the next Halifax, then the Land Registry, Rightmove etc. The one constant with these figures is that they never agree and these figures are for properties that have sold! They cannot accurately tell you what has happened so why rely on them for predictions? At best they will show you a general trend. To paraphrase Sir Winston Churchill – the only statistics you can trust are the ones you make up yourself.

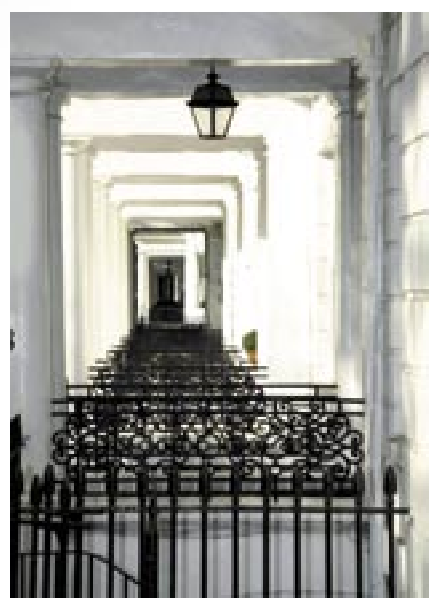
Quite simply you cannot know if you are buying at the bottom of the market and don't try to. Instead you need to find individual bargains. The market will not decide if a property has to be sold cheaply...the owner will. The secret of buying well is to find the owners who have to sell their properties for a discount – for whatever reason.

So how can you be sure that the market is not about to plummet?

There is no way, but you can protect yourself from this. For example, the general consensus is that the market in Prime Central London has fallen between 13% and 25% (I told you the stats never agreed). Some "experts" are opining that now could be a window of opportunity as the market only has 10% further to fall. How they know this I have no idea. Listening to these people will prove to be extremely costly as the advice is far too general. You need to focus on what suits your purchasing criteria – whether you are buying a home, a pied-a-terre or an investment.

The biggest mistake buyers make is thinking that a property is a bargain just because it is trading at a discount to the peak of the market.

There is a simple way of telling whether a property is expensive – is it cheaper to rent or to buy? I was recently emailed a property's details by an agent. The header



was "Investment Bargain". The property had been reduced from £950k to £850k and I was told the vendor would sell it to me for £750k and added that it could be rented out for £2500 per month.

Now a 23% reduction seems like a bargain. It isn't.

Assuming I had put down a 20% deposit of £150k and borrowed £600k at 5% my mortgage costs would have been £30k per annum. The rent received would have been £30,000. However, I would be losing out on interest on my deposit if it was in a savings account (£150k at 4% = 6%). So effectively I would have been subsidising a tenant to the tune of £6000. By the way these figures are being generous – I haven't taken into account letting agent's fees at 13%. Maintenance costs. Void periods, i.e. weeks when the property is not rented – one should allow for at least 10% of the year. Not to mention transaction costs including Stamp Duty Land Tax of 4% or £30,000. There is also the small matter that rents are currently falling at a rapid rate.

This is the simplest method of judging if a property is overpriced. Currently the majority of properties are much cheaper to rent than to buy therefore the market is overpriced. However, there are bargains out there.

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How can you find the real bargains in your criteria?

Most people are amazed when they hear about the bargains people buy. Sometimes a buyer is just lucky but more often than not, the buyer has made sure that the probability of being "lucky" is stacked in their favour. It's a numbers game -the more properties you see the more likely you can find a bargain.

It is vital to have a system in place.

- You need to be in regular contact with every agent in your target area and be top of their list of people to call.
- Scour the auction houses but make sure you understand the process or you could make a dreadful mistake. I have seen a husband and wife bid each other up£100k by mistake.
- Advertise in suitable Publications.
- Mail owners directly.

Spread your net as wide as possible. A typical ratio is 100:10:1 - look at 100 properties, bid on 10, buy 1. It can be a lot of work but the reward will be worthwhile.

Remember a property only becomes a bargain when the owner decides to sell at a low price. The secret is to find owners who are keen to sell. Why would someone sell at a bargain price? People sell at a bargain price because they may need cash quickly, or simply don't have time to run the property. One man once sold a house to spite other members of his family. Never underestimate why people sell cheaply – just accept they do.

How to use the recession to negotiate successfully –

There are some basic rules which will help you succeed in your negotiations:

Information is key to success – the more you have about the house, the seller and the market conditions the more successful you will be. Knowing that the owner needs to sell and why puts you in a strong position.

Establish what is the most you are willing to pay? This figure is sacrosanct and you must never go above this figure.

Increase your offer in decreasing increments – For example - £3m, £3.5m, £3.75m, £3.85m.

Be patient – do not increase your offer immediately, the next day or even the next month.

Never offer the asking price even if it is a bargain – it is possible that your first offer will be accepted or the owner may think it is underpriced and ask for a higher bid.

Always make the other side aware that you can walk away from this potential deal if you do not get the terms you want. If they need to sell they will be scared to lose you as a buyer.

Let the other side think they have won – make a small concession near the final negotiation. If they think they have won a victory they will more likely accept a low offer and honour the deal

The Simple Mistake Most Buyers Make:

Never be afraid of making a low offer. How can you possibly know what they will say unless you ask?

Some people don't want to appear stupid or be embarrassed to put in low offers – the worst they can say is no and ask them to make a counter offer. Remember that your opening offer is the beginning of the negotiation and you don't want it accepted. If they do you have bid too much!

Also do not feel that you can only bid on one property at a time so bid on as many as you like. The vendors will be allowing other people to view their property while you are bidding, so you are entitled to bid on other properties while they are considering your offer. Let them know that too ■

If you would like further information please call Mercury Homesearch on +44 (0) 800 389 4280 or visit a website we have constructed for readers of Bahrain Confidential – londonpropertyexpert.co.uk