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From The Property Pulpit

st david GROUP

Does older mean better, worse or just the same?

A point of view

In this edition

The bank of mum and dad
Majestic Victoria
Hot off the press
Around the globe
HMO
Did you know?
Something different

Majestic by st david
Character properties with classic designs

One of the advantages of no longer being in the prime of one's youth is that you are allowed to sit back and contemplate some of life's bigger issues with a sense of perspective. Take for example, getting older. Does being older mean that you feel less robust, physically fit, mentally agile or dare I say it, appealing? Do you feel better or worse about yourself or does it makes absolutely no difference? Can you still work hard (if you want to) and enjoy life and are you still 'fit for purpose'? I suppose it all comes down to the individual and how they perceive themselves and others who are 'older'. The reality is that most older people are essentially little different to when they were younger, even if their appearance isn't quite the same. Importantly, if they can still do the things in life they want to, does their age really matter?

The above may seem an unusual introduction to a property newsletter, but the same argument applies to 'older' properties. If a property has come to the end of its lifespan and needs to be demolished, then so be it. Poor quality, potentially dangerous properties will always be replaced and that is the way it should be. But if a property is structurally sound and 'fit for purpose', it can still serve as a home for future generations to come. Why not refurbish it and preserve its character for others to enjoy? It may need extensive work to bring it up to standard, but the right 'older' building will almost certainly be as good, if not better, than most modern new builds. The expression 'they don't build them like that anymore' has never been more true.

Of course, you can't simply add a new coat of paint and expect to extend the life of a property. It will probably need new plumbing, wiring, kitchen, bathrooms, wall and floor surfaces, landscaping, even a new roof; a complete 'make-over' rather than a cosmetic change. If this is done properly, it will stand the test of time. As for appeal— I live in a 'character' house that was built around 1830, almost 200 years ago. It is structurally sound and, with its recent high quality refurbishment, I fully expect it to last another 200 years.

I have always enjoyed taking established properties and giving them a new lease of life. I really like seeing the 'before and after' and it appeals to my sense of history. Great architecture will always be great architecture and whether it is a converted industrial mill or warehouse, a large red brick mansion or simply a small mews house, it never goes out of fashion and time simply enhances its appeal.

Naturally, not everyone is drawn to traditional, character UK properties with classic designs, period features, high ceilings etc. As you would expect, many of our clients prefer modern, new builds with lots of glass, marble and open spaces. Fortunately, there are lots of people in the UK who are attracted to character properties, whether as tenants or owner-occupiers. One of our challenges is finding the right buildings—there numerous older buildings in the UK, but there aren't that many in the right location that have the character and classic design to be a wonderful home for years to come.

Whilst it is easy to fall in love with the concept of character houses, at the end of the day we view property as an investment so the five rights of property investment have to apply — *Invest in the right property in the right location at the right time for the right price from the right developer/adviser*. It doesn't mention the right age, because we don't believe it is an important factor with the right property.

As I tell my wife, I don't feel better or worse than when I was younger (apart from the occasional ache and pain) and I am definitely more appealing now — she plays along and tells me I am not old, I am just older, a bit like the character properties we refurbish. Ah, the joy of being able to contemplate life's bigger issues with a sense of humour. I do so envy her sometimes.

Tony Davies Managing Director

Don’t worry, you are not the only mum and dad who have been asked for a loan

My mum and dad were not rich and never earned enough money from their day jobs to remotely contemplate helping me get me on the property ladder, as much as they would have liked to. I wasn’t the only one either. Back in those days, (yes admittedly it was some time ago, but it wasn’t that long ago) most people were able to save the deposit themselves, proudly went to their friendly bank manager and submitted to the joy of years of monthly instalments to pay off their mortgage. As house prices have risen, how times have changed.

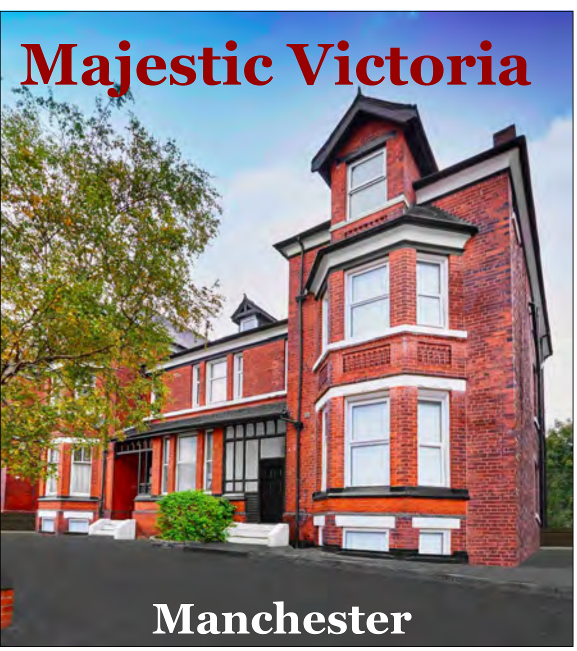
According to one of the leading insurers in the UK, Legal and General, (and I have no reason to doubt it is correct), an estimated 315,000 Brits will be asking the ‘Bank of Mum and Dad’ for a loan this year to buy a property. That is one in every four transactions. Apparently, parents will contribute £5.7 billion this year to help their adult children to buy and that cash will fund almost £82 billion of property purchases. That is a lot of property.

Perhaps not surprisingly in view of the capital’s higher property values, parents in London contributed the most at £31,000 per transaction with 41% of buyers needing help. Contributions are the lowest in Scotland, at an average £11,000 (no comments please). Unfortunately, the position is not likely to improve any time soon as the ongoing housing shortage shows no signs of abating. Whilst prices in London are falling, they are rising in the midlands and the north of the country putting more strain on young buyers.

This situation is not a one-off phenomenon, with £6.5 billion being contributed last year and £5 billion in 2016 and is unlikely to change in the near future. The insurer’s CEO summed it up when he said “The fact that in 2018 one in four housing transactions will be dependent on the Bank of Mum and Dad, while hard-pressed parents are finding it more difficult to provide the funds to help their family with deposits, will further exacerbate the UK’s housing crisis. Bank of Mum and Dad funding is a vital plank in the housing market, but this year the supply of funds is being squeezed. This is not a positive trend, nor is it sustainable or fair for our parents and young people.”

So, what should be done? Well, one suggestion is to elect politicians that will address the ongoing housing crisis and effect real change. Perhaps more realistically, when tucking little Johnny or Mary up in bed with their teddy bears, parents should put their spare coins in a little piggy bank on their bedside table marked ‘House deposit’. Every little bit will help when the time comes.

A quality opportunity



We are on site this month and so it is hard hats on, tools at the ready and full steam ahead with our latest development!

11 studio and 7 one bedroom apartments ; Character building Classic designs - period features ; 999 year leases ; Anticipated completion - Q4 2018 ; Good residential area - tree lined street comprising quality homes ; Walking distance to Metrolink, bus and train stations ; Close to shops, restaurants etc ; Strong rental demand and capital growth prospects ; 6% p.a. interest on funds held prior to completion6% p.a. net rental guarantee for 2 years ; £5,000 Rental Bond per unit to support the guarantee ; Unit price - from £105,000 ; Syndicate opportunity from £30,000

Delivering the promise

For further information please contact us

Hot off the press

The owner of the property website **Zoopla** has agreed for it to be sold for £2.2 billion to the American private equity fund Silver Lake. Its chief executive Alex Chesterman is in line for an £83 million payout. ZPG was founded in 2007 and operates a number of property websites and data firms alongside Zoopla, having gone on a buying spree in recent years. These include the property portal Primelocation, the comparison websites Uswitch, Money and Hometrack, a provider of residential property market insights and analytics. *A big pay day indeed.*

Siobhain McDonagh, the Labour MP for Mitcham and Morden, is calling for greenbelt rules to be relaxed to allow building on these sites. "In the hearts of our towns and cities and close to public transport, scrubland, rubbish tips and car washes are inappropriately designated as greenbelt land. It's time to burst the myth that all green belt is green and use it for the homes our children so desperately need," she said. *The Conservative Party and vested interests will not allow this to happen.*

Recent official figures from the Office for National Statistics and Land Registry revealed **house prices in London fell** on an annual basis in February for the first time since 2009. Halifax, the mortgage provider, said the fall continued into April after its mortgage index reported the sharpest monthly fall in British house prices since 2010. Analysts say that prices have reached the peak of affordability in areas such as London and the South East under current mortgage lending rules, while foreigners and landlords have been deterred by Brexit uncertainty and extra property taxes. London is seen as more vulnerable to rises in interest rates as people borrow more to buy there. *This comes as no surprise.*

The **number of properties available to rent** in the first three months of this year was down 29% in much of London compared with a year ago. A survey of estate agencies by LonRes, the data network, found that 40% reported an increase in the number of landlords selling. Hamptons says that in April 15.3 % of British property sales were by landlords, 19.7% of these in London, and that the balance of landlords' buying and selling activity left Britain with 3,800 fewer rental homes. *A shortage of properties to rent means more problems for many potential tenants.*

No press awards so far, but comments from people who have read our MD's novel include '**It's a cracking good read**' and 'it's as good as the other rubbish you buy at airports', which came from his 'friend' and 'Best Man'. You can buy it on Amazon or direct from us, with all proceeds going to building water wells and houses for poverty stricken families in Cambodia. So far we have raised over US$25,000 for this worthwhile cause, but not through book sales, so dig deep and enjoy a great summer read. *With your support we can get the sales into double figures before the end of summer!* 😢

Around the globe

North Korea

Mainland Chinese investors have recently been making forays into many of the world's leading property markets. These include London and New York where large residential sites and commercial properties have been snapped up despite a mini clamp down on overseas investment by the Chinese central government. News out of China is that North Korea is suddenly experiencing a surge of interest from its northern neighbor as Kim Jong-un takes tentative steps towards rapprochement with the west. The words 'foolhardy', 'brave' and 'insightful' may spring to mind, but perhaps they know something the rest of us don't.

Kim Jong-un has recently visited President Xi in Beijing and took part in the historic summit with President Moon of South Korea. His proposed meeting with President Trump's created headlines throughout the world when it was first announced. Assuming real progress is made in the coming months there is every likelihood that over the medium term the country will open itself up to the outside world. That is what the buyers in China are expecting, or at least hoping for. Estate agents there are reporting an immediate response to these developments, with one, Uoolu.com, receiving so many queries about North Korea property that it rushed out a hastily assembled guide for potential buyers..

The guide advises that in the North's isolated economy, property is distributed by the state. However, it also advises that unofficial sales do take place. A desirable villa in Pyongyang is apparently worth about £150,000 and Sinuiju, a North Korean city near Dandong, was identified as a hotspot for black-market real estate deals, with family-sized apartments valued at up to £52,000. It appears that house prices in Dandong, the Chinese city bordering the North, also jumped by as much as 50% after the Kim-Xi summit.

North Korea is desperately in need of foreign investment and selling off real estate to overseas investors could be a way of attracting it. There are a few hurdles to overcome first though; Kim's regime has banned foreign investment in property; the country's opaque legal system where there is little, if any, legal protection for foreigners; there is virtually no expert, independent advice available. The list goes on……

Huang Xiaodan, CEO of Uoolu.com, summed it up when he said "Venturing into a new frontier requires policy support and time to cultivate the market. At the moment, we're just paying close attention to what's going on." Expect to see off-plan Pyongyang apartments being sold at inflated prices in Hong Kong within five years . Watch this space.

HMOs - a lucrative sector or a management headache?

Many investors, both in the UK and overseas, are seeking an attractive and secure income stream and with capital growth in line with the general market. One sector that meets this objective is the HMO (Houses in Multiple Occupation) category ,which has had little exposure with overseas investors.

Before we decide on the merits of a HMO let's first clarify what a HMO is: *A house in multiple occupation is a property rented out by at least 3 people who are not from 1 'household' (e.g. a family) but share facilities like the bathroom and kitchen.*

You must have a licence if you're renting out a large HMO. A property is defined as a large HMO if it's rented to 5 or more people who form more than 1 household <u>and</u> it's at least 3 storeys high <u>and</u> tenants share toilet, bathroom or kitchen facilities. The licences run for five years and are not difficult to obtain.

By definition, a HMO has to include shared facilities and most have rooms suitable for single tenants sharing both a bathroom and a kitchen. Naturally, many people will view a fully self contained apartment as offering a better living environment, but it all comes down to cost. With the high cost of rented accommodation in many parts of the UK many younger people and people looking for short term accommodation, are quite happy to share a bathroom and will make only sporadic use of the communal kitchen and lounge.

HMOs are very popular throughout the UK , with the majority being converted houses and are not licensed as they are not big enough to qualify as a 'large HMO'. Numerous landlords have benefitted financially from converting to a HMO and reducing the rent and increasing the number of tenants. However, many investors have historically viewed the sector with suspicion, fearing that lower rent levels means lower quality tenants and management headaches. This view is changing as more professional landlords have entered the market and standards have dramatically improved. Many smaller HMOs are run by mom and pop landlords who do their own letting and management in an effort to maximize their rental income. Typical high street lettings agents are not necessarily geared up to handle multiple tenants in a property so care must be taken when appointing an agent.

Every tenanted property is susceptible to management problems and lower rental levels do not automatically mean poor quality tenants who will not look after the property. Most management problems can be avoided by correct initial vetting of the tenant and imposing firm management rules from the outset. Maintenance costs need not be higher than standard properties and tenants should still enter into satisfactory rental deposit arrangements. However, an increased wear and tear allowance may need to be factored in if there is a high number or turnover of tenants. Regular professional communal cleaning is highly recommended if the right type of tenant is be retained there, although these costs are more than offset by the enhanced rent. Points to consider:

- HMOs are all about enhanced net rental income and capital growth in line with the general market.
- With the right property manager, an overseas investor should not be involved in any of the day to day issues involved in letting or managing the property. It should be trouble-free and profitable.
- This not a property you are going to live in and therefore personal preferences over style, layout etc should play a far lower role than if you were investing in a future home or even a standard rental investment.
- There is an established and active secondary market for HMOs, with many of the properties having the option of being converted back to family homes if required.

As you would expect, prices vary from under £200,000 and go beyond £1m depending on the location and size/quality of the property. The net rental yield (after all costs) will accordingly vary from 5% to 10% p.a. Beware of agents offering HMOs for sale that provide broad rental figures only. All costs should be factored in during the due diligence phase to ensure an accurate net figure is projected.

The obvious ways an investor can access this sector are by acquiring;

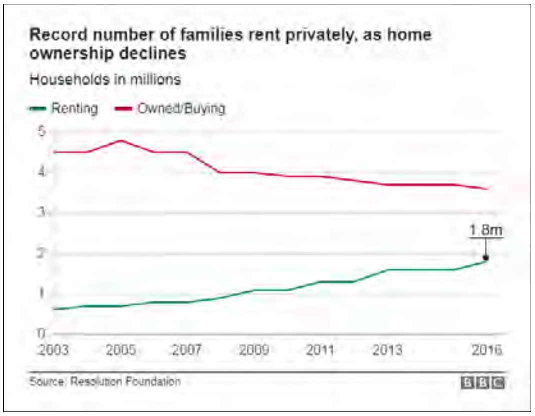
1. An existing HMO in good condition with tenants in place and an established rental yield
2. A run down HMO that needs internal upgrading, resulting in an enhanced rental level
3. An established house which can be converted to a HMO

As a development and investment group, which also offers a professional and comprehensive letting and management service, we are able to assist our clients to invest in the HMO sector. For further information please contact us.

Did you know?

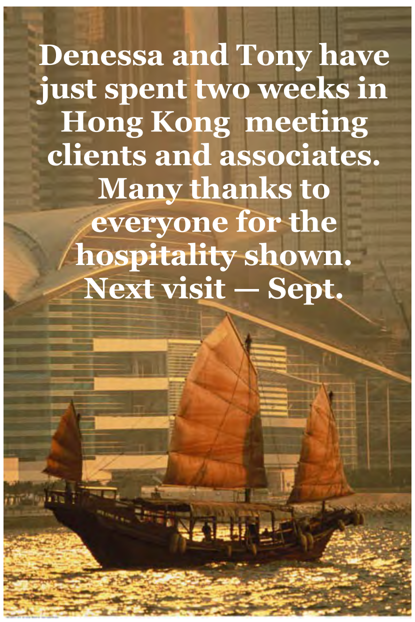
The Royal Town Planning Institute analysed the location of 220,000 homes given planning permission between 2012 and 2017 in 12 fast-growing cities and towns: Cambridge, Brighton, Oxford, Bournemouth, Bristol, Plymouth, Coventry, Nottingham, Newcastle, Blackburn, Warrington and Leeds. The analysis, which focused on developments of at least 50 homes, found that 52% were more than 2km from railway stations. Only a fifth were within 800 metres, or ten minutes' walk, of a station. In Oxford only 2% were within 800 metres of a station. People might want convenience, but at the end of the day it is down to affordability.

The proportion of 35 to 54-year-olds who live as private tenants has nearly doubled in 10 years since 2006-07,



Middle-aged renters today are expected to retire on an average income of about £200 a week but the average rent in England and Wales is already almost £900 a month, leaving taxpayers with no option but to cover housing costs. About a quarter of private renters already receive housing benefit. Scottish Widows projects that one in eight pensioners will be renting by 2032 — treble today's figure.

The average rent in the UK in April was £918 a month, 1.5% higher than a year ago. Rents in London have increased 4.5% to £1,588 a month, making the capital the most expensive place in the UK to rent, according to the latest rental index from Homelet, an insurer. Rents are cheapest in the northeast of England at £523 a month, slightly lower than a year ago.



And now for something a little different……

It is summer again! If you are going to be in London and would like to join us on the balcony for a coffee (or something stronger) to talk about property, please let us know. We promise it won't rain that day and you will receive a warm welcome.

Facebook re-launch coming up and now on Linkedin!

From the office

Mina and Tara are having driving lessons! Good luck ladies, we are sure you will pass first time.
It must be something in the water which has created this driving urge as Denessa, who has not driven for over 10 years, has finally decided to get a UK licence. She will now become the chauffeur instead of being chauffeured and the MD awaits in eager anticipation (or is it trepidation?).

If you have read this far.....

We hope you have enjoyed reading *From the Property Pulpit.*

If you have any feedback from us re content or format please let us know. We want to make it an enjoyable and informative read and all suggestions will be gratefully received.

If you know anyone who might be interested in reading it, please forward it to them or forward us their email address.

Your support would be greatly appreciated.

A thought from the Property Pulpit

A truly great book should be read in youth, again in maturity and once more in old age, as a fine building should be seen by morning light, at noon and by moonlight.
(and preserved for future generations to enjoy)

Robertson Davies

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This newsletter is not an invitation to the general public to invest in a St David private syndicate. For further information on our activities and how you can become a client please contact us.

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