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From The Property Pulpit

In this edition

Tweaking your strategy to suit the times

We set up our operation many years ago and over the years we have seen many changes. The introduction of the internet, mobile phones and emails, amongst other things, have revolutionized the way we run our business and the way we communicate with our clients. Whilst our operation has evolved over time, the approach most investors adopt to property investment hasn't. For the UK , perhaps it is time that it did.

When we set out in 1992 we were all much younger and the emphasis for most of our clients was on capital growth. Buy something that you thought would go up in value and then sit back and let the market do the rest. Rental income was only to pay off the mortgage as most were employed in HK and didn't need the income to support their lifestyle.

Fast forward to today and it is clearly evident that London, most investors' preferred location, is not the place to invest if you are seeking short term (3 year) capital gains. So should investors stick to the same strategy they have previously adopted and perhaps look at another location or change or 'tweak' their strategy? Is it time to focus primarily on income so that acceptable returns can be enjoyed even if the capital gain is restrained compared to the last few years?

Some may see this as shooting myself in the foot, but given Brexit and uncertainties over the economy, no location in the UK is going to see exceptional capital growth in the next few years. Whilst the best prospects are now in the north of the country, the reality is capital growth is going to be more restrained in the short to medium term. In some cities, for example London, it may be negligible. In others, such as Manchester, it will be much better as growing overseas demand, a shortage of housing and more affordable prices steadily force prices up. Don't be under any illusions though, despite all the hype, Manchester should be seen as a safe haven that through a combination of income and capital growth will produce returns that most investors will find attractive. It is not the next El Dorado gold mine.

In recent years we have seen many of our 'older' clients refocus their investment strategy, even if this means going a little outside their comfort zone. They see the benefit of a regular rental income stream and capital growth in line with the market rather than relying on the vagaries of rising and falling capital values and notional gains and losses. Rental yields in London are pitifully low and so they have had to look elsewhere - either another location in the UK, somewhere overseas or even a different asset class. We focus on the UK market and, despite the success of our USA commercial property syndicate (we can't currently find another with the same, secure yield), this will continue to be the case. As for other asset classes, we believe property should form part of every diversified investment portfolio and will leave others to comment on those.

For most investors, whether they are younger or older, tweaking their strategy to suit the times may be appropriate. Going outside their comfort zone, i.e. into a new location or sector, may also be needed if the combination of an attractive income stream and capital growth in line with the general market is to be achieved: for example, investing in a HMO (House in Multiple Occupation), which has not been overly popular with overseas investors and yet with the right property and the right adviser/manager (two of the five rights of property investment) the returns can both attractive and secure.

Sticking to a strategy has a lot of merit and if investors want to focus on capital growth then Manchester is the best place to invest at this time. However, we believe the right strategy for most investors at this time is to focus on getting a real 5% or 6% rental income and letting capital growth take care of itself. Whilst property should always be viewed as a medium to long term investment, there is no downside to seeing money go into your bank account every month. No matter how old you are, or your financial position, I can think of worse things.

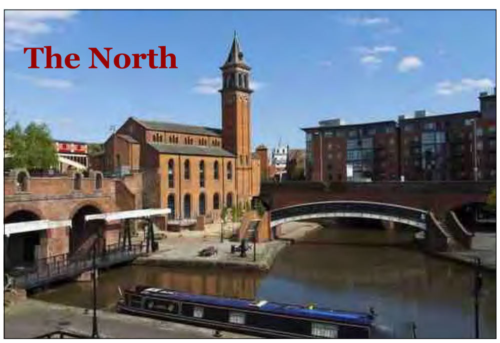
Tony Davies
Managing Director

Around the UK

Hot off the press

Between January and March, London prices fell at the fastest pace in nearly a decade, by an average of 3.2%, compared with the previous three months, according to a report by Nationwide, a mortgage lender, and IHS Markit, an economics consultancy. This comes after a price boom. In February the average house in the capital cost 59% more than before the financial crisis, according to Knight Frank. Lucian Cook, the director of residential research at Savills, says: “The London market has been more exposed to the political and economic uncertainty that has formed the backdrop to the housing market.” Cook says that the average homebuyer in London has an annual income of £73,844 and is able to borrow 4.02 times their income. With the average home in the capital costing £487,600, this puts many properties out of reach. Buy-to-let has also become less attractive after the introduction of the 3% stamp duty on second homes in 2016.

A ripple effect from London’s stagnant housing market has spread across southeast England. With prices near record highs, sellers in southern England are having to accept greater discounts on their asking prices to achieve a sale, according to research from Hometrack, a property market analyst. It found that the largest discounts in the first three months of this year were in London (4.7 %), Oxford (4.7 %) and Cambridge (3.1%). Wider discounts are also appearing in Bristol (2.4%), Portsmouth (2.9%) and Southampton (2.8%), where buyers are facing affordability pressures. Richard Donnell, the insight director at Hometrack, says: “Weak consumer confidence and modest increases in mortgage rates are affecting demand.”



The slowdown across London and the southeast is being matched by a period of fast-rising house prices across the north of England. In Manchester Hometrack found that property prices rose by an average of 7.7% in the year to April, compared with 6.3% in the previous five years. The average home in Manchester costs £161,700. In Leicester prices rose by 7.4% to £171,000, alongside Liverpool (up 6.8%) and Leeds (up 4.2 %). Lucien Cook of Savills says that the average buyer in the northwest has a household income of £41,114 and is borrowing 3.19 times their income. This puts many homes within reach of the average borrower. “**The strongest market over the next five years is going to be the northwest, and Manchester is a key part of that in terms of the strength of its local economy**,” he says. “The exception is the northeast, which is languishing and has low levels of house price growth.”

House price hotspots are appearing in the Midlands, including Nuneaton in Warwickshire, Kettering in Northamptonshire, Peterborough in Cambridgeshire, and Coventry. Data from Your Move, a property analyst, shows that property prices in the East Midlands have risen by 3.9% in the past year to an average of £214,303. This is faster than in the West Midlands, where prices grew 2.7% to an average of £222,242.

Scottish house prices are bucking any downward trends, with Edinburgh leading the way. Prices in the city have picked up, with the average property costing 6.9% more than it did a year ago. This compares to average annual growth of 4.9% over the previous five years, according to Hometrack. In Glasgow house prices have risen 3.8% in the past year to an average of £122,900.

Hot off the press

Mortgages fall

The number of mortgages approved for house purchases last month was down 4.3% compared with a year earlier as economists warn that there was still a stand-off between buyers and sellers.
Not unexpected

We must sound like a LP record! (for those that can remember them)

The number of homes that developers started building in the first three months of the year was 8% lower than a year ago, casting doubt on the government meeting its target of building 300,000 homes a year. More than 39,000 new-build homes were started in England between January and March. This was down from 42,740 homes started during the same period in 2017. It was also down 5% from 41,440 on the previous three months. Hansen Lu, an economist at Capital Economics, said: "The wider housing market slowdown has caught up with the new-build sector. We think the house building recovery has reached a hiatus." Annually, the number of homes started in the 12 months to March also fell, dipping 3% to 157,480, compared with 163,000 the year before.
Nothing changes and it won't without drastic change

They are at it again!

Purplebricks, which has no branches but offers online listings with regional agents, has been reprimanded by the advertising watchdog after misleading customers for the 11th time in three years.
It was told that it misled customers on three issues surrounding an advertisement on its website. Since 2015 the watchdog has published five rulings against **Purplebricks** and six informally resolved cases.
Shameful!

A blight on UK streets is being addressed In an era when almost everyone searches for properties online, "For Sale" signs have survived the internet revolution. But councils appear to be succeeding where digital disrupters have failed, as a growing number of local authorities look to ban the boards. Wandsworth council in London this week became the latest authority to apply to the government for powers to outlaw the "eyesore" signs. The request followed bans in other boroughs including Westminster, Kensington and Hammersmith. Lincoln, Hastings, Preston, Bath, Newcastle and Leeds have also introduced limits on how they can be used.

The boards have attracted controversy, with agents often placing them on properties that are not for sale. The signs are considered such effective advertising that some agents have even resorted to removing rivals' boards and replacing them with their own to portray themselves as the dominant player in lucrative postcodes. *It's a cut throat industry*......

To fix or not to fix. Homeowners whose fixed-rate mortgage is ending this year are being advised to act now to lock in a new deal because rates are expected to rise in the next few months. However, while borrowers have tended to flock to two-year deals, are longer fixes now the better bet?

The financial analyst Moneyfacts has said the gap between average rates for two and five year fixed-rate deals is its smallest since 2013. At present the best five-year fix costs 1.83% from Halifax, with a £1,495 fee, for borrowers with a 40% deposit. The best two-year fix, from Yorkshire building society, costs 1.31%; it has a £1,495 fee and requires a 35% deposit."This week is the time to start looking and lock in a rate," said Shaun Church of the mortgage broker Private Finance. "There have been a few red herrings about where rates are going to go, but a longer-term fix is worth considering if it fits in with your plans."You can take out a new fix six months before your current deal ends.

Those expecting to move in the next few years should watch out for early- repayment penalties, which can vary from 5% in the first year to 1% after year four. This should not be a problem if you can take the mortgage with you to a new property — although some people have been caught out by loans that were not as portable as they had anticipated.

Charlotte Nelson from Moneyfacts said "With mortgage rates still low, it is difficult for providers to swallow the increased cost by any means other than increasing the short-term rates on offer," she said.

Expectations have grown of an increase in Bank rate next month after three of the nine members of the Bank of England's rate-setting monetary policy committee argued for a rise at its last meeting on June 20. However, the Bank of England believes rates will not reach 1.5% until 2021, and has emphasised that monetary tightening will be "gradual and limited".

Jonathan Harris, director of the broker Anderson Harris, said: "If you take a two-year fix now, you may have to remortgage at a time when the base rate is higher — and five-year fixes will then be more expensive. "With two-year fixes available from 1.31%, compared with five-year fixes from 1.83%, it only needs two quarter-point increases in base rate — which is not unfeasible over the next five years — for you to be better off having opted for the longer fix."

If you require the services of a finance broker please contact us and we will refer you to an appropriate party.

Around the globe

Holiday properties in **Brittany** have been occupied by squatters who claim they cannot afford local rents, with activists promising a summer of "spectacular actions" to force second-homeowners, many of them British, to sell up and go. A group called Dispac'h, which means "revolution" in Breton, says it will launch a campaign of civil disobedience. Campaigners recently plastered stickers and posters on holiday homes around the region with the message: "Brittany is not a second home. Villages in ruins, the youth in exile."

About 14% of properties in the northwestern region are second homes, with Britons owning more than any other nationality except the French themselves. Last year 879 foreigners purchased second homes in Brittany, at an average price of €119,500. Britons formed the biggest group, ahead of Belgians and Germans.

A Dispac'h spokesman said: "Villages, emptied of their life for more than half of the year, are seeing public services disappear. The concentration of visitors during a short period requires the construction of ever more infrastructure which covers the coasts in concrete." However, the mayor of Carnac on Brittany's south coast, said: "Locals are very happy to sell their house to Parisians for a high price but then complain about not being able to house themselves. We all agree that we should lower the proportion [of second-homeowners] but you have to admit that they contribute significantly to the economic wellbeing of the town. Who spends €50,000 on a new kitchen, giving work to local builders? Wanting them to leave or taxing them would be tantamount to shooting ourselves in the foot."

John Wellman, 69, a Briton with a second home in central Brittany, said: "It would be a shame if this campaign turned into anything unpleasant, because everyone has always been very friendly towards us until now. The Brits bring a lot of things to Brittany and we really like the place because it has its own character. **It's like Cornwall with better food**." *mmmmmm*

In our June edition we included an article on **Houses in Multiple Occupation**. We have been pleasantly surprised by the positive feedback we have received and the level of interest it has generated. Over the past twenty years we have seen the requirements of many of our clients change. Initially the focus was on capital growth and as they have grown older (and wiser) the emphasis is more on rental income. A sound strategy and with the right team managing the properties, the HMO sector is ideal for this.

We are firm believers in this sector and in the coming months we will be offering our clients the opportunity to:

- Buy individual properties that can be refurbished and upgraded to quality HMOs
- Participate in a HMO private syndicate which will allow for more modest investment levels.

For security of capital with an attractive income stream - just follow the five rights of property investment.

25% of construction workers are foreign and work longer hours than Brits (and most of the Brits are getting older) - cause for concern?

More than a quarter of all construction workers in London are from the EU, according to new figures. Across Britain, 10% of the 2.2 million construction workers employed between 2014 and 2016 were non-British EU citizens or non-EU citizens. In London, 28% of workers at building sites were from the EU. Half of the 167,000 EU citizens employed in construction were from Poland and seven other east European states; a third were from Romania and Bulgaria. About 10% were Irish.

Most of the workers from Poland, Hungary, the Czech Republic, Slovakia, Slovenia, Latvia, Estonia and Lithuania were in general construction and building trades. About 12,000 were carpenters and joiners. The figures, from the Office for National Statistics show that construction workers are getting older; the number aged 45 or over rose by 13% between 1991 and 2011. However, workers moving to Britain from overseas tend to be younger than their British counterparts in the industry. 47% of British construction staff are 45 or over, compared with 18% of foreign workers.

Citizens from the EU also worked more hours per week than their British counterparts, the study said. Britons worked an average of 38 hours a week excluding overtime, compared with EU citizens who worked 41 hours. Those from outside the EU did an average of 37 hours per week.

We need to find a solution to the shortage of skilled tradesman and a lack of young people entering the industry if we are to avoid rising costs and too few houses being built. Post Brexit, increased quotas for certain workers and more apprenticeships would help. Unfortunately, other industries are also affected by the same problem and finding a solution that satisfies everyone is impossible. Interesting times ahead for the construction industry.

A tired swan or an ugly duckling?

Majestic Victoria in Manchester

As our clients and associates will know, we are refurbishing a character property in Manchester to create eighteen quality apartments. It is a total refurbishment and as you would expect, we are cracking on with the work.

When initially assessing a potential Majestic property, one of the first questions that always ask ourselves is whether it is a tired swan that can be returned to its full glory or just an ugly duckling that will always be just that. In the case of Majestic Victoria we genuinely feel it is a tired swan that we can breath new life into so that future generations can enjoy living in it. It is structurally sound and after refurbishment will long outlast us, our children, grand children and great grand children.

Of course, it is important that Majestic Victoria meets all the criteria of a great property investment - it does;

The right property in the right location at the right time for the right price from the right developer/adviser

18 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 completion
6% 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

For further information please contact us

Did you know?

It is no secret that London's prime property market has stuttered over the past three years, hit by higher stamp duty costs and uncertainty around Brexit, but new research shows that owners of **Edwardian** properties have suffered most of all. According to Savills, the estate agent, prices of Edwardian houses in the most expensive parts of London have fallen by 23.3% since their peak in 2014. The price of a **Georgian** home has fallen by 15.6%. Georgian homes fare better, according to Jonathan Hewlett, Savills' head of prime London, who said "Georgian and Victorian architecture would be considered more handsome. With Georgian homes in particular there's also a rarity factor that people are prepared to pay a premium for." *They are quite different.*

Edwardian Architecture (1901 to 1918) extending beyond the reign of Kind Edward VII, the Edwardian era of architecture was a period of revivalism influenced especially by the Baroque, Georgian and the Arts and Crafts movements.

The **Georgian** period spans from 1714 to 1830, when four successive Kings on the throne had that name, going from George I to George IV. The term is occasionally used to refer to buildings built in the reign of King William, Queen Victoria's uncle, who ruled until 1837.

Think of Ali v Frazier, Borg v McEnroe, Federer v Nadal. It all started over ten years ago when Mike Ellis, who oversees the Legal and Corporate Affairs aspects of our operation, started playing golf. Over a second bottle of red wine our MD made the infamous comment "Yes, but I am a golfer, you are not' to explain away Mike's very high score (even for him). That started an intense rivalry that sees the **Ellis Davies Trophy** being fought for on several occasions every year. This year's summer event had lots of tension, lost golf balls and shouts of 'fore'! Sadly, not a lot of great golf, but a bit of male bonding is supposed to be good for you. Yes, you guessed it (since the MD is the author of the Pulpit) the trophy still sits proudly on his desk. Would he have mentioned it if he had lost?

And now for something a little lighter ...

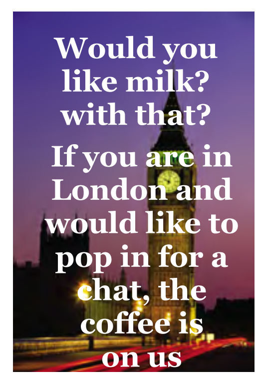
A thought from the Property Pulpit

When it come to investing in property:

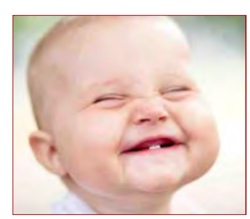
"Twenty years from now you will be more disappointed by the things that you didn't do than by the ones you did do."
— Mark Twain

Much to everyone's relief Tara has passed the written component of her driving test. Now comes the hard part - driving the car. Come on Tara, you can do it!

Denessa Chan, our Property Management Director, assures us this is the case.



The articles and comments contained herein reflect the personal views of the author (our MD) and are intended to be accurate, informative and occasionally amusing. No offence is intended to any party (Honestly, I promise!).



If you have any feedback for us re content or format please let us know. All suggestions will be gratefully received (another promise, but also a sincere one!).

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

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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