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From The Property Pulpit

A point of view

We have recently extolled the virtues of investing in the 'not so grimy North'. To call it that nowadays is extremely unfair as many parts of the region have come on leaps and bounds since I was a young man. Gone are the days of smoke stacks and rows of terraced houses and industrial buildings (perhaps it was never that bad, it was just how 'southerners' saw it), to be gradually replaced by modern residential and commercial developments.

Of all the northern cities, Manchester has probably seen the greatest regeneration over the past twenty years. Salford Quays, Media City and Deansgate are examples of a forward looking city that has enjoyed considerable infrastructure investment. Five years ago, any mention of investing there we would have drawn blank expressions— it wasn't on the investment radar for most people. How times have changed! The clamor by the big estate agents to secure projects for their exhibitions is testament to the demand from investors. Sales of London properties have plummeted at these events and the agents are rubbing their hands in glee at the speed with which that market is being replaced by Manchester.

So what is driving the demand? Affordability is a key issue. Manchester is a major city and is regarded as the capital of the 'Northern powerhouse'. Yet prices are substantially lower than in London making them much more affordable for both investors and owner– occupiers. This means the market there is both an international and a domestic one, whereas London prices have made it almost exclusively the domain of investors and the wealthy. Research compiled by JLL suggests that the average price of a one-bedroom flat in prime areas of Manchester is about £160,000 compared with the £650,000 average for a one-bedroom flat in central London. As Stephen Hogg of JLL, says: "Manchester is attracting and retaining more graduates, young professionals and direct investment — last year 47 companies either set up and created jobs [in the city] or expanded their existing operations, all of which is contributing to demand for city-centre living."

Another issue is price growth. London prices have stagnated and price growth is expected to be minimal at best over the next few years. Compare that with Manchester, where new figures from Hometrack, the residential analyst, reveal that prices rose by 7.3% in the year to August to an average of £158,000. This was the fastest pace of any city in the UK. Richard Donnell of Hometrack said: "Demand is more balanced in places like Manchester and Birmingham compared with London. The capital's price growth can run at 15 to 20% for a couple of years, as you also have lots of buy-to-let investors and overseas investors. Birmingham and Manchester are all about domestic demand, so it's much less volatile than London."

The 'elephant in the room' for many investors is Brexit and its affect on the UK economy and its property market. It is certainly expected to have an impact on the London financial services sector with companies relocating to Europe and immigration restrictions likely to be imposed. Many industries are dominated by overseas workers (when was the last time you saw a native English speaking waitress in London?) and one of the adverse effects will be a fall in rental demand.

In Manchester it is a very different situation. The city has fewer financial services companies catering to international investment and far less transient overseas workers. Rental demand is growing as people are drawn to the city and prices are moving forward. Of course, there are uncertainties over Brexit, but fortune favours the brave. In this case, investors don't have to be particularly brave, this is not an emerging market that offers high risk with little protection for overseas investors. This is the UK's second most important city (sorry Birmingham, you are only third) and over the medium term it is likely to be a much more stable and profitable market than London. It ticks the boxes in terms of *the five rights of property investment*:

Invest in the right property ***in the right location*** ***at the right time*** *for the right price using the right adviser*

Tony Davies
Managing Director

In this edition

Majestic Victoria

We will shortly be launching our new Manchester project. The character property is in a sought after location and will be extensively refurbished and modernized. It will comprise 10 self contained studio units and 6 one bed room apartments. For further information please contact us.

Hot off the press

It's about square footage, not rooms Benjamin Franklin once declared: "In this world, nothing can be said to be certain, except death and taxes." Today he might add to that the ever-shrinking size of our homes. As property prices remain beyond the reach of many would-be homeowners, research carried out for The Times by Hampton's International shows how small our houses are compared with the average Victorian property. The average detached house, has shrunk by 30% from 2,365 sq ft in the Victorian era to 1,665 sq ft today. The reduced sizes mean you should stop viewing a home by the number of bedrooms, which experts say is a wasteful measurement, and assess its value by its square footage, to make sure that every bit counts. "A one-bedroom flat can be 300 sq ft or 1,300 sq ft and come in many shapes and sizes, so it doesn't make sense to lump them into the same category," says Marcus Dixon, the head of research at LonRes, the property data agency. "It's about how inventive you are with the space you have rather than the number of bedrooms." *We couldn't agree more, which is why we launched our Majestic by St David brand.*

The rapid rise in the number of people renting their homes has led to a big payday for private landlords and a growing division between those who own their own property and those who do not. Private landlords earned a total of £54bn in the year to June from their tenants, according to research from Savills. That is twice the total amount of interest that home owners paid on their mortgages. It is also £5 bn more than Revenue & Customs received in corporation tax. More people have been locked into renting later in life as they are priced out of buying a home, with the supply of new properties failing to match demand. About 5.3m households live in privately rented homes. A report from the government in March found that those aged between 25 and 34 were still the largest group, at 1.5m, but the number of people aged between 35 and 44 living in the private rented sector in England had surpassed a million for the first time in decades. Lucian Cook, director of residential research at Savills said: "This shows the very high levels of renting amongst the young generation and the difficulties which people face saving up for a deposit and getting on the housing ladder." *A sad state of affairs, but not for landlords.*

Landlords who have already been hit with higher taxes may now face even tougher times. New mortgage regulations ordered by the Bank of England, must come into force in October and apply to portfolio landlords with four or more properties. The new affordability assessments will take into account borrowers' costs including tax liabilities, personal income and possible future interest-rate increases. This means that when a portfolio landlord applies for a mortgage the lender will have to consider their entire portfolio, its income and any debt. They will then judge whether the entire "business" is successful and if some properties are not performing well, the landlord may be refused a loan. *We believe this is likely to increase demand from investors for smaller, less expensive units in the right rental locations.*

Character properties in London sell for a record price Two flats in Knightsbridge have been sold for a total of £25m, the highest price paid for apartments in the exclusive London neighbourhood in the past two years. An Omani sheikh will move his family into the £17m flat in Cadogan Square and will house his servants in the £8m flat in Parkside. The new owner, who has not been identified, had stipulated that both properties, housed in grand period buildings, should be within a ten-minute walk of Harrods and Hyde Park. *If you have the money……*

Berkeley Group's two most senior bosses recently cashed in £40m of shares, immediately after the upmarket housebuilder had faced down a shareholder rebellion over its "grossly excessive" pay deals for executives. Tony Pidgley, the group's founder and chairman, sold £26.8m worth of shares and the wife of the group's chief executive Rob Perrins sold shares worth £17.8m. As for salaries, six executives were paid a combined £92m for the past year, mostly in long-term share bonuses. Mr Pidgley received £29m in pay, while Mr Perrins received £28m. *We assume both of them would like to say thank you to the many HK investors who contributed to their salaries, even if they didn't actually express that sentiment.*

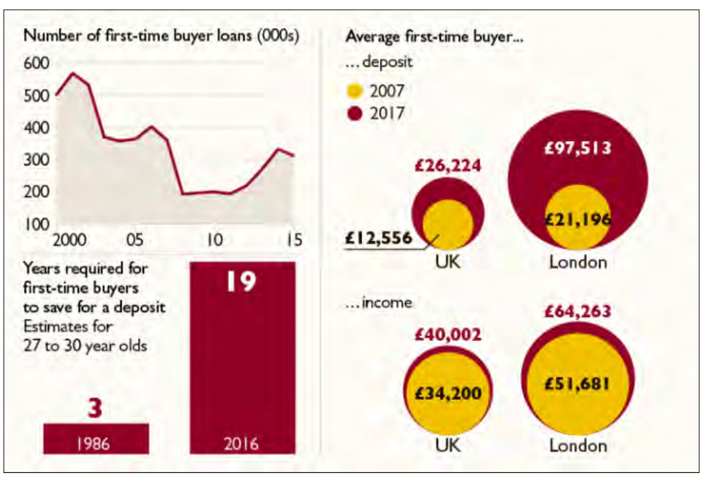
Housebuilders have been criticised for failing to significantly increase housing supply, with Britain at present delivering 100,000 fewer homes than the 250,000 needed, while home ownership is at a 30-year low. Last month Barratt Developments, Britain's biggest housebuilder, reported £765m in profits; a 39% hike in the final dividend; and a £175m special dividend payout for shareholders. Yet the group delivered only 76 more homes than the previous year and is delivering more than 1,000 fewer homes a year than it was in 2008. *It is not totally their fault, but more on that later.*

The most common reason for homelessness has become the rising number of tenants who cannot afford higher rent after being evicted from privately rented housing. Families who become homeless at the end of an assured shorthold tenancy accounted for almost a third of homeless households in England last year, according to a report by the National Audit Office. This compared with 11% seven years earlier. In London, where rents are highest, the proportion rose from 10 to 39% over the same period. Since 2010 rents charged by private landlords have risen three times faster than earnings across England, while in London the increase has been eight times average earnings. *An even sadder state of affairs.*

Market information

The Yorkshire Building Society has reported that the gap between the least and most affordable parts of Britain has almost doubled since the start of the economic downturn. It said that homes in 54% of local authorities, including such cities as Manchester were more affordable now than they had been before the financial crash in 2007 because wages had increased at a higher rate than property values and house prices are around a third of the average for London.

It is getting harder to get on the property ladder



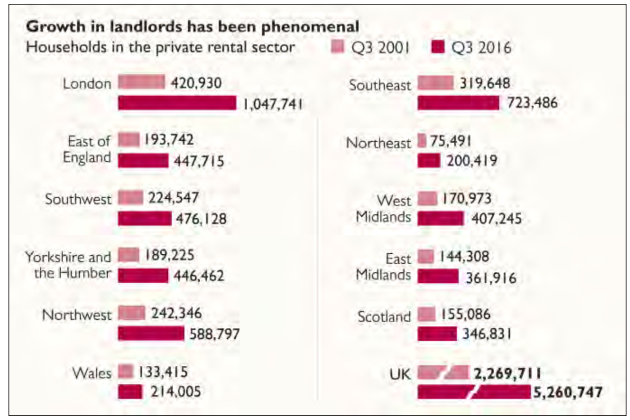
House price growth in the north of England continued to outpace that of the south, with annual increases of 3.2 per cent and 1.9 per cent, respectively, although the price gap between the north and south has doubled over the past decade to £171,000.

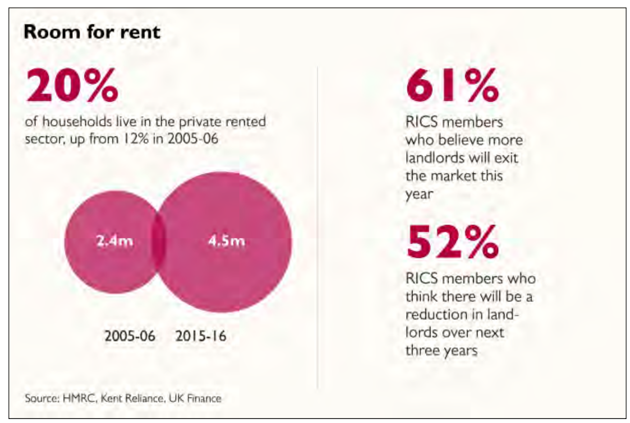
London house prices are growing at the slowest pace of any region in the UK for the first time in 12 years, according to official figures. Prices in London rose by 2.8 % in the year to July to reach an average of £489,000. This was one percentage point below the southeast of England, which marked up the second-slowest rise in prices to reach £321,000, the Office for National Statistics said.

Statistics may vary according to the source and the reporting period

The rental market

A fifth of England's population live in accommodation owned by a private landlord, more than double the proportion since 2000. Over the past 17 years, the number of privately rented homes has risen from just over 2m to more than 5.3 m.





A recent survey shows that RICS members believe that there will be a significant mismatch between supply and demand and expect rental growth to outpace house prices over the next five years, rising by an average of 3% per year.

Did you know?

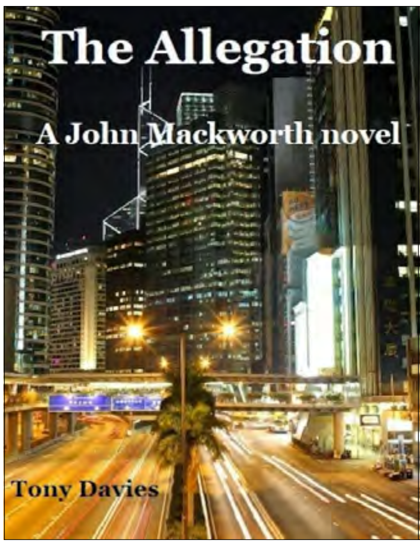
Do the new tax rules affect you?

Since April, landlords have been able to offset only 75% of their mortgage interest payments against rental income before calculating the tax due, rather than 100% as was hitherto the case. This falls to 50% next year, 25% the year after and zero in the tax year 2020-21. Instead, they will be able to apply only for 20% tax relief. This will hurt owners in the higher and top tax brackets, who could previously claim 40% and 45%. Some basic-rate taxpayers will also be hit, since the change in the way tax is calculated could push them up one or even two tax brackets if they receive substantial amounts in rent.

Those who own property through a limited company are not affected. Transferring existing properties into a company may not makes sense however, as you will have to pay stamp duty at the higher rate and also capital gains tax on any increase in the property's value since you bought it.

Married couples who own jointly could transfer more ownership to the lower earner, but this could affect capital gains or inheritance tax.

We are not tax advisers and the above is intended as a guideline only. Professional advice should always be obtained on all tax related matters.



You may recognize the name of the author! The book is gradually being seen (and hopefully read) by some of our clients. It is a cracking good read, full of excitement and intrigue. All you have to do to enjoy it is buy a copy through Amazon or request one through us (all proceeds to charity). Come on everyone, start reading it!

We hope you enjoy 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 so all suggestions will be gratefully received.

If you know anyone who might be interested in reading it please forward it to them and ask them to contact us if they would like to receive further editions. Your support would be greatly appreciated.

A thought from The Property Pulpit

To toil but not to prosper, to smile but not to laugh, to write but not be read, such are the fates some must endure.

We will be back in **Hong Kong** again in **November**. Ms Denessa Chan our Property Management Director and Mr. Tony Davies our MD will be in Hong Kong between the 2nd and 8th November. If you would like to meet them to discuss property management or investing in one of our projects please contact us.

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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