No. 1 2018

From
The Property Pulpit

A point of view

Predictions for 2018 and a sound strategy

It is that time of the year again, when many of us head back to work after the festive season. Now we are back in the office, I hear lots of people saying that is great to be back at the coal face and others (not our team of course!) saying they wish the holidays had been longer. Ah well, Easter will soon be here and there is the summer to look forward to. It is also the time when agents, forecasters and analysts come out of hiding and remind us (or not) of how their brilliant and insightful forecasts for the previous year came to fruition. They can't resist predicting the year ahead and I have to admit that I have fallen into the same trap elsewhere in this newsletter. However, some words of caution - 'Beware the expert that predicts the market - it is often based on nothing more scientific than crystal ball gazing or wishful thinking'.

Forgive me if I sound a little cynical. I started following the property market over twenty years ago and have seen numerous predictions over that period. Some have proved to be right and some have proved to be wrong. The problem with forecasting accurately is, of course, not limited to the property sector. Share analysts and financial advisers/gurus frequently get their predictions wrong as economic events, poor company management, market trends and government interference intervene. They recommend shares and trusts and get paid for selling and managing them, sometimes with good results, sometimes not. At the end of the day, no-one is clairvoyant and this is only to be expected.

Common sense says that it is easier, and safer, to forecast the general trend of a market than it is to forecast a specific growth rate. There are so many variables in the latter, which is why we have always refrained from doing so. Large advisory concerns are expected to forecast growth rates, but they do so at their own peril as it all comes down to individual interpretation of facts and figures.

Whilst it is easier to forecast general trends, investors should never rule out the unexpected happening. Warnings are put on everything, from tins of food to legal documents and they are there for a reason - to make people aware of the risks. The GFC in 2008/9 proves that the events outside our control can have adverse effects. Like the vast majority of people in the world we didn't see it coming but we did learn some lessons from it; minimise debt, lower the risks for everyone involved, don't trust banks when things get tough and expect the unexpected.

One of the most important things we have learnt over the years is that you should not invest simply because an 'expert' says the market will go up by X per cent next year - you will probably end up disappointed. Some people will rightly argue that sometimes staying out of the market is riskier than being in it - no-one wants to miss an opportunity. Our view is that a sound rental income stream is the key factor as this should be constant, whereas capital growth is a variable that is subject to more external factors. Pick a market that indicates upcoming price inflation based on fundamentals such as a shortage of housing and increasing investor demand. Enjoy the rental income over the investment period and treat the capital gain as a bonus, whatever that may be.

As for price corrections, whilst this should never be ruled out, our view is that it is not going to happen in the north of England in 2018. However, remember what I wrote above about 'experts'. Importantly, a real loss only occurs when you sell a property and if you are leveraged correctly (if at all) you will be under no pressure to sell if there is a short term correction. Despite the fears of some people, most corrections are relatively short lived. The overall returns from property over the medium to long term have traditionally been sound and this is likely to continue for the foreseeable future.

Finally, we should like to thank our clients and associates for their support in 2017 and wish everyone a happy and prosperous 2018.

Tony Davies
Managing Director

Around Asia

15th to 28th January 2018

I will be in Asia this month so if you would like to catch up with me while I am there please let me know.

In this edition

Hot off the press

Corruption is endemic in UK councils

A former senior policy adviser to the prime minister, Rohan Silva, has claimed that planning corruption is "endemic" in councils across Britain. His comments follow revelations that a businessman with close ties to Labour had been secretly taped demanding a £2m bribe from property developers allegedly on behalf of the party's politicians.

Silva argues that the planning authorities have been given too much power to make decisions that could dramatically affect the value of properties and developments. He says "Given that the value of a property can increase by tens — or even hundreds — of millions of pounds depending on what the planners decide, the incentive for corruption among low-paid officials and councillors is overwhelming. The depressing truth is that corruption is endemic in Britain's bureaucratic planning system. In every corner of the country, you can find stories of bribery, with local councillors and officials rigging the planning process for their own gain. The corruption is systemic, and it's caused by the inadequacy of Britain's property rights."

We have previously questioned the planning decisions reached by various councils and have also advocated sweeping changes to the planning system. Unfortunately, vested interests have ensured that the status quo remains and Britain's' housing problem is set to continue for many years to come.

Forecasts from the 'experts'

The consultancy PwC predicts annual average rises of 4% until 2025, while the independent Office for Budget Responsibility expects a 3.1% increase next year, with prices bolstered by first-time buyers benefiting from no — or at least significantly reduced — stamp duty. The business consultancy Morgan Stanley, on the other hand, forecasts a 1.6% price drop in 2018, with falls accelerating as Brexit nears.

Countrywide, the biggest agency in the UK, thinks prices across the country will go up by 2% in 2018, and Savills and JLL both predict a rise of 1%; Knight Frank has yet to show its hand. Looking further ahead, Savills anticipates only a 14% cumulative rise in prices across the UK by the end of 2022, but this could partly redress the north-south divide — **the northwest of England will see the biggest regional increase, at 18.1%.**

With house prices in the capital now a record 14.5 times the average income, according to the consultancy Hometrack, this is where the market is in the most trouble. In posh prime central areas, Strutt & Parker estate agency gives two scenarios: at best, prices will be static, but at worst they could plummet by 5%, depending on wider economic influences. Gloomier still is its warning that prices in prime central London could stagnate for several years.

Across Greater London — including outer boroughs where recent stamp-duty reforms have helped, rather than hindered, the market — the picture is brighter. PwC predicts a 3.8% average rise next year within the M25.

Hometrack says that in Glasgow, Liverpool and Newcastle, the current house-price-to-earnings ratio is lower than the 15-year average, which makes them good value ahead of likely increases in the longer term.

Our view is that prices in London will stagnate in 2018. Major cities such as Manchester, Birmingham, Sheffield, Leeds and Liverpool will see growth, which will be driven by good affordability, shortage of housing and increasing demand from overseas investors.

Time in the market usually beats timing the market

Back in fashion

They have been in decline for 30 years, derided by many as out of fashion, and have dropped to 1 per cent of all properties built in the UK, but now **bungalows** may be making a comeback. McCarthy & Stone, Britain's biggest retirement housebuilder, has revealed that it is to start building its first bungalows in more than 20 years. The developer believes it has found a way to construct them and still make a decent profit. A lack of profitability was a key reason for their decline.

In 1986 there were 30,000 bungalows registered to be built, according to the National House Building Council. By 2016 this had dropped to 2,210.

Clive Fenton, chief executive of McCarthy & Stone, said: "I don't think house builders have shied away from bungalows because there is no demand; the issue is that bungalows are land-hungry.

Mr Fenton said: "I think bungalows work for a broad market. They are for people who want to downsize in their late sixties to late seventies but don't require too much support. We are pretty confident the demand is there."

However, Mr Fenton said that bungalows will never properly take off again until the government changes planning policy to encourage the building of houses for retired people.

No stairs to climb and a garden — we can see the appeal to retirees and others.

The number of homes sold in **London**'s priciest postcodes between July and September was 11% higher than in the same period last year. Prices in prime central London, where homes sell for more than £2m, are now 15.2% below their peak in 2014, with a fall of 3.2% in the first nine months of this year alone. The number of properties costing over £1m that have had their asking price cut almost doubled in the first half of 2017 compared with the same period in 2016, to 10,604.

A tale of three cities

A question we are often asked is which of the UK's three largest cities has the strongest demographics to support capital growth over the medium term. Whilst **London** has long been the favoured location for most overseas property investors, many people are now looking elsewhere, with **Manchester** and **Birmingham** being particularly popular.

The adjacent table gives an overview of each of the cities. It highlights several interesting facts such as London experiencing a much higher percentage of net outward migration and having a considerably higher house price earnings ratio than Manchester.

How they compare	London	Birmingham	Greater Manchester
Population	8.7m	1.1m	2.8m
People per sq km	5,590	4,196	2,180
Net outward migration (in year to June 2016)	93,300	4,489	210
Average house price	£496,000	£155,600	£158,800
Average earnings	£34,200	£26,000	£27,100
House price to earnings ratio	14.5	5.9	5.9
Average price of pint	£4.20	£3.64	£3.50
Median average age (yrs)	34.8	32.7	37
Economic activity rate (aged 16-64)	78.3%	69.7%	75.2%
Share of working age population with a degree	56%	34%	36%
Office prices (Grade A, per sq ft)	£60*	£30	£34

Source: Times research

*City

Price inflation heads north - big time

This is not an April Fools joke. A new development in **Harrogate**, Yorkshire is setting records that many people will find hard to believe. There will be 10 exclusive homes in the development with prices starting at £2.5m for a 1,800 sq ft two-bedroom apartment. Even though the development will not be completed until 2020, half of the apartments have already been reserved with two of the penthouses selling "off plan" **for more than £12m each.**

According to the developer "The buyers are successful, international individuals who might have a Yorkshire connection."

As one local shopkeeper said : "If you have it to spend then why not spend it in Harrogate — where 99% of the people are lovely. Some are as nutty as a box of frogs, mind you. We've always been known as the posh bit of Yorkshire."

What else you can get for £12m

161 flats in Clayton, Bradford, where the average cost of a flat is £74,500

Bought last year for almost £10m, Kinnaird Estate in Perthshire has more than 6,200 acres of land, an eight-bedroom Victorian house, a number of holiday homes and plenty of shooting, stalking and fishing. You'd still have £2m to spend on a pied a terrein Edinburgh

Faringdon House, Oxfordshire, which had a guide price of £11.5m, has just been sold. It includes 12 bedrooms and two three-bedroom cottages set in 225 acres of parkland

Sources: Zoopla and Savills

Property prices may go up and down, but a loss is only a loss if you sell

Leeds may be stranded midway between the North Sea and the Irish Sea but that does not stop it wanting to build a lighthouse in the city centre in an attempt to become the European Capital of Culture in 2023. The red-and-white striped tower will project light shows onto the clouds — and, if all goes well, guide in tourists to the city. Changes to the appearance of the city are under way on 450 acres of the south bank of the River Aire, including the site of the former Tetley brewery. New public spaces will provide settings for sculpture exhibitions and commissions. Henry Moore and Barbara Hepworth, born about 10 miles from Leeds in Castleford and Wakefield respectively, studied at the city's college of art, and local museums and institutes hold significant collections of their work. The city wants to use the draw of a year-long celebration in 2023 to build on this under the banner Yorkshire Sculpture International.

Around the globe

Don't forget our **Hua Hin** recommendation - these really are great homes if you want to own a lifestyle property in Thailand.

A **Los Angeles** mansion that is about to be offered for sale is being billed as the most expensive in the world. 'The One' has been under construction for five years and will be completed in the spring. It sprawls over a hilltop with 360-degree views and at 100,000 sq ft the Bel-Air property will be among the biggest private homes in the USA. The largest of its 20 bedrooms will be a 5,500 sq ft master suite, with its own office, pool and kitchen, a retreat for the billlionaire owner when he or she has tired of floating in their four swimming pools, riding their five lifts or entertaining in their in-house nightclub. The asking price - a cool $500 million (£374 million).

The highest price achieved in the USA is the $137 million that Barry Rosenstein, a hedge fund manager, spent on a spread in the Hamptons in 2014. The most expensive home ever sold in the world is believed to be a 54,000 sq ft modern French château near Versailles which is said to have sold in 2015 for $301 million.

Majestic Victoria in Manchester

6% p.a. net income guaranteed for two years and prices starting from £99,950 with a syndicate opportunity starting from £30,000.






Delivering the promise

We have had an excellent response to our new Manchester project and would like to thank those clients have invested in it. It will be a sound investment for you.

For more information please contact us.

Meet our team - Denessa Chan

Denessa is our Director - Property Management Services and is based in London. She joined our Hong Kong team in 2010 and was dealing with our Asian based clients re their UK property investments. Having relocated to London in 2013 she has since taken over full responsibility for our UK lettings and management operation. 'I really like London' is her usual reply when the topic of living in the UK comes up and 'I love my job' when it comes to working with us. Her pastimes include Yoga (twice a week), walking, cooking, movies and watching soaps on her laptop while her husband watches football on the TV. Always smiling, determined and professional, she is doing a great job and has signed a multi-year contract with no break clause - much to the relief of the MD.

A thought from The Property Pulpit

'Twas on a cold winter's night when the snow was falling, that the team went out to answer a calling. No heater in the home, no warmth to be found, the cries of despair the only sound. A happy tenant the only brief, soon sorted to much relief. Thanks all round and a delightful cry, just part of the job the only reply.

To stop the MD from writing poetry we desperately need contributions for the next newsletter.

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 or forward us their email address. Your support would be greatly appreciated.

info@stdavidgroup.com **www.stdavidgroup.com**