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From The Property Pulpit

A point of view

In this edition

Sticking with a strategy and finding the right opportunity

I was in Hong Kong last week meeting clients and friends and I caught up with someone who fits into both categories. Let's call him John for this exercise (it is not his real name). John bought his first London property through us over twenty years ago and we have managed properties for him ever since. He has also invested in multiple projects with us and was supportive of us as we went through the Global Financial Crisis in 2008/9. He is an astute investor whose opinion I value. So why am I mentioning him here?

The meeting was set up to discuss his investments going forward. John's approach to investing with us in London has always been to focus on capital growth rather than income. He doesn't really look at the net rental yield he has been receiving for his properties as the amount varies from month to month depending on what costs have been incurred. He knows his properties have appreciated in value over time and he is happy with the investments he has made and has no intention of selling them. With no plans to fully retire for some time yet and being financially secure, he feels he can continue focusing on capital growth rather than income.

Whilst the UK is John's preferred investment location, he is concerned about the effect of Brexit on the country's short term economic prospects. He is also concerned about an exodus of city workers from London affecting the rental market and capital values there. We discussed this and we both felt that there was no point in him buying more London apartments until market conditions changed. Accordingly, his options were to wait for that to happen, focus on income plays or look at other locations.

We discussed commercial property and the fact it could generate a secure 6% p.a. net income, but it is not a capital growth play. Farm land appears to be set for a correction and niche sectors like hotel rooms are difficult to resell, so I could not recommend those.

I mentioned the expansion of our **Majestic** operation, particularly in cities like Manchester and Liverpool (more on that elsewhere in this edition). He went to university in 'the not so grimy North' and he could see the attraction and merit of character properties in Manchester. He agreed that capital growth there should be better than London and our studio/one bedroom opportunities might be a suitable investment in that market. The next step for us is to provide detailed information and the right opportunity for him to consider. We build long term relationships and since our follow up is pretty good (or so I am told), I have no doubt we can do that.

My meeting with John confirms that 'one size does not fit all'. Whilst his focus is on capital growth, many of our clients focus on income streams. Every client will have his or her own investment strategies and preferences, but one thing everyone can agrees on is - 'the preservation of capital with an attractive return'.

I am based in London these days and naturally, it is the most convenient residential market for me to offer our clients. Unfortunately, it isn't the best place to invest now if you are looking for returns over the short term. Whether you are looking for capital growth or income there are better opportunities elsewhere. Our challenge is to find the right ones and then package them correctly for our clients. It makes for an interesting life - would you want it any other way?

Happy investing!

Tony Davies
Managing Director

The expansion of our *Majestic* operation

Majestic

Character properties in great locations at affordable prices

There is an ongoing shortage of housing in the UK, and as we have commented on previously, successive governments have failed to address the issue and are unlikely to do so in the medium term.

One aspect of the shortage problem is the increasing demand for smaller sized accommodation. People are prepared to sacrifice space for affordability and convenience. This applies to younger people seeking to get on the property ladder through to older people looking to downsize. Quality studio and one bedroom apartments are now highly sought as people dispense with spare bedrooms they do not need.

Over the past twenty years we have carried out a large number of development and refurbishment projects, which we have offered directly to our clients and through our associates. We also have a lettings and management arm so we know what people want to rent as well as buy. Our recent projects in **Stoke-on-Trent** and **Manchester** have clearly underlined the strong demand for smaller sized units.

We are not advocates of buying units in a large off plan development with high service charges caused by communal facilities that are rarely used. Multiple landlords looking for tenants on day one of completion is not a recipe for maximizing rental income. We believe smaller developments that minimise service charges and which produce an attractive net rental yield are a better and safer option for our clients.

We know that many tenants and owner-occupiers in the UK want to live in **character properties in great locations.** It's the kerb side appeal supported by quality, spacious interiors with good furniture. Add in the property being conveniently located for transport and shops etc. and it will enjoy strong demand from tenants. **The result is negligible void periods, low service and maintenance charges and enhanced rental yields.**

Given our success to date with the **Majestic** concept, and the development experience and expertise we have gained over many years, we intend to focus on our development activities in this sector. **Our aim is to develop a number of quality, character properties in appropriate locations throughout the UK.** We will then offer them to our clients and private syndicates and back it up with our full letting and management service.

We will not be acquiring raw land and developing new build houses. Our properties will be established buildings that have character and which require refurbishment. Whether it is new kitchens and bathrooms or more extensive work, we have the team and the ability to deliver our projects on time and on budget.

Our developments will be in major cities such as **Manchester** and **Liverpool** and other locations where there is strong rental demand and attractive returns. We will not try to be everywhere and we will not over stretch our management resources. As our clients know, our aim is always the **preservation of capital with an attractive return** and we are by nature, risk adverse. With this in mind, **we will not leave everyone at risk by using bank or other such debt.**

Importantly, we understand that not everyone wants to buy London apartments and many realise there are some great opportunities elsewhere in the country. The individual units we will offer will be competitively priced with **apartments starting from under £100,000.** A profitable investment for our clients and affordable accommodation for tenants. It is a formula for success.

Whether it is a

- single unit, or
- a whole property, or
- participation in owning either through one of our private syndicates, our approach will be the same.

We build long term relationships based on the concept of 'delivering the promise' and this will remain at the forefront of our operation.

If you are interested in exploring how you can work with us in expanding our **Majestic** operation, or acquiring a unit or property through us that will be a great investment, please contact us.

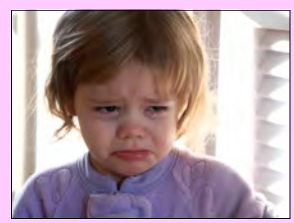
Hot off the press

Some cities are booming The gap between the cost of housing in London and the rest of Britain is beginning to close, with **Birmingham and Manchester driving UK property price growth.** Hometrack, a property analyst, said that annual house price inflation was 7.7% in Birmingham and 6.8 % in Manchester in May. Both cities have delivered a sustained and consistent level of house price growth during the past year and show little signs of slowing. It said "So long as the economy continues to grow, and mortgage rates remain low, we expect house prices to keep rising at a steady rate and close the gap on London."

The countryside is flourishing It's not only the gardens that are blooming. The country house market is flourishing. Research by Hamptons International shows 4% year-on-year property price growth in the country. This year 17% of house sales in the country have achieved more than their asking price compared with 10% a decade ago.

The housebuilders are roaring *Persimmon,* the FTSE 100 company, one of Britain's biggest housebuilders has just reported "excellent" trading performance in the first half of this year as the market took the general election "in its stride". It said that the number of homes it had sold increased by 8% in the six months to the end of June compared with the same period last year. The company's average selling price for its homes increased by 3.5 %. *Bellway,* the FTSE 250 company has also reported strong demand for new homes and said that reservations for new homes and housing completions had risen in the past four months. It said that market conditions were robust and demand for new homes had increased throughout spring and was unaffected by any uncertainty in the weeks before the general election. "The housing market remains positive and continues to be supported by low unemployment, good availability of affordable mortgage finance and the continued provision of Help to Buy", the company said.

And house prices have rebounded this month At least according to the Nationwide Building Society they have, reversing the decline recorded over the previous three months. It said that prices rose by an average of 1.1%, the sharpest monthly rise since April 2015 and a turnaround from May, when they fell 0.2%. Monthly figures can be volatile, but the annual rate of growth also edged up to 3.1%, from 2.1% in May. "After two sluggish months, annual price growth has returned to the 3-6% range that had been prevailing since early 2015," Nationwide said. Estate agents and chartered surveyors have reported that while there are fewer inquiries from new house buyers, this has been outweighed by a drop in the number of people putting their home up for sale, with properties available on estate agents' books at a near record low.



Ah, but not everything is rosy The cost of renting a home in **London** is at its least affordable level in ten years after a 45% rise in rents in London over the period. Research by Hometrack has found that average rents in the capital have soared over the past decade, considerably outpacing earnings, which have risen by 25% over the same period.
The increasingly unaffordable cost of renting in the capital is down to strong growth in employment, inward migration from the rest of the UK and from overseas and increasing numbers of Londoners being priced out of buying a home. Rental growth in the capital has averaged 4.5% a year since 2010 but has averaged 2.7% nationally.

Separate data by Lonres, a residential research company, has found that the housing market in **central London** is continuing to suffer a sharp slowdown after a 2014 overhaul of stamp duty. It said that 58% more homes had been withdrawn from the market in central London this year than had been sold, a sign of a depressed market.

Ten luxury apartments at the top of the Shard that didn't sell That is apparently the number that have still not been sold four years after Britain's tallest building opened to the public. The apartments on the 53rd to 65th floors were meant to fetch up to £50 million each and are the highest homes built in London. A year after the Shard opened, Lord Phillips of Sudbury, a spokesman for the developer said that the apartments would be launched for sale in the autumn of 2013. However, several media outlets are reporting that only one apartment has actually been fitted out, while the other nine are just shells.

The affordable housing sector is suffering due to an ongoing shortage Housebuilders have "failed" to build more than 320,000 homes in the past five years even after getting the go-ahead from councils, according to Shelter, one of the UK's leading housing charities. It said the number of unbuilt homes equates to nearly one in every three homes that were granted residential planning permission between 2010 and 2015. In the same period the profits of the country's top five housebuilders have jumped 388% to a total of £3.3 billion in 2016 and payouts to shareholders have risen to £1 billion a year. Anne Baxendale, its head of policy said: "Housebuilders are trickling out a handful of poor-quality homes at a snail's pace, meaning there are simply not enough affordable homes."

Our team
Sergi dos Santos

Sergi is a member of our property management team and joined us 2014.

He started as a raw trainee with no experience and has since been elevated to a fully fledged Property Administrator. He is very conscientious and does everything necessary to ensure our clients' properties are managed properly. This includes arranging repairs through to appointing sub-agents to ensure our properties have maximum exposure to the rental market. If a tenant needs an emergency heater on a weekend winter's day, Sergi is your man. He doesn't complain and always has a smile on his face. He is an extremely polite person and is a credit to his mum.

Sergi was born in Portugal (we are a multi-national office), but came to London as a boy and is now a real 'Londoner'. He regularly alternates between clean shaven and having a beard (yes, he is old enough to shave) and listens to awful music (or so the MD thinks). He plays the piano, enjoys going to the gym, and is interested in IT.

We all see Sergi as an important member of our team. He is making fine progress in his chosen career of property management and we look forward to working with him in the years to come.

Well done Sergi and keep up the good work!

A thought from The Property Pulpit

When it comes to property investment

'indecision and delays are the parents of failure'

George Canning

We have a Facebook page which shows a more informal side to our operation and the people behind it. You can find it at:
www. facebook.com/stdavidproperty

All feedback is greatly appreciated and if you would like us to forward *From the Property Pulpit* to friends or colleagues please let us know.

Fixed interest syndicate has closed

We received an excellent response to our recently launched UK private syndicate and it has now closed for subscription.

The investment period is twelve months and the funds will be utilised in a low risk refurbishment project. Many thanks to our clients who participated for their ongoing support.

New brochures

We have recently produced two new brochures which our readers and clients might find helpful:

Sectors, services and structures is a summary of our operation and what we can offer our clients.

UK useful information is an overview of tax and other relevant issues which relate to international investors.

Please contact us if you would like to receive copies.

A departure

Our General Manager, Ms Sarah Lambert, who works with us on our projects is leaving us to take up a senior property management role with another organisation.

We wish her every success in her new position.

Our MD thoroughly enjoyed his recent trip to Hong Kong where he caught up with clients and friends. His next trip is scheduled for the week commencing the **25th September**. If you would like to meet him while he is there please contact us.

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

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