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From The Property Pulpit

A point of view

In this edition

Editorial policy, ground rents and greed

One of the important things about producing a newsletter like 'From The Property Pulpit', and writing '*A point of view*' is to strike the right balance. The aim is to be informative and objective and for us to address contentious issues that affect the property sector. Whilst we want it to mention our opportunities and services, we do not want it to be seen as simply an ongoing advertisement trying to entice people to invest. Time will tell how our clients and readers view it and whether we have achieved our aims.

The reason I mention the above is because of a storm that is brewing in the UK housing sector, which may affect a number of companies (including ourselves) and house owners. It will inevitably result in some happy and not so happy parties. This time it is not estate/ sales agents that are in the firing line, it is letting agents and some developers.
The government is upset about the fees that letting agents charge (more on that in a later edition) and developers that are selling new–build houses with unfair ground rents (we do not sell these, but the changes may affect all developers).

Houses have always been sold as freeholds with the buyer owning the land and the house with no ground rent. In the past few years some developers have started selling new-build houses as leaseholds and acting as the freeholder. This means the developer grants the buyer a long lease (say 250 years) over the land as long as an annual ground rent is paid. By charging ground rents, which are typically around £375 p.a., house developers can then enjoy a recurring income stream, which quickly adds up if you are developing a whole housing estate.

In addition to forcing some new house owners to pay ground rent, which may impact on their ability to re-sell in the future, some developers have also introduced a rent review formula which is punitive to say the least. Ground rents, like most things, are usually structured to go up in line with inflation, However, some developers have created reviews which double in value over a limited time. This is not a problem in the short term, but eventually may become a burden when it is time to sell. A real life example of this is a £200,000 family home in Bolton that is 'unsellable' because the ground rent will rise by more than 3,000 per cent and hit almost £10,000 a year by 2060.

Unfortunately, some apartment developers have jumped on the bandwagon and have also been selling properties with ground rents that regularly double. A number of high profile developments that have been offered for sale in exhibitions in Hong Kong have apparently also had onerous review formulas. The developers will argue it is a case of 'caveat emptor'; buyers were made aware of the ground rent arrangements at the time of purchase and it is up to them and their solicitors to determine whether they were happy with the formula.

Irrespective of whether the above view point is valid (and many will argue it isn't), the government plans to overhaul the arrangement for ground rents. Whilst no details have been finalised yet, it is expected that from next year future house (and possibly apartment) buyers will be affected. Existing apartment owners that have equitably structured ground rent arrangements e.g. index linked (as ours do) will not be affected. However, some developers are going to be forced to review their approach and that is not a bad thing. They say 'the devil is in the detail' so I am not getting overly excited until I see what the specifics arrangements are. Whether the current government has the political will, and the time in the light of Brexit, to sort out ground rents fairly remains to be seen.

Tony Davies
Managing Director

Hot off the press

Sleeping soundly

More Britons are feeling positive about the value of their homes with Knight Frank saying that its 'House Price Sentiment Index' has hit 54.1. Apparently, any figure over 50 indicates that owners feel prices are, or are set to, rise.

Some alarming UK statistics to consider

As recently as 2001 23 per cent of 16 to 24-year-olds were homeowners. Today it's less than 10% ; Over the same period, home ownership has almost halved for 25 to 34 year-olds ; Across the UK as a whole, home ownership has been falling from a peak of 71% in 2003 to 63% today ; Twenty years ago the average deposit required for first time buyers was 10% and the average house price was £61,830. It has since doubled to 20% and the average house price is £209,971.

Investors chose property over shares

Britain's faith in rising house prices continues unabated as figures from the Office for National Statistics reveal that almost half of people (49%) consider property as the best means of making money for retirement, compared with 8% of people who are putting their faith in stocks and shares. Only 20% of respondents to the ONS survey said that workplace pensions were the best way to maximise returns.

One novel way of preserving the green belt

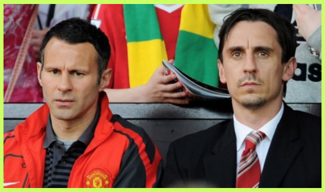
A giant 9m high underground warehouse big enough to house 25 football pitches is to be built near Heathrow airport. Three million tonnes of gravel will be replaced by 180,000 sq m of space for use as a vital logistics hub for the airport to help with the boom in ecommerce. The land is designated as green belt and, as building above ground level is restricted, a 44-hectare park will be created on top of the site.

Gazumping is in vogue, but isn't the market slowing down? New research from Countrywide estate agency shows that gazumping in the residential sector is at a six-year high in Britain. For example, in the east of England, 5.7% of offers accepted by a seller in 2017 have subsequently been rejected in favour of a higher one from a different buyer, 30 or more days later. The rate in the northwest (Manchester etc.) has more than doubled since 2011, to 2.9% "What these numbers are showing is that we have a lack of stock across Britain, and that's become an issue," says Fionnuala Earley, chief economist at Countrywide, who attributes the dearth of supply to homeowners staying put. "People just aren't moving. They aren't confident enough to put their house on the market." These findings are backed up by the latest monthly survey from the Royal Institution of Chartered Surveyors, which found that new instructions in June had dropped for the 16th month in a row, with 19% more respondents seeing a fall rather than a rise in the amount of property coming onto the market. Against this backdrop, average stock levels have slipped to a record low.

Fancy buying a Scottish island?

Little Ross, an island off southwest Scotland, has been put on the market for £325,000. The 29 acre island, which is home to a 19th century lighthouse (not included), comes with a six-bedroom cottage and courtyard. The island is off-grid, with power coming from solar panels and a small wind turbine, and is accessible only via private boat or helicopter. The selling agent says "Private islands rarely come up for sale at an affordable price. We expect a lot of interest from all over the UK as well as abroad." Anyone looking for a remote weekender?

Ex - Manchester United footballers score a rare own goal Ryan Giggs and Gary Neville have failed in their attempt to redevelop part of Manchester city centre into two bronze skyscrapers costing £200m. Despite claims that their development (a hotel, apartments and offices) would create 1,500 jobs and generate £147 million in tax over ten years, it encountered local opposition and was withdrawn at the planning stage. A slimmer 134.5m tower is being considered and if planning is approved work will begin next summer. Fergie would not be impressed!



Commercial property still in demand Allsop's recent commercial property auction had a success rate of 83%. Sales of £83.5m saw cash buyers scooping up 81% of the value. New buyers to the auction room rose from 6% in May to 15% and overseas buyers rose to 22% from 15%. 96% of buyers expressed a desire to buy again in the foreseeable future. The firm remains 'cautiously optimistic for the prospects of the remainder of the year, and suspect the desire for income coupled with a demand supply imbalance will continue to support prices.'

Buyers from Hong Kong have bought London city offices valued at £2.2 billion so far this year, representing about half the market. Knight Frank expects them to spend over £4 billion this year, a rise of 15%. Savills reports that an average British property investor buying in the West End of London spent £44 million in the first half of the year, compared with £134 million by Asian investors. The estate agent has predicted a record-breaking year for West End sales on the strength of interest from Asia.

Private syndicates

Private syndicates are an ideal structure for investors to pool their funds and participate in larger scale projects which may be out of reach for them as individuals.. Whilst the type of structure may vary according to the location and nature of the project, the benefits of using a private syndicate make them equally appealing to large and small investors. Our syndicates run from one to five years depending on the project. Our syndicates are not marketed to the general public and are by invitation only.

The benefits of a private syndicate can be clearly seen:

- Access to larger scale projects
- Shared ownership of properties means greater risk diversification
- Investment levels to suit individual investors
- Access to professional management
- Fixed time frame
- Clear exit strategy
- Formal agreements to protect investors
- Attractive investment returns

Of course, as with any investment structure or vehicle, there are features of a private syndicate that an investor has to consider:

- They are unregulated
- Early exit is typically only available through sale of that person's interest to another investor
- No involvement in the day to day management of the syndicate or project
- The syndicate is merely the structure that allows investors to participate in a project. Investors should always satisfy themselves that the underlying project is viable and that the party organising the private syndicate has the ability to administer both the syndicate and the project correctly. After all, you will be utilising the skills, knowledge and experience of the syndicate manager so investing with the right manager is important.

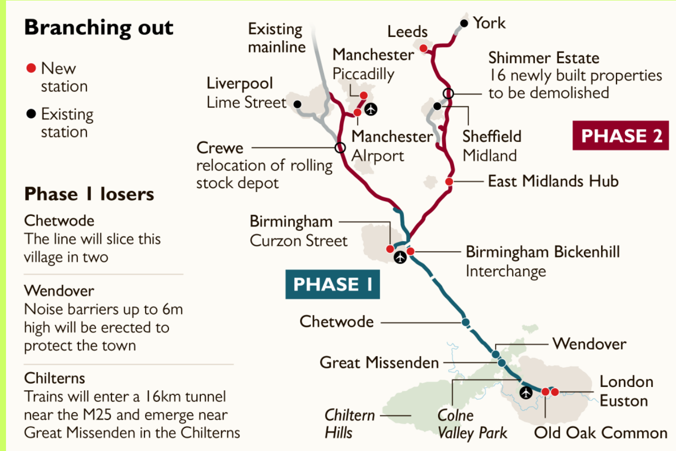
If the agreements are structured correctly, disputes between the parties should not occur as the agreements will clearly spell out who is responsible for what, the time frame and exit strategy. We firmly believe that all parties, including ourselves as the syndicate manager, are bound by the agreements they entered into.

Every manager has a slightly different approach to managing a syndicate. We always try to act fairly and in the best interests of all our investors. For example we are not advocates of allowing a majority of the investors in a syndicate to decide to extend the investment time frame and thereby 'lock in' a minority who were expecting to exit on a set date. That is not fair on those investors who need their funds at the agreed time. The solution is to sell off one or more of the properties to allow those investors to exit, or find alternative investors to buy out the exiting parties at an agreed price. If this is not possible then the agreements have to be adhered to and the syndicate will end at the agreed time.

There is no reason why investors, particularly those with lower investment sums, should not enjoy the benefits of investing in larger projects, whether they are development or 'buy and hold'. Nor should they be prevented from owning a share of multiple properties.

With the right syndicate manager, project and structure, private syndicates can be an ideal investment vehicle for both higher and lower investment level investors.

HS2 - a controversial plan that will benefit the West Midlands and the North



High Speed 2 is a plan by the government to construct a new high -speed rail network linking London, the West Midlands, Leeds and Manchester. The aim is for HS2 to support the northern powerhouse (Manchester etc) and the Midlands engine developments (Birmingham etc).

The Department of Transport has just published details of the route for the first time. Phase 1 will take trains from London Euston to Birmingham, with services running by 2026.
A second section will open from Birmingham to Crewe in 2027.

In one direction, trains will call at a new East Midlands hub station between Nottingham and Derby before reaching Chesterfield, Sheffield and Leeds. The other leg reaches Manchester airport and Manchester Piccadilly, with a spur on to the existing west coast mainline at Wigan, where services will continue along existing tracks to Scotland. It was also announced that a new hub station may be built at Crewe and that HS2 services could serve nearby Stoke.

It's been more than 100 years since the UK built a new rail line north of London. In 1994–95, 785m rail journeys were made each year, and this has now increased to 1.69bn. The government says that if the number of journeys increases by 3.7% a year, by 2033 more than 3,000 people would have to stand on trains leaving London on the West Coast mainline during evening rush hour, and 40% would be standing for more than an hour.

The new HS2 trains will travel at up 250 mph and will seat up to 1,100 people. The government claims that once it is complete, it will take **67 minutes to travel from London to Manchester**, instead of the current 127.
The projected cost of over £55 billion makes it one of the most expensive government undertakings ever.

The plan has attracted much criticism with many people questioning whether the outlay warrants the benefits. They argue that the money could be spent on improving the NHS, the education sector or local train services (along with lots of other institutions and sectors), all of which are in urgent need of funds and the plight of home-owners in its path should be taken into account. However, there is no denying the long term benefits for the 'not so grimy north' through it being linked to London by a modern, fast and efficient rail service. Manchester and smaller cities such as Sheffield and Leeds will become easily reachable from the south of the country and the economic and social benefits they will enjoy will be considerable. Whilst both view points have merit, there is only so much money that can be spent on infrastructure (especially with a Tory government) and it is impossible to please everyone. One thing is certain - the project will experience intense scrutiny and criticism until long after it has been completed.

September visit to Asia

In addition to Hong Kong, our MD will be visiting Bangkok, Kuala Lumpur and Manila in September. If you would like to meet him while he is there please contact us.

As part of our ongoing commitment to the **USA** market we are continuing with our efforts to identify a suitable opportunity for our clients. Our focus is on commercial property in Illinois (Chicago) and surrounding states which offer security of capital with an attractive after tax return. If you would like to receive information on this market please contact us.

A thought From The Property Pulpit

When it comes to serving our clients' property needs,

Saints never rest, we merely pause for breath

Please support *From the Property Pulpit* by forwarding this edition to your friends and colleagues, who we hope will enjoy reading it!

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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