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From
The Property Pulpit

A point of view

After the Brexit result most people decided to sit on the sidelines and wait to see which way the market was headed. We adopted the same approach in terms of the advice we gave to our clients. No-one really knew what would happen although it was assumed the fundamentals in terms of the housing shortage etc. would remain sound.

A year later and there is a Mexican standoff as buyers and sellers continue to play a waiting game. Not that many estate agents would admit to that. Most are looking forward to the next buying and selling season, in this case the autumn, with touching optimism. When the Bank of England's recent figures showed slightly stronger mortgage approvals than expected in July, some seized on it as a sign of revival, with the National Association of Estate Agents (NAEA) reporting that the supply of homes available to buy recorded its lowest level for any July since 2002. The problem is that the number of potential buyers was equally down so there was little market activity.

The old joke — that estate agents do not look out of the window in the morning because it would give them nothing to do in the afternoons — has more than a ring of truth about it. Some excellent agents have suffered over the past year, but that is the nature of the sector - like many things, it isn't always rosy and you have to enjoy the good times while they last and knuckle down in the bad times.

The good news is that the prospect of a crash seems to have gone as the economy, to the surprise of some, has held up pretty well. If there is a 'hard' Brexit in terms of the deal the UK negotiates then things could turn for the worse, but according to most independents this seems increasingly unlikely. Sterling appears to have reached the bottom of the current cycle and seems set for a rebound (or so the hedge funds are betting). Factor in that demand for reasonably priced housing is still strong and you have a reasonably sound argument that the market, or at least certain sectors of it, should perform well going forward.

As for the developers, some are finding it tough. In London they are drastically cutting back on the number of units they are developing. The National House Building Council, said that developers registered to build only 2,494 homes in London between July and September. This was a 35 % drop from the same three months last year and the lowest level for a third quarter since 1992, despite London suffering its worst housing shortage in decades. The figure is a sharp drop from two years ago, when 7,000 were registered to be built over the same period. This should create pent up demand over the medium term and push prices higher, but it is unlikely to happen in 2018. London property will be a great medium to long term investment though, as it will retain its international status and appeal to overseas investors.

The capital has long been out of sync with the rest of the UK in terms of demand and growth and Brexit was always going to affect it differently to the rest of the country. This is evident as more homes were registered to be built outside London between July and September than any third quarter since 2007, reaching 37,936 and up from 29,083 in the previous year. The mantra for regional developers could well be 'Brexit, who cares?'

The above confirms that London and the rest of the country are two distinct markets. While one market is struggling at the moment, demand is keeping the other one moving forward, albeit more cautiously than in recent times. It is a question of picking the right location at the right time if you want to make the right property investment.

Tony Davies
Managing Director

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Visit to Asia

Hot off the press

Sterling looks upwards? Hedge funds have made their most bullish bet on the pound in more than three years, shrugging off concerns over the outcome of Brexit talks. The number of net long trades on sterling reached nearly 20,000 in the first week of October, the highest level since September 2014, according to figures compiled by Reuters from data submitted to American regulators. Kathleen Brooks, research director at City Index, said that the build-up of long positions even as the pound had fallen showed that the currency was trading at a level that foreign exchange markets see as sterling's floor.

The things agents say

The advertising watchdog has reprimanded **Purplebricks** for misleading consumers in two television adverts. The estate agent, which has no physical branches and offers online listings with on-the-ground regional agents, was told that it had not made it "sufficiently clear" that customers had to pay a fee even when their home had not been sold. The adverts cannot be shown again in their present form. The advertising watchdog upheld the complaint, saying that the adverts were misleading because it was not made clear enough that the fees paid to **Purplebricks** were "not conditional on the sale of the property".

It depends on which statistics you rely on

According to the Office for National Statistics, average house prices in the UK rose by 5% in the year to August, a slight acceleration on the 4.5% in the year to the end of July, but in keeping with the pace of growth since the spring. In London, prices increased by only 2.6% over the year, against a 6.5% rise in the fastest-growing area, the northwest of England (Manchester etc). Separate ONS figures showed that rents rose by 1.6% in the year to September, with the pace of growth unchanged on the year to August. London prices grew by a mere 0.9%, while the ONS said that the rise in private rents generally had been slowing since the end of 2015. The figures make for uncomfortable reading for those trying to get a foot on the housing ladder. The average UK house price was £226,000 in August, up £11,000 over the past year and £1,000 higher than in July. The average in the capital was £484,000, while in the cheapest region, the northeast, it was £131,000.

It was good news for landlords, but bad news for tenants as a recent national slowdown in rent rises was reversed according to figures published by Home Let suggesting that prices had risen by 2.1% last month. The average rental price for new tenancies rose to £927 a month in September, compared with £908 in the same month last year, suggesting that rents have not yet reached the peak of affordability, despite rising inflation, sluggish wage growth and economic uncertainty. The increase reflects higher rents agreed on tenancies in almost every area of the country, with only the southeast of England recording a drop in price growth, by a minimal 0.1%, according to Home Let, which verifies 35,000 tenants' references a month for 3,000 letting agencies in the UK. Martin Totty, chief executive of Home Let, said: "While it is perhaps too early to conclude, this data signals the re-emergence of an upward trend in rents."

Landlords are being driven out of London in search of cheaper property prices and higher yields. Figures compiled by Countrywide estate agency show that one in four has bought property in the Midlands or **northern England** this year. In 2010, 75% of London landlords bought property in London — now it is 49%. Fionnuala Earley, the chief economist at Countrywide, says: "Property prices in London are expensive, and with the 3% stamp duty they are even more so. With the change in mortgage tax relief rules, buyers don't want to borrow as much — plus rental yields in London aren't so good. They will be looking for places where they can buy new-build properties relatively cheaply. In cities such as Manchester, Liverpool and Leeds they will see a good return with a steady supply of professionals who want to rent." There is also potential for greater capital growth outside London. According to the Office for National Statistics, property in London slowed to a growth of 3%year-on-year. Prices in Greater Manchester have risen by over 7% over the same period.

House prices in the capital are typically 7.6 times average earnings, more than double the ratio of 20 years ago. In some prime areas it is nearly 20 times, making a deposit out of reach for most buyers without assistance — whether from government schemes such as Help to Buy or the Bank of Mum and Dad. If private developers are struggling to build quickly enough, can the government plug the gap? May's recent pledge of more cash for social housing was welcomed by councils and housing associations, which are likely to carry out the development, but 5,000 new homes for "social rent" (which typically means about 30%-40% of market rent) looks a lot less impressive once you realise the number built in this category has fallen from 39,500 to 6,800 a year since the start of the decade. Even "affordable" rental housing (priced at 80% of market rents, so anything but affordable in pricier areas) has halved to 32,630 new units a year. In the 1970s, councils alone built well over 100,000 a year.

Character properties
with
Classic designs

We have just launched our new Manchester project - **Majestic Victoria** and we thought we would show our readers the proposed interiors. The look is quite traditional and conservative and we believes fits in with the character of the building. We hope you like then.

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





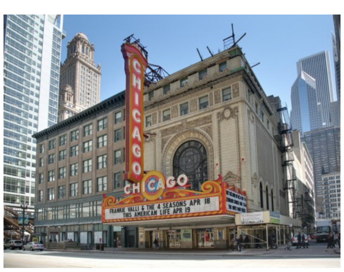

Delivering the promise

Around the globe

Following the uncertainty of Brexit, demand for property in the **Costa Del Sol** is expected to rise after a decline in property purchases in the last quarter of 2016. Figures from Kyero suggest that overseas investors are showing increasing interest and have accounted for 32.87% of all transactions in the first quarter of 2017 with this trend forecast to continue. Although British investors scaled back with the announcement of Brexit, interest in second and holiday homes has resumed greatly.

ESPAÑA

The region is also proving to be more popular each year with holiday makers who desire luxury rental accommodation for their stay. Whilst, alongside the decline in domestic mortgages, this may appear to make property opportunities there an appealing investment, A Place In The Sun agency highlights that most buyers recently have searched for a few years before finding the right property. Gone are the days of making a spontaneous decision. Whilst demand appears to remain high, not all sources agree. The Olive Press reports that sales were down 7.7% so far this year while Panorama suggests that the first 2 quarters of 2017 show a substantial increase in comparison to the same period in 2016.



Chicago continues to power ahead despite the woes of Trump. CBRE has recently rated the city 7th globally and 4th nationally in terms of investible real estate. It has added 48,000 new office jobs since 2011. Bisnow has also rated it one of the top 5 investable real estate cities in the USA, alongside New York, Los Angeles, San Francisco and (a little surprisingly) Houston.

In an uncertain world, **New Zealand** became a bolthole where Hollywood titans, rock stars and thousands of rich Chinese and Britons bought property. Resentment grew among locals, however, as the influx drove house prices to unaffordable levels. Now, fresh from her election victory, Jacinda Ardern, the country's Labour prime minister, has moved to bring an end to the boom by banning absentee foreign buyers. Foreigners will be barred from purchasing properties unless they intended to live in them for more than half the year. Potential buyers will also have to prove they were in New Zealand for at least 184 days in each of the past two years.

Did you know

Non-residents: Liability to UK income tax

Income arising in the UK is liable to UK Income Tax even though the recipient may not be resident in the UK. However, the income may be exemptor partially relieved under a Double Taxation Treaty.

Rental income

Any profit made from letting a property in the UK is taxable in the UK. The letting agent or tenant must deduct tax from the rent unless HM Revenue & Customs (HMRC) has issued an authority for the property income to be paid without tax being deducted. Even if the rent is received without deduction of tax, any profit made from letting the property remains taxable in the UK.

Application to receive rental income without deduction of withholding tax

Since 1996 letting agents acting for non resident landlords have been required to deduct tax at 20% from rents received and send it to HMRC.
However, non-resident landlords can apply to receive their rent with no tax deducted on the basis that either;

- their UK tax affairs are up to date
- they have not had any UK tax obligations before they applied
- they do not expect to be liable to UK Income Tax for the year in which they apply

The application is submitted on Form NRL1 (individual) NRL2 (company) or NRL3 (Trust).
'Non-Resident' means having a usual (and not temporary i.e. more than 6 months), place of abode outside the UK.

St David is not a tax adviser and expert advice should always be obtained on all tax related matters.

A thought from The Property Pulpit

Hippocrates said that "life is short, the art long, opportunity fleeting, experience treacherous, judgment difficult"

But if you follow the five rights of property investment success is achievable

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

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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