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From The Property Pulpit

A point of view

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The election, headlines and the grimy North

Well, that us got us nowhere! The UK election did not result in the much expected Conservative party victory that was supposed to bring some stability to the country. It has left with us with a coalition government, the threat of another election and the government's approach to Brexit open to review. These are indeed, interesting times.

A few days after the election I received a number of spam emails from property agents with news that I shouldn't worry about the result. Apparently, the property market will not be affected by the current political situation and I could still enjoy the benefits of the best property deal of the year if I moved quickly. But I had to move quickly as those properties were selling fast!

Okay, I admit that I am a little cynical when it comes to attention grabbing sales headlines and statements designed to get to me to invest, especially straight after an election that has created even more uncertainty. I also accept that glossy sales brochures full of totally irrelevant photos of yuppies drinking champagne on balconies, and yes, in most cases you can't believe everything a sales agent tells you. However, sometimes the headlines don't lie and the sales agent's comments are true.... (I still don't like the non-factual brochures though).

Property is a medium term investment and the short term uncertainties of the UK's political scene will have little, if any, impact on the property sector. One day someone in the media is saying its all doom and gloom, the next day everything is fine again. Today's statistics support one view, tomorrow's support another. Our *Hot off the press* section sums it up. There is a lot of conflicting information at the moment and no-one can accurately forecast what will happen over the short term.

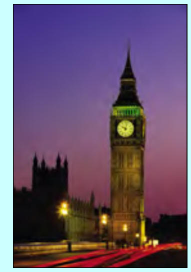
One thing that is universally accepted is that the UK faces an ongoing housing crisis. We are currently building around 150,000 homes every year and we need over 250,000. Limited supply and strong demand will result in higher prices, so we can expect house prices to rise over the medium to long term (if you believe the economists).

So is now the time to buy in London? The answer to that is yes and no, or possibly maybe. Prices have fallen over the last twelve months so now may be a good time to buy, but they could still fall further so you could benefit from holding off for now. Then again, as we have mentioned elsewhere in this edition, in April the market seemed to moving ahead again so you may end up paying more if you wait. Most investors want to buy at the very bottom of the market; very few end up doing so. Given its previous performance, we can expect prices in London will be higher in five years' time. Over the medium term to long term the entry point becomes less important and it should always be a 'safe haven' for investors. So, yes, no or maybe will depend on the individual investor's requirements and viewpoint.

Finally, whilst most overseas investors have historically focused on London, **Manchester** is rapidly becoming a favoured location. I have commented previously on this city and our article *'The grimy north'* provides an update on our views on it. It is certainly a different market to London.

Tony Davies
Managing Director

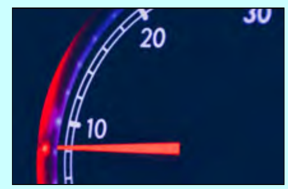
Hot off the press



Some big players remain confident about London...... Telford Homes, a leading London developer that regularly holds exhibitions in Hong Kong has seen record sales and profit over the past twelve months. A 'big strategic push' over the past 15 months to be at the forefront of the sector was "opening up some exciting future possibilities as well as underpinning growth" for the company. Since early 2016 Telford has secured a pipeline of 500 homes in London worth more than £230 million that will be built purely for rental use. This is expected to rise to about 2,000 over the next three years. The group's CEO said that the number of institutions, such as pension funds and investment managers, that were trying to move into the build-to-rent sector was growing rapidly. "There is a huge demand out there. We have been meeting with new institutions and potential investors in build-to-rent every week," he said.

...... despite tales of gloom in early June The number of unsold London homes under construction rose to a record in the first quarter of this year, with 27,000 units yet to find a buyer, according to a leading research company. At the same time asking prices suffered their largest drop in almost eight years in April, according to Rightmove.

The cost of renting has fallen for the first time since 2009, adding to signs that the housing market is slowing after years of growth and increasing the pressure on buy-to-let landlords. Figures from Home Let show that rents fell by an average of 0.3% in May compared with the same month last year representing the first annual fall in eight years. In London rents on new tenancies were 3% lower than they were at this time last year.



However, house prices are rising at their slowest annual pace in four years, according to Britain's biggest mortgage lender. Halifax said that its data showed that house prices rose by an average 3.3% in the year to May to reach £220,706. This was down from 3.8% growth in April, having peaked at 10% annual growth in March 2016. In the three months to May prices fell by 0.2% compared with the previous three months, which was the second quarterly drop since November 2012.

But relax, the market had recovered by mid June! Even hotter off the press is news that **house price growth** in London has accelerated for the first time in nearly a year, according to official figures. Data released by the Office for National Statistics (ONS), the Land Registry and several other bodies showed London values rose 4.7 per cent in the year to April. This was higher than the 3.2% rise registered in the year to March. "This is the first time in 11 months that the rate of price growth in London has increased", the report said. Importantly for some investors, house prices across the UK rose by 5.6%, up from 4.5 % in the year to March.

Richard Snook, senior economist at PWC, said: "These figures go against the recent trend of a Brexit-related slowdown that we predicted last year but remain consistent with our guidance of 2% to 5% growth in 2017 as a whole." Paul Smith, chief executive of Haart estate agents, said: "House price growth remained persistent in April, with buyers paying on average £12,000 more for their homes than they did pre-Brexit, once again proving the Brexit scaremongers wrong."

Some are moving further north...... Berkeley Group, a FTSE 250 company that predominantly caters to the upper end of the London housing market, is reported to have acquired a site close to Birmingham city centre. It is understood to want to build 400 homes in a ten-storey residential block as the first of about five such schemes in the city. The market there saw house prices rise by 6.5 % in the year to March, compared with growth of around 1.5 % in London.

......as residential construction improves The Chartered Institute of Procurement & Supply seems to think the good times are not going away anytime soon. It recently reported that "After years of sluggish house building, the construction sector snapped back into action in May. Construction growth has surged to a 17-month high as the uncertainty caused by the EU referendum appears to be abating. The unexpected recovery in construction has been felt most acutely in residential housing as builders finally feel able to respond to demand for new homes." The increased workload for house building led to the strongest rate of new jobs in the sector since January last year, while rising demand for construction materials put pressure on supply chains, with delivery times lengthening to their greatest since March 2015.

The grimy North - why would you invest there?

'The grimy North' is what many southerners used to call anywhere anything north of Birmingham (or Watford if you were from London). For some people, heavily industrialised cities like Manchester, Liverpool and Sheffield conjured up pictures of smoke stacks, terraced houses and persistent rain. They were fine to visit on a nice day, but for the other 364 days of the year they were to be avoided. Oh, how perceptions have changed!

Much of the north of England has undergone a major transformation in recent years resulting in improved living environments and investment conditions. Many city centres have gained large modern shopping complexes and canal and dock areas have been regenerated into lifestyle and entertainment destinations. The change in Salford Quays and Media City in Manchester for example, has turned semi-derelict areas into modern, thriving hubs that are gaining international recognition.

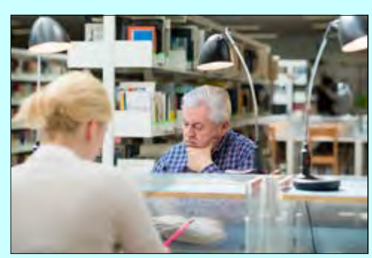
The transformation is not limited to just the main cities. **Leeds, Newcastle and Sheffield** are examples of secondary cities that have been regenerated over the past ten years and have started to come on the radar for overseas investors. Of course, despite what some city councils will tell you on their websites not every city has seen dramatic improvement. Unfortunately, many places have struggled to keep pace with changes in demographics and demand. Some have drawn up wonderful schemes that are never going to be developed through lack of funding, both government and private. A familiar mantra springs to mind; 'location, location, location' and it applies to the north of England in terms of lifestyle, environment and the local economy.

So what are the implications of the above for overseas investors? As recently as ten years ago when we mentioned the East End of London to investors we got a negative response. 'Not the best residential area' and 'I would not want to live there' were common responses. Fast forward to today and that part of London has become a popular investment location. Money has poured in to the area and Brexit aside, it will continue to do so. Many overseas investors people may still not want to live there, but it enjoys strong rental demand and as an investment location it will thrive going forward.

So is Manchester the next East End of London? The answer is almost certainly yes and we are already seeing tangible signs of this happening. Investors are rapidly moving into the market there and it is becoming a 'hot' location for both domestic and investors. Those investors are attracted by the strong rental demand and attractive net yields based on capital values that are considerably lower than London. Manchester is still seen by many as an affordable investment location. This will not last forever, but for early movers there is certainly an opportunity to secure attractive returns over the medium term.

As for cities like Leeds etc**,** it is going to take longer for most overseas investors to be comfortable in terms of investing there. Whilst capital values are not dictated by demand from overseas investors (except in the case of central London), such demand enables developers to push prices higher which in turn affects the domestic market. The lack of this will certainly hold them back and capital growth will lag behind that of Manchester and London.

Given the above, it would appear to make little sense to buy in a secondary northern city. However, it all depends on why the property is being bought. Prices are typically lower, and rental yields are higher, in the north so if rental income is the goal, then buying in the 'not so grimy North' would appear to make sense. After all, you are not going to live there, it is purely an investment. A higher income stream may make a lot of sense when there is limited capital growth and whilst you would expect to enjoy that in Manchester in the short to medium term, you may not get it in London.



At the end of the day, investors have to be able to sleep at night and not have to worry about their investments. In London and now Manchester, investors are in relatively secure markets in terms of performance. Yes, there will be ups and downs, and good and bad times to buy, but over the medium term capital growth should be attractive as should, in the case of Manchester, the income stream.
If you want to be a little more adventurous, or have a more limited budget, then secondary northern cities may be ideal. But be careful - determine your investment strategy and do your homework first. Then follow the '**five rights of property investment**' to make the ideal investment.

Did you know

Farmland can be passed on **free of inheritance tax**, which has not gone unnoticed by investors who have snapped up farm estates in recent years. This has forced prices up and prevented young people from entering the sector as land owners. The only good news is that prices are showing signs of falling due to uncertainty over farming subsidies after Brexit. Since vast tracts of land are owned by the aristocracy, and with the Conservative party in power, don't expect a change in tax policy any time soon so any price correction is likely to be muted.

"The city (**Manchester**) is also in need of a significant uplift the number of new homes. With Manchester's population expected to grow by 125,000 to 2.87 million in the next 10 years, according to the Office for National Statistics, the city needs to be delivering an additional 9,000 homes every year for the next five years, according to our research, to meet this demand." (BNY Mellon Manchester 2025 report)

Average rents in Manchester have risen from £8,628 in 2015 to £9,876 in 2017. (Home.co.uk)

Average city house price growth across 20 major UK cities is running at 5.3%, down from 8.7% in April 2016. Eleven cities have a faster rate of growth than 12 months ago. Manchester is registering the fastest growth rate of 8.4%. London's growth rate is 3.5% (Hometrack data, April 2017)

Our MD will be in Hong Kong and Asia at the end of June. If you would like to meet him while he is there please contact us.

A thought from The Property Pulpit

In the depth of night, when the lights are out,
the streets are empty and no-one is about,
I lie awake and deep in thought,
did anyone read *The Pulpit* I brought,
left on the table for all to read,
full of content they will certainly need
but is the content good and the format right,
or a little too heavy or a little too light,
all I need is some honest comment,
a passing thought for a single moment.

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.

We recently launched our **Select** UK Commercial brochure which periodically will offer selected opportunities to our clients.

The opportunities in our June edition ranged in value from over £40m to as low as £160,000.

If you would like to receive a copy of the brochure 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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