st david GROUP

# Views from the rooftop

July 2019

7

*Some thoughts...*

**HK/Asia visit**

**16th - 22nd July 2019**

**In this edition**





## One last comment on the effect of Brexit

We are always seeking feedback from our clients and readers so that we can improve the content of this newsletter. One long standing client recently suggested we comment on Brexit and what effect it will have on the market. Here goes…...

As always, the ‘experts’ in the property sector are making bold predictions of either doom and gloom, a strengthening market or stagnation. Well, one of them is bound to be right. The problem is deciding which one.

To some extent what happens depends on whether it will be a hard or soft Brexiit. The problem is, even if you get that right, what real impact will it have? I can hear some people saying that it is obvious….. it will be….. But will it?

For every argument for one scenario there is an equally valid argument for another.

No-one wants to sound uninformed or ‘wishy washy’, but when it comes to predictions it is extremely difficult to get it right and most get it wrong (how many fund managers fail to beat the index!).

### The honest truth?

So here is the honest truth - I can say with certainty that the price of properties in the UK will either fall, stagnate or grow in the next three years. That is as far as I am prepared to officially go when it comes to predicting capital values. For an unofficial view, read on…….

History has shown us that property is a sound long term investment and the effect of Brexit whether good or bad will wear off over a period of time. So with all this uncertainty, is now the time to invest?

We are firm advocates of a secure rental income stream and capital growth in line with the market - whatever that may be.

Irrespective of Brexit, people are still going to need rented accommodation. Yes, rents may come under pressure if the economy dips, but the number of prospective tenants in cities like Manchester is not going to change overnight and demand will remain strong.

More affordable rental properties are always in demand, particularly in a recession which is why we think our Majestic and acol properties will be sound investments, irrespective of Brexit.

Seeing an attractive rental income going into your account every month may more than compensate for the notional capital loss in the event of a fall in prices. Hold for the long term and enjoy the income.

As for individual locations - if you want rental income buy in the north and enjoy capital growth in line with the market.

Of course, there is always a risk of things going wrong in the short term. However greater Manchester should tick along, but there may be an over supply in the city center which will affect rental demand and prices.

For capital growth, I would wait until the picture clears and then invest in London.

There is a downside risk for London in the short term and rental yields will never be great. However, for capital growth over the medium to long term it will take some beating, especially if you get your timing right.

Finally, I hereby solemnly swear I will not mention Brexit again (for at least three months).

*Tony Davies*
*Managing Director*


# HOT OFF THE PRESS

## Home owners on the move

Home owners are now moving slightly more often than they were previously, according to Zoopla estimates.

Analysis by the portal shows the average turnover for a property is 20.8 years.

In contrast, in 2017 people moved home every 23 years, which was up from every 8.33 years in the 1980s.

Meanwhile, those living in London tend to move the least, on average every 26.2 years, while the most frequent movers are in Dartford and south Derbyshire at 15 years.

*Does the length of stay have anything to do with the quality of the location?*

## Fall in profits

One of Britain's leading housebuilders called time recently on an era of making record profits.

Annual pre-tax profits at Berkeley Group fell by more than 20% to £775.2 million, it revealed. Despite the dip in profits, Berkeley said that its mainstay markets in the capital and the surrounding area were "resilient".

It sold 3,698 homes in the 12 months to the end of April, up from the 3,678 delivered the previous year, and its average selling price was £748,000, compared with £725,000 previously.

*Unfortunately, the fall in profits is not as a result of lower prices for home-buyers and investors.*

## House price growth slows…

House price growth slowed in April as London's stagnant property market continued to weigh on the rest of the country.

Average house prices in Britain rose 1.4% in the year to April, down from 1.6% in March, according to official figures from the Office for National Statistics. The average price is now £229,000.

The slowdown in England was led by London, where prices dropped by 1.2%, an improvement on the 2.5% in March but still in negative territory for a tenth consecutive month.

Every other region recorded growth, with the strongest rises in the East Midlands and the North West of England, where prices rose by 2.9% and 2.6%, respectively.

However, according to London Central Portfolio prices in central London are up by 2.5% year on year and the average residential property is now worth £628,282.

*Does it depend on which stats you are looking at or vested interests?*

## …. and stays slow

House prices rose last month, but growth remains subdued, with the market in London declining for an eighth quarter in a row, according to a closely watched survey.

Nationwide Building Society has said that prices rose by 0.5% on an annual basis in June, compared to 0.6% in the year to May. It is the seventh consecutive month in which growth remained below 1%.

According to Nationwide, the commuter belt surrounding London was the weakest-performing region in the three months to June, with prices falling by 1.8% on an annual basis. It was followed by the South East, where prices slumped by 1.6 %.

Prices fell in London for the eighth quarter in a row, though the annual pace of decline slowed to 0.7%, from 3.8% in the previous quarter. Prices in the capital are about 5% below their 2017 peak.

*The doomsayers were saying the market was crashing, but not everyone agrees.*

## Enter a rafflle and win a house - only if all tickets are sold

A raffle for a luxury £2 million flat has ended in failure after the owners sold tickets worth only £227,000. The promoters of the scheme are refusing to hand over the two-bedroom home, which is now lying empty.

The property in South Kensington, was fitted out with designer furnishings before it was put online for £10 a ticket. The promoters were warned that they would have to sell a daunting 200,000 tickets to reach the valuation price.

Seven months later, the 28-year-olds have admitted that they raised only £227,000 from the public, 11% of their target.

They now plan to hold a prize draw in which the winner gets £53,500 from the money raised and the pair keep the remaining £173,500. They will use £120,000 of that sum to cover their costs for VAT, marketing and legal bills. They claim that the remainder will be "reinvested" into a new property raffle business.

*How to view this - naivety, a scam or a £10 flutter where the winner gets over £50,000 so no grounds for complaint?*

## USA projects - our private syndicates

Although the majority of our projects are in the UK, we have offered various USA opportunities since the GFC in 2008. Our clients first took advantage of the crash in condo and house prices in Florida and we followed this up with our Chicago Arlington Heights commercial property syndicate.

As we mentioned in our last newsletter, in conjunction with our USA partners we are carrying out due diligence on several commercial properties in the Chicago/ Illinois area. A number of our clients have expressed interest in the opportunity and we thought we would explain how our USA syndicates are structured so that they protect the interests of all parties.

Our clients become members of an Illinois, USA registered entity (LLC) and enter into a formal operating agreement setting out the rights and obligations of all parties. We secure a mortgage for the property at a loan ratio not exceeding 65% and fix the interest rate if and when appropriate.

The syndicate runs for five years. However, after three years the property is revalued and a vote taken (St David does not vote). If at least 75% of the investors wish to exit the property it is sold. Those who wish to remain have the option of buying out, at the valuation figure, those who wish to exit. If the vote is to continue then the syndicate runs for the full five years, at which point it is sold or those who wish to continue buy out those who wish to exit. Investors are not locked in beyond the five years.

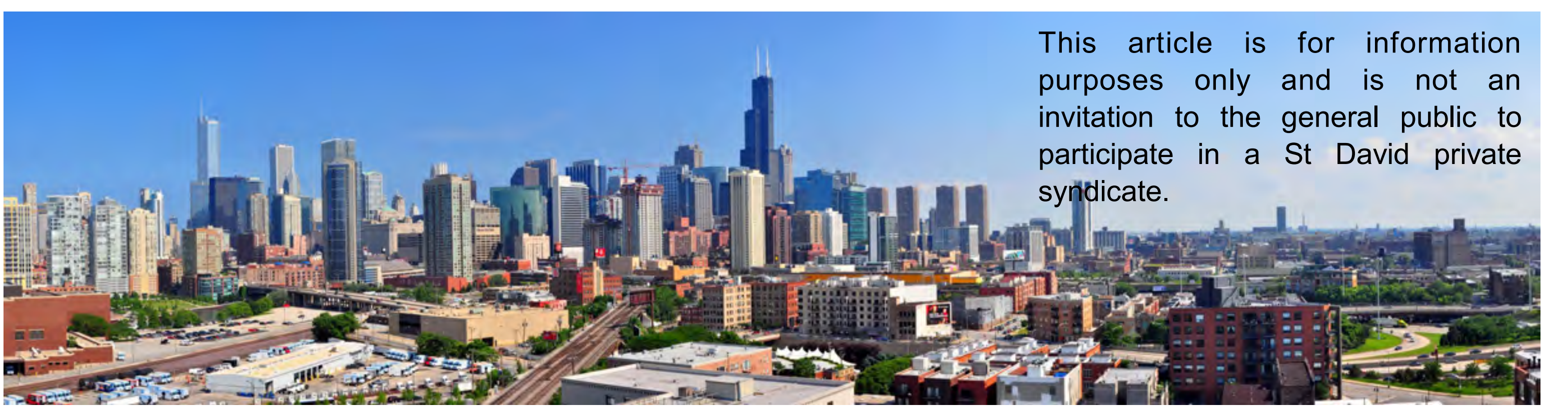
As the syndicate manager we handle day to day to management of the project and oversee the USA based property manager.

The net rental income flows through the LLC to the individual investors. This is distributed six monthly in arrears and we arrange for the personal tax returns to be prepared and submitted for our clients.

St David enters into a profit share arrangement on the sale of the property so that all parties are incentivized to maximize the return from the project.

The aim of the syndicate is a secure and attractive income stream, which means we avoid more speculative opportunities where the returns may be greater but so is the risk of under performance or a capital loss. Accordingly, our syndicates may not appeal to every investor, particularly those seeking more aggressive double digit returns.

Each property is different so the total investment required varies. The expected net rental income is after the deduction of ALL costs and USA tax. This will typically be in the region of 6% - 7% p.a. depending on the property.




acol by st david

We have identified several properties in the greater Manchester area which are suitable for:

- Project' properties where we assist clients to buy houses on the open market and then oversee the refurbishment and subsequent letting and management.
- 'Ready to go' properties that our clients can buy**, fully refurbished and tenanted.**

**The investment level is around £150,000 and the properties will show a net, after all costs, yield of 7% - 8.5%**
If you are looking for a secure and attractive income stream please contact us.


**The rental page**

# Passporting scheme has its merits but not all agree

The government is thinking of introducing a new ‘passporting’ scheme which will allow tenants to transfer rental deposits directly between landlords.

Under the current system tenants have to pay the deposit for the next property while waiting for the refund on the previous one.

‘Passporting’ would allow a direct transfer of funds from the previous landlord to the new one on the day of the move, thus alleviating any cash flow issues from a delay in securing the release of the deposit.

On the face of it, it seems to be a reasonable approach; the previous landlord would still be able to claim part of the deposit for any damages, and the tenant could top up the deposit if necessary.

Importantly, the tenant hasn’t got to find the additional money and the landlord still ends up with the deposit on the day of the move.

Whilst the proposed scheme has drawn praise from various tenant advocacy groups and campaigners, it has drawn criticism from some landlords.

One particular concern is that if the deposit is transferred before dilapidations are decided the previous landlord will find it difficult to recover the money from the tenant.

In the light of the farce over Brexit, faith in the integrity and ability of British politicians is not particularly high at the moment. Many people are not giving them the benefit of doubt when it comes to deciding whether their intentions are honourable.

It is inevitable that with the possibility of a general election in the near future, the scheme is viewed by some as yet another attempt to curry favour with tenant voters. If this at the cost being seen to be driving another nail in the coffin of the private buy-to-let sector, then that is a price the government is prepared to pay.

From the government’s point of view it is all about perception in the run up to an election. After being re-elected it can do, and usually does, whatever it wants irrespective of the promises it has made.

No matter what was behind the reason to propose the scheme, it has its merits and if implemented correctly it should not adversely affect landlords.

This is only a proposal and irrespective of whether it is introduced, the private buy-to-let sector should still flourish post Brexit, despite the pronouncements from the conservative government. We will leave it to our readers to decide if the same can be said if we end up with a Labour government.

## Who are HMO/affordable co-living tenants?

**acol** properties are targeted at tenants who want to live in lower priced accommodation. It means tenants who are prepared to share facilities if it means living within their budget.

Students, young professionals, tradesmen, foreign nationals - HMO tenants are not from one single employment or demographic group.

The common factor that unites them is that they have the capacity to pay the agreed rent. *This means they are gainfully employed or are students with parental support.* With the right property, finding tenants is the relatively easy part. With strong ongoing demand, there is no excuse for empty rooms.

Vetting the applicants correctly and ensuring they comply with their obligations under the tenancy agreement is where the best property managers excel.

Tenants, irrespective of their income level, want to be treated fairly and with respect. They want to live in a safe, pleasant environment and be left to peacefully enjoy their living space. Keeping the common parts clean and promptly addressing repair and maintenance issues go a long way to achieving this.

Importantly, the right approach will create a feeling of belonging and a shared responsibility for the condition of the property. Good management will result in a happy tenant who is more likely to extend the tenancy and refer friends and colleagues in the future.

HMOs are really no different to any other rental property. Effective management of them requires good operating systems, empathy and common sense… and lots of hard work from the right property manager.

## The five rights of property investment

**Invest in the right property in the right location at the right time for the right price from the right developer/adviser**

### Did you know?

Last month, the Commons public accounts committee said “inherent problems in the housing market” would jeopardise the government’s target of delivering 300,000 new homes a year. A net total of 192,000 homes were built last year, mostly by large builders. Experts say small firms need to thrive if the target is to be reached.

73% of buy-to-let investors think property is still the best, least volatile long-term investment compared to other asset classes *according to Benham and Reeves.*

11% of buy-to-let landlords want to double their portfolios in the next three years *according to Cambridge and Counties Bank.*

## *Now for something a little lighter*


If you have not met our property management team and are in London over the summer and would like to discuss our service (or our projects and opportunities) please join us for a coffee on the balcony.  We promise it won’t rain that day.

### *Thought of the month*

**A person who feels they are appreciated will always do more than is expected**

*So the next time you see your property manager give her (or him) a hug*

The articles and comments contained herein reflect the personal views of the author (our MD).
No offence is intended to any party.


“You have been approved for a fixed-rate mortgage. That means if interest rates go up again and you’re not paying enough, we’ll fix it.”

**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**

**If you know anyone who might be interested in reading this newsletter, please forward it to them or forward us their email address. Your support will be greatly appreciated.**

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