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From The Property Pulpit

In this edition

A point of view

Ah, the trials and tribulations (and fun) of dealing with some UK councils. We recently had discussions with a large regional council over converting a long unoccupied warehouse into a HMO (House in Multiple Occupation). After discussions with local agents regarding rental demand from single people and couples, our contractors and consultants etc., we decided that most of the building should comprise en-suited rooms with shared kitchen facilities, with the balance comprising a small number of people sharing a bathroom.

Unfortunately, the council advised us that it would oppose our scheme. There was no criticism of the quality of tenant we would attract, and it acknowledged a housing shortage in the area, but the underlying impression was that it would be politically expedient if it encouraged families to live in that part of the city as they would be more 'economically beneficial' to local businesses etc.

We could apply for permission and be rejected and then go through the appeal process, which could take up to a year with no guarantee of success. However, the vendor would not accept a subject to planning offer and wanted his money now and we would not take the risk of buying the building and being unable to develop it to our requirements. Like other developers before us, we pulled out of the deal and it is on to other targets.

Having a grand scheme to work to is vital if ad hoc, poorly conceived developments are to be avoided. However, the building in question has long been a vacant eye sore and is now likely to remain so for some time. Local developers have run the numbers for a two/three bed apartment development but have concluded they don't stack up. The council's attitude is that the vendor should lower his price if he wants to sell and then the numbers would work. Unfortunately, the vendor is under no pressure to sell and thinks he can out wait the council or at least wait until prices have risen sufficiently to justify his price. In the meantime, single people and young couples in the area are facing an ongoing shortage of good quality, reasonably sized and importantly, affordable accommodation.

So who is right and who is wrong— the uncaring council, the greedy vendor or the opportunistic developer? Like many situations, it depends on your viewpoint. One thing is certain, the people who want to live there don't want excuses, they just want somewhere to live.

The good news is that the government has repeatedly told us that it is serious about the housing sector and wants to create a stable environment where the housing shortage is alleviated. Regrettably, I am not sure we can trust it on this issue, as it has just appointed its fourth housing minister in twelve months. That is not a misprint—so much for the promise of stability. Brexit, quite rightly, is of paramount importance and as ministers have fallen out with Theresa May others have had to be promoted to take their place. Of course, one solution is to appoint the least able person to the housing position in the expectation that he or she can't do any worse than their predecessors and is unlikely to be promoted to a higher position. Nothing much will change, but at least the face would look familiar over time and the statements coming from their mouth would sound boringly familiar. But I jest, Mr. Malthouse (the new minister) is apparently well thought of in the property industry and should do a fine job - if he stays long enough that is. Perhaps the Agricultural and Fisheries Department will need a new minister - who can turn down a promotion?

On a lighter note, despite Brexit, the UK property market is ticking along and London may not 'fall off a cliff' in terms of values, as some people fear. August is traditionally a quiet time of the year for us as many of our clients are on holiday and it will be interesting to see what investor sentiment is like when people are back at work next month. I think the prospects for the market are surprisingly good, even if the bears lurking in the undergrowth disagree.

Tony Davies

Managing Director

Hot off the press

The housing market in **London**'s most expensive postcodes is beginning to rebound after Knight Frank reported a sharp rise in interested buyers in June. The upmarket estate agent said that the number of new prospective buyers in prime central London was 31% higher in June than the same month last year. It added that the total value of the sale of homes it completed that were above £10 million was £407 million, the highest monthly total since December 2014, before stamp duty rates were overhauled and caused a sharp slowdown in the prime housing markets. *Good news, but let's wait to see if this is a blip or a real change in the market.*

Barratt Developments, the UK'S largest housebuilder has shaken off fears of a slowdown in the property market and vowed to become "bigger than it has ever been". It completed 17,579 homes in the year to June, compared with 17,395 a year earlier. Its most productive year to date was 2008, when it completed 18,500 properties. It wants to build 20,000 homes a year within the next three to five years. The company added that it forward-sold 10,155 homes at a total value of £2.1 billion, up 4%compared with last year. The strong level of completions pushed pre-tax profits up to £835 million, up from £765 million last year, supported by a strong performance in the regions. Barratt said that it was committed to paying £1.9 billion in dividends to shareholders in a five-year period to November 2019 and would pay special dividends of £175 million in 2018 and 2019. "The housing market is in a good place," David Thomas, chief executive, said. "We have good customer demand, we have good mortgage availability and government's Help to Buy product has been a fantastic stimulus." *He could have added "and if we build quality homes and provide great customer service we have all the ingredients for success."*

The Campaign for Real Ale reports that an estimated 18 pubs close each week in Britain, many in remote areas; while over the past five years, one countryside school a month has closed its doors and 81 rural post offices have shut up shop for good, according to the National Housing Federation's rural life monitor. *Some of these properties, particularly pubs, are character buildings that could be converted to residential - but remember that one of the five rights of successful property investment is location; the countryside is seeing a decline in population, particularly in young people, and you have be careful when investing outside urban areas.*

House prices rose at their fastest rate since November last month as rising wages helped to alleviate the pressure on household budgets. Annual house price growth reached 3.3%, exceeding forecasts of 2.6%, according to a survey by Halifax, Britain's biggest mortgage provider. Growth hit 1.4% on a monthly basis and 1.3% over the quarter while the average price was £230,280.

Russell Galley, managing director at Halifax Bank, said: "Pressures on household finances are easing as growth in average earnings continues to rise at a faster rate than consumer prices." He said the recent move by the Bank of England to increase interest rates above 0.5% for the first time in almost a decade was unlikely to have a significant effect on the affordability or quantity of mortgages, Mr Galley said.

Not to be out done, data just released by Nationwide Building Society also showed house prices rising ahead of expectations last month. *Short term stats which may improve market sentiment, but don't mean much in real terms.*

London's slowing house market has led **Foxtons** to report a pre-tax loss for the first time since the upmarket estate agency listed on the London Stock Exchange five years ago. The group known for its fleet of dark green minis and chain of coffee shop-style offices (*and by some for its sales tactics*) said that it made a loss of £2.5 million in the six months to the end of June. This was a 166%drop from the £3.8 million profit during the same period last year. Foxtons has suffered a terrible past three years, dropping out of the FTSE 250 in December 2015 and consistently reporting double digit falls in revenue and profit. Foxtons is not alone in suffering a slowdown among estate agents. Last month, **Countrywide**, Britain's largest estate-agency group, issued its fourth profit warning in eight months and said it planned an equity sale to halve its £200 million of debt, as housing transactions were taking longer to complete. *We doubt many people are shedding tears over the plight of estate agents, but good ones do provide a valuable service.*

The government recently announced a bold, attention grabbing new £100 million scheme to end rough sleeping within a decade. It had hailed the scheme as a comprehensive strategy to "help the most vulnerable in our society get the support they need". However, James Brokenshire the new Housing Secretary, has now admitted that the government will not put any new government money into it - half the cash had already been committed to rough sleeping and the other half was "reprioritised" from existing budgets in his department. John Healey, the shadow housing minister, said the lack of new money meant that the plan had "unravelled just hours after it was announced. *The announcement made the front pages, the admission was buried in the inner pages.*

Auction properties - low prices and great yields

Few overseas investors buy property at an auction and it is easy to see why. The process is different from a typical private treaty sale and an on the ground presence is needed, and a lot of leg work, to avoid an expensive mistake being made. Nevertheless, some great opportunities are available for investors who are prepared to approach auctions correctly and use professional help.

If you prepared to consider auction properties the first step is to trawl through the catalogues that list the residential properties for auction. You will see a lot of re-possessed houses, where the selling party is obliged to secure the best price. The easiest way to do this, with a degree of transparency, is to put it in an auction where everyone has a chance to bid.

You will also see a lot of poorer quality houses that require refurbishment. 'Some vendors will put it in an auction as an easy option and see what the market will pay for it in its current condition. Most owner—occupiers don't want to do major work and most High Street lenders want to lend on modernised, readily habitable properties. The auction process has accordingly historically attracted developers or experienced investor who are looking for a 'bargain'. This is gradually changing, but you will still see lots of professional buyers in the auction room. These guys usually know what they are doing so be careful. If it looks like a real bargain and they are not going for it then ask yourself why.

The auction process is fairly straight forward. Several weeks before an auction the auctioneers will produce a catalogue providing brief details of the properties listed for the event. They will also produce a guide price which is supposed to be reflective of the price range it should sell for. Unfortunately, some of the less reputable auctioneers deliberately under value the properties and the final sale price may, on average, be up to 30% higher The hope is that the 'amateurs 'will be attracted by the low price and then get carried away on the day and over bid - unfortunately, this is often the case.

Once you have decided which properties are of interest you will need to have them inspected and work your budget out The 'caveat emptor' principle applies and it is up to you to satisfy yourself on the condition of the building—there is no recourse after the event if something is wrong. You will also need to check the legal pack provided by the auctioneer. This is the information on the purchase process, the title etc that your solicitor should check before you buy. Since you may be interested in several properties this will mean abortive legal fees for those that are not bought. Often the legal pack is not available until near the auction date so you will need to have an obliging solicitor who can handle the work as and when you require.

The auction room can be intimidating place, but there is no pressure to bid first and you can see who is bidding and of course, their bid price. Owner-occupiers are always inclined to stretch themselves financially to get the house they want. For investors it should be all about the investment and paying too much for a property is a recipe for disappointment. Set a maximum price and stick to it.

The good thing with an auction is that the matter is decided on the day. Once the hammer falls you are committed and there is no possibility of the vendor withdrawing from the sale or of you being 'gazumped' by another buyer. You will then have to write a cheque for 10% of the purchase price with the balance due within 20 to 30 days.

So in summary, if you are looking for a property that you can buy 'cheaply' and add value to it through refurbishment, or you are simply looking for an undervalued property, the auction route may be suitable for you. Prices can start from as low as £40,000 for a house in the north of England, which will show an attractive rental yield when compared to buying a new property from a developer.

For most overseas investors, using the auction route comes down to trusting the right developer/adviser (one of the five rights of successful property). With full transparency and for a set fee, the right developer/agent can handle all aspects of the process, from identifying and vetting suitable properties through to attending the auction and carrying out any refurbishment work. Auctions are not for everyone, but the rewards are there if they are approached correctly.

For information on how you can acquire auction properties through St David please contact us.

Will these catch on?

A former engineer with Rolls-Royce, has developed a 3.9 metre-diameter spherical structure intended as a living space for young adults. It has a bed, kitchenette and toilet. It is made of aluminium and recycled plastic and can be linked together to add space. The "living pod", called the Conker, costs £21,000 and can be installed in the garden. The first two are under construction and will be installed at a camping site in Wales. The engineer is not alone in attempting to address the problem. An architect has devised a lightweight wooden structure, built from prefabricated parts, that can be quickly bolted on to the side of the family home. Kit Studio is chiefly designed to occupy the driveway gap at the side of a typical 1930s property, 400,000 of which exist in London alone. It piggybacks on the home's water, power and drainage. The first will be built in Southwark. When it is available in about a year's time, it is expected to cost between £30,000 and £35,000.

Majestic Victoria in Manchester

We are now full steam ahead with the refurbishment and as you can see, the work we are carrying out is extensive. The tired swan will soon be returned to its former glory.

18 apartments ; Character building ; Classic designs - period features ; 999 year leases
Anticipated completion - Q4 2018 ; Good residential area - tree lined street comprising quality homes
Walking distance to Metrolink, bus and train stations ; Close to shops, restaurants etc ; Strong rental demand and capital growth prospects ; 6% p.a. interest on funds held prior to completion
6% p.a. net rental guarantee for 2 years ; £5,000 Rental Bond per unit to support the guarantee

Unit price - from £105,000 ; Syndicate opportunity from £30,000

For further information please contact us

Around the globe

According to Home Espana, booming tourism and a prospering economy are helping to drive **Spain**'s housing market, making 2018 an exciting year to be buying a property along the Costas. According to a raft of recent reports, the consensus amongst leading financial institutions, both Spanish and international, is that the Spanish property market will continue to grow steadily during 2018. Ratings agency Standard & Poor's (S&P), PricewaterhouseCoopers, Spanish bank BBVA, Spain's Instituto de Práctica Empresarial (IPE) and property valuation firm Tinsa are all forecasting a hike in average house prices over the course of the year, with anticipated rises ranging from 5% to 8%. At the same time, Tinsa predicts that the volume of sales transactions in Spain will increase by 10% to 15% compared to last year. This is a continuation of strong volume growth in 2017, recorded as 13.5% for the last three months of the year by Spain's Association of Notaries.

This positivity in Spain's property market is supported by the country's strong economy, currently one of the best performing of all major EU countries. Spain recorded GDP of 3.1% in 2017, the third consecutive year it has been more than 3% and this trend is expected to continue throughout 2018.

Did you know?

In an effort to avoid higher taxes, a record rise in the number of homes are being let out by small companies as landlords place their properties incorporate vehicles in an effort to avoid higher taxes. According to one leading agent, around 18% of all rented properties in the UK were being let out by companies rather than individuals in the first six months of this year.

The change in approach is due to changes to the relief that landlords can claim on their mortgage interest costs. Until last year, landlords only needed to pay income tax on the profits they made from their properties, having first deducted their mortgage interest and other associated costs such as arrangement fees. Most buy-to-let landlords were on interest only mortgages and could claim all of their mortgage repayments. However, from April 2017 the government began a four-year tapering of this relief. By 2021 landlords will have to pay tax on their total income, which includes all rent, before claiming a basic tax reduction of 20 per cent. Thousands of landlords are switching their portfolio into a limited company vehicle where this tapering does not apply. Owning properties through a company allows landlords to offset interest costs against tax and pay corporation tax, which is lower.

Our MD will be in HK and Asia from the 15th September for a few weeks. If you would like to meet him to discuss the UK market and our opportunities and services please contact us.

Many thanks to those who visited us in London during the last few weeks. It was a pleasure meeting you and we hope you enjoyed the time you spent with us. We look forward to seeing you again in HK/Asia next month.

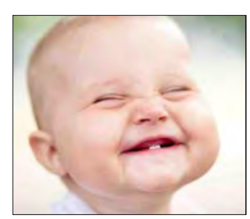
And now for something a little lighter ………

A thought from the Property Pulpit

Brexit is an interesting time and interesting times create interesting opportunities Don't miss out!

Ms Mina Begum, our MD's assistant, has left St David. It is always sad when a valued team member leaves the group and Friday after work on the balcony will never be the same. We wish her every success for the future.

The ability to talk about football at length (preferably a Cardiff City supporter), together with endless patience when it comes to explaining how anything technical works, and an appreciation of his fine poetry are requirements for the job. He occasionally needs his hand held and a shoulder to cry on, but apparently most men do. Great office environment, wonderful clients and free bubbly once a week after work. All applications gratefully received.



The articles and comments contained herein reflect the personal views of the author (our MD) and are intended to be accurate, informative and occasionally amusing. No offence is intended to any party (Honestly, I promise!).

If you have any feedback for us re content or format please let us know. All suggestions will be gratefully received (another promise, but also a sincere one!).

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

Your support would be greatly appreciated

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