

From The Property Pulpit 2/2017



A point of view

The UK election will not solve the housing problem

It is general election time in the UK and whilst we would all like to think that the incoming government will treat housing as priority, there is little likelihood of this happening. Successive governments over the past thirty years, and longer, have identified that there is an ongoing shortage of housing but none of them has had the political will to change anything.



In this election you can expect both the Conservative and Labour parties to acknowledge the problem, but coming up with a workable solution will be beyond them. The housing sector clearly needs a major overhaul, but vested interests at a national and local level mean that securing uniform agreement is extremely difficult. It needs strong political leadership, the likes of which we have not seen for some time. Where is Maggie T when you need her? She certainly had the backbone to force her views through even if her solution of privatizing much of the housing sector by selling off council houses was reviled by many.

The general consensus is that the UK needs more than 250,000 new homes every year. The government has had an annual target of 200,000 despite a cross-party House of Lords Economic Affairs Committee advising that 300,000 were required in England alone. In 2015 less than 145,000 were built. The maths is pretty simple, even for politicians.

There are lots of ideas as to how the problem can be overcome. Some seem sensible, some seem quite radical. They range from centralising the planning process to remove local vested interests through to offering tax breaks for developers to build lower cost housing and allowing the increase of urban sprawl into the greenbelt. There are multiple options available which do not include increasing stamp duty further to deter private landlords. Surely the aim is to provide more housing and not simply to tax more well off and deter them from investing in the sector?

Irrespective of the election result, a few things are inevitable:

- The housing shortage will continue, pushing house prices up over the medium to long term
- The number of people renting will increase resulting in more demand and higher rental values
- The government will not be able to financially support low cost social housing and the private sector will move into this space in search of secure and attractive rental income streams
- People will sacrifice space for affordability and convenience and the move to smaller units will grow in pace.



The next government has to decide whether it wants to dictate events in the housing sector or be led by them. Unfortunately, Brexit is going to dominate matters for the next few years and, despite some chest beating and statements of intent, housing will be a low priority. More effort should be made to bring this issue to the forefront of politics and politicians need to act to help numerous people find a home. The good news for some is that rental properties are going to become increasingly popular investments. If you own the right investment property good times lie ahead.

Tony Davies
Managing Director

*In this
edition*

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A thought from the Pulpit (*Definitely worth reading!*)**

Hot off the press

An owner gets upset and extracts her revenge

A property developer who painted the exterior of her Kensington townhouse in red and white stripes has recently won a High Court battle against her local council, which demanded that she return it to its original colour. The owner denied that her intention had been to spite neighbours who had objected to her plans to her redevelopment plans. The decision does raise questions over the statement 'An Englishman's home is his castle' and what owners are able to do with their homes. It is not everyone's choice for a colour scheme and we won't be adopting it. Anyone in favour of lilac flowers on an orange background for the next **Majestic** project?



Large overseas buyers are still keen on the London market

Chinese property giant Country Garden has set its sights on building tens of thousands of homes in London as it looks to take advantage of the "golden opportunity" political uncertainty provides for overseas capital. The residential developer, the third biggest in China by sales volume, has visited a number of agents (but not St David!) in the capital to discuss possible acquisitions as it gears up to take advantage of reduced competition and potentially pour billions of pounds into London and the commuter belt. "They want to build new towns. It's not just a few thousand houses," a source close to the company said. However, they are a long way from being built and are unlikely to satisfy the insatiable demand for housing in the foreseeable future.



But will they make the profit they expect?

The developer behind London's Battersea power station now expects to deliver less than half of its original targeted return due to rising construction costs and said it will delay building some affordable homes due to "wider economic changes". The 1930s landmark is being redeveloped by Battersea Power Station Development Company in a £9 billion project funded by a consortium of three Malaysian groups that will turn the 42-acre site into apartments, offices, shops and restaurant after 33 years dormant. It is tough being a developer these days!



Affordability affecting the market according to Nationwide

Nationwide Building Society has recently advised that UK house prices had risen by 2.6 per cent in the year to April, the weakest growth since June 2013. Britain's second-largest mortgage lender said prices fell for the second month in a row, dropping 0.4 per cent, after a fall of 0.3 per cent in March. Robert Gardner, Nationwide's chief economist, said that the softening in price rises came as a slight surprise as unemployment was at its lowest level since 1975 and with lenders offering some of the lowest mortgage rates on record.

"While monthly figures can be volatile, the recent softening in price growth may be a further indication that households are starting to react to the emerging squeeze on real incomes or to affordability pressures in key parts of the country," he said. The house price boom has meant that many areas, particularly in London and the southeast, have hit peak affordability, with signs that vendors are being forced to lower asking prices to get a sale. "House price growth has been outstripping earnings growth for a sustained period of time, steadily eroding affordability on a number of metrics," Mr. Gardner said.



A typical house price is 6.1 times higher than average earnings. This is well above the long-term average of 4.3 times earnings and close to an all-time high of 6.4 recorded in 2007, according to Nationwide.

The head or the heart?

We are often approached by developers and master agents who want us to offer their properties to our clients. One recent approach was from a developer from the Indian sub-continent who is trying to sell off plan beach front houses. The glossy brochure (I couldn't resist reading it) was full of the sort of marketing blurb you would expect, with photos of golden beaches and glorious sunsets. He was offering a 6% net yield guaranteed for 10 years, which certainly made it look appealing. A beautiful property in a picturesque location with an attractive return for a long period - does it get any better? As you might expect, some basic issues had not been addressed. For example, how many developments has this party completed before (none), is there a proven management team in place to find holidaymakers and manage the properties (not yet), what is supporting the rental guarantee (nothing), if the yield is say 4% in 6 years time will the developer top it up to 6% (doubtful). We could go on, but I am sure you get the point.



We are not questioning this particular person's integrity. We are simply questioning whether a decision to buy one of the houses as an investment is based on sound fundamentals. I doubt it, but doesn't that beach look tempting!

The above brings me to a question that came up in a seminar we took part in some time ago; *When it comes to property, do most people decide emotionally and then defend the decision logically, or vice versa?* In other words, does the head or the heart prevail? For many people it is the brain, but not for everyone. A brochure that appeals to the emotion of facing the beach and drinking pina colodas, or even sitting at home waiting for all the money to roll in (because obviously in the above case, other people will want to do that and will pay heartily for the privilege) will help get them sold. Once the property has been bought it is easy to come up with reasons why it will be a sound investment. Only the buyer, if he is honest with himself, will know which prevailed, the head or the heart.



Investors should always take the emotion out of the decision process and make sure the property meets their investment criteria. Unfortunately, glossy brochures will not always have the answers that an investor needs. This is where a good, trusted adviser is needed.

We have always regarded property as an investment which will provide security of capital and an attractive return. Whether we would want to live in it, or even like the location, doesn't matter. As long as the fundamentals are sound, we can offer it to our clients. It is all about the five rights of property investment :

**Invest in the right property in the right location
at the right time for the right price using the right adviser**

No emotion, just logic supported by sound ethics and a long term commitment to our clients.



Useful information brochure for offshore property investors



We have recently produced a guide for offshore investors covering various aspects of owning UK property. It includes an easy to read general tax summary.

If you would like to receive a copy please contact us.



Spain - it is a slow recovery

We have been monitoring the Spanish market for some time and the feedback from local agents is that demand has picked up over the last six months as international investors have begun returning to the market. This has resulted in higher asking prices in some cases, although not always in actual selling prices. The good news is that the general consensus is that prices this year are rising by up to 5% p.a. However, the market is still fragile and is still some way from a sustained recovery and the recent trend could be short lived.

Finance is still difficult to obtain, particularly for developers and accordingly there is a dearth of new build developments throughout the Costa del Sol. Eventually this will result in a shortage and will force prices up. However, despite the recent improvement in the Spanish economy, this will not happen in the short term.

Importantly, the risk of prices falling seems remote so the downside risk is limited. It is now a question of how long the recovery will take and at what point we exit the project. We will continue to monitor the market and will report again as we go through the year.

Opportunities



- High Street Kensington, London
- Superb location
- One bedroom, one bath apartment
- Long term tenant
- Price - £650,000



- Large Modern Freehold Shop and Residential Ground Rent Investment
- Location - London
- Shop let to Fresh & Wild Ltd, guaranteed by Whole Foods Market Inc
- Guide Price = £2.1M - £2.2M
- Gross initial Yield = 6.58%



We are currently carrying out due diligence on several USA commercial opportunities with the emphasis on security of capital with an attractive return. These will be available shortly for direct purchase and through a St David Private Syndicate.

Did you know?

The average asking price for residential property in the UK is now £207,699.

Proposed changes to UK Inheritance Tax will not affect commercial property.

More than 93 per cent of flats in one of Manchester's biggest housing developments have been bought by foreign residents or companies registered overseas. Only 17 of the 282 flats were bought by British residents and only two are being lived in by UK owners. The rest are empty or being rented out (it pays to buy in a smaller development!).

Finally, a thought from the Palpit

Mortgage payments and sleepless nights, the joy

of children with Christmas lights, no time to linger nor time to dwell, plans for the future, all set to do well, a home for us and generations to come, enough for all and more for some, but now alas time too few homes to share, a generation set for despair, but all is not lost if we act soon enough, forget the rhetoric and all of its bluff, with minds alert and force in hand we can surely provide in our fair land, a home for all and peace at heart, but where is the will to make that start, not from those who want to prevail, who hear the pleas but to little avail, perhaps from the silent with all good intent, or just from those who are far from content, we can all help a little to find the way true, but it is not up to others it is up to you.

(The MD thinks he is a bit of a poet but he has been advised not to give up his day job!)

This newsletter is not an invitation to the general public to invest in a private syndicate. For further information on our activities and how you can become a client please contact us.
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