# Views from the rooftop

Property investment
in the United Kingdom

January 2020

1

*Some thoughts...*

## In this edition



**Hong Kong and Bangkok
17th - 28th Feb**

## 2020 and congratulations

In 2019 we found that lots of investors were focused on income producing assets rather than more speculative capital growth opportunities.

This is understandable given Brexit and is likely to continue in the year ahead as its effects continue to impact the market.

As our clients know, we are firm believers in the affordable co-living/HMO sector, where our clients are enjoying excellent returns through our acol projects.

One of the challenges we face with this sector is the perception many people have of it.

Ideally, most investors want a prime location with quality tenants and a great net return.

Unfortunately, you won't get a real 7% - 8% net income in prime locations. However, you can get it in perfectly acceptable areas such as greater Manchester.

As for tenants, we have learnt that when it comes to paying the rent and keeping a property in good condition, a blue collar worker is just as likely to be a great tenant as a professional worker.

As for rental income, it is all about the rental demand in the area and then making sure the right tenants are chosen and the property is managed properly.

With the sector offering a reliable, attractive income stream and capital growth in line with the general market, there is little downside for those investors seeking a secure investment.

As you might expect, acol will be at the forefront of the opportunities we offer in 2020.

Congratulations to Boris Johnson and the Conservative Party for their election victory.

A lot of people think Boris is a light weight politician (figuratively speaking given his physique) and that he is full of bluster.

He may or may not be, but there is no denying that he led his party to a resounding victory, albeit against a somewhat inept opposition.

Solving the housing crisis, which was one of his promises, may be a little harder.

One of his promises is a scheme offering discounts of at least 30% in an effort to help 'local people' and key workers on to the housing ladder.

Implementing it is fraught with difficulties, as David Cameron found out when he tried with something similar and failed.

The big question is who is going to fund it. It appears the plan is for developers to do this, but whether this is an additional burden they have to bear remains to be seen.

If they do, we can expect either new house prices to rise as they pass the cost on to the end buyers or the number of homes they develop to fall as marginally profitable sites are abandoned.

Neither option sounds particularly appealing, but as you might expect, it is all subject to consultation and the 'devil is in the detail'.

The good news is that if Boris is as good at solving the housing crisis as he is at winning elections then the prospects for the housing sector are bright. We live in hope.

*Tony Davies*
*Managing Director*


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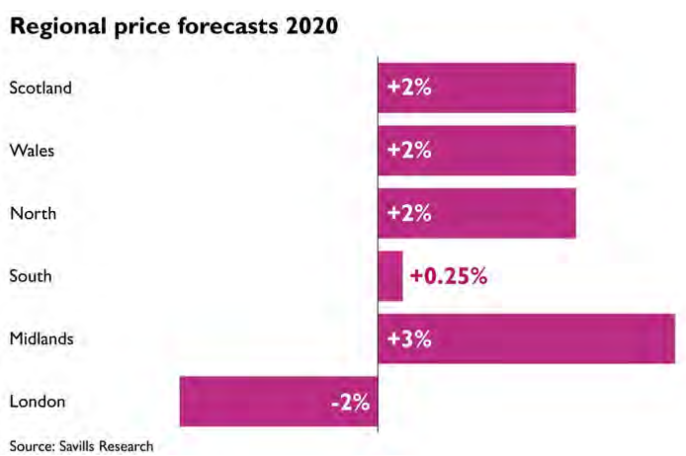
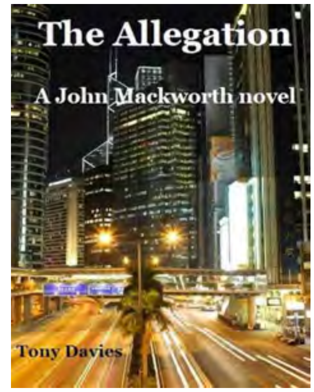
## It is that time of the year again

As our clients and regular readers of our newsletter will know, we rarely, if ever, forecast where the market is heading in terms of prices.  Our focus is on secure, income producing properties that will show capital growth in line with the market. We prefer to leave the forecasting to the so called 'experts'.

These are some of their predictions;


## A big thank you




In last month's edition we asked everyone to buy the attached book as all the proceeds are being donated to Shelter, a charitable organization focusing on the homeless in the UK.

Solving the homeless problem in the UK is going to take more than book sales to achieve, but every little bit helps and our thanks go to everyone who stepped up and bought a book.

If you didn't, treat yourself and buy it through Amazon or direct from us. It is never too late to help someone who needs it and it is 'a cracking good read'.

## The retail sector and open ended property funds

If you are thinking of investing in a regulated property fund you may want to pause for a moment and seek some expert advice from a party that specializes in this asset class (for the record, we do not).

The problems M&G are currently experiencing are linked to the demise of the retail sector. As shoppers abandon the High Street and order on-line, retailers have struggled and a number have gone bankrupt or sought rent reductions. This has impacted on retail property values as well as income streams resulting in astute investors headed for the door.

In the case of M&G, net outflows from its fund reached £901 million in the ten months to October, according to Morningstar. As a result, it was forced to gate the fund because of a wave of redemption requests that could otherwise have pushed it into fire sales of assets and so disadvantage investors sticking with the fund.

A lot of property funds have considerable exposure to the retail sector and have experienced the same problem; about £1.2 billion was pulled from these in the same period above.

Whilst the attractions of such funds were high yields and liquidity, the problem is that property is generally an illiquid asset.   When there is a flood of redemptions some funds have insufficient cash to honour them without selling the properties, which takes time.  Holding more cash would be one solution, but this would impact on the eventual yield.

According to some, this was a problem that was always going to happen. Mark Carney, governor of the Bank of England has said that such open-ended funds were "built on a lie". Of course, not everyone agrees with that view and the good news is that not all such funds are affected.  Much depends on the nature of the assets they hold and the sectors they are exposed to.

For those seeking to invest in this asset class, there are alternatives. For example, investment trusts which are closed entities and never have to meet redemption requests. There are also dozens of listed property trusts (or Reits, as they are known).  Each have their pros and cons, which is why expert advice is needed.

Unfortunately, the problem of liquidity and the illiquid nature of property will persist for some funds.  Policymakers are planning reforms, but that is of little comfort for those who are locked in. Patience and faith may be required.

# 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**

### Will the last person to leave please turn off the lights

The prime minister isn't the only one to see the north of England in a new light — a record number of those leaving London are relocating in the north.

The proportion of Londoners heading to the North East, North West or Yorkshire and the Humber to buy a home has risen sharply, research by a leading estate agency, suggests.

In 2009 only 1% of those who left London bought a primary residence in the north. Last year that rose to 13%.

*We doubt London will become a ghost town any time soon*

### Regulated property fund frozen

Investors in the £2.5bn M&G commercial property fund will remain trapped indefinitely after its manager said the suspension would continue.

The M&G group, which is required to update investors every 28 days, has announced that the fund would reopen "once cash levels have been sufficiently restored", but put no date on when that would be.

M&G was forced to gate the fund last month because of a wave of redemption requests that could otherwise have pushed it into fire sales of assets and so disadvantage investors sticking with the fund.

*More on this later in the newsletter*


**HOT OFF THE PRESS**

### December was a good month

House prices grew at their fastest pace in more than a year last month, according to a closely watched survey.

Growth hit 1.4% in December compared with a year earlier, the first time in 12 months that house prices have risen above 1%, Nationwide Building Society said.

The figure was broadly in line with economists' expectations, although some analysts had been forecasting more subdued growth of about 1%.

Prices increased by 0.1% in December compared with the month before, with the average property value now £215,282.

*Slow but steady*

### Rents to rise moderately but no hope for stamp duty

According to Knight Frank, average rents are set to rise by 1% across the UK, but by 2% in London - where 29% of residents are renting - and the southeast.

Unfortunately, they are not hopeful about the scrapping of the 3% stamp duty surcharge on second homes - "We expect that stamp duty will continue to be the weapon of choice to regulate the housing market".

*Not everyone agrees with this forecast*

### The big boys are buying more London sites for development

Berkeley Group, set up by Tony Pidgley in 1976, has bought a store in Camden, north London, owned by Morrisons.

The site comes with planning permission for about 450 homes and 100,000 sq ft of offices.

Pidgley, who has a fortune of £335m, has said he thinks the London market is set to recover after three years of depressed trading since stamp duty was raised and Britain voted to leave the EU, creating uncertainty for foreign buyers.

His view is likely to have been reinforced by Boris Johnson's thumping election victory.

The Camden site is one of several schemes Berkeley has bought recently; another was in Poplar, east London.

*They have not lost faith in the market*

### Estate agents power on

Savills, the estate agency, has said that its annual profit would be at the upper end of the £134 million to £142 million that had been forecast previously by analysts.

"The clear outcome of the general election prompted a strong close to the year as confidence to transact returned to the market," the company said.

*Things are getting back to normal*

‘A totally refurbished, structurally sound freehold house that offers quality affordable co-living and which will show an attractive net rental yield and capital growth in line with the market.’

## Q and As

### What type of tenant lives in a HMO?

Every day people who are budget conscious and want somewhere comfortable to live. They are typically single, blue collar workers such bus drivers, warehouse staff etc. They are prepared to share a bathroom and a kitchen if it means they live within their means.

Experience of managing properties has taught us that tenants with higher salaries have no more personal integrity than tenants earning less money. The key is to make sure, at the outset, that the person is gainfully employed, can afford the agreed rent and understands the rental commitment they are making.

### Do the tenants keep the rooms in good condition?

As with all properties, it all comes down to the individual tenant. Our **acol** properties are finished to a high standard and we have found that if you offer a quality product people will look after it. Additionally, we clean the individual rooms and the communal parts every two weeks so if there is a problem we can address it quickly and resolve it with the tenant/s.

### Are there standard rental agreements?

We only offer one year Assured Shorthold Tenancies (ASTs), as we do for all our other properties. We do standard credit reference/employment checks and take a security deposit.

### What do we need to provide the tenants with?

**acol** properties are offered ‘ready to live-in’, are fully furnished and have a fully equipped kitchen.

### What about en-suites?

As you might expect, some people will pay more for an en-suite while others prefer to share a bathroom to save money. There is strong demand for both options.

### Do I need a special licence to own a HMO?

For an **acol** property you don’t. They have only four occupants, which falls below the licensing requirements. They meet all Building and Fire Regulations and the rentable rooms meet the recommended minimum space requirements for acceptable accommodation.

### Will you handle every aspect of the process for me?

Yes, we handle all aspects, from initial acquisition, through to eventual resale.

### Are they easy to resell?

Yes they are. There is always good demand for quality properties that have a sound track record of auditable, attractive returns. They can be sold through estate agencies or by auction, with us handling the process.

### What is the investment level and rental yield from an acol property?

The investment level is around £170,000 and the yield is between 7% and 8.5% p.a. net of all costs, and we do mean ALL costs. We also offer our clients LLPs/private syndicates with an investment level from £50,000.

### Is there a downside to an acol property?

As an overseas investor it is difficult to secure a mortgage pre-refurbishment. Lenders prefer to lend on the finished product and often on a portfolio rather an individual property.

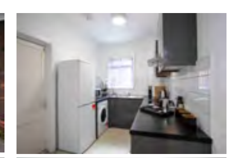
# acol Kappa LLP

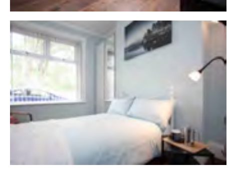
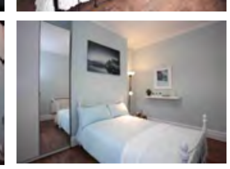
Our last acol syndicate was fully subscribed and given the interest from our clients in the HMO/affordable co-living sector we have now launched a new private syndicate - acol Kappa LLP.

acol Kappa will acquire two acol properties in greater Manchester. Both will comprise four individual rooms with communal facilities.

The syndicate will run for five years with an exit option after three years. The minimum investment is £50,000 and the expected net rental yield after all costs is 7.9% p.a.

The LLP is an ideal way for our clients to invest in this expanding sector and enjoy trouble-free and attractive rental returns.

*This article appears as a matter of record only. It is not an offer to the general public to invest in a St David private syndicate.*


**Best wishes to all our clients, associates and recipients of this newsletter for the year of the rat**

## *Something lighter*

### The MD's new year resolutions

Goal - Increase the circulation of this newsletter
Action - **attention everyone**; please send this newsletter to all your friends and colleagues and tell them if they want to receive a copy to request one from info@stdavidgroup.com (He won't drown them in spam)

Goal - Secure more referrals
Action - **attention everyone;** please….. (pretty obvious this one)

Goal - Provide a quality service and great investment returns for our clients
Action - continue to focus and work hard

Goal - Lower golf handicap
Action - Mission impossible


If you would like to meet our MD
on his next visit to Asia please contact us

## *Thought of the month*

New year is coming, the goose is getting fat,

Please put a dollar in the homeless man's hat.

If you haven't got a dollar, fifty cents will do.

But if you have fifty dollars,

we will send a book to you

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

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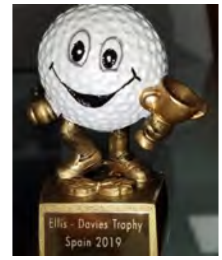



The annual Ellis-Davies golf event took place over the Christmas period in Spain.

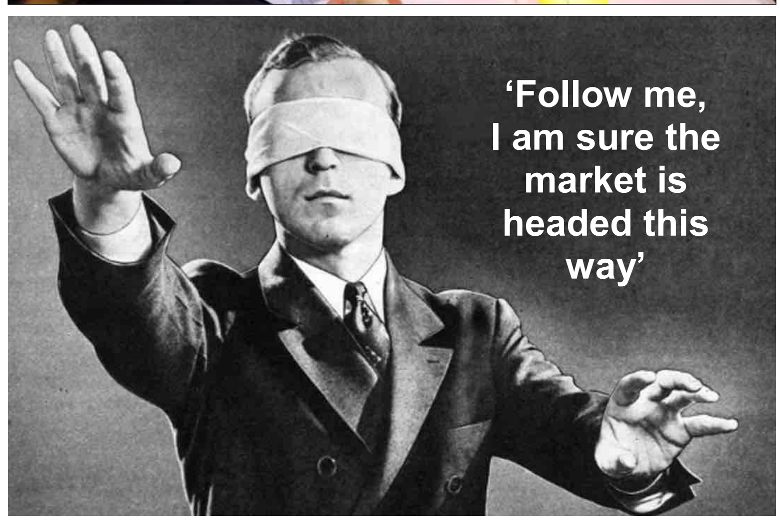
Unfortunately, it was cancelled after the second day as one of the party ignored the advice 'Don't walk on the slope because it is slippery' and subsequently fell over, cracking two vertebrae.

The phrase "I told you so" was heard throughout the rest of the trip.

Five days in hospital and two weeks in a wheelchair did little to dampen the person's spirits though and a good time was had by all.

Question - who was the injured party?

Answers on a postcard to the MD please.

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