

Do you want 2.5%, 5% or 7.5% p.a. net return after all costs?

Most of the investors we talk to have a pre-determined view on the rental income they want from a property.

The following shows the typical feedback we get with regards to the rental yield they are happy with;

A) It isn't that important as the focus is on capital growth (2.5%)

B) The important thing is a steady but still attractive income from a sector and location they know (5%)

C) The higher the yield the better as long as they don't have to manage the property themselves (7.5% plus)

The key to avoiding disappointment later is to identify at the outset what the requirement is and then follow the five rights of successful property investment (see the last page).

A) Capital growth - 2.5% net

If you want capital growth from the UK market and are prepared to accept a low yield (2.5% or less), then it would be a brave man who bets against London out performing the rest of the country over the longer term.

B) 5% net

Studio apartments and traditional houses in the north west let to families can show yields of 4% - 6%.

There is strong demand for both types of properties and they are relatively easy to manage.

There are lots to choose from so the key is to use the right developer/adviser.

C) 7.5% plus net

In the residential sector HMO (Houses in Multiple Occupation) properties will show this yield.

Having multiple tenants with some shared facilities enhances the yield. However, it does mean good quality management of the property is needed if it is to be a trouble-free investment.

When all expenses are included, a real net yield of 7.5% plus should be achieved.

Most investors are not familiar with the HMO sector and it is easy to get carried away with the yields that some vendors say they are getting.

This is a great sector to invest in if you want an attractive and secure income, but you have to trust your developer/adviser and its property management team.

A, B or C?

Our focus is on income producing properties that will show capital growth in line with the general market.

Given the yields in London we are not currently developing there so we can't help if you choose option A..

If you are looking for a 5% or 7.5% plus net yield, options B and C, then you may consider the north west where we can offer such yields.

The first step is to decide on the option/s that you are most comfortable with.

The next step is to get in touch with the right developer/adviser.....

Tony Davies
Managing Director



An admission and a disclaimer

This newsletter is our way of staying in touch with everyone and letting them have an overview of the UK market and how we operate.

It is not intended to be a sales tool with lots of properties for sale or the definitive guide on the UK property market.

It is occasionally a little opinionated (at least you know how we view things) and we accept the content won't appeal to everyone.

If you enjoy reading it please pass it on to friends and colleagues and ask them to contact us for future editions..

Finally, all feedback, good and bad, is greatly appreciated. Please let us have your thoughts.

Market updates

Mortgages are going out of fashion

In 2009 46% of home-owners in England did not have a mortgage. By 2019 the number had risen to 54%.

In September the share of homes purchased by first-time buyers dropped for the first time in five years. This followed a ten-year high in the proportion of sales to first-time buyers in 2019.

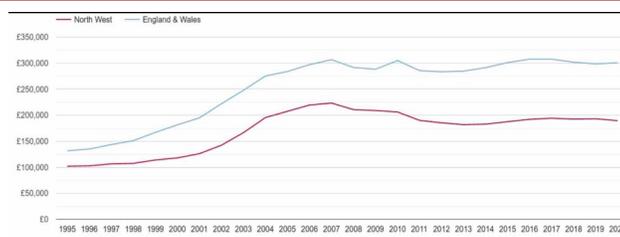
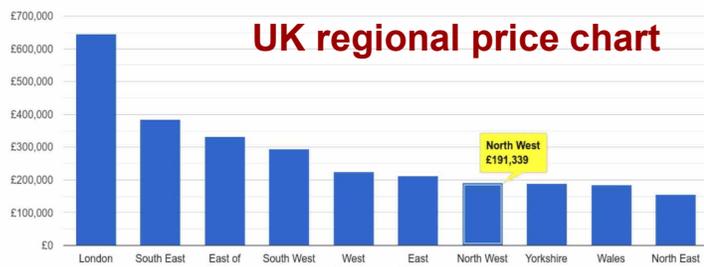
Property prices in prime London*

Annual change in price per sq ft (%)



* Covers large parts of the city's most exclusive, central areas
Source: LonRes
© FT

UK regional price chart



Yearly average nominal house prices adjusted for inflation.

18% - Predicted increase in UK house prices by 2025
Jones Lang LaSalle

32% of people in the UK are interested in designing and building their own home

Frequently asked questions



Our FAQ section seems to be popular and hopefully everyone finds it of benefit. If you have any questions which you think are suitable for inclusion please let us know.

Q. Tony Davies is the owner of the business, does he have any plans to retire or sell up?

A. I am far too young to retire! Seriously, I have been running the business for over twenty five years and have no intention of stopping now. I regularly get back to HK to meet friends and clients and I work with some great people in the UK so I have the best of both worlds. Our **acol** projects are in demand, everyone is enjoying themselves and we are expanding our operation so there are exciting times ahead. Besides, people who know me well will agree, I am not the retiring type (in every sense of the word!). With a little luck and lots of hard work the next twenty five years will be just as good.

Q. If I buy a property from you are there any hidden costs?

A. No, there aren't. We firmly believe in full disclosure so all the costs are included in our property brochures - there are no nasty surprises later.

Q. Do the properties come fully furnished?

A. Yes they do. We include everything the tenants will need the day they move in. This includes furniture, bedding, cooking utensils etc.

Q. Do I need to set up a UK bank account if I buy a property there or can I use my offshore account?

A. If you are not living in the UK it is difficult to set up a bank account there, but the good news is that you don't need to. The purchase funds can be sent direct from your offshore account to the UK solicitor representing you in the purchase. As for the rental income, this can be transferred to an offshore bank account. However, this will incur bank transfer charges, so for offshore accounts we recommend quarterly or six monthly transfers to reduce the fees.



Government has let down landlords

Comment

The government is certainly not making itself popular with the majority of residential landlords in the UK. With a big majority in Parliament it probably thinks it doesn't need to curry favour with them, which it will of course when the next election comes along.

At the start of the current crisis the government decreed that no evictions would occur as a result of non-payment of rent. With the possibility of people being furloughed or unemployed, it didn't want people being made homeless through no fault of their own.

The government's approach was generally regarded as a good political move. Helping vulnerable tenants certainly reads well in the press. Cynicism aside, it would help stop unscrupulous landlords from evicting tenants, a worthy aim and one that could be applauded by most people.

Unfortunately, like a lot of things governments introduce hastily, it wasn't thought through properly or administered correctly.

No provision was made for private landlords to receive financial assistance in the same way that employers and employees were assisted. The government is spending billions of pounds supporting all sectors of society, but private residential landlords were expected to fend for themselves with no support whatsoever. They were advised to come to a rental arrears payment plan with their defaulting tenants and seek assistance from their mortgage lenders if required. Neither of which helped the many landlords who rely on their investment property to support their income.

The sad but inevitable result of the no-eviction ban is that some less principled tenants have simply decided to stop paying rent irrespective of their financial position. There is little that could be done about it other than comply with government regulations and wait for the ban to be lifted.

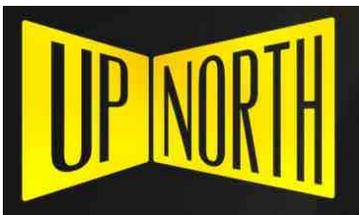
There is nothing wrong with the government protecting the position of vulnerable tenants, but some measure of financial support should have been offered to landlords. The private rental sector provides much needed housing and the government will never reach its intended target of 300,000 new homes a year without its support.

The government has now relaxed its eviction rule and landlords have rushed in to serve notice on defaulting tenants. The result is a huge backlog of cases which the courts will take a long time to clear, and which of course, means further delays in securing vacant possession. More funding for the law courts etc? Don't hold your breath.

We are fortunate that most of our tenants have fulfilled their rental obligations. Not everyone has been so lucky. The good news is that the worst appears to be over and there is still good demand for the right properties.

In the light of the current crisis the plight of private landlords may be seen by some people as a trivial issue. However, the ongoing housing shortage is certainly not trivial. The treatment of private landlords directly impacts the appeal of housing as an asset class. Make it less appealing and there will be fewer investors resulting in fewer houses being built. The government would do well to remember this before the next election.

Opportunities



We have a number of projects coming up in;

Merseyside St Helens Halifax Oldham

The properties are conveniently located and are totally refurbished to create ideal rental properties in the higher income rental market.

Our clients have the option of either

St David as the master tenant for three years with a guaranteed net rental or market rents

The investment level starts from £50,000.

For further information please contact us.



* hmo ; Houses in Multiple Occupation; Individual rooms with shared communal facilities



**HOT
OFF
THE
PRESS**

More properties coming on the market

The number of properties advertised for sale has increased by up to 40% over the past twelve months.

It's a great time for estate agents, but.....

Is your local estate agency going to close its office?

Countrywide, one of the UK's largest Agency groups has closed more than 50 branches this year.

On-line marketing is taking over and agency chains are cutting costs

Caffe Nero serves up a cold cup

Caffè Nero, the UK coffee chain which has 800 branches, has told landlords of 69 of its stores not to expect any rent for three years as a result of Covid-19. *Ouch, and we thought some residential landlords were facing tough times.*

95% mortgages with support of the government

The government has underlined its commitment to the housing market by indicating it is considering ways to allow high loan to value mortgages.

Lenders have been reluctant to offer such mortgages in light of a possible recession in 2021.

The government is keen for lenders to reverse their stance, even if government support is needed.

Not everyone will agree with government intervention

Cash buyers are hibernating as we head into winter

Despite most mortgage providers restricting their lending there has not been a corresponding increase in the number of cash buyers.

The opposite is true with such buyers declining from 26% to 24% of total buyers over the preceding twelve months.

Some UK investors are hoarding their cash in case there is a recession or bargains to be found later?

London rental demand in freefall?

Various parties are reporting that the number of new lets in London has fallen by around 25% over the past year and there are now 60% more apartments on the rental market.

The fall is supported by the statement from one leading letting agency - "It is a great time for tenants to negotiate 20% off their rent".

It remains to be seen whether this will continue post Covid 19

The UK government is considering changes to the tax system so that the rate paid on realised gains is more closely aligned with income tax. The Office of Tax Simplification (a statutory body) has issued a report advocating changes, but whether they are implemented is a matter for the government to decide.

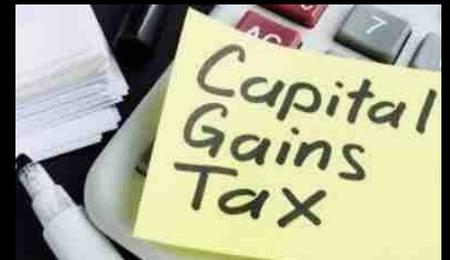
The changes will impact the property market. Capital Gains Tax (CGT) on realised gain from residential properties is charged at the basic rate of 18% with higher and additional rate payers paying 28%. Income tax is charged at a basic rate of 20% rising to 40% and 45% for higher and additional tax payers. If the proposals are implemented the capital gains rate will increase closer to, if not matching, the income tax rate.

Another of the proposals is to reduce the annual tax free allowance of £12,500 p.a., possibly to between £2,000 and £4,000.

Whilst many people agree that the system needs updating and various anomalies removed, the fact that such a measure is being considered now is primarily due to the huge deficit the government is running up during the current Covid-19 crisis. It has to generate more income from somewhere and one of the options is capital gains tax.

The proposals have drawn both praise and criticism. Some feel that it is a 'wealth tax' and an increase in the rate is long overdue, while others feel it will disincentivise entrepreneurs, businesses and investors.

Another report on the technical and administrative issues of the changes is due out next year. In the meantime we can expect the various lobby groups to put forward their arguments in an attempt to influence the measures that are adopted. Watch this space.



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

Something lighter



Meet the team - Claire Davies, Receptionist extraordinaire

Q. Tell us about your role with St David

A. I am front of office and meet and greet our visitors as well as handling the phones. I also help out with general administration and letting our properties.

Q. How long have you been with the group?

A. I joined in January. I was living in Perth, Australia and my dad asked if I wanted to come to over to the UK and work in his office. I jumped at the chance as I wanted to be involved in the business and spend time with him and D.

Q. How have you settled in?

A. Really well I think. Everyone is so friendly in the office and I am enjoying the work as there is always lots to do.

Q. What is the best part of the job?

A. Getting out and seeing the properties. I help D with fitting them out with furniture as well as showing tenants around. I like seeing the finished houses and we get a good reaction from people when they see them.

Q. Any downside?

A. The weather! I miss aspects of the lifestyle in Perth, the beaches and the outdoor life. Chester is good though as everything is so convenient and I can walk to the office.

Q. Any hobbies, interests?

A. I like to keep fit and in the summer I play tennis. I also enjoy watching movies and my cooking is definitely improving, or so my dad says!

Thought of the month

It is not that you stop when you get older,
it is that you get older when you stop

Our MD has delayed his return to HK/BKK until the current Covid-19 travel restrictions have eased.

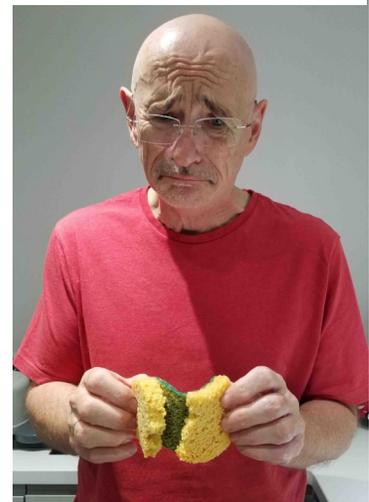
He is still available for conference calls.....



Please 'like' us at
[Facebook.com/stdavidgroup](https://www.facebook.com/stdavidgroup)

info@stdavidgroup.com
www.stdavidgroup.com

During the current lockdown I have been working from home.



My wife just broke the sad news that my most important working tool was damaged beyond repair.....