

# Quarterly Property Investor Review



- Current UK Market
- Focus on the Scottish Market
- The UK Rental Market
- Focus on Scottish Rental Market
- Focus on Edinburgh
- Property as an Investment
- Why Choose Glenham Property

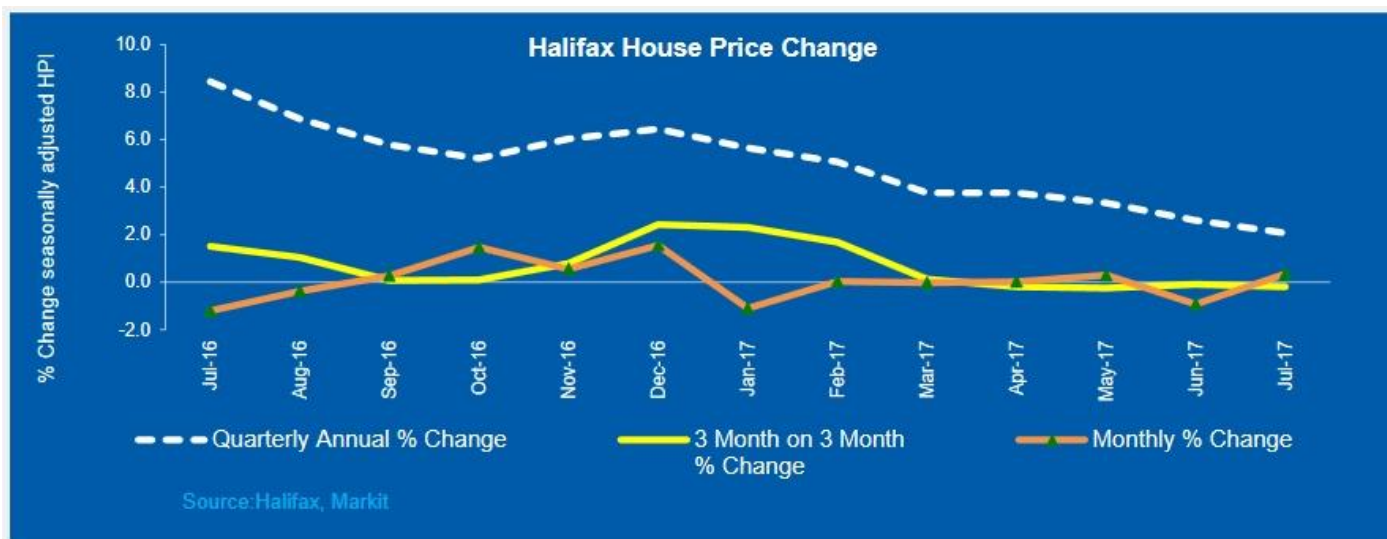
## Current UK Market

Most market commentators show that there has been a slowdown in the UK market in recent months. But at the same time industry experts predict that the average UK house price will continue to grow at a slower rate in the next four years. This is largely due to a lack of housing stock and an ageing population which will drive demand during that time. With only half the homes we need being built, there is still a significant discrepancy between supply and demand.

The recent RICS Housing Market Survey suggests that numbers of both new buyer enquiries and properties being brought to the market are contracting as buyers and sellers become more cautious. That feeling has been compounded by a slight squeeze on household finances, as inflation outstrips wage growth, and the increased tax burden faced by buy-to-let investors.

The unexpected result of the general election, which has resulted in a hung parliament just as Brexit negotiations commence, means there is little to suggest this picture will change in the short term. In addition to the above it is expected that 25% of the population will be over 65 by the time we reach 2030, and therefore more people are staying in their homes for longer, causing yet more shortages for those coming into the market.

According to the Nationwide Index, annual house price growth has fallen to just 2.1% by June 2017, from 5.1% a year earlier. The latest Halifax House Price Index shows growth at 2.1% in July compared to 5.7% in January this year.



Though house price growth has eased, this might be no bad thing since the previous levels of growth were perhaps unsustainable in the long term. In general, the UK property market is still buoyant with growth remaining above inflation and low interest rates contributing to high returns on investment. A slowdown does not signify a crisis, but more a change in direction and readjustment for the market.

Jeremy Duncombe, director at Legal & General Mortgage Club has pointed out that when compared to the wider economic and political landscape, the housing market has continued to “amaze many”.

“It has remained consistently robust, despite everything we have seen over the last 12 to 18 months,”

“In light of this, there is nothing to suggest that the market is in dire straits.”

*Jeremy Duncombe - Legal & General Mortgage Club*

## Focus on the Scottish Market

Overall, we believe the outlook for the Scottish housing market, and in particular for Edinburgh and Glasgow city centres, is one of resilience and optimism. We expect to see more development activity coupled with steady sales prices and potential rental growth over the next few years.

Residential property prices continue to show a steady rise though examining the figures in more detail it becomes clear that this growth is very patchy. After a surge at the beginning of the year generally Scotland has returned to its modest and sustainable levels of uplift. However, this hides considerable geographical discrepancies and resultant national price increases are heavily dependent on just a few key areas.

The average price of a property in Scotland in May was £175,070, which is an increase of 3% on the previous year, supported by high demand, especially from first-time buyers, while supply remains tight.

## The UK Rental Market

The housing market is changing. Once a market where growth in home-ownership seemed inevitable and getting a foot on the property ladder in your early twenties was accessible to all, today we are faced with a very different market and attitude towards the place we call home.

Over the last 25 years there has been a major shift in housing which has led to an increased bias to private renting both out of choice and out of need. These changes have their roots in the more tenure neutral housing policies that have been adopted since the 1980s, the impact of which has been amplified by the general undersupply of homes and the affordability challenge that would-be homebuyers face.

Residential rental property has soared by over 50% in value in the last five years, and is the fastest growth sector in the UK real estate market.

The UK's PRS is now worth £1.29 trillion following huge growth over the last five years.

Recent analysis from Savills has revealed that the value of assets in the residential rental market has increased by 55% since 2010 and now totals some £1.29 trillion. In fact, it's worth has now surpassed that of mortgaged owned occupier stock for the first time.

Over the last five years there's been a 28.3% uplift in the number of homes in the PRS, now totalling 5.7 million. That number, according to analysis last year by Price Waterhouse Coopers is expected to reach 7.2 million PRS households by 2025.

UK's PRS is now worth £1.29 trillion following huge growth in last 5 years

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Number of homes in the PRS expected to reach 7.2 million by 2025

# The UK Rental Market

## Prospects for Private Rented Sector

PRS has more than doubled in size in the last 10 years

Number of households in Scotland to rise by approx. 61,000 by 2021

National average rents in Scotland show steady growth of 1.5% YOY

7% of Scotland's households rented in 2004, 350,000 people were living in the PRS in 2015

Sources: Scottish Household survey

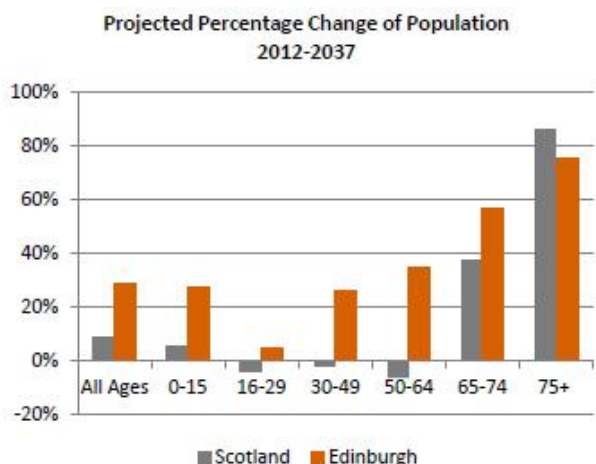
## Recent UK Research



- 25% tenants don't know if they want to buy a home
- 30% move to upgrade their property
- 62% of 18-24 year olds want their utility bills rolled up into the rent
- 71% think transport links are the most important factor when choosing a property

Source: Knight Frank Tenant survey 2016

## Change of Population



- Increase by 28% from 2012 to 2037
- Increase from 482,640 to 618,975
- Scotland population to increase by 8.8% by 2037
- Number of people in all age groups to increase

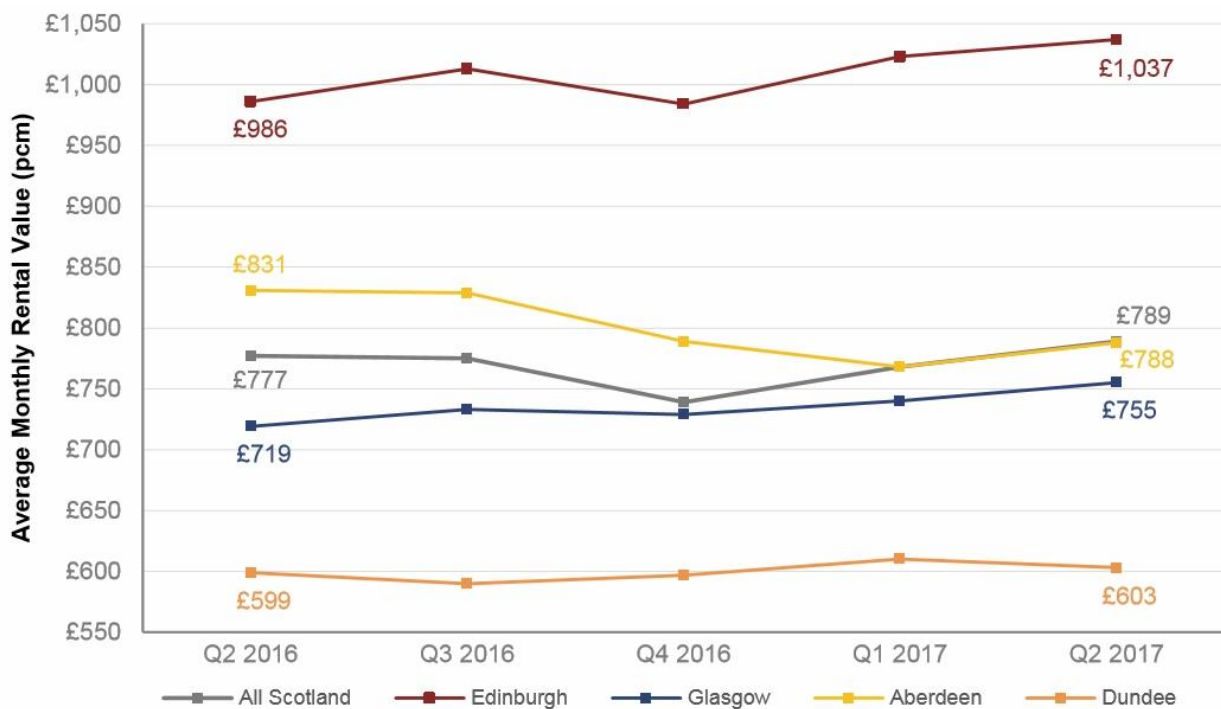
## Focus on the Scottish Rental Market

As we have seen the private rental sector across the UK has become a very important tenure for several demographic groups. This is especially true for those at the younger end of the spectrum. In addition, levels of owner occupation are declining in all but the older age brackets and this is no different in Scotland. In the most recent Scottish Household survey it was found that the PRS has more than doubled in size in the last 10 years, just 7% of Scotland's households rented in 2004 and in 2015 there were 350,000 people living in the PRS.

In 2016, the number of households in Scotland was forecasted to rise by approximately 61,000 in the five years to 2021, which equates to an expansion of more than 12,000 households each year.

In the Citylets latest Q2 2017 report national average rents in Scotland have shown a steady growth of 1.5% year on year (YOY) and currently stand at £789 per month. This is a positive sign as over the last two consecutive quarters average national rents had seen no significant rises.

### Scottish Monthly Rent Analysis (Q2 2016-Q2 2017)



Source: Citylets Report

Average times to let have also remained static at 25 days the same as the previous quarter.

# Focus on the Scottish Rental Market

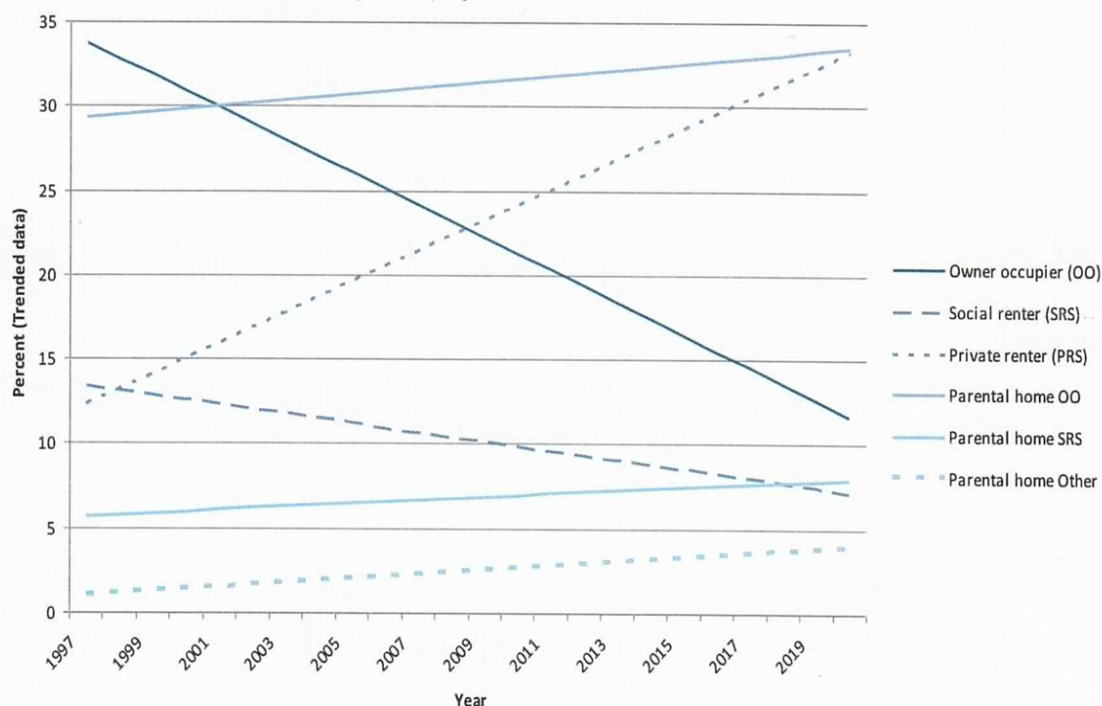
## Average Time To Let (TTL) by Number of Bedrooms



Source: Citylets Report

Again the above shows that levels of demand for quality rental stock in Scotland remains strong.

**Figure 1 - Trend-based tenure change and projections 1997-2020**



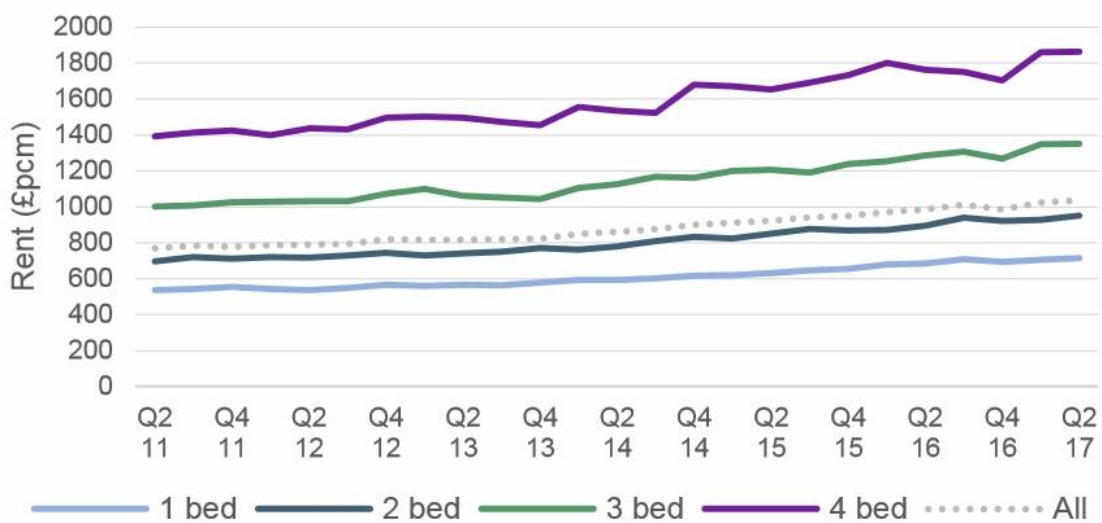
Source: Clapham et al (forthcoming)

## Focus on Edinburgh

Edinburgh has one of the highest projected population increases of +17% to 2039, which compares to the Scotland average of 7.5% growth. The long-term household growth in Edinburgh is 47% compared to Scotland's overall growth of 31% (NRS, 2014).

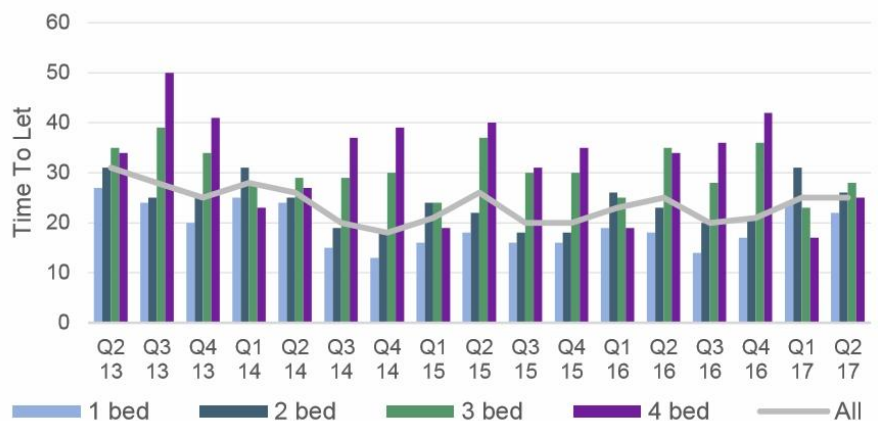
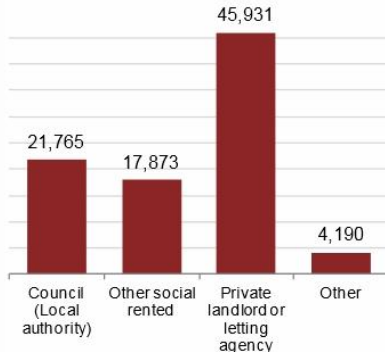
High levels of demand and a shortage of supply have resulted in rents in the Scottish capital yet again recording positive YOY growth to average £1037 per month, up 5.2% as per the growth recorded in Q1 2017. Average TTLs remained largely unchanged though two bed flats saw a small reduction. All major markets recorded strong gains with 2 beds performing best, up 6% at £950 per month. Levels of demand remain high and we would not foresee the market declining anytime soon.

Average Rent (pcm) by Number of Bedrooms



Average Time To Let (TTL) by Number of Bedrooms

Households: Rented



Source: Citylets Report

## Focus on Edinburgh

In 2016 average prices increased by 5.2% in the capital and in line with most other market commentators we believe that prices should continue to rise but slow down probably to rates nearer 2% or 3%.

For the longer term JLL has projected prices in the city will increase by 23.4% between 2017 and 2021.

The underlying marketing fundamentals in Edinburgh remain strong as there is a shortage of housing with an increasing population of both students and professionals looking to live, study and work in Edinburgh. The result is that demand for good quality rental property looks set to remain strong.

## Case Study

### HMO 5 Bed flat - £365,000

5 Bedroom Flat	100% Equity	65% Mortgage 35% Equity
Deposit/Payment	(£365,000)	(£127,750)
Initial Outlay (Legal Fees, Search Fee, Mortgage, Certificates & Contingency)	(£32,600)	(£32,600)
Total Cash Investment	(£397,600)	(£160,350)
Monthly Rent	£2100	£2100
Gross Yield	6.9%	6.9%
Annual Income (Inc 3% Void Period)	£24,444	£24,444
Annual Costs (including management, insurance and mortgage interest)	(£4,772)	(£14,262)
Net Yield	4.95%	5.40%
Annual cash surplus	£19,672	£10,181
<b>Sales Value at end of five years assuming 4% annual appreciation + five years annual surplus</b>	<b>£444,078</b> <b>£98,359</b>	<b>£444,078</b> <b>£50,909</b>
Less sales fees and redemption charges	£13,332	£13,332
Less outstanding mortgage	(£0)	(£237,250)
Balance Remaining	£529,115	£244,415
<b>Increase in Equity</b>	<b>£131,515</b>	<b>£84,065</b>
<b>Average annual return on equity invested</b>	<b>6.62%</b>	<b>15.44%</b>
<b>Total return</b>	<b>33.08%</b>	<b>52.43%</b>

**Disclaimer:**

Please remember that past performance of a property investment is not necessarily a guide to future performance. The value of an investment as well as the income from it can fall as well as rise as a result of market fluctuations. All calculations above are meant as a guide only, whilst every care has been taken to provide an accurate picture of future performance, Glenham Property Management Limited can accept no responsibility or liability for the performance of any property.

## Case Study

1 Bed flat - £125,000

1 Bedroom Flat	65% LTV	100% Equity
Deposit/Payment	(£43,750)	(£125,000)
Initial Outlay (Legal Fees, Search Fee, Mortgage, Certificates & Contingency)	(£7250)	(£7250)
Total Cash Investment	(£51,000)	(£132,250)
Monthly Rent	£690	£690
Annual Income (including 5% void period)	£7,866	£7,866
Adjusted Yield (5% void)	6.29%	6.29%
Annual Costs (including management, insurance and mortgage interest)	(£5123.26)	(£1873.26)
Annual cash surplus	£2742.75	£5992.75
Monthly cash surplus	£228.56	£499.40
<b>Sales Value at end of five years assuming 4% annual appreciation + five years annual surplus</b>	<b>£152,081 £13,714</b>	<b>£152,081 £29,964</b>
Total	£165,795	£182,042
Less sales fees and outstanding mortgage	(£81,052)	(£3802)
Balance remaining	£81,052	£178,243
<b>Increase in Equity</b>	<b>£29,743</b>	<b>£45,993</b>
<b>Total Return</b>	<b>58.32%</b>	<b>34.78%</b>
<b>Average Return Per annum</b>	<b>11.66%</b>	<b>6.96%</b>

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# Property ROI & Other Investment Types

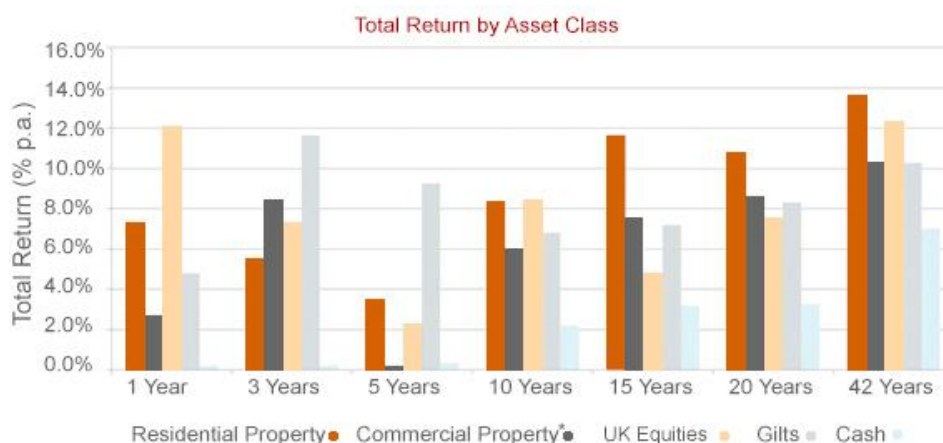
Property continues to be one of the top performing asset classes of recent times showing returns of 13% to 14% which is a significantly superior total return than that of most other forms of investment over the same period. Looking at the bond market average returns over 19 years are just 2%. The equity markets are also showing lower returns than geared residential investments and in addition direct equity holdings carry a much higher investment risk. According to Barclays equity and gilts studies equities have produced an annual return of approx. 5.4% over the last 50 years but this does mask huge crashes and market rallies.



Source: Acadametrics, ARLA, IPD, Barclays Capital - Hearthstone: Data up to December 2012 - \*IPD Monthly Index used for 1987 onwards

# Property ROI & Other Investment Types

It's not hard to determine that property investment, and especially residential, can offer a more stable stream of income. However, some bond markets can show a yield of approximately 4-5% and the same is true with the stock market. With the new tax regulations being imposed on property investors, it will be sensible to have a diversified portfolio. Having an investment in property should help to offset the uncertainty of equity and bond markets and it can still allow an investor to earn potentially higher yields. There is risk involved but this is true of any investment and can be mitigated against by applying an investment strategy based on a holistic approach ensuring the client buys the best performing asset possible. The route to market is becoming increasingly complex and for an investor to benefit from the high levels of returns that can be achieved they should look to seek best advice from people who understand the market and can help dodge the pitfalls. With Glenham Property's 360° property investment approach, you can buy, grow and protect your property portfolio with confidence.



Source: Acadametrics, ARLA, IPD, Barclays Capital - Hearststone: Data up to December 2012 - \*IPO Monthly Index used for 1987 onwards

## Why Choose Glenham Property

- Over 20 years' experience in the Edinburgh property market
- Free advice & personal service
- Industry qualified & accredited by industry bodies
- Member of ARLA, NOFPP Client Money Protection Scheme & Property Ombudsman
- Bespoke service for investor clients



## Our Property Search and Acquisition Service offers the following:



- Dedicated Property Consultant
- Access to our exclusive 'off market' properties
- Full market assessment of all properties meeting your investment criteria
- Full investment analysis of shortlisted properties
- Viewing of shortlisted properties.
- Access to our Financial Consultant who will do a financial review
- Help in negotiating offers and liaising with solicitors

Get in touch:



[www.glenhamproperty.co.uk](http://www.glenhamproperty.co.uk)