



YOUR LOCAL INVESTMENT

Investment Report



Francis Dolley



Jane Dolley

“Your local Investment save you time and make you money by building and managing a ‘hands-free’ property portfolio that you can retire on, enjoying financial independence”

Call us today on **01458 250452**

Email francis@yourlocalinvestment.com or jane@yourlocalinvestment.com



YOUR LOCAL INVESTMENT

Introduction

This document is designed for you as a convenient reference for you about the property market. In any investment it is essential to have an understanding of market conditions, trends and the latest news that might impact your investment.

Although the UK market is one of the more transparent property markets with a wide variety of relatively reliable data available to draw on there is still a lot of misinformation that exists leading to confusion.

At Your Local Investment we aim to cut through this noise and present you with a clear, researched view based on facts from reputable sources.

Most newspapers reflect general society and are geared towards their increased sales rather than providing the reader with researched comment based on personal knowledge gained through experience in a specific field.

Newspaper Journalists generally write on a wide variety of topics quite often without personal knowledge of the topic, creating shock headlines to boost sales rather than provide the reader with a clear picture of what's really going on.

We hope that you find this document different!

Call us today on **01458 250452**

Email francis@yourlocalinvestment.com or jane@yourlocalinvestment.com



YOUR LOCAL INVESTMENT

UK Property Market

There are risks associated with any investment class and property is no different.

However, in the UK we have a far greater chance of success than the vast majority of the rest of the world. This is due to the strong property ownership rights which we enjoy, buoyancy of the market and long term demand based on an acute shortage of dwellings.

Average growth in UK Residential property has been 10.3% annually according to the Halifax building society over the past 40 years (of which property has risen 36 out of the 40 years). On average property in the UK has doubled in value every 7-10 years.

This historical data is great news for the serious property investor. This growth is illustrated below:

	Purchase Price Year 1	True Value	Value Year 2	Value Year 3	Value Year 4	Value Year 5	Value Year 6	Total Growth
CEBR Prediction 5.50%	95,000	115,000	121,325	127,998	135,038	142,465	150,301	55,301r
8% Growth	95,000	115,000	124,200	134,136	144,867	156,456	168,973	73,973
Historical Growth 11.74% (Actual)	95,000	115,000	128,501	143,587	160,444	179,280	200,328	105,328

Call us today on **01458 250452**

Email francis@yourlocalinvestment.com or jane@yourlocalinvestment.com



YOUR LOCAL INVESTMENT

Housing Demand

The shortage in homes which we now face has been brought about by a number of factors in our view:

Net migration into the country is significant in affecting demand along with the increased prevalence of people living alone. This creates a smaller average household size.

Indeed the government predicts that there will be an overall increase of 14% in the number of households in this country by 2021.

Coupled with this the rate of house building in the UK is not keeping pace with the demand.

In 2005 193,000 new houses were built. Although this is the highest for 15 years, it is still only 3 quarters of the number that the government's own independent report estimated would be required each and every year to bring house price inflation down to 1%.

Developers would love to respond to this demand by building more property. However they are prevented by government planning restrictions and schemes such as key worker housing.*

The current shortfall is around 120,000 new homes per annum according to the 2003 Barker Report; by 2021 the Halifax predicts that the shortfall will have reached 400,000 per annum. In simple terms the demand for property is far outweighing supply, keeping rental prices at a premium.

*Source: Jonathan Sad - Senior economist (cebr)

These statistics form the basis for our assertions for future price growth in the market and once again positive evidence for investing in property.

Call us today on **01458 250452**

Email francis@yourlocalinvestment.com or jane@yourlocalinvestment.com



YOUR LOCAL INVESTMENT

Market Movements

A question many of our investors ask us is what would happen to their portfolio should the market crash such as in the late 80s?

Our view is that any serious investor would want answers on topics like this.

We would encourage you to come to us with any questions that you have.

Once answered your knowledge and confidence will grow. Unlike with equities, the majority of the UK's housing stock is not held by investors.

It is predominantly a residential owner market (91% of mortgages taken in 2006 were taken out by people on their own homes). This creates a situation where people cannot afford to sell their property and move if the value has gone down since its purchase.

This forces an effective floor on prices below which they cannot afford to move.

Rents actually firmed during the last crash as more people became nervous about buying, therefore putting buying decisions off choosing to rent instead.

History has taught us that the value of the property will always return and then increase over time meaning that we can again start remortgaging and taking tax free money again.

So the moral of the story is hold, don't panic &

Don't Sell!

Call us today on **01458 250452**

Email francis@yourlocalinvestment.com or jane@yourlocalinvestment.com



YOUR LOCAL INVESTMENT

Market Movements

Although property values dropped significantly during the late 80s the price swings are rarely matched by the values of equities on the stock market.

The less liquid nature of property (its ability to be bought and sold quickly) also reduces price volatility over stocks, making prices more stable.

If you have invested in a company which is on a permanent decline or goes bust you may lose most or all of your money permanently.

Property does not work this way. Values have always returned in the long term.

Unlike with equities, mainstream banks' willingness to lend on property illustrates this point well.

Large institutions have been willing to lend large amounts of money secured on property as they understand the solidity and stability of the value of property, and their ability to recover monies they have loaned on it.

In order to get a 'crash' we would normally need to see two economic changes rather than, for example, big interest rate rises, which would normally mean high rises in unemployment. Neither are likely to happen according to the experts.

Call us today on **01458 250452**

Email francis@yourlocalinvestment.com or jane@yourlocalinvestment.com



YOUR LOCAL INVESTMENT

Affordability in the Market

Another common question we get asked relates to the relationship between incomes and house prices which are at historically high levels currently.

People often question how prices can rise any further without a substantial rise in incomes, which is worth covering here: However, this measure does not take interest rates into account.

The measure which we think is more applicable is the Multiple of house prices to incomes, whilst taking the interest rate into account, In effect the percentage of income home owners pay that is taken up by mortgage payments on average.

This figure is still relatively low due to low interest rates, meaning that borrowers still have a good proportion of their income available after mortgages have been paid.

There is evidence to suggest that people are living in smaller and smaller properties in this country as the availability of property decreases and prices rise. This has forced the market to adapt to provide ways in which first time buyers can afford to get on the ladder. This will always happen. General consensus seeming to be 'this can't go on any longer', however the market will always adapt.

Call us today on **01458 250452**

Email francis@yourlocalinvestment.com or jane@yourlocalinvestment.com



YOUR LOCAL INVESTMENT

Affordability in the Market

Vendor paid deposits, Micro flats, shared ownership and friends buying together are further examples of ways in which people can still access the market despite higher prices.

Mortgages are now being offered over a longer period as a natural response to reduced affordability. The old maxim of a 25 year mortgage is now being stretched with more than a quarter of lenders offering up to 40 years.

The average size of homes in London and Tokyo are extremely small compared to the rest of the world, but this wasn't always the case.

To show an example of market adaptation, look at the change in residential developments: Smaller plots, gardens and plan footprints are compensated by additional storeys.

There was a shift, as the demand for land and property rose, to living in smaller properties as the price per square foot rose. This has allowed prices to carry on rising whilst not pricing people out of the market meaning that the people who have already bought benefit from increased property values.

Call us today on **01458 250452**

Email francis@yourlocalinvestment.com or jane@yourlocalinvestment.com



YOUR LOCAL INVESTMENT

Rental Market

The trend in the UK is also for shorter working contracts meaning that people move more often for work and as they aren't permanently in one place they will often rent. Increased levels of personal spending have also created a situation where people save less and so don't have deposit monies available to fund a mortgage.

The UK is one of the few positively geared Buy to Let markets. This is to say that in certain areas with specific property types mortgage and running costs can usually be met by rental income.

Although this is becoming more difficult with the recent rise in interest rates, rental income for property under £125,000 in the Somerset area generally covers costs, or thereabouts. Rents in the UK on average have doubled every 9 to 12 years through history.



The UK also has one of the most competitive Buy To Let mortgage markets in the world meaning that interest rates are low and lending environments efficient.

The system ensures that borrowers are approved electronically at high speed and offers are issued quick All great news for focused UK investment.

Call us today on **01458 250452**

Email francis@yourlocalinvestment.com or jane@yourlocalinvestment.com



YOUR LOCAL INVESTMENT

Why Somerset?

At Your local Investment we passionately believe in providing you with a product that we use ourselves, that has been tried and tested again and again and again.



In line with this we don't invest in overseas property from every destination under the sun as we believe that it is impossible to gain the knowledge required to provide a thoroughly tested and researched investment that will work for you.

Local knowledge, local contacts and much increased control are a few of the reasons why we stay local. We believe we now have a good combination of contacts for 'below market value' property purchases, rentals and refurbishment in Somerset.

There are also a number of compelling investment reasons for buying property in the Somerset area, one of which is the huge regeneration projects currently taking place. Bristol has a innovative programme in place, started in 2007, with £1 Billion being spent. Bridgwater has funding of £80 million for infrastructure works and £20 million for community schemes. This is being funded by EDF Energy, who will be building a new power station which will result in thousands of workers requiring homes throughout the Bridgwater area.

Call us today on 01458 250452

Email francis@yourlocalinvestment.com or jane@yourlocalinvestment.com



YOUR LOCAL INVESTMENT

Property Type

Somerset is already a major London commuter zone and with house prices in London shooting up there is increased demand for homes in Somerset. Many people living in London are selling up and moving to Somerset where they can get an equivalent property at 30% - 40% less and enjoy a cheaper cost of living.

One option many investors take is to purchase a new-build property, but in our experience this is a mistake. This is because of the higher prices which these properties are often marketed at which is often not matched, certainly in Somerset, by a proportionally higher rent. This results in a lower yield and therefore creates a situation where it is more difficult to cover mortgage payments and other costs with rental income alone.

It is quite common for these properties to be priced around 10% higher than equivalent existing property with comparables. Residential purchasers will often pay more for these properties because they can pick colours, carpets, alarm systems and nice furniture packages, and like the idea of living in something that is brand new.

The reality is that none of these benefits will matter in the long term. The differential in price between the new and existing property will smooth over time.

Call us today on **01458 250452**

Email francis@yourlocalinvestment.com or jane@yourlocalinvestment.com



YOUR LOCAL INVESTMENT

Property Type

A little like buyers of a new car, these purchasers will pay a premium for this, which would only be exposed if they tried to sell the property immediately. This is unlikely as most investors will be holding for the long term, so the effect is masked, and the result is reduced appreciation when compared with a property which was purchased at a true market price originally.

Off plan property in our experience again adds the dimension of speculation as to the property's value on completion. Quite often developers will forward price property in anticipation of the market rising by the time the property is ready.

A RICS valuation is not then normally carried out on these properties until completion, at which point the investor has already exchanged contracts and is committed to the purchase. This in our opinion removes an essential level of protection for the investor.

The value of properties on a new development can be difficult to assess due to the lack of comparable data for the property in that area.

Existing property which has been there for many years is comparatively easy to value; you just compare it against what has sold on that street previously.

Call us today on **01458 250452**

Email francis@yourlocalinvestment.com or jane@yourlocalinvestment.com



YOUR LOCAL INVESTMENT

Final Note

If there is anything else you need to know regarding 'YourLocalInvestment' or 'YourLocalProperty' then do not hesitate to give us a call or email and we will be only to happy to help.

If you would like to arrange a meeting with Francis or Jane then please call us now on 01458 250452 and we will meet with you.

We both wish you the very best of luck with your Investment future and are very excited about the opportunity to work together with you.

Francis Dolley

Jane Dolley



YOUR LOCAL INVESTMENT

Call us today on **01458 250452**

Email francis@yourlocalinvestment.com or jane@yourlocalinvestment.com