



▶ **Introduction**

We have now reached the end of 2008, and not a moment too soon. For many property investors it has been a difficult year, as indeed it has been for all types of investors; stockmarket, commodity, and hedge fund investors. It has indeed been an "Annus Horribilis".

Newsletter Contents:

- 1: [Market Review of 2008](#)
- 2: [Recommendations for 2009](#)
- 3: [Conclusion](#)



**contact us on:
01858 43 48 48**

▶ **Section 1: Market Review of 2008**

Global stock markets fell led by the US.

The US Banking sector being overleveraged fell proportionately more.

We saw unprecedented times; venerable institutions in the banking world such as Bear Stearns and Lehman Brothers went to the wall.

The ripple was not slow in crossing the Atlantic and the waves of recession lapped against the coast of England.

We had our own banking problems; Northern Rock and HBOS leading the scare, all banks over exposed to property, over leveraged, and writing down the values of their property exposure and in particular their growing levels of toxic debt.

The UK property market falls as it rightly should; have you seen the state of the US residential market?

The UK officially declares we are in a recession, interest rates are slashed and unemployment starts to rise; initially led by the financial sector in London, but rippling out to the retail and then other sectors.

It has been an exceptional 12 months; the pace and ferocity of the downturn surprising everyone.

The UK residential property market, although it might seem harsh, needed a correction and that is all we have really seen. Some prices in London doubled between 2004 and 2007, now all we see is a 15% fall and there is panic on the street!

Housebuilders' share prices have fallen up to 95%, why are we so worried about a 15% fall? It is just a healthy correction to an overheated, overpriced market that must now adjust to a different market of harder recessionary times, and it should be encouraged to return to a fair level.

How long have we heard the famous strapline of "first time buyers priced out of the market", "key workers unable to afford house purchases"; so when we see a 15% price fall this should be encouraged; not according to our Government! It announces in its infinite wisdom various rescue

market? The relief on repossessions is helpful for owner occupiers who lose their jobs and simply cannot afford their mortgage payments, a horrible scenario for any family. However, emotion aside, this is simply delaying the inevitable.

The number of transactions dwindled as Banks were unwilling to lend, mortgage availability dwindled.

Repossessions rose as overleveraged homeowners and investors were forced to sell up.

Housebuilders were forced to down tools on part completed stock; on completed stock they were forced to offer a wide range of discounting techniques to offload property. These discounts have covered the whole spectrum from free carpets or free white goods to stamp duty payments to mortgage assistance to part-financed deals to discounts off list prices. We have seen in our sourcing division prices down some 50% plus from 2007 levels.

Valuers had their knuckles rapped due to overvaluing prices in 2007. They are now far more cautious in their valuation levels.

As transactions dwindled, this naturally affected the Property Agency businesses, causing closures of estate agencies and mortgage brokers.

As prices and transactions dwindled, housebuilders and developers hit the wall; a number of well known regional developers being forced into receivership.

Buy-to-let died; at dinner parties throughout the country, there was no bragging of how many properties one owned, but rather when one had sold out. Buy-to-let funding tightened dramatically, with 4 of the top 6 buy-to-let lenders of 2007 having run into their own trouble; these being; Bradford&Bingley, HBOS, Paragon and Lehman's.

Not surprisingly the likes of GuestInvest (Hotel investments), Imagine Homes (guaranteed rentals on sales of off-plan apartments) and Inside Track (seminar training and new build investors) all went bust. These companies have been our competition for the past 5 years. However, with their strong marketing machines they managed to suck in naïve investors into their investment projects. It was clear from the start, these were not long term, carefully researched investments and now innocent investors are being punished for following their advice.

We could have been unscrupulous traders and encouraged investors to buy these schemes, we would have made (as they did) fantastic agency fee income, but we just did not believe in their investments and knew that it would not take much of a correction in prices for their innocent investors to feel the pinch and be forced to sell, into a market where there is a complete lack of finance.

► Our predictions for the UK Property Market in 2009

The UK is in a recession, of which there is no doubting. The extent of the recession is unpredictable, and for as long as the length of the recession remains unpredictable, so does the extent of the property downturn.

However, we have to play with the best and rest of the commentators and our views are this for 2009;

- The recession will last throughout 2009, possibly with a glimmer of hope towards the end of the year, 2009 however, will be hard times
- Unemployment will rise significantly, we have only just started to see some headlines on job losses; expect more
- Unemployment in turn will lead to rises in the level of arrears for landlords, as tenants struggle to pay their monthly rents
- House prices will continue to fall throughout 2009; we expect a further 15% in the Halifax

2009, we expect a small recovery into 2010

- Rental levels; these will remain steady in 2009; potential buyers renting at present, are offset by potential sellers waiting to sell
- Macro: Housebuilders will build less than 80,000 homes in 2009, way short of the government target of 200,000 per year, or 2 million by 2016. (They cannot afford it, like the rest of us, and this target just shows how out of touch the Government is with reality)
- Mortgage funding will increase marginally banks are reticent to lend to each other, let alone to the public, despite the Government's poor efforts to increase liquidity. Never in our life times will the days of 100% or 120% mortgage lending return. It was an absurd notion in the first place
- Interest rates: Will fall to 1% less than where they are now (especially if oil prices remain at around \$50), as the UK tries to avoid the worst of the downturn
- Libor rates: As borrowers our rates are based off Libor not base rate, which still stand at a premium of 1.05% over base (Dec 19 2008). This margin has been coming down slightly over the past few months and this is likely to continue, today (12th January 2009) it stands at 88bps; Libor we believe will continue to trade at a premium to base rate throughout 2009
- Borrowing rates: We expect mortgage rates to come down, but the cost of borrowing to remain high
- Loan to Value Ratios: The market for LTV ratios of 60-70% will generally improve; therefore the banks can take comfort in the fact that if the market does fall 30% more from present levels then the borrower (not the bank) will take the hit
- The London property market will be hit hardest by the recession; potentially 370K jobs to be shed according to Local Government Association. 7.9% of jobs in London are expected to be lost. As it led the market up, so it will lead the market down
- Prime Central London: International investors who hold their funds in US\$'s or Euros have seen the value of UK property fall in excess of 40% already. This will lead to some investment from overseas investors, mainly in prime Central London. Overseas investors, however like the rest of us, are also experiencing hard times; Middle Eastern investors are not as wealthy now as they were when oil was at \$140 per barrel, now \$50. US investors have their own problems, and Euro based investors have bargains in their own back yard
- The belief that Housing Associations will wade in to rescue house builders and purchase their completed stock is ludicrous. Firstly; existing housing stock will fail to meet the strict criteria that Housing Associations need. Secondly; Housing Associations themselves must contribute towards purchases (it is not 100% Government funded), and Housing Associations cannot borrow any more freely than anyone else
- Repossessions: Will continue to rise throughout 2009. There is some evidence that repossession agents will not simply dump stock, but will manage the sales; and this is a good thing. Forced sales get forced sales prices, which neither benefit the bank nor the homeowner
- Property Valuations: Valuers have been running scared ever since the overvaluation excesses of 2007; they were carried away with euphoria of the market. Now they are being more prudent, possibly over-prudent. This conservative approach is a positive for the market
- On a 5-10 year view; the downside to house prices is limited by pent up latent demand from buyers previously priced out of the market. UK house building will be at such a low level that supply will be sufficiently curtailed

Our predictions for 2009 are based on so many factors outside our control or indeed knowledge. We are not economists, especially with regards the length and depth of the recession, although we have given our best guesstimates on this.

▶ Section 2: Recommendations for 2009

It would be only right for us to see what we forecast last year, and how successful we were!

What we got right in 1Q08:

We correctly spotted the oversupply of "new build" inner city flats. We have always encouraged investors to avoid this market.

We correctly predicted weak sentiment, market weakness (not a crash) and expected a significant rise in repossessions coming.

Our chosen investment of "terraced property in areas of regeneration" outperformed the market as a whole.

We have always avoided London and the South East where overheating and run-away prices caused its own particular bubble, which we believe is still to burst.

What we got wrong:

Was the ferocity of the change in the economic stability of the UK, and the speed and extent of the change.

Recommendations for 2009 Commentary:

In amongst all the gloom, we are going out on a limb and recommending that as a Long Term Buy (that is 5-10 years), and we are firmly of the belief that property should be a long term investment, that 2009 will offer unprecedented opportunities to acquire residential stock at discounted prices, which will show good gross yields, a net margin over financing costs, and in 5-10 years an appreciable price rise over 2009 acquisition costs.

We would caveat this recommendation, with the advice that it is imperative to seek proper advice, and purchase the right investments. There will be many pitfalls along the way for the unwary investor.

Beware of the early bargain: We are not saying to charge into the market now, but by acquiring a diversified portfolio of quality properties over the next 12 months, a quality portfolio can be accumulated as a long term hold. Some may see it as "catching a falling knife", but we believe it is the right contrarian call, as indeed Mr Buffett and Mr Bolton of Fidelity recommended in their November stock market calls.

For those with funds to invest it is a difficult choice; what will the stock market do in the next few years? Will China boom once again and fuel commodities? Are oil prices heading to \$30 a barrel or \$200 a barrel? Cash in the bank earns a real negative return after adjusting for tax and inflation, that is if ones money is secure in a Bank, which luckily in most it is now. These are all difficult decisions, and we would urge investors to consider the benefits of residential property investment in their asset allocation strategy.

Key points for property investment:

- A: Price must be right; careful research will identify this
- B: Yield is exceptionally important: to cover financing costs
- C: Financing: Is essential, and a conservative approach is needed
- D: Location, Location: As always is imperative
- E: Asset type: Is a house or flat or studio more attractive, is a new build more attractive than existing stock? Careful research will identify this

F: Diversification: A portfolio must be diversified both in type of property, and geographical location

G: It is imperative that the asset is "worked", i.e. that it is bringing in a rental income, and being managed efficiently. If it is not being let, there is usually a reason for this, and this should be addressed as a matter of urgency

What we are saying, is that with the right advice and careful research residential property will perform well in the long term. As such, we offer 2 opportunities to investors;

1. We can recommend, as a property finding agent, specific investment opportunities;

We believe areas outside of London and the South East will outperform in the long term.

We believe we will see some deeply discounted stock being sold by House builders and developers running into financial difficulties.

We believe we will see some opportunities in areas of new build over supply; the likes of Leicester, Leeds, Liverpool and Manchester that have seen huge oversupply of new build stock. The most important factor is to purchase at a discounted price and be extremely confident that the property will let.

We will, as always, be yield driven in our property advice. We expect a minimum gross rental yield of 8%, netting after voids, insurance, maintenance and management fees, 6%. It is imperative that one attains a rental income to cover loan repayments.

We believe in regeneration areas as attractive long term investment opportunities. The likes of Hull and Corby have inflows of public and private money helping support and improve the quality of the cities.

We believe in purchasing property below the average national house price.

2. We will be launching a "pooled investment vehicle" for sophisticated investors; to invest in distressed UK residential property in 1Q09;

Should you wish to register to receive information on this please email us on;

info@tipsinvestmentproperty.co.uk or call 01858 434 848

▶ Section 3: Conclusion

2009 will be a difficult time for the UK economy. We believe that property should be seen as a long term investment, and as such 2009 will provide fantastic opportunities for acquiring selectively discounted residential investments. Buying the "U" is a well known strategy implemented by many seasoned investors; entering the market while prices are still falling in the cycle - this is when the best properties are available - it may be necessary to take a small, short term hit to lock in out-performance in the years to come when the cycle changes again. These opportunities must be thoroughly researched and stress tested. We believe we will be able to attain gross yields of 8%, and in 10 years time, we will look back at 2009 as having been an exceptional opportunity to have accumulated residential investment assets.

We wish our clients and friends a very prosperous and happy 2009.

The Team at TIPS

TIPS | The Granary. | Sutton Lodge | Sutton Bassett | Market Harborough | Leicestershire | LE16 8HL
Tel: 01858 43 48 48 | Fax: 01858 43 38 32 | Email: info@tipsinvestmentproperty.co.uk

▶ TIPS Disclaimer

The Investment Property Search Company (& their Joint Agents where applicable) for themselves and the Vendors or Lessors of properties for whom they act give notice that: The particulars above are a general outline for the guidance of intending purchasers, and do not constitute, nor constitute part of, an offer or contract. All descriptions, dimensions, references to condition and other details are given in good faith and are believed to be correct but any intending purchasers should not rely on them as statements or representations of fact but must satisfy themselves by inspection or otherwise as to their correctness. We have not been able to test any of the building service installations and recommend that prospective purchasers arrange for a qualified person to check them before entering into any commitment. No person in our employment has any authority to make or give any representation or warranty whatsoever in relation to this property. These details are correct at the time of completion but may be subject to subsequent amendment.

Due to the electronic nature of email, there is a risk that the information contained in this message has been modified. Consequently The Investment Property Search Company can accept no responsibility or liability as to the completeness or accuracy of the information. The Investment Property Search Company is a division of Residential Property Group Limited, a company registered in England and Wales with company number 5458295, and with registered address; 1 Bede Island Road, Bede Island Business Park, Leicester, LE2 7EA