



BPI House

Bourne End Business Park

Cores End Road

Bourne End

Bucks

SL8 5AS

T 01494 442700

T 01628 566234

E info@bpinvestment.com

www.bpinvestment.com

Registered in England at the above address, no: 3852280
Business & Personal Investment Ltd is authorised and
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PROPERTY MARKET REVIEW

OCTOBER 2018



Our monthly property market review is intended to provide background to recent developments in property markets, as well as to give an indication of how some key issues could impact in the future.

A four-year growth cycle has emerged

The most recent 'UK Commercial Market in Minutes' from Savills, has revealed that 'all property' capital value growth, for the month of September, was only 0.09%, just a quarter of the growth experienced in September 2017. Over the last few months, the annual growth year-on-year has begun to slow. The data suggests that a four-year peak-to-peak cycle exists, as the current growth cycle peaked in February this year, with previous peaks noted in October 2014 and in July 2010.

The latest Investment Property Forum (IPF) forecasts for 2018-22, predict that both the retail and office sectors face the prospects of falling capital values over the next five years, due in part to uncertainty surrounding Brexit and fundamental 'structural shifts' impacting the office and retail sectors.

The Savills data reveals that the average yield across all thirteen commercial property sectors is currently 4.62%, which is slightly below the same time last year. Interestingly, what is very different to a year ago, is the upward pressure on yields. Last August, four sub-sectors had downward pressure on yields, a year later five sub-sectors have upward pressure on yields, including M25 offices, shopping centres and retail warehouses.

FCA aims to improve the approach to investing in illiquid assets

Open-ended funds that invest in illiquid assets, including commercial property, can encounter difficulties if significant numbers of investors simultaneously try to withdraw their money. As markets tumbled following the Brexit referendum, several fund management companies closed property funds to redemption, as investors flooded to exit them, while other funds applied sharp price reductions.

As a result, the Financial Conduct Authority (FCA) has decided to consult on new rules and guidance to reduce the potential for harm to investors in funds holding illiquid assets during stressed market conditions. The proposals are designed to strike a fairer balance

between investors wanting to redeem their holding, and those wanting to retain their holding. Suggested improvements include the use of certain liquidity management tools, contingency planning and oversight arrangements.

Christopher Woolard, Executive Director of Strategy and Competition at the FCA, commented: "As well as better protecting consumers, these changes should help to protect and enhance the integrity of the UK financial system. They will increase investors' understanding of, and confidence in, how funds holding illiquid assets are managed. We expect these changes to result in fewer runs on funds holding illiquid assets, and to reduce complaints from retail investors about perceived unfair treatment when they exit such funds."

A Policy Statement with final rules and guidance will be published next year.

Landlords struggling to sell UK retail properties

Some landlords in the UK, are finding it difficult to sell billions of pounds of retail parks and shopping centres. The troubles experienced by the sector, follow the high-profile collapses of Toys R Us, Poundworld and House of Fraser, as retailers contend with the shift in consumer spending habits.

According to recent data from the Financial Times, at least £2.5 billion of retail properties are currently being marketed in the UK, with some property companies privately placing the total available to buy at £5 billion.

During the first half of the year, property agents Jones Lang LaSalle revealed that £558 million of shopping centres were sold. This is the lowest figure since they began recording the data over 20 years ago.

Some assets are still changing hands, with local councils proving keen buyers of shopping centres and sites with long leases to supermarkets. Specialist shopping centre landlord, Hammerson, recently sold a 50% stake in Leicester's Highcross shopping centre to an Asian investor for £236 million.

HOUSE PRICES HEADLINE STATISTICS

HOUSE PRICE INDEX (AUG 2018)*	122.1*
AVERAGE HOUSE PRICE	£232,797
MONTHLY CHANGE	0.2%
ANNUAL CHANGE	3.2%

*(Jan 2015 = 100)

- UK house prices rose by **3.2%** in the year to August 2018
- House prices grew fastest in the East Midlands region increasing by **6.5%** in the year to August 2018
- Annual growth in London house prices has been around zero for the last 6 months

Source: The Land Registry / Release date: 17/10/2018
Next data release: 14/11/2018

HOUSE PRICES PRICE CHANGE BY REGION

REGION	MONTHLY CHANGE (%)	ANNUAL CHANGE (%)	AVERAGE PRICE (£)
ENGLAND	0.2	2.9	£249,748
NORTHERN IRELAND (QUARTER 2 - 2018)	-1.0	4.4	£132,795
SCOTLAND	0.3	4.1	£153,309
WALES	1.9	6.2	£162,374
EAST MIDLANDS	1.5	6.5	£194,718
EAST OF ENGLAND	-1.1	1.6	£292,107
LONDON	-0.5	-0.2	£486,304
NORTH EAST	1.4	2.9	£133,538
NORTH WEST	0.0	3.3	£163,487
SOUTH EAST	0.1	1.9	£329,264
SOUTH WEST	-0.4	2.9	£257,659
WEST MIDLANDS REGION	0.5	5.1	£199,000
YORKSHIRE AND THE HUMBER	1.2	3.7	£163,964

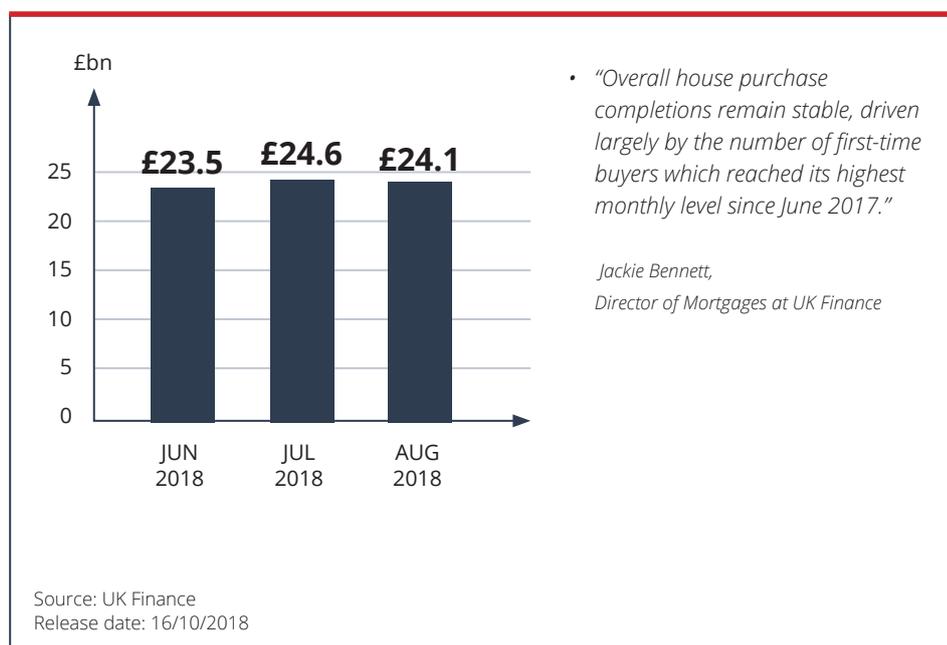
AVERAGE MONTHLY PRICE BY PROPERTY TYPE – AUG 2018

PROPERTY TYPE	ANNUAL INCREASE
DETACHED £350,354	3.6%
SEMI-DETACHED £220,736	4.7%
TERRACED £188,889	3.3%
FLAT / MAISONETTE £207,512	0.7%

Source: The Land Registry
Release date: 17/10/2018

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MORTGAGE ACTIVITY



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