FJP Investment

THE UK'S HOTSPOTS:

THE UK'S TOP BUY-TO-LET HOTSPOTS TO WATCH IN 2021

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After years of Brexit uncertainty and political upheaval, 2020 was expected to be a year of relative calm. Boris Johnson entered the year having just won an overwhelming majority in parliament, while the UK officially left the European Union (EU) at the end of January.

COVID-19 suddenly disrupted this projection. The rapid spread of the virus has disrupted financial markets around the world. In the property sector, however, the fallout has not been as damaging as some commentators predicted. In fact, demand among homebuyers has increased, while investors continue to look towards bricks and mortar with great interest.

The UK's implementation of the stamp duty land tax (SDLT) holiday has evidently played a significant role in sparking life back into the property market after months of lying dormant during the lockdown period between March and July. The holiday means buyers are exempt from paying the tax on the first £500,000 on all properties in England and Northern Ireland. This exemption also applies to buy-to-let (BTL) purchases.

Over recent months, both house prices and transactional activity have been rising sharply. Halifax's September house price index showed that, even in the midst of the ongoing pandemic, house prices had increased by over 7% year-on-year. Furthermore, a recent survey by the Royal Institute of Charted Surveyors revealed that the UK is now experiencing an 18-year-high in the rate of house price growth.

SHIFT IN FOCUS AMONG BUYERS AND RENTERS

Demand for residential real estate across the UK evidently remains high, spanning first-time buyers and those already on the property ladder through to BTL landlords and investors.

However, there are several interesting trends at play under the surface that warrant attention. Prices are growing, and transactions are taking place at an increased rate; yet, evidence suggests that buyers and renters are now seeking properties in different areas and with different qualities.

The coronavirus pandemic and the "new normal" it has created are affecting people's relationships with their homes. In essence, fewer people are commuting to work and socialising has been made more difficult; resulting in more time being spent in the home both inside and outside of working hours.

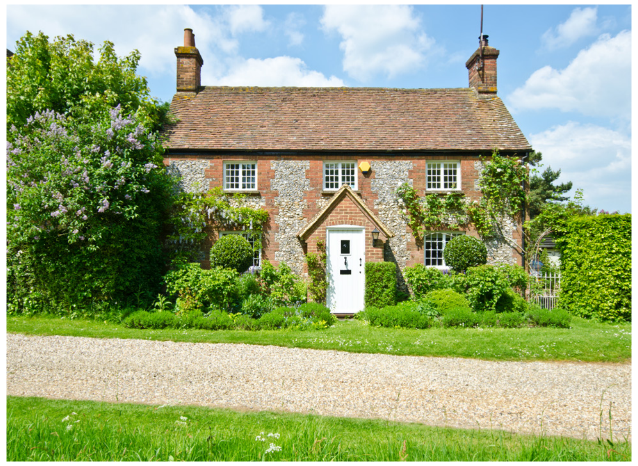
This simple fact is having a profound impact on almost all industry sectors and financial markets. It marks a notable shift in consumer and business behaviour, which is having a ripple effect into all parts of people's day-to-day lives. For BTL investors in particular there are two notable developments as a result of this shift.

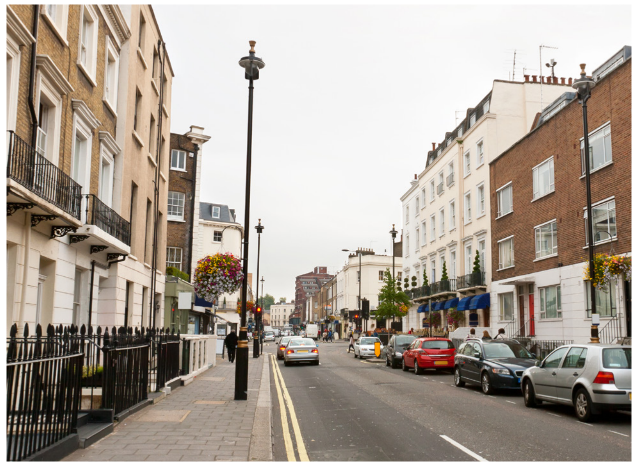
Firstly, homebuyers and renters are looking for more space from their property. More confined to their homes – including working remotely on a part-time or full-time basis – there has been a marked rise in the number of people seeking properties with additional space, or a spare bedroom, that can be used as a home office. Similarly, people are also eager for properties with outdoor space.

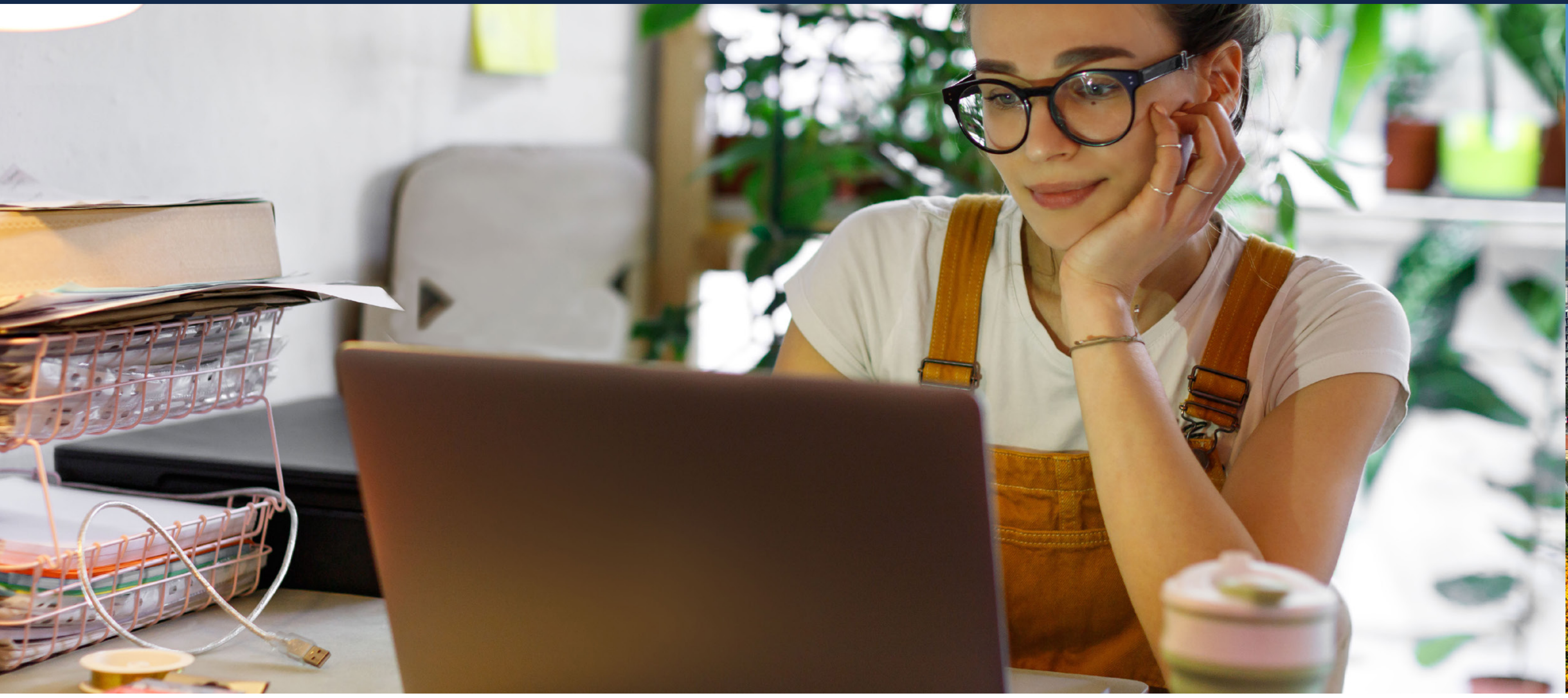
One estate agent, Dexters, surveyed buyers to establish what their "non-negotiable" demands were when the property market reopened in July. The top result was a dedicated extra room for home working, followed by outside space in the form of garden, roof terrace, or balcony. The company added that these preferences marked a major shift from previous surveys, when "vanity factors" such as external appearance, size of kitchen and number of bedrooms had ranked higher.

The same trend can be seen in the rental sector. According to Savills, more than three quarters (79%) of agents have reported there being more demand than ever for workspaces in the home. To complement this, top-speed broadband is now even higher up the priority list for tenants. Properties with more bedrooms – which can be used as offices – are therefore seeing more enquiries.

The second notable trend is that both buyers and renters are considering moving further afield when on the hunt for a property.







RECOVERING LOST CONFIDENCE

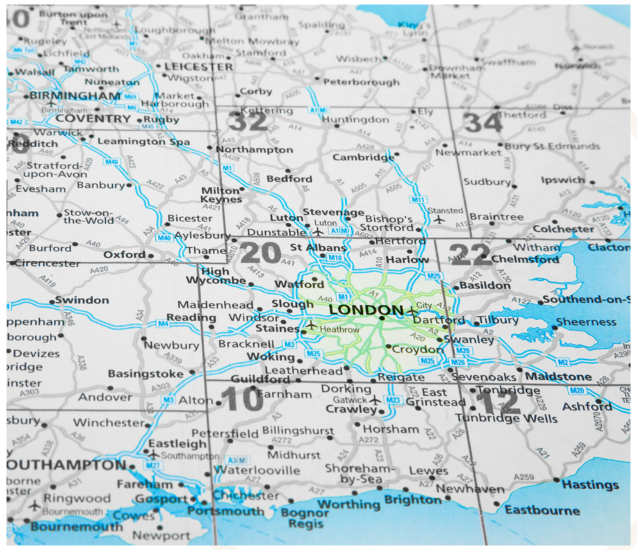
Data from the Office of National Statistics shows that half of all employed people in the UK were working from home during the height of the first lockdown earlier in 2020. Prior to the pandemic, fewer than 30% of people had worked from home at all.

This change has been positively received among many professionals – in turn, it has increased demand for remote working to remain the norm in the long-term. A recent poll of 1,000 UK workers found that almost a third would rather quit their job than forfeit the option to work from home on a permanent basis.

Free from having to commute to the office every day, the remote working revolution has given both buyers and renters greater freedom to consider a much broader range of areas when searching for a property. It is a trend BTL investors must monitor closely as it will dictate which regions, cities or town are likely to experience the highest level of demand.

Statistics released by estate agent Hamptons in September showed that demand from people looking to rent in city locations across Britain is down 23%. Conversely, commuter belts and less expensive suburbs are seeing an increase in interest.

It begs the question, then, which regions are now among the most popular for buyers and renters? Looking ahead to 2021, here are some key BTL hotspots for investors to consider based on tenant demand, rental yields, and house price growth.



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LEEDS

CIA Landlord recently claimed that Leeds was the 'most profitable city to become a landlord in the north of England'.

Although not offering the highest rental yields, the combination of low average property values and a bustling student population means this Yorkshire city is primed and ready to offer considerable long-term gains for property investors over the coming 12 months.

While the student population provides a healthy stream of prospective tenants, Leeds' status as a 'brain gain' city – shared with only Manchester and London – means that more of these students remain in the city after graduation rather than moving away. One consequence is that the city hosts the nation's largest financial services sector outside of the capital, potentially attracting investment from companies eager to move out of their expensive London offices following COVID-19.

Between March 2019 and March 2020, Leeds recorded a house price growth of 3.1%, which outstripped the national average of 1.8%. In terms of rental prices, Rightmove stated in mid-2020 that the average monthly rent in Yorkshire was £625 per calendar month, up 3% year-on-year.

Between March 2019 and March 2020, Leeds recorded average house price growth of

3.1%

LIVERPOOL

Liverpool is well established as a popular destination for BTL investors, regularly emerging at the top of numerous rankings of UK cities in terms of potential BTL rental yields.

With six universities and colleges – and being a key part of the government's Northern Powerhouse initiative – more people have been calling Liverpool home over recent years. The Office for National Statistics states there was a 181% rise in the city's population between 2002 and 2015.

For BTL investors, there are multiple developments to choose from. Five entire neighbourhoods are soon to be completed as part of the Liverpool Waters development, and the Wirral Waters plan will bring both residential and commercial developments alongside 25 miles of the River Mersey.

These developments are being matched with investment into the region's infrastructure. High-speed rail connections between Leeds, Manchester and Liverpool are due to be finished within half a decade, likely increasing the average property value in these cities upon completion.

The average Liverpool rental yield is around 5%, while the city's property market also generates an average rental price growth of 2.65%. Savills predicted at the start of 2020 that house prices in the North West would rise by 24% in the next five years, far above the UK average of 15.3%.

The average Liverpool rent yield is around 5%

MANCHESTER AND SALFORD

Mirroring the desirability of Liverpool and the North West as a BTL hub in general, the neighbouring areas of Manchester and Salford are in high demand among property buyers and renters alike.

Manchester's vast student population – the University of Manchester is the country's largest university by student numbers – coupled with the establishment of MediaCityUK in Salford has seen many younger people relocate to the area. Moreover, the data of landlords' expected returns marks it out as a leading BTL destination.

Referring again to a CIA Landlord study, Salford was found to have an average house price of £173,311, meaning properties are affordable in the area. Further, as average rent prices are in the region of £1,052 per month, it proves to be extremely profitable too.

Manchester boasts a higher average house price (£193,681), but equally delivers an improved average rental income (£1,141).

CARDIFF

The capital city of Wales seems primed for impressive property price growth over the next decade.

With a metropolitan area population of over 1.1 million citizens, predicted to grow an additional 20% by 2035, rental demand in Cardiff is likely to surge in the coming years.

Cardiff hosts a wide range of developments for BTL investors. Cardiff Bay boasts Europe's largest waterfront development, and the soon-to-be completed £500 million-plus coastal developments look set to push surrounding prices up even further.

Reports often cite Cardiff as an ideal BTL investment locale; especially given the 240% rise in the city's house prices over the past two decades. According to mortgage broker Private Finance, Cardiff delivers average rental yields of 6%.

Average house prices in Cardiff have increased by 240% in the past two decades

THE THOUGHTS OF FJP

"COVID-19 has shown us all just how tumultuous financial markets can be, but also just how resilient real estate is during uncertain times, as demonstrated by many of the statistics presented above.

"The task for all investors is to understand how the property market is responding the unique challenges presented by the pandemic. Moreover, they must assess how the demands of buyers and renters has shifted in 2020.

"As has been well established in this report, BTL investors must not only carefully consider both where they buy their next property, but also the qualities it possesses. Indeed, as we enter the so-called new normal, it is safe to predict that people's social and professional habits will be greatly different from how they were for a long time to come – and the rental and sales markets will reflect that.
"The overarching trend seems to be that people want properties with more space, and that they are less wedded to urban areas. The regions highlighted above all share the qualities of having popular cities for culture and business, but also idyllic surrounding areas and trendy suburbs, giving people that much sought-after work-life balance.

"As the pandemic shows no signs of abating, it will be interesting to monitor these trends further and establish how the world of property investment will be affected by the lasting changed brought about by COVID-19.**"**

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