

## DeVARGA COMMENTARY – JUNE 2016

### WHICH GLASSES ARE YOU WEARING?

A number of articles on the BBC website in May caught my eye.

The first one was entitled *'After March buying spree, Landlords flood rental market'*. According to data from the Rightmove website, *'A record number of sales that took place in March in a strike to beat last month's Stamp Duty deadline has resulted in an 11.5% rise in rental properties being listed in April.'* London showed a rise of 9.1% and, in theory at least, increased supply should lead to a fall in the cost of renting. According to Reed Rains buy-to-let index, rents have been falling since September 2015. On the other hand, Your Move believes they will not fall much further. Adrian Gill, a Director of Reed Rains and Your Move says *'Tenants still need homes and demand is still soaring'*. He says that *'... later this year the balance of supply and demand may shift even further in favour of landlords.'* The office of national statistics predict the number of households in England to be 24.3 million in 2021. An increase of approximately 221,000 per year. Couple households are predicted to be growing by 87,000 per annum to year 2021. Yet the NHBC say new builds in 2015 (156,000) increased by 7% compared to 2014. So what about the deficit of 65,000. We think it can only lead to an increase in rents.

Another article which caught my eye was entitled *'Chinese property investors bet on the Northern Powerhouse.'* The article says that *'Lured by George Osborne's promotion of the "Northern Powerhouse", Chinese investors are packing their bags and heading up the M6, not just to buy homes but build them too.'* This, the article says, is helping fuel the beginnings of a property boom and push up prices particularly in Liverpool and Manchester. The RICS reports that prices in London are expected to fall significantly over the next three months, whilst prices in the north-west are expected to soar. My comment is, with the greatest of respect to the RICS, I fail to see how prices in London will fall significantly over the next three months or for that matter over the next 3 years. Why? Because London is one of the most attractive cities in the world and it will always have demand for rented properties. What I believe is happening is that the rental returns in the likes of Manchester, etc, are higher, but I struggle to see whether the capital growth prospects are better than Liverpool and Manchester. It all depends which glasses you are wearing.

The final article is one which brought joy and cheer to me is *'High Street shops have come back from the brink'*. According to an article on BBC 5Live in Shrewsbury, there are plenty of stores which went into Administration but are coming out the other side. Malcolm Winn who works in the outdoor shop Blacks says he is fed up with people coming into his shop and asking *'When are you closing?'* *'It is frustrating to keep having to explain to people that we have been bought, we are doing well and we are here for the long-term'*. Malcolm did say that, of course when the Blacks Leisure Group entered into Administration it was extremely difficult. He said, *'It's very tough not knowing if you've got a job in a week or a month's time. It's tough personally and also for your team.'* What happened with Blacks is that JD Sports spotted something good in them despite all its financial problems. This last article reinforces my belief, and it is about looking, for want of an old cliché, 'outside the box'.

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*PS: This Commentary was prepared prior to the EU Referendum held on 23<sup>rd</sup> June.*