



2008, what does it hold for the UK property market?

The UK Property market grew by 3 – 9.5% in 2007 depending on the source of information used so certainly not bad news for 2007, but what about 2008 what's going to happen in the future?

The pundits vary again from a mighty high of 3% (Savills) to a very depressing 15 – 30% DECREASE from various economic bodies (London School of Economics, Global Insight & Fool). With various large, independent bodies coming in at the 0% or just under; the RICS, Halifax, Nationwide and Rightmove all forecast 0%, Charcol -2%, Capital Economics and Deloitte forecast – 5%. So nobody expects any great growth in the UK property market, indeed many are suggesting a small fall,

But will the market crash?

We don't think so, the general economy in the UK remains good, with stable economic growth, low inflation and historically low interest rates. A quick look at the main economic indicators of 1990 (when we had the last property crash) against current figures give very good reasons to believe we aren't in the same economic climate of 1990 and therefore unlikely to have a similar property crash.

Economic Indicator	1990	2008
Interest rates (%)	14.88	5.25
Inflation (%)	7.1	2.1
Unemployment (millions)	2.986	1.649
Average Earnings increase (%)	6.9	4
Affordability Levels (% of income spent on mortgage repayment)	47.8	40.3

Unemployment levels are low and with average earning increasing above inflation levels people are earning more money in real terms. Interest rates are at historical lows and although they increased in 2007, the start of 2008 has seen interest rates decreasing with the first decrease since July 2003 and the sentiment is for further decreases in 2008. Inflation (Consumer Price Index, CPI) figures are

again at historical lows and have recently decreased to 2.1% from a high of 3% in early 2007. And although affordability levels (the percentage of income spent on paying the monthly mortgage) are high they are still some way below the figures seen in 1990.

Significant house price falls will require large increases in people wanting to sell and sell quickly from either distress sales (repossessions) or from exiting buy to let investors hoping to avoid a crash and move their money into other assets. Even though many pundits have forecast increased repossessions the underlying reasons for owners to NOT sell look fairly good. Interest rates are decreasing with much feeling of further increases to come. As for buy-to-let investors leaving the market we just don't think this will happen, rents are rising for the first time in over 5 years, interest rates will likely decrease again and the continued volatility of the stock market will stop all but the brave entering it and in the long term property markets still offer great returns with lower risks than all other asset classes. Recent research by Savills and ARLA (Association of Residential Letting Agents) have stated that most investors and landlords do not intend to exit the market with the ARLA research showing 9 out of 10 landlords had no intention of selling their properties in the short – medium term.

Will the market decrease?

Probably yes, the overall affordability levels are high, first time buyers are struggling to get on the ladder and the recent high growth can not continue and will likely decrease by small amounts. We think the overall UK property market will decrease by 2 - 3% in 2008.

But the overall economy has stable inflation, growth and historically low interest rate levels which when combined with good increases in average wage earnings and low unemployment levels show clear reasons why we WON'T have a property crash.

Is the UK property market still a good investment?

Yes but only with the right strategy and for the right investor. The UK property market is a long term prospect that isn't going to generate large capital gains in the short to medium term so any investor buying in the UK market should be looking at the investment as a long term (10yr +) strategy.

Over the last 60 years the UK property market has doubled every 7 – 10 years even in times of low growth or reduction. So it's a very good assumption that UK property prices, although forecast for small growth in the next 2 – 3 years, will in the long term start to grow and produce very good returns.

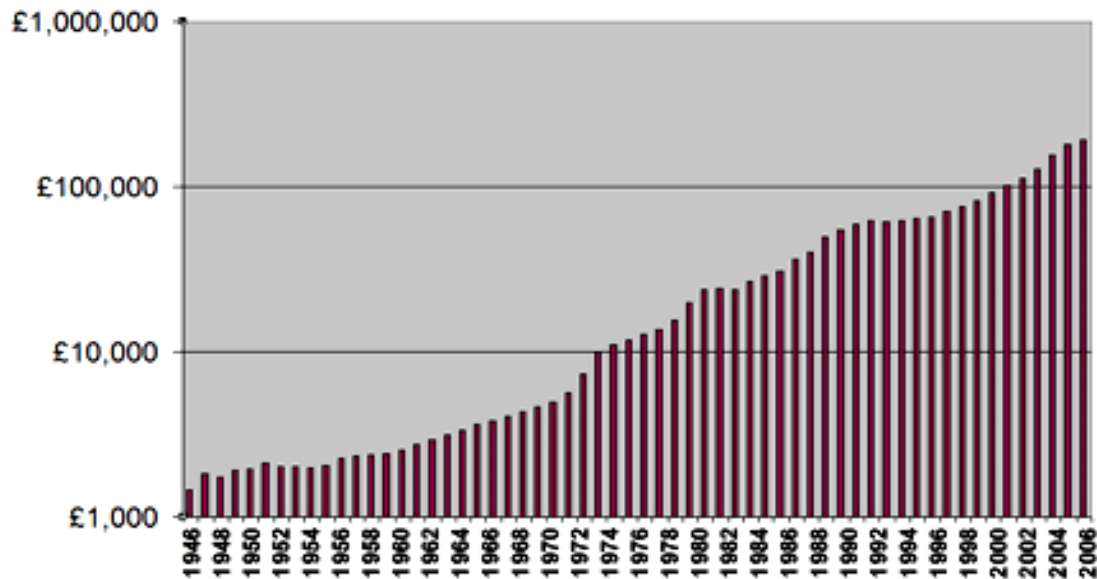
The following graph shows property prices in the



UK from 1946 to 2006, data from the Department for Communities and Local Government (land registry). From this information it's clear to see that the underlying trend in property prices is always up, even in times of no growth the prices eventually start to rise again. This long term trend is what investor in the UK property market should be using in this uncertain time.

UK Average Home Price 1946 - 2006

Source: Department for Communities and Local Government



What types of property you should be looking for in the current UK market?

- Property in areas that will outperform the market average due to regeneration or infrastructure development
- Property in areas where the rents will cover all costs and leave enough money to cover voids and maintenance costs
- Below market value property
- Property that doesn't rely on the market to make capital gains
- Avoid new off plan property with long off plan periods, the rewards do not outweigh the risks in a slow market
- Avoid areas of oversupply and too much of one property type
- Property in Areas of housing shortage as identified in the Barker report, mainly in the South east of England