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As Safe as Houses: Comparing Property and Equities

House price data for December 2008 issued today by the Land Registry indicates that UK house prices fell by 13.5% during 2008. Property portfolio managers Young Group takes the opportunity to set 2008's house price movements in its wider context against equity and pension fund performance. Neil Young, Young Group's CEO also reflects upon untapped demand and constrained supply that could indicate future rapid recovery of house prices.

***"There's truth behind the phrase 'as safe as houses'.
People will always need a roof over their heads; there's
an inherent demand for homes."
Neil Young, CEO - Young Group***

The Property Market:

- Property prices do fall e.g. in the early 1990s, property in England fell by 15%.
- Property prices have fallen only in 5 out of the last 55 years. House prices are currently more than three times the level of the early 1990s. (Source: DCLG)
- Property has a 100% record of price recovery.
- Taking an aggregate of indicators, UK property prices fall by an average of 12.8% during 2008. (Source: Chesterton Poll of Polls)
- Historically property doubles in value every 7-10 years. (Source: DCLG)

The Financial Market:

- Stocks also fall e.g. in the 3 months post 'Black Monday' in 1987 the FTSE 100 fell by 33%.
- Since the FTSE 100's last high of 6,939 in Dec 1999, it has still not recovered (reaching a high in September 2007 of 6,752)
- The value of the FTSE 100 fell by 30.1% during 2008 (compared to a fall of 12.8% in house prices)
- The value of UK Pension funds fell by 31.7% during 2008
- Companies cease trading: Lehman Brothers, Northern Rock, Railtrack, Rover, etc ndash; where 100% of the investment can be lost overnight

Neil Young, CEO - Young Group, comments; *"There's truth behind the phrase 'as safe as houses'. People will always need a roof over their heads; there's an inherent demand for homes but the building industry is on its knees at the moment and new homes just aren't being built. There is pent up demand both from first time buyers and investors. This coupled with a shortage of supply, particularly in the South East of the UK. Simple economics dictates that once mortgage availability is back on track, house prices will recover relatively quickly."*

Whether the same can be said for equities, and people's pension funds, remains to be seen.

Young Group's own Young Index of property investor sentiment shows the confidence that buy-to-let investors have in the sector, and particularly in the London market. There is no evidence of an exodus from the buy-to-let sector, investors have a positive long term outlook for house prices, buy-to-let yields are up and there is demand for finance (for property purchase and refinance).

Young Index Q4 2008

Mortgage Choice Tops Investor's Wish Lists

Rather than base rate cuts, wider mortgage choice and house price stability are seen as vital to getting the property market moving again. Young Index Q4 2008 shows that there is pent up demand for property purchases, but buyers are hampered by the lack of mortgage products available. These same potential buyers believe that further base rate cuts are not the answer to unlocking the market.

No Evidence of Buy-to-Let Exodus

The Young Index results for Q4 2008 show no evidence of an exodus from buy-to-let. Indeed, 96% of investors indicated that they intend to hold investment property over the next 12 months. The survey shows that the majority of buy-to-let investors are looking to the medium to long-term. More than 1/3rd of respondents intend to hold their property investments for at least the next 10 years and more than 20% expect to retain their portfolios for 15 years or more.

This should come as no surprise. By far the most common reason for people holding property investments is to provide for their future. Their long term aim is to build wealth to boost their pension provision. Neil Young points out; *"To a certain extent, short term market fluctuations aren't a concern to most investors as long as their property is financed appropriately and paying for itself in the short term."*

Buy-to-Let Yields Up

Investors who keep a watchful eye on the performance of their investments will have been buoyed by the Government's two rate cuts, totaling 2%. The 3 million+ people currently on tracker mortgages will have seen an immediate positive impact on their monthly income/expenditure schedule and an increase in their investment yields as mortgage costs have been cut by approximately 40%.

Property Price Outlook

This quarter's Young Index shows a slight decrease in positive sentiment towards house prices across the UK as a whole, but most noticeably in areas outside of London; Young Group's quarterly market survey of buy-to-let investor sentiment indicates that 36% of investors believe that property prices in the capital will remain at current levels or above by this time next year showing a level of confidence more than 3 times greater than for property outside of the capital (where just 11% believe the same to be true).

Confidence in the capital's property market remains around four times higher than the rest of the UK, with 33% of investors indicating that they intend to buy additional buy-to-let investments within London during the next 12 months.

Neil Young, CEO of Young Group attributes this to the inherent gap between supply and demand that exists in London; the capital has the advantage of strong demand for housing from a population that is expected to swell from 7.2 million to more than 8 million by 2020 and is also the city most affected by changes to the country's demographics. As a nation we're living longer, marrying later and more likely to live alone than ever before. This growing demand for housing is against a backdrop of falling construction levels. Despite the government's commitment to helping the industry deliver two million new homes by 2016, the credit crunch has limited the amount of bank finance available to developers to fund new housing projects. According to the Royal Institution of Chartered Surveyors (RICS), only 66,200 homes were built across the UK in 2008 and in the first quarter of 2009 fewer than 25,000 properties are expected to be delivered.

Young Index: Summary Results for Q4 2008

- 96% of investors intend to hold their residential property investments for the next 12 months; 37% intend to hold their assets for at least 10 years and more than 20% of buy-to-let investors aim to keep their property investments for the next 15 years or more.
- 33% intend to buy additional residential property investments within London within the next 12 months, whereas just 8% of investors intend to buy UK residential property outside of the capital.
- The outlook for London property prices is 3 times higher than for the rest of the UK; 36% of investors believe that London prices will be at current levels or higher by this time next year, whereas just 10% expect the same to be true of UK property outside London.
- Investors are focusing on mortgage finance; 50% now review their mortgage every 3-6 months and almost 1 in 4 are reviewing their finance options more than once a quarter.
- 69% of respondents expect the Bank of England base rate to be at or below the current level of 2.0% at the end of 2009, and most predict it to stand at 1.0% at that time.