

UK PROPERTY MARKET

Commercial Property Market

“The Q2 2017 RICS UK Commercial Property Market Survey results show sentiment turning slightly more cautious compared with previously. A flatter picture for demand appears to be weighing on the near term outlook for rental growth in the office and retail sectors, although expectations remain firm for industrial space. Political uncertainty is cited as a key factor weighing on occupier and investor decisions, with hesitancy now extending to some areas beyond London. “

“In terms of the twelve month view, the secondary retail market is the only area in which capital values are anticipated to decline, although projections are flat for secondary office values. The industrial sector continues to exhibit the firmest expectations, albeit projections were scaled back slightly relative to the Q1 results. Again, expectations across London remain more cautious relative to all other areas, with contributors now penciling in no change in all-property values over the coming twelve months. Furthermore, the outlook at the three year horizon is equally subdued across the capital, with modest growth in prime sector values largely offset by slight weakness in secondary assets.” ⁽¹⁾

Extracts taken from RICS Q2 2017: UK Commercial Property Market Survey

The cautious market projections for the commercial property market, in particular secondary assets, provides EcoVista with an opportunity to acquire and develop commercial properties at reduced cost and hold as an investment for the medium term when capital values and rent income are expected to recover. There will also be the opportunity to acquire low performing small scale office buildings for conversion or redevelopment as housing, taking advantage of recent changes to permitted development rules made to planning policy. ⁽²⁾

Residential Property Market

There is a growing demand for all forms of housing across most of the UK. The widely quoted figure is a shortfall of 1m units. A recent House of Lords Select Committee Report: Building More Homes ⁽³⁾ suggests the shortfall will be twice that by 2020 if the current depressed level building continues. Significantly, the number of 20-30 year olds that will be renting by 2020 will go from the current 25% to over 60%.

Government policy towards meeting the housing shortfall is being formulated, details of which should be public during Q3. Indications are that Local Authorities will have a greater role in identifying and providing land for development with a strong incentive to be more proactive and to achieve targets for the number of housing approved. It is likely that any planning approvals for housing will be time limited to 2 years in an attempt to reduce land banking. ⁽⁴⁾

The Brexit referendum has continued to impact on the housing market with the year on year average house price forecast for 2016 of 6-7% dropped to 4-6% for the start of 2017 and the current figure for July 2017 is 2.1% reported by Nationwide and Halifax ⁽⁵⁾ and 4.1% by Savills (not seasonally adjusted). ⁽⁶⁾ The fundamentals of the UK housing market in the wake of the vote to leave the EU remain largely unchanged. An undersupply of housing in areas where it is needed most is the overriding issue across the country. Ultra-low mortgage rates continue to underpin pricing, although access to such deals are reserved for those who have reasonably large deposits. The five year projections for house price increases are positive with a steady growth at 17.6% for the East of England (EcoVista's target area) against a national figure of 12.6%^{(7) (8)} for the period 2016-2021.

Recent legislation changing the tax relief available to buy-to-let landlords and the level of stamp duty has to some extent reduced the availability of rental properties, creating a degree of volatility in rental rates and the availability of properties. This could point to an increase in rents, but this will depend on demand which will be driven by internal migration due to job creation, overseas migration or mortgage affordability for first time buyers as Help to Buy comes to an end in 2021. Rent rates in the Ecovista target area of East England continue to rise at 2.4% annually ^{(9) (10)}

There is an emerging market for Build to Rent (Multifamily) targeted at family occupation. Government policy may be moving to support this sector to alleviate the pressure on the delivery of single occupation houses. ⁽¹¹⁾

Opinion across the industry is generally positive and the view is that the housing market is unlikely to go negative as happened in the 2008 financial crisis. The Frank Knight Risk Monitor provides a useful snapshot of the risks facing the UK housing market. It indicates a degree of uncertainty regarding the economy and Brexit, but confirms that the overall risk is neutral. ⁽¹²⁾

These current market factors provide an opportunity for small to medium sized developers with access to unrestricted funding to develop property with a confidence that there is a demand for property for both purchase and rent, with the scope for significant capital and rental growth. This is the market opportunity that Ecovista has targeted.

Current trading and prospects

The Directors believe that the current real estate demand in the UK will continue to provide opportunities for the Issuer. The Directors regularly review assets available for acquisition on attractive valuations and yields.

- (1) RICS UK Commercial Property Market Survey – Q2 2017
- (2) House of Lords – Building More Homes
- (3) Planning Portal – Permitted Development
- (4) Savills Residential Property Focus – Issue 1 -2017 - Power & Responsibility
- (5) Halifax House Price Index - July 2017
- (6) Savills UK Housing market update - September 2017
- (7) Knight Frank UK residential market update - July 2017
- (8) Savills UK Mainstream Capital Values - 2016
- (9) Rightmove Rental Report - Q2 2017
- (10) HomeLet Rental Index
- (11) Savills UK Residential Property Focus - 2017 Issue 1 - Coming of Age
- (12) Frank Knight Residential Risk Monitor May 2017