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Investors interest remains in market

INVESTORS keen to build portfolios as a long-term investment are moving back into housing, to take advantage of owners who decide to sell into a stronger market and builders facing pressures from banks.

Liam Bailey at agents Knight Frank says the professional investment market has seen a complete turnaround this year, with well-managed blocks and larger portfolios achieving yields of more than 6 per cent in central London.

"That's a huge improvement on yields of 3.5 per cent-5 per cent seen at the peak of the market in 2007," he says.

"Some investors with spare cash that they don't want to risk on equities are clubbing together to buy blocks of flats, from around £2 million on routes leading into London.

"They can see a yield of 6-7 per cent, which is attractive in today's climate, and good prospect of a capital gain as the market eventually revives."

Bailey thinks older, established centres in the Home Counties, such as Oxford, Cambridge and Tunbridge

Wells where development work has virtually "seized up", are seeing strong demand as buyers conclude that prices must rise eventually.

Stuart Law at Assetz International has also seen a big change in the investment market since January.

"A substantial number of high-quality investors with cash, many of whom have never held residential property before, are taking the view that bricks and mortar are now a very good investment," he says.

Professionals

In many cases, investors prefer to invest a minimum £25,000 in property funds run by professionals because they don't want the hassles of managing a property by themselves, he adds.

Assetz's latest residential fund will hold only distressed sales, both new-builds and resales.

"The market in the South-East and London has already strengthened and discounts from forced sellers have largely evaporated," says Law.

"So in those areas, we will look only at bank repossessions and the occasional developer ready to do a deal."

It looks as though long-awaited investment in the private rental sector by major financial institutions, including insurance companies and pension

funds, may also be about to happen.

Mill Group has launched a £500 million 'Investors In Housing Fund' to acquire homes in London and the South-East, with the promise to investors of "superior, indexed income returns and capital gains from UK housing".

Its tenants will be buyers unable to get a sufficient deposit together to buy in the open market, but who are too well-off to qualify for help from the social housing sector.

The fund will use a co-investment model which enables them to become owner-occupiers by stages.

Mill Group says this should avoid the problem of voids, and should give both landlord and tenants a mutual interest in improving the property and sharing in the capital growth which this should generate.

It forecasts a running yield of 6 per cent per annum for the fund, and will generate a 15 per cent return over a five-year period if initial purchases are made with cash, rather than with geared loans.

Peter Bolton-King at the National Association of Estate agents says that such a fund could prove to be the only way for many Londoners to be able to afford to buy, given the current constraints in obtaining affordable mortgages.