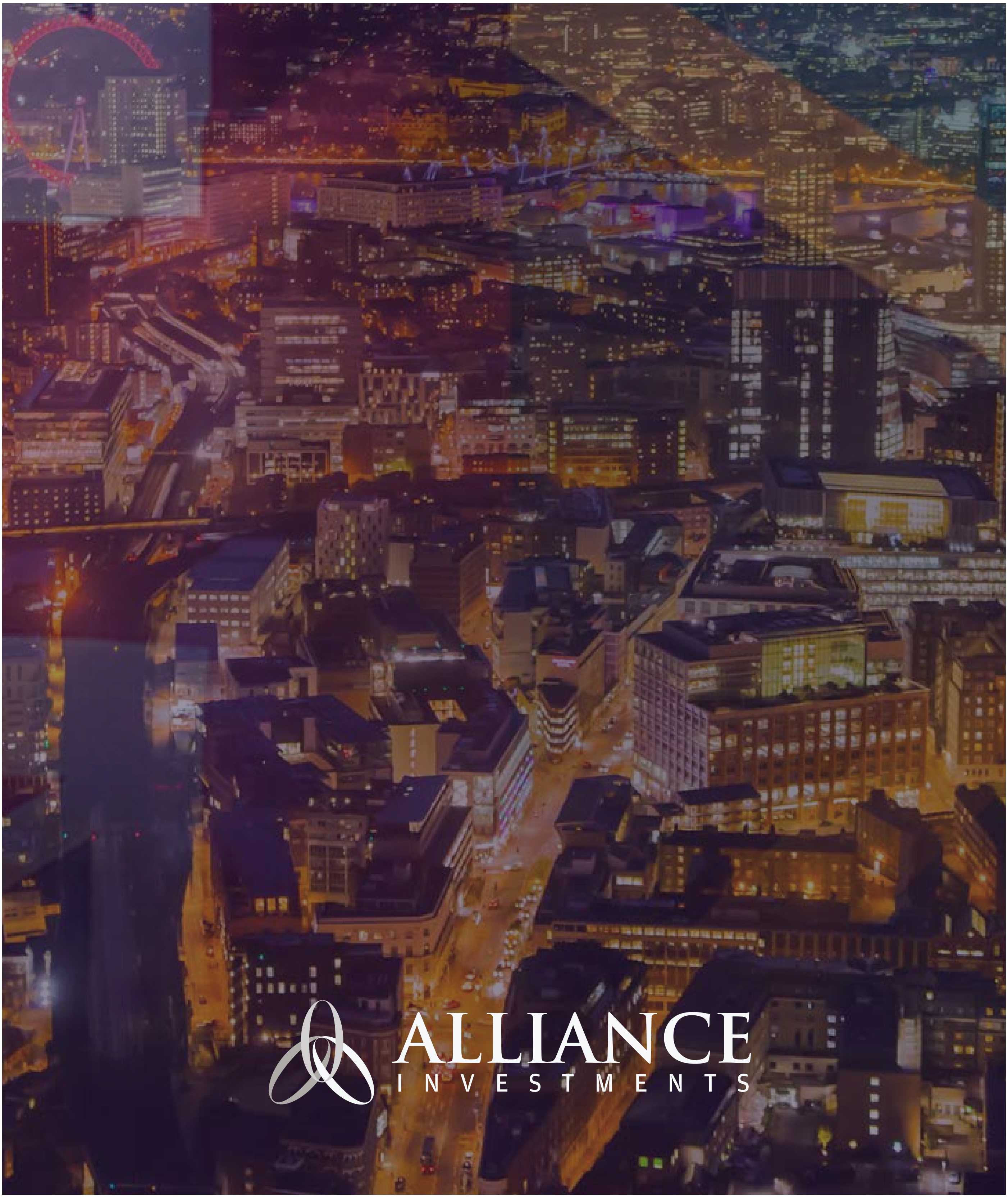
WHY SHOULD SOUTH AFRICAN'S INVEST IN THE UK PROPERTY MARKET?



"Whilst the South African market is subject to extreme volatility, an investment in UK property presents a great opportunity to diversify your portfolio, secure stable returns and utilise your discretionary allowance for substantial gain."

With ongoing political and economic instability in South Africa, individuals are looking for the best ways to protect their investments and assets. Whilst the South African market is subject to extreme volatility, an investment in UK property presents a great opportunity to diversify your portfolio, secure stable returns and utilise your discretionary allowance for substantial gain.

Known for having a stable political system and a buoyant, highly-regulated property market, overseas investors buying in the UK are protected by government legislation to ensure their investment is not affected by unjust political changes. While South Africans are currently being faced with the threat of land expropriation without compensation, an investment in UK property presents a great opportunity to invest outside of South Africa in a secure, stable and regulated market.

In this guide you will find all the answers to your questions about investing in UK property; covering everything from the current state of the UK property market amid Brexit concerns, to the best asset classes and locations that will generate stable returns and high yields.

contents

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In the UK, purchasing and owning a property is considered one of the most profitable investments to have. The UK property market is currently valued in excess of £6.79 trillion – 3.65 times more than the total value of the UK economy - and has a history of stable growth, with any dips in value quickly being rectified within a short period of time.

Despite its substantial value, the UK property market is still chronically undersupplied. As the population of the country grows, an average of 232,000 to 300,000 new homes will be required each year to meet this demand. Despite ongoing projects across the country, the required number of new homes is still 3 times more than what is actually expected to be delivered each year.

The significant demand for property ownership in the UK has meant prices have continued to rise across the country, with key regional hotspots benefitting from the fastest growth as infrastructure and industry in these areas has developed. In the period of April 2018 to April 2019, property prices across the UK rose on average by 1.1%, whilst regional hotspots like the North West and West Midlands experienced price rises of up to 3.8%.

This significant market growth across the country has meant rents have also increased, with these across the UK expected to rise by 15% between now and 2023. The desirability to rent, especially in cities, is fuelled by an increasing number of people wanting easy access to the best job opportunities, entertainment options, and city centre lifestyle, without the responsibility of full property ownership.

Younger people in the UK are also shifting their attitudes towards homeownership. Whilst their parents rushed to get on to the property ladder in their early 20's, young people now place little value on owning their own home due to the flexibility that renting offers and the high-quality accommodation now available in the rental market.

Combine this desirability for good quality accommodation with a nationwide supply and demand imbalance, and it's easy to see why UK property continually presents itself as a valuable investment opportunity. Both domestically and internationally, UK property is widely considered as a stable investment due to the steady market growth, potential for high rental yields and the nationwide demand for housing.

BREXIT AND THE UK PROPERTY MARKET

With Britain leaving the European Union, investors both in the UK and overseas want to make sure that they are investing in UK property at the right time to get the most out of an ever-changing market.

Since the EU referendum in 2016, property prices in the UK's 20 biggest cities rose on average by 2.7% with some cities such as Manchester and Birmingham seeing even higher price growth. Properties in these areas grew by as much as 16%, far exceeding the national average.

In the years after Brexit, Manchester property prices are expected to rise by as much as 21.6%, while property prices in London are only set to rise by just 4% by 2023.

Despite this nationwide growth, property prices in the UK did take a dip towards the end of 2018. Whilst this may be an initial cause for concern, to international investors this presented a great opportunity to secure property in the UK whilst the value of the pound dipped in-light of potential economic and political uncertainty. Investors from overseas are now in a great position to secure property in the UK with a much lower initial capital investment.

Due to the cyclical nature of the property market, investors will still see continued growth and returns as the market returns to pre-Brexit levels. Timing is everything and now is a great time for investors to act.

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WHY ARE OVERSEAS INVESTORS CHOOSING TO INVEST IN THE UK?

"Over the past decade, UK property value has grown on average 4.3% each year"

Stable political climate

As one of the most stable governing bodies in the world, investors into the UK are protected from oppressive or negative legislation that will affect their rights of ownership. Purchases in UK property with full title deeds are protected by the state and cannot be forcibly removed from the owner or handed over to the state unjustly.

Stable property market

With continued growth and no signs of slowing down, the UK property market is incredibly stable in comparison to the South African market. Over the past decade, UK property value has grown on average 4.3% each year, whilst the South African property market has grown 3.6% each year in the same time period. Whilst this may not be a large difference in percentage increase, this cumulative increase equates to a roughly £81,956 increase in UK property value since 2009, whilst this only equates to a £30,000 increase in South African property values over the last decade.

The strength of pound sterling

The Pound Sterling (£) is considered one of the most robust currencies on a global scale. Investing in UK property will earn a return in pounds, hedging you against the volatility of the rand.

Continued nationwide infrastructure investment and growth

On-going projects and infrastructure investment are happening nationwide, including the development of the new High-Speed Rail Network. Upon completion, this network aims to increase career, housing and investment opportunities across the country, with drastic reductions in travel time between some of the UK's biggest cities. Once the network is complete, major cities such as Leeds, Manchester, Birmingham and London will be connected with travel time reductions of up to 50%. The network is expected to create 30,000 new jobs as a direct result of the route and contribute in excess of £15 billion to the UK's economic output.

"For overseas investors, UK residential property continues to be the preferred asset class to invest in. A market history of continued capital appreciation and high rental yields mean investors can make substantial returns on a UK residential property."

Supply VS Demand

- Between 232,000 and 300,000 new homes are needed each year to keep up with demand nationwide. Despite ongoing projects across the country, this required number of new homes is still 3 times more than what is expected to be completed each year.
- With an undersupplied market, property value continues to rise across the UK with average residential property prices now at £228,147 – a 1.7% rise on last year's figures and a 40% increase in the past 10 years.

Changing attitudes to home ownership

- As property prices surge, many UK residents have changed their attitudes towards owning a home.
- Young professionals are opting for high-quality rental accommodation in the UK's city centres due to the convenience they offer without the responsibility and costs of full ownership. These properties also give residents' easy access to the city's best career and social opportunities.
- This demand for rental accommodation has meant prices have continued to grow, with the average UK rent of a 1-bedroom apartment at £7,800 per year – a 31% increase over the past 4 years.

TOP TIP: SPOTTING A GOOD RESIDENTIAL PROPERTY

LOCATION: Investing in an area of considerable growth will mean property values increase at a faster rate.

FACILITIES: Resident facilities such as a swimming pool, gym or communal areas will make the property more desirable and more valuable.

CONVENIENCE: Close proximity to major transport networks, leisure facilities and business hubs will make the property more appealing to a tenant.

SPOTLIGHT ON UK STUDENT PROPERTY

The UK currently has a total student population of 2.34 million, with over 20% of these students coming from overseas. Despite this huge number of students studying in the UK, only 1 in 5 of them have access to purpose-built student accommodation. As student fees continue to increase, students both domestically and internationally are now expecting more value for money when it comes to their education and accommodation.

Currently, the majority of UK universities will only allocate accommodation to first-year students. This means all other undergraduate and postgraduate students must look for alternative living arrangements, historically opting for Houses of Multiple Occupation (HMOs) that are usually in poor condition and poorly managed by landlords. In a survey of students currently living in HMOs 42% of students claimed to have issues with mould and damp, while another 20% are facing pest infestations.

With the rising cost of a UK university education, students are now demanding better quality purpose-built accommodation. With a number of projects ongoing across the UK, investors are in a great position to capitalise on this market and benefit from the nationwide supply shortage.

51 Weeks

-

Average tenancy period of a student property. This guarantees returns for a longer period than residential developments.

£73,500

-

Average cost of student property in the UK. This is a significantly lower capital investment than standard residential investments making it a great option for first time investors or to diversify a portfolio.

£7.5%

-

Average rental yield on an investment in UK student property. This usually will come with an assurance period, typically assuring these rental yields for 3 to 5 years.

TOP TIP: SPOTTING A GOOD STUDENT PROPERTY

LOCATION: An area of significant undersupply will mean high demand for good quality accommodation. Cities and towns with multiple universities nearby will have significantly higher demands for accommodation.

FACILITIES: Premium facilities such as common rooms and lounges will make a development more desirable to students.

CONVENIENCE: Student properties usually come fully managed, making them a great hands-off investment for overseas investors.

WHY ARE INVESTORS TURNING THEIR ATTENTIONS AWAY FROM LONDON?

“The average price of a property in central London is £1.3 million – this is way beyond the affordability mark despite this being nearly a £200,000 decrease on last year’s values.”

Rising prices are forcing investors out

The average price of a property in central London is £1.3 million – this is way beyond the affordability mark despite this being nearly a £200,000 decrease on last year’s values.

Higher taxes and stamp duty

With increased property prices, investors have to pay even higher stamp duties on their properties. At the current values of a central London property, this would mean a further £130,000 would need to be paid in stamp duty alone. For investors with multiple properties in the UK, a stamp duty surcharge would also be applied raising the total to 15% of the properties market value.

A declining market

In the wake of Brexit uncertainty, London has been worst affected by the UK’s decision to leave the European Union. Whilst many cities have either remained stable or grown, London has been one of the main areas to experience significant decreases in property value.

"With the potential for higher rental yields than the capital, and far more affordable initial investment costs, Manchester and Birmingham have quickly gained notoriety as some of the fastest-growing and highest returning investment opportunities in the UK."

Whilst London has hit an affordability ceiling and the market within the capital consistently shows little to no growth, regional hotspots across the UK have become popular choices for both domestic and overseas investors.

Two of the main regional hotspots that continue to show signs of growth in an ever-changing market are Birmingham and Manchester. Since the vote to leave the European Union, these areas have both seen a respective 16% and 15% rise in property value since 2016. Compare this to the national average of 2.7% growth during this period, along with London's 2.2% drop in property value in the past year alone, and it's easy to see why investors are favouring regionals cities over the capital.

Investment into infrastructure is always a good indicator of where to invest, and both Manchester and Birmingham have, and are still benefitting from significant investment. The imminent arrival of HS2 - the UK's brand-new high-speed rail network, along with the migration of big businesses into both Manchester and Birmingham has fueled demand for homes in the city. As both of these cities continue to grow, demand is only going to increase and push up property prices further.

With the potential for higher rental yields than the capital, and far more affordable initial investment costs, Manchester and Birmingham have quickly gained notoriety as some of the fastest-growing and highest returning investment opportunities in the UK.

SPOTLIGHT ON

Manchester

As the birthplace of the Industrial Revolution and a feature in many cultural movements, Manchester is known for pushing the boundaries and breaking down borders. From the 'Madchester' music scene of the 90's to its world-class football teams, Manchester's vibrant history has helped it become the globally recognised city that it is today.

With property value rises of 16% in the past year and projected growth of up to 26% over the next few years, Manchester is a city on the rise and living up to its "Northern Powerhouse" reputation. Significant infrastructure growth in the area and a number of big businesses relocating offices to the area has meant Manchester is buzzing with opportunity.

WHY INVEST IN MANCHESTER

NAMED BY HSBC AS THE UK'S NO.1 INVESTMENT CITY

HIGHEST RENTAL YIELDS IN THE UK - 7-8%

HOUSE PRICES FORECASTED TO EXCEED 21.6% GROWTH BY 2023

AVERAGE HOME IS RENTED WITHIN 72 HOURS OF BEING ON THE MARKET

MANCHESTER GENERATES OVER £920 MILLION IN RETAIL A YEAR

55,000 NEW PROPERTIES NEEDED BY 2027 - ONLY 3,000 A YEAR BEING BUILT

INVESTMENT RETURNS IN MANCHESTER ARE UP TO 67% HIGHER THAN THOSE IN LONDON

£14.4 BILLION HS2 HIGH SPEED RAIL TAKING YOU FROM MANCHESTER TO LONDON IN 1 HOUR

DEMAND IS FAR OUTSTRIPPING SUPPLY IN BOTH THE SALES AND RENTAL MARKETS

SPOTLIGHT ON

Birmingham

As one of the biggest cities in the UK, Birmingham is known for its vibrant culture, world-class universities and diverse communities. Significant growth in the area over the past few years has attracted international attention, with the 2022 Commonwealth Games due to be hosted in the city.

In the past year alone Birmingham has had the largest property price increase compared to the rest of the UK, with the average property price rising by 16%. With significant infrastructure growth and investment in the area, demand is only set to increase for good quality housing in Birmingham and the surrounding affluent suburbs.

WHY INVEST IN BIRMINGHAM

14%

CUMULATIVE PROPERTY PRICE GROWTH FROM 2018 INTO 2020

2,000

NEW JOBS IN THE TECH SECTOR TO BE CREATED EVERY YEAR UNTIL 2025

£600m

ALREADY INVESTED IN BIRMINGHAM AHEAD OF THE 2022 COMMONWEALTH GAMES

£4bn

INCREASE IN ECONOMIC OUTPUT EVERY YEAR AS A DIRECT RESULT OF THE HS2 NETWORK

£1.1bn

EXPECTED REVENUE GENERATED BY THE 2022 COMMONWEALTH GAMES, WITH £500M OF THIS BEING RE-INVESTED INTO THE WEST MIDLANDS

89,000

NEW HOMES REQUIRED BY 2031 TO MEET DEMAND. SUPPLY IS CURRENTLY SET TO FALL SHORT BY OVER 30,000 HOMES

49%

STUDENT RETENTION RATE FUELLING THE YOUTH POPULATION OF BIRMINGHAM AND KEY MARKET LOOKING FOR RENTAL PROPERTIES IN THE AREA

STRUCTURING YOUR INVESTMENT

As a South African investor, it's important to make sure you know the right ways to structure your investment in UK property. Proper consideration of your discretionary allowance, mortgaging options and tax commitments will mean you make the most out of your investment.

Discretionary Allowance

All South African citizens over the age of 18 are permitted to take a maximum of R1million out of the country every year without having to declare their intentions to the South African Reserve Bank. However, when an individual is looking to invest offshore, they may invest up to R10million in their own name outside of the common monetary area per year, as long as they obtain a tax clearance certificate. Should an individual wish to invest more than R10million in one year, an application must be submitted to the South African Reserve Bank for approval.

Stamp Duty

The below table highlights the percentage breakdown of how much Stamp Duty Land Tax (SDLT) will need to be paid based on the sale price of the property. This amount will differ for a student property investment and it is worthwhile consulting with a property expert to confirm your legal requirements. Student property investments under the value of £125,000 are exempt from SDLT, however if they are over this value threshold they are subject to the same tax percentages as the table below states.

Purchase Price	Stamp Duty Applicable
Under £125,000	3%
£125,000 - £250,000	5%
£250,000 - £925,000	8%
£925,000 - £1.5M	13%
Over £1.5M	15%

UK Landlord Taxes

As an overseas investor you are still required to pay tax on your investment. When it comes to investing in the UK, South Africa and the United Kingdom are bound by a double taxation treaty – meaning you will only pay tax on your rental income in one jurisdiction rather than both.

Before committing to an investment into UK property, it's important to note the following taxes may still apply:

Income Tax – the amount of tax payable on your earnings (e.g. rental yields from your property are subject to income tax rules).

Buy-to-Let property tax – the tax paid by the landlord for owning and renting a property

Capital Gains Tax – the tax paid on selling your property and the subsequent capital gains

It is important to consider all of this before making an investment. Consulting with a property specialist beforehand will be the best way to make sure you are within your legal requirements when investing in UK property.

As a subsidiary of Property Alliance Group we are founded on an unrivalled understanding of the UK property market going back three decades, covering all aspects from construction to development and sales. Our professional commitment to provide a world-class end-to-end service, as well as our uncompromising levels of quality, has earnt us a reputation for being a trusted and reliable choice for investors all over the world.

Headquartered in Manchester, we have been behind the development and sale of some of the city's most iconic landmark buildings, with the group's portfolio now amounting to over £1.5bn worth of assets. Being a key contributor to the growth of what has become one of the UK's top investment locations, has given us the credibility to move into other key cities, all the while maintaining the same high levels of quality that have become our trademark. This expansion into other areas of theUK has in turn allowed our investors to diversify their portfolios even further and maximize their returns.

With local experts on hand across Europe, the Middle East, Asia and Africa, our experienced sales and after sales teams are dedicated to offering a clear and transparent service at every stage. With the in-house capabilities to handle all elements of the sale, including exchange, mortgages, completion and property management, you can be sure Alliance Investments will always have your best interests at heart and will never be far away.

Our full service offering includes:

· Consultations and advice on property investment options

· Full support throughout the entire sales process

· Assistance with solicitors and mortgages

· Regular development updates

· A global team able to communicate in multiple languages

· Full property management options

Property Alliance Group

- Completed over £500 million of transactions across residential, office, retail and leisure property sectors
- Track record for delivering high-quality, landmark buildings and developments across the UK

Russells Construction

- Established 22 years ago
- One of the North West's largest and most successful construction firms
- £100 million turnover
- Tier 1 construction status
- Secured large investment from Wilson Bayly Holmes-Ovcon; South Africa's largest construction company

Alliance Investments

- Established 6 years ago
- Over £1.2 billion in existing stock and development pipeline
- Exclusive sales and investment arm of the group dealing the entire development contract and lettings process
- Offices in Manchester, London, Dubai, South Africa, Shanghai, Singapore and Hong Kong

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