BIRMINGHAM: THE NEXT LONDON PHENOMENON?

Will 'Going North' fulfil property hunters' hopes or disappoint them?

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With the Pound plunging to record low against most currencies, many are finding more and more excuses to slip into their winter coats for a holiday in the UK. Investors likewise are making the most out of this instability to buy into UK assets. While the rich and famous will continue to focus on London, other mortals are looking further north to find "the next London phenomenon".

As we have addressed in previous articles, the fundamentals of the UK economy remain strong. There is still a great deal of uncertainty given the vague timeline Brexit has drawn and this is affecting the currency. The property market remains fairly unaffected – at least not yet. Demand for housing still far outstrips supply and property values continue to rise steadily across most of the country. The Royal Institute of Chartered Surveyors (RICS) predicted that the average increase in rent across the country will be 3% in 2017. While that might not seem like much, it represents a constant demand that will ensure stability in the market.

DRIVING DEMAND NORTHWARDS

The main stumbling block for individuals attempting to invest in UK property is often the cash outlay required. The price of an average investment property in London, a small one- or two-bed-one-bathroom apartment in central London will get you a lot more elsewhere. Such is true when heading north of the capital if investors are looking for exposure to the UK housing market without costing them an arm and a leg. The average price of one bedroom units ranges between GBP100,000 and GBP200,000 - a fraction that of London's.

A slide in the annual increase in property values in London at 3.7%, compared with 4.5% across the country as a whole has also raised alarms that the capital's property value is at its peak and risks a downward slide along with the uncertainty of Brexit and European risks as well as the potential of capital flight.

Infrastructure projects such as the HS2 high-speed rail and road/airport expansions to diversify UK's economy geographically by the government is also luring investors north with the potential of price growths.

Lending to foreigners is also constricted by the banks located in UK and Asia, ranging from no lending at all to only lending on properties in the central (hence expensive) part of London. Borrowing is now a risk in the property game and hence investors are swaying towards lower value assets in the North where they can pay in cash.

So is the North which includes Birmingham, Manchester, Leeds and Sheffield worth investors' attention?

Northern Power House or Powder House?

Manchester, Liverpool and Birmingham are all favourites of property investors hunting for the next area of growth outside of London. There are certainly no shortage of indicators to get us excited about these areas. This is especially so in Birmingham.

The increasing numbers of young professionals moving to Birmingham for jobs is changing the demographic landscape of the city. Birmingham has a young population compared to the rest of England with an average age at 36 versus 38.6 years for England as a whole.

This affects the types of properties in demand where space is now not as important as the location which has to be close to nightlife, shopping and of course, work. Renting would be the preference of the young being not yet ready to buy, either because they do not have the financial ability or any long-term plans to settle in a location yet. Across the country, home ownership is at a 30-year low and Birmingham is no exception.

Birmingham has one of the youngest, most highly qualified and most diverse workforces in the UK. The total number of new jobs created between 2013 and 2025 is projected to be slightly above 29,000, equating to a 5.7% increase. This is significantly stronger among higher skilled occupations which are expected to see a 13.5% increase by 2025.

Such an increase will have positive implications for the housing market as these jobs will command higher salaries and thus, support an increase in rental demand. In the longer term, this will also improve the prospect of home ownership, translating into resale profits.

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RISING RENTALS

When it comes to renting, census data shows that the ratio of households renting privately in Birmingham rose from 12% in 2001 to 18% in 2011. This ratio is likely to increase given the growing affordability issues. Moreover, a recent study by investment manager Hermes concluded that major regional centres such as Birmingham can expect to enjoy a period of sustained rental uplift.

Further future growth will be supported by public initiatives such as the Big City Plan, a 20-year programme of urban regeneration which will create an estimated 50,000 new jobs, and Birmingham Smithfield - a 14-ha, £500m new retail and leisure hub that will further transform the city. New Street Station with its £750 mil refurbishment, has made the 1 hour 25-minute journey into central London a much more enjoyable process. Phase 1 of the HS2 project will further reduce that travel time to 49mins in December 2026 if all goes as planned.

Forecasts show that economic output in Birmingham is forecast to grow by a healthy 2.5% per annum between 2015 and 2030. Many are now advocating Birmingham as UK's prime tech hub, or the equivalent of Silicon Valley along with its major Smart City initiative. According to Knight Frank, Birmingham is now Britain's business hotspot and has now become a centre for new technology, financial services and architectural showpieces. It has now more businesses than any other cities outside of London and more than Manchester and Cardiff combined. In the first 6 months of 2016 alone, 9,151 new companies were created making it Britain's number one regional city for start-ups.

Corporates too are seeing the city as an exciting opportunity with its rich pool of talented technologists. Chinese automotive manufacturer Changan, American civil engineering firm Jacobs Engineering, and global technology-centric giants Lombard Risk and Advanced, all made significant investments in Birmingham during 2016. As such, we are seeing strong demand for homes, offices and also hotels - where occupancy peaked at 99% in 2016 and averaged 75% - the highest on record for the city.

CONCLUSION

With strong infrastructural developments and a brewing tech market, Birmingham is definitely poised to grow and develop into a UK city that will be second to London. A young, growing and affluent demographics along with strong entrepreneurship and innovation is a great recipe for long term growth.

The only possible downside for investors is that most banks have not yet started lending to foreigners outside of London, hence it does present an obstacle for active investment. That said, prices are well within £200,000 for a 1 bedroom-1 bathroom unit and with Pound being pounded (pun intended) by Brexit at this point, we are confident that it presents a golden investment opportunity. ■