



Property Market Forecasts
2022

Sales, Lettings and Investment



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About our team:

At Osprey, people are at the heart of what we do. We have over 60 yrs of experience in the property market, giving us the key skills to help you as best as we can. We are proud of our team in sales, lettings, and Investment.

Our staff are experienced, focused, and professional in all aspects of our business. Our customer service is our core offering and we ensure we can offer the best advice possible and our professional practice Is maintained.



Introduction:

How might the market move throughout 2022?

We have predicted capital appreciation in the East Midlands of 5% for 2022, but how will the market move throughout the year? Here is our best educated guess;

The end of 2021 was marked by sustained price rises but at a slower pace than earlier in the year. Interest rates rose for the first time in a long while and inflation skyrocketed to 5.1%, whilst omicron spread worldwide.

We kick off 2022 with marginally more certainty than we did in 2021; vaccinations seem to be working, the economy is strong, employment is very strong and there is wage inflation. It seems to be widely acknowledged that interest rates will go up, but are still relatively cheap compared to historical levels. Fixed rate mortgages are still exceptionally cheap. As such, the market will be well supported and we can expect further growth, not at the rate of last year but 1-5% for the first half.

So, 1H 2022 will be steady, stable and reliable.

Perhaps in 2H 2022, we will see the usual seasonal lull over the summer, then we think a consolidation of the market in the autumn. An assessment of where everything has got to. Potentially weakness in some of the over heated regions. A breather for the market before it starts to rise again in 2023.

Please remember the above are complete guesses, but for choice, we think the market will have more upside, more buyers around and more buoyancy in the first half.

If you are considering selling perhaps 1H 2022 could be better than 2H 2022?

For anyone considering selling their home or their investment property we urge you to contact us sooner rather than later. Good sales are often opportunistic; matching the right buyer to the property, and we can only do this when we know your intentions.



Assessment of our 2021 predictions:

Our predictions in the past have been pretty accurate, so what about the predictions we made in January 2021 for the UK property market in 2021:

I think we have to re-run the phrase “optimistic”, which we used for 2020. Whilst returns may not be huge, it will be a good, positive, stable market with limited volatility; just the sort of market people should want exposure to in these generally uncertain times. **Correct, though possibly conservative!**

Capital values: Direction: upwards, Magnitude: 4%. Same prediction as 2020; a national house price increase of 4%, or the equivalent of a real house price increase (after inflation of c2%) of 2%. Hardly exciting stats but this is a mature, stable, low volatile asset class. This is the national figure, there will be large regional differences. **Direction correct, magnitude was even greater at 9-10% (according to Halifax and Nationwide indices)**

Timing and Transactions: a strong market until the end of March (to benefit from the SDLT discount), followed by a bit of a mid-year lull as we get to grips with the roll-out of the vaccination programme and its impact on covid numbers, ending with a strong recovery in activity in the latter part of 2021. **Correct, but hard to pin point exact movements.**

Long term capital appreciation: Our 2016 prediction of a 5-year capital return of 23%; was correct. We are very proud of that prediction. Our prediction for 2019-2023 was 17% (Savills 15%), and now for 2020-2024 15% (Savills 13.5%); to date 2% in 2019 actual, 6% 2020 actual. Steady away, this being capital appreciation, combined with the running net rental yield of say 5% per annum in the Midlands, and this is an attractive blended return of capital appreciation and annual rental yield. **Correct, our 5 year prediction in 2016 was spot on, our 5 year prediction ending in 2023 might be a bit conservative; lets see!**

Regional variations in property prices: The market is highly fragmented and it is imperative that residential property is purchased in the right location (location, location). We still think there will be new impetus returning to the market in the South and East. For our favoured region of the East Midlands we predict +5%. The “East” (East Midlands and East of England) are economically vibrant and will benefit from any economic recovery post covid.

The “escape to the country” trend continues, and we can expect rural properties in the East Midlands where a perceived better quality of life exists, to remain in strong demand. **Direction correct, sentiment correct, magnitude even greater at 9-10%**

Rental growth: Will be 2%, or in real terms flat. There is continued constrained supply of rental stock (buy to let supply falls), whilst demand continues to grow. Technology has enabled the younger generation to have more job mobility and more demand for renting. **Correct, 1.7% (ONS)**

Interest rates: base rates are presently at 0.1%. We expect no rise in 2021. The economy has to recover, businesses will need all the help they can get, rates will not go up. **Wrong, but only by 14 days! On 16th December interest rates increased a small amount to 0.25%.**

Prime Central London: Last year, for the first time in about 5 years, we saw glimmers of hope for the PCL market. There was a catalyst to drive the market higher; Brexit and no threat of Labour party. Covid clearly put a dampener on things, alongside Brexit indecisions, but if we can control covid then we believe that selective purchasing in Prime Central London will prove a canny investment over the next 5 years. **The Prime central London market up only 1% but expect more. The opportunity remains.**

Overseas buyers: will face the twin effect of a stronger pound and higher rates of stamp duty from April, due to the introduction of a 2% surcharge. Perhaps by April international travel restrictions will be relaxed. This could be used as a negotiating tool by international buyers, but its overall effect will be negligible, even on the London market. **Correct, GBP a bit stronger, higher stamp rates.**

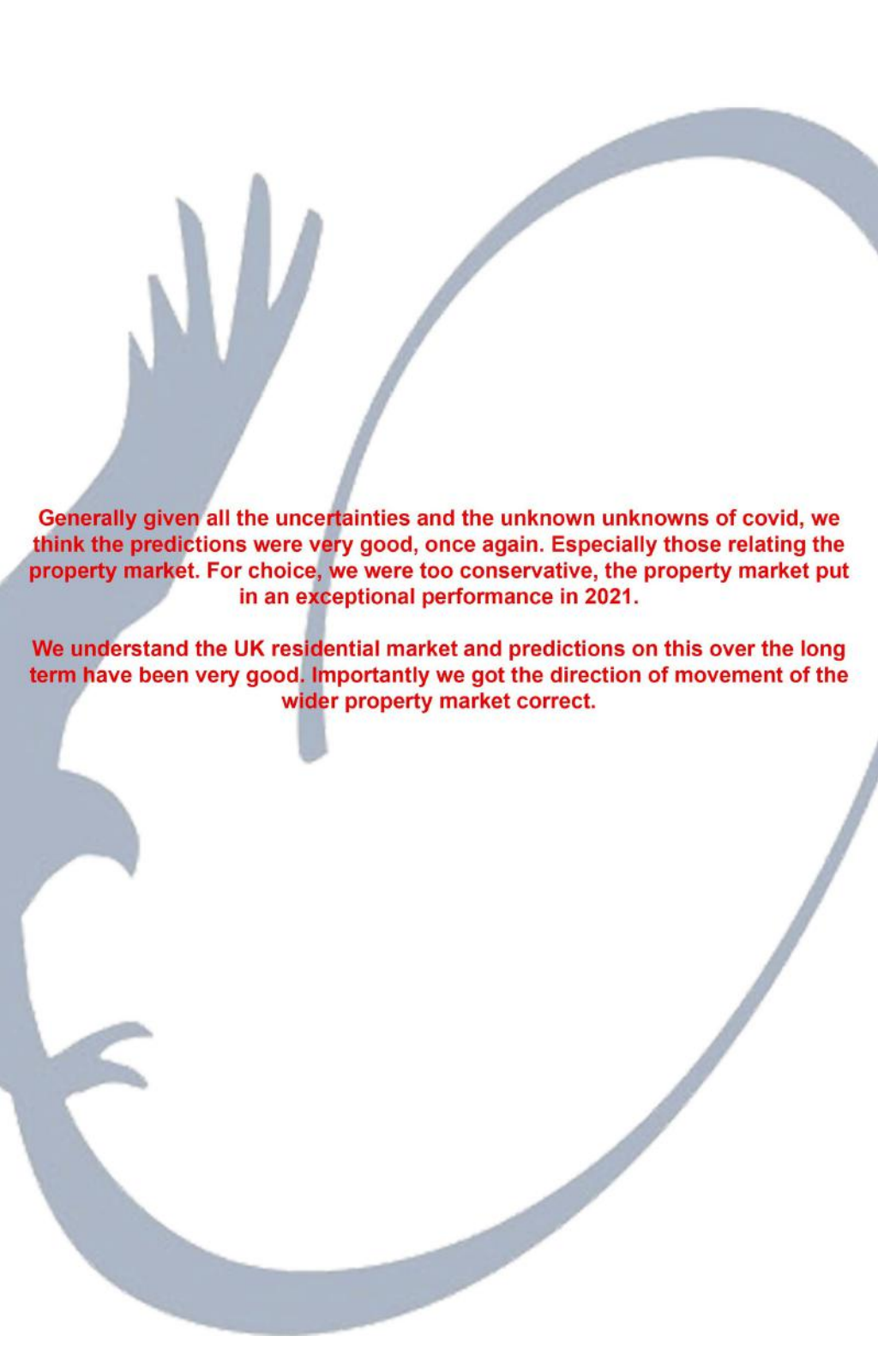
Stamp Duty: The Government realised that turning the lights out on the housing sector during covid would kill the weakened economy even faster. Not only did they allow the housing market to re-open in May and have kept it open ever since, but they boosted its return with a stamp duty tax holiday. This ends in March 2021, and may cause some short term turbulence, but it is more likely to lead to a fall in housing transactions than a fall in house prices. **Correct, short term turbulence it was, prices continued to rise!**

Headwinds: I said last year these were subsiding! Then that hurricane of a headwind called covid hit. This year I think things will normalise to the new-normal. The country is united, the sentiment is one that we can and will beat covid. Headwinds will subside in 2021, and in the second half of the year we will be in a much better place.

While Coronavirus remains a wild card, the vaccine appears to offer some optimism for the future. **I think this is generally correct. Sentiment better. A will and purpose to normalise. But perhaps a new normal with masks and social distancing!**

A couple of other random predictions for 2021: for entertainment purposes only! Oil prices will trade between \$50 and \$75 throughout 2021, **Wrong broke through to \$80+ in September**, our stock pick for the year is still Microsoft at \$222 **\$314 now, an excellent 41% return** (we first picked this in 2019 at \$106), our short is bitcoin (E31450) **now E36000 14% wrong!**the FTSE 100 will end 2021 higher than it started the year. **6460 to 7495; 16% correct!**Sentiment will be positive, surely, **just!**. Sterling will strengthen against the euro to E1.20.**yes at 1.199 today!**. Boris will still be Prime Minister **yes**, covid will be under control **hmm, may be**, Joe Biden's popularity will increase, Rishi Sunak will be the next PM in time, and there will be no assassinations in 2021 **correct!**.

We predict that these 2021 predictions will be OK! Last year, I said "for the first time in a long while we have some visibility, an element of certainty, a base from which to proceed". I think this time I can say we have no visibility and absolutely no certainty **BUT** we do have a base from which things should improve. We will prosper. **Correct**



Generally given all the uncertainties and the unknown unknowns of covid, we think the predictions were very good, once again. Especially those relating the property market. For choice, we were too conservative, the property market put in an exceptional performance in 2021.

We understand the UK residential market and predictions on this over the long term have been very good. Importantly we got the direction of movement of the wider property market correct.

Our Predictions for 2022:

As per previous years, we repeat and reiterate that; residential property investment is a long-term investment over a 5+ year time horizon. Predictions over 12 months are provided for interest only, rather than any forecast of investment performance.

Phrase; what phrase will best describe the residential market in 2022? For 2020 and 2021 we used “optimistic”; which was accurate! For 2022 I think “boringly optimistic”. Returns will not be as good BUT it will be a good, positive, stable market with limited volatility. Robust and resilient!

Capital values: Direction: upwards, Magnitude: 4%. A national house price increase of 4%, hardly exciting but this is a mature, stable, low volatile asset class. This is the national figure, there will be large regional differences.

Timing and Transactions: we don't see any major triggers for changes throughout the year like the end of a stamp duty holiday. We expect a strong Spring, quieter summer, and a stronger autumn as confidence returns and covid comes under control and we learn to live with it. Less shocks and bumps than 2021!

Long term capital appreciation: Our 2016 prediction of a 5-year capital return of 23%; was exactly correct to 2021! We were very proud of that prediction. Our prediction for 2019-2023 was 17% (Savills 15%), and for 2020-2024 15% (Savills 13.5%) and now for 2022-2026 18% (Savills 13%); to date 2% in 2019 actual, 6% 2020 actual, 10% 2021 actual. Steady away, remember this is only capital appreciation, combined with an annual net rental yield of say 5% per annum in the Midlands, makes for a very attractive blended return of capital appreciation and annual rental yield.

Regional variations in property prices: The market is highly fragmented and it is imperative that residential property is purchased in the right location (location, location). For our favoured region of the East Midlands we predict +5%. The “East” (East Midlands and East of England) are economically vibrant and will benefit from economic recovery post covid, as well as the “escape to the country” trend.

Rental growth: Will be 3%, or in real terms flat. There is continued constrained supply of rental stock (buy to let supply continues to fall), whilst tenant demand continues to grow. Technology has enabled the younger generation to have more job mobility, more flexibility and so more demand for renting.

Interest rates: difficult one! Base rates are at 0.25% now. With continued high inflation small increases in interest rates can be expected. We expect a base rate of 0.75% at year end. This is still exceptionally low.

Mortgages: Increases in interest rates will act as a drag on the amount buyers can borrow relative to their income, but still be readily available with good supply.

Prime Central London: London is one of the most amazing cities in the world. In the 7 year period to 2021 the market fell c20%. Last year, there were glimmers of life in the PCL market primarily driven by buyers of larger houses. We forecast an increase of 7% for 2022 driven by affluent domestic and international buyers, many of whom do not need borrow. Over the next 5 years we predict 20% upside to prices.

Overseas buyers: as travel restrictions ease, and international travel commences more freely we expect an increasing amount of overseas buyers in the UK, principally in London.

Working patterns; homeworking and other hybrid working patterns will become more readily accepted in the UK. Combined with the eternal quest for better quality of life, we expect this to drive demand in desirable rural areas such as Rutland and Leicestershire.

Headwinds: I said last year that things would normalise to the “new-normal”. I think that correct and we now know about covid and its effects and we must learn to live with it. Sentiment will continue to improve, vaccines do work, headwinds will subside, and come the end of 2022 we will be back to business as usual in our “new normal” world!

A couple of other random predictions for 2022: for entertainment purposes only! our stock pick for the year is cvs health at \$103, tesco at 293p will be taken over, we continue with our short of bitcoin (E38000), the S&P500 will fall, the FTSE 100 will rise. Sterling will strengthen further against the euro to E1.25. Boris will remain Prime Minister (Rishi Sunak will be the next PM in time), and covid will mutate and weaken.

We predict that these 2022 predictions will be OK! Forecasting is a foolish game, but there does seem to be a bit more visibility. There will continue to be shocks and extremes (of everything) but we will prevail and prosper!

Residential Property Investment in 2022:

Given our predictions for 2022, we forecast residential property investment will continue to be a steady, stable, robust, resilient performer.

Why residential property investment?

lower volatility than other asset classes

a tangible asset, a real asset with real tenants, and most importantly an investment that people understand

a macro environment of limited, constrained supply and increasing demand from both house buyers and tenants

a low interest rate environment with the ability to attain cheap fixed rate debt

It is no wonder that pension investors like residential property. I think importantly, it is the fact that it is a relatively easy investment to understand. It is credible.

Where should one buy?

Whilst we predict national house price increases of 4% in 2022; as mentioned in our predictions there will be large regional differences. Please note we always recommend purchasing on a 5 year + investment horizon.

East Midlands and East of England where we manage c 1000 residential units, and where we are active in helping our investor clients source attractive investment properties to buy.

As in the past couple of years, we particularly like this geographical market (and yes, we would say so if we thought there were better opportunities elsewhere!). Indeed, similar to our 2021 recommendation, we believe that there may be buying opportunities in London this year, so do let us know if you are interested in investing in London and we can ensure you are kept up to speed.

Why the East Midlands and East of England?

relatively strong local economic activity with inward investment and good employment prospects longer term

strong local and regional road and rail networks providing good transport links

house prices below national average, and still rising from a low base

low capital values in relation to build cost which limits competition from new builds

an active first time buyer market

high rental growth prospects

benefitting from the ripple effect of wealth flowing out from London; areas which are within a 1 hour commute of Prime Central London at a fraction of the price.

Benefitting from the “escape to country” trend of home working and hybrid working patterns

What are the expected returns?

The blended returns of superior capital growth potential (5%+) accompanied by an attractive net rental yield of say 5% make for an attractive **total annual return of 10% +**.

Please note these returns are ungeared, with borrowing the return on investment is significantly greater.

Longer term, we forecast **5 year capital appreciation of c20%** (Savills 15.9% for East Midlands) combined with rental growth of c20% also over the same period (Savills 19.9%).

This makes the **East Midlands and East of England** region one of the top forecast areas for capital appreciation in the UK.

How should one buy?

There are 4 key components of residential property investment;

A: Buy Well: you must get proper advice and use the expertise of someone like us who work in the market 24/7. It always amazes us that people use stockbrokers to buy shares and use estate agents to sell houses but often do not use property finders to buy investment property. Residential investment is typically a significant amount of money (hundreds of thousands of pounds) and it is important you spend it wisely. Yes, there are fees to property finders, but at c1% and amortised over the 5-10 year life of the investment it is a small price to pay for good advice.

B: Manage tightly and control costs: It is imperative that your asset is well looked after. The wrong manager, the wrong tenant, the wrong contractor can all greatly affect the net rental income of the property and thereby the total return on the investment. We manage and let properties throughout the whole of the East Midlands.

C: Financing: Monitor the performance of the asset over the longer term. Consider leverage; money is cheap at the moment. Build a portfolio of properties if possible to diversify risk. All important considerations.

D: Sell Well: It is important you receive the very best price for the asset you are selling. Not only should you appoint a good agent but you need ensure the property is presented as well as possible. Might it be better to sell the property tenanted, could a redecoration improve returns, could a refurbishment improve returns etc. Through our local branches we offer estate agency services. We differentiate ourselves from other estate agents in many ways (we hope!) but importantly we have access to a large database of active property investors who are continuously seeking new units to purchase.

Osprey Property:

If you can buy well, manage tightly, finance the investment as best possible, and sell well then you will achieve the very best returns; a blended return of capital appreciation and rental yield.

To do all this it is imperative you seek the right advice, and we would be delighted to advise you. A poor purchasing strategy (or indeed exit strategy) can have drastic effects upon the total return.

We continuously review investment opportunities throughout the UK and we are not geographically constrained. Each opportunity is assessed on a project by project basis on its own merits. As always, due diligence of the unit(s) concerned is imperative. You must choose the right area, the right location, the right development, and the right unit(s) in which to invest in.

We have been actively finding properties for investors since 2001, we know the local markets, we have the contacts, and we manage properties throughout these regions and we are therefore able to advise and assist our existing clients as well as new landlords.

It means you are being hand-held in what can be a complex purchase procedure, it means being confident in the decisions you have made to invest, and it means that we do not just source a property then run, but once sourced we will manage the property, and hope to forge a long term relationship with all our clients, old and new.

Our property services include property investment, lettings and management and estate agency. Please see links for further details;

www.osprey-property.co.uk

www.residentialgroup.co.uk

We wish our clients and friends a very prosperous 2022

The Team at Osprey Property (a division of Residential Property Group Limited)

