

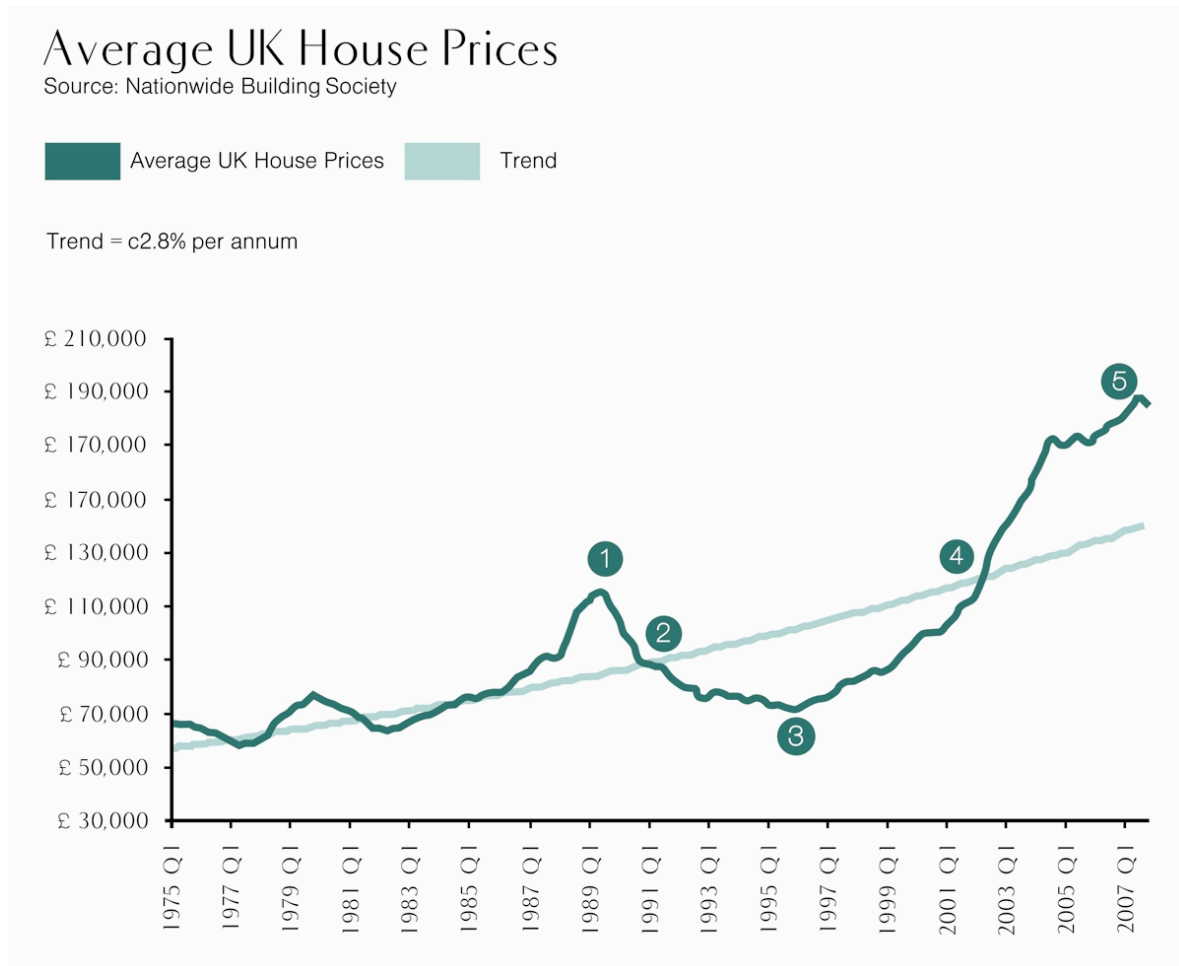
## THE PROPERTY MARKET CYCLE AND INVESTMENT STRATEGIES FOR EACH PHASE

Historically the property market has been cyclic in nature with each cycle consisting of four separate phases:

- Contraction
- Recession
- Recovery
- Expansion

The savvy investor can profit from property in any phase of the market cycle. To do so they must be able to identify the characteristics of each phase, successfully employ investment strategies best suited to the current phase, and recognise when the market is moving from one phase to the next.

The following graph illustrates the upward trend in average house prices from the first quarter in 1975 through to the present day and clearly shows the cyclic nature of the market. Using the graph to indicate the four phases of the cycle we will consider the most appropriate strategy for each.



- **Contraction**

Looking at the graph house prices peaked in the third quarter of 1989 and pulled back to the long term trend line in the fourth quarter of 1990 (points 1 to 2 of graph). This indicates the end of the previous expansion and it is likely that capital appreciation will not return for a few years to come.

### **Signs of Contraction**

- Supply of housing begins to outweigh demand as credit market tightens and mortgage lenders mitigate their risk.
- Developers recognise the downward trend and tone down supply. They begin to offer incentives to offload standing stock.
- Experienced investors dispose of investments yielding poor cashflow whilst those approaching retirement may cash-in their portfolio.

### **Investment Strategy**

- Try to sell properties in your portfolio that yield poor cashflow.
- Remortgage your portfolio (but not to the hilt) to build cash reserves for the tough times ahead.
- Only buy property at significant discount yielding good cashflow.

- **Recession**

The last time the UK property market experienced a recession was in the early 1990's (points 2 to 3 of graph).

### **Signs of Recession**

- Media reports about falling prices and increasing repossessions.
- Apprehension regarding buying property in both the residential and buy-to-let (BTL) market.
- With a decline in demand properties take longer to sell and the number of completed transactions falls.
- With few sales, estate agent's either close down or lay off staff.
- House builders are reluctant to start development until signs of recovery are clearly visible in the market.
- More properties for sale at auction.
- The general economy is in recession.

### **Investment Strategy**

- Only invest in properties that are significantly below market value (BMV).

- Buy-to -Sell (BTS) strategies are more difficult to utilise in a recession due to the drop in demand and potential buyers will be looking for a discount from you.
- Properties bought during a recession should only be bought for cash-flow and a long-term hold as no capital appreciation will occur.

- **Recovery**

The last time house prices experienced recovery was from the low reached in the fourth quarter of 1995 rising back to the long term trend line in the first quarter of 2002 (points 3 to 4 of graph).

The recovery stage sees demand for property starting to increase to match the oversupply left by recession.

### **Signs of Recovery**

- House prices start to rise again after a period of falls.
- The gains will be moderate and likely to be in-line with the rate of inflation
- Repossessions start to fall.
- Home builders will submit more applications as they prepare for an increased demand.

### **Investment Strategy**

- Invest in areas which have seen the greatest fall in house prices during the recession as they will be the quickest to regain their value.
- Invest in hotspots and regeneration areas for rapid capital growth.
- The absolute requirement to buy properties at significant discounts and produce good cashflow is tempered as capital appreciation is beginning.

- **Expansion**

A marked increase in prices above the average upward trend took place between the second quarter of 2002 and peaked in the fourth quarter of 2007 (points 4 to 5).

### **Signs of Expansion**

- Housing supply increasing but not enough to satisfy demand.
- Renewed interest from the general public and BTL investors.
- Repossessions and bargain properties will be at their lowest level as people can easily sell their home or refinance taking advantage of capital appreciation.
- Mortgage lending will be at an all-time high as credit is easily accessible.
- People will still join near the peak as they fear they will miss out on the opportunity to invest or get on the property ladder. They don't see the signs that contraction is on the way.
- New property investors who join the market hoping to make a quick buck as we enter the contraction phase will potentially be heading for disaster and may provide more experienced investors with a bargain property as they become desperate to offload their liability.

## **Investment Strategy**

- BMV deals will be harder to come by as there are less distressed sellers in the market.
- Primary focus should be on buying properties in areas of strong rental demand which achieve good cashflow.
- During the expansion phase, the market is experiencing double digit growth and you will be able to expand your empire by refinancing regularly and putting down full deposits on property.

## **WHAT PHASE OF THE MARKET ARE WE IN AT PRESENT?**

The property market is currently experiencing contraction as a result of tightening in the credit markets and reduced affordability. This has led to a reduction in property transactions, an oversupply of properties and subsequent reductions in price. However, this phase represents a great opportunity to maximise your portfolio for the following reasons:

- A greater number of BMV deals will be on offer as people are more desperate to sell and there is less competition from inexperienced investors and residential buyers.
- More discount means less cash required to put down on a property.
- Less competition means you can be more selective over your investment choice.
- You can build a portfolio at a much greater rate than when the market is rising.

Now is the time to buy a large volume of property to hold for the long-term. If you have invested wisely the capital appreciation experienced during the next boom should secure your financial future.

The inexperienced investor who waits until the market recovers will experience greater competition, encounter less attractive deals and grow their portfolio at a slower rate than during a downturn. Our ethos in the current market is:

**"Don't wait to buy property...  
BUY PROPERTY AND WAIT" !!!**

If you would like more advice on how to take advantage of today's property market and find out about our current BMV deals please register your details on this website or call us now on 02890 681855.