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investing ON THE go

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[INTRODUCTION]
Sam Slator (SS): I'm Sam Slator from FundCalibre and today I'm here with Alan Collett who's fund manager of TM Home Investor. Thank you for taking the time today Alan.

Alan Collett (AC): My pleasure.

[INTERVIEW]
[0:13]

SS: This fund is an unusual fund, in that it's the only one in the UK to invest in residential housing. Can you tell us a bit more about it please?

AC: Yes, of course. The TM fund invests in mainstream housing across the UK. We offer our investors capital performance of the housing market and an element of income return. We invest in primarily 2 and 3 bedroom houses, some 1-2 bedroom flats and the occasional 4 bedroom house, and we enquire new or nearly new homes to give our residents high energy efficiency, low fuel bills and so on.

We're structured as an OEIC with PAIF status, which is a wonderful set of acronyms, but it means we're accessible for pensions and for ISAs as well as private money.

[1:01]

SS: Great and I drive past one your top holdings when I go and visit my Mum, it's Wickhurst Green in Horsham, where you own 14 properties I believe. It's a new development and the infrastructure around it has been developed, the road layout in particular I've noticed has changed and a local school's applying to have an extra intake each year, is this typical of the houses that you invest in?

AC: Yes it is. We go where families want to be, so Wickhurst Green worked very well for us. There's good local employment, also good transport to London for a choice of employment destinations, we purchased these homes ahead of completion.

SS: Oh, okay.

AC: As a result, we got them at a significant discount to the individual vacant values. But we always look for good or improving infrastructure, so the money that the central and local government spent on improving the road network, improving the schools, gives us an additional benefit over and above the ordinary movement of the housing market.

[2:06]

SS: Okay, and do you have a particular demographic of tenants that you look for? First time buyers or young families for example.

AC: We have a focus but the great thing about the private rental sector is that you can rent to 18 year olds or 80 year olds. So our focus is on homes suitable for families and for younger people in good employment. Our focus is on places where there's good mixture of employment: private sector employment, public sector employment.

But everybody should bear in mind that private rental sector now provides houses for 20% of all households in the UK. It's grown more than double in fifteen years. So there's a very broad spectrum of potential tenants.

[2:48]

With the exception of our flats in Salford which are very accessible to two of the Universities we don't generally let to students because we want residents that are going to stay for two or three years or even longer and that gives us high occupancy levels, we're normally at around 97% occupancy, sometimes a little bit higher, and this gives the fund stability of income.

It also gives long term homes for those tenants who want stability themselves. Of course, people who want to make a home out of their rented property will almost always be a better tenant than somebody who just needs somewhere to stay for six or nine months.

[3:23]

SS: And sorry to mention the 'B-word' but Brexit uncertainty seems to have taken its toll on the housing market, in that people have been either putting off sales or purchases. Has this impacted the fund at all?

AC: Here we need to distinguish between a fall in the level of transactions, ie the number of sales that take place, and the prices at which these sales are taking place, house prices themselves. Of course, most of the headlines are actually about volumes because estate agents, mortgage brokers, solicitors, all want volume in their market. We're actually interested in the values which underpin the market, not the volumes.

Political uncertainty, certainly caused the number of sales to reduce a little but there's still between 60,000 and 80,000 transactions a month.

SS: Oh, gosh.

[4:12]

AC: You think that's 20,000 home moves a week. And as they all take place on the working days, that's a huge number of transactions taking place. And as we buy almost entirely new homes and there are over 12,000 new homes sold each month registered within HSBC, there's a huge pool for us to pick from.

So, of course, I have concerns like everybody else does about what will happen to Brexit and what won't happen - but impact on the housing market? No I'm not particularly concerned.

[4:43]

SS: Ok and how resistant is the sector if we went into a recession, for example?

AC: Housing is always in demand. Trends in working, shopping and leisure, all develop and change over time and if people's personal budgets are under pressure then their discretionary spending may be reduced. But we all need a home. Except for the very few unfortunates, truly unfortunate people in our society, we all have a home to go back to tonight and that's what underpins residential rent.

They've proved resistant in previous downturns, although house prices fell in 2009/2010, they fell less than commercial property - substantially less. Less than equities and they recovered more quickly.

Residential rents outside of central London hardly fell at all, in fact in many parts of the county they didn't fall. So there's a lot of resistance there. The market's also underpinned by the fact that over 50% of homes are owned without a mortgage.

SS: Okay.

[5:50]

AC: Which is, I can tell from your response, is actually a statistic that many people don't know. Just over 50%, I think it's 51% but just over 50% are owned without a mortgage. Those that are owned with a mortgage, we have to bear in mind that mortgage underwriting standards have increased substantially after the mortgage market review.

Now the Bank of England keeps a close look on property lending. They're not actually concerned with the housing market themselves, they're concerned about the lending into the market. So we are working in a market that's heavily regulated from above.

And we rely to a significant extent to the Treasury consensus forecast and their forecast for house prices remains in positive territory. So whilst were not complacent, we remain optimistic.

[6:42]

SS: And which areas of the UK are you finding more interesting right now and why?

AC: We invest with a regional balance, so we're seeking to replicate the national market with our portfolio. As fund manager I have some flexibility to be overweight in some regions and underweight in others but I have to remain within an overall framework.

Recently, we've been investing in the West Midlands and the East Midlands. In the East Midlands our investments have performed particularly well and I chose Nottingham from a top-down, which city should I be in and then go and walk around Nottingham and which bit of Nottingham do I want to be in. So that's worked very well for us. Our investments in Birmingham have worked very well for us.

[7:27]

Next, I'm looking in the Leeds-York-Harrogate triangle. I haven't quite decided where, but within that region. If I want to be in that northeast Yorkshire region, that's the best place to be because it's where the best employment is, so I'll be looking for a good balance there: private sector, public sector employment, as I mentioned earlier. I want somewhere with good public transport because in most households now some people use a car, some people use public transport. So I haven't quite decided where yet but when I get back from holiday next week I'm going up to have my first look around.

[8:03]

SS: Not only are you a fund manager but I believe you're a non-executive chair of a housing association. How do you balance the two roles and what insight does each give you for the other?

AC: Well the Home Investor fund and Hearthstone take up most of my time, that's my executive role and I'm always available to the team and to the property manager.

But housing as a whole is my passion.

And to be chair of a major social housing provider is both a privilege and a challenge. Hyde [Housing Group] owns and manages 50,000 homes and it provides a good quality secure home service to over 100,000 people and will be building at least 10,000 more homes in the next 4-5 years. So that's important to me as a citizen.

[8:47]

But to the second part of your question. The insights that I learn from my role at Hyde are very useful in my role as fund manager, particularly my understanding of the household, of the house building business.

SS: Right.

AC: Large housing associations are now seeking third-party investors, such as pension funds, to partner with them, so both things work well together. And I can balance the time out, I'm still young. Ha ha. Lucky it's a podcast, listeners can't see me. [laughing]

But providing additional rental homes, whether they're at the social rents or market rents, I can bring my experience to bear on both of them. But in the final analysis, I'm a non-executive at Hyde so my time there is limited and Hearthstone of course has first call on me.

SS: Yeah. Thank you very much, that was really interesting. Thank you.

AC: My pleasure.

SS: I'm Sam Slator and if you'd like to listen to more of our podcast please go to FundCalibre and subscribe. Thank you.