



Know the  
basics in  
90 minutes

# *Quicklook at* **Property**



## About Quicklook at Property

**T**HIS is a layman's guide to property, which is a major store and source of wealth. A house is often someone's most valuable asset. Collectively, housing represents a high proportion of our national wealth. Property (real estate) in all its forms underpins the economy. It is worth £trillions in the UK alone.

Quicklook at Property covers the main areas of the subject. We see the many uses for property and the ways in which it can be owned, occupied and managed, publicly and privately. We explore the things which affect value and how the difficult exercise of deciding value is undertaken. There are regular booms and busts: we consider why.

The property business is huge and provides the livelihood for a wide range of trades and professions. We look at these and how the people involved work. Almost everything to do with property is carefully regulated – we look at how and why.

We see how everything comes together via some case histories. By the end of the book you manage a complex redevelopment from start to finish.



Quicklook at

# *Property*

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Quicklook  
books

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# *What is real property?*



**R**EAL Estate, or Real Property, is land and things (such as buildings) permanently attached to it. Except in unusual circumstances land itself does not disappear, nor can more be created. Ownership of it can provide somewhere to live or work, income and status.

Land has almost infinite variety. It can be hilly or flat, productive or useless, built on or not. Numerous things influence its value. Location is vital. So is the issue of what it can be used for.

Property has the advantage of generally retaining value, at least in the long term. It can often be used by its owner. It is however likely to require expenditure to maintain it, or even rebuild it.

Britain is crowded. Since land is scarce, it has played a central role in its history and economy and continues to do so. Years ago aristocrats derived much of their wealth from it, which was largely agricultural in the preindustrial age. Huge estates were passed down through generations, thanks to the practice of leaving them to the oldest son. Even today and despite very high post war inheritance tax, some of these estates survive.

Nineteenth Century industrialisation brought with it a population explosion, the rapid growth of cities and towns and the development of the factories which powered Britain's dominance between the Napoleonic war and the First World War. Huge new fortunes were to be made from this development and ever since much of the value of Real Property is to be found in urban and industrial areas.

Economic growth and the spread of wealth gave more and more

people a stake in Real Property in some form. It is something of a British obsession. The UK has a higher percentage of homeowners than many similar countries in mainland Europe (home ownership UK 69%, France 55%, Germany 42% and USA 69%).

## **Ways of owning interests in land**

**Freeholds** provide effective outright ownership, subject to any other lesser rights referred to below. Freeholds are subject to numerous legal controls, such as planning restrictions, which prevent owners from doing exactly what they like.

**Leaseholds** grant rights to the use of a property limited by time and may also be subject to numerous legal controls.

**Other forms of ownership** include joint ownership with a partner, or Housing Association and part time rights such as timeshares.

**Mortgagees** lend to owners (or leaseholders) against the security of the property. This means that if the borrower does not pay, the mortgagee can seek to get its money back by applying to repossess it.

**Other rights** Sometimes others have rights over a property separate from ownership, such as a right of way entitling them to cross the land, or a right to restrict the way in which it can be used.

# *Uses of property: private*



## **Housing**

### Ownership

**A** PRIVATELY owned house or flat is often someone's main asset, or at least financial commitment. Millions of long term owners have seen the value of their property increase hugely in the course of a series of property booms. Even if, as is usual, the property was purchased with the aid of a loan, the difference between the loan and the value can be considerable. This difference is often referred to as the "equity" in the property – i.e. the realisable net value. The gain is of course a "paper" gain until the property is sold. Even then it may not be possible to use the money for anything other than the purchase of another home.

Since the World War Two prices have risen so much that a high proportion of the nation's personal wealth takes the form of equity in homes. The gains obtainable, coupled with the other benefits of larger or better placed accommodation, encouraged many to move fairly frequently, in an effort to maximise them by "climbing up the housing ladder". First time buyers, often young, normally join the ladder by buying a relatively cheap property near the bottom. In times of boom, or simply when money is scarce, even this can be very difficult to afford.

Older people may have paid off their property loan ("mortgage"). Their children may have left home and a move somewhere smaller can release some of the equity, to fund general expenditure or perhaps the transfer of money to the next generation. Others with equity



might decide to increase their borrowing in order to fund a better lifestyle, or perhaps a business venture.

Private housing takes many forms from enormous mansions to tiny one bedroom flats. Some of it has special features, such as the right to use the adjacent golf course or marina. A few properties have enhanced security arrangements. Some are specially adapted for use by the elderly, perhaps with a warden in attendance.

A huge finance industry grew up to deal with the enormous sums devoted to home ownership in the UK, thought to be in the region of £4,000 billion before the 2008/2009 recession, of which about 60% of the value was borrowed. As we shall see, it got out of hand. The housing market is like any other. Prices can change and it is not certain that the move will always be up. When prices fall the owners remain committed to the payment of their loans and these may exceed the reduced value of their home (“negative equity”).

## Rented properties

Not everyone in private housing is exposed to gains and losses. Many people lease their homes. In return for payment of rent and some maintenance obligations, they get the right to live in the property.

Residential occupiers are effectively consumers and enjoy considerable protection under the law. For a time this was so extensive (it was almost impossible to get them out) that the rental market was in decline. Now the position is more balanced and in recent years new investment in the market, often from “buy to let” individual investors, has increased the supply.

Some leases are for very long periods (99 years or more) and in many respects like freeholds. Usually the rent is low but the tenant’s repairing obligations considerable. There is normally the right to extend the lease, or buy the freehold. This can be very important in the case of leases which have run for many years. Long leasehold

interests provide good security for lenders.

Lease agreements can be complex documents, particularly where there are many flats in a large block. They deal with the funding of repairs to the whole structure, lifts and maintenance of shared parts of the building and grounds.

## **Business premises**

### **Offices**

Varying from a room over a shop to a fifty five storey block worth £1billion, offices provide the work environment for millions in the UK's very large services sector. Even manufacturing companies often have sizeable offices for their management, design and administrative staff.

The huge demand for offices has attracted enormous investment over the years, some of it speculative. Fortunes have been made and lost as supply and demand changed over the economic cycle.

Offices can be owned by specialist property companies, which vary in size from enormous concerns to very small ones which own just one property. These attract a wide variety of investors. Tenants do not have to tie up a lot of capital in their accommodation. Normally they have to keep the premises in repair and pay the outgoings, such as business rates (a form of property tax). Rent from tenants can make the property company very profitable. Further profits may be made if, as has often been the case, the value of the office goes up.

A property company with a good portfolio of offices, particularly if they are occupied by reliable tenants on long leases, can usually borrow a substantial proportion of their worth from banks and other sources of finance. This gives it an opportunity to expand, by buying more and more property as the value of the portfolio goes up. Problems arise if the company borrows too much and then has to pay it back at a time when values are falling.

## *About the author*

**C**HARLES DIXON is a Partner in a large, multi-disciplinary, surveying practice with offices around the UK. He studied at the University of Reading, where he read Estate Management. He qualified as a Chartered Surveyor, working in the Midlands and East Anglia as a Rural Surveyor and Land Agent, qualifying in 1979 as a Chartered Valuation Surveyor.

Charles undertakes a wide range of professional property work, including rural estate management, residential management and valuations of residential, commercial and agricultural property for the public sector, private and Institutional clients. His work takes him throughout the Rural Counties of the West of England and has enabled him to work in some of the most attractive and unspoilt locations in England.

He has held a number of appointments with the Royal Institution of Chartered Surveyors (RICS) including as a member of the Ethics Committee and as Chairman of the Professional Indemnity Insurance Working Party. He has been involved with RICS local committees in the West Country and is currently a member of the RICS Constitution Working Party.

Charles Dixon has encouraged the continuing self-regulation of the professional property world through the work of the RICS.

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*Quicklook at Property* covers the main areas of this immense subject. We see how property is used and explore the property-based occupations and professions. We consider the things which affect value and the booms and busts that occur.

● At the end of the book you can try your hand at managing a complex redevelopment project.

Quicklook publishes layman-friendly books which take you to the heart of a big subject in a clear, short guide. They are available from good bookshops and from **quicklookbooks.com**

## About the author

Charles Dixon has worked for many years in a sizeable multi-disciplinary surveyors' practice. He undertakes a wide range of work, embracing the residential, commercial and agricultural sectors. He has held a number of appointments with the RICS, the professional body for surveyors.



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