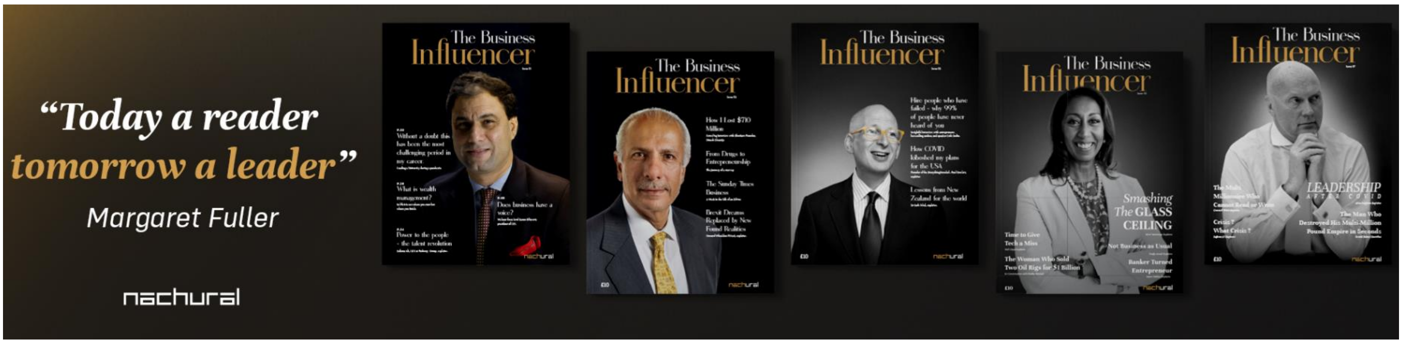

One Man’s View

By Harvey M. Soning, FRICS

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Property comes in many guises so when asked whether property is a barometer of the UK economy, there are many answers.

What is undoubtedly true is that confidence drives the property market and the UK’s population’s confidence is often underpinned by how the residential market is performing. The short-lived premiership of Liz Truss undermined the financial markets confidence, and the succession of interest rate increases that has followed has dented the confidence of the public.

The unintended consequences of the rate increases designed to control inflation has been to bring into question the financial stability of the banking sector which remains exposed to the property market, not helped by recent events in the USA and Swiss financial sector.

Stress tests run annually by the PRA suggest the UK banks should cope with the problems but inevitably interest rate increases affect both owners and occupiers and there will be casualties. Unlike 2008, a small number of casualties should not lead to contagion and one person's failure is another's opportunity.

These opportunities could arise anywhere in the country, and one assumes they will be concentrated in areas where property supply exceeds demand, driving both rent and capital values down. One crucial factor in this is the Minimum Energy Efficiency Standards. The press has been full of reports of billions of square feet of commercial space failing to meet the minimum standards and thus naturally these buildings will become vacant requiring tens of billions in investment.

With financial institutions now placing energy efficiency at the top of their lending criteria, this is set to cause further issues. For an investor this remains an area of uncertainty because they will have to guess what the next government's position on this will be and whether the regulations will tighten or loosen.

Developers will see opportunity in this, buying distressed assets, repositioning them with vastly improved ESG (environmental and social governance) to a market short on quality property to lease or buy. The current government's "levelling up" agenda, could well aid these developers.

If the government creates tax incentives to encourage business to relocate to an area by creating Freeports, developers can take advantage and reap dividends. The challenge will be retaining these relocated businesses once the incentives end.

The idea of these Freeports challenges our planning regulations and could unwittingly unbalance the planning system, a system which, depending on whether you are the developer or local resident, has been a reasonably balanced control for many years.

While the system is cumbersome if you want to undertake an infrastructure project or build on the Green Belt, it is an inherently fair system which is rarely challenged for infringing people's rights. It is difficult to see any government substantially watering down the planning system because it affects every voter and politicians cannot risk alienating support.

The one area of planning which conflicts with the drive towards energy efficiency is conservation. If an owner of a Listed property is to meet the regulations, they cannot be constrained by some of the conservation rules, or the energy efficiency targets must exclude these properties.

How does a property owner make a Listed property with leaded light windows sufficiently airtight for an air or ground source heat pump, or indeed insulate the walls of a Georgian terraced property? Some joined up thinking is required from the government departments.

With all this in the background, what are the prospects for real estate in the next 12 months? With at least one further interest rate rise before they begin to fall again, you can expect some turbulence in the housing sector. As ever, the most affected will be those new to the housing market with relatively high loan to values and fixed term low interest loans ending.

For the private landlord of buy to let property, increasing interest rates means greater rents are required to service the debt. Can the tenant afford the higher rent?

In commercial property, the owner of a building with 2 to 5 years left on a lease and an aging property will potentially have issues. Will the finance be available to refurbish if the value has collapsed because the refurbishment cost has risen along with interest rate rises? To the speculator these scenarios will create opportunities to notionally purchase.

Our best advice, buy with cash, improve, and stabilise the investment, then refinance and remove the initial equity to reinvest elsewhere, or sell when you believe the profit is sufficient. The human hasn't been born yet that buys at the bottom and sells at the top!

On a personal note, I am immensely proud, as a member of The Court of The Chartered Surveyors' Company, to be involved in their Bursary Scheme assisting students who wish to build a career in the world of real estate.

To date we have over thirty students in the Scheme who have been backed by individuals and real estate private and public companies. At James Andrew International, we are proud to be sponsoring Miss Nandipha Mabaso, who is currently at Sheffield Hallam University, studying real estate. We will be following her career closely.

Miss Nandipha Mabaso and Harvey Soning at a recent Worshipful Company of Chartered Surveyors' reception for bursary students and their sponsors.

Further information on the Bursary Scheme can be obtained directly from my office or from The Chartered Surveyors' Company.

Remember the 5 p's; proper preparation prevents poor performance!

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