ONE MAN'S VIEW

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Last quarter I was asked whether property is a barometer of the UK economy, and I gave what I thought was a comprehensive response. *Subsequently* I have been asked whether my opinion has changed.

Before I was asked to do this, I was commenting to a colleague that I had now seen more downs than ups in the market in my long career. Of course, every trough is followed by a wave, despite everyone saying we won't make the same mistakes again, we all get caught in the moment.

WHAT ARE THE DRIVERS OF THE ECONOMY?

GDP, national debt, inflation, manufacturing output, productivity, interest rates; whilst the foregoing are important, the public's confidence remains the thing that controls spending. The UK, through the failure of all political parties to agree an industrial strategy or indeed a trade one and stick to it, now has very limited manufacturing.

Indeed, one of the unintended consequences of BREXIT could see motor manufacturing leave the UK, in part due to the import/export issues with the EU and part due to the government's failure to back a Giga factory to build electric vehicle batteries. These things, coupled with stubbornly high inflation and rising interest rates conspire to damage confidence. I remain certain that confidence drives the economy, and people's circumstances particularly around housing and employment drive the individual's confidence.

Press reports in June suggest a further 2.6 million mortgages have a fixed term expiry in the next three months. With rates in 2019 and 2020 as low as 1.5%, these homeowners face rates tripling. I think it is dangerous to use average mortgage debt across the country, as property values in the southeast and London are exceptionally high and thus these interest rate increases will disproportionately affect the southeast.

I was looking through one of the online property sites at the weekend, and the hike in interest rates since the autumn does not appear to have checked the asking prices, although a number of properties stubbornly fail to sell, suggesting either the picture tells a story that a viewing exposes as inaccurate or the valuation is wrong.

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25+% in the past 12 months. Beware if you have to repair or improve your property, the labour and material costs have increased dramatically.

In my opinion the housing market is due to be squeezed. Housing costs are for the majority, the single largest monthly cost, add this to continually rising food costs and uncertainty over utility costs and confidence wanes. Ultimately, house prices will stall and in some cases fall substantially.

For flat owners, the new Building Safety Act has added a further nuance to the sales process. *Standard Pre-contract Enquiries* have been changed to reflect the new regulations, but this could delay sales as landlords gather the certification and information required. Beware, some of the guidance referred to in the Act has not as yet been issued by the government, with only a promise of things to come.

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Commercial property and buy-to-let owners face the same head winds, but with the added complication of regulation. Minimum Energy Efficiency Standards (MEES) have been around for a while, but solicitors I have spoken to are suggesting commercial occupiers will be looking at the Building Safety Act as best practice. *However*, as high-rise offices have required sprinklers and two means of escape as long as I can remember, many of the issues do not apply. How we reached a point where standards for housing were below those of offices is a mystery, but these issues are created by central government.

Turning back to MEES, the recalculating of the carbon factor for electricity and gas has altered the EPC calculations. For property with high electricity consumption this will be beneficial, for those dependant on gas the consequences could be severe. I mention this for two reasons, EPC certificates are valid for 10 years. If you think your EPC will be improved by these changes, then it may be worth seeking a new assessment, you can commission an EPC without this being registered. If your D rated EPC becomes a B, you could save considerable expenditure when the government makes it mandatory for commercial property to have a B rated EPC in 2030. If you are a tenant and have a rent review or lease expiry imminent, having a current EPC can be useful ammunition when comparing transactions and potentially seeking landlord commitments to expend their own funds to improve the property.

As for working from home, I am a strong believer that businesses work best with personal interaction, but I can see the five-day week in the office being eroded. However, there are signs even the London tech companies are pressing employees to return three or four days a week. *Have they learned a lesson about collaborative working?* Society needs people who can communicate face-to-face. I fear a lost generation of young professionals if we do not see a return to the office.

In short, I remain confident that there will be opportunities to be had in the next few months, you just have to work harder to deliver them. Good luck.

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ABOUT HARVEY M. SONING

- 63 years in the real estate industry
- Ambassador and Founding Member of the Royal Air Force Museum Fundraising Board
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