WHERE IS THE PROPERTY MARKET HEADING IN 2023?

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The next 12 months will be difficult for many with real estate holdings, but with difficulties for some there come opportunities for others. As a business we always do better in recessionary times than in boom times.

Over the past 10 years we have seen record low interest rates, which have allowed people to buy property and make money without thinking. For the next few years property investors and speculators are going to have to give thought to their asset management and in some cases look for a plan B.

The last three months have seen some tumultuous times in UK politics, and this has destabilised the capital markets. We feel the Bank of England had been too slow in increasing interest rates and quantitative easing (QE) had continued for too long, which has made the interest rate increases sharper than necessary.

Without the Russian invasion of Ukraine, which has had its own effect on the world's economies, the central bank's use of QE was inevitably going to cause inflation and the only method of controlling inflation open to the central banks is to dramatically increase bank rates.

Rising interest rates, energy costs and a general cost of living increase, has created the perfect storm for property owners, whether it is your home, business premises or as an investor. We spoke with a major bank last week and they were stress testing lending based upon interest rates of 9%. We are not saying this is normal but if that is the case across the lenders, there will be some serious casualties.

In the home buyer market, talk of 20% to 30% falls in prices is widely reported. Whilst we can see this in the new home sector, where there will be short-term over supply as demand falls, we suspect this will be in isolated pockets of the Southeast and some of the UK's cities. There may well be some pain for homeowners with high loan to value where affordability is a problem, but we suspect the banks will offer assistance rather than risk a market crash.

Price falls may also be advantageous for those in help to buy situations where the value of the lenders portion will diminish, possibly presenting opportunity for buying larger proportions or the whole property for less than the entry price.

For those with more equity and a steady income, whilst belt tightening may be necessary, if there is no pressure to sell then why take a lower price unless you are up sizing.

The buy-to-let market could be an area where there is stress. While landlords can try to increase rents to cover loan repayments, with tenants' resources stretched with other spiralling costs, there is a risk tenants will not be able to pay. This could result in forced sales, but again banks have been more careful with loan to value since 2009 and this may not happen.

In commercial property, there are many head winds; from WFH affecting demand for offices, declining footfall in town centres, to energy cost rises making business space unviable. There will be price corrections. A yield of 4.5% looks fine when you can borrow at 3.5%. It doesn't look so good when the cost of borrowing hits 6%. We don't expect bargains, just opportunities.

If you are a property developer, there are also problems ahead. Not only have building costs risen rapidly, but with finance costs also rising, the land or residual property value must be diminishing if a profit is to be realised.

For Central London developers, the saving grace is there remains good demand for the best quality space offering great ESG. This has kept prime City rents rising and we expect to see £100 per sq.ft. achieved regularly in the next two years and the West End well over £125 per sq.ft.

That leaves the retail and leisure sectors. Hotel occupancy in London is reaching pre-pandemic levels, with a combination of domestic tourism and world travellers. We think the removal of the VAT recovery scheme for overseas visitors is short-sighted and could mean Chinese and Middle Eastern customers shopping in Paris and Milan rather than London. Perhaps the unintended consequence of Liz Truss's failed economics causing the collapse of the value of Sterling has counteracted some of these concerns.

For retail, despite COVID driving us to buy online, there is still a place for the High Street. Rent and business rates need correcting, which will reduce overheads and then the High Street will return. City centres do need the workers to return to the office five days a week. Cafés and shops cannot operate not knowing when their customer base will be there or indeed opening just three or four days per week. Many cafés and bars across the City centres have already gone, more will follow as a result of the energy cost crisis, but new operators will emerge. Britain remains a land of entrepreneurs and we will find a way through these turbulent times.

Our team at James Andrew International are here to give sensible real estate advice if required.

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