

PROPERTY COMMENTARY – APRIL 2011

IT WAS 6 – 3 TO THE DOVES -
WHAT ABOUT TOMORROW?

When I was 12, I won the Auckland Junior Eisteddfod. My prize was a book token. The next day, with token in hand, I proceeded with great excitement to the local bookstore. I was accompanied by my Father. I was looking forward to obtaining a year's supply of Superman comics. After some 'encouragement' from my Father, I walked out with an atlas. I remember Dad saying to me "I am very impressed with what you achieved on this day and, therefore, I am going to throw in a dictionary free of charge". And so began my lifetime affair with the literal meaning of words. I still carry a dictionary with me.

This came in handy recently when I was reading an article about the members of the Monetary Policy Committee (MPC). Some members are described as doves, some are hawks. Trusting my dictionary, I discovered that a dove means any bird of the family Columbidae with short legs, a small head and a large breast. Hawk means various Diurnal birds of prey of the family Accipitridae having characteristic curved beak, rounded short wings and a long tail. Those meetings must look interesting.

The message that is coming through from the MPC is, clearly, interest rates are going to rise. The question is when and by how much. I'll leave that discussion to greater experts than myself. The theme of this newsletter is what impact these interest rates are going to have on the property market. A recent report in a newspaper suggested that property values are going to drop by an average of 20% over the next two years. I am struggling to come to terms with that. Why? Well, for a start off, let's open the dictionary.

The definition of average, which is often banded around in articles when they talk in terms of property values, is an estimate calculated by average. Read onwards in the definition and you find it means, the law of averages state that it is the principle that if one of the two extremes occurs, the other also tends to maintain the normal average.

In my view we all need to be cautious about talking down the property market. I acknowledge that there has been a drop in value in those areas in which I operate (within the M25) but, in my view, it is relatively insignificant since the start of this recession which, in my terms, started with the crash of Lehman Brothers. Most of the time it's too close to call. I have always said in the past, and it has always been proven to be correct, the ownership of property and the growth is a long term road. It is like a marathon. Where you get the 100 metres dash (and it does sometimes occur) is where people buy properties, they work them, they change the Planning and they obtain an extraordinary growth which would not otherwise occur without that massage. So, for what it is worth, I do not believe that we will see a crash in the property market once interest rates start to rise. I say that because money is cheap at the moment, it will be cheap in the future, there will continue to be a demand for property, the supply of property (residentially wise) is at the lowest since 1923 and the market will always find a way in which to make funds available to responsible lenders.

I finish by thanking those people who contacted me following the recent earthquake in Christchurch, enquiring as to the wellbeing of any members of my family who live in that town. Fortunately, none of them do buy my heart goes out to the people who have lost their loved ones in what is clearly a desperate situation for the town and a desperate situation for the country. My thanks to those of you reading this who has been affected by the events in Japan. Our thoughts are with you.

STOP PRESS – Those of you who let out your residential properties to DHSS tenants should be aware of a recent Court case. It transpires that there was a lady who was in arrears of rent of £3,500. She was given the accommodation because she was homeless. The tenant was entitled to around £15,000 per year in housing benefits which would have covered the rental on the property, but she had not given it to the landlords. The landlords (Hounslow Council) sought possession due to the arrears of rent. But the Supreme Court said that, under the controversial European Convention on Human Rights such an action would be a breach of the right to respect a person's home. Apparently, legal experts have said that there is an increasing trend for tenants (including 'neighbours from hell') to use human rights law to thwart eviction. The Supreme Court, in passing judgement, made it clear that the ruling has its origins in Strasbourg. The learned Judge said "the time has come to accept and apply the jurisdiction of the European Court".

An interesting conclusion given that, based on the facts as I was presented with them, the tenant had clearly broken the terms of the contract. The message is, if you are letting your residential property to DHSS tenants then make sure you receive the rent directly from the Local Authority and not have it passed to you by the tenant.

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