

Property Commentary December 2008.

I SHOULD HAVE BEEN AN ELECTRICIAN

I was at a party the other night and you know how it goes. You strike up a conversation with a stranger and before you know it the talk gets around to jobs and what work you do. My father told me many years ago when I said I was going into the property profession that I should never tell any one at a party that I was surveyor given that is an indifferent property market. He suggested I tell that person I was an electrician – a most noble profession as he termed it. Well before I knew it I was in the depth of trying to put some sense into the market and giving my views as to when it would start to turn. It turned out the person I was speaking to was a bank manager. With tongue in cheek I suggested it would start to turn when he started lending money. So many people have asked the question that I have decided that is the topic for this newsletter.

I am going to concentrate on the residential market and am concerned here with the Greater London. Question – What is the primary factor which drives the market. Answer - The availability of and the cost of money. Let's look at the cost. Base rates are at 2.0%. Most economists believe it will come down further – somewhere between 1.0 – 0.5%. We know banks lend on a mark up either on base rates or more recently 3 month libor rates. At 1.0% a 2 point mark up (+200%) gives 3.0% or 3.5% at libor rates. That is cheap money. So that's the first bit of good news.

The second good news is, according to the most recent survey by Nationwide, the price of property is still falling but there is some ease in the rate of fall. That ties in with a recent report by the RICS. Its members said "Interest among potential buyers had risen for the seventh month in a row and was now positive for the first time since October 2006. The rise in interest reflects both the drop in asking prices and recent cuts in interest rates".

The third good news is HSBC openly stating it is coming into the market in 2009 with £15 billion pounds. Not bad. Sticking with them, their Dennis Turner in his commentary December 2008 states "It is becoming increasingly obvious that the availability of credit rather than price is a major problem".

So when the turn? I am going to put my neck out and suggest the drop in value will start to level out in late spring/early summer 2009, the latter part will be flat and the turn will happen early 2010. I am telling my property development clients to put themselves into a position to start building in summer 2009 because when their stock comes to the market there will be shortage.

As for Christmas, we close at 12.00 Noon on the 24th. Skeleton staffs are available for the period 24th December – 04 January 2009 with all of us back at 9.00 a.m. on the 5th January. For urgent enquiries contact me on my mobile 07889-179306. So from all of us at DeVarga, Merry Xmas and a Happy New Year. And remember when you are celebrating and you happen to find out the person you are talking to is an electrician, ask them for their views on the state of the property market. You never know you may be talking to a surveyor.

Matthew S Martin

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