Property Commentary May 2008

GIVE ME BOAT-SPOTTING ANYDAY

Whilst Boris was being elected the Mayor of London, my wife and I were sitting in various restaurants in and around Nice. Part of that break was a trip to Monaco. This allowed me to indulge one of my hobbies namely boat-spotting; similar in many respects to trainspotting. Both of these pastimes are related in that the spotters spend endless hours looking at things they cannot afford. The only exception I suppose is the trainspotter stands on the platforms at Clapham Railway Station eating a pork pie brought at a local shop whereas boat spotting entails sitting in a restaurant overlooking the sea, in the sunshine, drinking a cold beer and eating "gambas provencale". As my father once said "different strokes for different folks".

Looking around Monaco the thought occurred to me that in some respects it suffers from the same problem as London in that there is a shortage of land on which to develop. During the Blair era there was a rush to develop greenfield sites. With Tony came Ken and his requirement to incorporate 50% social housing into any new build scheme. I now note that Boris wants more affordable housing but his manifesto suggests the percentage will be a lot less. How does that impact on property value?

If is difficult (but not impossible) to establish sale prices on those social units when valuing development sites. It seems to me that rather than look for evidence of sales, I approach it from the "back door" as it were and ask the question: what profit will the developer make on the scheme? The conclusion I have drawn is little or no profit will be made on the social element.

The most difficult aspect of development site valuation is to assess the profit factor. We know profit and risk go hand in hand. You cannot experience one without the other. When I come to assess the profit element I first look at the risk element and ask myself where the risk is or, more precisely, does this scheme have high risk?

In today's market risk is high on these sites. Why? Mortgage approvals are down, money is harder to come by for first time buyers and larger equity is needed by the borrower. That means fewer buyers. Take a slice of buyers from the market place and there must be downward pressure on the market value. The supply/demand balance is upset. The question is, how do you minimise the risk in today's market?

How about this? Do not buy at the price the vendor wants. Some vendors still believe property prices are rising. Secondly, trade on development sites once you have planning. Risk is lowered therefore profit requirement is lowered which should lead to a higher land value. Leave the worry about timing of sales to others. Thirdly, do joint ventures based on gearing in end sale prices.

You may be asking, how does Boris fit into this newsletter? Nowhere really except he brings a fresh face to the problems of London. We could do with a few more like him. And by the way, if you see me in a restaurant overlooking the sea looking at boats mine is a cold Peroni .... cheers!

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STOP PRESS: Persimmon and Barratt Homes have successfully defeated plans by a Northumberland council to introduce a 30% affordable housing quota for all new developments. The housebuilders, along with developer Millhouse Developments, applied to the High Court to quash the policy adopted by Blyth Valley Council on 5 July 2007. The housebuilders submitted to the High Court that the inspector had erred in setting a target of 30% on the basis that the issue of economic viability, as required by the PPS, had not been taken into account. Quashing the inspector's decision and ordering a reconsideration of the policy, Mr Justice Collins held that the inspector had failed to consider a highly material factor, namely, economic viability.

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