Martin DeVarga

Property Commentary November 2009.

ARE WE THERE YET?

The other week I was having a conversation with my neighbour. It transpired he had decided to take the family (wife and three girls under 10) by car to the south of France in summer. He stated he had the whole journey planned. The intention was to do the drive in one go. So there he was at 4.00 in the morning closing the house, strapping the kids in the back seat with their ipods to keep them amused, and before him lay 15 hours of driving bliss! He backed out of the drive, drove for about 30 seconds and stopped to turn. At that stage a lonely voice from the back seat asked – are we there yet?

That tale leads me to this Newsletter topic in that, are we at the bottom of the market? In order to answer that we need to go back and look at simple economic theory. Question - What is the primary force in driving property prices? Answer – Supply and demand. Let's look at supply. According to informed sources the amount of new housing stock coming into the market is at an all time low. What about demand? In my view it has never gone away. Demand has always been there. So, given we have a low supply and high demand, why are prices dropping? It is not the recession that has driven down prices but something which has been running side by side and that is the credit crunch. So it is the lack of funding driving down prices.

I am a firm believer in the fact that the market will always find a way to operate. As such, many lenders are now introducing borrowing schemes which are so simplistic in their ideas that it is amazing they have not been used before. It would be unfair of me to single out one lender, but there is one out there who uses the parents' deposit account as the deposit for the purchase of a house for their children. Mum and Dad still get a good rate of interest. The downside of course is the money is tied up for 2-3 years. That of course creates an opportunity for the deposit holder to lend again.

Further, if history teaches us anything, it is the property market follows the stock market but lags behind for about six months. In March 2009 the FTSE was around 3,500. Today it is around the 5,200 mark. That says to me that property is due for recovery but at the level of rise seen on the FTSE.

Factor in quantitative easing and you have the essential ingredients for a market recovery. So from my perspective I see an easing off of the drop in value and a return to growth, a bit earlier than I thought. As for 2010, to me it looks like a fairly flat year property-wise, but I for one believe that when things fully recover, property will be first in the line. The tip in this Newsletter is keeping an eye on the share price of some of the big property companies.

It's so close to Christmas that I thought I'd give you our hours of opening etc. We close at Midday on December 24th and reopen on Monday 4th January. I will keep my mobile phone on (07889 179306) for urgent enquiries. It only remains to thank you for your support during 2009 and trust we can be of assistance in what looks like will be an interesting 2010.

Matthew S Martin **November 2009**