

# We need reasons to be cheerful in 2018



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Most deals are struck at sensible margins where the buyer thinks, or hopes, that a 20% profit on cost is probable. It's not rocket science.

But when it comes to development land, ensuring the three basics – sales values, build costs and affordable housing provision – are taken into account, well, now that's for old timers. Even with all the wonderful new policies speeding up the planning process (fyi, there are none).

Anyone who has bought land to make a deal work has had to believe they can build for 10% less – ask Carillion – and sell for 10% more. And this is before affordable housing is factored in.

## Potential disaster area

As for the sales market, take away help-to-buy still artificially inflating values and PRS funds swooping on schemes of 150-plus, and the market is challenging at best and a potential disaster area at worst. Unless of course you're in the regions – not forgetting what happened there the last time the market crashed.

According to Molior, there are 180,000 consented plots in London in schemes of 20 units or more that have not yet commenced construction. I am sure many of these are not viable. Of the 65,000 units under construction, more than 30,000 are unsold, 19% up on last year, while the 1,500 completed units unsold is 35% up on last year.

The unsurprising part of our two-tier market is that 14,000 of those plots are priced from £1,000 to £1,499, while 3,000 are in excess of £1,500 per sq ft. Based on last year's sales rates, they will take 1.8 and 3.25 years, respectively, to sell.

And this is concentrating on schemes of more than 20



Prices need to come down to increase housing take-up

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private units. What about the rest?

We all know markets are cyclical. The last crash was a decade ago, so it's about time for another and yes, Brexit isn't helping, nor are the Tories, or the upcoming changes in the tax regime.

## A quiet market

But take away all the investors from Asia, PRS funds, buy-to-let and government support and what you have is a market very few people can afford. Speak to most local agents and they will tell you things are quiet. The reason for this is very simple: prices need to be dramatically reduced in most places to give purchasers a reason to buy.

In the previous recession I



Planning can be a drawn-out process

spent a lot of time doing asset recovery work for lenders, and I started doing this again in 2017.

Not, I hasten to add, have I been busy with the debt lenders, who have struck deals mostly at 60-70% of GDV. But I have been gainfully employed by elements of the raft of very expensive money that sits in between them, from high net worths to bridging and mezzanine funds. For these players, potential profit has been eroded completely.

Although most of these players, in our initial conversation, say they have no problems with their books, by the end they're saying: "Well, errr, actually, there might be one or two things that need looking at." And yes, the insolvency practitioners are recruiting.

## And saving the best for last...

Planning, the bane of our lives, has, frankly, gone from bad to worse. All the departments are under resourced, and while the mayor has some big ideas, if you buy land without planning you have to allow two years in your appraisal or you're playing with fire.

Most authorities are

possessed by the idea that large-scale regeneration is the way to relieve affordable housing issues. It is – but only if the areas and buildings they earmark don't have long-term income or multiple owners who cannot agree whose site is worth what.

If you're lucky, you can engage with someone in the local authority who will give you the benefit of their wisdom, according to the UDP, on designing your scheme to keep everyone happy. But by the time you've been through pre-app and a design review, these people have often left and their successor has a different interpretation of the playbook.

As for smaller schemes, newly proposed policies may help, if they ever materialise, but won't change the decision-making process of most planning committees that are politically motivated.

I still don't think the market will crash, as interest rates are staying where they are for a while. Still, the people who have provided some of the funds will start asking for their money back, and if I were them I would do it sooner rather than later.