Jonathan Vandermolen

18/06/2018

COMMENT: As I enter my 35th year in the business it is the residential market I find potentially the most disturbing, *writes Jonathan Vandermolen, chief executive officer, Vandermolen Real Estate*

The reason for this is simple: there are many similarities to the last crash in 2008.

I appreciate that this sounds dramatic and yes, the catastrophic events that took place were in large part due to the demise of Lehman's Brothers et al. However, the precursor to it all was that everyone suddenly woke up and realised the market was overpriced.

Many of you may at this point turn the page, or – I flatter myself – make rude reference to my opinions under your breath. But the pre- and post-crash markets are only 10 years apart and maintain many similarities, and we live in a cyclical world.

For starters, both markets are both fuelled by other people's money: it's just a question of the source and who is lending it.

Between 2003-2008 banks were literally printing money and lending it to anyone with a personality, pulse or middling idea. The market was predicated on a non-stop rise in values being driven by developers borrowing with no risk and lenders doing little homework.

It took five years for the road for road to recovery to be complete, boosted by those all-time-low interest rates, which means every high net-worth individual on the planet is now in the property business.

And most have done at least one of four things:

1. Become a property developer: After all it's easy and with my crack team of contractors and cutting-edge specification I can undercut on build and oversell on price as well as anyone else.
2. Back developers: Some of whom know what they're doing, many of whom don't, but all of which got lucky in 2013/14 when prices shot up regardless.
3. Invested money into one of the hundreds of debt, bridging, mezzanine or pier to pier lending funds. Some of whom are already showing signs of distress.
4. Or if wealthy: Packed cash off into a pension or PE fund (last year alone $27bn was raised for European real estate).

Gear all this up with debt and we are looking at eye watering sums of money, which cannot all make the correct returns.

What is very interesting about the current raft of challengers, mezzanine and bridging funders is as the market becomes more competitive, they are reducing rates and criteria.

They are also obsessed with lending the money they have raised, rather than looking at their current loan books. As long as the developer is paying the interest the bottom drawer stays shut.

Alarm bells only start when said developer comes back with their hand out as they have got the build-out wrong and need more cash to finish, or there are unsold finished units.

Does any of this sound familiar?

With all this hard cash floating around, what else could go wrong?

For a start, the market is flat as buyers think everything is too expensive, while prices are dropping like a stone at the top end of the market – between 20% and 40% depending on who you believe.

The only game in for developers remains Help to Sell – or maybe Help-to-Buy – but this in turn is also killing second hand sales at the lower end of the market.

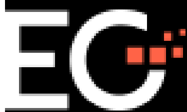
Then there are the buyers – or lack thereof. Owner-occupiers simply can't afford to buy, the Chinese are struggling to get their money out due to currency restrictions and the BTL market thinks additional stamp duty, lack of relief on mortgage interest and a weak lettings market means there are potentially huge voids.

The answer is we need a correction, but it is unlikely the market will crash because there's so much cash, there is always someone else who thinks there's value and everyone piles in again.

Of course, maybe a major scheme being built by a big name gets into trouble, the bank panics and move in and everyone else follows suit like lemmings, but not yet.

In the meantime we stare at the abyss, blame Brexit, build costs, the summer and anything that doesn't implicate human nature's most basic driver, greed.

For those of us who have been around a while and who think we know what we're doing it could be interesting, but it will take time. And time, as we know, is money.



Contact us
RSS Feeds
Privacy policy
Cookie Policy
Fair Processing Notice
Terms & conditions

The trusted source of real estate intelligence