If the site's price is right, come on down

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It has been a fascinating year for residential development. Ultimately all markets are about supply and demand, and there is certainly no shortage of supply for new homes.

Demand, on the other hand, is not quite what it was. Political uncertainty, including Brexit, Donald Trump's daily rants on Twitter and the horrific thought of Jeremy Corbyn actually getting to lead this country, has made most buyers think "what's the rush?"

There are thousands of unsold flats nearing completion all over the country. London developers' flight to anywhere but central London has created pockets on the outskirts.

Places such as Croydon, Reading, Slough and Luton have far too much stock, which means that, unless the product and pricing are correct, those homes are going nowhere fast.

Dwindling buyers and punchy lenders

I believe that over the past five years the majority of new homes have sold to investors. These buyers have dwindled in number and the general public believes what they see in the newspapers, none of which is currently positive.

The private developers, housebuilders and housing associations that us agents rely on using private equity money are struggling to convince their boards and funders that the market is still rosy.

There has generally been a 10% difference between what a funded developer and those using their own money can pay. As an agent, our job is to find the one paying the best price and know why. But this is getting tougher.

I genuinely believe that anyone who has bought a site with or without planning in the past two years will have an issue at some point.

They will struggle with the length of time to get planning consent, coupled with the increased levels of affordable housing. Build costs are up and many contractors can't deliver on their promises, due to rising labour and commodity prices, with currency drops not helping.

Sales values are down by at least 10%. Agents need to find a seller who is able to face up to what the market is telling them their site or finished scheme is worth.

Residential valuation is an imprecise science, and something is only worth what someone will pay at a point in time.

The $64,000 question

Looking ahead, I don't feel things are getting better in the short to medium term. Insolvency cases are on the increase. The $64,000 question is: when does the lender move in? Much is dependent on where they sit in the stack, but my guess is if they are outside of the first charge, they are facing a serious issue.

If lenders decide to re-look at their loan-to-value ratios in schemes, a large percentage are likely to be in breach. This means developers will be required to stump up additional cash, which they may not have or want to invest, as they know what's coming.

We are aware of a number of equity funds that are trying to raise additional cash to fill shortfalls based on their original build and sales figures, which are now not relevant. They hope their investors won't question them too closely and many will be too proud to admit they may have made an error. I think the phrase is "throwing good money after bad".

The good news for developers is that there are approximately 10 times more lenders in the market than there were when the last crash came. Most of these claim they only lend on a first charge basis, with a plethora of equity, bridging, mezzanine or stretch senior lenders (or whatever silly name they give to the really expensive money) falling all over each other to lend.

We have already seen Amicus and Lendy go into administration and my suspicion is that a large number of others will follow. Although much of the money in circulation is private equity that has nowhere else to go and is therefore more likely to cling on for dear life.

The only potential good Brexit news is that the falling value of sterling is making London look very cheap to investors with dollars and euros. If there is a no-deal Brexit and the pound falls even further, then there is likely to be a rush of cash to take advantage.

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