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‘As the virus spreads, time will be the industry’s biggest enemy’

As some of you will know, I am a regular contributor to EG, but this piece is definitely the most challenging I have ever written.

This is not just because my dining room is now office to me, my wife, son and daughter, but because there is no fixed time frame to the end of the crisis.

Unlike other property crashes, the current environment is a bit like a slowly sinking ship. The \$64,000 question is: can we fix it in time or will this be property’s own Titanic?

Developers generally work on a minimum of 20% profit on cost. This is all based around a specific time frame, particularly when it comes to the build and funding, as most development loans are based on a fixed term.

Most in the residential market were already struggling, with build costs up and sales volumes down, and now it is only going to get worse. As the virus spreads, time will be everyone in the property industry’s biggest enemy.

Sticking plaster

All developers will be in trouble, just to varying degrees. The PLCs and housing associations generally have strong balance sheets and will be supported by their lenders and probably the government.

But for smaller, privately-owned developers it is all about cash flow. Those who have strong cash reserves will survive for the moment. While government loan schemes for business are helpful, they are a bit like sticking a plaster on a broken leg. You may be able to cover costs, but you will never cover the lost profits.

A lot of builders need their wages to pay bills, so while they are allowed to work they will. There is also an issue with materials as the majority of suppliers have already shut up shop.

While many contractors are still active,



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most of the housebuilders have closed sites and more will continue to do so. Personally, I think it’s only a matter of time before the prime minister closes down all non-essential construction.

Lockdown

Until coronavirus reared its ugly head, and most others had had a flying start to the year, with pent up demand for land, investment and people moving home after a slow third and fourth quarters in 2019. That has stopped in its tracks, with most live sales withdrawn. Any ongoing transactions we have will definitely be linked to price.

Housing sales have fallen off a cliff. This started in Asia six weeks ago, where many developers rely on pre-sales to get large schemes out of the ground. Although, I’m told there are signs of activity again in China and Hong Kong.

In the UK, nobody is visiting sites or estate agents, people have lost their jobs and the last thing on most people’s minds is moving home or investing. Banks can’t provide mortgages, as they can’t provide certainty in valuations or meet legal requirements. If that wasn’t enough, the government sealed it when it told the public to cancel all plans to move home.

The majority of high street estate agents work on small profit margins. Even if the government supports 80% of wage bills, pays rents and rates, if this crisis goes on for months many will go out of business.

One solution

From a lending perspective, valuation is an imprecise science at the best of times. Until we know where this is going, any valuation will not be worth the paper it is written on. It will be so heavily caveated that eventually no one will lend unless they are sitting on cash and the risk is worth the reward.

A number of the challenger banks, which are the mainstay of the market, are backed by private equity funds. These are invested in the markets and other assets, all of which are being crucified, so some lenders may see their credit lines dry up.

While many say they are still lending, right now, the terms will change in line with new risk. This means a decrease in LTV and an increase in rates and fees. I am aware of a number of transactions where the terms were offered and have since been withdrawn or changed.

I have spoken to a large number of lenders who are continuing to support their borrowers at the moment. They have little or no choice, as this crisis is beyond anyone’s control. But if this goes on for six months, as opposed to six weeks, then it could be a different matter.

Other property professionals, the architects, planning consultants, solicitors and all other professionals, will also have their own issues. While many will be able to cover most of what they do from home, their cash flows are bound to be badly impacted and it will only get worse the longer this goes on.

This is the last thing we all needed. In my view, there is only one solution for the government: take whatever measures necessary to kill this virus. If that means closing the country down and placing the army on the streets to police people’s movements, then so be it. But do it before it kills more people and the industry as a whole.