Jonathan Vandermolen
Chief executive, Vandermolen Real Estate

'Property owners in the hotel, care home, office and pub sectors see residential as their knight in shining armour'

A new year was finally upon us, and just when we thought there was a ray of sunshine on the horizon and a return to some normality, we're back in a national lockdown for the third time.

However, from a personal perspective, I do feel positive. Firstly, all my family are healthy; my children are grown up, so no home-schooling; and, despite the current restrictions, I'm still allowed to go to work, which feels like a gift.

From last July we, and most development agents, had a fantastic year. The hangover of buyer appetite from 2019 (owing to Brexit and the General Election) and a quiet first lockdown had created pent-up demand. The last time the land market was this hot was 2015-16.

Property companies need to trade to survive and, right now, investors are hunting out resi. At the end of 2020, the weight of equity in the market allowed us to continue to achieve premium prices for both development sites and investment assets. This has continued into 2021, with a surge of new cash buyers flooding the market.

As far as the development and investment market is concerned, there is more equity available than I have ever seen before. Build-to-rent and PRS is awash with cash, and the amount of equity available from funds, high-net-worths and family offices easily runs into billions of pounds.

Commercial's loss is resi's gain

There is no doubt in my mind that commercial real estate's difficulties have become residential's gain, with those historically investing in offices, retail, restaurants, hotels and leisure all seeing our sector as a safe haven. The way things are looking, this is likely to continue.

FILIP SINGER/EPA-EFE/SHUTTERSTOCK

Property owners in the hotel, care home, office and pub sectors see residential as their knight in shining armour, with so many in extreme distress. They tend to be positioned in residential locations too, thus perfect for a change of use to residential.

There are also more lenders in the market for first charge debt, bridge and mezzanine finance than I have ever seen. As time moves on and the lockdown restrictions ease, many will have some serious difficulties with their loan books. That bad debt may restrict some from further lending, but it will also create further opportunities.

For now, the vast majority of larger lenders and banks are under strict instructions from government not to take action on defaulting loans unless absolutely necessary.

However, that doesn't seem to apply to smaller lenders – we've already had four new insolvency appointments in the past two weeks.

Flies in the ointment

There is a word of warning on the residential letting market, where rents are currently reducing by 10-20%. Until our travel corridors reopen, which could be at least six or even 12 months away, this is unlikely to change.

Local agents tell me the first-time buyer market remains strong, with the support of Help to Buy and the stamp duty holiday. But, if one or both of these tools is removed, there could be a serious problem. Many of those buyers may well be some of the most likely to lose their jobs once government support is lifted.

The mid-priced flat market in London has been more of an issue, as historically the purchase of many of the new homes has been done by overseas investors – and this has been much harder as a result of the travel restrictions. However, sales have been much stronger than most anticipated.

The only other fly in the ointment is planning (my favourite subject). Things have deteriorated, with planning applications slowing and a wait of two years for consent and section 106 sign-off not unusual, even for small schemes. Then add another year if you are forced to go to appeal, and as values plateau many are forced to sell at a loss or to develop just to get their money back. I'm sick of all the rhetoric from politicians, because if someone doesn't get a grip, we will witness the biggest housing crisis we have seen in decades.

So, despite all the energy from investors, and my own new year optimism, the market is still on a knife edge – it all depends if you are a buyer or a seller.

All of this adds up to a challenging year, but I still think the need to create new homes and our love of doing deals means there are plenty of reasons to be cheerful.