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'You only need two things to be successful in the property business: time and money'

It's official I'm a dinosaur. Not just because I recently turned 58 or according to my son, Teddy, I make a sound like a deranged T-Rex when I hit a bad golf shot (something I do regularly, sadly), but mainly because I cannot get my head round the valuations and interest in crypto currencies.

Everyone seems to be obsessed with the value or potential value of things that don't physically exist. I fully appreciate technology is the way ahead and is dramatically changing the way we live, shop and work, but surely the risk/reward is too large?

The one thing I do truly understand, however, is residential property and its value in a bull or bear market. You can always sell, it's just a matter of price.

Residential is back in fashion, thanks to the billions of pounds raised and invested over the past five years into the private rented and build-to-rent sectors by pension and private equity funds.

While the sector has helped provide homes for rent to those who cannot afford to buy, there is, for me, always an air of caution when a sector is dominated by people using other people's money and making their profit from management fees.

Risk profile

Much of the money raised for the big push into BTR was done so in a low interest rate environment and I'm seriously wondering how the proposed yields and returns suggested by the operators can be met in an environment where build costs are consistently rising – and likely to do so for some time. And on the basis that we are entering a recession, surely renters will have less money to spend?

The only way to really make residential yield is to buy sites, get planning, build

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and rent them, but in the current catastrophe that is our planning system the risk profile in terms of timing, probably a minimum of five years is far too high.

Then there is the buy-sites-with-planning model, in which you use the profit on cost that developers need to sharpen yields. We have seen lots of activity in this sector with sites that have planning for 10 to 100 units, although this is now being affected by rising build costs.

You could buy existing stock and add value through asset management but because opportunities have been scarce, most existing landlords have been maximising value themselves by getting planning but not always building.

Finally, there is the good old-fashioned dry and safe investment. The buyers for these opportunities tend to look for a combination of discount to vacant possession value and yield. The good old days of 20% discount and 10% yield are a thing of the past as there are too many small funds, family offices or high-net-worth individuals with cash burning a hole in their pockets.

The shift on values here tends to be price based. If above £10m, funds are the typical buyers. They are less worried about discount, but do want to hit their yield criteria. As we get lower on pricing, private buyers enter the frame. These are more value driven but, with yields starting to sharpen, this sector will face competition from more traditional bonds and fixed-income products, which in an increasing interest rate environment are starting to become more attractive again.

There is also a large number of companies and individuals with residential portfolios whose loans have or will be expiring over the next 12 months. The issues they will face are not just rising interest rates but the new homes premium in valuation disappearing. We have and are reporting on a number of these for lenders/receivers.

Curve ball

The curve ball to all of these implications is the shining light of London as a beacon of low tax, education and stability and, in my view, still the first place that anyone outside of the UK with any money they want to protect will invest.

There are lots of negative signs and signals on the horizon at the moment, a government in disarray, rising inflation, interest rates, build costs and increased cost of living but even with all this negativity, the amount of equity and debt in the system leads me to believe there won't be a crash but there will have to be an adjustment on pricing. And it could be serious if interest rates hit 3% by the end of the year.

The reality is you only need two things to be successful in the property business: time and money. And the $64,000 question is, if it's not your money how much time will you have and at what cost?