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# ‘If you want to sell, it’s time to get on planet Earth and recognise what the market is telling you’

**T**he UK’s construction sector began the year with its worst month since May 2020 after a sharp downturn in housebuilding amid rising borrowing costs.

This was hardly surprising given the uncertainty in the market. Build costs are still high and, thanks to interest rates, borrowing costs are continuing to rise with loan-to-value ratios lowering. Without Help to Buy, a large proportion of mainly first- and second-time buyers are no longer in the market due to affordability and without any further potential help on the horizon this will be a long-term issue.

## Bleak horizon

A large proportion of our clients are property traders whose skill set of seeking planning gain opportunities has been stymied by a planning system that has gone even further downhill since the pandemic. Even the most basic consent takes 18 months and when you couple that with the increase in build and borrowing costs the horizon is bleak.

Around a year ago, a potential seller came to see me and uttered those immortal words: “I will instruct on my site if you can find me another idiot like the one down the road”. To which I replied: “No problem!”

On 3 February 2022, the base rate was 0.5% with a lender’s margin of around 4-5%. It is now 4% with a margin of 5-6% and arrangement fees of 1% in and a 1-1.5% exit fee, which changes the face of any development appraisal. Add to that lower loan-to-value ratios and a substantially greater amount of equity is required, which is starting to rule out buyers who were using other people’s money.

Also, many buyers were content to exchange contracts without development



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finance secured, as debt finance was freely available. Now no one in their right mind will do that, which means deals are taking longer to exchange. The icing on the cake is that all valuers are now running scared, looking back at some of the crazy valuations dished out in the past two or three years, so are down-valuing by an average 5-10%

Receivership work that I thought would come in for the past 12 months is now coming in waves. Over the past 10 weeks we have valued schemes within the region of 3,000 units from a number of different areas:

- Sites purchased without planning for a change of use where no consent has been granted;
- Sites without planning where a consent has been granted but now have a negative land value against the debt;
- Sites with planning where a developer has needed an extended period of time to sign off planning conditions and the funding and sales market has moved against them;
- Part-built schemes where the contractor has gone bust;
- New developments which were completed but the asset manager could

not make the profit so decided to let using an exit loan which has now expired; ■ Buy-to-let buildings or portfolios where the finance has expired and new rates are higher, loan-to-values lower and the new homes premium now void so the loan to value has been breached.

## Market nerves

While most developers are still in the market to buy, there is still a degree of nervousness on build cost and the sales market generally. There are still large swathes of equity in the build-to-rent world but many of the institutions that have been forward-funding schemes are also nervous about market conditions. That said, the money raised will have to be committed at some point. There is also funding available for forward commits which are less cash intensive.

There is a further curve ball with fire regulations. A note recently published by the National Fire Chiefs Council is recommending that all buildings of seven storeys or 18m and above will require a dual stair core. This has now been superseded with an announcement from the mayor of London with the requirement for two staircases applying to residential buildings over 30m, in line with the national position.

We are working on several package deals with housing associations already insisting that without a dual stair core they will not proceed with transactions, and I suspect pensions funds will adopt a similar stance. Although this can be dealt with via a section 73 or 96a, the additional stair core may reduce saleable area, thus further reducing value.

The long and short of this is you must give people a reason to buy – and that’s price. If you want to sell, it’s time to get on planet Earth and recognise what the market is telling you before it’s too late.