Market Comment

Chickens coming home to roost

Crises used to come around about every ten years. They are getting a bit more frequent these days – and the latest seems to be somewhat different in that there is the distinctive squawk of chickens coming home to roost. Since the last really painful recession, between 1989 and 1992, each squall has been met by falling interest rates and loose money culminating in the oxymoron of negative interest rates – surely, in retrospect, the unsustainable end to the great experiment in the avoidance of economic pain. After thirty years, it's now all going into reverse with a witches' brew of inflation, money tightening, rising interest rates and the winding in of globalisation. This time, it really is different and it's going to affect everyone – not least in property – and particularly in the mainstream market.

For the mainstream market, the driver is, almost entirely, credit. When buyers are trading down this is less so, but for all first-time buyers and almost everyone trading up, it's about affordability – and that just got dramatically worse. Obviously interest rates are higher – and it's worth remembering that a 1% rise when the rate has been 2% is a lot more painful than 1% when the rate was 8%. This comes on top of a cost-of-living spike that has blown a hole in the take-home pay of everyone.

Add to this that mortgage lenders are caught in the headlights of the same problems and are adopting a policy of 'wait and see how it pans out' and, in the meantime, only offering deals that will be taken on by the desperate. If the lower end of the property market were like the stock market, it would be trading 20%, or more, below its current level – but it's not, and it will probably first seize up with very few transactions as sellers live in hope and buyers get together what money they can, which must, surely, be considerably less than in the immediate past. Negative equity is going to be a phrase that will likely make an unwelcome comeback.

At the top end of the market, credit plays a much more limited role – but not de minimis. And there are other factors mitigating the bad news in the credit market. Dollar strength is one – and estate agents in Central London are breathless in their tales of dollar-based buyers (pretty well everyone outside Europe) desperate to park their greenbacks in London. There is some truth in this but, in our experience, for every bullish dollar buyer there is another (who thinks in sterling or euros) who reads the headlines and may still want to buy – but is a lot less bullish than a year ago.

They are looking at a likely Labour government (not necessarily bad for property) and in shock as the Conservative party self-immolates – as a wag said, Marxiste, tendance Groucho. These domestic buyers have made the market since the pandemic but things are now reversing, with those that think in dollars making the running, culminating in some reported feeding frenzies over shiny stock that has been around a long time. The raising of the cap on bonuses can only add to this.

In the country – where pounds not dollars rule – there is much more of a sense of a pause in the steady upward trajectory since 2010, not much dented by George Osborne's hike in Stamp Duty – unlike London. Our country team have seen about 30% of deals failing to exchange this autumn and one agent reporting twenty-five viewings on one house with no offers. The problem is as much about value as anything, with almost everything being overpriced in the first place by about 20% as agents tell their clients what they want to hear in order to get the instruction. If they do go under offer and a bank valuer is involved, that overpricing is brutally exposed. It is an iron truth that when overvaluing meets a bank valuer, there is only one winner. But this is not really the stuff of market falls. There are still many more buyers than sellers – as there always have been in our forty years in this market, with the single exception in the immediate wake of the Lloyds of London debacle of the early 1990s. The market has simply got ahead of itself. The big exception to this is land, now regularly trading at £12-15,000 an acre – and if it has a good house it always surprises on the upside.

This is a time of maximum gloom: war, inflation and political chaos don't encourage animal spirits. Things might easily get better quicker than is currently anticipated but it's hard to envisage a return to the ultra-loose money of the previous decade. However, even if the mainstream market retreats, the only people actually in trouble are those who bought recently with variable rate mortgages. There is a pushme – pullyou quality to most people's thinking about property prices – they abhor the fact that their children can't get onto the housing ladder, but secretly scan property porn for evidence that their own house is worth multiples of what they paid for it. Most sellers are buyers and if they are trading up then, counterintuitively, a falling market works in their favour. What it doesn't make for is good headlines and it is the daily diet of gloom that is going to be the background of the foreseeable future. But property markets are nuanced. There is no one size fits all and that is the thing to bear in mind – whatever the headlines.