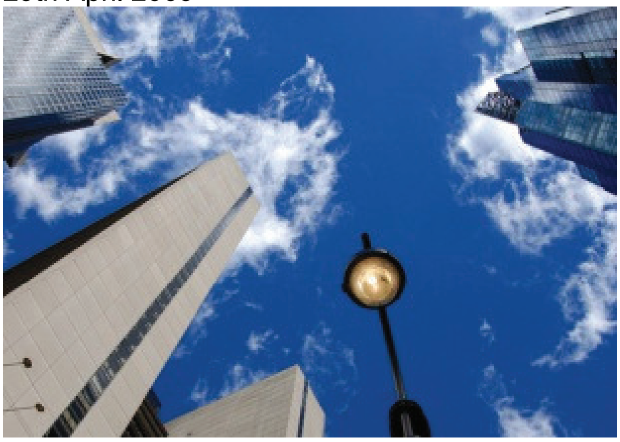
THEBUSINESSDESK.com
tomorrow's news today

5th May 2009

Property Focus: Which sector will recover first?

29th April 2009



IS there any light at the end of the recession tunnel for the property industry? Deputy Editor Ian Briggs assesses which of the property sectors is the most likely to bounce back first from the downturn.

IT HAS been a thoroughly depressing time for the property sector in recent months with schemes mothballed as lending continues to dry up.

Agents' investment teams have had little to do but twiddle their thumbs as deals activity has slowed, while office agency teams have had to scrap for activity as businesses which might have been planning moves in the good times are staying put.

The slump in retail has been much publicised, while the industrial sector has also been hit as requirements have slowed and companies have folded.

Although it's far too early to talk of the 'green shoots of recovery' perhaps, this correspondent has spoken to a number of property professionals in recent weeks who, although admitting the market is still a difficult place to be, are beginning to see some pick ups in activity.

But which sector will recover the first and why?

Tim Cameron-Jones, head of DTZ in Leeds and investment director, said "defensive" stock and investments - those occupied by government and other public sector organisations - would always be popular as cash was not as much of an issue and that those with long leases and good covenants would remain strong.

He said experienced investors were showing signs of returning to the market.

"There are also those who have not been away but have been around for years quietly going about their business," said Mr Cameron-Jones, who also said deals were still being done for prime high street retail sites.

Nick Child, director of Yorkshire-based Shepherd Developments, agrees with Mr Cameron-Jones, arguing that Government-led initiatives including education, health and other public services would lead the way.

Mr Child said: "The prime property investment market will turn for the better in the next few months and is already showing good value for money. The secondary investment market will be slower to recover and may take some time."

Mr Cameron-Jones added that large buildings with single lot tenants would continue to struggle to sell in both the industrial and office markets.

Andrew Gent, of Leeds-based industrial property agents Gent Visick, said the investment and industrial sectors were the most likely to bounce back the soonest.

Mr Gent said: "The peaks and troughs of the industrial market are relatively close together as generally this is a market where supply and demand is generally in step.

"Demand is relatively constant and in the Yorkshire and Humber area it could be argued that rents have remained fairly constant for the last 10 years.

"There is an oversupply of units in excess of 100,000 sq ft in the South Yorkshire and West Yorkshire markets however, there has been a steady level of continued activity in terms of accommodation below this level.

"With the exception of large footprint buildings there is very limited supply of modern units within the market place. With development pipeline turned off and finance for speculative development practically unobtainable then there will shortly be an in-balance between supply and demand in this sector.

Manufacturing and distribution creates jobs which in turn creates a demand for services and goods from the service sectors which are primarily office or retail space occupiers. Demand from this sector will fuel demand for retail and office space and as such industrial and warehouse space should bounce back."

Guy Cooke, partner at Knight Frank in Leeds, specialising in offices, said despite a "grim past 12 months" there were "some rays of hope" in the office market.

Mr Cooke said: "The rate of capital value decline has eased and activity in the property investment market suggests that the bottom may be closer than we realise, with returns available at levels unseen for over a decade.

"The Yorkshire out-of-town office market is holding up comparatively well, with Sterling Capitol, for example, recently completing two excellent lettings at their flagship business park Capitol Park in south Leeds.

"Overall, I expect to see a modest improvement in fortunes by the end of the year, hopefully with credit lines working and improved confidence. Perhaps then it is time to be thinking about the upturn."

Duncan Melvillle, partner at Yorkshire built asset consultancy EC Harris, is one of a number of professionals who believed the housing sector would be the first to recover, buoyed by evidence that falls in house prices are bottoming out.

"Plus, demand outstrips supply, and the government has given greater funding support to the housing sector than any other sectors as well as continued low interest rates," Mr Melville said.

"However, any recovery is likely to be slower than previous downturns due to tighter banking sector lending criteria to both individuals and investors, the capacity of the sector to build/develop being critically impacted and developers/investors taking a more conservative approach to risk and return."

Mr Child believes the housing market will also show some signs of recovery over the next six months as more mortgages become available.

"The turn to positive house price rises and new development should follow," he added. "There may be a big change in how social housing is procured and this may lead to a large pick up in its provision.

"However there will be little speculative development for some time and preset/presales will be the name of the game."

For Alison France, managing director of Sanderson Associates, the Yorkshire-based independent highways and traffic consultants, housing is also showing signs of picking up.

Ms France said: “I hope I’m not being too optimistic but I believe there are signs that both the residential housing and retail property markets are bouncing back already.

“During the past 12 months, residential housing had completely dropped off the radar. The market was in freefall. Now we are being approached by large housing companies who are looking for land for family houses in new locations.

“These housing companies are typically those who have already become leaner and fitter during the recession and who reacted fastest to the downturn by shedding excess jobs and by cutting costs to manageable levels. They are now reaping the benefits of this."

However, David Armitage, chairman and managing director of York Handmade Brick Company, sounded a note of caution for the housing sector in general but believes the self-build sector was the best positioned to spearhead a revival.

"Generally speaking, the self-build sector is less vulnerable to a downturn than the rest of the residential property market," said Mr Armitage.

"That is because self-builders tend to have deposits averaging about 40% of the cost of their planned development, much more than normal buyers.

"More specifically, there is a good deal of land and building sites currently available at competitive prices. Equally significantly, labour costs and the cost of materials are down, and so is the cost of borrowing."

Have Your Say

It's quite clear that the availability of funding and the banks atitiute to risk is pushing down loan to value, so it will be those who are sitting on cash to invest who will be the first into the market. However, there may not be a simple return to the way deals have been done in the past. It is probable that there may need to be a fundamental change to the way in which developments are procured and structured in order to be viable in the current economy. The public sector will play a key role in showing us the way to recovery but it will also take private sector confidence to get us there.

Matt Sharpe

Report this comment