Market Conditions 2020: What Lies Ahead

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In many respects 2019 was a bit of a stagnant year for the property sector.

On the residential side, transactional volumes were significantly depressed due to a reluctance on the part of homeowners to commit and, as a consequence, prices stalled. Only in the new build sector was activity maintained, fuelled by the first time buyer market aided by various Government incentives.

With increasing regulation and legislative changes around taxation, the private landlord sector also suffered as appeal for those either entering the sector or looking to expand diminished. Add into the mix the growth in confidence around Automatic Valuation Methods and online alternatives in the agency sector, and it is easy to understand why volumes and revenues fell away.

The commercial side proved something of a mixed bag. The so-called war on talent certainly drove demand for new and refurbished premium office space, whilst the retail sector continued to suffer near ‘perfect storm’ conditions. Industrials and general investment suffered from the prevailing political and economic uncertainty and, on the development side, although there was activity much of it appears to have been reliant on newer, less traditional, sources of funding which tend to come at a cost.

Hardening market conditions in the PI insurance space, principally due to a sharp decline in capacity, merely served to add to the woes many were feeling as a result of all of the above and, in consequence, some firms have either been forced to close or consolidate.

AAs 2020 dawned there was plenty of talk about a Boris Bounce. The media has been full of upbeat messages, now that his Get Brexit Done mantra convincingly seems to have won the day at the pre-Christmas general election. The media has full of upbeat messages – reporting global investors flush with cash forming orderly queues, a rush of transactional activity (one leading surveying company citing a 50% increase in prime London and 35% increase nationally in residential sales at year end), and the largest percentage points uplift in values for over 12 months.

However, more balanced reporting suggests that this is probably more likely to result from an immediate sigh of relief that the threat of continuing Brexit uncertainty, and the arrival of a new government perceived by some to be a tad left of centre, has disappeared. But will this prove to be sustainable? Is Brexit really done when we are about to enter another period of turbulence as the promised resolution of trading arrangements by December 2020 appears evermore elusive.

The likelihood is that the knee jerk reaction will prove to be somewhat temporary in nature and the same pressures as impacted on the market in 2019 will reappear; no one is seriously suggesting that rejuvenation of our High Streets is coming anytime soon and an ongoing skills shortage in the labour market could derail the ambitious plans around housing needs. As any scientist will tell us, gravitational pull plays its part on any object which bounces in an upward direction.

The words of Simon Rubinsohn, chief economist at RICS, seem to hit the nail on the head when assessing whether the ‘bounce’ will lift the current lethargy. He has recently said that as “the underlying constraints on the market haven’t been addressed, Brexit could come back and bite.

So if normal service is about to be resumed what are likely to be the main challenges in 2020?

Caution & capacity: Before the general election we reported that heightened economic and political uncertainty was continuing to weaken confidence and, thus, activity. Stock levels remained at near record lows, as did new buyer enquiries and agreed sales. Competition between lenders seeking to capture what limited appetite existed was promoting a return of the 95% loan and until activity levels improved, we felt that the squeeze on revenue streams would continue to bite. Timing could not be worse, as capacity levels in the PI sector had shrunk, producing significantly adverse renewal terms, if offered at all. Market consolidation seemed inevitable, and there was thus a real risk that the temptation for some to venture outside areas of specialism or competence in an effort to survive would prove too strong.

Those issues are likely to remain as the year unfolds. Dare we suggest that if pricing risk by reference to what one can charge becomes the accepted underwriting model, it may ultimately prove no more sustainable than the ‘good old’ £150 valuation report with open-ended liability which so often was triggered by a potent combination of undetectable, but potentially unreliable, comparative data and an unforeseen market crash.

Environmental concerns: As AVM technology fast becomes the primary valuation tool for lenders, and surveyor input is restricted to the more ‘difficult’ cases, the impact of environmental change should not be under-estimated. Flood risk analysis is likely to come into sharp focus as predictions suggest properties at risk will more than double by 2050 to 1.9m. Similarly, as awareness of localised air pollution data rapidly grows, momentum is gathering pace for a ratings system to be introduced. Adverse conclusions in either instance are likely to result in certain localities falling out of favour, which would inevitably have a potentially dramatic impact on values. The availability and accuracy of such data, not to mention the skill of its interpretation in valuation terms, seems likely to be a critical ingredient of future valuation methodology.

So if these are the challenges what might be crucial to sustainability in the sector? We would suggest a mix of “IDS”: Innovation, Differentiation and Specialism.

Innovation through the harnessing of technology and the behavioural changes to communication and service delivery in a digital age to develop and deliver new products as more traditional formats fade away; Differentiation through a move away from fierce price competition to ‘sell’ services and a real focus on the provision of personal, quality services which palpably add real value to the customer; and, Specialism through aggressive and single-minded concentration on core competencies linked to unequivocally clear terms of engagement which define expectations, responsibilities and limitations with absolute clarity.

Awareness of the challenges, and implementation of IDS principles, should provide the best platform for successful business operations moving forward; particularly if the PI market provides fair ‘credit’ for such endeavours when contemplating future risk ratings.

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