How the property finance market is holding up during this time of increased uncertainty

Opinions

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Just as the UK thought it had negotiated Brexit and navigated the worst of Covid-19, little did we know, there was further uncertainty around the corner. Covid, Brexit, and the invasion of Ukraine have driven up the cost of living pushing inflation up to 9.4 per cent. Both are predicted to continue to rise through to 2023. The Bank of England has reacted by raising rates, which is again expected to keep increasing. More recently we have seen disruption in Parliament leadership take its toll on the economy, too. With all this uncertainty, the prospects for the economy look bleak. However, the property finance market is looking a little more positive.

The cost of living and inflation are certainly concerns for individuals, and typical reactions are to cut back on spending. This is not what the property market is experiencing. House prices are still rising, and in a recent report published in July, Nationwide said price growth accelerated to an annual rate of 11 per cent. According to another research report, London housing in H1 2022 was stronger than it has ever been since 2014. Demand for finance remains high as illustrated in unregulated residential bridging loans making up a significant portion of our loan book.

While interest rate rises are a concern, borrowers and lenders alike are pricing this into their appraisals. The undersupply of UK housing, coupled with construction costs having seemingly levelled out, means I expect to see more property developments come to fruition - and subsequently more development finance. Indeed, our development finance loan book has been increasing recently.

Commercial property also seems to be holding strong. The revival of the high street and a newfound passion for the local community means businesses that have navigated through Covid-19 have begun to stabilise. The office market looks like it might be rebounding, too. Although directors have adopted hybrid working, employees are demanding greater health and wellbeing initiatives that are being built into office infrastructure. Strong demand for more environmentally-sound workplaces is also driving the rebound. As such, the market has seen some large commercial loans reach completion to support business progression.

In summary, the property market, in general, is still a safe place to invest. The pound has dropped 10 per cent against the dollar since the beginning of the year, resulting in significant investment from overseas; investors are capitalising on the weak pound. The wider property market thinks growth will slow, but I do not expect a full crash in the near future. Despite inflation and rate rises, the fact that there remains a large housing shortage will result in a dip in the market, but demand will level that out. As for property financial markets, alternative flexible lenders with committed funding lines and the ability to make quick decisions become particularly useful funding solutions in times of uncertainty. Record months of demand for our bridging and development products suggest there are plenty of opportunities out there for property investors.

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