Editor's note

Slow and **sticky**

BRITAIN'S ECONOMY GROUND almost to a standstill in the second quarter with The National Institute of Economic and Social Research (NIESR) estimating that gross domestic product rose just 0.2 percent. Public-sector austerity and sagging consumer spending are weighing down the commercial property sector. Now this economic tardiness appears to be filtering through to the lettings market where rents have stabilised.

Even in central London, there is little evidence of an uplift and demand here may be flat but at least we can be thankful it is not in decline. Second-quarter activity in the City is a similar story – holding firm. Values have shot up over the past 18 months and now we find ourselves in a flat lettings market. The investment market, too, has experienced a similar loss of momentum.

However, what is patently clear in some localities is a clear disconnect from the investment market, driven, as we well know, by the acquisitive appetite of foreigners based on the currency arbitrage and the perception of the UK, and particularly London, as a safe, stable and secure environment for their money and the fundamental lettings market. The investment market is, in many respects, similar to the 2007 wall of money scenario where there was no end of cash around seeking havens.

The difference today is that the money is not coming from the banks but cash-hungry buyers and purchasers who have enjoyed the benefit of the trickle effect of fiscal easing. This has loaded their coffers and war chests in readiness for the right opportunities. All this is keeping the investment market firm but we have to wonder where it will all lead.

Fiscal easing is coming to an end and, once again, we have seen this reflected in the market.

The banks have breathed much hot air with their big talk of being open for business. But, on the coalface, few actually are. Granted, they have loosened their purse strings since this time last year but obtaining finance, at least for small investments, is virtually impossible.

It is a situation that has a dragging effect on secondary stock and will ultimately aggregate into further slowdown and constriction in transaction volumes. Here at *Estates Review*, we know of one investor whom a property company recently approached about an investment yielding six percent. The yield seemed expensive so, baffled, he asked the property company what the price of his money was. The response was a resounding 5.5 percent.

So where in all this lies the premium for risk associated with commercial property, you may well ask? It seems property has become an asset class in its own right in common with equities, commodities, funds and other stores of wealth which feels and appears extremely unnatural in some ways. Property is, after all, a utility.

This serves to underline the detach of the investment and letting market, amplifying what is essentially an expensive investment market in key locations especially in London. Where will it all end? The clue is in the bigger picture, in the global macro factors that are currently at work.

Global debt will be a fudge of inflation, time, taxation and austerity feeding through to the investment market. Ultimately ending in inflation which will in turn feed back through into the asset class of commercial property and provide price enhancements in the medium to long term. In conclusion, the outlook is slow and sticky.

But the prospect of sunshine lies ahead at some point in the not too distant future. ■

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