Estates Review

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CEBR warn Vickers report could damage EU property market

As Europe's economy continues to teeter on the brink of disaster, the UK market still finds itself at a set of crucial crossroads

The Centre for Economics and Business Research's (CEBR) warning that the City of London will lose 27,000 jobs this year is not the sort of news speculative developers will want to hear. Such dire numbers have not been bandied about since 1998. Its latest forecast is in stark contrast to its predictions in April when it said London would get another 2,000 financial jobs this year and 3,000 in 2012.

CEBR's latest prediction comes against the backdrop of the prospect of tougher regulation resulting from the Vickers banking report and the impact of the eurozone turmoil, despite the latest debt deal which includes the European Union and the International Monetary Fund bailing out Greece to the tune of €130bn (£114bn).

Figures from Colliers International in mid-October showed 65 percent of space completing in 2011 in the City market still remained vacant, compared with the west end market, where 75 percent of space completed so far this year was either let or under offer.

Taking the plunge

Yet, there is still plenty of developer action in the City, Derwent London, for example has just won consent to redevelop its City Road estate at a cost of £105m which will include 271,000 sq ft of offices as well as retail and residential elements. Land Securities also secured resolution to grant planning permission for a development on the corner of Shoe Lane and Little New Street – 1 New Street Square. This will include about 250,000 sq ft of offices and shops.

Still, it does not take Einstein to work out that fewer jobs means less demand, which means surplus space. That said, economic predictions should be taken with a pinch of salt. They only present a snap shot based on what is happening at any one time – a bit like Back to the Future, where outcomes change according to the type, and number, of stones thrown into the pond.

The global and European economic situation is fluid despite the latest eurozone debt deal which, still looks like a sticking plaster to cover a wound that needs both a splint and a bandage and is, once again, more of a time-buyer than a permanent fix. But do not abandon the cement just yet. Despite what the sceptics say, the City will continue to be hot property for global finance. It is easy to react timidly to short-to-medium-term issues and forget the long-term bigger picture, which is just what pension advisers are telling their clients at the moment: hold steady, keep plugging away with investment and, short of nuclear Armageddon, a comet wiping out all known life or a global pandemic, it will all come good. Short-termists are dead in the water. Long-termists will reap the rewards.

Busy winter

Elsewhere, in town centres, landlords are going to have their work cut out for them if latest analysts' warning of a rash of retail insolvencies and restructurings after Christmas and well into next year transpire.

This ought to keep property agents busy and provide opportunities for established stronger chains to cherry-pick the best assets, no doubt at knock down prices. It's been evident in the last few months that high streets previously regarded as insulated are now showing the early signs of decay.

Where one closure gave way to a new opening for another operator, more and more shop fronts are boarded up even in the some relatively affluent north London town centres. It is a mess but much like the churn you get in the pub sector the fittest will survive, the chaff will, at worst, lie empty for a while, be converted, or be snapped up by those with bigger purse strings, a better strategy or the enthusiasm to create a better business.

At least with property, the owners have bricks and mortar at the end of the day, regardless of the health of the business that occupies it, unlike equities where you can be left with nothing. With bricks and mortar, even if the place burns down, there's still the insurance.
With shares you can end up with zilch.