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‘The Realists View from the Armchair’

Dear Reader

The recent paralysis of UK airports reminds me of a similar paralysis in the UK real estate development finance market; the only difference being that common sense has at last prevailed in the UK skies, where as bank finance for residential development, even in Prime London is still relatively speaking stagnant after eighteen months.

Upon closer scrutiny, putting it simply, the capital constraints continue to impede the banking community from supporting the risks associated with residential development. In the main, those that still claim to support residential building, offer such onerous terms that they are in-effect positioning themselves out of the market.

UK media is enthused to report on the demise of those that were previously seen as the darlings of London property; labelling certain individuals “Yesterday’s Man” in the recent Sunday tabloids.

Yet despite rumours, the bounce in the prime central London real estate market is allowing, at least for now, a renaissance. Only this week the FT reported on the growth of luxury real estate, almost with surprise! Stock is in short supply, buyers are prolific and top end agents have never been busier, that is even before the arrival of overseas buyers for the summer months.

Even if this market enthusiasm is only short lived, the funding gap left by the absence of the institutional lender is quickly being filled by private equity. Recognising that London property in the right location will always command a premium, individuals, family offices and funds are stepping into the breach and co-funding projects with established developers. Perhaps an unusual asset class, savvy investors however realise that residential development can produce healthy levels of IRR for schemes which can be completed and returning capital and profit inside of twenty four months.

The irony of the situation will only be felt when banks relax their lending criteria to find that their market is now populated by alternative funding sources and that the balance of power again rests with the developer.

Wayne Coleman