'The realist's view from the armchair' - January 2013

The question burning on everyone’s lips will undoubtedly be whether interest rates are to rise and if so, by how much and if not, when.

Oh for the crystal ball.

The fact is that last year was the best for the UK economy since 2007 and there is every reason to believe that it will be better still in 2014. Employment is increasing, output is rising and houses are actually selling and not just within the M25.

Yet UK growth relies too much on consumer spending and unemployment is well above Mark Carney’s threshold. Likewise the squeeze on household income shows no sign of abating, incomes are not increasing in line with inflation and the Government has to make more cuts to plug a gigantic black hole in public spending.

What’s more the UK will find it harder to convince investors to buy its debt, if an imminent rise in interest rates looms. The UK’s net public debt stands at £1.21 trillion, an equivalent to 75.9% of our entire economy, where we are still recovering from the damage caused by the financial crisis. International investors in UK debt are naturally cautious, as it’s not so much the rate issued that bothers them but the direction and the signs of consistent movement that will concern. A palpable fear of a rising rate will stem the investment in our bonds. Will the government risk losing such investment, that which is driving our economy forward?

2014 is a year of hard truths, where we face a choice of either burying the proverbial head in the sand or tightening our belts even further. The former only puts a gloss on our real plight, with a sprinkling of fresh optimism. Saying that the worst is over and reverting to our old ways of living beyond our means, will leave the next generation in far worse a situation than that in which we find ourselves. However with all the good will of abstinence, brought on by the New Year and our intent of substantial weight loss, perhaps we should take in another notch around our soon to be depleting girths and shake off the thoughts of immediate gains and long holidays in sunny climes.

There is still a long way to go to fix our economy and the rate of interest holds the key. There are far too many households on high loan to value (LTV) mortgages, fixed for the short term on highly competitive rates, whilst their income remains static. The impact of a rate rise, coinciding with most of these 2 year fixed terms coming to an end, wouldn't even register on the Richter scale. The government would not risk all that it has worked so tirelessly for, over the past few years, only to let it be torn asunder in one fell swoop. That being said, there have been a high number of low LTV (sub 70%) mortgages approved recently, contrary to public opinion.

Last quarter unemployment fell from 7.7% to 7.4% and the Monetary Policy Committee (MPC) brought forward its forecast of when unemployment would reach the 7% threshold to Q1 2015. However the MPC has made it clear that 7% is not a trigger for an interest rate rise and that inflation is the real focal point and so I refer you to CPI inflation, which fell to a four-year low of 2.1% last quarter, giving the MPC some breathing space on a potential rate hike.

With that crystal ball whirring, waiting for any penny to drop, I am convinced that the Bank of England (BoE) will do the right thing and support the recovery and therefore leave the base rate at 0.5% for at least the remainder of the year.

With this in mind when you are looking to acquire, develop or invest in Real Estate in Prime Central London and other key Prime destinations, we are here to assist. Still located in Knightsbridge and with absolute discretion, we continue to support a multitude of high profile private clients, owner occupiers and short, medium, long term investors. We are always happy to take a call, discuss an opportunity and determine if we can provide a solution. The lending landscape is ever evolving, creating new opportunities for our clients, where we are successfully steering a course through these troubled waters and achieving excellent results.

Wishing you a happy, healthy and successful 2014.

Best Regards,

Wayne Coleman