

Property lending and attitude to risk

We polled a number of banks regarding their attitude to risk and lending on property in general which included a focus on the new homes sector. Our grateful thanks go to all respondents for their time and comments.

The analysis illustrated the different policies implemented by the banks with regard to their loan books and the process of allocation to the various property sectors. Interestingly, almost 70% of all respondents stated that despite the result of the credit crunch and subsequent rationalisation, their loan books continue to be managed on a local basis, and therefore reviewed on an individual case basis, rather than set at the national standard and filtered down to the regional level.

When asked if their loan book had increased or decreased over the last two years, two thirds of all respondents stated an increase, albeit of less than 5%. In terms of their future loan books, a more mixed response was apparent with 33% stating an expected increase, a third forecasting a decrease and the final third undetermined as it is dependent on the quality and number of applications received.

All respondents confirmed that their company attitude to property lending was currently reviewed at least on a monthly basis. 100% of respondents cited their company's current attitude to risk as cautious, with 40% citing that their company's attitude to property lending had significantly altered to a far more measured approach since the credit crunch. Unsurprisingly, the

debt service ability was a key determinant on whether a loan was agreed with the loan to value ratio of secondary importance in terms of the key criteria when considering loans. Sector specialism was also highlighted as an increasingly key determinant, with more than half of all respondents stating that their company policy had become increasingly focused on particular areas of the market in order to build knowledge, track record and expertise.

When asked specifically about the new build apartment sector, 64% confirmed they did not consider loaning on this market, whilst the remaining proportion stated each application was reviewed on an individual basis.

All respondents stated that their banks now hold a more sustainable view towards property lending, with a common theme of increasingly focusing upon strategic opportunities and key sectors of the market moving forward.

Almost 75% of all respondents confirmed that they doubted that banks would return to their aggressive nature evident before the credit crunch, although they believed that they are forecast to become more competitive in order to win business once activity levels pick up. The occurrence of current regulations will ensure loan to value ratios and gearing levels should remain restrained compared to previous levels and thus encourage a more sustainable lending environment over the long-term.



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The Property People

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Overview

The new homes market in the Eastern region has generally held up well during 2010 despite the uncertain economic backdrop. The sector's resilience was further reinforced during Q1 of 2011 with improved sales activity levels compared to the majority of its surrounding markets. However, activity levels in Q2 have dropped away despite the traditionally busy spring market.

The announcement of a government-backed shared equity scheme in the recent Budget is set to assist 10,000 first-time buyers in purchasing new build homes. The introduction of this scheme is expected to further bolster activity and improve already strengthening sentiment across the Eastern region in the year ahead.

Stock levels have increased, albeit only slightly across the region as a whole, from six months ago although remain far from saturation point. In particular, Cambridge city centre has remained notably under-supplied in new build product throughout the 'bull run' pre-2008 and

this, coupled with increasing demand from investors, is likely to buoy the market over the medium-term.

Whilst a slowdown in enquiry levels was witnessed at the end of 2010, they have generally rebounded, particularly within Cambridge city centre due to the diverse employment base and highly skilled workforce. However, a definite case of quality and not quantity of enquiries is proving the resilience of the market across the region as a whole.

The number of developers re-entering in the market has increased over the last six months, activated by diminishing supply levels and easing financial restraints. Within the Cambridge market, smaller, more local developers have tended to continue activity - albeit at a slower rate - throughout the cycle. The larger, national developers who temporarily ceased activity have now reactivated and, consequently, the supply of new homes is forecast to increase moving into 2012.

Cambridge and surrounding villages

The Cambridge city centre new homes market has enjoyed a buoyant period since the start of 2011, with the tone of the market much improved compared to early 2010. Average prices within the city currently stand at circa £425 per sq ft and are forecast to further strengthen throughout the year.

However, the market remains sensitively balanced with the surrounding villages experiencing a much slower rate of sales activity with average prices of circa £275 per sq ft currently being achieved.

Evidence of a two tier market is further reinforced by the majority of stock on the open market within the city centre achieving guide prices. Indeed, in some cases, premium prices have been attained on top quality housing in prime locations. That said, purchasers in general continue to remain realistic and extremely price sensitive, particularly within the villages' market. The average sales period for a new home in the Cambridge city centre market is six to eight weeks although it is significantly longer in the surrounding village locations.

In line with cautiously improving economic conditions, the proportion of active cash buyers within the Cambridge city centre market has increased since the beginning of 2011. However, the ability of purchasing units in bulk quantity is extremely limited which hindered activity at the beginning of the year although the situation has improved as the spring market takes effect with bigger deals being required and the purchasers' dominance increasingly coming into force.

That said, developers remain reluctant to drop their bottom-line figures on lost leader sales as any reduction will have a detrimental knock-on effect on future sales. Since the introduction of CML forms such lost leader sales have become highly unusual unless it involves a cash purchase and has the ability to proceed with immediate effect.

Market Indicators



Huntingdon, St Ives and surrounding villages

In contrast to central Cambridge, sales activity levels within the Huntingdon and St Ives market have fallen from their level in 2010, due in part to limited demand due to finance constraints and also limited supply of product. Transactions are taking longer to complete, with the average period approximately two to three months, with purchasers generally expecting sizeable discounts of circa 8 -10%. Average prices range from £135 to £175 per sq ft, comparable to levels a year ago.

The middle market (over £300,000) has proved the most active since the start of 2011, with the first time buyer's market remaining particularly quiet due to financing restrictions.

Market Indicators



Peterborough and surrounding villages

A recent improvement in interest levels has been witnessed in Peterborough and its surrounding villages, although the majority of sales completed in 2011 have experienced a reduction in price in the region of 10 - 12% from quoting prices.

An improvement in applicant levels has been evident, although this is yet to translate directly into improved sales activity. Prices have stabilised since the start of the year, although the differential between vendors' and purchasers' expectations continues to slow the market. From evidence collated, the average price achieved in 2011 to date is circa £150 per sq ft although values in excess of £200 per sq ft can be found within select village locations. The average time to sell stands at between two and three months which indicates a strengthening, albeit at a cautious pace, market.

First time buyers have returned to the market and investors have started to reappear, which provides an encouraging outlook for the market moving into the traditional buoyant Easter period.

Market Indicators



Forecast

New homes prices are predicted to remain stable across the UK during 2011. The Eastern region is anticipated to broadly mirror this forecast, although Cambridge city centre is anticipated to witness a 5% increase by the end of 2011 due to the buoyant market conditions and a notable lack of supply. The return of cash buyers and the re-emergence of investor purchasers to the city are also expected to fuel this proposed increase.

Eastern Region residential land values

Sentiment improved amongst house builders and developers throughout 2010 which has resulted in a rise in land values of approximately 5% across the Eastern region as a whole. However, a two tier market has emerged between small, serviced sites and large strategic land areas. Smaller sites tend to be capable of immediate development and may be funded directly from subsequent house sales enabling developers to build out, and potentially exit, the scheme relatively quickly. In sharp contrast, the ever increasing burden of infrastructure and planning costs has resulted in larger strategic areas of land proving increasingly onerous in this sensitively balanced market.

Within Cambridge, in line with improving sentiment, the number of schemes coming to the market has gradually increased and as momentum builds, a growing number are forecast to follow. Over recent months, two large scale sites have recently come to the market at Trumpington and Clay Farm with the Bell Language School due to come to the market imminently. The scale of these schemes is unprecedented in Cambridge which has very few brownfield sites now remaining.

Land values in Cambridge peaked at £2 million per acre in 2007 and currently stand in the region of £1.4 million per acre. The polarisation between small and larger strategic sites is forecast to continue and potentially increase, and those sites which benefit from planning permission and are uncomplicated will sell for a premium.

Land values in Peterborough currently stand at £450,000 - £500,000 per acre, compared to a peak of £1 million in 2007, and are well behind Cambridge in terms of its stage in its recovery. Much of the residential development land is located to the south of the city and owned by O&H Hampton which continues to dispose of various lots on a phased basis to coincide with housing supply. Proximity to London is the key attribute of the city and is expected to remain the driving force of the timing and pace of development within Peterborough over the medium-term.

The scarcity of supply of readily deliverable sites in Northampton has buoyed land values to a current level of circa £750,000. However, they remain significantly below a peak of £1.4 million achieved in early 2007. Despite the general scarcity issue across the county, three sites were sold in 2010, all of which had planning permission in place and achieved levels in the region of £650,000 to £750,000.

A greater focus on larger units in new developments aimed at families and downsizers who have a higher equity share is anticipated across the Eastern region over the next year. The concern regarding demand for apartment living is forecast to set to continue and, as such, funding for such product tends to be more complex to secure.

