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Unintended consequences

If it's true that estate agents are still languishing towards the bottom of the nation's popularity charts, then few people, other than their shareholders, will have shed a tear when Foxtons revealed a 65% drop in profits last week.

However, the results season for publicly quoted estate agents shows just how much damage has been done to liquidity in the UK's property market, largely as a result of former Chancellor George Osborne's big hikes in Stamp Duty back in 2014. The marginal rate of Stamp Duty for any property worth more than £1.5m is now 12%, and more if purchased by a company, as many higher value properties often are.

And it's not just liquidity and the general movement of properties that has dried up; prices too are falling, and almost certainly at a rate that is greater than indicated by conventional estate agents or government. The highly respected agent Property Vision, who only act on behalf of buyers, has developed indices of property values for both flats and houses in prime central London, which are already more accurate than most other measures, and at the prime end will probably become the yardsticks of choice. These indices right now do not paint a pretty picture: 2017 saw a decline of 7.3% in house prices, and since the peak of the market in 2014, house prices are off 20.7%. This means that prices in the prime areas covered by this index are now below 2007 in real terms.

You may think that this doesn't matter, and it's what everyone wanted, namely lower property prices at the top, from which the trickle down would help everyone, especially first-time buyers. The problem is twofold – first, trickle down, if it even happens, is no more than a trickle, and it will need much more than pressure from the very top to see entry level property prices decline in any meaningful way. Second, the so called feel good factor, which is so important to the general health of the rest of the consumer economy, is starting to feel a lot less good right now. A combination of lower property values, higher inflation and continual warnings of much higher mortgage interest rates just around the corner has prompted consumers to be rather less carefree in the high street. Look at recent results from Carpetright, New Look, Whitbread (owners of Costa Coffee) for evidence of the unintended consequences that are now starting to pile up. Not to mention the growing list of total corporate failures, such as Toys R Us, furniture retailer Multiyork and wholesaler Palmer & Harvey.

Maybe schadenfreude for estate agents should be held in check after all.

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