Upping interest rates would ‘upset’ property

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Raising interest rates could seriously disrupt the property markets at a time of fragile recovery, industry experts have warned.

DTZ Investment Management chairman Robert Peto said upping rates could “fundamentally upset” the market because of its effects on initial purchase and exit yields.

Speaking at the Cambridge University Department of Land Economy’s sixth Commercial Property Forum yesterday, Peto said that as yields compress, an interest rate rise would make many markets overvalued, as well as exacerbating bloated household debt.

“On forward predictions, it looks like we should be, and have been, in a market since 2010 on forward projections where you should have been buying,” he said. “The question is, what happens after 2014?”

Peto said yield compression was shifting foreign investors away from central London and towards mainland Europe and the regions.

Michael Brodtman, head of valuation at CBRE, agreed that yields were on a downward trajectory, particularly in prime logistics, where they had moved in 50 basis points in November.

“That’s a 2006 rate of change, and all our outlooks are stronger, except very secondary retail and some industrials,” he said. “The question is whether the economy justifies that… it’s an unusual situation, where increased liquidity is taking prices to places where they might be ahead of themselves.”

But Brodtman warned against reading too much into the yield profile in “an artificial interest rate environment”.

Moderated by Bell-Mallen chairman Steve Mallen, the forum panel also included Exemplar founding partner Clive Bush and GE Capital’s head of European asset management, Mike Bryant.

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