

## Price Crash Incoming for UK CRE, Says Goldman Sachs



According to a recent Bloomberg article, investment bankers at Goldman Sachs outlined a bearish prediction for the UK commercial real estate (CRE) market in the short to mid-term. Goldman states that they are anticipating a drop-off of up to 20% for property values between mid-2022 and the end of 2024.

The fall in value comes on the back of a “steep rise in borrowing costs for landlords”, which Goldman predicts could rise by “75% over the next five years.” At the same time, the bank added that current economic conditions would “limit most landlords’ ability to pass on inflation in the form of higher rents, outside of particularly in-demand sectors such as warehouses.”

### Knock-On Effects

UK financial markets overall were impacted by the recent “mini-budget” statement former UK finance minister Kwasi Kwarteng gave on the 23rd of September, which has received criticism amidst accusations of creating market turmoil.

CRE investments were among the sectors affected, as the Financial Times explains: “The pace of withdrawals from UK commercial property funds has accelerated rapidly since the government unveiled its “mini” Budget last month, in a shift that analysts warned could spark a rush to sell buildings at depressed rates.”

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The Financial Times added that withdrawals from property funds compound the existing strain of higher borrowing costs, and that the combination could “force funds to jettison assets, dragging prices down further.”

### Housing Outlook

UK housing prices are also facing a plunge, with some analysts predicting a similar 20% drop off for the sector. Up till now, a shortage of homes has kept the market buoyant, but, as Graham Cox, Director at Self Employed Mortgage Hub puts it: “Unless we are very lucky and inflation falls much more quickly than predicted, I don’t see any other outcome than a sizeable fall in house prices... A lack of housing supply won’t help one iota when mortgage rates are somewhere between 5% and 7%.”

For the multifamily sector, the upshot may be prolonged demand in the rental market, as potential new buyers face soaring mortgage rates that price them out of the market.

### A Developing Situation

Worth noting is that there have already been moves to undo some of the decisions laid out in the “mini-budget” speech, and a new finance minister has been appointed, making this very much a “developing situation.” As such, we’ll be keeping a sharp eye on how these latest changes play out for the CRE market, and the financial market overall, in the months to come.

