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MSc Real Estate

The science behind
property prices

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“Property prices are a near-constant subject of conversation, not just in the UK but around the world. A great deal of attention is given to average house prices, with equal amounts of speculation available as to whether the market is going to boom or go bust in the near future.

The Office for National Statistics (ONS), Rightmove, Zoopla, Nationwide, Halifax – they all offer monthly indices for how much the average UK residential property costs. Between them, they inform much of the discourse dominating the market.

Curiously, there are always notable discrepancies in the figures published. In January 2021, for example, Rightmove said the average listing price on its platform was £317,058; Zoopla said the average UK house price was £223,700; Nationwide claimed it was £229,748; while the ONS put the number higher still at £249,309.

This is indicative of how problematic price comparisons can be, particularly if one focuses too heavily on nationwide figures. Fixating on a single indicator belie the great variation that exists between different regions and subsectors within what is a complex market.

It is important, therefore, that professionals across the property industry – everyone from lenders and valuers to agents and conveyancers – has an appreciation of the fundamentals that shape property markets on a macro and micro level. Further, there must be a firm understanding of property valuation process.

THE FUNDAMENTALS OF PROPERTY MARKETS

Real estate markets are hugely diverse, so to understand them on a regional or national level, one must have a firm grasp of the wider economic picture. And this begins with knowing the main actors who participate in the market.

There are several broad groups that shape activity within a property market: owners (who also occupy the property); renters; investors (who do not live in the property); developers and renovators; and facilitators, which includes agents, lawyers, governments, lenders and any other body that is involved in the transacting of property.

Crucially, the actions of any one group can have a significant impact on the others, and indeed on the market as a whole. Take the UK Government’s introduction of the stamp duty land tax holiday in July 2020, which then triggered a surge in the number of people looking to buy and sell property – every action from within any group will have knock-on effects.

Immobility is another key theme within the real estate space. That is to say, a property or piece of land cannot be moved – it exists in a single, permanent location. Yet demands change around the immobile property, which has consequences to the balance of the market and the valuation of property.

For instance, during the Covid-19 pandemic, data has shown that British homebuyers are increasingly leaving towns and cities in favour of rural areas. Here, the balance between supply and demand – already a major issue due to the general shortage of housing across the country – becomes even more pronounced. Buyers are looking to move to the countryside, but the highest volume of housing exists in urban locations, meaning there becomes an acute shortage in supply for the exodus of city dwellers. It is its immobility that makes the property market different to many others.

One must also consider some of the property market’s other unique characteristics. For instance, the time and cost involved in transacting property far outstrips that of other assets.

Recent data showed that it currently takes an average of 197 days for the sale of a residential property in the UK to move from instruction to completion. Buyers and sellers will also typically incur fees amounting to several thousand pounds in the process. The costs and time delays vary significantly between countries, and again they can play a key role in shaping market movements.

It is undoubtedly a complex picture, particularly when trying to understand one regional or national property market in comparison to another. This is why it is so important to appreciate the fundamental factors that shape those markets from an economic and social perspective – and this only becomes more important during periods of shifting demand or policy reform, such as during the pandemic.

THE SCIENCE AND ART OF PROPERTY VALUATIONS

As mentioned above, the nationwide price indices often overlook what is happening on a more granular level. This begs the question, then, of how to deliver an accurate property valuation.

Property valuation is traditionally seen as both art and science. The science element comes from the application of different mathematical techniques and a structured approach to data analysis. The art element comes in the exercise of professional judgement based on market knowledge and experience.

The factors that influence value vary between different property sectors and even within sectors. For example, the value of a shop unit will be influenced by location factors such as customer footfall, catchment area demographics, accessibility and car parking. However, it will also be influenced by property and legal factors such as covenant strength (the financial stability of the tenant), lease terms (such as rent reviews and user restrictions) and the cost of outgoings (such as repairs, insurance, taxes, and service charges).

Different types of property require different approaches to valuation. When valuing a site with development potential, for example, valuers will not only have to forecast the likely sale value of the completed development but also the costs of completing that development based on an analysis of current market data.

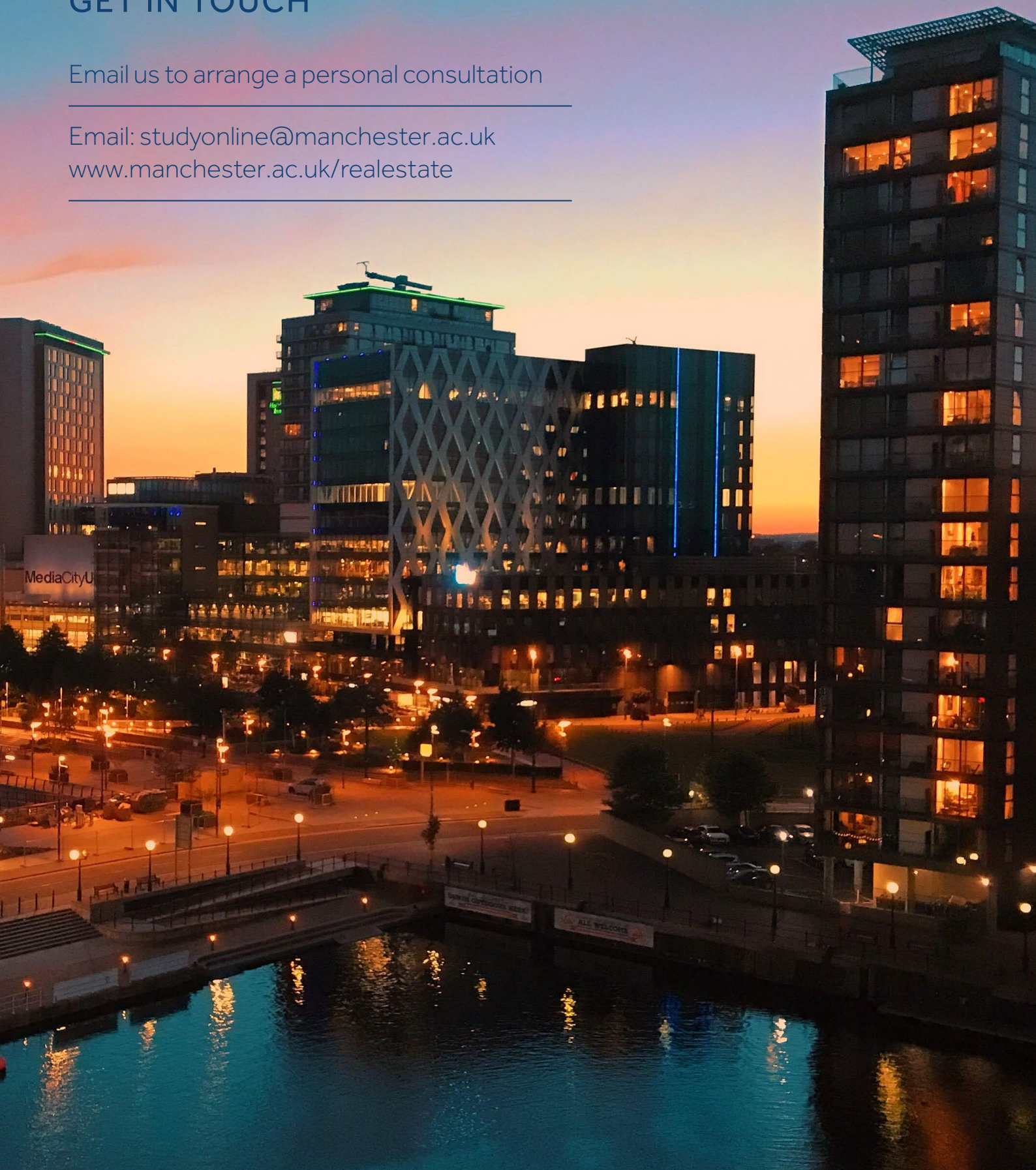
With so many stories and so much analysis published that only offer a surface level insight into the state of the market, it can be easy to overlook the intricate inner workings of the real estate sector. For me, this is why formal qualifications – for example, globally recognised professional designation such as being a Member of the Royal Institution of Chartered Surveyors (MRICS) – are so valuable in this industry.

If the pandemic has been a period of introspection, then it is likely to have forced professionals to consider their own skillsets and how to apply them. As such, now is an opportune moment to reflect on the importance of mastering market fundamentals – doing so will place real estate professionals and businesses in a stronger position for whatever turbulent events may follow on from Covid-19.

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Mark Shepherd is the course director for The University of Manchester's blended online MSc Real Estate course. Covering valuations and appraisals, development, management, and investment, the two-year Masters is designed to help people get into and move up within the world of real estate, providing students with an in-depth understanding of how the sector functions and the fundamentals that govern it.