new debt are now looking at hedging strategies. As a trend, borrowers are seeking to explore whether current fixed rate offerings would work. It is worth noting that over the summer, a five-year fixed rate was 4.8% which was less than the base rate at that time. Lenders should explore all options and work with clients to realise hedged positions.

Ultimately interest rates have a direct impact on the valuation of real estate. One of the more difficult points within lending structures is the valuation position and the feedback from valuers. We have seen the attitude of valuers being one of exceptional caution and prudence. This is squeezing borrowers from both directions with LTV covenants coming under considerable pressure and rates rising. I have to say that, with market activity slowing down significantly, it is increasingly difficult for valuers to identify any comparable evidence to use as a benchmark for revaluations. This leads to valuations being completed on the basis of sentiment and opinion rather than hard evidence. Obviously, any valuer is going to err on the side of caution and perhaps be a little harsher than they would have been historically. Valuers have my utmost sympathy in trying to do their job in the current market with little market information available.

One point that should be noted on valuations is that as a rule we have seen rents either stable or increasing across most sectors. And with rents increasing and valuation yields moving, the drop in values has not been as dramatic as it might have been.

The question we are all being asked is whether we are now entering a buyers' or sellers' market. We really do not see the market being overly distressed at the moment but there are certainly signs of pressure being placed on borrowers to progress the sale of certain assets. There is a larger disconnect between the demands of vendors and the prices that purchasers are prepared to pay. We are seeing a gradual correction and this gap is starting to close, albeit very slowly. Many property agents will see this as the beginning of potential opportunity in the market. I believe that we will begin to see assets on the market soon with heavy discount to historic valuations. That being said, you will need to be either a cash buyer or have significant equity given the level of debt that is available.

As in most things in economics, views vary widely on where interest rates will eventually settle. I see UK rates falling back from a probable peak of around 6%. General projections show UK rates falling slowly to just below 5% at the end of 2025 and to 3.5% in five years' time. My inclination is to think in terms of a new normal, or equilibrium interest rate, of around the 4% mark. That number is a speculation rather than a forecast. However, I feel much more certain in saying that rates of under 1% are a thing of the past! We should learn to embrace the interest rate market we find ourselves in and work to adjust to the 'new normal'. ■

Raed Hanna

Raed Hanna established Mutual Finance in London in 1990 and since then the firm has become one of the largest property finance intermediaries in the sector, arranging more than £1bn per year. It has been involved in financing some of the most high-profile properties in the UK.