8 The Property Crisis

Because of the attractions of the property market, a large proportion of the funds flowing into the fringe institutions was employed in that market


Scarcely had the initial, acute, crisis among the fringe banks been brought under control than another loomed up to vex the harassed top bankers. This was the emergency which got under way in the spring of 1974 in the property world, where values began to slide under the impact of the development tax and the tight – and then unprecedentedly dear – money policies announced in the winter’s Mini Budget. Within a few months, the values of commercial property had often fallen by between a quarter and a half while, with the prevailing scarcity of finance, there was virtually no market in such development sites as holes in the ground and clusters of old shops awaiting demolition. Never since the South Sea Bubble had there been such a massive evaporation of speculators’ expectations as at that time in the previously euphoric property market.

There was to be constant and important interaction between the new property crisis and that among the secondary banks. The latter’s troubles had cut off a major source of finance for property ventures, while investing institutions which had cash to deploy saw little point in lending it to problem-ridden property concerns when they could safely earn upto 15 per cent or so in the money markets. At the same time, the collapse in property values as the speculative froth faded meant that more and more fringe banks saw the security, in the form of property, behind their lending melting day by day while, on the other side of their accounts, they owed large debts, often at rising interest cost.

By March 1974, too, a Labour Government had just replaced the Tory one which had for most of its term been so mellow towards the property industry. While the change of Government did not inhibit the creation, under the Bank of England’s sponsorship, of certain informal protective arrangements – which are shortly to be discussed – for troubled property companies, it may have made for a greater willingness
to tolerate the collapse of some large private property interests whose difficulties were acute. State-sponsored rescues of over-ambitious property tycoons would hardly have been a popular point of Labour policy.

In the first quarter of 1974, property values remained in a state of suspended animation, after peaking in late-1973 before the banking crisis, but thereafter the adverse factors had increasing effect and values started on their long tumble. The decline was accentuated by the extension, in the early summer, of the existing freeze on commercial rents.

By March Guardian Properties, the quoted company headed by Mr Harry Soning which had multiplied its profits rapidly and which, like so many British property groups, had branched out on to the Continent, admitted that it had liquidity problems. It had lost money market deposits and had, from early on, been brought into the Lifeboat for a relatively modest amount of help. This proved a somewhat anomalous arrangement which was not repeated for other property companies, but it gave the Lifeboat committee and the Bank of England an occasion to keep in touch from its start with the property crisis. By June the company's difficulties were more acute, the Lifeboat would no longer keep the business afloat and, after a project for a joint rescue by larger property groups had been deeply considered but had come to nothing, a receiver was called in to Guardian in June 1974.

Another, larger, casualty was a private property business of Mr Ronald Lyon, who had built up a group under Ronald Lyon Holdings which concentrated on industrial property and housing development. Latterly, more of the industrial property was retained for investment and some resources were channelled into office development. Short-term borrowing was considerable. The group proved vulnerable to the sharp financial squeeze and the severe break in property values in the early summer of 1974 and insufficient further finance was forthcoming to fend off a crisis. The Ronald Lyon Holdings group called a moratorium in May 1974 and some time afterwards went into liquidation with an estimated deficiency for the group in the region of £50 m. Mr Lyon, who had personally guaranteed many of the group's borrowings, entered into a deed of arrangement with his personal creditors.

There was no Lifeboat for the property industry in the sense of a combined rescue operation by the banks or the larger and stronger property groups. But as the property crisis mounted, the Bank of England encouraged the banks, as far as possible, to temper the wind to