

Business Law Assignment

Question -1

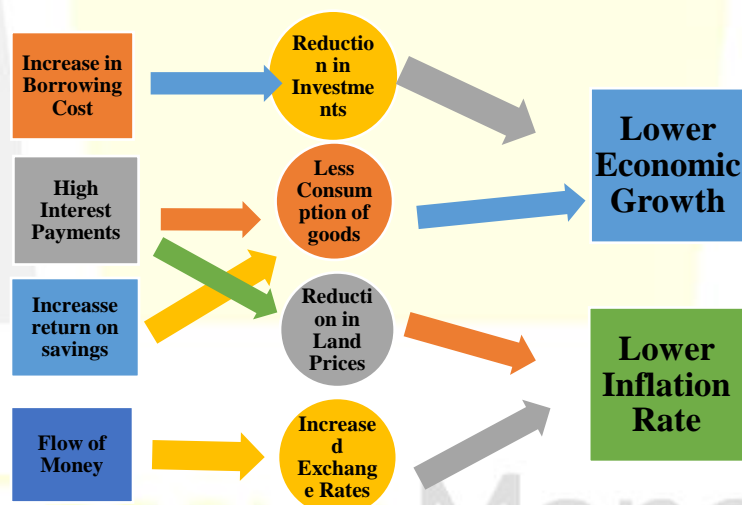
Changes in Base Rate or Interest Rate affect the number of business operations; however, there are also some positive and negative effects on the Real-estate industry as well. Since this sector is subdivided into commercial and residential development, real estate investors, and lenders. Moreover, this increase or decrease also has effects on the economy of the country.¹

Before moving ahead, let's understand how an increase and decrease of base rate or interest rate affect the local industry and the economy of the country.

Effects of increased interest rates:

Banks usually increase the interest rate or base rate to balance inflation. If there is a prediction of rising inflation, as compared to the targeted inflation rate, soon, banks mostly increase the base rate. However, it also has specific impacts on the economy and industries in a way that, when the base rate increases, the cost of borrowing also increases, demand and income decreases.²

Following flow chart will further explain:



¹ Bank of England published on its page about the difference in base rate. As per them base rate is also called the interest rate for different new publishers for the general understanding of people, however its kind of same thing.

<https://www.bankofengland.co.uk/knowledgebank/what-are-interest-rates>

² Bank of England published on Nov. 17, about the monetary policy to chase the targeted inflation of 2% so to sustain the growth and employment in the country. As per them, with the help of voting it was decided to increase the base rate or interest rate by 0.25% to 0.5%

<https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2017/november-2017>

Increased interest rates effects in a way that: ³

- Currency value increase
- Inflation remains lower or balanced, as per target
- Possible Economic growth
- Fewer exports more imports at cheaper rates
- Increase in unemployment
- Increase in borrowing cost for the government

Other than that, there are also few effects on the local industry by the rise in the base rate

- Cost of borrowing increases
- High returns on savings
- High-interest payments
- Increase in cost of bank loans
- Banks willing to lend more
- Reduction in borrowing by the investors

Effects on the Real-Estate Industry

Being specific to the Real Estate industry, there are several impacts on this industry in different sectors, by the increase of base rate or interest rate by the Bank of England. These sectors include:⁴

- Own real estate buying and selling
- Renting or operational owned leased real estate
- Renting or functional of owned housing real estate
- Letting or practical of meeting and exhibition real estate
- Real estate agencies
- Real-estate administration on a contractual basis to earn a fee.
- The construction industry, like house construction, building construction, etc.

Currently, the economy of the United Kingdom is 79.3 and is also 7th freest in the current year 2020. The overall score raised by 0.4 points because of the increase in integrity and fiscal health. United is placed at third among thirty-five countries in Europe. In short, the economy of the United Kingdom is growing up slowly but consistently. The economy faced a little downfall because of Brexit, but now it is back on foot and climbing upwards.⁵

If the Bank of England increases the base rate of interest there, it will be beneficial for the investor of real estate in the form of an increased in earning in the way of the value of the property. However,

³ Realty Mogul, (May 2017), Claims that there are number of effects on many businesses as far as on the economy of the country.

<https://www.realtymogul.com/>

⁴ Bank of England, 06 Oct. 17, Published about the effects of increased interest rates on the real estate sector. Mr. Saleem Bahaj, the executive of Bank of England, described how the increase in base rate have ositive and negative effects on economy and real estate respectively.

<https://www.bankofengland.co.uk/working-paper/2017/home-values-and-firm-behaviour-swp-679>

⁵ Bank of England's Monitory Policy Committee stated that the fluctuation in base rate or interest rate is for the management of the inflation rate and to keep the economy stronger.

<https://www.bankofengland.co.uk/search#?cludoquery=Monetary%20Policy%20Committee&cludopage=2>

there will be a decline in the cash flow at the moment. Banks usually do this to balance the inflation or to keep the currency more durable.

Once due to the increase in the base rate, the property prices also increase and hence investor requires a high return which the buyer of the property or real estate will be reluctant to pay. The effect will also be on the economy of the United Kingdom as only in the United Kingdom, real estate contributes 7% of the total GDP.

On the other side, it can be an excellent opportunity for those investors who plan a long-term investment or those who already have leased; rented properties can increase the rent.

The real estate agencies might have to work a lot while convincing the new investor because of the raised cost of capital.

Current Health Because of Corona Virus

Since there is a tough situation going on in the world, and the world as a whole is facing a downfall in the economy, and growth is stopped. In this current situation, the real estate industry is also suffering a loss and ruin in the business. The Bank of England has also reduced the rates of borrowing based on the current situation, but since the business activities are stopped for some time, this will not affect much in appreciation of the land prices.

With this troubling situation, the exchange rate also decreases which is a good sign for international investors in the real estate business but bad news for the local investor.⁶

⁶ Impacts of corona virus by Bank of England, since the worst impacts of corona virus, the bank of England have taken necessary for the moments, they have reduced the interest rates, waved all the charges on bank transactions etc.

<https://www.bankofengland.co.uk/search#?cludoquery=corona%20virus%20impacts&cludopage=1>