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## DeVarga Newsletter – January 2007

### MIND THE GAP

For some time pressure has been brought to bear on Buy to Let investments. The recent rise in interest rates increased that pressure. So what will happen? People acquire them for capital growth. Provided the income covers the loan everything is “cushty” as Del Boy would say. Rentals have not kept pace with capital value growth. Given that pressure, we are seeing those investors moving into the commercial field, and here you are dealing with a different animal.

Commercial property needs a hands-on approach to make capital gain and buyers need to be aware of the impact of legislation on rental values. In many cases those moving into the commercial market, and here we are talking prices up to £750,000, are making bids on the basis of vacant possession values. But they are looking at properties let on commercial Leases. The rationale seems to be “provided vacant possession can be obtained I can occupy it or let it at a higher rental”. But what they overlook is the impact of the Landlord and Tenant Act 1954 and one of its sections regarding obtaining vacant possession by the landlord. If a landlord wants to get vacant possession of a commercial unit for their own occupation at the expiry of a Lease, they need to have been the landlord for five years. An alternative route is to exercise a right by determining the Lease at its expiry under redevelopment grounds, but that right can only be exercised if there is a real expectation of development. That, by its nature, means the existence of a Planning consent.

So the message this month is make sure those who are using the lever of Buy to Let equity to acquire commercial units ensure they understand the impact of legislation and how commercial real estate works. Money can be made but the input of professional advice has never been more important.

This leads me to a type of Sale and Leaseback acquisition, which happens when a property is bought and a Lease is created by the owner and Leased back to that owner's Company. The market has demonstrated that vacant possession properties are selling for more than the same property let on a commercial use. The reason is the cost of money. Cost of money is on the up. So what will happen? I can foresee a closing of the gap between vacant possession value and commercial income value. This is not a bad thing as it will reduce the differential in value.

So what other news in the land of property OZ. Aside from losing the Ashes, England still has an undersupply of stock on the market, none more so than in the residential sector. Many Local Authorities are now forcing land developers to incorporate social housing into their development schemes. This usually comes into play when there are ten or more units proposed in the construction. It varies from one Local Authority to another. The message, therefore, is make sure you find out where that line changes and plan accordingly.

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