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Property Commentary March 2009.

ROCKET SCIENCE versus COMMON SENSE

Every profession has its own magazine. The surveying one is called the Estates Gazette. About every second day I receive an e-mail from them highlighting the property headlines. Today (25 Feb) was interesting. The headlines were a mixed bag. Those which caught my attention were: LBQ, the developer of the Shard of Glass has signed a £400 million contract with the Mace Group on a 1,000 sq ft -, 80 level tower in London; McKay Securities has made a £17.25 million property disposal in Central London (albeit below book value) and the Daily Telegraph wonders whether Martin Allen's departure from Morgan Stanley to set up a pan – European absolute return fund investing in property securities signals that we are approaching the bottom of the property slump.

On the other side of the coin, Invista Real Estate has posted a full year pre-tax loss of £3.66 million; Jack Peachy is rumoured to have decided not to back Workspace's £87 million cash call; and the Footsie has suffered its worst annual performance in its 24 year history by dropping 32pc in 2008.

All very confusing. The question is when we will start to see a stabilised position and signs of recovery. To answer that question you need to speak to an economist but that even brings mixed messages. As Dennis Turner of HSBC one said – "not all economists agree". What most of them appear to be saying is there should be a levelling out some time in the middle/latter part of 2009. Clients ask me when they should buy and what type of property should they buy. I say look at the fundamentals of property and what causes growth. Go back to the tried and trusted method of dealing with property. In today's market the one that stands out to me is always protect your downside and let the upside take care of itself. I think you should start looking now. Why? It is cheaper to buy than to rent, interest rates are at an all time low and yes – money can be raised on the right type of property.

So what type of property should you buy? Much depends on the size of your pocket but from our view point we suggest you look at the following. Property 1 is 1,500-3,000 sq ft office buildings in the better towns outside the West End. They should have good car parking, be within reasonable distance of the station and be on 2-4 levels so it can let or sold off on a floor by floor basis. Property 2 is investments let on FRI leases for at least another 10 years with upward only rent reviews. The key is the lease, therefore read it. These are easy to manage and the tenant pays for the upkeep of the property. Property 3 is development sites which stack up today – value wise – on the existing buildings but which have some deferred development potential 3-5 years from now.

I do not suppose any of this is news to you but contrary to what you may think, the ownership of real estate and the opportunity to improve capital growth is not rocket science – it all comes down to some common sense.

On a lighter note, for those of you who read these newsletters (and I hope that at least 1 of the 2,000 recipients does!) the nautical flavour continues. Well done to Sam Davies and Dee Caffari who came 2nd and 6th in the single handed Vendee Round the world yacht race. Not a bad sail – leave France, head south, turn left at Africa, sail south of Australia and New Zealand, watch out for icebergs, turn left at South America and go back to France – all in a 60 foot yacht. Definitely not a walk in the park. Take care.

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