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Article: In search of a silver lining

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The darkening clouds

'For the past six years the property industry – both in the commercial and the residential sector – has been inflated by an ever-increasing availability of cheap money' says Jonathan Pender, partner at Phillips specialising in commercial property. But concerns that the wider problems in the economy are feeding through to lower rents and lower capital values have driven down prices and some forecast that the capital value of office and retail buildings could fall by another 20%. Have we been here before? 'Well yes,' says Jonathan, 'the last two crashes in the early 1970s and 1990s resulted from the excesses in the industry and reckless lending by banks, but this time the situation has been made worse by the bank liquidity crisis.'

Data released in the most recent survey conducted by the Royal Institute of Chartered Surveyors (RICS) confirms that demand for commercial property fell at the fastest pace for over six years. New occupier enquiries have fallen as the financial turmoil has had an impact on decision making in the business community, with many re-evaluating their demand for commercial property space. Unsurprisingly the office sector is the worst hit area. There seems to be more commercial property on the market but this could partly be attributed to avoidance of the empty property tax which recently came into effect.

Although there are early signs that the equity-rich investors are starting to invest, the fact is that most buyers are waiting for further falls before they make their move.

The silver lining?

'So is there any optimism in our local market?' asks Jonathan Pender, 'Indeed there is - long leases, a shortage of land and a tortuous planning process make the UK a very good long-term prospect, especially in the South East. And economists still insist that the downturn will not be as painful as it was in the early 1990s.' The fact that the short-term outlook is so uncertain makes commercial property all the more attractive to investors. If, as expected, rents start to chase capital values down further over the next few months, opportunities will arise and there are early signs that equity-rich investors are starting to invest.

Jonathan remains to be convinced that the banking squeeze is as tight as the national press would lead us to believe. Many recent transactions completed by Phillips bear this out. The quality of the business and banking proposition must be sound; if it is, then the transaction will be funded, admittedly a little slower but the funding will be forthcoming. Current times only reiterate a very simple message which applies to all businesses - "Stick to what you know best and don't borrow too much money"

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