

# “ Tough times ahead for investment agents

■ The market is split between doomsters, optimists and those who don't know, says **Daniel Mendoza**

NOTWITHSTANDING THE NUMEROUS BULLS THAT were charging around less than six weeks ago, the market is now full of earnest people who actually knew the emperor had been naked for quite some time.

What actually triggered this 'naked' realisation is not as important as the reasons why it happened, and it pales in comparison with the juicy question of 'what lies ahead?'

It's finely balanced between those who think this is a great buying opportunity, those who think much worse is yet to come, and those who don't know what to think.

According to Stephen Payne, chief investment officer of ING Real Estate, with £66bn under management, commercial property prices need to fall by 5%-10% over the next six to nine months. We've certainly seen a large part of that shift in the last couple of weeks, although it is important to differentiate between prime, secondary, and dry, angle-less stock versus the 'value creation' stock.

## BUY, BUY, BUY

Let's consider the 'great buying opportunity' camp. Notwithstanding the credit crunch, there is plenty of liquidity, but from different lenders who were previously put off by the high-volume, low-margin money game.

The borrower might have to put a bit more equity down on the table, but the total costs of funds may actually be less than it has been for several months as long-term rates have risen considerably in the last couple of weeks.

We have liquidity – if you have the relationships and know where to go – lower cost of funds, vast amounts of private equity – welcome back the vulture funds – and what appears to be a still sound economy, which ensures sustained occupational security. We also have cheaper prices than a few weeks ago, and our clients are buying.

What about 'the worst is yet to come' camp? You don't need to dig deep to find a huge depth of concern, especially among the banking sector. While the banking world believed that by innovation it had eliminated risk by spreading it and passing it on, it is apparent that it just emerges in a different way. This may mean less frequent but more severe crises.



It also doesn't take much imagination to see the public's already damaged confidence being hit further. The media, as demonstrated by the Northern Rock debacle, is expert at leaving scary images in people's minds.

Add jumps in mortgage repayments as fixed rates expire, retailers beginning to struggle and people stopping spending. The economy then heads into recession and what is, at the moment, just a price correction exercise takes on a far bigger dimension, as you have to consider tenant risk.

I met a wise client last week who remembers his early 1990s banking experience well. He is sure it's going to get much messier than it was then and will take a good 12-18 months to get there. He will then get his buying boots on.

He's not the only one with that view. But is this really the case, or are people just talking the market down as they've liquidated a lot of stock and have vested interests?

Before you ask, I'm firmly in the camp of those who don't know what to think. However, I'm busy with clients in all three camps.

A final thought on us poor investment agents. For the next few months, volumes will be right down. On sales, sensible pricing will be key and acquisition will become more of an art at both ends of the transaction. Regardless of whether you experienced the 1989/1990 crash, those 'best bids' for everything are gone for now.

A less cocky stance may be required and a disdain for hungry purchasers could morph into an unfortunate client needing-and-servicing condition, which is known as 'brown tongue virus'. Let's just hope a mass cull doesn't follow.

Daniel Mendoza is principal at investment agent  
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