Insolvency kings are the new people to know

■ But tenant risk is the new fear, says **Daniel Mendoza**

WHERE WE FIND OURSELVES IS NO SURPRISE. The credit crunch is a result of aggressive 'debt-creating technologists', or 'greedy fraudsters', and now it is payback time. After the initial subprime earthquake, the aftershocks in the financial market are coming thick and fast. But how much contagion can we expect to see in the property market and the broader economy?

The crucial common denominator to both is debt. Without credit creation, growth is not possible, and the global banking system is still only a short way into unravelling unknown positions and implications.

Those lenders that are still in the market will focus on two key criteria: pricing risk correctly and lending according to borrowers' ability to service the loan rather than the potential for capital growth in the asset. Transaction volume is down, but deals are happening and there is value out there. Those that bought from funds under redemption pressures at the start of the year are feeling pleased with themselves, as the expected rise in yields in the first quarter for prime property has not occurred – yet.

'Savvy' investors are back in the market. They don't believe that there is only a three to six-month window at these opportunistic prices, they are happy to buy today as they feel it represents value. And, if the market continues to move down, they will happily buy where they continue to see that value. There is also a smaller but growing contingent who believe their equity will have much greater buying power in the next six to 12 months.

AMERICAN CONTAGION

The US economy is now in recession and this will cause the UK to follow. Debt is at the core of this, and public sentiment will accelerate it. We are being chivvied along by the prime minister and chancellor, who are thrusting tax burdens on the profession, such as loss of empty rate relief, in addition to some class ineptitude with the Northern Rock debacle resulting in government debt running at a historic high of 45% of GDP. And the invitation to non-doms to leave the UK threatens London's position as the 'world capital of capital'.

Expect to see rising unemployment and inflation. This may mean another Northern

Rock or Bear Stearns-type collapse, some household-name retailers hitting the wall or household debt reaching record levels. Consumer spending will drop quickly, exacerbating the overall position.

Housing is a huge barometer of sentiment, and repossessions are running at an eight-year high and rising rapidly. The Halifax House Price Index suggests that housing values will fall in real terms by 25%-30% over the next 10 years.

SILVER LINING

And herein lies a paradox. Despite my gloom about the economy, I feel strangely excited.

Unlike the last couple of years, we are in a climate of real opportunity. Property derivatives offer a quick killing – pun intended – and the rising volume in this market makes it one to watch. Overseas, resource-rich countries, such as Russia, have huge growth potential. And UK property offers escalating yields.

Unlike the during last 10 years, tenant risk needs to be considered. And while the decision to wait another six to 12 months may seem clever in terms of pricing continuing to move out, you may well find that any price falls will be outweighed by further reductions in banks' loan-to-value ratios, an increase in margins and availability of any capital to lend.

As an investor I would be happy to buy if I felt tickled. And I would be working my banking relationships, as banks should be under pressure to lend any money they do have to good customers. Their increased margins will be a vital part of shoring up their balance sheets.

As for me, I'll be spending some time with some old friends: the insolvency practitioners.

Daniel Mendoza is principal at investment agent Ereira Mendoza