

“ A golden age of opportunity is dawning

■ This is the market we've been waiting for, but sellers need to get real, says **Daniel Mendoza**

NO ONE COULD HAVE ANTICIPATED THE DEGREE TO which the market has moved in the past few weeks. We have seen revaluations and loan covenant calls that would once have been considered incomprehensible.

In summary, Guru Gordon's 'stock' has peaked in the wake of his having averted a global banking meltdown, but we are still a long way from seeing credit freely flowing through the system.

As we face recession and aftershocks continue to come from the banking world, what does this mean for our market?

My articles over the preceding couple of years explained why I saw no value. Eighteen months ago, I wrote a piece entitled 'Pawns in a game of global liquidity' in which I questioned properties' paradigm shift into a new all-conquering asset class while the fundamentals were being ignored. I was accused then by many of being bearish.

In my last article, I wrote of being extremely energised and excited by the opportunities that lie before us, yet I was then challenged for being upbeat and bullish.

KINDEST CUT

Having all those months ago attempted to decouple the property market from the general equity boom, there are now some striking resemblances to the equity boom bar one: no one is calling the bottom of the market yet.

Certain sectors look more vulnerable than others, which I liken to tenant risk.

Dividends, which I liken to rental values, could flatline, fall or even evaporate.

Great names share our view that opportunity knocks. Take David Rubenstein, a co-founder of the big buyout firm Carlyle, who thinks the financial sector could present the 'greatest opportunity' he has seen in 20 years. Or the sage of Omaha's foray into Goldman Sachs and pointer on timing that 'if you wait for the robins, spring will be over'.

That one glaring difference is that of pricing. At the time of writing, the Footsie



is trading at just below 4000, reflecting levels last seen in 1996 – barring the dot.com blip – and, while I am not suggesting that properties values should revert back to 12 years ago, when you consider current capital values leveraged by rental growth and yield compression, pricing has to continue to move out.

One big incision, as opposed to death by 1,000 'chips', is the surest way to breathe life back into the market.

In the main, vendors are being unrealistic in their price expectations. This benefits no one and whether this derives from their own expectations or their professional advice is immaterial. The bottom line is that too big a differential still remains between sellers and where the market actually is. Our phones have been hot for the past couple of weeks with insolvency practitioners wanting to know what stock is really worth.

So if you can afford to hold on to your stock, fasten your seatbelt and hang on. But if you have to sell, or if it is strategically necessary for you to do so, then get real on pricing.

I have been waiting for this market for a good three or four years and our clients with wisdom and posterity see this as a dawning of a golden era of opportunity.

However, one question still remains: once the bleeding subsides, who will be around to take advantage of it?

Daniel Mendoza is principal at investment agency
Ereira Mendoza

