

We're near the bottom of the market



BILL NOWLAN

Frenzied buying at high prices created a period of madness after 2006 but we are now beginning to see good opportunities for buying in Ireland

JUST AS one should not wait for the top of the market to sell you should not wait until the bottom of the property market to buy – because you will not be able to find good stock then.

As happens in every recession, most commercial tenants continue to pay their rents regularly and, while there is some tenant distress, particularly in the retail area, most rent recovery is still in excess of 95 per cent in good commercial portfolios.

This is in contrast to the flow of dividends where almost all public companies have cancelled or cut their dividend leaving many investors with serious cash flow problems. Such corporate dividends are likely to remain absent or cut for some considerable time.

But, historically in commercial property, rents get paid in recessions. During the very worst of the last three recessions in Ireland, rent recovery never dropped below 92 per cent in the portfolios that I was managing.

Those investors who are now invested in low geared, or no geared, well chosen property are happy campers as their quarterly cheques come through the letter box in spite of the current economic and investment conflagration. The fact that property valuations may have fallen does not affect rental income. Those with significant leverage have banking problems but not property problems.

While I was a serious critic of the frenzied buying at unsustainably high price levels during the period of madness after 2006, I'm of the view that we are now beginning to see good buying opportunities emerging in Ireland. But the focus now must be on income and not on short, or even medium term, capital appreciation. The next five years or so will be about income and collecting rents.

The IPD index of commercial property shows that values have fallen by just 37 per cent since the peak in 2007 and values are still going downwards. But there will be a bottom and that it is not far off.

That buying opportunity will last while the banks are closed or almost closed for significant lending. Those investors who can take advantage of this buying window will be the wise ones who sold in 2006 and onwards, and have held their cash awaiting the re-emergence of common sense in the market.

However, purchasing for clients in the current high risk environment will be focused. That focus will be on the cash-generating capacity of any building that is recommended to a client. It will be on the nature and strength of the cash flow emanating from a given building. It will also focus on the quality of the building, its tenants and its location.

The advantage of buying now ahead of the turnaround is that one can pick and choose from a good variety of properties that can be found by careful searching. One has to be selective. It's not for the faint-hearted and does have some risk. Many of the vendors will be forced sellers having acquired at a far higher price and they, or their banks, will be in distress.

Investment won't be focusing solely on new buildings. Many buildings were built in the last few years by nouveau property developers who got funds from equally inexperienced bankers and without an in-depth knowledge of the property market. Those new generation developers often ignored the rules of location, building quality and tenant need. They were driven by the mathematics of high volumes of floor space and achieving planning permission quickly. The product of much of their activities will remain empty and forlorn for a long time.

The same thing happened all around the world. My first experience of it was in Brussels in 1973 and 10 years later in the US where the phrase "see through buildings" was invented to describe unpartitioned office buildings in off-beat locations that became the tombstones of bad property and banking judgement. We have our share of "see through buildings" now.

Over the next year or so in Ireland my firm will be looking for mainly dull properties in excellent locations let at affordable rents to viable tenants and with generous car-parking.

We will only buy those buildings that business tenants will want to occupy. The service charges of such buildings will be low and the buildings will be capable of being managed efficiently. In general, they will not be skinned high-tech shiny edifices with big service charges and undividable floor plates.

The yields expected will be in the order of 7.5 to 8.5 per cent and clients may have to accept the odd rental void but we will be applying our long years of property management experience to getting and keeping our customers. When did you last hear a landlord refer to his tenant as a customer? We are at the start of a new era in property in Ireland and it will be all about rental income, good tenant relationships and fair values.

Just as 2005 onward was a period to be out of the market – 2009 is a time to review that position.

Bill Nowlan is a chartered surveyor and town planner and runs a property asset management advisory consultancy firm