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Straight Talking, Bill Nowlan, Property Adviser - Commercial property has not hit a plateau yet

My nagging fear is that it is too early to buy real estate - it's a tenant's market and will be for some time

Dublin: one in four offices available

With Bloxham Stockbrokers saying that property values will rise in 2010, now is a good time to consider buying property. As commercial property values having fallen by over 60% since 2007, the answer is not as simple as it was two, three or even four years ago. Back then I was very negative about Irish property – but few listened to grey-haired advisers in those exuberant days.

The first thing to realise is that we are now in a completely new property game. New rules, new stadium and a different shaped ball. Over the next decade property investment will be mainly about income and little about capital appreciation so don't expect to make a quick killing.

The second basic change is that it will be a tenants' market for quite some time.

I have spent my life acquiring and managing institutional property and there are a number of principles or mantras that I have successfully used as follows:

• Timing – more money is made (or lost) out of getting the timing right than any other decision.

• Location is critical.

• The quality of the building really matters.

• Tenant(s) strength, fair rent and satisfactory lease terms are important

• Price/ yield – does the yield make sense and fit into long-term parameters?

• The economy – what is happening?

• Competition – what else is happening in the property market?

• Mix – no single property should represent more than 10% of a portfolio.

• Replacement – what would it cost to build?

• Borrowing increases risk and has to be repaid – often out of (taxed) income.

Whenever I looked at any given property in any country or city, these were my personal 10 commandments.

So how do we apply this methodology to the current property situation in Ireland?

On the key issue of timing, whilst I would not have considered buying in Ireland since 2005, the point for reversing that position must be approaching. My nagging fear is that it is still too early.

There will be lots of well-located good buildings in good locations coming available over the next few years from the Nama stable so scarcity has to be discounted. The big issues for consideration now are:

• Rental levels – will they rise or fall further?

• Tenants (or their absence).

• Oversupply of space.

• Yields/prices.

• Interest rates.

• The prospects for the economy.

To buy now you would have to be taking a long-term view on these issues, unless the building was let for a very long term to an undoubted tenant such as the government. Rents, which have been falling for the past two years, will eventually stabilise but I do not know if they will plateau at current levels or fall further. This situation will be driven by the economy and the interplay of supply and demand. The situation is currently unstable, with rental values falling throughout 2009. However, apart from retail, occupiers of offices and industrial are not having serious problems with rental levels but of course they will seek the lowest price going.

Yields have come back to a spectrum that I am now comfortable with and fit into long-term trends. Yields are currently in the spectrum range of 6-6.5% for retail, 7-7.5% for office and approaching 10% for industrial – all in respect of quality, well-let property – but if not prime quality, I would be adding significantly to these returns.

Recovery over the next few years may see yields coming down to around 5-6% for retail, 5.5-6.5% for offices and 7-8% for industrial, but the boomtime yields are gone for ever.

The big unknown is the economy. Traditionally, commercial property has lagged behind recovery in the real economy because business space users do not rush out and take more space as soon as business improves. They generally have surplus space in existing premises and will await taking more space until they have constraints.

The equivalent of about one in four of Dublin offices is available, so the supply is not constrained when demand does come back. There is the possibility that FDI will create new demand particularly in the office sector and this could give an earlier lift off. So having regard to all these factors, what advice do I give to those clients seeking to invest in property in 2010?

These are risky times for all investment. The safe option is to keep the money in the bank and see how markets evolve over the next six months. But if one wants to be adventurous and jump in now, I would make five points as follows:

• Make sure the rents on a given property are not at historic high levels and if so adjust your price accordingly.

• Be aware of your tenant's financial health.

• Look carefully at the lease terms and take professional advice.

• Look at the bricks and mortar and location. This is your only real long-term security.

• Don't over borrow.

Really brave investors will be those who buy high-quality vacant buildings at knock-down prices in 2010 and wait for an economic recovery to achieve lettings – it's risky and takes nerve but is potentially very rewarding.

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