



## Market Moves – Commercial property activity at 150% year high

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*The influx of due diligence surveys we are currently managing at TFT is a clear sign that changes are occurring in the market. During the busiest years on average 31 vendor or pre-acquisition surveys were dealt with every month. This December however will be recorded as the busiest period for the market in 2009 with instructions received for over 60 commercial buildings for investment, many of which are based in the heart of London.*

*The level of diligence being displayed by buyers has increased, with investors less willing to take a risk based on perceived market growth in value. The link between property condition and value has risen in importance. In light of this, in-depth and judicious property surveys have reasserted themselves as critical in UK commercial property transactions.*

Major commercial property transactions in recent weeks have seen TFT being engaged to provide expert services to investment teams looking to secure transactions in a fast moving marketplace. These transactions include Tesco's vendor survey programme, which saw the sale of £515 million worth of property assets to a UK pension fund, the sale of Rex House on Regent Street, London to the Crown Estate, the purchase of Powergate Business Park and a number of assets bought by Skandia Fund and ICL Pension Trust Limited.

Earlier this year we consulted with leading property investors, owners and legal firms on attitudes to the use of vendor surveys in commercial transactions. We asked if, in their opinion, their presence helped speed up the sale process and reduce the number of deals stalling or falling through.

While it was accepted that there is still some scepticism from buyers with view to vendor surveys, it was agreed that as long as any report presented by the vendor has been carried out by a completely independent, expert and reliable source it is seen as beneficial to the process.

By carrying out surveys of the property before it goes to market, owners can begin the process with a realistic value being set based on full knowledge of the asset's condition. This immediately reduces the risk of protracted negotiations and with the added benefit of minimal disruption to the occupiers.

For a seller disposing of any property asset, it is essential that they achieve the highest possible price with the minimum delay. In difficult market conditions, asset disposals are often essential to maintain liquidity, preserve banking covenants or raise capital for business initiatives. One of the most time consuming and expensive elements of a transaction comes when a deal is stalled or breaks down following the results of the buyer's surveys, when inevitable negotiations over price occur. By carrying out surveys of the property before it goes to market, owners are able to begin the process with a realistic value being set based on full knowledge of the asset's condition.

For the property investor this provides the chance to make a very early judgement on whether or not this is an investment opportunity worth pursuing. It also helps to narrow down the competition by eliminating parties that are hoping to grab a bargain by playing hardball at the end of the normal negotiation phase.

Vendor due diligence has the potential to transform the transaction process for all parties, but it does need the support of buyers and sellers in order to deliver significant benefits. That said, as evidenced in the current market, there is still a role in the market for the traditional approach of pre-acquisition surveys instructed by the buyer, especially when it comes to single assets.