



Short the market now

Are you sitting comfortably? You shouldn't be. If you think we've come out the other side of the recession, then think again. It ain't even started for our sector.

Sell everything now, commercial property, equities, anything that has 'commercial property' stamped on it, while you've got the chance.

Get out before people start renegotiating debt. The constipation debt renegotiation will cause in the market will be enormous.

Get out while you can, while the pound is high, while foreign buyers still have the appetite to buy. If you've got it, sell it and keep your cash for a rainier day. It's coming.

And be prepared as we approach the General Election. The threat of a hung parliament will be catastrophic.

The commercial property sector needs certainty. A hung parliament will not provide that.

The swathes of spending cuts that are going to have to be implemented to tackle the £178bn national deficit, and tax increases, both direct and indirect, are going to create a sticky trading environment going forward.

UK plc is damaged like our pot-hole ridden roads. The Financial Services Authority (FSA) in its Financial Risk Outlook for 2010 has warned about a meltdown in commercial property with companies in the sector facing both balance sheet and cash flow pressures.

It notes property prices have fallen sharply from their peak in mid-2007, although prices of prime properties have recovered recently. These falls have severely reduced commercial property companies' assets and the collateral underpinning their borrowing.

The FSA says negative equity could reduce future access to credit and the ability to roll over existing debt, as well as exposing banks to higher losses following defaults.

Vacancies, which increased from 9 percent to 12.6 percent in the year to October 2009, and falling rents have reduced gross income, which has affected companies' ability

to service debts.

The regulator says around £160bn of UK commercial property debt will mature over the next five years, including both bank borrowing and commercial mortgage-backed securities. During the recession, many commercial property companies were supported by forbearance, in the form of loan extensions and waived breaches of loan-to-value covenants, it says. But banks could decide not to renew debts as they expire, and refinancing of maturing commercial mortgage-backed securities will be especially difficult.

This could force liquidations and release commercial properties onto the market, possibly triggering further price falls. Leveraged loans to UK companies that were subject to buy-outs also face a maturity "hump" and present similar refinancing challenges to the banks in this sector.

It is not the sort of forecast anyone wants after the last few years of hell. It has been a period in which the UK Reit market has been the worst performing in the world, according to Ernst & Young.

CB Richard Ellis' European Commercial Real Estate Debt ViewPoint noted 970bn euros (£874bn) of European commercial real estate debt was outstanding at the end of 2009. It said Germany and the UK accounted for over half of the 970bn euros total, with 24 percent and 34 percent respectively.

We're not been convinced that the demand for prime property is really there despite talk to the contrary. And if you've got secondary or tertiary property, forget it.

During the good times you can hide behind the fact everything is climbing. But any fool can make money in a rising market.

So just when you thought it was safe to get back into the water, the sharks' teeth are waiting to tear into you.

We have had the bounce and now those who've bought into it will now get trounced.

Sell. Get out while you can.