A Young Surveyor's Survival Guide to the Recession

By

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According to the economists, a recession occurs when the economy experiences two successive quarters of negative growth. By that definition, Property has been in recession since December 2007.

The UK's phenomenal economic growth over sixty unbroken quarters from 1992 onwards was mirrored in the commercial property market with an unprecedented expansion of our Property Funds, Companies and Agents. Several Universities added property courses to their curricula and year on year increasing numbers of Graduate Surveyors have entered the Profession, naturally attracted more by the challenging and interesting work that we do, than the material rewards and life style we usually enjoy.

This Golden Age has been so protracted that by the time the market collapsed in July last year, many Surveyors had reached their mid-thirties without gaining any commercial property experience whatsoever of working in or through a downturn.

From 2007 onwards the property market has been teaching some harsh lessons to some of its newer players. The Candy Bros. have learned that there are just not enough rich babies to take their over-hyped product. Grant Bovey's Banker, HBOS, has learned that buy- to-let investment clubs, no matter how "imaginatively" promoted, were always a flawed product and an accident waiting to happen. AAIM, the celebrity-backed syndication manager has learned that European property ventures are usually best left to the local Europeans.

Whilst property is capable over time of producing stunning returns, it remains the most illiquid of the investment classes, which has always been its Achilles' heel. The compensation for this lack of liquidity has traditionally been the quality and longevity of property's income stream. The twenty five year Lease, the five yearly non-downward rent review pattern, the privity of contract, the full repairing covenant, and the quarterly in advance payment of rent, balanced the substantial capital requirement and the fact that property values do not inevitably and relentlessly rise, but from time to time fall, sometimes dramatically, resulting in a market collapse and the need for the fiscal strength to hold the investment.

Landlords and Tenants should remind themselves of this equation. Altering the balance to favour the Tenant too much by shortening the Lease term, weakening privity of contract and rent review provisions, and conceding monthly rent payments, reduces our product's investor appeal and the amount of capital available to finance the development of accommodation. Weaker Leases will lead to available capital demanding higher investment returns, requiring higher rents to square the circle.

The purpose of this article is to provide a few pointers to the younger members of our Profession, from the perspective of someone who has somehow survived the vicissitudes of our cyclical industry, through 1966/7, 1973/4, 1982/3 and 1990/3, whilst hoping to come through the current one.

In 1966 the major impact I recall was the restriction to £50's worth of foreign currency for a holiday abroad. I could not have afforded to take more spending money than that anyway, but knowing of the currency limit imposed on us poor Brits, those nice Swiss kept buying me drinks and meals, and I had one of the best and cheapest holidays of my life!

By 1973 I had been in practice on my own account for three years. Some of my colleagues, who were a year or two ahead of me, tired of enriching their Clients with the deals they had introduced, abandoned Agency to try their hand at playing Principal – big mistake! They soon found out that replacing fee income with development profits was not as swiftly or easily achieved as they had surmised. By 1974 the secondary banks who had been funding the property development boom, were in even bigger trouble than their customers and so the Bank of England launched its Lifeboat, impressing the Big Four Banks as reluctant crew. Institutions such as the Prudential, Norwich Union and Legal & General, went on a buyer's strike for eighteen months, so that even if you could let, you could not sell.

Although the country as a whole was not doing that well, property had been having a field day, fuelled by the cheap credit policy, which was part of the 'Barber Boom', named after the then Chancellor. So we young surveyors were living the inflated lifestyle of pop stars - for about five minutes, in my case. When the music stopped, the cars went, the houses and the holidays went, the handmade shoes and suits went, and for some of us, so did the wives and girlfriends! I remember one of the older developers growling at me "There were far too many twenty-six year olds swanning around in Rolls-Royce Corniches".

The revival of the investment market in 1975 slowly rebuilt the property market's confidence and we learned again the importance of securing a pre-let when undertaking a development.

In 1982 Government policy allowed the pound to soar by maintaining high interest rates, with the consequence that our Exporters could not compete. Manufacturers went to the wall in their droves, unemployment rose and the property market slumped, whilst the Thatcher Administration doggedly pursued the concept of conversion from a manufacturing to a service based economy.

In 1986 the City de-regulation known as Big Bang, driven by Cecil Parkinson as Trade Secretary and Nicholas Goodison as Chairman of the Stock Exchange, laid the foundations for the fantastic wealth the City's financial services have generated to the Nation's great benefit over most of the last two decades.

But prior to that bearing fruit we had the 1990-1993 recession to survive, the deepest and longest lasting of my professional career, to date.

This time it was not just the over-stretched property and financial services industries that were in trouble – it was everybody and it seemed to go on for ever. Again the cars and holidays went, although this time we managed to hold on to the houses and the wags.

For Ratcliffes this recession, although nearly the breaking, became the making of the Firm. We reinvented the business, ditching a modus operandi that had served us for twenty years, but was, in that shoddy phrase of the moment, no longer fit for purpose.

For nigh on twenty years to 1990, the Firm had operated with no budget, no financial targets and no long term strategy. The only fiscal discipline was the overdraft – when we approached our limit we got stuck in and did a couple of deals to clear it. We only knew our overheads when the Accountants did the books, a year or more later.

The depth of the 1990's recession shocked us as our eighteen months or so of reserves began to run out and we realised that a business of twenty years standing did not have the roots and resilience we had assumed.

We worked out a budget, ditched all inessential expenditure (such as the office newspapers and the wine - still not reinstated to this day), and tried to impose a financial discipline on ourselves.

We widened the transaction base, doing more deals at lower fees. The concept of tax-transparent property investment syndicates, pioneered by Ratcliffes in 1990, was an idea borne out of desperation. We were seeing fantastic investment opportunities, but our existing Clients had not got the monies to take advantage. We created a new Client base, bringing into the property investment market the smaller players who could only afford a part of the action, or Investors previously too cautious to put all their potential investment funds into one property and so reassured by the concept of a spread across several syndicated ventures. Today, our syndications comprise over 80% of the business, with around a quarter of our 300 plus investors being property professionals themselves.

Looking back over some 44 years in the Profession, 38 of them in practice for myself, what are the lessons I have learned in surviving these four downturns of varying severity?

First, it is essential to remain confident, determined and positive in your outlook. Remember that just as all downturns have a beginning, they also have an end. If you feel depressed do not bottle it up - talk to someone about it. As my grandmother used to say, “A problem shared is a problem halved”.

Second, be flexible. A business strategy that has served you well in the past may no longer have any relevance in changed market conditions. Consider where and how alternative revenue streams can be earned.

Third, control your overheads, both business and personal. It is surprising how much fat accumulates in the good years and how much can be cut away; but take care not to cut into the muscle, for therein lies the strength to rebuild.

Fourth, have the courage to invest where your instinct tells you it is right, not letting the naysayers deter you. For we almost always regret what we did not do much more than what we did do.

Fifth, put in the hours. In downturns the opportunities are fewer, but if you are not there to take advantage of them, someone else will.

Finally, keep things in perspective. In the 1970’s recession, when the Bank called in his loans and unable to face the stigma of failure in his high rolling set, a property developer friend of mine put a bullet in his brain. Sadly, he did not realise that within three months his wealthy playmates would have their loans called in too.

Hard times in business bring problems and difficulties – bankruptcy, redundancy, the loss of a dream home, the removal of children from private schools, the selling of a property where a dependent relative had been settled, and the fracture of personal and business relationships. These are all problems I have seen friends and colleagues have to face, but they are difficulties – not tragedies. Excepting the tragic story referred to above, virtually all my friends worked their way out of their problems, restoring their careers and their living standards within a few short years. Should you lose what has been gained by hard work, determination and persistence, it can be regained by more of the same.

It has been my custom for many years when the youngsters of my family and friends reach their 21st Birthdays to give two presents – one the gift I am told they want and the other, a copy of Rudyard Kipling's poem, If. I always tell them that though they are receiving two presents, one is very, very much more valuable than the other. The apposite lines from this superlative guide to life are

> If you can meet Triumph and Disaster
> And treat those two impostors just the same…
>
> Or watch the things you gave your life too, broken
> And stoop and build' em up with worn-out tools

Should you not be familiar with the poem, do look it up. The advice Kipling gives therein is far wiser than anything I have written here, although I hope my experiences will be of some help to our young 'uns in the challenging days which lie ahead.