Property prices depressed? Not for properties worth buying.

By Mohammed Iqbal, Founder & Group CEO, MBU Capital

"*…real estate investment volumes in the UK dropped by 19% in 2019, reflecting investor caution amid political uncertainty*," says a recent article in Estates Gazette. All true – there is no doubt that last year was a difficult year for many in the property sector.

We read in another EGi article by others that that the 'Boris Bounce' is "*not very likely to make up for the dismal levels of commercial property investment*."

But fortunately, it's not all doom and gloom across the whole market. In the real-world of small to medium sized commercial property investors, prices are holding up well in sectors where investors want to buy.

In particular, we are finding that international investors with capital are ready to invest in UK property. We know, they are talking to us. But they will only invest if the price is right.

The conversion market still offers attractive opportunities, but only in niches where there is demand from end-users. We've seen overdevelopment via permitted development rights (PDR) with office-to-resi conversions, creating unpleasant properties where people do not want to live. The office-to-student market is also saturated in some university towns with a significant oversupply of purpose-built student accommodation (PBSA) schemes.

The key is to find attractive investment opportunities in places where buyers, renters and students actually want to be located. It's also critical to design schemes which provide attractive and flexible accommodation which people like.

We've found that high quality office-to-resi conversions in London commuter towns work well. Young professionals driven out by high London property prices are quite prepared to travel 30 minutes by train to live in a flat they can actually afford. Equally there are plenty of top-end 'Russell Group' universities with a shortage of high-quality accommodation for international students.

Having the vision and imagination to see beyond the obvious is also a useful attribute in investing in today's market. An office which looks like an obvious residential conversion, may offer a better return for investors if it is converted to a hotel. Equally a city-centre conversion from an office to student accommodation may work better if part of the development is retained for specialist niche retail. After all, it's hard to buy a sandwich and cup of tea or get you hair cut online.

So, we must look carefully at development opportunities and consider the most profitable use of space in that area. It may not always be the obvious answer and a more imaginative conversion or redevelopment could deliver better returns.

So, the game today is not buying up anything in the hope of a bounce – it is all about finding the right opportunities in the right locations. And interestingly most of the properties that meet these criteria are holding their valuations well. So, in today's SME property market it's all about deal origination – finding the right opportunity, in the right location, at the right price.

But there is plenty of dross out there. Not every property in the right location will transform into a great development. Some will need significant redevelopment. Some will need additional floors to be commercially viable – and others are best suited to demolition and complete replacement.

The property investment market still has opportunities at the right price for those prepared and able to search them out. But be prepared to look hard, use your imagination and be willing to walk away if the potential rewards from buying and converting an old commercial property do not add up. Depressed prices? Not for properties worth buying.