

THIS MUCH I KNOW AFTER 40 YEARS

It is 40 years ago this month that I formed property consultancy James Andrew

International, so what better time to think about what has changed over that period?

The booms and busts continue relentlessly. The memories of those involved in property are short – or are we just naive, believing each time that we can read the market and know when we have reached the top? The recessions of the mid-1970s, the '80s, the dotcom bubble, and the recent financial crisis all prove we aren't as clever as we thought.

The truth is that we at James Andrew do better in the downturn, with fewer people chasing each deal and more time to do them. We run to stand still in the booms, then run even faster in the downturns as we search for deals to make ends meet.

And fees? In the '70s we worked to the RICS fee scales, then the Office of Fair Trading outlawed fee scales – apparently the consumer suffers. It gave no thought to the poor agent who then had to negotiate each fee, before, during or after negotiating the deal. We used to shake hands on fees, but now we quote a fee and have to send a letter of engagement to ensure we get paid.

I wonder whether we are the only profession that has failed to capitalise on the value we add to deals. The competition is so fierce that



Repeat performance: James Andrew has twice leased Sceptre Court in the City – first in 1988 and again this year, for roughly the same fee – a 40% drop in earnings, taking account of inflation

ON BUSINESS

Harvey Soning

Chairman,
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International



After four decades in the business, property remains a wonderful career

some firms offer their services for virtually nothing to secure either market share or future business. I have always lived by the adage "turnover is vanity, profit is sanity".

If you compare us to the lawyers, accountants and fund managers, they have always been paid for the job they do, good or bad. Surveyors and property agents have steadfastly stuck

to fee on completion based on a percentage of the value.

The big deals are profitable. But how often do we spend the same time on a small deal and make a loss? We should be considering exit fees that reward the hard work we put in to improve values. Of course, it is difficult to measure this because a small yield compression can have a profound effect on value regardless of the effort we have put in.

Clients would probably rightly say that it is they who are committing the capital and taking the risk, so why should they share the reward? In many cases they are correct. But it is difficult when the fees are cut to the bone to retain the business in the face of suicidal fees from some others.

Nevertheless, I have had and continue to have a wonderful career. Do we make more money per deal now? I suspect not.

In the City we let Sceptre Court for £32.50 per sq ft in 1988 and were paid a scale fee. We recently leased the same building at £35 per sq ft and earned roughly the same fee. We did the same job but, allowing for inflation, earned 40% less.

Investment remains the one area where we have seen fees rise, but that is due to the prices rising and despite the fact that 1% fees are virtually unheard of as clients attempt to massage their internal rate of return. I remain sceptical about the use of the discounted cash flow as this can be manipulated to show pretty much any IRR.

Something else I have learned is that predicting growth is almost impossible. It is hard to get growth off a headline rent when the net effective rent is 10-20% lower. Add this to the fact the building is five years old at the first review and, assuming you are lucky enough to have a 15-year-plus lease, 10 years old at the second review, then the chances of seeing growth are slim. For most investments, rental growth is only achieved through open-market lettings. But it is difficult to fund a building if the lease is for five years.

Of course, the market today is being driven by the flight of money from less stable economies and from volatile markets – and this is unlikely to end soon.

Meanwhile, I am looking forward to the next 20 years of doing deals.

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