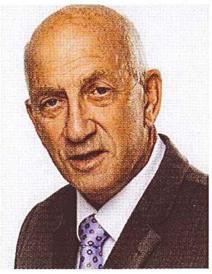

Tough times are always temporary

Gloomy economic conditions and market turbulence scare off most investors but it's the best time to be out there looking for opportunities, says property industry old hand Sir Robert Jones.

With the exception of Auckland's Jimmy Kirkpatrick, I suspect I'm now the oldest commercial and industrial property investor in New Zealand, having bought my first commercial building in 1962. Over the subsequent near half century I've experienced three significant recessions and make no mistake, am about to experience my fourth. Here's what occurs.

The give-away signal is when buyers begin engaging in a competitive feeding frenzy and purchase at yields significantly below the cost of money. We witnessed that last year.

Then come the financial collapses, first of secondary financial institutions (we've had that with the finance companies), then the land developers go broke followed by building developers.

Vacancies rise and the highly geared or poor quality or badly located building owners tumble. Fear grips the market compounded by growing vacancy levels. Gossip as to who's in trouble dominates industry conversation. NBR Rich List editors are flat out making deletions. Bargaining power shifts to tenants and rentals fall.

Sound bad? Actually it's not. For example, a 15% vacancy rate doesn't mean all buildings are 15% empty, rather, bad buildings may be 100% empty. Twelve percent and higher interest rates, which I suspect we'll see, reflect inflation, meaning that on the inevitable recovery a massive catch-up lift in rentals and capital values occurs at a new higher price level.

And ignore that old saw that cash is king. It's a stock market adage and in fact the opposite applies to property where it's cash-flow, not cash, that rules and great deals can be done with willing co-operative vendors and company receivers. In a nutshell, while the economic storm clouds are looming they'll rain gold for those investors poised to exploit the changed market.

Frankly, I'm quite looking forward to it. It's worth emphasising that bad times, just like good, are always temporary. Looking back over my adult lifetime as a commercial property investor I will say this. If asked to cite the single biggest mistake made by investors, then I would unhesitatingly point to a behavioural factor, namely to believe and act as if today's conditions are the norm.

Any historic analysis of wealth accretion arising from asset investing shows that it is the counter cyclical buyers who triumph. But they are few in number as such behaviour is contrary to the norm. When during booms old hands warn of inevitable downturns, history shows there's always a "this time it's different" response from commentators as they point to some perceived current unique factor. The recent boom has seen repeated claims that central banks have learnt how to smooth out the economic cycles. As we now know, not so.

It works in reverse as well for the "this time it's different" chanters also emerge in a recession to argue its permanence. They'll point to unprecedented oil prices, migration surges to Australia and the like and as always they'll be wrong. It's never different and the market economy will continue to behave like the four seasons. Right now we're in late autumn.

The economic storm clouds will rain gold for those investors poised to exploit the changed market

I for one am looking forward to the economic winter and its opportunities just as I always have on the recreational plane with skiing, the Taupo rivers' spawning run, rugby, snug clothing and brisk early morning 9 holes to start the day.

In the meantime I would be grateful if readers of a religious disposition would pray for Jimmy Kirkpatrick's continuing good health for I'm happy for him to wear the mantle of the doyen of our industry.