From: Peter Mandelson <[redacted]
Sent: Sunday, March 20, 2011 1:35 PM
To: 'jeevacation@gmail.com'
Subject: Fw:

Ignore affectionate language...

----- Original Message -----
From: James Palumbo (MSHK) [mailto:[redacted]]
Sent: Sunday, March 20, 2011 08:50 AM
=o: Peter Mandelson BT
Subject:

Mr.Grumpy, Mr.Frumpy. Mr. Rumple - Rumple Stiltskin. Grrh, grrh, grrh, let'= take this from the top.

There are 3 main points to consider.

1. What's the state of the world?

My view continues to be bearish - Japan, Libya, oil price, UK Q4 GDP declin=, US debt and unemployment, global inflation. I think there's now a good c=ance of a double dip recession and another shock of some sort - bank failu=e, sovereign debt crisis - Spain? What would be the result of this? Japan =tyle stagnation on one end of the scale, all the way through to genuine tu=moil on the other - economic collapse, riots. As you know I've built a com=ound in Thailand against the latter possibility. You need to check this vi=w with Natty Nat Nat Nat Nat, Lazards, and others you trust. Generally my =tance would be cautious.

2. How might this effect global property prices?

Unclear.The top end of the London market is currently strong because the ci=y is seen as a safe haven against trouble in the middle east. But I don't =hink Candy & Candy are selling much of their Number One Knightsbridge deve=opment. Similarly I bought my pussy cat a flat in a fabulous new developme=t in Bangkok, the Sukothai residence, behind the Sukothai hotel. It cost =A31.5m which is a lot for Thailand and I believe sales are sluggish at bes=. I don't know how strong the market is in Rio, what the local factors are=etc. I speculate there's quite a lot of wait and see at the top end of glo=al residential property markets.

3. What's best practice for financing a property purchase?

Well obviously buying for cash is best, but if you can't do this I'd be ver= wary about borrowing more than 50% as a point of principle. You then need=to work out in detail how the financing is going to work. What are the mon=hly interest payments? What happens if unforseen circumstances reduce your=income? By how much does your income have to reduce to threaten the paymen=s? What's the sensitivity to UK interest rate rises and currency fluctuati=ns? (Sterling depreciated by 25% against the baht as I was making the stag= payments for the Cat making the property about £250,000 more expensive)= What's the plan for re-paying the capital? What's the absolute downside i= security terms? Ie can the lending bank foreclose on other assets and wha= would be the effect of this?

It's also necessary to be absolutely clear about total costs - ie, taxes on=purchase, agents costs, total realistic refurbishment costs, including con=ingency, on going taxes, service charge and other running costs. These the= need to be bundled into a composite number and the financing flows from t=is.

So say in the case of the flat you're looking at the purchase price is £1=7m, and you're all in for £2m. (This feels low but I'm just using it for=example). Let's say you put up £500,000 cash and go to HSBC for £1.5m,=you then need to run all the sensitivities I've referred to above based on=this. It feels like quite a committment.

Again, you must take other advice and make up your own mind, but you've see= what happens when people over extend their borrowings against property. T=at's why, irrespective of the attractiveness of the property and the appar=nt security of your current income, I always follow the 50/50 rule of thum=, and even then the detailed financing battle drill needs to be performed.

I hope this is helpful. Call if you'd like. Big kiss.

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