

Property Why Is Ritblat Buying?



British Land's John Ritblat is back in the market for rental growth

ISSN 0142-7247



**Sector Analysis -
Pharmaceutical
companies' rankings**

One miracle drug no longer
square health in the
global market *page 11*

The Interview

Peter Morgan, director-general
of the ICI *page 35*

Analysts' Research -

Expanded coverage of brokers'
recommendations *page 32*

Retail Outlet Bargains Start Property Ball Rolling Again

A general feeling that property has bottomed out is encouraging some companies to start reinvesting. Food retail outlets are favourite

sector investors are still cautious, or worse, about the overall property sector, his reactivity in the market for investment property indicates that some began shopping has already begun.

Utilisation of yields, prospects of lower for rates and the belief that property will start moving before the economy is generally all contributing to a view that some investment property markets are at, or near, the bottom of the cycle.

Getting a head start on the competition is John Ritblat's British Land, which has increased share to 51.7% in investment properties since April (see page 25). The company, traditionally dependent on the City office market, has spent much of that money on food retailing outlets around the country. Ritblat's team appear to have spotted an opportunity to act as otherwise ignored retail property market.

Simon Hestley & Baker explain that, while there is strong demand for high street retail property, good sale and leaseback opportunities are limited by a lack of generally prime properties among retailers in general. It is, in fact, quarterly investment opportunities, Hestley & Baker offer the leading investment companies are seeking "unconventional" properties that are becoming increasingly attractive - with an initial return on sale and leaseback of about 7%, compared with prime yields in the 3%-5.2% range in the retail sector at large.

Asked about the rationale behind the company spending £270m on new investments over the past year, British Land director and secretary John Weston-Smith's report short of describing the market as cheap. Ritblat, he suggested that certain areas of the property market currently provide opportunities for a company that is looking to make money from retained holdings rather than from trading.

"We have put our money where our mouth is," he said. "Two hundred and seventy million pounds of investment is a lot of money for a company of our size, but you have to buy when the market is right."

Market observers are also waiting for British Land to put its money where its mouth is regarding its current restructuring plan. The original plan called for Ritblat's last investment to be announced to a disclaimer of the company's property interests, and finding the right con-



Market awaits Ritblat's new plan

location of deposits will be harder to a market that is also as bottoming out.

Figure that our sales from Hestley & Baker are expected to show further slowing of UK retail growth for office, retail and industrial properties. But the rate at which growth has slowed differs markedly between regions and specific types of properties. City office rentals, for example, have actually shown a negative growth of 4.4% over the past year, while some regional industrial units have gone up by more than 2%.

Meanwhile, speculation about Swedish shareholdings in Sparrows and recent Japanese acquisitions in the City led to a revival of foreign interest, and even institutional investors are beginning to see some attraction in the property market again.

But while the foreign investors are rethinking their interest in action, some of the leading institutions are said to be holding back a bit longer in the hope that bargains will emerge. Some market observers believe that if the institutions maintain the position into the summer holidays, they could come back to the auction to find the best bargains gone.

FRANK-JÜRGEN PETERS

MARKET MOVERS

Institutional investors controlling more than £400m of funds give their view of the week's most important issues.

Some investment managers may worry that they have quite a lot of explaining to do when it comes to justifying their lucrative salary packages, who compared with the year's performance of their funds.

It looks as though the market will finish the first half of the year a couple of percentage points lower than it was at the start. That despite the tremendous rally of the past two months, which has swept the FTSE 100 17% higher and the index had high at the beginning of January that seemed to promise so much for the year.

But this is not the worst part of the equation.

With interest rates remaining unacceptably high, cash would have outperformed equities by some 7% over the period even adjusting for dividend yields and not accounting for other costs such as management fees.

Long-term UK gilts are estimated to have effectively lost about 4%, and overseas equities taken as a whole have fallen similarly in sterling terms.

However, those who read and played the market correctly, especially if they caught the recent sharp rise, will have come out on the right side.

And, so it is, the trustees will not view adverse anything that sends a mere 1kg to a well-established track record.

All they need to be best for these will overweight in UK equities, however, with the bill saying that the market is showing every sign of establishing a healthy platform before it moves convincingly through the 2,000 mark.

One influential fund manager maintains that the market is still in a bull phase and will see new highs within a month. He believes that, in the short-term, equities will outperform cash and more than make up the loss ground of the first half. The external basis of his view is grounded in 12-18 month forecasts of a better economic picture.

On the other hand, Jim Cox of Schroders Fund Management believes that cash will outperform equities in the second half, and that Finance is likely to trade in the 2,200-2,400 range for the rest of the year. He finds it "difficult to see when will push the market higher in the summer months".

Fund managers seem much more sanguine than their market-making colleagues about today's equity of the FTSE 100 indexes continue, declining from the "watching how" will knock against fundamental.

BRIAN BLOOMFIELD