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PROPERTY COMPANIES AND THE PROPERTY MARKETS

John Ritblat, chairman of The British Land Company, talks to The Treasurer about the movements in the property market—land and rental values, and what this means in terms of investment and interest rates for the future

John Ritblat, FSVA, chairman of The British Land Company plc

Mr Ritblat, the British Land Company has progressively been reducing the level of interest payments in its revenue account in relation to its rental income to the point where in the six months to September the interest payments were actually fully covered by net rental income. Could you say to what extent this is a response to the real positive level of interest rates, and to what extent perhaps it is a reflection of your view of property values at present being too high?

I am not sure it is totally related to property values. What has really happened is that we are basically an acquisitive company and our role here is to expand the portfolio, not at any cost, but on a basis that will offer the maximum future growth. To do that we need an element of gearing. To enhance the role of the gearing it is essential that we own our freeholds.

During an era of high interest rates it is a particularly expensive form of investment. We have to pay the going rate in the market-place and during, for instance, a development period we often have up to three years when we simply have no revenue from the item.

Traditionally, we have capitalised development interest to a small degree. But I suppose in an ideal world one would like to be able to discharge all one's current obligations against current income. It simply is not possible. However successful we are in the development field we are unlikely to secure yields of much better than 10%. The yields vary in the bracket of 8% to 12%. I think that our best developments may show 12%.

That still leaves us with a negative cash flow. You are then in a quandary: do you sell your investment or your development immediately you have completed your first lettings, or do you hang on to it to enjoy the growth at the time of the first review when you are likely to obtain a yield that allows the investment to be self-funding? So we are always under pressure in this interregnum period as to how to finance the holdings.

But over a year ago you did withdraw from the development of a former film studio site in Buckinghamshire and you sold it?

Well, that was for a totally different reason. We simply received an offer for the Denham site at a level which we felt we could not refuse because in our evaluation of the development it seemed to us that we were getting virtually the whole of the profit we were likely to extract from it right at the front. So we said to ourselves: if we get nearly £9 million and we retain the residential land on which we have already commenced residential development, by the time we have allowed for the employment of the cash, and that sort of money is worth nearly £1½ million a year, and you allow that for three years with no letting risk, no building risk, then we said that we could not justify holding it at that price.

From the purchaser's point of view I think it was an attractive investment. They are an institution and they are unlikely to buy a property in a location of that prime nature and they can afford to do a development where they will only get a single figure yield. Over the years I am sure it will turn out to be a first class transaction.

Apart from the high carrying cost of the investment while it is being developed, there is presumably the additional problem when interest rates are high of the period it takes to sell it?

I do not think we are concerned about the period it takes to sell it. If we had built out Denham we would have probably retained it. All that would have happened is that, as we had a very low site cost, we probably would have been able to stand the deficit—probably. If you look at the effect of our having £9 million cash and the redeployment of that money,