Leftovers ripe for the picking

Liberty International is separating its blue-chip British retail malls from the rest of its portfolio ar calling itself Capital Shopping Centres. The properties in Capital & Counties (C&C), which will b made up of the smaller properties from Liberty International's original portfolio, create another vehicle for SA investors looking offshore.

By Ian Fife 3 May 2010

C&C will be listed in London on 10 May 2010 as a specialist London fund among listed peers such as Derwent, Shaftesbury and Great Portland. Current Libint shareholders will be its owners. Its market capitalisation of £750m-£800m will make it the second biggest after Portland. With Portland, Libint jointly owns 34 prime properties around Regent Street and Piccadilly in the Great Capital Partnership.

Properties worth £1,24bn (R14bn) include Covent Garden, Earls Court and Olympia Exhibition Centre and the Aquascutum shop in Regent Street. C&C also has two joint ventures in China.

Shares for South Africans

South Africans will be able to buy shares in its secondary listing on the JSE in mid-May or June, maybe at R14 - R15/share. This will give a paltry forward dividend yield of between 1% and 1,5%. But there are reasons to invest other than this year's income.

C&C will remain a company with the option to convert to a real estate investment trust. This is the tax-efficient structure adopted by most property funds around the world. For now, C&C needs more flexibility retain income and build cash reserves for the redevelopment of its assets.

Fresh-eyed management

It has young management unfamiliar to most SA investors. CEO Ian Hawksworth and investment director Gary Yardley are 44 years of age, CFO Soumen Das is 33. Hawksworth has been MD of C&C since late 2006 after 14 years in the Far East with Hong Kong Land.

Hawksworth was responsible for some major mixed-use developments in Asia, for instance the 5m ft² (ove 450000m²) BFC complex in Singapore. This and his experience in the entrepreneurial environment of Hor Kong make him ideal to take on the development of Covent Garden and Earls Court, two prime London locations that have seen better days. They are ripe for redevelopment and at the heart of C&C's attraction.

Developing Covent

Covent Garden, east of Leicester Square and Soho in central London, was a flower, fruit and vegetable market between 1500 and 1974. In recent years it became a tawdry area of tourist shopping, restaurants and street performers, around a piazza dominated by the Royal Opera House. So the market was surprise when Liberty International bought about 40 freehold and leasehold properties in the area in 2006.

Planning authorities would certainly not allow them to convert it into a regional mall, which had been the fund's strategy.

Hawksworth thinks his strategy could be just as good. Rents at Covent Garden lag behind other prime We End destinations (see graph) and Hawksworth aims to double them within two years to boost dividends. Apple Computers announced this week that it is opening a new flagship store in a C&C Covent Garden property — and expects it to vie with its Regent Street store. It is the most profitable shop in Britain, with trading densities of over £2000/ft²/year, according to the London Sunday Telegraph That's a good start. C&C has also set aside £75m for building upgrades.

Earls success

Two years after C&C bought Earls Court on a 10ha site, the Greater London Authority has recognised it, together with the adjoining 15ha site, belonging to various private owners and the local council, as a significant development site and part of the latest draft London plan. They have formed a joint venture with the other landowners and are preparing a master plan for approval.

Hawksworth says the site can be developed into 12mft² (more than 1mm²) of mixed use. This is about 10 times the size of the average SA super regional shopping malls and four times the size of a completely developed Melrose Arch — including 8000 residential units.

"Earls Court, if it is developed to its full potential, could become the biggest listed property company in the UK," says Hawksworth.

"Our first aim is to enhance the land value from its current £6m/acre," he adds. "Prime residential land in London currently trades at well over £20m per acre or more. Then we'll decide whether we want to do the development or sell the property. If we do the development we will then have to decide if we want to hold some or all of the properties as investments."

Open options

Hawksworth is also keeping his options open with the Great Capital Partnership, trading properties if their values rise faster than expected and using the money to enhance Covent Garden.

This contingency is a bit disconcerting. Surely most investors would want to hold on to such prime propert for the long-term income they will produce? Hawksworth says he wants to keep his options open to conve capital gains into even better income growth in other properties.

Catalyst property fund managers' Paul Duncan says C&C is attractive as a growth investment "to a particul risk profile of investor who wants growth rather than income. There's substantial potential upside in these iconic assets," he adds.

"There could also be a buying opportunity at the listing. The share price could weaken because funds that are not mandated to invest in entities with secondary listings and tracker funds in the JSE top 40 will be selling their shares."

Attractive market

London is the first port of call for most SA investors wanting offshore property. Whether you are preparing buy a bolt hole flat near the 2012 Olympic village or invest in a commercial property syndicate, C&C has to be a serious alternative. You may receive a better initial yield off the direct investment but C&C's growth potential is enormous.

You can buy shares on the JSE without the hassle and cost of currency exchange or control. You've got instant liquidity and almost certain capital and income growth from super prime properties and sound management.

This is a classic opportunity for retail investors to get into a prime property fund early and watch it turn into archetypal cash cow over a decade or two — assuming the world economy lasts that long. Buy.

Source: Financial Mail