

# Investment gloom for property scene in provinces

by R. J. K. Mernane

THE EARLY '80s have not been kind to the UK property investment market. The boom of the '70s, when many institutions discovered the advantages of property as a hedge against high inflation, hit its peak in 1981 and has been in decline ever since. Midway through the decade inflation is below 5% and fund managers are being tempted by impressive growth in other investment media.

For the institutions, times can hardly have been better. Funds received £36.2bn in 1984 (the last full year for which figures are available) compared with £22.4bn in 1981. Pension funds and insurance companies (£16.5bn) together with building societies (£14.7bn) make up most of this figure.

Over the same period new property investment has fallen from £2.2m to £1.7m. In percentage terms a reduction in its share of all institutional investment from 12% to 8%. First half figures for 1985 show a further drop to 6%.

Where has all this money gone? Most of it, undoubtedly, has ended up buying UK equities, whose share of investments has risen from 14% in 1979 to 25% in the first half of 1985. The figure looks set to rise higher still as the bull market in shares continues. The lifting of exchange controls in 1979 gave new impetus to the growth in offshore holdings (market share up from 9% in '79 to 25% in '82) though currency fluctuations have made this a somewhat volatile sector (down to 4% in '84!). High real interest rates have encouraged many funds to opt for greater liquidity: 32% of holdings were in short-term situations in 1984 compared with 8% in 1981.

Property's performance over the same period has been carefully analysed by the London real estate company Debenham, Tewson & Chinnocks. Their third bi-annual report\* covers 37 of the larger investment funds, accounting, between them, for about a fifth of all institutional property holdings. It reveals that fund managers are unimpressed.

Only 11% considered their return

on property over the last three years to be better than expected, while 52% felt it was worse. Interestingly those funds with larger property holdings (ie. between 15%-25% of the whole fund) tended to be in the latter category.

So it is not surprising that this period has witnessed major adjustments within the property sector itself as fund managers have adapted their portfolios to reflect the changes that have taken place in the economy during the recession.

The locational breakdown of current holdings shows a predictable bias towards the South East of England, and London in particular. Here it seems that the rental market which has been under strong pressure is slowly emerging from the doldrums, doubtless receiving quite a boost by the prospect of deregulation in the City on October 27th.

Demand for office accommodation

by the huge financial conglomerates that will emerge from the "big bang", as it is popularly known, has already caused the City Corporation (its local government body) to modify its conservation policy to make way for 20m square feet of new office space.

Similarly ambitious schemes are afoot in other parts of London. This is especially good news for the insurance companies who, it is estimated, hold about half their funds in Central London properties.

However, while London and the South East attract 70% of holdings, figures for the North (10%), the Midlands (6%) and Scotland, Wales and Northern Ireland (6%) show starkly the damage done by the recession to the industrial heart of Britain. Further testimony to this gloomy scenario is given by the move away from industrial property which now accounts for only 9% of investments classified by use (from 19% in 1981).

Most of the slack has been taken up by the retail sector, up from 22% to 36%. The growth here is mainly

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TAX CONSULTING, ACCOUNTING & FINANCIAL PLANNING

## G. B. NIXON & ASSOCIATES

### CANADA:

742 HAWKS AVENUE, VANCOUVER, B.C. V6A 3J3  
PHONE (604) 253-0541 OR (604) 687-9882

### IRELAND:

141 SUNDAYS WELL ROAD, CORK CITY  
PHONE 21 504327

# Left warns Aquino to start on land reforms 'or no peace'



● Corazon Aquino

**PHILIPPINES:** Corazon Aquino finally sent her political foe packing, but she now has to deal with a military threat. As ex-President Ferdinand Marcos counts his loot while in-transit to a friendly country, his successor has received a blunt message from Jose Maria Sison, the Communist Party leader jailed in Fort Bonifacio.

Mr. Sison warned Mrs. Aquino that the left-wing guerrillas would not lay down their arms until land reforms were carried out. He has been in prison on subversion charges since 1977. During that time the left-wing opposition to the Marcos "kleptocracy" has strengthened as discontent mounted in the rural areas.

President Aquino, since assuming power, has talked about leading a "revolutionary" government, but has not yet published a program of policies.

## LAND FRAUD NEWSMAN MURDERED

**ISRAEL:** Palestinian landowners on the West Bank were allegedly defrauded of their assets by Israelis. Arab journalist Hassan Abdel Halim, 36, decided to investigate. His headless body was found in a field near Ramallah.

Police are now investigating a former aide to a senior Likud Party member, said to have supplied false certification documents that West Bank land had been designated as future Jewish settlements.

## HIGH ST. SHOPPING

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attributable to the emergence of several new retailing groups, as a result of takeovers, and the continuing high level of consumer spending. A further boost is in the offing with the likely relaxation of Britain's strict Sunday trading laws.

**C**LEARLY, there are some grounds for optimism and these are reflected in fund managers' expectations. Returns on property will, they believe, improve during the next few years, as will property's standing in relation to other investment media, though this depends mainly on the

extent to which the latter level out.

Returns on offices and shops are expected to improve. Intense competition between out-of-town and high street shopping is thought likely to result in a sharp decline in the latter, and retail warehouses will provide a new growth area. Investors are more cautious about industrial property and, perhaps rather worryingly, they do not expect the rapid advance made by the "high tech" sector to be kept up. Agricultural returns will almost certainly fall.

When considering the prospects for property investment in the second half of this decade remember that these fairly optimistic expectations are

## DOUBLE LOSS

**THE HAGUE:** The Duke of Westminster, right, Britain's richest landlord with an estate valued at £2bn, has lost his case in the European Court of Human Rights against leasehold reform laws which have cost him £2.5m. This is the estimated difference between the price paid by long-term leaseholders for the freeholds of homes in London's Belgravia and Mayfair, and their current market value. The court decided that the 34-year-old Duke's human rights had not been infringed. The European convention on Human Rights, in acknowledging that "every natural or legal person is entitled to the peaceful enjoyment of his possessions," notes that nobody should be deprived of those possessions "except in the public interest."

● The case was reviewed by *Edgar Buck* in *Land and Liberty*, Jan-Feb. 1986.



# Minister's crop sale goes against the grain!



● Michael Jopling ... next time he hopes to sell better quality wheat on the open market.

**LONDON:** Britain's Agriculture Minister, Michael Jopling, sold his entire wheat harvest from his 400-acre estate straight into the EEC's grain mountain.

Mr. Jopling is one of Europe's leading critics of the Common Agricultural Policy's grain and butter mountains. But the best price he could get for his wheat was the £112 per tonne from the EEC. Next harvest time he hopes to supply better quality wheat which can be sold on the open market.

While ministers are normally expected to divest themselves of economic interests that clash with their Cabinet portfolios, the traditional exception has been agriculture.

Farmers in the House of Commons normally assume responsibility for the top job in agriculture, which involves the allocation of millions of pounds in subsidies from taxpayers.

● The EEC's grain mountain is currently about 17m tonnes.

## GOSPEL OF 'LESS LIBERATION'

**BRAZIL:** The Pope has lectured 22 Brazilian bishops, archbishops and cardinals on the virtues of Catholic conservatism.

They were summoned to Rome in March for a "fraternal dialogue" directed at persuading the church leaders in Latin America to temper their faith in "liberation theology".

The Pope has been shifting the balance in the ranks of the church in Brazil in favour of orthodox priests, and he has encouraged rightwing members of the hierarchy to bypass the progressive bishops' conference, the CNBB, which took as its theme for the Lenten campaign the need for a radical land reform.

## 'DECLINE'

unlikely to be manifest in positive actions. Most of the larger funds intend to reduce their commitment to property, and all intend to continue shifting funds away from industry and agriculture.

Only time will tell whether this will result in a fall in land prices but, given the current concern that industrial unit costs be cut, it must be hoped it will. Whether British industry is strong enough to take advantage is another matter entirely.

\**Money into Property 1970-1985*, Debenham, Tewson & Chinnocks, Research & Information Services, 1986.

## BRANCHING OUT

**LONDON:** Prime Minister Margaret Thatcher's government has drawn up plans to "privatise" the Forestry Commission. This would involve the sale of 2.9m acres at an average price of around £500, which would raise about £1.5bn.