

Capco bets on London's property market

London-focused real estate company Capital & Counties Properties (Capco) believes the UK capital's property market offers very good growth prospects, says the company's chief executive Ian Hawksworth.



Capco's share price has had a strong run since it was unbundled from Liberty International in May, leading some analysts to view the stock as expensive, while others think that Capco could continue to rise.

Hawksworth said on Tuesday (17 September) that while the UK real estate outlook was still fairly weak, the prospects for the London market were positive across all property sectors.

Barclays Capital says a surge in London house prices is masking the subdued national picture and is highlighting the disconnection between London and the rest of the UK. "House prices in the capital outpaced those in the rest of the country by a factor of 10 times during the past year," Barclays Capital claims.

London's property market remains strong

UK house prices fell in real terms in every area except London. According to figures from the UK's Office for National Statistics, house prices rose 3.3% year-on-year in July, boosted by a roughly 10% rise in London prices.

Capco in July reported what it called a "strong valuation performance" for the six months to June, with a 14% rise in adjusted, diluted net asset value to 232p per share, from 203p per share at the end of December. The company reported a 13% rise in its total property value to £2.1bn from £1.7bn.

Hawksworth says Capco's focus at Covent Garden is on creating the best retail destination in London. This would be done through improving the tenant mix to house mainly contemporary luxury brands in order to drive rentals and valuations up.

This process was about halfway complete, thanks to 33 leasing transactions being completed in the first half of this year. New brands across the estate include Chanel, Dior and Shake Shack.

Earls Court master plan

Capco's Earls Court master plan, which envisages a new district surrounded by sought after addresses, is planned to eventually include about 8,000 new residential units and two high streets. Hawksworth says the node will be an extension of the affluent Chelsea area.

Anton de Goede, fund manager at Coronation Fund Managers, which is a major Capco shareholder, says while there is much focus on the value-enhancing opportunities at Earls Court, what one should bear in mind is the valuation upside that still sits in Covent Garden.

This is not necessarily from a yield or capital rate point of view, but rather from a rental point of view given that rentals at Covent Garden are still low in relation to other comparable areas in London.

But Sanlam Investment Management equity analyst Asheen Rabilal says Capco's assets are favourably concentrated in London and the Earls Court development could lead to a material revaluation.

Share price growth

But Hawksworth says Capco's strong share price growth suggests the company's assets are potentially worth more than their latest valuations show. Although rentals at Covent Garden have shown strong improvements, they are still significantly below the average in competing locations across London, providing potential for strong rental growth.

He says footfall and spend are up significantly at Covent Garden. The development there has existing and planned residential units. It also has offices.

However, Hawksworth says that Earls Court is the biggest potential development site in London, "The first residential units in the development at Lillie Square should be available later this year, although this initial 800-unit development will be ready for occupation only in late 2015," he says, adding that land valuations at Earls Court are very modest compared with the potential land value in the node.

South African investors have access to London property through other British property funds that have JSE listings. These include Redefine International, whose hotels portfolio is largely concentrated in greater London.

Redefine International Hotels's chief executive Helder Pereira says average hotel occupancies in London last year were 81%. SA, by comparison, achieved average occupancies of 56.5% last year, according to professional services firm PwC.

Source: Business Day via I-Net Bridge

For more, visit: <https://www.bizcommunity.com>