A Peep at the Property Tycoons

BY PAUL KNIGHT

BEHIND the flamboyant impression of the great property tycoons in the national press are to be found the minds of shrewd, calm men with acute awareness of values and trends. While Charles Clore, Joseph Levy, Max Rayne, Sir Harold Samuel, Lew Hammerson, Maxwell Joseph, Sir Isaac Wolfson and the late Jack Cotton have all made personal fortunes from successful property development, their public image does not reflect the managerial skill and organisational ability that has brought them to the top of their business. Now, however, the curtain has been partly drawn aside by Brian Whitehouse* and the stomach and brains of the property world are open to more than cursory inspection. In two hundred pages, produced at the end of what must have been a hard working year of interviewing, fact finding and note-taking, the reader is taken from the early years of large-scale property development up to the present time. Along the journey the prominent personalities emerge and make their own particular contribution to what has become one of the country's fastest-growing industries. In something like forty years, large-scale development has passed out of the hands of the clear-cut aristocratic land owners, the "muck and brass" entrepreneurs and the private builders into the fuzzy world of public stock-issuing companies, institutional financing, mergers, take-overs and unit trusts.

It is well known, of course, that property development has proved to be a very sound field for investment. Although in the past yields from rents may not have been high, and have been overtaken by inflation, this has been more than adequately offset by capital appreciation stemming from increases in land values. Up until 1935, however, there had been little to encourage the emergence of specialist development companies. Expansion of business and trade was slow, if not stagnant. Over the country as a whole the supply of commercial property tended to run ahead of demand. Pre-letting, rent revision clauses and institutional financing were virtually unknown. Nevertheless, some important developments like the Dolphin Square project, Broadcasting House, and the Burlington Arcade, in London, and a £1 million scheme at Birmingham were carried out. At that time, the insurance companies, notably the Pearl, the Norwich Union and the Legal and General, had begun to take a small interest in property as a form of investment. By 1958, however, the members of the British Insurance Association had increased their property interests considerably. Mortgage investment rose from 10.3 per cent. of 1937 funds to 13.6 in 1958. Properties and ground rent investment rose from 6.2 per cent. to 8.9 per cent., representing an increase from £102 million to £496 millions. How did this come about?

After the war, the three-fold stranglehold of building restrictions, development charges and the out-dated Rent Act did little to stimulate construction work. It was Mr. E. Corks who during the period of austerity up to 1953 realised the potential in the growth of government offices. Having acquired a site in Theobalds Road, London, he found that the Air Ministry was interested and eventually it took a sixty-three year lease on 300,000 square feet of office space. This transaction set the office trend for the years to follow: developers sought tenants of high standing to take long leases. Up to 1953, however, the advantage of rent-revision clauses had not been seen, and in fact was not seen until a few years later. Eventually, as restrictive building controls were eased, office and commercial development moved at a fierce pace in an endeavour to meet the pent-up demand for floor space for rapidly expanding firms. Far sighted developers had started to amalgamate sites and slowly to acquire interests in old properties throughout the stagnant period. They were thus in a strong position to take the initiative.

It was Charles Clore who negotiated financial backing from the Prudential to the tune of £13 million and firmly established the lease-back technique with the large institutional lenders. It was also Clore who aroused the interest of many companies in the potential of land values when he bid unsuccessfully for the Watney Mann brewery site near Victoria Station. This led to the formation of the Watney Mann Property Company. Other large firms then followed by forming specialist property subsidiaries.

It was the 1957 credit squeeze, however, that led to the contemporary pattern of insurance company participation in commercial development. Developers with sites on their hands and in need of finance turned to these institutions for backing. The insurance companies, with swelling funds for investment, were ready and willing to find the very large sums required. Sites were sold to the insurance companies and then leased back to the developers and the pattern of the ground rent revision clauses was set. Later, the insurance companies began to

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claim a stake in the buildings themselves and bases for shared profits were agreed. At the end of the development period mortgages for the developer were also arranged and thus he had liquid funds to start elsewhere while profits began to return.

The story Mr. Whitehouse tells stage by stage is a fascinating one. It is the story of Land Securities Investment Trust, City Centre Properties, Capital and Counties, Second Covent Garden, and many other companies. It is also the story of the personal dealings of the property entrepreneurs, their small beginnings, their partnerships and their multi-faced transactions, many of which came about by combinations of chance, acquaintances and foresight. More important, however, it is the story of how a handful of men have made personal fortunes in a new form of land ownership through capital share-holdings. The site rent rewards now made from large-scale development are being divided between share-holders, investors and insurance companies.

Under the present system of land tenure, commercial development is very profitable for those who receive the ground rent. Development companies that cannot provide their own finance are finding margins tighter as lenders insist on ever-larger stakes in the ultimate rewards. For developers in this category, land-value taxation would help them out, since site costs would be reduced and less initial finance would be needed. The lenders, on the other hand, would have to reshuffle their portfolios and turn more towards investment in competitive equities. This would be no bad thing for industrial expansion.

This book is recommended to those who are interested in trends in property development and those who seek to know where the ground rents of today are going. Mr. Whitehouse is to be congratulated on his painstaking documentation.