

Finance

Primary Health is top performer in 'lost decade'

■ Helical and Savills also prosper as major property companies struggle through 'noughties'

BY JAMES WHITMORE

Primary Health Properties was the top-performing listed property company in the "noughties".

Data produced for *Property Week* by Nomura show that the owner of doctors' surgeries, including in Port Talbot, south Wales (pictured), produced a 350% return – comprising dividends plus movement in share price over the decade. This was 49 basis points above second-placed Panther Securities, run by Andrew Perloff, and 60 basis points ahead of Helical Bar, a perennial high achiever.

Distributed income

Harry Hyman, managing director of Primary Health, which listed on the stock market in 1996, said the secret to its success was "income". Even before it became a REIT in 2007, the company behaved like a REIT by distributing the bulk of its rental income to shareholders through dividends.

"Our portfolio is 100% let, of which 90% comes directly or indirectly from the government," said Hyman.

"The average lease length is 18 years and rental growth is currently 3% a year. It's a very low-risk, very low-volatility story. Healthcare property is now considered a proper sector, and IPD has just launched a healthcare index.

"Healthcare property is recession-proof, and driven by the demographics of an ageing population."

Of the 28 companies tracked by Nomura, 21 outperformed the London Stock Exchange, which produced a total return of just 17%. The other seven posted negative returns, and showed the diversity of performance among property companies.

The worst performer was Warner Estate Holdings. Its share price dropped 89% over the decade, and the company

Rank	Company	Total return %	Share price movement %
1	Primary Health Properties	350	168
2	Panther Securities	301	157
3	Helical Bar	290	191
4	Savills	275	137
5	Daejan	253	160
6	CLS Holdings	232	232
7	St Modwen	215	140
8	Grainger	200	151
9	ASJ Mucklow	178	73
10	Derwent London	171	133
11	Town Centre Securities	163	77
12	Great Portland Estates	142	69
13	London & Associated	133	69
14	Shaftebury	109	78
15	McKay Securities	86	2
16	Hammerson	79	31
17	British Land	78	30
18	Land Securities	60	3
19	Unite	59	46
20	Liberty International	52	8
21	Development Securities	36	5
	UK real estate	33	5
	UK equities	17	16
22	Segro	1	-46
23	Quintain	-10	30
24	DTZ	-44	-62
25	Workspace	-55	-64
26	Capital & Regional	-58	-68
27	Minerva	-73	-75
28	Warner Estate Holdings	-82	-89

SOURCE: NOMURA

now has a stock market value of just £15m. The other underperformers – Quintain, DTZ, Workspace, Capital & Regional and Minerva – have all struggled in the recession of the last two years.

Proving the long-held theory that small is beautiful in listed property, the five majors all generated underwhelming returns. Segro, the worst-performing major, produced a negative return. This was not helped by

a deeply discounted £500.6m rights issue in March, when more than 5bn new shares were sold at 10p each.

The biggest indictment against the majors is that the fifth-best performer, with a return of 253%, was Daejan, which is the least transparent and one of the least active listed property companies. Chaired by Benzion Freshwater, whose family is the controlling shareholder, Daejan proves that

inactivity, low gearing and investing in residential can be rewarding.

Nomura property analyst Mike Prew said the noughties have been "the lost generation for real estate shares and equity returns. This started in the telecoms, media and technology bubble, when real estate shares were depressed, and finished in the mini-bubble in prime real estate that is forming from the debris of the credit crunch.

"Our league table shows the importance of income – otherwise, Land Securities' shareholders would not have much to show for 10 years of investment."

Further to fall

Prew added that the loss of value over the decade had been "astonishing", given that prime real estate values doubled from 2004 to 2007.

"The lesson is that holding leveraged portfolios of offices, shops and sheds has generally been a loss-making strategy," he said.

Prew said the decade's winners had been those companies that had pursued a "tangential" or non-mainstream approach to property, such as Primary Health with its portfolio of doctors' surgeries; those with a rotating development specialisation, such as Helical Bar; or those that had focused on residential, such as Daejan, St Modwen and Grainger.

He said that companies with focused portfolios – especially those focusing on London's West End, such as Derwent London and Great Portland Estates – beat the largest listed companies.

However, he added that specialisation did not guarantee success. He pointed to the collapse in value of Capital & Regional with its co-investment structure, London office developer Minerva and Warner Estates.