



Why all that glisters is not gold

By **Mark Frost** a director of Wilky Fund Management

Take a look at these two properties and decide which proved to be the better investment over the years. One is an attractive prime shop in the centre of historic Chichester, within earshot of the cathedral choir. The other is a nondescript industrial unit in Salford, Greater Manchester.

Not sure? The clue is in the headline.

So what made one purchase a high street horror and the other a back street bonanza? In a word: timing.

When the shop was bought in 1988 for £1,350,000 the annual rent was £70,000, giving a net yield of 5.05%. The rent was still £70,000 pa and the yield 5.5% when eventually it was sold in 2003 for just £1,208,000.

Those with long memories may recall that the late 1980s saw a property boom. In fact it peaked in 1988, when this property, complete with extensive upper parts, was bought. At the time the rent per sq ft was high, if not the highest, in Chichester. By the time of the 1993 and 1998 rent reviews the shop was over-rented (other units in the vicinity were paying less per square foot after their rent had been reviewed). And by 2003 the rent had only just climbed back up to the 1988 level.

Contrary to the old saying, “location, location,

location” is not the be all and end all. This is a salutary lesson in the pitfalls of buying at the top of the market, even in a busy street in a prosperous tourist centre.

No one would be likely to include our second property in their holiday itinerary. It is a humdrum industrial unit like thousands of others. Purchased for £173,000 in 1974, its great virtue was a new 25 year lease to the local health authority, an extremely secure covenant delivering £18,000 per annum, a yield of 10.4%.

There the health authority remained until the lease expired in 1999. The performance was in fact virtually bond-like but with a bonus at the end that only property could deliver. In early 2002, after the dilapidations had been made good, the building was sold freehold with vacant possession to an owner occupier for £845,000 at a rental value of £105,000 per annum. If 1988 was a wrong time to buy, 2002 was a good time to sell.

Clearly Salford saw respectable capital growth while the investment in Chichester never really recovered after its fall from grace. However, the difference becomes stark when their Internal Rate of Returns are compared. (This is the measure that takes into account a discounted cash flow approach to investment to give a true time



adjusted measure of annual return.) The IRR from the shop was 4.4% pa, exactly a quarter of the 17.6% pa delivered by the humble “shed”.

Location, timing and covenant all had their part to play in showing that, when looking at an investment, beauty is more than skin deep. ■

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