Alliance News Interview: First Property Wary Of Political Risks, Says CEO

Published 28 Nov 2014 14:13
By Samuel Agini; samagini@alliancenews.com; @samuelagini

LONDON (Alliance News) - Looming parliamentary elections in the UK and Poland present risk for First Property Group PLC, but that won't put off the property fund manager from making investments if the right opportunities arise, according to Chief Executive and Chief Investment Officer Ben Habib, who likes the macro-economic fundamentals in each country.

Speaking to Alliance News on Wednesday after the group reported a near trebling in first-half pretax profit to GBP5.4 million and raised its interim dividend by 6% to 0.35 pence, Habib cautioned that although he is convinced of the macro-economic sense behind investing in the two markets, he is wary of the potential for politics to throw up unhelpful leaders and policies.

"For me, the risk is that we would get a Labour government," Habib told Alliance News, speaking ahead of next May's General Election in the UK. "It would be deeply dangerous to elect Ed Miliband as Prime Minister and have Ed Balls as Chancellor of the Exchequer."

For Habib, Balls, who is the current shadow to Conservative Chancellor George Osborne, has much to answer regarding his role in the Labour government that was in power in the years leading up to the financial crisis, having held the position of Economic Secretary to the Treasury between 2006 and 2007.

Habib also questioned the Labour Party's policies, expressing concern about the so-called Mansion Tax, a tax on prime value properties that Balls hopes will form one component of plans to raise billions of pounds for the UK's National Health Service.

Although Habib thinks a Labour government is an unlikely prospect, he thinks the "adverse consequences" of a Labour victory would be "significant".

Habib told Alliance News that he isn't a donor to the Conservative Party.

Habib said the risks around the General Election are greater than those presented by the prospect of the Bank of England raising interest rates from their current historic lows.

"We think interest rates will stay lower for longer than most people think. We think the UK remains a very highly leveraged country, both government and personal debt levels, and that is going to weigh heavily on the Monetary Policy Committee's mind when they think about raising interest rates," Habib said. "It will be very easy to introduce stress into the economy if interest rates rise too fast and too quickly due to the high levels of debt that persist.

"If interest rates were to go up ... with commercial property investments yielding 6 or 7% per annum, they remain a very compelling proposition," Habib said.

In Poland, the risks are not limited to the 2015 parliamentary election, which is to be contested between opposition party Law and Justice (PiS) and the ruling Civic Platform (PO) party and junior coalition partner Polish People's Party (PSL).

"The biggest risk we see – there are a number of risks – is a geopolitical risk associated with what happens in Ukraine," Habib said. "I don't know how one can assess that geopolitical risk because if it were to manifest itself it could have very far-reaching adverse effects across Europe, not just Poland," the CEO told Alliance News.

"They also have an election next year, and the party in government at the moment is much more business friendly than the party that would replace it if they lost the election next year," Habib added.

"The other concern, specific to property really, is that it's not a very liquid market, so once you've bought a property it's difficult to sell it," he said.

For Habib and First Property, that means buying at a level that supports holdings for the long term if necessary.

Habib told Alliance News that First Property is agnostic as to whether the UK or Poland represents a bigger part of its investments.

"We like the macro on both countries and it's down to whether the micro makes sense," Habib said. "Property is all about the micro. You can go to the worst country in the world and get a juicy deal."

However, Habib noted the importance of the macro economy to broader investment plans.

"If you want to expand in a country, you want it to have good macro-economic fundamentals otherwise it's like pushing water up a hill," Habib said.

"When a deal is a good deal, we'll make the investment, but we have one eye on what's going on around us," Habib said.

First Property, which raises and manages third party funds to invest in property, co-investing in the funds with the aim of earning a return on its own capital as well generating fees for managing the funds and their performance, is receiving interest in its services, according to Habib.

With the expiry of its fund management contract with USS Fprop Managed Portfolio, its largest fund under management, less than a year away, First Property has had to act.

The fund has so far sold seven properties, which have been acquired either by the group or funds managed by First Property Asset Management, and expects the earnings derived from those purchases to "materially mitigate" the decline in fee income arising from the end of the fund management mandate.

Despite the expiring mandate and the resulting fall in fee income, Habib told Alliance News he is confident about First Property's ability to pay dividends, having increased its interim payout.

"We believe it's very sustainable or we wouldn't have raised the dividend," Habib said. "Dividend growth was lower than profit growth. We wouldn't have wanted to over-egg it."

"We have a progressive dividend policy. I would expect that trend to continue," Habib said.

He also noted that the company is "always in the business of raising funds".

"We hope to have more positive news on that to release in the near future," Habib said, adding that any new mandates are "most likely" to be for pension funds.

First Property shares were up 1.4% at 32.45 pence on Friday, having closed at 27.20p on Tuesday ahead of Wednesday's results.