

The Daily Telegraph

Norwegian sovereign fund eyes a stake in Regent Street

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Section: Business
Byline: Graham Ruddick

NORWAY'S sovereign wealth fund is in the running to buy a stake in Regent Street, one of the world's most famous shopping destinations and a prized asset of the Crown Estate, The Daily Telegraph understands.

The Norwegian Government Pension Fund Global is one of a small number of potential partners, mainly sovereign wealth funds, that have expressed an interest in acquiring a share of the £1.6bn asset.

The Crown Estate, which manages property owned by the Queen, said earlier this month that it had opened "exploratory discussions" with potential investors about a sale and last week sent out detailed financial data about Regent Street. It is understood that the Crown Estate is offering a 25pc stake in Regent Street, which would be worth around £400m.

The sale process is still at an early stage and proposals are not expected to be put to the Crown Estate board until the autumn. The Crown Estate is being advised by CBRE.

The £300bn Norwegian fund is yet to make a property acquisition in the UK, but earlier this year the country's Ministry of Finance gave the green light for a £14bn spending spree in global property. Norges Bank Investment Management (NBIM), which manages the fund, brought in former Merrill Lynch director Paul Golding to lead the property drive in London.

Regent Street will be seen as a trophy asset by investors. The street has been revolutionised over the past decade as the Crown Estate brought in new retail tenants such as Apple.

The Crown Estate is looking to offload a minority stake in order to reduce its exposure to the asset, which accounts for around 25pc of its £6.6bn portfolio, and to help fund developments across its properties.

The Crown Estate, which pays its profits to the Treasury, is prohibited from taking on debt, therefore it has to seek alternative methods to fund investment.

The sale of a minority stake in Regent Street would enable it to support the £750m redevelopment of the district and ambitious plans to boost the St James's area. Initial plans to spin off the Regent Street assets into a separate vehicle were rejected by the board last year.

Speaking to The Daily Telegraph in February, Roger

Bright, chief executive of the Crown Estate, said any partner would need to "share our values and objectives" and "be in it for the long term".

All parties declined to comment.

The NBIM said it did not comment on investments or potential investments.

ONLINE The £50bn property offload is about to begin telegraph.co.uk/finance

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The New York Times

Industries Find Surging Profits In Deeper Cuts

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Section: Business/Financial

Byline: NELSON D. SCHWARTZ

Illustrations: PHOTO: A Harley-Davidson showroom outside Chicago. Harley's sales are falling, but profits are strong. Many companies are preparing for a future where they can prosper even if sales do not recover. (PHOTOGRAPH BY SCOTT OLSON/GETTY IMAGES) (A3) CHARTS: Pay Lagging Behind Profits: Corporate profits had rebounded strongly even before the latest earnings reports, and are above where they were before the recession started. Meanwhile, employee compensation has been slow to recover, and corporations have been hoarding cash at levels not reached since the mid-1960s. (Source: Credit Suisse) (A3)

By most measures, Harley-Davidson has been having a rough ride.

Motorcycle sales are falling in 2010, as they have for each of the last three years. The company does not expect a turnaround anytime soon.

But despite that drought, Harley's profits are rising -- soaring, in fact. Last week, Harley reported a \$71 million profit in the second quarter, more than triple what it earned a year ago.

This seeming contradiction -- falling sales and rising profits -- is one reason the mood on Wall Street is so much more buoyant than in households, where pessimism runs deep and joblessness shows few signs of easing.

Many companies are focusing on cost-cutting to keep profits growing, but the benefits are mostly going to shareholders instead of the broader economy, as management conserves cash rather than bolstering hiring and production. Harley, for example, has announced plans to cut 1,400 to 1,600 more jobs by the end of next year. That is on top of 2,000 job cuts last year -- more than a fifth of its work force.

As companies this month report earnings for the second quarter, news of healthy profits has helped the stock market -- the Standard & Poor's 500- stock index is up 7 percent for July -- but the source of those gains raises deep questions about the sustainability of the growth, as well as the fate of more than 14 million unemployed workers hoping to rejoin the work force as the economy recovers.

"Because of high unemployment, management is using its leverage to get more hours out of workers," said Robert C. Pozen, a senior lecturer at Harvard Business School and the former president of Fidelity Investments. "What's worrisome is that American business has gotten used to being a lot leaner, and it could take a while before they start hiring again."

And some of those businesses, including Harley-Davidson, are preparing for a future where they can prosper even if sales do not recover. Harley's goal is to permanently be in a position to generate strong profits on a lower revenue base.

In some ways, the ability to raise profits in the face of declining sales is a triumph of productivity that makes the United States more globally competitive. The problem is that companies are not investing

those earnings, instead letting cash pile up to levels not reached in nearly half a century.

"As long as corporations are reinvesting, the economy can grow," said Ethan Harris, chief economist at Bank of AmericaMerrill Lynch. "But if they're taking those profits and saving them, rather than buying new equipment, it hurts overall growth. The longer this goes on, the more you worry about income being diverted to a sector that's not spending."

"There's no question that there is an income shift going on in the economy," Mr. Harris added. "Companies are squeezing their labor costs to build profits."

The trend is hardly limited to Harley. Giants like General Electric and JPMorgan Chase, as well as smaller companies like Hasbro, the toymaker, all improved their bottom lines despite slowing sales in the second quarter. Among the S. & P. 500 companies that have reported second-quarter results, more than one in 10 had higher profits on lower sales, nearly twice the number in a typical quarter before the recession, according to Thomson Reuters.

"Whole industries are operating at new levels of profitability," said David J. Kostin, chief United States equity strategist at Goldman Sachs. "In the downturn, companies managed to maintain higher profit margins than ever before."

Profit margins -- the percentage of revenue left over after expenses -- crumble in most recessions, as overall sales fall but fixed costs like infrastructure, commodities and rent remain the same. In 2002, during the recession that followed the bursting of the technology bubble in addition to the Sept. 11 attacks, margins sank to 4.7 percent. Although the most recent downturn was far more severe, profit margins bottomed out at 5.9 percent in 2009 and quickly rebounded. By next year, analysts expect margins to hit 8.9 percent, a record high.

The difference this time is that companies wrung more savings out of their work forces, said Neal Soss, chief economist for Credit Suisse in New York. In fact, while wages and salaries have barely budged from recession lows, profits have staged a vigorous recovery, jumping 40 percent between late 2008 and the first quarter of 2010.

Harley-Davidson's profit gain last quarter was helped by a turnaround in its financing unit, as well as more efficient production, but the company is still cutting.

Harley has warned union employees at its Milwaukee factory that it would move production elsewhere in the United States if they did not agree to more flexible work rules and tens of millions in cost-saving measures.

Even if sales do improve, a surge in hiring is unlikely.

"The last thing we're worried about is when are we going to have to add more capacity, because what we're really doing is reconfiguring our entire operational system for greater flexibility," Keith Wandell, the company's chief executive, said on a conference call with analysts last week.

Harley's evolution is part of longer-term shift in American manufacturing, said Rod Lache, an analyst with Deutsche Bank.

At Ford, revenue in its North American operations is down by \$20 billion since 2005, but instead of a loss like it had that year, the unit is expected to earn more than \$5 billion in 2010. In large part, that is because Ford has shrunk its North American work force by nearly 50 percent over the last five years.

"These companies have cracked the code of a successful industrial turnaround," Mr. Lache said. "They're shrinking the business to a size that's defensible, and growing off that lower base."

To be sure, sales are rising for many companies, albeit at a much slower pace than the increase in profits. Among the 175 companies in the S.& P. 500 that have reported earnings for the second quarter, revenues rose 6.9 percent on average while profits jumped 42.3 percent, according to Thomson Reuters.

Still, even at corporations where both the top and bottom lines are expanding, the focus remains on keeping profits high, not rebuilding work forces decimated by the recession.

When Alcoa reported a turnaround this month in profits and a 22 percent jump in revenue, its chief financial officer, Charles D. McLane Jr., assured investors that it was not eager to recall the 37,000 workers let go since late 2008. "We have a tight focus on spending as market activity increases, operating more effectively and minimizing rehires where possible," he said. "We're not only holding headcount levels, but are also driving restructuring this quarter that will result in further reductions."

Michael E. Belwood, a spokesman for Alcoa, said more than 17,500 of the former workers were employed at units Alcoa has since sold, but added that the company "had to be resized to match the realities of the recession."

"We're keeping a close eye on costs because there is still uncertainty about the stability of this recovery," he said.

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The Globe and Mail

A furtive industrial evolution gives Britain hope for economic recovery

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Section: International News
Byline: Doug Saunders
Dateline: BIRMINGHAM, ENGLAND

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Colin Knoght's trip to work takes him through a forest of neatly treed high-rise towers and crowds of jobless young men lingering in courtyards, a blank urban expanse that has been crushed by the economic downturn and now has Britain's highest unemployment rate: Thirty-eight per cent of adults in this Birmingham district of Aston are out of work.

He turns a corner, steps through a green wooden door in a small red-brick building and enters an anachronism: a bustling, noisy Victorian factory, the Acme Whistles works, which each day turns out 1,500 Acme Thunderer whistles, used by NHL referees and police the world over, and 10,000 other small noisemakers.

Two years ago, his job on the electroplating line seemed like a relic from a distant past. Now, as Britain struggles to recover from a financial collapse that could wound its economy for a decade, it increasingly look like part of the solution.

Acme is a small, traditional enterprise, but it also happens to be this district's second-largest employer at the moment, even though only 68 people work here. Mr. Knoght became one of them in November, after spending 18 months unemployed; most people in his neighbourhood have been jobless for longer. People like him, mostly male and high-school educated, are the core victims of Britain's own version of the European calamity.

While other countries have seen their economies deflated in housing collapses or decapitated in debt explosions, Britain's has been hollowed out. The crisis has hit Britain's former industrial cities harder than anywhere else, obliterating the service-industry jobs that held these places aloft during the 15-year boom, and the country is slowly realizing that it is playing a price for the near-absence of a manufacturing economy.

But just as officials are awakening to the need for jobs based on inventing, making and exporting physical things rather than financial products, the government agencies that might have led such a transformation are having the legs yanked from beneath them.

"For 20 years, the government told the world that people like me, manufacturers, have no future in England," says Simon Topman, the owner and chief executive of Acme Whistles and an advocate for this

blighted region's economy. "That meant that nobody wanted to invest in us; nobody wanted to learn the skills to work here; no politician tried to sell us. And now that they're talking about exporting our way out of the recession, they're realizing they could have used us all along."

Throughout most of the 19th and 20th centuries, this whistle factory was a small point in a vast ocean of industry stretching to the horizon in every direction, the plumes of dense smoke spilling from thousands of mills and foundries leading this region to be called the Black Country. Birmingham was the centre of Britain's industrial miracle, its steel and cars exported around the world.

Then, during the 1980s, when Britain led the Western world in shifting from an economy based on manufacture and export to one based on knowledge, finance and services, places like Birmingham were devastated, their industrial districts turned into wastelands, and the unemployment rates were much higher.

But Birmingham had an impressive post-industrial recovery beginning in the 1990s, when the Labour governments of Tony Blair and Gordon Brown poured billions into urban rehabilitation. Birmingham became a centre for university-led business, and a regional cultural hub, its thriving downtown becoming a second capital of southern England.

There was a problem, though, that is only becoming apparent only now: Eighty-five per cent of the employment created during that recovery took the form of government jobs, jobs in privatized former government sectors, or jobs in service industries that provided for government. At its heart, Birmingham didn't have an economy of its own - its boom was mostly just poor service jobs and government spending.

"When I was a kid, everyone around here had jobs in factories, but now if you get anything it's mainly part-time work like cleaning - that's what my wife does," says Mr. Knoght, 47, the new whistle-factory employee. "I thought I'd never find a job like this."

Birmingham's unemployment rate is now the highest of any British city, at 10.8 per cent (and 15.4 per cent for men), which means that about 50,000 employable people in the city are without work.

The green shoots of recovery here will be stomped out in the autumn, though, as Prime Minister David Cameron launches drastic government spending cutbacks in an effort to reduce Britain's 13-per-cent deficit.

Birmingham, with its government-driven revival, is projected to face the country's largest public-sector job cuts, with around 13,000 jobs disappearing at exactly the wrong time for its beleaguered local economy.

"It is just a terrible time to have this happen, at exactly the moment when government is needed to provide the basis for a genuine industrial recovery," says Sir Albert Bore, the district's Labour Party councillor. "We can't begin to get on our feet when the training and business-development programs that could help us are being scrapped left and right."

That double blow has awoken many British observers to deeper problems in the country's economic structure, and has led to a national call for a renewed manufacturing economy.

The idea is a core plank of the Conservative-Liberal government of Mr. Cameron. He built his election campaign around a proposal, authored by the British inventor and vacuum-cleaner magnate James Dyson, to resurrect the industrial basis of Britain's economy.

Mr. Dyson's plan, boosted by the export potential of a weak pound, would shift the secondary education system to one oriented toward engineering and entrepreneurship, promote investment in manufacturing, boost government spending on research and provide government support for start-ups, especially in high-tech areas.

In his emergency budget last month, Mr. Cameron pledged to look into tax credits and other breaks for high-tech manufacturing start-ups. But the broader austerity plans contained in that budget could swamp those proposals, many here fear.

"Regions like this have been knocked around something awful, and just as we're seeing demand start to return, government spending is about to hit the buffers," says Mr. Topman, the factory owner.

Government spending

Among these six European countries, Britain was in the middle of the pack in relation to government spending as a percentage of GDP (2009).

SPAIN.....45.9%

IRELAND.....48.4%

BRITAIN.....51.7%

FRANCE.....55.6%

GREECE.....50.4%

GERMANY.....47.6%

THE GLOBE AND MAIL

SOURCE: EUROSTAT, 2010 PROJECTIONS

BROKEN EUROPE: NEW REALITIES IN THE OLD WORLD

The debt crisis has turned the formerly stable countries of Europe upside down. Even as the economy begins to emerge from recession, drastic efforts to avoid a debt-and-currency emergency have changed life in the Old World forever, ending ancient working traditions, rupturing families and communities and forcing long-dormant societies to seek new ways of getting by. Doug Saunders looks at the human effects of a continent's economic disintegration, visiting people and families in six countries at the centre of the crisis.

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