In for the long term

TREVOR MANT, MCT, GROUP TREASURER OF SLOUGH ESTATES PLC, TALKS TO **PETER WILLIAMS.**

PHOTOGRAPHER: ROGER HARRIS

Trevor Mant joined Slough Estates in 1989 and was made Group Treasurer in 1991. He currently has two assistant treasurers. The company operates a centralised treasury function, which is responsible for raising all funding worldwide and managing the interest rate risk and the foreign exchange risk. Property investment is a long-term business, and the company is building assets that will last 20, 30 or 40 years. Mant says: "We have to long-term finance. You can't have a £4bn property portfolio funded all on overdraft. If the banks suddenly wanted their money back, the only way you could do that was by selling the property."

Mant tries to match up the weighted average maturity profile of the company's leases with the weighted average maturity profile of its debt portfolio. The company's appetite for long-term debt is satisfied through the sterling eurobond market and it issues long-term bonds on an unsecured basis borrowed on the strength of the group balance sheet. The company has no secured funding in the UK. At the moment it has approximately £1bn of sterling eurobonds outstanding, ranging in maturity between 2010 and 2035. The six separate issues range in coupons from 5.5% to 7.125%, reflecting the market conditions at the time that they were issued.

Slough Estates also goes to the US private placement market to fund its US operations, creating a natural translation hedge so the exchange rate exposure is equalised. Having gone to the private placement market four times, it has recently started repaying some of the money it borrowed in the early to mid 1990s.

The final funding element is the committed banking syndications. These are medium-term borrowing, typically five-year committed revolving credit facilities including £415m and €150m and it has just launched dollar syndication. Slough Estates uses its revolving facilities to fund the development programme. When a property has been built and let it then moves into the investment portfolio and the company refinances the drawings against the revolving lines with long-term debt. Mant says: "We are continually assessing the portfolio for properties that have long-term growth potential or, if we think they are fully valued, we may look to sell the property. What we don't want to end up with is a great pile of cash. We want to use cash that has been generated to pay down some debt as that is the most effective way to use it."

Mant says that the company has a rigorous budgeting and medium-term planning process where necessary funding is identified and then raised as effectively as possible. Accountants for Slough Estates' six UK regions, as well as the European and US region, prepare the business plan and cashflow forecast. From that forecast Mant creates consolidated group cashflow and from that he recommends the funding strategy to the board. "I assess the market and try to identify the most appropriate way to fund the business." His assessment comes from, among other channels, talking with his

The property business

Slough Estates is one of Europe's leading property investment and development companies. The company invests mainly in business parks in the UK, Europe and North America that are identified as having the best long-term economic prospects. These centres have large, well-educated populations, a skilled workforce, good infrastructure and the capital base to ensure the long-term prosperity of the region. Such regions in the UK, for instance, are the Thames Valley, the M3 corridor and Cambridge. In continental Europe Slough Estates is interested in areas such as Greater Brussels, Paris and the Ruhr. In the US the company is now totally focused on California, in San Francisco and San Diego.

The company's best returns are gained from property development, acquiring greenfield or brownfield sites, securing the planning and developing the estate, some on a pre-let basis, some speculative. Typically these are developed with long-term ownership in mind.

At the core of the company is the Slough Trading Estate where the company is headquartered. That real estate – 500 acres on the Bath Road in Slough, Berkshire – has been owned by the company since shortly after the First World War. The original attraction was the 17,000 used cars, trucks and motorcycles left over after the war. The idea was to refurbish them and sell them to meet the steadily growing public demand for vehicles. Redevelopment of any property on Bath Road can expect to yield the company a return of 20%-25%. The Slough Trading Estate recently underwent a rebranding to emphasise its attributes of good modern business space that modern businesses want. It tries to work closely with its customers, anticipating their needs as they near the end of their lease, a policy reflected in the fact that a large proportion of Slough Estates' business is with existing tenants.

Mant acknowledges that Slough Estates' customers find it increasingly difficult to plan forward for the next 10 years or so because of the rapidly changing modern business environment. Over the past three years there has been weak demand for office space in the Thames Valley from the hi-tech and telecoms sector leaving an oversupply of space which has constrained speculative builds. Although there are now signs of an improvement, which means Slough Estates may start speculative building soon, to have office space ready in 18 months. Elsewhere the picture has been rosier. In the last year Slough Estates completed a 750,000sq ft research campus in the US for $175m before selling it to pharmaceutical giant Pfizer for $372m. In a similar vein, Slough Estates has signed up for a pre-let development of a 740,000sq ft science campus for a bio-science company Genentech in San Francisco, due to be built out over three years with a $300m cost.

relationship banks and forming a view on the state of bond and private placement markets, and the likely duration of funding from the bank market, assessing the key issues of price and capacity.

With the liquidity in the banking market, Mant took the opportunity to "blend and extend" the company's two main bank facilities, doubling the remaining duration and marking to market between the current and original margin.

After the Pfizer deal (*see The Property Business panel*), Slough Estates had £300m of cash in the group balance sheet. Recently, it has been in spending mode and purchased for £276m in total two industrial estates, one in Manchester and another in Bedfordshire. In the US, it purchased the Shoreline Technology Center and the Seaport Center in San Francisco for $350m. Those deals explain why the company has been in the market for dollar finance.

Prior to joining Slough Estates, Mant was treasury manager at Unigate from 1983-1989. During that time he worked with Daniel Hodson, the FD and a past president of the ACT, and treasurer Stephen Crompton, the present ACT President. Mant says: "As you can imagine, Unigate had some pretty stringent treasury policies laid down and when I came to Slough I thought we should have something not identical but appropriate to our business."

Mant started life as a banker with NatWest from 1972-79 working in retail banking in branches in west London and at local head office. He then wanted to follow the example of friends and spend some time working and travelling abroad. The bank turned down his request for leave, but he went anyway to the vineyards of Bordeaux, France. Back in the UK and with an inclination to continue working outdoors, he became a milkman. After some time on the milk round he was promoted but just as he was thinking it was time to return to professional life, a vacancy arose for an FX manager in Unigate's treasury department. And as Mant's last position at NatWest had been as an FX clerk it seemed a natural move. He says: "I thought I could do that job, and the mix of banking experience and dairy retail experience appealed to Unigate and I ended up in charge of Unigate's daily treasury operations as treasury manager." Not, as Mant admits, the conventional route to the treasurer's role.

Mant attributes his longevity at Slough Estates to the fact that the company looks after its people and is the leader in its market. He says: "I like the international mix of the portfolio. It keeps me busy." Mant's chief role is raising long-term finance and trying to eliminate exposures. His department is also responsible for credit checks on potential customers. So company accounts and business plans of would-be tenants all pass through Mant's hands. Sometimes credit enhancements – lodging a security deposit, having a parent company or bank rental guarantee – are required before the space is let. "We are looking at the business plans for start-ups. You come across people with mad ideas and some with very good ideas – you think 'I wish I'd thought of that.'"

Slough Estates prides itself on its ability to provide flexible space for business start-ups. Part of the Slough Trading Estate is designated as incubator land where space is rented on three-year terms and once tenants have been in place for over a year they can walk, paying only a three-month rent penalty. Mant says: "An entrepreneur with a good idea doesn't want to risk losing the family home with a 15-year lease. They want to see if they can make a go of the business. One in three probably grows and we want them to grow with us." He says there are now major tenants on the Slough Trading Estate that started that way. They too understand the value of being in for the long term.

Slough Estates' treasury policies

Mant has some clear guidelines for developing Slough Estates' treasury policies.

Interest rate mix

At least 70% of debt must be at a fixed rate of interest or there must be a derivative in place so the company knows what the maximum interest rate payable will be. In the UK the company has long leases with upward-only rent reviews; in the US a typical lease is for 15 years with 2.5% a year rental escalation. This protects the income side, so if the company can control its main recurring expenses – interest payable – earnings should follow an improving trend. The 70% fixed is not a target; sometimes 100% will be fixed. If rates are decreasing, the company will be closer to 70% fixed. The figure at the moment stands at 85%. Mant says: "This is a debt-intensive/capital-intensive business. If we have a £2bn debt portfolio and interest rates suddenly go up by 2%, it will significantly affect earnings if you have no hedging in place."

An international business

As an international business, the company has exposure to exchange rates and aims to hedge 75%-100% of the value of currency-denominated assets by holding liabilities of the same currency. Mant says: "Typically we don't manage 100% because we don't cover unrealised valuation reserves."

Counterparty risks

The company has policies on counterparty risks and limits per institution with funds to invest or interest swaps to trade. These are regularly measured and reported to the board.