Capital & Regional set to lose asset management of £1bn retail park fund

Morley to take control of Junction

Samantha McClary

Fund manager Morley is gearing up to take complete control of The Junction from Capital & Regional, which currently manages the assets.

Merrill Lynch analyst Bernd Stahli raised questions over the future of the £1bn fund after C&R failed to include it in its "core distinctive offering" during its six-month results on Thursday.

He said: "Is management distancing itself or perhaps signalling that it is ready to accept that it will lose the contract? Or perhaps even wind up the fund?"

The group – which announced a pretax loss of £201m and a £1bn reduction in its property under management in the six months ended 30 June – said that it was unable to comment on the future of the fund until a continuation vote takes place in 2011.

Chief executive Hugh Scott-Barratt said that C&R was "exploring strategic options" for The Junction, which is four percentage points away from breaching its 60% loan-to-value covenant. It owns 27.3% of the fund.

Scott-Barratt said that negotiations with its banks to "significantly enhance headroom within its banking covenants" were at an advanced stage, but that until a solution could be found The Junction would continue to sell assets.

EG revealed in May that C&R was trying to sell a circa £300m portfolio of Junction parks (3 May, p39).

A source close to the group said that The Junction – which owns 15 parks – was likely to be dramatically reduced in size during the next year.

Discussions about whether to sell further assets from the £2.7bn Mall Fund are also continuing. A decision is expected next month.

"All the funds will be much smaller in the future, and C&R will have a reduced role in its management," said an insider. "It will simply be an asset manager. Control is all with Morley now."

Scott-Barratt said that C&R was working with "vigour and aggression" to resolve The Junction's LTV issue, but added that this may lead to its restructuring. But he ruled out a rights issue.

"We don't want to find ourselves in a position where we are overextended in terms of capital. Financial stability is our priority," he said. "Over the next 6-12 months, we will either be disposing of assets or looking at more fundamental ways of protecting value."

In a bid to "free up capital" from its wholly owned assets, C&R has put its HQ on the market. C&R has owned the 21,000 sq ft offices at 10 Lower Grosvenor Place, SW1, since 1999, when it paid Grosvenor £12.5m for the freehold. It is selling the property with vacant possession.

Westminster wants more space at Chelsea Barracks

Christian Candy's CPC Group and Qatari Diar could be forced to make further alterations to plans for their £3bn redevelopment of Chelsea Barracks, SW1.

Papers prepared for the council's planning committee reveal that the public space proposals in the 2.5m sq ft scheme fall short of being "sufficient and meaningful".

Officers said that the proposals to build 14 buildings – comprising 618 flats, an 108-bedroom hotel and 23,000 sq ft of shops – had "significant merit", but that there were a number of key issues that needed further resolution. These include the principle of the masterplan, the effect on surrounding residents, the disposition of proposed land uses, and its sustainability.

Chelsea Barracks: CPC Group and Qatari Diar plan £3bn redevelopment

Planning officers added that the demolition of the late-Victorian barracks' chapel – contrary to planning brief advice – will be accepted only if "compelling open space" is provided. The Candy brothers will meet Westminster next week to discuss the proposals.

If the committee pushes for public space alterations and the retention of protected trees the Candys will be forced to revise at least two of the buildings.

English Heritage, one of 39 bodies formally consulted over the development, object to the proposal's effect on the Grade II-listed Royal Hospital complex, and is considering an application to list the chapel.

This week, local residents wrote to London mayor Boris Johnson and Westminster claiming that there was a "huge groundswell" of opposition against the scheme.

The Candys, who said that the council had been "extremely supportive", submitted the plans for the £1bn site in April, after scaling back the height of several buildings.