Morrisons: wealth extraction not wealth creation

The financial press has recently been enthralled by the feverish bidding war between private equity funds for Morrisons, the UK's fourth largest supermarket chain.

Private equity "investment" takes different forms but is usually based on leveraged buyout in which the fund fronts a fraction of the purchase price and borrows the rest (60-90%). A new management team is brought in to "streamline" the company, essentially by cutting jobs. Until it can be resold, interest on the debt is serviced by the company's cash flow and/or sale of its assets.

In the highly competitive supermarket business, margins have to be lower than in almost any other type of business so cash flows are never going to make much of a dent in the high interest repayments required in this model. One wonders why selling milk and toilet paper in the UK is so attractive to American private equity billionaires.

What distinguishes Morrisons from other supermarket chains is that it owns most of its stores. Its January 2021 Financial Report estimated the value of its "Property, plant and equipment" at £7.4 billion (78% of the £9.5 billion purchase price). Most of this will correspond to the value of the land under its buildings and vast car parks, and it is this land which private equity wants to get its hands on. (There is a clue in the fact that one of the trio of funds behind the Morrisons takeover is Koch Real Estate Investments whose publicity claims "*Our management teams work to align flexible capital solutions with real estate assets and operating companies to drive mutual benefit*"). The new management may sell some of this land or, more likely, they will hive it all off into a property management division that will then charge rent to the retail division. This sale-and-lease-back strategy creates an income-generating asset with reliably rising returns. In addition, when and where local conditions change and land is required for housing rather than retail and parking, change-of-use planning permission can be obtained and parcels sold off for many times their current value (with average uplifts of the order of 100-fold).

We have seen this model of financial engineering having disastrous consequences in the care home industry: Southern Cross Healthcare which ran 750 care homes housing over 37,000 residents declared bankruptcy as a direct result of this strategy compromising its resiliency to a small fall in occupancy rate. However, little can be expected to change with any Conservative administration given that half of the party's funding comes from the financial industry and many of its leading lights grew up in that sector. Ominously, a limited company called NHS Property Services was set up in 2013 to manage publicly-owned property valued at around £3 billion; this looks suspiciously ripe for the same type of pillage.

Labour Land Campaign Secretary Carol Wilcox says, "*The whole, long story of the privatisation of nationalised industries and public services is largely one of the transfer of precious income-generating assets—notably property and land—to the private sector, often based abroad and all too often in tax havens. In addition to all the well-characterised virtues of taxing wealth (especially land wealth) instead of productive economic activities like work, trade and enterprise, a corollary benefit of recovering the unearned income that derives from simply owning land is that it would undermine the destructive, asset-stripping business model of private equity parasites that only makes rich people richer and poor people poorer.*" ENDS

The Labour Land Campaign is a voluntary organisation working for land reform.
It advocates a fairer distribution of land wealth through a Land Value Tax.

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