

MONEYWEEK

An unloved small-cap property company



By **Tom Bulford** Sep 22, 2011

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"To be honest, I don't know how we got here", says a reflective Paul Bassi.

Bassi is Birmingham's best known property investor. I spoke to him recently at his elegant head office in the heart of the city's financial district.

Bassi was referring to the snowball success of his company, **Real Estate Investors (RLE)**. He is modest – he says that RLE has grown by simply matching thick 11% yields on Birmingham property to 4% borrowing costs. That's an incredible proposition.



Birmingham is on the rise. Photo: [jo-h@flickr](#)

Think about it – even if Bassi's properties were half empty he could easily cover his interest bill. This is a far cry from the early 80's. Back then, he had to borrow at 7%-8% to buy properties yielding 5%-6%. But even so, Bassi was able to make his fortune through a combination of rising property values and an eye for a good deal.

Bassi had plenty of competitors then. Now he has none. "St Modwen (**SMP**) goes for regeneration projects and Mucklow (**MKLW**) wants industrial sheds", he explained. RLE is the only buyer in town and he is still doing the deals to prove it.

Provincial property makes London seem like a real rip-off

Last week Bassi snapped up a retail park in Derby, a modern office block in Leicester and a retail and office block in Birmingham. He paid £13m for an annual rent roll of £1.55m (a yield of 11.8%), and sees plenty of opportunities to improve the latter. Real Estate Investors now owns some £75m of property and has the financial firepower to boost this to £100m.

The City, though, is showing no interest. Perhaps in one respect Real Estate Investors is a victim of its own smart purchasing. With few deals taking place in the local market, valuers are struggling to find yardsticks. "So when I buy a property on 11% yields," says Bassi, "that sets the standard. The valuer then assesses all of my other properties on the same yield basis, which trims their asset values".

Such are the inadequacies of comparative valuation techniques, but Bassi perceives a second problem – London. "Nobody wants to invest in UK property today unless it's in London", he reckons. He is dismissive of big institutional property investors, such as the insurance companies. He accuses them of

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selling out of dirt cheap Midlands properties "which they have probably never even visited" in order to plunge their money into London properties that yield not 11% but 3.5%.

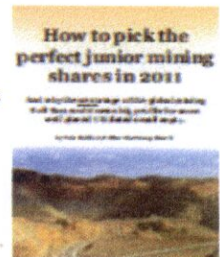
And he has little time for City financiers either. "They think that Birmingham property is nothing more than derelict factories," he told me. "But", he said, "we are not buying rubbish." With that, he showed me glossy photographs of his recent property purchases and said: "You could eat your breakfast off the floor, Tom!"

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Birmingham is on the rise

Bassi is buying properties with good tenants, with scope to boost rental income, and at prices below building costs. He is also buying them at prices far below those paid in the past. We took a brief stroll to look at two of Real Estate Investors' other buildings. "We paid £4.5m for that one," he said pointing at an elegant facade in Colmore Row, "but the guy we bought it off paid £6m for it in 2002."

Like any good property developer, Bassi has all the numbers at his fingertips, and knows exactly what is going on in Birmingham's property scene. But his optimism is not founded solely on a grasp of the numbers. He senses that Birmingham is on the rise. "We had our crisis long before Lehman went bust," he explained. "We have been looking after ourselves ever since the closure of the Longbridge car plant in 2005."

And there is a second factor that Bassi, himself of Sikh origin, understands well. Birmingham, he told me, will be the first UK city to see its immigrant population outnumber its "home grown." These immigrants are hard-working, entrepreneurial and they support their families. With their impetus Birmingham's residential market is active and, contrary to popular belief, the local banks are lending again.

I have met Paul Bassi three times and have been a shareholder in Real Estate Investors since our first meeting in 2007. I rate him as a smart operator and, although he will not admit it, he is ambitious too. Having featured in the *Sunday Times Rich List*, Bassi can already take his place among Britain's most successful property tycoons.

So far my shares have not done me much good and I am certainly no great bull of UK property. But when eventually the sector hauls its way out of the trough, Birmingham and Bassi could be a winning combination.

It's a pretty contrarian idea, owning a UK property share. But I like the company. Even if it doesn't look smart, I'm prepared to hold for the long term.

• **This article is taken from Tom Bulford's free twice-weekly small-cap investment email The Penny Sleuth. [Sign up to The Penny Sleuth here](#).**

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