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BUSINESS COMPANIES RETAIL

Gerry Harvey defends how retailer values $2.9bn property empire

By Roopa Gulati
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Harvey Norman executive chairman Gerry Harvey has defended how the retailer discloses the value of its multibillion-dollar property portfolio, arguing that providing investors with a breakdown of individual properties would give its rivals an advantage.

ASX-listed Harvey Norman's accounts detail that it has one-sixth of its $2.9 billion portfolio valued every six months by external valuers with the remainder assessed by the company's directors. Listed companies are required under accounting standards to revalue their assets regularly.

Mr Harvey, the company's founder and major shareholder, told the *Sydney Morning Herald* and *The Age* that he led the process for the board alongside the company's 30-strong internal property team.

"They are valued by me," he said.

Mr Harvey said once he was in agreement with the value determined by the property team, that valuation was presented to the company's directors.

Mr Harvey, who holds a 31 per cent stake in the company according to its most recent annual report, said most directors considered the valuation put forward through this process to be fair.

"We can't do it any better... it's foolproof"

Gerry Harvey

"We can't do it any better... it's foolproof," Mr Harvey said.

Harvey Norman's property valuation practices do not break any rules and the boards of other companies lead valuation processes. However, experts have criticised the lack of transparency around the process because the company does not detail which properties were independently valued or how much each asset in its portfolio is worth.

Under Australian accounting rules, valuation movements contribute to or detract from a company's declared profit.

For the properties that are externally valued, Harvey Norman uses market leading firms including Savills, Knight Frank and CBRE. In its most recent accounts, Harvey Norman declared a 2.4 per cent increase in the value of its property portfolio (a lift worth a $70 million).

Gerry Harvey has explained how his company values its property assets. BEN RUSHTON

The increase was similar to some other property companies such as Aventus Group, which increased the value of its large format retail portfolio by 2.5 per cent in the same period.

Mr Harvey argued that providing a breakdown of values would give his competitors an edge.

He said he believed the company's properties were undervalued by "at least $200 million".

Most major retailers do not own the properties they occupy instead renting from landlords.

Harvey Norman chief financial officer Chris Mentis added that the company's auditors, Ernst and Young, had validated the accounting for all its assets.

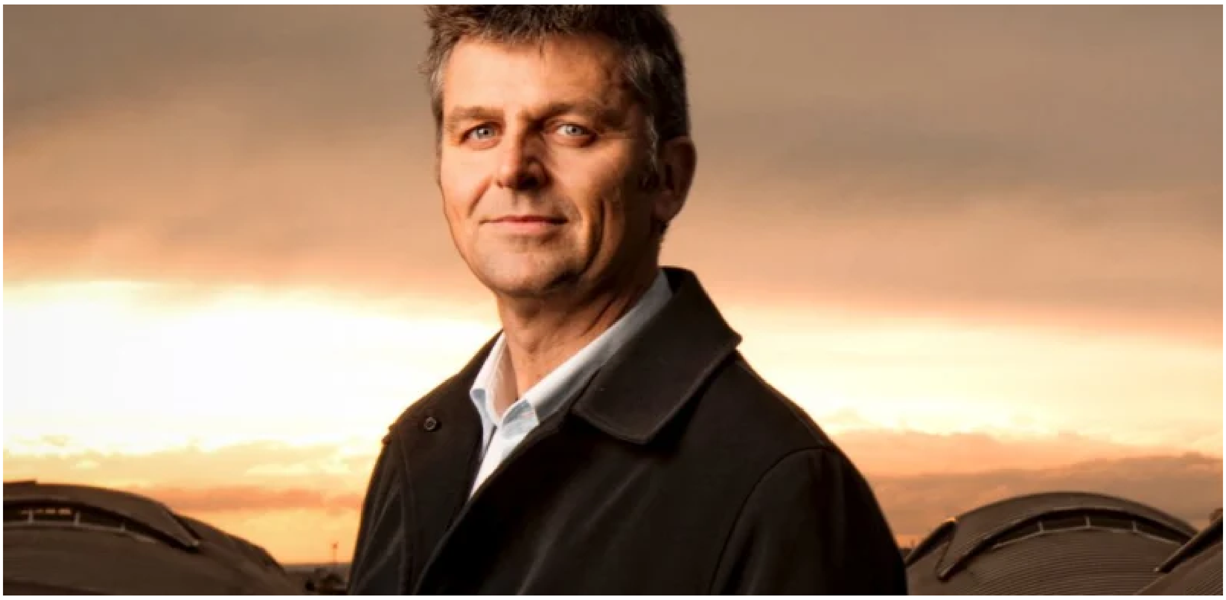
"We have an unqualified [audit] report," he said.

Dean Paatsch, from investor advisory firm Ownership Matters, has raised concerns about Harvey Norman's reliance on director valuations given the importance of property to the company's balance sheet.

"Most investors would favour more transparency," he said.

Mr Paastch said that at the very least Harvey Norman should disclose its full list of properties so investors can form their own views, particularly given previous questions raised over how the company supported franchisees.

"Commercial valuations are tricky but at their base they rely on rent. Harvey Norman's unique model of providing financial support to their tenant franchisees would make it difficult for valuers to work out the difference between rent charged to franchisees and rent actually collected," he said.



Ownership Matters chief executive Dean Paatsch has concerns about Harvey Norman's valuation process. ROB BANKS

Peter Swan, professor of finance at UNSW Business School, said Harvey Norman should provide more detail.

"Given the size of the valuation of Harvey Norman, one would expect the accounts to indicate the location, size and land ownership of the properties," he said.

In its most recent accounts released in February, Harvey Norman reported that it had a $2.93 billion property portfolio, an increase from $2.88 billion in the past year. Property accounts for 93 per cent of its net assets and 60 per cent of its total asset base.

Mr Harvey said the company was not reliant on the property portfolio, arguing the company would be on the same footing as competitor JB Hi-Fi if it were simply a tenant.

"Cash flows can run the whole deal," he said.

Mr Harvey said the section of the commercial property market occupied by Harvey Norman stores remain robust.

"It's all residential," he said of recent worries about the property market.

The company has decided to pay a dividend of 12 cents per share in spite of harsh retail conditions over the past five years.

Mr Harvey said the board of directors were comfortable with the dividend and considered it reasonably conservative.

"There is no need for a whole heap of capital at the moment," he said.

Mr Harvey said that if it was a private company and he owned the entire business, he wouldn’t pay a dividend.

"I can make more money by leaving it in the company rather than taking it out and investing in something else," he said.

Roopa Gulati

Roopa is a journalist for The Age.