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Money in the tills is key for Morrisons

Arbitrage is the practice of taking advantage of a price difference between markets.

It's usually a City term, but is actually common in retail. Buyers ask for quotes in both euros and sterling, and spot that the supplier is using an old exchange rate.

If they then take the better euro price and immediately lock that rate in by buying euros, that's arbitrage.

But the sharp suits are now threatening to descend on food retailers, believing they have spotted an arbitrage opportunity of eye-watering size.

Morrisons is particularly in the frame because its current trading performance weakens its defences against this sort of attack.

Morrisons has said its property has a market value of "some £9bn", which is pretty much the same as its £9.1bn enterprise value (ie its £6.6bn market capitalisation plus about £2.5bn debt).

Supposedly Morrisons has a very valuable property portfolio with some apparently worthless supermarkets on top. On this basis, you can imagine why City types think it would be a good idea to sell the property off to specialist investors.

Morrisons is forecast to make a profit after tax of some £500m next year. It could notionally pay rent at, say 5.25% yield on that £9bn property, and still have a profit after tax of £127m. This looks like a decent profit stream from those 'worthless' supermarkets.

Morrisons needs to be making more sales to guarantee its value

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Food retail used to excite property investors because Open A1 (ie food) planning consent was difficult to get and grocery retailers could earn superior returns on capital which were not yet fully reflected in open market rents.

Food retailers were desperate for new superstore space. Initial premiums would often be paid by grocers to take on leases, on top of paying market rents. A superstore could well be sold to another food retailer at a price well above any valuation based on 'market rent'.

Owning freeholds of superstores gave almost guaranteed income and a strong chance of value appreciation for property investors.

But guaranteed income requires the continued good health of the resident supermarket. Value appreciation ultimately relies on the hunger of other food retailers to buy second-hand stores.

With Morrisons' current trading issues, the former is less guaranteed. In the increasingly tough saturated market, with growing home delivery, continued growth in retail property values is also less certain.

The decision to open another superstore is much tougher than it used to be. Returns are lower. Demand can be met by filling in with cheaper convenience stores or by home delivery, rather than by buying an expensive second-hand superstore.

All this value in the end comes down to retail trading. When customers stop putting money in the tills, or start putting in a bit less, then value seeps away. And the more highly geared the financial structure, the more quickly this can happen.

Perhaps Morrisons' arbitrage is best left in the hands of their buyers, not the City.