



evolve... facilitating access to commercial property

Newsletters 2004

evolve Fund Services Ltd – February 2004

Property Investment Returns:

- 2003 all commercial property return of 11.3%. (IPD monthly index).
- Long term average of 11.5% pa. (10 years to December 2002 – IPD annual index).
- Retail warehouse investments have delivered 16.4% pa over 10 years to December 2002 (IPD annual index).
- The office market was the poorest performer at 3.4% in 2003 (IPD monthly index).

Source: Investment Property Databank (Annual Index figures available in Spring 2004).

Our view of the market

2003...saw an increase in medium term borrowing rates, changes to stamp duty, a poor office occupational market, a continuing increase in residential values, but intense interest from all types of investor in commercial property. Why?

The commercial property return of 11.3% in 2003 (9.7% in 2002) can be contrasted with a +20.9% total return for FTSE All-Share (-22.3% in 2002). Commercial property can be seen to generate attractive returns without volatility.

During the financial year 2003/2004 evolve has to date

facilitated access to the commercial investment market for 43 private investors; in all c£3m of equity (c£10m of property value), the majority from SIPP or SSAS pension funds. This excludes c£1m of equity that is expected to be invested in the St. Andrews Norwich Limited Partnership in March 2004.

2004...will witness improving occupational markets, thereby bolstering an already huge weight of money allocated to the sector (that will not be lessened due to rate increases). In this context, astute stock selection and providing real investment opportunities remain key

criteria for evolve; thereby providing investors with tangible alternatives to the large pooled funds and overheated auction rooms.

evolve will continue to seek institutional grade commercial property investments that are well placed to deliver attractive returns through demonstrating better than average rental growth prospects, whilst leased to tenants with strong covenants. We are not primarily motivated by tax-driven deals or structures.

Insodoing evolve will focus on the least volatile sectors of the market, those for which planning consents are scarcest (eg retail warehouses). We also believe that other sectors such as budget hotels and day nurseries are attractive for the medium term investor. We are wary of the office sector due to its more volatile nature. Vacancy rates in the City are expected to peak in 2004.

2004 will also see the prospect of a US style REIT in the headlines. If launched in 2005, REITs may further increase liquidity in the sector and provide a greater range of more 'institutional' offers for the 'man in the street'. As such, REIT rumours have recently bolstered shares of the quoted property companies, but not even the devil will know the detail for some time.

Overall, evolve is cautiously optimistic for 2004.

The St. Nicholas Retail Park Fund

The St. Nicholas Retail Park in King's Lynn is now close to being practically completed.

The investment is a freehold out-of-town retail park in King's Lynn that has been pre-let to tenants such as Wickes, Choices and Farm Foods. It will have over 350 car parking spaces and is well located fronting a busy route that serves the town centre.

A non-recourse loan is being provided by the Bank of Scotland.



Some questions answered...

Who can invest in evolve's syndicated commercial property funds?

Investors can be sophisticated private individuals (or their SIPP), companies (or their SSAS), property investment companies, charitable trusts and overseas / off-shore investors.

What is the minimum investment?

£25,000 or £50,000 is typically the minimum, with upwards multiples of £5,000-£10,000.

What types of property are acquired?

evolve aims to select opportunities with above average rental and capital growth expectations. Investments let on long leases to strong covenants with upwards only rent reviews are of course preferred.

evolve uses its Directors' experience in the commercial property investment market to source and select those opportunities that display optimum growth prospects, coupled with low volatility.

What are the likely investment returns? How much will my investment be worth at the end?

Properties are selected due to their forecasted and verified returns exceeding 8-9% pa, typically in the 10-12% pa range. Generally each opportunity will be selected with a view to doubling an investors' equity over a seven year period.

If I am interested in investing, how quickly will I typically need to respond?

An Information Memorandum for each Fund is circulated when evolve agrees terms to make an acquisition.

Applications will normally need to be submitted via an investor's financial adviser within a 3-6 week period from receipt of an Information Memorandum. Money transfers to a solicitor's Client Account are required within a further month or two.

How long is my money likely to be tied up for?

Each Fund is established with a six to seven year business plan. There may be opportunities for the investment to be sold at an earlier date, but investors should not invest in a Fund if they think they will want to liquidate their investment any earlier. Units in an investment may of course be sold by private treaty in the event of an untimely 'death or divorce' scenario. Each Fund offers investors a guaranteed opportunity to exit the investment at the end of the business plan period.

So what if I am desperate to sell my units?

Although there is no established market for interests such as these, any investor that seeks to sell their interest prior to the investment's maturity will be able to contact the Fund Operator. The interest will initially be offered at market value to other investors in the Fund, and afterwards to outside investors. A sale cannot be guaranteed but the quality of the property investment should mitigate liquidity concerns.

How will each opportunity be structured and operated?

Each Fund is promoted and operated by a FSA Regulated business. The structure usually comprises a limited partnership that incorporates an exempt property unit trust, thereby facilitating tax-exempt and non-exempt investors to participate side-by-side. Accounts and property valuations are distributed to investors annually to aid submission of tax returns.

Should you have any other questions, or would like to receive information on evolve's future opportunities or past newsletters, then please contact either Hugh Colville or Simon Hawley

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