



evolve... facilitating access to commercial property

Newsletters 2006

evolve Fund Services Ltd – February 2006

'Time is but the stream I go a fishing in'

Henry David Thoreau

Three months since we last wrote but commercial property performance moves forward apace. We await the publication of the IPD performance data for 2005 but a figure of c18-19% expected. UK equities will probably outperform UK commercial property over the past 3 years, but property shows a consistent 10%pa plus return over pretty well any time frame one cares to mention.

The current pricing of commercial property investments is perhaps unsurprising when one considers the low cost of finance (5 year money at 4.65% or thereabouts), the historically low levels of inflation (and an expectation that even if it does rise it will not be by much, and property rents tend to follow) and long dated index linked gilts trading at a real yield of under 0.5%! evolve acquisitions of substantially index linked investments let to Travelodge in St. Austell, Nottingham and now Camberley at yields of c5.75-6.0% look very attractive by comparison, with similar deals in the marketplace now mooted at 5 to 5.5%.

If one keeps commercial property investment firmly linked to the longer term time horizon, and a concentration on its income generating characteristics is maintained, then it still looks very attractive compared to other asset classes. In the past year investors have been prepared to accept a lower return over time. Yields have hardened and continue to do so. An unsurprising eventuality... and perhaps an inevitable consequence of a seemingly less volatile economic climate.

Pension funds have had their fingers burnt and they are now shy of volatility (hence the "ridiculous" pricing of index linked gilts). They have been net investors into property over 2005, but collective investment schemes of the type produced by evolve have become significant players in the marketplace.

REITs are on the horizon. We do not doubt that these vehicles will form an important role for the retail investor, but the devil is in the detail... and this detail is still not known. It is not long since the chancellor announced that SIPPs will be allowed to invest in residential property and grandfather clocks. How different the world looks today. The combination of conversion tax, expensive capital values for secondary investments, portfolios weighted towards volatile office investments, property company shares on a drive upwards (in anticipation) and an unexciting short term rental growth forecasts for the sector as a whole...investors and their advisers will need to pick their REIT very carefully.

In the excitement surrounding the REIT it seems to have been forgotten that they will have to perform to work! It is not just about liquidity.

Concentrate on time... 5yrs and more ... and select the best assets where the supply of land is tight and the demand from tenants is maintained.

A bit like fishing?



St. George Fund, Camberley – Site acquisition January 2006. Travelodge, KFC and others.

St. Austell, St. Christopher and St. Ursula Practical Completions – November 2005



St. Ursula Oxford showing tenants such as Topps Tiles and Bathstore.com trading (February 2006).



St. Austell Travelodge, Costa Coffee and Johnsons trading (February 2006).



St. Christopher Nottingham newly opened Travelodge hotel (January 2006).



Pizza Hut trading at St. Austell (February 2006).

St. Mary Fund – Closing date 28th Feb 2006



The St. Mary Fund nears closure with equity commitments for the SAS Radisson hotel in central Bristol sought for the 28th February 2006.

In the meantime demolition work at the property is underway and the fund formation, conveyancing and development funding legal work have commenced.

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