



evolve... facilitating access to commercial property

Newsletters 2007

evolve Fund Services Ltd – February 2007

“It is commercial, it is property, but not as we know it.”

We start 2007 with Isaac Newton's theory involving apples, and 'what goes up must come down' coming under scrutiny.

The big question in the property world is pretty similar. The markets continue to produce astounding performance. Another 18% according to IPD in commercial property for 2006. Surely as commercial property is viewed as a...'peach', it must come down?!!

In our view this is not the time to try and 'buy the commercial property market' as it is becoming increasingly apparent that more secondary investments are over priced. We agree with those commentators that criticise the retail giants who urge us all to blindly diversify into commercial property. Ouch.

However, a stable economy and sustained growth in GDP in UK PLC when coupled with a limited supply of land and quality investments with sustained demand from occupiers and investors suggests prime commercial property is well supported in price terms. There is still a tremendous weight of money chasing very few quality opportunities. The overall market effect will be that returns will be lower for the sector as a whole but that is really only due to the weight of more secondary stock in the market/IPD index and yields plateauing.

We remain of the view that opportunities exist when carefully selected and where investments are backed by quality property assets.

Institutional grade investments still have a place in an investor's portfolio provided a longer term view is taken, the income generating and growth characteristics are appreciated (with SDLT at 4% it has long outgrown its attractiveness as a short term trade – without taking a lot of risk), and it forms a balanced part of the investor's portfolio.

As far as the last point is concerned we understand that pension funds have now increased their weighting from less than 5% in 2003 to 8%. Certain newspapers exclaim that is a near doubling of investment in the sector. A more rational analysis would be that this is a very low percentage for an asset with such low volatility and strong long term performance... it should be much higher! That is why the weight of money is still there. That said, the pooled institutional funds are sitting on piles of cash and having to compete hard in a thin market. The wiser investor/adviser will research the managed funds or build a portfolio of interests in collectives – in our view.

Since we last wrote REITs have started to appear. As vehicles that are exposed to the wider market they clearly have an interesting period ahead and we will monitor their performance closely.

Retail is being knocked and yet Christmas seems to have come and gone with apparently happy retailers. There are a few that disappoint as ever such as MVC, Kwik Save, Right Price Tiles and Benjys but the property market always changes. Who occupied all those mobile shops 5 years ago? And we can blame those greedy private equity players... or their banks.

The Gherkin in the City of London has been sold for £600m... a record, but we were not involved.

evolve has turned its attention to the Strata Fund... more overleaf. We believe this is a very exciting opportunity to invest in a business that funds residential developers with track record in the South of England. It is commercial, it is property, but not as we know it! Please turn over and read more.

Thus, we remain steadfast believers in our 'core' principle of seeking out opportunities within the property sector as a whole that can deliver interesting performance with contained risk.

Strata Fund – Marketing Underway

The Strata Fund LLP has now been formed and the Information Memorandum is available for those interested in investing.

This is a very exciting project for evolve, working in conjunction with Davon and promoting through our friends at PIL.

Applications are already being received from SIPP investors, as well as those attracted by the availability of Business Asset Taper Relief and Business Property Relief (i.e. inheritance tax relief).

The anticipated IRR is 13% p.a. for the 7.25 years life of the LLP. Distributions are payable from the end of year 2 onwards.

The target Fund size is £15m with the expectation that the Fund will invest in circa 30 to 50 different developments / developers.

As a trading business backed with property assets we view the project as a commercial opportunity for private investors.

As ever it meets the evolve style of focusing on property where demand exceeds supply so it suits the SIPP investor. This time we can also let the property dog wag the tax tail as well:

- Spread of Risk;
- Attractive Return – 13% p.a.;
- Pension Suitability; and
- Inheritance Tax & BATR Advantages.

St. George Fund – Practical Completion



Practical Completion of the new Travelodge, KFC and Bathstore on the A30 in Camberley took place on the 1st December 2006.

This c£6.75m Fund is formed purely of pension investors using their SIPPs. The property was developed by Travelodge in joint venture with evolve and the Fund. The lucky people of Camberley can now satisfy their quest for chicken.

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evolve Fund Activity

Recent lettings have taken place at St. Christopher Nottingham greatly increasing the rents receivable. All the retail units are now let with Everyday Loans taking the last unit after a bidding war with another interested party. The basement car park has also been let to a local firm of lawyers. The rear Restaurant is now the only vacant space.

Discussions are ongoing with the developer on advancing the construction of the phase 2 and 3 buildings at St. Nicholas Kings Lynn.

The new Radisson hotel in Bristol is now under construction for the St. Mary Fund. Practical completion is anticipated for June 2008.

Bathstore (evolve tenants at Oxford and Camberley) have now acquired the Choices unit at St. Austell by way of assignment.