

“If you treat real estate like an equity, it will behave like one...”

So what has happened to commercial property? What is the evolve take on the last few months? Is that the end of the public's love affair with commercial property?

In a nutshell, the 5 years from 2002-2007 witnessed an unprecedented popularity in commercial property from the private investor. Why? The stock market was volatile and 'bricks & mortar' were seen as a safe hedge against inflation and Enron type corporate implosions. Wealthier private investors flocked to the auction room and invested in closed ended limited partnerships and the like. This was fast tracked by businesses that hitherto had marketed film partnerships, EZTs, VCTs and other such tax schemes, using a network of introducers and investors plus the occasional carrot of capital allowances. Then, as more and more investors and their advisers extolled the virtues of a 'holistic' approach to portfolio investment, equity was invested into institutional funds and the new REITs in ever more 'retail' sized lumps.

Joe investor from the high street was soon able to invest his ISA allowance into a large, pooled fund and a whole new range of opportunities in Europe (Eastern Europe in particular) and other 'exotic' locations such as the Cap Verde Islands were promoted to investors - 'high net worth' and those called Joe! TV programmes, seminars and newspaper articles clearly suggested that if it was a property fund then it was a licence to print money. Right? Hmmm...for a while it seemed OK. There was a constantly increasing weight of money chasing after a limited number of investment opportunities, thus feeding and sustaining the 15-20% p.a. IPD returns which those of us in the commercial property market knew was a bubble waiting to burst. Then there was the 'pop' and the 'big sell' and property falls out of favour...for many of the wrong reasons...to where we are today.

“Many of the wrong reasons”. Confused?

We'll try to explain.

First, short termism. Let's look back to mid 2007 and a hypothetical fund called Bill Board Property Fund. Sums paid by Bill Board for UK commercial property in Q2 '07 undoubtedly looked pretty scary to most professionals in the commercial property market. Certainly they did to evolve. They had also looked that way for 2-3 years. Valuations of institutional portfolios were correspondingly scary. So if Joe bought units at what turned out to be the very end of the boom cycle (ie just before going on his summer hols) he then suffered the 'Credit Crunch Correction' to the maximum effect. The '20-30% crash in UK Property Values' exclusive headline might actually be right. But headlines of that ilk only looked at performance over the shortest of short terms, and of course benchmarked their stats from the very top! Hardly representative, Mr Editor? If instead the journos were to look over the medium term, or even longer, then a less sensational, but perfectly satisfactory investment story would emerge. Yes, even accounting through the CCC. There is little doubt that too many people have acted on too many articles about commercial property's performance over the short term. It's pretty sad.

As an aside, why oh why did Bill Board's property 'experts' not recommend to stop taking applications, or return equity even? We can surely only wonder!! It must have felt like a feeding frenzy. But what happened was that the scary pricing purchases in Q2 '07 was only being fuelled with the benefit of Joe's money, not the fund manager's. Would the fund manager at Bill Board have put his own money into the deals he transacted last summer? Always a good tester!

Then there is the second issue of liquidity. Open-ended Unit Trusts and their like were the clear winners in 2002-2007 receiving hundreds of millions of pounds of investment from Joe and his friends. Why was this? Well most IFAs in the UK can only advise clients to invest in 'liquid' property funds such as those run by funds with big

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Seen the Investment Report 2008 & Website?

If you have not yet received a copy of the new evolve Investment Report 2008 then please let us know. We will happily send you an A5 hard copy or e-mail a pdf version.

Also, please do visit the new evolve website on www.evolvefs.co.uk.



STRATA

Final Closing 10th April 2008

The Strata Fund has been trading for 10 months now in accordance with the Strategic Business Plan. In summary, it has:

- Completed 6 loans totaling £4.4m (GDV £29.5m);
- Issued terms for 2 more loans totaling £1.3m (GDV £8.5m);
- Rejected developments worth over £403m!!

As at 20th February, the Fund has:

- £21.6m of loans 'Under Review'; but
- £4.5m only to lend.

Accordingly, evolve is working hard to increase applications from the current total of £10.8m to £15m by the Final Close date.

It may also recommend and seek Investor approval to extend fund raising for 12 months.

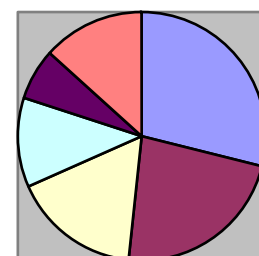
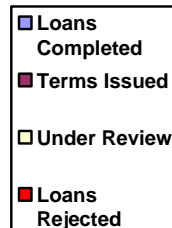
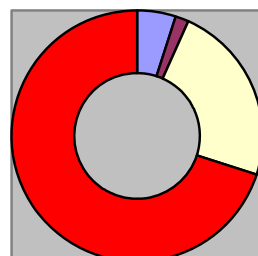
The cautious approach adopted by Strata can perhaps more easily be shown graphically:

The £21.6m total loans currently 'Under Review' comprise 24 schemes proposed by developers with good track record, one of the foremost Strata requirements. They will also have their own USP - perhaps in terms of design, location or a genuine lack of supply.

Strata only considers developments that satisfy a wide range of requirements. This naturally steers the loans away from those sectors of the market considered by the Strata team to be most at risk.

Trading Statement 2 (dated 11th January 2008) details the Fund's operation and trading approach in more detail. Please do ask for a pdf copy if you have not read it.

If you are interested in receiving the Information Memorandum and investing pre 10th April 2008 then please ask your financial adviser to contact us or e-mail info@evolvefs.co.uk.



All Saints Asset Management – Activity Update

St. Nicholas - Planning applications have been submitted for further development at the retail park in King's Lynn owned by the St. Nicholas Retail Park LP.

St. Christopher - A rent review settlement for St. Christopher Nottingham has pushed the zone A rent to £38 psf (previously £31 psf). ASAM has commenced management of the Nottingham property. The external elevations have recently been refurbished.

St. Margaret - The purchase of the retail warehouse investment in Grantham let to Dunelm was completed on the 21st December 2007. The St. Margaret Grantham Limited Partnership was formally closed on the 17th September 2007. ASAM has been appointed as managing agent and the first quarter's rent has been collected.



Meridian Gate RadissonSAS Hotel, Cardiff



In early February 2008 evolve secured credit committee approval for a £27m senior debt facility for the new Radisson SAS hotel that is currently under construction in central Cardiff.

evolve is assisting existing private clients at this funding stage and will take on a Fund Management appointment as the hotel nears opening.

For those that know Cardiff, the property is very well located on Bute Avenue, on the southern side of the road to the extension of the St. David's Centre.

Those that might want to stay there will have to be patient for a little longer. The hotel will not open its 215 rooms and 4 star facilities until November 2008.



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posters. Obviously property is the least liquid of all the main asset classes, everyone investing in property knows that. Don't they? Accordingly, it is our 'considered' view that certain IFA compliance departments, certain portfolio trading platforms and some of the more institutional SIPP administrators, are doing their clients a large disservice by insisting that every part of every portfolio needs to be able to be sold in a nano second like an equity. Property should only be held for the medium term. They definitely should not have an 'instantaneously liquid' box to tick.

This liquidity requirement is also counter intuitive. Investors like commercial property for many reasons. The fact that it is a good hedge against inflation (and rising interest rates) and its performance is non-correlated to the other asset classes are up there on the podium. But one of the medals definitely goes to the low level of volatility. But an insistence on liquidity by Trading Platform X or Compliance Officer Y, means an equal insistence on volatility. NB shares in the British Land REIT have a 12 month high of 1615 and low of 820 (97% variance). NB the stampeed of private investor redemption requests. To us it makes as little sense as trying to get performance from commercial property by only buying shares in the quoted real estate sector. No sense.

As Fund Managers we are fortunate that our investors obviously appreciate these 2 points – only one of the 500 odd investors in all our funds has sought to sell his/her units in the last 6 months. And then he changed his mind!

So what now? Well, the property industry at large has quickly set up a vast array of 'Exciting Opportunity' or 'Special Ventures' funds designed to lap up distressed disposals by some of the bigger institutions. Secondary property is looking more distressed. Poor old Joe loses again. 'His' properties are perhaps being sold at a loss, or the prime ones likely to perform the best in the future are sold to help meet redemptions – they will sell fastest. And he won't be investing in the good 'Opportunity' funds. His fingers are still rather sore from their recent burning. Whilst there have been a number of purchases by the new Opportunity Funds, not quite at 'bargain' levels in our book, we are starting to see deals that look better value. Given that we only found 2 in the whole of 2005-2007, this is good news.

So the irreverent gospel 'according to' evolve for Feb '08 picks up some of the lessons taught by the likes of Bill Board, Mr Editor and certain other players over the last few years...1. Don't invest in property if you are expecting to die or get divorced in the short term 2. Of course there must be an exit strategy, but certainly don't make liquidity the be all and end all, and 3. Watch out for the many non property experts who have put together funds, at home and abroad. Whilst many electricians have quickly trained to become OK plumbers, or teamed up with local plumbers in Bolton, Berlin, Bulgaria or the Black Sea, there are plenty who may have leaky pipes!

Amen.

St. Mary Fund – Hotel Opening August 2008



Never before has a development so closely resembled an artist's impression!

The St. Mary Fund anticipates the opening of the new 176 bed RadissonSAS hotel at the end of August 2008.

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