



# evolve... facilitating access to commercial property

Newsletters 2005

evolve Fund Services Ltd – June 2005

## Property Investment Returns:

- 12 months to May 2005 all commercial property return of 17.9%.
- 2004 all commercial property return of 18.3%.
- Retail – 20.5%  
Office – 15.2%  
Industrial – 16.9%
- Rental growth rates vary significantly – take 5 yr averages:  
Retail – 3.8% p.a.  
Office - -0.5% p.a.  
Industrial – 2.2% p.a.
- Long term average of 10.6% pa. (24 years to December 2004 – IPD annual index).

Source: *Investment Property Databank*

## Property Performance vs Property Cakes

Commercial property had its best ever year in 2004, at least since Investment Property Databank started its performance data 24 years ago (see table left in column). **18.3% in 2004!** In excess of 10% p.a. over the last 3, 5 and 24 years!

The figures really are very impressive and, once digested, prompt a few questions. The most obvious is.... **“Why in 2004?”** Well ... mostly because lots and lots and lots (more) of people wanted to invest in commercial property, thus driving up prices (and therefore comparable evidence for valuers).

Certainly rental growth was hardly much of a contributor to the office and industrial total returns of 15.2% and 16.9%, since rent increased by only 0.1% and 1.1% respectively! The maths ...if average income returns are c6.0%, and office rental growth was 0.1%, the remaining 9% of the total return was caused only by keener yields. This cannot be sustainable – or can it? evolve doubts it.

For the record, retail rental growth was 4.0%, pretty much in line with its 3 yr (3.8%), 5 yr (3.8%) and 24 yr (5.6%) averages. Hence why evolve concentrates on the retail and other sub-sectors that share a similar scarcity of accommodation & planning consents - it is this scarcity that leads to an excess of demand over supply, and thus rental growth.

The second question to pose must be **“If everyone knows the market is ‘hot’, why are they still investing?”** evolve’s experience of this is that UK plc is still generating significant wealth year on year and commercial property looks attractive in the context of:

- Equitable Life (remember?);
- Other institutional funds (equity or property) that are tarred with a similar brush and/or seem to charge ‘lots’ for delivering ‘little’;

- Buying another ‘buy-to-let’ where income returns pay the mortgage but capital growth looks dodgy (at least according to Mr Bootle and all his readers);
- Mr Brown is / will be in power, hence property can prove its worth as a hedge against his inflationary plans; and
- Stuffing the mattress!

It may not suit everyone and cash is a kingly alternative. But the auction houses continue to witness record appetite, the institutions and fund managers are there with new products (who has not seen New Star’s ad? Nice office skyline... with 0.1% rental growth!), and interest rate pressure is downwards in the UK (from 4.75%) and at the Euro Central Bank (from 2%).

Additionally, it seems that current investors are happy to accept lower yields and returns, perhaps as a result of a paradigm shift in what is now regarded as an acceptable investment return? Have the actuaries that want more property investment also stipulated that the institutional target returns can now be as low as 6-8% p.a. (from the historic 10% plus IRRs), so that yields can be as low as 4%? Yes. Are yields going to fall as much in 2005? No, but they have fallen enough in the first 6 months of 2005 for total return forecasts to exceed 10% again.

Thirdly, **“what is evolve’s take on the current market?”** If property is the cake and commercial property the icing, evolve tries to pick off and gift wrap the cherries for the private investor.

The key issue for evolve is to make sure that we only pick the cherries and leave the icing for the less selective, less discerning sweet tooth!

## SIPPs and personal pensions

Whether you have a Self Invested Pension Plan (SIPP) or not, you cannot have failed to have read something about something to do with them...

SIPPs are investing more and more money in evolve funds, and this is something we expect to continue after the 'A' Day (April 2006) changes that aim to simplify the personal pension rules .

Headlines have been grabbed by 'A' Day rules permitting residential property plus cars, wines, art etc. As with most media hyped stories, the devilish detail will make for the interesting reading. The 3 topics we discuss the most are:

- The gearing rules will change. £100 can now mean £400. After April 2006 it will mean £150 (unless one invests in a 3<sup>rd</sup> party fund like evolve's);
- Residential may not be so attractive due to gearing rules and foreign countries may not recognise UK pension status; and

- The new annual contribution limits are very attractive, although the lifetime limit is less so.

For those of you considering setting up a SIPP, perhaps with a view to considering an investment in an evolve Fund, the following are a selection of SIPP providers whose clients have invested with us:

AJ Bell (PP) Trustees  
Bridgewater Pension Trustees  
Cartwright Consulting  
Dentons Pension Management  
EBS Management  
European Pensions M'ment  
GE Pension Trustees  
Hornbuckle Mitchell Trustees  
IPM Personal Pension Trustees  
James Hay  
Namulus Pensions Trustees  
Pointon York  
Suffolk Life Annuities  
Winterthur Life  
Wolanski & Co Trustees

*Please discuss the topic with your financial adviser.*

## St. Ursula Oxford and St. Nicholas King's Lynn Funds



### St. Ursula Oxford Fund

The Oxford Trade Centre is now under construction.

Special investor request to see some evidence of diggers!



### St. Nicholas Retail Park

The tenants appear to be trading well.

Netto supermarket is now open, adding further to the busy goings-on.

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