evolve… facilitating access to commercial property

Newsletters 2006 | evolve Fund Services Ltd – November 2006

"What is that windmill on the M4 at Reading?"

Since we last wrote it seems as if the following matters have been affecting the activity / sentiment / performance of the commercial property market…

1. Yields have moved in again, but less fast. There has been a 'plateauing';
2. There is talk of the office rental boom having already peaked;
3. Retail sales growth back above 4% yr on yr;
4. SWAP rates moved out, then in, and now wobble around 5-5.25%; and
5. Investor appetite remains strong … from the private investors through to the biggest institutions.

Our reaction? Well, certainly the premium of SWAP rates to initial yields affects the ease with which evolve (or anyone else?) can offer 8-10% p.a. plus IRRs from the types of properties we have previously acquired, namely prime retail orientated and budget hotel types.

That said, we are still confident of sourcing interesting opportunities 'off market', typically by focusing on developments. In this way we believe we will be able, with our careful stock selection, to deliver attractive, low volatile returns.

Re point 2, we have never been buyers of offices anyway, and will not be starting…No matter what the bulls say about the office market, it only takes a drive from, say, the City to, say, Swindon via Midtown, Hammersmith and Reading, (perhaps with a diversion via almost any town you care to mention) to see lots of 'to let' boards still up to make us say 'thanks but no thanks' when we are offered an office investment. If the point needed emphasizing, who hasn't seen those glassy, well specified office blocks next to the massive windmill on the M4 at Reading, and wondered why they are still empty? It seems such a shame.

Maybe they are about to be let at a new record rent for the M4 corridor and the patience will be rewarded, but the fall out of the proposed Worldcom and CISCO lettings seems a very long time ago!

That said, the economy and news concerning retail sales appears to be in good order. True, there are regular column inches occupied by the likes of Woolworths, MFI and FOCUS DIY, with comments that are less than complimentary. But have not there always been periodic winners and losers in any market?

Unless you prescribe to the doomsday scenario whereby the UK is about to go into recession due to US residential markets, the price of oil, Iraq, European regulation or just because 'Gordon is a moron', to remember a 1970's clairvoyant pop star, then UK property certainly has its place. The point is that whereas 10% p.a. used to be the pre-requisite for an 'unrecognised' market up until only a few years ago, now 7-8% p.a. for the 'third' asset class is acceptable…the asset class that has outperformed its' better known relatives over just about any period you care to select!

And what about the other BIG topics …REITs, Resi and Europe? Will evolve get involved? We are working hard on a very interesting residential fund (see PTO). It may be REITable one day, who knows. Watch this space. Europe we'll wait for the right opportunity, but it is not our focus right now.

Finally, we are very pleased to be 'progressing' and take this opportunity of thanking all involved with evolve thus far.

Strata Fund – new launch in Jan 2007

A SIPPable or tax planning opportunity for private investors
7 yr fund delivering c12% plus IRRs with c5% Dividends

We are very pleased to announce, hot off the evolve press, that we have formed an alliance with Davon Ltd. Davon are specialists in providing funding (debt and equity) to small to medium sized residential developers. They have provided finance to over 50 developers in the last 5 years, who in aggregate have developed in excess of £750 m of residential property.

We are going to provide private investors with access to the attractive returns available from residential development, but in a way we believe to be unique.

The Strata Fund will be co-funding residential developers, primarily in the South of the UK. There will be rigourous funding tests / requirements in place to protect the Fund's equity.

In summary, the value of properties being developed will need to fall by more than c20% before the Fund's equity is at risk.

The Fund is being structured so that is will be attractive to SIPPs, SSASs and other tax-exempt investors.

Non tax-exempt investors will also be able to benefit from **Business Asset Taper Relief** and **Business Property Relief** (i.e. for inheritance tax planning).

St. Mary Fund – Closed

We are pleased to confirm that the St. Mary Fund closed on 2nd October 2006 with £8.5 million equity commitments for the SAS Radisson hotel in central Bristol. The hotel will open in 2008. The purchase price was £27 million.

We are working on sourcing other prime hotel investment opportunities.

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