



# evolve... facilitating access to commercial property

Newsletters 2003

evolve Fund Services Ltd – October 2003

2002

## Property Investment Returns:

- All commercial property return of 9.7% (gilts 9.8%, shares -22.3%).
- Long term average of 10.2% pa.
- Retail warehouses were top performer at 17.4%.
- Central London offices were worst at 0.7% (positive in West End, negative in City).

Source: IPD Annual Index

## Our view of the market

The last 6-12 months have seen a continued interest in commercial property from the private investor, particularly at the auctions and limited partnership offerings.

Our hope is that these investors have begun to become more sophisticated, or better informed, and selected only those opportunities that offer the level of returns that commercial property should offer (ie over 8-10% pa IRR) when appraised using appropriate assumptions.

Since these investors are typically investing via their SSIP or SSAS, or are adopting a medium term risk approach (perhaps thinking about school fees), it is evolve's view that they should be investing in the least volatile sectors of the market – those least exposed to the peaks and troughs typically seen in the office and, to a lesser extent, industrial markets.

This is not to say that every deal in the office and industrial markets is unworthy of consideration.

However, the retail and retail warehouse sectors typically benefit from a scarcity of supply and a more stable, consistent balance between demand for and supply of new accommodation.

These factors are particularly evident in the out-of-town retail warehouse market, evolve's current preferred property sub-sector when considering the medium term.

## The St. Nicholas Retail Park Fund

The St. Nicholas Retail Park Fund was closed in mid March 2003 prior to a conditional exchange of contracts with the developer.

The investment is a freehold out-of-town retail park in King's Lynn that has been pre-let to tenants such as Wickes, Choices and Farm Foods. It will have over 350 car parking spaces and is well located fronting a busy route that serves the town centre.

A non-recourse loan is being provided by the Bank of Scotland.

Investors in the Partnership have provided nearly £2 m with a 50:50 mix of SSIP / SSAS and non-pension fund investments.

Mowlem Plc commenced construction in May 2003.

The Fund was set up as a Limited Partnership with a business plan to own the investment beyond the first rent reviews in early 2009.

Meanwhile it is evolve's aim as asset manager to add value by developing a potential Phase II site.

The investors will receive a priority return of 10% pa IRR, and 75% of any profit above 10% pa IRR.

The Fund aims to double the value of the equity over its business plan life.



1<sup>st</sup> August 2003

## Some questions answered...

### ***Who can invest in evolve's syndicated commercial property funds?***

Investors can be sophisticated private individuals (or their SSIP), companies (or their SSAS), property investment companies, charitable trusts and overseas / off-shore investors.

### ***What is the minimum investment?***

£25,000 or £50,000 is typically the minimum, with upwards multiples of £5,000-£10,000.

### ***What types of property are acquired?***

evolve aims to select opportunities with above average rental and capital growth expectations. Investments let on long leases to strong covenants with upwards only rent reviews are of course preferred.

evolve uses its Directors' experience in the commercial property investment market to source and select those opportunities that display optimum growth prospects, coupled with low volatility.

### ***What are the likely investment returns? How much will my investment be worth at the end?***

Properties are selected due to their forecasted and verified returns exceeding 8-9% pa, typically in the 10-12% pa range. Generally each opportunity will be selected with a view to doubling an investors' equity over a seven year period.

### ***If I am interested in investing, how quickly will I typically need to respond?***

An Information Memorandum for each Fund is circulated when evolve agrees terms to make an acquisition.

Applications will normally need to be submitted via an investor's financial adviser within a 3-6 week period from receipt of an Information Memorandum. Money transfers to a solicitor's Client Account are required within a further month or two.

### ***How long is my money likely to be tied up for?***

Each Fund is established with a six to seven year business plan. There may be opportunities for the investment to be sold at an earlier date, but investors should not invest in a Fund if they think they will want to liquidate their investment any earlier. That said, units in an investment may of course be sold by private treaty in the event of an untimely 'death or divorce' scenario.

### ***So what if I am desperate to sell my units?***

Although there is no established market for interests such as these, any investor that seeks to sell their interest prior to the investment's maturity will be able to contact the Fund Operator. The interest will initially be offered at market value to other investors in the Fund, and afterwards to outside investors. A sale cannot be guaranteed but the quality of the property investment should mitigate liquidity concerns.

### ***How will each opportunity be structured and operated?***

Each Fund is promoted and operated by a FSA Regulated firm. The structure usually comprises a limited partnership that incorporates an exempt property unit trust, thereby facilitating tax-exempt and non-exempt investors to participate side-by-side. Accounts and property valuations are distributed to investors annually to aid submission of tax returns.

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*Should you have any other questions, or would like to receive information on evolve's future opportunities, then please contact either Hugh Colville or Simon Hawley*