

“We were not buyers in 2005-2007, but we expect our toes will dip again soon...”

Is today going to be ‘Marvellous Monday’? Or the start of ‘Wonderful Week’? Can we really be at the bottom of the ‘U’? Cor, we all hope so. More likely a wide valley. And let’s also hope the media do their bit to prevent the herd rushing ever faster over the edge of the cliff.

Amidst all the craziness of the last few weeks, like the markets, my knee has also been seriously wonky! So much so that I have been Jake the Peg hobbling to work on public transport, not Lance Armstronging as is my normal wont. Very dull all round, and thanks for the sympathy, but it has meant I have relapsed into newspaper junkie mode. Torygraph at the newsagent, City AM and/or Metro at Clapham Junction. Then the FT at work and some skinny freebie on the way home ... I love it. Leg up on a Sunday with the Observer too. The garden is a jungle, but I feel quite ‘up’ on current affairs.

So when fingers were first poised to tap away this ½ yearly evolve take on property, I was moved to imagine what one of those ‘60 second interviews’ would be like. So although ego is a no, no with us, I did begin to think if we might have our own 60 second interview... here, right now, actually ...

“ **Scoop: So, you are in property eh ... must be awful at the moment?**

evolve: Well.. err ... actually we are OK at the moment. It may sound silly, (*nervous cough*) but we sort of welcome the credit crunch, a bit, on the basis that prices are beginning to get to the sort of levels we think look fair value again. And, thank goodness, the existing portfolio is fine.

What? I don’t understand. Haven’t you lost your shirt? Property has plummeted in value?

Yes of course it has fallen. But from a feeding frenzy, inflated level of course.

Explain ‘feeding frenzy’... Go on...

Well in 2005-2007 there was a kind of feeding frenzy out there and people paid far

too much for all types of property, usually using too much debt. Perhaps also incentivised by fees, perhaps chasing a funding / yield gap in Germany or the really adventurous took off to Bulgaria and Cap Verde etc. Whatever the reason, those guys may well have lost most, if not all, their equity in those deals. It is for them that the worst stats, those quoted from the top of the top of the market, really apply.

But you haven’t suffered? Come on, you must have...

Well of course we have seen our properties go up and down in value during 2005-2008, but we basically stopped buying property investments in Q1 2005. They got too expensive. Since then we have been involved with our St. Mary Radisson Fund and the Strata Fund, real estate asset backed businesses. But not since we agreed to fund the Travelodge in Camberley in early 2005 have we really been in the investment market.

So are you the only lucky ones?

Not at all, of course not. And everything is relative. But there are plenty of experienced property people who have been out of the investment market in the last 2-3 years, itching to get back in but waiting patiently. We use a simple test. We always consider if we would let our mothers or best men invest with us in a project. It has meant we have not grown funds under management as quickly as we would have liked, but we appreciate it now. It works well. We sleep OK.

Hmmm. Sounds quirky to me. But are you suggesting that now is the time to pile back into the market?

If we had £100m to invest right now we would not expect to invest it all in 6 months. Apart from anything else there are not many willing vendors around. However, there may be more un-willing vendors around soon and we are definitely expecting to dip our toes back into the market within that 6 month time frame. The socks are off already actually.

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Longfield Road, Tunbridge Wells

In joint venture with Ambit, the UK's leading trade centre developer, evolve and Ethel Austin Properties have purchased a prime site in Longfield Road, Tunbridge Wells. Planning consent was achieved for a 14,500 sq ft new build trade scheme (prior to completion of the purchase). The purchase was funded in part by RBS.

The project is expected to be pre let prior to the end of the year and construction is programmed to start in January 2009. Chris Reynolds of Ambit says "even in these unusual market conditions there is still occupational demand for prime property. We anticipate an income return of close to 9% on completion of the project.

The current market is creating many more opportunities for investment in prime property at levels which are sustainable and provide prospects for ERV and capital growth in the future".



New Launch – evolve Max Apart-Hotel Fund

The unique new fund from evolve will launch in the next few weeks. The LLP will be initially open until April 2009 for £10m of equity.

The opportunity has been created to buy into an existing portfolio of apart-hotels in Reading, Glasgow, Bristol, Farnborough, Norwich and Southampton worth c£85m. These properties provide a total of 475 rooms (i.e. studio, 1 bed or 2 bed apartments). The fund will also be rolling out the portfolio over a 7 year period, up to a target of 2,500 units.

The developer has built up the existing portfolio with the assistance of private backers. Together these existing investors are co-investing significantly into the Fund, to the tune of c£20m.

For those not to have stayed at an apart-hotel, it can be viewed as being a cross between a group of serviced apartments and a 4 star hotel. The average stay is typically over a week. They attract business and leisure occupiers who want a 'home away from home' stay. 4 star bathrooms, fully fitted kitchens, free wi-fi and digital TV, spacious living accommodation plus communal areas for meetings and socializing.

This new fund will be unique in offering investors:

- existing portfolio & property ownership;
- track record;
- share of development profits; and
- share of operating profits.

SIPPs will be able to invest via the EPUT.

Direct investors will also benefit from Business Property Relief.

It will therefore have wide appeal from pension funds to IHT investors.

The Anticipated Investor's Return is likely to be over 12.5% p.a. IRR because of the mix of development profits, operational profits and property ownership.



www.max-hotels.co.uk

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

Existing Funds – Activity Update

St. Nicholas - Planning consent granted for 2 restaurant units on Phase 3 site (c50% under offer to Dominos Pizza) and 10,000 sq ft of trade units (proposal for c50% of space from KwikFit). Investors have been invited to participate in securing extra income and profits from these developments.

St. Ursula – evolve hopes to commence discussions with adjoining owner for a Phase 2. The intention is to generate profits and rent review evidence.

St. Mary – Opening of hotel delayed from August 2008 until early 2009 due to a '1 in 200' year flood and a nasty on-site accident. Discussions currently on-going with HBoS to extend availability of loan facility to revised opening date. Rezidor, the operator of RadissonSAS have appointed

the General Manager and are expecting good trading results.

Strata Fund – 1st loan to be redeemed in October 2008 from developer of c£4m apartment in Kensington. 8 unit scheme in Lingfield is only property 'on the market'. 3 of 8 units under offer enabling partial, early loan redemption. Fund c40% in cash. Over £1 billion of property reviewed by Fund.

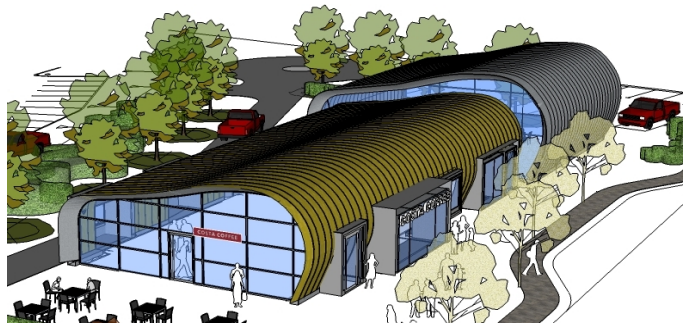
St. Christopher – Rent review for the 2 units let to Remploy is under way. A favourable outcome is expected following the good rent review Premier settlement last year. City Financial putting its lease on the market.

St. Margaret – Aldi rent review has been settled. We now hope to be able to tidy up and simplify the legal ownership structure.

Eureka Park, Ashford – Debt Arrangement



New Premier Inn



New Costa Coffee drive thru

In September 2008, evolve secured credit committee approval for the senior debt for a £4m development that is currently under construction at Ashford from RBS.

The development comprises a Whitbread Premier Inn plus a Costa Coffee drive through, a Beefeater pub and one other restaurant unit.

evolve is assisting Life Property at this funding stage.

For those that know Ashford, the property is very well located on Eureka Park, off J9 of the M20.

The hotel will open its 74 rooms at the end of the year.



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**So, what are you looking for then?
Where would you advise Mr £100m to
start investing?**

Investment property wise, we are very clear. Secondary property is a complete no no. And we have never been keen on offices or distribution. I'll explain another time, it's our 'lack of land' philosophy.

Answer the question please...

Sorry... well the greatest short term risk to any property investment at the moment must be tenant default. We assume UK plc is in recession, unemployment will climb to unfortunate levels, shops will shut, etc. It's going to be bloody. But we make decisions based on the medium to long term. So we are keener than ever on making sure we focus on opportunities where we can be very sure that the covenant is not only strong, but also where demand will exceed supply and we believe in the sustainability of the tenant's business.

**OK, get your drift, but are there
actually any occupiers looking for new
properties then? Where is that demand
you talk about?**

The City of London/Canary Wharf office markets will, as always, take centre stage in the media. But rents may fall 25% over the short term. As volatile as ever! We have never been fans. But there are pockets of the market that are really interesting. Examples include elements of the retail market, plus hotels and some of the less conventional sub-sectors such as hospitals, medical centres, schools and the like. That is where we feel there is sustainable demand and where we will be active in the next year or so.

**Sounds like you have your eye on
something particular?**

Yes thanks. We are about to launch the new 'evolve Max' Fund. It is going to buy into an £85m portfolio of apart-hotels (branded Max Boutique Apart-Hotels) and help roll it out. It is going to be unlike anything ever offered to private investors before. It is unique.

Unique? Some claim! How come?

Primarily because it combines development profits with operational profits. It also combines the big advantages of the existing portfolio (with more lined up) and

operational track record, with a clear business plan to become a top 5 player in its market. We are not aware of anything similar. Not at all. It's also a property asset backed business, so it will have wide appeal at the end of the business plan, either as an investment or a business. And in many respects, it could not be a better time to start looking at new opportunities.

**Yes ... sounds a must ... (readers can
turn to page 2 for a preview) ... but
does your last comment mean we are
now at the bottom of the market?**

Well, apart from the fact that build costs are now on the way down and evolve Max will be looking hard at distressed office or residential sites that will work well as apart-hotels, the commercial real estate market is, we think, offering prices that are starting to look attractive in the context of the ups and downs of the last 20 or so years. They have recently fallen hard from an artificially high peak. So whilst we don't believe that there will be a rapid escalation in values in the short term, we are about finding and extracting value over the medium to long term and we think we can find those opportunities now.

**OK, we'll see, but that has been more
than 60 seconds now, and we need to
ask this one last question before we
wrap up... to debt or not to debt in the
future?**

The banking world and capitalism has obviously changed forever. But we have never been in that highly leveraged or structured finance game. We have never pushed the loan to values before and all our properties are cashflow positive as a consequence. We'll see how quickly liquidity comes back into the market, but we expect a return to some kind of pre 2000 banking environment and that will be fine with us. We will continue to use debt at sensible levels going forward. Even if it is a bit more expensive than in 2007, it has its place – in our view".

Scoop: Phew. Minute up. Thanks. ”

P.S. Hopefully, in a little while we will be living through more settled times. One where sentiment has been able to bottom out, stabilise and turn for the better. Meanwhile we hope you are 'doing OK' for now. Best wishes from us all.

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