

# THE QUARTERLY PROPERTY REPORT



JUNE 2009

WWW.ATHANOR-INVESTMENTS.COM

*Welcome to the June 2009 Quarterly Property Report. This report provides our views on the UK commercial property market including an update on our property investments.*

## EXCITING NEW ACQUISITION IN GLOUCESTER



We are pleased to advise that we have successfully completed the acquisition of a quality property in the main pitch of Gloucester, a UK regional capital. The property is let to Lloyds Banking Group, on a long lease with 17 years remaining, thereby providing a secure quality income stream.

Since the acquisition, this sector of the UK market has seen positive growth as investors strive to take advantage of the opportunity for quality at reasonable value.

We are pursuing a number of other similar opportunities which take advantage of the favourable buying conditions and which will be well poised to deliver strong returns in the future.

## MARKET SHOWS SIGNS OF STABILISING

Following on from the global credit crisis and more recently the global recession, governments around the world have applied aggressive interventions to stabilise the markets.

These interventions appear to be starting to take hold.

The IPD monthly report for May 2009 indicates that returns from UK commercial property have continued to fall during the quarter, however, there is a clear indication that the rate of fall is reducing every month.

Recent findings from the Royal Institute of Chartered Surveyors indicate that the outlook on capital values was improving in some developed markets such as the UK and there were already signs of price stabilisation in certain types of well-let property.

This price stabilisation is supported by recent property transactions where prices have been bid up during the sale process as well as by commercial property auctions during which yields for quality properties have been firming.

In addition, global property brokers such as Cushman & Wakefield have indicated that yields for high-quality property in the 21 to 24 market segments it monitors have stabilised in the last 2 months, presenting the most stable picture on prices since March 2007.

The stabilisation of prices together with the devaluation of the pound is expected to result in a large scale inflow of investor funds into the UK. As an example, Bloomberg has recently reported that Schroders Plc has made Britain its first choice for buying property after the currency made property cheaper relative to the rest of Europe.

The Financial Times has also recently reported that more than £1 billion will be raised in the property sector in the next few weeks as companies prepare to hunt for bargains in the battered commercial real estate market.

**The stabilising of the market has brought with it the reality of an eventual recovery, as opposed to further fears of a global meltdown. While it is expected that the recovery may take some time, this presents a good opportunity for new investment in commercial property which would take advantage of favourable prices and be well poised for strong growth during the expected recovery cycle.**

## EXAMPLES OF RECENT ASSET MANAGEMENT ACTIVITY



• **Warrington:** Ownership of the tenant has changed following the sale of a portion of the JJB Sports business to a company owned by Dave Whelan, the company's original founder. We believe that this is a positive development for this property with it now being part of a business which has improved financial resources and management focus.



• **Oxley Park:** Rental income is secure for all the units with leases of between 10 and 15 years in place, supported by guarantees provided by the seller.



• **Cromer:** The refurbishment and dividing up of the MFI unit into two separate units has commenced and is expected to be completed by September 2009. The new 15 year lease with Halfords has been completed and negotiations are at an advanced stage for a new 15 year lease with a quality tenant for the other unit.



• **Reading:** The one retail unit has been let to Premier Travel Inn. A firm offer on a 15 year lease by a respected high street brand has been received for the remaining retail unit.



• **Workington:** Negotiations are at an advanced stage to re-gear the lease of one of the key tenants from 4 remaining years to 10 years. This will improve the security of the property's income stream.



• **West End Quay:** A retail review which achieved an uplift has been settled and Unit 12's tenant has been successfully replaced. Once a pending licence application is approved for Unit 1, the property will have achieved 100% occupancy.

## PROPERTY DISPOSALS



• **Benbow House:** This property is in the process of being sold at a price above its market value. The team have negotiated for the existing finance agreement to be available for re-use.



• **Burgess Hill:** We have previously reported on the successful sale of three of the four units. Based on the current subdued state of the freehold office market, a decision was made to sell the remaining unit rather than refurbish and re-tenant it. This sale is currently in progress.

"MAKING INTERNATIONAL  
PROPERTY INVESTMENTS  
SIMPLE, SECURE AND  
REWARDING"

## NEWSWORTHY ITEMS

### *Commercial Property: Financial Times, 9 June 2009*

Confidence is returning to the commercial property market, with the UK furthest advanced in the cycle, according to Anne Breen, head of property research at Standard Life Investments.

She points out that the collapse in commercial property that started in the summer of 2007 has so far been the swiftest downturn in the sector's history, reflecting the deep global recession, the financial crisis and a turnaround in sentiment.

"However, the early months of 2009 have seen more stability in transaction yields in select markets, sizeable capital raising and renewed investor interest in this asset class," she says.

"While returns are likely to come under further downward pressure in the next 12 months, longer-term investors, particularly those with equity, should begin to analyse the property market carefully."

Ms Breen says that while the UK's practice of monthly valuations, compared with much less frequent practices in other countries, exposed the excesses in 2007, it could begin to give confidence to those investors looking to re-enter the market at the bottom of the cycle.

"The UK market was one of the first to begin the process of repricing and looks to be furthest advanced in the global cycle," she says.

"Over a three-year time horizon, UK commercial property returns are likely to outperform cash."

### *'Big three' auction houses score hat-trick of results: By Nick Duxbury, 29 May 2009*

Prime yields hold steady for Allsop and fall for Cushman & Wakefield and Jones Lang LaSalle.

Commercial property's 'big three' auction houses raised £110m between them last week, averting fears of a slump in pricing.

Prime yields continued to drop for Allsop, Cushman & Wakefield and Jones Lang LaSalle, while secondary rose further to double-digit levels.

Allsop did not experience a repeat of the 40 basis-point fall in prime average

at its April sale. Instead, it said yields had remained broadly the same – with a fractional increase of 20 basis points to 5.72%.

However, both JLL and Cushman reported a continued fall in prime yields.

### *Bright spot lifts gloom over property: Financial Times, 19 May 2009*

"The UK has emerged as one of the brighter parts of the global commercial property market amid hopes that the worst of Britain's property downturn is behind it, surveyors' findings suggest. Other countries, meanwhile, are still experiencing a dizzy pace of collapse. The UK was one of the first markets to peak in the summer of 2007. A substantial fall in prices of more than 40 per cent has resulted in surveyors beginning to report greater optimism about future capital growth."

"Oliver Gilmartin, senior economist at the Royal Institute of Chartered Surveyors, said the rental downturn was gathering momentum across all global markets, although outlook on capital values was improving in some developed markets, such as the UK. There were already signs of price stabilisation in certain types of well-let property."

"The UK is looking more attractive for long-term investors, although there are still worries over rents, said Mr Gilmartin."

### *Pound a 'Screaming Buy' as U.K. Attracts Investment (Update4), 18 May 2009 (Bloomberg)*

The pound's 20 percent drop in the past year made Britain the first choice when Schroders Plc started buying real estate in Europe last month.

"Weaker sterling makes U.K. property more attractive," said Neil Turner, the Wiesbaden, Germany-based executive in charge of the money manager's new 300 million-euro (\$403 million) property fund. "The U.K. property market is a screaming buy compared to rivals in continental Europe."

While the Bank of England said it expects a "protracted" economic recovery in the U.K., where unemployment is the highest since Prime Minister Gordon Brown's Labour Party came to power in 1997, investors from Millennium Asset Management to Mellon Capital Management Corp. are betting the pound's decline is coming to an end.

### *IPD UK Monthly Index Press Release, 15 May 2009*

"For the month of April the pace of capital depreciation has continued to decline to -2.31%, causing a marginal increase in income returns, now at 0.67%, contributing to a monthly total return of -1.63%. April's monthly capital decline is the shallowest seen since August 2008, before the collapse of investment bank Lehman Brothers."

### *Commercial property revival in prospect: 8 May 2009*

LONDON (Reuters) - Britain's bombed-out commercial property market is edging closer to recovery, with prices of prime shops and offices holding firm since March, a report on Friday showed.

Global property broker Cushman & Wakefield said yields for high-quality property in 21 of 24 market segments it monitors have stabilised in the last two months, presenting the most stable picture on prices since March 2007.

Moreover, some prices for prime shops, offices and distribution properties remain unchanged since December 31, putting yields of the most in-demand properties under pressure to fall, the report said.

"The UK is looking very attractive at the moment to overseas investors who can take advantage of the weak currency it is also almost certainly the most advanced market globally in the cycle and has received a very heavy fiscal stimulus," said David Hutchings, head of the firm's EMEA research division.

Commercial property values have nosedived by more than 40 percent since summer 2007, when the banking crisis ended an era of record prices fuelled by cheap and plentiful debt.

According to research from Property Data, just 3.6 billion pounds of commercial property transactions were completed in the first three months of 2009, the lowest quarterly volume reported since their records began in 2000.

Cushman & Wakefield said it expected to see a gradual improvement in investment activity over the next two to three months as more would-be buyers move to exploit discounts before prices start to rally.

But it warned of further falls in values over the shorter term as rental growth assumptions and occupancy levels are hit by the recession.

## KEY TENANTS IN PROPERTY PORTFOLIO

Tesco

British Nuclear Fuels Plc

Post Office

Barclays Bank

Lloyds Banking Group

Premier Travel Inn

Superdrug Stores Plc

Carpentright Plc

Dreams Plc

Carphone Warehouse

Orange Retail Limited

Odeon Cinemas

Signet Group

Palmer & Harvey

Prezzo Plc

Gateshead Council

Halfords

Nando's Chickenland

Domino's Pizza

Thomas Cook Retail

Clinton Cards

Dollond & Aitchison

Laura Ashley

Oliver Bonas

Arcadia Group T/A Dorothy Perkins

Johnson Cleaners UK

Luminar Leisure

Done Brothers Cash Betting



**halfords**

