The International Real Estate Finance Summit 2009

Gatehouse Bank

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# Are We There Yet?

- Never a simple “yes” or “no”
- Positive value growth in September for all three main sectors (offices, retail and industrial) for the first time since May 2007 (Source: Investment Property Databank)
- Peak to trough fall of 44% (Source: Investment Property Databank) and forecast yield compression (Source: Capital Economics)
- How and what should I be investing in during this phase of the investment cycle?

**All Property Initial Yield, %, 2000 – Dec 2010**


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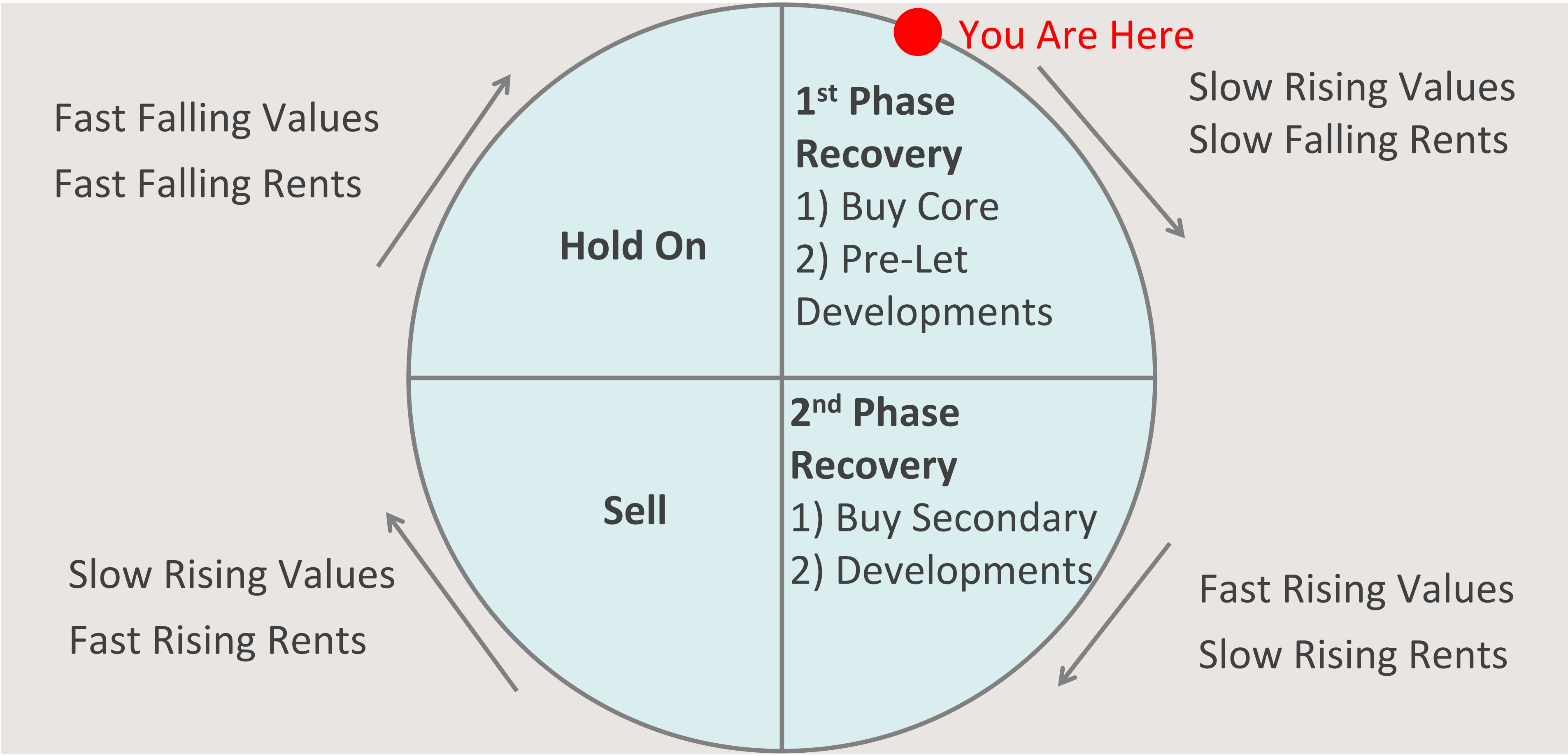
# Investment Phases



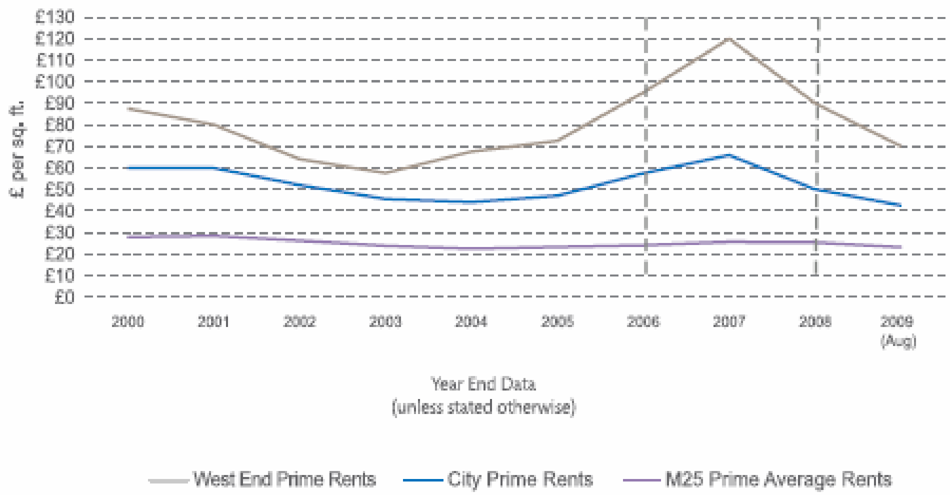
# 1st Phase Recovery

- Assuming a hold of at least 3 years, values of scarce core investment assets rise in anticipation of the future, even when rents haven't fully reached the bottom
- Bridge the downturn:
  - Strong tenants
  - Limited or no vacancy
  - Long leases
- Developers struggling to find equity for pre-let developments
- Could values fall again?
  - Not for the assets you want

# Considerations

- Bank finance
  - Margins are up, but LIBOR is down
  - Healthy gap to property initial yield
  - Available for relationships
- Tenants
  - Need to be as safe as ever
- Rents
  - 5 year upward only rent reviews
  - Not all over-rented

**West End, City & M25 Average Prime Rents (2000 – Aug 2009)**




Source: Drivers Jonas, September 2009

# Considerations

- Any asset can become too expensive if demand outstrips supply
- The market is moving quickly, with a weight of money
- Imperfect market leads to the opportunity of an advantage
    - On market transactions with better information
    - Off market transactions
    - Finance / tax structure

# Developments

- Developers' equity source of stretched senior finance has dried up
- Sites available at discounted prices
- Construction orders at their lowest level for more than 30 years (Source: Capital Economics), leading to lower construction costs on fixed priced contracts
- Return to healthy financial fundamentals
- Pre-let opportunities available, some with income during development

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# Offices – London & UK

- Long leased investment transactions have remained relatively robust throughout the downturn, and have risen in value over the summer
- Prime West End yields at 5.50% and prime City at 6.25% (Source: Savills)
- Need an information or financing / tax advantage
- Older stock at pre boom rents or new stock at current rents
- Not a huge discount outside London
- Pre-let development opportunities
- Too early for speculative development?

# Student Accommodation – London & UK

- Recession resilient, with applications in 2009 up 10% (Source: UCAS)
- Strong and continued rental growth, driven by near 100% occupancy
- Universities wanting more housing, particularly to attract overseas students paying full tuition fees
- Long leased 20 year inflation linked investments
- Developments with very compelling demand / supply imbalances

# Logistics – UK

- Values have already risen for long leased investment transactions
- Prime yields at 7.00% (Source: Savills)
- Opportunities in pre-let developments
- Usual advantages of developments in this phase of the investment cycle
  - Cheaper sites
  - Lower, fixed price, construction contracts
- Logistics can be developed very quickly

# Summary

- Values rising for the best assets
- 1st phase of recovery
  - Core investments
  - Pre-let developments
- Market getting hot for core investment assets, so need a competitive advantage to buy such stock
- Developments are providing attractive returns and with fixed price build contracts and tenants in place the risks are contained
- Advantage of local knowledge and innovative thinking

# Gatehouse Advantage

Philip Churchill

Adam Cavanagh

Stuart Jarvis

- Access to both on-market and exclusive off-market deal flow through an extensive network
- Investment opportunities specifically selected following detailed research and analysis of the sector and alternative opportunities
- Terms negotiated with vendors to secure the most opportunistic price
- Access to a wide range of third party banks able to provide Shariah compliant leverage and financing
- Establishment of offshore non-recourse special purpose vehicles to minimise taxable income and maximise investor returns
- On-going investment advisory to maintain and enhance value, with quarterly reporting and recommendations to add further value

# Contacts - Real Estate

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