# PRESS CUTTING

CLIENT Longcross Property
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**Investment Europe**



## MICHAEL HARDMAN ON SPECIALIST MARKETS

# Prime should not come first in property

### BULL POINTS

- Offices or retail in certain non-prime locations
- Apartments in regional cities

### BEAR POINTS

- Very prime central London commercial property
- Rise in Stamp Duty Land Tax on high value residential properties

We believe that value for commercial property lies outside the prime markets. At present, anything that is not 'prime' is viewed as being secondary and discounted significantly in comparison.

Valuers and the market seem to be applying a blinkered generic approach to assessing the value of secondary properties, while taking little account of relative tenant strength, quality of location or underlying occupational demand.

In reality, offices or retail in certain non-prime locations are performing very significantly, and this is not being reflected in how it is priced. Essentially, all non-prime is viewed as secondary, but we consider that some is more secondary than others and are seeking to arbitrage this mispricing.

We particularly like the South East office market outside Central London, where established locations with good demand are being assessed on the same basis as struggling towns with an oversupply of stock and little underlying demand. Caution must be exercised, but the opportunities are there.

Equally, property considered to be unfashionable, such as apartments in regional cities, provide good opportunities. Finding funding is hard, but a very strong demand from tenants has created some exceptional yields against depressed prices.

In addition, a lack of development in the past few years means supply will be very constrained when sales demand picks up, boding well for the value of existing stock. As a result, tenants have become less transient and informed buy-to-let investors are taking advantage of negative market sentiment to acquire stock.

We struggle to see value in very prime Central London commercial property. Yields are unlikely to compress further, so there no latent increase in value to be seen there. Rents are not increasing strongly and more supply is coming to the market, so we cannot see any value increase there either.

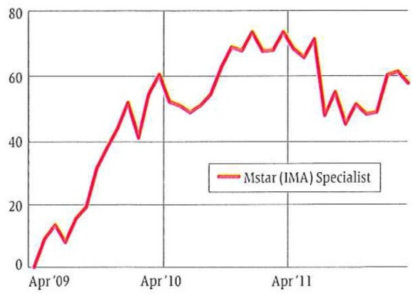
Very prime residential in London has seen remarkable price growth. To a degree, this was driven by a relative scarcity of stock, eurozone turmoil and the weakness of the pound.

There is now more prime stock coming through the development pipeline, and more schemes are being held out as super-prime to achieve exceptional prices.

In short, you will not find value in the sectors where there is and has been strong demand and growth. You need to roll your sleeves up, be brave and take advantage of the mispricing of much A-grade secondary stock in both the residential and the commercial property markets, if you want to avoid the bears and the sheep.

**Michael Hardman is fund asset manager of the Longcross Property Investment fund**

**SPECIALIST SECTOR PERFORMANCE**




Source Morningstar, 6 Apr 2009 – 6 Apr 2012

**(IMA) SPECIALIST MARKETS: OVER THREE YEARS**

| | 3yr % Chg | Rank | Volatility (monthly) | Fund size (m) (£) | Morningstar Rating TM |
|---|---|---|---|---|---|
| **Top 5** | | | | | |
| Baring ASEAN Frontiers | 128.43 | 1 | 5.49 | 248.44 | ★★★★ |
| Pictet-Russian Equities-P dy | 122.16 | 2 | 9.55 | 345.77 | ★★★ |
| First State Indian Subcontinent | 118.08 | 3 | 6.17 | 249.71 | ★★★★★ |
| Pictet-Premium Brands-P dy | 117.02 | 4 | 5.99 | 457.72 | ★★★★ |
| JPM Russia | 110.2 | 5 | 8.56 | 823.78 | ★★ |
| **Bottom 5** | | | | | |
| Investec GSF Mgd Ccy | -2.14 | 124 | 1.81 | 70.16 | |
| Jupiter Financial Opportunities | -4.46 | 125 | 4.85 | 495.31 | ★★★★ |
| Investec GSF US Dlr Mny | -6.17 | 126 | 2.85 | 131.38 | |
| Investec GSF Euro Mny | -8.51 | 127 | 2.42 | 29.81 | |
| SWIP Absolute Return Macro | -13.58 | 128 | 2.3 | 7.47 | ★ |
| **Sector average** | **52.86** | **128** | **5.37** | **379.84** | |

Performances calculated bid to bid, net income re-invested, GBP to 06/04/12. Data Source © 2012 Morningstar, Inc. All Rights Reserved.