PRESS CUTTING

CLIENT Longcross Property Investment Fund
DATE 16 April 2012

Investment Week
16 April 2012 | Bull/Bear Feature

Michael Hardman on Specialist

We believe that value for commercial property now lies outside the prime markets. At present, anything that is not prime is viewed as 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, taking little account of relative tenant strength, quality of location or underlying occupational demand.

In reality, office or retail space in certain non-prime locations are performing very significantly and this is not reflected in how it is priced. We think that some non-prime property is more secondary than other and we seek to arbitrage this mispricing.

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

Equally, in residential terms, property considered to be unfashionable, such as apartments in regional cities, provide good opportunities. Finding funding is hard, but very strong tenant demand has created some exceptional yields against depressed prices. Allied to this, a lack of development in the last few years means that 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 have already taken 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 will be no latent increase in value. Rents are not increasing strongly and more supply is coming to the market, so we cannot see any value increase through that route either.

Very prime residential in London has seen remarkable price growth. To a degree, this has been 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. Super-prime values depend on cachet and delivering uncompromising quality in the very best locations.

The increase in Stamp Duty Land Tax on high-value residential properties and especially those bought through a corporate envelope, as outlined in the recent budget, is also unlikely to help this market.

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 instead 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 both the bears and the sheep.

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

Bull Points

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

Bear Points

- Very prime central London commercial property
- Increase in stamp duty land tax on high value residential properties

(IMA) Specialist: over three years

	3yr % change	Rank	Vol (monthly)	Fund size (m)(£)	Morningstar RatingTM
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. © 2012 Morningstar, Inc.