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INVESTORS TUCK IN

Back on the menu Investors in Kent's commercial and residential market are showing signs of getting hungry again. *Adrian Morrison reports*

After several years of gorging on an investment banquet of medieval proportions, the appetite for Kent's commercial and residential property has been all but lost. However, while a famine of supply and the perception of more capital decline is leaving some prospective investors queasy, several indicators late last year suggest that some delicate stomachs are on the mend.

Bill Lightfoot, managing director of auctioneer and agent Hobbs Parker, says of the smaller end of the market (see box, p88): "Over the past three to six months, small residential investors have come back into the market. There is more confidence generally."

Outside the auction room, he recently marketed a portfolio of four houses – two complete and two half built – which received 11 offers. "That numbers of bidders would have been good in 2007. It is remarkable how quickly their nerve has come back," he says.

Significant deals

Frogmore sold the 17,000 sq ft Lakeview East office scheme in Dartford's Crossways Business Park to Invista for just over £4m in December, at a yield of 7.9%. "That's great for the market and fairly aggressive for five years of income," says Knight Frank's Simon Rickards.

Among the most significant deals at the larger end of the investment spectrum – not just for Kent, but the whole UK – is LaSalle Investment Management's purchase of Capital &

Regional's Bexleyheath Shopping Centre for a £97.9m in December. The centre was valued only two months earlier at £90.7m.

Capital & Regional's Mall Fund assuaged LaSalle's concerns over future rental growth with a £3.3m buffer, meaning that LaSalle will need to pay only £94.6m for the centre as long as it achieves projected

rental uplifts in a given time, and with certain retailers.

The deal highlights the voracious attitude of the funds. LaSalle acted

on behalf of the Merlin Fund, a Luxembourg-based tributary of the Canadian Pension Fund. The fund benefits from the preferential euro/sterling exchange rate, as well as tax exemptions.

There is also proof that the offices market is improving. As *EG* went to press, Aviva was completing the purchase of Imperial Tobacco Pension Fund's 26 Kings Hill Avenue at Kings Hill Business Park in Maidstone. The 28,000 sq ft office sold for just over £6m at a yield of 8.7%. ▶

▶ Part of the reason for this improvement in sentiment is an upswing in lettings. In the past six months, Rugby Asset Management has let 156,000 sq ft of industrial stock, including the Interchange unit at Swanley and space in Aylesford on behalf of O Twelve Estates.

"Those were not relocations. Those were new requirements for Kent. Rents have come off a bit, and rent-frees have expanded, but the letting market has come back to life," says Andrew Wilson, chief executive of Rugby Estates.

Enormous infrastructure improvements in the county, a dearth of supply and low rents – compared with other parts of the South East – present a prospect for significant rental growth for office and industrial

investments over the next five years.

Kevin Gilbert, director and auctioneer at Clive Emson's Maidstone office, notes that more vacant commercial properties have been selling. Vacant premises, due to receivership or landlords looking to offload stock, are regarded as the least favourable investment prospects.

However, Gilbert notes: "Now, if a property is perceived as value for money, a prospective buyer will consider it, even if it is vacant."

Diversifying risk

Many people believe that the market has bottomed, but are nevertheless still conscious of protecting their money. The smaller end of the investment spectrum has benefitted as people seek to diversify their risk into several assets rather than a single covenant.

At the institutional end, more money is coming back into the funds, and euro or US dollar investors possess the virtuous triptych of a preferential exchange rate, cheap stock and rental growth prospects.

"With a good wind, we might just see things starting to move," says Paul Appelt, director of Ashford-based Atrium Surveyors.

Nevertheless, he is concerned that the forthcoming election will create a hiatus and that any subsequent rise in interest rates will stymie growth.

"It is easy to be optimistic for Kent in 2010," says Wilson. "But I take the view that it will be a relatively flat year. But investors will reap benefits by holding assets to 2012 or 2013."