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News

Analysis

Frogmore's £1bn fund transition

■ White's outfit seeks opportunities after raising cash

BY MOLLY DOVER

PAUL WHITE'S FROGMORE IS REINVENTING itself as a property fund manager with the creation of a £1bn opportunity fund to invest in UK property.

The fund, called Frogmore Real Estate Partners, was due to close this week after raising £330m of equity from UK, continental European and US investors. With 65% gearing the fund will have £1bn to spend. The debt is likely to be provided by banks including Barclays, Bank of Scotland and the Royal Bank of Scotland.

Properties held in the existing Frogmore Property Company will not change ownership, but all new investments will go into the fund.

'The fund will run alongside our owned portfolio of £600m. The existing portfolio will be wound down,' said White. All existing development projects will be worked through, but there will be no fresh acquisitions for the Frogmore Property Company.

White decided to launch the fund as he found Frogmore had 'more deals than money' and he wanted to ensure he had the cash ready to invest in all sectors of UK property.

He considered various options before deciding to pursue the fund route. 'We started looking around and asking – should we float on AIM, or amalgamate into an existing public company, or be the local partner for a big opportunity fund?' said White.

The fund is a blind pool and fully discretionary fund. This means that Frogmore has not yet identified the properties it will invest in, but will make all the investment decisions itself rather than having to defer to an investment committee to approve decisions.

Frogmore has invested £5m itself and the remainder has come from pension funds, institutions, funds of funds and wealthy families or individuals from the US, continental Europe and the UK.

White has been shuttling back and forth to the States since he started fundraising in January. 'The US investors like the UK because we have a stable political system and economy, and property has performed very well here.' he said. 'UK institutions have not up until now liked blind pools or leveraging at more than 50% where they were not involved in the investment decisions.'

The fund's strategy is to invest in assets it believes are poorly managed, mispriced, or have unrealised development, refurbishment or improvement potential.

It will be targeting individual deals of between £5m and £50m, with an average deal size of around £30m, and

continued on p4 →

Frogmore's £1bn fund

← continued from p1

plans to be fully invested within three years.

'We need 10 deals a year over three years. I have 10 staff looking for deals, that's one deal per person a year,' said White, dismissing suggestions that it could be difficult to invest £1bn in the current market. 'We've geared up with six extra staff in the last 12 months, so when we've got the money to spend, we're ready.'

↑ White: 'More deals than money'

The fund will aim to achieve an annual internal rate of return of 20% on investments which it expects to hold for three to six years. The fund plans to run for eight years, but may be extended by up to two years so the assets can be disposed.

No more than 10% of the fund will be invested in any single asset, or outside of the UK, and no more than 20% will be invested in new development transactions.

Credit Suisse is the placement agent, and Hunter Advisers is also helping on the European fundraising.