NEWS

Winter 2016/17

News & Views From Rougemont Estates

# Welcome to the Rougemont Estates Newsletter

**In 2015, UK GDP growth reached 2.2%, driven by the strongest increase in consumer spending since 2007. As we approached the UK's EU referendum in June 2016, the outlook for the UK economy and UK commercial real estate remained positive.**

Markets were volatile in the immediate aftermath of the UK referendum result, however the initial shock appears to have eased and UK growth indicators are encouraging. The first full quarter of data released since the referendum (Q3 2016) shows GDP to be 2.3% higher than the same quarter in 2015. The latest retail sales figures also show consumers shrugging off the Brexit vote, with a 1.9% monthly rise in the volume of sales in October and the annual growth rate standing at a 14 year high of 7.4%.

The MSCI all property capital growth index fell by 3% in July before subsequently rebounding. UK property returned -0.9% in Q3 2016, bringing the total 12 month return to 5.3% made up entirely from income whilst capital growth flatlined. Q4 2016 has seen relative stability returning to the UK commercial property market, with prime yields static in October and the forward trend improved for November. Overall, however, prime yields have increased 15bp since the referendum, implying a 3.2% fall in capital values and underlining a more robust property market than many expected.

The first half of 2016 saw a short-term lull in transactional markets, as the referendum made vendors reluctant to sell; investment volumes were 25% lower in January and February than in the same period in 2015. Volumes have since picked up, rising by 167% in September alone. The referendum's effect on sterling has made UK real estate more attractive to overseas investors and presents real pricing opportunities when currency devaluation is taken into account. Almost half of the value of purchases in Q3 2016 came from overseas buyers, up 42% on the first half of the year.

The Chancellor, Philip Hammond, delivered his first fiscal piece on 23rd November 2016 with the Autumn Statement. There was good news for the regions with the Chancellor's commitment to the 'brain belt' expressway between Oxford and Cambridge. High speed physical and digital communications are key to increasing investment and opportunity outside London. The injection of an additional £400 million into venture capital funds through the British Business Bank should also provide an invaluable source of capital for early-stage UK tech firms across the UK. The government's announcement of £1.4 billion to fund 40,000 new affordable homes (£35,000 per home) was also welcomed.

There remains a weight of investment capital that will need to find a home in 2017. The position of UK real estate in the global asset class hierarchy remains high, with institutions and multi-asset fund managers' allocations to UK real estate still significant. In addition, with 2017 elections in France, Germany and the Netherlands, along with the implementation of the first President Trump policies, the UK could well regain its status as a safe haven market. It is highly likely that UK real estate will see investment volumes driven upwards in 2017 as investors search for returns. The UK regional markets in particular offering good value for long-term income. We expect the return of the Institutional purchasers in 2017, many who were hamstrung by Referendum redemptions in 2016. This may compound pricing and the availability of stock but opportunity and value should still remain for those investors who are prepared to weather a shorter leased property investment with realistic lease restructuring prospects.

# Helmsley Homes

**With a shortage of prime investment stock for sale since early 2015, we have tactically looked at other avenues to create attractive returns for our clients.**

Black Swan Yard is a new build development of 21 spacious two and three bedroom traditional stone-built cottage style homes with high specification modern interiors, private parking, landscaped gardens and forming a gated community in the heart of the popular North Yorkshire market town, Helmsley.

Rougemont's clients have funded the site purchase and construction by way of a fully secured syndicated loan that provides investors with a 12.5% per annum return. Despite still being under construction, demand has been high, especially with second-home owners, and at the time of press, eight properties had been sold at prices between £385,000 - £500,000.

# New Appointment

We are delighted to welcome a new member to our team. Annelies Illingworth MRICS joins as Asset Manager. Annelies assists James Craven with the day-to-day management of Rougemont's syndicated property portfolio as well as managing the growing number of private client investment ownerships.

## It's About Location

**Rougemont prides itself on identifying properties with long term secure income returns and the potential for enhanced capital value. With properties that have a short term remaining on the lease, there is often the risk of not finding a new tenant. However, if the lease terms can be re-structured prior to the lease expiry, it can often result in a significant increase in capital value and can secure a longer term income return.**

One recent example is English Heritage's building in York. A Rougemont syndicate acquired this property in January 2012 for £2.6m with an income return of 7.00% per annum, with only four years until the tenant's lease break option.

We have now re-structured the lease so that there is 11 years of unexpired lease term, with no break options and an upwards only rent review linked to the increase in the Retail Price Index in 2022. Following this restructuring the value of this property has now been assessed at £2.9m resulting in an 11.50% enhancement in capital value and a 7.00% per annum income return; an IRR of 9.88% p.a.

In a market where banks remain nervous about lending against properties with short unexpired lease terms, there are still opportunities for investors prepared to back a property's location. In reality the right property in the right location should always attract an occupier or have an alternative use. In October, Rougemont's Royal Mail Thirsk Syndicate purchased a modern 9,361 sq. ft. Royal Mail sorting centre on a 0.67acre site on the Thirsk Industrial Estate.

The purchase provides investors with the opportunity to take advantage of the tenant's renewed operational commitment to the property which will likely see the lease extended by a further 10/15 years. In addition, should a modest increase in rent of c.£5,000 per annum (£6.00 per sq ft) be achieved this will increase investor's income return to 7.25% per annum, plus enhance the property's capital value.

Naturally there are risks of a lease re-structuring not occurring and investors could face the cost of void business rates and insurance costs whilst a new tenant is identified, but in an improved occupier market good locations should always benefit from demand.

## 2016 Highlights

**In our seventh year, Rougemont now has 18 properties under management with a total portfolio value of over £90m. We are particularly proud of our average annual returns for both syndicated and private acquisitions, which are 7.50% and 9.25% respectively. Here are some of our recent acquisitions:**

### HEADQUARTERS OFFICE, LEEDS

In November the Marshall Elland Syndicate completed the purchase of Landscape House in Elland, West Yorkshire for £8.5m. The property is a modern three storey 32,510 sq ft, Grade A headquarters on a secure self-contained site built specifically for Marshalls Plc in 2003. The property is let on a full repairing and insuring lease to Marshalls for another 21 years. The syndicate income return will be 7.85% distributed quarterly in advance.

### TWO ROYAL MAIL SORTING CENTRES (with potential for alternative uses)

The purchase of two Royal Mail Sorting Centres both offering 6.75 - 7.00% returns. The Royal Mail Thirsk Syndicate purchased a modern 9,361 sq. ft. sorting centre on a 0.67 acre site on the Thirsk Industrial Estate for £800,000. The Royal Mail Newport Syndicate purchased a modern 21,713 sq' ft sorting centre in Newport city centre next to the Central Railway Station for £1.7m. Both purchases have potential for alternative uses due to their locations.

### PRIME HEADQUARTERS OFFICE NEWCASTLE

In November we secured the rare opportunity to acquire a trophy, Grade A office building on a prime water front position on Newcastle's Quayside, one of the city centre's principal office locations. Sandgate House was bought by a Rougemont private client for £10.5m and is let on a recently renewed 15 year lease to established law firm, Ward Hadaway Solicitors, as their headquarters.

### A PRIME SHOP IN SHEFFIELD

The O2 retail shop on Fargate, Sheffield was purchased for £2m by a Rougemont private client. The prime retail shop with upper floor offices is subject to a lease to Telefonica UK Limited (O2 mobile) and three small office occupiers. Both the retail shop and upper office accommodation offer asset management / refurbishment opportunities. The property provides the investor with a 10.00% per annum return and significant opportunities to enhance the capital value via active asset management.


All Rougemont Estates news, views and events is available at **www.rougemontestates.com**.
You can also follow Rougemont on Twitter - @RougemontEstate

For further information or details of Rougemont Estates investment opportunities please contact the office:
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