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Multi-managers move back into commercial property 16.11.2009

More multi-managers have announced moves back into commercial property as the prime end of the market rises off a multi-year low. Advertising Andrew Yeadon, head of multi-manager at Schroders, and Steven Richards, investment manager at Thesis Asset Management, have bought into the asset class following interest from foreign buyers and high - albeit falling - yields.

According to Mr Richards, the capital values on the monthly index from commercial real estate adviser CB Richard Ellis rose 2 per cent in October, while yields fell just 40 basis points.

Some analysts, including Richard Romer-Lee, head of research at OBSR, have expressed concerns a wave of belated reviews may drive down rents across the asset class.

Although Mr Yeadon felt the market had bottomed after capital values fell 45 per cent and yields shot up to 7-8 per cent, he acknowledged the occupational market still posed a difficulty. 'Rents are under pressure, and you don't want to lose any of your tenants,' he said. 'Credit remains tight.' But he added international investors were still attracted to Britain because of the weak pound, which has made properties cheaper for buyers in other currencies, particularly on the continent.

The UK is also seen as a crowded market with strong demand and relatively weak supply, making it more attractive for sellers.

Mr Richards said property looked attractive despite not seeing inflation 'taking a really strong grip'. Property has a strong reputation as an inflation hedge, partly because of landlords' ability to revise their incomes upwards if inflation takes hold.

Multi-managers have been entering the commercial property market in increasing numbers in recent months.

OPM Fund Management recently announced it was upping its weighting in direct property after taking a large position in listed property earlier in the year, after which discounts narrowed considerably.

John Husselbee, chief executive at North Investment Partners and manager of the City Financial fund of funds range, said there was now 'reason for renewed optimism' on the asset class. He said: 'Firstly, as a result of the significant falls in capital values, the yield on commercial property has now risen to previous peaks. 'The yield now compares very favourably to the 10-year UK gilt yield, a key valuation measure for property investment.' The correlation of commercial property values with the growth of the economy presents another reason for optimism, he said. 'The daily news on the economic recovery continues to improve, with nearly all of the major economies approaching the end of a short, sharp recession,' he said. 'Historically, the best time to invest in commercial property has been just as the recession is ending, a period when yields are peaking and investor sentiment is beginning to turn.'

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