

UK commercial property market recovery presents investment opportunities

The continued recovery of the UK commercial property market, coupled with the strengthening of the rand relative to pounds sterling, has presented South African investors with a unique opportunity to invest in the UK while capitalising on the recovery cycle.



So says Eric Mounier, CEO of the Pam Golding Properties/Athnor International Property Investments joint venture, which markets direct offshore commercial property investments.

"Since 2000, the joint venture has been involved in property asset transactions valued at over R5 billion and currently is involved in supporting over 40 active property investments.

"Despite commercial property values in the UK being devalued by over 40% following the global credit crisis, the asset management team has been successful in ensuring all properties under management remain operational and income producing, and favourably positioned to take advantage of the expected recovery cycle," says Mounier.

Investors starting to re-enter the market

Illustrating the UK commercial property market's recovery is the Investment Property Databank (IPD) UK monthly index, which indicated a 0.1% growth in un-gearred commercial property values for the month of October 2010. This growth concluded the 15th consecutive month of capital appreciation, bringing the compounded upturn in values since the recovery to 15.9%, according to the IPD. While there has been significant growth during this period there is still a long way to go to get back to the values prior to the global credit crisis.

Says Mounier: "This trend is supportive of the market commentary which indicates that investors are starting to re-enter the market, with the UK providing a popular investment destination. During the period of downturn following the global credit crunch, the UK experienced a significant re-pricing of commercial property values, and as a result investors are taking advantage of the favourable prices which are now possible. In addition, during the past year we have seen a significant strengthening of the rand against the pound with a slight reversal of this trend more recently. For those taking the view that the pound is likely to remain strong against the rand and the euro, the timing seems opportune to invest now in a solid pound-related asset class."

'Less dependence is being placed on capital growth' to achieve expected return

The aim of the Athnor/PGP JV is to facilitate property investments which derive the vast majority of their returns from the large net yields currently available as a result of the positive gap between the rental income and the cost of finance.

"Consequently," says Mounier, "less dependence is being placed on capital growth to achieve the expected return which reduces the risk associated with these investments.

"As an example of such an investment, a recently launched property in Parkhouse West Industrial Estate in Newcastle-under-Lyme in Staffordshire, England, is expected to produce cash flow of around 11% per annum, from which a portion will be used to pay down the bank loan and the remainder available to return to investors. The majority of the projected return will come from the annual cash flow," he says.

Prominently located near the busy north to south M6 highway, making it ideal for distribution purposes, this property is on a 20-year lease from August 2002. It includes a 2746m² warehouse with 143m² mezzanine storage, 394m² ground and first floor offices including conference rooms, reception areas and staff and kitchen facilities, plus a spacious dock loading area with canopy. Staffordshire is the principal town in Newcastle-under-Lyme and is 60km from both Manchester and Birmingham.

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