



Falling flat: Property funds failed to make a splash

Property recovery funds flop

Property recovery funds hoped to raise £770m from private investors, but our research reveals less than 2 per cent of this target has been raised

CLAER BARRETT

A slew of property recovery funds set up to capitalise on the crash have been outmanoeuvred by the speed of the correction. In the past year, funds have attempted to raise over £770m to target cheap residential and commercial property assets. However, Investors Chronicle research shows only a tiny fraction of this sum has been stumped up by UK private investors.

Our findings show that:

- Just 2 per cent of the £770m targeted has been raised.
- Only one recovery vehicle successfully hit its initial fund-raising target.
- Two high-profile funds have already been scrapped.
- Many funds have pushed out closing dates.

The slump in residential and commercial property values enticed all manner of

property vultures to scarp for investors' cash. All the investment vehicles detailed in our table (right) are aimed at private investors and high-net-worth individuals (to use fund manager speak). Promising annual returns as high as 15 per cent diverted attention away from the downsides – the majority are unregulated closed-ended funds, requiring a substantial upfront investment, locked away for up to seven years. In the past six months, the value of houses, shops and offices has soared. And the result? Investors have shunned recovery funds, believing managers have missed the market, and that returns are no longer achievable.

However, fund managers are quick to argue that they have not missed the boat. Many of the smaller funds have managed to raise some cash – albeit in much smaller amounts. Now, they must prove they can

invest that cash wisely, and hope to attract more investors in via a second close.

"It's a bit like a school disco. Nobody likes to be first on the dancefloor, but as soon as someone gets out there, it all goes crazy," says Joe McTaggart, managing director of Walls & Futures. Launched in November, its London Growth Fund aimed to raise £10m from private investors to buy residential property in south-west London. Its first close next week is only expected to bring in £750,000. Even so, to close at all is an achievement.

The IC can reveal Standard Life's plan to launch an £180m recovery fund targeting mispriced European property has been scrapped. The closed-ended fund had targeted annual returns of 12 per cent over a five-year period, commanding a minimum investment of £50,000 from "sophisticated investors". A spokeswoman explains: "Demand for this type of product across the board has dwindled somewhat since the end of the year."

Coba Asset Management hopes to adjust the model of its Strategic Income Fund, which launched last September, targeting repriced commercial property assets. With a minimum investment of £100,000, target returns of 10 per cent have not tempted sufficient volumes of small investors.

"We're having serious discussions to raise £20m to seed the fund from one source, and will bring in private investors afterwards when we've got the scale," confirms managing director Graham Gould. "There's always a catch 22; if you haven't got the property, people are reluctant to invest. But if you haven't got the funds, you can't buy the property." Coba has already identified future investments, and hopes to reach its first close by the end of June. "We're either going to do it properly, or not do it at all," he adds.

London stalling

Central London has proved a minefield for would-be residential fund managers. Funds hoping to pounce on cheap property reckoned without an influx of foreign cash buyers, attracted by the weak pound. Competing directly against owner-occupiers, prices are back up to 2007 levels, and fears of overpaying abound.

The Candy & Candy Growth Fund launched in a blaze of publicity in November, aiming to raise £100m to invest in London's "golden postcodes". It was withdrawn in January, blaming the "faster-than-expected recovery" of the central London residential market. Wealth managers were also discouraged that the residential developer behind the fund hadn't ruled out buying its own properties.

Top of the flops: how property recovery funds have fared

Fund name	Target raise	Status
CR Property Fund (British Land)	£300m	Yet to close
Standard Life Investment Property Recovery Fund	£180m	Scrapped
Candy & Candy Growth Fund	£100m	Scrapped
Lightstone Prime High Street Fund	£50m	Yet to close
Assetz UK Residential Recovery Fund No 1	£25m	First raise of £1.5m set to close*
DualInvest	£25m	Yet to close
Residential Property Recovery Fund	£25m	First raise of £3m set to close*
Progressive Capital UK Residential Property Fund	£25m	Yet to close
Coba Asset Management Strategic Income Property Fund	£20m	Yet to close
London Central Residential Recovery Fund	£10m	Raised £10m
Walls & Futures London Growth Fund	£10m	First raise of £0.75m set to close
Total sought: £770m	Total raised: £15.25m	

*Equity only, excludes gearing
Source: Investors Chronicle research

Listed property giant British Land's involvement with the CR Property Fund gave it a real edge, but it has yet to reach its ambitious £300m target. CR Property partner Charles Crosthwaite confirms the first close has been put back from May to the end of August. The fund is eyeing up to 500 London rental properties, seeking a minimum of £100,000 from wealthy investors, many of whom are based overseas.

Property firm King Sturge has come in as a third joint venture partner, which has caused delays. "We are talking to a number of very wealthy private individuals as seed investors who are close to committing," says Mr Crosthwaite. "It's a double-edged sword: bargains are not as obvious, but the appetite for London property is stronger than ever."

London Central Portfolio's recovery fund was a rare success, reaching its £10m target at its first close last week. The closed-ended fund, LCP's second, has already bought four one- and two-bed flats for refurbishment, which it will lease to corporate tenants. Chief executive Naomi Heaton says half of the equity raised was from overseas investors, attracted by the currency advantage. "Our intention is to buy rapidly and capitalise on reticence in the election period," she says. The aim is to double the value of equity invested within eight years – but only time will tell if London's overinflated market will continue to rise.

On the home run?

Prime central London is an easy concept to sell to investors. Further down the residential food chain, RPAM's "unglamorous" residential recovery fund raised just under £3m from private investors at its first close this week. Four months later than planned, the fund's target is distressed property in the north and Midlands which can be leased to students and housing associations.

"We're looking to have monthly closings from now on, and hope to get £10m equity by the end of the summer," says Barney Buik, director of fund manager RPAM. He is already chasing two small portfolios, direct from administrators. "For our specific

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market, we can still achieve 25 per cent below vacant possession values," he says.

A UK-wide residential recovery vehicle from Assetz has not lived up to its fund manager's ambitions. At its first close last week, £1.5m of equity was raised, rising to £3m with gearing. Chief executive and founder Stuart Law says "there will be about five times as much in the next fundraise," believing once investors see the promised returns (targeted at 15 per cent per annum) interest will snowball. "A lot of people think it is all over, but some still think it's just starting," he says.

Residential funds with a more complex story than "buy cheap, sell dear" have battled to win the hearts and minds of investors. DualInvest, the residential income fund promoted by Smith & Williamson, has optioned £100m of buy-to-let property from landlords in need of cheap financing, but has struggled to convince private investors that a 7 per cent return can be achieved. "We have raised some money, but not enough to get the plane in the air," says property manager Harvey Shulman. By next month, the fund will be available inside an individual savings account (Isa) tax wrapper, which could lead to it taking off with independent financial advisers (IFAs).

As market pricing continues to rise, fund managers are under pressure. Those that

Vultures take Aim

Commercial property opportunists have enjoyed greater success on the equities market, with Nick Leslau's Max Property and Tim Walton's LXB Properties among those listing on London's Alternative Investment Market in the past year. Max Property raised £211m last May, and landed its first deal in August – a £227m distressed industrial property portfolio once valued at £630m. "Even though we could have raised twice that amount, we deliberately did not, as we didn't want the cash sitting there on the balance sheet doing nothing for investors," says chief executive Nick Leslau. "In those days, the big recovery story was we're going to work with the banks, whose coffers are full of rubbish. Well, that clearly has not occurred."

"The banks have been much cleverer this time around, and will turn around the right stock as and when the market improves. We didn't raise money on that basis, but it's amazing that the market has moved so quickly." In January, Max snapped up a £40m portfolio of office building from UBS Triton. It has already turned several properties for a profit, and trades at a 9 per cent premium to NAV.

LXB Properties, which pulled off a £110m flotation in October, intends to acquire "subprime" retail park property for redevelopment. It made its £18m maiden purchase in January, buying long leases on a retail park in Greenwich, south east London, and has since spent £10m on an adjacent freehold site. At 90p, LXB's shares are trading 10 per cent below its list price. The value of retail parks has soared up to 40 per cent in the last 12 months, and the market is clearly pricing in the risk of striking further deals.



Nick Leslau: Banks have smartened up

have raised cash now have a mountain to climb, sourcing the promised bargains. For funds that have yet to raise money, the future is unclear. It is possible that more could silently fall victim to the property recovery. But with fears of a double-dip building, if they hang around for long enough, another crash is bound to come along.