Fund manager looks to buy £10m of distressed homes

■ Evolve plans to invest in residential at close to build cost

BY NICK DUXBURY

EVOLVE FUND SERVICES HAS SET UP A private investor property fund to buy new-build homes from forced sellers in the east Midlands.

The fund manager's St Josephs Property Fund is looking to raise £10m to invest in homes from distressed housebuilders at close to build-cost prices.

Evolve, which has £150m of assets under management across nine funds, said £2m had already been pledged.

The fund will be ungeared and will look to produce returns of 11.4% a year with dividends of 3%-4% a year over five years by renting the properties initially and then selling them once capital values have increased in five years' time.

Evolve is launching the fund in partnership with local estate agent Newton Fallowell and it will be regulated by Gallium Fund Solutions.

It plans to invest in detached, semi-detached and terraced houses at 20%-40% discounts to 'market value' within six months of closing.

New-build evolution: Evolve to snap up homes

The properties will be bought and rented by Andrew Derry, finance director at Newton Fallowell, which has 15 offices and a 41% market share in the region.

Evolve said it has an investment window, which is set to close by next September, and is targeting local private investors able to 'recognise the value in a five-bedroom house being sold for £150,000'.

It said there was strong demand for new-build rental properties in the east Midlands in particular.

Hugh Colville, co-founder and director of Evolve Fund Services, said: 'It is a very simple business plan. We want to get started now, and will look to pick up properties at the beginning of the summer in the full expectation that they will be gone by the end of the summer.

'We know that stock is limited and that we are buying at build, or close to build value.

'The government has said they need 300,000 new houses this year. There are only going to be around 50,000 built this year, and yet you have 4.5 million people waiting for a social house: it doesn't stack up.

'The east Midlands has been one of the hardest-hit areas in the UK with regard to house price falls.

'Combined with the fact that housing starts in the region have nearly halved in the past 12 months, it would lead us to believe that the east Midlands is one of the areas most likely to bounce back strongly in the UK.'

Evolve was founded in June 2002 by Colville, who has formerly worked at Savills, and Simon Hawley, who has previously worked at Scottish Widows and Hill Asset Management.

£ PRIVATE EYE: DANIEL MENDOZA

FIRST THE GOOD NEWS. AS CERTAIN AS I was a couple of years ago that the market offered no value, it is now as certain that value is returning.

Don't leave your money in the bank with virtually no return – buy the bank instead. In the past 48 hours we've considered on behalf of clients two prime high street banks with unexpired terms of 10 years, yielding 7%.

Yes, uncertainty still reigns, debt is hard to come by, rental deflation beckons and the further we move into 2009/10, some tenant risk will take on lottery status. But if you can navigate your way through this with tenacity and a gritty dose of realism, investment nirvana awaits.

Now the bad news. Our market first cracked 18 months ago, but for the public the recession has just begun. This year will be nasty. Sentiment and spending are plunging, leading to unemployment and insolvency. Only those with determination and positivity will come through smiling.

There is the upsetting prospect of many more heads having to roll because transactional volume is not sufficient. As a partner of a large agency said to me: 'We've already cut the dead wood, now some really good people are going to have to go.' Property owners will be fire fighting and dancing with their banks, and for a lot of people 2009 will still be about survival.

Sobering stuff, but nevertheless I am extremely optimistic. It feels like we are heading back to the 1990s with fantastic opportunities at one end of the scale and at the other end stock that you literally won't be able to give away.

Equity is sitting on the sidelines and the big question is: jump in now or wait? The answer is in the dynamic and requirement of each investor, and differentiating between the drivers of underlying capital value paid versus return on equity. I suspect that as the year progresses, capital values will continue to fall, but availability and cost of debt will move against us.

For those who want to maximise their gearing, time may be more of the essence than it is with those who are happy to buy with cash or minimal gearing.

For sellers I would advise expediency and take advice on pricing from somebody who knows where the market is at. For realistic vendors, deals are happening. We just effected a five-day exchange for a client buying from a fund who understood where values are.

I would like to return to the pain I mentioned earlier. I recently co-hosted the Anne Frank Trust lunch, at which nearly £200,000 was raised. The trust takes educational projects into prisons, communities and schools, dealing with social issues that affect us all.

It occurred to me then that no matter how tough things get, I am relatively fortunate and privileged, as I suspect are the majority of *Property Week* readers. We forget that to our own detriment.

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