SPLASH

OCTOBER 2008 THE NEWSLETTER FROM KINGFISHER PROPERTY FINANCE

Credit Crunch...contd

Since Christmas, market conditions in the commercial property lending market have deteriorated progressively. Fears of further falls in market value, availability of funding, a deteriorating economic climate and the spectre of bank collapses have been the causes of lenders reducing their appetite for new business. Amongst the Clearers and UK Lenders, there have been both those who have ceased lending and those who continue to lend but on a more conservative basis. Many of the German banks are still lending and part of the reason is that the "Pfandbriefe" market, a major source of funding for them, has remained open. The securitisation market by contrast is shut. According to the De Montfort survey, this market accounted for £10 billion of UK commercial lending in 2007 out of a total of £84 billion, with higher values in the previous 2 years.

The market is now in a state of uncertainty with low UK investment activity, waiting to see how values, the economy and the general health of the banking market in particular unfold. Debt is available on much more conservative terms than we have been used to and at higher margins and arrangement fees as compared with before July 2007. More amortisation is required. Quality of income is under greater scrutiny as is the borrower's business plan for adding value. Achieving an LTV of 75% is becoming exceptional. We interpret this as lenders making an allowance for future falls in market value.

On the other hand, with such conservative parameters and relatively high pricing holding sway, one would think this to be a good time to grow a loan book. However, it is difficult to see a trend in lenders' intentions. There are active lenders, including some who had previously withdrawn. There are also some who lent heavily in the first half of the year who are now pausing activities till 2009, because they were so successful in writing business.

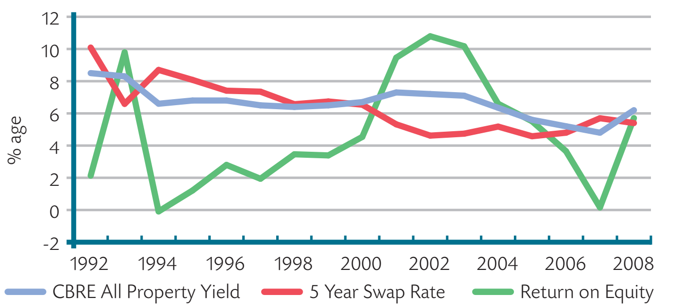
The next stage of the cycle will be how lenders react to those loans in technical default, particularly in breach of LTV covenants. Only few have so far required borrowers to pay down loans. The feeling is that enforcing security for technical breaches on any large scale is unlikely, particularly with access to new borrowings so tight. Loans where there is insufficient income to cover interest are a different story. This could be one reason for the pause in lending activity pending clarity on the economy and the ability of tenants to pay rent if and when recession appears.

Some lenders have however commenced selecting existing loans where they can approach borrowers in technical breach with a view to reclassifying some of the senior debt and charging a higher margin. We expect more of this

Return on Equity

The rise in the All Property Yield to a level substantially above the 5 year swap rate has restored a positive return on equity to debt financed investors.

RETURN ON EQUITY 1992-2008



The graph compares the CBRE All Property Yield with the 5 year swap rate in order to calculate a Return on Equity. A loan of 75% LTV at a margin of 1% is assumed with surplus income expressed as a percentage return on the implied equity in the transaction. Before 1991, the Return on Equity was always negative going back to before 1980. Since then, it has always been positive and currently lies at some 5.7%, in excess of the average return for the last 16 years of 5%.

If one amends the current calculation for a lower LTV of say 70% and a higher margin of say 1.5% to reflect current market conditions, then the Return on Equity falls to 4.8%. An All Property Average Yield of 6.25% would take the Return up to 5%.

Since in the past the Return on Equity has overshot during times of correction, there is good reason to believe that even higher yields are possible, particularly as prospects for rental growth are poor, and the availability of debt restricted. (The full graph is available on our website.)

FINNISH FINANCIAL CONTROLLER STARTS

Maija Huttunen joined Kingfisher at the beginning of April 2008 as our new Financial Controller.

A keen opera, yoga and golfing fan, her interests blend in well with the Kingfisher style (although the rest of us might have difficulty in keeping up as she jogs, skis and plays tennis too).

She originally comes from Finland and her fluency has proved to be a bonus in communicating with Finnish investors in some of the funds we operate. Maija is married with two grown up children.

RECENT TRANSACTIONS

Peterborough Garden Park

In July we concluded a mezzanine facility for the development of this £25 million garden centre in Peterborough with associated retail development.

The main garden centre will be 50,000 sq ft designed in similar manner to the acclaimed Glass House at the RHS Wisley, with 38,800 sq ft of retail units alongside. The anchor tenant is Van Hage, a family run business whose principal outlet is in Ware, Hertfordshire. Several of the retail units are also prelet taking total prelet income to about two thirds. The scheme demonstrates that even in this difficult market, finance is available for profitable transactions with good business plans.

Car Showroom Development, Stirling Corner, Hertfordshire

Kingfisher Property has provided advice on a facility for the development of two car showrooms and the refurbishment of some light industrial premises on a prominent site of some 3.2 acres overlooking the A1 at Stirling Corner. The showrooms, pre-let to the Jardine Motors Group, benefit from a significant frontage to this important arterial route into London.

Data Centre Financing, London

We have raised a debt facility for the acquisition and refurbishment of a data centre in South London. The data centre benefited from the necessary planning and power requirements and further similar opportunities are anticipated to follow.

In 2006 and 2007 the data centre market was characterised by large 50-100,000 sq ft requirements, largely driven by the UK finance and banking sector. So far 2008 seems to be showing more requirements of 5-10,000 sq ft in wholesale 'set-ups' where companies can install their own bespoke 'kit'. This South London project was prelet to an operator and will be used to service existing and new clients. The debt facility comprised two tranches which in total provide approximately 70% of costs.

Retail Warehouse Park Financing, Kidderminster, Worcestershire

A long standing client acquired this retail warehouse park in Kidderminster in April through their newly arranged opportunity fund. The scheme is close to the town centre, adjacent to a large Sainsbury's superstore, with many well known national retailers represented. The park provides total accommodation of approximately 200,000 sq ft in 12 units and was acquired for £49 million yielding 6.4%. 80% of rental income derives from leases with unexpired terms of over 15 years.

A senior debt facility of 75% LTV was arranged at competitive pricing.

Planning Gain Joint Venture, Oxfordshire

Kingfisher raised both senior debt and equity to assist in the acquisition of a 50 acre greenfield site in Oxfordshire reserved for residential development within the Local Planning Framework but as yet without an allocation. By demonstrating a strong business plan, we were able to raise approximately 95% of project costs with a deposit established at the outset to pay interest on a current basis throughout the anticipated 5 year life of the project. The opportunity offered a significant uplift in value once planning consent is achieved.

Fiona's farewell

It is with sad hearts that we said farewell to Fiona Cunningham at the end of July. She writes:

"My brother Dominic asked me to come and work at Kingfisher on a temporary part-time basis in April 1993; I left 15 years later!

Working at Kingfisher has always been a family affair, even to the extent of my son's first six months being spent under my desk at Parker Street and being fed in the Boardroom.

Not only has it been great fun working for Kingfisher but, under the guidance and patience of both Dominic and William, I have learnt a tremendous amount, ranging from balance sheets, cashflows, IRRs, limited partnerships and compliance, to which are the best wines to drink (courtesy of a number of client wine tasting evenings). And I mastered how to make William's tea just right.

I will miss everyone I worked with including clients and advisers and hopefully our paths will cross again in the not too distant future." Fiz

NEWS ON LIMITED PARTNERSHIPS

Through Kingfisher Property Partnerships Limited, which is regulated by the FSA, we have recently been appointed the Operator of 2 major Limited Partnerships.

One is on behalf of Liberty International Plc and Land Securities Plc in respect of a major building in South West London.

The other is a substantial fund to be invested in mainly income producing UK property and to be managed by a high profile asset manager. The combined funds under management of all the funds operated by Kingfisher Property now exceeds £2.5 billion.

KINGFISHER
PROPERTY FINANCE LIMITED

For more information about Kingfisher Property Finance contact:
William Maunder Taylor, Simon Drewett or James Maunder Taylor.

41-43 Maddox Street, London W1S 2PD

T 020 7491 0380 **F** 020 7491 9202
E info@kingfisherproperty.co.uk
W www.kingfisherproperty.co.uk