

# COMMERCIAL PROPERTY MARKET UPDATE

## News from Heracles

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By David Peill MRICS

### Market Update

As a property investor Heracles is not following the crowd and, although we are in the enviable position of having funds to buy, we have been happy to leave other investors to compete to buy long duration income deals at yields not dissimilar to pre-crunch levels.

Transaction volumes remain low and the headlines in the press hide a fragile market with a widening gap between prime and secondary yields.

Whilst there is a growing sense that the worst of the financial turmoil may be behind us, we cannot hide from the fact that the UK economy is in very poor shape. We believe this will have a continued impact on tenant failures, rental decline and, consequently, commercial property values.

Downward pressure on values in all but the very prime end of the market is further impacted by the continued dearth of debt funding available from the banks.

Notwithstanding the rocky road ahead, most businesses will survive the recession and proactive investors such as Heracles can prosper.

### A Land of Opportunity

Our business plan continues to be to focus on quality assets which offer an element of core income, but have active asset management potential to enhance both income and capital values, in what will be a challenging broader market for some time to come.

We believe the best investment opportunities will be found at the good quality end of the secondary property sector where, with appropriate skill and due diligence, investment gems can be sourced.

To that end, Heracles has been bidding on such investment targets at levels that provide returns we consider appropriate for the asset risk profile. However, we think the best deals in our target area are yet to come to the market. The next two to three years are likely to be a highly attractive investment period, particularly as the banks start off-loading assets inherited from over-gearred borrowers.

### Accessing the Opportunity

History demonstrates that it is the immediate post recession years that provide the golden opportunity to maximise investment returns.

Building on the strong pledges of support from our existing investors, Heracles will capitalise on this with the launch of Heracles Fund I in the Autumn. Not only will this expand Heracles' firepower, but the benefits of 'cash in the bank' when negotiating deal terms and financing will be highly advantageous in a cash strapped marketplace.

The Heracles management team will be anchoring the fund with significant personal equity, thus continuing their commitment to align themselves with investors.

We look forward to discussing the Fund with you shortly.

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