

# Riverside CAPITAL

THE  
PROPERTY  
INVESTMENT  
PEOPLE

## Leeds Investment Opportunity July 2016



Riverside Capital's latest commercial property opportunity offers a compelling combination of both income and capital growth potential.

Located in Leeds, the investment is in two new-build properties, on a single plot of land, let on long leases to three high quality tenants: Aldi, Poundworld and Pure Gym.

- Once income producing, the properties will generate a running income yield of **6.94%**.
- The term of the investment is five years, with a base case projected return of **11.04%**.
- Equity investment is available in tranches of **£25,000**.

**£8.3m**

PURCHASE PRICE

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**5year**

HOLD PERIOD

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**5.00%**

ANNUAL DIVIDEND FROM 06/18

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**12–20**

YEAR LEASE

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**11.04%**

BASE CASE RETURNS

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**“This off-market investment has everything required to deliver strong and sustainable returns: a great location, strong tenants and long leases, all at a very attractive entry price.”**

Dominic Wright, Group Chief Executive, Riverside Capital

## Key highlights

01.

### Attractive entry price

- By forward funding, we are able to acquire the properties at a significant discount.
  - Forward funding also means that stamp duty land tax is significantly reduced.
  - These savings means the properties offer a high net initial yield (NIY) versus comparable assets.
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02.

### Strong tenants

- All three tenants have strong credit ratings, and are deemed to have minimal risk of failure.
  - Discount retailers, such as Aldi and Poundworld, are the fastest growing part of the UK retail sector.
  - Pure Gym is the UK's biggest gym operator by membership.
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03.

### Long leases

- Aldi's lease is for **20 years**, Poundworld's is for **12 years** and Pure Gym's for **15 years**.
  - Each lease has a **five**-yearly upward-only rent review.
  - Aldi and Pure Gym leases linked to the level of UK inflation; Poundworld lease linked to Open Market Value.
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04.

### 'Up and coming' location

- Located at the edge of Leeds city centre, one of the UK's fastest growing cities.
- Leeds's economy is expected to grow by **25%** over the next **10 years**.
- Location should be enhanced by surrounding new residential and retail developments.

# Q&A on the opportunity with Dominic Wright, Group Chief Executive

## Q: Can you elaborate on the opportunity?

The development is comprised of two separate properties located on a single plot at the north-eastern edge of Leeds city centre. Leeds is one of the UK's fastest growing cities, and new residential and retail developments in close proximity to the site should enhance the properties' location.

Property A is single storey and let entirely to Aldi for 20 years. Property B is a three-storey building let to Pure Gym for 15 years on part ground, first and second floor, with the remaining ground floor let to Poundworld for 12 years. The Aldi and Pure Gym leases have breaks in years 15 and 12 respectively. Each of these tenants has a strong credit rating, and is deemed to have a minimum risk of default. These tenants will also perform well in an uncertain market.

Once fully income producing, the properties should generate a blended running income yield of 6.94%.

## Q: What is the term of the investment? And what are the expected returns?

The intention is to sell the properties after five years in, or around, March 2021.

Our base case assumption is for a blended exit yield of 5.25%. This is expected to be partly driven by the improvement in the location as nearby developments move the city centre outwards. Further value is also generated as the properties change from being a development to one that is income producing. Growing demand for inflation linked assets should also support demand as investors seek to protect themselves against the inflationary consequences of the current low interest rate environment.

	Exit yield	Return (IRR*)
Base case	5.25%	11.04%
Upper case	5.00%	13.85%
Sensitised case	6.00%	6.61%

\* Internal Rate of Return. A measure of the annualised rate of return on a compound basis.

### **Q: What income can I expect to receive?**

Income is derived from the full repairing and insuring leases\*, all of which have five-yearly upward-only rent reviews, with two of the three being linked to the level of inflation. Each property carries a rent-free period of between 12 and 18 months.

We intend that a distribution, equivalent to 5% per annum, will be paid half-yearly, in arrears, from approximately June 2018, following the expiry of all rent-free periods.

\* A lease which relieves the landlord from all liability for the cost of insurance and repairs. Instead, the tenant is legally responsible for all repairing and insuring obligations.

### **Q: You are acquiring the properties via a forward funding agreement. What are the benefits of this approach?**

Forward funding is when a purchaser agrees to fund the development of the property from start to finish, including purchasing the land. Through forward funding we are able to acquire the asset at a significant discount to its relative worth upon completion. In addition, a purchase by way of forward funding has the effect of reducing the amount of stamp duty paid by 65%. These combined savings mean that when the asset becomes income producing, the income yield will be above that which an investor would normally expect to receive from such a core asset.

While forward funding does involve a slightly higher level of risk compared to buying a finished development, we mitigate that risk through undertaking extensive due diligence on both the developer and the contractor. For this opportunity, the site is being developed by a local company, Gregory Projects, which is part of the award-winning Gregory Property Group.

### **Q: How is the opportunity being funded?**

The total cost of the two properties, including stamp duty, structure set-up costs, fees and working capital, is £8.3 million.

Funding will be a combination of equity and debt. Riverside Capital will raise equity funding of £3.8 million, while Royal Bank of Scotland will provide the debt element amounting to £4.5 million. Equity investment is available in tranches of £25,000.

### **Q: How can I find out more about this opportunity?**

Our Research Report provides insight into the location, the tenants and the sectors in which their businesses operate. We have also prepared an Investment Marketing Document which provides further details about the properties, as well as the financial considerations that support the opportunity. Please contact us if you would like to receive these documents.

### **Key dates**

June 2018	Semi-annual distribution equivalent to 5% p.a., to commence
March 2021	Expected sale of properties

# About Riverside Capital

Riverside Capital is a full-service property investment company, providing a platform for professional investors and intermediaries to access and invest in the UK property market.

Founded in 2010, to date we have completed £1.05 billion\* in transactions and have produced an average uplift in value of 50% on all exits.

Our primary service is direct property investment. We scour the UK property market to offer investors regular opportunities to invest directly into UK property assets, on a deal-by-deal basis.

Our expert team is able to access 'off market' opportunities that are not available to the broader market. They advise in the purchase of every asset we take to our investors, and then manage these assets to deliver income and capital growth.

We have previous knowledge and experience of the tenants of this portfolio; two properties within our current assets under management have Pure Gym as a tenant. Our team also has vast experience of forward funding and forward commitments, including the recently acquired Travelodge portfolio.

\* 31 July 2016

## Contact us

If you'd like to know more, please don't hesitate to contact a member of our team.

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