

Market Mover: Declan Kennedy

The Sunday Times – 10 October 2004

Ciaran Hancock

DECLAN KENNEDY is managing director of Augusta Property Services, a Dublin-based investment management company set up earlier this year. The Company launched the Augusta UK Commercial Property Fund on September 28 and is offering 4,500 shares for sale at €1,000 each. Augusta will spend €200,000 marketing the fund before it closes in the middle of November. The prospectus was sent to 10,000 potential investors.

Kennedy expects to raise €4.5m from investors with the company leveraging this amount by borrowing up to 75% of the value of the property it purchases. This will create a total fund of about £11.6m (€6.8m). Colliers Jackson-Stops, the property consultants, has been appointed to source investments and manage the property.

Kennedy, a qualified accountant, previously worked for Deloitte and also spent eight years as head of Irish Forestry Services.

Investment Philosophy

“This fund represents the collective, co-operative ownership of property for the benefit of shareholders,” Kennedy said. “It’s aimed at the modest investor, who I believe has never been properly catered for.”

Performance

Although returns are not guaranteed, Kennedy believes that, based on recent and historical market performance and reasonable commercial assumptions, investors can expect a return of more than 12% per annum over the eight-year life of the investment. At the end of the eight years, all borrowings will be repaid and profits will be distributed to the shareholders. Investors will be required to pay capital gains tax of 20% on their returns.

“An investment of €1,000 could therefore expect a return of €2,476 in year eight, subject to tax,” he said.

Buying and Selling

The fund will invest in commercial property in Britain, namely retail, industrial and office. “Property is an excellent medium to long term alternative offering better returns and capital appreciation,” Kennedy said.

“We’ve looked at a group of shops in Warrington, and large shops in Chiswick and Folkestone offering yields of 6% to 7%.”

Kennedy chose the British Market over other European countries because it has a culture of leading chains taking out long leases of between 15 and 25 years. “Boots has more than 1,300 locations in Britain all on long leases. There are plenty of other blue-chip

retailers, such as Tesco, Next and Debenhams, who would have similar deals. In Ireland there's no value at the moment and yields are low, only about 3.4% to 4.5%."

Outlook

"The diversity of the British commercial property market and the quality and range of stock that is available means that attractive returns can be achieved through careful stock selection," Kennedy said. "Total property returns in the British market for the year to last June were 15.4%, compared with equities at 16.9%. By choosing sub sectors, such as retail warehousing, the return exceeded the 19.1% return achieved by the entire retail property sector for the same period."