

# The last of its kind: interview with James Thornton

**Mayfair Capital co-founder James Thornton say regulatory pressure means there's not much of a future for small fund managers. But as he tells Guy Montague- Jones, Deputy Editor of Property Week, that thanks to Swiss Life, it's a different story for his firm.**

After the UK voted to leave the EU in June 2016, Mayfair Capital's chief executive and co-founder James Thornton feared that the deal he had been working on for months to sell the business to Swiss Life Asset Managers would fall apart.



James Thornton

Even though the two parties had by that stage agreed terms, he was concerned that the result of the referendum and subsequent run on daily-traded property funds would spook a conservative investor like Swiss Life. The insurance giant did not waver.

“We assumed that Brexit would deter them from wanting to continue, but we had a meeting here in August and the basic message was: ‘We’re long-term investors, we’re not in Europe either’ – they actually said that – ‘and we still want to do this,’” he says.

***Swiss Life’s basic message was: ‘We’re not in Europe either and we still want to do this’***

The deal was finalised in October 2016 and, since then, with the backing of Swiss Life, Mayfair Capital has been quietly growing the business.

Assets under management have increased by between 40% and 50% to £1.5bn and the firm is about to move into new offices on Wells Street in London's West End to accommodate its growing team. This is just the start, says Thornton. Under the ownership of a firm that already has €81bn (£72bn) of assets under management, Mayfair Capital now has the firepower to do larger deals and become a far bigger force in the UK property market.

Growth was one of the key drivers behind Mayfair Capital's decision to sell. After the business was founded in 2002, it expanded steadily and its flagship funds such as the Property Income Trust for Charities (PITCH) had performed well. The fund is in the upper quartile of performers over one, three, five and 10 years in the AREF/MSCI All Balanced Funds Property Index.

1996: Joins Savills as director of fund management

2002: Co-founds Mayfair Capital

2014: Becomes chief executive

2016 Mayfair Capital sold to Swiss Life

What was missing, says Thornton, was access to the funds necessary to drive more aggressive expansion. Mayfair Capital was also facing an increasingly burdensome regulatory regime that had made life more difficult for smaller fund managers.

Other fund managers have been grappling with the same issues. Since Mayfair Capital completed the sale to Swiss Life, similar-sized managers including Internos, Lothbury and Palmer Capital have also sold up.

Thornton fears that regulatory pressures are making it far harder for new independent fund managers to take their place.

"The sad thing is there will be no more Mayfair Capitals," he says. "You wouldn't do what I did with my joint founder [Guy Brogden] today unless you had someone who was willing to fund you and give you a significant sum to invest. Ultimately, regulation means investor choice is reduced."

## **‘Tomorrow’s occupiers’**

Swiss Life gave Mayfair Capital access to the capital it needed to expand and create new products, such as its Thematic Growth Fund, which was launched last year with the aim of investing in properties that “appeal to tomorrow’s occupiers” by tapping into key social and economic factors such as changing demographics and the growth of ecommerce. The fund raised £100m in a first close, which included £80m of co-investment from Swiss Life.

Mayfair Capital has also acquired a number of assets on behalf of a pan-European Swiss Life fund including an office in Leeds, which is part let to fashion house Burberry, and, just last month, an office in Dublin.

## **Huge potential**

Other larger deals are likely to follow. Swiss Life has the firepower to compete for the biggest deals in the market, as recent acquisitions in France underline. The manager has just bought a €1.7bn office portfolio in Paris having also acquired a residential portfolio of 4,000 units in France last year.

“The two deals show the potential that we have,” says Thornton. “Swiss Life is a bit of a secret. People don’t realise how big they are in real estate.”

Swiss Life has grown its allocation to real estate rapidly from about 12% in 2009 to about 20% today. At the same time, it has expanded its real estate investment management capabilities through M&A. In addition to Mayfair Capital, it has acquired Corpus Sireo and Beos in Germany and Viveris in France in recent years.

Acquiring Mayfair Capital gives Swiss Life a foothold in the UK market and a route to accessing international capital, which is often channelled through London. A team headed by Matt Dimond has been assembled in the firm’s London offices to expand the range of global capital sources investing in real estate managed by Mayfair Capital and the wider Swiss Life platform.

Although Swiss Life has both the capital and desire to ramp up its investment activity in the UK, the Brexit fog may need to clear before it starts doing deals of the scale seen recently in France. Under Swiss regulations, insurers like Swiss Life have to hedge their currency exposure, which means that investing here is more expensive than it is for other foreign investors.

In the meantime, there is no shortage of work for Mayfair Capital to be getting on with. Last year, it secured a mandate to invest £600m in the regions on behalf of Cadogan Estates, the second-largest aristocratic estate in central London after Grosvenor. Cadogan launched the fund to raise money to meet inheritance tax charges levied on the family trusts that own the business.

***“Swiss Life is a bit of a secret. People don’t realise how big they are in real estate”***

Mayfair Capital is also continuing to grow its PITCH fund, which raised £80m of new money last year. Thornton says his ambition is to grow the fund from £635m to £1bn.

Guided by its “thematic” investment approach, the fund manager is looking for opportunities across a range of sectors. One area of the market where the firm is starting to explore options is central London offices.

It had exited most of its London office holdings during 2016 in the belief that the capital was “looking fully valued”, but earlier this month, Property Week revealed that it had agreed a deal to buy Shoreditch office block the Bonhill Building from Legal & General for about £110m.

## **New office search**

Thornton declines to comment on the deal but says “the supply and demand cycle is turning in London’s favour”. This was borne out by the firm’s own search for a new office in the West End where it only had a choice between one or two viable options within striking distance of its existing base on Cavendish Square.

Thornton is also optimistic about the outlook for the UK property market more generally. “The capital growth that we’ve seen in recent years is over for the time being but we do believe in an elongated property cycle, partly because gilt yields remain so low, but also because bank lending is not an issue for the sector and there is a lack of new supply.”

As for Thornton’s own plans, he says he has no intention of retiring just yet. The deal with Swiss Life has given both him and the business a “new lease of life,” he says. “Career opportunities for people here are enhanced and we have no difficulty recruiting.”

All that is needed now is a resolution to Brexit. Mayfair Capital has already grown significantly under Swiss Life’s ownership, but the end of Brexit uncertainty could lead to a step change in its deal-making. It could end up doing UK deals to rival last month’s €1.7bn French office buy. Presumably just the kind of prospect Thornton had in mind when he sold his business to Swiss Life in the first place.

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