QuotedData

Monthly roundup | Real estate

September 2019

Winners and losers in August

Best performing companies in price terms in August

	(%)
Shaftesbury	10.1
Derwent London	9.0
Big Yellow Group	8.2
Grainger	7.4
Safestore Holdings	7.4
Assura	7.3
Schroder European Real Estate Inv Trust	6.9
Triple Point Social Housing REIT	6.6
Hansteen Holdings	6.1
Hammerson	5.9

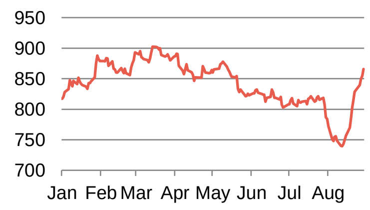
Source: Bloomberg, Marten & Co

Worst performing companies in price terms in August

	(%)
Macau Property Opportunities	(17.0)
Intu Properties	(14.8)
AEW UK Long Lease REIT	(10.9)
Countrywide	(9.1)
Real Estate Investors	(8.6)
Tritax Big Box REIT	(8.4)
Ediston Property Investment Company	(8.1)
Sigma Capital Group	(7.7)
Daejan Holdings	(6.3)
PRS REIT	(6.2)

Source: Bloomberg, Marten & Co

Shaftesbury share price YTD

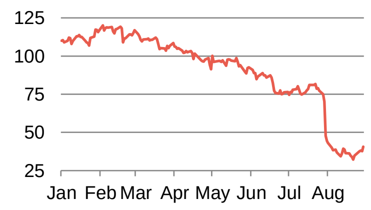


Source: Bloomberg, Marten & Co

The month of August has traditionally been a quiet period for news and announcements in the property sector, and this year is no different. Central London landlord Shaftesbury, which owns Carnaby Street as well as huge swathes of Soho, topped the chart of the biggest movers in the month of August. The group's share price has been under pressure for most of the year whilst being locked in a legal battle with Hong Kong billionaire shareholder Samuel Tak Lee.

Also ranking highly was central London office developer Derwent London following the publication of solid interim half-year results. Two self-storage companies, Big Yellow Group and Safestore Holdings, also feature in the top five as the sector continues to go from strength to strength. Other notable names in the top 10 are Triple Point Social Housing REIT, which bounced back to some degree (although was still 20.4% down year-on-year) following a consistent downward trajectory due to regulatory issues in the social housing sector. Surprisingly, given the continued travails of the retail sector, shopping centre landlord Hammerson also made the top 10 (although it was still 51.8% down year-on-year).

Intu Properties share price YTD



Source: Bloomberg, Marten & Co

Fellow shopping centre owner Intu Properties didn't fare as well, however. Its share price dropped 14.8% in the month of August, bringing its year-to-date decline to 64.1%. Both Intu and Hammerson announced half-year results at the end of July, and the market has clearly shown which turnaround plan they have more faith in. Intu was only beaten to the wooden spoon by Macau Property Opportunities, the developer investing in Macau – the sole city in China in which gambling has been legalised.

AEW UK Long Lease REIT also suffered a double digit fall after announcing it had rejected several takeover approaches. The UK's biggest estate agency group, Countrywide, saw its share price slide 9.1% in August despite the publication of encouraging half-year results at the back end of July. Industrial and logistics real estate investment trust Tritax Big Box REIT reported a fall in its net asset value (NAV) following the acquisition of developer db symmetry earlier this year. Private rented housing specialists Sigma Capital Group and PRS REIT were perhaps both victims of an uncertain housing market.

Valuation moves

Company	Sector	NAV move (%)	Period	Comment
Hansteen Holdings	Industrial & logistics	1.7	Half year to 30 Jun 19	Property valuation growth of 1.3%. New leases and renewals 4.7% ahead of Dec 18 ERV
Empiric Student Living	Student accommodation	2.2	Half year to 30 Jun 19	Property valuation growth of 3.1%. Revenue growth of 14.1% versus H1 2018
Green REIT	Ireland offices	4.6	Full year to 30 Jun 19	Property portfolio value up 8%
Irish Residential Properties REIT	Ireland residential	3.5	Half year to 30 Jun 19	Net rental income up 17.6% driven by new acquisitions and rental growth
Tritax Big Box REIT	Industrial & logistics	(1.8)	Half year to 30 Jun 19	Fall due to cost of db symmetry acquisition. Excluding this cost NAV growth of 0.7%
Derwent London	London offices	2.0	Half year to 30 Jun 19	Portfolio valued at £5.4bn, underlying increase of 1.9% in H1 2019. Uplift on developments 13.6%

Source: Marten & Co

Corporate activity in August

There were no new issues in August but plenty of corporate activity.

Palace Capital joined the UK REIT regime on 1 August. The company, which has a £280m property portfolio located across the UK and diversified by sector, said it expected to pay the first dividend as a REIT in December 2019.

AEW UK Long Lease REIT rejected several takeover approaches stating none reflected the true value of the group. The company will now seek longer term solutions to expand, including the introduction of new capital.

Green REIT reached agreement on the terms of a cash offer to sell the business to Henderson Park. Its board unanimously recommended the deal, which will see Henderson Park subsidiary HPREF Dublin Office Bidco acquire the company for around €1.34bn. Green REIT shareholders will receive €1.9135 for each share.

RDI REIT completed the second and final stage of its £75m London serviced office portfolio refinancing. The facility, provided by Aberdeen Standard Investments for a seven-year term, refinanced two existing facilities that were due to mature in December 2019 and August 2022. The weighted average fixed rate for the new facility improved from 3.13% to 2.6%.

Self-storage provider Safestore formed a new joint venture with Carlyle European Real Estate to buy rival M3 Self Storage, which has six self-storage locations in Amsterdam and Haarlem in the Netherlands. The cost to Safestore for the 20% stake was €6m.

In August, The Local Shopping REIT progressed with its winding down, passing two special resolutions in connection with a tender offer. The company's shareholders can expect to receive the proceeds from the sale of the shares they have tendered, at 31.33p per share, by 30 September 2019.

August's major news stories – from our website

Top 10 stories

- **Warehouse REIT signed a significant lease with Boots**

Warehouse REIT secured a 10-year lease renewal with Boots at a 42% uplift in rent. Boots signed the lease renewal at the 113,000 sq ft Daneshill Industrial Estate in Basingstoke, with no breaks, at a headline rent of £925,000 a year.

- **Derwent London sold an office in Clerkenwell for £103m**

Derwent London exchanged contracts to sell The Buckley Building, in Clerkenwell, London for £103m. The 85,100 sq ft office building, which produces annual income of £4.87m, was sold at a net yield of 4.43%. The sale is part of Derwent's strategy to sell off mature buildings and recycle capital into its on-site development programme.

- **Impact Healthcare bought two care homes in Ipswich**

Impact Healthcare REIT exchanged contracts to acquire two care homes, adding a new tenant to its portfolio, for a net outlay of £12.9m. The two homes, which produce a combined £950,000 in rent across 98-beds, are let to Optima Care on fixed terms of 25 years with annual upward-only reviews linked to RPI capped at 4% and collared at 2%.

- **Primary Health Properties completed two developments in Wales**

Two developments in Primary Health Properties' portfolio reached practical completion at a total cost of £6.4m. The properties are let on 20-year leases to the Abertawe Bro Morgannwg University health board and the Derbyshire community health services NHS foundation trust. PHP's portfolio now consists of 484 assets with a gross value of £2.35bn.

- **Irish Residential Property REIT secured planning permission for a 428-unit scheme in Dublin**

Irish Residential Property REIT was granted planning permission for a residential development at Rockbrook in Sandyford, Dublin 18. The scheme consists of two blocks totalling 428 units and includes four retail/commercial units.

- **Target Healthcare added to its portfolio with a double deal**

Care home investor Target Healthcare acquired two new properties for £18.6m. It bought assets in Ripon, Yorkshire, and Stourport, West Midlands, with both let on 35-year, RPI-linked leases to a subsidiary of Maria Mallaband Care Group. Target Healthcare's portfolio now consists of 63 assets (including developments), leased to 26 different operators.

- **Supermarket Income REIT acquired a Sainsbury's store in Preston**

Supermarket Income REIT bought a Sainsbury's supermarket in Preston, Lancashire, from Legal & General for £54.4m, reflecting a net initial yield of 5.1%. It was acquired with an unexpired lease term of 22.5 years with annual, upward-only, RPI-linked rent reviews (subject to a cap of 4% and a collar of 1%).

- **Regional REIT acquired six offices for £25.9m**

Regional REIT acquired a portfolio of six office assets, located in Birmingham, Bristol, Cardiff, Chester, Glasgow and Manchester, for £25.9m. The assets total 172,442 sq ft and are expected to provide a net income of £2.36m a year from 27 tenants; equating to a net initial yield of 8.87% and anticipated reversionary yield of 9.54%.

- **Unite Group bought a new student development site in Nottingham**

Unite Group exchanged contracts to acquire a new 620-bed development site in Nottingham. The direct let development, which is subject to planning consent, will open in time for the 2022/23 academic year. Total development costs are estimated to be £48m, delivering a development yield in line with the company's stated targets.

- **GCP Student Living acquired a 412-bed scheme in Mile End, London**

GCP Student Living forward purchased Scape Mile End Canalside – a 412-bed, new-build asset located immediately adjacent to Queen Mary University of London. The company intends to fund the acquisition primarily with new borrowings.

Visit www.quoteddata.com for more on these and other stories plus in-depth analysis on some funds, the tools to compare similar funds and basic information, key documents and regulatory news announcements on every real estate company quoted in London

Managers' views

A collation of recent insights on real estate sectors taken from the comments made by chairmen and investment managers of real estate companies – have a read and make your own minds up. Please remember that nothing in this note is designed to encourage you to buy or sell any of the companies mentioned.

Student accommodation

Empiric Student Property

The UK higher education sector continues to both grow and polarise. There is strong demand for education at top tier universities, but the bottom tier is struggling to attract more students. This means selectivity of location is key when student accommodation providers are considering their growth plans.

There were two notable developments in government policy during the period. In March 2019, the Departments for Education and International Trade published a plan to increase the number of international students studying in the UK by more than 30%. The UK currently hosts around 460,000 international higher education students and the education sector generates approximately £20bn per year through education exports and transactional activity. The government strategy sets out an ambition to grow the total number of international students to 600,000 and generate £35bn by 2030 - a rise of 75%.

In May 2019, the Report of the Augur Review of higher education suggested a reduction in tuition fees from the current £9,250 a year to £7,500, balanced by extending repayment periods from 30 to 40 years. It also called for the return of maintenance grants for poorer students. The proposals, if adopted, should help to bolster the number of applicants and the reduction in revenue for universities could incentivise them to further increase their student numbers. However, until it becomes clear if the government will adopt the proposals, it is difficult to understand the full impact.

Industrial & logistics

Tritax Big Box REIT

Whilst the political and economic uncertainty created by Brexit has resulted in some challenges throughout H1 2019, occupier demand remains robust. Market sentiment is that 2019 will likely see a lower volume of space taken up compared with the record-breaking take-up level of 2018 but that a healthy level of demand will be crystallised as transactions when occupier strategies are implemented as the uncertainty is resolved.

Development, particularly of larger Big Boxes, remains focused on purpose-built space; although the supply of speculatively built space has increased, it remains modest in the context of recent take-up volumes and the majority of space being brought forward is smaller scale. Market expectations are that the number of buildings and the volume of floorspace that will be brought to market speculatively - especially in the very large Big Box size bands - will be more restrained beyond this year as developers focus on void periods and absorption rates of existing speculative space before making further significant commitments.

In addition, the planning system is expected to control the supply of sites capable of accommodating larger logistics facilities. Prime headline rental growth is expected to continue over the next several years, which remains attractive to property investors who are also awaiting resolution of the ongoing uncertainty to deploy capital. Prime investment yields for logistics assets are likely to hold up or even tighten as investor demand for prime assets remains keen.

Hansteen Holdings

Urban multi-let industrial property is in strong demand from both occupiers and investors. The growth in e-commerce has boosted occupational demand with last mile delivery and goods returns accounting for some of this additional demand. However smaller multi-let units benefit differently to the big box logistic units but all of them generate increased demand for industrial warehousing over other forms of real estate.

The traditional occupiers in our sector continue to trade as strong as ever and some of them have grown faster as a result of incorporating the internet in their business models. However, some businesses which would have occupied other types of property can now beneficially operate from our type of units. Something common to many of our occupiers is that businesses which used to only trade 'business to business' are now able to deal directly with the end consumer enabling them to both grow and improve their margins. The spread of uses in our type of properties are broader than they have ever been encompassing manufacturing, storage and delivery, retail, office, leisure and those tenants that do not fall within any particular use class, ranging from churches to micro- breweries.

Central London offices

Derwent London

The central London office market remains stable with low rental and capital growth, while levels of letting and investment activity are below the high levels of the past few years. However, there continues to be a sufficient number of transactions which support current rents and yields. During the first six months of 2019, CBRE estimated that the vacancy rate fell to 4.2% from 4.5%. Take-up at 5.8m sq ft was 9% below the same period last year, but new supply was also 9% lower at 1.8m sq ft. The continuing high level of pre-lettings means that the amount of new space available to let remains relatively low.

Looking forward, the levels of available supply have reduced slightly with 13.1m sq ft under construction for delivery in the next three and half years, of which 61% is pre-let. As a result, there is 5.2m sq ft of new supply that will be available over the next few years, which is below current levels of active demand estimated at 9.7m sq ft by JLL. Investment activity has fallen with £4.2bn of transactions in the first half, 32% below the six-monthly average. In part this reflects less stock available on the market, but this trend could also be seen as a Brexit hiatus with London offices still screening attractively compared to global peers and with c.£32bn of equity selectively looking for opportunities.

Upcoming events

- Stenprop AGM 2019, 19 September 2019
- Personal Investment Live – Festival of Enterprise, 23 October 2019 – 24 October 2019
- GCP Student Living AGM 2019, 6 November 2019
- Money Week Wealth Summit, 22 November 2019
- Master Investor, 28 March 2020

Publications

QuotedData

Annual overview | Real estate

12 September 2019

Civitas Social Housing

Targeting full dividend cover

Civitas Social Housing (CSH) has secured a new £60m debt facility that it will use to buy new properties. This will increase its rental income and move CSH very close to full dividend cover. CSH has the option to extend the new loan by another £40m and is also in advanced negotiations to secure a separate £70m loan.

QuotedData estimates that, if CSH moves to a fully invested position, which it expects to by the end of March 2020, it should comfortably be able to fully cover its dividend from operations.

The company has identified an acquisition pipeline, worth more than £200m, that includes new government-backed social housing and new geographies, as it looks to broaden its exposure. It has identified homelessness and NHS stepping down accommodation as two growth areas and in both cases, the cost saving to the local authority and NHS in placing people in supported living accommodation is large. CSH has also received AGM approval to open up its investment criteria to include Scotland and Northern Ireland, where it believes it can capture attractive returns.

Income and capital growth from social housing

CSH aims to provide its shareholders with an attractive level of income, together with the potential for capital growth from investing in a portfolio of social homes. The company expects that these will benefit from inflation-adjusted long-term leases and that they will deliver a targeted dividend yield of 5.3% per annum on the issue price, with further growth expected. CSH intends to increase the dividend broadly in line with inflation.

Year ended	Price total return (%)	NAV total return (%)	EPRA earnings per share (pence)	Dividend per share (pence)
31/03/18	(0.6)	10.7	1.44	4.25
31/03/19	4.2	9.4	3.63	5.0
31/03/20f			note 1	5.3

Source: Morningstar, Marten & Co. Note 1) a Marten & Co estimate of what Civitas Social Housing might earn once the debt is fully deployed is given on page 12.

Sector	Property – UK residential
Ticker	CSH LN
Base currency	GBP
Price	84.90p
NAV	105.88p
Premium/(discount)	(19.8%)
Yield	6.2%

Share price and discount

Time period 18/11/2016 to 10/09/2019

Source: Morningstar, Marten & Co

Performance since launch

Time period 18/11/2016 to 31/08/2019

Source: Morningstar, Marten & Co

Domicile	England and Wales
Inception date	18 November 2016
Investment adviser	Civitas Housing Advisors
Market cap	528.5m
Shares outstanding	622.5m
Daily volume (1yr avg)	1.68m shares

Click here for our most recent update note

NB: Marten & Co was paid to produce this note on Civitas Social Housing and it is for information purposes only. It is not intended to encourage the reader to deal in the security or securities mentioned in this report. Please read the important information at the back of this note. QuotedData is a trading name of Marten & Co Limited which is authorised and regulated by the FCA. Marten & Co is not permitted to provide investment advice to individual investors categorised as Retail Clients under the rules of the Financial Conduct Authority.

Our annual overview note on Civitas Social Housing highlights the impact new debt facilities will have on its dividend cover. It also details new investment opportunities the manager is exploring.

Our independent guide to quoted investment companies is an invaluable tool for anyone who wants to brush up on their knowledge of the investment companies' sector. Register on www.quoteddata.com if you would like it emailed to you directly.

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IMPORTANT INFORMATION