QuotedData

Monthly roundup | Real estate

January 2020

Winners and losers in December 2019

Best performing companies in price terms in December

	(%)
Countrywide	29.5
Sigma Capital Group	17.1
Harworth Group	17.0
Raven Property Group	16.9
Conygar Investment Company	16.7
Henry Boot	16.4
U and I Group	15.7
Countryside Properties	15.0
Palace Capital	14.8
Stenprop	14.0

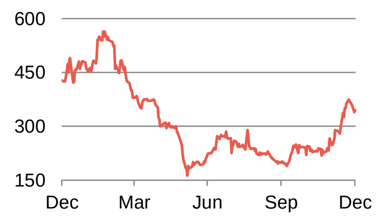
Source: Bloomberg, Marten & Co

Worst performing companies in price terms in December

	(%)
Capital & Regional	(9.9)
Schroder European REIT	(6.4)
Ceiba Investments	(4.1)
Macau Property Opportunities	(3.5)
Intu Properties	(2.9)
BMO Commercial Property Trust	(2.5)
Phoenix Spree Deutschland	(2.1)
Aberdeen Standard European Logistics Income	(2.0)
BMO Real Estate Investments	(1.9)
Alpha Real Trust	(1.6)

Source: Bloomberg, Marten & Co

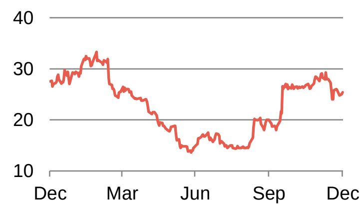
Countrywide share price 2019



Source: Bloomberg, Marten & Co

December was a good month for listed property companies, with the sector experiencing a bounce following the convincing majority the Conservative party won at the general election. For the second month in a row, estate agency group Countrywide topped the charts for the biggest share price gains. This follows news that it had agreed a deal to sell its commercial property arm Lambert Smith Hampton. Prior to this, the company had suffered big falls in its share price, down 19.3% in 2019. It was a good month for regeneration specialists, with Harworth Group, Henry Boot and U and I Group all experiencing a rise in their share price. For U and I Group, it is the second month in a row it has featured in the top 10 risers. Conygar Investment Company saw a 16.7% rise in its share price over the month having reported its full year results at the end of November. Countryside Properties ended a fine 2019 with another strong month, making the top 10 for the fourth month running. In all, the housebuilder's share price rose a whopping 49.5% in 2019. Stenprop's share price was up 14% having made progress on its transition to a fully focused UK multi-let industrial landlord with the sale of its largest non-core asset.

Capital & Regional share price '19



Source: Bloomberg, Marten & Co

Not all real estate companies benefitted from a general election bounce, however. Shopping centre landlord Capital & Regional suffered December's biggest share price fall, down 9.9%. The company had seen its share price grow over September and October after South African REIT Growthpoint acquired a majority stake in the company. Schroder European REIT saw its share price fall 6.4% despite reporting strong full year results during the month. Ceiba Investments, which invests in real estate in Cuba, and Macau Property Opportunities, which invests in the Chinese gaming city of Macau, both witnessed share price falls, of 4.1% and 3.5% respectively. Reflecting investor sentiment towards retail, shopping centre owner Intu Properties capped off a dreadful year with another appearance in the bottom 10 and ended 2019 as the worst performing real estate company with a 70% fall in its share price. Both of BMO's real estate funds featured in the bottom 10 in December, with BMO Commercial Property Trust suffering a 2.5% fall and BMO Real Estate Investments' share price falling 1.9%. Phoenix Spree Deutschland, which invests in residential property in Berlin, has suffered for much of 2019 as a result of proposed Berlin State rent controls.

Valuation moves

Company	Sector	NAV move (%)	Period	Comment
Circle Property	Diversified	0.4	Half-year to 30 Sept 19	Portfolio value up 8.8% to £135.6m due to purchases in the period. Valuer: Savills
Civitas Social Housing	Healthcare	0.1	Half-year to 30 Sept 19	Portfolio value up 1.8% to £841.5m. Valuer: JLL
Schroder European REIT	Europe (diversified)	0.0	Full year to 30 Sept 19	Portfolio value increased to €242.7m – a 1.6% uplift like-for-like. NAV flat due to a one-off cost relating to tax restructuring. Valuer: Knight Frank
Custodian REIT	Diversified	(2.6)	Half-year to 30 Sept 19	Portfolio value decreased 2.3% due to fall in rental value of high street retail assets. Valuer: LSH, Knight Frank
Ediston Property Investment Company	Retail	(5.7)	Full year to 30 Sept 19	Like-for-like portfolio value fall of 3.5% to £319.2m. Valuer: Knight Frank

Source: Marten & Co

Corporate activity in December

Hansteen Holdings agreed a deal to sell the company to Blackstone for £500m. Under the terms of the deal, Hansteen shareholders would receive 116.5p per share, which represented an 18.1% premium to the average share price for the last three months and an 11.6% premium to the latest EPRA net asset value of 104.4p per share. The acquisition will be put to shareholders in February 2020.

Student accommodation focused REIT **GCP Student Living** raised £77m in an over-subscribed placing. The group said it intended to use the proceeds to partly fund the acquisition of a new London asset, Scape Canalside, and to maintain a conservative borrowing level. It had targeted proceeds of £75m, having received an application in respect of £50m from pension fund manager APG Asset Management.

Capital & Counties converted to a UK REIT following the sale of its interests in Earls Court. Under the REIT regime, the group will no longer pay UK direct tax on profits and gains from qualifying rental business. Following the £425m sale of Earls Court, the company has positioned itself as a prime central London landlord with a portfolio located in and around Covent Garden. Capital & Counties said it would target a progressive dividend policy over the medium-term by driving rental growth and securing income.

Tritax Big Box REIT reached an agreement to extend the termination date in respect of £300m of its £350m unsecured revolving credit facility, from 10 December 2023 to 10 December 2024. The maturity date of the residual £50m will remain 10 December 2023. This extends the company's weighted average debt maturity to 7.6 years.

Workspace Group's non-executive chairman, Daniel Kitchen, announced his intention to step down with effect from the conclusion of the company's 2020 AGM. The group has launched a search for a successor to Kitchen, who has been in the role for nine years.

Alpha Real Trust has recovered INR115m (£1.23m) in relation to its disputed Galaxia investment (a planned development with Logix). Alpha Real was awarded the equivalent of £9.2m and interest at 15% a year in 2015. So far it has recovered £2.23m.

December's major news stories – from our website

Top 10 stories

- **CLS Holdings sold government-let office portfolio for £65m**

CLS disposed of a portfolio of 19 regional office buildings, let to various UK government bodies, for £65m as it focuses its UK portfolio on London and the South East. Following the sale, which was at a 2.1% discount to June 2019 valuation, CLS will hold only two assets in the UK located outside the South East.

- **SEGRO sold a £241m portfolio of big box warehouses**

SEGRO exchanged contracts to sell a portfolio of seven UK big box warehouses for £241m. The sale, to Morgan Stanley Real Estate Investing and Thor Equities, was made in line with book value. SEGRO said it would recycle the capital into its existing and future development programme.

- **ASLI bought a logistics warehouse in the Netherlands for €49.9m**

Aberdeen Standard European Logistics Income acquired a 43,000 sq m logistics warehouse in Den Hoorn, in the Netherlands, for €49.9m, reflecting a net initial yield of 4.5%. The newly built facility, which is located within the Randstad region – the most densely populated areas in the country, is let to a logistics operator on a 10-year CPI indexed lease.

- **Sirius Real Estate acquired German business park for €44.5m**

Sirius Real Estate completed the acquisition of Alzenau Business Park, near Frankfurt, for €44.5m, reflecting a net initial yield of 7.9%. The business park, which comprises 11 buildings, is 93.5% let to 16 tenants with an annual rent of €4.1m.

- **Derwent London sold London Midtown asset for £121.3m**

Derwent London exchanged contracts to sell its long leasehold interest in 40 Chancery Lane for £121.3m, reflecting a net initial yield of 4.25%. The 103,700 sq ft office is let to Publicis Group until 2035 at an annual rent of £5.5m.

- **Stenprop sold its largest asset for €160m as part of UK industrial strategy**

Stenprop agreed a deal to sell its largest asset, Bliechenhof in Hamburg, for €160.15m as it continues its transition to a fully-focused UK multi-let industrial owner. The sale of the office and retail asset will see UK industrial assets make up 56% of Steprop's portfolio – from 44.6% – on completion.

- **LondonMetric sold £145.3m of big box warehouses**

LondonMetric sold four distribution warehouse assets for a combined £145.3m across three separate deals, as it continues to reduce its big box exposure. The four properties, in Newark, Rotherham and two in Doncaster, have an unexpired lease term of 10 years and produce a rent of £8.3m per annum.

- **Intu sold a Spanish shopping centre for €475.3m**

Intu finalised a deal to sell the Puerto Venecia shopping centre in Zaragoza, Spain, for €475.3m. It owns the asset in partnership with Canada Pension Plan Investment Board and will receive £237.7m from the deal.

- **McKay Securities sold City of London office for £76.5m**

McKay Securities sold 30 Lombard Street in the City of London for £76.5m, reflecting a net initial yield of 4.16%. The REIT, which completed the redevelopment of the 58,000 sq ft building in early 2019, having pre-let it to FTSE 100 wealth manager St James's Place, plans to pay down debt with the proceeds.

- **Tritax EuroBox acquired €50.3m logistics property in the Netherlands**

Tritax EuroBox bought a prime newly developed logistics property in Breda, the Netherlands, for €50.3m, reflecting a net initial yield of 4.6%. Two of the four units are let to Abbott Logistics on a 10-year index-linked lease with the other two benefitting from a 12-month rental guarantee.

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.

Diversified

Custodian REIT

Richard Shepherd-Cross, investment manager:

We do not expect to see a meaningful change in investor demand for UK real estate over the next few months. We anticipate the conundrum of Brexit will continue to occupy investors' thoughts and we anticipate a period of continued relative inaction while investors wait to see what happens next. However, we believe the outcome of the general election could produce an upsurge in confidence and activity and we remain ready with available undrawn debt facilities to exploit any opportunities which may arise. Meanwhile, the occupational market in the regions remains short of supply which continues to support rental growth in office and industrial markets.

While Custodian REIT is not immune from falling values in retail, as witnessed in the NAV decrease during the period, this is a cloud with a silver lining. Market conditions through late 2018 and 2019 have made it very difficult to source investment property with the appropriate risk profile. Properties that are modern, fit for purpose; capable of delivering long-term secure income; not in need of significant capital expenditure and likely to show limited voids have been scarce. A downward adjustment in market values could create the sort of opportunities that will allow Custodian REIT's strategy to continue to thrive. We remain confident that the company's strategy of targeting income with conservative net gearing in a well-diversified regional property portfolio will continue to deliver the stable long-term returns demanded by our shareholders.

Circle Property

John Arnold, chief executive:

Circle's strategic focus on regional commercial property resulted in strong rental income being achieved in the period. During the past six months, the Circle Property team have been investing in the pipeline, increasing rental growth and we are on track to deliver expectations for the full year. In the first half, the pace of lettings has quickened, with over £950,000 of newly-contracted rents being completed to date since the start of the year. This bodes well for a positive uplift in valuation at the year end and we look forward to continuing our momentum.

Retail

Ediston Property Investment Company

William Hill, chairman:

The advantages of real estate as an asset class remain compelling both as a source of income and as a diversifier. In addition, pricing does not appear stretched relative to bonds. From an international perspective, yields are competitive against the European markets. Supply levels are in check and development activity subdued. Demand for property investment companies to access the market should rise as the liquidity issues in the daily traded property unit trusts continues to be a concern. This should be a positive for the closed-ended investment company sector and its ability to manage illiquid asset classes.

Notwithstanding the positive medium term 'big picture', the company's rating has been hit hard in the last six months due to investor concerns about retail. The sector has been changing for a long time in how it is carried out as an activity, and in terms of what consumers want to buy and from where. Investors and retailers on the wrong side of this substantial shift are paying a big price. However, retail is not dying, it is changing. The extent of the letting activity in the company's retail warehouse portfolio during the last 12 months shows that a market clearly exists for the right accommodation which suits retailers with good business propositions.

The board believes the company is on the right side of the retail change given its assets are largely in convenience led retail warehousing, and this will increasingly be evident going forward. The board is as positive as it can be on the medium-term outlook and our belief that our share rating in the future will reflect better the prospects of the 'retail winners and retail losers'.

Healthcare

Civitas Social Housing

Civitas Housing Advisors, investment manager:

The past six months have been both challenging and rewarding. The comments from the Regulator of Social Housing (RSH) in April 2019, and subsequently in October 2019, clearly unsettled some in the investment community and Civitas is still recovering from that in terms of share price performance and discount to net asset value. We are at the same time working actively to address the risks identified by the RSH.

The company's portfolio has over the past three years delivered both in terms of economic and social returns and we work on a daily basis to ensure this can continue to be the case in the future. We have taken a very hands-on approach to bringing about improvements in the sector and we know that this has been noted by the RSH and other important sector participants.

Working closely with local authorities and care providers on a daily basis we see the levels of unsatisfied demand within the system and we appreciate the quality of the enhanced housing service that is being delivered by the staff of our Housing Association partners and the quality of primary care that is being delivered by the staff of the care providers. Both are highly dedicated to helping all the residents achieve better outcome for lives that face daily challenges. For our part we intend to continue to bring forward the very best accommodation possible to assist in meeting these challenges and enabling people to achieve the very best outcomes possible.

Europe (diversified)

Schroder European REIT

Schroder Real Estate Investment Management, investment manager:

The eurozone is currently a two-speed economy. The slowdown in world trade and investment has hit manufacturers and output has fallen by 1% since late 2018. Conversely, the services sector continues to grow, supported by solid labour markets, rising consumption and government spending. The risk is that the downturn in manufacturing deepens, possibly because of a disruptive Brexit or a further escalation of the trade dispute and then spreads to the services sector. The ECB has begun to loosen policy, but its room to manoeuvre is limited, given that the main financing rate is already at zero. However, low borrowing costs for governments provide some room for government stimulus. Schroders forecasts that eurozone GDP will grow by 1% per annum through 2019/20. Sweden, France and Spain will probably see faster growth, while Germany, which has a relatively large manufacturing sector, is likely to lag behind.

The company's portfolio is 100% allocated to 'Winning Cities', those cities that will grow faster than their domestic economies from a GDP, employment and population perspective. This has been the central theme to constructing the portfolio and is expected to position the company well for the future. This will be particularly important if risks around the economic and political backdrop increase.

We continue to focus on asset management as a means to grow shareholder returns. The Paris refurbishment initiative is a good case in point. Successful completion will not only strengthen portfolio real estate fundamentals but also provide opportunity to deliver profits. Other asset management initiatives, such as leasing vacant accommodation in Hamburg and Seville will also be important in supporting the income profile of the company.

Upcoming events

- RDI REIT AGM, 23 January 2020
- Schroder European REIT AGM, 3 March 2020
- Master Investor, 28 March 2020

Recent publications

The first in our series of real estate sector note, on this occasion focused on the troubled retail market. It looks at the underlying trends in the sector and opportunities that may exist as well as a profile of all the listed property companies that are dedicated to retail real estate.

The second in our series of real estate sector notes, this time focusing on the industrial market. It looks at the future growth opportunities that exist and profiles all the industrial focused property companies.

QuotedData

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