

First quarter of 2020

Covid chaos

The covid-19 pandemic has had a devastating effect on the share price of property companies, with 31% wiped off the value of their total market capitalisation during the first quarter of 2020.

Companies focused on the retail, leisure and hospitality property sectors were particularly badly affected as the country was put on lockdown in an effort to halt the spread of the disease. Later in the quarter, the extent of the problem for property companies was revealed with rent collection announcements. Some retail-focused companies had collected below 50% of rent and service charge during the quarter.

It wasn't just the retail, leisure and hospitality sectors that were affected. Office landlords saw their rental income fall as tenants moved business operations remotely. The industrial sector was also impacted, but to a lesser degree due to the spike in demand from ecommerce tenants.

The huge hit on rent collection saw companies rush to shore up their balance sheets and many have suspended dividends.

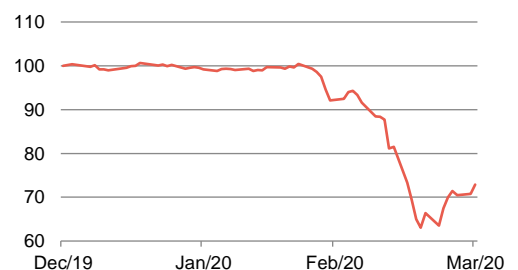
There were a handful of companies that did emerge from the quarter unscathed. Healthcare property companies, whose income is backed by the government, all saw a slight increase in their share prices over the period.

In this issue

- **Performance data** – Only a handful of companies saw their share price rise in the quarter. Companies with stable income streams were among the best performing.
- **Corporate activity** – Covid-19 put paid to a number of planned capital raises during the period. However, more than £330m was raised, with **Grainger** accounting for more than half of that.
- **Major news stories** – The coronavirus pandemic dominated the headlines with several companies suspending dividend distributions amid a stark drop off in rent collection.

Property sector performance*

Time period 31/12/2019 to 31/03/2020



Source: Bloomberg, Marten & Co. Note*: Average share price of listed property companies rebased to 100

Biggest property companies at end of Q1 2020

	Market cap	Chg. on qtr (%)
SEGRO	£8.4bn	(14.8)
Land Securities	£4.1bn	(43.8)
Derwent London	£3.6bn	(18.5)
British Land	£3.1bn	(47.4)
UNITE Group	£2.9bn	(36.4)

Source: Bloomberg, Marten & Co

Best performing companies in price terms in Q1 2020

	Chg. on qtr (%)
Assura	7.3
Civitas Social Housing	5.6
Triple Point Social Housing	1.1
Aberdeen Standard	1.1
European Logistics Income	
Primary Health Properties	0.4

Source: Bloomberg, Marten & Co

Performance Data

There are no real surprises in both the best and worst performing property companies in the first quarter of 2020. Those companies with a stable income stream or that operate in property sectors that are set to be less impacted by the coronavirus have made it into the top 10, although only five companies have actually seen their share price rise in the three months. Conversely, those companies that are more exposed to the pandemic, such as retail landlords and development companies, have seen huge share price falls.

Figure 1: Best performing companies in price terms in Q1

	%
Assura	7.3
Civitas Social Housing	5.6
Triple Point Social Housing REIT	1.1
Aberdeen Standard European Logistics Income	1.1
Primary Health Properties	0.4
Supermarket Income REIT	0.0
Tritax EuroBox	(1.5)
Standard Life Investments Property Income Trust	(7.0)
Ceiba Investments	(7.7)
Target Healthcare REIT	(7.8)

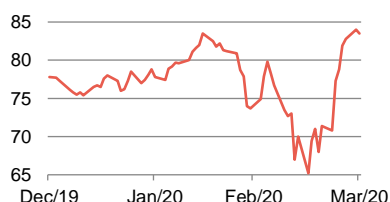
Source: Bloomberg, Marten & Co

Figure 2: Worst performing companies in price terms in Q1

	%
Intu Properties	(86.9)
Countrywide	(86.1)
Hammerson	(74.9)
NewRiver REIT	(70.2)
Capital & Regional	(63.7)
U and I Group	(55.0)
RDI REIT	(50.3)
Ediston Property Investment Company	(48.8)
Inland Homes	(48.2)
British Land	(47.4)

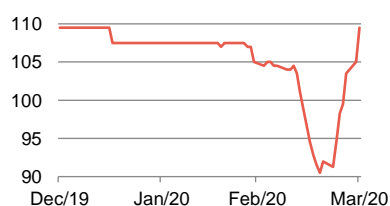
Source: Bloomberg, Marten & Co

Figure 3: Assura share price



Source: Bloomberg, Marten & Co

Figure 4: Supermarket Income REIT share price



Source: Bloomberg, Marten & Co

Best performing property companies

Four of the five companies to have seen share price rises over the quarter have a large majority of their income either directly or indirectly paid by the government. **Assura**, which tops the group, and **Primary Health Properties**, which saw a marginal gain of 0.4%, both own portfolios of GP surgeries and their income is predominantly paid by the government through the NHS.

That is the case for the two social housing companies, **Civitas Social Housing** and **Triple Point Social Housing REIT**, whose rents are indirectly paid by the government through housing benefit.

Two European logistics companies were also among the best performing companies in the quarter, with the logistics sector witnessing an increase in demand for space from ecommerce companies as online orders surged. **Aberdeen Standard European Logistics Income** (ASLI) saw its share price rise marginally, while **Tritax EuroBox** saw its share price fall slightly.

Supermarket Income REIT, which owns a portfolio of supermarkets let on long leases to the likes of Sainsbury's Tesco and Morrisons, ended the quarter in the same position as it started it. No mean feat given that its share price fell 14% in early March during the wider stock market sell-off as the covid-19 pandemic escalated. Its share price recovered all its losses as the grocers saw a spike in demand as people stockpiled goods.

Standard Life Investments Property Income Trust also has a heavy focus on logistics assets and has a strong balance sheet following some profitable sales at the end of 2019.

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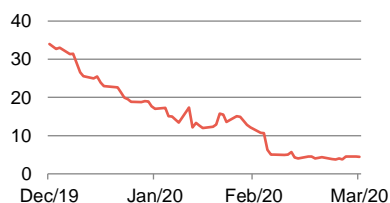
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Figure 5: Intu share price



Source: Bloomberg, Marten & Co

Worst performing property companies

Unsurprisingly, companies that have a large exposure to retail saw heavy falls in their share price as all but essential retail outlets were forced to shut. Retailers have been unable to pay rent as it fell due, leaving retail-focused property companies with significant holes in their income. For retail-focused companies, it was the latest in a long run of bad news. **Intu Properties** was the worst affected, announcing it had received just 29% of rent due at the end of the first quarter. This followed disastrous results, in which the value of its property portfolio plummeted by £2bn, as well as a failed £1.5bn emergency cash call.

Fellow shopping centre owner **Hammerson** didn’t fare much better, losing almost 75% of its value in the quarter having faced similar troubles collecting rent.

NewRiver REIT also suffered heavy losses in the quarter, being one of the first property companies to announce it was suspending its dividend distribution. Although it does own a portfolio of pubs, its retail portfolio is less exposed than its peers, with 36% of its retail tenants by income still trading. Nevertheless, its share price plunged 70% in the

three months. **Capital & Regional** also owns a portfolio of shopping centres that have predominantly been closed and it expects to collect just 50% of rent for the quarter.

Estate agency group **Countrywide** has been on the ropes for a while now and its performance wasn't helped by an all-share takeover of the company falling out of bed during the period. Now the housing market has all but stalled, the group lost 86.1% of its value during the quarter.

Significant rating changes

Figures 6 and 7 show how discounts and premiums moved over the course of the quarter.

Figure 6: Biggest percentage point changes to discounts and premiums in Q1 2020 – the 10 greatest improvements

Company	Sector	Premium/(discount) at 01/01/2020 (%)	Premium/(discount) at 31/03/2020 (%)	Difference (percentage point)
Assura	Healthcare	45.4	56.1	10.7
Civitas Social Housing	Residential	(14.9)	(10.4)	4.5
ASLI	European Logistics	(4.7)	(3.2)	1.5
Triple Point Social Housing	Residential	(13.8)	(13.6)	0.2
Supermarket Income REIT	Retail	12.8	12.8	0.0
Ceiba Investments	Rest of world	(38.9)	(43.6)	(4.7)
Yew Grove REIT	Europe	(6.2)	(11.4)	(5.2)
Standard Life Investments Property Income Trust	Diversified	(0.8)	(5.9)	(6.7)
Target Healthcare REIT	Healthcare	7.9	(1.0)	(8.9)
Primary Health Properties	Healthcare	58.2	48.8	(9.4)

Source: Bloomberg, Marten & Co

The top of the table has a similar feel to it as the share price moves. Again, there was only a handful of companies that saw their ratings increase. **Assura's** premium widened from an already large 45.4% at the start of the year to 56.1% at the end of the first quarter.

We touched on **Civitas Social Housing** and **Triple Point Social Housing REIT** in the performance section. Likewise, **ASLI** and **Supermarket Income REIT** have performed well for similar reasons.

Elsewhere, **Ceiba Investments**, the real estate company focused on Cuba, has seen its discount widen slightly over the period by 4.7 percentage points. Ceiba is used to operating in difficult conditions, with the Cuban economy being hit by sanctions imposed by US president Donald Trump, and is well placed to ride out the covid-19 pandemic having zero debt on its balance sheet.

Figure 7: Biggest percentage point changes to discounts and premiums in Q1 2020 – the 10 biggest deteriorations

Company	Sector	Premium/(discount) at 01/01/2020 (%)	Premium/(discount) at 31/03/2020 (%)	Difference (percentage point)
Inland Homes	Residential	17.1	(44.8)	(61.9)
Unite Group	Student	53.7	(6.0)	(59.7)
NewRiver REIT	Retail	(17.8)	(75.5)	(57.7)
Henry Boot	Development	36.9	(14.2)	(51.1)
GCP Student Living	Student	16.4	(23.9)	(40.3)
Ediston Property Investment Company	Retail	(17.8)	(57.9)	(40.1)
Workspace Group	Office	6.5	(31.9)	(38.4)
Urban&Civic	Residential	(4.3)	(42.3)	(38.0)
Palace Capital	Diversified	(16.8)	(54.5)	(37.7)
U and I Group	Development	(32.5)	(69.6)	(37.1)

Source: Bloomberg, Marten & Co

Inland Homes has seen its share price collapse since the global pandemic escalated as its developments were halted and fears for the impact of a recession on the housing market grew.

Development specialist **Henry Boot** saw its healthy premium turn to a large discount during the quarter as its development sites were shut down. Fellow development specialist **U and I Group** saw its already large discount widen to almost 70%.

Student accommodation operators **Unite Group** and **GCP Student Living** also saw their premiums turn to discounts as universities were locked down and fears grew for international student numbers in the 2020/21 academic year.

Major corporate activity

Fundraises

More than £330m was raised by property companies during the first quarter of 2020

The covid-19 pandemic put paid to a number of planned fundraises in the first quarter of 2020. There was, however, more than £330m raised by property companies during the period.

In February, private-rent residential specialist **Grainger** raised £186.7m through a placing. Including debt, the company said it would use the funds to buy £246m of new property and spend £59m on progressing new developments.

Also in February, **Urban Logistics REIT** raised £130m through an over-subscribed placing, smashing its £100m target. The group said it would scale up its portfolio of urban logistics properties.

AEW UK REIT raised £7m through a placing, falling short of its £20m target. It has a pipeline of potential investments in the industrial sector worth £100m. **Custodian REIT** issued equity worth just over £9m during the quarter.

As the coronavirus pandemic escalated during the quarter, two high profile equity raises were shelved. **Warehouse REIT** called off plans for a £100m equity raise, while **Regional REIT** also canned its plans.

Mergers and acquisitions

Gresham House bought the manager of **Residential Secure Income REIT**, TradeRisks Limited. Gresham paid £7m upfront and up to £4m more, subject to the achievement of certain performance targets.

AEW UK Long Lease REIT changed its name to **Alternative Income REIT** after appointing a new investment adviser following a strategic review. AEW UK Investment Management was replaced by Mason Owen and Partners.

De-listings

Summit Properties cancelled the trading of its shares on AIM in March 2020. Following a recommended final cash offer, **Daejan Holdings** also announced plans to de-list.

Major news stories

• **Coronavirus – the long-term impact on property**

QuotedData assessed the long-term effects of the covid-19 pandemic on the property industry, including on the office sector, which could see the working from home trend accelerate.

• **Intu collects just 29% of quarterly rent**

Intu Properties said it would seek covenant waivers from lenders as covid-19 hit its rental income. The shopping centre owner received just 29% of rent for the quarter.

• **Hammerson suspends dividend after receiving just 37% of quarterly rent**

Retail landlord Hammerson collected just 37% of its rent in the latest quarter but vowed to help retailers during the covid-19 pandemic through rent deferrals, waivers and offering monthly payments.

• **British Land offers retail tenants rent holidays**

British Land suspended its dividend payments and said it was offering smaller retail tenants a three-month rental holiday. The group said larger retailers and leisure tenants would be able to spread payments over the six quarters from September 2020.

• **GRIT Real Estate acquires stake in Moroccan REIT**

GRIT Real Estate Income Group, the pan-African property investor, entered into an agreement to buy a stake in a newly formed Moroccan REIT. GRIT intends to inject further equity into the vehicle and grow the asset base.

• **Supermarket Income REIT in talks to buy 26-strong Sainsbury's portfolio**

Supermarket Income REIT is in discussions to acquire a minority stake in a portfolio of 26 Sainsbury's-let supermarkets. The 26% stake is worth around £105m. It also bought a Sainsbury's store in Hessle, East Riding of Yorkshire, for £34m.

- **Merger talks between Countrywide and LSL Property Services called off**

Estate agency group LSL Property Services pulled out of negotiations to buy fellow estate agent Countrywide. The tie-up would have brought together two of the UK's biggest listed estate agents.

- **Helical fully-lets Old Street office scheme**

London office developer Helical let the final floor of The Tower office scheme, near Old Street, taking the building to 100% let. Brilliant Basics, an Infosys Company and existing occupier, let the 15th floor on a five-year lease. The building has an average rent per square foot of £73.55.

- **ASLI completes €49.9m Netherlands logistics warehouse buy**

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

- **Workspace hires new chief financial officer from Whitbread**

Flexible office space provider Workspace Group poached Whitbread's finance director, David Benson, for the role of chief financial officer. He will join the board of the company and become a member of the executive committee when he joins on 1 April 2020.

Upcoming events

Have you checked out the [Events](#) section of our website? Here is a selection of what's coming up.

- SEGRO AGM 2020, [21 April 2020](#)
- Hammerson AGM 2020, [28 April 2020](#)
- Empiric Student Property AGM 2020, [7 May 2020](#)
- Secure Income REIT AGM 2020, [21 May 2020](#)
- UK Investor Show, [26 September 2020](#)
- Master Investor, [5 December 2020](#)

Publications

Update | REITs 13 February 2020

Standard Life Investments Property Income Trust

Adding value in cautious times

Standard Life Investments Property Income Trust (SLI) has a long-term track record of market-beating returns achieved by investing in a diverse portfolio of commercial property in the UK. Minimal retail holdings and a bias to industrial property have proved beneficial to the fund. However, its active approach to asset management, aiming to keep voids low and rent flowing, has also been fundamental to its performance. Identifying and selling assets where the rental income may be at risk, and recycling the capital into property with strong rental growth prospects, has been the name of the game for SLI's manager, Jason Baggeley, in recent months. A yield around 5% and returns ahead of listed peers (see page 6) help to justify SLI's premium.

Commercial UK property exposure

SLI aims to generate an attractive level of income, along with the prospect of both income and capital growth, by investing in a diversified portfolio of UK commercial property assets. It invests in three principal commercial property sectors: office, retail (including leisure) and industrial. SLI borrows money with the aim of enhancing returns; the board's intention is that SLI's loan-to-value ratio (LTV) will not exceed 45%. The current LTV is 24.8% and the manager says that the intended range at this point in the cycle is 25-30%.

Year ended	Share price total return (%)	NAV total return (%)	Morning star UK REIT total return (%)	Peer group NAV total return (%)	MSCI UK total return (%)
31/12/15	15.5	17.8	9.5	11.8	(2.2)
31/12/16	7.0	2.5	(7.4)	8.2	19.2
31/12/17	13.7	14.6	12.7	9.6	11.8
31/12/18	(8.3)	9.6	(13.3)	8.6	(8.8)
31/12/19	18.0	4.1	33.1	2.9	16.8

Source: Morningstar, Market & Co.

Share price and discount
Time period 31/12/2014 to 12/02/2020

Performance over five years
Time period 31/12/2014 to 31/12/2019

Domestic: Cleomeasy
Inception date: 19 December 2003
Manager: Jason Baggeley
Market cap: 360.5m
Shares outstanding: 455.9m
Daily vol. (1-yr. avg): 665.5k shares
Loan to value: 24.8%

Source: Morningstar, Market & Co.

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An update note on Standard Life Investments Property Income Trust (SLI). The company has been focused on good portfolio management during an uncertain market by disposing of more risky assets and buying high yielding property with rental growth potential.

An update note on Civitas Social Housing (CSH). The company has been one of the best performing REITs and property companies during the covid-19 pandemic, owing to its indirect government-backed leases.

Update | Real estate 15 April 2020

Civitas Social Housing

Proved its mettle

Some market commentators appear to have overstated the impact of regulatory concerns on Civitas Social Housing's (CSH's) performance. Regulatory notices served on some of its tenants knocked CSH's share price over 2018/2019. However, during the whole of this period, it collected its rents, paid its dividends and increased its net asset value (NAV).

Recognition of this fact, and the supply and demand fundamentals that support growth in the supported living sector, saw its share price recover and its discount to NAV narrow. That momentum, as has been the case in all global markets, has been somewhat curtailed by the coronavirus outbreak. However, owing to the strong characteristics of the supported living sector, CSH has been one of the best performing REITs and property companies since the covid-19 pandemic escalated.

The company is keen to expand but it has delayed taking on new debt facilities until the markets return to normality. Following the acquisition of a portfolio of properties in March 2020, CSH's dividend is fully covered by earnings on a run-rate basis.

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 0.2% 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
31/03/20	8.8	4.3	9.3	9.3

Source: Morningstar, Market & Co.

Share price and discount
Time period 18/11/2018 to 14/04/2020

Performance since launch
Time period 18/11/2018 to 14/04/2020

Domestic: England and Wales
Inception date: 18 November 2018
Investment adviser: Civitas Housing
Market cap: £25.5m
Shares outstanding: 621.5m
Daily volume (1-yr. avg): 1.39m shares

Source: Morningstar, Market & Co.

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