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BY MARTEN & CO

INVESTOR

November 2020

Monthly roundup | Real estate

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Winners and losers in October

Best performing funds in price terms

	(%)
NewRiver REIT	28.7
Schroder European REIT	27.4
Helical	15.1
Workspace Group	14.6
Standard Life Inv. Property Income	14.1
Alternative Income REIT	12.2
CEIBA Investments	9.3
BMO Real Estate Investments	7.8
Inland Homes	6.8
Real Estate Investors	6.3

Source: Bloomberg, Marten & Co

Worst performing funds in price terms

	(%)
Panther Securities	(28.6)
Raven Property Group	(20.3)
Grit Real Estate Income Group	(11.5)
Empiric Student Property	(11.5)
Ground Rents Income Fund	(10.2)
Secure Income REIT	(9.4)
PRS REIT	(9.3)
GCP Student Living	(9.2)
Sigma Capital Group	(7.8)
Alpha Real Trust	(7.2)

Source: Bloomberg, Marten & Co

October finished with the threat of a second lockdown looming over the UK as COVID-19 cases continued to rise. However, this did not dampen demand for shares in some of the companies that have already been battered during the pandemic, even before news of a potential vaccine breakthrough broke in early November. Successful sales of retail assets by NewRiver REIT saw its share price bounce 28.7% in the month to top the table. Schroder European REIT also saw a big increase in its share price after announcing it had forward sold an office development in Paris that would increase its NAV by 15%. London office developer Helical posted positive rent collection figures during the month, while serviced office provider Workspace Group saw a double-digit gain in its share price. Alternative Income REIT's share price rose 12.2% following a tender offer for 25% of its shares by Glenstone Property. Meanwhile, CEIBA Investments, which owns real estate in Cuba, saw its share price grow 9.3% in the month in anticipation of a Joe Biden victory in the US election. A Biden administration is expected to reverse stringent economic sanctions imposed on Cuba by Donald Trump.

The heaviest share price faller in October – Panther Securities – is very illiquid so its share price can be distorted with one big transaction. Of the rest, Grit Real Estate Income saw a double-digit fall in its share price after reporting a big drop in NAV. Student accommodation specialists Empiric Student Property and GCP Student Living both continue to be impacted by COVID-19, with occupancy and income down. The companies have seen a 44.6% and 43.4% fall in their share price in the year to date, respectively. Ground Rents Income Fund continues to be dogged by a cladding dispute at Beetham Tower in Manchester. The High Court has ordered it to carry out remedial work at a cost of £8.9m. The legal dispute has so far cost the company £2.1m. Meanwhile, Secure Income REIT announced it was sticking with Travelodge despite a CVA that would see its rental income slashed, after failing to secure a buyer or new tenant for the portfolio of 123 hotels. Private rented residential development specialist Sigma Capital Group saw its share price come off slightly after a huge rise last month following its launch of a £1bn joint venture to deliver 3,000 homes in London.

Valuation moves

Company	Sector	NAV move (%)	Period	Comments
Impact Healthcare REIT	Healthcare	1.8	Quarter to 30 Sept 20	Portfolio valuation up 15.4% to £399.4m due mainly to acquisitions
Target Healthcare REIT	Healthcare	0.6	Full year to 30 June 20	Like-for-like valuation growth in portfolio of 2.8% to £617.6m
Custodian REIT	Diversified	(0.5)	Quarter to 30 Sept 20	Property portfolio fell in value by 0.6% to £532.3m
PRS REIT	Residential	(0.7)	Full year to 30 June 20	Property portfolio grown by 909 homes and now worth £577m
Circle Property	Offices	(0.7)	Half-year to 30 Sept 20	Portfolio fell in value by 1.1% to £137.85m
AEW UK REIT	Diversified	(0.7)	Quarter to 30 Sept 20	Portfolio valuation was down slightly to £171.36m
BMO Real Estate Investments	Diversified	(1.9)	Quarter to 30 Sept 20	Property portfolio fell in value by 1.5% to £308.6m
BMO Commercial Property Trust	Diversified	(3.1)	Quarter to 30 Sept 20	Value of portfolio fell by 2.8% to £1.222bn
Harworth Group	Development	(4.5)	Half-year to 30 June 20	Portfolio value decline of 4.75%
Alternative Income REIT	Diversified	(11.8)	Full year to 30 June 20	Value of property portfolio fell 7.3% in the year to £104.76m
Grit Real Estate Income Group	Rest of World	(18.5)	Full year to 30 June 20	Portfolio valuation down marginally to $823.5m. NAV fall due in part to movement in currencies against dollar

Source: Marten & Co

Corporate activity in October

A new real estate investment trust (REIT) that will invest in a portfolio of homeless accommodation, Home REIT, launched in October raising £240.5m in an initial public offering.

Supermarket Income REIT raised £200m in an oversubscribed issue, beating its £150m target. It has an investment pipeline worth £400m, including target assets worth £135m.

Triple Point Social Housing REIT raised £55m in a placing, below its £70m target. It has identified a pipeline of investment opportunities in excess of £150m.

West End landlord Shaftesbury announced its intention to raise £297m through a placing to firm up its balance sheet. The issue price of 400p is a 54% discount to its last reported NAV. Rival West End landlord Capital & Counties has committed to subscribe for £65m new shares, taking its stake in Shaftesbury to 25%.

Real Estate Investors and Conygar Investment Company both commenced share buyback programmes. Real Estate Investors said it will repurchase £2m worth of its ordinary shares.

Aberdeen Standard European Logistics Income entered into a new uncommitted four year €40m master facility loan agreement with Investec Bank. Under the facility, the company can make drawdowns at selected short-term periods as and when needed to fund acquisitions.

Unite Group, the student accommodation specialist, announced Richard Huntingford as its new chairman. Huntingford, who is chairman of Future Plc, will take over from Phil White on 1 April 2021.

October's major news stories – from our website

- **Supermarket Income REIT buys Sainsbury's store for £53.1m**

Supermarket Income REIT acquired a Sainsbury's supermarket in Heaton, Newcastle upon Tyne, for £53.1m, reflecting a net initial yield of 4.1%.

- **Glenstone looks to acquire 25% stake in Alternative Income REIT**

Glenstone Property announced its intention to acquire 25% of Alternative Income REIT at a 12.9% premium to its share price but a 29% discount to its NAV.

- **CEIBA Investments buys stake in Cuban logistics development**

Cuban real estate investor CEIBA Investments acquired a 50% stake in a mixed-use industrial park development project in Mariel. The deal diversifies its portfolio with a new asset class.

- **Secure Income REIT sticks with Travelodge**

Secure Income REIT decided to stick with Travelodge at its 123 sites (it could have evicted them as part of the hotel group's CVA) after sales and re-letting exercises came up short.

- **CLS Holdings sells German office for €22.5m**

CLS Holdings exchanged contracts to sell Bismarckallee 18-20 in Freiburg for €22.5m, reflecting a 12.3% premium to the June 2020 valuation.

- **SEGRO buys London logistics scheme at 2.3% yield**

SEGRO acquired Electra Park, in Canning Town, for £133m, reflecting a record low net initial yield for the sector of 2.3%.

- **LXI REIT shuffles portfolio with series of transactions**

LXI REIT sold three assets (an office, a small social housing portfolio and development land) for £17m and recycled the proceeds into the acquisition of two foodstores (Aldi and Lidl) for £15m.

- **Home REIT makes first acquisitions**

Home REIT made its first purchases since launching, buying a portfolio of five properties for £9m.

- **NewRiver REIT makes £34.7m retail park sale**

NewRiver REIT sold a 90% stake in Sprucefield Retail Park, in Lisburn, for £34.7m, reflecting a net initial yield of 9.0%.

- **Schroder European REIT sells Paris office for €104m**

Schroder European REIT forward sold Boulogne-Billancourt office in Paris for €104m. The deal delivered a net profit of 35% and increased the company's NAV by 15%.

QuotedData views

- **Up in the AIRE – 30 October 2020**
- **Will Landsecs return to former glory? – 23 October 2020**
- **Rent collection nuggets – 16 October 2020**
- **International investors back for London offices – 9 October 2020**
- **IPSX has watershed moment – 2 October 2020**

Visit www.QuotedData.com for more on these and other stories plus analysis, comparison tools and basic information, key documents and regulatory 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

Alternative Income REIT

Steve Smith, chairman:

Despite continuing political uncertainty and the potential for global economic dislocation, the fundamentals for UK property remain strong, even though there will inevitably be a good deal of disruption in the short term.

The performance at shareholder level has been unsatisfactory but the group has a solid portfolio which has suffered modest impairment in the past year and should perform well moving forwards. The proposed amendments to the investment policy will enhance the company's capacity to pay a progressive dividend without impacting the underlying security of income and the board is encouraged by the relatively limited valuation reduction. This resilience together with the recent cost savings leaves the group well positioned to pursue an enhanced strategy, supported by an accomplished investment adviser in market conditions suited to a more active and responsive approach. The board believes that with additional investment it can deliver to its shareholders both strong performance and a secure and progressive dividend.

Although the board acknowledges that for certain shareholders the changes may represent a departure from the original strategy and a reduction of the commitment to a very long WAULT, we must all recognise that the world is going through a major upheaval which is having a huge impact on the physical environment and it would be wrong for the board to ignore the changes. Investments subject to very long leases of 20 years or more have become very expensive and the board and the investment adviser are convinced that the proposed target WAULT of 12 years is a more realistic objective and will deliver superior shareholder returns.

BMO Real Estate Investments

Peter Lowe, fund manager:

The property market had started to show some tentative signs of improvement as government restrictions eased. Investment activity saw a partial recovery, helped by overseas buying, with rent collection rates generally improving. Any improvement was however from a very low base with underlying performance polarised. A widespread or lengthy return to restrictions could compound existing structural challenges for parts of the economy.

There was further downward pressure on valuations in the retail sector remaining troubled, while there has been much debate around the future shape of the office market combined with a recent increase in available space and this sector has delivered a muted performance over the period. Industrial, logistics and distribution continue to offer relative resilience, reflected in increased investment demand and strong take-up.

Custodian REIT

Richard Shepherd-Cross, investment manager:

Investment activity had been increasing and appeared to have been tracking the emerging picture of forecast occupier demand. There is confidence in the industrial and logistics market where record investment volumes have been matched by record occupational demand for warehouse space. This occupational demand, driven by the continued growth of e-commerce and onshoring of supply chains, combined with low vacancy rates has led to the continuation of rental growth. Much of the investment capital that might have been focused on the office or retail sectors has been redirected to industrial and logistics.

We see continued opportunity in this sector as the UK has yet to build a sufficient logistics network to support the continued growth in e-commerce.

Despite widespread remote working and the resulting low utilisation of offices across the country we expect recognition from occupiers of the social and well-being impact of returning to offices in some meaningful way, post the COVID-19 pandemic. Office owners must invest in their existing buildings to create flexible working spaces which may result in greater space requirements per head but perhaps for fewer workers. Offices allow space for organisational productivity, rather than individual productivity which may prove better when delivered working remotely either from home or smaller satellite offices. The lettings market has already seen an increase in enquiries in satellite office locations reflecting this trend which could be positive for Custodian REIT's portfolio of small regional offices, acknowledging that forecasting office demand is currently subject to significant uncertainty.

The retail market has borne the brunt of the impact of lockdown with a huge reduction in footfall and consumers switching to online retailing instead. The COVID-19 pandemic disruption has accelerated trends that were already embedded in retailing when online retail already made up almost 20% of all UK retail sales, namely an oversupply of shops, downward pressure on rents and a rise in the number of retailers failing.

Healthcare

Target Healthcare REIT

Malcolm Naish, chairman:

The uncertainty and disruption [caused by COVID-19] look like continuing for quite some time in the absence of effective treatment or a vaccine. In the same manner in which many anticipate further profound changes to our way of life, particularly with regard to places of work, commuting and travel, government policy may also have to respond radically. The shape of recovery, with the prospects for a quick "V" shape rapidly waning, will impact borrowing, taxation levels and the need for further stimulus initiatives. Brexit concerns and trade wars have not vanished, and the counter-intuitive recent stock market highs have been "tech-dependent" and feel fragile.

Against this backdrop, two fundamentals stand out for me - both of which give me great confidence about the group's prospects. Firstly, our business model is designed to allow us to pay a regular, stable and attractive dividend in what may well be an entrenched "lower-for-longer" interest rate environment. Secondly, our portfolio has performed well during the year, and has thus far demonstrated a satisfying resilience during COVID-19. We have seen rental and valuation growth. Falls in occupancy levels as a result of lockdown are being substantially matched by new enquiry levels. Whilst the timeframe for our homes to fully recover occupancy is uncertain, ultimately the care they offer is in the best modern real estate which can meet the needs of residents.

Development

Harworth Group

Owen Michaelson, chief executive:

Despite the pandemic, the core strength of the "beds and sheds" markets remains. Our sites persist in their popularity, backed by their strong locations close to principal infrastructure and the quality of the land and property. The stability of the regional markets in which we operate is underpinned by comparatively low prices, a continuing lack of consented and engineered land for housing given the continued chronic under-delivery of new housing stock, and the need for industrial land to support the acceleration of e-tailing post-pandemic.

We strongly welcome government support aimed at rebalancing the UK economy. Significant further financial investments in brownfield land, road and rail infrastructure and regional devolution will ultimately support making our regions more economically competitive and help to realise the significant latent value in our underlying portfolio.

Residential

PRS REIT

Sigma PRS Management, investment adviser:

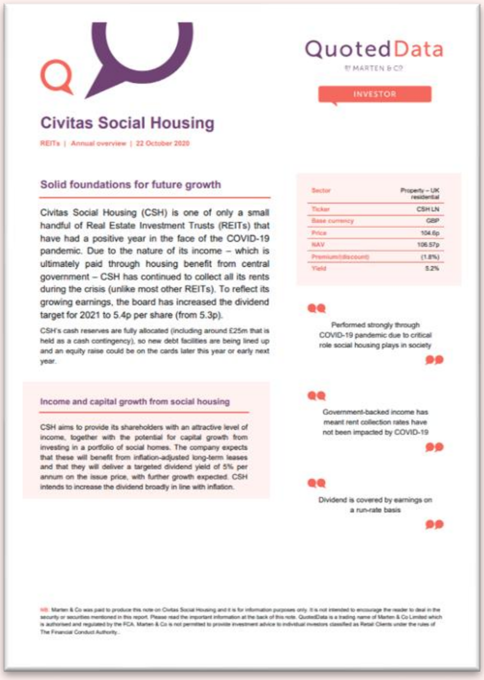
New housing delivery over the course of 2019/20 continued to fall short of annual government targets of between 240,000 and 340,000 new homes per annum. It is estimated that the deficit over the year was a minimum of 70,000 new dwellings. The COVID-19 crisis of 2020, which saw the shutdown of all building sites for at least six weeks and reduced activity levels thereafter, has further dampened unit output.

The supply of rented properties has also reduced following tighter regulation and increased tax burdens, which caused large outflows from the 'Buy-to-let' sector. With the average home in the UK now a multiple of 7.7 times gross average salary, the choices available to those who are too economically active to qualify for affordable housing but without sufficient savings to pay for a minimum deposit, are increasingly limited. The Build-to-Rent (BTR) sector can absorb some of this demand, although currently there are only 43,000 operational homes, and just 33,500 under construction.

BTR currently accounts for just 1% of all private rented homes in the UK, which when compared to 45% in the US and 35% in Germany, indicates the sector's potential growth. Savills estimates that the sector, currently estimated to be worth £10bn, could expand to nearer £550bn at full maturity.

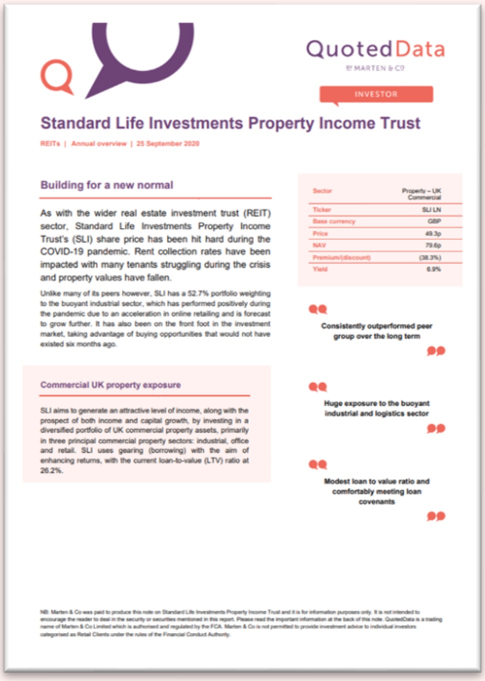
The UK market continues to focus on high-density flatted developments in city centre locations whilst the PRS REIT has maintained its focus on regional family homes. The relevance of the PRS REIT's housing model has been brought into sharp relief this year with COVID-19 and home-working causing tenants to rethink their space requirements and the need for private outdoor space.

Real estate research notes



An annual overview note on Standard Life Investments Property Income Trust (SLI). The company's 53% exposure to the industrial and logistics sector stands it in good stead for future rental growth, while its manager has been on the front foot during COVID-19, taking advantage of buying opportunities.

An annual overview 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.



An annual overview note on Aberdeen Standard European Logistics Income (ASLI). The logistics sector has been fairly resilient to the impact of covid-19 while longer-term structural changes to the sector, such as ecommerce penetration, has gathered momentum.

An initiation note on Grit Real Estate Income Group (GR1T). The pan-African real estate company offers investors access to the significant growth potential of the continent in a de-risked manner through the leasing of property to blue-chip multinational corporations.

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