QuotedData

Annual review | Real estate

January 2020

2019 real estate review

Property's alternative theory

The year was dominated by political and economic uncertainty, with Brexit negotiations casting a shadow over the market and the general election adding a further layer of doubt for much of the year. For a market that is staunchly aligned with political and economic sentiment, listed property companies and REITs performed well, all things considered. The total market capitalisation of property companies reached £88.6bn at the end of the year, an increase of 24% over the course of 2019.

The year ended on a positive footing for the property sector as the Conservatives' big general election win brought much-needed political certainty. Off the back of the result, pent up overseas investment into direct UK property was released. For listed property companies, a post-election bounce saw share prices rise almost 5% on average.

Alternative property sectors – self-storage, student accommodation and healthcare – were the standout performers as the specialist nature of the sectors and positive market dynamics were recognised.

Of the traditional property sectors, industrial continued its dominance at the expense of retail, reflected by the fact that SEGRO's market cap at the end of the year was bigger than the eight retail-focused companies combined. Meanwhile, the office sector trundled along nicely – in the face of Brexit fears. For 2020, caution will continue to be the watchword as Brexit negotiations rumble on (see page 11).

At QuotedData, we:

- Launched an enhanced real estate service that includes monthly, quarterly, annual and thematic research;
- Published 52 notes on investment companies and REITs, 15 more than in 2018, as well as regular monthly and quarterly publications;
- Updated the second edition of our Independent Guide to Investment Companies

Property sector performance*

Time period 01/1/2019 to 31/12/2019

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

Biggest property companies at end of 2019

	Market cap	Chg. on year (%)
SEGRO	£9.8bn	64.9
Land Securities	£7.3bn	23.1
British Land	£5.9bn	15.6
UNITE Group	£4.6bn	115.7
Derwent London	£4.5bn	40.8

Source: Bloomberg, Marten & Co

Best performing companies in price terms in 2019

	Chg. on year (%)
Lok'n Store Group	79.6
Inland Homes	61.5
Safestore Holdings	59.1
UNITE Group	56.3
SEGRO	52.4

Source: Bloomberg, Marten & Co

We'll be at the **Master Investor** show in London on 28 March 2020. Come along, say hello, talk to our analysts and hear from some of our clients.

In this issue

Real estate thematic research

QuotedData

Sector overview | Real estate

11 October 2019

Retail property market

Retail ready for a renaissance?

There have been few structural shifts in the property sector as profound as the one currently taking place in retail. Consumer spending patterns have drastically changed over the past five years, with online sales now accounting for 19.7% of all retail spend in the UK (August 2019, source: ONS), compared to 11.5% in August 2014. When you look at fashion retailing specifically, online sales accounted for 26.8% of consumer spend on clothing in 2018 (source: Mintel).

It is little wonder, then, that 'bricks-and-mortar' retailers are suffering. Those that haven't invested in a strong online service are being left behind. Retail empires, once kings of the high street, are crumbling – the latest two being the Arcadia Group and Debenhams.

A growing number of retailers, even those that are still profitable, have resorted to the use of the controversial company voluntary arrangements (CVAs) – a form of insolvency – to shut unwanted stores or slash rents across their estate. Retailers are increasingly exploiting the CVA to duck their financial commitments. Healthy retailers are now at a disadvantage and have started to push for rent cuts of their own to level the playing field. Until legislative change comes from central government, retailers will continue to exploit this loophole, at a significant cost to retail landlords.

The double whammy of an erosion of income and a drop-off in the value of retail assets have hit retail-focused property companies hard. They are all trading at significant discounts to net asset value (NAV), to such an extent that some have become takeover targets. Intu Properties, which has been the subject of two failed takeover attempts recently, is trading at around an 80% discount to NAV and is now reportedly the subject of a buyout led by Orion Capital Managers. Capital & Regional is in talks with South African REIT, Growthpoint, about the sale of a majority stake. However, other retail-focused property companies are actually performing well but have become victims of the negative sentiment around retail.

Amid all the doom and gloom, there are underlying trends emerging in the sector that suggest it could be due for an uplift in fortunes. Here we explore more...

Companies covered in this report:

Capital & Counties	CAPC LN
Capital & Regional	CAL LN
Hammerson	HMSO LN
Intu	INTU LN
NewRiver REIT	NRR LN
Shaftesbury	SHB LN

Retail property performance[1]

Time period 30/9/2014 to 30/9/2019

Source: Morningstar, Marten & Co. Note 1) Average share price performance of the six companies named above.

Market caps:

Capital & Counties	1,931.6m
Capital & Regional	135.8m
Hammerson	2,069.0m
Intu	469.4m
NewRiver REIT	583.4m
Shaftesbury	2,653.0m

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The first in our series of real estate sector notes, 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

Sector overview | Real estate

20 December 2019

Industrial property market

The gift that keeps on giving

The industrial and logistics sector has been on a tremendous run over the past five years or so. It is hard to think now, given the current dynamics in the property industry, that retail and offices were the sectors of choice for investors for many years with industrial cast aside by most.

All that changed, primarily off the back of a fundamental shift in consumer buying habits. Amazon has become a behemoth and online-only retailers have popped up and taken significant market share from their high street rivals – operating from a network of warehouses across the country. The trend towards ecommerce, and its effect on both the industrial and retail sectors, is well-known. Consumer spending online has been growing dramatically to the point now where just under 20% of all retail transactions in the UK are made on the internet.

This has meant that traditional retailers, as well as their online-only peers, have been scrambling to get their distribution networks functioning efficiently. Long gone are the days of one huge warehouse in the middle of the country that served a retailer's shops. It now needs several distribution centres that serve not only the shops but smaller logistics hubs close to major towns and cities, which in turn serve home deliveries. The invention of same-day – and even one-hour – deliveries has intensified the need for an efficient network and ultimately more industrial and logistics space.

The run of success in the sector, which has been on a continuous upward trajectory for more than five years, raises the question: how long can it last? How much further can rental growth go? Are investment yields, which are sub-4% for prime stock, sustainable? Is there too much speculative development in the market?

Here we explore the undercurrents that continue to drive the sector, further opportunities that exist and the threats that could curtail growth.

Companies covered in this report:

Aberdeen Standard European Logistics Income	ASLI LN
LondonMetric Property	LMP LN
SEGRO	SGRO LN
Stenprop	STP LN
St Modwen Properties	SMP LN
Tritax Big Box REIT	BBOX LN
Tritax Eurobox	EBOX LN
Urban Logistics REIT	SHED LN
Warehouse REIT	WHR LN

Industrial property performance[1]

Time period 30/11/2014 to 30/11/2019

Source: Morningstar, Marten & Co. Note 1) Average share price performance of the nine companies named above.

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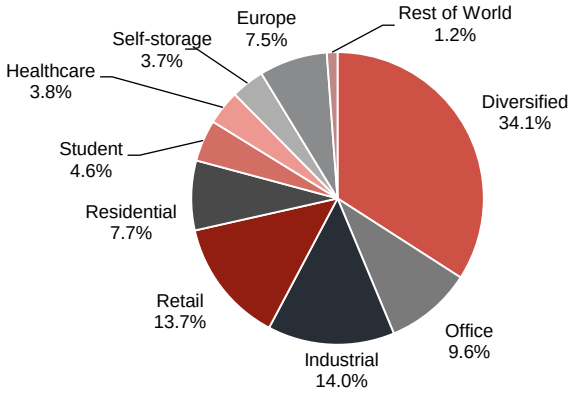
The property sector in 2019

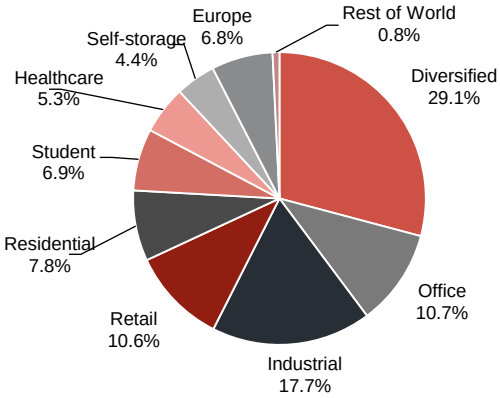
The market capitalisation of property companies and REITs at the start of the year and the end of the year paint very different pictures. Overall the sector grew in size by 24%, or £17.1bn, over the course of 2019 to £88.6bn.

Figure 1: Property market capitalisation at the start of 2019 by sector. Total: £71.5bn



Source: Bloomberg, Marten & Co

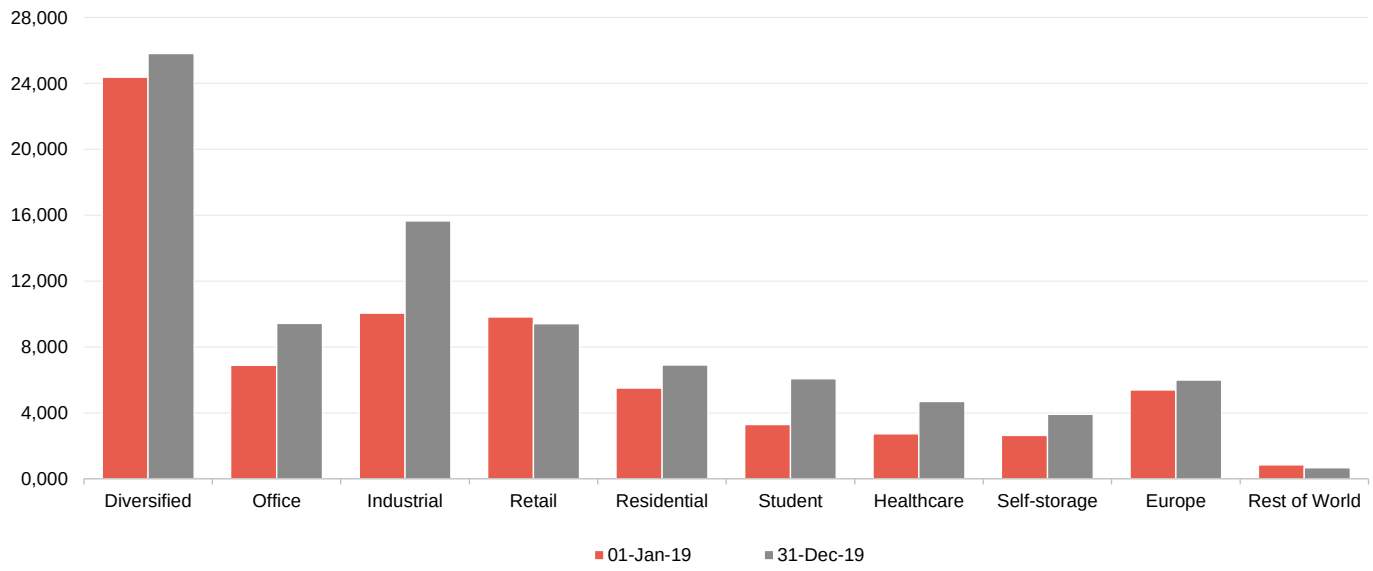
Figure 2: Property market capitalisation at the end of 2019 by sector. Total: £88.6bn



Source: Bloomberg, Marten & Co

The sector breakdown at the start and end of the year, illustrated in Figures 1 and 2, show some interesting moves and reflects wider investor sentiment to the different property sectors. It is no surprise that retail slipped in its overall status, given the numerous retailer failings during the year and the catastrophic drop off in retail property valuations. The market capitalisation of the eight retail-focused companies fell from £9.8bn to £9.4bn with some big losses, namely shopping centre owner Intu Properties, which went from a market cap of £1.5bn at the start of the year to £460m (a fall of 70%).

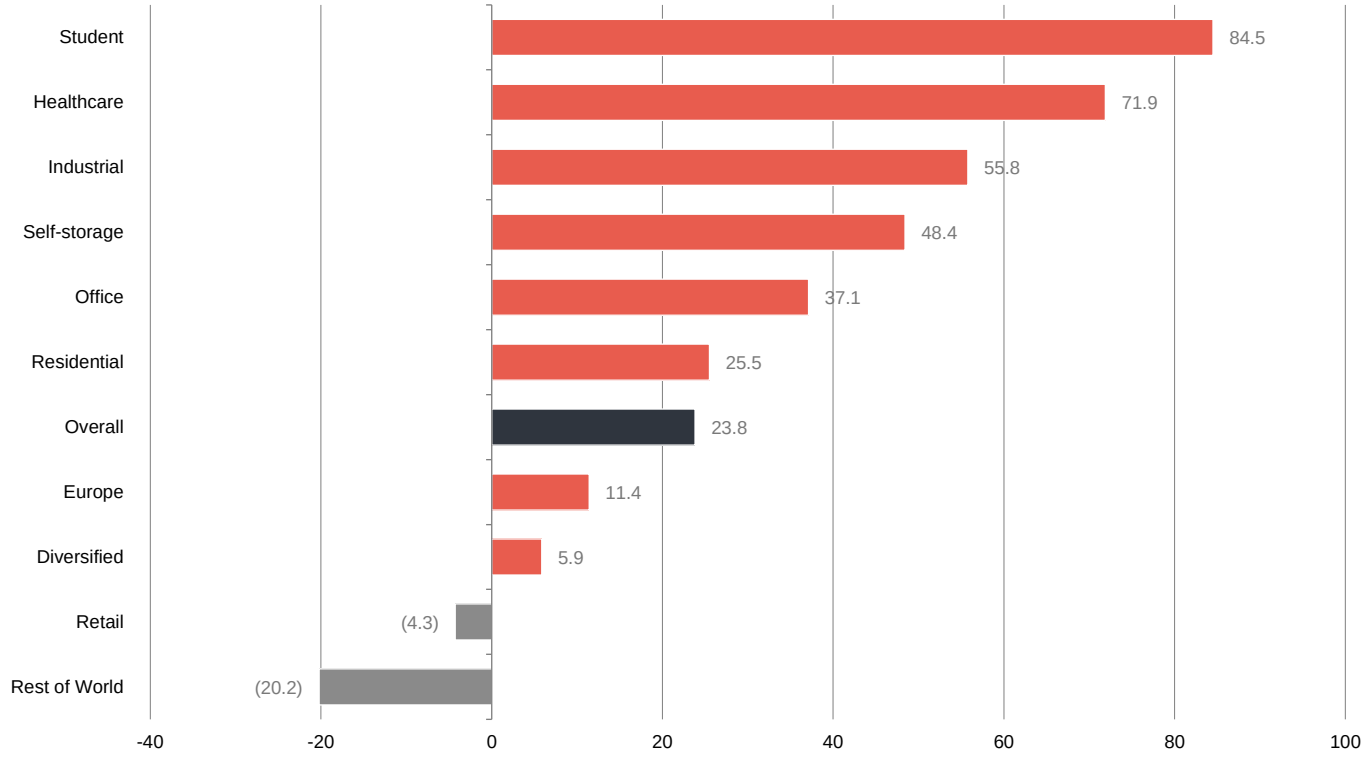
Figure 3: Property sector market capitalisations (£m)



Source: Bloomberg, Marten & Co

The seven companies that make up the industrial sector made huge gains during the year of more than 55% overall, as the shift in consumer spend to online continues to reap rewards and attract investors to the companies benefitting from it.

Figure 4: Market capitalisation change by sector over 2019 (%)



Source: Bloomberg, Marten & Co

The alternative property sectors – student, healthcare and self-storage – led the way in market capitalisation growth

The alternative property sectors – that incorporates student accommodation, healthcare and self-storage – all had great years and, with industrial, led the pack in terms of market capitalisation change over 2019, as can be seen in Figure 4. The specialist nature of these sectors means the companies operating in them have to have the skill and expertise to grow income. All three sectors are also benefitting from positive supply/demand dynamics.

The office sector, which is predominantly made up of central London developers and landlords, had a good year, rising by 37% to a market capitalisation of £9.4bn. Central London offices was the main property sector threatened by a no-deal Brexit, but despite this lingering threat the share price of the four companies dedicated to London offices – Derwent London, Great Portland Estates, Helical and Workspace – performed well.

Residential was heavily impacted by estate agency group Countrywide, which carried out a 50 to 1 share consolidation right at the end of 2019 after a terrible year. Even so, the sector posted a 25.5% increase in market capitalisation as companies including Countryside Properties, Grainger and Inland Homes posted stellar years.

Two sectors lost market capitalisation during 2019 – retail and rest of world

Only two sectors lost market capitalisation in 2019 – UK-listed companies with property in countries outside of Europe (Rest of World), which lost 20%, and retail. Given the structural changes effecting the retail market, it was no surprise that the sector lost market capitalisation. There were retail focused companies that did increased their market caps – Supermarket Income REIT, Shaftesbury and Capital & Counties.

Performance Data

Performance by sector and fund

In price terms, the three alternative sectors performed well over the course of 2019 as demonstrated in Figure 5, which also lists the best and worst performers in each sector. Whilst almost all sectors made money, retail and the rest of world sectors were the laggards.

Figure 5: Best and worst performers by sector in price terms over 2019, ranked by sector average

Sector	Best performing Fund	Change %	Sector median change %	Worst performing Fund	Change %
Self-storage	Lok'n Store Group	79.6	**59.1**	Big Yellow Group	37.4
Office	Workspace Group	49.7	**40.6**	Circle Property	6.5
Student accommodation	UNITE Group	56.3	**33.4**	Empiric Student Property	5.5
Industrial	SEGRO	52.4	**26.0**	Tritax Big Box REIT	14.2
Healthcare	Assura	47.3	**25.8**	Impact Healthcare REIT	4.3
Diversified	CLS Holdings	42.9	**6.8**	Drum Income Plus REIT	(18.0)
Residential	Inland Homes	61.5	**4.1**	Countrywide	(19.3)
Europe	Sirius Real Estate	47.5	**3.4**	Aberdeen Standard European Logistics Income	(11.3)
Retail	Supermarket Income REIT	14.7	**(5.7)**	Intu Properties	(70.0)
Rest of World	Aseana Properties	(15.2)	**(26.5)**	Macau Property Opportunities	(31.3)

Source: Bloomberg, Marten & Co

The three self-storage specialists – Lok'n Store, Safestore and Big Yellow – all had a strong 2019, as robust demand for storage space in the UK encouraged investors to push their share prices up. Lok'n Store led the way with the biggest price rise among all property companies and Safestore was third overall with a 59.1% rise.

In the office sector, serviced office specialist Workspace's differentiated and successful business model, which combines property ownership with a flexible workspace operation, was reflected in the share price. Circle Property, which is focused on offices in regional locations, had a steady year.

UNITE Group's £1.4bn acquisition of a rival student accommodation platform got the approval of shareholders, with its share price up more than 56% over the year. Empiric Student Property, on the other hand, had a steadier year, which was matched by its share price performance. GCP Student Living's acquisition programme, which helped grow its NAV by 14% over the year (see Figure 7), was well received by investors with its share price rising 33.4%.

SEGRO's market cap at the end of 2019 was greater than all eight retail-focused companies combined

SEGRO had another huge year operationally – making progress in its core London and big box development markets and consolidated its position as the biggest UK listed property company, with a market cap of £9.8bn at the end of 2019 (more than the whole of the retail sector).

Tritax Big Box REIT had a transformational year with a switch in focus to development and its position on the right-hand side of the table reflects the strong performance of the industrial sector in general. Highlighting this further, Urban Logistics REIT, which focuses on the 'last mile' delivery hubs, grew its NAV by 12.4% in 2019 (see Figure 7).

Assura's development push and ESG credentials are proving popular with investors. The healthcare sector was another in which all the constituents had a positive year in price terms.

CLS Holdings' active portfolio management proved popular with investors and topped the diversified sector, which is made up of 30 companies – by far the biggest. Drum Income Plus REIT, the £30m market cap trust, failed to appeal to wider investors.

Figure 6: Best performing funds in price terms in 2019

	%
Lok'n Store Group	79.6
Inland Homes	61.5
Safestore Holdings	59.1
UNITE Group	56.3
SEGRO	52.4
Workspace Group	49.7
Countryside Properties	49.5
Grainger	49.3
Helical	48.6
Sirius Real Estate	47.5

Source: Bloomberg, Marten & Co

Figure 7: Best performing funds in NAV terms in 2019

	%
Summit Properties	43.3
Sigma Capital Group	21.1
Alpha Real Trust	19.7
GCP Student Living	14.1
Sirius Real Estate	13.0
Harworth Group	12.9
Safestore Holdings	12.5
Urban Logistics REIT	12.4
Phoenix Spree Deutschland	11.8
SEGRO	11.6

Source: Marten & Co

As mentioned previously, Inland Homes had an excellent year. The brownfield developer's focus on the south and south east of England and the receipt of two huge planning consents during the year – as well as the big election win for the pro-housebuilding Conservative party – saw its share price rise 61.5%. Fellow housebuilder Countryside Properties had an impressive price rise, too, of almost 50%.

> Several residential developers had excellent years with big price moves

Grainger, the private rented sector (PRS) specialist, is growing quickly in the nascent sector and is benefiting from a surge in demand from the millennial generation being priced out of buying homes. PRS is becoming a huge part of the residential sector in the UK but is still some way behind that of the US or German private rented markets.

By far the best performing of the European property-focused companies was Sirius Real Estate, which has grown its NAV by 13% with the acquisition of several German business parks during 2019. Its share price rose by 47.5%

Figure 8: Worst performing funds in price terms in 2019

	%
Intu Properties	(70.0)
Macau Property Opportunities	(31.3)
Ceiba Investments	(30.0)
Dolphin Capital Investors	(26.5)
Countrywide	(19.3)
Drum Income Plus REIT	(18.0)
GRIT Real Estate Income Group	(17.7)
AEW UK Long Lease REIT	(17.6)
Ediston Property Investment Company	(16.5)
U and I Group	(15.4)

Source: Bloomberg, Marten & Co

Figure 9: Worst performing funds in NAV terms in 2019

	%
Intu Properties	(35.6)
Dolphin Capital Investors	(20.8)
Capital & Regional	(20.0)
Macau Property Opportunities	(17.0)
NewRiver REIT	(13.8)
RDI REIT	(13.2)
Raven Property Group	(11.8)
Hammerson	(11.7)
Conygar Investment Co	(11.5)
British Land	(8.8)

Source: Marten & Co

The much-publicised woes of the retail sector has hit shopping centre owner Intu Properties the hardest. A host of retailer failings has impacted rental income and seen the values of its malls plummet, with its NAV falling 35.6%. The huge mountain of debt the company is sitting on has further alienated investors, with its share price falling 70%

during the year. Plummeting retail values were behind big drop-offs in NAVs for Capital & Regional, NewRiver REIT, RDI REIT, Hammerson and British Land.

All five of the London-listed companies focused on property markets elsewhere in the world – Aseana Properties (Vietnam and Malaysia), GRIT Real Estate (Africa), Dolphin Capital, Ceiba Investments (Cuba) and Macau Property Opportunities (China) – saw big price falls as investors were put off by negative political or economic sentiment and/or poor underlying performance.

Significant rating changes

Figures 10 and 11 show how discounts and premiums moved over the course of 2019. The share prices of UK property companies rallied from August, as investors sought value stocks, and closed the year strongly following the general election result. Once again, it was companies in the alternative property sectors that flourished.

Figure 10: Biggest percentage point changes to discounts and premiums over 2019 – the 20 greatest improvements

Company	Sector	Premium/(discount) at 01/01/2019 (%)	Premium/(discount) at 31/12/2019 (%)	Difference (percentage point)
Lok'n Store Group	Self-storage	0.1	61.7	61.6
Safestore Holdings	Self-storage	26.6	79.1	52.5
Primary Health Properties	Healthcare	6.5	58.2	51.7
UNITE Group	Student	5.9	53.6	47.7
Assura	Healthcare	0.2	45.4	45.2
Grainger	Residential	(33.2)	5.4	38.6
SEGRO	Industrial	(2.4)	33.3	35.7
LondonMetric Property	Industrial	1.1	35.3	34.2
Big Yellow Group	Self-storage	34.4	67.8	33.4
Workspace Group	Office	(26.2)	6.5	32.7
Inland Homes	Residential	(49.2)	(18.9)	30.3
Helical	Office	(32.3)	(2.5)	29.8
Derwent London	Office	(23.2)	4.1	27.3
Sirius Real Estate	Europe	(14.5)	11.6	26.1
Henry Boot	Diversified	10.8	36.9	26.1
Great Portland Estates	Office	(22.4)	(0.9)	21.5
CLS Holdings	Diversified	(28.4)	(7.3)	21.1
Mountview Estates	Residential	3.3	23.3	20.0
Hansteen Holdings	Industrial	(7.3)	11.5	18.8
Land Securities	Diversified	(41.9)	(23.6)	18.3

Source: Bloomberg, Marten & Co

The top five biggest rating improvements during 2019 were all from companies in the three alternative sectors, with four of them going from relatively small premiums to significant premiums.

Companies focused on central London offices all saw big rating improvements in 2019

It is interesting to note that four companies focused on central London offices – Workspace, Helical, Derwent London and Great Portland Estates – all saw significant discounts, of between 32% and 22%, narrow or even move to a premium rating over the year. All four companies reported positive leasing figures during the year, helped by record low supply of offices and contrary to fears that there would be a hiatus in leasing activity or even a mass exodus of companies due to Brexit.

It's remarkable to think that SEGRO was at a discount at the start of the year, given the strength of its portfolio, but it soon moved to a premium and finished the year with a 33.3% premium. LondonMetric's acquisition of fellow industrial-focused company, A&J Mucklow, was well received by investors and its premium soared to 35.3%.

Most of the names on the list of biggest rating deteriorations have been impacted by government policy or structural changes in the market. The biggest deterioration in rating over the year was Ceiba Investments, the company focused on Cuban real estate. The rating fall is no surprise, given the severe sanctions US president Donald Trump has imposed on Cuba.

Figure 11: Biggest percentage point changes to discounts and premiums over 2019 – the 20 biggest deteriorations

Company	Sector	Premium/(discount) at 01/01/2019 (%)	Premium/(discount) at 31/12/2019 (%)	Difference (percentage point)
Ceiba Investments	Rest of World	(31.9)	(48.9)	(17.0)
Intu Properties	Retail	(68.7)	(85.4)	(16.7)
Phoenix Spree Deutschland	Europe	(15.8)	(32.3)	(16.5)
AEW UK Long Lease REIT	Diversified	(6.3)	(22.7)	(16.4)
GRIT Real Estate Income Group	Rest of World	6.2	(10.1)	(16.3)
Civitas Social Housing	Residential	(1.2)	(14.9)	(13.7)
Triple Point Social Housing REIT	Residential	(2.0)	(13.8)	(11.8)
Ediston Property Investment Company	Retail	(7.2)	(17.8)	(10.6)
Ground Rents Income Fund	Residential	(6.4)	(17.0)	(10.6)
Drum Income Plus REIT	Diversified	0.8	(9.5)	(10.3)
Summit Properties	Europe	(21.3)	(31.4)	(10.1)
Aseana Properties	Rest of World	(22.4)	(31.3)	(8.9)
Aberdeen Standard European Logistics Income	Europe	(8.4)	(16.9)	(8.5)
Macau Property Opportunities	Rest of World	(52.4)	(60.6)	(8.2)
Yew Grove REIT	Europe	0.3	(6.2)	(6.5)
U and I Group	Diversified	(26.4)	(32.5)	(6.1)
First Property Group	Diversified	(16.4)	(21.2)	(4.8)
BMO Real Estate Investments	Diversified	(15.0)	(19.2)	(4.2)
Schroder REIT	Diversified	(17.1)	(19.0)	(1.9)
Dolphin Capital Investors	Rest of World	(75.6)	(77.4)	(1.8)

Source: Bloomberg, Marten & Co

Intu Properties, as discussed before, is facing up to increased retailer failings, plummeting shopping centre values and a huge pile of debt. From an already wide discount of 68.7% at the start of the year, its discount widened further to 85.4%.

Phoenix Spree Deutschland, which owns a portfolio of residential property in Berlin, was heavily impacted by the announcement of proposed rent controls in Berlin. AEW UK Long Lease REIT had a tumultuous year – losing a large tenant to administration, deciding to put the company up for sale, serving notice on its manager, getting bids for the company, re-letting the space vacated by the large tenant, rejecting the offers and deciding to carry on but with a focus on cost cutting. The upshot was a widening of its discount to 22.7% at the end of the year from 6.3% at the start.

Major corporate activity in 2019

Fundraises

More than £1.7bn was raised by property companies during 2019

Property companies raised more than £1.7bn during the course of the year. Globalworth Real Estate Investments, which invests in office space across Central and Eastern Europe, topped the list with €764.8m (£708.5m) raised in two placings during 2019. Tritax Big Box REIT raised £250m in a placing that was used to acquire developer DB Symmetry in February.

LXi REIT raised £200m in June and quickly set about spending the cash on index-linked long income property. Supermarket Income REIT raised £145m during the year in two oversubscribed placings, which it has used to buy more supermarkets. Impact Healthcare REIT raised £135m – also in two separate placings – as it continues to grow its care home portfolio.

Primary Health Properties raised £100m in September following its merger with MedicX earlier in the year, while GCP Student Living raised £77m from an over-subscribed placing in December. It had already raised £5m earlier in the year to fund the acquisition of a new scheme close to Queen Mary University of London.

Regional REIT raised £62.5m in an oversubscribed placing in July to acquire a pipeline of assets. Yew Grove REIT, which owns Irish commercial property, announced a 12 month share issuance programme in June and during the second half of the year raised €10m and €25.8m in two placings. Picton Property Income failed to hit its £15m fundraising target in June, raising just £7.1m.

Mergers and acquisitions

In a surprise move, Green REIT, the Irish office and logistics investor and developer, put itself up for sale in April having grown frustrated with its “material and persistent” discount to NAV. It was eventually sold to private equity firm Henderson Park for €1.34bn in November.

In December, the board of industrial specialist Hansteen Holdings agreed terms to sell the company to Blackstone for £500m. Under the terms of the deal, which will be put to shareholders in February 2020, Hansteen shareholders will receive 116.5p per share – an 18.1% premium to its three-month average price at the time of the bid.

LondonMetric acquired fellow listed logistics specialist A&J Mucklow in a deal worth £414.7m, as part of its strategy to reposition its portfolio to urban logistics assets. Following the deal, LondonMetric’s portfolio was worth around £2.3bn.

In March, Primary Health Properties and MedicX merged to create the UK’s largest healthcare property investor, with a portfolio of almost 500 properties worth £2.3bn.

A majority stake in UK shopping centre owner Capital & Regional was acquired by South African REIT Growthpoint Properties in a deal worth just over £150m.

Conversions to REITs

Capital & Counties converted to a REIT following the sale of its Earls Court estate development for £425m in December. The company has positioned itself as a prime central London property investment business, with a portfolio of assets located in and around Covent Garden.

Regional commercial property owner Palace Capital also converted to a REIT during the year, and as such no longer pays UK direct tax on profits and gains from qualifying rental business.

De-listings

LXB Retail Properties was the only company to de-list during 2019. It sold all of its properties in the preceding months and years and returned £2m to shareholders before its dissolution in May.

Major news stories

- RDI REIT rejected a takeover bid by Cromwell Property stating it undervalued the company and its prospects. Earlier in the year RDI breached a debt covenant held against a portfolio of its shopping centres
- WeWork cancelled its much anticipated multi-billion-dollar IPO after failing to attract enough support from investors. Huge losses and governance issues put paid to the flexible workspace provider's listing
- SEGRO cashed in on the clamour for big box warehouses with the £241m sale of a non-core portfolio
- LondonMetric also sold a portfolio of big box warehouses, for £145.3m, as it continued to reduce its big box exposure in favour of urban logistics assets
- AEW Long Lease REIT rejected several takeover approaches, after putting itself up for sale following the loss of a large tenant, and decided to continue
- Intu Properties continued its disposal programme with several sales during the year, the largest of which recouped €237.7m from a Spanish mall, in a bid to shore up its balance sheet
- Secure Income REIT sold a portfolio of eight private hospitals for £347m at a premium of 19% to book value
- Stenprop continued its transition to a fully-focused UK industrial owner with the €160m sale of a German office, its largest asset
- Ground Rents Income Fund moved its management contract from Brooks MacDonald to Schroder Real Estate Investment Management. The move followed the loss of a high court judgement in respect of repair costs at Beetham Tower in Manchester
- AXA Property moved away from property when it changed its investment policy to become an investor in undervalued British listed securities

Our January real estate roundup has more insight and analysis on the sector

Outlook for 2020

Here are a few recent comments from managers and directors on how events may unfold in 2020, drawn from our latest real estate roundup.

On Brexit:

Duncan Owen, chairman of Schroder REIT: *"The outlook for UK real estate markets in 2020 may be negatively impacted by macroeconomic factors. A risk of the UK leaving the EU without a deal could lead to a recessionary environment as companies delay investment decisions. An orderly Brexit transition should lead to continued growth with real assets benefiting from a low interest rate environment."*

Richard Grainger, chairman of McKay Securities: "*The protracted uncertainty over Brexit across our markets has held back occupier demand and resulted in lower levels of office occupier take up. Despite this, the highly restricted supply of modern business space, especially across our South East office markets, has helped maintain rental values and is set to support future rental growth, especially with a recovery in business confidence."*

Nicholas Thompson, chairman of Picton Property: *"There is much economic uncertainty at present and a perception that we are in an environment where interest rates are likely to remain low for the foreseeable future, alongside a period of lower returns generally. Against this backdrop we believe that investing in real assets remains attractive, in particular where there is a strong income stream with further potential for growth through active management. Investing in the right assets where there is good occupational demand will continue to deliver positive results for shareholders."*

On retail:

Allan Lockhart, chief executive of NewRiver REIT: "*Despite a relatively resilient consumer backdrop, which has seen modest wage growth and employment at a 40-year high, the retail sector continues to face significant challenges, and there remains a clear divergence in retailer performance as a result. Retailers focused on providing convenience, value or services have shown resilience due to their focus on essential spending and the barriers to replicating their business models online. In contrast, retailer underperformance in these market conditions has generally been a result of operating in structurally challenged sub-sectors, mismanagement, or a combination of both factors. It remains our belief that the UK has too much retail space. This excess of space has led to increased vacancy in town centres, a lack of investment by landlords and lower business rates income for councils, with significant implications for the vitality of town centres."*

Richard Shepherd-Cross, investment manager of Custodian REIT: *"While Custodian REIT is not immune from falling values in retail, 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."*

William Hill, chairman of Ediston Property Investment Company: *"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 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."*

Brian Bickell, chief executive of Shaftesbury: *"The structural changes facing national retail are unlikely to abate, tempering retailer demand for space other than in the busiest locations. By their nature, qualities and international appeal, London and the West End are much less affected by current national concerns, and their prospects for long-term growth and investment remain strongly positive."*

On Europe:

Schroder European REIT's 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."*

We wish you good luck with all your endeavours in 2020!

Ed, James, Richard, Matt, Shonil, Dave, Alistair, Sean and Eleanor

QuotedData

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