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BY MARTEN & CO

INVESTOR

March 2021

Monthly roundup | Real estate

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Winners and losers in February

Best performing funds in price terms

	(%)
RDI REIT	33.9
Capital & Counties	21.2
Capital & Regional	18.8
NewRiver REIT	18.4
Hammerson	12.8
Panther Securities	10.8
Shaftesbury	10.5
British Land	9.1
Land Securities	8.2
Countryside Properties	8.0

Source: Bloomberg, Marten & Co

Worst performing funds in price terms

	(%)
BMO Commercial Property Trust	(9.0)
Lok'n Store	(8.8)
Drum Income Plus REIT	(7.7)
Henry Boot	(7.4)
Regional REIT	(6.5)
Schroder European REIT	(6.0)
Inland Homes	(5.5)
Impact Healthcare REIT	(5.2)
Ceiba Investments	(5.1)
AEW UK REIT	(4.7)

Source: Bloomberg, Marten & Co

The roadmap out of lockdown and the impressive vaccination programme in the UK has lifted confidence in a swift economic recovery and triggered a shift to value stocks. Property companies on significant discounts saw a bounce in their share price in February. Top of the pile, though, was RDI REIT that was the subject of a cash offer from its largest shareholder Starwood Capital, valuing the company at £467.9m. The bid price was a 33% premium to its previous day's closing price. Capital & Counties and Shaftesbury, which both own large portfolios in tourist hotspots in London's West End, saw a share price rise of 21.2% and 10.5% respectively in February with the best retail and leisure destinations expected to bounce back strongly later this year. Shopping centre owners Capital & Regional, NewRiver REIT and Hammerson have seen their share price decimated over the past year as the restrictions on non-essential retail heavily impacted on their ability to collect rent on time. They now seem more attractive with restrictions expected to ease. British Land and Land Securities, which both own London offices as well as large retail portfolios, also saw an uplift in share price.

BMO Commercial Property Trust saw a 9% decline in its share price after reporting a rent collection rate for the current quarter of 75% in a trading update. The company, which owns a diverse property portfolio weighted towards offices, has seen an 11.3% fall in its share price in the first two months of this year. Despite a positive trading update, in which occupancy and income was up, AIM-listed self-storage operator Lok'n Store saw an 8.8% fall in its share price during the month. Uncertainty around the future of the office sector after restrictions are eased persists, which may be behind a 6.5% fall in Regional REIT's share price in February – it has fallen 32% in 12 months. Schroder European REIT saw a share price fall of 6% after reporting an anchor tenant in its Seville shopping centre had decided to exit its lease, leaving a large void in the mall. Cuban real estate investor Ceiba Investment saw some shine come off its share price, which had rallied after US President Biden's election on expectations that stringent economic sanctions imposed on Cuba will be reverse. The group has launched a $20m convertible bond to raise funds to complete the construction of a hotel on the Caribbean island.

Valuation moves

Company	Sector	NAV move (%)	Period	Comments
SEGRO	Logistics	16.3	Full year to 31 Dec 20	Portfolio value up 10.3% (or £2,744m) to £12,995m
Aberdeen Standard European Logistics Income	Europe (logistics)	6.6	Quarter to 31 Dec 20	Value of portfolio increased 6.0% to €430.2m
Grit Real Estate	Rest of World	6.3	Half-year to 31 Dec 20	Portfolio valuation up 3.1% to $849.2m
Primary Health Properties	Healthcare	4.6	Full year to 31 Dec 20	Increase in portfolio value of 2.0% to £2,576m
Standard Life Inv. Property Income Trust	Diversified	4.1	Quarter to 31 Dec 20	Portfolio increased in value by 3.3% to £437.7m
Irish Residential Properties REIT	Europe (residential)	3.2	Full year to 31 Dec 20	Property portfolio value increase of 1.6% to €1,380.4m
Schroder REIT	Diversified	1.4	Quarter to 31 Dec 20	Value of portfolio increased 0.9% to £432.8m
Custodian REIT	Diversified	1.3	Quarter to 31 Dec 20	Value of portfolio increased 2.7% to £546.8m
Target Healthcare REIT	Healthcare	0.2	Quarter to 31 Dec 20	Increase in portfolio of 0.8% to £647.7m
Civitas Social Housing	Residential	0.1	Quarter to 31 Dec 20	Portfolio valuation was flat at £898.5m
GCP Student Living	Student accommodation	(0.2)	Quarter to 31 Dec 20	Like-for-like portfolio valuation decrease of 0.2% to £1,030m
Town Centre Securities	Retail	(2.3)	Half-year to 31 Dec 20	Portfolio valuation down 0.8% on like-for-like basis to £306.9m
Alternative Income REIT	Diversified	(10.5)	Half-year to 31 Dec 20	Property portfolio has declined in value by 3.9% to £108.53m
St Modwen Properties	Diversified	(11.7)	Full year to 30 Nov 20	Portfolio value declined 10.5% to £1,371m

Source: Marten & Co

Corporate activity in February

RDI REIT agreed terms on a £467.9m cash offer for the company from its largest shareholder Starwood Capital. Starwood made a cash offer for the 70% of shares it doesn't own of 121.35p, representing a discount of 19.9% to the group's most recent EPRA NAV but a 38.2% premium to its six-month average share price.

Target Healthcare REIT raised £60m in an oversubscribed issue, exceeding its target of £50m. It will deploy the proceeds into an investment pipeline that consists of three care homes and one forward funding development project.

Warehouse REIT raised gross proceeds of £45.9m in an issue and has since spent the acquisition of warehouses in Harlow, Liverpool and Glasgow.

European logistics owner Tritax EuroBox proposed an equity raise of £173m (€200m) as it looks to expand its portfolio in the burgeoning sector. The proceeds, together with new debt and existing cash, will be used to acquire a near-term pipeline of assets worth €416m. It has also proposed a placing programme of up to 300 million shares.

LXI REIT announced intentions to raise £75m in a placing to fund an acquisition pipeline worth £140m. The assets include food stores, industrial, drive-thru coffee and garden centres. It also proposed a one-year placing programme totalling 400m shares.

Civitas Social Housing secured a new seven-year term, interest only, loan facility of £84.55m from M&G Investment Management. The new facility is priced at 2.75% above a fixed rate set by reference to the LIBOR swap rate of the loan term, and is repayable seven years from the date of utilisation. It is secured against an existing portfolio of specialist supported living assets.

February's major news stories – from our website

- **Assura acquires primary care developer**

Assura completed the acquisition of primary care developer Apollo Capital Projects Development. The deal will increase Assura's immediate and extended development pipeline by an initial eight schemes with capital expenditure of £50m.

- **NewRiver REIT buys Sheffield retail and leisure estate in BRAVO joint venture**

NewRiver REIT and joint venture partner BRAVO Strategies III exchanged contracts to acquire The Moor, a 28-acre retail and leisure estate in Sheffield, for £41m (NewRiver share: £4.1m). NewRiver will be appointed asset and development manager, in return for a management fee.

- **Urban Logistics REIT pays £27.8m for six assets**

Urban Logistics REIT acquired six assets for £27.8m, reflecting a yield of 6.87%. Five assets were bought in a sale-and-leaseback deals, with Kinaxia Logistics and XPO Logistics, while the sixth was a high-yielding property in Rotherham.

- **Supermarket Income REIT ups stake in Sainsbury's portfolio**

Supermarket Income REIT, in partnership with BA Pension Fund, paid £115m for a 25.5% stake in a portfolio of 26 Sainsbury's stores, upping its holding in the portfolio to 51%.

- **Tritax EuroBox sells Polish asset for €65.5m**

Tritax EuroBox sold its asset in Lodz, Poland, for €65.5m – 15% above the most recent valuation.

- **Warehouse REIT splashes £35m on Liverpool assets**

Warehouse REIT acquired four warehouses in Boulevard Industry Park in Speke, Liverpool, for £35m and a net initial yield of 5.5%. Totalling 390,000 sq ft, the properties generate £2.1m of annual rent.

- **LXI REIT ups annual dividend target**

LXI REIT upped its annual dividend target for the year commencing 1 April 2021 to 6p, off the back of high rent collection rates. The target is above the pre-pandemic level.

- **LondonMetric acquires seven service station assets for £21.9m**

LondonMetric bought seven convenience service stations across three separate deals totalling £21.9m.

- **Schroder European REIT hit by tenant lease termination**

A retail anchor tenant at Schroder European REIT's Metromar shopping centre in Seville exercised its lease termination right on the 3,000 sqm store (14% of the total mall).

- **RDI REIT sells shopping centre**

RDI REIT sold West Orchards shopping centre in Coventry for £4.85m, leaving it with just one remaining UK retail asset.

QuotedData views

- **More M&A activity to come? – 26 February 2021**
- **EuroBox raise hits the sweet spot – 19 February 2021**
- **Cheers to the property dividend hikes – 12 February 2021**
- **Property tinkermen worth their weight in gold – 5 February 2021**

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

M7 Real Estate, investment adviser:

Forecasts suggest that it is likely to be several years before the UK economy fully recovers to pre-pandemic levels. Whilst a steady recovery can be expected throughout 2021, the risk of sustained damage to some economic sectors (including retail, hotels, hospitality, aviation and tourism) means that there is a high level of uncertainty in the outlook, however, greater clarity over the timing of COVID-19 vaccine distribution will undoubtedly help the mapping of the route to recovery.

Despite economic uncertainty, the UK property market continues to deliver healthy spreads over government bond yields, both in absolute terms and relative to other markets. A global pandemic, Brexit transition and ongoing economic slowdown, has seen central banks keep interest rates low, with the chance of negative rates in the UK now becoming a possibility. As a result, we expect to see yield stability for many property sectors as investors seek a safe haven offering attractive risk adjusted returns. Coupled with the weight of frustrated capital which has been unable to invest over the past year due to lockdown measures preventing in-person inspections, investment demand is likely to be bolstered as the UK enters its recovery phase with the potential to compress yields further in certain markets.

Sectoral change stimulated by the COVID-19 pandemic had a significant impact on specific markets during 2020, with high street retail, shopping centres and leisure assets being impacted most heavily by lockdown restrictions, whilst the extent of the impact to offices is yet to be fully understood. Conversely, the industrial and logistics sectors thrived during the year with the ongoing trend to e-retailing only being accelerated.

The property industry continues to benefit from strong competition amongst investors seeking long, inflation linked income. Those markets that offer bond like income streams or are linked to social infrastructure, such as distribution, last mile logistics, supermarkets and certain alternative income will continue to attract significant demand.

Custodian REIT

Richard Shepherd-Cross, investment manager:

While the COVID-19 pandemic dominates the headlines, recent levels of commercial property investment activity demonstrate that investors are looking beyond the pandemic. The focus on reporting rent collection statistics over the past nine months highlights the importance of real estate's strongest investment attribute - the right to receive rent and its consequent distribution as dividends. Direct investors seek to secure properties to provide long-term cash flows and indirect investors are primarily pricing investment company stocks off their capacity to pay cash covered dividends rather than off NAV.

The property market has shown itself to be remarkably resilient in a year when the enforcement of rent obligations was suspended, occupiers deserted their offices and shoppers were forced online. Landlords have been able to work closely with most tenants to reach agreement on the payment of rent and, across the board, rent collection rates of 90% plus have not been unusual. While property investment company dividends were set at cautious levels early in the pandemic, rent collection has been better than many feared and dividends appear to be reacting to a more optimistic outlook for real estate.

Logistics

SEGRO

David Sleath, chief executive:

The increase in e-commerce penetration has been much talked about and there has some debate over where it will settle once the pandemic has passed. We believe there has been a step-change in consumer behaviour. Some of the factors that were considered as barriers to increased levels of online sales penetration (for example concerns about the quality of food bought online and reluctance to share financial information over the internet) have been overcome and habits have potentially changed irrevocably. Our customers certainly do not expect there to be a significant retreat and are already preparing to adapt their businesses to respond to levels of online sales that are well ahead of previous expectations.

Whilst the pandemic may change the way that cities such as London, Paris and Berlin operate, we continue to believe that they will act as centres of commerce, innovation and culture and, in our opinion, that they will continue to attract people to work, live and 'play'. The nature of our urban warehouses, being mostly located inside or on the edges of cities, also means that they attract businesses servicing the commuter belt and beyond.

Finally, we expect that localisation and the renewed focus on supply chain resilience will also contribute to occupier demand over the coming years. In the UK we have been seeing their effects for a number of years as e-commerce has taken off and our customers have modernised their supply chains and distribution networks to respond to it. On the Continent however, our customers are much less advanced in this journey and e-commerce has been lagging in the UK. The pandemic has accelerated the need for them to make these changes. We see this as a significant opportunity going forward.

Healthcare

Primary Health Properties

Steven Owen, chairman:

Healthcare provision in the UK has been transformed in 2020, as the NHS has responded to the requirements of dealing with the COVID-19 pandemic. Despite a large number of consultations now being carried out remotely we have also seen a large increase in workload for GPs and wider primary care teams at our buildings with many of our assets and occupiers now engaged in the delivery of COVID-19 vaccines as well as dealing with the resultant backlog of non-COVID-19 treatments that need to be addressed, with more services expected to move away from hospitals and into primary care facilities in the future. This trend will undoubtedly require substantial investment into other areas, most notably primary care that will be able to take on the non-urgent and peripheral procedures.

The conclusion of Brexit for the UK is unlikely to have a direct impact on the primary health centres we invest in, which perform a vital role in the provision of healthcare across the UK and Ireland. Demand for our properties is driven by demographics and in particular populations that are growing, ageing and suffering from more instances of chronic illness.

Despite the continued volatility in the economic and political environment and the prolonged era of low interest rates, there continues to be an unrelenting search for secure and reliable income. Primary healthcare, with its strong fundamental characteristics and government-backed income, has been a significant beneficiary of this trend. The UK market for primary healthcare property investment continues to be highly competitive with strong yields and prices being paid by investors for assets in the sector throughout 2020 and in particular in the second half of the year.

Residential

Civitas Social Housing

Paul Bridge, investment manager:

As the anniversary of the first COVID-19 lock-down approaches, the sector in which Civitas operates continues to demonstrate strong fundamentals and robust operational characteristics that reflect the essential care services delivered within the company's properties.

Demand for high quality homes in the community to provide lifelong housing for people with learning disabilities, mental health and autism is continuing to grow. This is the result of a number of key drivers: the closure of old remote hospitals, an increasing number of young people requiring adult care services and as parents and guardians themselves require elderly care support, the need for people to move from family homes into permanent care-based accommodation.

In addition, substantial demand exists for housing for those who have suffered homelessness and also require long term suitable housing in the community, with additional support to prevent them from returning to homelessness.

Europe (residential)

Irish Residential Properties REIT

Margaret Sweeney, chief executive:

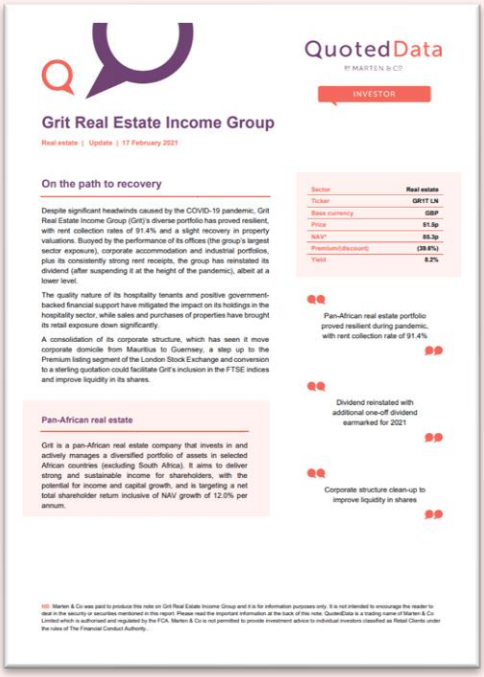
The most pressing issue facing the Irish housing market remains the significant shortage of rental accommodation and, while supply has been increasing since 2014, the impact of COVID-19 will see output fall below original expectation for 2020 and below 2019 levels.

Therefore, demand for quality, well located and professionally managed accommodation will remain strong, underpinned by steady population growth. In addition, inward Foreign Direct Investment across key sectors has remained resilient through the pandemic, particularly in ICT, Pharma and Financial Services. The Industrial Development Authority Ireland reported that employment growth of 3.6% was achieved in 2020 in IDA supported companies.

While rent collections across our residential portfolio remained strong during 2020, this may not be indicative of the rate of rent collection in the upcoming months. The ongoing uncertainty related to the COVID-19 pandemic, including uncertainty surrounding measures taken to mitigate the economic impacts could give rise to increases in bad debts and vacancy levels in the future. We will continue the open dialogue with our tenants as the situation progresses.

We will also continue to monitor and assess the potential risks and opportunities for the group arising from market events such as the recently announced Brexit deal, US policy on FDI in Ireland, as well as taxation and increased regulation risks. We remain confident in the long-term prospects of the Irish multi-family rental market, which has proven itself to be highly resilient and counter cyclical during the pandemic.

Real estate research notes



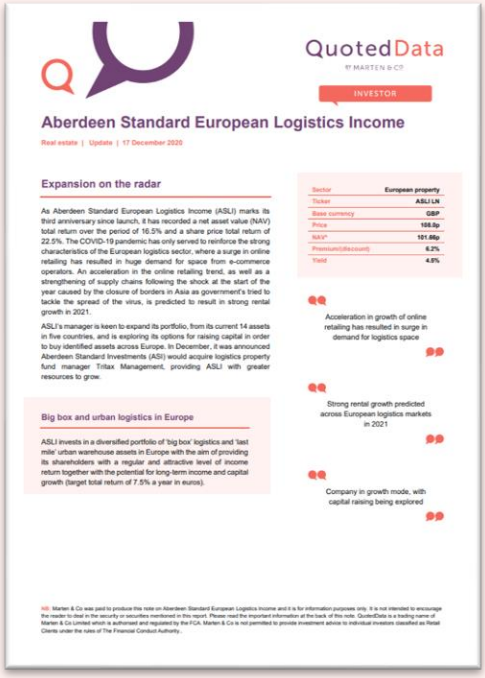
Grit Real Estate Income Group

Real estate | Update | 17 February 2021

On the path to recovery

Pan-African real estate

An update note on Grit Real Estate. The pan-African real estate investor's diverse portfolio has proved resilient during COVID-19, highlighted in a rent collection rate of 91.4%. It has consolidated its corporate structure that could facilitate its inclusion in the FTSE indices and improve liquidity in its shares.



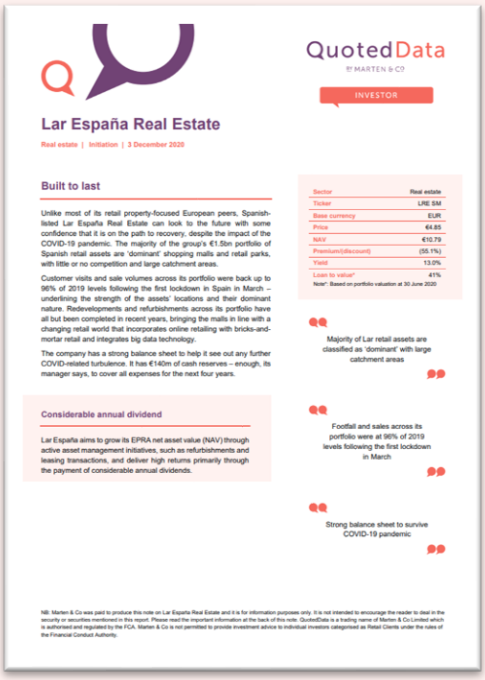
Aberdeen Standard European Logistics Income

Real estate | Update | 17 December 2020

Expansion on the radar

Big box and urban logistics in Europe

An annual overview note on Aberdeen Standard European Logistics Income (ASLI). The group's manager is exploring growth avenues to take advantage of strong fundamentals in the European logistics sector.



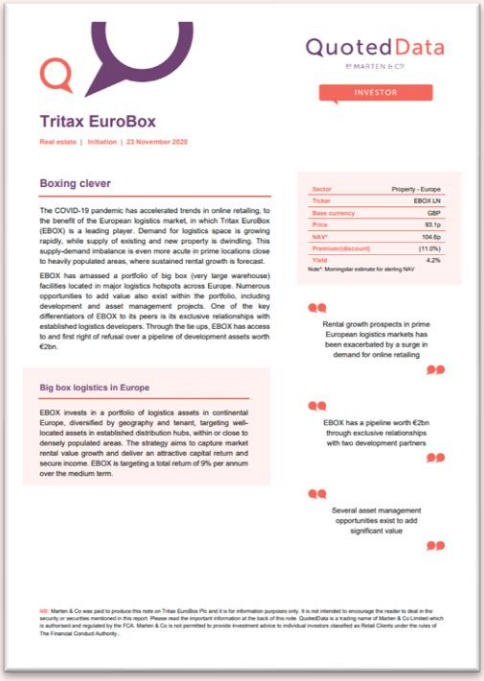
Lar España Real Estate

Real estate | Initiation | 3 December 2020

Built to last

Considerable annual dividend

An initiation note on Tritax EuroBox (EBOX). The company's European big box logistics portfolio has performed well during the COVID-19 pandemic as a surge in online retailing has resulted in an uptick in demand for logistics space. Its exclusive relationships with developers give it plenty of room to grow.



Tritax EuroBox

Real estate | Initiation | 23 November 2020

Boxing clever

Big box logistics in Europe

An initiation note on Lar España Real Estate (LRE SM). The Spanish listed REIT has a €1.5bn portfolio of dominant retail assets in key locations in Spain. The performance of its assets post the first lockdown and its strong balance sheet suggests a robust recovery in 2021.

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BY MARTEN & CO

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