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INVESTOR

Real estate quarterly report

First quarter 2021 | April 2021

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Lockdown cloud begins to lift

The success of the vaccine rollout in the UK and the implementation of a roadmap out of lockdown saw the share prices of listed property companies – most of which had been decimated during the last year – make somewhat of a recovery.

The economy is on firmer footing and optimism for a strong second half of the year is growing. Property companies focused on the most COVID-affected sectors – retail, leisure and hospitality – are set to benefit most, as the economy gradually reopens. Investors took advantage of the apparent good value of these stocks during the quarter.

There is still much uncertainty in the sector, however, which is reflected in the wide discounts to net asset values (NAV) some property companies' shares are still trading on.

The shining beacon of the property sector that is logistics continues to dominate, with several specialists reporting significant uplifts in portfolio valuations and NAVs during the quarter.

In this issue

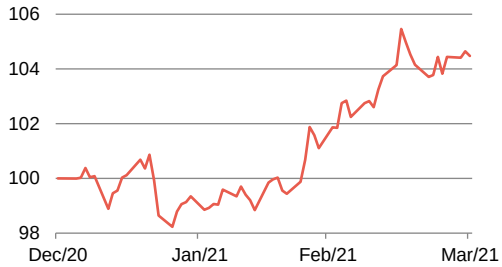
- **Performance data** – Companies' whose share price has taken a hammering over the last year staged a mini revival
- **Corporate activity** – Several oversubscribed capital raises took place in the quarter, raising more than £600m
- **Major news stories** – Big transactions dominated the headlines as several companies continue to re-shape their portfolios

Best performing companies in price terms in Q1 2021

	Chg. on quarter (%)
Drum Income Plus REIT	69.4
U and I Group	51.1
Hammerson	40.8
RDI REIT	28.0
BMO Real Estate Investments	22.3

Property sector performance*

Time period 31/12/20 to 31/03/21



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

Biggest property companies at end of Q1 2021

	Market cap	Chg. on quarter (%)
SEGRO	£11.2bn	(1.1)
Land Securities	£5.1bn	2.4
British Land	£4.7bn	2.8
Unite Group	£4.2bn	2.1
Derwent London	£3.6bn	4.4

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Contents

Click here for our January 2021 monthly real estate roundup

Click here for our February 2021 monthly real estate roundup

Click here for our March 2021 monthly real estate roundup

Click here for our 2020 annual real estate roundup

Analysts

Richard Williams
rw@martenandco.com

Matthew Read
mr@martenandco.com

James Carthew
jc@martenandco.com

Performance data

The successful vaccine rollout and the resultant positive sentiment that it has brought to the real estate sector is reflected in the share price performance of property companies in the first quarter of 2021.

Figure 1: Best performing companies in price terms in Q1

	%
Drum Income Plus REIT	69.4
U and I Group	51.1
Hammerson	40.8
RDI REIT	28.0
BMO Real Estate Investments	22.3
Harworth Group	21.4
Secure Income REIT	19.8
Town Centre Securities	19.8
Capital & Counties	17.7
Palace Capital	17.3

Source: Bloomberg, Marten & Co

Figure 2: Worst performing companies in price terms in Q1

	%
Lok'n Store	(11.9)
BMO Commercial Property Trust	(11.5)
Triple Point Social Housing REIT	(9.4)
Hibernia REIT	(7.1)
LondonMetric Property	(6.7)
Assura	(6.1)
Grainger	(5.9)
TR Property	(5.0)
Sirius Real Estate	(4.9)
Regional REIT	(4.4)

Source: Bloomberg, Marten & Co

Best performing property companies

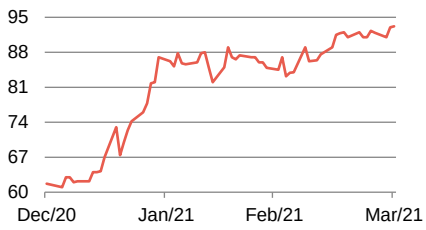
Leading the way was Drum Income Plus REIT, which saw its share price rally 69.4% in the quarter following the announcement that its board was considering the future of the company. The trust has traded at a significant discount to net asset value (NAV) since it launched in 2015 and, despite the uplift in its share price, is still trading at a 31% discount.

Perennial 2020 underperformer U and I Group, saw its share price rise more than 50% in the first quarter of 2021. This followed news in January that it had replaced its chief executive and was undertaking a review of the business that will likely see it focus on fewer, more valuable development schemes.

Shopping centre owner Hammerson also saw a jump in its share price, albeit from a low base. The company's share price has been decimated over recent years as its exposure to the struggling retail sector hit the valuation of its portfolio. It is working through plans, under a new chief executive, to fix its balance sheet.

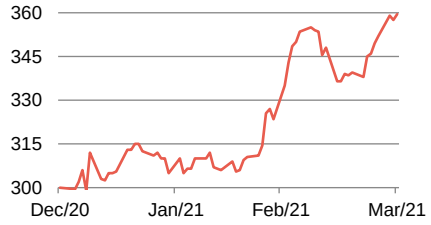
RDI REIT was the subject of a cash offer from its largest shareholder Starwood Capital in February, valuing the company at £467.9m. The bid price was a 33% premium to its previous day's closing price.

Figure 3: U and I Group share price YTD



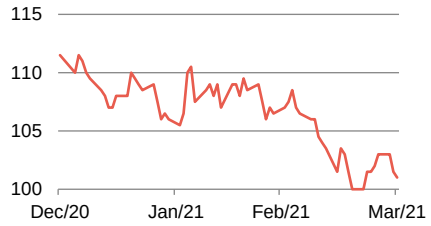
Source: Bloomberg, Marten & Co

Figure 4: Secure Income REIT price YTD



Source: Bloomberg, Marten & Co

Figure 5: Triple Point Social Housing price YTD



Source: Add source or note

Long income specialist Secure Income REIT staged a bit of a share price recovery in the quarter, rising almost 20%. The group's portfolio includes hotels and leisure attractions – two of the hardest hit sectors during the pandemic – and despite the rally its share price is still 22% down on its pre-pandemic high.

Worst performing companies

Despite reporting a positive trading update, in which occupancy and income was up, AIM-listed self-storage operator Lok'n Store was the leading share price faller in the quarter, closely followed by BMO Commercial Property Trust. That company, which owns a diverse property portfolio weighted towards offices, reported a rent collection rate for the quarter of 75% in a trading update.

Last year's leading property company in share price terms, Triple Point Social Housing REIT – which gained 24.2% in 2020 – saw its share price fall in the first quarter of 2021, perhaps on profit taking.

Uncertainty around the future of the office sector after restrictions are eased may be behind a 4.4% fall in Regional REIT's share price in the quarter. The group is very positive on the future of the office and has nailed its colours to the mast with a portfolio overhaul to focus solely on the sector.

Significant rating changes

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

Figure 6: Biggest percentage point changes to ratings in Q1 2021 – the 10 greatest improvements

Company	Sector	Premium/(discount) at 31/12/2020 (%)	Premium/(discount) at 31/03/2021 (%)	Difference (percentage point)
Drum Income Plus REIT	Diversified	(59.4)	(31.2)	28.2
U and I Group	Development	(73.4)	(51.7)	21.7
Capital & Counties	Retail	(39.7)	(19.5)	20.2
Capital & Regional	Retail	(70.2)	(50.5)	19.7
RDI REIT	Diversified	(37.3)	(19.7)	17.6
Secure Income REIT	Diversified	(22.3)	(5.2)	17.1
GCP Student Living	Student accom.	(16.6)	(1.8)	14.8
BMO Real Estate Investments	Diversified	(35.6)	(23.9)	11.7
PRS REIT	Residential	(19.2)	(9.0)	10.2
Palace Capital	Diversified	(42.0)	(32.0)	10.0

Source: Bloomberg, Marten & Co

Many of the constituents of the greatest rating improvements feature in the share price performance table above. Capital & Counties, which owns a huge swathe of

Covent Garden in central London, saw its discount cut in half after momentum in its shares gathered pace in anticipation of non-essential retail and hospitality re-opening following lockdown.

Shopping centre owner Capital & Regional's discount came in by almost 20 percentage points in the quarter, due to both share price gains (of 8.6%) and a significant fall in its NAV (of 33%). It still trades at a substantial 50% discount.

GCP Student Living, the student accommodation owner, saw its discount narrow to just 1.8% during the quarter due to a combination of a healthy 8.6% share price rise and an 8.1% NAV fall.

The property generalist BMO Real Estate Investment had a strong quarter in share price terms, perhaps due to its significant portfolio weighting to the favourable industrial and logistics sector.

Figure 7: Biggest percentage point changes to ratings in Q1 2021 – the 10 biggest deteriorations

Company	Sector	Premium/(discount) at 31/12/2020 (%)	Premium/(discount) at 31/03/2021 (%)	Difference (percentage point)
Lok'n Store	Self-storage	48.4	30.8	(17.6)
SEGRO	Logistics	32.0	15.2	(16.8)
Hibernia REIT	Europe	(34.3)	(45.3)	(11.0)
Triple Point Social Housing REIT	Residential	5.8	(5.1)	(10.9)
Safestore	Self-storage	60.8	50.4	(10.4)
Primary Health Properties	Healthcare	40.1	31.3	(8.8)
LondonMetric Property	Logistics	30.5	21.7	(8.8)
Assura	Healthcare	36.7	28.3	(8.4)
BMO Commercial Property Trust	Diversified	(31.5)	(39.7)	(8.2)
Tritax Big Box REIT	Logistics	8.4	2.2	(6.2)

Source: Bloomberg, Marten & Co

Again, most of the companies to feature in Figure 7 have been covered off earlier in the worst performing companies' section. Additional entrants include industrial and logistics giant SEGRO, which saw its premium rating narrow mainly due to a huge uplift in its NAV as the value of its logistics assets were marked up.

It was the same story for fellow logistics heavyweight Tritax Big Box REIT. Its premium shrank in the quarter following a big increase in its NAV, despite a 6.9% rise in its share price.

Primary healthcare specialists Assura and Primary Health Properties both saw their discounts narrow following share price falls in the quarter.

Major corporate activity

Fundraises

> Just over £600m was raised by property companies in the first quarter of 2021

Just north of £600m was raised by property companies in the first quarter of 2021. Not surprisingly, all were by companies focused on favoured property sectors, with the majority of the capital raises oversubscribed, reflecting investor appetite for exposure to these budding sectors.

Tritax EuroBox raised the largest amount, with an oversubscribed issue of €230m (£198.4m). The proceeds will be used to acquire a near-term pipeline of assets worth €416m.

Supermarket Income REIT raised £153m from an oversubscribed issue. The group has identified immediate investment opportunities worth £230m across four deals and has a further nine assets in the pipeline worth £184m.

LXI REIT raised £125m from a significantly oversubscribed share issue. The group, which targeted a £75m issue, has identified an acquisition pipeline worth £140m in sectors including foodstores, industrial, drive-thru coffee and garden centres.

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 spent the capital on the acquisition of warehouses in Harlow, Liverpool and Glasgow.

Aberdeen Standard European Logistics Income raised £19.4m after issuing 18.45 million new shares, representing the total remaining authority granted by shareholders at its AGM.

Mergers and acquisitions

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 didn'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.

The board of Drum Income Plus REIT announced a strategic review into the company that it said could result in the company being sold.

Major appointments

Tritax Big Box REIT chairman Sir Richard Jewson announced his intention to retire at the next AGM in May 2021. Aubrey Adams OBE, the current senior independent director, will take his place.

London office developer Derwent London appointed former JP Morgan vice chairman of mergers and acquisitions Mark Breuer as its new chairman. He will initially join the board as a non-executive director before taking over from John Burns as chairman following the conclusion of the company's 2021 AGM.

LondonMetric appointed Kitty Patmore as an independent non-executive director. Patmore is current chief financial officer at Harworth Group and has 15 years of finance, banking and real estate lending experience.

St Modwen Properties appointed Dame Alison Nimmo DBE as a non-executive director. The former Crown Estate chief executive joined the board on 1 February 2021.

British Land appointed Bhavesh Mistry as chief financial officer. Mistry is currently deputy chief financial officer at Tesco and was previously finance director at Whitbread's hotels & restaurants division. He will become an executive director and join the main board at British Land when he makes the move no later than 1 August 2021.

Hammerson chief financial officer James Lenton resigned from the role after just over a year in the job. He will stay in the role until a successor is appointed.

Other major corporate activity

LondonMetric priced a £380m private debt placement with institutional investors in North America and the UK, upsized from an initial £150m. The debt has a blended maturity of 11.1 years and a weighted average coupon of 2.27%. £50m has been designated as 'Green notes', which have to be secured against buildings that have high sustainability standards. This is the first time a UK REIT has issued these and the debt is 2 basis points (or 0.02%) cheaper than non-green debt. The money will be used to replace existing debt facilities.

Ceiba Investments raised €25m in a convertible bond issue. The unsecured, 10%, five-year bond was priced at the unaudited NAV of 104.3p. It will use the capital to finance the construction of the Melia Trinidad hotel.

Civitas Social Housing secured investment grade credit rating with Fitch, which will allow it to grow its debt funding strategy and gives it access the broader bond market.

Tritax EuroBox was also assigned investment grade credit rating by Fitch, which immediately reduces the cost of its current debt by 30 basis points and gives it access to a wider pool of financing strategies.

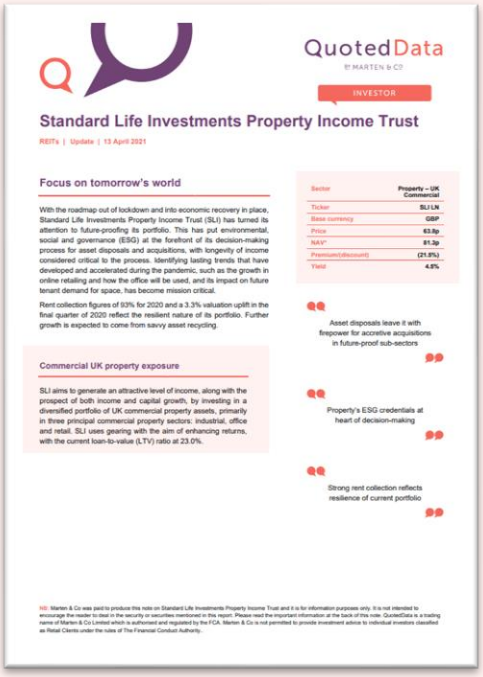
Major news stories

- **Home REIT** fully invested the proceeds of its £240m initial public offering after the acquisition of 11 portfolios for £48.1m. The group, which launched in October 2020, now has a portfolio of 572 homeless accommodation properties.
- **Helical** let the 88,500 sq ft Kaleidoscope office in Farringdon to TikTok on a 15-year term at an annual rent of £7.6m.
- **LXI REIT** acquired seven grocery stores for £85m, in the first step in deploying capital from its £125m raise. The acquisitions comprise both pre-let forward fundings and built investments and have an average net initial yield of 5.25%.
- **Urban Logistics REIT** forward funded on a speculative basis the development of five assets in the East Midlands for £23m. It also sold five assets for £30m at a 35.4% uplift to book value.
- Regeneration specialist **U and I Group** replaced chief executive Matthew Weiner with chief development officer Richard Upton after a prolonged period of underperformance. Upton will undertake a review of the group's investment strategy.
- **Supermarket Income REIT** acquired a Tesco Superstore, which forms part of Prestatyn Shopping Park, from Ediston Property Investment Company for £26.5m, which is equivalent to a net initial yield of 5.3%.
- **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.
- **CLS** exchanged contracts to acquire three offices in Germany – in Dusseldorf, Berlin and Hamburg – for a combined €89.7m, reflecting a net initial yield of 4.8%.
- **Unite Students**, the student accommodation owner, sold a portfolio of eight properties, comprising 2,284 beds, for £133m as part of its strategy to exit "subscale" markets.
- **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.

Selected QuotedData views

- **Will Rishi's call for return to office impact sector?**
- **Property one year on from lockdown**
- **Student digs top of the class for COVID rebound?**
- **Property tinkermen worth their weight in gold**
- **Can Upton regenerate U and I Group's future?**

Real estate research notes



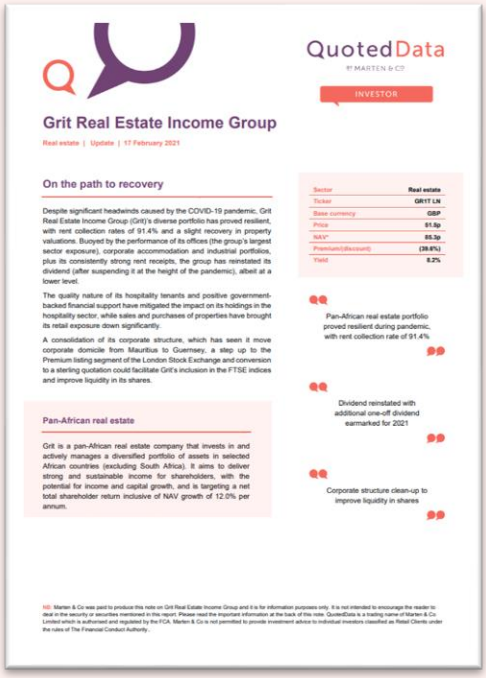
Standard Life Investments Property Income Trust

REITs | Update | 13 April 2021

Focus on tomorrow's world

Commercial UK property exposure

An update note on Standard Life Investments Property Income Trust (SLI). The group is future-proofing its portfolio fit for a post-pandemic world and has put ESG at the heart of its decision-making process.



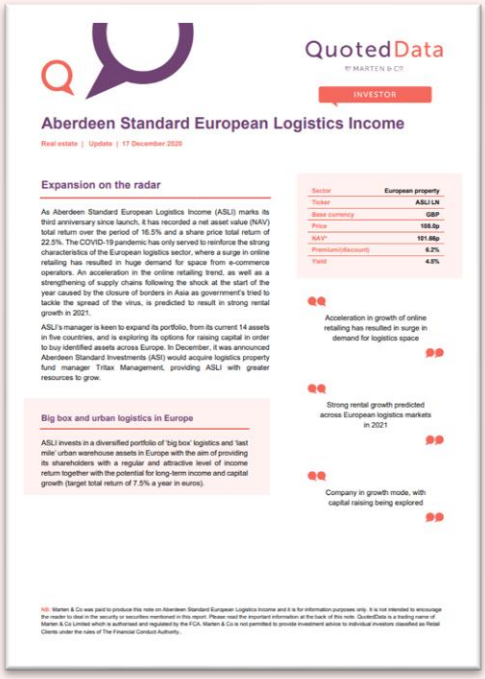
Grit Real Estate Income Group

Real estate | Update | 17 February 2021

On the path to recovery

Pan-African real estate

An update note on Grit Real Estate (GR1T). 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.



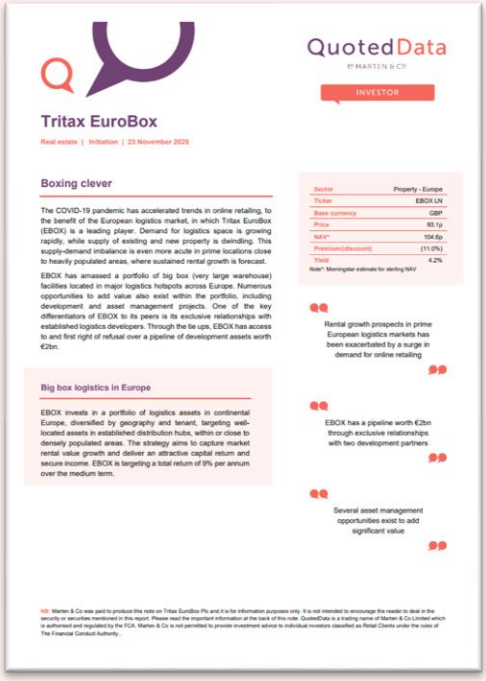
Aberdeen Standard European Logistics Income

Real estate | Update | 17 December 2020

Expansion on the radar

Big box and urban logistics in Europe

An 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 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.

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123a Kings Road, London SW3 4PL
0203 691 9430

www.QuotedData.com

Registered in England & Wales number 07981621,
2nd Floor Heathmans House,
19 Heathmans Road, London SW6 4TJ

Edward Marten (em@martenandco.com)

David McFadyen (dm@martenandco.com)

Alistair Harkness (ah@martenandco.com)

Matthew Read (mr@martenandco.com)

James Carthew (jc@martenandco.com)

Shonil Chande (sc@martenandco.com)

Richard Williams (rw@martenandco.com)