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INVESTOR

August 2021

Monthly roundup | Real estate

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Winners and losers in July

Best performing funds in price terms

	(%)
GCP Student Living	31.4
Lok'n Store Group	15.7
Empiric Student Property	12.4
Safestore Holdings	11.5
SEGRO	11.2
Big Yellow Group	11.1
Tritax EuroBox	10.8
Stenprop	10.3
Urban Logistics REIT	9.9
Derwent London	9.5

Source: Bloomberg, Marten & Co

Worst performing funds in price terms

	(%)
CEIBA Investments	(5.0)
U and I Group	(3.8)
Globalworth Real Estate	(3.5)
Macau Property Opportunities	(3.3)
Palace Capital	(3.3)
NewRiver REIT	(3.2)
Town Centre Securities	(3.1)
McKay Securities	(3.0)
Capital & Regional	(2.5)
Residential Secure Income	(2.4)

Source: Bloomberg, Marten & Co

It was no surprise that GCP Student Living topped the table for best performing property companies in July after it received a takeover bid 30% above its share price during the month. Fellow listed student accommodation specialist Empiric Student Property saw its share price bounce on the back of the news. The three listed self-storage specialists – Lok'n Store, Safestore and Big Yellow Group – all witnessed double-digit rises in their share prices after reporting impressive operational performances as the sector continues to benefit from structural tailwinds. Logistics giant SEGRO's share price jumped 11.2% after it reported impressive half-year results in which its portfolio valuation grew 10.2%. A huge surge in demand for logistics space sees no signs of abating and logistics specialists are continuing to benefit. Tritax EuroBox is putting together an impressive portfolio in Europe, while Urban Logistics REIT is operating in one of the most supply-constrained sub-sectors in property. SEGRO is up 28.5% in the year-to-date, while Tritax EuroBox and Urban Logistics REIT are up 21.3% and 20.6% respectively.

It was a mixed bag in the list of worst performing property companies in July, with CEIBA Investments at the bottom of the pile. The Cuban real estate investor has suffered from harsh US sanctions and the pandemic and has not been helped by recent unrest in the country. Its share price is down 20.7% in the year-to-date. Central and Eastern Europe office investor Globalworth Real Estate saw its share price come off a further 3.5% in the month after the hostile takeover of the company progressed (see page 3 for more details). NewRiver REIT, which owns shopping centres and retail parks, also saw its share price fall in July, despite selling its pubs business for £222m (see page 4 for more details). Secondary mall owner Capital & Regional was again down on the month, with operational performance not yet at pre-COVID levels. In the past three months its share price is down 18.4%. Rounding off the list was Residential Secure Income, which owns a portfolio of affordable housing, having been the best performer in share price terms in June. In the year-to-date the group has seen its share price rise 15.8%.

Valuation moves

Company	Sector	NAV move (%)	Period	Comments
SEGRO	Logistics	11.7	Half-year to 30 June 21	Portfolio valuation uplift of 10.2% to £14.4bn
GCP Student Living	Student accom.	8.9	Quarter to 30 June 21	Value of property portfolio increased 6.8% in the quarter to £1.14bn
AEW UK REIT	Diversified	8.0	Quarter to 30 June 21	Portfolio valuation uplift of 7.5% to £210.9m
BMO Commercial Property Trust	Diversified	4.4	Quarter to 30 June 21	Portfolio increased in value by 3.0% to £1.26bn
Custodian REIT	Diversified	4.2	Quarter to 30 June 21	Value of portfolio up 3.4% to £575.4m
Schroder REIT	Diversified	4.1	Quarter to 30 June 21	Portfolio increased in value by 2.6% to £451.1m
Picton Property	Diversified	3.2	Quarter to 30 June 21	Like-for-like portfolio valuation uplift of 2.9% to £687.5m
BMO Real Estate Investments	Diversified	3.0	Quarter to 30 June 21	Value of portfolio rose 2.2% to £325.6m
Unite Group	Student accom.	2.3	Half-year to 30 June 21	Like-for-like increase in property values of 1.5% to £4.7bn
Primary Health Properties	Healthcare	2.2	Half-year to 30 June 21	Property portfolio value up 2.6% to £2.6bn
Residential Secure Income	Residential	0.4	Quarter to 30 June 21	Portfolio valuation rise of 1.0% to £348m
Impact Healthcare REIT	Healthcare	0.2	Quarter to 30 June 21	Portfolio valuation uplift of 1.3% to £432.4m
Schroder European REIT	Europe	(2.3)	Half-year to 31 March 21	Like-for-like portfolio valuation growth of 2.3% to €202.9m
Capital & Counties	Retail	(6.1)	Half-year to 30 June 21	Property value of £1.8bn, a decrease of 5.1% on a like-for-like basis

Source: Marten & Co

Corporate activity in July

GCP Student Living received a takeover bid from Scape Living (funded by APG – a current shareholder) and iQ (funded by Blackstone) valuing the company at £969m. The bid price of 213p per share was a 30.7% premium to its 1 July share price and a 19.1% premium to its 31 March 2021 EPRA net tangible asset value of 179p. The board intends to recommend in favour of the bid.

CPI Property Group and Aroundtown declared their takeover offer for Globalworth Real Estate Investments unconditional. The Frankfurt-listed group's received acceptances from just 2.7% of Globalworth shareholders, but they already hold 51% of shares between them, meaning they can complete the deal by lowering the acceptance threshold to 50% from 90%. The €7-per-share cash offer values Globalworth at €1.57bn. All remaining conditions for the takeover have been satisfied, after the Romanian competition regulator gave its approval.

The initial public offering (IPO) of UK Residential REIT failed to raise its target £150m. The investment company announced its intention to float at the beginning of June and was hoping to enter the market on 16 July.

Urban Logistics REIT raised £108.3m in an equity raise. A total of 65,870,766 shares (£102.1m) in the company were placed at an issue price of 155 pence. Additionally, a total of 4,000,000 shares (£6.2m) were placed by PrimaryBid.

Home REIT announced it was considering a potential issue of further equity, having fully deployed the equity and committed the debt facility raised on and since its IPO in October 2020. Based on the identified pipeline and discussions already underway, the company said that the net proceeds of any issue of equity would be substantially invested within three to six months.

Assura cut the size of its revolving credit facility from £225m to £125m. Its A-credit rating allows it to borrow at more attractive rates.

July's major news stories – from our website

- **NewRiver REIT sells pub business for £222.3m**

NewRiver REIT sold its pub business, Hawthorn Leisure REIT, to Admiral Taverns for £222.3m. It will use the proceeds to strengthen its balance sheet and reduce its loan to value (LTV) to below 40%.

- **Hibernia REIT pre-lets Dublin office to KPMG**

Hibernia REIT pre-let of the majority of its 337,000 sq ft office development at Harcourt Square, Dublin, with KPMG Ireland at an initial net effective rent slightly below €50 per sq ft per annum.

- **Regional REIT sells £45m industrial portfolio**

Regional REIT sold an industrial property portfolio for £45m, reflecting a net initial yield of 6.75% and a 7.5% premium to valuation, as it continues to focus its portfolio on higher yielding regional offices.

- **British Land acquires £82m retail park for logistics conversion**

British Land acquired a retail park in Thurrock for £82m and plans to redevelop it into an urban logistics scheme. The company has turned its hand to logistics development to take advantage of the favourable demand-supply characteristics.

- **ASLI buys Barcelona logistics asset**

Aberdeen Standard European Logistics Income acquired an urban logistics warehouse in Barcelona, Spain for €18.8m and a net initial yield of 3.7%. The 13,907 sqm asset is let to Mediapost until 2029.

- **LondonMetric signs 260,000 sq ft lettings**

LondonMetric signed two new lettings in its logistics portfolio totalling 260,000 sq ft. Carlton Packaging took 172,000 sq ft at its Bedford Link development, and My 1st Years took 86,000 sq ft at Grange Park, Northampton. Both on 15 year leases.

- **Stenprop acquires £20.6m Wigan industrial scheme**

Stenprop acquired Bradley Hall Trading Estate, Wigan, for £20.6m, reflecting a net initial yield of 6.43% and a capital value of £67.40 per sq ft. The 275,079 sq ft property is 100% let and generates an annual rent of £1.4m.

- **Custodian REIT sells industrial portfolio 10% above book value**

Custodian REIT sold a portfolio of five industrial assets – in Gateshead, Stockton-on-Tees, Warrington, Stone and Christchurch – for £23.355m, 10% above the June 2021 valuation.

- **Derwent London sells Angel Square for £86.5m**

Derwent London sold Angel Square in Islington to Tishman Speyer for £86.5m. The 126,200 sq ft office was let to Expedia and The Office Group but will become vacant following the sale.

- **Great Portland Estates lets Regent Street store to UNIQLO**

Great Portland Estates has let the entirety of the 56,850 sq ft 103/113 Regent Street to UNIQLO, which will take the space from Superdry and occupy both the retail space and above office space.

QuotedData views

- **Levelling up – 23 July 2021**
- **Defining future fit offices – 16 July 2021**
- **Another property takeover? – 9 July 2021**

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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.

Logistics

SEGRO

David Sleath, chief executive:

A significant portion of occupier demand continues to arise from the increased use of digital channels by retailers and consumers which, in turn, is driving increased e-commerce penetration and consumption of data across Europe. Although internet sales penetration levels have understandably fallen from their highs as physical retail has reopened, they remain significantly higher than pre-pandemic levels as cultural barriers have been overcome and habits have changed. We believe that the long-term trend towards increased online shopping has been amplified and accelerated by the pandemic and this has given a new impetus to demand for space.

Coupled with that, many customers and logistics suppliers are placing renewed emphasis on supply chain resilience, near-shoring and local sourcing, improved customer service and cost or inventory efficiency which are fuelling increased demand for modern, well-located warehouses – both urban and big box. We expect these themes to continue for some time. More recently we have also seen demand arising from emerging new sectors including creative industries and q-commerce (including rapid food delivery providers).

Record levels of take-up across Europe have resulted in low vacancy rates and in most of our markets supply currently equates to less than a year of take-up. This is resulting in rental growth in our core markets, most notably in urban areas where the combination of a shortage of modern warehouse space, a shortage of land suitable for development and the diversity of the occupier base is most prevalent. Given these strong market dynamics investor demand for well-located, modern industrial assets is likely to continue to grow, putting further upward pressure on asset values.

Healthcare

Primary Health Properties

Steven Owen, chairman:

The provision of healthcare in the UK and Ireland will need to be transformed over the coming years as the NHS and HSE respond to the long-term requirements of dealing with the COVID-19 pandemic together with the resultant backlog of non-COVID-19 treatments that have been suspended and now need to be addressed. While remote consulting is here to stay, we do not expect it to have a material impact on future space requirements; although useful for an initial triage, it often results in the need for a subsequent physical appointment or is not suitable for all patients, especially the elderly.

In July 2021, the government published a draft Health and Social Care Bill setting out a number of reforms in order to implement the commitments of the NHS England Long Term Plan including the introduction of regional Integrated Care Boards and Partnerships tasked with co-ordinating NHS partners with local government services and budgets such as social care and mental health, in a geographic area, for the first time. The idea being that services are then pushed to the most efficient, cost effective part of the system (whether primary care, hospital or care home) for the best patient outcomes. We welcome these reforms and are hopeful they will lead to further development opportunities in primary care in the medium to long-term.

With many services now expected to move away from hospitals and into primary care facilities together with the NHS's ambition of being the world's first carbon net zero healthcare system by 2045; these changes will undoubtedly require substantial investment into other areas, most notably primary care that will be able to take on the non-urgent and periphery procedures and deal with the long-term demographic trends of populations that are growing, ageing and suffering from more instances of chronic illness.

Diversified

Custodian REIT

Richard Shepherd-Cross, investment manager:

UK commercial property investment activity in the first half of 2021 has been at levels last seen in the first half of 2018, according to a recent report by Carter Jonas, with over £20bn of investment. Market demand has been focused on the industrial and logistics sector where rising prices continue to indicate record low yields, but demand for office investment is resurgent, with Q2 outstripping Q1 and the retail warehouse market is also showing a sharp recovery in investment activity. Colliers reported £1bn of investment into retail warehousing in the first half of the year and, in common with the office sector, Q2 was stronger than Q1.

Investment demand has been matched by occupier activity. In the industrial and logistics sector there is a depth of demand from a range of occupiers which, along with limited supply, restrictive planning and build-cost inflation constraining the pipeline of new development, is leading to sustained rental growth. These factors have resulted in a £20.2m (7.5%) increase in valuation during the Period. In strong regional office locations, where office space is well-matched to occupier demand, rental growth is taking place and many occupiers are starting to plan for post-pandemic working practices. Demand for retail warehousing let off low rents is robust despite, or perhaps due to, pandemic-restricted shopping habits. Challenges remain on the high street, but on prime and good secondary high streets, rents are finding a level which can attract occupiers and maintain occupancy.

BMO Real Estate Investments

Peter Lowe, investment manager:

The property market continued to deliver positive total returns over the second quarter with the continuing success of the vaccine roll-out and further relaxation of restrictions contributing to improving consumer, business, and investor sentiment. A note of caution remains around the rising COVID-19 cases, which is continuing to weigh on the manufacturing, retailing and hospitality sectors, with isolation protocols leading to staffing shortages.

As in previous quarters, performance was driven primarily by the industrial and distribution sectors where the weight of investor demand is continuing to generate yield compression with occupational markets offering further support to pricing through leasing activity and rental growth. Yields across all Industrial sub-sectors are trending down in the context of strong occupational fundamentals driving record low vacancy rates and correspondingly attractive rental growth.

The retail sector is showing signs of some stabilisation, with opportunistic investors beginning to call the bottom of the market. There is caution however and sentiment is fragile given the likelihood of further rental decline and occupier fallout as COVID support measures unwind. While the yields are no longer falling at the same rate, valuations remain under downward pressure.

While the nature of the UK's return to work and adoption of flexible working practices remains uncertain vacant space in the office markets is increasingly being taken up and large corporate occupiers are beginning to move to acquire new space. However, this recovery will not be spread evenly across geographic regions and asset types, which is continuing to weigh on the offices sector as a whole.

Student accommodation

Unite Group

Richard Smith, chief executive:

We have growing visibility and confidence over our income for the 2021/22 academic year, reflecting record student demand and an enhanced campus experience this autumn. This underpins our guidance for occupancy of 95-98% and rental growth of 2-3% for 2021/22. There remains a higher risk than usual to occupancy due to uncertainty around international student arrivals, although we have minimal exposure to students currently in red list countries.

We are anticipating record student numbers for the 2021/22 academic year, with UCAS data showing a 4% increase in the number of applicants as at the 30 June deadline compared to 2020/21. A record 43% of UK 18-year-olds have applied to university this year, reflecting growing awareness of the opportunities and life experience it provides. Applications from non-EU students are up 14%, including notable growth from China and India, which has helped to substantially offset the expected decline in EU applications (-43%) as a result of Brexit and COVID-19 travel restrictions.

All Higher Education students were allowed to return to in-person teaching from mid-May and the Government has recently confirmed that there will be no restrictions on in-person teaching and learning in universities from 16 August. A recent student survey by HEPI underlined that in-person teaching remains fundamental to student experience and their perception of value from their course. Universities will continue with blended learning in the Autumn term, albeit with a greater emphasis on in-person teaching in smaller groups, tutorials and practical settings. There remains a risk that student numbers and demand for student accommodation could be impacted by a further wave of COVID-19. In particular, there is uncertainty over international student numbers, given ongoing travel restrictions.

Retail

Capital & Counties

Ian Hawksworth, chief executive:

Elevated level of enquiries, strong transactional activity and improving sentiment indicate that the worst of the pandemic may be behind us. There remain challenges in the near term, however the return of office workers and opening of nightlife and theatres will help the economy move towards more normal levels of activity. Covent Garden vacancy remains low, although wider vacancy issues across the West End may take some time to be absorbed by the market.

Customer sales data is moving in the right direction with positive trajectory to date and it will be important this continues for the rest of the year to build towards the important Christmas trading period. The pace of rental decline has slowed, and yields are stable reflecting the valuers' view on improving sentiment and the strength of demand for this prime central London estate.

Europe

Schroder European REIT

Jeff O’Dwyer, fund manager:

The initially slow rollout of COVID-19 vaccines in the EU and the new surge in infections during March and April means that many countries are likely to remain in lockdown or under tight measures to control the spread of the virus. Accordingly, Schroders now expects the recovery in eurozone consumer spending once non-essential shops, bars and restaurants re-open to begin in the second half of 2021. Germany is likely to be the first of the big four countries to get back to its pre-virus level of GDP, thanks to the recent strength of its exports trade with Asia and the US. Italy and Spain, which are more reliant on tourism, may not fully recover until 2023. The rebound in energy and commodity prices means that inflation is likely to accelerate to 2% by the end of 2021, before easing to 1.2% next year. We expect the ECB to leave the refinancing rate at zero and continue with quantitative easing through to the end of 2022.

Looking forward, the real estate sector is becoming increasingly operational, with technology arguably increasing a building's physical life whilst limiting its economic life. This could increase obsolescence and therefore favour buildings in mixed-use, densely populated urban areas that can be adapted to new technologies and changing occupier trends. Occupiers will also require more personalised service levels and increased engagement with landlords so that both can deliver their sustainability objectives.

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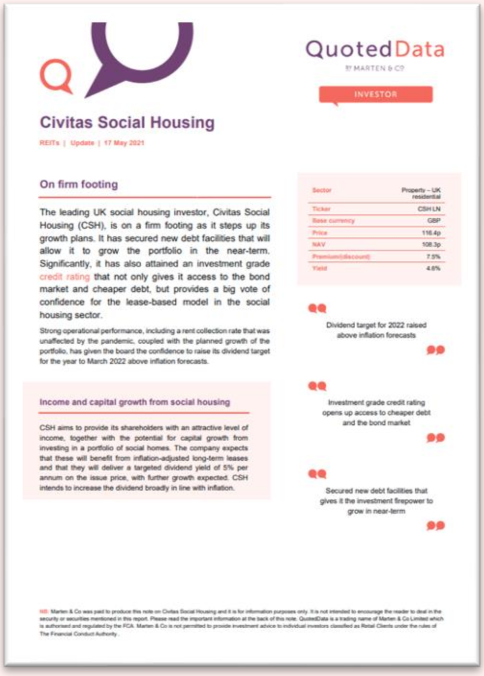
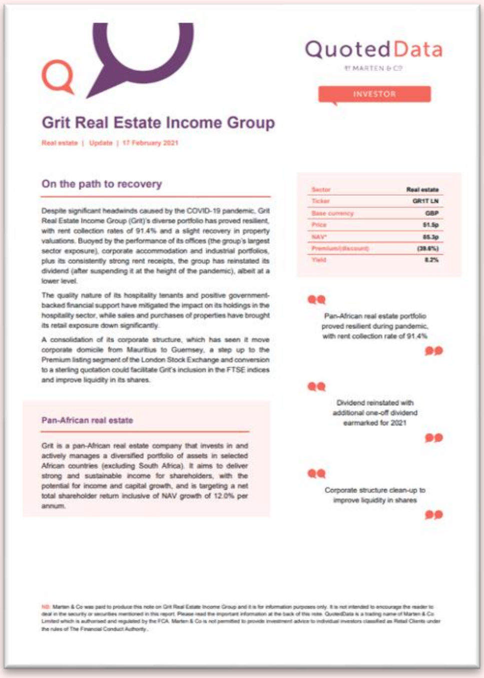
Real estate research notes

An update note on Tritax EuroBox (EBOX). The group is on the growth trail in the burgeoning European logistics sector, having raised €230m in an oversubscribed equity issue and issued a new £500m green bond.



An update note on Civitas Social Housing (CSH). The supported housing sector leader has upped its dividend target for 2022 off the back of strong growth projections.

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.



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.

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