



Only so much to go around?

UK Quoted Property – Equity Fundraising activity since 2015

Only so much to go around

2017 a banner year for property capital raising ... investors likely to be more selective in 2018



To the casual observer in 2017, the UK property market must have seemed a rather confused sector. Larger cap sector underperformance; news-flow dominated by London residential and prime weakness; post Brexit demand landscape opaque; the era of cheap money coming to an end.

So, if all this is true, why is investor demand for UK quoted property equity the **highest level** it has been for three years? So far in 2017, **£4.7 billion** of equity has been raised by the UK property sector, more than the two previous years combined. What is more, the pace of equity fundraising has accelerated through the course of 2017 ...

Firstly; the era of cheap money is indeed coming to an end and investors have been locking into attractive income yields underpinned by long leases and/or physical asset supply constraints. Secondly; the make-up of the sector has broadened with capital flowing into **Distribution, Social & Residential Housing, Healthcare, Student Accommodation** and pure **Long Income**.

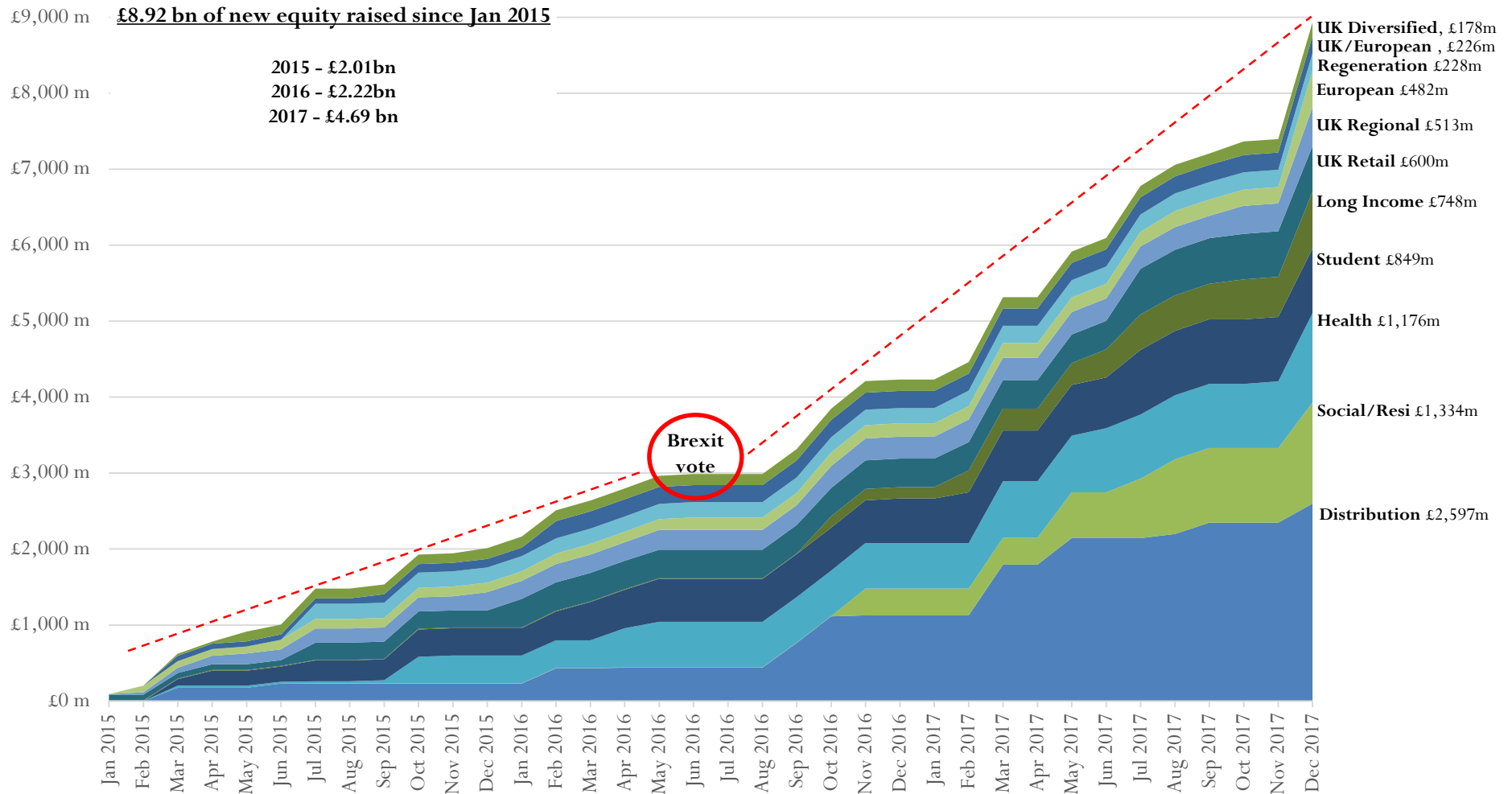
However, in our eyes, a **significant risk** facing the sector is the over-supply of fresh equity. Whilst 2017 has seen an acceleration in completed fundraises; the number of pulled deals, or those unable to hit their initial targets, has also risen. Investors have told us they are now significantly overweight property. The pitch behind further fundraises will have to grab investors' attention.

We believe investors will be far more **selective in 2018**. Fresh equity will be harder to come by for generic yield plays. Structural supply and demand drivers; genuinely active asset management and visibility of returns without yield compression are the hooks most likely to interest combat-fatigued investors. Getting the right pitch in front of the right investor will be **critical** to success in 2018.

Iain Daly, November 2017

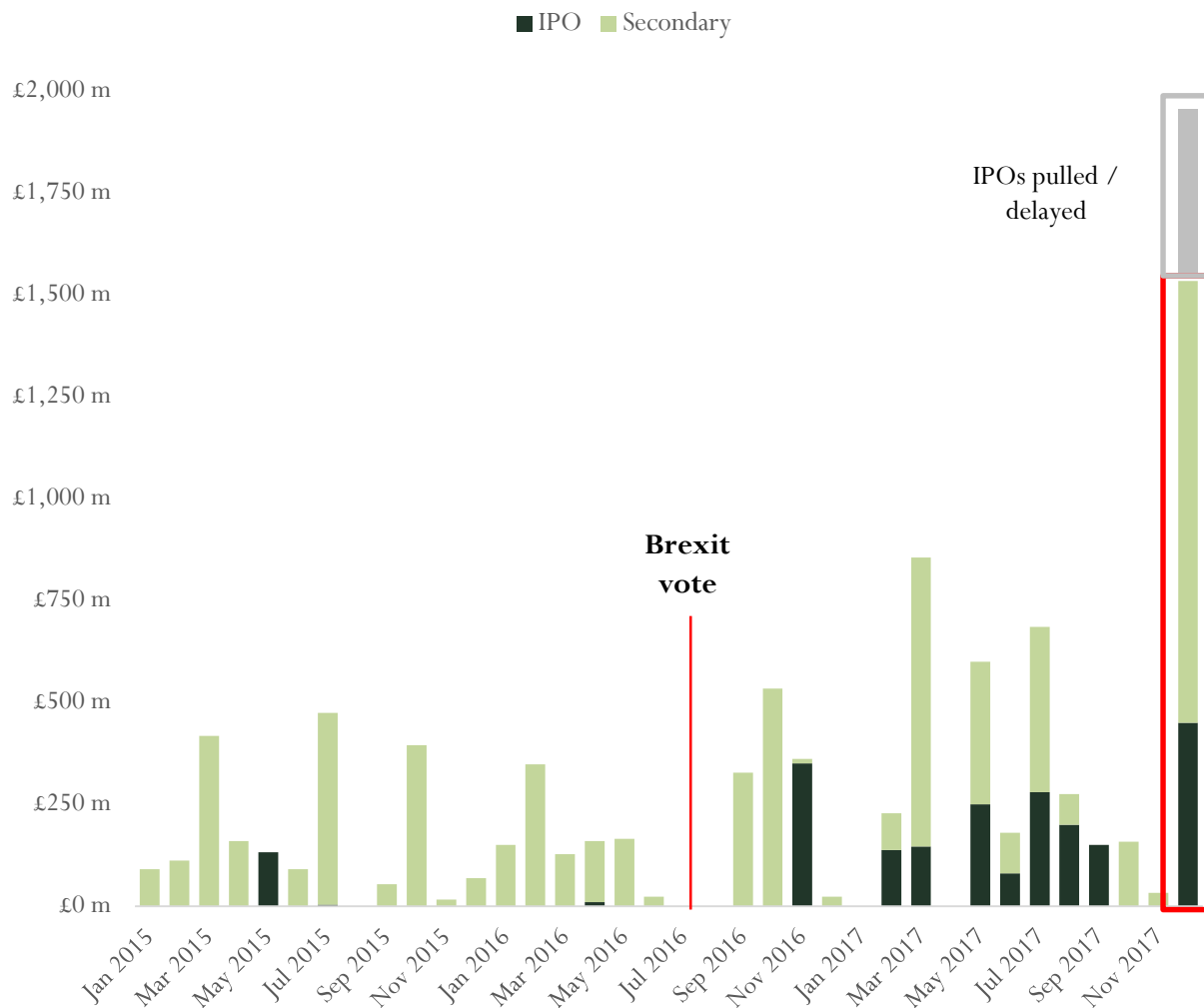
Brexit? What Brexit?

Pace of fundraising has accelerated since June 2016



IPOs compared to secondary issues

A marked increase in both since Brexit but recent signs of the door closing



Appetite

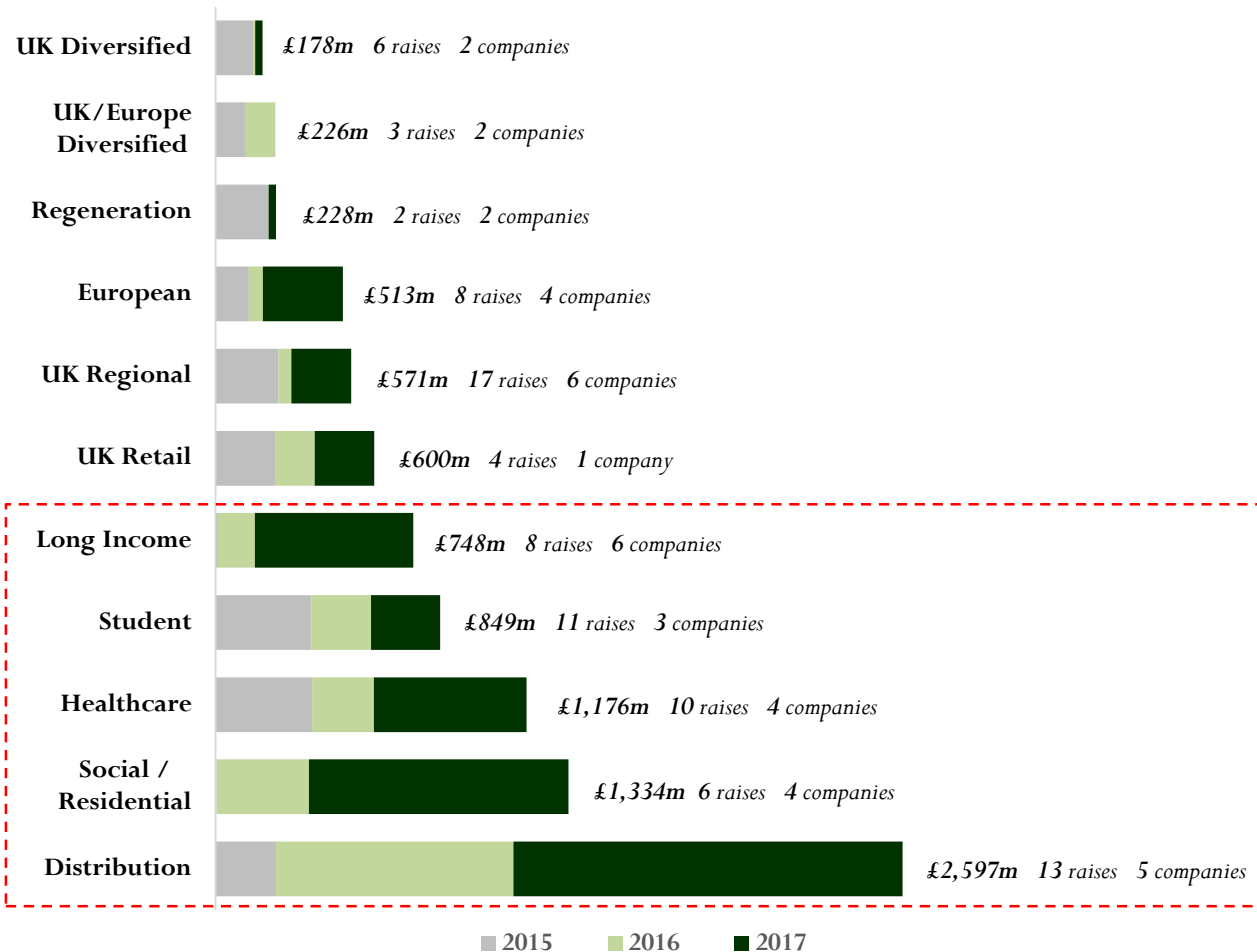
- Significant increase in IPOs since Brexit vote
- Pace has picked up in 2017
- Red box shows deals currently on the road (c.£1.5bn)

Fatigue

- Grey box shows IPOs recently pulled or delayed (c.£500m)
- Three secondary fundraises came in lower than initial target since August 2017

So much more than just London offices and retail

Non traditional and non London areas of property have seen all the demand



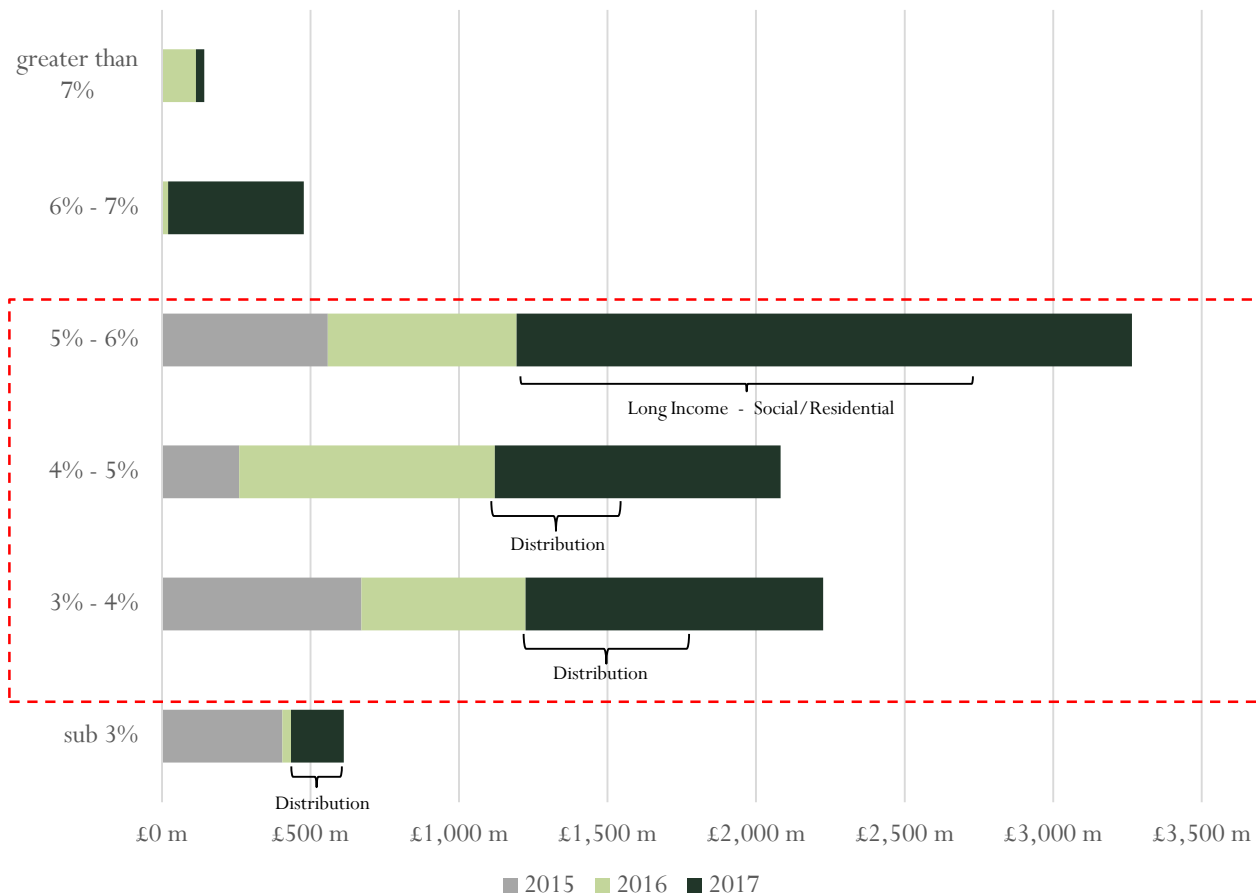
- Since 2015 the sub sectors outlined in red have accounted for 75% of all the equity raised
- Long Income and Social / Residential have only been active in raising capital in the last two years.
- Long Income covers a wide range of assets but investors have been keen to lock into RPI protected income returns at the expense of capital growth.
- Distribution capital raising has been dominated by larger sheds to date although the smaller unit, last mile component is becoming more prominent.

Income, income, income?

Income continues to be a powerful driver, but total returns are still important



Target dividend yields at time of fundraise



Income the starting point ...

- In 2017, the most popular yield bracket was between 5% and 6% accounting for **£2.07 bn** of capital raised.
- **Social/Residential** and **Long Income** account for two thirds of this bracket in 2017 with the majority targeting at best low double digit total returns.

... but total returns still important

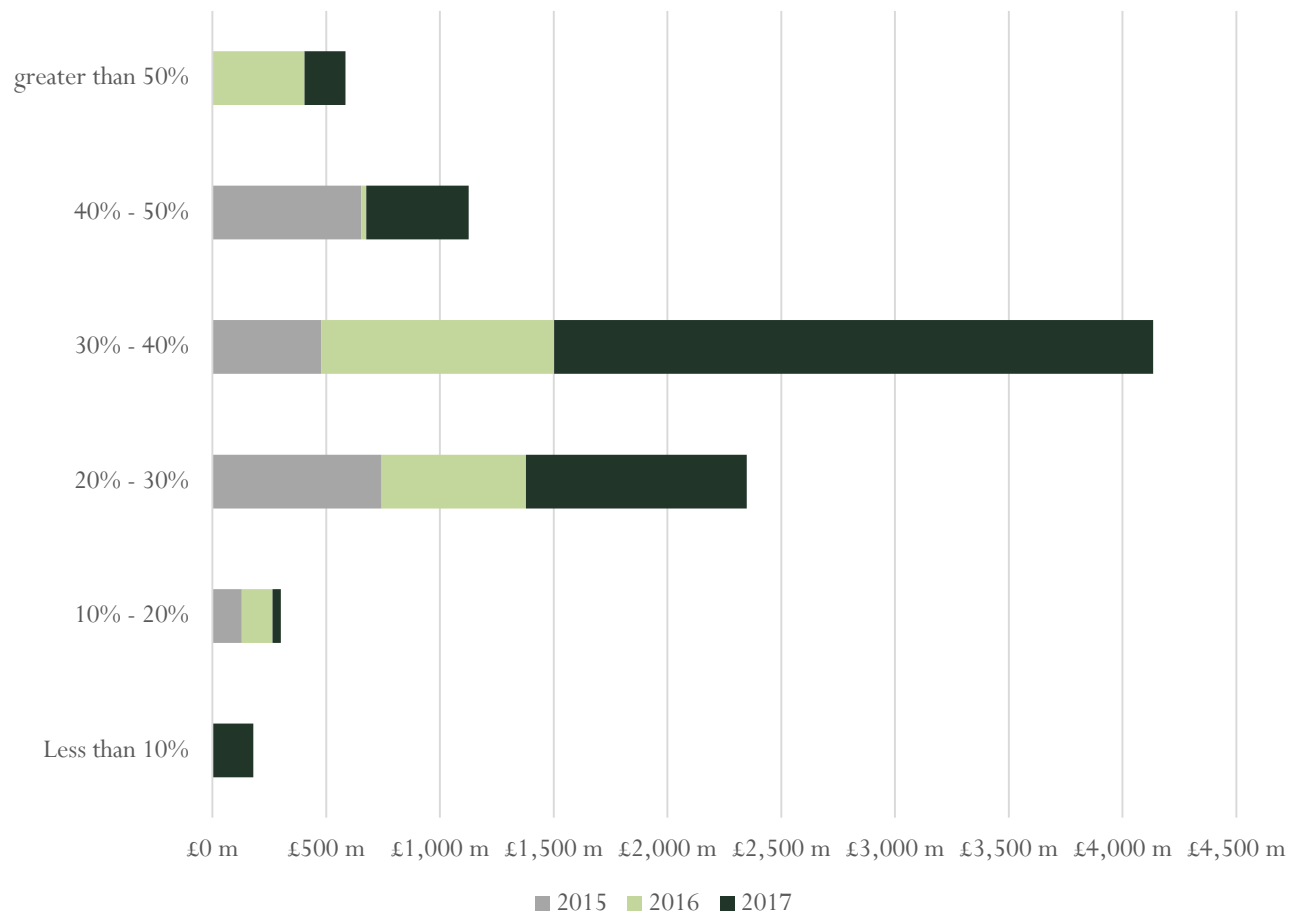
- Below 5% yield, **Distribution** was by far the largest single contributor, typically targeting mid teen total returns.
- Investors get that new supply constraints + demand growth + under-invested assets + relatively short lease lengths = **higher total returns**

30% – 40% LTV sweet spot

Balance sheet risk appetite has tightened since 2015



Target LTVs at time of fundraise



- By a clear margin, **30% - 40%** has been the preferred LTV level over the last two years.
- In 2016, **18%** of the money raised was in excess of 50% LTV. In 2017, this has reduced to just **4%**, highlighting investor unease.
- Back in 2015, a **third** of the capital raised was at an LTV between 40%-50%.

Questions?



Iain Daly

id@radnorcp.com

+44 (0)203 897 1832

St. Clements House
27 Clements Lane
London
EC4N 7AE

www.radnorcp.com