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*

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Brexit? What Brexit?

Pace of fundraising has accelerated since June 2016

£8.92 bn of new equity raised since Jan 2015

2015 - £2.01bn
2016 - £2.22bn
2017 - £4.69 bn

£9,000 m
£8,000 m
£7,000 m
£6,000 m
£5,000 m
£4,000 m
£3,000 m
£2,000 m
£1,000 m
£0 m

Brexit vote

Jan 2015, Feb 2015, Mar 2015, Apr 2015, May 2015, Jun 2015, Jul 2015, Aug 2015, Sep 2015, Oct 2015, Nov 2015, Dec 2015, Jan 2016, Feb 2016, Mar 2016, Apr 2016, May 2016, Jun 2016, Jul 2016, Aug 2016, Sep 2016, Oct 2016, Nov 2016, Dec 2016, Jan 2017, Feb 2017, Mar 2017, Apr 2017, May 2017, Jun 2017, Jul 2017, Aug 2017, Sep 2017, Oct 2017, Nov 2017, Dec 2017

UK Diversified, £178m
UK/European , £226m
Regeneration £228m
European £482m
UK Regional £513m
UK Retail £600m
Long Income £748m
Student £849m
Health £1,176m
Social/Resi £1,334m
Distribution £2,597m

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

Sector	Total raised	Raises	Companies
UK Diversified	£178m	6 raises	2 companies
UK/Europe Diversified	£226m	3 raises	2 companies
Regeneration	£228m	2 raises	2 companies
European	£513m	8 raises	4 companies
UK Regional	£571m	17 raises	6 companies
UK Retail	£600m	4 raises	1 company
Long Income	£748m	8 raises	6 companies
Student	£849m	11 raises	3 companies
Healthcare	£1,176m	10 raises	4 companies
Social / Residential	£1,334m	6 raises	4 companies
Distribution	£2,597m	13 raises	5 companies

2015 2016 2017

- **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**

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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%.

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Questions?

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