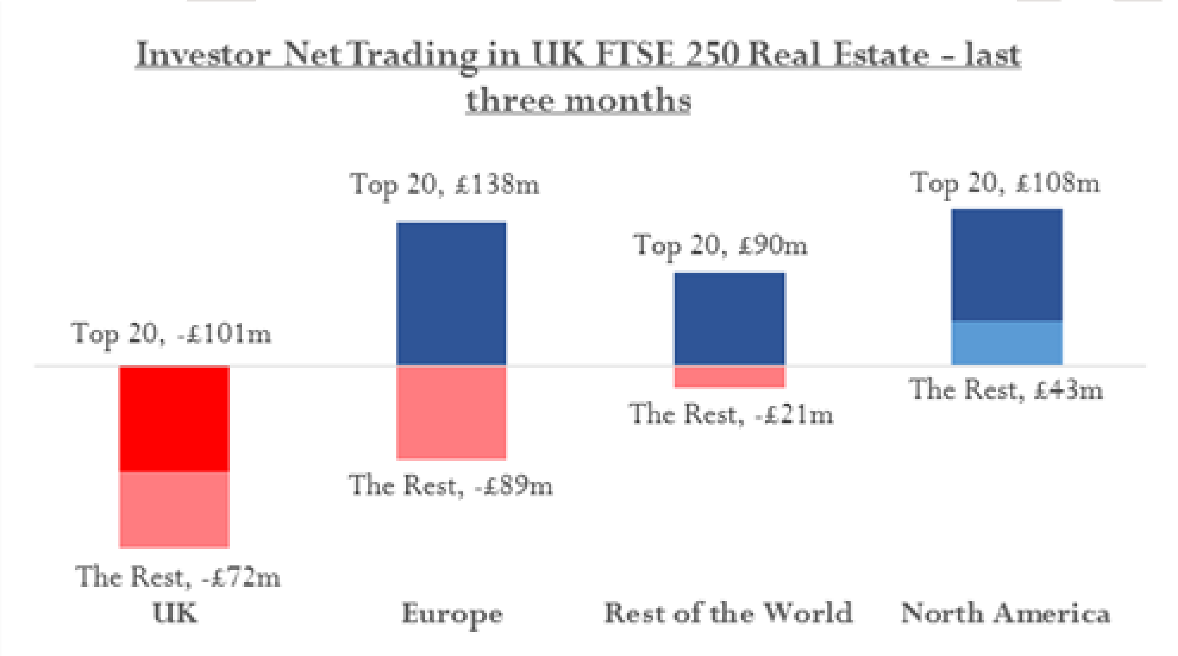
Sterling's fall sucked in overseas investors into UK listed property

June 24th, Independence Day for some, was supposed to be the catalyst for major capital flight from the listed property sector and the collapse of UK property sector values. Indeed, some forecasts suggested a mass panic close to the scale of 2008. Yet, three months on, research by Radnor Capital Partners has shown that there has been strong interest from overseas investors in UK listed property. The fall in the value of Sterling has, undoubtedly, been a key factor.

The test sector for the research was FTSE 250 REITs since this offers a broad cross section of property and covers a large number of companies. The research shows that UK investors have been the main sellers and, even here, it has been more of a trickle rather than the flood which had been predicted. Overall trading activity has actually been positive, driven mainly by non UK investors.



So who is buying?

The chart above shows the geographical split of trading in FTSE 250 REITs over the last 3 months. It is separated between the Top 20 investors and 'the rest' (smaller investors).

UK investors have been the most bearish, with both large and small investors net sellers. Both European and Rest of the World investors have been net buyers in total, although smaller investors have been sellers.

Interestingly, North American investors have been the most bullish with both large and smaller investors buying into the sector. This certainly does not fit the headlines of general capital flight; especially from larger overseas investors.

How does this compare to before the Brexit referendum?

Our analysis shows a surprising variance between the experience of Open Ended property funds and wider listed property sector as a whole. For Open Ended funds, investors redeemed between 5% and 15% of their holdings, yet across the quoted sector as a whole they sold down less than 2.5% of their holdings from pre-referendum levels. Indeed, much of the selling pressure seems to have come from the Open Ended funds as they have liquidated their listed holdings in order to meet redemptions.

Conversely, both North American and Rest of the World investors have increased exposure by more than 5% compared to pre-referendum levels. Sterling weakness is clearly a factor for dollar and Euro buyers and would seem to have balanced the immediate effect of valuation adjustments. The liquidity attractions offered by quoted REITs compared to direct property funds could also have a part to play.

Where does this leave the FTSE 250 REITs?

It is clear the sector remains an attractive area for investment regardless of Brexit; the geographic focus has simply shifted. Moreover, sentiment remains surprisingly buoyant given the wave of negative press. How successfully a company can target and engage the right investors will drive share price valuations. This is even more pressing in uncertain times.

Partner, Iain Daly, commented:

"Recent headlines have painted a bleak picture for the UK real estate market. Our analysis suggests otherwise, with overseas investors continuing to see value in the UK market.

For those REITs with predominantly UK ownership, the current environment offers an opportunity to diversify their shareholder base. Identifying these challenges – and importantly the opportunities – for corporates is a core competency of ours. You cannot always stop the sellers, but you can engage with the buyers."