Radnor Real Estate Insights

9th January 2020

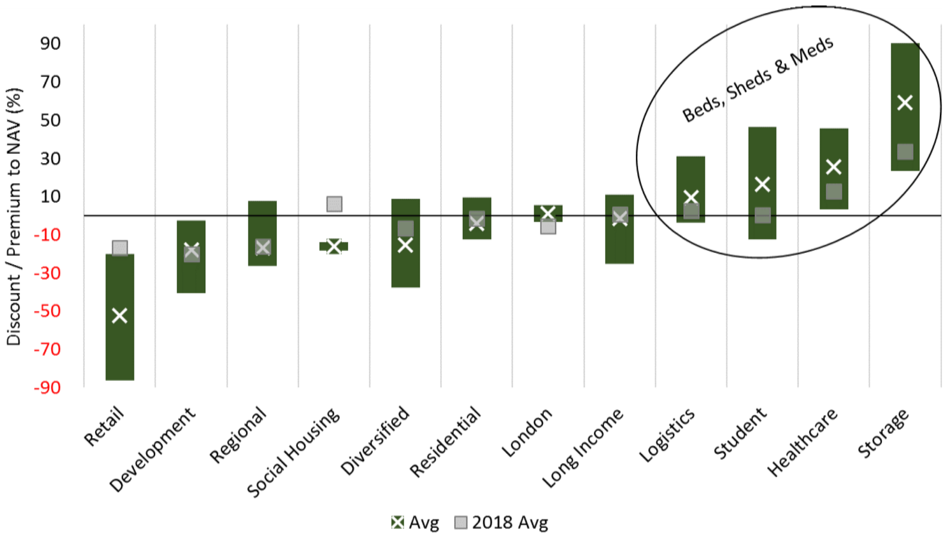
2019 proved a difficult year for several sectors in terms of capital markets activity. Real Estate was not immune to a backdrop dominated by Brexit-led political stagnation and uncertainty of the last eighteen months, if not three and a half years.

Radnor's latest Real Estate Insights examines some of the more obvious trends that emerged in the previous quarter and how they potentially shaped investor appetite. We also highlight some of the most interesting messages arising from our investor and corporate conversations.

Investors have picked their 'winners' and stuck with them

The below chart highlights how sector discounts/premiums to NAV have evolved over the past two years;

Evolution of REIT sub-sector discounts/ premiums to NAV; 2018 to 2019



Source: Radnor Capital Partners Ltd, Factset, Company data

- Green bars: Range of current discounts/premiums within each REIT subsector;
- White crosses: Average current discount/premium within each subsector;
- Grey boxes: Average discount/premium at the beginning of 2018.

In general, the spread of discounts/premiums is much wider than it was two years ago. From circa 25% back in 2018, the largest average discount/premium is significantly wider at 80% today.

Specialist Real Estate sub-sectors have been the **winners** while those struggling under the weight of structural challenges, such as Retail, have suffered material sell-offs, with valuations now driven more by sentiment than hard numbers.

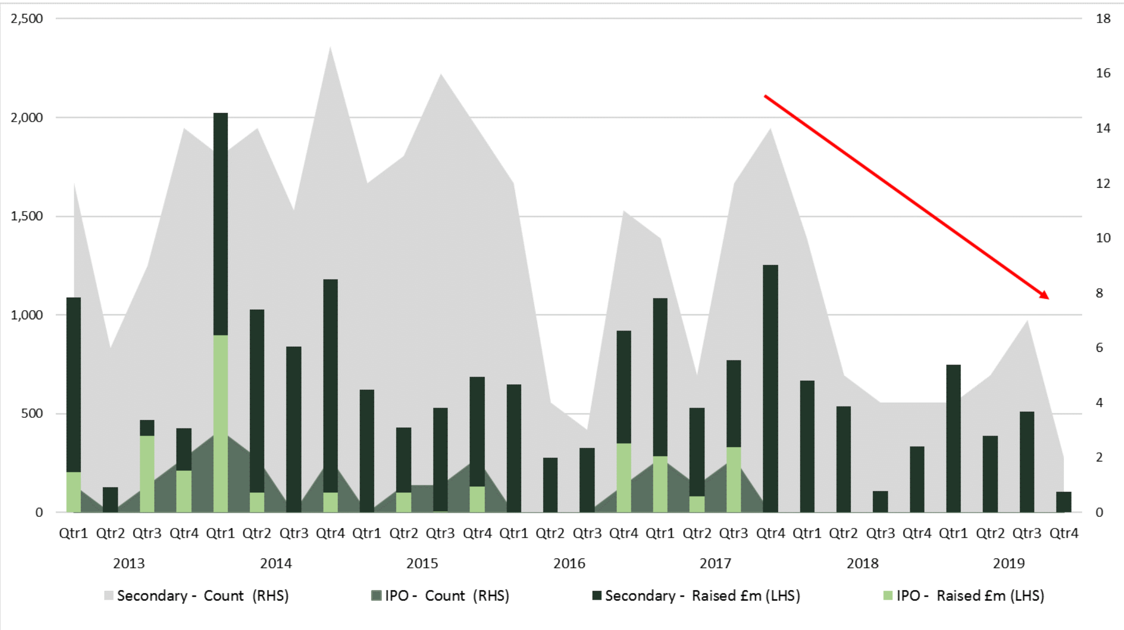
Given the amount of negative noise, we find it revealing that only Retail significantly declined in relative terms since January 2018.

Corporate activity and liquidity steadily declined into December

Our second chart, below, highlights how IPO and secondary fundraising has evolved over the last six years, both in terms of value and number of transactions per quarter.

There has been a clear slow-down in activity since late 2017, which followed a post-Brexit bounce in both new and secondary issues. This dynamic supports our discount/premium evolution in that investors had already placed their 'bets'.

Where do we go from here?



Source: Radnor Capital Partners Ltd, Factset, LSE

Sector fund-raising for 2019 was only marginally greater than in 2018 and although transaction numbers fell, the average transaction value rose to its highest since 2009. IPOs were notably absent for a second straight year.

This was in stark contrast to 2017 which benefited from a post-referendum recovery in both IPOs and secondary transactions. It also pales in comparison to prior years.

Year	Total raised (£m)	Transactions / IPOs	Avg. transaction (£m)	Largest transaction (£m)
2019	1,746	18 / 0	97	Segro; 451
2018	1,647	23 / 0	72	Secure Income REIT; 315
2017	3,636	41 / 5	89	Segro; 573
2016	2,173	30 / 1	72	Tritax, 350; Civitas 350 (IPO)
2015	2,268	55 / 4	41	Assura; 309
2014	5,071	55 / 7	92	Kennedy Wilson; 840 (IPO)
2013	2,107	41 / 4	51	British Land; 493

Source: Radnor Capital Partners Ltd, Factset, LSE

Can we anticipate a 2020 pick-up in both number of transactions and total value raised? Following a dearth of primary activity, could we see a resumption of IPOs which had been put on hold amid Brexit/political uncertainty?

We do note, following mid-December's UK General Election, there have already been a number of fundraises proposed across equity capital markets; **GCP Student Living** from the property sector was an early mover and **Urban Logistics** has just signalled its intentions to fund further acquisitions.

View from the buyside

Conversations with investors reveal continued interest in having exposure to select areas of the property sector. This clearly favours certain specialist themes; "beds, sheds and meds".

Both management teams and investors were unified in identifying the UK political landscape as a major obstacle to corporate activity.

The UK election result has already seen financial markets react positively, and investors would appear more inclined to resume portfolio activity in 2020. This suggests the clarity of a parliamentary majority outweighs the perceived risk of a no-deal Brexit, which remains a possibility.

Raising fresh capital at par or small discounts to NAV feels more achievable in this "new" environment.

Recent sector news flow

- Urban Logistics REIT – *Focused on last mile logistics, smaller box, single-let units*
  - **6 Jan:** Considering equity fundraising to fund acquisitions, with £146m of its £300m pipeline already under advanced negotiations
  View here

- GCP Student Living – *Student residential assets*
  - **20 Dec:** Proposed placing of up to £75m at a price of 186p, representing a 10.4% premium to GCP's prevailing EPRA NAV
  View here

- Civitas Social Housing - *Invests in existing portfolios of built social homes*
  - **2 Dec:** H1 Results; Portfolio valuation +24% YoY to £841.5m, annualised rental income +25% to £46.5m, IFRS NAV/share +1.1% to 107.2p, Dividend +6%, £10m of acquisitions.
  View here

- Urban & Civic - *Crafts strategic land sites and commercial developments*
  - **28 Nov:** FY Results: EPRA NAV +9.6% to £527.5m, EPRA NAV/share +8.6% to 360.3p, Final dividend +11.4% to 3.9p, Total shareholder return +7.8%.
  View here

- AEW REIT - *Smaller commercial properties let on shorter occupational leases in strong locations*
  - **28 Nov:** H1 Results: NAV £147.5m, Rental income +3.8% to £8.8m, Total shareholder return +5.5% (+190bp), Dividend maintained at 4p.
  View here

- LondonMetric - *Specialises in distribution, convenience and long income property*
  - **19 Dec:** Sale of two mega box warehouses and two regional distribution warehouses for a combined consideration of £145.3m, representing a 2-6% discount to 30 September book value.
  View here

- Big Yellow Group – *Largest UK self-storage company*
  - **19 Nov:** H1 Results: H1 Revenues +3.4% (+4.2% like-for-like), Store EBITDA +3.5%, Adj. pre-tax profit +6%, EPRA EPS +0.5%, Interim dividend +2.4%, Occupancy +3bp, Avg. net rent/sq ft +1.6%.
  View here

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