Two new players joined the ranks of listed property specialists this year, writes *Virginia Blackburn*

Niche players offer alternative to norms of listed property

The UK doesn't yet have anything to compete with the giant specialist US REITs in sectors such as residential and healthcare, but it does have a handful of established and successful listed companies targeting niche property assets: Grainger in residential, UNITE in student housing, Big Yellow, Lok 'n' Store and Safestore in self-storage, and Primary Health Properties, MedicX and Assura Group in healthcare.

"The attraction of the companies lies in the fact that they expose investors to different aspects of the economy, such as student accommodation and self-storage, diversifying a portfolio," says Miranda Coburn, an analyst at Oriel Securities.

"Investors are exposed to asset-backed companies, but with different types of tenancy: self-storage is short-term and all about keeping the occupancy up, while Assura Group, which develops property for primary healthcare, has long leases backed by government-backed income. Healthcare provides a stable return, in contrast to offices, which can show volatile returns."

Mark Weedon, head of alternative real estate at IPD, adds that the alternative asset market is growing all the time as it changes and matures.

"What investors look for in these stocks is above-average returns and beyond that they are focused on income, capital accumulation and stability. They want long-term returns"
Mark Weedon, IPD

"In the past, retail warehouses were classed as alternative assets," he says. "Now they are a staple of the property market. What investors look for in these stocks is above-average returns and beyond that they are focused on income, capital accumulation and stability. They want long-term returns, not short-term volatility.

"There is a shortage of supply in healthcare, which is an essential service with government backing. Demographic factors are fairly strong: we have an ageing population, with a greater need for care homes and specialist treatments.

"The demand and supply imbalance is not linked to the performance of the economy and it is underlined by these demographic factors.

A hedge against commercial property

Weedon continues: "These companies also act as a hedge position to the rest of an investor's portfolio, because if you have invested in commercial property and the economy takes a downturn, you will take a hit. These companies balance out that risk."

Colette Ord, a director of investment companies research at broker Numis, says: "One attraction of listed healthcare landlords is the visibility of the income they earn by virtue of their long leases.

"Primary Health Properties and Assura own long leases on GPs' surgeries. About 90% comes from the GPs and they in turn are reimbursed by the Government. It's a strong covenant and they also don't see voids. Because of the strength of the income there's not a lot of volatility."

She also cites these companies' attractive dividend yield, noting that Primary Health is around the 6% level (although it is not yet fully covered), and the fact that rent reviews on the assets they own tend to be linked to the retail price index.

"They are able to grow their portfolio in a steady way," Ord adds. "They are higher leveraged than the average property company, but can do this because of the stability of their income."

This year two new alternative asset specialists came to the market for the first time, launching IPOs. The first was Target Healthcare REIT, formed in January and listed on the Stock Exchange's main market in March, raising £45.6m of capital, before raising a further £4.6m in June and £45.5m in October. It is chaired by former SWIP property head Malcolm Naish.

Kenneth MacKenzie is managing partner of Target Healthcare's investment manager, Target Advisers. "We thought the public market was an interesting source of capital for the healthcare sector and we were seeking to raise funds to invest in that sector," he says. "We are offering a 6% covered dividend, paid quarterly. We raised about £100m, which we are spending on care homes across the country."

This year's other alternative assets IPO was by GCP Student Living, launched by infrastructure and property specialist fund manager Gravis Capital Partners as the first student accommodation REIT in the UK (UNITE is not a REIT).

Listed on the Stock Exchange in May, and paying quarterly dividends, the company is targeting a 5.5% annualised income yield, growing in line with inflation, and a total return of between 8% and 10%.

"This target will be achieved by investing in modern, purpose-built private student accommodation and teaching facilities in London, which will be branded under the Scape Student Living banner whenever possible," the company says.

GCP is seeking to take advantage of a shortage of purpose-built student accommodation in London, and in particular, from the increasing demand from international students studying in the capital.

Alternative asset stocks in demand

Both flotations were well received and investor demand for alternative asset companies looks set to continue to increase, especially in the areas of healthcare and student accommodation.

"Looking to the future, we will see more flexibility and more opportunistic investors moving into the market quite quickly," says Weedon. "All the companies are trying to expand and will be doing more of what they do well.

"Some people believe the best way to get something done properly is to build it yourself. They will develop assets, and quoted companies are bigger risk takers, so they will move into that area."

Numis's Ord believes recent NHS reforms have acted as a restraint on the market, but now that the majority of them have been enacted, following the implementation of the Health and Social Care Act in April, new developments will be able to move ahead more quickly.

"The underlying market will start to pick up as attention shifts to improvements in doctors' surgeries," she says. "It's a great sector, with a lot of attractive characteristics. Most of the uncertainty is gone now. There will be many more opportunities to invest and companies will continue to grow."

Quoted care provider claims Target goes beyond just money making

Target Healthcare only owns 10 care homes – three in Scotland and seven in what it calls "middle England" with about 630 beds in all – but is planning to expand as opportunities arise, recognising that good-quality stock is limited.

The homes in its portfolio are worth about £5m each; when it comes to further acquisitions, 40-bed homes will cost from £3m to £3.5m, while 60-bed homes, which mainly make up its portfolio so far, are proportionally more expensive.

Competition comes in the form of institutions as well as sector-specific funds, both US- and UK-based. There are not yet any other quoted competitors, although this may change in the future.

The company says its investment approach focuses on "demand/supply imbalance for homes supported by both the state and self-pay markets; high-quality operators of largely new, purpose-built healthcare assets; emerging sub-markets undergoing structural change or convergence with more established markets, such as dementia care; and mis-pricing opportunities across a range of selective geographic areas and sub-markets, such as pre-let development funding."

However, Target Healthcare insists that its business is not just about making money: given the nature of the sector, it has some social preoccupations as well. The company declares that it is intent on improving the quality of care for the elderly.

"There is nothing sexy about what we're doing," says Kenneth MacKenzie, managing partner of Target Healthcare's investment manager, Target Advisers. "We are investing for long-term moderate returns on behalf of a client group that's in distress. We're an engaged landlord interested in care, with inspectors visiting the homes.

"We don't have a wall of money: we're a specialist investor who understands the business well and is on the side of the resident and the resident's family. We want to engage with people who see this as a vocation, not a short-term route to becoming wealthy."

MacKenzie: "We're a specialist investor who understands the business well and is on the side of the resident and their family"

Plenty of study backed GCP's entry to student sector

"We'd been in the sector for quite a long time developing student accommodation and already had an infrastructure fund," says Gravis (GCP) partner Tom Ward.

"We knew there was thirst from investors: about 30-40% of the fund's investors are institutions and wealth managers, with retail clients making up the rest. We raised just over £70m, the maximum we could raise at initial public offering.

"We then acquired a £93m student accommodation building called Scape East, in Mile End, opposite Queen Mary University of London, with the remaining 25% of the cost funded by debt. The building was already fully occupied and operational and has 588 student bedrooms and 20,000 sq ft of teaching facilities."

The company has subsequently invested £13m in a 116-bedroom student residence next to Royal Holloway, University of London, in Surrey, funded through its existing borrowing facility, leaving the company's gearing at around 36% of gross assets.

GCP plans to grow in a number of ways.

Its asset manager is Scape Student Living and the company has the right of first offer over another two assets. The first is Scape Greenwich, a 280-bed asset on the Greenwich Peninsula near Ravensbourne College, which is worth about£40m; the second is Scape Shoreditch, by Old Street, with 550 studio bedrooms and 50,000 sq ft of educational facilities, an asset worth around £120m.

"We are quite picky," says Ward. "These are high-quality assets, with a lot of overseas students and nice communal areas, such as restaurants. We can grow organically, or through acquiring assets.

"Our focus is London, although we would look in other cities: we are looking for a large supply and demand imbalance stemming from growing numbers of international students. This is the growth end of the market now that the government has taken the cap off the number of students that can be attracted.

"We are looking to invest £250m over the next two to three years and about half a billion over five years."

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