WMG Real Estate

Objective:

WMG, acting as principal together with its investors, invests into London Real Estate, for capital appreciation as well as yield return. We aim to return more than 15% IRR on each project.

We have experience across most real estate asset classes but our current strategy is focused on Greater London residential development and commercial office asset management projects.

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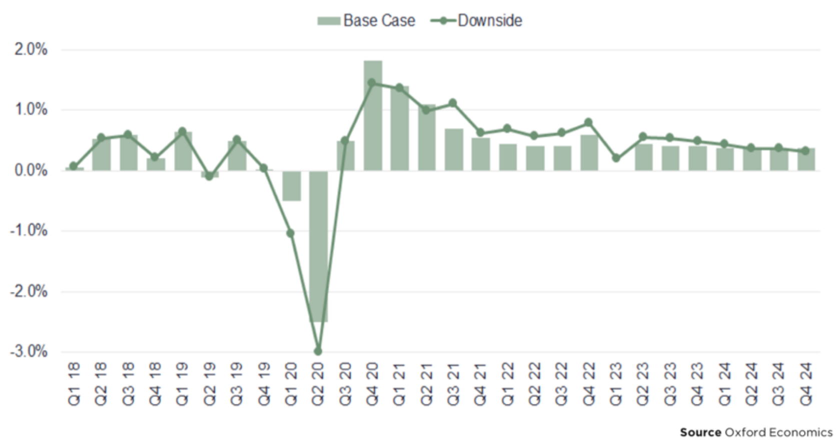
Confronting the Global Pandemic

Dear Investor,

During these difficult and extraordinary times, we hope that you, your family and your businesses are well and that you are keeping safe. With the Coronavirus pandemic spreading across the globe, measures are being put in place to alleviate the current market conditions that are changing day by day. However, it is still very difficult for all of us to foresee the full impacts on our lives and businesses in the near future.

We now have a "new normal" with significant changes underway in the way we live, work and travel. The cities of tomorrow will be shaped by this new norm where concepts such as flexibility, adaptation and well-being will be increasingly important. Undoubtedly, the real-estate sector will be at the heart of these transformations with significant short and long-term implications.

In macro-economic terms the IMF forecast of a modest pickup in global growth from 3% to 3.4% has now changed significantly since January, as both advanced economies and emerging and developing economies are in recession with an expected growth of -6.1% and -1.0% respectively. Most analysts only see a recovery in 2021. Income per capita is projected to decline around the globe and the net wealth of many UHNWI's will be reduced due to global stock markets. Savills forecast that UK GDP growth will have a short V-shape shock in Q1-2 2020 with a recovery prospect from Q3 2020 onwards.



At the beginning of 2020, before the Covid-19 crisis, the Real Estate sector, and specifically the London Real Estate market, was starting to see a significant revival following the election results. London being in a far better shape this year than the previous three years.

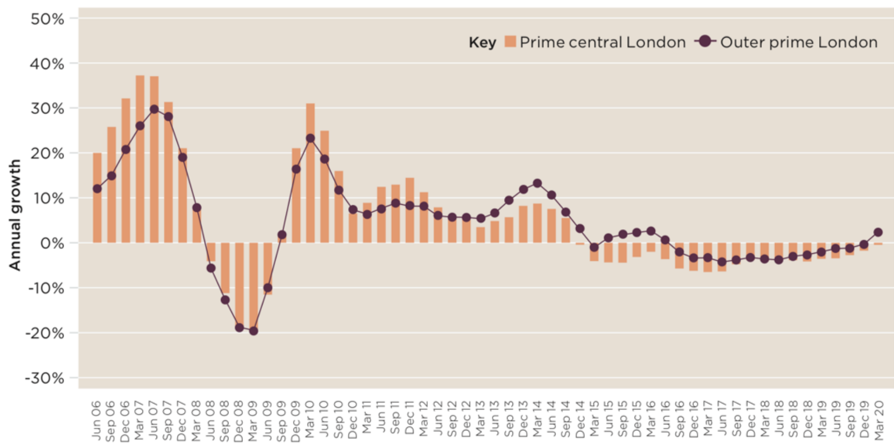
The Conservatives, led by Boris Johnston, won a clear majority, allowing the government to finally pass Brexit as law. The European Parliament has now voted and supported the Bill. The devil is of course in the detail and this is to come over the next twelve months. Negotiating a new commercial relationship with Europe is not proving to be easy and there is still the question of the Irish Border. Sterling is going to fluctuate as sentiment changes one way or another, trading between 1.26 and 1.40 against the dollar. However, Britain did not vote in a Labour government, especially one led by Jeremy Corbyn, which, irrespective of one's wider political views, would certainly have had negative implications for the UK property market with wide ranging reforms to taxation and changes to laws for landlords.

Sources: *ONS, **Avison Young, +CBRE, ++JLL and +++Savills

Election results and Brexit were not the only reason why London was starting to see recovery although they were the catalysts. Boris Johnson's tenure could see the beginning of a rejuvenated London, with economic growth back on track, low interest rates and an attractive entry level for foreign investment into sterling assets. For US dollar investors, London residential prices represent a discount of 38 percent from their peak in 2014. That's due to sterling's depreciation and weakness. In addition, we have a scenario where interest rates will certainly remain low. The Bank of England was already under pressure to lower rates when in November we saw the UK economy contract by more than expected. Further downward moves seem inevitable with the current global pandemic. In this environment, with low interest rates and the pound trading below 1.30 against the US dollar, we do expect the London residential market to offer real value, although we would want to see some normalisation to the market first before pressing the investment button.

Prior to Covid-19, in Q1 2020, confidence was clearly back, with forecasters talking of house prices rising by more than 2% to as much as 10% in 2020. Chinese investors had broken the highest paid price for a UK property, paying £200 million for a mansion on Rutland Gate in Knightsbridge. Many saw this as evidence that London's prime property market was recovering. According to Savills more £1 million plus transactions were recorded this year until mid-March, which is circa 30% higher than in 2019.

Renewed buyer confidence led to return of growth



Source Savills Research

However, the increased market activity and sentiment, improved by the easing of political and Brexit-related concerns, has once again been weakened by the difficulties around Covid-19, including physical limitations for viewings and due diligence, declining stock levels and uncertainty around the economy and pricing. Virtual viewings and due diligence processes are being explored and implemented by selected agents and construction companies, especially for international buyers in order to keep the momentum of ongoing deals where possible. The expected cut to the rate of stamp duty in the March budget, which was expected to further trigger sales has also now been delayed, probably to April 2021.

Q1 saw development activity slow down significantly. Although the official government guidance allows construction sites to remain open, the majority of the biggest construction companies have suspended operations and shut down sales offices in line with social-distancing measures, while some of the sites that are near completion are still open with strict precautions in place. Coupled with labour and supply chain shortages, Savills site data analysis suggests that "as of 31st March, construction had been halted on sites with capacity for 193,000 homes in England, equivalent to 79% of the total supply in 2018/19". Together with the government's measures, companies are slowly returning back to construction sites and resume works.

While some land deals are still proceeding, many, especially new ones, have been halted. Although, residential transactions are expected to be reduced significantly over the next 3 months, Savills do anticipate capital values to be less affected, with falls of -5 to -10%, returning to stronger growth in Q4 and with limited impact on land values. However, in the case of a sharper downturn of the housing market or a longer recovery period, undoubtedly there would be a downward pressure on land values as well.

Amid this crisis, some of the likely winners and losers in the commercial property market become obvious. Already, the challenging retail market is hit by store closures and retail investors are suffering further with the loss of income as several retailers have delayed or frozen rent payments. On-line sales are now the main driver of the market, with food retailers and pharmacies and other similar stores very much in demand. It is estimated that the panic buying in the UK resulted in around a billion pounds extra spending on food, putting a massive strain on supermarkets, supply chain and the environment.

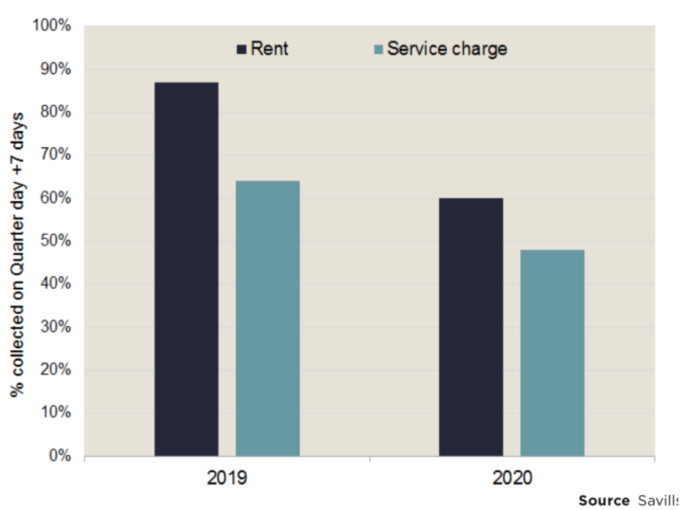
Offices are on the verge of a major transformation as remote working is now in place with meetings and all businesses being moved to our homes through online systems. Henceforth, in addition to work and energy efficiency, the social impact, well-being and health measures will become key considerations for office occupiers as well as investors.

Hospitality, leisure and F&B markets are among the worst hit by this pandemic due to cancellations and closures. Although F&B and leisure markets are expected to recover relatively quicker following the end of the lock-down, hospitality market will be required to undergo a significant transformation similar to the offices, as well-being and health conditions will be the main concerns. Domestic tourism is expected to begin first before we go back our international travel routines. However, the timing for that is yet to be determined as countries extend border closures and travel restrictions.

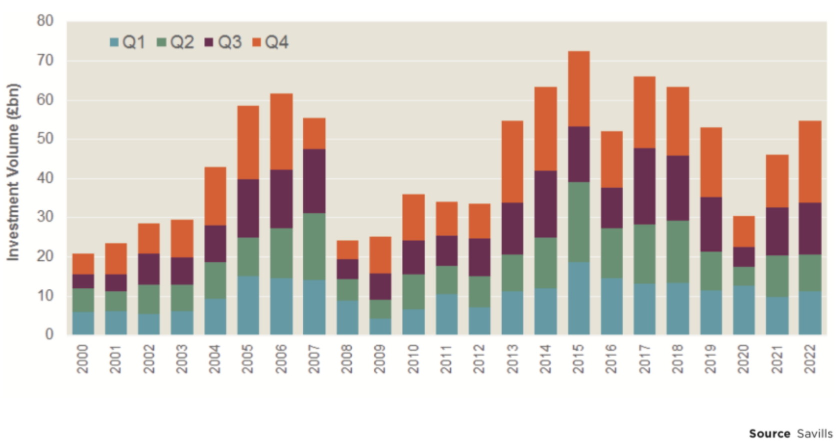
Logistics, which has already been a strong asset class in the past years, is expected to further picks up as online shopping soars during the lockdown. In March, private equity firm, Blackstone, agreed to buy 22 logistics sites across the UK for £120m. This demonstrates an increased confidence in this market going forward. E-commerce, delivery services, infrastructure and logistics will be the main areas to watch in the coming months.

UK commercial property investment volumes are expected to decline to the levels we saw post GFC, although yields are not expected to soften as much. The gap between prime and secondary offices will widen and opportunistic buying will return.

Rent and service charge collection declined significantly



Investment volumes to recover from Q4 2020 onwards on a base case scenario



In summary this is clearly an uncertain time. It is unknown when or indeed whether business will return to normal. We are seeing GDP contraction across the globe and rising unemployment. The macro picture will very much depend on whether we see a quick recovery or a prolonged contraction. However, we are of the opinion that the current market volatility will present opportunities. With businesses adapting to the “new normal”, backed by an improved political environment, Brexit finally done, low interest rates, and forecast economic recovery, coupled with strong underlying pent-up demand, real estate investment will still be attractive both on a global basis and most specifically in London.

If you would like to discuss, or receive further information, please email: property@wmgfunds.com

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