A Gradual but Noticeable Return to Normal?

The vast majority of tenants in the portfolio continue to pay their rent due and forecast being able to do so going forward

As detailed in our March 2020 update, in all but one holding, we continue to make distributions materially as planned to our investors this quarter. Investors should gain comfort that the vast majority of tenants in the portfolio continue to pay their rent due and forecast being able to do so going forward, despite the pandemic.

The situation remains volatile and may in the future necessitate actions including reducing or pausing investor distributions, but with early signs of a recovery already evident in business sentiment indicators, we hope that this will not be necessary.

Greenridge continues to operate as normal albeit in a manner that protects the health and safety of our staff, investors, tenants, suppliers and the wider community. The entire team is available for video and audio calls should investors have any questions or concerns. Quarterly reports will be issued shortly and will detail any specific matters relevant to individual property holdings.

UK Government measures are supportive

The UK Government's policy response has seen an almost unprecedented and explicit co-ordination of monetary and fiscal measures by the Bank of England and HM Treasury working in tandem. Financial stability was restored also with US and Eurozone emergency measures.

UK stimulus is not limited to reducing interest rates (already at a historical low) or purchasing corporate or sovereign bonds, but has also enabled forbearance, targeted loans, grants, tax relief and similar policies.

Banks are lending albeit selectively

Expansion of the UK money supply through additional quantitative easing since March has provided sufficient and reassuring liquidity into the banking system. Many banks are now looking to expand their loan books and are actively seeking opportunities to lend but only for the right assets and, to borrowers with a proven track record.

Most banks deferred valuations as social distancing measures made physical inspections and valuation surveys problematic. Some valuations were performed although subject to limitation of liability provisions directly relating to Covid-19 and its far-reaching implications as to the uncertainty of value. Gradually, these liability clauses are being lifted and a gradual reopening to new lending opportunities is evident with lending margins reported to have fallen significantly.

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The commercial property market is picking up

After a six-week period of lockdown legally commencing on 26th March, a gradual and cautious unlocking of the economy began in mid- May. In this period, commercial property transactional activity would have been expected to stall completely. In fact, very few investors withdrew from transactions. Institutional investors began referring previously agreed deals back to their investment committees for stress testing and others have stalled due to the difficulties with physical inspections and elongated banking processes. Transaction volumes for the commercial sector fell to under £1 billion in April, roughly one quarter of the expected April average, but have recovered to £1.7 billion in June with an estimate £2 to £3 billion of agreed deals still to complete. With the change of policy on office working from August 1st, new momentum will begin to bring some semblance of normality. Pent up demand will be released thereby creating the possibility of disproportionately high demand for some commercial property investment sectors compared to available supply. The market pendulum swings once again as the worldwide hunt for income yield continues unabated in an increasingly low yield environment.

Where are the opportunities?

Whilst our focus remains on maintaining portfolio stability and protecting investor capital, we are keenly analysing new opportunities particularly from distressed sellers.

At this point in the cycle and given structural changes in the economy and commercial property accelerated by the pandemic, we believe:

- The market pendulum for some asset classes will swing too far into negative territory;
- Retail assets offering that are ‘internet-resistant’ are already undervalued and present a buying opportunity;
- With open-ended funds needing capital, well capitalised investors, especially those seeking to exploit the sterling discount, will have access to institutional grade assets;
- Competition from other buyers remains limited for certain asset classes, although this window will begin to close as restrictions on international travel and self-quarantining are lifted.

Investors wishing to know more should contact us in the normal way or use the contact details overleaf.

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