Rent collection increases to 98% during May for TM home investor fund

UK residential property market

As sudden as the housing market came to a halt at the end of March, was the easing of some lockdown measures with the Government publishing new guidelines on May 13th. The following changes applied with immediate effect in England

- People are allowed to move homes in line with social distancing best practice
- Estate agents' offices and show homes can reopen, with viewings permitted; removal companies and the other essential parts of the sales and letting process can restart
- New guidance allows extended working hours on construction sites and the planning system to operate remotely

The Government specifically highlighted their desire to "unlock the housing market" for the "more than 450,000 people who have been unable to progress their plans to move house."

At the time of writing, whilst there have been no changes in Northern Ireland or Wales, the Scottish Government has also announced that estate agents should be able to reopen from June 18th.

A. Overall economic forecasts

Despite this significant improvement in circumstances for the English housing market, and somewhat improved market sentiment (taking the FTSE 100 as a gauge), forecasters on balance adjusted their views for 2020 downwards over the past 4 weeks. The outlook for 2021 however remains similar to the pre-lockdown forecasts with the exception of unemployment:

Forecasts for the UK economy

Comparison of independent forecasts, month by month

		March	April	May	June
2020	GDP	0.6	-5.8	-8.6	
	Inflation RPI, Q4	2.2	1.4	1.3	
	Unemployment, Q4	4.2	6.9	7.7	
	House price inflation, Q4	2	0.5	-3.0	
2021	GDP	1.3	5.0	6.2	
	Inflation RPI, Q4	2.9	2.7	2.6	
	Unemployment, Q4	4.1	5.5	6.3	
	House price inflation, Q4	2.5	2.5	2.8	

Source: HM Treasury

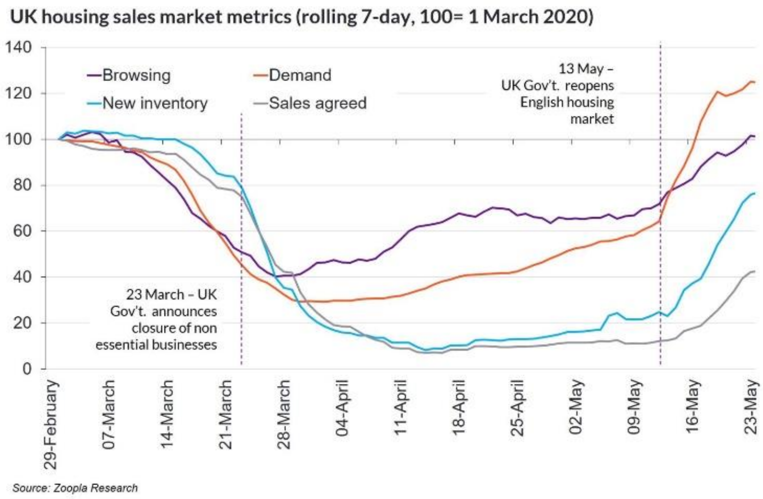
GDP, RPI and unemployment rate - average of latest forecasts

House price inflation - Q4 on Q4 a year ago. Median

Overall, this still points to a shortish but sharp recession followed by a recovery in 2021 – with much uncertainty about the length of this cycle remaining. There seems more certainty around the fact that inflation may rise over the next year or so.

B. Housing Sales and Rental Market

The unlocking of the English housing market led to an immediate uptick in online browsing and demand for sales as well as rentals.



One week after the reopening of the market, Rightmove reported demand for rental property being up 33% compared to this time last year, with Monday May 18th reporting the highest level of rental demand ever recorded in one day on Rightmove.

Zoopla reported similar increases in terms of online activity as well as increase of transactions to 20% of "normal" levels. Various sources seem to indicate that some 60-70% of stalled transactions are now proceeding again.

It is too early to assess where pricing levels will settle. So far asking prices on resales as well as house prices from new homes seem to be holding up well. Whilst a reduction in economic activity and increased unemployment will put downward pressure on house prices, this might be (partially) offset by the supply side. As we have seen since the Brexit referendum, those who do not need to sell can simply stay put – resulting in lower transaction volumes but not necessarily in lower prices. Housebuilders will adjust the release of new homes in accordance with demand.

C. Other factors impact on Supply and Demand

The most important impediment to unlock the English housing market has now been removed – housebuilders and estate agents are open again.

SCHEME (ALL FIGURES AS OF 18 MAY 2020)	CUMULATIVE NUMBER OF APPROVED FACILITIES	CUMULATIVE VALUE OF APPROVED FACILITIES	CUMULATIVE NUMBER OF APPLICATIONS	AVERAGE LOAN SIZE	APPROVAL RATE
Bounce Back Loan Scheme	464,393	£14.18bn	581,516	£30,534	80%
Coronavirus Business Interruption Loans Scheme	40,564	£7.25bn	81124	£178,730	50%
Coronavirus Large Business Interruption Loans Scheme	85	£0.59bn	496	£6,860,465	17%

Source: Institute of Chartered Accountants

In parallel, the Government continues with its broad range of fiscal stimuli - including the extension of the furlough scheme to October, or the 3 months extension of the mortgage payment holiday, with over 1.8m mortgages, 16% of all mortgages, in the UK now covered by it. The Government also launched a range of funding schemes and as at May 21st some £22bn of lending had been approved.

A Stamp Duty holiday is still being discussed - a tool used with some success during the 1991/92 and 2008/09 recessions. However, the Government is likely to assess how this impacts different regions and buyers and the resulting political implications.

Finally, there has been mixed news for (first-time) buyers. Early indications since mid-May indicate that some of the “stalled” prospective buyers will need to reapply for mortgages. Some banks might be more conservative at this stage of the cycle, in particular with first-time buyers. On the other hand, the Government started consultation for a new First Homes scheme whereby first-time buyers and key workers would get a 30% discount on new homes.

TM home investor fund

CBRE added a “Material Valuation Uncertainty (MVU)” clause to the March fund valuations which led to the suspension of dealing in the TM home investor fund. This clause was agreed by all major valuers collaborating under the Royal Institution of Chartered Surveyors (RICS) and was not differentiated by property segment such as residential versus commercial property.

Over the past weeks, we were encouraged that RICS started recommending to valuers a segment by segment approach to the lifting of the MVU-clause. Some of the first sectors were for “standalone food stores let to major operators” or “institutional grade primary healthcare facilities”. On May 21st they extended this to "non-reversionary residential ground rents in excess of 80 years" and "all types of rented social housing or leased shared ownership, owned by housing associations". Whilst the MVU-clause remains in place for private-rented Residential property, the segment by segment approach to removing the clause is hopefully positive news for this sector compared to commercial properties such as hotels, offices, or retail.

As in April, CBRE applied a small downward adjustment to some of the holdings, resulting in an aggregate reduction of 0.14% at the property portfolio level.

The tenant management process established with our partners at Touchstone in April continues to work well, and we are encouraged to be able to report 98% rent collection in May. As a reminder, our ambition is to balance tenants’ and investors’ needs - wherever possible setting up payment plans to ease temporary difficulties. Our primary focus is on those who lost their jobs – once we have confirmation of a Universal Credit application, we work with the tenants to find a mutually agreeable solution. For tenants in furlough, we typically discuss temporary rent reductions couple with a repayment plan. Finally, we tend to delay rent reviews (typically rents grow with inflation) by a quarter. Over the past weeks, some of our tenants returned to work following a short period of furlough.

Another priority are our vacant properties, including those from a recent acquisition near Birmingham. Since mid-May there were half a dozen viewings across our vacant properties, and we expect this number to increase over the coming weeks.

Below a table of key metrics relating to the fund:

TM home investor fund

Key Performance Metric	Jan-20	Feb-20	Mar-20	Apr-20	May-20
Total return, C-Class Acc, month	**0.28%**	**0.07%**	**-0.14%**	**-0.28%**	**-0.07%**
Total return, C-Class Acc , 1 year	**1.83%**	**1.83%**	**1.48%**	**0.98%**	**0.70%**
Property valuations, as % of property portfolio	**0.21%**	**0%**	**-0.22%**	**-0.38%**	**-0.14%**
Distributed Income, C-Class Inc	n/a	n/a	n/a	Launched 20/04/2020	**2.41% gross ***
No of voids (vacant properties), end of month	**13**	**24**	**17**	**23**	**21**
+ Completed Acquisitions / - Completed Sales	**+ 0 / - 0**	**+ 11 / - 0**	**+ 0 / - 3**	**+ 0 / - 0**	**+ 0 / - 0**
+ Move ins / - Move outs	**+ 4 / - 9**	**+ 6 / - 6**	**+ 9 / - 5**	**+ 0 / - 6**	**+ 3 / - 1**
Rent collected as % of rent invoiced	**99%**	**103%**	**99%**	**96%**	**98%**

* estimated annual yield, based on Class C Acc historical yield

The PAIF Income share classes launched in April will show for the first time an estimated distributable income on the May factsheets of 2.41% for Class C Inc, based on the actual historical yield on the equivalent accumulation class. We believe that in an environment of low or negative yields and collapsing equity dividends, investors will increasingly turn to the resilient and sustainable income provided by private-rented residential property.

Stuart Springham

Deputy Fund Manager

June 2020

Important information

Past performance is not necessarily a guide to future performance and future returns are not guaranteed. Investors may get back less than the amount invested.

Residential property values are affected by factors such as interest rates, economic growth, fluctuations in property yields and tenant default.

Property investments are relatively illiquid compared to bonds and equities, and can take a significant amount of time to trade.

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