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SMALL TALK

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'Shed-shifters' finally have their moment as warehouses boom

Not long ago, so-called industrial real estate was a decidedly unloved part of the industry, often shunted off to the sidelines of otherwise glitzy events in Cannes, and its agents and investors derided as knuckle-dragging "shed-shifters". But no longer — and it is now the more flash agents staring at falling values in London and retail markets that are feeling left out. Industrial property — and in particular the sorts of warehouses needed to distribute goods from etailers ranging from Amazon to Ocado — is booming. Companies that own this sort of property — and there are several in the smaller cap market — have been outperforming the rest of the sector as a result.

The problem for investors is finding value. Rising demand for warehouses has been priced in to stocks, which typically now trade at a premium to net asset values. The key, as always with property companies, is to back the right management — preferably those that have reliably made money through the property cycle, and who have also invested their own cash.

Hansteen fits both requirements, founded and run by shed-shifting veterans Ian Watson and Morgan Jones, who previously built up the successful Ashtenne (yes, an anagram) before selling out to Warner Estate before the last crash. The pair have been following the same playbook, buying a sizeable portfolio of industrial property in the UK and Europe during and after the 2008 downturn which has now largely been sold off as values have ramped up.

This could be seen as a signal that the top of the market is near but the acquisition of £54m of property from St Modwen this month shows they are still in the game (in spite of rumours of retirement).

Since its IPO in 2005, Hansteen has raised £718m but returned £722m to investors in cash, £324m in dividends, still leaving remaining assets of about £414m (and a market value of £445m). Annual total investor returns — including dividends and capital returned — have been more than 18 per cent since 2013.

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There are reasons to be careful. While Mr Watson sees "plenty of mileage left in the market" with yields for the sort of unloved multi-let property they favour at about 7 per cent, he admits this could be the last quarter of the bull cycle. But if acquiring properties is more challenging given the surge in demand, Mr Watson still sees the chance to buy and improve, and then sell at a profit.

Analysts at Stifel point to rental growth prospects too. And if no good deals arise, the company will return the cash. Although trading at a 7 per cent premium to assets, the market is still moving in Hansteen's favour.

Likewise Warehouse Reit, a group focused on the sort of "last mile" distribution crucial to e-commerce, which has been buying parts of Hansteen's portfolio. Shares in Warehouse Reit are suspended after confirming talks with Hansteen about acquiring £460m of properties — a deal described by analysts as "transformational" as it would more than double its assets. Before the suspension, Warehouse shares stood at only a slight premium to NAV.

There are also companies that — while not directly focused on warehousing — offer some similar advantages. Somewhat counter-intuitively, this includes Supermarket Income Reit, set up by former Goldman Sachs bankers last year to invest in large edge-of-town superstores. On first glance, it might raise worries given woes in the wider retail sector, but it has the potential to be a solid income-focused bet in an otherwise uncertain real estate market.

The group raised £100m in an IPO last year, and then a further £20m, to acquire six supermarkets with dependable income characteristics: average lease lengths of 19 years, rents fixed to inflation and strong tenants in Tesco, J Sainsbury and Morrisons.

These stores also typically supply the e-commerce networks of their store chains, which adds extra protection from future digital disruption. Unusually for a new property company, Supermarket Income Reit paid a decent dividend in its first year — offering a yield of 5.3 per cent — and has ambitions to grow the portfolio. Even trading at a premium to NAV of 7 per cent, the group seems well positioned for shifting retail fortunes.

Now staring at a broadly softening property market, the easy bull market wins of the past eight years are over. But there are still safer bets among companies well positioned for the next stage of the cycle — even if values of commercial property start falling faster, as some now fear.

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