

Ediston Property Investment Company PLC

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Ediston Property's out-of-town retail focus shows its mettle

Calum Bruce, the manager of Ediston Property Investment Company PLC (LON:EPIC) is not overly sympathetic to retailers struggling on the high street.

They have not adapted or changed to what consumers want, he says, and have been too loyal to the high street for too long.

"They should have rationalised their portfolios ten years ago."

WATCH: Ediston Property Investment taking a 'hands-on approach' to asset management?

As the manager of a property portfolio at EPIC now worth around £360mIn, Bruce has a good insight into what is going on in shops across the UK.

EPIC's focus is out-of-town retail parks and he says investors need to distinguish between the different types of retail outlet - high street, shopping centre and the parks that are the REIT's speciality.

Retail parks now account for 75% of its portfolio following a decision to shift away from provincial offices (22%), while there is a smattering of buildings let to Mecca as bingo halls and one development site.

To have a development site is unusual for a REIT, but this highlights how EPIC differs from its peers, says Bruce.

"We are not benchmarked against the standard property indices," he says, which gives it leeway to look for opportunities where it sees value even if they are outside the norm for a property trust.

Strong performance

Total assets last year rose in value by 8.9% to £357mIn, which followed a 9.3% rise from the previous year.

That performance underlines the resilience of the out-of-town retail parks, but also EPIC's careful selection.

"Some 60 or 70% of the [retail parks] market we would not invest in due to over-renting or where the rent you receive is higher than the ongoing market rate."

In those instances, the income stream drops when there is a void.

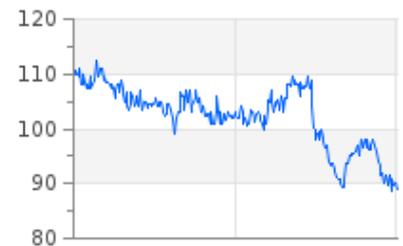
"We like parks at sensible rental levels, that dominate the catchment area and tenants trade well.

"How well the tenants are doing is fundamental," he says.

Price: 90p

Market Cap: £18808700000M

1 Year Share Price Graph



August 2018 February 2019 August 2019

Share Information

Code: EPIC

Listing: LSE

52 week High Low
113.00p 88.60p

Sector: Real Estate [T3]

Website: www.epic-reit.com

Company Synopsis:

Ediston is a Real Estate Investment Trust listed on the London Stock Exchange,

Investment objective

We invest in UK real estate assets to achieve our objective of providing shareholders with an attractive level of income and the potential for capital and income growth. Investment policy

We achieve our investment objective by investing in a diversified portfolio of UK commercial properties.

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That does not mean retail parks are immune to the woes affecting retail elsewhere.

There have been failures among its tenants, but where EPIC has had to deal with a company voluntary arrangement (CVAs) the stores on its sites are the ones where tenants have stayed with no rent reductions.

Or else in the case of one store in Hull, it was able to accommodate another tenant on site that wanted to move up in store size.

Online growth to plateau

Longer term, Bruce agrees with recent studies that have suggested online growth will plateau at about 20% of all shopping.

He also sees the recent problems in retail passing eventually once portfolios have been readjusted and there is some certainty over Brexit.

"We are [a] nation of shoppers and the sector's woes are being played out in the public arena."

EPIC's leases are just under seven years in length on average, with some tenants such as food retailer Iceland, having space in more than one park.

Building up relationships with tenants is important, he says, as they often take multiple sites.

Retail continues to evolve

Having the right mix of retailers in any one park is also important.

Coffee shops and wi-fi encourage families and boost footfall while ruling out over-renting means EPIC's portfolio is resilient to unexpected shocks and the underlying income is stronger.

At 106p, the market cap is £224m and the discount to 2018's asset value is around 8%.

That is higher than the recent past and seemingly reflects the uncertainty over retail generally.

The yield currently is 5.4% based after a 4.75% increase to 5.75p in the year to September.

Bruce remains upbeat over retail going forward and sees the recent problems as throwing up opportunities to expand further - in and around the UK's major cities for example.

"There will be more casualties, but retail is not in terminal decline, it is evolving and will continue to evolve."

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