As Moorfield moves into its 24th year as a private equity real estate business I am once again reminded of the changes we have encountered in real estate over this period. These thoughts of the past then lead me to deliberate what the future disruption might prove to be. I suspect just as impactful, if not more so.

It’s very hard to focus on any one principal cause of the changes experienced over what is almost quarter of a century, some of them are geopolitical, demographic and societal, whereas others are technological, legislative and regulatory. Cross-border international capital flows and global investment trends have certainly played an important role, as has the increased speed, availability and transparency of information. We have also thankfully seen the recognition of the need for much greater corporate and social responsibility, also incorporating diversity and inclusion. How we behave corporately and personally, what we do and say individually and collectively, how we judge ourselves and others and how we measure success will all have greater impact on future generations than we can possibly measure in the present. We are waking up to the fact that we have a responsibility to behave like trustees of our civilisation and planet so that those who come after us can also benefit. We are very aware of this at Moorfield and our policies increasingly reflect it.

Moorfield has enjoyed many successes in the Traditional real estate sectors, but I remain most proud of our early recognition and subsequent approach to the nascent Alternative sectors, many of which we have pioneered. We may not be the biggest investors in any area of the real estate market but we can rightfully claim to be very material influencers, notwithstanding our intentionally low corporate profile.

It is our intention to remain committed to our original philosophy of being a UK only value-add fund manager, focusing on London and the dominant Regional cities, and we will continue to invest in the Traditional real estate sectors, when the time is right, as we have always done. However, the Alternative real estate sectors are very much in our DNA and our current investment focus informs as much. Residential for rent, student accommodation, retirement living, healthcare, self-storage and logistics are all currently in MREFIII, MREFIV and MAREF (as some and others also were for MREF/MREFII) and will no doubt also make up a material part of MREFV (% dependent on market circumstance). Nonetheless, alongside our value-add activities, you will be aware that we are also exploring a ‘Residential for Rent’ income investment vehicle that will be established to deliver regular income distributions of c.3-4% pa, from lower risk stabilised residential investments that will include all of the categories of residential real estate where we have expertise. I am certain that this will be complementary to our existing value-add activities and we are all very eager to begin this new area of opportunity for Moorfield and its participating LPs.

In the last few years, we have been very selective and intentionally slow to commit capital from our funds to existing and new investment themes as we considered there to be an increasing imbalance between UK risk and reward. Over the years since the Brexit vote, I have written about my interpretation of events on numerous occasions and even with the benefit of some hindsight I believe our strategy to have been the right one. Material investment in the UK over this period could have proved either foolish or lucky and I did not want us to be judged as either. A considered, analytical and informed approach was required and frankly still is today, despite the comfort gained from the majority vote that Prime Minister Boris Johnson achieved in the December 2019 General Election, and the resultant relief that we will not be coping with the impact of a socialist economic agenda.

My current thoughts for the UK in 2020 are that the mild recessionary environment we are currently experiencing (in much of the developed world) is reflecting a soft economic landing post the GFC recovery period and is not disguising anything more severe i.e. another impending ‘Black Swan’ event. I believe interest rates and inflation in the UK will remain low (not negative) and there will be ongoing employment and wage growth, so consumers will help business boost GDP and investors will become more confident and active in their commitment decisions. Over the course of the coming year I expect investment demand to be focused at the lower end of the risk curve, particularly on regular secure income generation, but by the end of the year I believe the investment appetite for risk will have increased as greater levels of economic and corporate earnings growth are forecast. In the near term, there is most likely to be ongoing monetary policy caution from the Bank of England with the UK/EU Trade Agreement unresolved. However, I consider there to be a likelihood that over the course of 2020 there will be increasing expectations for interest rates to
The real estate market in the UK in 2019 was dominated by politics and investment volumes overall were down some 30%. There was a pick-up in activity and sentiment following the result of the election and it is expected now that postponed sales will be brought to market and pent up investment demand will produce an active start to the year.

Investor demand and transaction volumes have also reflected the underlying performance of the different subsectors and it is no surprise that retail has been the stand-out underperformer. The retail sector is creating major issues for over-exposed open-ended funds, where there are now redemption restrictions in place, and we should start to see some transactions in 2020 that will lead valuers to rebase their valuations to more realistic levels.

The alternative sectors (eg residential, student, healthcare) have continued to attract investor attention thanks to strong tenant demand and limited supply, which is supporting ongoing rental growth. We continue to favour these sectors for their fundamental resilience alongside the logistics sector, which benefits from the shift towards online retailing.

We currently have three active funds:

1. MREFIII – we have made a number of disposals across our office, logistics, student and build to rent / multifamily investments and the fund is performing ahead of its targets. £200m / 80% has been distributed back to investors so far with a realised return of 26% / 1.8x.

2. MREFIV – the fund achieved its final close at the end of 2018 and we have so far invested 40% of the committed equity, leaving us with capacity for c.£300m of further investments to be made in 2020 and 2021. We continue to target the ‘beds and sheds’ themes but are also looking at the distressed retail sector for opportunity to repurpose, as well as infrastructure-led and mixed-use opportunities.

3. MAREF – Audley had a good year with strong sales momentum from schemes delivered at the end of the year. We formed a joint venture partnership with Octopus/Schroders to fund the development of 4 pipeline retirement villages and the sector continues to benefit from the demographics of the wealthy ageing population.

We made relatively few new investments in 2019 and whilst we remain cautious about asset pricing and cyclical risk we will be able to invest with more confidence in 2020 now that the election is out of the way and the direction of travel for Brexit is clearer.

Best Wishes

Marc Gilbard, CEO

For real estate, there must remain an emporium of investment risk/return choice for investors and there must also be an increasing understanding of the sector’s relative value as an operationally exposed and complex investment, a situation that has originated from shorter leases, greater active management needs and higher life cycle costs. Currently, lower yielding alternative investment classes are not resulting in the need to seek higher yields from real estate on a gross (to net) income perspective but we should be aware that this future risk exists — and it could come alongside rising bond yields as a double whammy. I certainly expect all real estate sectors to continue to be disrupted, with materially more pain to be felt in most areas of retail and for the rise of the Alternatives to continue unabated. Real estate is now so much more than retail, office and industrial.

Best Wishes

Charles Ferguson Davie, CIO
Consolidating our expertise in Build to Rent

We were one of the first to identify the BTR/Multifamily opportunity in the UK with our maiden project, The Keel in Liverpool (2012) which is currently the only ‘round-trip’ BTR investment achieved in the UK, which we designed for rent, developed, stabilised and sold in 2018.

In November this year we accelerated our Build to Rent ambition with the launch of More, the umbrella brand for our existing and future BTR assets, consolidating our extensive expertise within the sector into a distinct platform. The More platform currently contains three schemes, totalling 785 apartments: Duet and The Trilogy in Manchester and The Forge in Newcastle.

More embraces our unique set of ‘Superenting’ brand standards found in all our BTR schemes and covers an approach to aesthetically and environmentally friendly design, which appeals to our discerning and tech savvy customers, together with a strong focus on community engagement.

Each of our BTR schemes provides a mix of one, two and three bedroom apartments. They are fully kitted out with state-of-the-art appliances and are designed to optimise space with market leading on-site amenities, including extensive communal facilities to support co-working, wellness and socialising.

All More residents can take advantage of an attractive social calendar of events, benefit from ultra-fast fibre optic WiFi connectivity, an on-site 24hrs concierge team, dedicated cycle storage, a fully equipped gym, automated parcel lockers, electronic key security software and a residents’ app, designed to allow hassle free reporting of maintenance issues.

Delivering market leading private rental accommodation

The Trilogy, is our 230 apartment scheme in Manchester’s Castlefield, completed in June 2019. It is our second landmark BTR scheme and has proven very popular, having fully let up within 8 months.

Pleasingly the scheme’s appeal has been appropriately recognised as The Trilogy was named top BTR scheme across the whole of the UK in the 2019 Homeviews BTR report.

Duet in Salford Quays, Manchester, is our most recent More scheme and our second BTR development in Manchester. Having completed in Q3 2019 we were pleased to have welcomed our first customers in November 2019.

The scheme is perfectly located to benefit from the growing prominence of the adjacent MediaCityUK as a hub of technology, innovation and creativity, with over 200 businesses now calling it home including the BBC, ITV and Ericsson.

The Forge, Newcastle completed in May 2019. This scheme sits at the heart of the Stephenson Quarter, just a five minute walk to Newcastle Central Station. Featuring 283 stylish apartments over 11 floors this is the first rental scheme of its kind in Newcastle and is now fully let.

The Forge was also recognised in the 2019 Homeviews BTR report, as a top 5 regional BTR scheme. It has also recently been shortlisted for Mixology19 Interior Design Project of the year.
Building on our experience in purpose built student accommodation

The Toybox, our latest purpose built, 290 bed student accommodation development in the heart of Birmingham reached practical completion in September this year and is fully let for the 2019/2020 academic year.

The scheme is of a very high-quality with impeccable interior design and stylish communal facilities focused on enhancing the students’ university experience as well as support their well-being.

The development was shortlisted for “Private Halls of Residence of the Year” at the 2019 Property Week Student Accommodation Awards.

Hox Park, Runnymede, our 499 bed student accommodation scheme in Egham (serving Royal Holloway University of London) opened in September 2018.

Students benefit from extensive amenities including a private gym and wellness centre, parcel lockers, café space and study areas as well as extensive parking.

The development was shortlisted for “Private Halls of Residence of the Year” at the 2019 Property Week Student Accommodation Awards.

We were one of the first investors in Student Accommodation when we launched the Domain platform in 1997 and we have now developed and operated some 7,000 beds.

Across the residential and student sectors we have now delivered some 9,000 beds / £750m and realised a c.30% IRR and 2.5x equity multiple.
Audley, our retirement living platform, is the UK’s leading retirement village developer and operator and has had a very active year. Audley achieved 189 sales and pre-sales for 2020 completions in the year and now has 7 completely sold out villages, with another 13 at various stages of occupation or development. The business now has c.1,250 residents enjoying access to luxurious country club style facilities with the benefit of access to amazing amenities including; swimming pools, spa facilities, gyms, restaurants, beautifully landscaped grounds and personal care.

In 2019 Audley also completed a Joint venture agreement with Octopus Real Estate (backed by Schroders) to acquire and fund the development of four further Audley villages with a combined GDV of £400m.

Audley’s newest completed villages (Coopers Hill near Runnymede and Stanbridge Earls near Romsey) were officially opened for occupation during 2019. The two villages provide a combined 279 units to the platform.

Audley has continued to maintain its strong track record of obtaining planning consents that support the local community with two new unanimous consents being achieved to deliver 172 units at Scarcroft Hall in Leeds and 72 units at Cobham in Surrey.

The year also saw a number of new additions to the awards cabinet. Audley was once again awarded Retirement Living Operator of the Year by RESI Awards and won best ‘What House’ retirement village for Coopers Hill. Audley Care at Cleveden also won Best End-of-Life Expertise at the Home Care Awards.

The demographics of the ageing population present Audley with an exciting opportunity to keep growing, offering its customers a quality of accommodation that is still rare in the UK.
**Offices**

The latest milestone of our successful value-add office strategy was the letting of Zeta, on Cobalt business park in Newcastle, to Sage, the FTSE 100 technology company, representing the largest ever office letting in the region. On behalf of three different funds, we have now acquired, refurbished and leased some 3 million sq ft of office space in London, Manchester, Birmingham, Leeds, Newcastle, Glasgow and Edinburgh.

Our extensive expertise has allowed us to originate, both on and off market, a range of offices that includes distressed or under managed buildings, those requiring significant capex, or those with upcoming material lease expiries. We have undertaken substantial refurbishment programmes, often on vacant or near vacant buildings, then secured strong new occupational covenants on investment grade long-term leases before disposing of the assets on completion of the business plan at suitably lower yields.

Underpinning this successful strategy has been the ability to identify those sub-markets in major conurbations where there has been a significant undersupply of flexible, Grade-A office space and/or where there has been significant infrastructure investment underway, such as Crossrail, to improve the area’s desirability thereby driving up both rental growth and capital values. Our most recent objective has been to meet the emerging needs of occupiers for greater space adaptability, higher productivity, quality design, buildings with character, engaged occupational services and employee satisfaction.

Another recent example of our approach has been in Glasgow, where in 2017 we successfully repositioned three substantial office buildings in the Atlantic Quay area. We refurbished and re-let the buildings on long leases to secure covenants and in Q1 this year we completed the successful disposal of the third and final asset of our Atlantic Quay holdings.

We have now realised a combined £1bn of office investments, generating a c.30% IRR and 2.0x equity multiple.

**Logistics**

Having successfully executed a logistics investment strategy for MREFIII, Moorfield is now rebuilding a portfolio for MREFIV with a target of investing in locations set to benefit from population increases and infrastructure improvements. Our investment strategy is to acquire c.£5m-£15m, single-let logistics assets in undersupplied locations, which offer significant reversionary potential through a range of asset management initiatives, and our ambition is to build a portfolio in excess of 1 million sq ft.

In the second half of 2019 we made three additional acquisitions to the logistics portfolio, which now comprises four assets totalling 670,000 sqft.

This is a sector which fits with our investment strategy of identifying real estate supply / demand imbalances and targeting societal shifts for opportunity such as the growth of online retailing, which is driving strong occupational demand.

At the end of the year we sold our last remaining logistics investment from MREFIII in Huddersfield.

We have now realised some £850m of industrial investments, spanning 12 million sq ft, achieving a c.29% IRR and a 1.8x equity multiple.
ESG
Fundraiser for SIFA Fireside

Over the festive period the Moorfield team were busy cycling the country visiting our fund assets (totalling 859km), although the practicality of this meant it was achieved via a static bike in our office. Collectively and taking turns to pedal, we made a virtual visit to The Forge and Zeta in Newcastle, Trilogy, Duet and our social impact investment in Manchester, The Toybox in Birmingham, and then on to Egham to see Hox Park and Audley Coopers Hill before heading back to our HQ at 10 Grosvenor Street.

We did this to raise money for a fantastic charity, SIFA Fireside, a homeless centre in Birmingham that provides shelter, nourishment and life skills to the homeless to help them move into permanent housing. With everyone’s support we raised an incredible £10,680, which will go a long way to making a real difference in improving health and inclusion for the homeless.

Our first social impact investment

2019 saw businesses across the globe placing an even greater emphasis on their social responsibility. We have been looking at different opportunities through which the Moorfield Foundation can deliver social good through our investment activities and in October, we were proud to announce our first dedicated social impact investment with the acquisition of a residential property in Manchester. The property, on Clayton Street, has been leased to Bridge-It Housing, a charity which provides much needed services and care to those at risk of homelessness.

As we enter the coldest months of the year, it is good to know that this property is now home to people who might otherwise be on the street.

The acquisition of Clayton Street is our first step towards investing in social projects in those cities where we are commercially active and which cement our #BuildingForGood values and supports our focus to create a more sustainable charitable foundation, a key tenet of our Corporate Social Responsibility programme.

Improving our sustainability performance

Building on this theme, June saw us publish our third annual Corporate Sustainability Report detailing the Social, Governance and Environmental aspects of our operations and setting out the progress we achieved in 2018 against our objectives.

Moorfield’s key objective is to manage the performance of our real assets in a way that minimises the environmental impact of both the construction (for refurbishment) and operation of our buildings whilst maximising tenant comfort, health and wellbeing and without compromising on financial returns (in fact we think it enhances them). We consider this to be a truly sustainable approach.

Some of our highlights this year include:

1. A 13% reduction in energy consumption across our portfolio, exceeding our longer-term target of a 12% reduction from 2016 to 2020
2. Reduced scope 1 and scope 2 greenhouse gas emissions by 63% in absolute terms and 38% on a like for like basis across MREFIII and MREFIV funds, when compared to the 2016 base year
3. Increased our recycling performance to 61% at monitored properties
4. 8% improvement in MREFIII GRESB score over 2017-2018