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BY MARTEN & CO

INVESTOR

February 2022

Monthly roundup | Real estate

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Winners and losers in January 2022

Best performing funds in price terms

	(%)
Hammerson	**18.2**
Town Centre Securities	**15.2**
UK Commercial Property REIT	**9.4**
BMO Commercial Property Trust	**9.1**
Capital & Regional	**7.0**
BMO Real Estate Investments	**6.8**
Ground Rents Income Fund	**5.4**
Alternative Income REIT	**5.3**
NewRiver REIT	**4.8**
Great Portland Estates	**4.6**

Source: Bloomberg, Marten & Co

Worst performing funds in price terms

	(%)
Big Yellow Group	**(12.5)**
Home REIT	**(10.4)**
Safestore Holdings	**(10.1)**
SEGRO	**(9.4)**
Sirius Real Estate	**(8.6)**
CEIBA Investments	**(8.6)**
PRS REIT	**(8.2)**
Unite Group	**(6.9)**
Urban Logistics REIT	**(6.1)**
Tritax EuroBox	**(6.0)**

Source: Bloomberg, Marten & Co

Perhaps reflecting optimism around the strength of the economy coming out of COVID restrictions, a shift to value stocks was triggered in January, with property generalists and retail-focused companies the beneficiaries. Hammerson topped the list after reporting that earnings for the year were on track to be well ahead of expectations. Town Centre Securities, which invests in high street retail and car parks, saw its share price rise by double-digits after announcing it would embark on a £5m share buyback programme to address its wide discount to NAV. Following the uplift in share price, the group's discount was still 43.3%. Shopping centre owner Capital & Regional and retail park specialist NewRiver REIT were the other retail-focused companies to make the top 10 share price performers. Property generalists, which own diversified property portfolios, dominated the rest of the list of top performers. Most of the generalist property companies have reported strong uplifts in NAV for the quarter to the end of December 2021, on the back of industrial valuation gains, and are in good shape to grow further. UK Commercial Property REIT and BMO Commercial Property Trust saw rises of 9.4% and 9.1% in January.

On the flip side, a lot of the companies that performed well during 2021 saw their share price come off slightly at the start of 2022. The self-storage specialists Big Yellow Group and Safestore Holdings saw their share prices fall 12.5% and 10.1% respectively. During 2021, both companies' share price rose 55.6% and 80.6% respectively. Industrial and logistics specialists SEGRO, Urban Logistics REIT and Tritax EuroBox also saw their share prices cool in January. The sector has been one of the perennial winners in the property sector over the last few years with significant valuation growth, as demand for space continues to outstrip supply. Having announced that it had fully invested the proceeds of its £350m equity raise (see page 4 for more detail), Home REIT saw its share price fall 10.4%. German business park owner Sirius Real Estate was another company that started the year with a share price fall (by 8.6%), having had an impressive year of gains in 2021 (of 51.4%). Cuban real estate investor CEIBA Investments started 2022 with another month of share price falls. The impact of the pandemic on the Cuban tourist sector has affected the value of CEIBA's hotel assets and last year its share price fell 24.3%.

Valuation moves

Company	Sector	NAV move (%)	Period	Comments
BMO Real Estate Investments	Diversified	9.5	Quarter to 31 Dec 21	Value of portfolio up 7.1% to £385.8m mainly driven by large weighting to industrial sector
Picton Property	Diversified	7.4	Quarter to 31 Dec 21	Portfolio valuation uplift of 6.0% to £774.2m
LXI REIT	Diversified	4.1	Quarter to 31 Dec 21	Portfolio valuation uplift of 3.3% on a like-for-like basis to £1.33bn
BMO Commercial Property Trust	Diversified	3.9	Quarter to 31 Dec 21	Value of portfolio increased by 2.7% to £1.2bn
AEW UK REIT	Diversified	3.8	Quarter to 31 Dec 21	Like-for-like portfolio valuation uplift of 3.5% to £225.8m
Residential Secure Income	Residential	0.5	Quarter to 31 Dec 21	Property portfolio value up 0.4% to £351m
Target Healthcare REIT	Healthcare	(0.4%)	Quarter to 31 Dec 21	Like-for-like increase in portfolio value of 1.3% to £870.5m. NAV fall due to acquisition costs

Source: Marten & Co

Corporate activity in January

Yew Grove REIT received approval from the High Court for its scheme that will see it acquired by Slate Office Ireland Investment Limited, an indirect wholly-owned subsidiary of Slate Office REIT. It is expected that trading of Yew Grove Shares on the Euronext Dublin Market and AIM will be cancelled on 9 February 2022.

LXI REIT announced intentions to raise £125m in a proposed issue of new ordinary shares through a placing, open offer, offer for subscription and intermediaries offer under its share issuance programme. The group will target the issue of 88,261,608 new shares at an issue price of 142 pence, representing a premium of 2.9% to the estimated NAV at 31 December 2021. LXI has an investment pipeline worth £272m.

Abrdn European Logistics Income launched a placing under its share issuance programme to fund its near-term €142m pipeline of investments. The group, which has recently deployed the £125m it raised in September 2021 on the acquisition of a logistics portfolio in Madrid, said the placing price will be 110 pence per share, a premium of 4.0% to its 30 September 2021 sterling NAV per share.

Impact Healthcare REIT announced its intention to raise £50m through an issue of new ordinary shares. The open offer, initial placing, offer for subscription and intermediaries offer is priced at 114 pence per share, which represents a premium of 2.0% to the company's estimated NAV at 30 November 2021. The company will initially use proceeds to pay down debt and secure assets in its immediate investment pipeline, worth £69m.

Supermarket Income REIT submitted an application to the FCA for a migration of listing of its shares from the Specialist Fund Segment of the London Stock Exchange to the premium segment. The company's market capitalisation has grown significantly since IPO from £100m in July 2017 to around £1.2bn. The move would allow its shares to become eligible for inclusion in the FTSE UK and the FTSE EPRA NAREIT Index Series.

Helical announced its intention to convert to a real estate investment trust (REIT) with effect from 1 April 2022. Following conversion, Helical will be exempt from UK corporation tax on the profits of its property activities that fall within the REIT regime in the year ending 31 March 2023 and beyond (the rate of UK corporation tax increases from 19% to 25% from April 2023).

Phoenix Spree Deutschland completed a new €60m loan facility and refinancing of existing debt on improved terms. The new facility is with Natixis Pfandbriefbank AG and comprises two components: a €45m acquisition facility and a €15m capex facility. The facility matures in September 2026 and carries an interest rate of 1.15% over 3-month Euribor. Additionally, the company has refinanced existing debt provided by Berliner Sparkasse. The refinancing leverages the increase in valuation of certain underlying assets within the portfolio, releasing a further €14.9m of equity.

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January's major news stories – from our website

- **BMO Commercial Property Trust increases logistics exposure with £66m double buy**

BMO Commercial Property Trust bought two logistics assets for £66m and committed to two developments within its existing portfolio at a cost of £10.5m. The group's portfolio weighting to the industrial and logistics sector has increased to 30.6% (from 19.1% at December 2020).

- **LondonMetric buys cold storage logistics scheme for £53m**

LondonMetric acquired a long-let cold storage and logistics warehouse development for £53.4m, reflecting a net initial yield of 3.7%. The 300,000 sq ft building is pre-let on a 25-year lease to AM FRESH GROUP, an international agri-tech company that supplies the majority of UK supermarkets with a range of items including plant-based fresh goods.

- **Supermarket Income REIT continues acquisition push**

Supermarket Income REIT has continued its acquisition push following its recent equity raise with the purchase of two supermarkets – a Sainsbury's in Washington, Tyne and Wear, and an Asda in Cwmbran, South Wales – for £55.1m, reflecting a combined net initial yield of 5.3%.

- **Home REIT completes £350m acquisition spree**

Home REIT fully deployed the £350m it raised in September 2021, with £55.1m of new acquisitions. The company acquired 240 additional properties, providing 880 beds for homeless people, bringing the portfolio total to 7,953.

- **Tritax EuroBox acquires third Swedish asset**

Tritax EuroBox completed the acquisition of the land and agreed to fund the development of a 17,832 sqm prime logistics asset in Sweden for €39.4m, reflecting a net initial yield of 4.0% (based on the 12-month rental guarantee).

- **Unite acquires Nottingham digs project**

Unite acquired a 270-bed student development site in Nottingham city centre. Total development costs for the scheme, which will open for the 2024/25 academic year, are estimated to be £34m and is expected to deliver a yield on cost of 7%.

- **Derwent London sells London office**

Derwent London exchanged contracts to sell New River Yard, London EC1, for £67.5m, representing a 4.5% net initial yield and a marginal discount to June 2021 book value. New River Yard consists of four office buildings and is multi-let to 13 tenants with a total passing rent of £3.3m per annum with an average of 2.6 years to lease break/expiry.

- **Irish Residential Properties REIT acquires 152 Dublin apartments**

Irish Residential Properties REIT acquired 152 residential units in Dublin, which include completed apartments as well as a forward commitment to purchase a new development currently under construction, for €66m.

- **Industrials REIT secures two estates for £17m**

Industrials REIT completed two multi-let industrial acquisitions for a total of £17m, reflecting a blended net initial yield of 5.8%. The two properties, Beacon Business Park in Caldicot, South Wales and Belmont Industrial Estate, in Durham, total 173,000 sq ft and generate £1.06m of annualised rent.

- **Grit Real Estate sells Mauritius office**

Grit Real Estate Income Group sold the holding company of the Absa House office building in Mauritius for MUR 533m ($12.2m), which equates to a 7.75% yield and just below book value. Grit will use the proceeds to reduce debt.

Visit http://www.QuotedData.com for more on these and other stories plus analysis, comparison tools and basic information, key documents and regulatory announcements on every real estate company quoted in London

Managers' views

A collation of recent insights on real estate sectors taken from the comments made by chairmen and investment managers of real estate companies – have a read and make your own minds up. Please remember that nothing in this note is designed to encourage you to buy or sell any of the companies mentioned.

Diversified

BMO Real Estate Investments

Peter Lowe, manager:

The final quarter of 2021 saw continued positive momentum in the UK real estate market, with the sector delivering further strong returns driven by capital growth and with investment volumes eclipsing the pre-pandemic levels seen in 2019. While much of the focus has rightfully been on the industrial, logistics and distribution markets, which posted a total return in excess of 38% for the year ended 31 December 2021 (MSCI Monthly Index), market dynamics improved more widely across those sectors that had suffered through the early periods of the pandemic. Retail warehousing continues to perform, with robust occupational demand and income resilience leading to yield compression. The office, high street retail and leisure sectors saw improving occupier and investor sentiment across selected sub-sectors. Business confidence linked to improving economic growth forecasts, a robust labour market and the apparent dominance of a milder Omicron variant gives reason for optimism heading into 2022 despite some economic headwinds, most notably in the form of further Brexit disruption, inflationary and cost of living pressures, and the potential for rising interest rates.

AEW UK REIT

Alex Short, manager:

Strong capital growth this quarter was largely driven by the performance of the industrial assets. It continues to be a challenging period for the high street retail sector, but with valuations stable again this quarter, we are starting to see cause for selective optimism. We are often seeing divergence between high street retail and retail warehousing assets, in terms of both tenant and investor demand, with this being evident in retail warehousing valuations.

Picton Property

Michael Morris, chief executive:

Continued strong investment and occupational demand in the industrial sector again led to very positive during the quarter. There remains a supply/demand imbalance, especially in the South East multi-let market, which is continuing to drive rental and capital growth.

Residential

Residential Secure Income

Ben Fry, manager:

The secular tailwinds remain strong. As the nation continues to adapt to post-pandemic working and living patterns, the ageing population and rising house prices continue to drive demand for high quality retirement property and affordable homes. Our portfolio of inflation-linked rental housing continuing to deliver both inflation-protected income and meet homeowners' needs for affordable rents.

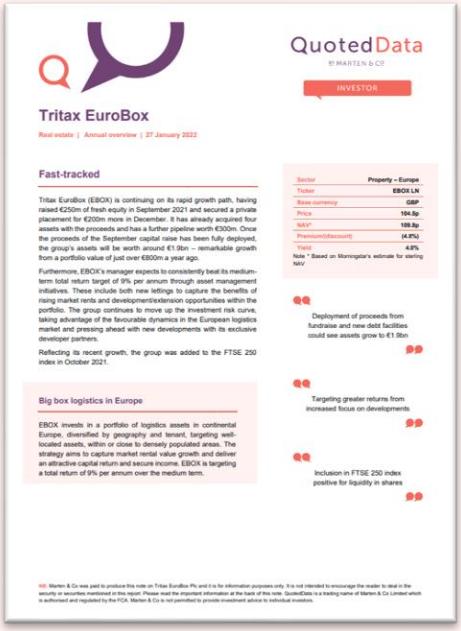
Healthcare

Target Healthcare REIT

Kenneth MacKenzie, manager:

The [care home] sector's long-term fundamentals remain highly compelling, and we are well placed to capitalise on these through our broadening occupier mix and balance sheet strength. In our role as an engaged landlord, we have worked closely with all our tenants as they have dealt with challenges of the latest COVID outbreak. We are tentatively confident that we are through the worst and that the portfolio is well-placed to perform through 2022, albeit the pandemic's residual effects may result in some limited asset management initiatives being required in the short-term to protect income and value.

Real estate research notes



Tritax EuroBox

Real estate | Annual overview | 27 January 2022

Fast-tracked

Tritax EuroBox (EBOX) is continuing on its rapid growth path, having raised €250m of fresh equity in September 2021 and secured a private placement for €200m more in December. It has already acquired four assets with the proceeds and has a further pipeline worth €300m. Once the proceeds of the September capital raise has been fully deployed, the group's assets will be worth around €1.9bn – remarkable growth from a portfolio value of just over €800m a year ago.

Furthermore, EBOX's manager expects to consistently beat its medium-term total return target of 9% per annum through asset management initiatives. These include both new lettings to capture the benefits of rising market rents and development/extension opportunities within the portfolio. The group continues to move up the investment risk curve, taking advantage of the favourable dynamics in the European logistics market and pressing ahead with new developments with its exclusive developer partners.

Reflecting its recent growth, the group was added to the FTSE 250 index in October 2021.

Big box logistics in Europe

EBOX invests in a portfolio of logistics assets in continental Europe, diversified by geography and tenant, targeting well-located assets, within or close to densely populated areas. The strategy aims to capture market rental value growth and deliver an attractive capital return and secure income. EBOX is targeting a total return of 9% per annum over the medium term.

Sector	Property – Europe
Ticker	EBOX LN
Base currency	GBP
Price	104.5p
NAV*	109.8p
Premium/(discount)	(4.8%)
Yield	4.9%

Note * Based on Morningstar's estimate for sterling NAV

Deployment of proceeds from fundraise and new debt facilities could see assets grow to €1.9bn

Targeting greater returns from increased focus on developments

Inclusion in FTSE 250 index positive for liquidity in shares

An annual overview on Tritax EuroBox (EBOX. The group has rapidly grown over the past year and look to grow further following a substantial capital raise.

Urban Logistics REIT

REITs | Update | 22 December 2021

In the sweet spot

It has been a whirlwind few months for Urban Logistics REIT (SHED) as it continues to grow rapidly in one of the best-performing real estate sectors in the UK. The group deployed the proceeds of a July capital raise in short order and earlier this month raised a further £250m to plough into a net asset value (NAV) accretive pipeline. The logistics sector is currently in the sweet spot, with high demand for space and a chronic lack of supply resulting in strong and sustained rental growth.

Not resting on its laurels, SHED has an active asset management approach to its portfolio, whereby it has been driving valuations up through lettings, refurbishments and development. Testament to this, the group posted a portfolio valuation uplift of 11.3% on a like-for-like basis in the six months to September 2021 – 71% of which was due to asset management initiatives.

Earlier this month SHED moved its listing from the AIM market to the premium segment of the main market of the London Stock Exchange, which should improve liquidity in its shares.

'Last mile' logistics

SHED invests in a diverse portfolio of single-let, urban logistics properties located in the UK with the aim of providing its shareholders with a 10% to 15% total return per annum.

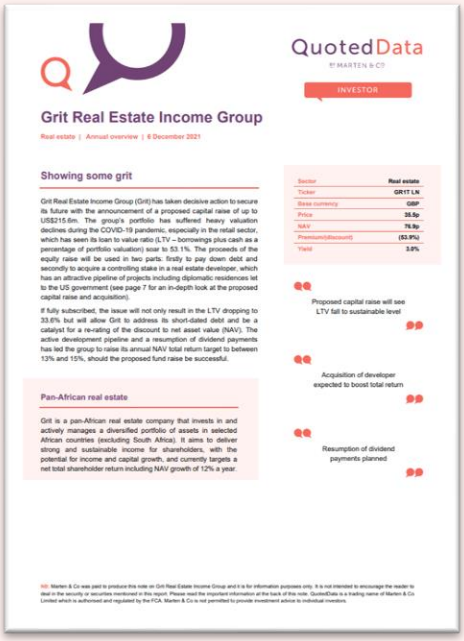
Sector	Property – UK Logistics
Ticker	SHED LN
Base currency	GBP
Price	198.5p
NAV	162.6p
Premium/(discount)	11.8%
Yield	4.2%

Seeing sustained rental growth due to strong demand and lack of supply of its assets

Net asset value and earnings accretive investment pipeline

Liquidity in shares should improve after move to the main market of the London Stock Exchange

An update note on Urban Logistics REIT (SHED). The group is on the acquisition trail having secured £250m in an oversubscribed capital raise.



Grit Real Estate Income Group

Real estate | Annual overview | 6 December 2021

Showing some grit

Grit Real Estate Income Group (Grit) has taken decisive action to secure its future with the announcement of a proposed capital raise of up to US$215.6m. The group's portfolio has suffered heavy valuation declines during the COVID-19 pandemic, especially in the retail sector, which has seen its loan to value ratio (LTV – borrowings plus cash as a percentage of portfolio valuation) soar to 53.1%. The proceeds of the equity raise will be used in two parts: firstly to pay down debt and secondly to acquire a controlling stake in a real estate developer, which has an attractive pipeline of projects including diplomatic residences let to the US government (see page 7 for an in-depth look at the proposed capital raise and acquisition).

If fully subscribed, the issue will not only result in the LTV dropping to 33.6% but will allow Grit to address its short-dated debt and be a catalyst for a re-rating of the discount to net asset value (NAV). The active development pipeline and a resumption of dividend payments has led the group to raise its annual NAV total return target to between 13% and 15%, should the proposed fund raise be successful.

Pan-African real estate

Grit is a pan-African real estate company that invests in and actively manages a diversified portfolio of assets in selected African countries (excluding South Africa). It aims to deliver strong and sustainable income for shareholders, with the potential for income and capital growth, and currently targets a net total shareholder return including NAV growth of 12% a year.

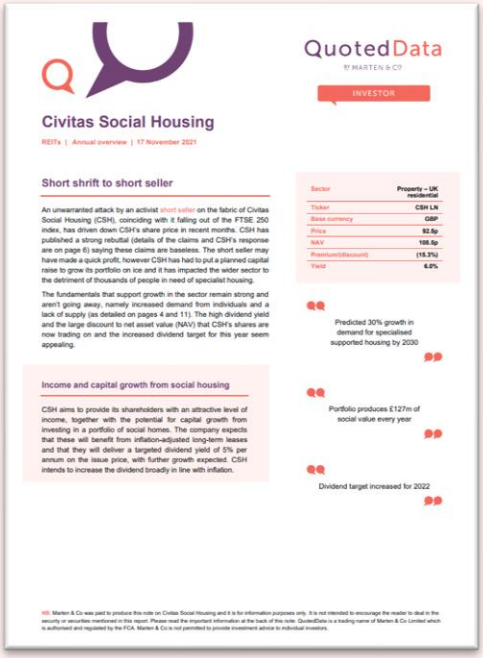
Sector	Real estate
Ticker	GR1T LN
Base currency	GBP
Price	35.5p
NAV	76.9p
Premium/(discount)	(53.9%)
Yield	3.9%

Proposed capital raise will see LTV fall to sustainable level

Acquisition of developer expected to boost total return

Resumption of dividend payments planned

An annual overview on Grit Real Estate Income Group (GR1T). The pan-African property group plans to boost shareholder returns through the acquisition of a developer.



Civitas Social Housing

REITs | Annual overview | 17 November 2021

Short shrift to short seller

An unwarranted attack by an activist short seller on the fabric of Civitas Social Housing (CSH), coinciding with it falling out of the FTSE 250 index, has driven down CSH's share price in recent months. CSH has published a strong rebuttal (details of the claims and CSH's response are on page 6) saying these claims are baseless. The short seller may have made a quick profit, however CSH has had to put a planned capital raise to grow its portfolio on ice and it has impacted the wider sector to the detriment of thousands of people in need of specialist housing.

The fundamentals that support growth in the sector remain strong and aren't going away, namely increased demand from individuals and a lack of supply (as detailed on pages 4 and 11). The high dividend yield and the large discount to net asset value (NAV) that CSH's shares are now trading on and the increased dividend target for this year seem appealing.

Income and capital growth from social housing

CSH aims to provide its shareholders with an attractive level of income, together with the potential for capital growth from investing in a portfolio of social homes. The company expects that these will benefit from inflation-adjusted long-term leases and that they will deliver a targeted dividend yield of 5% per annum on the issue price, with further growth expected. CSH intends to increase the dividend broadly in line with inflation.

Sector	Property – UK residential
Ticker	CSH LN
Base currency	GBP
Price	92.5p
NAV	108.5p
Premium/(discount)	(15.3%)
Yield	6.0%

Predicted 30% growth in demand for specialised supported housing by 2030

Portfolio produces £127m of social value every year

Dividend target increased for 2022

An annual overview on Civitas Social Housing (CSH). The fundamentals that support growth in the specialised supported housing sector remain strong and aren't going away, with a large demand and supply imbalance.

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