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INVESTOR

March 2022

Monthly roundup | Real estate

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Winners and losers in February 2022

Best performing funds in price terms

	(%)
Circle Property	14.8
Supermarket Income REIT	5.0
Urban Logistics REIT	4.8
First Property Group	4.0
Unite Group	3.3
Empiric Student Property	0.9
Safestore Holdings	0.6
Land Securities	0.5
PRS REIT	0.5
Phoenix Spree Deutschland	0.3

Source: Bloomberg, Marten & Co

Worst performing funds in price terms

	(%)
Raven Property Group	(46.4)
Derwent London	(10.6)
Great Portland Estates	(10.6)
Ediston Property Inv. Company	(10.3)
Town Centre Securities	(9.2)
CLS Holdings	(9.2)
Civitas Social Housing	(8.5)
Workspace Group	(8.4)
Assura	(7.7)
Abrdn European Logistics Income	(7.6)

Source: Bloomberg, Marten & Co

The geopolitical uncertainty caused by the Russian invasion of Ukraine has hit markets hard. On the whole, the property sector suffered losses during February, but there were a few companies that saw small share price gains. The outlier was Circle Property, which saw its share price rise 14.8% in the month following its announcement that it would sell assets and return capital to shareholders after suffering a persistently wide discount to net asset value (NAV). Supermarket Income REIT saw a healthy 5% increase in its share price, perhaps as a 'safe haven' investment having proven its resilience in times of uncertainty during the pandemic. The supply-demand dynamics at play in the logistics sector could result in another year of strong rental growth, offering some protection from rampant inflation this year. Urban Logistics REIT, which is focused on the sub-sector with the greatest rental growth prospects, saw its share price rise 4.8% in February. Student accommodation specialist Unite Group reported encouraging results during the month, which saw NAV increase 7.8% (see page 2) and demand for university places grow (see page 7).

It was no surprise to see Raven Property Group, which owns a portfolio of Russian warehouses, see its share price almost half during the month. Following Putin's war on Ukraine, investors have understandably shunned Russian stocks, while sanctions on the country are likely to have devastating effects on the economy. The group's share price has tanked further in early March after putting out a statement expressing concerns over accessing funds from its Russian subsidiaries. It is difficult to say what the future holds for the company. Central London office developers and landlords Derwent London and Great Portland Estates both saw double-digit falls in their share prices (despite Great Portland Estates announcing a record breaking year of leasing deals – see page 4), while flexible office specialist Workspace and European and UK office owner CLS Holdings also suffered heavy losses. Town Centre Securities, which invests in high street retail and car parks, saw its share price come off 9.2% in February, having risen by double-digits in January after announcing it would embark on a £5m share buyback programme to address its wide discount to NAV.

Valuation moves

Company	Sector	NAV move (%)	Period	Comments
SEGRO	Logistics	39.7	Full year to 31 Dec 21	Portfolio value was up 28.8% to £18.4bn
Standard Life Investments Property Income Trust	Diversified	8.5	Quarter to 31 Dec 21	On a like-for-like basis the portfolio increased in value by 6.9% to £499.9m
UK Commercial Property REIT	Diversified	7.9	Quarter to 31 Dec 21	Portfolio value increased 7.6% on a like-for-like basis to £1.5bn
Unite Group	Student accom.	7.8	Full year to 31 Dec 21	Property portfolio saw a 5.2% increase in valuations on a like-for-like basis to £5.3bn
Custodian REIT	Diversified	7.3	Quarter to 31 Dec 21	Portfolio value up 5.2% to £637.9m
Derwent London	Offices	3.9	Full year to 31 Dec 21	Value of portfolio up 3.5% to £5.7bn
Irish Residential Properties REIT	Europe	3.9	Full year to 31 Dec 21	Portfolio valuation uplift of 8.2% to €1.5bn
Primary Health Properties	Healthcare	3.4	Full year to 31 Dec 21	Valuation uplift on property portfolio of 4.1% to £2.8bn
Alternative Income REIT	Diversified	2.9	Quarter to 31 Dec 21	Like-for-like portfolio valuation uplift of 4.6% to £107.7m
Abrdn European Logistics Income	Europe	1.9	Quarter to 31 Dec 21	Portfolio valuation increased 2.5% to €666.0m
Capital & Counties	Retail	0.1	Full year to 31 Dec 21	Value of portfolio fell 1.3% to £1.8bn
Grit Real Estate Income	Rest of world	(15.3)	Half-year to 31 Dec 21	Property portfolio stable at €802.3m. Decrease due to dilutionary effect of issuance

Source: Marten & Co

Corporate activity in February

The board of GCP Co-Living REIT paused the marketing of the company's initial public offering (IPO) following the events in Ukraine. The company had been looking to raise £300m and invest in the fledgling co-living residential sector.

LXI REIT raised £250m in a substantially oversubscribed issue. The group has quickly deployed the proceeds into a pipeline of long-income investments (details on page 4).

Impact Healthcare REIT raised £40m from investors and will issue 35,087,720 new ordinary shares at a price of 114p. The proceeds will be used to fund a near-term pipeline of assets including forward funding opportunities.

Abrdn European Logistics Income raised £38m (€45.6m) in a placing pursuant to its share issuance programme. The group has a near-term funding requirement totalling €142m.

Residential Secure Income raised gross proceeds of £15m from a placing of 13,824,884 new ordinary shares. Together with debt facilities, the group plans to buy £39m of shared ownership housing.

Supermarket Income REIT was assigned an investment grade credit rating of BBB+ (stable outlook) by Fitch Ratings, opening it up to a wider range of debt funding strategies.

Civitas Social Housing's credit rating of A (senior secured) and long-term IDR (Issuer Default Rating) of A- with a stable outlook was affirmed by Fitch.

February's major news stories – from our website

- **LXI REIT deploys proceeds of £250m raise**

LXI REIT deployed the proceeds of its £250m equity raise in less than a month, purchasing 19 assets in total. The group now has a portfolio of 191 properties and 70 tenants, with its largest sector weightings being: foodstores (25%), industrial and logistics (17%) and budget hotels (13%).

- **British Land continues urban logistics growth with £157m purchase**

British Land acquired three warehouses in Wembley for £157m, as it continued to build its urban logistics exposure. The three warehouses comprise over 245,000 sq ft on a 12.5-acre site and are fully let to Amazon, Euro Car Parts and the North London Waste Authority generating an annual income of £3.6m, equating to a net initial yield of around 2.3%.

- **Hammerson sells Leeds mall for £120m**

Hammerson sold Victoria Gate and Victoria Quarter shopping centres in Leeds for £120m. The group said the sale was in line with its strategy to dispose of non-core assets to strengthen its balance sheet and re-cycle capital into its core portfolio and development pipeline.

- **Circle Property to return sales proceeds to shareholders as it battles persistent discount**

Circle Property said it plans to sell more assets and return capital to shareholders after selling its largest asset, Kents Hill Park for £34.5m, as it battles a persistently wide discount to net asset value.

- **Tritax EuroBox goes Dutch with €144.3m buy**

Tritax EuroBox acquired a pre-let logistics development in Roosendaal, the Netherlands, for €144.26m, reflecting a net initial yield of 3.5%. The asset is pre-let to a "top four global discount supermarket retail group" and was purchased from Logistics Capital Partners (LCP), one of the company's main development and asset management partners.

- **Great Portland Estates breaks record leasing year**

Great Portland Estates announced it had broken its leasing record for the financial year with two months to spare after signing new lettings worth a combined annual rent of £32.5m, surpassing its previous record leasing high of £31.8m.

- **Empiric Student Property buys in Bristol**

Empiric Student Property has acquired a new 92-bed purpose-built studio asset in Bristol city centre for £19.0m, reflecting a net initial yield of 4.75%.

- **LondonMetric acquires urban logistics site and eyes redevelopment**

LondonMetric Property acquired an urban logistics warehouse in Luton, that has redevelopment potential, for £15.5m. The 168,000 sq ft property is located on Luton Enterprise Park and is let to two occupiers with a WAULT of three years.

- **Schroder REIT sells Nottingham office at big premium**

SchroderREIT exchanged contracts to sell The Arc, a 44,602 sq ft office in Nottingham, for £13m. The disposal price represents a 39% premium to the 31 December 2021 independent valuation and reflects a net initial yield of 4.5%.

- **AEW UK REIT progresses Glasgow sale**

AEW UK REIT was granted planning consent for the demolition and development of a 527-unit student accommodation scheme at 225 Bath Street in Glasgow city centre, paving the way for the sale of the site to IQ Student Accommodation. The sale of the vacant office scheme and redeployment of the capital will see earnings increase.

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

Custodian REIT

Richard Shepherd-Cross, investment manager:

Inflation is a clear and present risk in the market today and traditionally investors have looked to real estate as a hedge against the negative impact of inflation on investment returns. Over the longer-term history suggests property values and rents will increase broadly in line with inflation. Following a period of growth, the challenge for managers is to own properties with further rental growth potential whose valuation will most closely keep pace with rising prices.

The greater driver of inflation appears to be cost-push rather than demand-pull as the economy struggles with supply chain constraints, labour shortages and the aftermath of pandemic restrictions. These factors all mitigate against widespread, low cost, speculative development which would otherwise help resolve the demand/supply imbalance that is promoting rental growth. We believe Custodian REIT's portfolio is particularly well positioned to see rental growth as it is focused on smaller regional properties. In the industrial and logistics sector, which accounts for 50% of the portfolio by value, smaller properties are more expensive to develop, pro-rata, so require higher rents to justify development. Rents will continue to grow until they balance out inflation in build costs.

UK Commercial Property REIT

Kerri Hunter, interim investment manager:

We expect the polarisation in the office market to deepen over the course of 2022. Demand for prime assets should remain robust but weaken for secondary accommodation. Those office assets not deemed to be 'future-fit' are likely to see limited occupational and investor demand as ESG requirements become ever more important. This will result in value erosion and a heightened risk of asset obsolescence. As a result, we expect the office sector to underperform in 2022, with a greater wedge between prime and secondary rents.

Overall retail performance is showing signs of improvement. However, we believe this to be primarily driven by market factors and a product of the market cycle, rather than sector-specific confidence. From an occupational perspective, there is still significant risk of further retailer defaults and the prospect for rental growth remains remote. The sector remains polarised with retail warehouse assets, particularly discount-led schemes, expected to drive performance.

While the industrial sector is unlikely to match the extremely strong performance achieved in 2021, total returns are expected to remain robust in 2022. There is little scope for further yield compression and sector performance is likely to be driven by the occupational market. Demand continues to outstrip supply, allowing for upward pressure on rental values. Prime industrial and distribution assets are best placed to capture this reversionary potential. Although the industrial sector has experienced a pick-up in supply, increasing land values and a shortage of suitable development sites will help to keep supply levels in check.

Despite the Bank of England's recent interest rate rise to 0.25% in December 2021, and anticipated further rises over the course of 2022, rates will remain low in a historical context. This ensures a healthy margin between bonds and real estate. Rising inflation may also attract further investment into the UK real estate market from investors seeking to hedge their inflation risks. Assets providing long-term, secure, index-linked cash flows are in line to benefit.

Standard Life Investments Property Income Trust

Jason Baggaley, investment manager:

In 2021, UK real estate performance reached levels not seen since 2015, with the industrial sector outperforming the all property average by a significant margin. Indeed, the spread between the best and worst performing sectors reached the highest level on record in 2021. However, we anticipate that the spread in performance between sectors will begin to converge, predominantly as a result of where we are in the UK real estate cycle.

The office sector was the worst performing sector in 2020. We think that the structural headwinds facing the sector will result in offices underperforming the wider market in 2022. But there will be a clear polarisation in performance between Grade A and secondary office buildings. A divergence in performance by quality is beginning to emerge, particularly in markets where vacancy rates are not significantly above historical averages. Premiums are being paid for Grade A office stock that is truly 'future-fit' and possesses the necessary credentials: flexibility, amenity, connectivity, technology and sustainability. Assets that score strongly on these metrics will be best placed to capture and retain tenants during a period of significant structural change for the sector.

ESG considerations are crucial for all UK real estate sectors. This has become increasingly pertinent following the implementation of the government's Minimum Level of Energy Efficiency standard (MEES). By 2025, MEES will make it unlawful for commercial landlords to lease space with an EPC rating below E. By 2030, all commercial properties must have a rating of EPC B or higher. This requires landlords to place a greater emphasis on the ESG credentials of their commercial properties.

Offices

Derwent London

Paul Williams, chief executive:

Our forward ERV guidance has improved through the last 12 months. We estimate our ERVs will grow in the range 0% to +3% in 2022 as an average across our portfolio. As the economic recovery gathers pace, we expect this will translate into sustained future growth. With continuing strong investment demand, we expect investment yields to remain firm.

London is firmly coming back to life. It continues to attract global talent as a leading city where people want to live and work. Our 'long-life, loose-fit, low carbon' approach, combined with the delivery of distinctive next generation developments, puts us in an excellent position to benefit from the emergence of rental growth for the best properties.

Logistics

SEGRO

David Sleath, chief executive:

We enter 2022 with considerable confidence in the outlook for the business and its ability to deliver continued growth. The effects of the pandemic are ongoing, and we remain mindful of macroeconomic and geopolitical risks, but the world is adapting quickly and learning how to function alongside COVID-19 with the lasting impacts on the way that we live and work strengthening occupier demand. It has highlighted the importance of global supply chains facilitated by high-quality logistics space and we have positioned our business to take advantage of these structural tailwinds.

Against a backdrop of strong demand from an increasingly diverse range of businesses, combined with historically low vacancy rates across Europe, we expect rental growth to continue across our markets. We believe that the growth rate will be highest where developable land is in short supply, for example in urban markets such as London and Paris. This acute supply-demand imbalance delivered record rental growth during 2021, resulting in significant accumulated rental reversion in the portfolio which we will be working hard to capture during 2022 and the coming years.

Inflationary pressures remain but we expect to be able to offset these in our existing portfolio by capturing the significant reversion in lease reviews and renewals, whilst benefiting from indexation provisions in our remaining leases which represent approximately 40% of our rent roll. Rental growth has also allowed us to maintain the profitability of our development programme despite the additional cost pressures arising from increased construction and material costs.

The unique supply-demand dynamics of the industrial sector have attracted increasing competition from both investors and developers, but we are confident in our ability to source profitable new opportunities to grow. As evidenced during 2021, the combination of our significant portfolio of modern assets in the most desirable locations across Europe together with our well-established operating platform provides us with a clear competitive advantage.

Healthcare

Primary Health Properties

Steven Owen, chairman:

The ageing demographic of western populations means that health services will be called upon to address more ongoing, complex, chronic co-morbidities. PHP stands ready to play its part in delivering the real estate infrastructure required to meet this need in the community.

Despite the continued volatility in the economic and political environment and the prolonged era of low interest rates, there continues to be an unrelenting search for secure, long and reliable income. Primary healthcare, with its strong fundamental characteristics and government-backed income, has been a significant beneficiary of this trend. The UK and Irish markets for primary healthcare property investment continues to be highly competitive with strong yields and prices being paid by investors for assets in the sector throughout 2021.

In July 2021, the UK government published a draft Health and Social Care Bill setting out a number of reforms in order to implement the commitments of the NHS England Long Term Plan. This included the introduction of regional Integrated Care Boards and Partnerships tasked with co-ordinating NHS partners with local government services and budgets such as social care and mental health, in a geographic area, for the first time; the idea being that services are then pushed to the most efficient, cost-effective part of the system (whether primary care, hospital or care home) for the best patient outcomes. We welcome these reforms and are hopeful they will lead to better outcomes for patients and to further development opportunities in primary care in the medium to long-term.

Student accommodation

Unite Group

Richard Smith, chief executive:

The outlook for student accommodation remains positive, with structural factors continuing to drive a demand-supply imbalance for our product. Demographic growth will see the population of UK 18-year-olds increase by 22% by 2030. Participation rates in the UK also continue to grow and are now at their highest ever level, reflecting the value young adults place on a higher level of education and the life experience and opportunities it offers.

The government is targeting growth in international student numbers, aided by the two-year post-study visa (three years for postgraduates). This ambition is underpinned by the UK higher education sector's global standing and the strength of its universities. Given constraints on new supply of university-owned stock and private-rented housing, the vast majority of this new demand will need to be met by corporate PBSA (purpose built student accommodation) providers.

Brexit has had a negative impact on EU student numbers due to the loss of home fee status and access to a tuition fee loan, with student acceptances falling from 32,000 to 16,000 in 2021/22. EU customers represent 5% of occupancy in 2021/22, down from 10% in 2019/20. We anticipate a more marginal reduction in EU student numbers over the next two years, which we expect to be more than offset through increasing demand from UK and non-EU students.

The Skills for Jobs white paper, published in 2021, underlines the government's commitment to widening participation in post-18 education and strengthening the global standing of the UK higher education sector.

Europe

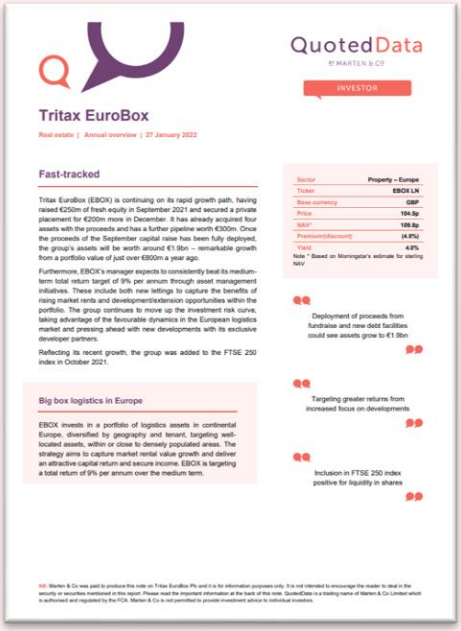
Irish Residential Properties REIT

Margaret Sweeney, chief executive:

Housing in Ireland is a sensitive sector from public, government, political and regulatory perspectives, due to significant supply challenges in meeting growing demand for new homes. This has resulted in a number of changes to the regulatory environment over the last year, including changes in stamp duty and rent price regulation. The company continues to engage with and take account of this changing landscape in its investment and operating decision making.

The economic growth outlook for Ireland and the fundamentals of our business remain strong with a young growing population, reducing household sizes, and continuing strong international investment supporting continued requirements for good quality professionally managed private rental accommodation. As we enter 2022, headwinds in relation to inflation and interest rates, which have not been a significant factor over the last 10 years, will put necessary focus on operational costs and efficiencies from operational scalability and enabling technology. The company is fortunate to have significant head room in its debt facilities as well as extended maturities, to minimise the impact of future interest rate increases.

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.

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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

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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.

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

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Sector	Property – UK Logistics
Ticker	SHED LN
Base currency	GBP
Price	166.5p
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

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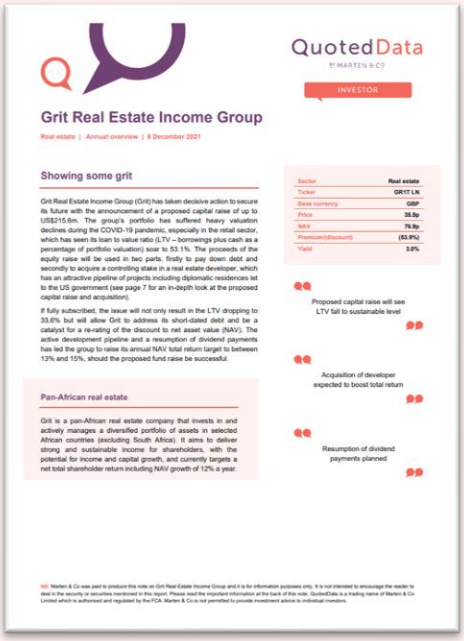

Grit Real Estate Income Group

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.

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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

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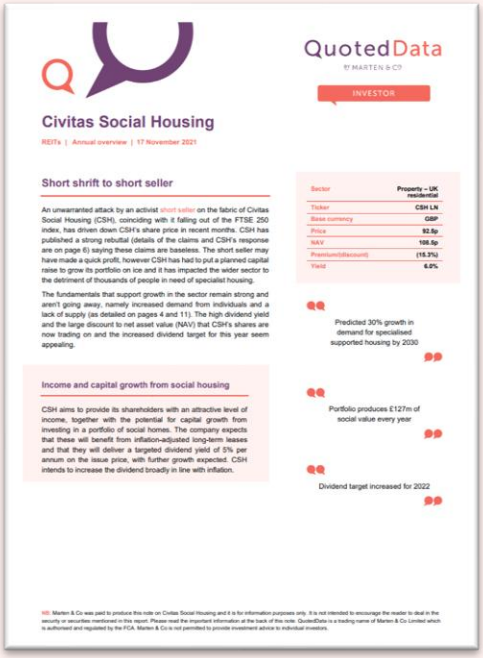
An annual overview on Grit Real Estate Income Group (GR1T). The pan-African property group plans to boost shareholder returns through the acquisition of a developer.

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.



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.

QuotedData
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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

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