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BY MARTEN & CO

INVESTOR

February 2023

Monthly roundup | Real estate

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Winners and losers in January 2023

Best performing funds in price terms

	(%)
Great Portland Estates	15.1
Sirius Real Estate	14.2
Land Securities	14.0
Workspace Group	13.6
Hammerson	12.8
Tritax Big Box REIT	12.4
NewRiver REIT	12.3
British Land	12.0
IWG	11.8
Schroder REIT	10.8

Source: Bloomberg, Marten & Co

Worst performing funds in price terms[1]

	(%)
Triple Point Social Housing REIT	(18.7)
Capital & Regional	(11.0)
Balanced Commercial Property Trust	(10.3)
Civitas Social Housing	(9.7)
CEIBA Investments	(8.6)
Residential Secure Income	(6.4)
CLS Holdings	(6.2)
Supermarket Income REIT	(6.1)
Palace Capital	(6.1)
Life Science REIT	(5.4)

Source: Bloomberg, Marten & Co. Note 1) Trading in Home REIT's shares is currently suspended

2023 started positively for the property sector, with a median average share price uplift of 1.3%. A gloomy economic outlook at the end of 2022 saw many property companies' share prices fall to substantial discounts to NAV, which now look attractive. Leading the way was London office developer and landlord Great Portland Estates, which announced that the final quarter of 2022 was a record for lettings activity as best-in-class offices continue to demonstrate occupier resilience. The property titans – Land Securities and British Land – both saw decent share price performance as investors look for value, while flexible, serviced office providers Workspace Group and IWG continued a run that has seen their share prices rise 23.4% and 40.6% over three months respectively. Retail heavyweight Hammerson and retail park owner NewRiver REIT also continued a resurgence in their share prices, with Hammerson up 40.3% and NewRiver up 25.1% over three months. Logistics specialist Tritax Big Box REIT bounced back in January, having seen its share price fall 44.3% in 2022 as valuations in the logistics sub-sector plummeted following a rise in interest rates.

The share prices of both social housing specialists Triple Point Social Housing REIT and Civitas Social Housing were hit after an enforcement notice was served on one of their tenants – My Space (which makes up 7.9% of Triple Point's annual rent and just 1.3% of Civitas's). Both companies, which are looking to re-assign the leases to other housing associations, may also have been impacted by the ongoing troubles of Home REIT (details of which can be found on page 3). However, the properties held by both social housing players deliver mid- and high-acuity care in a highly regulated sector (which is not the same as with homeless accommodation). Other property companies to suffer a share price fall in January include secondary shopping centre landlord Capital & Regional, which ended a run of share price gains at the end of 2022. Supermarket Income REIT suffered a 6.1% share price decline despite announcing it had taken a majority stake in a Sainsbury's-let portfolio (more details on page 4). Life Science REIT's share price continues to disappoint despite positive fundamentals in the nascent sub-sector and leasing momentum at the company (further information on page 4).

Valuation moves

Company	Sector	NAV move (%)	Period	Comments
Impact Healthcare REIT	Healthcare	(5.5)	Quarter to 31 Dec 22	Like-for-like portfolio valuation fall of 4.0% to £532.5m
Picton Property	Diversified	(12.4)	Quarter to 31 Dec 22	Portfolio valuation dropped 9.0% to £758.6m
AEW UK REIT	Diversified	(13.9)	Quarter to 31 Dec 22	Value of portfolio fell 10.8% on a like-for-like basis to £209.4m

Source: Marten & Co

Corporate activity in January

Home REIT's troubles continued in January. Trading in its shares were suspended at the start of the month after it missed the statutory deadline for publishing its annual results due to an need for an enhanced audit following allegations made by a short seller. Later in the month the company confirmed reports that some of its largest tenants were withholding rent and the month ended with further worrying news that allegations of bribery at the company were being investigated by the National Crime Agency. The company is due to hold its AGM on 20 February where it will update shareholders on its plan to move forward.

Circle Property proposed a return of capital to shareholders by way of the issue of B Shares. This will allow the company to make successive bonus issues of redeemable B Shares to shareholders and to redeem them shortly thereafter. Subject to the passing of the resolution at an Extraordinary General Meeting, the board expects that the first return of capital of at least £30m, being £1.03 per share will take place in March 2023. The company has suffered limited liquidity in its shares and a persistent discount to NAV since it listed in 2016. In February last year it announced a strategy to sell its assets and return money to shareholders.

Land Securities appointed Sir Ian Cheshire as an independent non-executive director and chair designate. Sir Ian will join the board on 23 March 2023 and will succeed Cressida Hogg as chair on 16 May 2023, when she retires after almost five years as chair and over nine years on the board. Sir Ian is currently chair of Channel 4, Spire Healthcare Group Plc, UK investment trust Menhaden Resource Efficiency Plc and serves as non-executive director at BT Group Plc. He will step down as chair (but remain as non-executive director) at Menhaden Resource Efficiency Plc on 16 May 2023 and retire from BT Group Plc at their AGM in July 2023 to ensure he has sufficient capacity to act as chair of Land Securities.

Great Portland Estates announced that non-executive director Charles Philipps will retire from the board on 30 March 2023 after nine years of service. He will be succeeded as senior independent director by Nick Hampton, who joined the board in October 2016.

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January's major news stories – from our website

- **Land Securities sells City office for £350m**

Land Securities sold One New Street Square, EC4 to Chinachem Group for £349.5m. The sale price compares to a September 2022 valuation of £362.8m, but crystallises a total return on capital averaging 10% per annum since its acquisition of the site in June 2005 and subsequent redevelopment in 2016. One New Street Square is fully let to Deloitte, with a 14-year unexpired lease term remaining and a current annual net rent of £16.8m.

- **Supermarket Income REIT increases Sainsbury's JV stake**

Supermarket Income REIT acquired a further 25.5% stake in a portfolio of 26 Sainsbury's supermarkets for £196m, resulting in its ownership of the joint venture increasing to 51% (the remaining 49% interest is held by Sainsbury's Plc). The ownership structure of the portfolio will contractually unwind in 2023, when Sainsbury's will acquire 21 of the stores for £1.04bn. Supermarket Income REIT will receive a minimum of £380m in cash from Sainsbury's in two tranches for the sale of the 21 stores, £264m in March 2023 and £116m in July 2023.

- **Urban Logistics REIT buys five assets for £48m**

Urban Logistics REIT acquired five new assets for a total of £48m at a net initial yield of 6.0%. It bought a portfolio of four assets for £39.5m and a separate asset for £8.7m. All of the assets are income producing but with short- or medium-term asset management opportunities.

- **Derwent London makes £54m City sale**

Derwent London sold 19 Charterhouse Street, in the City of London, for £54.0m. The 63,170 sq ft building, which was purchased in 2013 for £41.3m, is occupied by the London College of Accountancy at a rent of £2.6m a year on a lease expiring in August 2025. The sale price represents a 4.6% net initial yield and a small discount to June 2022 book value.

- **Impact Healthcare REIT bags portfolio for £56m**

Impact Healthcare REIT acquired a portfolio of six care homes for £56m, which will partly be paid in cash and partly with an issue of new shares to the vendor Morris Care. The portfolio has 438 beds, with five in Shropshire and one in Cheshire.

- **LondonMetric report strong logistics demand**

LondonMetric completed 62 lettings, lease regears and rent reviews in the four months since 30 September 2022, adding £2.4m of annualised rent, delivering an average uplift of 21% against previous passing.

- **Primary Health Properties grows in Ireland**

Primary Health Properties acquired Irish property management business Axis Technical Services Limited and signed a long-term development pipeline agreement providing access to a €50m pipeline of future primary care projects in Ireland.

- **Life Science REIT completes two lettings**

Life Science REIT announced two lettings across its portfolio. It has let 4,887 sq ft of the ground floor of Building One at Oxford Technology Park to Oxford Ionics Limited, an Oxford University spin, and 7,322 sq ft at its Rolling Stock Yard asset in London to a life science company backed by Syncona.

- **Circle Property continues disposal programme**

Circle Property sold Victory House, 400 Pavilion Drive, Northampton for £2.75m, as it continues to sell down its assets and return capital to shareholders. The 22,300 sq ft office building was acquired by the Group in 2011 for £1.7m and valued at £3.2m at 31 March 2022.

- **Custodian Property Income REIT puts retail asset under the hammer**

Custodian Property Income REIT sold a high street retail unit in Bury St Edmunds at auction for £0.54m, 35% ahead of valuation. It had recently increased the lease term by five years.

Visit https://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

AEW UK REIT

Laura Elkin, manager:

Following interest rate rises and the unfolding UK macro-economic backdrop, real estate valuations across all market sectors, in particular at the prime end of the industrial and warehousing sector, fell significantly during the quarter. The value of the Company's assets has not been immune from this trend with like-for-like value loss of 10.82% during the quarter ending 31 December. Nevertheless, this compares favourably to wider market declines with the CBRE monthly index showing capital value falls of 6.8%, 5.5% and 3% for all UK property in October, November and December respectively. This indicates total value loss in the index of 14.57% during the quarter.

Volatile markets can present significant opportunities for an actively managed value strategy such as our own and, following a number of timely disposals which helped to maximise the values of key assets during the summer of 2022, we purchased two high-quality retail assets over the period. During the quarter, vendor requirements for sale led to valuations moving materially in favour of purchasers and this has allowed AEWU to access quality locations at more favourable pricing. This opportunity is also demonstrated in our investment pipeline where attractive assets in a number of sectors can currently be bought at income levels that are accretive to the Company's earnings and at capital values in line with their long-term fundamentals. Looking forward, we are confident that the supply of value opportunities will continue during the first half of 2023 and are excited to progress with some of these using our available cash resources and capital if it can be efficiently recycled.

The Company's diversified exposure and active asset management style help provide investors with counter-cyclical performance from some assets, with the values of several properties bucking wider market trends - either gaining or holding value during the quarter as a result of accretive business plans. The Odeon Cinema in Southend on Sea increased in value by 37 per cent. during the period as a result of a completed lease renewal. In addition, four new leases or agreement for leases were completed at the Central Six Retail Park in Coventry and the value of the asset remained the same during the quarter. Further capital and income growth is expected in future periods as a result of our focus on active asset management.

Picton Property

Lena Wilson, chairman:

During the quarter we have seen the impact of market volatility on our property portfolio valuation. Our modest gearing level, predominately fixed rate loan facilities and strong dividend cover have helped to mitigate the impact on net assets. Encouragingly, looking at the MSCI Monthly Index at an All Property level, rental growth remains positive and the rate of capital decline reduced in December relative to October and November.

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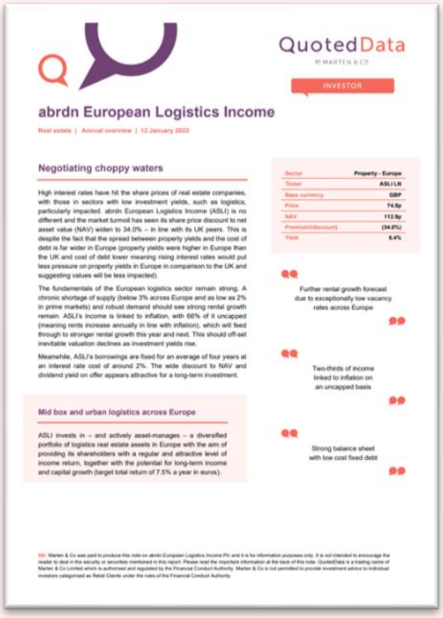
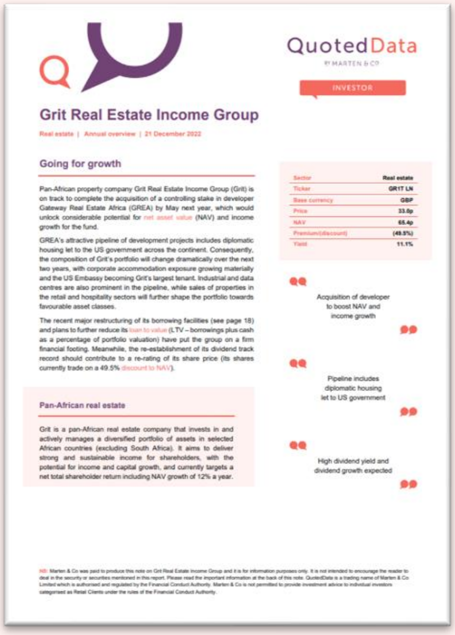
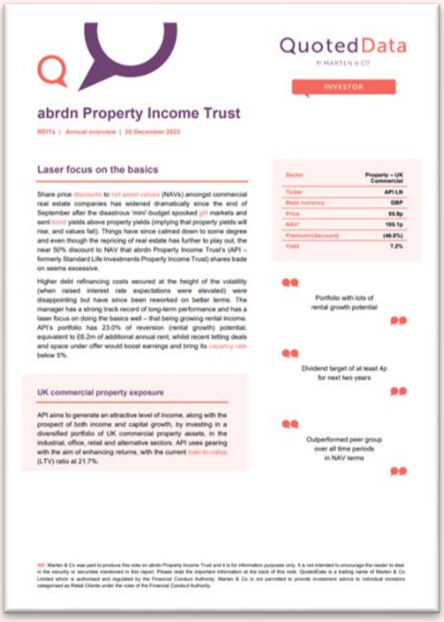
Real estate research notes



An annual overview on abrdn European Logistics Income (ASLI). The group is looking to negotiate current choppy waters through contractual index-linked rental growth and a strong balance sheet.

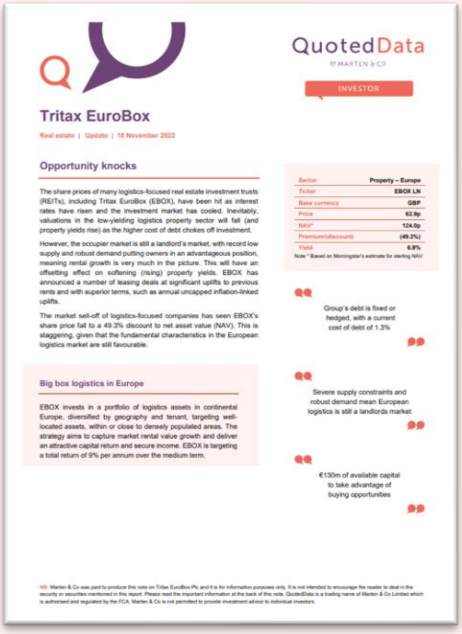
An annual overview note on Grit Real Estate Income Group (GR1T). The company is on track to acquire a controlling stake in an African developer that should unlock huge NAV and earnings growth potential.





An annual overview on abrdn Property Income Trust (API). The company's discount to NAV widen considerably in October 2022 after it refinanced its debt at inferior terms at the height of the bond market volatility. It has since refinanced the debt again on far superior terms and is well placed for income growth.

An update on Tritax EuroBox (EBOX). The company's share price discount to NAV has widened along with the rest of the sector as interest rate rises hit valuations. The occupier fundamentals in the sector remain strong, however.



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