



May 2023

Monthly roundup | Real estate

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Winners and losers in April 2023

Best performing funds in price terms

	(%)
Industrials REIT	41.1
Lok'n Store	15.6
Life Science REIT	12.3
Grainger	11.0
Tritax Big Box REIT	10.9
Urban Logistics REIT	10.5
Triple Point Social Housing REIT	10.2
Target Healthcare REIT	10.1
Picton Property	10.1
LondonMetric Property	9.7

Source: Bloomberg, Marten & Co

Worst performing funds in price terms

	(%)
Conygar Investment Company	(6.7)
Capital & Regional	(4.3)
Globalworth Real Estate	(3.7)
Ground Rents Income Fund	(3.4)
Ceiba Investments	(2.7)
Grit Real Estate Income Group	(1.5)
Dolphin Capital Investors	(1.3)
Civitas Social Housing	(0.7)
Unite Group	(0.1)
Balanced Commercial Property Trust	0.0

Source: Bloomberg, Marten & Co

Property stocks returned to positive territory in April after months of losses due to the impact of higher interest rates on valuations. The first signs of values stabilising are starting to feed through with company's NAV updates for the end of March (see page 2). Reflecting this, the median average share price rose across the sector by 4.3%. **Industrials REIT** was the subject of a take-private bid at a whopping 42% premium to its share price (see page 3). Its share price reacted in kind and may have been the catalyst for a re-rating of other industrial and logistics-focused companies. **Tritax Big Box REIT**, **Urban Logistics REIT** and **LondonMetric Property** all made the top 10 price movers in the month. We would have expected to see more of a positive reaction to the bid price for Industrials REIT across the property sector, however investor caution continues to be displayed towards the sector. Other positive price movers included **Life Science REIT**, whose share price is recovering from an all-time low in March, and **Triple Point Social Housing REIT**, which launched a share buyback programme to tackle its large discount.

An eclectic mix of companies made up the worst performing funds in April, topped by small-cap owner and developer **Conygar Investment Company**. The topsy-turvy performance of secondary shopping centre owner **Capital & Regional** continued, having seen a double-digit gain in March. Cuban real estate specialist **Ceiba Investments** saw its share price fall following the announcement of a drop in NAV in annual results, reflecting the difficulties in the Cuban economy. The company will internalise its management, saving costs (see page 3). Mediterranean hotel developer **Dolphin Capital Investors**, which is in the process of selling down its assets and returning capital to shareholders, saw its share price fall after getting caught up in a legal row following the firing of its manager over an "undeclared" property deal (see last month's quarterly roundup). Post month end, **Civitas Social Housing** was the subject of a £485m bid for the company (see page 3 for details). Although at a significant premium to its share price, the bid was a 26.7% discount to its March 2023 NAV, substantially undervaluing the company in our view.

Valuation moves

Company	Sector	NAV move (%)	Period	Comments
CT Property Trust	Diversified	1.3	Quarter to 31 Mar 23	Portfolio valuation uplift of 0.8% to £288.3m
AEW UK REIT	Diversified	0.5	Quarter to 31 Mar 23	Like-for-like valuation increase of 0.8% over the quarter to £213.8m
Ceiba Investments	Rest of world	(0.8)	Full year to 31 Dec 22	NAV fell 11.4% in dollar terms
abrdn European Logistics Income	Europe	(7.8)	Full year to 31 Dec 22	Like-for-like portfolio valuation fell 4% to €759m
Balanced Commercial Property Trust	Diversified	(12.3)	Full year to 31 Dec 22	Portfolio valuation down 10.5% to £1.1bn
abrdn Property Income Trust	Diversified	(16.0)	Full year to 31 Dec 22	Value of portfolio down 16.7% over the year to £416.2m
UK Commercial Property REIT	Diversified	(21.9)	Full year to 31 Dec 22	Value of portfolio down 15.4% in the year to £1.3bn

Source: Marten & Co



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Corporate activity in April

Post month end, **Civitas Social Housing** agreed the terms of a sale of the company to Wellness Unity Limited, a subsidiary of CK Assets, for £485m. Although the bid price of 80p per share is a 44.4% premium to the closing price on 5 May 2023, it is a 26.7% discount to the unaudited NAV at 31 March 2023 of 109.16 pence (readers interested in more information may wish to read our most recent note on Civitas, published in February, where we commented that the hefty discount it was trading at was unjustified - [click here](#) to read). Civitas' board admitted that the offer undervalues the long-term prospects of the company but "recognises that Civitas and the sector in which it operates faces a number of challenges in light of the current macro environment and outlook" and has recommended shareholders vote in favour of the bid.

Industrials REIT has agreed terms on a £511m cash offer for the company by US private equity giant Blackstone. Under the offer, each shareholder would receive 168p per share, which represents a premium of 42.4% to the closing price on 31 March 2023 (the last day before the initial announcement about a possible bid was made) and a "material" premium to the group's expected EPRA NTA for 31 March 2023, which has yet to be published. The Industrials REIT directors intend to recommend unanimously that shareholders vote in favour of the bid, while it already has the support of shareholders representing 22.4% of the ordinary share capital. Shareholders will vote on the bid at a general meeting in May.

Regional REIT's manager, London and Scottish Property Investment Management (LSPIM), completed the sale of a majority stake in the company to ARA Asset Management Limited. Stephen Inglis, chief executive of LSPIM, retained a significant minority interest. The board says that there will be no disruption to the services provided to Regional REIT and adds that it believes the transaction will enhance the overall strength and capabilities of the asset manager.

Triple Point Social Housing REIT announced a share buyback programme to address its wide share price discount to NAV, which has been around the 60% mark for a number of weeks. It will initially buyback £5m worth of shares, which it says will be accretive to NAV and increase dividend cover. The company is also in the process of selling a portfolio of assets, with some of the proceeds

being used to return capital to shareholders through an extension of the share buyback programme.

Shaftesbury Capital redeemed the Chinatown and Carnaby bonds, after the bondholders exercised a change of control put option. The redemption of the bonds was funded in full by the group's £576m loan facility with Barclays Bank, BNP Paribas SA and HSBC Bank, which was secured on 16 June 2022.

LXI REIT has a new £565m secured, interest-only debt facility with a syndicate of banks, comprising a £200m five-year revolving credit facility, a £115m five-year term loan and a £250m three-year term loan. The blended margin on the facility is 2.23% per annum over SONIA. The company has purchased interest rate caps representing £400m to cap the SONIA cost of the facility at a rate of 2.0%, resulting in an all-in rate of 4.23% per annum for the first three-years of the facility.

Urban Logistics REIT has proposed a change in its management agreement that will see Logistics Asset Management LLP, which currently undertakes the day-to-day running of the company through asset management services, take over from PCP2 (which is part of the Pacific Investments Group) as investment adviser. Pacific will transfer its interests in the investment adviser to Richard Moffitt and Christopher Turner – part of the existing management team. The investment adviser's appointment is to be extended for a further three years from 12 May 2024 and may be terminated on one year's notice from 12 May 2026 onwards. Under the terms of the proposal (which will be voted on by shareholders on 11 May 2023), the annual advisory fee will also be reduced from May 2024.

Ceiba Investments agreed to internalise the investment management contract away from abrdn plc. Sebastiaan Berger, the lead fund manager of Ceiba and a current employee of abrdn, will move to Ceiba as chief executive together with the existing management team. 4K Keys Limited, a company owned by the management team that currently provides consulting services to abrdn in connection with the management of Ceiba, will be appointed to provide strategic consulting services focused on generating cash flows from the real estate assets of the company's subsidiaries. There will be no change to the board of directors of the company as a result of the internalisation. Subject to contract, the internalisation is expected to become effective on 30 June 2023.

April's major news stories – from our website

- **Hammerson sells Paris shopping centre in €164m deal**

Hammerson completed the disposal of its 25% stake in Italie Deux, a 62,000 sqm shopping centre in central Paris, and 100% of the 6,500 sqm Italik extension, for €164m to Ingka Centres. This represents a 4% discount to 31 December 2022 book value and a net equivalent yield of 5.0%. The sale proceeds will be used to reduce the company's net debt.

- **Record year for lettings at Great Portland Estates**

Great Portland Estates recorded a record year for leasing, signing 105 new leases and renewals covering 861,200 sq ft and generating annual rent of £55.5m in the year to 31 March 2023. These were at an average 3.3% above the March 2022 estimated rental value (ERV).

- **Supermarket Income REIT bags Tesco store for £38.3m**

Supermarket Income REIT acquired a Tesco omnichannel supermarket in Worcester, for £38.3m, reflecting a net initial yield of 6.0%. The store is being acquired from British Steel Pension Fund, with an unexpired lease term of 12 years, with annual upwards only RPI-linked rent reviews (subject to a 4.0% cap and 0.0% floor).

- **UK Commercial Property REIT secures 40% rental uplift in trio of deals**

UK Commercial Property REIT secured a trio of new leases at an average premium of 40% to the previous passing rent. It signed Webcon, a supplier of car parts, to a five-year lease renewal for Unit 1 at Dolphin Industrial Estate in Sunbury-on-Thames, Surrey; South West Ambulance Service to a new 10-year lease for Unit 111 at Emerald Park, Bristol; and KFC to a 20-year lease renewal on Unit 4 at Trafford Retail Park in Manchester.

- **abrdn Property Income Trust shops Morrison's store**

abrdn Property Income Trust completed the purchase of a Morrison's supermarket in Welwyn Garden City for £18.3m, through a sale and leaseback deal, with Morrison's entering into a new 25-year lease with rent reviews linked to CPI.

- **Industrials REIT completes multi-let industrial transition**

Industrials REIT sold its interest in a German care home joint venture for £15.6m, completing its five-year transition to become a 100% UK multi-let industrial business.

- **Sirius Real Estate makes €12.2m disposals**

Sirius Real Estate completed the disposals of two assets for a combined total of €12.2m, representing an average net initial yield of 4.1%. It sold a 15,000 sqm mixed-use business park in Wuppertal, in North Rhine Westphalia, Germany, and a vacant office building in Ipswich, UK.

- **Value and Indexed Property strikes deal in Coventry**

Value and Indexed Property Income Trust acquired a leisure asset at Coventry Crosspoint Business Park that comprises a bowling alley and two small restaurant units for £7.8m, reflecting a net initial yield of 7.4%.

- **Town Centre Securities sells residential scheme in Leeds**

Town Centre Securities sold the residential element of its development site at Whitehall Riverside, Leeds, to the build-to-rent residential developer Glenbrook for £13.0m, ahead of its book value of £10m as at 31 December 2022.

- **abrdn Property Income Trust lets four floors at 54 Hagley**

abrdn Property Income Trust leased 21,500 sq ft of office space across four floors of 54 Hagley Road in Birmingham. The letting to the UK Curriculum and Accreditation Body will be for a period of 10 years at an initial rent of £429,750 per annum and accounts for 14% of the group's overall portfolio vacancy.

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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.

Europe

abrdn European Logistics Income

Tony Roper, chairman:

Rising construction and financing costs and an uncertain economic landscape will likely exacerbate an already delayed construction pipeline as we expect construction activity to continue to weaken this year, with inflationary pressures being felt throughout the supply chain.

This lack of new development, which is typically more sustainable, energy-efficient buildings, and the delay in refurbishment projects transforming older stock will put further pressure on occupiers who are increasingly seeking best-in-class space, especially as corporate ESG strategies increasingly restrict the leasing of buildings that are not green certified.

If the indicators suggesting inflation is nearing its peak across the eurozone are borne out, there is likely to be a recovery in values in 2024, especially if interest rates follow consensus forecasts in heading back down towards 2%. Certainly there is evidence that investors are already looking at opportunities once again in the market, and this should offer more positive momentum later in the year. Whilst we will continue to screen for new acquisitions, our core focus for the coming year will be on optimising the current portfolio in terms of both occupancy and earnings growth. We retain a strong conviction in our investment strategy and during this period of inflationary pressure, the company's indexation characteristics should provide a level of inflation protection alongside our attractive dividend yield.

Diversified

CT Property Trust

Matthew Howard, fund manager:

Following the rapid repricing of real estate in the second half of 2022, the early part of 2023 has shown a stabilisation in yields for some property sub sectors. Industrial/logistics property and retail warehousing in particular is attracting renewed investor interest. There were early signs in December that the market was emerging from a period of 'pricing discovery' with an uptick in investment activity following the relative market paralysis between September to November. These cautious steps have continued into the first quarter with investment activity gathering pace as we head into the spring. Increasing confidence in real estate pricing has been supported by the stability in 10-year UK government bonds, which over the past five months have trended around the 3.5% level (having peaked at 4.6% in September) meaning the pricing margin to UK real estate is closer to the generally accepted long term risk premia.

As such, yields for resilient assets and sectors have seen some marginal appreciation since the start of the year suggesting that the worst is behind us for 'relevant' real estate. This is reflected in the capital return of our industrial and retail warehouses (representing 77.9% by value of the portfolio), which were +0.8% and +2.5% respectively. We also saw a small rebound of +0.7% in our high street assets, a sector that has been largely repriced in recent years and offers an attractive income return for the portfolio. As always, the markets remain nuanced. Prime offices, of high quality, strong amenity and ESG credentials have seen some value stabilisation, but we expect values for offices of a quality below the best-in-class to remain under pressure owing to the ongoing uncertainties and structural risk repricing for this property segment. Our offices saw capital loss of -1.6% over the period.

The MSCI monthly data indicates that All-Property capital values moved -1.2% at a market level for Q1 2023. This may reflect a degree of overhang from Q4, with March showing positive capital movements on a monthly basis for the first time since June 2022. The quarterly data, which reflects a larger pool of funds, will be released in a few weeks.

In context of the recent economic backdrop, we have spoken much of the continued positive news within the occupational markets. At a market level, we saw rental growth within the logistics market in excess of 10% over 2022, with vacancy rates remaining at near record lows nationally. Trading within retail warehouses now exceeds that of pre-pandemic levels and, as a format, is attractive to retailers as part of omni channel sales strategies, a trend which has caused a headache for shopping centres and high street assets.

Our investment strategy to focus on resilient locations, smaller assets and active management will be key to our performance as markets continue to adopt a cautious view of the year ahead. Occupiers, although proving resilient, are still navigating inflationary pressures and the full effects of consumer credit squeeze are perhaps yet to be completely felt. Against this backdrop, we remain confident in our conviction position to industrial and retail warehousing and the prospects for portfolio income and capital growth in the near term.

abrdn Property Income Trust

Jason Baggaley, investment manager:

Given the magnitude and speed of correction we have seen in sectors including supermarkets, industrial and logistics, and long duration income more generally, we believe that the market pricing for these areas of UK real estate will find a floor much quicker than we have seen in previous cycles. As such, our outlook, and forecasts for these areas of the market have improved materially, given the size of the corrections experienced.

Following the poor reception to the mini budget in September 2022 longer term yields may have peaked in early 2023 and could reduce by year end if inflation falls as predicted. Lower yields, and in particular forward swap rates, will make utilising debt more accretive again and will likely increase investment volumes as debt backed buyers re-enter the market.

It is never easy to call the bottom of a market cycle, however it appears that the industrial sector may be bottoming out about now, with offices and retail values having further to fall. The rapid repricing of the UK market means that the prospective returns from today's levels look more attractive, along with the likely improvement of the yield premium of growth assets over gilts as the year develops. abrdn forecasts a market return of 4.3% over the 3 years from April 2023.

The outlook is positive for the industrial sector and particularly for better quality assets in strong locations, as both occupiers and investors narrow their focus on best-in-class assets. The size and speed of value correction in 2022 means the sector now looks better value relative to other real estate sectors and indeed, other asset classes. The sector continues to benefit from structural tailwinds and a positive supply/demand dynamic, with the UK wide vacancy rate remaining near historic lows and new supply levels likely to remain muted due to higher development costs. Whilst we anticipate the industrial vacancy rate to move higher this year, largely as a result of a weaker economic backdrop, we expect occupational demand to remain robust as the advent of 'onshoring' and continued demand for e-commerce supports demand for good quality accommodation. As a result, further rental value growth is expected and is likely to drive performance in the medium term. There is the prospect for capital value growth for best-in-class assets, as investors once again compete for good quality industrial accommodation with strong occupational fundamentals.

The office sector continues to face real structural headwinds as working habits remain altered following the COVID-19 pandemic. Indeed, the bifurcation between best-in-class and secondary office space is acutely evident, becoming even more entrenched during 2022. Secondary office accommodation is at risk of obsolescence and asset stranding, while the capital requirements to ensure assets meet minimum ESG standards is unlikely to lead to positive returns.

The office sector did not reprice as much as many other UK property sectors in 2022, predominantly due to limited transactional evidence. However, we expect further pricing discovery to emerge over the course of 2023 and for secondary accommodation, this is likely to result in large downward revisions to valuations. Supply of truly best-in-class office space remains extremely limited across the UK which will provide more support for pricing and tenant demand.

Performance within the retail sector is expected to remain polarised in 2023. Consumer spending habits will be driven by consumer cost considerations and as such, non-discretionary led retailing is expected to be best placed.

Following a period of repricing in 2022, the retail warehouse sector is garnering more interest from investors, particularly for food anchored schemes with a discount orientated line-up which will be more insulated from any slowdown in consumer spending. Equally, the supermarket sector now looks attractive following a broad re-pricing last year, but the sector will not be immune to increasingly price sensitive consumers, with supermarket operators adapting to changes in consumer behaviour. A divergence in performance between the supermarket operators is already evident and as such, a focus on the quality of the underlying real estate will remain crucial.

The outlook for 2023 feels a lot more positive than it did at the end of 2022. Tenant demand remains resilient for good quality accommodation, and the impact of high interest rates and gilt yields seems to be easing, although recent turmoil in the banking sector is a timely reminder that risks still remain. If the UK can experience some political stability and a soft landing, then it feels as though real estate is well placed to benefit following the short sharp correction of 2022.

Balanced Commercial Property Trust

Richard Kirby, fund manager:

Inflationary pressures and the cost of debt are easing, gilt and swap markets have settled, and the Bank of England has signalled that their forecast for growth for 2023 is less negative than previously feared. There is therefore an expectation that the real estate market will move to a recovery phase in the second half of 2023 although the impact of credit tightening from the recent banking market volatility has created further uncertainty.

As capital growth returns, the diversification of the Company's portfolio offers both a steady footing alongside growth potential. We expect continued recovery at St Christopher's Place to be a bedrock of returns. The industrial and retail warehousing sectors – which account for over 40 per cent of the portfolio – have been oversold but retain a strong performance outlook founded on their critical role in UK business and consumer infrastructure. Much has been made of the uncertain outlook for the offices sector, but the portfolio is aligned towards prime assets that continue to deliver occupier demand. The portfolio is therefore aligned to continue to deliver capital outperformance, founded on the portfolio's prime nature that will benefit from a flight to quality.

Income is the driver of real estate returns in the long run. Across the sectors, the occupational markets have been relatively resilient. The Company's portfolio is generating an attractive yield premium at a time when income will dominate total returns. The portfolio offers strong reversionary rental potential alongside ample opportunity for delivery of this income upside. Maintaining a low vacancy and exploiting lease events to crystallise rental uplifts will be of paramount importance in generating a stable and growing income stream, alongside capital appreciation.

UK Commercial Property REIT

Ken McCullagh, chairman:

2022 was a year dominated by inflationary pressures. The monetary policy tightening phase, which began in earnest to tame inflation, saw interest rates increasing across all major economies. Whilst it appears that we are now past peak inflation globally, 2023 is likely to be another year dominated by inflation and more importantly for real estate, by the interest rate policy of central banks.

Looking forward, and despite the poor performance in 2022, the outlook is more positive for the industrial sector where the Company has a weighting of 59.1%. The size and speed of capital value correction in 2022 means the sector now looks better value relative to other real estate sectors. The sector continues to benefit from structural tailwinds and a positive supply/demand dynamic, with the UK-wide vacancy rate at 3.3%, (according to CoStar), a near historic low.

Overall, we expect a recovery in UK real estate performance in 2023. The pace of repricing for UK real estate in 2022 means opportunities will arise over the course of 2023, particularly as the path of monetary policy turns more accommodative. Those sectors that benefit from longer-term growth drivers, such as the industrial and living sectors, will see greater demand return, attracted by re-based yields and rental value growth prospects. We believe that market pricing for these areas of UK real

estate is finding a floor more quickly than we have seen in previous cycles. As such, our outlook, and forecasts for these areas of the market, have improved materially. Inflationary pressures are expected to moderate as we move through 2023, with the BoE likely to commence its base rate cutting cycle in the latter part of the year which will provide a more supportive backdrop for real estate pricing.

Real estate research notes

QuotedData
BY MARTEN & CO
INVESTOR

Lar España Real Estate
Real estate | Initiation | 14 March 2023

Dominant assets make a resilient business

Lar España Real Estate has passed the most severe stress test in recent history in the form of the pandemic and has come out the other side in good shape. 2022 results show that the value of its Spanish shopping centre and retail park portfolio has rebounded (underpinned by rising interest rates in the second half of the year, which had the impact of pushing real estate investment yields up and capital values down). Retail sales at its assets broke through the €1bn mark for the first time and are well ahead of pre-pandemic levels.

The good operational performance can be put down to the quality of the portfolio and dominant nature of the assets in their region. Online retailing is having less of an impact in Spain, but nevertheless the company's portfolio is geared up for an omnichannel retail future (the seamless integration of physical and online retailing), with several initiatives to optimise both channels.

The group's borrowings are at a fixed interest rate of 1.8%, having been refinanced in 2021, with a maturity of almost five years. The fact that its share price is trading on a discount to net asset value (NAV) of around 50% and the dividend yield is over 11% seems logical.

Exposure to Spanish retail

Lar España Real Estate aims to grow its 20% net tangible assets (NTA) through active asset management of Spanish commercial real estate, and deliver high returns primarily through the payment of considerable annual dividends.

Real estate	LRE 9M
Ticker	ESR
Base currency	EUR
Price	45.74
NAV	69.83
Premium/discount	(33.2%)
Yield	11.7%

Key highlights:

- Discount malls and retail parks seeing hotel and sales recover to pre-COVID levels
- Low, fixed-rate debt, with long maturity, enhancing returns
- Large discount to NAV and high dividend yield should see re-rating

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← An initiation note on Lar España Real Estate (LRE). The dominant nature of the company's assets have proved their resilience in hard times. Now the company has returned dividends back to pre-pandemic levels.

QuotedData
BY MARTEN & CO
INVESTOR

Civitas Social Housing
REITs | Annual overview | 14 February 2023

Time to buy?

Civitas Social Housing (CSH) has sustained a fall in its share price which sees it trade at a discount of 44.4%. This seems unduly unjustified given the strong market fundamentals in the social housing sector and the group's proven, secure government-backed income.

CSH's inflation-linked leases (which benefit from annual rental uplifts in line with inflation as measured by the consumer price index (CPI) or CPI+1%) more than compensated for a higher discount rate used to value its portfolio on a discounted cash flow method (following market volatility caused by higher interest rates) and resulted in CSH reporting a healthy cash-in net asset value (NAV) in September 2022 – one of the only real estate investment trusts (REITs) to do so in the period. Its NAV fell by 3.4% in the quarter to December 2022, which compares favourably with the REIT sector.

The inflation protection, improving strength of its tenants, and strong market fundamentals make the group's discount to NAV and high dividend yield extremely attractive.

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 8% per annum on the issue price, with further growth expected. CSH intends to increase the dividend broadly in line with inflation.

Property - UK REITs	CSH
Total	GBP1.6
Base currency	GBP
Price	61.7p
NAV	116.5p
Premium/discount	(46.6%)
Yield	3.2%

Key highlights:

- Inflation-linked leases offsetting valuation falls
- Financial strength of housing association tenants improving
- Social housing market fundamentals remain strong

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→ An annual overview note on Civitas Social Housing (CSH). Inflation protection, improving strength of its tenants, and strong market fundamentals make the group's discount to NAV and high dividend yield extremely attractive.

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BY MARTEN & CO
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abrdn European Logistics Income
Real estate | Annual overview | 12 January 2023

Negotiating choppy waters

High interest rates have hit the share prices of real estate companies, with those in sectors with low investment yields, such as logistics, particularly impacted. abrdn European Logistics Income (ASLI) is no different and the market turmoil has seen its share price discount to net asset value (NAV) widen to 34.2% – in line with its UK peers. This is despite the fact that the spread between property yields and the cost of debt is far wider in Europe (property yields were higher in Europe than the UK and cost of debt lower meaning rising interest rates would put less pressure on property yields in Europe in comparison to the UK and suggesting values will be less impacted).

The fundamentals of the European logistics sector remain strong. A chronic shortage of supply (below 2% across Europe and as low as 2% in prime markets) and robust demand should see strong rental growth remain. ASLI's income is linked to inflation, with 85% of its uncapped (meaning rents increase annually in line with inflation), which will lead through to stronger rental growth this year and next. This should offset inevitable valuation declines as investment yields rise.

Meanwhile, ASLI's borrowings are fixed for an average of four years at an interest rate cost of around 2%. The wide discount to NAV and dividend yield on offer appears attractive for a long-term investment.

Mid box and urban logistics across Europe

ASLI invests in – and actively asset-manages – a diversified portfolio of logistics real estate assets in Europe with the aim of providing its shareholders with a regular and attractive level of income return, together with the potential for long-term income and capital growth (target total return of 7.5% a year in nominal).

Property - Europe	ASLI
Ticker	ASLI.L
Base currency	GBP
Price	74.9p
NAV	112.9p
Premium/discount	(34.2%)
Yield	8.4%

Key highlights:

- Further rental growth forecast due to exceptionally low vacancy rates across Europe
- Two-thirds of income linked to inflation on an uncapped basis
- Strong balance sheet with low cost fixed debt

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← 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.

QuotedData
BY MARTEN & CO
INVESTOR

Grit Real Estate Income Group
Real estate | Annual overview | 21 December 2022

Going for growth

Pan-African property company Grit Real Estate Income Group (Grit) is on track to complete the acquisition of a controlling stake in developer Gateway Real Estate Africa (GRESA) by May next year, which would unlock considerable potential for its asset value (NAV) and income growth for the fund.

GRESA's attractive pipeline of development projects includes diplomatic housing led to the US government across the continent. Consequently, the composition of Grit's portfolio will change dramatically over the next two years, with corporate accommodation exposure growing materially and the US Embassy becoming Grit's largest tenant. Industrial and data centres are also prominent in the pipeline, while sales of properties in the retail and hospitality sectors will further shape the portfolio towards favourable asset classes.

The recent major refurbishment of its booming facilities (see page 18) and plans to further reduce its cost-to-serve (CTV) – downings plus cash as a percentage of portfolio valuations) have put the group on a firm financial footing. Meanwhile, the re-establishment of its dividend track record should contribute to a re-rating of its share price (its shares currently trade on a 49.9% discount to NAV).

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 (including 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.

Real estate	GR1T
Ticker	GR1T.L
Base currency	GBP
Price	33.9p
NAV	66.9p
Premium/discount	(49.9%)
Yield	11.1%

Key highlights:

- Acquisition of developer to boost NAV and income growth
- Pipeline includes diplomatic housing led to US government
- High dividend yield and dividend growth expected

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→ 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.



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