



## Real estate quarterly report

Second quarter 2023 | July 2023

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### Discounted indiscriminately

Stubbornly high inflation in the UK has raised the prospect of higher for longer interest rates, with the base rate hitting 5.0% in the UK dashing any hopes of a recovery in commercial property values for the foreseeable future. This negative outlook was reflected in the share price performance of real estate investment trusts (REITs) and listed property companies, as shown in the chart to the right.

Having bounced somewhat at the start of the second quarter (following an 8.9% fall in the first three months of the year) average share prices across the sector plummeted 6.0% in June and by 3.5% in the second quarter. In the first half of the year average share prices are down 10.3%. Investor sentiment towards the property sector has seen discounts to net asset value (NAV) widen indiscriminately across the sector, to levels not seen since the start of the pandemic. This was despite NAVs stabilising in the first quarter and asset sales backing up the legitimacy of book values. Sales were most evident in the industrial and logistics sector, where investors have been attracted by the re-rated assets.

As a result of the wide discounts, merger and acquisition (M&A) activity has intensified. During the quarter, Industrials REIT and Civitas Social Housing were taken private, while LondonMetric acquired CT Property Trust.

### In this issue

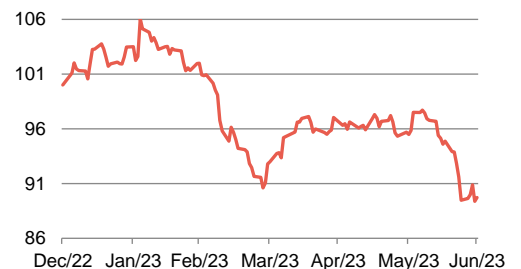
- **Performance data** – Office landlords took the brunt of share price falls
- **Corporate activity** – Home REIT appointed a new manager in a bid to turn things around
- **Major news stories** – Asset sales dominated the headlines

### Best performing companies in price terms in Q2 2023

	Chg. on quarter (%)
Civitas Social Housing	48.8
CT Property Trust	17.8
Triple Point Social Housing REIT	14.8
Lok'n Store	12.9
NewRiver REIT	12.8

### Property sector performance\*

Time period 31/12/2022 to 30/06/2023



Source: Bloomberg, Marten & Co. Note \*: Average share price of listed property companies rebased to 100

### Biggest property companies at the end of Q2 2023

	Market cap (£m)	Chg. on quarter (%)
SEGRO	8,779	(5.4)
Land Securities	4,258	(7.6)
Unite Group	3,502	(8.8)
British Land	2,808	(21.9)
Tritax Big Box REIT	2,336	(10.6)



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### Analysts

**Richard Williams**

[rw@quoteddata.com](mailto:rw@quoteddata.com)

**Matthew Read**

[mr@quoteddata.com](mailto:mr@quoteddata.com)

**James Carthew**

[jc@quoteddata.com](mailto:jc@quoteddata.com)

## Performance data

**Figure 1: Best performing companies in price terms in Q2**

	%
Civitas Social Housing	48.8
CT Property Trust	17.8
Triple Point Social Housing REIT	14.8
Lok'n Store	12.9
NewRiver REIT	12.8
Sirius Real Estate	11.3
Life Science REIT	9.7
Workspace Group	8.2
Palace Capital	6.9
Real Estate Investors	5.2

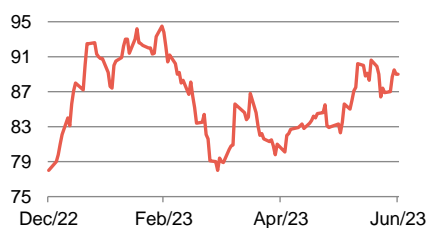
Source: Bloomberg, Marten & Co

**Figure 2: Worst performing companies in price terms in Q2**

	%
Warehouse REIT	(22.3)
British Land	(21.9)
Balanced Commercial Property Trust	(19.7)
Great Portland Estates	(18.1)
IWG	(16.2)
Supermarket Income REIT	(15.7)
Tritax EuroBox	(15.5)
Regional REIT	(13.8)
Helical	(13.3)
Derwent London	(13.1)

Source: Bloomberg, Marten & Co

**Figure 3: NewRiver YTD**



Source: Bloomberg, Marten & Co

## Best performing property companies

Civitas Social Housing's share price jumped almost 50% in the quarter after receiving a bid to take it private in May (more details on page 7), at a large premium to its prevailing share price. The bid was also a 26.7% discount to Civitas's NAV, reflecting the sector's wide discounts. The share price of the company's peer Triple Point Social Housing REIT also rose substantially off the back of the bid.

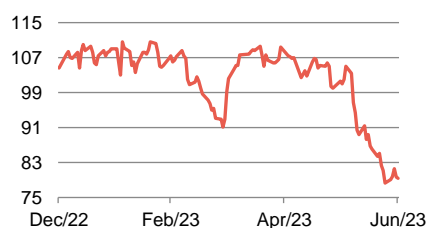
Civitas was not the only subject of M&A activity in the quarter. CT Property Trust was the subject of an all-share bid from LondonMetric, at a decent premium, which resulted in its share price jumping almost 20%.

NewRiver REIT published annual results during the period that showed its strategy to focus on resilient retail was paying off with strong operational performance. Meanwhile, the company continues to lower its debt through the proceeds of asset sales, with its LTV now standing at 30%.

Of the rest, Life Science REIT continued its decent share price performance this year as it makes headway with its letting strategy, while flexible office provider Workspace announced favourable annual results compared to the rest of the market and continued to beef up its balance sheet with non-core disposals.

## Worst performing companies

**Figure 4: Warehouse REIT YTD**



Source: Bloomberg, Marten & Co

**Warehouse REIT** saw its share price fall by more than 22% in the quarter after it reported an almost 30% drop in NAV in the year to the end of March. The industrial and logistics sector has been hardest hit in terms of valuation declines following the rapid rise in interest rates over the past nine months, reflecting the extremely low property yields that they were trading on.

Another logistics-focused trust, **Tritax EuroBox**, also featured in the list of worst performers and has seen its share price fall 40.4% over 12 months. This is despite reporting strong rental growth and having extremely low cost, long-term, fixed debt.

Property stalwart **British Land** saw its share price fall by more than 20% after reporting another write down in the value of its portfolio in annual results. The recent share price performance, down 32.3% over 12 months, saw it drop out of the FTSE 100 for the first time in 20 years.

Central London office developers **Great Portland Estates**, **Helical** and **Derwent London** all suffered as investors continue to display caution towards the sector in the face of various potential headwinds including potential demand erosion from new ways of working and impending refinancing events that could potentially force fire-sales across the market and impact further on valuations.

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## Significant rating changes

Discounts to NAV in the property sector remain some of the widest in the investment trust world. Figures 5 and 6 show how premiums and discounts to NAV have moved over the course of the quarter.

**Figure 5: Biggest percentage point changes to ratings in Q2 2023 – the 10 greatest improvements**

Company	Sector	Premium/(discount) at 31/03/2023 (%)	Premium/(discount) at 30/06/2023 (%)	Difference (percentage point)
Civitas Social Housing	Residential	(53.2)	(26.8)	26.4
Palace Capital	Diversified	(39.3)	(21.9)	17.4
NewRiver REIT	Retail	(40.2)	(26.4)	13.8
CT Property Trust	Diversified	(32.9)	(21.9)	11.0
Residential Secure Income	Residential	(40.2)	(29.4)	10.8
Sirius Real Estate	Europe	(29.9)	(21.0)	8.9
Schroder REIT	Diversified	(41.8)	(34.7)	7.1
Ediston Property Investment Company	Retail	(35.3)	(28.4)	6.9
Custodian Property Income REIT	Diversified	(21.5)	(14.8)	6.7
Life Science REIT	Offices	(31.1)	(24.4)	6.7

Source: Bloomberg, Marten & Co

We discussed some of the names on this list in the previous section. Civitas's share price bounce brought its discount in line with that of the bid price.

**Palace Capital** reported a fall in NAV during the period, while its share price increased. The company has sold a number of assets at or above book value and is returning money to shareholders through buybacks (although the pace of future sales is likely to slow due to market conditions).

**Residential Secure Income** posted a 16% fall in NAV in the six months to 31 March 2023, which resulted in its discount narrowing to 29.4%. Its share price held up in the quarter but has fallen 25.2% so far this year. At the end of September 2022, the company was trading at a small premium of 1.0%, before the market turmoil.

German and UK business park owner **Sirius Real Estate** reported an uplift in NAV in annual results – one of only a small handful of property companies to have done so in this high interest rate environment – which was reciprocated by a double-digit rise in its share price, closing the discount to 21%.

Diversified funds **Schroder REIT** and **Custodian Property Income REIT** and retail-focused trust **Ediston Property Investment Company** all reported sharp falls in their NAVs, narrowing discounts.

**Figure 6: Biggest percentage point changes to ratings in Q2 2023 – the 10 biggest deteriorations**

Company	Sector	Premium/(discount) at 31/03/2023 (%)	Premium/(discount) at 30/06/2023 (%)	Difference (percentage point)
Supermarket Income REIT	Retail	(5.9)	(20.7)	(14.8)
Balanced Commercial Property Trust	Diversified	(30.4)	(44.2)	(13.8)
Unite Group	Student accom.	3.5	(6.1)	(9.6)
Regional REIT	Offices	(30.6)	(40.2)	(9.6)
Great Portland Estates	Offices	(36.2)	(45.2)	(9.0)
Derwent London	Offices	(35.1)	(43.6)	(8.5)
Tritax Big Box REIT	Logistics	(22.4)	(30.7)	(8.3)
Conygar Investment Company	Diversified	(39.7)	(47.3)	(7.6)
abrdn Property Income Trust	Diversified	(36.4)	(42.1)	(5.7)
Empiric Student Property	Student accom.	(21.7)	(27.0)	(5.3)

Source: Bloomberg, Marten & Co

**Supermarket Income REIT**'s discount widened to 20.7% over the quarter as its share price fell 15.7%. This followed a large portfolio valuation write down (announced at the end of the previous quarter) due to the impact of higher interest rates.

**Balanced Commercial Property Trust**'s share price fell almost 20% over the quarter, despite the company reporting that portfolio values and its NAV had stabilised. At the end of June 2023, it was trading on an extremely wide discount of 44.2%. Its smaller peer, **abrdn Property Income Trust**, trades on a similarly wide discount having seen its share price fall 37.4% over 12 months.

The two student accommodation specialists – **Unite Group** and **Empiric Student Property** – also suffered share price drops during the quarter that saw the former's rating swing to a discount and the latter's discount widen. This was despite both reporting strong occupancy numbers and rental growth forecasts for the upcoming academic year amid a large supply-demand imbalance in the sector.

## Major corporate activity

### Fundraises

There was no fundraising activity in the quarter

For the fourth quarter in a row, there was no fundraising activity as market conditions continue to dictate sentiment.

### Mergers and acquisitions

Civitas will be taken private after a low-ball bid was accepted by shareholders

A bid for **Civitas Social Housing**, by CK Assets, was declared unconditional having received enough support from shareholders. The company's shares are expected to be cancelled on 4 August 2023 with almost 90% of shareholders (including CK Assets' 17% holding) accepting the 80p per share bid (which was made on 9 May at a 27% discount to NAV but at a hefty premium to its share price).

**LondonMetric and CT Property Trust (CTPT)** reached agreement on the terms of a recommended all-share offer that will see LondonMetric acquire the entire share capital of CTPT. CTPT shareholders will receive 0.455 new LondonMetric shares per share, valuing the company at £198.6m. This represented a premium of 34.3% to the closing price of CTPT on 23 May and a discount of 6.3% on a NAV basis.

**Industrials REIT** shareholders voted overwhelmingly in favour of the £511m cash offer for the company made by US private equity giant Blackstone. Under the terms of the offer, each shareholder would receive 168p per share, a hefty premium to its prevailing share price.

### Other major corporate activity

Embattled **Home REIT** appointed AEW UK Investment Management LLP as its new manager. The manager will prioritise rent collection, which fell to 13% for the five months to the end of April 2023, and will also market a portfolio of properties for sale.

**LXI REIT** secured a new £565m 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** changed its management agreement that saw Logistics Asset Management LLP, which previously undertook 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 transferred its interests in the investment adviser to Richard Moffitt and Christopher Turner – part of the existing management team. The investment adviser's appointment was 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 agreement, the annual advisory fee was also 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.

**Life Science REIT** refinanced its existing £150m term loan and revolving credit facility (RCF) with HSBC and Bank of Ireland. The facilities include a £100m fully drawn term loan, increased from £75m, and a £50m RCF facility, both of which have had their terms extended to March 2026, with two further one-year extensions available. Additionally, the company has a £35m accordion facility available on the RCF, if required. Both facilities now carry a cost of SONIA plus a 2.5% margin. The SONIA reference rate on both facilities has been capped at 2.00% per annum until March 2025. The facility also includes a ratchet clause that reduces the margin rate to 2.35% if the gross loan to value ratio decreases to 30%. Following this refinancing £48.7m remains available in the RCF to be utilised in funding the ongoing development at Oxford Technology Park.

**Sirius Real Estate** completed the early refinancing of its next major debt expiry, a €58.3m facility with Deutsche Pfandbriefbank. A new seven-year, €58.3m facility with an all-in fixed interest rate of 4.25% will replace and redeem the existing facility upon its expiry on 31 December 2023 and will run until December 2030. The refinancing extends the group's total weighted average debt expiry from 3.3 years to 5.0 years, while the weighted average cost of debt will increase from 1.4% to 2.1%. The group has a total of €975.1m of outstanding debt, €735.0m of which is unsecured.

**Impact Healthcare REIT** increased the size and extended the maturity of its revolving credit facility (RCF) with NatWest and extended its RCF with HSBC by a year. The NatWest RCF has been increased by £24m, making the total facility £50m. It has also been extended by four years, to June 2028, with a further two one-year extension options. The margin will be 200 bps above SONIA (up from 190 bps) and the interest cover covenant has been reduced from 250% to 175% in the first two years, increasing to 200% for the remainder of the term. The group has also agreed a one-year extension option to its HSBC RCF to April 2026. The interest cover covenant is being reduced from 250% to 200%, with the margin remaining at 200 bps above SONIA.

**Triple Point Social Housing REIT** completed its initial share buyback programme of £5m. In aggregate, between 20 April 2023 and 12 June 2023, the company repurchased 9,322,512 ordinary shares at an average purchase price of 52.61 pence per share. The share buyback programme may be extended following receipt of proceeds from a proposed portfolio property sale.



## Major news stories

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- **SEGRO** completed the acquisition of 419 hectares of land at the former Radlett Aerodrome in Hertfordshire for £120m, where it plans to develop a rail freight terminal with 3.6m sq ft of logistics warehousing.
- **Supermarket Income REIT** acquired a Tesco omnichannel supermarket in Worcester, for £38.3m, reflecting a net initial yield of 6.0%. The store was acquired from British Steel Pension Fund, with an unexpired lease term of 12 years.
- **UK Commercial Property REIT** sold its 186,455 sq ft Wembley180 logistics asset in London for £74m, reflecting a net initial yield of 3.49%, to The Church of Jesus Christ of Latter-day Saints. It will use the proceeds to enhance earnings by paying down a substantial amount of its £93m floating rate Revolving Credit Facility (RCF), currently costing 6.3% per annum in interest.
- **NewRiver REIT** sold the final two assets in its joint venture with Pimco, selling the Kittybrewster Retail Park in Aberdeen and Glendoe and Telford Retail Parks in Inverness for £62.6m (NewRiver share £31.3m), slightly below book value. The proceeds will be used to reduce its LTV to 30.3%.
- **Tritax EuroBox** let its recently completed development in Dormagen, Germany, to a leading logistics company on a 10- year green lease. The 36,000 sqm letting was 17.8% ahead of the rental guarantee it was receiving and benefits from 100% CPI annual indexation.
- **abrdn European Logistics Income** completed the sale of a 32,645 sqm warehouse, in Leon, Northern Spain, to SCPI Iroko Zen, for €18.5m. The disposal price reflects a 3% premium to the 31 December 2022 valuation and crystallises 20% profit.
- **abrdn Property Income Trust** completed a trio of lettings within its office portfolio. A lease to The Birmingham Chamber of Commerce and Industry and an agreement for lease to FCN Group completed at 54 Hagley Road in Birmingham, whilst a letting to OneStream Software completed at 15 Basinghall Street in London. Overall fund occupancy rate now exceeds 95%.
- The leases on 12 sites owned by **Urban Logistics REIT**, accounting for 3.3% of group income, will be transferred to London-listed logistics company DX Group Plc after previous tenant, Tuffnells, fell into administration in June.
- **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 represented a 4% discount to book value and a net equivalent yield of 5.0%.
- **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).

## Selected QuotedData views

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- **University challenge**
- **REIT mergers could combat vicious discount circle**

## Real estate research notes

**QuotedData**  
BY MARTEN & CO

INVESTOR

**Tritax EuroBox**  
Real estate | Annual overview | 12 July 2023

**Optimism returns**

The rapid readjustment of valuations in the European logistics sector has encouraged investors seeking quality assets to return to the market, bringing optimism to Tritax EuroBox's (EBOX) manager that values are stabilising. The company's portfolio (EBOX) moved out 70 basis points (bp) – equivalent of 0.7% in the six months to 31 March 2023, but the world of the declines seems to be over.

Operationally, the company is in good shape to take advantage of a strong demand and supply dynamic, having recorded an uplift in annual rent of 5.8% in the six months to March 2023 (10.4% over 12 months). It has recently let a completed development in Germany above estimated rental value (EV) and prevent an extension to an existing building. Additional development completions, extensions and inflation-linked uplifts are still to come.

Growth in income and operational savings have meant that the company has been able to fully cover its dividend with earnings for the past three quarters. Going forward, the manager expects earnings to continue to cover the dividend, which represents an 8.4% dividend yield on the current share price.

**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, urban 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	51.5p
NAV	56.5p
Premium/discount	(-10.7%)
Yield	8.4%

Note: 11 April published NAV of €1.02 at 31 March 2023 (GBP equivalent of 77p using EUR/GBP exchange rate of 0.826 at 10 July 2023, includes share dilution paid in May)

- 5.8% uplift in annual rent in six months to end of March 2023
- Fully covered dividend
- Low cost debt of 1.22%

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← An annual overview note on Tritax EuroBox (EBOX). After rapid value declines due to higher interest rates, optimism has grown that prices are stabilising. The company's is in a good place to increase annual rent through its quality portfolio.

**QuotedData**  
BY MARTEN & CO

INVESTOR

**abrdn European Logistics Income**  
Real estate | Update | 23 June 2023

**Riding out the storm**

abrdn European Logistics Income (ASLI) is riding out the storm of market valuation declines, with a focus on managing its portfolio and securing income. It has recently completed a number of letting renewals across its portfolio (see page 19) and accepted annual inflation-linked rental uplifts on two-thirds of its leases offer further promise. Evidence that valuations in the European logistics real estate sector are stabilising is growing, not least through the sale of an asset from ASLI's portfolio at a small premium to book value, which should serve to support its net asset value (NAV).

The sale of the mid-box property in Leon, northern Spain, formed part of the group's strategic pivot to urban logistics properties, where the supply-demand dynamic is favourable and rental growth prospects are strong. The transaction improves the company's cash position (thereby lowering its loan-to-value ratio – LTV) and reduces the company's all-in interest rate to 1.67% – one of the lowest in the real estate sector (with its first refinancing event not until mid-2025).

**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 euros).

Sector	Property - Europe
Ticker	ASLI LN
Base currency	GBP
Price	69.5p
NAV	66.9p
Premium/discount	(28.9%)
Yield	4.7%

- Recent sale by ASLI points to stabilising values in European logistics sector
- Vacancy rate at 3.5%, still at historic lows
- Conservative LTV with one of sector's lowest cost of debt at 1.67%

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→ An update note on abrdn European Logistics Income (ASLI). The company is riding out the storm of market valuation declines, with a focus on managing its portfolio and securing income.

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**Urban Logistics REIT**  
REITs | Update | 17 May 2023

**Fundamentals strong as market stabilises**

The industrial and logistics sector suffered its largest fall in value on record in the second half of 2022, even eclipsing that of the global financial crisis, as investment yields moved out rapidly to keep pace with interest rates. The fall in Urban Logistics REIT's (SHED) share price was even faster, putting it on a wide discount to net asset value (NAV). However, evidence that values have bottomed out is building, with MSC's quarterly UK property index reporting uplifts in March for the first time in months. Whilst SHED has yet to announce its end of March NAV (due in June), its current discount to NAV of 27.6% seems very attractive.

This is especially the case given that the fundamentals supporting rental growth in the last mile, urban logistics sub-sector remain strong. Demand for space, specifically from third-party logistics (3PL) operators (which make up a large portion of SHED's tenant base), is robust (see page 6), while supply constraints remain.

A dip of the company's leases are either expiring or have a rent review by September 2023, presenting SHED with the near-term opportunity to capture the compelling rental growth still evident in the sector.

**'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	133.5p
NAV	184.9p
Premium/discount	(27.6%)
Yield	8.7%

- Valuation stability is evident in the market after several months of sharp decline
- Supply and demand fundamentals remain strong, pointing to continued rental growth
- SHED has opportunity to capture rental growth, with 20% of portfolio leases expiring or have a review before September 2023

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← An update note on Urban Logistics REIT (SHED). The company's wide share price discount to NAV, following a re-rating as values in the sector suffered as interest rates rose, is attractive especially given the operational strength of the company.

**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 omni-channel retail future (the seamless integration of physical and online retailing) with several initiatives to optimise footfall and sales.

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 EBITDA 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.

Sector	Real estate
Ticker	LRE SM
Base currency	EUR
Price	65.14
NAV	128.32
Premium/discount	(49.3%)
Yield	11.7%

- Dominant malls and retail parks seeing footfall 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.



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**50 Gresham Street, London, EC2V 7AY**  
**0203 691 9430**

[www.QuotedData.com](http://www.QuotedData.com)

Registered in England & Wales number 07981621,  
2nd Floor Heathmans House,  
19 Heathmans Road, London SW6 4TJ

Edward Marten (em@quoteddata.com)

David McFadyen (dm@quoteddata.com)

Nick Potts (np@quoteddata.com)

Matthew Read (mr@quoteddata.com)

James Carthew (jc@quoteddata.com)

David Johnson (dj@quoteddata.com)

Richard Williams (rw@quoteddata.com)

Andrew Courtney (ac@quoteddata.com)