Real estate quarterly report

First quarter 2024 | April 2024

Desperately seeking a catalyst

The real estate investment trust (REIT) and listed property sector seems to have been cut adrift and is desperately seeking a positive macroeconomic outlook on which investors can hang their hat and from which sentiment can grow. The first quarter of 2024 started as 2023 left off for the sector, with share prices drifting off on average by 5.8% (as shown in the chart to the right).

The life raft will surely come in the form of continued falling inflation and interest rate cuts, however the timing and gravity of these is still up in the air. Whilst interest rates have almost certainly peaked, it will not be until there is greater clarity on rate cuts that the real estate sector can stage a revival. The reporting season has thrown up a mixed bag, with valuation bright spots being found in the healthcare and residential sectors, while the challenged office sector is taking on more water.

While investors wait for an intervention, much of the sector continues to trade on substantially wide discounts to net asset value (NAV) – which has led to heightened merger and acquisition (M&A) activity and boards raising the white flag. LondonMetric Property completed its acquisition of LXi REIT, creating the UK's fourth largest REIT, while a similar sized deal moved a step closer as Tritax Big Box REIT pursues UK Commercial Property REIT.

In this issue

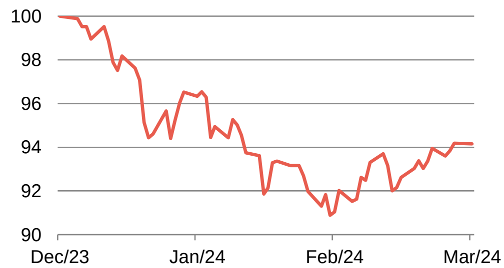
- **Performance data** – Office-focused companies were once again out of favour with investors
- **Corporate activity** – Property heavyweight raises almost £1bn in vote of confidence
- **Major news stories** – A proposed merger hit the buffers, whilst another proceeds without the chairman's support

Best performing companies in price terms in Q1 2024

	Chg. on quarter (%)
Harworth Group	14.0
UK Commercial Property REIT	12.6
Balanced Commercial Property Trust	12.3
Real Estate Investors	9.1
LondonMetric Property	6.1

Property sector performance*

Time period 31/12/2023 to 31/03/2024



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

Biggest property companies at the end of Q1 2024

	Market cap (£m)	Chg. on quarter (%)
SEGRO	12,094	11.1
Land Securities	4,903	(6.6)
Unite Group	4,263	(6.3)
LondonMetric	4,138	98.3
British Land	3,665	(1.1)

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Click here for our 2023 annual real estate roundup

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Performance data

Figure 1: Best performing companies in price terms in Q1

	%
Harworth Group	14.0
UK Commercial Property REIT	12.6
Balanced Commercial Property Trust	12.3
Real Estate Investors	9.1
LondonMetric Property	6.1
Hammerson	4.9
Shaftesbury Capital	4.5
Sirius Real Estate	3.9
Alpha Real Trust	3.8
SEGRO	2.0

Source: Bloomberg, Marten & Co

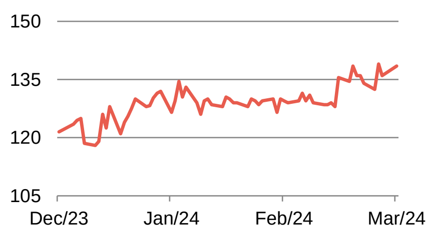
Figure 2: Worst performing companies in price terms in Q1

	%
Regional REIT	(40.5)
Life Science REIT	(37.8)
CLS Holdings	(15.6)
AEW UK REIT	(15.0)
Safestore Holdings	(14.6)
Big Yellow Group	(12.9)
Assura	(12.1)
Phoenix Spree Deutschland	(11.4)
Value and Indexed Property	(11.3)
Supermarket Income REIT	(10.7)

Source: Bloomberg, Marten & Co

Best performing property companies

Figure 3: Harworth YTD



Source: Bloomberg, Marten & Co

Developer Harworth Group headed the list of positive share price performance in the first quarter after reporting an encouraging trading update and NAV uplift due to positive progress with planning applications.

UK Commercial Property REIT's share price was boosted after the terms of its proposed merger with Tritax Big Box REIT was established (see page 7).

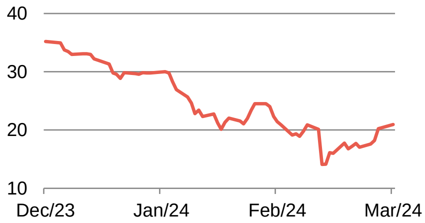
After its own merger activity, LondonMetric saw its share price leap with the completion of its acquisition of LXi REIT during the quarter, which almost doubled the size of the company and made it the fourth largest UK listed property company.

Retail heavyweight Hammerson showed some encouraging share price momentum during the quarter, having suffered heavy losses over the years. Its share price was up almost 5% in the quarter and is now up 14.1% over 12 months. Another retail giant Shaftesbury Capital is also on the right trajectory and is now up 25.8% over 12 months.

Anglo-German business park owner Sirius Real Estate is making good progress in deploying the proceeds of its £147m capital raise at the end of 2023, which is reflected in its share price performance.

Worst performing companies

Figure 4: Regional REIT YTD



Source: Bloomberg, Marten & Co

Regional REIT slid further down the slippery slope with another bruising share price fall during the quarter. It indicated that a heavily discounted rights issue was on the cards to service an impending bond maturity. The UK regional office landlord now trades on a seemingly unsustainably wide discount to NAV of over 60% (see Figure 6 on page 6).

Life Science REIT has also come under intense share price pressure in recent months losing 37.8% in value so far in 2024. It appears a large seller in the market is putting significant stress on its share price. This is despite positive lettings progress across its portfolio (see page 9).

AEW UK REIT was hit by two retail tenant failures, putting considerable pressure on earnings and its long-term uncovered dividend.

Meanwhile, Berlin residential landlord Phoenix Spree Deutschland suffered more share price pain after revealing further valuation declines in a trading update.

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 Q1 2024 – the 10 greatest improvements

Company	Sector	Premium/(discount) at 31/12/2023 (%)	Premium/(discount) at 31/03/2024 (%)	Difference (percentage point)
UK Commercial Property REIT	Diversified	(23.5)	(11.3)	12.2
Balanced Commercial Property Trust	Diversified	(36.3)	(25.8)	10.5
Real Estate Investors	Diversified	(49.8)	(39.9)	9.9
LondonMetric Property	Logistics	(4.1)	1.8	5.9
Harworth Group	Development	(37.9)	(32.5)	5.4
SEGRO	Logistics	(5.4)	(0.4)	5.0
Shaftesbury Capital	Retail	(28.8)	(24.0)	4.8
Hammerson	Retail	(45.4)	(41.6)	3.8
abrdn European Logistics Income	Europe	(28.6)	(25.1)	3.5
Sirius Real Estate	Europe	(13.1)	(9.7)	3.4

Source: Bloomberg, Marten & Co

Many of the names listed here were mentioned in the previous section. Balanced Commercial Property Trust saw its discount narrow 10.5 percentage points over the quarter after a 12.3% increase in its share price (on positive news on the rebalancing of its portfolio away from offices – see page 9 for details) and a 3.6% drop in its NAV.

Real Estate Investors saw a similar narrowing of its discount after announcing that it would sell its entire portfolio over the next three years and return proceeds to shareholders.

SEGRO's rating moved almost to parity over the quarter after it raised a mammoth £907m in a capital raise (more details on page 7) that will be spent on growth opportunities.

abrdn European Logistics Income, which effectively put itself up for sale last year, saw its discount narrow slightly after reporting a drop in NAV. Its share price held up after it revealed that it had received a number of proposals since launching its strategic review.

Figure 6: Biggest percentage point changes to ratings in Q1 2024 – the 10 biggest deteriorations

Company	Sector	Premium/(discount) at 31/12/2023 (%)	Premium/(discount) at 31/03/2024 (%)	Difference (percentage point)
Life Science REIT	Offices/labs	(27.7)	(50.8)	(23.1)
Safestore	Self-storage	(2.7)	(20.4)	(17.7)
Regional REIT	Offices	(47.4)	(62.9)	(15.5)
Big Yellow Group	Self-storage	0.2	(12.8)	(13.0)
AEW UK REIT	Diversified	(4.7)	(17.1)	(12.4)
Assura	Healthcare	(6.4)	(17.7)	(11.3)
Urban Logistics REIT	Logistics	(21.2)	(29.2)	(8.0)
Warehouse REIT	Industrial	(33.2)	(25.6)	(7.6)
PRS REIT	Residential	(28.2)	(35.7)	(7.5)
Residential Secure Income	Residential	(27.9)	(34.7)	(6.8)

Source: Bloomberg, Marten & Co

The plunge in the share prices of Life Science REIT and Regional REIT saw their discounts to NAV widen to 50.8% and 62.9% respectively at the end of the quarter.

Self-storage providers Safestore Holdings and Big Yellow Group both moved to a wide discount as economic uncertainty impacted on investor sentiment towards the sector. This was despite a leap in Safestore's NAV announced during the quarter.

Urban Logistics REIT's share price dropped off after it tabled a counter bid for abrdn Property Income Trust in February, rivalling Custodian Property Income REIT's offer made in January (see page 7 for more details).

Private rented housing developer PRS REIT's NAV uplift was not reflected in its share price, which fell 7.8% in the quarter.

Major corporate activity

Fundraises

SEGRO raised £907m – the only capital raise by a listed property company during the quarter

There was just one capital raise conducted in the first quarter of 2024, with the largest listed property company, SEGRO, raising £907m in a placing in February. This single fundraise eclipsed the total amount raised by the sector in 2023 of just over £600m. The company increased the size of the raise from around £800m to £900m due to demand and also raised £7m from retail investors. The company said that the new equity will allow it to pursue additional growth opportunities, including new and existing development projects and to take advantage of potential acquisition opportunities.

Mergers and acquisitions

LondonMetric completed its acquisition of LXi REIT

LondonMetric completed the merger with LXi REIT in March. The company acquired the entire issued and to be issued ordinary share capital of LXi for around £1.9bn – creating the fourth largest REIT with a market cap of around £4bn and a portfolio worth around £6.2bn.

The boards of Tritax Big Box REIT and UK Commercial Property REIT (UKCM) reached agreement on the terms of a £3.9bn merger of the two company. Both boards, excluding UKCM chairman Peter Pereira Gray, have recommended an all-share offer at an exchange ratio of 0.444 new ordinary Tritax Big Box shares per UKCM share. The possible offer implied a value of 71.1p per UKCM share and around £924m for the company (at the time of the announcement). This represented a premium of 10.8% to UKCM's share price, but a discount of 9.7% to its NAV at 31 December 2023. The deal has the support of UKCM's two largest shareholders – Phoenix Life and Investec – who combined own 56.5% of the company.

The proposed and recommended merger of abrdn Property Income Trust (API) and Custodian Property Income REIT (CREI) fell through after not receiving enough support from API shareholders. Just over 60% of votes cast were in favour of the merger, below the 75% threshold to sanction the deal. The API board will now take steps to implement a managed wind-down of the company subject to the approval of API shareholders at another general meeting.

Other major corporate activity

Regional REIT announced that it was exploring a possible equity capital raise of around £75m through a rights issue that would be at a material discount to the current share price. The rights issue was one of a range of refinancing options it was exploring, including the issuance of new debt, the proceeds of which would be used to service an existing £50m retail bond that matures in August 2024.

Real Estate Investors announced it was to conduct an orderly strategic sale of the company's portfolio over the next three years. Assets will be sold individually, as smaller portfolios or as a whole portfolio sale, with the initial priority to repay the company's debt. The company said that the ongoing substantial discount between the share price and NAV, combined with a lack of liquidity in its shares, was behind the decision. The pace of the disposals will depend on market conditions, however the company said it intends to secure disposals at book value or higher to maximise returns to shareholders.

The chairman of scandal-hit Home REIT, Lynne Fennah, was replaced by Big Yellow Group director Michael O'Donnell. Fennah will remain on the board as a non-executive director for "continuity". The remaining directors of Home REIT's board will all step down when the company publishes its financial results (slated for the second quarter of 2024).

NewRiver REIT appointed Lynn Fordham as chair designate. She will succeed Baroness Ford OBE as non-executive chair of the board on 30 May 2024. Fordham has extensive board level experience gained as an executive director and non-executive director of listed companies. She is currently non-executive director and of NCC Group plc, Caledonia Investments plc, Domino's Pizza Group plc and Enfinium Group Ltd.

Land Securities launched and priced a £300m bond with a maturity of 7.5 years and a coupon of 4.75%, representing a spread of 103 basis points over the reference gilt rate. This followed the maturity of two bonds in February 2024, totalling £417m. The bond will extend the group's weighted average debt maturity to 9.4 years.

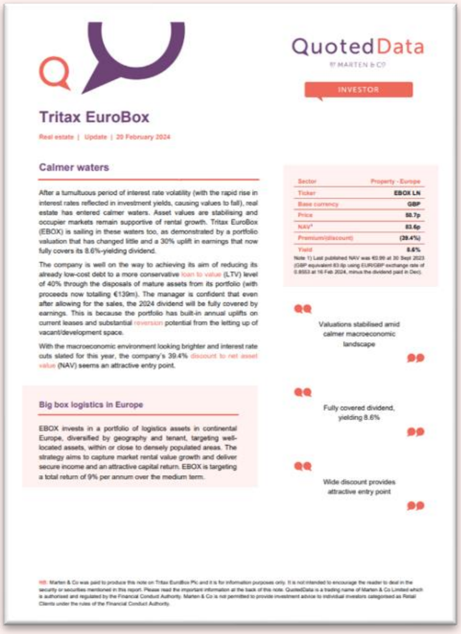
Major news stories

- **British Land** sold a 50% stake in its 1 Triton Square office, in London's Regent's Place, to Royal London Asset Management Property for £192.5m. This was the building that Meta (Facebook) surrendered its lease on last year, paying British Land £142m in order to walk away from its lease agreement.
- **Shaftesbury Capital** bought 25-31 James Street, Covent Garden, London for £75.1m. The properties have a contracted rent of £3.9m and comprise 21,000 sq ft of lettable area.
- **Sirius Real Estate** acquired Vantage Point Business Village, a business park in Gloucestershire, for £48.25m, representing a net initial yield of 10.2%. The purchase was made using proceeds from the company's £147m capital raise.
- **Life Science REIT** leased 7,497 sq ft of space at the Innovation Quarter at Oxford Technology Park to ColdQuanta UK Limited at a substantial premium to the rent level of the park. ColdQuanta will pay an annual rent of £337,365, equating to £45.00 per sq ft for 10 years.
- **Supermarket Income REIT** acquired a Tesco omnichannel supermarket in Stoke-on-Trent, Staffordshire, for £34.7m, reflecting a net initial yield of 7.5%. The asset comprises 54,451 sq ft net sales area and a petrol filling station.
- **abrdn European Logistics Income** completed the sale of a 30,180 sqm warehouse in Meung sur Loire, France, to Castignac for €17.5m. The disposal price of the vacant asset was in line with the 31 December 2023 valuation but a 7% discount to the 30 September 2023 valuation.
- **abrdn Property Income Trust** sold two assets for a combined £16.55m, reflecting a very slight discount of 0.3% to their 31 December 2023 valuations. The sales comprised the London office building 15 Basinghall Street for £9.8m and the industrial assets Opus 9 for £6.75m.
- The Financial Conduct Authority (FCA) launched an investigation into **Home REIT**, after allegations of serious wrongdoing by its former manager Alvarium – the most serious of which centres on paying vastly inflated prices for assets to boost its NAV.
- **Hammerson** agreed the sale of Union Square, a 52,000 sqm shopping centre in Aberdeen, for £111m. The price represents an 8% discount to the 31 December 2023 book value of £121m and a net initial yield of 11%. The sale concludes Hammerson's £500m non-core disposal programme.
- **Balanced Commercial Property Trust** sold its largest office holding as it continues to reduce its exposure to the challenged UK offices sector. Contracts were exchanged for the sale of the Leonardo Building in Crawley, a 110,000 sq ft out-of-town business park office, for a price of £26.1m, representing a 6.1% discount to the December 2023 valuation.

Selected QuotedData views

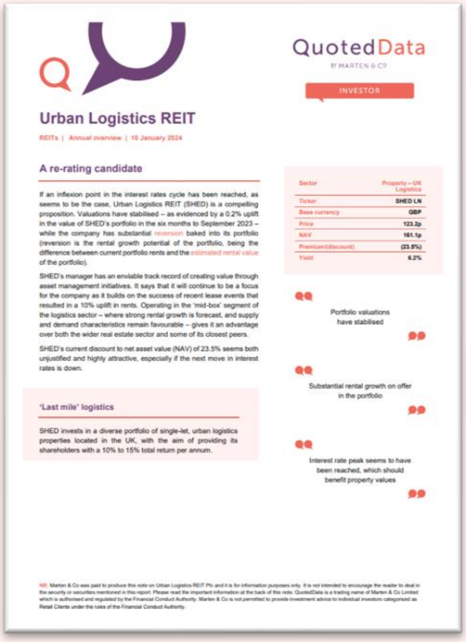
- **Who's next on the M&A conveyor belt?**
- **Still a place for the generalist REIT?**
- **The REIT entry point**

Real estate research notes


Tritax EuroBox
Real estate | Update | 20 February 2024
Calmer waters
Big box logistics in Europe
Valuations stabilised amid calmer macroeconomic landscape
Fully covered dividend, yielding 8.6%
Wide discount provides attractive entry point

An update note on Tritax EuroBox (EBOX). is sailing in calmer waters as demonstrated by a portfolio valuation that has changed little and a 30% uplift in earnings that now fully covers its 8.6%-yielding dividend.

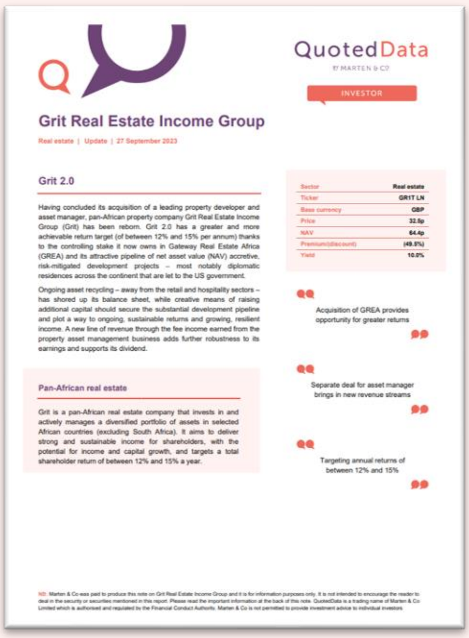
An annual overview note on Urban Logistics REIT (SHED). The company appears to be a re-rating candidate as values stabilise and management extracts the rental reversion in the portfolio.


Urban Logistics REIT
REITs | Annual overview | 10 January 2024
A re-rating candidate
'Last mile' logistics
Portfolio valuations have stabilised
Substantial rental growth on offer in the portfolio
Interest rate peak seems to have been reached, which should benefit property values


Lar España Real Estate
Real estate | Update | 19 October 2023
Defying the retail gloom
Exposure to Spanish retail
Stable valuations due to strong rental growth
Retail sales within portfolio ahead of pre-pandemic levels
Dividend re-established to high pre-pandemic level

An update note on Lar España Real Estate (LRE SM). The company continues to defy the doom and gloom surrounding the retail sector, posting strong financial and operational numbers.

An update note on Grit Real Estate Income Group (GR1T). The company has been reborn, with the acquisitions of a developer and asset manager making annual return targets of 12-15% more achievable.


Grit Real Estate Income Group
Real estate | Update | 27 September 2023
Grit 2.0
Pan-African real estate
Acquisition of GREA provides opportunity for greater returns
Separate deal for asset manager brings in new revenue streams
Targeting annual returns of between 12% and 15%

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