QuotedData's Real Estate Roundup

January 2025

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Monthly roundup | Real estate

Winners and losers in December 2024

Best performing funds in price terms

	(%)
Alpha Real Trust	55.9
Alternative Income REIT	4.4
AEW UK REIT	3.7
PRS REIT	3.7
Life Science REIT	3.5
Schroder REIT	1.8
Ground Rents Income Fund	0.9
Palace Capital	0.9
abrdn European Logistics Income	0.3
Henry Boot	0.0

Source: Bloomberg, Marten & Co

Worst performing funds in price terms

	(%)
Safestore	(13.5)
Workspace Group	(12.8)
Helical	(12.6)
Big Yellow Group	(10.4)
SEGRO	(10.1)
Sirius Real Estate	(9.4)
Unite Group	(8.6)
Regional REIT	(8.3)
Shaftesbury Capital	(8.1)
Schroder European REIT	(8.1)

Source: Bloomberg, Marten & Co

Stubborn inflation and anaemic economic growth saw real estate share prices continue their downward momentum with a 4.4% median decline in December, with the final quarter of 2024 seeing an average 10.5% fall. The outlier was Alpha Real Trust after shareholders voted in favour of its delisting and a tender offer priced at NAV and a substantial premium to its share price (see page 3). Long income specialist Alternative Income REIT saw its share price rise following an acquisition (see page 4) that takes it to fully invested. AEW UK REIT sold an asset at a large premium to book value, underlining the asset management abilities of its manager. Merger and acquisition (M&A) activity at PRS REIT looks increasingly likely as suitors line up to make a bid (see page 3). The company's share price jumped 43% over the second half of 2024 after shareholder activism. Life Science REIT finished a difficult year on a positive note with a 3.5% share price uplift. A concentrated shareholder base and lack of liquidity in its shares has exacerbated a negative share price momentum that has seen it lose almost 40% in value over 2024. There is not much more that we can offer in the way of positive comments following a tumultuous year that saw the sector's average share price fall by 11.9%.

The pace of rate cuts in 2025 will play a large role in the turnaround of sentiment towards the sector. And they cannot come soon enough, especially for some of the beleaguered companies that have perennial frequented the bottom of the performance tables. The two self-storage operators, Safestore and Big Yellow, continued to suffer in December as subdued economic growth and a floundering housing market look set to weigh on demand. Share price declines at the office landlords continue to mount, with flexible office provider Workspace Group, London developer Helical and regional landlord Regional REIT all seeing large falls in December. Their respective share prices over 2024 were 13.6%, 21.9% and a whopping 48.2%. Having shored up its balance sheet (for now), Regional REIT must surely be in for a better 2025 – whether through asset management enhancements on the portfolio or corporate activity. As the largest UK-listed property company, SEGRO again took the brunt of the negative sentiment towards the sector, ending the year 20.9% down. Meanwhile, a potentially large tax bill from the French authorities (see page 3 for details) saw the share price of Schroder European REIT drop 8.1%.

Valuation moves

Company	Sector	NAV move (%)	Period	Comments
Custodian Property Income REIT	Diversified	0.2	Half-year to 30 Sept 24	0.4% like-for-like increase in portfolio valuation to £582.4m
NewRiver REIT	Retail	(7.8)	Half-year to 30 Sept 24	Fall predominantly due to equity raise in period. Modest portfolio value fall of 0.4% to £540.5m
Schroder European REIT	Europe	(4.3)	Full year to 30 Sept 24	Portfolio valuation declined 3.6% to €208.1m

Source: Marten & Co

Corporate activity in December

Home REIT shareholders received a tender offer from Southey Capital at 4p per share, valuing the whole company at £32m. Southey Capital said it wanted to avoid mandatory takeover requirements and would therefore restrict acceptances. Shareholders had until the end of December to accept the tender offer.

Alpha Real Trust will delist its shares from the Specialist Fund Segment and offer shareholders a tender offer at NAV. The company is majority owned by Alpha Global Property Securities Fund Pte. Limited, which in conjunction with persons that it is acting in concert with, together own 88% of shares in Alpha Real. The remaining 12% of shareholders will be given the opportunity of exiting the company through the tender offer at a price of 208.8p per share. This is a large premium to the share price, which was trading as low as 113p in mid-November. It is anticipated that cancellation will become effective on 23 January 2025.

PRS REIT announced that it was in active discussions with a number of interested parties over a sale of the company and has made available a dataroom for due diligence. It added that an update on the process will be given in the first quarter of 2025.

Phoenix Spree Deutschland commenced a realisation programme that will see it sell down its portfolio of Berlin residential assets and return capital to shareholders. It plans to achieve this by accelerating its individual condominium sales programme, where it has accomplished large premiums to book value. The company is targeting annual sales of €50m from 2025. Given these strategic developments, the board intends to bring forward the date of the company's continuation vote and will propose amendments to the investment objective and policy to facilitate an orderly liquidation of the portfolio.

The board of Triple Point Social Housing REIT outlined some of the new investment management arrangements with Atrato Capital, which took on the role from Triple Point from 1 January. The company changed its name to Social Housing REIT and changed the basis for calculating its management fee from NAV to market capitalisation, which over the past 12 months would have saved the company £1.75m.

Schroder European REIT updated on a tax dispute with the French authorities in relation to the group's French tax structure, which could potentially land the company with a tax bill of up to €14.2m. As part of the ongoing tax audit, a formal 'Proposal for Adjustment' has been received from the French tax authority which includes a proposed penalty on any tax found ultimately due. The group said that it disagrees with the 'Proposal for Adjustment' and will continue to contest its position. Based on external tax and legal advice received at the time of implementation, and which has continued to be reviewed on an ongoing basis, the board said that it continues to believe that an outflow is not probable and therefore no provision has been recognised in its accounts.

Regional REIT appointed David Hunter as an independent non-executive director and chair designate. He started on 2 January 2025 and, following a handover period, will succeed Kevin McGrath as chair of the board on 18 March 2025. McGrath will step down having completed the duration of his nine-year tenure. Hunter is a highly experienced non-executive director and chair of listed REITs, having previously been chairman of Capital & Regional Plc, Dar Global Plc, Custodian Property Income Plc and GCP Student Living Plc.

December’s major news stories – from our website

- **Landsec acquires Liverpool ONE for £490m**

Land Securities acquired a 92% stake in Liverpool ONE, one of the premier shopping centres in the UK, from the Abu Dhabi Investment Authority (ADIA – 69%) and Grosvenor (23%) for an overall consideration of £490m. The income return is expected to be 7.5%.

- **Safestore enters Italy with €175m acquisition**

Safestore entered into a 50/50 joint venture with Nuveen Real Estate to acquire Easybox, Italy's second largest self-storage operator, for €175m. Safestore will initially invest €45m for its 50% share in the joint venture, which has also been funded by joint venture level debt.

- **Phoenix Spree Deutschland kickstarts portfolio sell-off with €75.9m deal**

Phoenix Spree Deutschland announced the sale of 16 buildings, comprising 385 units, to Partners Group for €75.9m, kickstarting its proposed realisation programme.

- **Derwent London takes full control of Baker Street development**

Derwent London acquired the remaining 50% stake in its proposed 50 Baker Street development scheme from Lazari Investments, its joint venture partner, for £44.4m. The site has planning consent for a 240,000 sq ft office-led scheme, which is nearly double the existing floor area.

- **AEW UK REIT realises huge profit on retail park sale**

AEW UK REIT sold part of the Central Six Retail Park, in Coventry, for £26.25m, reflecting a net initial yield of 7.49%. The sale price for units 1-11 of the park represents a 60% premium to the purchase price of the entire property, which was acquired in November 2021 for £16.411m, and a 6.7% premium to the 30 June 2024 valuation.

- **Sirius Real Estate lands Munich development site**

Sirius Real Estate completed the acquisition of a development site in Munich, immediately adjacent to its Munich-Neuaubing business park, for €13.3m. The site allows the company to secure the final corner of a 130,000 sqm estate in the Bavarian capital, presenting it with value add and development options in the future.

- **Picton Property sells repositioned London office at premium**

Picton Property exchanged contracts to sell Charlotte Terrace, London, for £13.1m – a 5% premium to its book value. Part of the office asset has been repositioned for residential use, with planning consent secured in August 2024.

- **Great Portland Estates toasts HEINEKEN letting**

Great Portland Estates let the second floor office space at wells&more, in London, to HEINEKEN UK, the UK's leading beer, cider and pub company. HEINEKEN UK has committed to a 10-year lease over 17,000 sq ft of recently refurbished office space.

- **Alternative Income REIT buys Champneys beauty school**

Alternative Income REIT completed the acquisition of the Champneys Beauty School, part of the Champneys Spa Resort in Tring, for £2.5m. The price reflects a net initial yield of 6.5%.

- **Grit Real Estate targets $1m savings from outsourcing property management**

Grit Real Estate Income Group outsourced the property and facilities management of all of its assets (excluding retail assets in Zambia and Morocco) to Broll Property Group and stated that the partnership will result in a targeted cost saving of US$1m per annum.

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

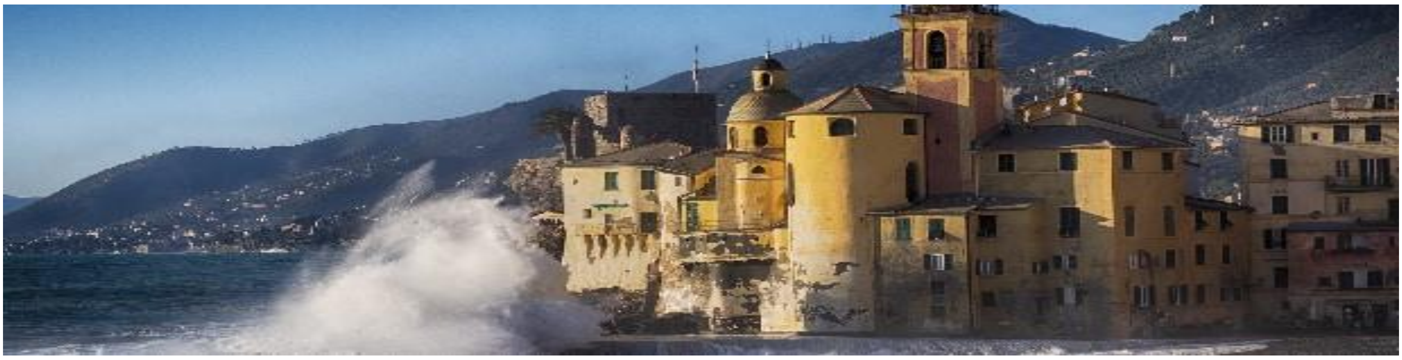
A collation of recent insights on real estate sectors taken from the comments made by chairmen and investment managers of real estate companies – have a read and make your own minds up. Please remember that nothing in this note is designed to encourage you to buy or sell any of the companies mentioned.

Diversified

Custodian Property Income REIT

David MacLellan, chairman:

While the economic and political picture is still uncertain, the outlook for 2025 is very much brighter for real estate than at the same time in both of the last two years. The indicators of an imminent but gradual recovery in capital values strongly outweigh the risks of continued malaise. Valuations have been flat, and slightly up since December 2023, while vacancy rates have continued to fall, and both passing rent as well as estimate rental values have improved, with private equity becoming increasingly active in the sector. Furthermore, The Bank of England has cut interest rates twice and the listed real estate sector has seen ratings improve as share prices narrow the discount to NAV.



Europe

Schroder European REIT

Sir Julian Berney, chairman:

European occupational markets remain resilient, with most of our sub-markets benefitting from supply constraints and modest vacancy levels. We are witnessing a bifurcation in office demand; there is a growing investor and occupier appetite for centrally located offices that meet building sustainability certifications, while poorer quality offices are struggling to maintain occupancy, income levels and investor demand. More broadly, office occupancy rates across Europe continue to tick up, passing 60% for the first time since the pandemic in October, which is boosting take up, which increased 6% year-on-year in the first half of 2024.

E-commerce and evolving supply chain management practices are driving robust demand for logistics, particularly in urban locations, where stronger rental growth is anticipated. Retail demand continues to favour open air retail parks, urban 'big box' units and convenience grocery offerings. Despite a resurgence in physical retail, shopping centres are facing ongoing challenges, as consumers increasingly prefer dominant shopping centres that offer a diverse mix of fashion and leisure options.

Looking ahead, we expect to continue reaping benefits from a high-quality portfolio with strong occupancy rates located in key European cities. As inflation eases and interest rates fall, we expect sentiment to continue to improve and larger economies and cities are poised for enhanced growth.

Retail

NewRiver REIT

Allan Lockhart, chief executive:

We have always held the view that income and income growth over the long term are key to delivering attractive total returns and so a portfolio which is positioned to benefit from evolving consumer behaviour is important to ensure that rental cashflows are sustainable.

The data that we are now accessing and analysing from Lloyds Bank on the majority of our portfolio by value shows that our portfolio is outperforming the national position. Absolute in-store spend and online spend connected to the store was up +5.8% year-on-year through to 30 September 2024, which was an outperformance relative to the Lloyds Bank Retail and Supermarket benchmark of +2.1%. We experienced slightly stronger growth in our retail parks of +7.6% relative to our shopping centres at +4.3%.

Interestingly, online spend connected to stores in our portfolio has grown at a much faster rate than online spend that is not connected to our stores which demonstrates that stores are playing an increasingly important role in driving retailers' overall omnichannel performance.

Given the increase in consumer spending in our assets for the 12 months to 30 September 2024, our total occupational cost ratio (OCR) at the half year was 8.6% versus 8.8% at FY24. We are confident that our rental cashflows are affordable and therefore sustainable notwithstanding that retail, hospitality and leisure businesses are facing cost increases as a result of recent UK Budget decisions.

IMPORTANT INFORMATION

QuotedData is a trading name of Marten & Co, which is authorised and regulated by the Financial Conduct Authority.

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