Quarterly Update

Q3 24

September 2024

Market Overview

The third quarter of 2024 saw the UK economy continuing to navigate a complex landscape marked by moderate growth, persistent inflation and evolving geopolitical tensions. During this period, the Bank of England has adopted a looser monetary policy, cutting the base rate from 5.25% to 5% in August (and to 4.75% in November) to counteract the economic slowdown and curb inflation. These lower rates and a fall in inflation to 1.7% in September 2024 helped to engender some cautious optimism for the economy at the end of the quarter. However, subsequent events such as the government's Budget, the US election and heightened global conflicts mean that the outlook for financial markets is likely to remain uncertain at the current time.

The latest data from MSCI indicates that commercial property capital values have bottomed out, showing modest increases, though values remain around 25% below their June 2022 peak. According to the MSCI Monthly Index, the "All-Property" total property return stood at +1.8% for Q3 2024, maintaining the performance recorded in the previous quarter of +1.7%. The market registered a positive capital return in Q3 2024 of +0.3% compared to +0.2% in Q2 2024. The industrial and residential sectors continued to demonstrate resilient performance over the quarter, with returns of 2.3% and 2.1%, respectively. The retail sector delivered a total return of 2.2%, driven mainly by shopping centres and retail warehouses at 3.0% and 2.6%. The office sector continued to face challenges due to ongoing structural issues, recording a performance of 0.4% in Q3.

Portfolio Update

At the end of September 2024, the Trust's NAV stood at £856.4 million, reflecting a decrease of 2.8% over Q3. This decline was driven by a -2.0% fall in July that principally reflected the independent valuer's assessment of the impact on valuations due to the material fund redemptions communicated to Unit Holders at the start of the quarter.

At the end of the quarter, the property portfolio was valued at £784.3 million, comprising fifty-nine assets. The portfolio's net initial yield was 5.6%, with a reversionary yield of 7.8% and a nominal equivalent yield of 7.0%. The vacancy rate at the close of Q3 was 11.3% of total ERV, predominantly in the office sector, versus the MSCI Other Balanced benchmark at 13.4%. The Trust's income distribution yield for the year ending September 2024 was 4.4%, compared to the benchmark weighted average of 4.2%.

During the quarter, the Manager continued to progress with its planned programme of asset disposals. In September 2024, the Manager sold 18-20 St John Street, an office in Farringdon, for £6.1 million, achieving a 3% premium over the August 2024 valuation. Shortly after the quarter end, the Manager also sold an office in Chelmsford (Park View House) for £7.1 million, at an 18% premium to the September valuation. Additionally, contracts were exchanged on the 30th October for the sale of the St Martin's shopping precinct in Caversham for £15.8 million, a 2% premium to valuation. The sale completed in mid-November.

Performance

During Q3 2024, the Trust's total return to Unit Holders was -1.5% which compared to the MSCI/AREF Other Balanced benchmark weighted average return of 1.1%. The underperformance was principally due to the asset valuations in July that reflected the independent valuer's assessment of the pricing impact from the significant redemption (representing 22% of the June NAV) that was communicated by the Manager at the start of that month (and which revealed the Trust as a 'motivated seller').

Specifically, the independent valuer assessed the pricing impact on those individual assets identified for sale to meet redemptions, with the office properties seeing the most significant adjustments. Subsequently, as part of the usual ongoing monthly pricing process for the overall portfolio, the valuations of these assets have continued to be assessed, reflecting in particular any progress on sales tested in the market. This has been alongside the independent valuer's consideration of all the usual asset and market level factors in determining the individual asset valuations for the overall property portfolio. There were no specific redemption-related adjustments applied by the independent valuer or the Manager to any of the portfolio's individual asset valuations at the end of September.

In terms of the quarterly performance breakdown, the income return of the Trust was 1.3%, above the benchmark's 0.9%. The capital return delivered -2.8% versus the benchmark's 0.2% which, as noted above, was principally driven by the redemptions-led valuation adjustments made in July.

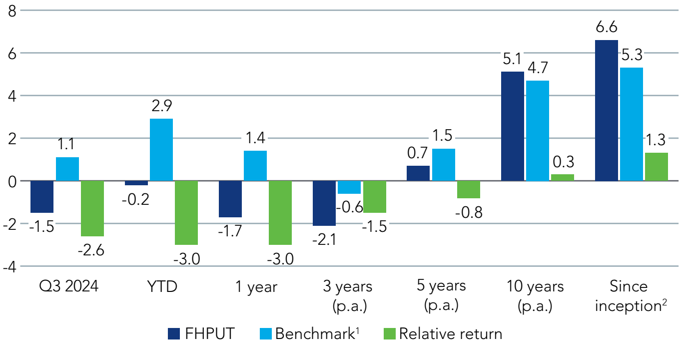
Over the 12-month period to the end of September 2024, the Trust delivered a total return of -1.7%, compared to the benchmark of 1.4%. The one-year income return was above the benchmark (4.3% vs 4.1%), while the capital return delivered -5.8% compared to the benchmark of -2.7%. In addition to the Q3 capital value declines, the two sales of Great George Street, Westminster and Polar Park in Heathrow (both completed at the end of 2023) were significant detractors from the 12-month capital value return. As to longer-term relative performance, over the10-year period the Trust has delivered a 5.1% total return per annum compared to the benchmark of 4.7% per annum, with the income component driving the bulk of this overall performance.

During the quarter, the industrial subsector was the primary positive contributor to overall performance, benefiting from improved investor sentiment and a strong occupational market. Together this boosted yields and supports ongoing rental growth prospects, particularly for multi-let estates where the portfolio has most of its exposure. The Other/Leisure sector, which includes three hotels/serviced apartments and a portfolio of twenty-one pubs leased to a single operator, also performed positively. Conversely, the Rest of UK offices sector, encompassing all offices outside Central London, was the major detractor from portfolio performance in Q3. This sector continued to face weak investor sentiment, higher capital expenditure requirements, and an occupational market focused on high-quality spaces in prime locations.

At the property level, the main contributors to overall portfolio performance were two industrial investments in Manchester (Guinness Road) and Heathrow (Old Bath Road), driven by positive asset management and improving investor sentiment. The main detractors to the overall portfolio performance were the office investment in Hammersmith (reflecting increased uncertainty on delivery of an alternative use option through 'permitted development') and the vacant industrial site near Reading station (due to perceived market caution on delivery of large development initiatives).

Performance as at end September 2024

Fund v benchmark (%)



[1] MSCI/AREF UK Other Balanced Property Fund Index (Weighted Average). Years to end September 2024, annualised in GBP. Returns rounded to 1 decimal place are net of fees. Source: MSCI/AREF UK Other Balanced Property Fund Index.

[2] Fund inception: 31 December 2000.

Past performance is not a reliable indicator of future results.

Investment Management

Disposals

18-20 St John Street, Farringdon EC1 (Disposal – City Offices): The Manager sold the office in Farringdon for £6.14 million, achieving a 3.4% premium over the July 2024 valuation, with the sale completing in September 2024. This Grade II listed building is multi-let to five tenants, generating a current passing rent of £437,025 per annum, which equates to £60.40 per square foot. The property has a short Weighted Average Unexpired Lease Term (WAULT) of 3.45 years, including a 14-year lease to the bar operator. The offices contribute approximately 77% of the income, while the bar accounts for 23%. From an asset management perspective, the property is now fully leased following its refurbishment and extension. The small suites in the building typically have lease terms of 2 to 3 years and are likely to experience tenant turnover due to the nature of small businesses growing, dissolving, or moving into serviced accommodation. Despite the recent refurbishment, ongoing capital expenditure will be necessary to modernise the property whenever tenants vacate, to facilitate leasing. Additionally, there is an oversupply of vacant offices in the City of London, and the demand for small suites at attractive rental levels is relatively low.

Park View House, Chelmsford (Disposal – South East Offices): In October 2024, the Manager sold an office in Chelmsford (Park View House) for £7.1 million, reflecting an 18% premium over the July valuation. This sale aligns with the strategy of reducing exposure to regional offices and specifically where there is significant void risk. From an asset management perspective, the property is single-let with 2.2 years remaining on the lease. The tenant will not be renewing the lease, and the property, last refurbished in 2016, will require significant capital expenditure to be leased again, posing a substantial void risk. The asset has the potential for conversion to residential use, which is attractive to buyers given the current planning consent.

Planning Applications Activity

Two pre-planning submissions were progressed by the Manager on Reading Metropolitan and Commercial Point in Southampton. The Reading proposal is for a residential-led redevelopment totalling 802 units for 'build to rent' and affordable tenures. The Southampton asset is proposed for redevelopment to student accommodation comprising 682 units. Both meetings were positive with full planning applications being encouraged by the respective councils.

Reading Metropolitan – proposed development CGI

Abbey View Retail Park, St Albans: The Manager has agreed a surrender of a lease to Matalan with a new agreement for lease to Lidl on a new 20-year lease at a rent of £510,000 per annum reflecting £18 per sq ft. The letting is conditional on securing planning permission for use as a supermarket.

Thomas Road Industrial Estate, Limehouse, London: The Manager has proactively taken a surrender of Unit 11 and will imminently be undertaking a best-in-class refurbishment to include solar panels on the roof. The aim is to achieve a rent in excess of £30 per sq ft which compares to the average rent on the estate of £19 per sq ft. There is good occupier interest currently in Unit 9 which was refurbished earlier this year. The Manager is capitalising on lease 'intervention points' across the industrial portfolio to drive value.

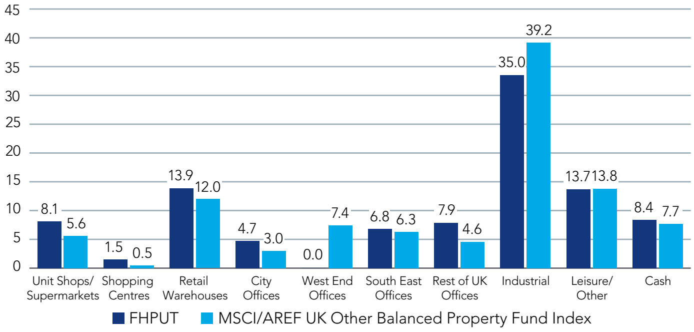
Mitcham Road, Croydon: A rent review with Selco has completed at the industrial holding in Croydon. This has increased the rent across the two units occupied from £660,000 per annum to £928,585 per annum, reflecting a 41% uplift. This is consistent with the Manager's strategy of crystallising the significant rental growth seen on the portfolio's industrial assets over recent years.

Citygate, Manchester: The Manager completed the removal of a break option held by the Secretary of State on three floors of the Trust's office in Manchester city centre in exchange for six months' rent free. This has secured an additional five years of income, with an unexpired term on those floors of approximately eight years.

Boundary House, Farringdon EC1: A refurbishment of the 6th floor at Boundary House in Farringdon has begun, including updates to the roof terrace and cycling facilities. The goal is to achieve a rent of approximately £77.50 per square foot for the 6th floor, representing a 35% increase from the previous rent. This aligns with the Manager's strategy of retaining best-in-class offices within the portfolio and investing to drive rental growth.

Portfolio Structure Comparison

Sector Weighting % Total Portfolio Value



Source: Federated Hermes Real Estate and MSCI/AREF UK Property Fund Index, end September 2024. GAV basis.

ESG Implementation

Progress continued to be made over the quarter on the key objective of enhancing evaluation of the costs and returns associated with delivering a net zero portfolio. The Manager is working with Workman LLP on shortly completing a detailed feasibility study on the decarbonisation strategy, which utilises Workman's existing property management knowledge of the portfolio and focuses on practical implementation initiatives. The results of this study will feed into the Manager's modelling of overall returns for the portfolio.

The Manager will soon install 12 ultra-rapid EV chargers at Homelands Retail Park in Chelmsford. This initiative, driven by high demand for EV charging, aims to maintain the retail park's attractiveness to visitors, reduce reliance on fossil fuels, and promote electric fuel consumption.

This year, a major focus is the installation of solar panels across the portfolio to generate rental income, support carbon net zero goals, and enhance occupational demand. Solar panels will soon be installed on a 60,000 sq ft unit (The Range) at Abbey View Retail Park in St Albans and on six units at Maybird Shopping Park in Stratford upon Avon.

GRESB 2024 Results

Stars: ☆☆ (Retained the 2 stars awarded in 2023)

Performance: 45/70 (Retained points)

Management: 25/30 (decrease of -5)

Total: 70/100 (decrease of -5)

Peer group ranking: 79/99 UK Core diversified

For the 2024 GRESB submission, the Manager retained the 2-star rating from 2023 following significant point reductions experienced by participants this year. The Manager delivered good results under performance criteria, with improved scores in data coverage and like-for-like analysis for Energy, GHG and Water components. However, points were lost under building certification due to a new rule that certificates older than three years were not accepted. The management section saw a reduction in points, partly due to substantial changes in the assessment criteria. To address this, the Manager has conducted a gap analysis and collaborated with external consultants and property management teams to enhance performance and scoring for next year's submission.

Please note that GRESB significantly altered its scoring methodology this year, impacting results globally. Changes included a shift from regional to country-specific benchmarks, adjustments in peer group allocation, and modifications in the point allocation for green building certifications, leading to a notable drop in scores across all submissions (and delays in the final publication of the benchmark results). As such, GRESB has issued the following note:

'GRESB advises against the direct comparison between 2024 GRESB Scores and prior year results. The new Standard provides a more rigorous assessment of sustainability practices, new asset-level benchmarks, and enhanced alignment with emerging investor priorities. These benefits come at the cost of comparability, and investors are encouraged to carefully evaluate changes driven by the evolution of the Standard, assessment methodology, and participant actions'.

Outlook

The commercial real estate market has faced significant volatility in recent years so it has been encouraging to see market valuations stabilising and, at the time of writing, starting to improve. Whilst the general perception is that the UK commercial real estate has now entered a new phase of its cycle, the outlook for the UK economy (and, specifically for real estate investors, GDP growth and interest rates) remains uncertain. In the near term at least, this may cool some of the more cautiously positive sentiment seen post summer.

Looking longer term, recent price fluctuations have highlighted the importance of income as the principal driver of performance and the need for a proactive, dynamic approach to portfolio management. The current bifurcation in the market, with investor and occupier demand predominantly focused on well located, higher quality buildings, is expected to continue. This trend, coupled with the portfolio's attractive income profile, should benefit its future performance prospects. Specifically, the potential delivery of a strong pipeline of current active management initiatives could be a material driver of returns.

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Key Statistics

As at end September 2024

Gross asset value	£856.4m
Net asset value	£856.4m
Directly held assets	59
Indirect real estate vehicles	0
Offer Price	£6.184
Bid Price	£5.777
Net Asset Value per unit	£5.847
Number of unit holders	74
Distribution per unit – paid (Quarter to September 2024)	7.455p
Distribution per unit – paid (Year to September 2024)	24.53p
NAV Yield	4.4%
12 month return to unit holders	-1.7%
Quartely return	-1.5%

Past performance is not a reliable indicator of future performance.
Source: Federated Hermes Real Estate, end September 2024. Returns shown are in GBP, net of fees.

Top 10 Direct Holdings by Value Band (GAV)

As at end September 2024

Asset	Sub-sector	Value (£m)
Maybird Shopping Park, Stratford-upon-Avon	Retail Warehouses	40-60
Broken Wharf House, High Timber Street, London EC4	Leisure/Other	40-60
1/15 Thomas Road, Limehouse, London, E14 7BN	Industrials	20-40
Sainsbury's, Maxwell Road, Beaconsfield	Supermarkets	20-40
LGC Complex, Newmarket Road, Fordham, CB7 5WW	Industrials	20-40
Guinness Road Trading Estate, Manchester	Industrials	20-40
Reading Metropolitan, 80 Caversham Road, Reading	Industrials	20-40
Coln Industrial Estate, Old Bath Road, Colnbrook, Slough	Industrials	20-40
Round Foundry & Marshalls Mill, Water Lane, Holbeck Urban Village, Leeds, LS11	Standard Offices RUK	20-40
Mitcham Road, Croydon	Industrials	20-40

Source: Knight Frank Valuations and HREIM, end September 2024.

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Federated Hermes
Private Markets

Federated Hermes

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