

To: Company Announcements
Date: 20 April 2020
Company: BMO Real Estate Investments Limited
LEI: 231801XRCB89W6XTR23

Subject: Trading Update and Net Asset Value

Background

BMO Real Estate Investments Limited ("BREI" or the "Group") provides an update on trading and the net asset value as at 31 March 2020 against the backdrop of the evolving COVID-19 pandemic, as well as the actions being undertaken by the Investment Manager (the "Manager"). Our priorities at this challenging time are the wellbeing of everyone involved with the Group, our ability to provide support to our tenants where it is most needed and preserving the financial strength of the Group for shareholders.

Operations

The Manager has robust business continuity plans to ensure it can maintain operations in these challenging times. Although a work from home policy has been introduced across all geographies the asset and property managers are in regular contact with tenants, providing support where felt necessary. They are also ensuring that essential services are maintained across the portfolio.

The Managers will consider assistance regarding concessions or the future phasing of rent where appropriate. The Managers are also focused on reducing operational costs and service charges in addition to non-essential capital expenditure. Our hope is that our support, in addition to that already announced by the Government, will help place our tenants in a position to resume normal operations as swiftly as possible when conditions allow.

Net Asset Value ('NAV')

The unaudited NAV per share of BREI as at 31 March 2020 was 99.7 pence. This represents a decrease of 2.8 per cent from the NAV per share as at 31 December 2019 of 102.6 pence and a NAV total return for the quarter of -1.6 per cent.

The NAV is based on the external valuation of the Group's property portfolio prepared by Cushman & Wakefield. The valuation certificate includes a 'material uncertainty' clause in-line with RICS guidance. This clause reflects the fact that there is less certainty in the valuations, given the unknown future impact that COVID-19 might have on the real estate market. Valuers are therefore exercising a higher degree of caution and giving less weight to previous market evidence for comparison purposes.

The NAV is calculated under International Financial Reporting Standards ("IFRS").

The NAV includes all income to 31 March 2020 and is calculated after deduction of all dividends paid prior to that date. Further analysis of the movement in the NAV and portfolio details are included at the end of this statement.

Share Price

The share price was 69.2 pence per share at 31 March 2020, which represented a discount of 30.6 per cent to the NAV per share announced above. The share price total return for the quarter was -15.1 per cent. The volatility of the market has further impacted the share price during April 2020 and as at 17 April 2020 the shares were trading at around 50 pence per share, a discount of 50 per cent to the NAV as at 31 March 2020.

Portfolio Composition

The Company benefits from a defensive, balanced asset base allocated 42.6 per cent Industrial & Logistics, 29.4 per cent Offices, 16.9 per cent Retail Warehousing and 11.1 per cent High Street Retail. The geographical exposure to the wider South East region is 77 per cent across all sectors. The portfolio comprises 37 assets, and 122 tenants with the largest tenant representing 7.5 per cent of the annual income. The vacancy rate by rental value is sub 3 per cent and the average weighted unexpired lease term is in excess of 6 years.

Rent Collection

The Company has a highly diverse tenant base, the vast majority of whom continue to trade through the lockdown. Nonetheless almost without exception UK businesses are experiencing unprecedented levels of disruption. The Managers are engaging with tenants given the challenges faced by many to meet quarterly rental commitments at this time. We are beginning to witness the impact of the trading restrictions put in place by the Government which has resulted in the closure of many of our retail units. The portfolio has no exposure to the hospitality and leisure subsectors and only two restaurant tenants, although it does have occupiers linked to these sectors through the supply chain.

The Group has billed c.£3.3m of its quarter 2 rent due from 25 March to date and has collected 69 per cent of this amount (compared to 94 per cent for the same period last year). This percentage will increase as tenants with whom we have agreed monthly payment arrangements pay further instalments. The total quarterly rent amounts to c.£3.9 million with further contractual billing dates during the course of April and May.

Cash and Borrowings

The Group has approximately £13.5 million of available cash and an undrawn revolving credit facility of £20 million. The Group's £90 million long-term debt with Canada Life and the undrawn loan facility with Barclays do not need to be refinanced until November 2026 and March 2025 respectively. As at 31 March 2020, the Group's LTV was 25.1 per cent and there was significant headroom under its actual and projected debt covenants.

Dividend

On 11 March 2020, the Company announced its quarterly dividend payment of 1.25 pence per ordinary share in respect of the financial year ended 30 June 2020 which was paid to shareholders on 31 March 2020. The impact that COVID-19 will have on future rental receipts and the long-term sustainability of the quarterly dividend is under review and a further update in this regard will be made once the full picture has been established.

Outlook

Given the uncertainty surrounding the current trading position of some of the Company's tenants, the recovery of income due under existing lease contacts remains the immediate focus. The Company's low void rate of c3% and relatively high and diversified weighting to the Office and Industrial sectors should provide some protection against these challenges but very few areas of the market will offer immunity to the wider downturn induced by the pandemic and associated global lockdown. We therefore continue to expect to see significant disruption to revenues over the near term, including the next quarter's rent collection, even when the timetable for relaxation of lockdown measures becomes clearer.

Breakdown of NAV movement

Set out below is a breakdown of the change to the unaudited net asset value per share calculated under IFRS over the period from 31 December 2019 to 31 March 2020.

	Pence per share	% of opening NAV
Net asset value per share as at 31 December 2019	102.6	
Unrealised movement in valuation of property portfolio (including the effect of gearing)	(2.6)	(2.5)*
Movement in revenue reserves	(0.3)	(0.3)
Net asset value per share as at 31 March 2020	99.7	(2.8)

* The un-gearred decrease in the valuation of the property portfolio over the quarter to 31 March 2020 was 1.9%.

Portfolio Analysis	£m	% of portfolio as at 31 March 2020	% capital value movement in quarter
Offices	94.1	29.4	0.3
• West End	29.3	9.2	(0.3)
• South East	37.4	11.7	1.8
• Rest of UK	27.4	8.5	(0.9)
Industrial	136.4	42.6	(0.2)
• South East	136.4	42.6	(0.2)
Standard Retail	35.5	11.1	(7.0)
• West End	8.4	2.6	(0.9)
• Rest of London	2.4	0.7	(12.7)
• South East	17.8	5.6	(8.0)
• Rest of UK	6.9	2.2	(9.2)
Retail Warehouse	54.3	16.9	(5.9)
Total Property	320.3	100.0	(1.9)

Summary Balance Sheet

	£m	Pence per share	% of Net Assets
Property Portfolio per Valuation Report	320.3	133.0	133.4
Adjustment for lease incentives	(3.4)	(1.4)	(1.4)
Fair Value of Property Portfolio	316.9	131.6	132.0
Cash	13.4	5.6	5.6
Trade and other receivables	7.0	2.9	2.9
Trade and other payables	(7.8)	(3.2)	(3.2)
Interest-bearing loans	(89.5)	(37.2)	(37.3)
Net Assets at 31 March 2020	240.0	99.7	100.0

The property portfolio will next be valued by an external valuer during June 2020 and the net asset value per share as at 30 June 2020 will be announced in July 2020.

Important information

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement via Regulatory Information Service this inside information is now considered to be in the public domain.

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