Client note

BMO UK Property Fund

UK commercial property update: positive economic forecasts

May 2021

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We are writing this note from our office in Seymour Street in London; it's good to be back in the office, collaborating with colleagues who similarly needed to work from the office today. Most of all, it's great to support local coffee shops, restaurants and the high street, who have had an exceptionally difficult 12 months but now can see a brighter future as the economy bounces back and with some vigour.

The announcements on the expected UK economic recovery are now coming through thick and fast, with the Bank of England predicting growth of 7.25% during 2021, up from 5.0% three months ago, and the strongest since 1941. The forecast references 'excess' savings flowing into the economy, strong manufacturing and services PMI data and of course the impact of continued house price growth supported by the lower-for-longer base rate. These positive indicators will pick up further as additional lockdown measures are eased, international tourism re-emerges and crossborder business relationships can be reignited.

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Key risks

Past performance is not a guide to future performance.

The value of your investments and any income from them can go down as well as up and you may not get back the original amount invested.

The value of directly-held property reflects the opinion of valuers and is reviewed periodically. These assets can also be illiquid and significant or persistent redemptions may require the manager to sell properties at a lower market value adversely affecting the value of your investment.

BMO UK Property Fund invests in assets that may at times be hard to sell. This means that there may be occasions when you experience a delay or receive less than you might otherwise expect when selling your investment. For more information on risks, see the prospectus and key investor information document.

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With the fortunes of UK commercial property inextricably linked to UK GDP, signs of the rapid recovery in activity bodes well for performance. This is backed up by renewed interest being shown in the sector from a variety of market participants, resulting in economists predicting property investment flows will also experience a strong bounce back.

The task is to identify which sectors and geographies will benefit the most and to manage exposure to those suffering long-term or permanent scarring from the impact of lockdowns, still correcting to structural changes, or those with fresh challenges due to evolving changes in working and shopping habits. It is fair to say some shopping centres, high street retail and secondary offices fall into these categories and will need to work hard to limit damage, and are unlikely to be the main beneficiaries of the economic rebound.

We believe the BMO UK Property Fund's sector positioning bodes well for future performance, with a main focus on logistics and industrial, some retail warehousing occupied by essential retailers, often with alternative use underpin, and a focused exposure to offices and alternatives. In the short term, sought-after assets, particularly in industrials and logistics, may benefit from yield compression as a wider pool of investors enter the market, as well as being the recipient of capital re-directed from those sectors that are more fragile. However, more importantly for the longer term is that the economic rebound will boost rental growth, improving the income return. The Fund's approach served it well in terms of capital and income performance over the past 12 months and looks set to also be a beneficiary of wider market forecasts over the next few years.

An update on rent collection

Rent collection continues to be strong at 90%+ and we have just had a positive settlement from one of our 'can pay, won't pay' occupiers following legal action being taken. Additionally, our largest debtor Tui has recently indicated that it will now pay the deferred rent back to the fund later in the year boosting rental collection even further. We continue to provide support to occupiers who engage openly with us to ensure they can benefit from the recovering economy.

FCA CP20/15 & FS 21/8 – Consultation and Feedback Statement

We have consistently communicated that any changes proposed as a result of the consultation on open-ended property funds, even if they are eventually considered appropriate, would necessitate significant development of the platforms and that this would take some considerable time. It is pleasing to read in the Feedback Statement issued last week that the FCA has come to a similar conclusion, holding off any decision making on this matter to Q3 at the earliest whilst the consultation in relation to the Long-Term Asset Fund (LTAF) is progressed.

The LTAF proposal brings together work of the Productive Finance Working Group, Bank of England, HM Treasury and the Fund Management industry which is seeking to promote wider investment in UK real assets and infrastructure. A particular focus is ensuring all investors, especially in relation to the expanding defined contribution pension market (which also relies on a daily traded architecture) can fully access the illiquidity premium and benefits of true diversification that alternative funds offer. This piece of work is a key part of the Build Back Better agenda and therefore has tremendous Government support.

Additionally, the FCA have announced that any rule changes would have a long implementation period of up to 2 years. So for us it is business as usual and it is positive that the FCA are properly considering the matter to ensure the correct investor outcomes are achieved.

We appreciate your continued support of the Fund, and if you would like a more detailed update on any of the topics discussed in this note or the Fund's activity then please do arrange a meeting via your sales representative.

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