

To: Company Announcements
Date: 22 October 2021
Company: BMO Real Estate Investments Limited
LEI: 231801XRCB89W6XTR23

Subject: Trading Update and Net Asset Value

Headlines

- Net Asset total return of 9.2 per cent for the quarter ended 30 September 2021
- Share Price total return of 3.3 per cent for the quarter ended 30 September 2021
- Rent collection currently received since the onset of the pandemic in April 2020 to September 2021 is 96.7 per cent and 98.8 per cent for the latest quarter
- As of 30 September 2021, the void rate was 4.0 per cent
- Two new property acquisitions for a combined cost of £19.4 million
- Disposal of the office at Marlborough House, St Albans for £7.9 million

Net Asset Value ('NAV')

The unaudited NAV per share of BREI as at 30 September 2021 was 110.5 pence. This represents an increase of 8.2 per cent from the NAV per share as at 30 June 2021 of 102.1 pence and a NAV total return for the quarter of 9.2 per cent.

The NAV is based on the external valuation of the Company's property portfolio prepared by Cushman & Wakefield.

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

The NAV includes all income to 30 September 2021 and is calculated after the deduction of all dividends paid prior to that date.

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 30 June 2021 to 30 September 2021.

	Pence per share	% of opening NAV
Net asset value per share as at 30 June 2021	102.1	
Unrealised movement in valuation of property portfolio (including the effect of gearing)	8.2	8.0*
Realised gain on sale of property (including the effect of gearing)	0.2	0.2
Net revenue	1.0	1.0
Dividends paid	(1.0)	(1.0)
Net asset value per share as at 30 September 2021	110.5	8.2

* The un-gearred capital return of the property portfolio over the quarter to 30 September 2021 was 5.9 per cent.

Share Price

The share price was 72.4 pence per share as at 30 September 2021, which represented a discount of 34.5 per cent to the NAV per share announced above. The share price total return for the quarter was 3.3 per cent.

Performance

The UK property market delivered robust returns over the third quarter, with investor sentiment continuing to improve. There was some stabilisation in fortunes for the previously unfavoured areas of the market accompanied by a continuation of the encouraging performance from the more resilient, namely the industrial, logistics, retail warehousing and supermarket subsectors. While headwinds remain in the form of inflationary pressures, staffing shortages and supply chain issues, the expectation of further yield compression and the potential for income growth from selected sectors offer a positive outlook for much of the market.

Against this backdrop the Company's portfolio delivered strong performance over the period, generating a capital return of 5.9 per cent. This capital value movement has been driven principally by market yield compression. The key determinant of the Company's strong quarterly capital performance has been the portfolio's structural over-weight to the Industrial, Logistics and Distribution sector and the Retail Warehousing sector, which between them account for 69 per cent of the portfolio and delivered capital growth of 9.7 per cent and 5.1 per cent respectively. Strong conviction to these sectors, alongside the long-term strategic down-weighting to High Street Retail, have positioned the Company to benefit from favourable dynamics in these key sectors, with the expectation of further yield compression lending longer term support to capital growth prospects.

As previously announced, the quarter saw the purchase of two properties in the sought after Industrial, Logistics and Distribution and Retail Warehousing sectors, targeted for their robust occupational demand, income resilience and favourable performance prospects. These acquisitions were made at a combined price of £19.4m, at an overall accretive yield and a meaningful discount to the subsequent September valuation.

The £12.1m acquisition of a vehicle servicing centre in Colnbrook, Heathrow, concluded in September, and at a highly reversionary net initial yield of 4.0 per cent, taking the Company's weighting to the Industrial, Logistics and Distribution sector to in excess of 50 per cent.

The September acquisition of a retail warehousing scheme occupied by Wickes and Topps Tiles in Banbury, at a price of £7.325m and a net initial yield of 6.3 per cent, further compliments the Company's existing exposure to the functional, non-fashion and low-rented segment of the Retail Warehousing sector. This sector has been targeted for its income resilience, albeit with the potential for repurposing for alternative uses underpinning long term value.

As the UK's return to the office takes shape, occupational take-up and investment volumes continue to improve. There is however a note of caution with the recovery as yet centred on London and the core cities, with some asset types facing continued uncertainty as occupiers redefine their real estate requirements. Capital growth of 0.9 per cent over the quarter demonstrates resilience within the Company portfolio, albeit with the Berkeley Street, London holding continuing to see muted performance given the on-going leasing activity at the property. The Company also generated returns from the disposal of an office at Marlborough House, St Albans, which was sold for £7.9 million in August at an 8 per cent premium to the June quarterly valuation.

Alongside the recent transactional activity there has been much focus on asset management, specifically in bringing the two major capital projects, which cost a combined £9.2 million to a successful conclusion. The quarter saw the completion of works at the former single let retail warehouse asset at Enterprise Way, Luton, redeveloped to create a food-store anchored multi-let scheme. Similarly, final signoff was achieved on the refurbishment of the Office property at County House in Chelmsford. Three of four floors have already been let, the latest at a record rent for Chelmsford, with the final remaining suite subject to an offer for part at the time of writing. These two redevelopment projects have generated strong returns to date and have proved to be a worthwhile use of the Company's cash resources.

As at period end the portfolio had a vacancy rate of 4.0 per cent (by ERV) and an average weighted unexpired lease term of 6.1 years (assuming tenant breaks operated).

Rent Collection

We summarise below our current rent collection outcome since the impact of Covid-19 came to bear, for Q2 2020 to Q3 2021.

Q2 2020 to Q3 2021 collection (billed between 26 March 2020 and 1 September 2021)

Overall collection over the eighteen-month period is at 96.7 per cent and the breakdown is detailed below:

	Rent Billed (£m)	Collected (%)
Quarter 2 2020	4.2	93.7
Quarter 3 2020	4.1	95.2
Quarter 4 2020	4.2	97.5
Quarter 1 2021	4.2	96.6
Quarter 2 2021	4.2	98.5
Quarter 3 2021	3.9	98.8
Total	24.8	96.7

Collection by sector:

	Rent Billed (£m)	Collected (%)
Industrial, logistics and distribution	9.3	100.0
Offices	6.7	99.4
Retail Warehouse	5.5	98.1
Retail	3.3	79.6
Total	24.8	96.7

Breakdown of uncollected rent:

Total Outstanding	Rent Billed (£m)	(%)
Rent waived	0.5	2.3
Unresolved / in discussion	0.1	0.2
Bad Debts	0.2	0.8
Uncollected Rent	0.8	3.3

The Company's favourable weighting to the Industrial, logistics and distribution sector has remained the bedrock of strong rent collection, alongside high exposure to 'essential' retailers within the Retail Warehousing portfolio. Further structural advantages have come from the strategic disposal programme across the High Street Retail sector, as well as the limited exposure to hospitality and leisure. Rent collection for Q3 currently stands at 98.8 per cent - with the majority of the balance subject to repayment via payment plans – indicating a return to more normalised payment patterns.

Dividend

On 9 September 2021, the Company announced a quarterly dividend payment of 1.0 pence per ordinary share in respect of the financial year ended 30 June 2021, which was paid to shareholders on 30 September 2021. This was an increase of 17.6 per cent on the previous quarter, reflecting the strong rent collection statistics. The Board will continue to monitor rental receipts and earnings closely and keep the future level of dividends under review.

Cash and Borrowings

The Company has approximately £9.0 million of available cash and an undrawn revolving credit facility of £10 million. The Company drew down £10 million of the Barclays revolving credit facility during the quarter. The £90 million long-term debt with Canada Life and the revolving credit loan facility with Barclays do not need to be refinanced until November 2026 and March 2025 respectively. As at 30 September 2021, the LTV was 26.2 per cent and there was significant headroom under debt covenants.

Portfolio Analysis	£m	% of portfolio as at 30 September 2021	% capital value movement in quarter
Offices	88.6	24.6	0.9
• West End	28.0	7.8	0.1
• South East	33.4	9.3	1.8
• Rest of UK	27.2	7.5	0.8
Industrial, logistics and distribution	182.1	50.6	9.7
• South East	182.1	50.6	9.7
Standard Retail	23.3	6.5	(0.7)
• West End	6.7	1.9	0.0
• Rest of London	1.5	0.4	(3.1)
• South East	11.5	3.2	(0.3)
• Rest of UK	3.6	1.0	(2.0)
Retail Warehouse	66.0	18.3	5.1
Total Property	360.0	100.0	5.9

Summary Balance Sheet

	£m	Pence per share	% of Net Assets
Property Portfolio per Valuation Report	360.0	149.6	135.3
Adjustment for lease incentives	(4.0)	(1.7)	(1.5)
Fair Value of Property Portfolio	356.0	147.9	133.8
Cash	9.0	3.8	3.4
Trade and other receivables	7.1	2.9	2.7
Trade and other payables	(6.3)	(2.6)	(2.4)
Interest-bearing loans	(99.8)	(41.5)	(37.5)
Net Assets at 30 September 2021	266.0	110.5	100.0

The property portfolio will next be valued by an external valuer during December 2021 and the net asset value per share as at 31 December 2021 will be announced in January 2022.

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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