

To: Company Announcements
Date: 2 February 2024
Company: Balanced Commercial Property Trust Limited
LEI: 213800A2B1H4ULF3K397

**Balanced Commercial Property Trust Limited (the "Company" or "BCPT")
NAV (unaudited) and Company Update**

Headlines

- Net Asset Value total return of -2.4 per cent for the quarter ended 31 December 2023.
- Share Price total return of 8.9 per cent for the quarter ended 31 December 2023.
- Successful disposal of 3 office holdings at an aggregate price of £42.8m and a discount to September valuation of 0.3 per cent, reducing portfolio office exposure to 24.4 per cent.
- Further portfolio rebalancing and strategic disposals anticipated, targeting assets where value can be crystallised following the successful delivery of asset business plans.
- Portfolio passing rent up 1.2 per cent and Estimated Rental Value (ERV) up 0.9 per cent over the quarter, as 12 occupational transactions completed.
- Refurbishment of Strategic Park, Southampton completed and both units let post-period, delivering a 12-month total return of 13.4 per cent alongside attractive ESG credentials and an enhanced exposure to the industrial & logistics sector. The refurbishment resulted in an uplift of 27.5 per cent to the previous combined passing rent.

Net Asset Value: total return of -2.4 per cent for the quarter

The unaudited net asset value ('NAV') per share of the Company as at 31 December 2023 was 109.8 pence. This represents a decrease of 3.6 per cent from the unaudited NAV per share as at 30 September 2023 of 113.9 pence and a NAV total return for the quarter of -2.4 per cent.

The NAV has been calculated under International Financial Reporting Standards ('IFRS'). It is based on the external valuation of the Company's property portfolio which has been prepared by CBRE Limited.

The NAV includes all income to 31 December 2023 and is calculated after deduction of all dividends paid prior to that date.

Analysis of Movement in NAV

The following table provides an analysis of the movement in the unaudited NAV per share for the period from 30 September 2023 to 31 December 2023 (including the effect of gearing):

	£m	Pence per share	% of opening NAV per share
NAV as at 30 September 2023	798.8	113.9	
Unrealised decrease in valuation of property portfolio	(26.0)	(3.7)	(3.3)
Realised losses on property sales	(1.7)	(0.2)	(0.2)
Other net revenue	8.3	1.1	1.0
Dividends paid	(9.3)	(1.3)	(1.1)
NAV as at 31 December 2023	770.1	109.8	(3.6)

The EPRA Net Tangible Assets per share as at 31 December 2023 was 109.8 pence per share (30 September 2023: 113.9 pence per share).

Investment Market Commentary

Despite an improving macroeconomic backdrop, the real estate sector has seen a slight softening in pricing over the final quarter of 2023 as the MSCI UK Monthly Property Index recorded capital value falls of 2.6 per cent. This was primarily on account of limited transactional activity with investment volumes down by nearly 50 per cent year-on-year. Buyers continue to exercise caution in the face of elevated interest rates and a challenging debt market, whilst sellers adopt a wait-and-see approach amid strengthening rhetoric around the timing of any cuts to the base rate.

Transactional Activity and Disposal Programme Update: £42.8m of Offices Sold

As previously announced, the Company successfully completed the sale of three office holdings during December and January as part of its stated strategy to reduce the portfolio's exposure to the office sector. Following these disposals, BCPT's exposure to offices has now been reduced to 24.4 per cent.

The sales were:

- Nevis & Ness House, Edinburgh Park, Edinburgh – a 42,000 sq ft headquarters office occupied by Diageo Scotland Limited.
- Building 4, Prime Four Business Park, Aberdeen – a 25,000 sq ft training centre occupied by Maersk Training UK Limited.
- 2-4 King Street, London SW1 – a multi-let freehold of 15,000 sq ft in London's West End.

The sales completed at an aggregate price of £42.8 million, representing a 0.3% discount to the September 2023 independent valuation, the latest valuation prior to the assets being launched to market. The pricing achieved on these disposals reflects the quality of the real estate in the portfolio which has strong underlying fundamentals, supporting relative resilience and liquidity.

The Manager is continuing to actively review a pipeline of further disposals from both the office and other sectors, targeting assets where value can be crystallised following the successful delivery of asset business plans, as part of the Company's strategy to enhance the portfolio's exposure to structurally supported growth sectors and assets.

Portfolio Valuation: -2.6 per cent capital return

Over the quarter, the Company's portfolio recorded a valuation decline of 2.6 per cent, with the valuation yields moving as below:

Portfolio yield	September 2023	December 2023
Net initial yield (%)	5.4	5.5
Equivalent yield (%)	6.4	6.5

At the sector level, the portfolio's office assets saw a valuation decline of 5.4 per cent as the equivalent yield on the portfolio moved out by 30 basis points to 8.2 per cent. Weak investor sentiment towards the sector in general, particularly the out-of-town business park segment, can be contrasted against an occupational market that continues to demonstrate resilience for high quality assets in stronger locations.

Retail warehouse assets experienced a valuation fall of 4.6 per cent, driven by market-led yield shifts as the valuer moved prime sector yields out by 25 basis points. The equivalent yield on these holdings is now 6.2 per cent. The Company's retail parks are fully occupied by a discount/convenience-led tenant roster, and benefit from affluent catchments, offering an attractive and sustainable income profile.

St Christopher's Place saw a valuation decline of 1.5 per cent over the quarter driven by its office and residential exposures. The active repositioning of traditional retail to food & beverage uses continues to gather momentum, lending support to both capital and rental values within the retail and leisure segments of the holding.

Industrial assets experienced a capital fall of 0.9 per cent, with marginal yield softening being offset by continued rental value growth, as the equivalent yield on the portfolio moved out by

14 basis points to 6.0 per cent. However, there remain strong occupational dynamics in the industrial portfolio, offering a valuation income reversion in excess of 40 per cent of the current passing rent, which the Company will look to crystallise through active asset management.

Asset Management Update

We remain in an environment of constrained capital growth where income drives total returns and relative outperformance is predicated on active asset management delivering both income and capital growth.

Importantly the 12 occupational transactions completed over the quarter resulted in a 1.2 per cent increase in portfolio passing rent (on a like-for-like basis). Of particular note:

- **Strategic Park, Southampton** – the speculative refurbishment of this two-unit logistics scheme completed in October 2023 and both units have now been committed at rents ahead of proforma ERVs. The refurbishment resulted in an uplift of 27.5 per cent to the previous combined passing rent and generated capital growth of 15.7 per cent over a twelve-month period. There were also significant ESG enhancements with A-rated EPCs, a BREEAM Very Good certification and a full solar photovoltaic system installed on the roof. The solar installation is forecast to produce an additional operational income return of circa 7.5 per cent.
- **7 Birchin Lane, London EC3** - this City of London office holding is subject to a phased 'Plug & Play' refurbishment to enhance occupier demand, rental tone and ESG credentials. Redmayne Bentley have completed a new 5-year lease (break in year 3) of the newly refurbished 1st floor with the rent at a premium of 17.6 per cent to the suite's ERV prior to the refurbishment.
- **The Cowdray Centre, Colchester** – a multi-let industrial estate where The Range have renewed and entered into a new 15-year lease at a rent representing a 9.1 per cent premium to ERV, in exchange for a 14-month rent free period taken as a stepped rent. The Cowdray Carpet Centre also completed a lease renewal, taking a new 10-year lease (5th year break) at a rent representing a 106 per cent uplift to the previous passing rent, in exchange for a 6-month rent-free period.

The portfolio vacancy rate remained stable over the quarter at 6.7 per cent, of which 0.6 per cent is contractually committed and 4.3 per cent is attributable to Stockley Park, Uxbridge, which is held for strategic repurposing.

Share Price: 8.9 per cent total return for the Quarter

As at 31 December 2023, the share price was 72.5 pence per share, which represented a discount of 34.0 per cent to the NAV per share. The share price total return for the quarter to 31 December 2023 was 8.9 per cent.

Cash and Borrowings

The Company had £41.7 million of available cash as at 31 December 2023.

The Company has a £260 million term loan in place with L&G which matures in December 2024. The Company signed up to a new debt facility in September 2023 which has been provided by incumbent lender, Barclays Bank plc, and HSBC UK Bank plc. This facility has been structured with two tranches, being (a) a £60 million Revolving Credit Facility ('RCF') and (b) a £260 million Term Loan, which can only be drawn to refinance the existing L&G Loan. At 31 December 2023, £30 million of the RCF was drawn.

As at 31 December 2023, the Company's loan to value, net of cash was 24.4 per cent.

Dividend

The Company paid monthly property income distributions at a rate of 0.44 pence per share during the quarter.

Portfolio Analysis – Sector Breakdown

	Portfolio Value at 31 December 2023 £m	% of portfolio at 31 December 2023	% capital value shift (including purchases and CAPEX)
Offices	271.9	26.5	-5.4
West End	82.0	8.0	-2.7
South-East	45.0	4.4	-4.9
South-West	23.2	2.3	-2.7
Rest of UK	103.0	10.0	-9.1
City	18.7	1.8	-0.7
Retail	189.3	18.4	0.1
West End	163.8	15.9	0.1
South-East	25.5	2.5	-0.2
Industrial	331.8	32.3	-0.9
South-East	57.9	5.6	4.5
Rest of UK	273.9	26.7	-1.9
Retail Warehouse	125.8	12.3	-4.6
Alternatives	108.4	10.5	-2.8
Total Property Portfolio	1,027.2	100.0	-2.6

Sector Breakdown post completion of office sale in January 2024

	% of portfolio
Offices	24.4
Retail	19.0
Industrial	33.2
Retail Warehouse	12.6
Alternatives	10.8
Total	100.0

Portfolio Analysis – Geographic Breakdown

	Market Value £m	% of portfolio as at 31 December 2023
West End	294.4	28.7
South East	248.1	24.2
Midlands	238.9	23.3
North West	128.2	12.5
Scotland	75.6	7.3
South West	23.2	2.2
Rest of London	18.8	1.8
Total Property Portfolio	1,027.2	100.0

Top Ten Investments

	Sector
Properties valued in excess of £200 million	
London W1, St Christopher's Place Estate *	Mixed
Properties valued between £50 million and £70 million	
Solihull, Sears Retail Park	Retail Warehouse
Newbury, Newbury Retail Park	Retail Warehouse
Properties valued between £40 million and £50 million	
London SW19, Wimbledon Broadway **	Mixed
Winchester, Burma Road	Alternative
Properties valued between £30 million and £40 million	
Chorley, Units 6 and 8 Revolution Park	Industrial
Birmingham, Unit 8 Hams Hall Distribution Park	Industrial
Markham Vale, Orion 1 & 2	Industrial
Liverpool, Unit 1, G.Park, Portal Way	Industrial
Daventry, Site E4, Daventry International Rail Freight Terminal	Industrial

* Mixed use property of retail, office and residential space.

** Mixed use property of retail and leisure space.

Summary Balance Sheet

	£m	Pence per share	% of Net Assets
Property Portfolio	1,027.2	146.4	133.4
Adjustment for lease incentives	(18.9)	(2.7)	(2.5)
Fair Value of Property Portfolio	1,008.3	143.7	130.9
Trade and other receivables	26.4	3.8	3.4
Cash and cash equivalents	41.7	5.9	5.4
Current liabilities	(17.0)	(2.4)	(2.2)
Total Assets less current liabilities	1,059.4	151.0	137.5
Non-current liabilities	(2.8)	(0.4)	(0.3)
Non-current interest-bearing loans	(286.5)	(40.8)	(37.2)
Net Assets at 31 December 2023	770.1	109.8	100.0

The next quarterly valuation of the property portfolio will be conducted by CBRE Limited during March 2024 and it is expected that the unaudited NAV per share as at 31 March 2024 will be announced in April 2024.

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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