To: **Company Announcements**
Date: **30 October 2023**
Company: **Balanced Commercial Property Trust Limited**
LEI: **213800A2B1H4ULF3K397**

Subject: **Unaudited NAV release for Balanced Commercial Property Trust Limited (the "Company" or "BCPT")**

Headlines

- Net Asset Value total return of -1.7 per cent for the quarter ended 30 September 2023.
- Share Price total return of +4.3 per cent for the quarter ended 30 September 2023.
- A 10 per cent increase in the monthly dividend to 0.44 pence per share with effect from October 2023.
- In September 2023 the Company signed up to a New Debt Facility provided by incumbent lender Barclays and a new lender HSBC.
- Twenty-three leasing initiatives contracted over the quarter, reflecting strong levels of occupier activity across the portfolio.

Net Asset Value

The unaudited net asset value ('NAV') per share of the Company as at 30 September 2023 was 113.9 pence. This represents a decrease of 2.7 per cent from the unaudited NAV per share as at 30 June 2023 of 117.1 pence and a NAV total return for the quarter of -1.7 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 30 September 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 June 2023 to 30 September 2023 (including the effect of gearing):

	£m	Pence per share	% of opening NAV per share
NAV as at 30 June 2023	821.6	117.1	
Unrealised decrease in valuation of property portfolio	(23.2)	(3.3)	(2.8)
Fair value movement on expiry of interest rate swap	(0.2)	-	-
Other net revenue	9.0	1.3	1.1
Dividends paid	(8.4)	(1.2)	(1.0)
NAV as at 30 September 2023	**798.8**	**113.9**	**(2.7)**

The EPRA Net Tangible Assets per share as at 30 September 2023 was 113.9 pence per share (30 June 2023: 117.1 pence per share).

Manager's review

Real estate continues to be impacted by the macro-economic challenges of elevated rates of inflation and high interest rates which continue to weigh on investor sentiment. However, the Bank of England broke its cycle of 14 consecutive increases to the base rate, holding the benchmark interest rate at 5.25 per cent in September. While the rate of inflation has proven stubborn since, it may be that the worst of the inflation-driven market uncertainty and interest rate hikes are now behind us.

Over the quarter, the Company completed the signing of a new debt facility that retains the benefit of the existing term loan (fixed at 3.32% until December 2024). The facility also offers certainty of funding without compromising our future financing options or gearing targets. The refinancing removes the near-term financing risk and affords flexibility to progress asset disposals to strengthen the balance sheet, with optionality to pay down the Company's debt liability at maturity of the existing term loan.

A further positive outcome over the quarter was the result of the Company's 2023 Global Real Estate Sustainability Benchmark (GRESB) submission. The Company attained a score of 79/100 and a 3 green star rating, showing marked year-on-year improvement and returning BCPT to the top position within its GRESB peer group.

Portfolio valuation

At the market level, total returns as measured by the MSCI Monthly UK Property Index turned negative in the third quarter. This was largely driven by yields continuing to drift out in the retail and office sectors, reflecting perceived risk and an absence of capital as quarterly investment volumes remain subdued. The headline figures are nuanced both between prime and secondary stock and, at the sector level, as investors increasingly favour the resilience offered by the sectors with the strongest occupational markets.

Occupational markets continue to show resilience, with all sectors seeing annualised rental value growth at the headline level. This is an encouraging sign in the prevailing environment of limited capital growth and where income will drive real estate returns.

In this context, the Company's portfolio recorded a valuation decline of -2.2 per cent over the quarter. The portfolio's industrial assets saw the strongest capital performance with an increase of 1.7 per cent, primarily due to excellent progress on various asset management and leasing initiatives, particularly at Hams Hall Distribution Park, Birmingham and Hurricane 52 in Liverpool (see 'Portfolio activity'). The sector continues to see robust underlying occupier demand and meaningful rental growth. The ability to crystalise this growth into performance through asset management is an increasingly important pillar of relative income and capital performance.

The Company's office holdings were a drag on performance, with a capital fall of 5.9 per cent over the quarter. The portfolio, which is focussed on high-quality assets in resilient locations, continues to see strong levels of occupational activity. However, sentiment towards the wider sector remains weak and the perception of illiquidity has resulted in the equivalent yield on the assets softening by 48 basis points over the quarter. Despite such weak sentiment, offices remain the most highly traded sector, with the bifurcation between prime and secondary assets remaining a defining characteristic for both occupiers and investors. We continue to execute a targeted and managed process to reduce the Company's office exposure as part of a strategic repositioning of the portfolio.

The portfolio's retail warehousing parks were subject to yield softening amid a muted investment market, despite both parks remaining fully committed to occupiers and with a number of positive asset management initiatives in the pipeline. St Christopher's Place in Central London experienced a marginal decline in capital value, primarily led by the asset's office and residential exposures, with the Company's wider retail exposure otherwise remaining relatively stable over the quarter supported by progress across a number of leasing initiatives including the completion of a significant lease renewal on London's Oxford Street with shoe retailer Aldo.

Portfolio activity

With limited scope for immediate capital growth through yield compression, income and active asset management will be the key drivers of real estate returns over the remainder of 2023 and into 2024.

The portfolio continues to see strong levels of occupational activity with 23 leasing initiatives concluding over the quarter, which saw the vacancy rate on the portfolio fall from 7.2 per cent by estimated rental value (ERV) to 6.7 per cent. The office holding at Stockley Park, Uxbridge accounts for 4.4 per cent of the vacancy rate. This holding is subject to a repositioning strategy, for which we have strong occupier interest and positive initial feedback from the planning authority to the proposed change of use.

A selection of key asset management highlights delivered over the quarter includes:

- **372/374 Oxford Street, London** – shoe retailer Aldo have entered into a new lease on their Oxford Street store. The straight 5-year term comes with a stepped rent structure that more than doubles the previous passing rent, with the unit's ERV achieved by year 3 and exceeded in years 4 and 5.

- **St Christopher's Place, London** – In addition to the critical Aldo lease renewal on Oxford Street, the estate continues to see buoyant levels of occupier activity. This includes lease renewals with F&B operators Costa and Pizza Express, a new retail lease to Jing Tea, a new office lease to Pharus International, as well as 11 residential tenancies completing over the quarter.

- **Unit 8 Hams Hall Distribution Park, Birmingham** – this bespoke facility of 264,000 sq ft is occupied by Nestle Purina until March 2025. Nestle have completed a 10 year (break year 5) reversionary lease from March 2025 in exchange for a 3.5 month rent free period. The rent review due in 2025 is expected to yield a significant uplift in passing rent.

- **Hurricane 52, Estuary Business Park, Liverpool** – as announced previously, this newly developed unit was let on a 10-year lease to Montirex Limited. This letting followed a competitive best bids process between three occupiers and the contracted rent was at a 7.2 per cent premium to the estimated rental value at the time terms were agreed.

- **7 Birchin Lane, London EC3** – this City of London holding is subject to a phased 'Plug & Play' refurbishment to enhance occupier demand, rental tone and ESG credentials. Over the quarter, two refurbished suites have been let on the 1st and 4th floors, both achieving 5-year terms (breaks year 3) and premium rents.

- **8th floor, 82 King Street, Manchester** – this core multi-let office holding remains fully occupied after the lease of part of the eighth floor was surrendered and simultaneously relet on the same terms to Markel Insurance, an existing occupier within the building, maintaining occupancy and income stream, while underlining the occupational appeal of this asset.

Share Price

As at 30 September 2023, the share price was 67.9 pence per share, which represented a discount of 40.4 per cent to the NAV per share. The share price total return for the quarter to 30 September 2023 was +4.3 per cent.

Cash and Borrowings

The Company had £28.5 million of available cash as at 30 September 2023.

The Company has a £260 million term loan in place with L&G which matures in December 2024. As referenced above, the Company has signed up to a new debt facility 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. If utilised, the term loan can be repaid at any time without penalty. Under this arrangement, the Company can retain the competitively priced L&G Loan which is fixed at 3.32 per cent up to its existing 31 December 2024 maturity, whilst also ensuring the future liquidity needs of the Company are fully funded at an acceptable commitment fee, removing near term refinancing risk. The new debt facility has a margin of 180bps above SONIA with an initial two-year term and two one-year extension options.

The previous £50 million debt facility from Barclays which was due to expire in July 2024 was repaid and cancelled on 14 September 2023, with £30 million of the new RCF being drawn down on the same day.

As at 30 September 2023, the Company's loan to value, net of cash was 24.7 per cent.

Dividend

The Company continued to pay monthly property income distributions at a rate of 0.4 pence per share during the quarter. As previously announced, the Company has increased the dividend to 0.44 pence per share which is a 10 per cent increase on the previous monthly rate. The first dividend at the increased rate will be paid on 31 October 2023.

Portfolio Analysis – Sector Breakdown

	Portfolio Value at 30 September 2023 £m	**% of portfolio at 30 September 2023**	**% capital value shift (including purchases and CAPEX)**
Offices	**303.1**	**28.4**	**-5.9**
West End	84.2	7.9	-2.8
South-East	47.1	4.4	-3.1
South-West	23.9	2.2	-3.5
Rest of UK	129.1	12.1	-9.7
City	18.8	1.8	-3.0
Retail	**188.7**	**17.7**	**-0.3**
West End	163.1	15.3	-0.1
South-East	25.6	2.4	-1.2
Industrial	**333.8**	**31.2**	**1.7**
South-East	54.4	5.1	0.1
Rest of UK	279.4	26.1	2.0
Retail Warehouse	**131.6**	**12.3**	**-4.3**
Alternatives	**111.5**	**10.4**	**-3.1**
Total Property Portfolio	**1,068.7**	**100.0**	**-2.2**

Portfolio Analysis – Geographic Breakdown

	Market Value £m	% of portfolio as at 30 September 2023
West End	296.7	27.8
South East	252.0	23.5
Midlands	245.3	23.0
North West	131.5	12.3
Scotland	100.4	9.4
South West	23.9	2.2
Rest of London	18.9	1.8
Total Property Portfolio	**1,068.7**	**100.0**

Portfolio Equivalent Yield - 6.4 per cent

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	
Winchester, Burma Road	Alternative
London SW19, Wimbledon Broadway **	Mixed
Properties valued between £30 million and £40 million	
Chorley, Unit 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	1,068.7	152.4	133.8
Adjustment for lease incentives	(20.8)	(3.0)	(2.6)
Fair Value of Property Portfolio	**1,047.9**	**149.4**	**131.2**
Trade and other receivables	30.6	4.4	3.8
Cash and cash equivalents	28.5	4.1	3.6
Current liabilities	(19.5)	(2.8)	(2.4)
Total Assets less current liabilities	**1,087.5**	**155.1**	**136.2**
Non-current liabilities	(2.8)	(0.4)	(0.4)
Non-current interest-bearing loans	(285.9)	(40.8)	(35.8)
Net Assets at 30 September 2023	**798.8**	**113.9**	**100.0**

The next quarterly valuation of the property portfolio will be conducted by CBRE Limited during December 2023 and it is expected that the unaudited NAV per share as at 31 December 2023 will be announced in January 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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