

To: Company Announcements
Date: 28 April 2022
Company: BMO Real Estate Investments Limited
LEI: 231801XRCB89W6XTR23

Subject: Trading Update and Net Asset Value

Headlines

- Net Asset Value total return of 6.6 per cent for the quarter ended 31 March 2022
- Sixth consecutive quarter of Net Asset Value appreciation
- Share Price total return of 11.3 per cent for the quarter ended 31 March 2022
- As of 31 March 2022, the portfolio void rate was 2.7 per cent by estimated rental value

Net Asset Value ('NAV')

The unaudited NAV per share of BREI as at 31 March 2022 was 128.0 pence. This represents an increase of 5.8 per cent from the NAV per share as at 31 December 2021 of 121.0 pence and a NAV total return for the quarter of 6.6 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 31 March 2022 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 31 December 2021 to 31 March 2022.

	Pence per share	% of opening NAV
Net asset value per share as at 31 December 2021	121.0	
Unrealised movement in valuation of property portfolio (including the effect of gearing)	6.8	5.6*
Net revenue	1.2	1.0
Dividends paid	(1.0)	(0.8)
Net asset value per share as at 31 March 2022	128.0	5.8

* The un-gearred capital return of the property portfolio over the quarter to 31 March 2022 was 4.2 per cent.

Share Price

The share price was 94.0 pence per share as at 31 March 2022, which represented a discount of 26.6 per cent to the NAV per share announced above. The share price total return for the quarter was 11.3 per cent.

Performance

The UK real estate market got off to a positive start in 2022, with investment volumes significantly ahead of long-term averages and the weight of capital driving prime yields back to pre-pandemic levels. This encouraging backdrop faces headwinds in the form of an increasingly uncertain economic context characterised by geopolitical instability, inflationary pressures, supply chain disruption and falling consumer confidence. However, the UK property market should continue to offer a relative safe-haven as prime yields remain attractive from a global perspective and some of the inflation-hedging characteristics of the asset class continue to support the sector's yield advantage.

Within this context, the Company's property portfolio delivered a sixth consecutive quarter of NAV appreciation, posting quarterly capital growth of 4.2 per cent. The key driver of performance remains the strength of the Industrial sector and the weighting held within the portfolio, with Industrial assets now accounting for 54.3 per cent of the portfolio by value and posting a 6.3 per cent quarterly capital return in the period. The weight of capital seeking exposure to the sector continues to drive yield compression, while active asset management has been critical to capitalise on the rental growth story linked to continued supply constraints, particularly in London and the South East. Most notably, the quarter saw the reletting of Unit 2 at Network Bracknell, simultaneously surrendering the incumbent tenant's lease and delivering a new lease at a premium to both passing rent and estimated rental value (ERV). Asset management successes such as this will be pivotal in enhancing income return and driving performance from the low yields that are now prevalent in the sector.

The Retail Warehousing sector remains a highly sought-after asset class, with the Company's fit for purpose, convenience and low rented, modern stock well positioned to benefit from investor demand for the resilient income streams. The Company's assets delivered capital growth of 4.7 per cent and offer structural advantage to the portfolio, accounting for 18.2 per cent of the portfolio by capital value. This capital growth was largely derived from market yield compression, however, ongoing asset management at properties such as Beverley Way in New Malden and Halls Mill Retail Park in Bury underline the Manager's ability to deliver an attractive, sustainable income return from the portfolio's assets.

For the first quarter since the on-set of the pandemic, all sectors had positive capital returns, as improving sentiment, particularly towards the Retail sector has crystallised into valuation uplifts. The Company's Office properties (21.8 per cent of portfolio value) delivered a negligible valuation uplift with asset management key in supporting capital values. Most notably, the refurbished second floor 'Plug & Play' suite at Berkeley Street, London was let on a new 5-year lease ahead of ERV, cementing a strong rental tone and resulting in the asset benefitting from full occupation. The asset's income profile was further enhanced by the (post period) settlement of the outstanding March 2020 rent review on the ground floor car showroom, which settled at a meaningful premium to passing rent. While the core Office centres and prime assets are benefitting from both occupier and investor's 'flight to quality', capital values remain constrained on assets with latent leasing or capital expenditure risk. Company performance reflected this in respect of some of the South East and Rest of UK office assets, as a consequence of the inclusion of prudent capital expenditure and reletting assumptions by the Company's independent Valuers.

The Company's High Street Retail assets (5.7 per cent of portfolio value) delivered quarterly capital growth of 0.2 per cent as the market continues to stabilise somewhat. While Company assets with shorter leasing profiles have held back capital performance for some time now, near-zero vacancy rates across the portfolio lend confidence to the ability to maintain the attractive income return, while the predominantly convenience/neighbourhood led nature of the portfolio's Retail assets are in relatively good stead to benefit from improving market dynamics.

Rent collection for Q1 2022 has reached 99.9 per cent, indicating a normalisation of payment patterns coinciding with the end of the statutory commercial rent moratorium. Rent collection since the onset of the pandemic stands at 98 per cent, with unsettled sums related to pandemic concessions limited to a sole case in the Office portfolio where a payment plan was agreed with the occupier. The structural composition of the portfolio has been key in delivering these collection statistics, with near full collection from the Industrial, Office and Retail Warehousing portfolios.

As at period end the portfolio vacancy rate fell to 2.7 per cent (by ERV) and the average weighted unexpired lease term improved to 6.2 years (assuming tenant breaks are exercised).

Dividend

On 1 March 2022, the Company announced a quarterly dividend payment of 1.0 pence per ordinary share in respect of the financial year ended 30 June 2022, which was paid to shareholders on 31 March 2022. 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 £9.1 million of available cash and an undrawn revolving credit facility of £13 million. The £90 million long-term debt with Canada Life and the £20 million revolving credit loan facility with Barclays (of which £7 million is drawn) do not need to be refinanced until November 2026 and March 2025 respectively. As at 31 March 2022, the LTV was 23.5 per cent and there was significant headroom under debt covenants.

Portfolio Analysis	£m	% of portfolio as at 31 March 2022	% capital value movement in quarter
Offices	87.6	21.8	-
• West End	29.0	7.2	3.5
• South East	33.4	8.3	(1.3)
• Rest of UK	25.2	6.3	(2.2)
Industrial, logistics and distribution	218.4	54.3	6.3
• South East	218.4	54.3	6.3
Standard Retail	23.1	5.7	0.2
• West End	6.6	1.6	-
• Rest of London	1.5	0.4	(3.2)
• South East	11.5	2.9	1.3
• Rest of UK	3.5	0.8	(1.4)
Retail Warehouse	73.3	18.2	4.7
Total Property	402.4	100.0	4.2

Summary Balance Sheet

	£m	Pence per share	% of Net Assets
Property Portfolio per Valuation Report	402.4	167.2	130.6
Adjustment for lease incentives	(4.4)	(1.8)	(1.4)
Fair Value of Property Portfolio	398.0	165.4	129.2
Cash	9.1	3.8	3.0
Trade and other receivables	7.1	2.9	2.3
Trade and other payables	(9.3)	(3.9)	(3.0)
Interest-bearing loans	(96.9)	(40.2)	(31.5)
Net Assets at 31 March 2022	308.0	128.0	100.0

The property portfolio will next be valued by an external valuer during June 2022 and the net asset value per share as at 30 June 2022 will be announced in July 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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