CEREIT's 1H 2024 performance resilient; portfolio valuations up 0.6%, reflecting stabilising conditions in Europe

- 7.050 Euro cents DPU in 1H 2024, maintaining 100% payout
- Like-for-like NPI up by 2.3%[1], with stable 93.6% portfolio occupancy[2]
- Healthy +5.2% portfolio rent reversion with long WALE at 4.8 years
- 0.6% increase in valuations, NAV of €2.09/unit and stable 38.9% net gearing

	1H 2024	1H 2023	Variance
Gross revenue (€'000)	106,284	108,341	(1.9%)
Net property income ("NPI") (€'000)	65,510	68,535	(4.4%)
Like-for-like NPI (€'000)	64,666	63,182	2.3%
Income available for distribution to Unitholders (€'000)	39,649	43,809	(9.5%)
Distribution per Unit ("DPU") (Euro cents)	7.050	7.790	(9.5%)

SINGAPORE – Cromwell EREIT Management Pte. Ltd., the manager (the "Manager") of Cromwell European Real Estate Investment Trust ("Cromwell European REIT" or "CEREIT"), today announced CEREIT's results for the first half ended 30 June 2024 ("1H 2024").

Introduction

The Manager's Chief Executive Officer, Mr Simon Garing, commented: "We are pleased to mark halfway through 2024 with a resilient performance for CEREIT, reflecting stabilising operating and valuation conditions.

"1H 2024 like-for-like NPI growth was 2.3%, leading to a half-year DPU of 7.050 Euro cents, 9.5% lower than the prior corresponding period. The decline was mainly due to the impact of the asset sales and higher interest costs over the past two years, which are nearing the end of the substantial negative cycle. We are ahead on our divestment programme with a total of ~€261 million divested since the beginning of 2022 at a blended 13.8% premium to the most recent valuations, including €23 million sold in 1H 2024.

"The strategic pivot to logistics/light industrial has served CEREIT well, with the portfolio now weighted to a more significant 54% to this sector, underpinning the uplift in overall valuations. The logistics / light industrial portfolio benefitted from the +4.0% rent reversion, a long 5.1 years WALE, and is 7.4% under-rented versus market rents.

"CEREIT's office sector performance continues to improve due to our ongoing focus on asset enhancements initiatives and tenant retention, which remains high at 87% in 1H 2024. Occupancy was up for the second quarter in a row to 90.7%, while we also managed healthy rent reversion of +5.7%. Our positive office results validate our strategy to redevelop older, well-located office assets into highly efficient modern buildings. 82% of CEREIT's office assets either BREEAM or LEED-certified, in line with European tenant requirements and up from zero certified buildings six years ago.

"CEREIT's € counter (CWBU.SI) delivered total shareholder return (TSR) of +4.4% in 1H 2024, compared with -10.9% TSR for FTSE SREIT index. We believe this is in recognition of CEREIT's strategy and quality of execution from the local Cromwell teams, coupled with stabilisation in the European commercial markets and the commencement of interest rate cuts. German 10-year Bunds are now at 2.17%, well below the current 3-month Euribor rate of 3.62%, providing support. At the recent unit price[3] and annualising 1H 2024 DPU, CEREIT trades at an annualised yield of approximately 10%."

Financial highlights

1H 2024 NPI was €65.5 million, down moderately by 4.4%, compared to the prior corresponding period ("pcp"), primarily due to the loss of rental income previously earned from assets now divested since June 2023 and partially offset by the Dutch office portfolio outperformance. On a like-for-like basis, 1H 2024 NPI was up 2.3%, compared to pcp, mainly driven by higher income from new leases with strong positive rent reversions, notably at Haagse Poort in the Hague.

1H 2024 DPU declined 9.5%, compared to pcp, due to the negative impact of asset sales and higher borrowing costs with a partial offset from higher NPI growth from indexation, positive rent reversions and lower expenses. Unitholders will receive a 1H 2024 distribution of 7.050 Euro cents per unit or the S$ equivalent, with an ex-distribution date of 15 August 2024 and a payment date of 27 September 2024.

The balance sheet has remained healthy, backed by Fitch Ratings' "BBB-" investment grade credit rating with a "stable outlook." Key financial indicators are well within covenants for loans and the Euro Medium-Term Notes.

Capital management highlights

CEREIT has no debt maturing until its €450 million EMTN November 2025 maturity date. This provides the management team with a long runway to actively engage bond investors to refinance appropriately and minimise the impact on FY2025 DPU. The Manager is engaged in ongoing discussions with new and existing lenders on alternative facilities.

The €26.7 million revolving credit facility ("RCF") was fully repaid in 2Q 2024, leaving €200 million committed undrawn RCF, with the facility secured until 2028. As a result, all-in interest rate as at 30 June 2024 was 3.16%, marginally lower than the 3.28% in 1Q 2024. 88% of CEREIT's total debt book was hedged/fixed as at 30 June 2024.

Portfolio valuations stable and improving – supporting NAV €2.09/unit

CEREIT's total portfolio valuation was €2.24 billion in 1H 2024, up 0.6% or €13.1 million compared to six months ago, marking the first like-for-like increase in two years. The portfolio's initial yield is 6.3%, while the reversionary yield is 7.7%, reflecting the valuers' views of rising rental income over the medium to long term.

Proactive leasing and asset management initiatives, a focus on improving the portfolio's environmental performance and tenant amenities, the completion of €60 million in asset enhancements initiatives and redevelopments in Italy, the Czech Republic, and Slovakia, and stabilising market conditions in Europe were the main factors contributing to this valuation uplift. Taking into account the actual capital expenditure incurred in 1H 2024, the net valuation adjustment was marginally down by 0.2%.

NAV/Unit (including accrued DPU) decreased marginally (-1.4%) to €2.09/unit while adjusted NAV/Unit decreased to €2.02.

The logistics / light industrial portfolio valuations were up 2.0% (+€23.4 million), primarily due to the approximately 2.0% market rent growth across the sector. Cap rates have stabilised, reflecting the continued interest from investors. The office portfolio valuations' pace of decline moderated substantially to just -1.0% (-€10.4 million) over the last six months, compared to the 4.6% decline as at the end of December 2023. Two of the five markets have now registered slight valuation gains. There was only a slight widening of the office sector terminal cap rate of approximately 20 bps, with a continued drift out in secondary market sentiment by both occupiers and investors.

Portfolio management highlights

Overall portfolio occupancy in 1H 2024 remained high at 93.6%, with 5.8% of the portfolio (102,229 sqm) leased out. CEREIT's weighted average lease expiry ("WALE") remained at 4.8 years as of 30 June 2024. Tenant retention of 68.6% was slightly above the long-term average of 66%. Rent reversion remained strong at +5.2% in 1H 2024 with an average 3.3% inflation indexation across the leases signed/renewed, including Nervesa21's new leases. This is still well above the current annual Eurozone inflation of 2.4%, reflecting CEREIT's overall under-renting of around 6.1% versus market rents and the low vacancies in many of CEREIT's markets.

CEREIT's logistics / light industrial portfolio occupancy was 94.8% as of 30 June 2024, down slightly due to the inclusion of two recently completed redevelopment projects in the Czech Republic and Slovakia. 3.5% of the portfolio (43,271 sqm) was leased up in 1H 2024, with +4.0% rent reversion, reflecting the low vacancies and limited supply across Europe. WALE remained long at 5.1 years. Some expected leasing softness was also experienced, commensurate with the sub 1% GDP growth impacting some sections of the industrial tenant base.

CEREIT's office portfolio occupancy improved slightly to 90.7% as at 30 June 2024 and has been on a positive trajectory for the last year. Leasing activity in the office sector was strong, with 12.2% of the office portfolio (58,958 sqm) in new leases and renewals signed at +5.7% rent reversion (including new leases at Nervesa21 compared to the previous occupier's rent). Tenant retention was high at 86.5%, with WALE improving further to 4.5 years from the trough of 3.8 years in 2022. Larger space users continue to seek space rationalisation and highly energy-efficient modern space (in line with most of CEREIT's office assets). At the same time, small and mid-size tenants focus on staff amenities and building locations.

Capital recycling

In early 2022, the Board initiated a €400 million asset sales programme as a proactive measure to offset the impact of rising interest rates and falling valuations on gearing. Eleven assets in Germany, Finland, France, Italy, and Poland, have been divested for total of ~€261 million and at a blended 13.8% premium to the most recent valuations. With gearing at a comfortable level now, the Manager intends to decelerate the divestment strategy while still completing the remaining ~€90 million non-strategic divestments, increasing weighting to logistics/ light industrial and recycling capital into development and asset enhancement program.

Sustainability highlights

82% of CEREIT's office portfolio is now 'BREEAM' or 'LEED' certified, while we have moved 36% of our leases to 'green' – supportive of our net zero carbon aspirations. The recently – completed Nervesa21 redevelopment in Milan was developed to the highest ESG standards and received WELL Gold certification, a mark of high-quality facilities supporting occupiers' health and well-being. The Italian Green Building Council also recently awarded 91 points LEED Platinum certification to Nervesa21, making it the 2nd highest-rated 'green' office building in Italy. Notably, the original concrete structure was retained 100%, ~90% of construction materials were recycled during strip-out works, and low-carbon glass was used for 50% of the façade, achieving 18% savings in estimated embodied carbon.

CEREIT is MSCI ESG "AA" rated, one of only three S-REITs to attain this rating. It retained its 6th ranking position in the top 10 for the fifth year in a row in the annual Singapore Governance and Transparency Index (SGTI) rankings released on 2 August 2024. The achievement is a recognition of CEREIT's high standards in corporate governance practices and disclosures, as well as timeliness, accessibility and transparent engagement with investors and other stakeholders.

Economic and market commentary

According to Oxford Economics, the Eurozone's GDP grew by 0.3% in 2Q 2024 and is projected to rise by 0.8% in 2024 and 1.7% in 2025. A significant recovery is expected only after further rate cuts.

The ECB cut rates by 25bps in June 2024, the first in five years. Markets are currently pricing two more cuts this year, with Oxford Economics forecasting rate cuts in September 2024 and December 2024. As a result, European real estate fundamentals should gradually improve in 2H 2024, with real estate yields stabilising and even compressing in some markets. According to Oxford Economics, Eurozone inflation was 2.6% in July 2024, slightly up from 2.5% in June 2024 and is expected to taper off to an average of 2.3% this year and 1.4% in 2025, which may likely support the potential for more interest rate cuts in 2025.

According to MSCI, European transaction volumes were €44 billion in 2Q 2024, comparable to 2Q 2023. The market is set to move into a recovery phase, although volumes are unlikely to rebound significantly until 2025.

Geopolitics remains a significant risk to Europe's economic and real estate outlook. European businesses may face higher tariffs and other trade impediments, which could undermine economic performance and growth potential and fuel higher inflation.

Key takeaways and management outlook

The Manager's Chief Executive Officer, Mr Simon Garing, concluded: "Over the last two and a half years, a perfect storm caused by high inflation, rising interest rates, slow economic growth and heightened geopolitical risks put pressure on CEREIT's operational performance, increasing cost of capital and stunting growth. We took several actions to protect CEREIT's balance sheet: paused acquisitions, divested non-strategic assets at a premium, deferred non-essential capex and minimised the portfolio valuations' downside impact to only 3.5% on a like-for-like basis for the whole period, which kept NAV relatively high at €2.09/unit. We completed all 2022, 2023 and 2024 refinancing, leaving a long runway to the next debt maturity of November 2025. We maintained net gearing within the Board policy range and managed the rise in interest costs, with all-in debt costs only increasing 144 bps from 1.7% in June 2022 to 3.2% in June 2024.

"Unfortunately, all these measures had a negative impact on DPU of approximately 2.5 Euro cents (annualised) compared to 2022. However, we weathered the storm without raising dilutive equity or expensive sponsor debt, increased the portfolio weighting to a majority logistics/light industrial sector, improved the overall asset quality, and maintained a 100% distributable distribution payout ratio.

"With the storm largely behind us, we can now take a more balanced approach and look to take advantage of opportunities over the next 12 months with more confidence.

"CEREIT offers a compelling investor proposition priced at a 35% discount to NAV and 10% annualised DPU yield. This is underpinned by a resilient yielding and a predominantly logistics/light industrial focussed well-leased portfolio, experienced local asset management teams with sustainable ESG plans, and a comfortable gearing level inside the Board range 35-40%."

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ABOUT CROMWELL EUROPEAN REAL ESTATE INVESTMENT TRUST

Cromwell European Real Estate Investment Trust ("Cromwell European REIT" or "CEREIT") has a principal mandate to invest, directly or indirectly, in income-producing commercial real estate assets across Europe with a minimum portfolio weighting of at least 75% to Western Europe and at least 75% to the logistics / light industrial and office sectors. CEREIT currently targets a majority investment weighting to the logistics / light industrial sector while also investing in core office assets in gateway cities. CEREIT strives to be a resilient, ethical, and socially responsible organisation that contributes positively to all stakeholders, leading to higher risk-adjusted returns while maintaining an appropriate capital structure.

CEREIT's €2.2 billion portfolio comprises 100+ predominantly freehold properties in or close to major gateway cities in The Netherlands, France, Italy, Germany, Poland, Denmark, Czech Republic, Slovakia, Finland and the United Kingdom, with an aggregate lettable area of approximately 1.8 million sqm and 800+ tenant-customers.

CEREIT is listed on the Singapore Exchange Limited and is managed by Cromwell EREIT Management Pte. Ltd., a wholly-owned subsidiary of CEREIT's sponsor, Cromwell Property Group[4], a real estate investor and fund manager with operations in 14 countries, listed on the Australian Securities Exchange Ltd.

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1 Like-for-like NPI excludes 1H 2024 & FY 2023 divestments, Nervesa21 & Maxima due to redevelopment and strip out works respectively
2 Occupancy calculations exclude Maxima (formerly known as Via dell'Amba Aradam 5) and vacant units in Via Dell'Industria 18 - Vittuone which are currently under development
3 Unit price of €1.40 as at 31 July 2024
4 Cromwell Property Group is a stapled group comprising Cromwell Corporation Limited and Cromwell Diversified Property Trust (the responsible entity of which is Cromwell Property Securities Limited)