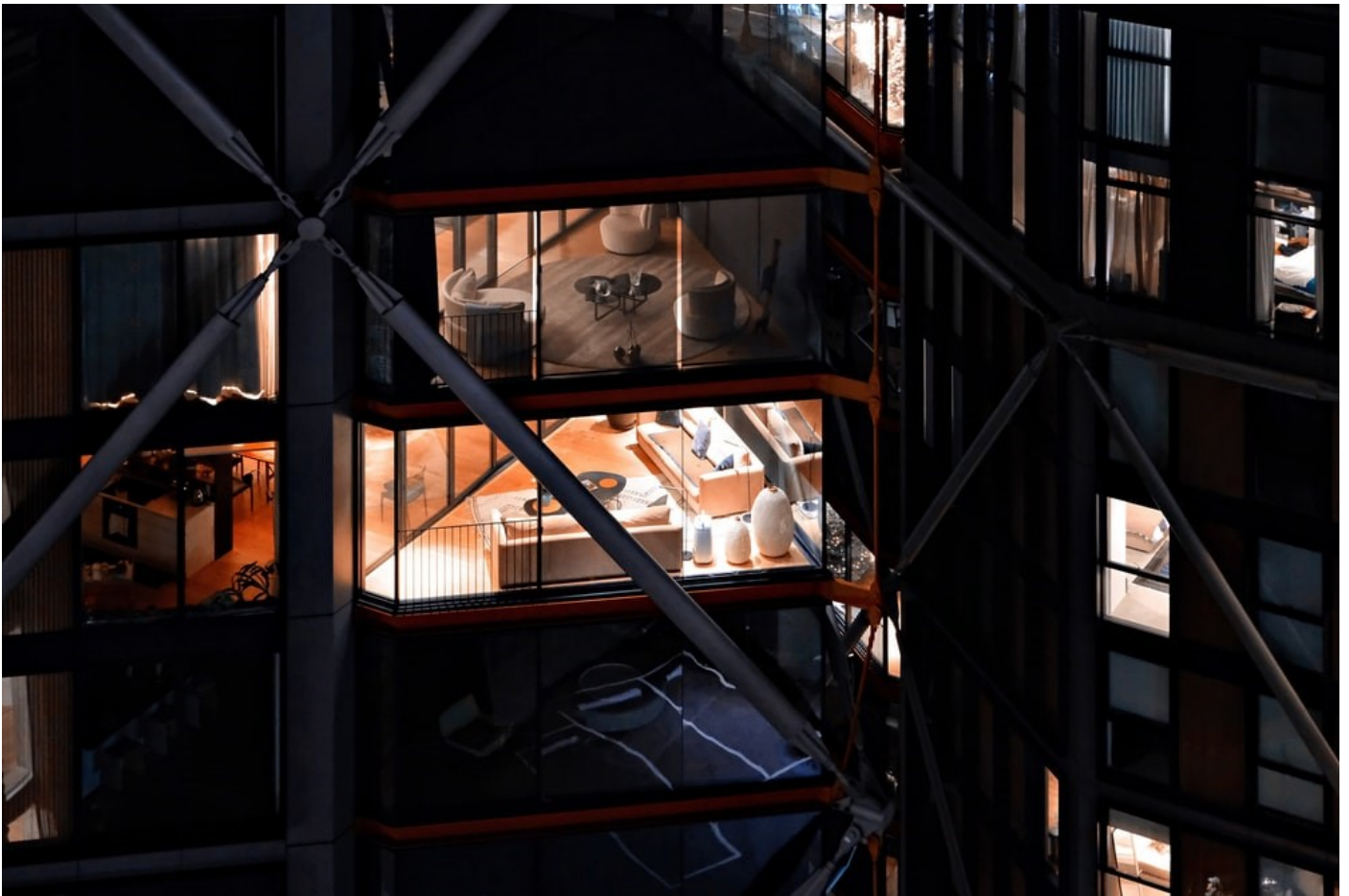


INVESTMENT COMMENTARY

Special Edition
UK COMMERCIAL PROPERTY
Update



22 APRIL 2021



The Covid-19 pandemic has impacted significantly on investment markets and particularly on the commercial property market which has experienced weakness across certain sectors and negative investor sentiment.

Three lockdowns in the UK led to already weak footfall on the UK High Street declining rapidly and office space left deserted as people worked from home. Supermarkets and essential shops remained open but with restrictions on customer numbers. Restaurants, hotels, pubs, gyms and non-essential shops remained closed. Internet shopping and home deliveries grew rapidly. As a consequence of this unprecedented market disruption, surveyors were unable to value properties during the first lockdown in 2020 and dealing in direct property funds was suspended.

After lockdown restrictions were lifted to some extent in the summer of 2020, valuers once again were able to value properties and over time some commercial property funds reopened. However, many assets in the retail and leisure sectors have fallen significantly in value due to pandemic-related pressures. Funds with high exposure to these sectors have remained closed for longer as their managers needed to sell assets to raise cash so that they could meet redemptions when the funds reopened. M&G has recently announced the M&G Property Portfolio fund's reopening date whilst the Aviva UK Property fund manager continues to increase the fund's cash position with the aim of reopening.



CURRENT POSITION OF UK COMMERCIAL PROPERTY FUNDS

The table below sets out the current positions of the commercial property investment funds which are held in some portfolios.

	M&G Property Portfolio	L&G UK Property	Threadneedle UK Property	Janus Henderson UK Property	Aviva UK Property
Date of information	20/04/2021	28/02/2021	28/02/2021	31/03/2021	31/03/2021
Fund Open /Closed	Reopening 10/05/21	Open	Open	Open	Closed
Current Size £	2bn	2.2bn	705m	1.26bn	378m
Cash %	33.3	18.5	12	19.3	23
Direct Property %	63.9	73.6	88	80.7	77
Reits %	2.8	3.9	-	-	-
Development Cash %	-	4	-	-	-
Net Initial Yield %	5.1*	4.8	5.6	4.9	6.1
No of Properties	54	89	84	50	12
No of Tenants	466*	311	755	297	191
Average Lease Length (years)	7.6	6.9	3.7	7.8	7.1
% Retail	28.3#	16.6	26.4	20.3	25
% Leisure/Other	12.4#	20.5	7.7	15.7	16
% Industrial	27.6#	42.6	33.7	24.8	1
% Office	31.7#	20.3	32.2	19.9	33
Overall Void Rate %	7.2	6.1	15.4	5.8	11.14
% Rent Collected	90 for 2020	94 (Q1 2021)	90 (2020)	84% (Q1 2021)	66% (Q2 2020 to Q1 2021 inclusive)

*as at 31 March 2021 #Figures assume exchanged assets complete

Some property funds have been able to reopen including the Legal and General, Janus Henderson and Threadneedle Property funds. These funds are well diversified by sector and tenants with the Legal and General and Janus Henderson funds having less exposure to those sectors which were severely affected by lockdowns and restrictions, such as retail and leisure. Exposure to the industrial and logistics sectors, particularly distribution warehouses which have been in high demand by online retailers, has helped performance as well as other industrial assets where companies have been able to work through the pandemic. The M&G Property Portfolio and the Aviva UK Property funds had more retail and leisure sector holdings going into the pandemic than the other funds. Consequently, the fund values have been depressed as some of these assets have been down valued and it has been more difficult to raise cash for redemptions. Cash levels remain high in the funds which are currently open. M&G has now raised sufficient cash for it to open in May 2021. The Aviva fund has fewer

Where tenants have struggled to pay rents during the lockdowns, the property fund managers have tried to help companies by being more accommodating over rental payments. The managers would prefer to keep tenants rather than having empty properties when the worst of the pandemic is over. However some tenants have had to relinquish leases due to financial pressures. The void rate reflects the percentage of the fund which is currently not let. The funds still generate income albeit perhaps at a lower level. We hold commercial property funds for this income as it is an important component of total portfolio returns.

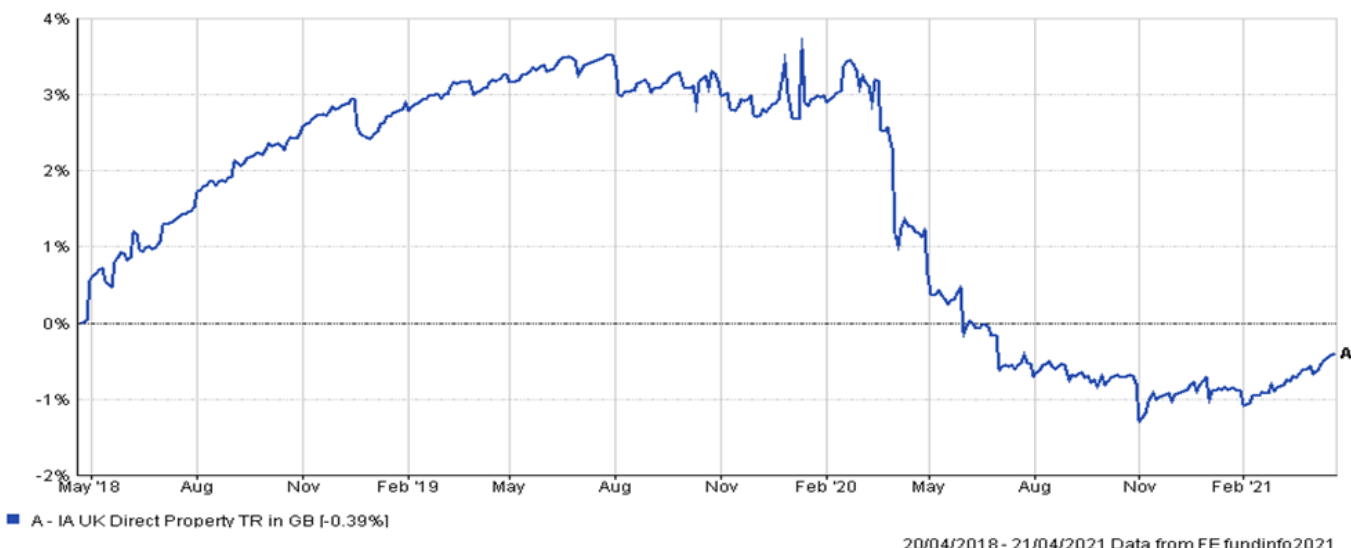
THE FUTURE

As the economy and country recovers from the pandemic and the series of lockdowns, gradually the commercial property sector will improve too. The trend towards online shopping will continue and demand for and values of assets in sectors supporting e-commerce are likely to be buoyant. Large retail warehouses should also remain in demand as social distancing requirements can be met more easily in these types of retail units. Flexible working will remain but there will be a return to offices, perhaps with re-designed floor plans allowing for greater space and maybe at lower rents. For those consumers who have been able to save through the pandemic, they will return to key shopping areas, restaurants, pubs and hotels and other leisure facilities, spending those accumulated savings. As economic activity picks up and consumer demand increases over time so should property values and rents.

DIRECT PROPERTY SECTOR RETURNS OVER TWENTY YEARS



DIRECT PROPERTY SECTOR RETURNS OVER THREE YEARS





The CM Investment Commentary is compiled by Angela Cooper, Managing Director of Cartledge Morland's Investment Services team.

Angela runs the firms' investment management propositions, with over 30 years' experience in investment research working for investment companies, leading UK national IFAs and wealth managers. Angela graduated from the London School of Economics and is a Chartered Insurance Practitioner.



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OUR VIEW

We have held commercial property funds in portfolios, where appropriate, for the income the asset produces and for diversification. It is an asset which should be held for the long term and consequently through market cycles. The charts on the previous page track commercial direct property returns over twenty years and over the past three years. The sector has survived significant falls through the Great Financial Crisis (2007/9) and following the EU Referendum (2016). The Covid-19 pandemic lockdowns have impacted severely but it would now appear that the market has stabilised and returns appear marginally more positive. As with other investment classes, it would be imprudent to sell after steep falls.

Where we hold commercial property funds in portfolios, we usually limit our exposure to a maximum of 10% but more usually around 5-7% of a portfolio dependent on risk and client objectives. We will continue to review levels of exposure and fund choice. We favour funds that are diversified by sector and region with an experienced fund management team. Whilst sentiment towards the leisure and retail sectors (even prior to the Covid-19 pandemic in the case of retail) has been negative through lockdowns, other sectors have held up during the pandemic such as industrial and distribution warehousing. We believe that commercial property, an income-producing asset class, will evolve reflecting trends in the economy and opportunities exist where sectors have perhaps been oversold. The yield from the asset class is currently above that of a 10 year gilt and high quality corporate bonds. Therefore, we shall continue to maintain exposure at appropriate levels.

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