LOTHBURY Investment Management

Lothbury Property Trust

Fact sheet Q1 2023

Fund Description

Lothbury Property Trust is a sub-fund of Lothbury Global Institutional Funds (LGIF), an umbrella unit trust. On 25 March 2014, LGIF was authorised as a Qualifying Investor Alternative Investment Fund.

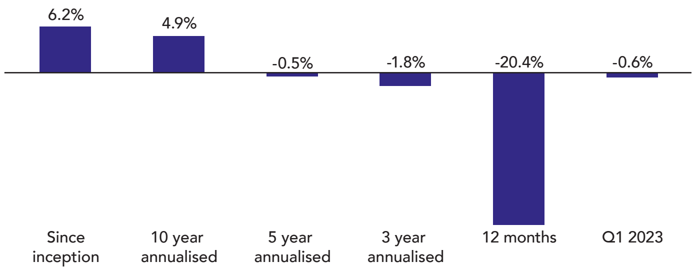
Lothbury Property Trust as a sub-fund of LGIF is authorised by the Irish Central Bank under section 4 of the Unit Trusts Act, 1990.

Fund Objectives

The Fund's investment objective is to provide investors with capital appreciation and secure income returns, through prudent investment in assets across the UK's principal property sectors and geographic regions. It holds a core portfolio of prime assets to achieve stable returns, combined with active management initiatives to add value and enhance returns. The Fund can own property directly or through holding units in Property Unit Trusts.

Fund Returns

As at 31 March 2023



Note: All returns figures are net of fees

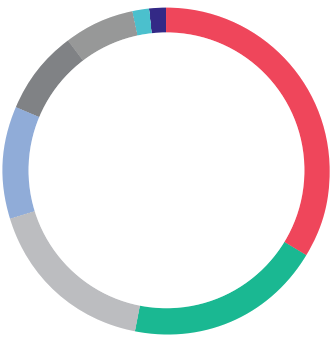
Fund Data

As at 31 March 2023

Net Asset Value	£1,086,099,022.63
Net Asset Value per Unit	£1,664.69
Subscription Price per Unit	£1,681.34
Redemption Price per Unit	£1,636.39
Quarterly Distribution per Unit	£13.59

Sector Breakdown

As at 31 March 2023



	Lothbury Property Trust (%)
Industrial	33.7
Office	19.5
Living	17.1
Food Stores	11.2
High Street Retail	8.3
Retail Warehouse	7.0
Cash	1.7
Land	1.5

Note: Total percentages may be slightly higher or lower than 100% due to rounding.

Feature

The Resilience of Student Housing During Challenging Market Conditions

Sheraton Park, Durham University, Durham

Student Housing is a priority target for many investors in 2023, given its strong performance in recent years and bright prospects for rental-growth driven returns going forward. This is due to a number of identifiable performance drivers, ranging from strong demand and lack of modern supply through to resilient income streams.

The number of students in the UK has been increasing consistently for ten years, displaying remarkable resilience in the face of economic shocks; and so it has proved again during the ongoing cost-of-living crisis. LPT's own direct-let assets currently have an occupancy rate of 100% and we project the same for the forthcoming academic year. The national higher education participation rate has surpassed 50% since 2017, and with an expected increase in the 15 to 19-year-old population, there is anticipation of continued rising demand for student housing. Foreign student numbers have also been a factor, as evidenced by the most recent migration statistics. International students now comprise one in four of all UK students. And they contribute significantly to the student housing sector due to their numbers and higher fees.

Reliable sources of future tenant demand alongside potential for even higher growth could drive Student Housing rents upwards, which is particularly important to investors at a time when rents elsewhere are at risk of softening. The sector has shown robust rental growth in the past, ranking behind only Industrials over the past three to ten years. LPT's assets recorded a 11% uplift in rents for the 2022/23 academic year, and anticipate similar growth for the following year. Rental growth has demonstrated a weak correlation with other property sectors, which also appeals to investors seeking diversification.

There is an emerging disruption to in-person learning due to technology and accelerated degree programs, but we believe that the social aspect of university life will ultimately limit the growth of online degree courses. Nonetheless, as a counter to such demand-side risks, as well as to growing competition for students from universities abroad, investors will prioritise their assets' alternative use value. For example, the strong urban locations of LPT's assets underpin a high residual value and optionality for other uses in future.

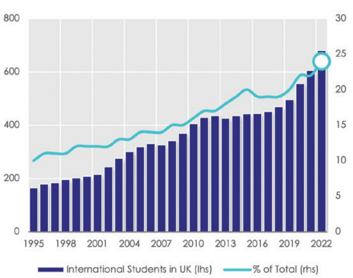
The student housing market has evolved significantly in the past two decades, and yet purpose-built student accommodation still comprises only a small proportion of the total. Indeed, most students live in either the residential private rented sector or university halls, while a significant proportion live at their own or parents' homes. As a result, many investors' strategy to enter this sector is necessarily to develop and hold buildings. They will likely target top university towns where a high proportion of students live in the residential Private Rented Sector because of the lack of alternatives.

Stable income streams from strong covenants is an important driver of performance. Universities' reputations tend to remain stable over time, with few institutions breaking into the top rankings over time. As a result, these universities tend to be larger and attract for students from abroad. Moreover, accommodation in close proximity to universities or in appealing city centres can attract extracurricular students or even leisure tourists during the summer months, acting as a revenue top-up. There is also an observable clustering effect of universities, as well as linkages to symbiotic businesses, both of which add to the location's longevity. Investors focussed on top university towns will take comfort from the stability of their tenants, whether they are leased to the university or directly with the students themselves. This is one of the strengths of LPT's assets in London, Durham, and St Andrews.

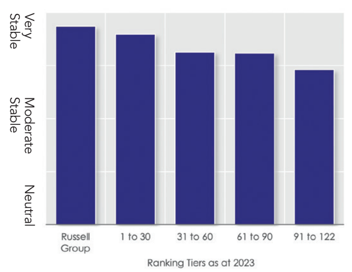
It is not only the fundamentals which have brought investors to this sector; the capital side is also appealing. Improving investment liquidity and unmet investor demand have put downward pressure on yields in recent years and brought resilience during the ongoing interest rate reset. Since Q3 2022, the value adjustment on LPT's Student Housing assets has been less than those in the Office, Retail or Industrial sectors.

Despite secular headwinds and fluctuations in the market, we believe that the Student Housing sectors has considerable unrealised long-term potential. We expect it to continue to be highly sought-after by investors, and it will remain a key area of focus for LPT.

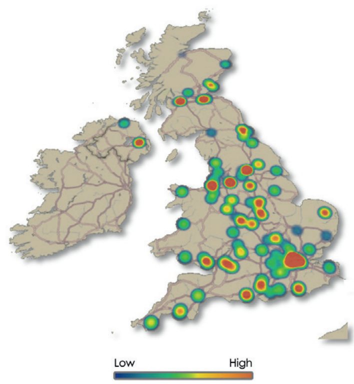
International Students in UK
[000s; %]



University Rankings
[average ranking stability 2012-23]



Proportion of Students at Universities in PRS
[% of students in attendance where housing status was known in 2020/21]



Source: Lothbury (05/23), HESA (02/23), ONS (2018), The Guardian (09/22).

Fund Activity

bloobloom, 30 James Street, Covent Garden, London

Q1 2023 saw some high-profile lettings complete within the Fund. At the Fund's flagship retail asset in Covent Garden, a new five-year letting was completed to fashion eyewear company bloobloom at an annual rent of £450,000 pa, which reflected a healthy Zone A level of £850. In addition, two residential lettings were completed at the property at rentals representing increases of 9.1% and 10.5% from their previous letting levels. The growth in Central London residential rental values was also reflected in two lettings completed at the Fund's residential holding at numbers 6 & 10, Anchor Terrace, London, E1 where annual rental levels increased by 7.7% and 10.8% respectively.

The Manchester industrial estate, Premier Park, continues to perform well for the fund and a new letting was secured at the park of a 15,630 sq ft industrial unit to Edmundson Electrical at a rent of £165,250 pa which breaks back to a rental level of £10.57 psf. This letting was for a 10-year term with only a 10-month rent free period.

Also, during Q1, the active team continued with their strategy to convert the upper parts of Covent Garden to residential use and had a successful pre-app process with Westminster City Council in this regard. The Council have indicated a positive response to convert the upper parts of 28, 29 and 30 James Street into six residential units comprising three one-bedroom flats and three two-bedroom flats. A formal planning application will shortly be submitted.

UK Property Market

UK Commercial Property Market Q1 2023

Economy

Inflation is now on clear downward trend, although remains high at 10.1% in the year-to-March 2023. Falling energy and food prices, along with softening wage growth, are key drivers of the slowdown. However, core inflation is reducing less rapidly. Markets are currently pricing an additional 75 bps on the current policy rate of 4.25% set in March 2023, but economists are more sanguine, at 25-50 bps[1].

The financial market turbulence that emerged as interest rates rose in the second half of 2022 was reignited in Q1 2023 by the failure of two large US banks and Credit Suisse in Europe. Whilst these events were not necessarily symptomatic of deeper problems in banking sector, which is more regulated than it was prior to the Global Financial Crisis, other repercussions and general market uncertainty will persist at least until monetary tightening has ended.

The real economy continues to hold up better than was expected at the onset of the crisis, with a reasonable chance that the UK now avoids a recession in 2023. However, forward-looking indicators still indicate a modest slowdown in the coming months.

Property Markets

Investor activity remained extremely subdued at the beginning of 2023, with Q1 recording the lowest volume of transactions since the first pandemic lockdown in Q2 2020. In this quarter, cross-border investors were net buyers of UK property, whilst UK institutions and REITs were net sellers[2].

Despite this lack of activity, the sharp increase in property yields that followed the hike in interest rates and bond yields petered out during the first three months of 2023. All Property equivalent yields increased by just 5 bps in Q1 2023 to 6.60%, although were up from 5.15% in Q2 2022. This led to capital values falling by -21% peak-to-trough, but only by -1.2% in Q1 2023[3].

Retail

Footfall rose slowly but steadily in Q1 2023 but remained -12% below the same period of 2022[4]. Compared to the same period a year ago, retail sales volumes fell by -3.8% in Q1 2023, and yet price inflation meant that sales by value rose by 4.9%. However, the quarter-on-quarter trend was more positive, with volumes growing by 0.6% and values by 1.1% respectively. This is the fastest positive rate since August 2021[5].

There is some evidence that inflation is being passed through to occupier rents, with rental growth of 0.2% over Q1 2023 the strongest three-month period since before the sector went into its protracted slump in 2018. The positive growth is being seen on regional high streets and in retail warehouses[6]. Reflecting this, equivalent yields fell by 10 bps to 7.00% over Q1 2023, the only sector to see yields move inwards[7].

Office

Central London Office lettings continued to decline, with Q1 2023 representing the third consecutive slowdown in quarterly volumes. Whilst tenant interest in relocating persists, particularly for high-quality space, decision-making is more protracted than usual. Overall vacancy in Central London stands at 10%[8].

The gap between prime and average offices is growing. For example, London City saw prime rents rise by 3.5% in Q1 2023[9], whereas average rents in the same submarket were broadly unchanged[10].

Investment activity rose slightly in Q1 2023, but the £2.7 billion transacted was nonetheless the second-lowest volume in two years[11]. Both prime and average yields softened marginally over the first three months of the year[12].

Industrial

Big Box Logistics take-up fell sharply in Q1 2023, to the lowest level recorded since the onset of the pandemic in 2020. Further compounding this, supply has also risen.

Despite these headwinds, upward pressure on rents remains, as operators compete for the best space. Prime rents rose by 3.4% in the three months to March 2023. The 0.7% growth in average rents was more muted, but nonetheless the highest rate of growth since August 2022.

Investment into the Industrial sector in Q1 2023 was low at just £1.8 billion, the weakest quarter since 2019[13]. Prime yields for Logistics held firm over the quarter, whilst average yields rose by a modest 10 bps[14]. As a result, capital values were down only slight between December 2022 and March 2023. Yet, at -27%, the fall from Industrial's mid-2022 peak has been the greatest of all the sectors[15].

Alternatives

After Residential's exceptionally strong finish to 2022, investment volumes in Q1 2023 fell back to a lower level not seen for three years. Yet, rents in this sector continue to grow strongly[16]. Build-to-Rent completions slowed sharply in the year-to-Q4 2022, to 6,500 from 12,300 a year earlier[17].

Institutional capital values rose by 1.3% in Q2 2023, the strongest of all the sectors, and the only one to see positive growth. By contrast, owner occupier house prices fell by -2.7% over the quarter and are now -5.5% lower than at the Q3 2022 peak[18].

1 Capital Economics (04/23), Nomura (04/23)
2 MSCI RCA (03/23)
3 MSCI Monthly Index (03/23)
4 Springboard (03/23)
5 ONS (03/23)
6 MSCI Monthly Index (03/23)
7 MSCI Monthly Index (03/23)
8 Colliers (03/23)
9 Colliers (03/23)
10 MSCI Monthly Index (03/23)
11 MSCI RCA (03/23)
12 MSCI Monthly Index (03/23), Knight Frank (03/23)
13 MSCI RCA (03/23)
14 MSCI Monthly Index (03/23), Knight Frank (03/23)
15 MSCI Monthly Index (03/23)
16 MSCI RCA (03/23)
17 BPF (12/22)
18 Nationwide (03/23)

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Data

All fund data as at 31 March 2023, unless stated otherwise.

The views expressed are those of Lothbury Investment Management Limited.

Unitholder Information

Launch Date
2 February 2000.

Valuation Point
11.59pm on the last Irish business day of the calendar month preceding the relevant Dealing Day.

Prospectus and Trust Deed
Copies of the Prospectus, Trust Deed and Application Form are available from Lothbury Investment Management Limited.

Subscriptions
Monthly. Applications to be received by 5pm on the last Business Day of the calendar month preceding the relevant Dealing Day. Settlement to take place up to three Business Days following the relevant Dealing Day. Minimum investment is €100,000.

Redemptions
Quarterly. Notice to be served by 5pm on the date which is 10 Business Days before the penultimate Calendar Quarter End Date before that Dealing Day. The Unitholder will be notified of the Redemption price. Redemptions paid up to the fifth Business Day after the Pricing Day immediately following the relevant Dealing Day subject to the Manager's discretion to delay or suspend redemptions and/or the payment of redemption proceeds as further described in this Supplement.

Secondary Market Trading
Monthly. No Stamp Duty is payable on the purchase of existing units.

Distributions
Quarterly. On the last Irish business day of April, July, October and January. Charges Investment Management fee of 0.70% per annum.

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