



Elite Commercial REIT

# 1Q 2023 Business Updates

27 April 2023

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## Elite Commercial REIT's Sponsors:



**SUNWAY**<sup>®</sup>

## Elite Commercial REIT is a constituent of:



GPR General (World) indices for Asia and Singapore  
GPR General indices for Asia & Singapore  
GPR/APREA Composite indices for Singapore  
GPR/APREA Composite REIT indices for Singapore  
GPR General Quoted (World) indices for Asia & Singapore



Section I

# Overview of Elite Commercial REIT



**Nutwood House, Canterbury**

# First & Only UK-Focused S-REIT

Over 99% Leased to the AA-credit rated UK Government<sup>(1)</sup>



**£466.2m<sup>(2)</sup>**  
Portfolio value



**155**  
Office Assets



**AA-rated**  
UK sovereign  
credit rating



**97%**  
Freehold<sup>(3)</sup>

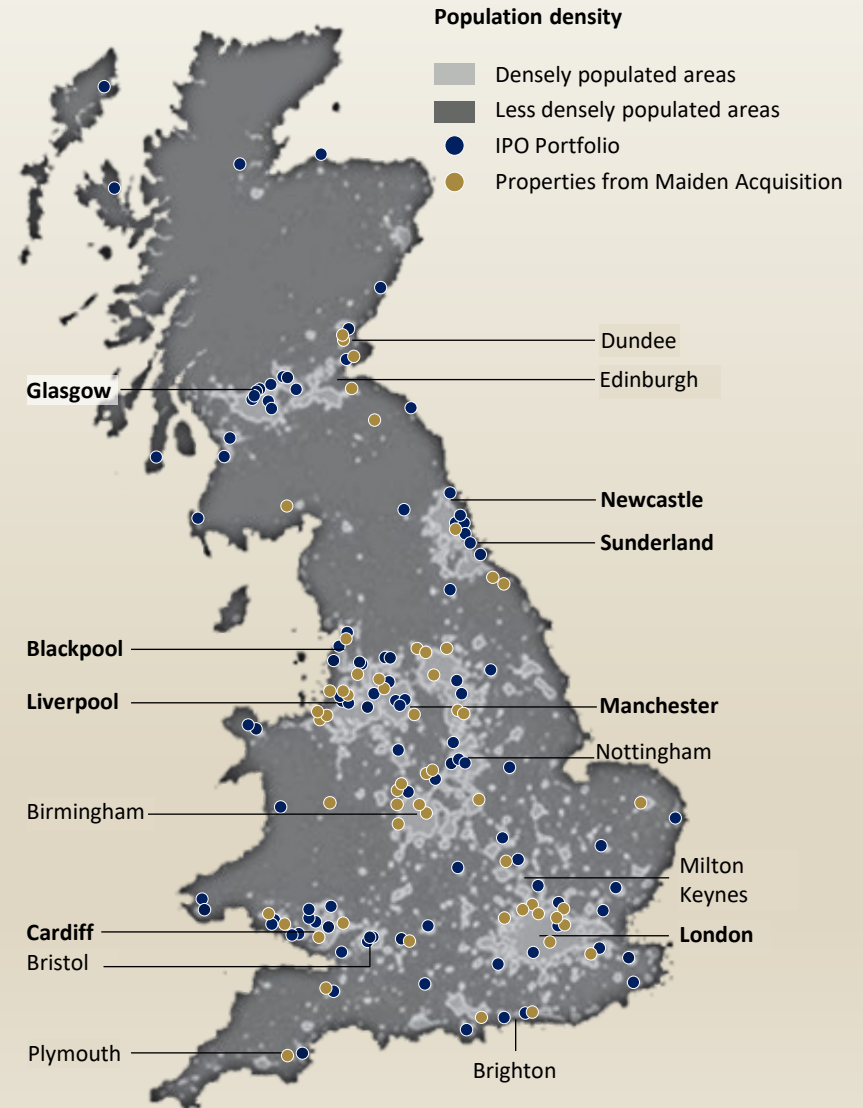


**Triple Net**  
Full Repairing &  
Insuring Leases<sup>(4)</sup>



**2023 Rent Review**  
Built in Inflation-  
linked Rent Uplift<sup>(5)</sup>

**Geographically Diversified with a network of strategically well-located assets across the UK**



## Notes:

1. Majority of the leases are signed by the Secretary of State for Levelling Up, Housing and Communities (formerly known as the Secretary of State for Housing, Communities and Local Government), which is a Crown Body.
2. As at 31 December 2022.
3. 150 properties are on freehold tenures and 5 properties are on long leasehold tenures.
4. Under a full repairing and insuring lease, commonly known as triple net lease, the responsibility for the repair of the external and internal parts as well as the structure of the property is placed with the tenant for occupied assets.
5. A small proportion of the portfolio has rental review based on open market rental value.



Section II

1Q 2023

Financial Performance



Holborn House, Derby

# 1Q 2023 Highlights

## Resilient Financial Performance + Prudent Capital Management



1Q 2023  
Revenue



**0.4% y-o-y**



1Q 2023 Available Distribution  
per Unit (“DPU”)

**0.94 pence**



Gearing Ratio

**46.6%**

as at 31 March 2023

## Stable Portfolio with Income Certainty + Rental Escalation



Consistent Rental  
Collection in Advance

**99.9%**

for the three-month period of  
April 2023 to June 2023, within  
seven days of the due date



Rental Uplift of

**21.07% and  
15.28%**

for seven and 127 assets  
respectively  
commencing 1 April 2023



Net asset value  
per unit

**£0.50**

as at 31 March 2023

# Financial Highlights – 1Q 2023 vs 1Q 2022



	1Q 2023	1Q 2022	
	Actual £'000	Actual £'000	Variance %
Revenue	9,171	9,210	0.4 ▼
Amount generated during the period for distribution to Unitholders	4,536	6,137	26.1 ▼
Available Distribution per unit (“ <b>DPU</b> ”) - pence	0.94	1.28	26.6 ▼

## Factors affecting year-on-year performance:

- Increased borrowing costs
- Lower revenue from vacancies
- Enlarged equity base year-on-year



# Healthy Balance Sheet

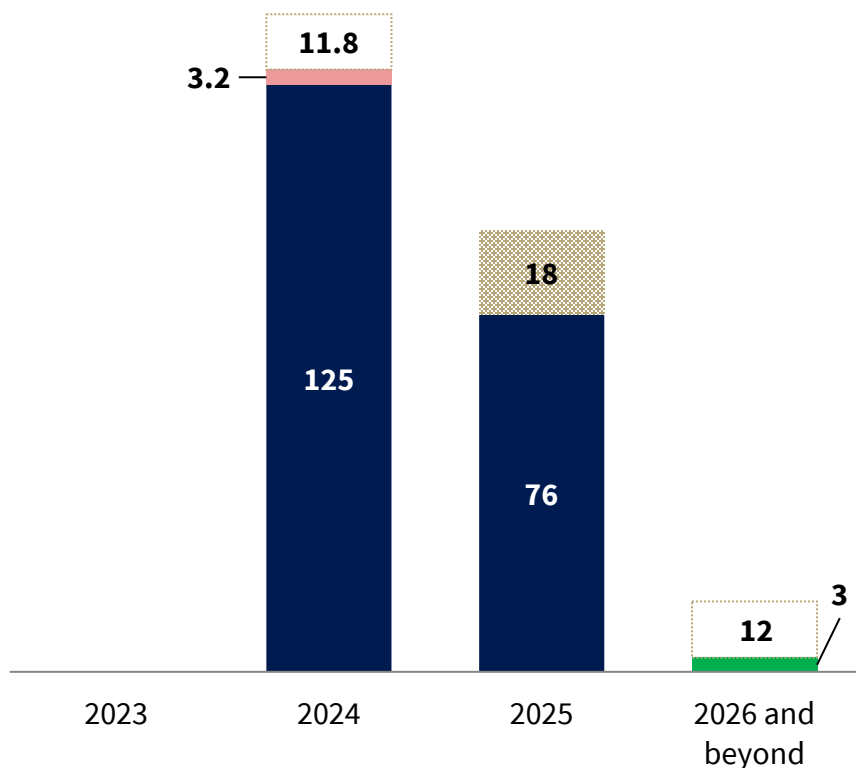
	31 Mar 2023 £'000	31 Dec 2022 £'000
Non-current assets <sup>(1)</sup>	460,034	460,042
Current assets	24,873	26,753
<b>Total assets</b>	<b>484,907</b>	<b>486,795</b>
Non-current liabilities	219,700	216,468
Current liabilities	23,420	22,426
<b>Total liabilities</b>	<b>243,120</b>	<b>238,894</b>
<b>Net assets / Unitholders' funds</b>	<b>241,787</b>	<b>247,901</b>
<b>Units in issue and issuable ('000)</b>	<b>482,138</b>	<b>481,128</b>
<b>Net asset value per unit (£)</b>	<b>0.50</b>	<b>0.52</b>

**Note:**

1. Comprise mainly of investment properties, which are stated at their fair values, based on independent professional valuations undertaken by Knight Frank LLP.

# Prudent Capital Management

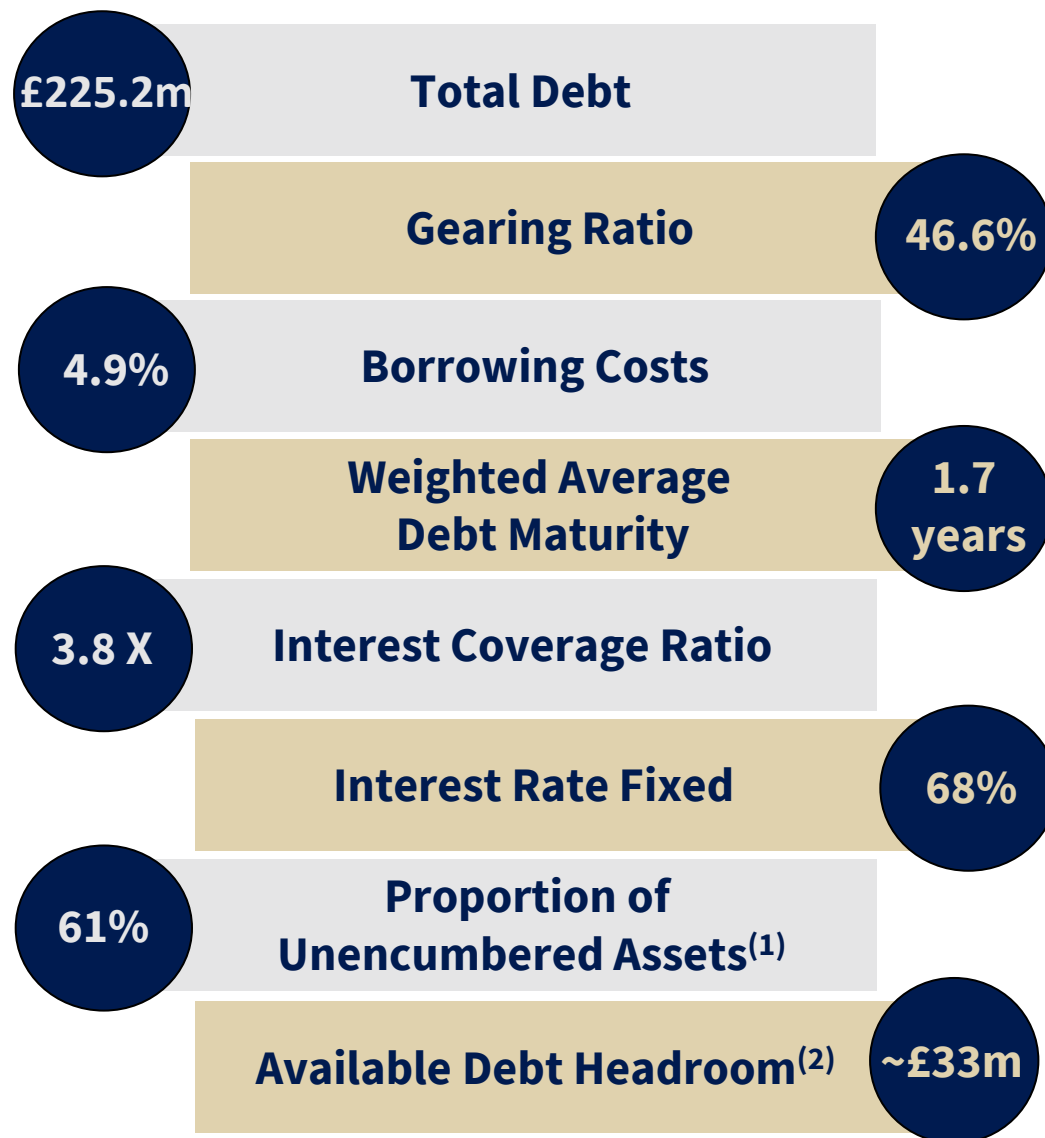
## Debt Maturity Profile (£ m)



□ Undrawn Capacity  
■ Bridge Loan  
■ Term Loan Facility

■ Green RCF  
■ RCF

## Credit Metrics (as at 31 March 2023)



### Notes:

1. Based on valuations; unencumbered assets refer to properties without land mortgages.
2. Based on gearing ratio of 50%.

# Balance Sheet Management

## Retention of Cashflow



### Distribution Reinvestment Plan (“DRP”)

Unitholders can opt to receive their distributions in DRP units



### Distribution Payout Ratio of 90% from FY2023 onwards

Retention of working capital to manage overall financial position

## Options for Balance Sheet Management



### Capital Recycling

Through capital receipts from potential disposals and dilapidation settlements



### Fundraising

Through issuance of traditional equity or perpetual securities



Section III

1Q 2023

Portfolio Performance



Tannery House, Alfreton

# Income Certainty and Visibility



Stable Portfolio  
Occupancy Rate

**97.9%**

as at 31 March 2023



Consistent Rent  
Collection in Advance

**99.9%**

for the three-month period of April  
2023 to June 2023, within seven  
days of the due date



Weighted Average  
Lease Expiry

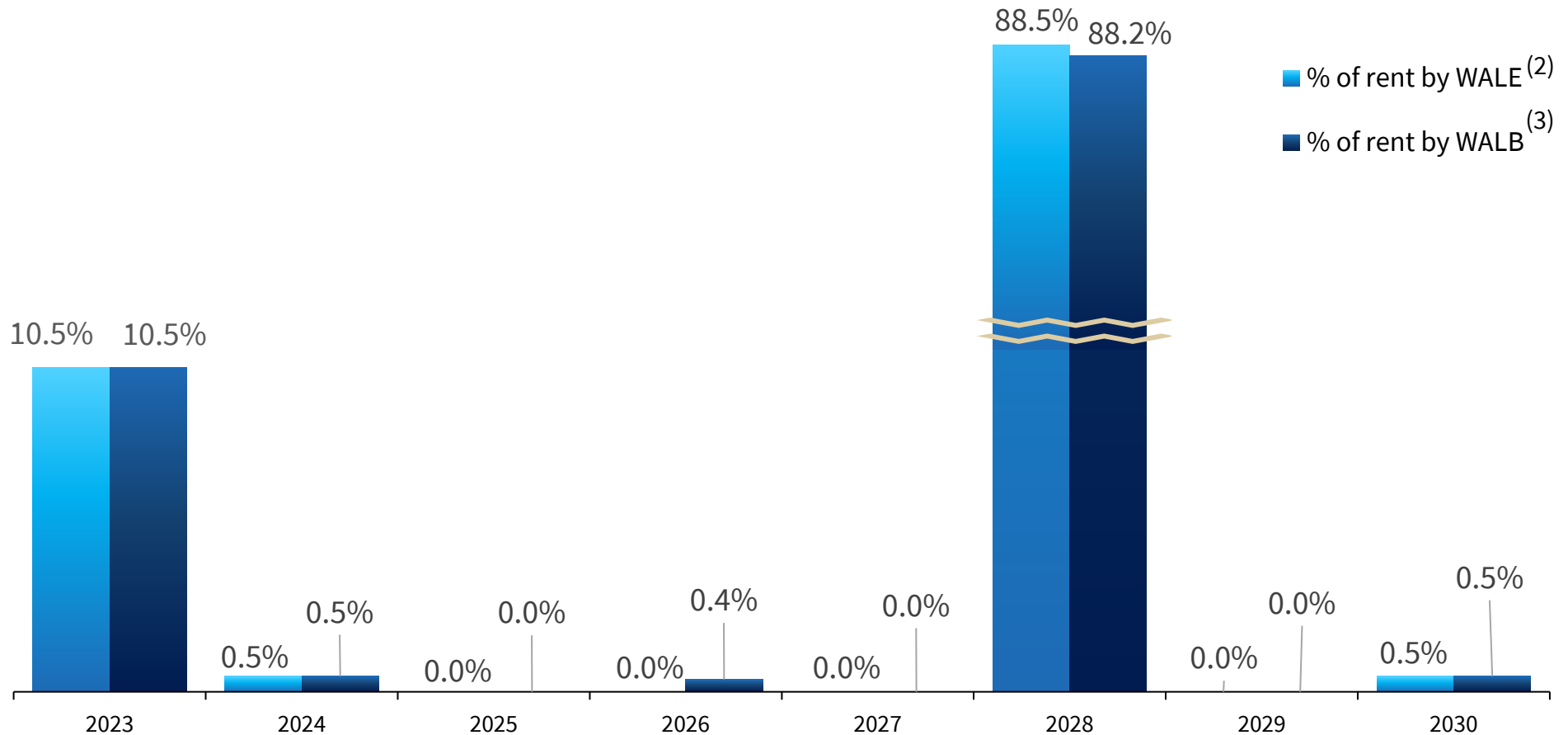
**4.5 years**

as at 31 March 2023



# Long Portfolio WALE at 4.5 years

## Lease Expiry Profile as at 31 March 2023 (% of total portfolio rent)<sup>(1)</sup>



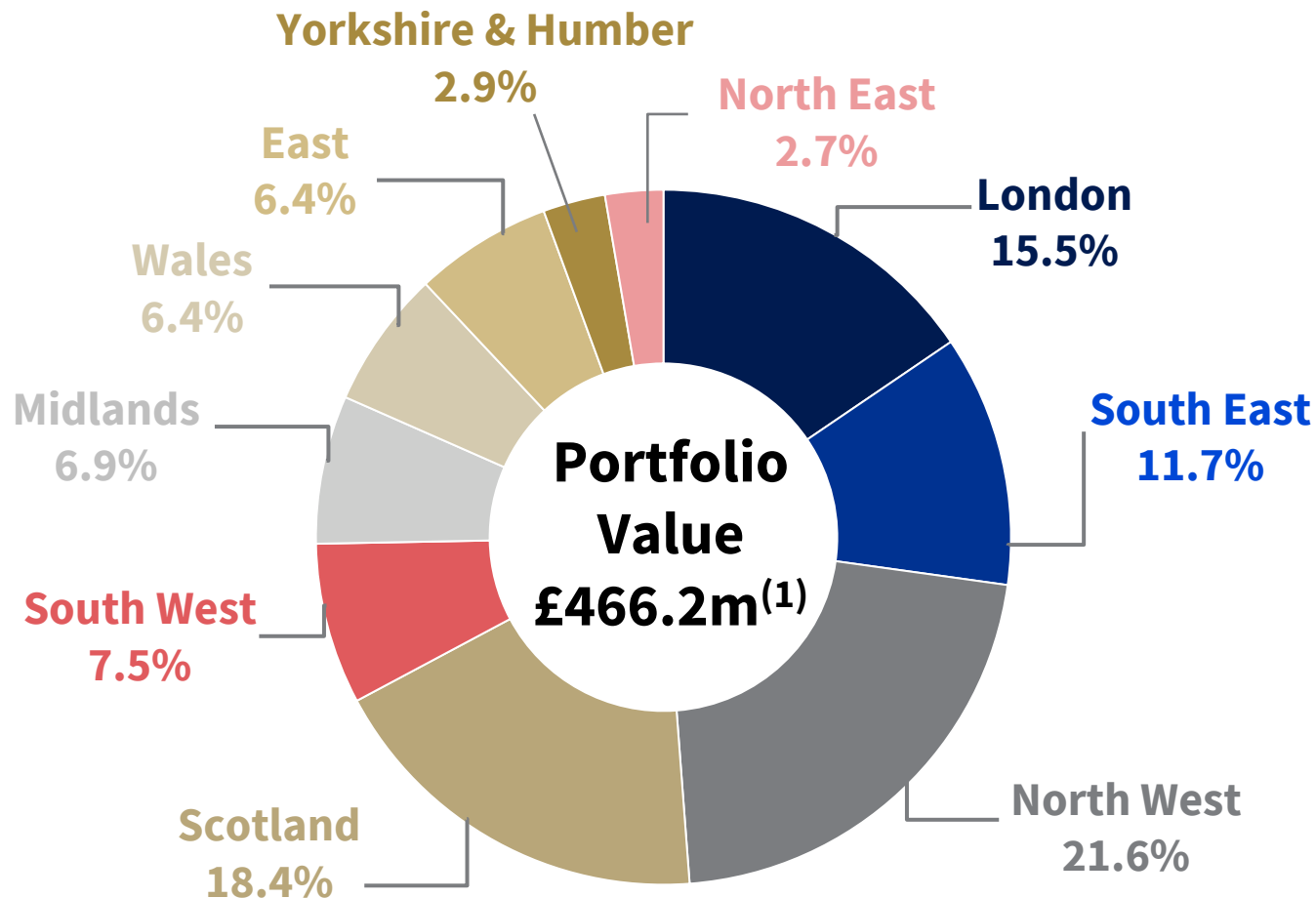
**Notes:**

1. Discrepancies between the listed figures and totals thereof are due to rounding.
2. Percentage of rent by WALE (Weighted Average Lease to Expiry) – Based on the final termination date of the lease agreement (assuming the tenant does not terminate the lease on the permissible break dates).
3. Percentage of rent by WALB (Weighted Average Lease to Break) – Based on the next permissible break date at the tenant’s election or the expiry of the lease, whichever is earlier.

# Geographically Diversified Portfolio

A network of social infrastructure assets strategically located across the UK covering regional cities, providing a strong base of assets

## Geographical Breakdown by Valuation<sup>(1)</sup>



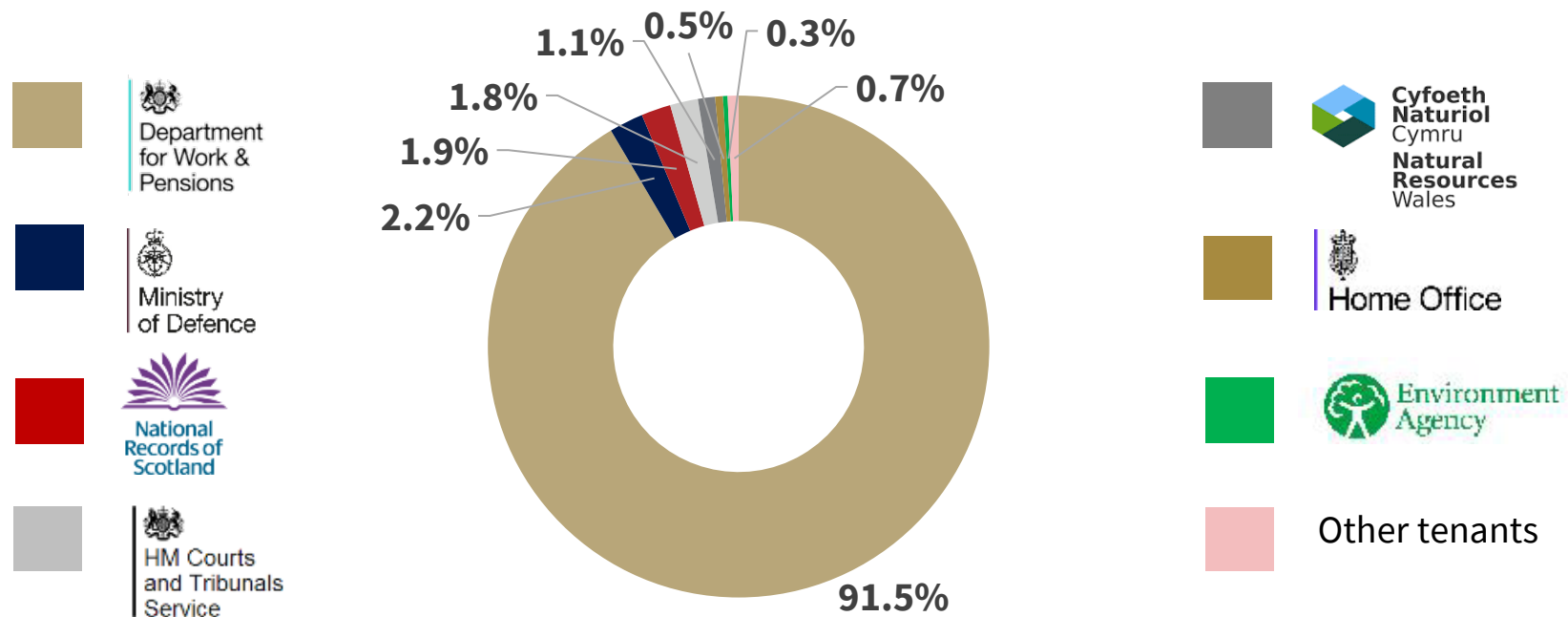
**Note:**

1. As at 31 December 2022.

# Strong Underlying Tenant Base

- Backed by AA-rated UK sovereign credit rating, with leases signed directly with the Secretary of State<sup>(1)</sup>, providing credit stability and income certainty
- Consistent rental collection in advance since listing
- Diversified tenant mix with UK sovereign credit rating

## Tenant Breakdown by Gross Rental Income<sup>(2)</sup>



**Notes:**  
 1. Majority of the leases are signed by the Secretary of State for Levelling Up, Housing and Communities (formerly known as the Secretary of State for Housing, Communities and Local Government), which is a Crown Body.  
 2. As at 31 March 2023.



job  
centre  
plus



Section IV

# Asset Management Updates

Crown House, Grantham

# Successful Rental Uplift in April 2023

- 136 assets up for rent review on 1 April 2023
- **134** assets out of 155 assets have rent escalation pegged to the UK Consumer Price Index (“**CPI**”). Of the 134 assets, 133 are occupied by the DWP, and one occupied by Ministry of Defence
- 11 out of the 134 assets have agreed rent reductions in exchange for the removal of their break options
- Based on respective lease agreements, the rent escalations are:
  - **21.07%** for **7** of the assets
  - **15.28%** for **127** of the assets
- The remaining two assets are occupied by DWP and will have rent review based on open market rent
- Net annualised rent increase from these 136 assets will be **£4.2 million** or **13.1%**

Rent Escalation Basis	Number of assets	Rent p.a. as at 31 March 2023 (£'000)	Revised Rent p.a. effective as at 1 April 2023 (£'000)
Rent escalation of 21.07%	7	2,640	3,196
Rent escalation of 15.28%	116	27,083	31,222
Rent escalation of 15.28%, subject to rent reduction	11	1,976	1,456 <sup>1</sup>
Rent escalation based on upward only open market rent review	2	132	132 <sup>2</sup>
<b>Total<sup>3</sup></b>	<b>136</b>	<b>31,832</b>	<b>36,006</b>

**Notes:**

1. The rent reduction for each asset is between 25% to 50% and is applied simultaneously with the rent reduction
2. Minimum rent expected, given that rent review is upward only. Revised rent to be finalised.
3. Discrepancies between the listed figures and totals thereof are due to rounding.

# Strategies to Maximise Value

- Assets are strategically located primarily in town centres, close to transportation nodes and amenities
- Various potential alternative uses are available for the assets, depending on the real estate market conditions and economic dynamics of the submarkets
- Actions for 12 vacant and vacating assets:



Negotiating for reasonable dilapidations settlement



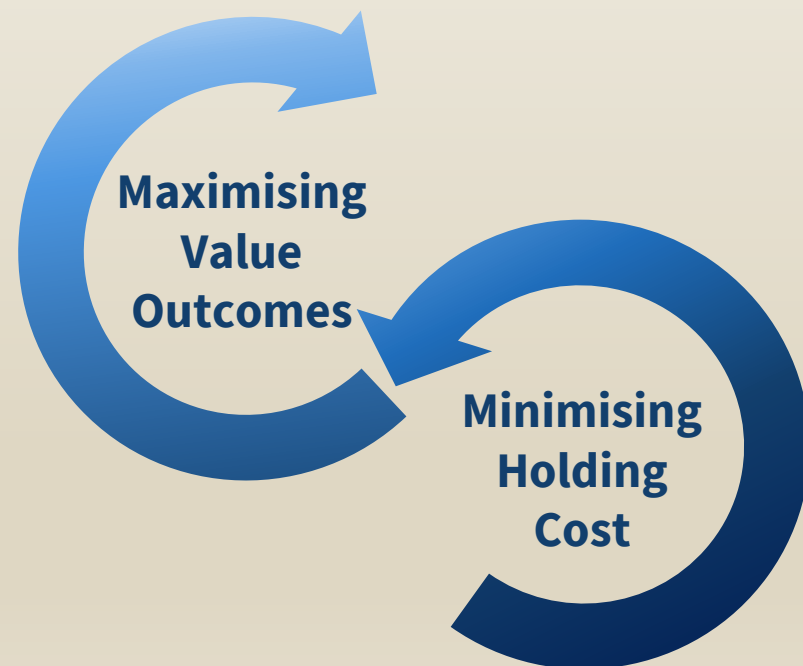
Potential re-letting as an office or other uses



Disposal with vacant possession or following re-letting



Seeking consent for alternative uses (conversion or redevelopment) where those offer the best outcomes



# Updates on Vacant & Vacating Assets

## Assets with Lease Extension

No.	Assets	Lease Extension	Dilapidation Settlement	Status Update
1	Ladywell House, Edinburgh	Lease extended by 6 months to July 2023	In progress	Marketing agent appointed
2	Hilden House, Warrington	Lease extended by 6 months to September 2023	Agreed	Marketing agent appointed

## Vacant

No.	Assets	Dilapidation Settlement	Status Update
1	John Street, Sunderland	Agreed	Disposal in progress
2	Sidlaw House, Dundee	In progress	Marketing agent appointed
3	Cardwell Place, Blackburn	Agreed	Marketing agent appointed
4	Leeds Road, Bradford	Agreed	Marketing agent appointed
5	Victoria Road, Kirkcaldy	In progress	Marketing agent appointed
6	Openshaw Job Centre, Manchester	Agreed	Marketing agent appointed
7	Lindsay House, Dundee	In progress	Marketing agent appointed
8	Crown Buildings, Caerphilly	In progress	Marketing agent appointed
9	Crown House, Burton On Trent	In progress	Marketing agent appointed
10	St Paul's House, Chippenham	In progress	Marketing agent appointed

# Asset Management Strategy

Regular and active engagements with current and potential occupiers

## Proactive Tenant Engagement

### Focus on Tenant Retention

- The Manager continues to engage with various UK Government agencies in order to understand their requirements and to better serve them
- Develop collaborations that would be mutually beneficial to both occupiers and landlord

### Expand on Sustainability Collaboration

- The Manager continues to work collaboratively with its main occupier to realise asset enhancement works leading to improvement in energy efficiency of DWP-occupied assets
- Working on strategies to expand the successful sustainability collaboration with DWP and other occupiers in its portfolio

### Diversify Lease Expiries and Income Profile

- Focus on expanding and continuing dialogues on future lease renewals and extensions to diversify lease expiries and income profile





## Section V

# Sustainability Updates



**Nutwood House, Canterbury**

# Commitment to Sustainability

Driving sustainable value for Unitholders

## Environmental



Secured landmark  
**Sustainability  
collaboration**

with the UK's Department for Work  
and Pensions & Ministry of Defence



Secured inaugural  
**£15.0 million**

green revolving credit facility to fund  
sustainability enhancement works



Upgrade in  
**Energy Performance  
Certificate**  
ratings of assets

## Social



FY 2022 average  
training hours per  
employee  
**71.0 hours**



**Contributions, funds  
raised & time  
volunteered towards**

1. Healthcare for the elderly
2. Youth homelessness
3. Food for lower-income families

## Governance



Maintained  
**zero incidents**  
of non-compliance/  
corruption



Majority  
**independent  
board**

# 'Greening' the Portfolio

Asset enhancement works to boost energy efficiency of buildings

## Driving Sustainable Value for the Long Term

Sustainability enhancement works on various DWP-occupied properties across the REIT's portfolio have been planned so far to optimise energy use

Examples of works being planned include:

- ✓ Replacement of existing variable refrigerant system and to expand the use of the variable refrigerant system
- ✓ Replacement of gas- or oil-fueled boilers with new, higher efficiency or non-carbon-based heating system solution
- ✓ Replacement of air-conditioning system with variable refrigerant system
- ✓ Replacement of air handling unit (“**AHU**”) including direct expansion cooling, modifications to existing ductwork and replacement of Building Management System (“**BMS**”)
- ✓ Roofing replacement projects





# Recognition for Sustainability Efforts

## Gold Award at the 8<sup>th</sup> Asia Sustainability Reporting Awards



- Inaugural Sustainability Report 2021 was recognised with a **Gold** award in Asia's Best Sustainability Report (First Time) category
- Strong recognition of the Manager's effort in sustainability reporting, disclosure and transparency
- Continuous effort to strive towards high levels of sustainability disclosure standards



Section VI

# Strategy and Outlook



Tannery House, Alfreton

# UK Market Outlook Remains Uncertain

## Key Indicators for the UK Economy

### Inflation

**4%**

Bank of England's ("BoE") expected annual CPI inflation towards end 2023

### Interest Rate

**4.25%**

BoE raised interest rate to 4.25% in March 2023

### Unemployment

**5.25%**

BoE's projected unemployment rate in the medium term

### Economy



GDP projected to fall slightly throughout 2023 and Q1 2024

*Sources: Gov.UK, Office for National Statistics, Bank of England Monetary Policy Summary dated March 2023 and BoE Monetary Policy Report dated February 2023.*

## Generally weaker market sentiment in the real estate market

- Property values continues to be under pressure and is not expected to stabilise till the end of the year
- Office investment volumes are expected to be 20% down year-on-year in 2023<sup>(1)</sup>

**Note:**

1. CBRE Research, UK Real Estate Market Outlook 2023.

# Strategies Going Forward

- Manage vacant and vacating assets
- Secure dilapidation claims
- Recycle capital and reduce gearing
- Diversify lease expiry profile
- Improve energy performance certificate ratings
- Review growth potential from right of first refusal (“**ROFR**”) and/or third-party assets





# Thank You

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Section VII

# Additional Information





Tannery House, Alfretton

# Valuation Methodology







- The REIT’s valuation as at 31 December 2022 was performed by an independent valuer, Knight Frank LLP
- The valuation methodology was based on the Income Capitalisation Method

$$\text{Market Value} = \frac{\text{Net Operating Income}}{\text{Capitalisation Rate}}$$

- The income profile of the REIT is quite stable
- Hence, the key driver of Market Value for the REIT Portfolio lies in the Capitalisation Rate (“**Cap Rates**”)
- Whereby Cap Rates  , Market Value  , and vice versa

## Drivers of Cap Rates

- The Cap Rates is largely driven by the following key factors:

Key Factors	Movements	Cap Rates
Interest Rate	Interest Rates 	
Supply/Demand Dynamics	Transaction Volumes 	
Macroeconomic Outlook	Overall Market Outlook 	

# Hedge against rising inflation

1

## **Lease stability & income visibility**

Long portfolio WALE of 4.5 years

2

## **Leases are on full repairing and insuring (FRI) basis**

Responsibility for repair and maintenance is placed with the tenant for occupied assets

3

## **Naturally hedged against forex fluctuations**

Assets and liabilities as well as distributions are denominated in GBP

4

## **Largely insulated from interest rate hikes**

68% of interest rate exposure is fixed

5

## **Secured distributions**

Consistently achieved ~100% of rental collection in advance since listing