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Cromwell European REIT delivers resilient 3Q 2023 operational performance; 3Q 2023 indicative DPU up 3%[1]

- Resilient portfolio occupancy at 95.2% with light industrial / logistics near full occupancy at 97.1% and office occupancy up 140 bps to 89.1% as at 30 September 2023
- Strong +10.6% 3Q 2023 and +7.4% YTD 2023 rent reversion with WALE longer at 4.6 years
- 37.4% proforma net gearing in October 2023, down 110 bps since 31 December 2022

	3Q 2023	2Q 2023	Variance	YTD 2023	YTD 2022	Variance
Gross Revenue (€'000)	53,588	53,567	0.0%	161,929	163,361	(0.9%)
Net Property Income ("NPI") (€'000)	32,221	34,890	(7.6%)	100,756	101,843	(1.1%)
Income Available for Distribution to Unitholders (€'000)	22,523	21,867	3.0%	66,332	73,081	(9.2%)
Indicative Distribution Per Unit ("DPU") (Euro cents)	4.005	3.888	3.0%	11.795	12.995	(9.2%)

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 business update for the third quarter and the nine months ended 30 September 2023 ("3Q 2023" and "YTD 2023", respectively).

Introduction

The Manager's Chief Executive Officer, Mr Simon Garing, commented: "We are pleased to have maintained occupancy above 95% and achieved over 10% positive rent reversion for the quarter, demonstrating the resilience and quality of the portfolio and the Cromwell teams across Europe. We delivered 3Q 2023 indicative DPU of 4.0 Euro cents per Unit ("cpu"), 3% higher versus 2Q 2023. YTD 2023 like-for-like NPI growth was 2.1%, leading to a nine-month indicative DPU of 11.795 Euro cpu, only 4.1%[2] lower than last year on a like-for-like basis.

"We demonstrated our focus on balance sheet strength by reducing proforma net gearing to 37.4%[3] due to recent asset sales, resulting in a high 91% debt fixed/hedged ratio. Our pivot to logistics and light industrial continues, with CEREIT's portfolio now weighted to a majority of 51% to this sector, as CEREIT benefits from low logistics market vacancies of only 2.6%.

"The quarter also saw several independent agencies endorsing our strategy and management capabilities, with Fitch Ratings reiterating its investment grade BBB- stable outlook and GRESB upgrading CEREIT's rating to 4 stars, with full marks for Social and Governance aspects."

Financial highlights

NPI moderately declined 1.1% compared to the prior corresponding period ("pcp") to €100.8 million for YTD 2023, primarily due to the divestment of Piazza Affari 2 in Milan, Italy, absence of income from office projects currently under redevelopment and a lower contribution from the non-core Italian assets leased to the Italian government because of a rent reduction provision. YTD 2023 income available for distribution fell 9.2% versus pcp to €66.3 million, as finance costs rose by 52% due to higher all-in interest rates and more borrowings drawn down during the period.

YTD 2023 indicative DPU was 11.795 Euro cents (9.2% lower versus pcp). However, on a like-for-like basis, it was only 4.1% lower than pcp and has remained relatively stable amidst macro headwinds and geopolitical challenges over the last several years.

Portfolio management highlights

Overall portfolio occupancy was 95.2% as at 30 September 2023, largely supported mainly by CEREIT's four core markets – the Netherlands, Italy, France and Germany, which continued to account for about 75% of CEREIT's portfolio by value. Weighted average lease expiry ("WALE") improved to 4.6 years as at 30 September 2023 from 4.4 years a quarter ago, while the weighted average lease to break was 3.5 years.

CEREIT's light industrial / logistics portfolio occupancy remained close to full occupancy at 97.1% as at 30 September 2023. During the third quarter, the sector saw some minor temporary increase in vacancy in France and the Netherlands, with space now being leased. 128,943 sqm in new leases and extensions, or approximately 10.8% of the light industrial / logistics portfolio, were signed YTD 2023 at an average +5.0% rent reversion rate, with some new leases in Germany, France and Denmark entered at double-digit positive rent reversions ranging from +18.3% to +34.9%. Low average 2.6% vacancy across CEREIT's key logistics markets and increased take-ups from occupiers looking to re-shore / nearshore helped support leasing activities.

CEREIT's office portfolio occupancy was up 140 bps to 89.1% as at 30 September 2023, compared to a quarter ago. 77,105 sqm in new leases and renewals, or approximately 15.0% of the office portfolio, were signed at +9.2% rent reversion in YTD 2023. Notably, the Manager signed a new 15-year lease with a new tenant-customer for about 10,000 sqm of office space at Haagse Poort in the Hague at +37.0% rent reversion during the period.

Asset recycling and redevelopments

Since the beginning of FY 2022, the Manager has divested seven assets in Germany, Finland, France and Italy for a total of ~€229 million at a blended 13.7% premium to the most recent valuations. Two divestments totalling ~€190 million at a blended 12.5% premium to the most recent valuation were completed in June and October 2023 - Piazza Affari 2, a Grade A office asset in Milan, was sold in June, while Viale Europa 95, one of CEREIT's largest non-core 'other' assets in Bari, was divested in October.

The Manager deployed the divestment proceeds towards the repayment of CEREIT's debt facilities and the partial funding of redevelopments and asset enhancement initiatives.

The committed developments are progressing well. The €32 million, 10,000 sqm Nervesa 21 LEED-platinum office redevelopment in Milan is ~70% pre-let four months ahead of planned completion to blue-chip media company Universal Music Group and two other significant communications and tech tenant-customers. The three new logistics developments and redevelopments – Lovosice ONE Industrial Park I in The Czech Republic and Nove Mesto ONE Industrial Park I / III in Slovakia - are largely completed and close to 50% and 60% pre-let, respectively, with ongoing tenant discussions for the remainder of the space. The Manager is adopting a cautious approach to the commencement of new developments.

Responsible capital management

In 3Q 2023, the Manager entered €336 million of new debt facilities, leaving no debt now expiring until November 2025. 91% of CEREIT's total debt book was hedged/fixed as at 30 September 2023. Headline aggregate leverage stood at 41.2%, which on a proforma net gearing basis reduced to 37.4% following the completion of the sale of Viale Europa 95 in October 2023. CEREIT's all-in interest rate stood slightly higher at 3.0% as at 30 September 2023, compared to 2.9% as at 30 June 2023 – an increment that is less than one-third that of the 3M Euribor rates movement. The Manager closed YTD 2023 with a 4.0x interest coverage ratio, which was well in excess of the covenants for the Euro Medium-Term Note.

NAV reduced slightly to €2.25/unit, primarily due to the payment of the 1H 2023 distribution in September 2023.

Outlook

The Manager's Chief Executive Officer, Mr Simon Garing, added: "We believe that most of the interest rate increases are behind us. However, we remain vigilant and continue to identify opportunities to offset related financial and valuation risks brought about by tighter credit conditions and softening Eurozone economy which is now expected to grow only 0.5% in 2023[4]. Globally, transaction volumes have reduced substantially, while real asset values continue to decline as a result.

"Our three top priorities for the rest of the year and coming into 2024 include (1) continue focus on active asset management of the existing portfolio to maintain high occupancy and drive positive rent reversions, (2) proactive capital management to minimise the impact of higher interest rates on distributable income and a focus on liquidity by preserving cash and maintaining sufficient committed undrawn debt facilities, and (3) judicious use of divestment proceeds towards partial debt repayment, unit and/or bond buybacks and funding of selective accretive AEIs and developments."

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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 light industrial / logistics 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 €2.3 billion portfolio comprises 110+ predominantly freehold properties in or close to major gateway cities in the Netherlands, Italy, France, Poland, Germany, Finland, Denmark, Slovakia, the Czech Republic 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, a real estate investor and global real estate fund manager with operations in 14 countries, listed on the Australian Securities Exchange Ltd.

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[1] Compared to 2Q 2023
[2] Adjusted for absence of income from assets under redevelopment or strip out works
[3] Proforma net gearing includes cash receipts from the sale of Viale Europa 95 on 6 October 2023
[4] Source: Oxford Economics as at 8 November 2023