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Cromwell European REIT announces DPU of 15.693 Euro cents for FY 2023

- FY 2023 NPI up 4.1% on a like-for-like basis, supported by 94.3%[1] occupancy and +5.7% rent reversion
- €237 million divested in the last two years at a blended 14.6% premium to valuation, ahead of target
- Disciplined net gearing of 38.4% with no debt expiring until November 2025

	FY 2023	FY 2022	Variance	2H 2023	2H 2022	Variance
Gross revenue (€'000)	216,489	222,105	(2.5%)	108,148	114,688	(5.7%)
Net property income ("NPI") (€'000)	134,281	136,775	(1.8%)	65,746	69,445	(5.3%)
Income available for distribution to Unitholders (€'000)	88,254	96,667	(8.7%)	44,445	47,765	(7.0%)
Distribution per Unit ("DPU") (Euro cents)	15.693	17.189	(8.7%)	7.903	8.494	(7.0%)
Adjusted DPU[2] (Euro cents)	15.693	16.366	(4.1%)	7.903	8.205	(3.7%)

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 financial results for the six months and full year ended 31 December 2023 ("2H 2023" and "FY 2023" respectively).

The Manager's Chief Executive Officer, Mr. Simon Garing, commented, "2023 was a reasonably successful year of maximising the operating performance of the core portfolio while maintaining disciplined capital management amidst a challenging macro environment. This approach protected unitholders' interest, with valuations only declining 3.0% over the last 12 months (excluding capex) and NAV/unit holding up reasonably well at €2.12, well above the last traded unit price of €1.36[3]. Investors earned an 11.5% distribution yield over the 12 months based on our 100% payout of operating earnings (and no capital top-up) DPU of 15.693 Euro cents.

"Portfolio occupancy remained high at 94.3% after releasing over 270,000 sqm or 15% of the portfolio, benefitting from the 5.7% positive rent reversion on the new leases and cpi indexation growth of 4.3% for most of CEREIT's ~1,000 leases. As a result, FY 2023 NPI is up 4.1% on a like-for-like basis. Notably, our redevelopment projects in Milan, Italy, the Czech Republic and Slovakia were delivered on time and on budget and are now completed with 50-70% pre-leasing levels. Our local teams on the ground are confident in leasing the remaining new space. CEREIT continues its pivot to a majority weighting to light industrial / logistics, which is now 53% of CEREIT's portfolio while reducing office exposure to 45%.

"We are ahead of our asset sales programme, divesting €197 million non-strategic assets in 2023 at a 13.6% premium to valuation while repaying €66 million in debt. CEREIT's capital metrics are investment-grade, with net gearing at 38.4% and an interest coverage ratio of 3.8x. We have ample liquidity to finance the development and rejuvenation programme, with over €70 million in cash and an undrawn €200 million revolving credit facility. Almost half of CEREIT's debt facilities were extended for another 4-5 years, leaving CEREIT with no debt maturities until November 2025, while 88% is hedged/fixed for another two years."

FY 2023 financial performance highlights

FY 2023 NPI declined 1.8% compared to the prior corresponding period ("pcp") to €134.3 million, mainly due to the impact of the loss of income from the sale of two Italian assets – Viale Europa 95 in Bari and Piazza Affari in Milan and from the two Italian office redevelopments – Nervesa 21 in Milan and Maxima in Rome, which were both under development last year. FY 2023 NPI was up 4.1% compared to pcp on a like-for-like basis[4], mainly driven by higher income from new leases and annual inflation indexation.

DPU declined 8.7% compared to pcp to 15.693 Euro cents in FY 2023, even as higher NPI growth from indexation, positive rent reversions and one-off tax benefits mostly offset the negative impact from higher borrowing costs and asset sales. Like-for-like DPU was only 4.1% lower than pcp[2]. Unitholders will receive a 2H 2023 distribution of 7.903 Euro cents per unit or the S$ equivalent, with an ex-distribution date of 4 March 2024 and a payment date of 28 March 2024. The 2H 2023 distribution is 83% tax-exempt.

The balance sheet remained healthy, backed by Fitch Rating's "BBB-" investment grade rating with a "stable outlook", with key financial indicators well within covenants for loans and the Euro Medium-Term Notes. The Manager completed approximately €492 million of debt refinancing and bond buyback transactions during the year, leaving no debt expiring until November 2025. 88% of CEREIT's total debt book was hedged/fixed as at 31 December 2023, with an all-in interest rate of 3.19%[5].

Resilient portfolio valuations

CEREIT's total portfolio valuation stood at €2.3 billion as at 31 December 2023, registering only a modest 1.5% decline compared to 30 June 2023, down 3.0% compared to pcp and down 3.5% compared to 30 June 2022 (the beginning of the downcycle) on a like-for-like basis[6] excluding capex. Light industrial / logistics valuations were up 1.4% (€1.2 billion), while office valuations declined 4.6% (€1.0 billion) in December 2023 compared to June 2023. The light industrial / logistics sector saw uplifts in valuations in six out of eight markets. It was supported by the Valuer's average reversionary yield of 7.0% compared to the higher 8.3% for the office sector, further validating the Manager's strategy to rebalance the portfolio towards the light industrial / logistics sector, which now accounts for 53% of CEREIT's portfolio as at 31 December 2023.

Portfolio performance highlights

CEREIT portfolio's weighted average lease expiry ("WALE") held steady at 4.7 years as at 31 December 2023, as the Manager de-risked about 61% of lease expiries and breaks until June 2024.

CEREIT's light industrial / logistics portfolio occupancy remained high at 95.6% as at 31 December 2023, with 159,414 sqm in new leases and renewals (~13% of the light industrial / logistics portfolio) signed in FY 2023 at an average of +3.7% rent reversion rate, extending the sector WALE up to 5.1 years. Leasing activities in France and Germany, collectively accounting for about 50% of CEREIT's light industrial / logistics portfolio, remained strong as vacancies for prime logistics assets in these two markets tapered in 2H 2023. Denmark saw some decrease in occupancy, with vacancies expected to be leased back up soon, while recently completed new developments in the Czech Republic and Slovakia are expected to be fully leased in 1H 2024.

CEREIT's office portfolio occupancy was 90.3% as at 31 December 2023, up 120 basis points from a quarter ago and exceeding 90% for the first time since 2022. 107,576 sqm in new leases and renewals were signed in FY 2023 at an average of +7.5% rent reversion, lifting the office sector WALE to 4.1 years. Notably, new long-year leases for Grade A offices in the Netherlands and Italy were signed on high single-digit positive rent reversions. Grade A office vacancies in these two core markets stayed tight at 3.2% versus 9.3% on average for all office grades. The Manager is in advanced negotiations to renew some of CEREIT's largest office leases 2-3 years before lease expiry, which will help underpin cashflows and valuations over the coming 12 months.

Sustainability highlights

As a measurable outcome of the various sustainability initiatives in which CEREIT invested over the last few years, 30% of CEREIT's total leases are currently 'green' (up from 10% two years ago), enabling the Manager to work more closely with the tenants to reduce energy consumption and collect quality Scope 3 data. 65% of CEREIT's office portfolio (by value) is BREEAM or LEED certified, as compared to 22% in the EU average[7], creating a significant point of difference in each of CEREIT's key office markets to appeal to companies looking for better employee amenities and lower and more sustainable operating costs.

CEREIT achieved a four-star rating (up from three a year ago) and a record-high overall score of 85 points in the 2023 GRESB Real Estate Assessment, placing CEREIT as 3rd out of eight 'Europe diversified – office/industrial listed' peers. CEREIT also retained its MSCI ESG "AA" rating for the second year in a row and secured the EPRA 2023 Sustainability Best Practices Recommendations Gold Award for the first time.

Economic and market commentary

GDP in the Eurozone was flat in 4Q 2023, with the Eurozone narrowly avoiding a recession. Although economic outcomes were better than Oxford Economics had expected, the eurozone economy remains weak, with little prospect of immediate improvement and with annual GDP growth in 2024 forecast to be 0.6%. Eurozone inflation has continued to fall, with the estimate for January expected to be 2.8% year-on-year, down from 2.9% in December. Oxford Economics expects the first rate cut from the ECB to be in April 2024, with some likelihood of that happening in June instead to manage expectations.

The European logistics sector continued to see positive rental growth. European logistics leasing is holding up well in the face of low economic growth in 2023 after a surge of leasing activity post-Covid-19 in 2021/2022. However, occupiers currently remain highly selective with limited new supply. Occupier demand in 2024 looks likely to be driven by two key trends: continued growth of eCommerce and onshoring manufacturers. Vacancy rates remain close to record lows at 2.9% across CEREIT's eight logistics markets[8].

Office vacancy rates increased slightly across the Eurozone to 9.3% despite a relatively robust level of leasing activity. Space take-up increased by 10.8% during the second half of 2023 with demand focused mainly on quality office space in core locations as Grade A office demand continues to widen gap to B/C grade office. As a result, the vacancy rate for CEREIT's Grade A Dutch and Milan office markets is much lower at 3.2%, with vacancies in CEREIT's non-strategic office markets in Finland and Poland[9] closer to 14 %.

Management outlook

The Manager's Chief Executive Officer, Mr Simon Garing, commented: "As we progress into 2024, our experienced asset management teams on the ground remain focused on maintaining high portfolio occupancy, driving positive rent reversion growth, as well as delivering accretive developments and AEIs to rejuvenate and future-proof the overall portfolio.

"Managing for the tail end of the higher interest rate environment, bottoming economies and the nearing trough in the valuation cycle remains a key management priority in 2024. We anticipate that the supply/demand fundamentals may continue to support high levels of occupancy and income growth in our portfolio, which should help offset further negative impacts from the transition to higher borrowing costs."

"We are progressing steadily on the remaining ~€170 million of assets earmarked for sale. Proceeds may be used to refinance debt and recycle capital into accretive redevelopments of some of CEREIT's trophy projects. We look to reduce our weighting in smaller and less liquid markets and continue transitioning to the long-term 60:40 asset class split between light industrial / logistics and well-located Grade A offices. We appreciate our Cromwell teams' efforts and our tenants, suppliers, financiers and investors for their continued partnership and support."

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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 light industrial / logistics 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 15 countries, listed on the Australian Securities Exchange Ltd.

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1 Occupancy calculations exclude the Nervesa 21 redevelopment, Maxima (formerly known as Via dell'Amba Aradam 5) which is under strip-out works, and Grójecka 5, which is not allowed to be leased
2 Excluding distributable income recorded from the two Italian office redevelopments and a €2.1 million capital distribution top-up made in FY 2022
3 Close of market on 23 Feb 2024
4 Excluding acquisitions and divestments as well as Nervesa 21 and Maxima income
5 Including the interest rate cap transaction entered in late January 2024
6 Excluding development or capital expenditure incurred during the respective period, which is written off as part of the fair value movement
7 Source: CBRE research report, November 2023
8 Source: CBRE Q4 2023 data