

# The Cubic Property Fund



CUBIC | PROPERTY | FUND

Q3 / 30 September 2016

## Highlights

Brexit continued to be a dominant subject over the past few months and the effects of the vote have been seen with currency depreciation and investors taking a more hesitant approach. The Fund has maintained its focus on high quality commercial real estate in core locations, which over time is expected to ensure performance in a sector that continues to perform strongly against other asset classes. The Fund has produced NAV Growth of 4.0% (11.1% year-on-year), reflecting further value improvement of its European holdings and recovery in some of its European currency exposure. Gross asset value and occupancy remained stable at £210 million and 98% respectively and gearing levels decreased slightly to 52%.

During the quarter Cubic completed the acquisitions of three prime retail units and residential upper parts for £6.05m in Croydon. A 40% stake in another Curzon Cinema located in the City of London in Aldgate was secured with completion set for Q4. Further, contracts have exchanged on the acquisition of two ground floor retail units with three upper floors of office space in Royal Leamington Spa for £2,090,000.

Post quarter end the fund has disposed of its Worcester investment with an achieved price of £11.8m. This will release £4.4m of equity into Cubic which is allocated for re-investment next quarter. The Oslo property has been exchanged and is set to complete in December for NOK 540,000,000 representing an 81.7% ROE and 23.5% IRR. Cubic is also disposing of the Copenhagen portfolio to take advantage of a record low yield of 3.1% and is set to close in December / Jan 2017 for DKK 885,000,000.

Asset Management initiatives achieved during the quarter include:

- Negotiating the re-finance of Sadler House, Jersey and Palmer & Harvey, Snodland.
- Initiated discussions with a number of lenders for a second Small Assets Portfolio.
- West End Quay – three new leases have been agreed for Units 11, 11A, 12, and 13
- West End Quay – lease renewal negotiations are undergoing for Unit 3 (Carphone Warehouse) and are expected to compete in Q1 2017
- Nottingham – Agreement to take back Unit 1 and lease to The Alchemist on a 25-year term, subject to planning and vacant possession
- Norwich – new 10 lease to The City Escapes Spa for the upper floor commencing at £20,000
- Leamington – provisional terms have been agreed to T(N)S Catering on a new 5-year lease at £30,000 pa
- Wandsworth – Increased the rent by 18% at the rent review

## Key Fund Data

(as at 30 September 2016)

Net Asset Value per share	£3.331
Average Price (incl. 5% initial charge)	£3.498
Gross Asset Value	£209,867,331
Fund Currency	Sterling
Dealing	Quarterly
Minimum Investment	£25,000 (plus £5,000 top up)
Fund Administrator, Secretary and Registrar	Cannon Asset Management Limited
Investment Advisers	Montreux Advisers Limited
Auditors	Moore Stephens
Listing	Channel Islands Securities Exchange
Borrowings LTV (loan-to-value)	51.84%
Occupancy Rate	98%
Weighted Average Unexpired Lease Term	10.07 Years



Leamington



Worcester

## Market Outlook

Commercial Real Estate investment in Europe totalled €51.6 billion in Q3 2016, down €15.1 billion or 23% on Q3 2015. Germany accounted for 29% of all European investment this quarter, overtaking the UK as Europe's largest market. Aside from the UK market, investment in Europe is moving at a similar pace to last year. Over the last four quarters investment in Europe excluding the UK equaled that of the previous four quarters.

The UK economy appears to have weathered the uncertainty generated by the Brexit vote relatively well with stronger than expected UK economic data reported for Q3. Rental values for UK prime commercial property grew by 0.6% in Q3 2016 and prime yields for all property remained relatively flat at 5.5%. Demand for UK logistics space around urban areas is at unprecedented levels due to the growth in e-commerce and last mile fulfilment. Prime shopping centres and high street yields remained stable across Q3 while other sub-markets softened 25-50 bps.

The transaction volume for German commercial property in the first three quarters of 2016 totalled around €32.5bn, representing a decrease of 18% compared to the corresponding period last year. Nevertheless, this marks the second highest result since 2007. There have been 61 large transactions during the year to date, compared to 80 deals in this time in 2015 in Germany. The German economy is relatively healthy with 2016 growth forecast at 1.8%. Activity for German office assets was markedly strong in Q3 2016 with €5.9 billion invested and retail investment surged to €4.2 billion in Q3, a 190% rise on Q2.

The Spanish economy is growing strongly, with all sectors of the economy making healthy contributions. The focus of office demand has been the CBDs in Madrid and Barcelona but with quality supply drying up, positive rental growth is accelerating and so some occupiers are now looking to decentralized areas to fulfil their space requirements. Q3 saw €970 million invested into the office sector and €910 million in the retail sector. There is also growing interest in non prime assets, applying downward pressure on secondary yields.

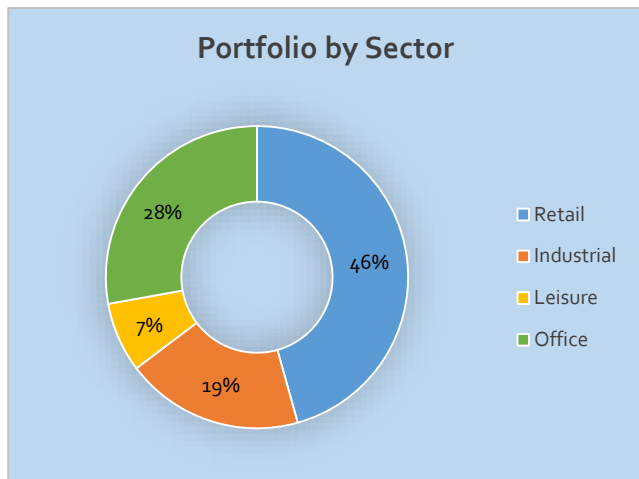
Total Investment Volume for Q3 in Denmark was €1.5 billion. The influx of foreign capital remains strong, with increasing number of deals where both the seller and the buyer are cross-border investors. Copenhagen prime office and retail yields stand at 4.1% and 3.3% respectively as at Q3 2016, the lowest levels in the last twenty years.

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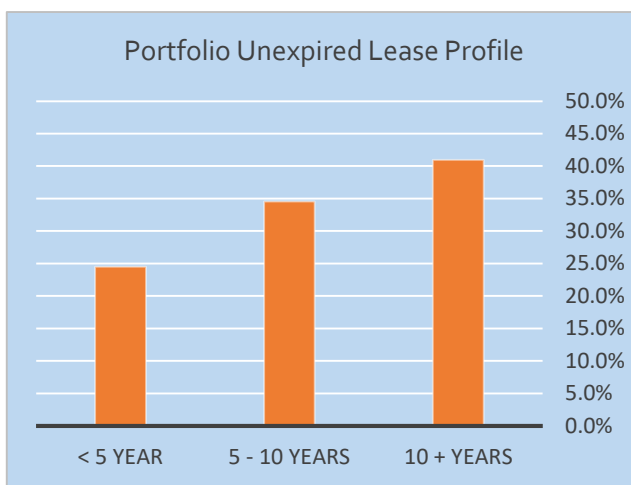
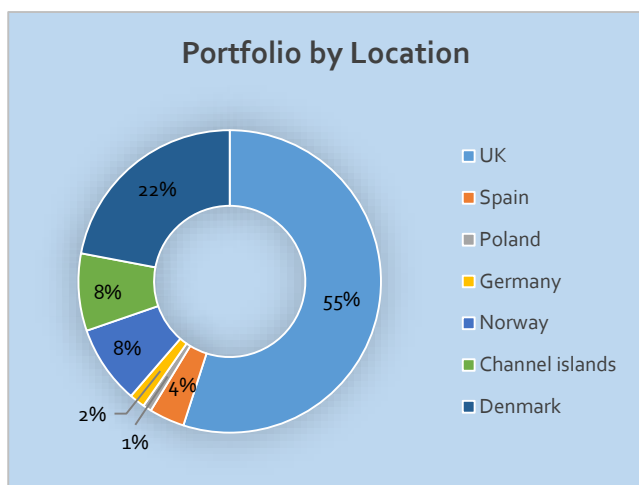


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### 10 Largest Tenants (by income)

Travis Perkins Properties Ltd (TP1)	10%
Travis Perkins Limited (TP2)	9%
Vue Entertainment Ltd	6%
HSBC Bank Plc	6%
NCC Construction AS	5%
Palmer & Harvey McLane Ltd	4%
Colomerie Services Ltd	4%
Superdry	4%
Banc de Sang I Teixits	4%
Benetton	3%



## Asset Management



West End Quay

- New leases for Units 11, 11A and 12 to existing tenants completed. Lease renewal for Unit 3 progressing and rent review negotiations initiated on Unit 1 and 10



All Saints, Nottingham

- We have an agreement in principle with the tenant of Unit 1 (All Saints) to surrender back the unit in Q1 2017, and have provisionally agreed HOTs with a new tenant subject to planning and vacant possession.



Travis Perkins 1

- Second phase of rent reviews have been agreed on 1/3<sup>rd</sup> of the portfolio for December quarter. This represents a 3% annualised increase and £125,760 per annum increase in rent

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