Cromwell European REIT

Value-unlocking metamorphosis

- CERT has clear divestment and redevelopment strategies in place to unlock deep value; its redevelopments could lift FY35F NAV by c.21%, in our view.
- Post-rebalancing, CERT's 60%/40% industrial/Grade A office portfolio is poised to capture nearshoring/e-commerce and ESG-compliant demand.
- Initiate coverage with an Add and TP of €2.15. Potential re-rating catalysts include successful execution of its redevelopment and reconstitution strategy.

Singapore

ADD *(initiation)*

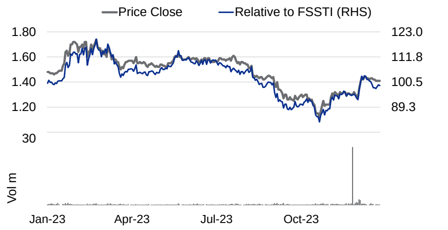
Consensus ratings*:	Buy 3	Hold 0	Sell 0

Current price:	EUR1.41
Target price:	EUR2.15
Previous target:	EUR
Up/downside:	52.3%
CIMB / Consensus:	1.6%
Reuters:	CROM.SI
Bloomberg:	CERT SP
Market cap:	US$865.8m
	EUR793.0m
Average daily turnover:	US$1.07m
	EUR0.99m
Current shares o/s:	562.4m
Free float:	94.4%

**Source: Bloomberg*

Key changes in this note

- N/A



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.5	9.3	-6
Relative (%)	5	8.4	-2.7

Major shareholders	% held
Cromwell Singapore Hldgs	5.6
Blackrock Inc	5.0
USB AG	5.0

Value-unlocking potential underappreciated – 21% upside to NAVPS

Despite trading at a 37% discount to NAV, Cromwell European REIT's (CERT) recent divestments averaged 13.7%/21.4% above the latest valuations/purchase price, realising €40.3m in capital gains and reaffirming its portfolio quality. Management's €250m mid-term redevelopment plan, c.80% of which has been announced, comprises five redevelopments. We estimate that these could deliver c.€60m-70m upside to NAV, translating into 11-12 €cents, or a 4.7-5.5% uplift in NAV/share. Within its long-term redevelopment pipeline, the redevelopment of Parc des Docks could lift NAV by up to €200m, or €0.36 per share, translating into c.16% NAVPS upside. The mid- and long-term redevelopments could lift NAVPS by 21%, which we think has been overlooked by the market.

Metamorphosis into a more defensible, future-ready portfolio

We believe CERT's divestment and redevelopment strategies will shift its portfolio towards a more defensible composition of 60%/40% industrial/Grade A office assets (from 46%/25%/19% industrial/Grade A offices/Grade B and C offices currently). CERT's light industrial/logistics assets are benefitting from secular trends, such as higher near-shoring and growth of e-commerce penetration in Europe, which EuroCommerce expects to increase from 10-25% of total retail sales to c.30% by 2030 as the market matures. Meanwhile, the flight to quality and corporate commitments to net zero emissions has resulted in Grade A/A green offices accounting for c.60-80% of office take-up. Hence, we believe that earnings will be supported by CERT's portfolio recalibration, which will result in a future-ready portfolio with lower vacancy and devaluation risks.

Buying into Europe's nascent recovery near the bottom of the cycle

We believe the EU market is at an inflection point. The improving macroeconomic outlook saw headline inflation in the EU hitting a two-year low of 2.4% in Oct 2023, which could accelerate policy rate cuts, mitigating interest rate and valuation risks for CERT. All 72 economists polled during Reuter's Nov 2023 survey agreed that there would be no more rate hikes in the current cycle; 45% of the surveyed economists predicted that there would be a rate cut before the ECB meeting in Jul 2024 (vs. 42% from the prior month's survey).

Initiate coverage with an Add rating

We initiate coverage on CERT with an Add and TP of €2.15, based on a blended valuation (DDM and RNAV), which we believe better accounts for both CERT's high dividend payout ratio and asset redevelopment. Its valuation is undemanding, in our view, at FY24F DPU yield of 11.0% and a 49% discount to RNAV. Re-rating catalysts: stronger-than-forecasted rental growth and successful execution of its redevelopment and reconstitution strategy. Downside risks: higher-than-projected redevelopment costs eroding NAV upside, and a slowdown in consumer demand, impacting the take-up of industrial/logistics space.

Financial Summary	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Gross Property Revenue (EURm)	200.1	222.1	219.2	220.9	225.1
Net Property Income (EURm)	130.1	136.8	135.0	135.1	138.2
Net Profit (EURm)	96.36	41.56	46.53	83.81	84.42
Distributable Profit (EURm)	90.74	96.67	86.62	87.16	87.61
DPS (EUR)	0.16	0.17	0.15	0.15	0.16
Dividend Yield	11.5%	12.2%	10.9%	11.0%	11.0%
Asset Leverage	36.4%	39.2%	39.2%	38.6%	39.4%
BVPS (EUR)	2.52	2.42	2.32	2.31	2.30
P/BV (x)	0.56	0.58	0.61	0.61	0.61
Recurring ROE	7.10%	3.00%	3.50%	6.45%	6.51%
% Change In DPS Estimates					
DPS/Consensus DPS (x)			0.96	0.95	0.97

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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A defensible and future-ready portfolio

Company background

Cromwell European REIT (CERT) was listed on the SGX in Nov 2017. Its portfolio comprises 111 predominantly freehold properties with an appraised value of approximately €2.3bn as at 30 Sep 2023. Its assets under management are located in or near major gateway cities in the Netherlands (27%), Italy (18%) France (19%), Germany (9%), Poland (9%), Denmark (6%), Finland (3%), Slovakia (3%), the Czech Republic (3%) and the UK (3%), with an aggregate lettable area of c.1.8m sq m and more than 800 tenant-customers. CERT's portfolio consists predominantly of light industrial/logistics and office assets, which make up c.51% and c.47% of its total assets, respectively.

Figure 1: CERT's portfolio composition by country and asset type, as at Oct 23

	No. of properties	Lettable Area (sqm)	Valuation (€'000)	Valuation (%)
Office				
Finland	10	55,177	78,000	3.4%
France	3	34,320	62,190	2.7%
Italy	11	134,391	218,100	9.5%
Netherlands	7	177,904	523,300	22.8%
Poland	6	111,236	195,175	8.5%
Total	**37**	**513,028**	**1,076,765**	**46.9%**
Light Industrial / Logistics				
Denmark	12	152,432	127,708	5.6%
France	17	231,792	380,400	16.6%
Germany	14	229,560	211,570	9.2%
Italy	5	309,059	144,300	6.3%
Netherlands	7	70,040	98,960	4.3%
Czech Republic	7	59,680	77,330	3.4%
Slovakia	5	74,355	69,370	3.0%
United Kingdom	3	65,494	61,512	2.7%
Total	**70**	**1,192,411**	**1,171,150**	**51.0%**
Others				
Italy	4	53,314	46,740	2.0%
Total Portfolio	**111**	**1,758,753**	**2,294,655**	**100.0%**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS
Note: Others refers to 2 government-let campuses, 1 retail asset and 1 hotel, all of which are located in Italy, based on 30 Jun 23 valuations

Figure 2: AUM breakdown by country (as at Oct 23)

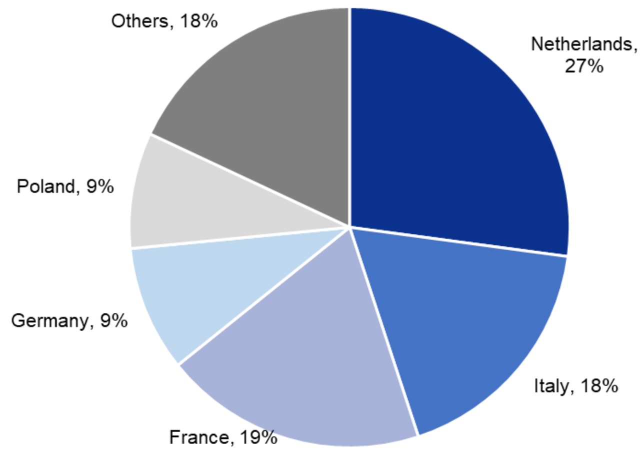
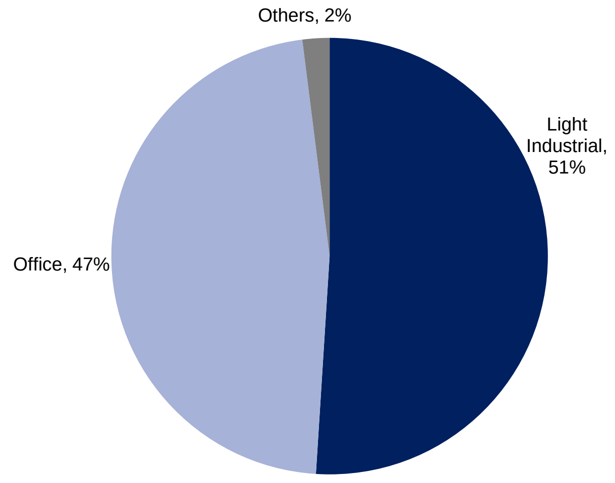


Figure 3: AUM breakdown by asset type (as at Oct 23)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS
Note: AUM breakdown is based on current portfolio composition as at Oct 23, using Jun 23 valuations

Top 10 assets ›

CERT's top 10 assets accounted for 38.1% of assets under management (AUM) as at Sep 23. Five of these assets are office assets located in various submarkets in The Netherlands, accounting for 19.8% of AUM as at Sep 23.

Figure 4: Top 10 assets account for 40.1% of CERT's AUM, as at 30 Jun 2023

Location	Property Name	Asset type	Country	NLA sqm	Occupancy by NLA (%)	Purchase price (€m)	Current Valuation (€m, as at 30 Jun 2023)	% of AUM (based on 30 Jun 2023 valuation)	WALE as at 30 Jun 2023	WALB as at 30 Jun 2023	Reversionary Yield as at 30 Jun 2023	Major Tenant
ST OUEN	Parc des Docks	Industrial	France	73,372	94.9%	98.00	161.50	7.0%	6.33	2.53	6.9%	REXEL
Den Haag	Haagse Poort	Office	Netherlands	68,502	89.3%	158.75	161.50	7.0%	1.58	1.58	6.8%	Nationale Nederlanden Nederland B.V.
ROTTERDAM	Central Plaza	Office	Netherlands	33,263	94.3%	156.81	148.20	6.5%	6.11	6.00	5.5%	Nationale Stichting tot Exploitatie van Casinospelen in Nederland
Poznan	Business Garden	Office	Poland	42,268	93.2%	88.80	79.00	3.4%	3.32	3.03	9.5%	Santander Bank Polska
DEN BOSCH	Bastion	Office	Netherlands	31,979	93.2%	76.85	68.00	3.0%	3.00	3.00	6.6%	Essent Nederland B.V.
Utrecht	Moeder Teresalaan 100- 200	Office	Netherlands	21,922	100.0%	50.73	59.40	2.6%	2.14	1.43	6.2%	Uitvoeringsinstituut werknemersverzekeringen, Hoofdkantoor UW
Monteprandone (AP	CLOM	Industrial	Italy	151,298	99.9%	52.58	56.00	2.4%	1.82	1.67	9.6%	TOD'S S.P.A.
AMSTERDAM	De Ruyterkade 5	Office	Netherlands	8,741	100.0%	36.37	50.60	2.2%	2.14	2.14	5.3%	Kamer van Koophandel
AMSTERDAM	Veemarkt	Industrial	Netherlands	21,957	100.0%	35.50	47.20	2.1%	3.32	3.29	5.9%	Erasmus Antiquariaat en Boekhandel B.V.
Kraków	Green Office	Office	Poland	23,105	99.9%	52.20	42.10	1.8%	3.35	2.90	9.5%	Motorola Solutions Systems Polska Sp. z o.o.
Total				**476,408**	**94.9%**	**806.57**	**873.50**	**38.1%**	**3.76**	**2.93**	**6.9%**	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Top 10 tenants ›

As at Sep 2023, CERT had 836 tenants within its portfolio, with an average WALE of 4.6 years. Its tenants are well diversified in terms of trade sectors, spread over manufacturing, financial, professional services and government agencies. Since its IPO in 2017, through the rebalancing of its portfolio, CERT has reduced its tenant concentration risk — its top 10 tenants account for 23.6% of its rent revenue as at Oct 23, down from 28.2%/41.0% as at Jun 23/Dec 18.

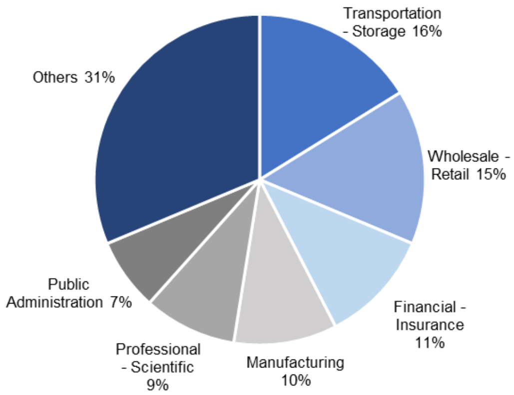
The Italian government (Agenzia del Demanio), previously CERT's largest tenant, accounted for 4.0% of CERT's total revenue as at Oct 23, down from 8.5%/16.9% as at Jun 23/Dec 18.

Figure 5:Top 10 tenant-customers

Tenant-customers	Country	Type	% of headline rent
Nationale Nederlanden Nederland B.V.	Netherlands	Office	4.4%
Agenzia del Demanio	Italy	Office	4.0%
Essent Nederland B.V.	Netherlands	Office	2.8%
Employee Insurance Agency (UWV)	Netherlands	Office	2.1%
Kamer van Koophandel	Netherlands	Office	2.0%
Motorola Solutions Systems Polska	Poland	Office	2.0%
Holland Casino	Netherlands	Office	1.9%
Thorn Lighting	Italy	Ind./Logistics	1.7%
Felss Group	Germany	Ind./Logistics	1.5%
Coolblue B.V.	Poland	Ind./Logistics	1.5%
			23.6%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 6: Tenant-customers by trade industry sector



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS
Note: Others comprise Utility/Education/Rural/Human Health/Mining/Other Service Activities/Residential/Water/Miscellaneous Services

The sponsor

CERT's sponsor is ASX-listed Cromwell Property Group, a real estate investor and global real estate fund manager with AUM valued at A$11.5/€7.5bn (as at 30 Jun 2023), across Europe (54%), Australia (39%) and New Zealand (8%). The sponsor's AUM comprises c.210 assets across office (61%), retail (9%), industrial/logistics (24%), property securities (3%) and other (3%) sectors.

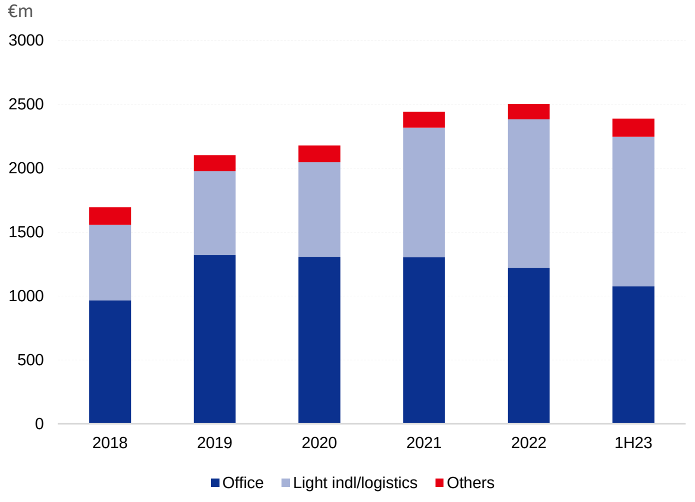
Investment merits

Diversified portfolio delivering high occupancy and rental growth

Notwithstanding the challenges faced by the global real estate market, CERT's diversified portfolio continued to show resilience, with positive rental reversions and high occupancy in 3Q23. Despite secular hybrid-work trends affecting the office markets and weaker Polish and Finnish office markets, CERT's portfolio occupancy stood at 95.2% as at end-9M23, while portfolio rents saw a 7.4% uplift on re-contracting new/renewal leases in 9M23 (3Q23: +10.6%).

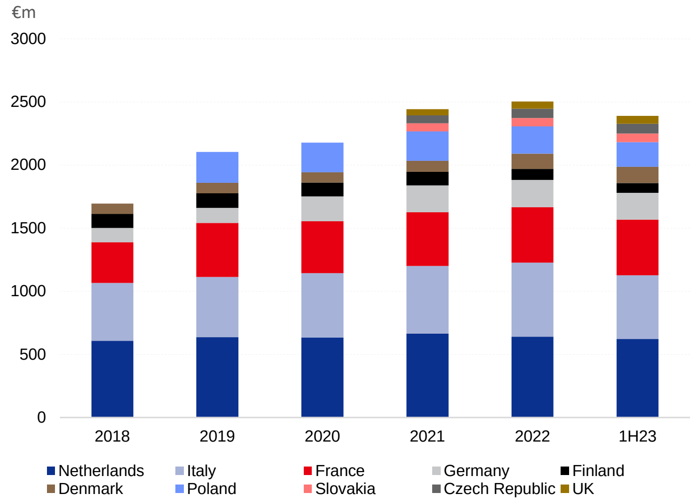
Portfolio performance was boosted by the light industrial/logistics segment, which delivered high occupancy of 97.9% and average 5.0% positive rental reversion in 9M23 (2Q23: +2.7%), while the office segment delivered occupancy of 88% and +9.2% reversion in 9M23 (3Q23: +19.9%).

Figure 7: Breakdown of CERT's portfolio by asset type



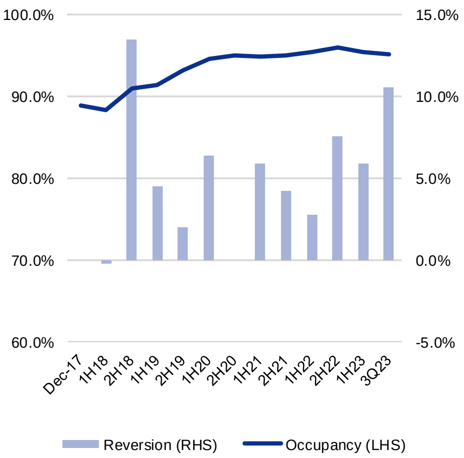
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 8: Breakdown of CERT's portfolio by geography



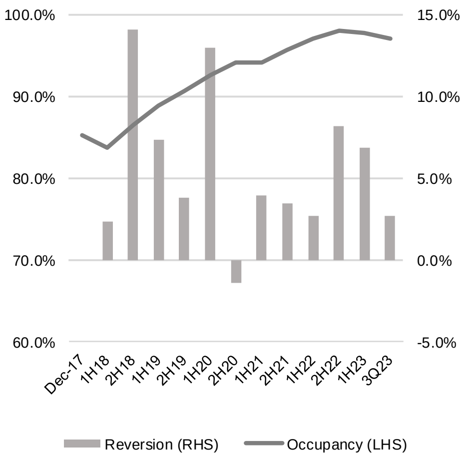
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 9: Portfolio occupancy and reversion



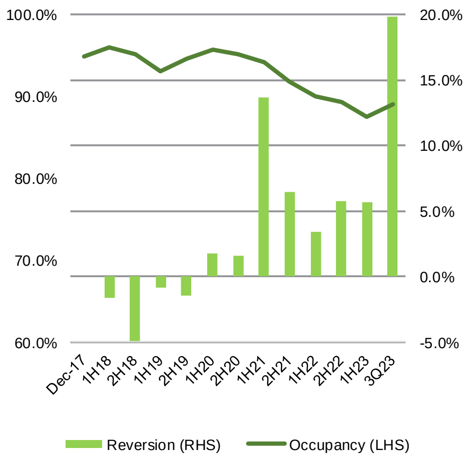
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 10: Light industrial/logistics occupancy and reversion



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 11: Office occupancy and reversion



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Rental growth from indexation and positive rental reversions

Typical European leases carry annual escalations based on the inflation indices (usually based on consumer, retail or construction price indices) in the countries that the assets are located in. CERT's management estimates that 95% of leases contain annual indexation clauses based on 100% of the yoy CPI increase on the anniversary date of the lease, except for leases in Germany and Italy, where annual indexation is based on 80% and 75% of the yoy CPI increase, respectively. Management estimates that c.5% of these leases have caps on the CPI indexation, which management granted in exchange for longer lease tenors.

Figure 12: Inflation indexation in CERT's countries of operations

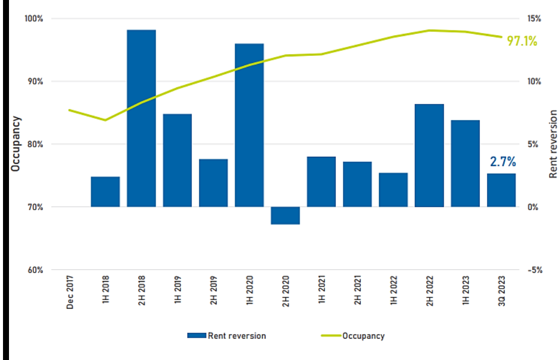
Country	Type of inflation indicators	Rental uplift degree	How is the inflation kicker being calculated?
The United Kingdom	CPI / RPI	100% (unless there is a cap disclosed in the rental agreement)	CPI increase on annual basis, rent inflation kicker is based on the Index Rate as per a certain month compared to previous year rate in the same month
Germany	CPI Monthly Index	100% (unless there is a hurdle/cap disclosed in the rental agreement, e.g. 10% CPI change @80% cap)	CPI increase on annual basis, rent inflation kicker is based on the index rate as per a certain month compared to previous year rate in the same month
France	ILAT[1] (c. 80% of the portfolio) ICC[2] (construction index)	100%	Base index is the latest one published at the time of the lease signature and it's compared against the same trimester each following year
Italy	CPI Monthly Index	Generally 75% for all rents (rarely contracts have it at 100%)	CPI increase on annual basis, rent inflation kicker is based on the index rate as per a certain month compared to previous year rate in the same month
The Netherlands	CPI Monthly Index	100% (unless there is a cap disclosed in the rental agreement)	Rent inflation kicker is based on the index rate as per a certain month (anniversary date) compared to previous year rate, 4 month prior the actual index month as per rental agreement.
Poland	HICP / CPI (Polish GUS)[3]	100% (unless there is a cap disclosed in the rental agreement)	Rent inflation kicker is based on the Index Rate as per a certain month compared to previous year rate in the same month
Denmark	CPI / NPI	100%	CPI increase on annual basis, rent inflation kicker is based on the Index Rate as per a certain month compared to previous year rate in the same month
The Czech Republic	HICP	100% (unless there is a cap disclosed in the rental agreement)	HICP increase on annual basis
Finland	CPI Monthly Index	100%	CPI increase on annual basis, rent inflation kicker is based on the index rate as per a certain month compared to base year rate (year 1951)
Slovakia	HICP	100% (unless there is a cap disclosed in the rental agreement)	HICP increase on annual basis

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS (FY22)

Positive reversions and record-high occupancy for light industrial/logistics portfolio

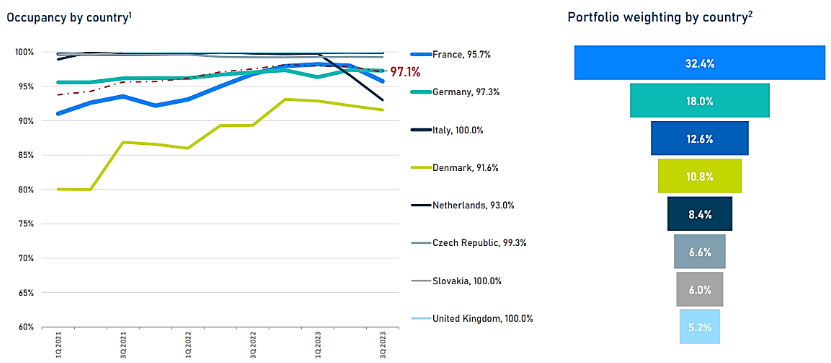
CERT's logistics assets are located in eight countries, namely Denmark, France, Germany, Italy, the Netherlands, Slovakia, the UK and the Czech Republic. CERT's industrial portfolio occupancy has improved from a low of c.84% in 1H18, reaching a high of 97.9% in 1H23 (3Q23: 97.1%), due to the strong market fundamentals in its logistic markets. CERT's logistics portfolio has enjoyed five consecutive halves of positive reversions since 1H21, with 2Q23/1H23 reversions coming in at 11.4%/6.9% (3Q23/9M23: 2.7%/5.0%).

Figure 13: Light industrial/logistics occupancy and rent reversion trend



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 14: Light industrial/logistics occupancy improving across markets

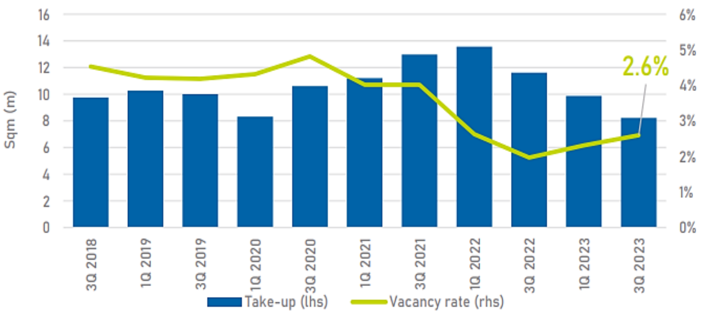


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS
Note: Occupancy is based on net lettable area, while portfolio weighting is based on book value as at 30 Sep 23

Strong fundamentals in CERT's light industrial/logistics markets

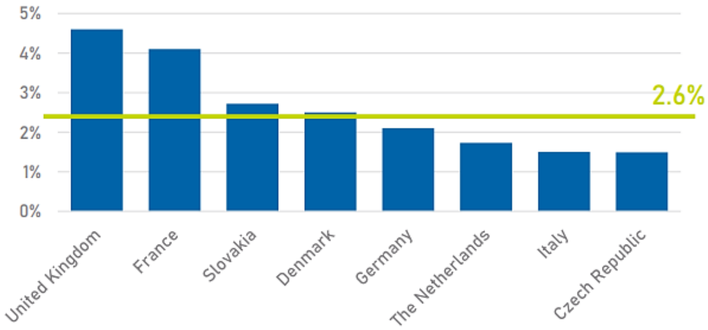
Vacancy across CERT's eight industrial/logistics markets ticked up slightly to 2.6% in 3Q23, after hitting a low of 2.3% in 1H23. Healthy take-up was driven by secular trends, like growing e-commerce penetration in Europe, where online retail spending in seven out of eight of CERT's light industrial/logistics markets are in the fledging stage, accounting for 10-23% of total retail sales (compared to c.30% for mature e-commerce markets). Going forward, as the European e-commerce market matures, demand from third-party logistics (3PLs) players and retailers is expected to continue supporting light industrials/logistics take-up.

Figure 15: Take-up/average vacancy rates in CERT's light industrial/logistics markets



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, CBRE (2Q23)

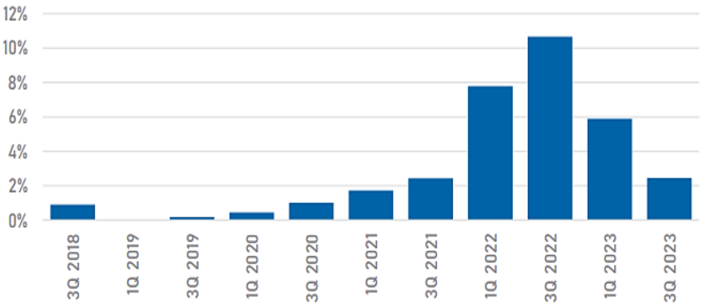
Figure 16: 2Q23 vacancy rate by country



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, CBRE (2Q23)

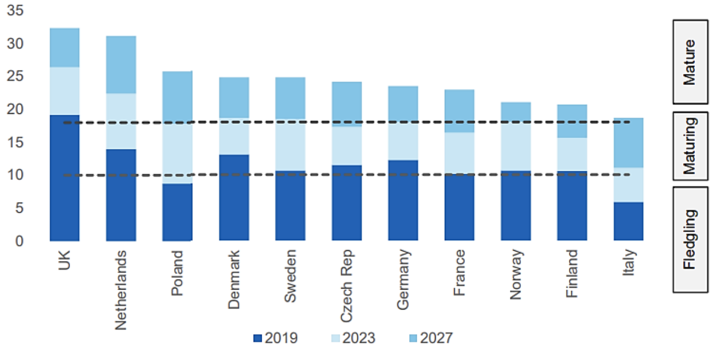
CERT's key markets have seen six consecutive halves of positive reversions since 2H20. Occupier surveys by consulting firms McKinsey, Savills and Trixtax report that changes in supply chain strategies post-pandemic have resulted in more occupiers pivoting towards near-shoring, reducing their reliance on foreign imported materials/goods, increasing the quantities of stock held, and shortening supply chain to mitigate disruption risks.

Figure 17: Market rent growth in CERT's light industrial/logistics markets



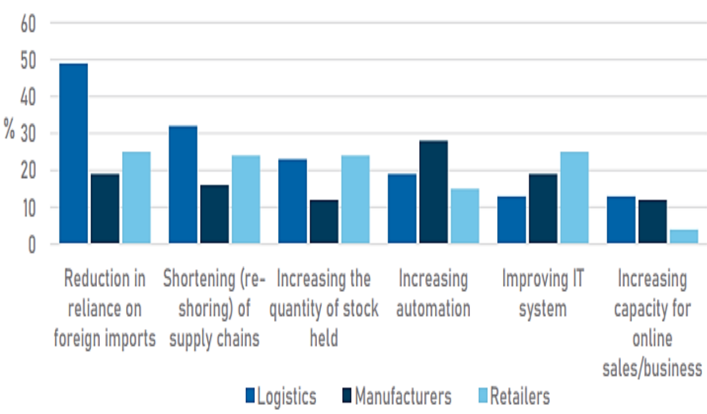
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, CBRE (2Q23)

Figure 18: Online retail expenditure supporting occupier demand



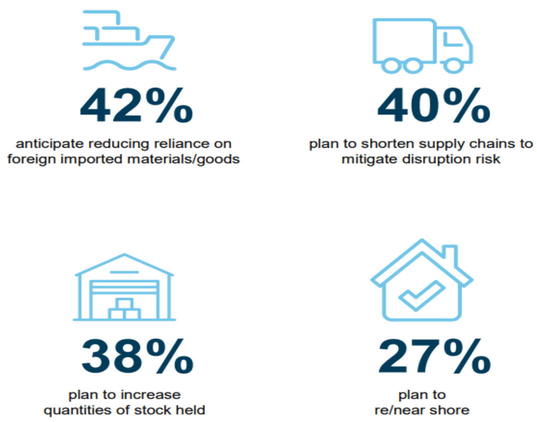
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, CBRE (2Q23)

Figure 19: Occupiers shift focus to re-shoring, use of automation amidst ongoing supply chain evolution



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 20: Planned/implemented supply chain strategies in favour of logistics space take-up



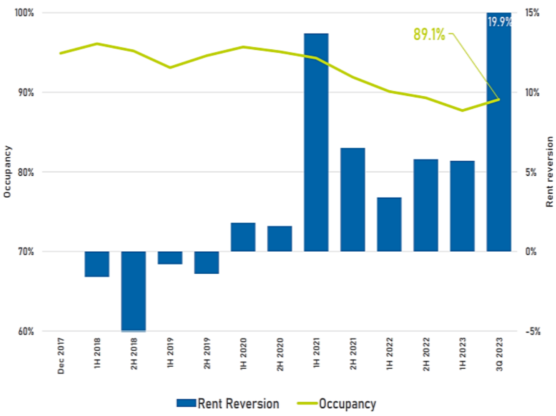
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Office portfolio delivering positive reversion despite declining occupancy

CERT's office assets are located in five markets – The Netherlands, Italy, France, Poland and Finland. Occupancy for CERT's office portfolio averaged 89.1% as at end-Sep 23, weighed down by assets in Poland (83.8%), Finland (76.8%) and France (71.5%), as several assets in Poland are being prepared for sale to developers with close to vacant possession, while the sale and exclusion of the fully-let Piazza Affari in Milan post-divestment on 30 Jun 23 lowered the occupancy of the France office portfolio. Occupancies for CERT's Dutch and Italian office portfolio, which accounted for c.70% of CERT's office NLA in 3Q23, were 92.9.% and 93.7%, respectively in 3Q23.

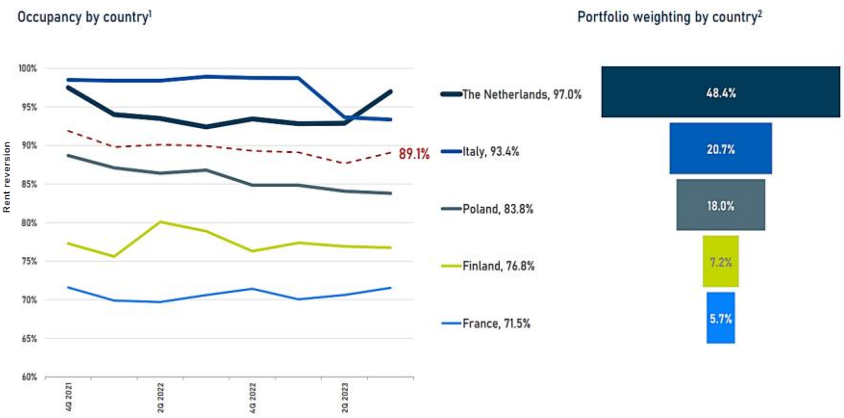
Despite declining occupancy trends due to the adoption of hybrid-work arrangements and closure of Polish offices due to companies pulling out of the country due to its proximity to Ukraine, CERT's office portfolio of predominantly Grade A offices benefitted from a flight-to-quality, delivering seven consecutive halves of positive reversions from 1H20 to 1H23 (3Q/9M23: 19.9%/9.2%).

Figure 21: Seven consecutive halves of positive office reversion despite declining occupancy



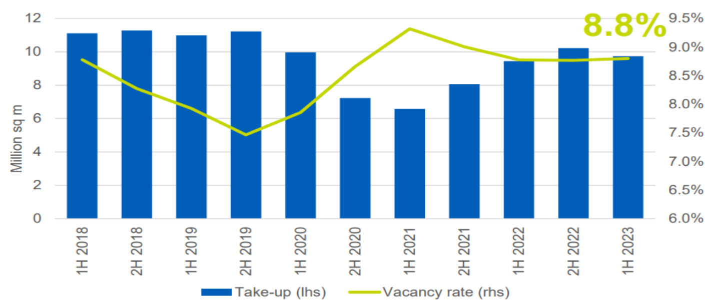
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 22: Above-90% average office occupancy in Netherlands and Italy, CERTs two largest office markets accounting for c.70% of its office NLA



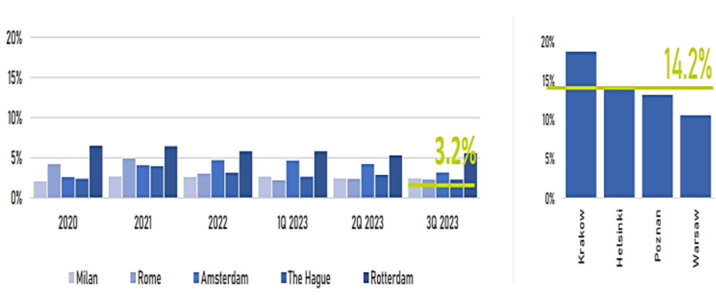
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS
Note: Occupancy is based on net lettable area, while portfolio weighting is based on book value as at 30 Jun 23

Figure 23: Semi-annual take-up and average vacancy rates for all office grades in France, Italy, Netherlands and Poland



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 24: Grade A office vacancy in CEREIT's key office markets — 3.2% in CEREIT's key office markets vs. 8.8% for all office grades (Fig. 23)

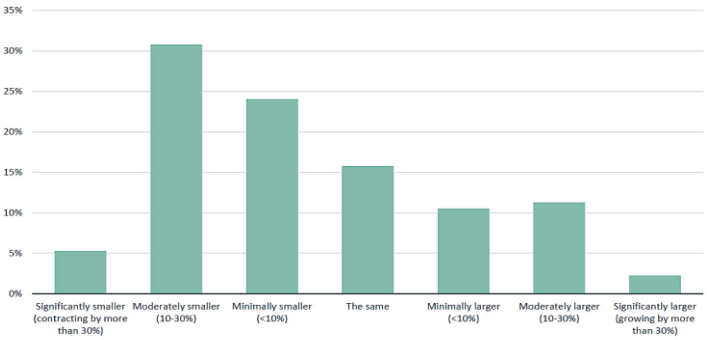


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Grade A office continues to show stronger fundamentals

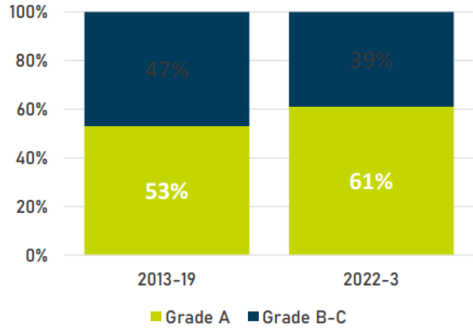
According to real estate consultancy firms Jones Lang LaSalle (JLL) and Savills, post-pandemic leasing trends show that European office leasing take-up is focused on Grade A, ESG-rated and energy-efficient buildings. Additionally, new hybrid working methods, such as teleworking and flex-office, have resulted in occupiers downsizing their space requirements for better quality space. Real estate consultancy firm CBRE estimates that only 20% of European office stock is Building Research Establishment Environmental Assessment Methodology (BREEAM) rated, while results from its European Office Occupier Survey 2023 revealed that c.60% of occupiers plan to reduce their office portfolio size over the next three years (compared to 45% in 2022). Some European markets have started exhibiting widening rent gaps between Grade A and Grade B/C office rents, with Grade A leasing accounting for c.60% of total leasing post-pandemic in Europe (up from c.50% over 2013-19). These trends further highlight the quality of CERT's portfolio, in which 31 out of c.110 buildings (representing 77% of CERT's FY22 AUM) are green certified, which should result in healthy leasing demand for the bulk of CERT's portfolio.

Figure 25: European office take-up by quality



SOURCES: CGS-CIMB RESEARCH, JLL, SAVILLS (2Q23)

Figure 26: European office take-up by quality



SOURCES: COMPANY REPORTS (3Q23)

ESG initiatives keeping portfolio relevant

ESG-focused capex/redevelopments to enhance and preserve portfolio value in view of rising ESG regulations and expectations

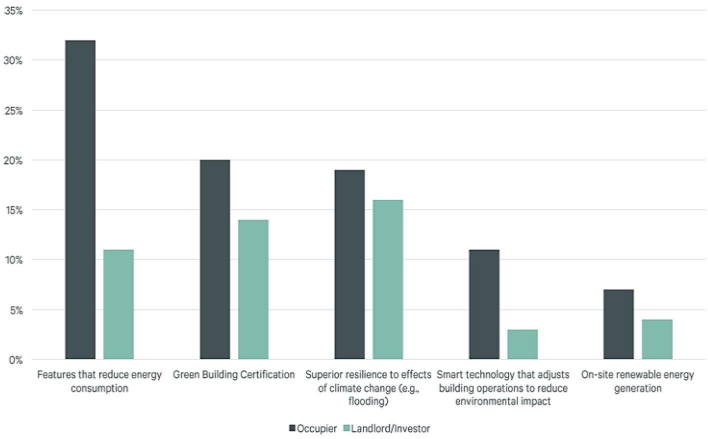
CERT's €250m redevelopment plan will increase the percentage of green-certified buildings within its portfolio, with CERT targeting to have 80% of its AUM green-rated by FY25F. Office assets account for 49% of CERT's 2H23 AUM, 22% of which are Grade A offices, 13% are earmarked for rejuvenation/redevelopment, and 14% are Grade B/C buildings that CERT aims to divest under its €400m asset divestment plan. Management estimates that post-divestment and rejuvenation, Grade A offices will account for c.40% of CERT's potential future portfolio, while light industrials/logistics assets will form the remaining c.60%.

Two-fold benefits from green leases

While some tenants were looking to downsize their spaces upon renewal or requested caps on annual escalations in FY23F, CERT was able to negotiate a win-win situation by asking tenants to sign leases with longer terms or incorporate ESG-elements into the lease contract. The trade-off not only helps to mitigate occupancy risk, but green leases further CERT's ambitions to attain sustainability certificates and keep its portfolio future-ready.

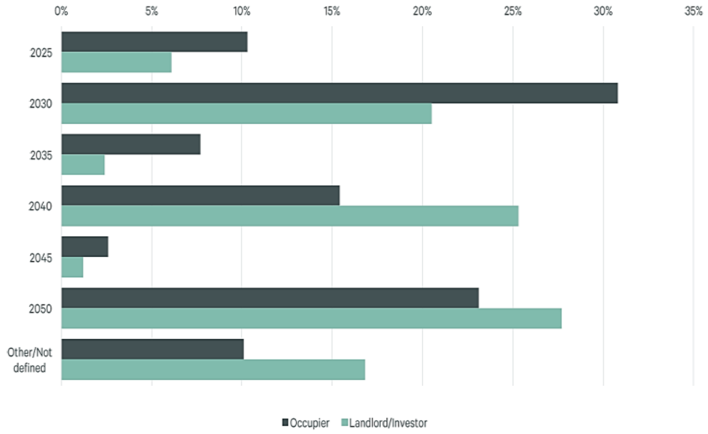
An increased focus on ESG among occupiers is also driving ESG improvements within CERT's portfolio. Management estimates that green leases account for c.26% of 1H23 rental income. Green leases typically fall into two categories — first is a commitment by tenants to share ESG-related data (Scope 2 and 3) or make ESG improvements such as installing LED lights; the second is an agreement by the tenant to reduce ESG emissions/intensities against a predefined/current level.

Figure 27: European occupiers more likely to exit or reject a building based on the absence of environmental features



SOURCE: CGS-CIMB RESEARCH, CBRE RESEARCH

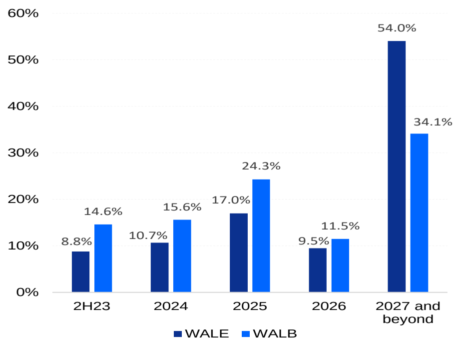
Figure 28: Mismatch between occupier and investor net zero pledge timelines in Europe



SOURCE: CGS-CIMB RESEARCH, CBRE RESEARCH

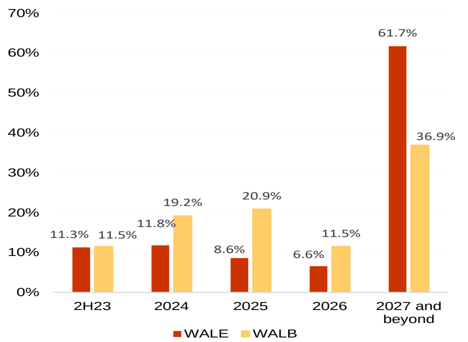
We expect the deepening e-commerce penetration, changes to supply chain strategies benefiting onshoring and just-in-case inventory management should continue to support light industrial/logistics rent growth, while flight-to-quality driven by Grade A and ESG-focused office occupier trends to support Grade A office rents. We believe this bodes well for CERT's 8.8%/10.7% of leases by rental income expiring in 2H23F/FY24F.

Figure 29: Portfolio lease expiry profile



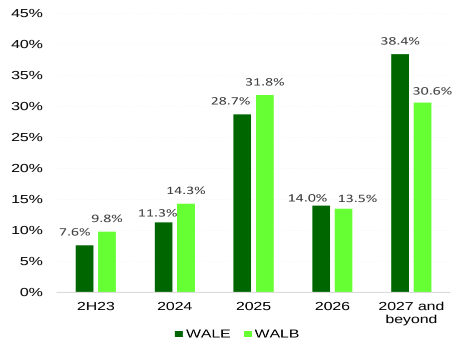
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 30: Light Industrial/logistics lease expiry profile



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 31: Office lease expiry profile



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Unjustified discount to net asset value (NAV)

37% discount to NAV despite divesting at premium ›

CERT is currently trading at a 37% discount to NAV. This is despite its stable income from its properties and track record of divesting assets at a 0-70% premium over its latest valuation and 13-448% above its purchase price.

CERT announced its divestment programme in FY22, aiming to divest €400m worth of assets by 2026F. Between 2022 and Oct 23, CERT has divested seven assets worth €228.6m at a 13.7%/21.4% premium to the latest valuation/purchase price, realising €40.3m in capital gains. Going forward, the management shared that target divestments include its Polish and Finnish office assets, the latter comprising Grade B/C assets, the divestment of which would improve portfolio quality, resulting in a more defensible industrial/Grade A office composition.

Figure 32: Divestments from 2022-Oct 23

Divested	Property	Divestment price € m	Latest valuation prior to divestment € m	Purchase price € m	Premium to valuation	Premium to acquisition price	Holding period gain € m	Acquisition date
6/10/2023	Bari Europa, Italy (aka Viale Europa 95)	94.0	73.3	83.1	28%	13%	10.9	IPO (30 Nov 17)
30/6/2023	Milano Affari 2, Milano, Italy	93.6	93.4	81.7	0%	15%	11.9	IPO (30 Nov 17)
9/12/2022	Bois du Tambour, France (logistics)	11.0	7.1	2.0	54%	448%	9.0	IPO (30 Nov 17)
7/10/2022	Gerwerbepark Bischofsheim II , Germany (logistics)	6.0	5.2	3.5	17%	71%	2.5	IPO (30 Nov 17)
7/10/2022	Gerwerbepark Frankfurt-Hanau, Germany (logistcs)	5.0	5.0	2.9	0%	72%	2.1	IPO (30 Nov 17)
7/7/2022	Optus 1 Business Park, Helsinki, Finland (logistics)	16.2	15.4	13.5	5%	20%	2.7	2018
25/1/2022	CLOM (1 Unit)	2.8	1.6	1.5	70%	82%	1.3	23-Dec-20
	Grand total	**228.6**	**201.0**	**188.2**			**40.3**	
	Average premium				**13.7%**	**21.4%**		

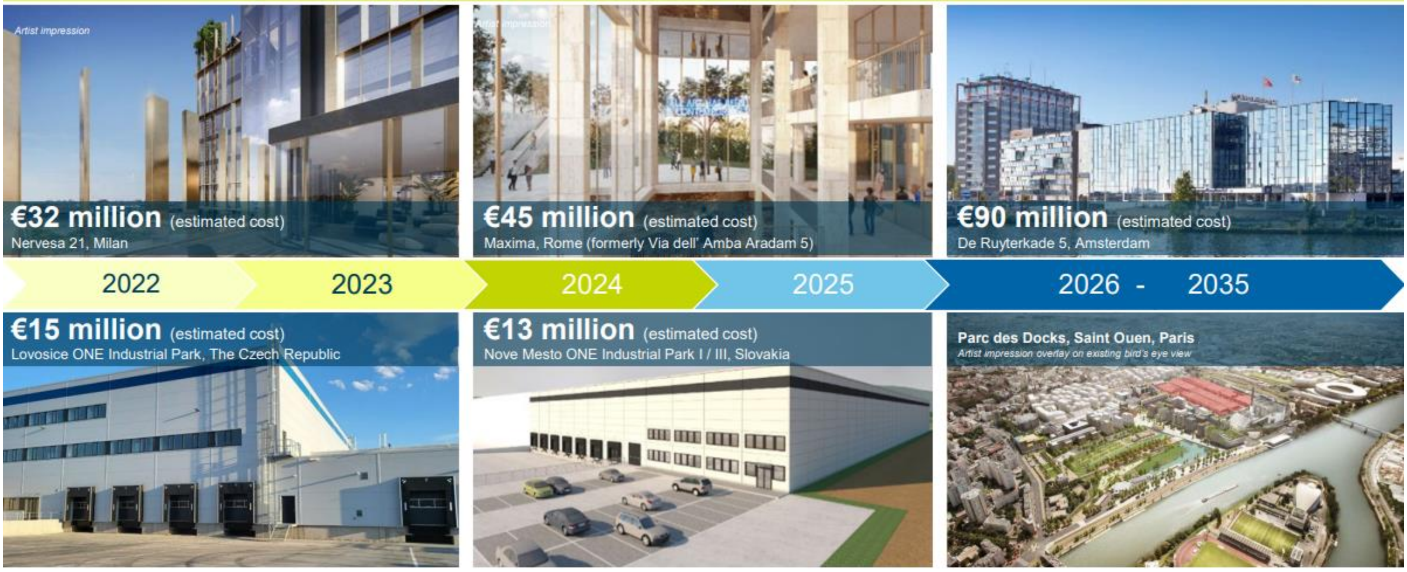
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Announced redevelopments could increase NAV/share by c.€0.48 or c.21%

In FY22, management announced that it has identified €250m worth of redevelopments to be executed over six years, from 2022 to 2028F. This includes the redevelopment of Italian office assets Nervesa (Milan) and Maxima (Rome). The former will unlock an additional 20% of gross floor area (GFA), while the redevelopment of De Ruyterkade (Amsterdam) could increase GFA by 20,000 sq m, equivalent to a c.206% uplift in net lettable area (NLA). The €250m pipeline includes two new developments on unused land at Lovosice ONE Industrial Park I (Czech) and Novo Mesto ONE Industrial Park I/III (Slovakia), which would increase NLA by c.532% and 37%, respectively. Based on our RNAV valuation methodology, we estimate that these projects, which account for c.80% of the €250m redevelopment plan, could uplift NAV by €60m-70m, translating into an 11-12 €cents uplift in NAV per share.

Separately, Parc des Docks sit under its longer-term redevelopment plan, which management estimates would take place from 2026-2035F. Management is in the late stages of securing a memorandum of understanding (MOU) for the redevelopment of Parc des Docks in Paris, which could unlock between 180k-200k sq m, or 145-173% of additional GFA. We estimate that the redevelopment of Parc des Docks could uplift NAV by up to €200m, or €0.36, translating into a c.16% increase in 3Q23 NAVPS of €2.25. execution of CERT's asset management strategies will result in a future-ready portfolio with lower vacancy and devaluation risks.

Figure 33: CERT's €250m mid-term development pipeline

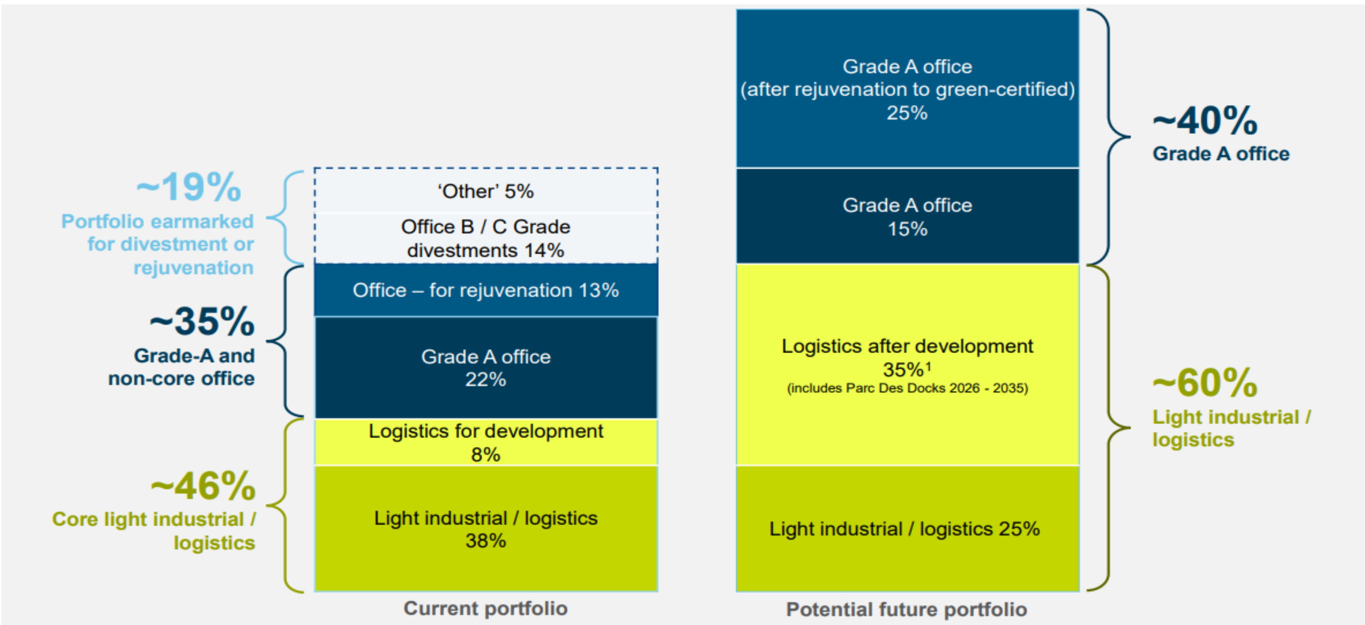


SOURCES: COMPANY REPORTS

Divestment and redevelopment strategy cumulating in a more defensible, future-ready portfolio

Held together, CERT's €400m divestment and €250m redevelopment strategies will reconstitute its portfolio from the current 46%/25%/19% industrial/Grade A office/Grade B and C office assets to a more defensible 60%/40% industrial/Grade A office portfolio composition. Light industrial/logistics asset are beneficiaries of secular trends such as higher near-shoring and increased e-commerce penetration, while the flight to quality has resulted in strong take-up for Grade A offices, especially those with ESG/green specifications. Hence, we believe the execution of CERT's asset management strategies will result in a future-ready portfolio with lower vacancy and devaluation risks.

Figure 34: Portfolio reconstitution strategy to deliver defensible, future-ready portfolio comprising industrial/logistics and Grade A office assets



SOURCES: COMPANY REPORTS

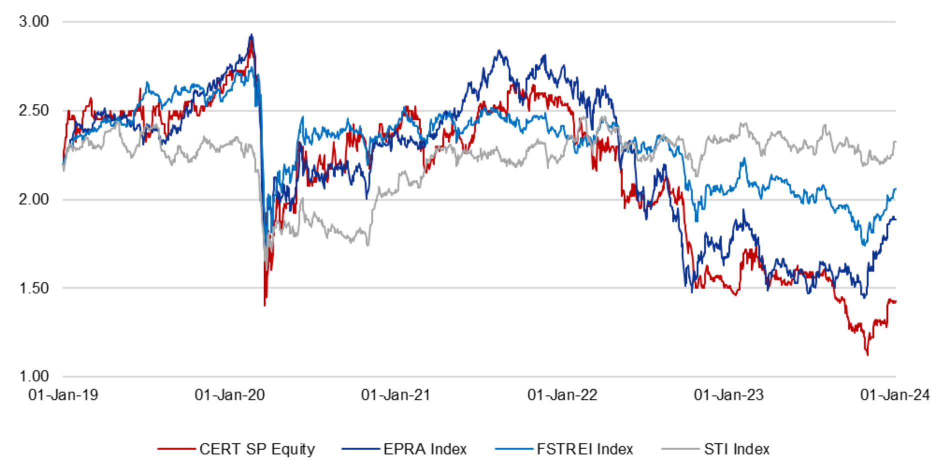
Pivoting to logistics

CERT stands out as one of the SREITs with the most active asset and portfolio management strategies, in our view. Whilst still retaining its focus in Europe, since its listing in late 2017, it has further expanded its geographic footprint to other countries such as Czech Republic and Slovakia, where asset values have been relatively stable. In addition, since 2020, CERT had articulated its strategy to increase portfolio weightage in the light industrial/logistics segment. It has since grown this segment from 43% of its total portfolio value at the time of listing to c.51% as at Oct 2023, with a target of reaching 60% of total portfolio value by 2035.

Buying into Europe's nascent recovery at the bottom of the cycle

Improving macro outlook saw headline inflation in the EU hitting a two-year low of 2.4% in Oct 2023, which could accelerate policy rate cuts, mitigating interest rate and valuation risks for CERT. Various REIT indices rallied on 1 Nov 2023 as investors priced in expectations of the peaking of the interest rate cycle in 2024F. CERT's share price and the EPRA NAREIT Europe Index saw a 27% and 25% rally from 1 Nov 2023 to 31 Dec 2023, while the FTSE Straits Times (ST) REIT Index recorded a 16% rebound over the same period. However, for FY22, CERT's share price recovery had lagged, down 5.3% compared with the EPRA NAREIT Europe Index' +10.7% and FTSE ST REIT Index's +0.3%. This translates to an attractive FY24F dividend yield of 11.0%, which is above the 6.2% FY24F DPU yield, based on Bloomberg consensus forecasts, for both the EPRA NAREIT Europe Index and FTSE ST REIT Index, as at 5 Jan 2023.

Figure 35: 5-year historical share price performance (rebased to CERT share price as at 1 Jan 2019)



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG (EXTRACTED 2 JAN 24)

Financials and capital management

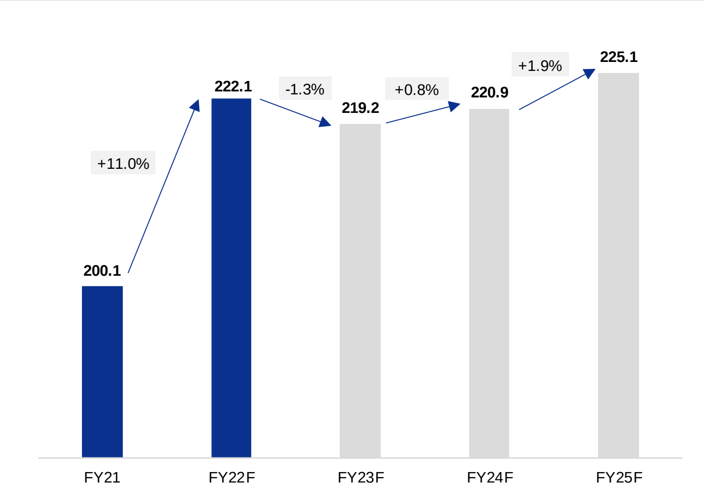
Topline weighed down by loss of income from divestments and redevelopments

CERT's rental revenue is generated from two property segments – office and light industrial/logistics. Its portfolio spans across 10 markets, namely the Netherlands, Italy, France, Poland, Germany, Finland, Denmark, Slovakia, Czech and the United Kingdom.

We forecast a 1.3% decline in CERT's FY23F revenue to €219.2m as annual inflation-linked rental escalations were more than offset by €41m in asset divestment in 2022 - divestment of Affari and Bari Europa in Jun 2023 and Oct 2023 respectively - and the absence of income from Maxima in Rome (asset decommissioned in Jan 23 for redevelopment). We project FY24F revenue to grow 0.8% to €220.9m on the back of annual rental escalations and the completion of the redevelopment of Via Nervesa (scheduled for 1Q24), and developments at Lovosice ONE Industrial Park I (completed in Jun 2023) and Novo Mesto ONE Industrial Park in (completed in Sep 2023), partially offset by the income vacuum from the sale of Affari and Bari Europa.

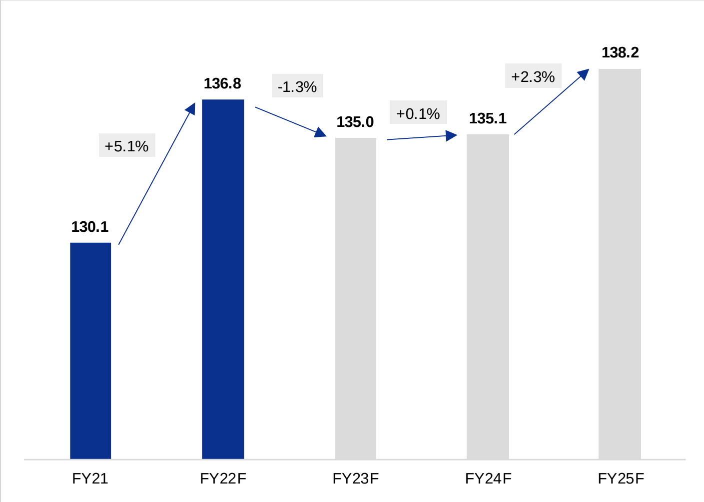
We project CERT's NPI to decrease 1.3% yoy to €135.0m in FY23F but FY24F NPI to be largely flat at €135.1m despite the slight 0.8% yoy topline growth as its NPI margin slip from 61.6% in FY23F to 61.2% in FY24F post-divestment of Affari and Bari Europa, which carry higher NPI margins. We expect CERT's NPI margin to improve in FY24F-26F as it executes its portfolio reconstitution strategies, increasing its exposure to the higher-margin light industrial/logistics segment.

Figure 36: CERT's FY21-FY5F projected revenue



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 37: CERT's FY21-FY5F projected NPI



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

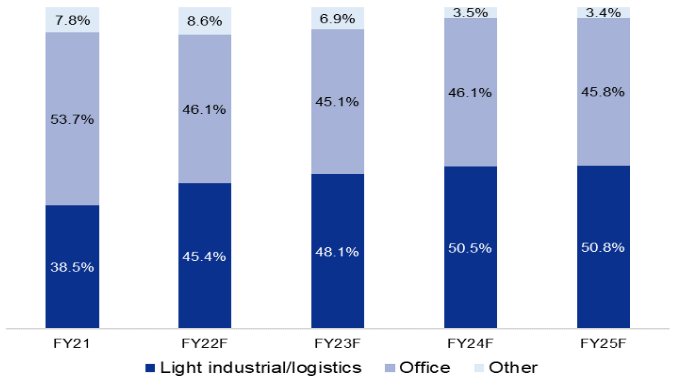
Segmental analysis

Pivoting towards light industrial/logistics

The light industrial/logistics segment accounted for 45.4% of CERT's FY22 NPI. We forecast that NPI contribution from this segment will increase to 48.1% and 50.1% in FY23F and FY24F respectively, post-divestment of Affari (office) and Bari (others), but will remain flat over FY24-25F as contributions from its redeveloped office asset, Via Nervesa in Milan, kick in, propping up the NPI of its office segment. This is in line with management's mid-term strategy to pivot towards light industrial/logistics.

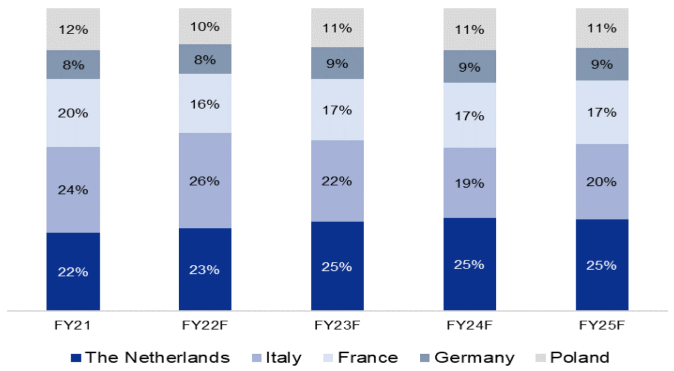
Four key markets, namely the Netherlands, Italy, France and Germany, account for 74.6%/74.0% of CERT's FY21/22 NPI, with the remaining six of CERT's markets accounting for the remaining 25.4%/26.0% of NPI. We project NPI contribution from Italy to fall to 22% in FY23F and 19% in FY24F due to the divestment of Affari and Bari Europa in Jun 2023 and Oct 2023, respectively, and the absence of income from Maxima in Rome (asset decommissioned in Jan 23 for redevelopment). Meanwhile, we expect NPI contribution from Italy to increase in FY25F as Nervesa starts contributing post-redevelopment, and in FY26F/27F (not shown) when the redeveloped Maxima comes online.

Figure 38: NPI breakdown by segment



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 39: NPI breakdown by country



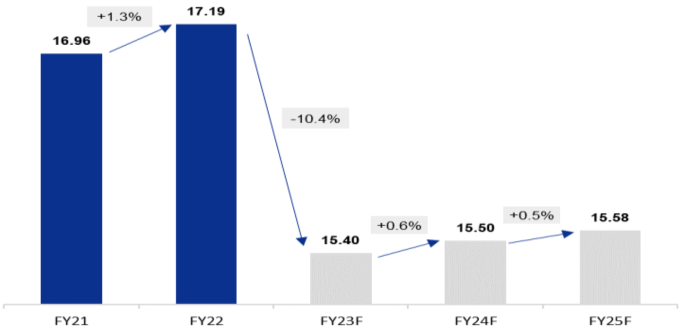
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

CERT's c.€40m in divestment gains could be used to top-up the loss of income from the two assets under redevelopment, Via Neversa (FY23F) and Maxima (FY23-24F) and divestment of Affari and Bari Europa, in our view. Given the higher interest rate environment (3M EURIBOR of 3.0-3.95% from Mar-Dec 23 vs -0.6%-2.7% from Jan22-Feb23) and capex outlay requirements for the redevelopments, we opine that management will opt to channel the divestment gains/proceeds towards these projects instead of paying out the divestment gains and then raising additional debt to fund the capex outlay. As such, we have not assumed any distribution top-up for FY23F-25F. We expect distributable income to fall 10.4% from €96.7m in FY22 to €86.6m in FY23F as its topline growth was eroded by higher interest expense. We project FY24F distributable income (DI) to increase 0.8% in FY24F on lower finance expense as we forecast that CERT will pay down some of its borrowings out of its divestment proceeds. This translates to -10.4%/+0.6% FY23/24F DPU growth, and DPU of 15.40/15.50 €cents.

DPU downside from execution of divestment plan, but divestment strategy is still positive, in our view

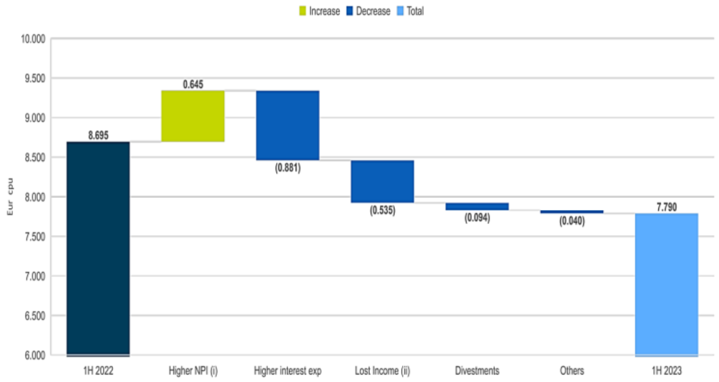
CERT's will have to execute c.€170m worth of asset divestments over the next 2 years to reach its €400m divestment target, which will result in an income vacuum when these divestments are completed. Given the timing and disposal price uncertainty, we have not factored this into our model yet. While we expect DPU to be impacted post-divestments, the divestments, which will likely come from CERT's Polish and Finnish office portfolio, in our view, will reduce CRET's exposure to these more challenging markets where we expect more negative rental reversions over the next 1-2 years. As such, we view the divestment strategy positively as it should mitigate future earnings risks, as well as improve CERT's portfolio quality as its Finnish office assets (primarily Grade B/C offices) are divested. The divestments will also unlock cash, which could be used to fund CERT's redevelopment pipeline, reducing the need to raise additional debt in this elevated interest rate environment and/or to pay down existing debt.

Figure 40: CERT's FY21-FY5F DPU



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 41: CERT's 1H22 vs. 1H23 DPU



SOURCES: COMPANY REPORTS

Pre-emptive management of debt maturity and debt profile

CERT started 2023 with 5.0%/35.8% of total borrowings up for refinancing in FY23/24F and interest rate hedge of 78%. During the year, it refinanced all debt maturing in FY23/24F, and improved its debt maturity distribution and raised its interest rate hedge to 91% of total debt as at end-3Q23. As part of its active capital management strategy, management said it is actively looking at de-risking its FY25F debt maturity, which accounted for 42.8% of total borrowings as at 3Q23. The debt maturing in FY25F is €500m 2.125% coupon bonds, which were issued in 2020/21.

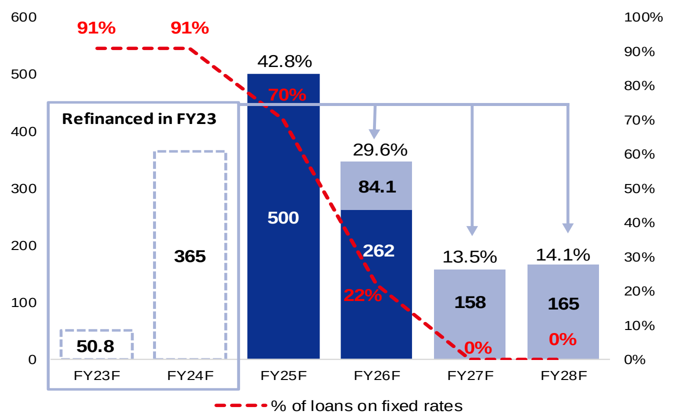
A possible strategy includes buying back the bonds using divestment proceeds as the exit yields for the properties divested/to be divested are likely between 3-6% compared to the 6.06% yield-to-maturity of the bond. The bond buyback strategy is likely to be DPU-dilutive but NAV-accretive and would benefit CERT by lowering its gearing and mitigating interest rate risk on refinancing/reset in 2025F, in our view.

In Dec 2023, CERT announced the buyback and cancellation of €50m in bonds. With another c.€170m of asset divestments to reach its €400m divestment target by 2025/26, we think there could be more buybacks to come in FY24F.

Our model assumes an all-in cost of debt of 3.09% for FY23F (9M23: 2.96%), based on 3M-Euribor of 3.5% for FY23. This represents a 71bp yoy increase in overall funding cost in FY23F. Given CERT's interest rate hedge of 91%, our interest rate sensitivity analysis shows that a 25bp increase in 3M-Euribor will have a -0.2% impact on our FY24F DPU.

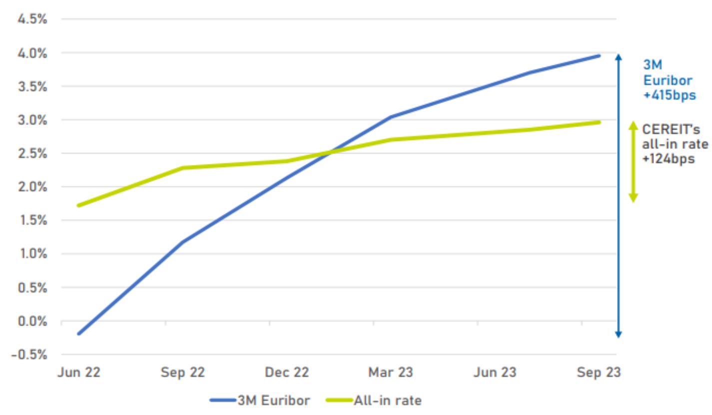
CERT's aggregate leverage improved from 41.2% as at 3Q23 to 37.4% as at Oct 23, immediately following the sale of Bari Europa. The management aims to keep aggregate leverage at 35-40%. Our model forecasts FY24F/25F aggregate leverage at 38.6%/39.4%, in line with management's gearing policy and close to the average gearing for S-REITs.

Figure 42: Debt maturity profile



SOURCES: CGS-CIMB RESEARCH, REINITIV, COMPANY REPORTS

Figure 43: Managing cost of debt and interest rate hedge through early refinancing of debt maturing in FY24F



SOURCES: COMPANY REPORTS

Cost management

CERT's property operating expenses comprise service charge expenses, non-recoverable expenses and allowance for doubtful debts. Its service charge expenses are generally offset and recoverable by service charge income collected from tenants, and include insurance, provision of utilities, land tax, and maintenance and service of common equipment and common areas. Its service charge expenses may exceed its service charge income due to vacancies within its properties.

Its non-recoverable expenses include property insurance, maintenance and repairs, marketing costs, property taxes, leasing costs and property management fees. Its leasing costs include payments to third-party brokers and/or the property manager.

While its energy cost increased in FY22, CERT has been able to pass on the higher utilities expense to tenants. Its service charge income from tenants covered 62-65% of its service charge and non-recoverable expenses in FY20-22.

Fee structure

CREIT pays its REIT manager, Cromwell EREIT Management Pte Ltd, a manager's base fee (pegged at 0.23% of deposited property value) and a performance fee (based on 25% of the difference in DPU in a year vs. the DPU in the preceding year). The manager may elect to receive its base and performance fee in cash or units, or a combination of both. Manager base fees from FY20-22 were paid in cash. No performance fee was paid in those periods.

The property and portfolio management fee (paid to the property manager) is calculated as 0.67% p.a. of the value of CREIT's deposited property value. The property manager may elect to receive its base and performance fee in cash or units, or a combination of both. Base fees from FY20-22 were paid in cash. These are reflected as part of property operating expenses.

Acquisition fees are calculated as 1% of gross acquisition price, and divestment fees are based on 0.5% of gross sale price. Development management fees are calculated as 3% of total project costs incurred. Project management fees are calculated at 5% of construction costs for any refurbishments, retrofitting, additions and alterations or renovation works to the relevant property.

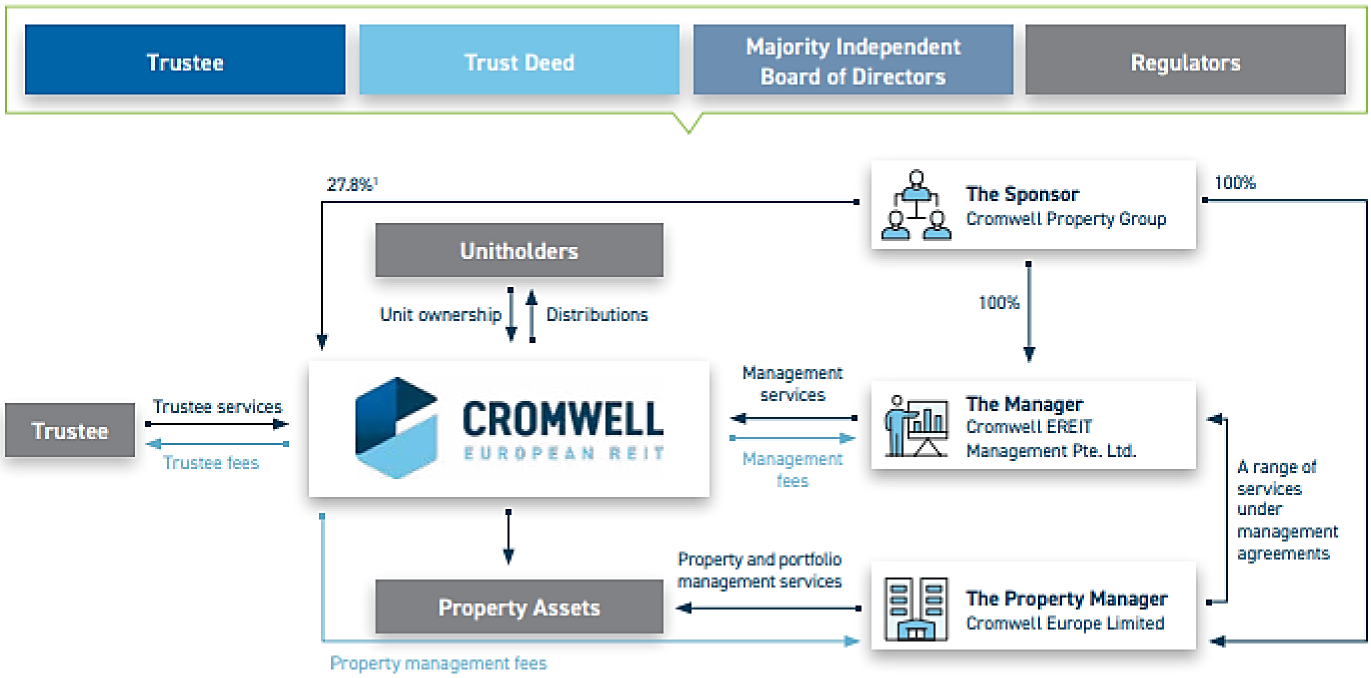
Based on our estimates, total management fees made up c.2.4% of FY23F revenue and 0.23% of AUM, on the lower end of the SREIT's range.

Figure 44: CERT's fee structure

Type	Fee structure
Managers base fee	0.23% of deposited property value
Performance fee	25% of the difference in DPU in a year vs the DPU in the preceeding year
Trustee fee	Not exceeding 0.015% p.a. of the value of CERT's deposited property, suject to a minimum amount of S$15,000 (€6,500/month)
Acquisition fee	1% of gross acquisition price
Divestment fee	0.5% of gross sale price
Property and portfolio management fee	0.67% of the value of CERT's deposited property value
Project management fee	5% of construction costs for any refurbishments, retrofitting, addition and alterations or renovation works to the relevant property

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 45: CERT structure



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Key risks

Country risk ➤

CERT is exposed to country risks, including economic changes, political changes or policy changes in the EU or in countries where its assets are located. An economic downturn in Europe might negatively affect tenant demand for CERT's properties and, consequently, DPU.

Foreign currency risk ➤

While DPUs are Euro-denominated, earnings from four out of its 10 markets — Denmark, Poland, Czech Republic and the UK — are paid in their respective currencies, accounting for c.22.5% of FY23F NPI. CERT does not hedge the distributions and asset value of its overseas investments; as such, its distributions and NAVPS are subject to currency risk. CERT employs cross currency swaps to fully hedge its S$100m (c.€65m) perpetual securities.

Valuation and recommendation

We value CERT using a blended methodology — DDM and RNAV — given CERT's high dividend payout ratio and the redevelopment potential of some of CERT's assets, which would yield higher rents and uplift valuations. Our DDM-based TP of €1.81 is premised on a blended cost of equity of 10.1% and terminal growth of 2%. Under the RNAV valuation methodology, our target valuation is based on a conservative 10% discount to RNAV, translating into a target price of €2.48. This brings our blended TP to €2.15. We deem CERT's current valuation undemanding at an FY24F DPU yield of 11.0% and P/NAV of 0.5x.

Figure 46: Blended methodology

Valuation method	Value per share	Remarks
DDM	1.81	Blended cost of equity of 10.1%, terminal growth of 2%
RNAV	2.48	10% discount to RNAV
Average	**2.15**	

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 47: DDM valuation

FYE Dec	FY24F	FY25F	FY26F	FY27F	FY28F	Terminal value
DPU (€cts)	15.5	15.6	15.7	15.7	15.6	197.3
PV of DPU forecasts	59.0			**Key DDM Assumptions**		
PV of terminal value	122.2			Risk-free rate		3.6%
Total	181.3			Market risk premiu		8.7%
				Beta (x)		0.75
Target price (€)	1.81			Terminal growth		2.0%
				Cost of equity		10.1%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

We apply a 10% RNAV discount, which we believe is conservative given CERT's track record of divesting at a premium to latest valuations, with the average of CERT's seven most recent divestments at a 13.7% premium over the latest valuations.

Figure 48: RNAV valuation

Segment	€ m
Light industrial/logistics	
NAV	1,171.2
Surplus added	209.2
Industrial GAV	1,380.4
Office	
NAV	1,076.8
Surplus added	76.2
Office GAV	1,153.0
Others	
NAV	46.7
Surplus added	0.0
Others GAV	46.7
Total GAV	**2,580.2**
Net cash/(debt)	-1,029.3
RNAV	**1,550.9**
No. of shares (m)	562.4
RNAV per share (€)	**2.76**
Discount to RNAV	10%
Target price (€)	**2.48**

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

DDM sensitivity analysis

Given the higher rate environment, we conduct a sensitivity analysis on changes in cost of equity and terminal growth. We note that CERT's valuations are more sensitive to changes in cost of equity than terminal growth. For every 50bp shift in cost of equity, its DDM valuation moves by 5.0-6.5%, while a similar change in terminal growth would move our DDM valuation by 4.0-5.3%.

Figure 49: Sensitivity of DDM to changes in cost of equity and terminal growth

		Terminal growth				
		1.0%	1.5%	2.0%	2.5%	3.0%
COE	9.1%	1.87	1.96	2.07	2.19	2.32
	9.6%	1.76	1.84	1.93	2.03	2.15
	10.1%	1.67	1.74	1.81	1.90	2.00
	10.6%	1.58	1.64	1.71	1.78	1.87
	11.1%	1.50	1.56	1.61	1.68	1.76

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

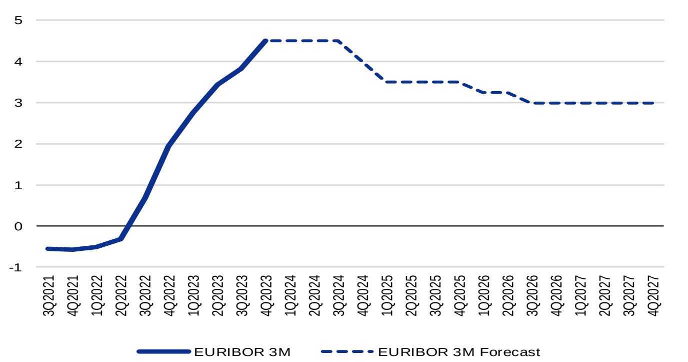
Market outlook

Improving economic outlook in Europe

According to data from the International Monetary Fund (IMF), inflation in the EU hit an all-time high of 8.4% in 2022 due to elevated natural gas prices and supply-chain bottlenecks, outpacing GDP growth of 8.2%. Subsequent monetary tightening targeted at easing inflation resulted in the Euro Interbank Offered Rate (Euribor) climbing from sub-zero levels in 2021 to 2.1% and 4.0% as at end-Dec 22 and end-Nov 23, respectively.

Headline inflation in the EU decelerated to a two-year low of 2.4% in Oct 23, while oil prices are now at or below pre-Russia-Ukraine war levels. During Reuter's poll in Nov 23, all 72 economists polled agreed that there should be no more rate hikes this cycle, while 55% predicted that rates would stay at current levels through the middle of 2024F, with the remaining 45% expecting a rate cut before the European Central Bank Governing Council convenes in Jul 24.

Figure 50: 3M EURIBOR



SOURCES: CGS-CIMB RESEARCH, OXFORD EXONOMICS (OCT 23)

Figure 51: Commodity price: WTI crude oil

SOURCES: CGS-CIMB RESEARCH, DEUTSCHE BORSE GROUP

The Netherlands: CERT's largest market

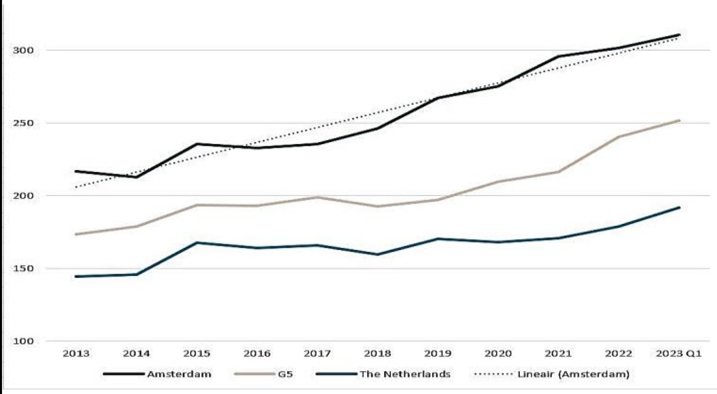
The Netherlands is CERT's largest market, accounting for 27% of AUM as at Oct 23, comprising seven office assets and seven light industrial/office assets. Six of these offices are in CERT's top 10 assets, namely Haagse Poort (6.8%) Central Plaza (6.2%), Bastion (2.8%), Moeder Teresalaan (2.5%), De Ruyterkade 5 (2.1%) and Veemarkt (2.0%).

Offices

Information, communication and technology (ICT), creative, entrepreneurship, entertainment and media companies tend to maintain offices in Amsterdam, while life sciences, agri-food, technology, energy and logistics companies tend to pick Rotterdam. Banking firms dominate the Utrecht market, while Den Haag, the administrative capital, is home to government entities, insurance and accounting firms. Accounting, consultancy and financial companies tend to maintain offices in several key markets.

As of 1Q23, Dutch office rents have risen 13.9% over the last three years, with rents in the five largest office markets (G5) — Amsterdam, Rotterdam, Utrecht, The Hague and Eindhoven — rising by 19% over the same period to €252/sq m p.a. Dutch office rents were lifted by Grade A office rents benefitting from demand-supply imbalances, due to the: 1) occupier emphasis on Grade A spaces with ESG specifications, 2) Grade B/C dominated current stock, and 3) insufficient ESG-focused new supply. As such, we think Dutch office rent could trend up as these supply-demand imbalances are likely to persist in the near-term.

Figure 52: Upward trajectory of Dutch office rents, driven by G5 markets



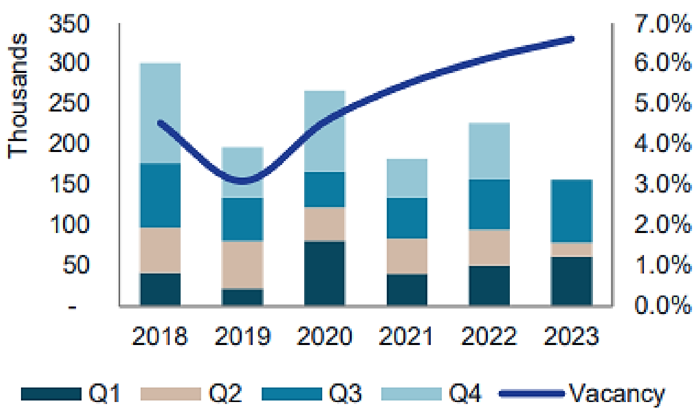
SOURCES: CGS-CIMB RESEARCH, JLL RESEARCH

Figure 53: Key office statistics of CERT's Dutch portfolio

	Amsterdam	The Hague	Rotterdam	Utrecht
Vacancy Rate	6.60%	3.70%	5.40%	4.30%
Take-up (9M23, sqm)	156,350	31,720	35,400	48,030
Grade A/total leases signed in last 12 mths	na	68%	50%	66%
Investment Volume (9M23, €m)	153.2	250	207.7	96.7
Prime net investment yield	4.75%	5.35%	5.35%	5.35%
Rent (€ psm pa)	535	230	275	305

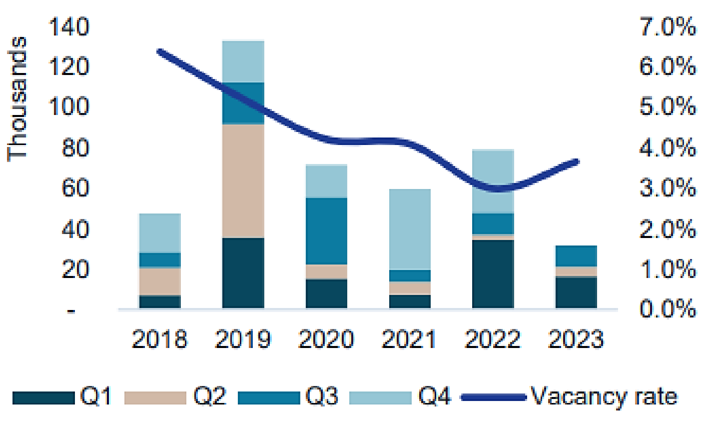
SOURCES: CGS-CIMB RESEARCH, JLL RESEARCH

Figure 54: Amsterdam – vacancy rate and take-up



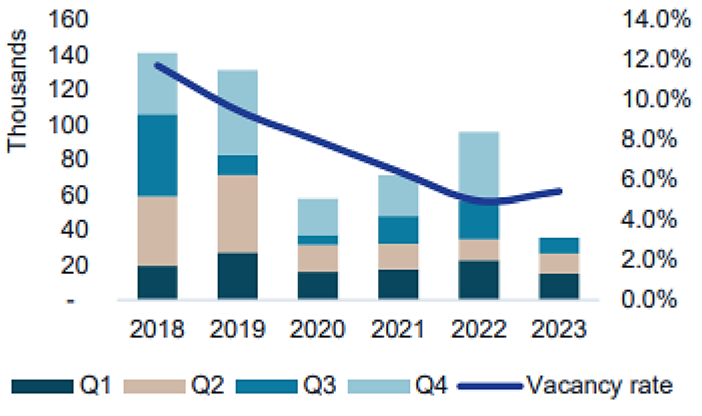
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 55: The Hague – vacancy rate and take-up



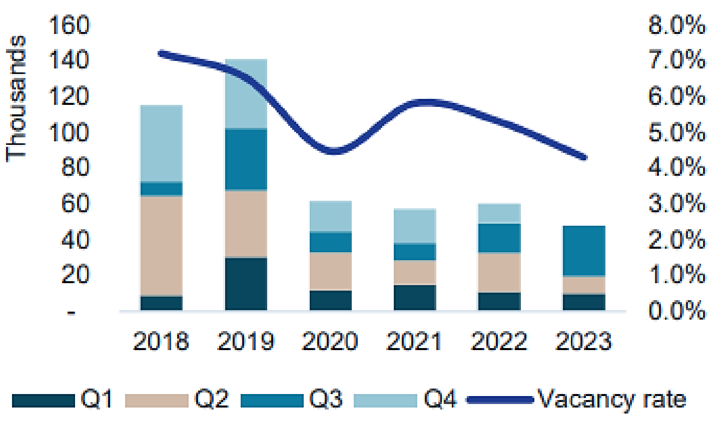
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 56: Rotterdam – vacancy rate and take-up



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 57: Utrecht – vacancy rate and take-up



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Corporate commitments to net zero emissions will see demand for buildings with ESG characteristics outstripping supply

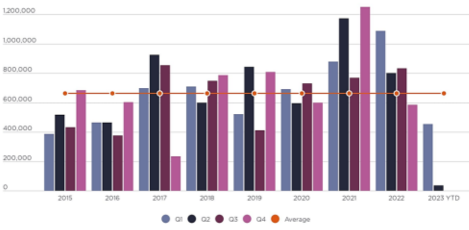
Legislation passed in the Building Decree 2012 mandates that with effect from 1 Jan 2023, office buildings in the Netherlands must have an energy performance certificate (EPC) label of C or above. Non-compliance would result in a penalty or closure of the office, both of which would result in a significant impact on values for office stock labeled D or worse. According to Knight Frank, 35% of office stock in the Netherlands has no EPC rating, while 10% of rated office stock has a D label or worse. According to 2016 research by the Economic Institute for Construction and Housing (EIB) and the Energy Research Centre of the Netherlands (ECN), most offices could upgrade to a C label by just installing LED lighting. However, older and poorly insulated F- and G-rated buildings may be uneconomical to refurbish and may be withdrawn as office stock. This flight towards quality has resulted in prime Amsterdam office rents increasing from €475/sq m p.a. as at end-2021 to €525/sq m p.a. as at end-3Q23.

JLL estimates that approximately 16m sq m of Grade B/C leases will expire over the next five years, likely prompting occupiers to upgrade their requirements to Grade A space in order to fulfill their corporate commitments to net zero emissions and science-based targets initiatives (SBTis). These ambitious corporate targets exceed the current quality available in key central business districts across The Netherlands. For instance, in Amsterdam, c.200,000 sq m of leases signed by corporates with SBTi commitments will expire from 2023-26, far exceeding available supply. Theoretically, only 40% of the expiring space can be accommodated by new, high quality, ESG-focused future supply planned to be delivered in 2023-26F, according to JLL.

Industrial

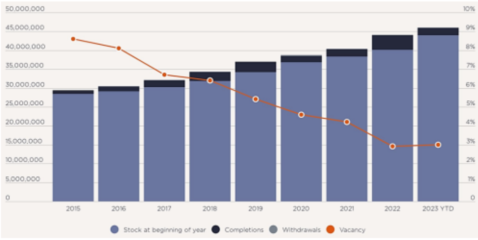
Industrial stock has grown by 61% over the last 10 years, leading to public resistance and major political parties in logistics hotspots supporting restrictions for new distribution centres. The scarcity of logistics space has led to declining vacancy and rental growth — prime rents in logistics hotspots like Rotterdam and Eindhoven grew by 15.2% and 10.7% qoq, respectively, while the average vacancy in Netherlands landed at 3% in 1Q23. Rental growth is also supported by rising construction cost for new developments. While demand for logistics space is supported by rising global geopolitical tensions, which has boosted nearshoring strategies, as well as e-commerce growth, the slower economic growth and dwindling available stock has resulted in logistics take-up declining 58% yoy in 1Q23.

Figure 58: Quarterly logistics take-up



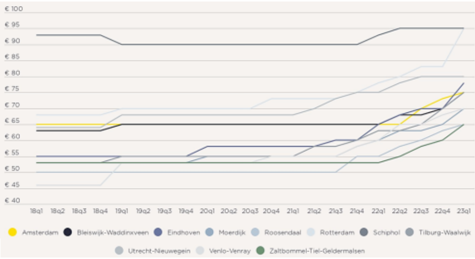
SOURCES: CGS-CIMB RESEARCH, SAVILLS, INTELLIGENCE & STRATEGY

Figure 59: Logistics stock and vacancy



SOURCES: CGS-CIMB RESEARCH, SAVILLS, INTELLIGENCE & STRATEGY

Figure 60: Dutch industrial rents trending up



SOURCES: CGS-CIMB RESEARCH, SAVILLS, INTELLIGENCE & STRATEGY

Italy

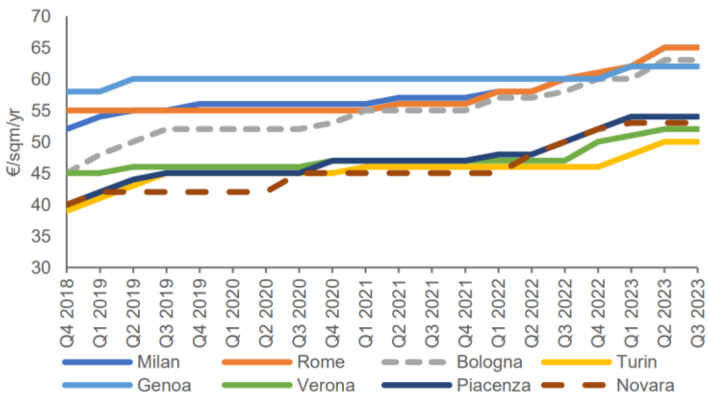
Italy is CERT's second-largest market, accounting for 27% of AUM as at Sep 23, comprising 17 industrial/office/others assets.

Logistics

The occupier market remains strong, with 3Q23 take-up of 661,000 sq m up 29% yoy, led by third-party logistics (3PLs, 61% of YTD volume), which were focused on high quality assets with short and definite delivery times. As a result, c.45% of transactions in the quarter were for speculative projects. Despite this, the number of speculative projects in the pipeline has decreased by 27% qoq, reducing availability in the near future and increased competition for high quality space.

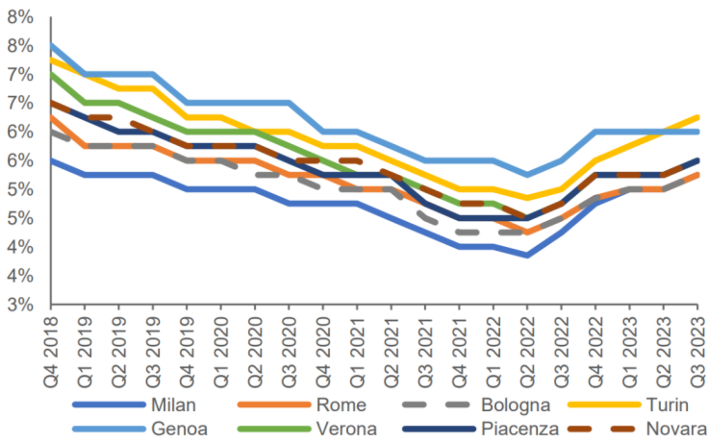
Prime rents rose by 8% yoy in 1Q23 due to demand-supply imbalances and increase in construction costs but have since plateaued through 3Q23 at €65/sq m p.a. for logistics assets in both Milan and Rome, but 5% higher qoq in 3Q for last mile/courier assets, at €110/sq m p.a. in both cities.

Figure 61: Italy industrial prime rents



SOURCES: CGS-CIMB RESEARCH, CUSHMAN & WAKEFIELD RESEARCH, 2Q23

Figure 62: Italy industrial prime yields

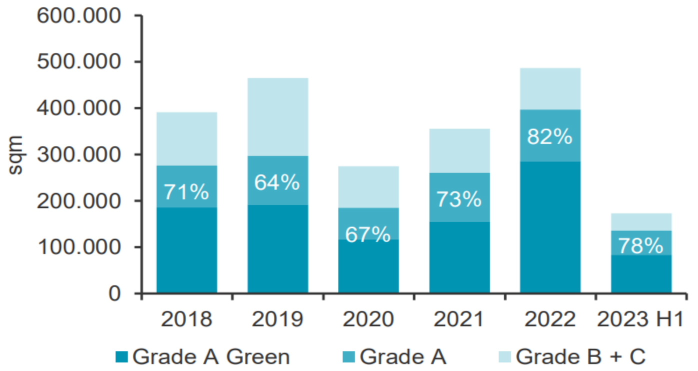


SOURCES: CGS-CIMB RESEARCH, CUSHMAN & WAKEFIELD RESEARCH, 2Q23

Offices

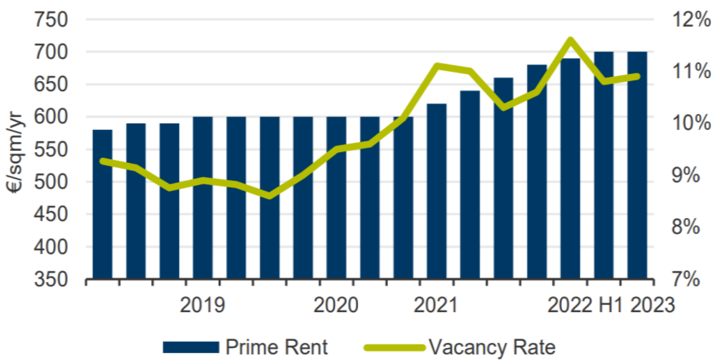
1H23 office take-up in Milan totalled 173,00 sq m, down 33% compared to a high base in 1H22. Quality, energy efficiency and sustainability remain key drivers of demand, as confirmed by the share of Grade A/A Green absorption, which accounts for c.80% of the total volume leases in recent years (2018-1H23). Occupiers continue to trend towards smaller but higher quality spaces; rents for green certified spaces reflecting ESG criteria are 10-20% higher compared to high quality assets without green certifications. Despite vacancy rates creeping up, prime rents held their ground, largely unchanged qoq at €700/sq m p.a. as at 2Q23.

Figure 63: Milan's office take-up rate by asset grade



SOURCES: CGS-CIMB RESEARCH, CUSHMAN & WAKEFIELD RESEARCH, 2Q23
Note: Percentages refer to the share of grade A-A Green take-up on total take-up

Figure 64: Milan's office vacancy and prime rent



SOURCES: CGS-CIMB RESEARCH, CUSHMAN & WAKEFIELD RESEARCH, 2Q23

Figure 65: Milan's submarket statistics

SUBMARKET	OVERALL VACANCY RATE (Grade A,B&C)	YTD OVERALL TAKE-UP(SQM)	UNDER CNSTR (SQM)	PRIME RENT €/sqm/yr	PRIME YIELD (NET*)
CBD	5.3 %	52,000	245,000	700	4.00 %
Centre	8.7 %	10,000	55,000	530	4.50 %
Semi Centre	4.6 %	49,000	256,000	470	5.00 %
Periphery	16.2 %	39,000	349,000	350	6.00 %
Hinterland	15.1 %	23,000	149,000	250	6.50 %
TOTALS	**10.9 %**	**173,000**	**1,054,000**	**700**	**4.00 %**

SOURCES: CGS-CIMB RESEARCH, CUSHMAN & WAKEFIELD RESEARCH, 2Q23

France

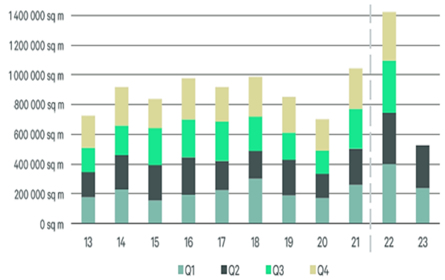
France is CERT's third-largest market, accounting for 16.5% of AUM as at Sep 23, comprising three office assets and 17 light industrial/logistics assets. The majority of CERT's French assets are located in the Greater Paris region, with light industrial/logistics assets Parc des Docks topping CERT's Top 10 assets list, representing 7.0% of AUM as at Sep 23.

Industrial

Data collected by CBRE showed that vacant space in the Paris region grew 2% qoq and 24% yoy to c.2.2m sq m in 2Q23, bringing the vacancy rate to 5.6%, with most vacant space concentrated in the South (43%), North (22%) and West (20%). According to CBRE, the amount of vacant space remains considerably below the qualitative needs expressed by companies in the most established sectors, with limited availability of highly functional and environmentally-efficient industrial facilities within the perimeter of the A86 autoroute. Facilities located near the A86 autoroute remain in demand, given its proximity to staffing and consumer catchment areas.

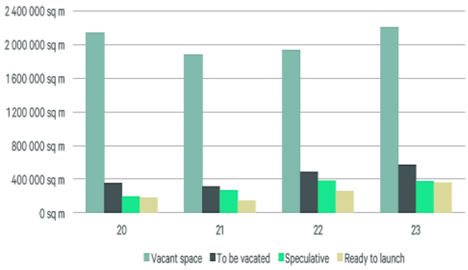
CERT's light industrial/logistics assets are located in the north, near or within the A86 autoroute, benefitting from the rising rental market. E-commerce and third-party logistics (3PL) companies form the bulk of logistics demand in the Paris market. Rental growth is capped, given the thin profit margins, and, as such, we could see rents peak in the next 1-2 years.

Figure 66: Paris' industrial space take-up



SOURCES: CGS-CIMB RESEARCH, CBRE RESEARCH (2013-21), IMMOSTAT (2022-23)

Figure 67: Industrial supply, Paris region



SOURCES: CGS-CIMB RESEARCH, CBRE RESEARCH, 2Q23

Figure 68: Paris' industrial rents (2Q23)

Geographic areas		New/Restructured	Used
North	Inside the A86	€120/€180	€90/€180
	Outside the A86	€80/€140	€70/€100
West	Inside the A86	€140/€175	€110/€150
	Outside the A86	€100/€140	€70/€120
South	Inside the A86	€170/€250	€130/€185
	Outside the A86	€95/€145	€80/€100
East	Inside the A86	€150/€180	€120/€160
	Outside the A86	€90/€140	€75/€110

SOURCES: CGS-CIMB RESEARCH, CBRE RESEARCH (2013-21), IMMOSTAT (2022-23)

Note: Proportion of industrial/offices space in "traditional" light industrial assets is 70%/30%

Offices

In the first six months of 2023, Paris' office take-up of 816,20 sq m was down 22% yoy and down 21% compared with the 10-year average, according to CBRE. While the unemployment rate has remained stable, the disrupted economic, financial and political environment has weakened business confidence, resulting in occupiers adopting a wait-and-see approach. Office space take-up was lower across all size bands in 1H23, with take-up in the small and medium-sized segments down 16% yoy and 11% vs. the 10-year average, demand for large spaces (1,000-5,000 sq m) slowed in 2Q23, while take-up for space >5,000 sq m made up for lost ground in 2Q23. CBRE also noted that large occupiers have expressed the need to modernise their workspaces to align with new environmental standards, and that new hybrid working methods, such as teleworking and flex-office, have resulted in occupiers downsizing their space requirements for better quality space.

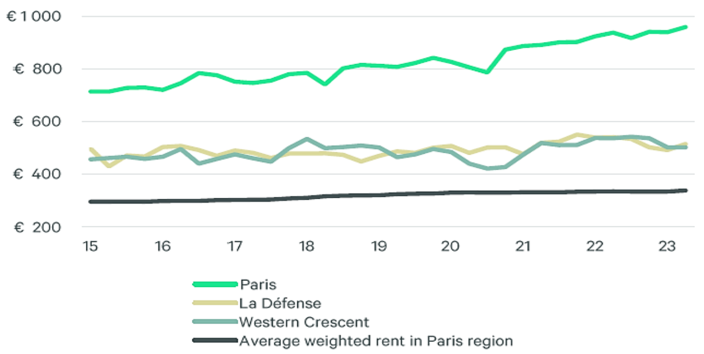
According to CBRE, Paris office vacancy continued to trend up, reaching 7.5% in 2Q23 (+1.5% to 4.5m sq m), due to the release of used or renovated space onto the market. While confirmed future supply (all qualities and sizes) were stable qoq in 2Q23 at 2.2m sq m (of which 1.3m sq m is expected to be delivered in 2023), probable supply fell 3% qoq to 2.4m sq m in 2Q23 as relatively low economic rents, rising costs of work and financing are forcing some landlords and developers to suspend/abandon certain projects. Due to smaller office space requirements owing to new hybrid work methods, the size of projects has frequently been revised downwards.

Widening rent gap across submarkets

Average prime office rents in the Paris region continue to trend up from 2021-2Q23, supported by occupiers' growing appetite for new/refurbished, multi-certified, eco-friendly, eco-designed buildings that limit energy consumption, helping to create value in some over-supplied locations. Certain submarkets are seeing strong rental growth such as Central Paris, where prime rents in Madeleine/Opéra/Vendôme and the 2nd arrondissement have increased between 9-14% compared to 2022, +7% compared with end-2022 in Fontenay-sous-Bois and +29% compared with 2022 levels in Gentilly. Headline rents in other submarkets have been stable or under downward pressure; for example, rents in La Garennes-Colombes/Colombes/ Bois-Colombes have been depressed due to competition from La Défense.

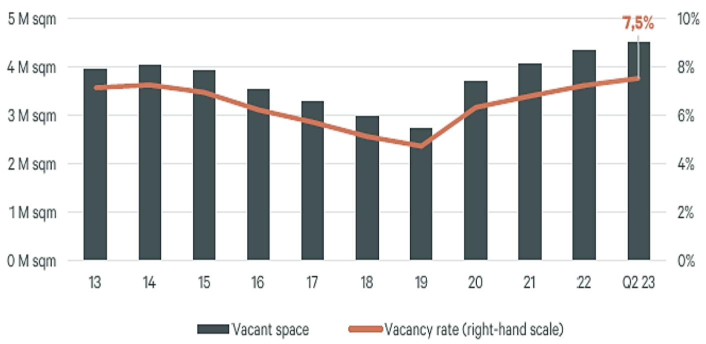
While headline and net effective rents (NER) remain above the long-term average as at 2Q23, the slight lowering of incentive levels has narrowed the difference between headline rents and NER. Incentives granted by landlords remain high in most office markets, albeit stabilising or declining, with the exception of a few submarkets (Paris Northeast, Southeast and Eastern Inner Rim). Only Paris Centre Est is close to the long-term average, with incentives around 15.5% in 1Q23.

Figure 69: Average prime rents, Paris region



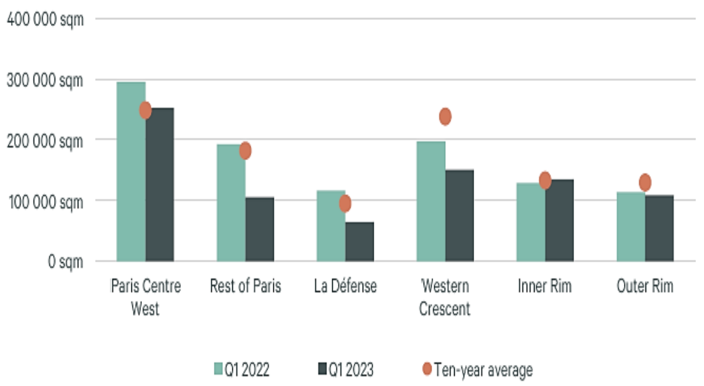
SOURCE: CGS-CIMB RESEARCH, CBRE RESEARCH (2Q23)
Note: Average prime rents in €/sqm p.a. excluding taxes and charges: weighted average of the 10 highest transactions over the last six months for a space of 500 sq m or more

Figure 70: Paris office vacancy



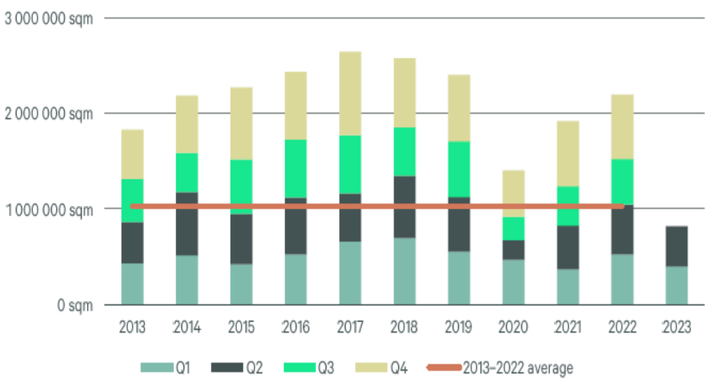
SOURCES: CGS-CIMB RESEARCH, CBRE RESEARCH, IMMOSTAT (2Q23)

Figure 71: Office space take-up, Paris region



SOURCES: CGS-CIMB RESEARCH, CBRE RESEARCH (2013-21), IMMOSTAT (2022-23)

Figure 72: Office space take-up, Paris region



SOURCES: CGS-CIMB RESEARCH, CBRE RESEARCH, IMMOSTAT (2Q23)

Germany ›

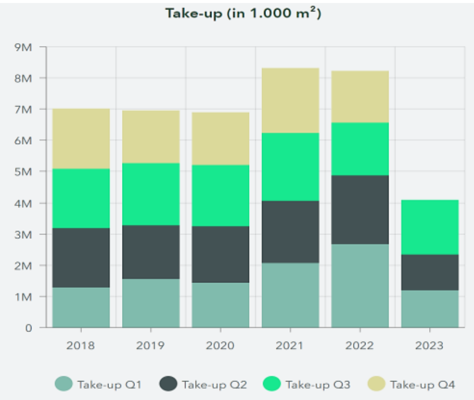
Germany is CERT's fourth-largest market, representing 8.9% of AUM, as at 30 Jun 23. CERT's German portfolio consists of 13 light industrial assets, with an average occupancy of 97.4%, as at 30 Jun 23.

Industrial

Industrial and logistics take-up in the first three quarters of 2023 amounted to 4.07m sq m, down 38% compared with the same period in 2022. Following a weak first half, with take-up of 1.7m sq m, 3Q23 saw the greatest market activity since 2Q22, despite overall economic uncertainty.

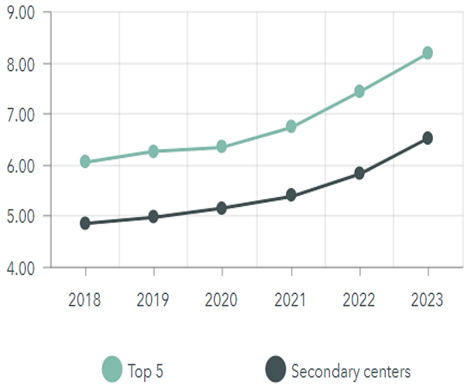
Prime rent increased by 13% yoy in the first three quarters of 2023 to €8.19/sq m/month across the Top 5 markets. This was led by higher rents for new buildings, due to the rising cost of financing and construction. Outside the top markets that continue to be hallmarked by short supply, the rental level has stabilised, albeit at a high level, up 15% to €6.53/sq m/month, compared to the same nine-month period in 2022.

Figure 73: Take-up (in 1.000 m²)



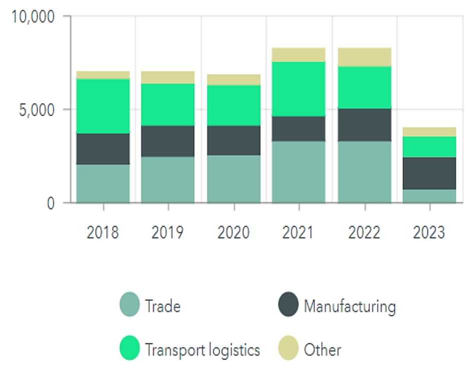
SOURCES: CGS-CIMB RESEARCH, CBRE RESEARCH, 3Q23

Figure 74: Average prime rent (€/sq m/mth)



SOURCES: CGS-CIMB RESEARCH, CBRE RESEARCH, 3Q23

Figure 75: Take-up by sector ('000 sq m)



SOURCES: CGS-CIMB RESEARCH, CBRE RESEARCH, 3Q23

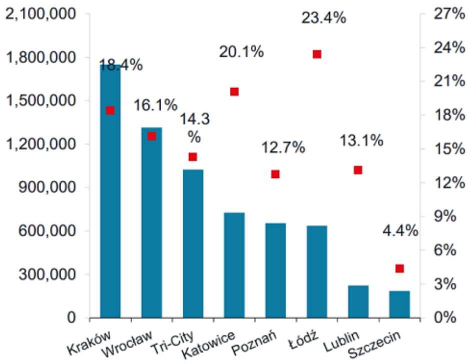
Poland

Offices

New supply is expected to fall in 2024F/25F due to the decreasing number of new construction starts resulting from higher costs of financing, material prices and labour costs. Despite the lower supply under construction, vacancy rates remain high, with nearly all regional markets seeing an increase in available supply over the last few months. Approximately 40% of vacant space is located in (newer) buildings completed after 2019. However, JLL expects vacancy rates in these buildings to decline over the coming quarters due to flight to quality, as seen from the 54% of leasing volume signed in 1H23 attributed to space in newer buildings (up to five years of age). Consequently, the expected increase in the overall vacancy rate should be driven by older properties (over 10 years), which do not currently meet the requirements of corporate occupiers.

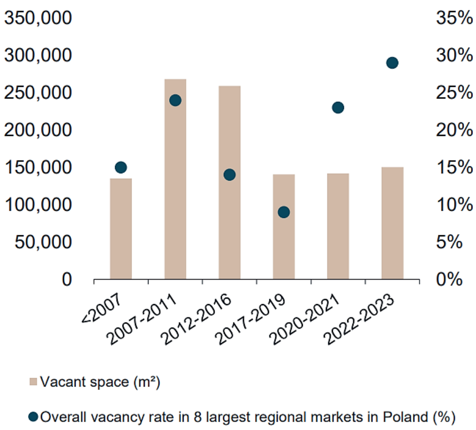
2Q23 saw a qoq increase in prime rents in Wroclaw and Tri-City, while rents in other markets remained unchanged qoq. Due to the higher fit-out costs and, correspondingly, higher tenant incentives, JLL has observed a shift to longer lease terms, from the standard five-year contract to seven- and 10-year terms, although this trend is exclusive to newer office buildings.

Figure 76: Supply vs. vacancy rate in 2Q23



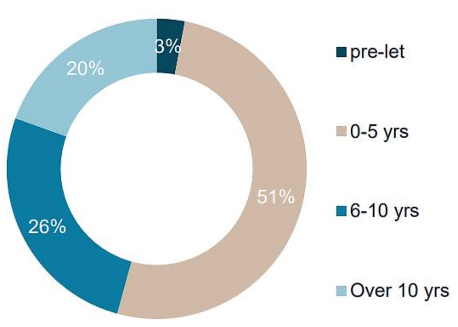
SOURCES: CGS-CIMB RESEARCH, JLL RESEARCH, 2Q23

Figure 77: Vacancy rate by building age in 2Q23



SOURCES: CGS-CIMB RESEARCH, JLL RESEARCH, 2Q23

Figure 78: Office demand by building age in 1H23



SOURCES: CGS-CIMB RESEARCH, JLL RESEARCH, 2Q23

Denmark ➤

Industrial

Denmark's logistics market fundamentals remain strong, despite a slight slowdown in leasing activity in 2Q23. Prime logistics rents in Denmark increased 3.8% qoq in 1Q23 from DKK650/sq m p.a. to DKK675/sq m p.a., driven by demand-supply imbalances. Vacancy rates inched up 0.1% pt qoq to 1.7% in 1Q23 but remain at historically low levels. Third-party logistics companies and online retailers are the most bullish in terms of expansion plans, while brick-and-mortar retailers remain the most cautious.

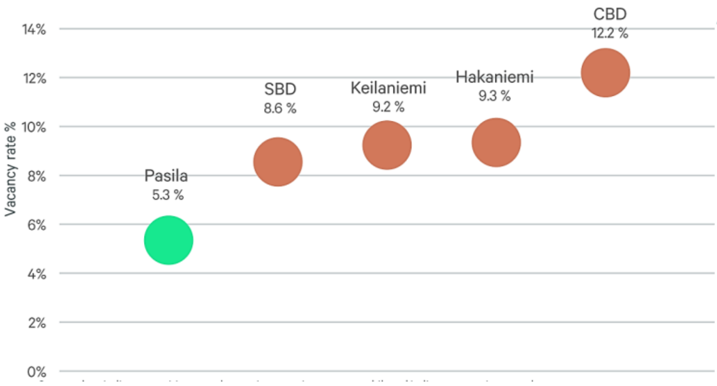
Finland ➤

Offices

Vacancy rates in the Helsinki Metropolitan Area (HMA) increased 0.8% pt qoq to 13.3%, on the back of negative net absorption of 39,800 sq m in 2Q23. Within the HMA, Pasila, secondary business district (SBD) and Keilaniemi have the lowest vacancy rates at 5.3%, 8.6% and 9.2%, respectively, while Pitäjänmäki (26.8%) and Otaniemi (18.9%) have the highest vacancy rates. Prime rents in the HMA were flat qoq at €45/sq m p.a.

CBRE observed that occupier demand has been concentrated in prime office areas, with a widening demand gap between Grade A and secondary markets. In its Nordic Occupier Sentiment Survey, data collected by CBRE suggest that downsizing remains a key trend in the office market, while desk sharing and collaborative workspace options, such as hotdesking, are becoming increasingly more common for larger companies. As such, CBRE opines that flexible office space is expected to gain traction from occupiers in Finland in the future.

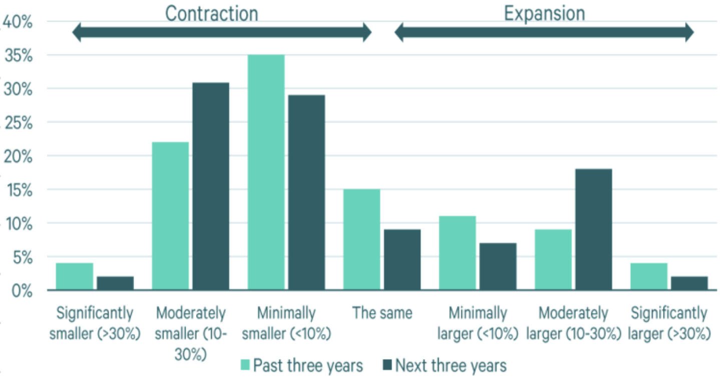
Figure 79: Office submarkets with the lowest vacancy rates in Helsinki Metropolitan Area



SOURCES: CBRE RESEARCH, KTI PROPERTY INFORMATION LTD, HELSINKI RESEARCH FORUM, STATISTICS FINLAND

Note: Green/red colour indicates positive/negative net take-up since previous quarter.

Figure 80: Size trajectory of corporate real estate portfolios



SOURCES: CBRE RESEARCH, NORDIC OFFICE OCCUPIER SENTIMENT SURVEY

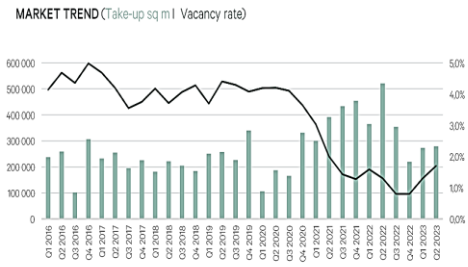
Czech Republic ➤

Industrial

CERT's exposure to the Czech Republic is limited to the industrial/logistics assets and accounts for 10.6% of CERT's industrial/logistics portfolio as at 2Q23. Demand/supply imbalances resulted in Czech Republic's industrial/logistics vacancy rate declining rapidly from 4% in 3Q20 to between 1-2% 1Q23-2Q23 (2Q23: 1.7%). As a result of low vacancy rates, prime rents grew at a two-year CAGR of 27%, from €490 ps m p.a. in 4Q20 and peaking at €790 ps m p.a. in 4Q22, before declining c.5% qoq to 3Q22 levels. CBRE expecting rents to remain stable at this level for the foreseeable future.

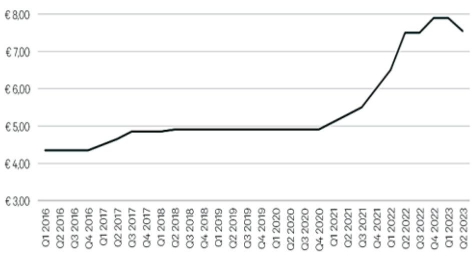
Vacancy remained tight despite the completion of c.1,120k sq m of space in 2022, which was c.2.2x higher than the 10-year average supply. Approximately 1,100k sq m of new supply is expected to be delivered in 2023F, on par with 2022 levels. Supply under construction totaled 1,340k sq m in 2Q23, representing 11.9% of total stock, of which 39% of the supply under construction is speculative in nature. New supply is concentrated in the Karlovy Vary (25%), Plzeň (14%) and South Moravia (12%) region. According to Savills and CBRE, demand for space continues to be driven by manufacturing companies, accounting for c.60% of take-up in 2Q23.

Figure 81: Czech Republic – industrial vacancy rate and take-up



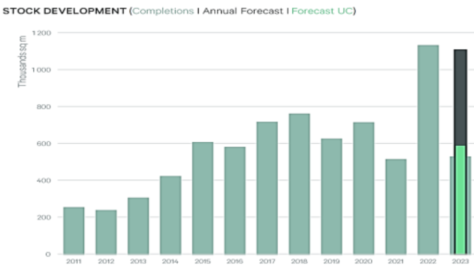
SOURCES: CGS-CIMB RESEARCH, CBRE RESEARCH, INDUSTRIAL RESEARCH FORUM, 2Q23

Figure 82: Czech Republic – industrial prime rent (€/sq m p.a.)



SOURCE: CGS-CIMB RESEARCH, CBRE RESEARCH, 2Q23

Figure 83: Czech Republic – industrial supply



SOURCES: CGS-CIMB RESEARCH, CBRE RESEARCH, INDUSTRIAL RESEARCH FORUM, 2Q23

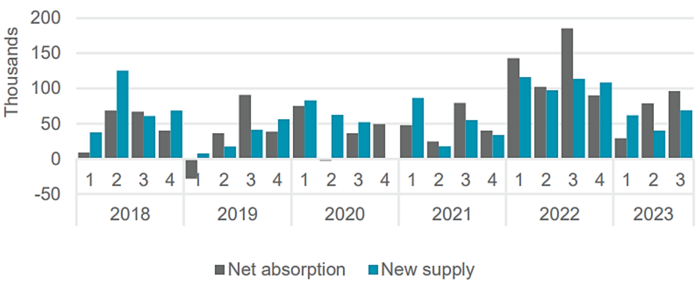
Slovakia ➤

Industrial

Slovakia's industrial market remains resilient, as captured in its robust 3Q23 take-up figures (Fig. 84). Gross and net take-up reached 169,900 sq m and 120,400 sq m, respectively, 23% and 10% above the five-year quarterly averages. The vacancy rate has continued to trend down, reaching 2.92% in 3Q23, signalling persisting good market conditions. The automotive industry continues to be the main demand driver, accounting for over 50% of total take-up, followed by 3PL. The surge in demand for battery manufacturing in 3Q23 was largely due to Volvo's new plant in Eastern Slovakia and transition to battery production at KIA's factory. New industrial supply totalled 69,300 sq m in 3Q23, with almost one-third situated in Central Slovakia, further diversifying the geographical distribution of industrial spaces. Properties currently under construction account for 309,100 sq m, or 8.4% of total stock in 3Q23, spread across 19 buildings, with nearly half concentrated in Western Slovakia.

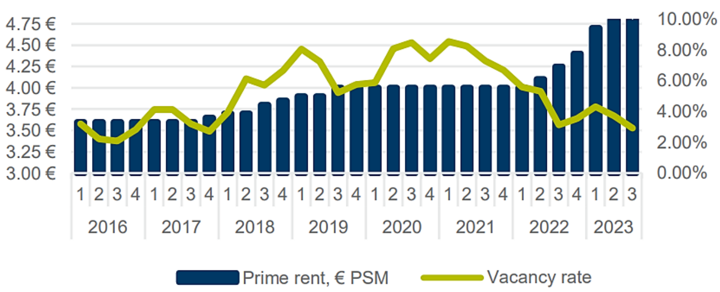
According to Cushman and Wakefield, developers are exhibiting caution in speculative construction, except for areas like Greater Bratislava, Trenčín, Žilina, and Eastern Slovakia, where available space is limited, demand remains robust and land banks continue to be acquired for future pipeline projects. While construction costs have stabilised, prime rents inched up slightly qoq to €4.9 sq m/month in 3Q23. Rents have increased by 22.5% over the past 18 months, partly mitigated by long-tenure leases exceeding five years. Both developers and clients are gradually concentrating on ESG factors, adopting more sustainable solutions, such as photovoltaic panels and heat pumps.

Figure 84: Demand for space and deliveries (sq m)



SOURCES: CGS-CIMB RESEARCH, CUSHMAN & WAKEFIELD, 3Q23

Figure 85: Vacancy and prime rent



SOURCES: CGS-CIMB RESEARCH, CUSHMAN & WAKEFIELD, 3Q23

Figure 86: Statistics of key Slovakian markets

SUBMARKET	INVENTORY (SM)	AVAILABILITY (SM)	OVERALL VACANCY RATE	CURRENT QTR TAKE-UP	YTD OVERALL TAKE-UP(SM)	UNDER CONSTRUCTION (SM)
Bratislava Region	1,723,200	61,600	3.58%	93,300	239,100	46,700
Western Slovakia	1,411,600	11,100	0.79%	6,100	156,300	151,100
Central Slovakia	304,800	2,000	0.66%	54,400	62,400	53,400
Eastern Slovakia	227,100	32,200	14.19%	15,400	15,400	57,900
SLOVAKIA TOTALS	3,666,700	106,900	2.92%	169,900	473,200	309,100

SOURCES: CGS-CIMB RESEARCH, CUSHMAN & WAKEFIELD, 3Q23
Note: The data is based on class A, non-owner-occupied leasable stock.

United Kingdom

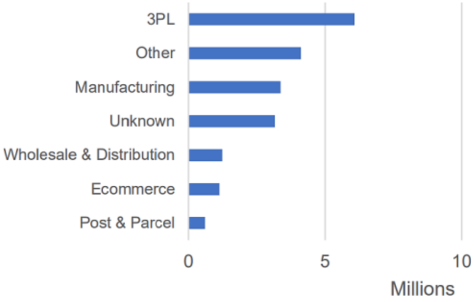
CERT's UK portfolio comprised three light industrial/logistics assets and accounted for 2.7% of AUM, as at Oct 23.

Industrial

Logistics and industrial take-up for the first three quarters of 2023 came in at 21.6m sq ft, down 52% compared to the same period in 2022. Occupational demand has shifted toward smaller sized units as occupiers delay and deliberate commitments to larger leases. This has resulted in a c.5.6% yoy growth in prime rent index for smaller size band spaces (50-100k sq ft), outpacing the c.2.4% yoy rental growth for larger spaces (>100k sq ft). In addition, macroeconomic headwinds have also resulted in a pause in the flight to quality.

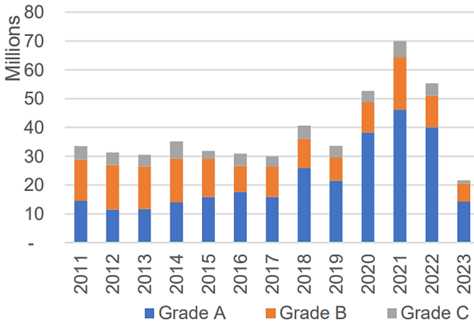
Although total available stock continued to rise through 3Q23, reaching 65.25m sq ft, new supply brought to the market in 3Q23 decelerated to c.2.1m sq ft (vs. c.4m sq ft per quarter since 2Q22). While stock under development increased qoq from 33m sq ft in 2Q23 to 37m sq ft in 3Q23, some regions continue to be characterised by persistent pockets of under-supply, particularly for larger units of Grades B and C quality.

Figure 87: UK – 1Q-3Q23 industrial/ logistics take-up by sector (m sq ft)



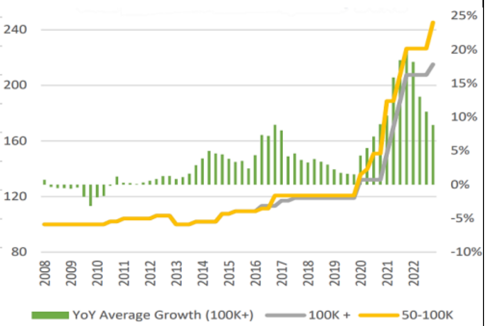
SOURCE: CGS-CIMB RESEARCH, CUSHMAN & WAKEFIELD, 2Q23

Figure 88: UK – industrial/logistics take-up by grade (m sq ft)



SOURCE: CGS-CIMB RESEARCH, CUSHMAN & WAKEFIELD, 2Q23

Figure 89: UK – Prime Rental Index by size band



SOURCES: CGS-CIMB RESEARCH, CBRE RESEARCH, INDUSTRIAL RESEARCH FORUM, 2Q23

Figure 90: SREITs' peer comparison table

SREIT	Bloomberg Ticker	Rec.	Price (LC) as at 08 Jan 24	Target Price (LC) (DDM-based)	Mkt Cap (US $m)	Last reported asset leverage	Last stated NAV	Price / Stated NAV	Dividend Yield (%) FY23F	FY24F	FY25F
Hospitality											
CapitaLand Ascott Trust	CLAS SP	Add	0.98	1.32	$2,770	38.6%	1.16	0.84	6.2%	7.0%	7.3%
CDL Hospitality Trust	CDREIT SP	Add	1.08	1.43	$1,011	38.4%	1.31	0.82	5.8%	6.6%	7.1%
Far East Hospitality Trust	FEHT SP	Add	0.67	0.77	$1,000	32.2%	0.85	0.78	5.8%	6.4%	6.6%
Frasers Hospitality Trust	FHT SP	NR	0.48	NA	$675	39.3%	0.65	0.73	4.7%	5.0%	5.2%
	Simple Average					**37.1%**		**0.79**	**5.6%**	**6.3%**	**6.5%**
Industrial											
AIMS AMP	AAREIT SP	NR	1.30	NA	$758	36.4%	1.38	0.94	7.8%	7.5%	7.6%
CapitaLand Ascendas REIT	CLAR SP	Add	2.94	3.06	$9,702	36.7%	2.31	1.27	5.5%	5.6%	5.7%
Cromwell European REIT	CERT SP	Add	1.41	2.15	$866	37.4%	2.25	0.63	10.9%	11.0%	11.0%
ESR-LOGOS REIT	EREIT SP	Add	0.32	0.39	$1,848	37.7%	0.33	0.97	8.3%	8.0%	8.0%
Frasers Logistics & Commercial Trus	FLT SP	Add	1.13	1.27	$3,178	30.2%	1.17	0.97	6.2%	5.9%	6.1%
Keppel DC REIT	KDCREIT SP	Add	1.84	2.53	$2,379	37.3%	1.37	1.34	5.6%	5.9%	6.1%
Mapletree Industrial Trust	MINT SP	Add	2.48	2.61	$5,278	37.9%	1.88	1.32	5.5%	5.5%	5.7%
Mapletree Logistics Trust	MLT SP	Add	1.67	1.88	$6,249	38.9%	1.42	1.18	5.4%	5.1%	5.2%
Sabana Shariah	SSREIT SP	NR	0.38	NA	$309	33.8%	0.53	0.72	7.9%	7.9%	8.2%
	Simple Average					**36.3%**		**1.04**	**7.0%**	**6.9%**	**7.1%**
Office											
Keppel REIT	KREIT SP	Add	0.93	1.14	$2,628	39.5%	1.31	0.71	6.4%	6.5%	6.8%
OUE Commercial REIT	OUECT SP	Hold	0.29	0.36	$1,195	39.4%	0.59	0.49	7.3%	7.4%	7.6%
Suntec REIT	SUN SP	Hold	1.24	1.25	$2,698	42.7%	2.09	0.59	5.7%	5.6%	5.8%
	Simple Average					**40.5%**		**0.60**	**6.5%**	**6.5%**	**6.7%**
Retail											
CapitaLand Integrated Commercial	CICT SP	Add	2.01	2.17	$10,051	40.8%	2.12	0.95	5.4%	5.6%	5.7%
Frasers Centrepoint Trust	FCT SP	Add	2.26	2.52	$2,906	39.3%	2.31	0.98	5.4%	5.2%	5.3%
Lendlease Global Commercial REIT	LREIT SP	Add	0.64	0.83	$1,131	40.6%	0.78	0.82	7.3%	6.6%	7.2%
Mapletree Pan Asia Commercial Trus	MPACT SP	Add	1.51	1.54	$5,954	40.7%	1.81	0.83	6.4%	5.7%	5.7%
Paragon REIT	PGNREIT SP	Hold	0.87	0.88	$1,843	29.8%	0.91	0.95	5.3%	5.4%	5.7%
Starhill Global REIT	SGREIT SP	Add	0.53	0.62	$890	37.4%	0.80	0.66	7.2%	7.5%	7.7%
	Simple Average					**38.1%**		**0.86**	**6.2%**	**6.0%**	**6.2%**
Overseas-centric											
CapitaLand China Trust	CLCT SP	NR	0.82	NA	$1,139	42.4%	1.33	0.62	8.6%	9.2%	9.5%
Elite Commercial REIT	ELITE SP	Add	0.28	0.49	$168	49.6%	0.43	0.64	13.2%	14.8%	14.9%
Manulife US REIT	MUST SP	Add	0.08	0.25	$139	56.0%	0.40	0.20	49.8%	49.4%	48.6%
Sasseur REIT	SASSR SP	Add	0.69	0.95	$639	25.4%	0.85	0.81	9.0%	9.2%	9.7%
	Simple Average					**43.4%**		**0.56**	**20.2%**	**20.7%**	**20.7%**
Healthcare											
Parkway Life REIT	PREIT SP	Add	3.67	4.50	$1,668	36.0%	2.29	1.60	4.0%	4.1%	4.2%
	Simple Average					**35.5%**		**1.60**	**4.0%**	**4.1%**	**4.2%**
	Simple average for SIN					**38.3%**		**0.86**	**8.4%**	**8.5%**	**8.7%**

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS
NR estimates are based on Bloomberg consensus forecasts

ESG in a nutshell

Refinitiv ESG Scores

C+	A+	C+	C-	C+	C+
ESG Score	ESG Controversies Score	ESG Combined Score	ESG Environment Pillar Score	ESG Social Pillar Score	ESG Government Pillar Score

According to Refinitiv, CERT was rated C+ in its FY22 ESG score. This is based on C- for its Environmental, C+ for Social and B for Governance pillars. It rated highly at A+ for ESG controversies. CERT aims to achieve net zero carbon operating target emissions by 2040 and has set up a Sustainability Committee to provide greater accountability towards its sustainability performance. Some of its long-term ESG targets include achieving BREEAM, LEED or similar certifications for >40% of total number of assets in the portfolio by 2025F; having 100% of assets to be equipped with EU-labelled sanitary equipment and reclaim and recycle rainwater for all newly purchased assets and all existing assets by 2030; all assets with common areas will have a method of sorting common area waste for recycling/recovery within three years of asset purchase (new assets) or 2030 (existing assets); each development slated for redevelopment or major renovations must have a formal Net Zero Carbon pathway for raw material consumption by 2030. In Dec 2022, CERT has received an AA rating in the MSCI ESG Ratings assessment, a two-notch upgrade from BBB in 2021. It has also garnered an A for public disclosure rating in the GRESB assessment and retained a top 10 position for three consecutive years at the Singapore Governance & Transparency Index (SGTI).

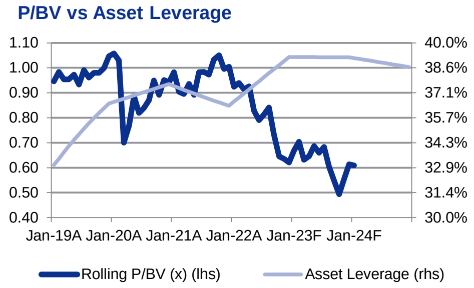
Keep your eye on	Implications
CERT is rated the weakest in environmental innovation at D+, while its product responsibility weakened yoy to C (from A- in FY21). As part of its business model innovation strategy, 46% of CERT's portfolio had exposure to the light industrial/logistics sector in terms of value, below its FY22 target of 50% and above.	Our current valuations have not ascribed a premium/discount for its ESG achievements. As CERT continues to 'green' its portfolio such as the redevelopment of Nervesa 21 into a LEED Platinum and WELL Gold certified Grade A office space, we believe its overall ESG score should improve.

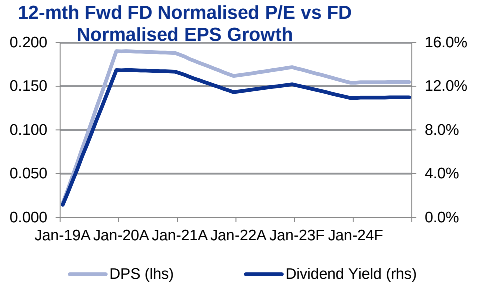
ESG highlights	Implications
CERT is ranked 67th amongst 104 Singapore companies and 20th amongst its real estate peers. As at 31 Dec 22, 31 properties attained green certification (30 Building Research Establishment Environment Assessment Method (BREEAM) and 1 Leadership in Energy and Environmental Design (LEED), representing 77% of CERT's AUM, and targets to increase this proportion to 80% by FY25F. It lowered its carbon emissions, water consumption intensity, energy intensity by 14%/26%/16% yoy in FY22. Green leases account for 24% of its total leases as at end FY22, mainly for its France properties. CERT raised a €180m loan facility in FY22 with three sustainability-linked KPIs and a Scope 3 (green lease) target, the first such target in Singapore. It achieved 27.3 training hours per employee in FY22, above its set target of 20 hours.	We have not applied any premium/discount for ESG in our fundamental valuations. However, as the group continues to build on its ESG efforts, we believe these could lead to improved operational efficiencies and financial performance.

Trends	Implications
CERT generally scores well in Governance with ratings ranging from B+ to B- for management, shareholders and CSR strategy.	We have not applied any premium/discount for ESG in our fundamental valuations.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS





Profit & Loss

(EURm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Rental Revenues	200.1	222.1	219.2	220.9	225.1
Other Revenues					
Gross Property Revenue	**200.1**	**222.1**	**219.2**	**220.9**	**225.1**
Total Property Expenses	(70.0)	(85.3)	(84.2)	(85.8)	(86.9)
Net Property Income	**130.1**	**136.8**	**135.0**	**135.1**	**138.2**
General And Admin. Expenses	(5.4)	(6.0)	(5.6)	(5.6)	(5.8)
Management Fees	(5.6)	(6.1)	(5.3)	(5.4)	(5.5)
Trustee's Fees	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Other Operating Expenses	0.2	0.0	0.0	0.0	0.0
EBITDA	**119.1**	**124.4**	**123.7**	**123.8**	**126.7**
Depreciation And Amortisation					
EBIT	**119.1**	**124.4**	**123.7**	**123.8**	**126.7**
Net Interest Income	(21.7)	(24.4)	(30.0)	(29.2)	(31.4)
Associates' Profit					
Other Income/(Expenses)	27.6	(42.4)	(41.0)	0.0	0.0
Exceptional Items					
Pre-tax Profit	**124.9**	**57.6**	**52.7**	**94.6**	**95.3**
Taxation	(28.3)	(13.8)	(3.9)	(8.5)	(8.6)
Minority Interests					
Preferred Dividends	(0.2)	(2.3)	(2.2)	(2.2)	(2.2)
Net Profit	**96.4**	**41.6**	**46.5**	**83.8**	**84.4**
Distributable Profit	**90.7**	**96.7**	**86.6**	**87.2**	**87.6**

Cash Flow

(EURm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Pre-tax Profit	**124.9**	**57.6**	**52.7**	**94.6**	**95.3**
Depreciation And Non-cash Adj.	(5.8)	66.8	71.0	29.2	31.4
Change In Working Capital	1.5	(6.9)	(12.7)	(1.9)	(1.7)
Tax Paid	(5.1)	(8.0)	(8.5)	(8.5)	(8.6)
Others					
Cashflow From Operations	**115.5**	**109.5**	**102.6**	**113.4**	**116.4**
Capex	(22.6)	(38.9)	(60.2)	(26.7)	(21.2)
Net Investments And Sale Of FA	(124.9)	0.0	0.0	0.0	0.0
Other Investing Cashflow	(85.1)	(67.5)	187.6	0.0	0.0
Cash Flow From Investing	**(232.7)**	**(106.3)**	**127.4**	**(26.7)**	**(21.2)**
Debt Raised/(repaid)	75.6	92.5	(50.0)	(30.0)	25.0
Equity Raised/(Repaid)	100.0	0.0	0.0	0.0	0.0
Dividends Paid	(83.2)	(93.3)	(86.6)	(87.2)	(87.6)
Cash Interest And Others	40.5	(29.1)	(27.3)	(26.8)	(29.1)
Cash Flow From Financing	**132.9**	**(29.9)**	**(163.9)**	**(143.9)**	**(91.7)**
Total Cash Generated	15.8	(26.8)	66.0	(57.2)	3.5
Free Cashflow To Firm	(117.1)	3.1	230.0	86.7	95.2
Free Cashflow To Equity	(60.0)	75.6	155.2	32.5	93.7

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS… cont'd

Balance Sheet

(EURm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Investments	2,450	2,529	2,344	2,370	2,391
Intangible Assets	0	0	0	0	0
Other Long-term Assets	6	9	11	13	15
Total Non-current Assets	2,456	2,537	2,354	2,383	2,406
Total Cash And Equivalents	59	35	101	44	48
Inventories					
Trade Debtors	18	16	20	20	20
Other Current Assets	1	1	1	1	1
Total Current Assets	**79**	**53**	**122**	**65**	**69**
Trade Creditors	36	42	35	35	36
Short-term Debt	23	51	0	350	346
Other Current Liabilities	32	36	36	36	36
Total Current Liabilities	**91**	**129**	**71**	**422**	**418**
Long-term Borrowings	900	964	970	595	629
Other Long-term Liabilities	66	73	69	68	68
Total Non-current Liabilities	966	1,038	1,039	664	697
Shareholders' Equity	1,413	1,359	1,302	1,299	1,295
Minority Interests					
Preferred Shareholders Funds	64	64	64	64	64
Total Equity	**1,477**	**1,423**	**1,366**	**1,363**	**1,360**

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Gross Property Revenue Growth	7.0%	11.0%	(1.3%)	0.8%	1.9%
NPI Growth	10.9%	5.1%	(1.3%)	0.1%	2.3%
Net Property Income Margin	65.0%	61.6%	61.6%	61.2%	61.4%
DPS Growth	(14.1%)	6.3%	(10.4%)	0.6%	0.5%
Gross Interest Cover	5.48	5.10	4.13	4.24	4.03
Effective Tax Rate	22.7%	23.9%	7.5%	9.0%	9.0%
Net Dividend Payout Ratio	94%	233%	186%	104%	104%
Current Ratio	0.86	0.41	1.71	0.15	0.16
Quick Ratio	0.86	0.41	1.71	0.15	0.16
Cash Ratio	0.65	0.27	1.42	0.10	0.11
Return On Average Assets	4.03%	1.62%	1.84%	3.40%	3.43%

Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Occupancy	0.9	0.9	0.9	0.9	0.9

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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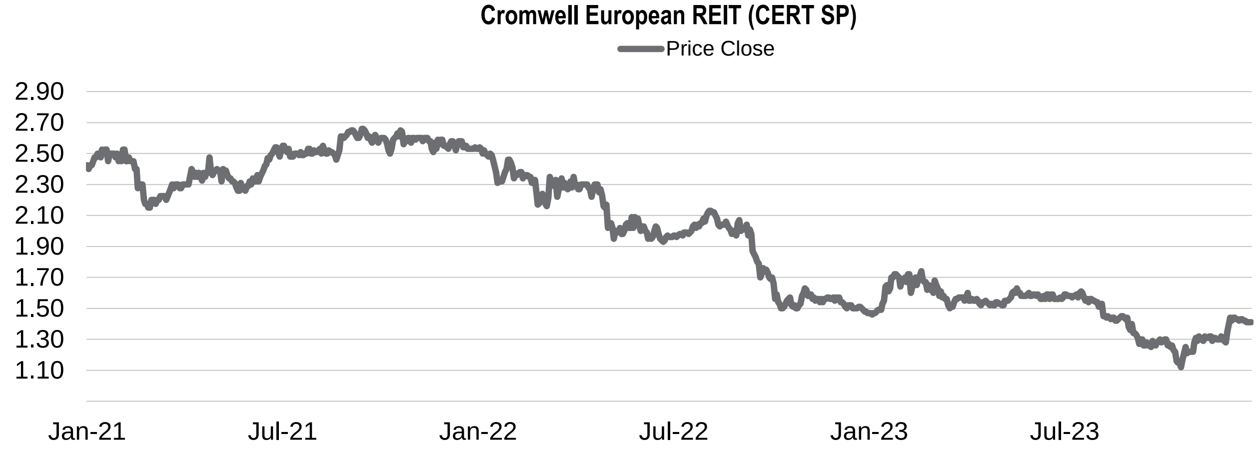
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

Spitzer Chart for stock being researched (2 year data)



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Add	The stock's total return is expected to exceed 10% over the next 12 months.
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