

Schroder Real Estate (SREI)

12/06/2024

Results analysis from Kepler Trust Intelligence

Schroder Real Estate's (SREI) final results to 31/03/2024 saw a positive NAV total return of 1.1%. The components of this positive total return were an increased 3.34pps dividend (+4%) and NAV decline of 2.7p (-4.4%) to 58.8p. SREI has outperformed the benchmark on a rolling three-year basis with a 5.5% per annum total return compared to the benchmark's 0.8% per annum.

Schroder Real Estate (SREI) and its closest peers continue to trade on wide discounts to NAV, in SREI's case c. 26%, which may be a signal that investors are happy to sit on the fence until a rate cut actually comes, unsure of whether property assets really are at attractive valuations. Two things strike us, the first is that SREI's net initial yield is about 200bp higher than 10-year gilts, and the estimated rental value (ERV), 8.4%, is clearly much higher than that. The spread between property yields and the 10-year gilt is an age-old rule of thumb for property investors, with 200bps often seen as the 'right' number. Earlier on in the interest rate cycle, our analysis suggested that UK REITs share prices were actually at about the right level, as opposed to being undervalued, compared to gilts at the time, but this calculation has shifted now, with SREI's yield at NAV now being at the 'right' level, and therefore one can suggest, based on long-established convention, that the share price, a discount of 26% to the NAV, and the dividend yield of over 8%, undervalues the portfolio. The second thing that strikes us is that SREI's portfolio valuation levelled off in the final quarter of the year, and while one must of course treat this as just one small datapoint, it's interesting that it occurred just as the net initial yield reached our so-called 'right' level.

SREI's adoption of specific sustainability criteria, overwhelmingly approved by shareholders in December 2023, is based on a pragmatic assessment that buildings that can demonstrate higher sustainability performance are very likely to generate higher rent, and thus higher returns for shareholders. The team has already completed a number of asset management initiatives where capital expenditure on upgrades has been exceeded by increases in rental income, and by adopting a strategy of improving existing assets rather than simply purchasing a portfolio of sustainable buildings, the trust's entry price is likely to be much lower. While ESG mandates more widely, for example ESG equity funds, remain somewhat polarizing, within real estate the focus on the sustainability performance of buildings is far more mainstream even among investors that haven't adopted formal targets such as SREI, so in our view the adoption of the formal policy should widen the appeal of SREI rather than restrict it to investors with their own specific ESG goals.

Overall, SREI has generated further rental growth, has an attractive net initial and reversionary yield compared to government bonds, more so when measured at the share price discount of 26% and a strategy of adopting sustainability performance as a key part of asset management, ahead of the peer group, at a point when in our view such a strategy will only become more mainstream over the next few years.

[CLICK HERE TO READ THE FULL REPORT](#)

Visit [Kepler Trust Intelligence](#) for more high quality independent investment trust research.

Important information

This report has been issued by Kepler Partners LLP. **The analyst who has prepared this report is aware that Kepler Partners LLP has a relationship with the company covered in this report and/or a conflict of interest which may impair the objectivity of the research.**

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

[PLEASE SEE ALSO OUR TERMS AND CONDITIONS](#)

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street, London W1S 2GF with registered number OC334771.

This information is provided by Reach, the non-regulatory press release distribution service of RNS, part of the London Stock Exchange. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact ms@lseg.com or visit www.ms.com.

RNS may use your IP address to confirm compliance with the terms and conditions, to analyse how you engage with the information contained in this communication, and to share such analysis on an anonymised basis with others as part of our commercial services. For further information about how RNS and the London Stock Exchange use the personal data you provide us, please see our [Privacy Policy](#).

END

NRAKZGMVDZVGDZM