

**Channel Islands Property Fund Limited (“CIPF”)****Portfolio Update – November 2024**

The net asset value of CIPF has reduced by 5.9p per share (or 6.6%), from 89.3p in June 2024 to 83.4p in September 2024. This is primarily due to the overall decrease in the value of the property portfolio and the reduction in the valuation of the hedging, which contribute 4.55p and 1.18p of the decrease respectively.

The value of the property portfolio reduced during the year-end valuation exercise by £5.5 million when compared to 2023 as a result of continued higher interest rates and the lack of transactional activity on sales and purchases, which provide the broad basis on which valuers assess value.

Properties where asset management strategies have been largely completed, including Regency Court, Liberation House and Windward House, have all increased in value despite the wider macro environment. The valuation of other properties where no asset management opportunities existed in the year have fallen.

It is positive to note that the Bank of England has announced its second 0.25% base rate cut in the second half of 2024, the most recent by 8 votes to 1 in favour by the Monetary Policy Committee. Historically, property values begin to recover as interest rates begin to fall, albeit with a time lag of up to 6 months.

During the financial year, new lettings have been agreed with Vistra and PwC at Royal Bank Place, the GFSC at Regency Court and Stonehage Fleming at Liberation House. This is accompanied by lease re-gears with Cofra, Sancus and Quilter at Windward House and PwC at Royal Bank Place. In addition, a new lease was agreed with Praxis at Regency Court which commenced in November 2024.

The vacancy rate in the portfolio where there is no current rental income is 5.64% and this is in a single building at 17-18 Esplanade in St Helier, where the lease to SG Hambros ended on 31 October 2024 and was not renewed. This property is 29,241 sq.ft. Discussions are ongoing in relation to this property with a potential owner occupier, which may or may not lead to a transaction being concluded.

Rent collection continues to remain at 100%, reflecting the quality tenants in the portfolio. The average length of lease in the portfolio to expiry is 10.01 years as at 30 September 2024.

As previously reported, CIPF fixed £45m of its debt at 1.67% and capped a further £45m at 1.00%. These arrangements will run to the end of the debt term on 30 June 2027. Given the high interest rate environment over the last 3 years, this hedging position has reduced CIPF's exposure to interest rate risk, providing some protection for investors' returns during this higher interest rate environment.

In July 2024, CIPF fixed the remainder of its bank debt at 4.09% with expiry aligned to the existing fixes. This provides certainty on the level of interest rate repayments in an environment where the timing of interest rate cuts remains uncertain.

The value of these interest rate fixes is impacted by the prevailing interest rate environment and the length of time remaining. This value will naturally reduce as the expiry date nears. The value of the hedging on 30 September 2024 was £6.1m.

The reduction in net asset value implies a loan to value ratio at just over 50% with the bank covenant set at 55%. This suggests that values would need to fall by a further £18 million before the covenant limit is exceeded.

Following CIPF's year-end and the Labour Government's first budget in the UK, future interest rate expectations have altered, with rates expected to fall more slowly than was previously forecast implying a higher cost of floating rate debt for longer, squeezing cashflow.

Occupational markets are strong across all three islands in which CIPF has investments.

In Guernsey, at Admiral Park, Comprop completed the development of Plaza House, a 66,000 sq.ft. property which has been let to Intertrust, BDO, IQEQ and Artemis Trust. This building is the last major office property to be built in this location and the supply of new or refurbished space on the market currently is scarce.

In Jersey, D2RE research highlights some 275,000 sq.ft. of office occupier demand which needs to be satisfied in 2025 / 2026. As with Guernsey, supply of space is restricted, largely due to labour and building price inflation causing new development to be uneconomic unless rent rates rise to around £55 p.s.f. - £60 p.s.f., a quantum leap from current prevailing rates.

It is unlikely that all of the outstanding demand will be able to be satisfied, necessitating that some occupiers renew in their current locations, which may no longer be suitable for operations. The imbalance of demand and supply is likely to result in rents rising across the prime areas of the Esplanade, Liberty Wharf and Seaton Place.

In the Isle of Man, the first speculative office scheme in some time has commenced at Villiers, Loch Promenade in Douglas, where developer Tevir is seeking initial rents in excess of £28.00 p.s.f. which, if achieved, will show healthy uplifts in headline office rents on the island. It is reported that, despite contractors just breaking ground, there are already pre-let negotiations with potential occupiers underway.

Overall, the CIPF portfolio has shown consistent year on year rental growth which continues to support the payment of dividends to shareholders. In 2025 alone there are 9 rent reviews to be agreed, representing 25% of the current rent, which offers good opportunities to continue to increase income.

In our view, the current portfolio is well positioned to take advantage of a market recovery as rates fall and transactional volumes increase. This will provide pricing stability and an improvement in market sentiment for properties let to good covenants on long leases in locations where there is a clear path to rental growth and strong occupier demand.

It is intended that the Investment Manager will give a presentation to interested shareholders in the first few weeks of December on a date to be advised.

**Ravenscroft Corporate Finance Limited**

**Investment Manager**

**13 November 2024**



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