Charities Property Fund
Savills Investment Management
33 Margaret Street, London
W1G 0JD

29 October 2024

Dear Investor,

Markets are eagerly awaiting the Government's inaugural budget due to be delivered next week. The Chancellor faces some difficult choices, but will have received a boost this week after the International Monetary Fund (IMF) gave the UK one of the biggest growth upgrades in the advanced world this year. The IMF forecasts that the UK economy will grow by 1.1 per cent this year, a significant upgrade from the 0.7 per cent growth forecast made in July, and the second highest upgrade after Spain. The UK's Gross Domestic Product is expected to expand by 1.5 per cent next year. The IMF said the UK's growth would be powered by falling inflation and monetary easing, which would stimulate domestic demand.

Inflation has continued its steady decline in 2024, reaching the Bank of England's 2% target in May and falling to 1.7% in September, which is the first time CPI has been below target since April 2021. However, unemployment remains low at 4.4% and a tight labour market and some recent public sector pay settlements could result in inflation changing its trajectory. The Bank of England has nevertheless made the first cut in interest rates and is likely to cut again in November. As a result the inflection point for investor confidence has been reached. The Monetary Policy Committee expects inflation to come in below target on both the two and three year horizons, which suggests that the markets might be underestimating the likely speed and scale of rate cuts, although it is worth recalling that markets overestimated the speed of interest rate cuts this time last year.

Within the commercial real estate market, the reduction in capital values experienced over the last two years appears to have bottomed out.  We saw a marginal increase in the underlying property valuations within the Fund at June, gaining momentum in Q3 with the Unit Price rising by 0.3% in September. With lower inflation and likely interest rate cuts, we expect capital growth to continue. Something that has received relatively little comment in recent months is the fact that for the first time since 2017, all of the main MSCI average rental growth indices are showing positive year-on-year rental growth.

On the capital side, generally buyers are not abundant, but our strategy of holding smaller lot sizes has been beneficial. They exhibit a number of attractive characteristics, including strong levels of occupational demand and on the capital side, good demand from both investors and owner occupiers, providing increased liquidity and generating competitive tension on all our sales. The investment market is evenly balanced and logistics, retail warehousing and the alternatives sectors are all attracting investor interest. Even the office sector is demonstrating some liquidity, albeit at discounted pricing.

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## Performance

The Charities Property Fund posted a positive total return for Q3 2024 of +1.5% and a total return of +2.5% for the last 12 months. This compares well to the AREF UK All Balanced Open-Ended Property Fund Index which registered a return of +1.2% for Q3 and +1.7% for the last 12 months.

**Performance to 30 September 2024**

| | 3 months | 1 Year | 3 Years | 5 Years | 10 Years | Since launch |
|---|---|---|---|---|---|---|
| **CPF** | +1.5% | +2.5% | +1.7% pa | +2.8% pa | +5.7% pa | +6.3% pa |
| **AREF All Balanced Funds Index** | +1.2% | +1.7% | -0.4% pa | +1.7% pa | +4.5% pa | +5.1% pa |

Source: AREF/MSCI UK All Balanced Property Fund Index 30 September 2024. NB past performance is not a reliable indicator of future performance. Total return is net of fees and expenses.

The Fund has outperformed the Index by +0.8% over the last 12 months, and by an average of +2.1% per annum over the last 3 years, +1.1% per annum over the last 5 years and +1.2% per annum over 10 years.

## Portfolio Activity

The Fund has sold six properties during the quarter, realising £34.3 million. The assets were varied and included a car showroom, a leisure unit, two retail warehouses and two industrial units. These six disposals collectively realised a +5.1% premium to their latest valuations. We continued to see a small number of net redemptions at the September dealing date and therefore there is a need to make disposals, however the improvement in sentiment towards commercial real estate and the improvement in capital values, twinned with falling interest rates is likely to reverse this trend in future quarters. Since the quarter end we have sold one asset and have another in solicitors' hands. It is reassuring that we continue to be able to sell assets and sell them on average at prices in excess of their independent valuations.

It is also worth noting that these are non-core assets where we have completed all of the asset management; we are retaining those with longer term income certainty and capital appreciation potential.

Rental growth is continuing and we settled seven rent reviews over the quarter adding £790,000 per annum to portfolio income. We see no signs of this abating due to supply and demand being evenly balanced across many sectors and new development curtailed by increased funding and construction costs. Further detail is outlined in the attached factsheet which sets out the key points and highlights of the Fund for the quarter.

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Yours sincerely,

**Harry de Ferry Foster MRICS**
**Fund Director**

**Contact Information**

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Further information can be found about the Fund at our dedicated website: www.cpfund.co.uk

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