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

31 July 2024

Dear Investor,

Since our last factsheet the UK has experienced a General Election, bringing in a Labour Government for the first time since 2010. It was a decisive result producing a majority of 172 and therefore provides certainty. The markets generally responded well, partly to the prospect of change and partly because it offers the hope of stability.

The new administration has spent the first couple of weeks criticising the state of the public finances (much as the incoming Conservative Government did back in 2010), however the economic environment continues to improve – Economists at Barclays, Deutsche Bank, Goldman Sachs along with the EY ITEM club have all raised their growth forecasts for this year and next for the UK economy after official figures showed the economy grew by 0.4% in May; double the 0.2% forecast. Sterling is also on course to rise to its highest point against the US dollar in more than two years, driven by mounting optimism about the UK economy and greater political stability compared with Europe and America.

Inflation has continued its steady decline in 2024, reaching the Bank of England's 2% target in May. However, unemployment remains low at 4.4% and a tight labour market and some expected public sector pay settlements could result in it surprising on the upside. The latest data shows a 5.8% annual increase in average regular weekly earnings.

Without a sufficient softening in wage growth, it's unlikely inflation will stabilise to a level that would allow the Bank of England to embark on significant interest rate cuts, however they are likely to begin to reduce slowly, with two 0.25% cuts pencilled in for 2024.

Turning to the commercial real estate market, the reduction in capital values experienced over the last two years appears to have bottomed out and we saw a marginal increase in the underlying property valuations within the Fund this quarter overall. With lower inflation and likely interest rate cuts, we expect capital growth to continue.

On the capital side, generally buyers are not abundant, but our strategy of holding smaller lot sizes for liquidity has been beneficial. There is good competition for smaller lots sizes, with a dislocation between occupier and capital markets often underpinning demand and we have generated competitive tension on all our sales. The market is evenly balanced and logistics, retail warehousing and the alternatives sectors are all attracting investor interest. The office sector is also demonstrating some liquidity, albeit at discounted pricing.

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Performance

The Charities Property Fund posted a positive total return for Q2 2024 of +1.2% and a total return of +0.6% for the last 12 months. This compares well to the AREF UK All Balanced Open-Ended Property Fund Index which registered a return of +1.1% for Q1 and +0.1% for the last 12 months.

Performance to 30 June 2024

	3 months	1 Year	3 Years	5 Years	10 Years	Since launch
CPF	+1.2%	+0.6%	+2.5% pa	+2.6% pa	+5.8% pa	+6.4% pa
AREF All Balanced Funds Index	+1.1%	+0.1%	+0.6% pa	+1.5% pa	+4.8% pa	+5.2% pa

Source: AREF/MSCI UK All Balanced Property Fund Index 30 June 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 +0.5% over the last 12 months, +4.7% over the last 24 months, and by an average of +1.9% per annum over the last 3 years, +1.1% per annum over the last 5 years and +1.0% per annum over 10 years.

Despite outperforming the wider market, the Fund unit price is down -5.6% over the last 12 months. Conversely the dividend increased by 37.9% to 7.60 pence per unit over the same period, mainly due to the one-off Gateshead surrender premium. Excluding this premium, the Fund distribution also continued its growth, increasing by +4.0% year on year.

Portfolio Activity

The Fund has sold six properties in the first six months of 2024, totalling £34.2 million including three during the last quarter which accounted for £18.9 million. The three sales during the quarter comprised a leisure unit in Sheffield and industrial units in Milton Keynes and Normanton. A further three sales have completed since the quarter end raising £15.1 million. In total, these nine disposals totalled £49.2 million and collectively realised on average a +6.6% premium to their latest valuations. We are also in advanced negotiations to sell a further four assets, totalling £28.3 million. Whilst we have continued to see net redemptions and therefore there is a need to make disposals, it is reassuring that we are 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; we are retaining those with longer term income certainty and capital appreciation potential.

The vacancy rate within the portfolio has fallen from 2.9% in Q1 to only 1.8% with the letting of the entirety of an office building in Maidenhead. The void rate will step back up to 2.7% with an imminent logistics vacancy in Bristol, however this unit seems destined to relet quickly at an enhanced rent. This 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

Property Fund Manager of the Year

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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This Fund is a registered charity (number 1080290) and is a common investment fund established by the Charity Commission for England and Wales under Section 24 of the Charities Act 1993. Investment into the Fund is only available to charities within the meaning of section 96 or 100 of the Charities Act 2011.

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