Federated Hermes Property Unit Trust

Quarterly Update

Q1 24

March 2024

Market Overview

The UK economy experienced a short and mild recession at the end of 2023. In Q1 2024, UK GDP came in at 0.6% with leading indicators in the form of PMI surveys suggesting the economy could be entering a period of stronger growth. This may well lead to upward revision amongst some forecasters, at least for 2024. As of March 2024, inflation stood at 3.2%, the lowest since September 2021 and is expected to fall in the near term as energy prices, previously the main driver of inflation, exert substantial downward pressure. Oxford Economics estimate that CPI will drop to +2.3% by end of 2024 and +2.2% in 2025. Expectations of rate cuts remain, albeit the first cut is not expected until June at the earliest with forecasters estimating rates to settle between 4.25% and 4.50% by year end. Nevertheless, the view remains that benefits of loose monetary policy may not be seen until 2025.

The housing market, a proxy for the general health of the economy, has risen 1.6% YoY in March 2024 vs 1.2% in February 2024, with mortgage approvals rising to the highest level since September 2022, as interest rates on newly drawn loans fell sharply. However, with affordability still subdued, strong recoveries in activity and prices are unlikely. According to CBRE, prime yields across most commercial subsectors have remained broadly stable since December 2023 following the major pricing correction. Investor sentiment remained weak as the market struggled to absorb significant increases in the cost of capital. This has materially impacted transactional activity, with investment volumes down 19% YoY at the end of March 2024. There are signs that sentiment and liquidity are starting to improve which is expected to gain further traction this year.

In Q1 2024, the MSCI UK ‘All Property’ Index, which is a proxy for the wider UK real estate market, recorded a total return at ‘All Property’ level of 0.6%. This was up from -0.1% recorded in Q4 2023, and it was the first positive quarterly performance since September 2023. The retail sector delivered the highest performance across all sectors for the first time since 2004. This was mainly driven by the retail warehouse sub-sector. Capital value growth remained negative at ‘All Property’ level (-0.8% in Q1 2024) and was affected by the office sector, which recorded -2.8% for the same period. Retail and industrial delivered slightly negative capital performance at -0.2%. This is now the 21st consecutive month of recorded yield expansion at the ‘All Property Level,’ which compares with the 25 months recorded during the GFC. Rental growth remained positive across all sectors (+0.8%) with the residential sector recording a 2.0% uplift. Meanwhile, Retail and ‘Other’ were marginally positive (0.1% and 0.2% respectively).

Industrials held up well with the best rental growth amongst the commercial sectors over the period and the outlook is positive following significant repricing in 2022. Offices have continued to suffer significant declines, facing structural challenges due to the shift to remote working and valuations reflecting the increased capital costs for ESG compliance and the focus of occupiers on higher quality space in prime locations. The widening of planning policy for permitted development introduced in March 2024 could provide some respite for more challenged office assets, through change of use to residential. In the retail sector, there has been a limited change in performance over the period, mainly due to rebased rents and yields, providing attractive income. The hospitality/leisure sector has experienced weaker performance due to the deteriorating economic outlook and the cost-of-living squeeze, as customers have cut back on discretionary spending. The hotel sector recorded positive occupational market performance, but the investment market continues to be negatively impacted due to the scarcity and cost of debt finance.

Portfolio Update

At the end of March 2024, the Trust’s underlying direct property portfolio was valued at £821.7 million. There were 61 direct properties in the portfolio and no indirect assets. The portfolio’s had a net initial yield of 5.7%, a reversionary yield of 7.4% and a nominal equivalent yield of 6.8%. This is a material increase from the cyclical peak in mid-2022 with a nominal equivalent yield of 4.7%. The Trust distributed a yield of 4.1% to investors in the last 12 months, which was slightly lower than the benchmark weighted average of 4.2%. The vacancy rate in the property portfolio at the end of Q1 was 9.4% of total ERV, with more than half of the vacancy composed of voids that include refurbishments or possible asset repositioning. The MSCI Other Balanced vacancy rate was 12.5% for the same period.

During the quarter, the Trust unconditionally exchanged on the sale of a retail parade in Croydon at a price of £9m (9.4% NIY); the transaction completed in May 2024. The sale was in line with the end-January 2024 valuation. Over the last 12 months the Trust sold £267m of assets (including Croydon). The significant recent disposal activity has been undertaken with the intention of striking a balance between providing liquidity to redeeming investors, whilst protecting the interests of remaining investors to ensure future fund performance.

Performance

During Q1 2024, the Trust’s total return to unit holders was 0.2% compared to the MSCI/AREF Other Balanced benchmark weighted average return of 0.6%.

In terms of quarterly performance breakdown, the income return of the Trust was 0.7%, behind the benchmark of 1.0%. The capital element continued to record negative performance but showed an improving trend compared to the previous quarter (-0.5% compared to the benchmark of -0.4%). Over the 12-month period to the end of March 2024, the Trust delivered a total return of -2.7%, compared to the benchmark of -1.3%. For the annual performance breakdown, income was almost in line with the benchmark (3.9% vs 4.0%), while the capital return delivered a -6.4% compared to the benchmark of -5.1%. The Manager’s focus remains on seeking to deliver sustainable long-term relative performance to its investors. Over the 10-year period, the Trust delivered a 6.1% total return per annum compared to the benchmark of 5.4% which is 70bps outperformance.

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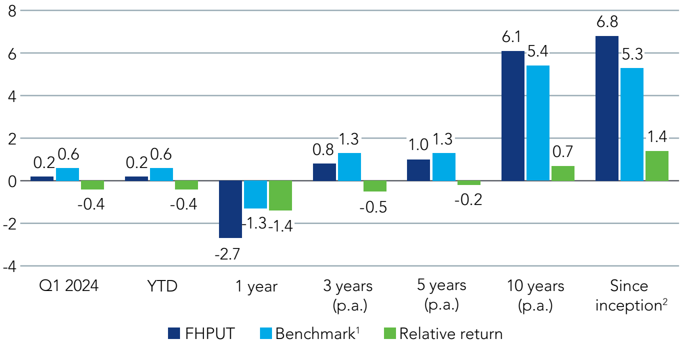
The industrial sector was the main positive contributor to the portfolio's performance. The sector continued to record yield stabilisation and a resilient occupational market that is maintaining rental growth. The retail warehouse sector also had a positive contribution, driven by improving investor sentiment and active management activity. The Rest of UK and City of London office sectors were the main detractors to portfolio performance, as weaker investor sentiment, outward yield movement and increased capital requirements continued to impact negatively.

In terms of positive property level contributors, the apart-hotel in the City of London was the best performer, with stabilised values and now delivering a 6.2% net initial yield. The shopping park in Stratford upon Avon (Maybird) was the other main contributor due to active management and letting progress. The two detractors of performance over the quarter were both office investments: the office in Clerkenwell/Farringdon (Sekforde Street) and the office in Maidenhead (Horizon). Both were affected by poor investor sentiment and for the latter specifically due to new vacancies in the building.

Performance as at end March 2024

Fund v benchmark (%)



[1] MSCI/AREF UK Other Balanced Property Fund Index (Weighted Average). Years to end March 2024, annualised in GBP. Returns rounded to 1 decimal place are net of fees. Source: MSCI/AREF UK Other Balanced Property Fund Index.

[2] Fund inception: 31 December 2000.

Past performance is not a reliable indicator of future results.

Investment Management & ESG

The Manager has achieved good results in investment management despite challenging market conditions. The completed lettings, rent reviews, and renewals are a testament to the high-quality underlying real estate.. ESG integration is a key area of focusand the Manager is engaging with tenants to reduce energy consumption and the implementation of net zero related initiatives, including EVCP and PV solar panels. The Manager is also collaborating with a consultant to extend the implementation of the portfolio's climate resilience analysis.

Thomas Road Industrial Estate, Limehouse, London: In Q1 2024, the Manager proactively took a surrender of a unit and is currently refurbishing it to include double glazing, LED lighting, electric air conditioning, and solar panels on the roof. Its improved environmental credentials is expected to increase the demand for occupancy and drive the rental prices across the estate from £20 per square foot to over £30 per square foot.

Nexus Park, Newbury: A freight transport company has agreed to take a 12,700 sq. ft unit. The lease will last for 10 years with a 5-year break option. They will be paying a rent of £171,720 per annum, which is a record rent of £13.50 per square foot on the estate.

Maybird Shopping Park, Stratford upon Avon: The Trust recently completed a five-year lease with Hotel Chocolat for a rent of £120,000 per annum, which amounts to £25 per sq. ft. Also, an agreement has been signed with Burger King for a 15-year term at £110,000 per annum, which reflects £43.65 per sq. ft. The Manager will soon start installing solar panels on four units, after getting approval from each of the tenants. This is part of the Trust's net-zero plan and other ESG-related initiatives. The Manager is also adding specific requirements to the landscaping contracts across the portfolio to improve biodiversity.

Cuton Hall Lane, Chelmsford: an agreement for lease has been completed with Costa for a drive-thru within the retail warehouse asset in Chelmsford. A 15-year lease has been agreed at a rent of £120,000 per annum with 12 months rent-free. The Manager is currently developing the all-electric pod for Costa.

St John Street, Farringdon: following the recent refurbishment works, the Manager has successfully leased the entire building over the last 12 months, resulting in a total annual rent of £362,455. The ground and basement floors have been leased to a bar operator for a 15-year term. The first and second floors have been leased at a rate of £67.50 per square foot. Moreover, the Manager has recently completed a letting of the top floor in Q1 2024 for an office rent of £69.50 per square foot, which is a record for the building and proves the rental reversion.

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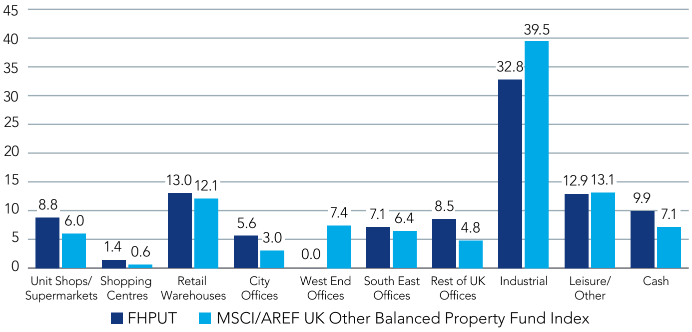
Climate X: The Manager has started a collaboration with a consultant to extend the implementation of the portfolio's climate resilience analysis. This partnership has resulted in the creation of a tool that will help in providing location-specific physical and transition risk ratings, along with climate-adjusted value at risk forecasts. The tool will help in future cash flow analysis by quantifying the probability and severity of weather events at an asset level.

Portfolio Structure Comparison

Sector Weighting % Total Portfolio Value



Source: Federated Hermes Real Estate and MSCI/AREF UK Property Fund Index, end March 2024. GAV basis.

Outlook

The UK's economic outlook has improved in recent months with falling inflation and more stable economic activity although wider geopolitical issues may cause further volatility. This could lead to a potential loosening of monetary policy in the second half of 2024. In the commercial property market, a decrease in risk-free interest rates would ease the pressure on yields but income rather any inward shift in cap rates will be the primary driver of total returns. The Manager is fully committed to implementing a long-term investment plan based on ESG principles and the pathway to Net Zero. The strategy includes key asset management initiatives aimed at promoting sustainable income returns, reducing the overall portfolio vacancy rate, and driving future capital growth. Despite the current challenges, the Manager is aware of market cycles and is committed to responsible investment practices.

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Key Statistics

As at end March 2024

Gross asset value	£911.8m
Net asset value	£911.8m
Directly held assets	61
Indirect real estate vehicles	0
Offer Price	£6.343
Bid Price	£5.936
Net Asset Value per unit	£6.006
Number of unit holders	74
Distribution per unit - paid (Quarter to March 2024)	4.539p
Distribution per unit - paid (Year to March 2024)	23.54p
NAV Yield	4.1%
12 month return to unit holders	-2.7%
Quartely return	0.2%

Past performance is not a reliable indicator of future performance.
Source: Federated Hermes Real Estate, end March 2024. Returns shown are in GBP, net of fees.

Top 10 Direct Holdings by Value Band (GAV)

As at end March 2024

Asset	Sector	Lot Size (£m)
Maybird Shopping Park, Stratford-upon-Avon	Retail Warehouses	60-80
Broken Wharf House, High Timber Street, London EC4	Leisure/Other	40-60
1/15 Thomas Road, Limehouse, London, E14 7BN	Industrials	20-40
Sainsbury's, Maxwell Road, Beaconsfield	Supermarkets	20-40
LGC Complex, Newmarket Road, Fordham, CB7 5WW	Industrials	20-40
Reading Metropolitan, 80 Caversham Road, Reading	Industrials	20-40
Round Foundry & Marshalls Mill, Water Lane, Holbeck Urban Village, Leeds, LS11	Standard Offices RUK	20-40
Guinness Road Trading Estate, Manchester	Industrials	20-40
Boundary House, 91/93 Charterhouse St, London EC1	City Offices	20-40
Coln Industrial Estate, Old Bath Road, Colnbrook, Slough	Industrials	20-40

Source: Knight Frank Valuations and Federated Hermes Real Estate, end March 2024.

Important Notes for Investors

The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Any investments overseas may be affected by currency exchange rates. Past performance is not a reliable indicator of future results and targets are not guaranteed. Property is an illiquid asset. Ability to redeem from a property investment is limited and may be significantly deferred in adverse market conditions.

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The Federated Hermes Property Unit Trust ("FHPUT") is constituted by an amended and restated trust deed between the Appointments Committee, the Trust Manager and the Trustee. The Trust Manager, Hermes Alternative Investment Management Limited ("HAIML"), is the legal operator of FHPUT. It is authorised and regulated by the Financial Conduct Authority and has been appointed by the Appointments Committee to undertake all portfolio and risk management activities. The Trust Manager has formed a special committee, known as the FHPUT Committee, through which it considers certain matters on behalf of Unit Holders. Each of the members of the FHPUT Committee is a member of the Appointments Committee. The Trust Manager delegates certain of its property portfolio activities to Hermes Real Estate Investment Management Limited. Issued and approved by Hermes Investment Management Limited ("HIML") which is authorised and regulated by the Financial Conduct Authority. Registered address: Sixth Floor, 150 Cheapside, London EC2V 6ET. HIML and HAIML currently carry out regulated activities associated with Hermes Real Estate Investment Management Limited ("HREIML"). Telephone calls may be recorded for training and monitoring purposes. Potential investors in the United Kingdom are advised that compensation may not be available under the United Kingdom Financial Services Compensation Scheme.

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