abrdn European Logistics Income plc

Capturing long-term income potential from logistics real estate in Europe

Performance Data and Analytics for Quarter 4, 2023

Investment objective

To aim to provide a regular and attractive level of income return together with the potential for long term income and capital growth from investing in high quality European logistics real estate.

Strategy

To deliver the investment objective through investment in, and active asset management of, a diversified portfolio of logistics real estate assets in Europe.

Cumulative performance (%)

	31/12/23	3 months	1 year
Share Price (GBp)	61.6p	0.3	(3.5)
NAV (Eur)[A]	93.4c	(5.0)	(17.1)
NAV (Converted to GBp)[A]	81.2p	(5.1)	(19.0)

Discrete performance (%)

	31/12/23	31/12/22	31/12/21	31/12/20	31/12/19
Share Price (GBp)	(3.5)	(38.3)	12.4	26.6	(7.0)
NAV (Eur)[A]	(17.1)	(3.8)	12.4	13.6	8.6
NAV (Converted to GBp)[A]	(19.0)	1.7	5.4	20.0	(0.1)

The Company launched on 15 December 2017, therefore discrete performance figures are not available for full years prior to 2018.
Share price total return is on a mid-to-mid basis.
Dividend calculations are to reinvest as at the ex-dividend date.
Source: abrdn Investments Limited, Lipper and Morningstar.
Past performance is not a guide to future results.

Fund managers' report

Highlights

- The portfolio value declined 3.9% to €633.8 million (30 September 2023: €659.8 million), driven by continued outward yield movement but with key medium-term economic indicators improving
- NAV per Ordinary share decreased by 6.4% to 93.4c (GBp – 81.2p) (30 September 2023: 99.8c (GBp – 86.3p)), reflecting a NAV total return, with quarterly distributions reinvested, of -17.1% in Euro terms (-19.0% in sterling) for the 12 months to 31 December 2023
- EPRA Net Tangible Assets decreased by 7.4% to 96.6c per Ordinary share (30 September 2023 – 104.3c)
- Portfolio WAULT of 7.0 years to break and 8.4 years to expiry
- Terms agreed for the disposal of the Company's vacant French asset with completion targeted before the end of March with the proceeds used to further strengthen the Company's balance sheet
- 38.7% Loan to Value ('LTV'), with the Investec €70 million facility undrawn at the quarter end. The Company's fixed debt facilities totalled €259.5 million at an average all-in interest rate of 2.0%, with no re-financings until mid-2025
- Ranked first in its peer group in the 2023 GRESB (Global Real Estate Sustainability Benchmark) awards, achieving 89/100 points and a 5-star rating.

[A] Total return; NAV to NAV, net income reinvested.
[B] 0.75% per annum of net assets up to €1.25bn and 0.60% thereafter.
[C] Calculated using the company's historic net dividends and quarter end share price.
[D] Exchange rate £1 : €1.15 (30 September 2023: £1 : €1.16).
[E] EPRA Net Tangible Assets focuses on reflecting a company's tangible assets and the calculation assumes entities buy and sell assets, thereby crystallising certain levels of deferred tax liability.

Asset allocation (%)

Direct Property	97.2
Cash & Cash Equivalents	2.8
Total	**100.0**

Total number of investments 26

Key information
Calendar

Year end	31 December
Accounts published	April, September
Distributions	March, June, September, December
Launch date	December 2017
Fund manager	Direct Property Team
Annual management fee[B]	0.75%
Yield[C]	7.9%
Premium/(Discount)	(24.1)%
Gearing	38.7%
Net Asset Value	€384.9m

AIFMD Leverage Limits

Gross Notional	3.65x
Commitment	1.85x

Capital structure

Ordinary shares	412,174,356

Allocation of management fees and finance costs

Revenue	100%
Capital	0%

Trading details

Bloomberg code	ASLI LN
ISIN code	GB00BD9PXH49
Sedol code	BD9PXH4
Stockbroker	Investec
Market makers	CFEP INV. JEFF JPMS NUMS PEEL WINS

All sources (unless indicated): abrdn: 31 December 2023.

Fund managers' report - continued

Performance

The independent unaudited external valuation of the Company's property portfolio undertaken by Savills (UK) Limited decreased by €25.9 million, or 3.9%, in the quarter. The Spanish assets witnessed the biggest decline (-6.5%), followed by Germany (-4.7%), France (-3.8%) and the Netherlands Poland (-3.0%). The portfolio valuation for Poland was slightly positive.

For the 12 month period to 31 December 2023, the Company's net asset value total return with quarterly distributions reinvested was -17.1% in Euro terms (-19.0% in sterling terms).

Dividend

In light of the initial response to the previously announced Strategic Review, the Board and its advisers are keen to ensure that the Company is optimally positioned, and that it maintains the maximum flexibility, to allow it to advance any particular proposal. As a result, the Board has taken the decision to forgo declaring a fourth interim distribution for the quarter ended 31 December 2023, which has historically been declared in February and paid in March each year.

Rent Collection & Asset Management

As at the date of this announcement, 94% of the expected rental income for the quarter ended 31 December 2023 has been collected. The outstanding balance predominantly comprises monies owed from electric vehicle manufacturer Arrival. The Company has noted the placing into administration of Arrival's UK-based operations.

Despite the continued efforts of the Investment Manager to secure both a surrender premium, which had previously been agreed, and the outstanding rental payments for 2023, the Company has as yet been unable to reach a satisfactory conclusion with Arrival. The Company previously noted Arrival's announcement and SEC filing regarding bridge financing and in the continued absence of a satisfactory conclusion, legal proceedings to recoup monies owed continued during the quarter. With strong levels of interest being shown in both the LEED Gold accredited units, currently leased to Arrival and the smaller LEED Silver-rated unit, previously occupied by Amazon, in Getafe, the Company is advancing discussions for the cancellation of the lease agreement with Arrival to take full possession of the units.

The Company is also progressing the sale of its vacant French asset and is targeting completion towards the end of March, at a price representing a modest discount to the 30 September 2023 independent valuation. Further details will be provided on completion of the disposal. The proceeds of any disposal would be used to further strengthen the Company's balance sheet, with other accretive measures including any share buyback under consideration on completion of the Strategic review.

At its multi-tenant warehouse in Lodz, Poland, the Company has completed a three-year lease extension to EGT, the freight operator, which has agreed to remain in the 1,633 sq m unit until March 2027, at a rent of €85,000 per annum.

The weighted average unexpired lease term (to break) now stands at 7.0 years with the weighted average lease term (to expiry) now 8.4 years.

Debt Financing

At the end of the quarter, the Company's fixed debt facilities totalled €259.5 million at an average all-in interest rate of 2%, the earliest re-financing of debt required in mid-2025. The current loan-to-value of 38.7% is marginally above the Company's target of c.35%.

Market outlook

European real estate market overview

The European real estate market entered a seventh quarter of value decline in the fourth quarter of 2023. Values fell a further 3.5% over the three months, according to our preliminary data. This takes the average peak-to-trough decline to 17%. Our analysis suggests that valuations still lag market pricing by around 8%, yet there are signs that values will begin to stabilise as 2024 progresses. We believe logistics and residential values will be the first to stabilise as the market bottoms out this year.

The sharp 25% rally in European listed real estate investment trust (REIT) share prices in November and December 2023 cooled-off in early 2024. But the rebound served as an indicator that negative pressures on direct real estate values are easing. The combination of higher real estate yields, disinflationary pressures, and peaking long- and short-term interest rates, is helping to reduce refinancing pressures and rebuild real estate's relative value.

However, what this measure ignores is the growth quality that real estate income carries, relative to fixed-income coupons. When looking at the attractiveness of real estate, an internal rate of return approach (which factors in net income growth) shows that real estate is beginning to look cheap at current market pricing.

The long-term demand and supply fundamentals behind the logistics sector performance prospects remain supportive. While e-commerce is still a major driver of this, near shoring, supply chain modernisation and diversification are increasingly important structural demand drivers. Furthermore, pressures from green legislation, such as the EU's Energy Efficiency Directive, are driving a growing need to operate and own less pollution industrial facilities.

With conflict in the Middle East escalating and key supply chain routes through the Gulf of Aden disrupted at the time of writing, the case for nearshoring supply chain activities and for diversifying risks in logistics operations is likely to strengthen demand ahead of previous expectations. The cost to ship one 40-foot container more than doubled between September 2023 and January 2024, rising from $1,900 per container to $3,900.

Fund managers' report continues overleaf

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Fund managers' report - continued

This will benefit some parts of the supply chain through Europe, most significantly the "blue banana" which runs from London, south through the major northern European sea ports, down through the most populous and wealthiest parts of Netherlands, Germany, Switzerland and Northern Italy. These routes should see more activity as Europe's core logistics markets take on more of the burden of the overall supply chain and more goods are stored closer to their end customers. It should also result in more demand for low-cost logistics and assembly in Poland and Czech Republic and other locations close to Europe's main consumer agglomerations.

E-commerce remains an important driver of demand, although the pace of growth in sales has inevitably slowed after the pandemic restrictions eased. European e-commerce retail sales doubled from 2015 to 2021, with the growth rate over the next five years essentially pulled forward by the pandemic. Online sales fell in 2022 as shoppers returned to in-store retail and the savings rate was run down. Green Street forecast e-commerce sales growth to remain positive, but the outlook has been paired back to estimate that e-commerce will account for 20% of total retail sales by 2030, down from 23% in their 2023 forecasts.

The logistics occupational market has begun to stabilise after a sharp post-pandemic slowdown. GDP is still the biggest driver of take up trends and with the European economy entering a period of weak growth momentum, it was inevitable that leasing demand was softer. Tenants are still taking a cautious approach to signing new leases while risks are elevated, yet the recent downturn could have found a trough in leasing demand. The latest available take-up data for the third quarter fell 9% year-on-year, a notable improvement from the 31% drop in the second quarter.

Supply pressures have started to ease as demand softened and fairly large pipelines of new supply came through in 2022 and 2023. Around 8% of total stock was delivered in 2022, with a further 6% added in 2023. Forecasts for new supply suggest a further decline in the rate of completions to 5% of total stock in 2024. Vacancy rates remain low at around 5% and the availability of best-in-class warehouses is scarce. Quality and location have been increasingly important differentiators of performance with higher quality stock in the best locations still in tight supply, while vacancy in secondary quality stock in poorer locations has been rising faster. This is due to tenants upgrading stock and releasing second-hand space onto the market, as opposed to a reduction in the overall demand base.

Construction costs fell around 10% in 2023, but land values increased to offset this. Developer profit margins have increased as exit yield assumptions have risen 30 basis points in 2023 but development finance costs are still elevated, acting as a deterrent for developers when leasing and exit risks are still elevated. This is why we believe that new supply will remain modest in 2024 and 2025.

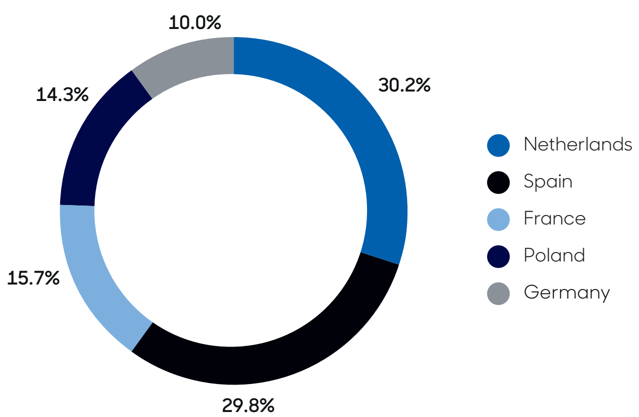
Logistics rents increased by 6.9% over the 12 months to December 2023. While this represents strong performance, the pace slowed from 9% in 2022. We expect rental growth to remain above the long-term average and above inflation in 2024 and 2025, as supply in good locations remains tight. We remain very cautious of poorer quality assets that face significant capital expenditure pressures and weak leasing demand.

Total investment reached €33.6 billion in 2023, according to data from RCA. This represented a 45% decline compared to 2022 and a 19% decline compared to the 10-year average. Given that the reason for the drop in investment was driven by high interest rates and a sharp drop in investor appetite globally, all locations within Europe saw similar drops in transactions. The strong long-term occupier fundamentals and sharp correction in logistics values since June 2022, suggest logistics sentiment is likely to turn a corner ahead of most other sectors in Europe. Investment in the fourth quarter of 2023 retained its 19% share of the total, but we expect this to grow as 2024 progresses.

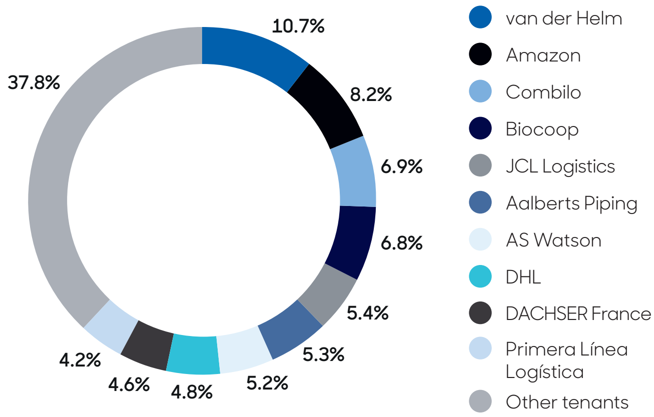
European logistics yields have started to show a level of stability in recent months, after experiencing the biggest correction of all the sectors so far. According to data from MSCI, logistics values have fallen by 17% since their peak. Some markets have seen more significant drops, such as in the UK and Netherlands where values have fallen by up to 30%. Prime logistics yields are now estimated to be 5.1%, having increased from an average of 3.9% since the peak of the market in June 2022.

Compared to the yield on corporate or government bonds (German Bund yield at 2.4% in January 2024), logistics yields now offer healthy premiums for the illiquidity risk. Furthermore, our analysis shows that transaction values are estimated to be 6.5% lower than current market pricing in the logistics sector in Europe, suggesting the entry point for new equity reflects even better relative value than the market level pricing implies today.

Country allocation (% of portfolio value)



Tenant exposure (% of total rent)



Important information

Risk factors you should consider prior to investing:

- The value of investments and the income from them can go down as well as up and you may get back less than the amount invested.
- Past performance is not a guide to future results.
- Investment companies can borrow money in order to enhance investment returns. This is known as 'gearing' or 'leverage'.
- However, the use of gearing can result in share prices being more volatile and subject to sudden or large falls in value. Where permitted an investment company may invest in other investment companies that utilise gearing which will exaggerate market movements, both up and down.
- There is no guarantee that the market price of the Company's shares will fully reflect its underlying Net Asset Value.
- As with all stock exchange investments the value of the Company's shares purchased will immediately fall by the difference between the buying and selling prices, the bid-offer spread. If trading volumes fall, the bid-offer spread can widen.
- Investing globally can bring additional returns and diversify risk. However, currency exchange rate fluctuations may have a positive or negative impact on the value of your investment.
- The Company may hold a limited number of investments. If one of these investments declines in value this can have a greater impact on the fund's value than if it held a larger number of investments.
- Property values are a matter of the valuers' opinions and can go up and down. There is no guarantee that property values, or rental income from them, will increase so you may not get back the full amount invested.
- Property investments are relatively illiquid compared to bonds and equities and can take a significant length of time to sell and buy.
- The Company invests in a specialist sector and it will not perform in line with funds that have a broader investment policy.
- Derivatives may be used, subject to restrictions set out for the Company, for efficient portfolio management in order to manage risk. The market in derivatives can be volatile and there is a higher than average risk of loss.

Other important information:

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