

TR Property Investment Trust Plc*

Company update

Investment Funds

9 December 2014

Progress at The Colonnades

Price: 281p

We recently visited one of TR Property's direct property assets, The Colonnades, Bayswater and provide a brief overview of the project. Management is making good progress with the redevelopment of five new retail units plus Waitrose with completion expected in November 2015.

Valuation & rating. The 6 month total shareholder return for TR Property to end September 2014 was 4.7%. More recently the one month share price performance is 7%, a little ahead of the quoted real estate sector and reflecting the strength of the UK results season. At 281p the shares are trading at a discount of c.2% to spot NAV and offer a net yield of 2.7% from a progressively growing dividend. This looks attractive in the context of both the quoted real estate sector (3% premium) as well as some of the direct property investment trusts (7-10% premiums). BUY.

Interim results reflect quiet period during the year. TR Property reported its interim results with an NAV total return of +4.5%, a slowdown from the rapid growth of previous periods, but ahead of the benchmark +2.6%. Revenue earnings at 6.05p were marginally ahead of earnings at the same stage last year (5.98p). However, they had been expected to be lower, the gain being the Max Property special dividend. The portfolio's top 10 holdings have plenty of Central London exposure (Land Securities, GPE, British Land and Derwent) as well as regional shopping centres (Unibail and Hammerson) and German residential (Deutsche Wohnen, Leg Immobilien and Gagfah). The direct property portfolio produced a like-for-like total return of 7.3% over the 6 months, split 2.3% income return and 5.0% capital return. Three properties were purchased over the last 6 months, all of lot sizes of £3m-5m which are generally under the institutional radar. Two of the properties are industrial with rental growth potential and the third is a multi-let office in Wimbledon with refurbishment opportunities to grow the rents from a currently low £18psf.

Creating Bishop's Quarter out of The Colonnades. We were impressed by TR's plans for one of its largest (4% of assets) direct property holdings, The Colonnades, Bayswater. Securing Waitrose for 43,000 sq ft was a major coup and enabled the refurbishment of the whole site which is to include 5 new retail/restaurants. The site is tired and uninviting at present and this development will transform the streetscape and immediate environment.

BUY

Connected research*

Share price performance (indexed)



Key data

Stock code	TRY LN
Market cap (£m)	889
FTSE EPRA/NAREIT	1797
1mth perf (%)	6.7
3mths perf (%)	5.3
12mths perf (%)	26.7
12mth high-low (p)	283 - 219
Free float (%)	na

All data as of close 05 December 2014

All sources unless otherwise stated: Company data, Factset, Oriel Securities

Contributing analyst

Miranda Cockburn

+44 (0)20 7710 7492

miranda.cockburn@orielsecurities.com

Specialist sales

Fund Sales

+44 (0)20 7710 7663

Colonnades, Bayswater, W2

History

The island site located in Bayswater and situated between Notting Hill and Paddington was acquired in two stages in 1998 (long leasehold for £4.4m from Development Securities) and in 2002 (freehold for £4m from Westminster City Council). In 2005/2006 there were plans to increase the size of the supermarket (Budgens were in there at the time) but these did not materialise and later in 2008 Waitrose took over the Budgens unit. It was clear the supermarket was not appropriate for today's customers or retailers and after much discussion TR agreed with Waitrose a lease on the first floor, almost doubling its existing occupation. In March 2014 planning permission was granted and management is now on site with practical completion of Waitrose expected in July 2015, the rest completing by November 2015.

Today

The commercial space (see details below) is old, tired and in need of refurbishing/redeveloping. The streetscape surrounding the property is also in need of updating. The property currently comprises:

- 244 flats sold on long leases with various lease lengths. As these are extended TR receive a premium payment which gets higher every year that a lease is not extended. On average it expects to receive c.£1m pa every year over the next 10 years.
- 22,000 sq ft Waitrose with a lease expiry in 2016 let at a current rent of £25psf.
- 20,000 sq ft of other office and retail accommodation on short leases let on rents of c.£20psf for the offices and £20-30psf for the retail space. The retail space is under-utilised, set back from the road and is not fit-for purpose.
- A 218 space car park. This was previously run by NCP but was loss making and so in 2010 NCP paid a premium to get out of the lease. TR has been running it since then.

Proposals

The flats remain but the commercial element of the site will be refurbished/redeveloped. The site has several complexities including a walkway (Porchester Walk) through the middle which has to be retained and flats on the second floor above the Waitrose.

- 43,000 sq ft Waitrose supermarket at first floor (escalator and lifts up) let on a 20 year lease at a rent of £28.70psf with 6 months' rent free and 3% pa fixed uplifts five yearly for the first 10 years and then open market reviews thereafter. Waitrose will operate the car park (189 spaces) as part of its lease.
- 17,000 sq ft in five new retail and restaurant units. The rental expectation is for £25psf for the larger stores and c.£45psf for the restaurants. The units are being marketed with a new name 'Bishop's Quarter' the focus being on the site's location just off the retail location of Westbourne Grove.

Upside potential

The site's latest valuation reflected the receipt of planning and the Waitrose transaction. From here the risks relate to the construction and letting up of the remaining units but assuming all progresses to plan we expect further valuation upside.

Recommendation history

TR Property Investment Trust Plc

<u>Date</u>	<u>Recommendation</u>
As at 09-Dec-2013	BUY

Disclosures on interests

Oriel Securities is a market maker or liquidity provider in the securities of the following issuer(s): TR Property Investment Trust Plc

Oriel Securities is party to an agreement with the following issuer(s) relating to the provision of investment banking services (including, for example, broking and financial advisory roles) and the agreement has been in effect over the previous 12 months or has given rise during the same period to a payment or to the promise of payment: TR Property Investment Trust Plc

Oriel Securities is party to an agreement with the following issuer(s) relating to the production of research, although the timing and content of the research is exclusively the preserve of the analyst: TR Property Investment Trust Plc

Certifications

I, Miranda Cockburn, certify that the views expressed in this research report accurately reflect my personal views about the subject securities or issuers, and I, Miranda Cockburn, certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

Disclaimer

© Copyright 2014 Oriel Securities Ltd, all rights reserved.

Additional information with respect to any security referred to herein may be made available on request. This research material is a marketing communication. It is not investment research and has not been prepared in accordance with legal requirements designed to promote investment research independence and is also not subject to any prohibition on dealing ahead of the dissemination of investment research.

This material is for the general information of clients of Oriel Securities Limited ("Oriel Securities") only and is not to be distributed to or used by any person who is a retail client, as defined in the FCA Conduct of Business Sourcebook 3.4, or private individual in any jurisdiction. It does not take into account the particular investment objectives, financial situation or needs of individual clients. Before acting on any advice or recommendations in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This material should not be construed in any circumstances as an offer to sell or solicitation of any offer to buy any security or other financial instrument, nor shall it, or the fact of its distribution, form the basis of, or be relied upon in connection with, any contract relating to such action. This material is based on information that we consider reliable, but we our affiliates, directors, officers or employees do not warrant or represent (expressly or impliedly) that it is accurate, complete, not misleading or as to its fitness for the purpose intended and it should not be relied upon as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update the material in this report on a timely basis, but regulatory compliance or other reasons may prevent us from doing so.

Oriel Securities or its employees may from time to time have long or short positions in securities, warrants, futures, options or other financial instruments referred to in this material. Oriel Securities designates research material to be Connected or Unconnected, such terms are as used in Oriel Securities' Research Policy. This policy is summarised on Oriel Securities' website at and is available from the Compliance Officer at Oriel Securities. In relation to Connected research material, the analyst is aware that Oriel Securities has a contractual relationship with the issuer such as being broker and/or financial adviser and, as a result, Oriel Securities may have a conflict of interest that could affect the objectivity of this material. In relation to Unconnected research material, the analyst is unaware of any contractual relationship between Oriel Securities and the issuer (either because none exists or because of the operation of Oriel Securities' Chinese Wall policy).

Oriel Securities has published a Conflicts of Interest Policy that is available at <http://www.orielsecurities.com/x/conflict.html>, which describes the organisational and administrative arrangements for the prevention and avoidance of conflicts of interest.

Further disclosures required under the FCA Conduct of Business Sourcebook 12.4 may be accessed via <http://www.orielsecurities.com/x/disclosures.html>. Unless otherwise stated, share prices provided within this material are as at the close of business on the day prior to the date of the material.

Neither the whole nor any part of this material may be duplicated in any form or by any means. Neither should any of this material be redistributed or disclosed to anyone without the prior consent of Oriel Securities. Oriel Securities accepts no liability whatsoever for any direct, indirect or consequential loss or damage of any kind arising out of the use of all or any of this material.

The services, securities and investments discussed in this material may not be available to nor suitable for all investors. Investors should make their own investment decisions based upon their own financial objectives and financial resources and it should be noted that investment involves risk, including the risk of capital loss. Past performance is no guide to future performance. In relation to securities denominated in foreign currency, movements in exchange rates will have an effect on the value, either favourable or unfavourable.

This material is issued by Oriel Securities in the UK, which is authorised and regulated by the Financial Conduct Authority in connection with its UK distribution. Oriel Securities is a member of the London Stock Exchange.

CANADIAN DISTRIBUTION

This report has been prepared by Oriel Securities and has been distributed to Canadian clients of CIBC World Markets Inc. ("CIBC WM Inc.") by CIBC WM Inc. This report has not been prepared in accordance with the disclosure requirements of Dealer Member Rule 3400 – Research Restrictions and Disclosure Requirements of the Investment Industry Regulatory Organization of Canada ("IIROC").

If this report had been prepared by CIBC WM Inc. in compliance with IIROC's disclosure requirements, CIBC WM Inc. would have been required to disclose when it and its affiliates collectively beneficially own 1% or more of any class of equity securities issued by the company covered in this report.

In contrast, under FCA rules, Oriel Securities must only disclose when it or any of its affiliates hold major shareholdings in the company covered in this report, including shareholdings exceeding 5% of such company's total issued share capital.

UNITED STATES' DISTRIBUTION

This report is distributed in the United States by Oriel Securities and is intended for distribution in the United States only to "Major US Institutional Investors" as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended.

Oriel Securities is a non-US broker-dealer and is not registered with the US Securities and Exchange Commission ("SEC"). Accordingly, any transaction by Major US Institutional Investors in the securities discussed in this document would need to be effected by CIBC World Markets Corp. ("CIBC WM Corp."), not Oriel Securities.

CIBC WM Corp. is a broker-dealer registered with the SEC and is a FINRA member firm. CIBC WM Corp. is not an associated person of Oriel Securities. Investment products provided by or through CIBC WM Corp. or Oriel Securities are not FDIC insured, may lose value and are not guaranteed by CIBC WM Corp. or Oriel Securities.

This material is not for distribution to the public or a large number of persons, but is personal to named recipients. All recipients of marketing communications are required to be (a) persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services and Markets Act 2000 as amended (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(1) of the Order (all such persons together being referred to as "relevant persons"). This material must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this material relates is only available to relevant persons and will be engaged in only with relevant persons.