Results analysis: Schroder European Real Estate

SERE has a stable property valuation and dividend, and trades at a 35% discount.

Update
04 July 2025

- **Over the six months to 31/03/2025, Schroder European Real Estate (SERE) produced an NAV total return of 0.3% (2024: -1.3%). The NAV per share fell marginally to 120.1c (30/09/2024: 122.7c), with the main offsetting factors being earnings of 2.8c per share and a positive contribution to NAV from SERE's share buyback programme of 0.3c per share.**

- **SERE currently yields c. 7.3%. and dividends of 2.96c were paid during the period. Dividends were 100% covered by EPRA earnings. EPRA earnings were flat at €3.9m compared to the previous six months.**

- **The Industrial portfolio saw valuation rises across all assets. Rumilly, Venray I & II, Alkmaar, Houten, Utrecht, Rennes values increased 4% on average, essentially driven by rental growth and a more positive market for these assets.**

- **The office portfolio value (Paris, Hamburg, Stuttgart) declined by 3%, again largely driven by market forces. The Berlin DIY asset value reduced 6% in reflection of the short lease length which, post period end, was renegotiated and the manager expects the decrease will be reversed at the June 2025 valuation.**

- **Post-period end, SERE completed the disposal of its Frankfurt grocery asset for €11.8m, in line with the last valuation at 30/09/2024. This disposal was assisted by asset management initiatives including securing longer-term leases with anchor tenants Lidl and Fressnapf.**

- **The 50% stake in the Metromar joint venture was also disposed of, in line with the previous valuation, with outstanding debt transferring to the purchaser.**

- **These transactions reduced SERE's net gearing to c. 18% LTV with an available cash balance of c. €25m. SERE has no debt expiries until June 2026.**

- **SERE trades at a c. 35% discount. In Q1 2025 1.47m shares (€1.16m) at an average price of 66 pence per share were repurchased, adding 0.3c to NAV. SERE's board states that it is actively exploring and implementing various strategies to address the discount, including share buybacks and a transition towards thematic or sector-specific investments. The board also notes the pace of corporate activity in the wider REIT market in recent months. The board further states that its priority in the coming months is therefore to identify the strategy which best positions it to maximise value for shareholders and a further announcement will be made in due course.**

- **The manager is currently engaging with several tenants who have forthcoming lease breaks and expiries, with initial discussions appearing positive for the majority. However, it has been noted that the largest tenant, KPN, which accounts for 18% of the portfolio income, has a lease due to expire in December 2026, and there is an expectation that they may vacate the premises. Should this occur, it could affect SERE's ability to sustain its present dividend level.**

- **Tax disclosure update: As previously announced, SERE received a notice of adjustment from the French Tax Authority amounting to c. €14.4 million including interest and penalties. SERE remains in correspondence**

Analysts:
Alan Ray
alan@keplerpartners.com

with the French Tax Authority and is seeking a formal review of the notice. Having taken professional advice, SERE's board remains of the opinion that an outflow is not probable; consequently, no provision has been recognised.

- **Jeff O'Dwyer, fund manager, said: "we foresee positive developments for the European commercial real estate sector as interest rates and inflation continue to decline. While improvements may be gradual for the rest of 2025, we anticipate that strengthening conditions will become more pronounced throughout 2026."**

Kepler View

The net initial yield on **Schroder European Real Estate's (SERE)** portfolio remained static at 7.0% over the last year, and the dividend yield at the share price is c. 7.3%, both of which are significant premia to interest rates and government borrowing costs in Europe. This, at a time where many larger REITs are seeing their dividend yields closing the gap with government bond yields, highlights that SERE remains significantly undervalued. On one hand, SERE is a small cap REIT, with a market cap of c. £90m, and small cap equities across the UK, Europe and elsewhere have all had a tough time attracting investor attention. On the other hand, SERE has a strong balance sheet and has had good success in asset management initiatives, the assets are institutional-grade and, as the valuation summary and the disposal outlined above shows, valuations are stable to rising, or there are asset management initiatives in play to redress declines. Balancing that, the portfolio has a relatively short weighted average lease length of 3 years (to break) and is slightly over-rented with an ERV of €15.6m against the current rental income of €16.3m. But shorter lease lengths are part of active asset management and the c. 35% discount when German 10-year bonds are yielding just over 2.5% seems like an excessively negative appraisal of the risks.

Further, SERE's gearing has fallen to a very modest 18% LTV (June 2024: 24%) when taking into account cash balances of €25m, which gives the manager scope to continue with capex and active management initiatives. While there were mixed results in terms of valuations in the portfolio, overall, the picture is one of stable to rising values in the core portfolio, with some individual situations seeing declines that may be reversed by active management. SERE's board states clearly that it is very focused on the excessively wide discount, and in the first quarter of 2025 undertook some NAV enhancing share buybacks, and with the cash resources available, an extension of this could be one option. In our view, SERE's c. 35% discount undervalues the assets and takes too pessimistic a view of the positive direction of travel for European real estate assets that has gained momentum in 2025.

Click here to read the HY report on RNS

Click here to read our latest research on SERE

Click here to add SERE to your watchlist

Disclaimer

This report has been issued by Kepler Partners LLP. **The analyst who has prepared this report is aware that Kepler Partners LLP has a relationship with the company covered in this report and/or a conflict of interest which may impair the objectivity of the research.**

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street , London W1S 2GF with registered number OC334771.