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Results analysis: Schroder European Real Estate

Schroder European Real Estate (SERE)'s price reflects two specific issues which, if resolved, could be a catalyst for a price recovery.

Update
09 December 2025

- Schroder European Real Estate's (SERE) final results to 30/09/2025 show an NAV total return of 2.0%. The NAV was 119.2 cps (2024: 122.7 cps, -2.8%). Dividends of 5.92 cps (2024: 5.92 cps) were declared during the year. SERE currently yields c. 8.2%.

- EPRA earnings were €7.3m before exceptional items, and €6.7m after (2024: €8.2m), with the decline reflecting the sale of SERE's Frankfurt asset. Dividend cover is 94% (2024: 100%), again reflecting the sale of the Frankfurt asset.

- The underlying portfolio valuation decreased by €3.1m (net of capex), or -1.4%, to €194.0m. The portfolio total property return was 5.6%, comprising an income return of 7.1%, and a capital return of -1.5%, primarily a result of shortening lease lengths.

- Industrial assets all increased in value. The Rumilly, Venray I & II, Alkmaar, Houten, Utrecht and Rennes assets increased by 5% on average, driven by yield compression.

- Office assets (Paris, Hamburg, Stuttgart) declined by 5% on weak market sentiment. The Berlin DIY asset value reduced 2% and the mixed-use data centre in Apeldoorn value declined 13%, due to the decreasing remaining lease term with KPN.

- During the year SERE completed the disposal of its Frankfurt grocery asset for €11.8m, in line with the valuation at 30/09/2024. The 50% stake in the Metromar joint venture was also disposed of, in line with the previous zero valuation, with outstanding debt transferring to the purchaser.

- SERE's gearing is c. 25% LTV net of cash and 29% LTV gross of cash, well within its 35% limit. SERE has cash of €8.3m and a further €14.2m has been ring-fenced to secure the French tax claim (summarised below). SERE's next debt expiry is in June 2026 on debt secured against its Berlin DIY asset, which has recently re-geared its long lease, and should therefore appeal to lenders in a refinancing. After that, the next refinancing event is in December 2027. The average cost of debt is 3.8% spread across five loan facilities against ten assets, with an average remaining term of 2.3 years.

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- SERE trades at a c. 37% discount. During the year 2.3m shares were bought back at a cost of £1.53m and an average price of 0.66p, enhancing NAV by 0.5 cps. The board notes that alongside broader market factors, specific challenges include SERE's largest tenant's anticipated departure and the French Tax claim (both noted below).

- Largest tenant, Dutch telecoms company KPN, which occupies the Apeldoorn asset accounting for c. 6% of the portfolio value and 19% of contracted rent, has a lease due to expire in December 2026. KPN have verbally advised that they will issue their termination notice and leave at the end of December 2026. The manager continues to work on solutions including re-letting to a replacement tenant or obtaining planning approval for alternative uses and sale.

- **Tax disclosure update. As previously disclosed, SERE received a notice of adjustment from the French Tax Authority amounting to c. €14.2 million, including interest and penalties. SERE maintains its position that this amount is not payable and has formally appealed the decision. This is now expected to be reviewed within a six-month period. If the claim is dismissed, SERE would escalate the matter to a formal court process, which could take up to two years to resolve. Based on professional advice, SERE's board has decided not to make a provision, as they do not believe that an outflow is probable, although see bullet point above on gearing.**

- **Sir Julian Berney Bt., chair, said: "The period has been characterised by a cautious recovery in economic sentiment across key European markets, with inflation pressures gradually abating and the outlook for interest rates remaining broadly stable, creating a more favourable borrowing backdrop. There are some encouraging signs that liquidity within the European real estate market is improving, reflecting a more balanced alignment between pricing expectations from buyers and sellers, as well as a gradual restoration of investor confidence and institutional allocations."**

Kepler View

As the board notes, alongside broader market factors, two specific factors play a role in **Schroder European Real Estate's (SERE)** persistent discount. The largest tenant, KPN, has already provided verbal confirmation and is expected to formally confirm shortly its intention not to renew its lease, which expires in December 2026. The mixed office, industrial and datacentre asset it occupies is already valued accordingly, with the independent valuation essentially a combination of the discounted cashflow value of the remaining income on the lease plus the value of the land. The upside from securing a new tenant or a sale of the asset could therefore be significant, although clearly the fact that this asset contributes 19% of SERE's total contracted rent presents a near-term risk to dividend cover. We note that this is a large site that, aside from its current use, could be repositioned for residential development. But it's current mixed use, particularly as a datacentre, are in an area which is seeing strong tenant demand across Europe.

We understand from the manager that there is a strong case to believe that the French tax claim will not be paid, and the board confirms that it has received professional advice on the same basis. The board has decided, prudently, to ring fence just over €14m and this is the main reason that net gearing has risen from 18% LTV at the half year to 25% at the financial year end. Alongside this change, there is now a timetable for when we might expect a resolution, and as the board notes, there is an appeal process should the initial assessment go against SERE.

SERE's significantly wider than average discount, c. 36% , says to us that the market is taking a wait and see approach on the above issues and while that's frustrating given that there has been an improvement in sentiment to REITs more generally, with some of SERE's UK-listed peers turning in very good share price performances over the last year, taking this approach is understandable given the binary nature of both issues. Once the outcome of either or both is known, then SERE's remaining portfolio, which has maintained a relatively stable valuation and income, could be significantly undervalued by the share price.

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