Circle Property PLC (CRC.L)

230p | £65m | AIM | Real Estate | Regional offices

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	Net rent, £m	Net Assets, £m	EPS, p	NAV, p	Div, p	Price to NAV, %	Yield, %
2018A	5.5	65.0	9.0	230	5.6	0%	2.4%
2019E	6.8	73.1	9.5	258	6.3	-10.8%	2.7%
2020E	7.7	76.6	11.7	271	7.0	-15.1%	3.0%

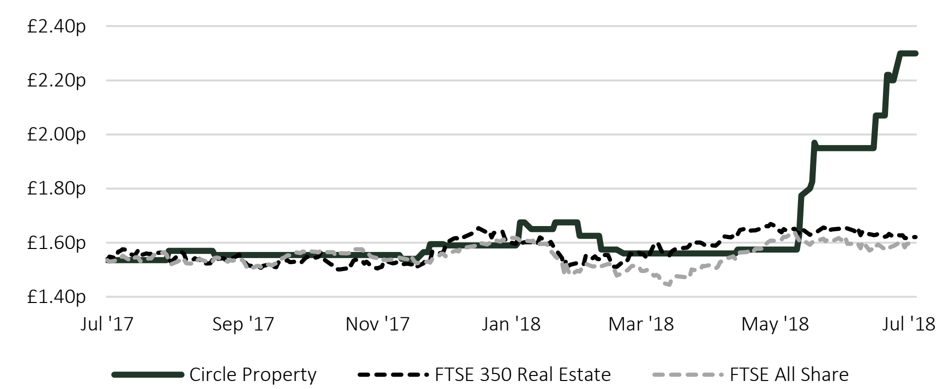
Source: estimates derived from FactSet

Radnor View: Measured by Total Return (NAV growth plus dividends), the **best** performing UK real estate company over the last two years is a £65m market cap, regional office owner/developer that many investors will not have heard of. What marks Circle out from the crowd? **1.** The focus on well-located but, under-utilised and good quality offices in key regional centres. **2.** The targeting of asset sizes too small for institutional buyers but too large for private investors. **3.** Circle is not a REIT and is therefore able to target refurbishment opportunities and vacant space

The highly experienced management team have built a portfolio of assets where capital values are backed by local supply constraints and where there is a significant (45%) reversionary income potential still to come. The track record since IPO (and indeed prior to IPO) has been both sector leading and consistent. The shares have responded, delivering a 45% return year to date (outperforming the FTSE All Share by 45% and the FTSE 350 Real Estate by 47%), yet still offer an **11%** discount to 2019E NAV and a progressive **2.7%** dividend yield.

Circle is a classic example of small being beautiful. Despite the hugely impressive performance delivered to date, there is clearly more to come. Reversionary potential alone is enough to support a sector beating total return profile looking forward even if yields expand. The combination of tight asset focus; highly active management; local supply constraints and management expertise all point to a positive outlook.

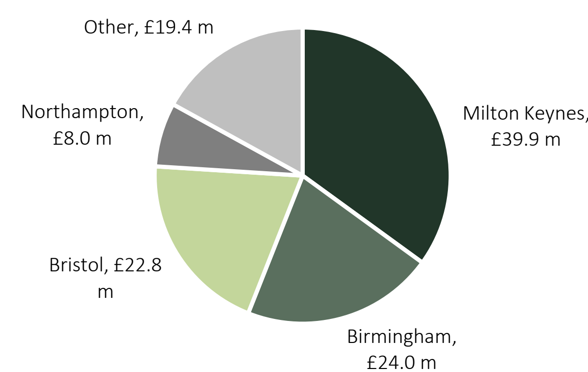
1 Year price return (rebased to Circle Property PLC)



Source: FactSet

Portfolio

Portfolio Value £114.1m at March 2018



Source: Circle Property

90%
Office Space

+23%
Portfolio value, March '18

+45%
Total ERV potential (NIY 5.6% → 8.2%)

NAV Total Return (NAV growth + dividends)

Circle best performer in UK property

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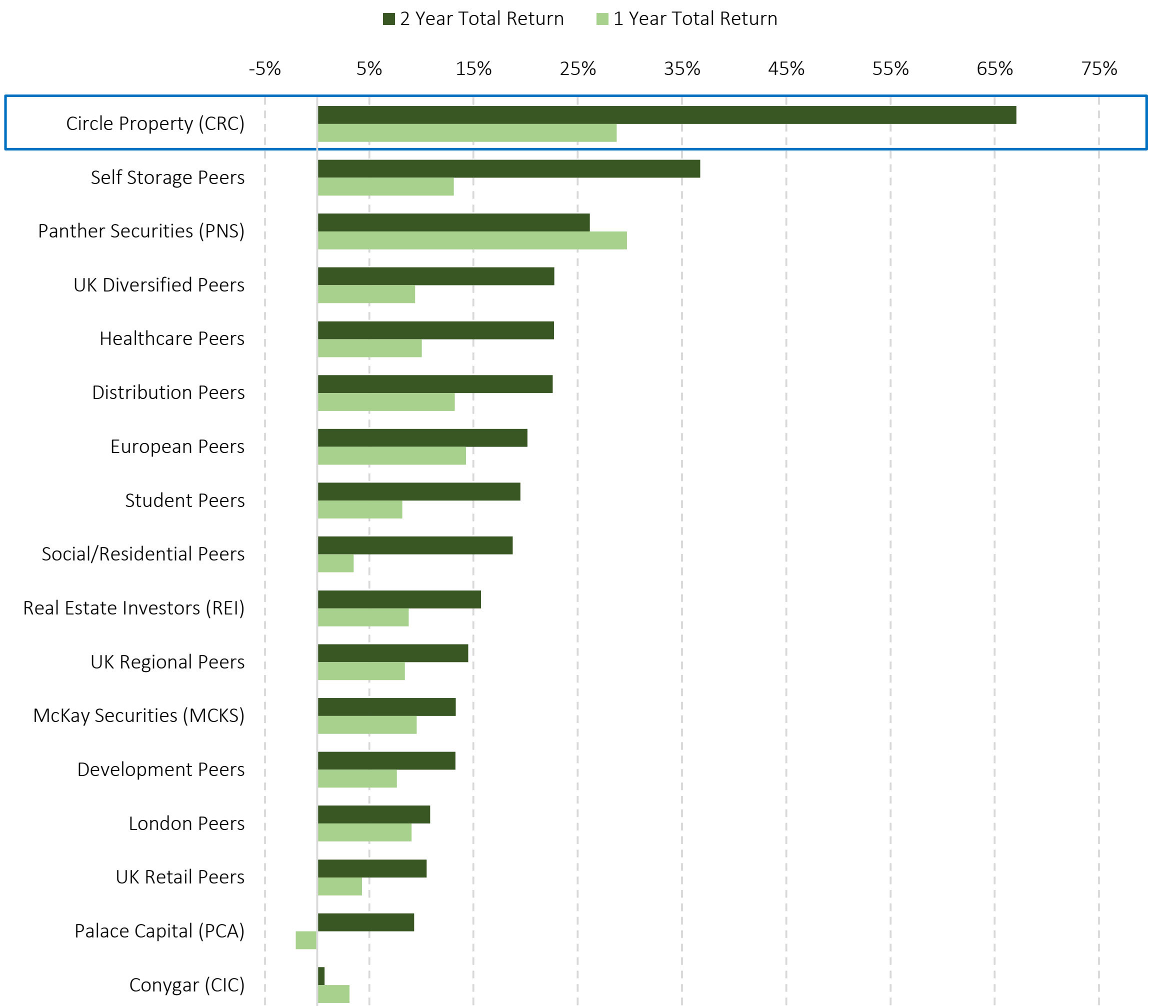
NAV Total Returns - UK Property Peer Groups & Circle Property Direct Comparators



Source: FactSet, Radnor Capital Partners

- Circle best performing UK property stock by some distance over two years (**+67%**)
  - 11% of this total return delivered through dividends (54% is the UK Property average)
- Circle's immediate peers delivered an average total return of **13%**
  - Panther Securities closest in immediate peer group with an NAV total return of **26%**
- Next best individual stocks over the last two years were:
  1. Lok'n Store (**+44%**)
  2. Summit Germany (**+40%**)
  3. Safestore (**+39%**)
  4. Secure Income REIT (**+38%**)
  5. Urban Logistics REIT (**+35%**)
- Best performing peer groups were:
  1. Self Storage (**+37%**)
  2. UK Diversified (**+23%**)
  3. Healthcare (**+23%**)
  4. Distribution (**+23%**)
  5. European (**+20%**)

Share Price Total Returns (price + dividends re-invested)

Circle still leads the way

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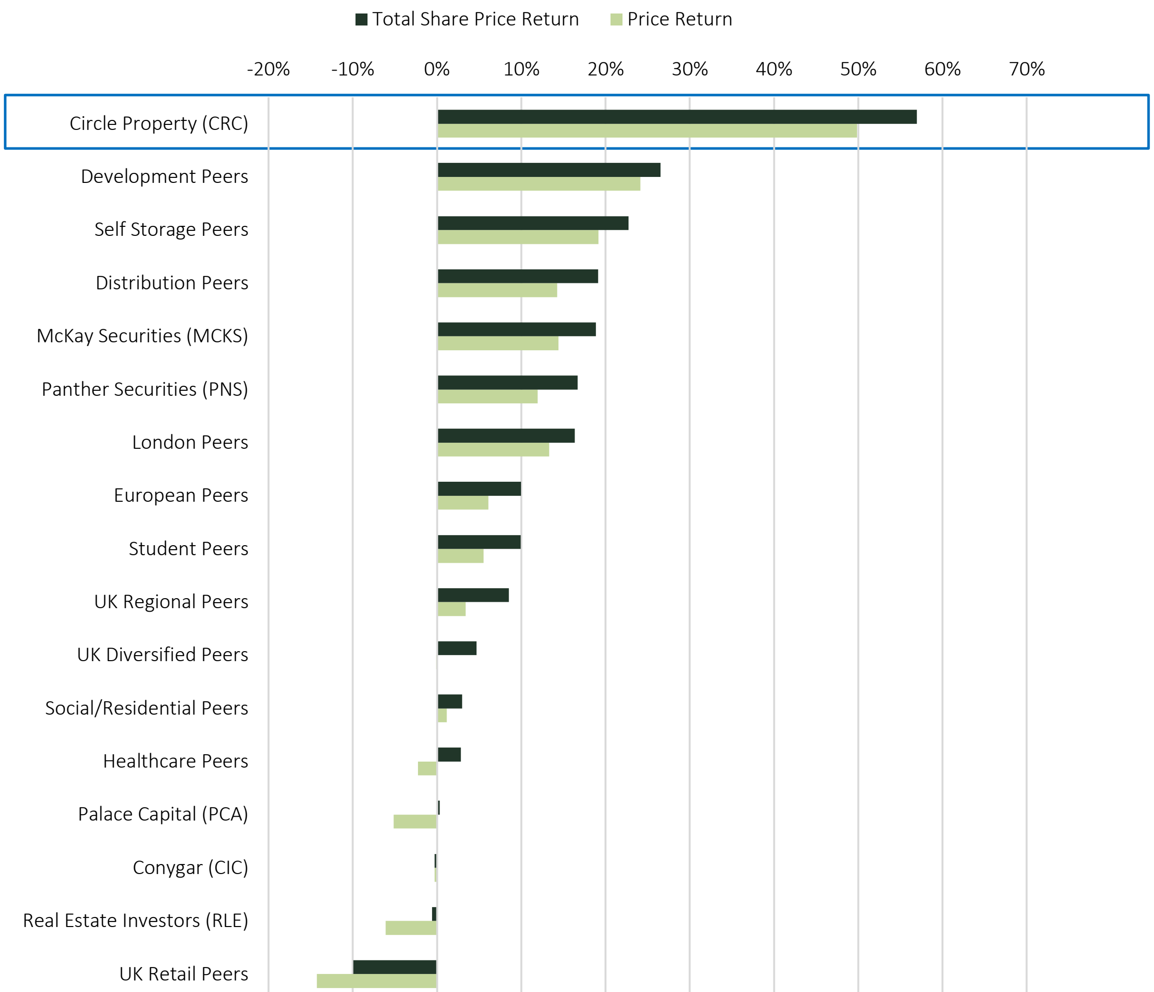
1 Year Total Share Price Returns - UK Property Peer Groups & Circle Direct Comparators



Source: FactSet

- Circle best performing UK property stock over one year (**+57%**)
- The immediate Circle peer group delivered an average share price total return of **7%**
  - McKay Securities closest in the immediate peer group with a total return of **19%**
- Next best individual stocks over the last year were:
  1. SEGRO **+44%**
  2. U&I **+38%**
  3. Harworth Group **+36%**
  4. Safestore **+35%**
  5. UNITE Group **+32%**
- Best performing peer groups were:
  - Development **+27%**
  - Self Storage **+23%**
  - Distribution **+19%**
  - London **+16%**
  - European **+10%**

Regional Office demand outweighing supply

Circle benefiting from this significant disconnect

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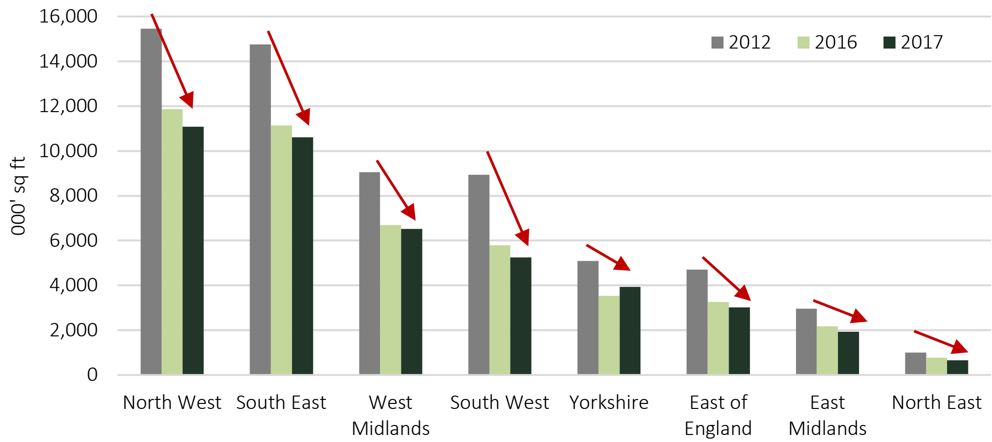
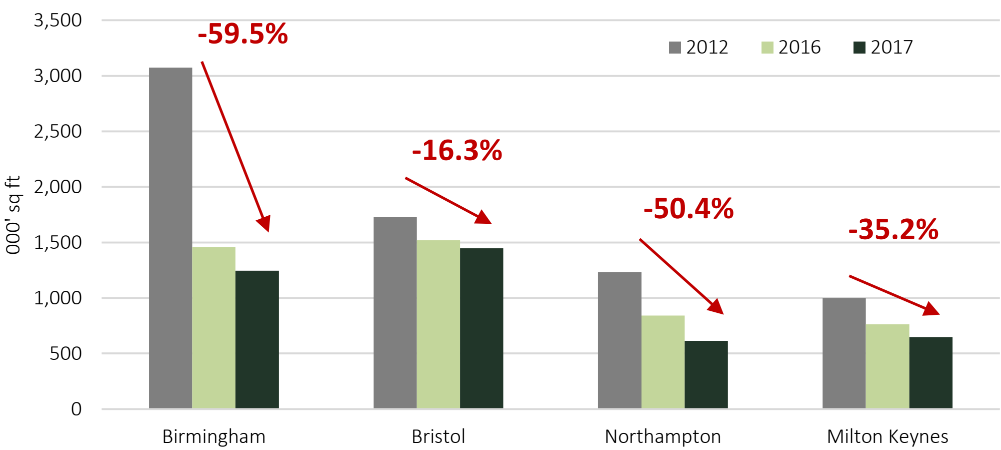
Office availability (sq ft) in key English regions: 2012 to 2017



- Outside London, office stock has only increased by 0.4% between 2012 / 2017
- Growing demand has seen office availability decline across the board (31% decline in between 2012 /2017)
- Sharpest declines in office availability experienced in:
  - South West -41%
  - East of England -36%
  - East Midlands -35%
  - North East -35%
  - West Midlands -28%

Source: Lambert Smith Hampton

Office availability (sq ft) in Circle key cities: 2012 to 2017



- 83% of Circle's portfolio is in cities where office availability has declined by an average 44% between 2012 / 2017
- Data from **Knight Frank** paints a similar picture in the key regional cities:
  - Outside London, Grade A office take up outstripped new supply by 2.6x between 2015-2017
- Circle's key cities:
  - Birmingham take up 5.3x higher than new supply
  - Bristol take up 11.3x higher than new supply

Source: Lambert Smith Hampton. Knight Frank

The market rates Total Return, Offices and Capex

Circle - the key beneficiary

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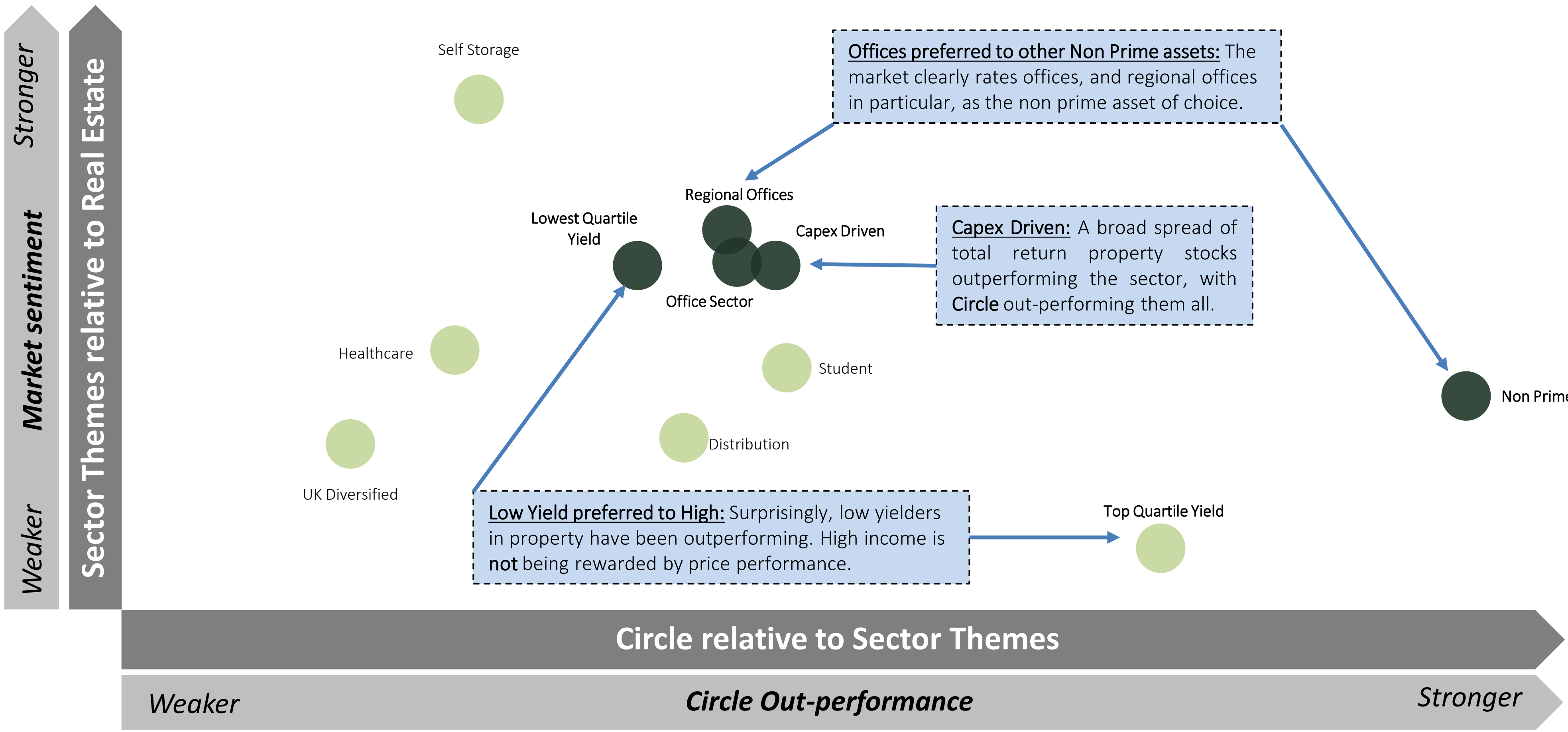

Legend: Non Circle specific theme | Circle specific theme

Key Conclusions: Not only has **Circle** been the standout performer across the entire sector, but the themes that **Circle** represents (Total Return, Regional Offices, Capex) have themselves outperformed the sector. This demonstrates how **Circle** is positioned strongly at the centre of what investors most like about UK property at the moment.

Growth and Income

They can co-exist in UK property

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Circle Property base case targets					
> 12%	Minimum geared target total return on acquisitions	**> 20%**	Minimum target return on development cost	**3% - 4%**	Progressive dividend policy starting at 3%-4% on NAV and **growing**

Source: Circle Property Investor Presentation June 2018

- Circle one of a handful of UK quoted property companies where returns driven primarily by NAV growth (dividends represent only 11% of the 67% total return delivered). Circle is **not** a REIT and has been successful in targeting a broader spread of returns.

- Business model based on:

  - Key regional cities with significant office supply constraints (i.e Permitted Development Rights) meeting solid demand (**83%** of Circle portfolio in Birmingham, Bristol, Milton Keynes and Northampton)

  - Refurb / development model **NOT** yield compression

  - Identification of assets combining **good fundamentals** (location, demographics) and genuine **active management** potential (refurb, vacant space, under-rented, short leases)

In short, Circle takes on the risks that traditional property owners (i.e REITs, HNWI, pension funds) are either unwilling, or ill-equipped, to deal with

- Impressive track record of delivering **25%** to **40%** returns on cost and **> 70%** returns on equity

- Future returns underpinned by the significant **45% reversionary income potential** (March '18 contracted rent £6.8m, Total ERV £9.9m)

- **Circle is capital constrained – the current LTV is 45% (target of 35%-40%) meaning that absent an equity fundraise, future portfolio growth will be driven by asset recycling.**

Regulatory Disclosures

This research is deemed to be a minor non-monetary benefit for the purposes of MiFID II

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