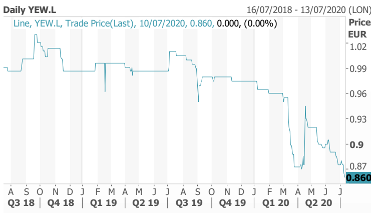
YEW GROVE

Strong strategy, tenants and total returns

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	**YEW**
Price €	**0.88**
12m High (AIM) €	1.02
12m Low (AIM) €	0.88
Shares (m)	111.6
Mkt Cap (€m)	98.1
EV (€m)	103.7
Free float*	95%
Market	AIM, Euronext Dublin

**Free float 93.3% as defined by AIM Rule 26*

Description

This REIT invests in the Republic of Ireland (RoI) to provide stable, long-term rising income with scope for capital appreciation. Assets are predominantly offices outside Dublin CBD and regionally. Office rents typically are ca.€20 sq. ft. It also invests in high-specification industrial assets in sought-after locations and estates.

Company information

Chairman	Barry O'Dowd
CEO	Jonathan Laredo
CFO	Charles Peach

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Key shareholders

Directors/management	4.6%
Royal London	21.0%
Invesco	10.6%
AIB	6.6%
Brewin Dolphin	5.7%
Hof Hoorneman Bankiers	5.0%
OVMK	4.9%

Diary

Late Aug'20	Interim results
Mar'21	Final results

Analyst

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Yew Grove invests in office and industrial assets in RoI. Tenants are creditworthy, 95% multinational or governmental; this RoI regional-income REIT invests in assets that support rising income streams, based on rents that are at a fraction of Dublin CBD levels. Macroeconomic conditions pre (and even more so, post) COVID-19 support Yew Grove's selection of locations, which exclude Dublin CBD. Sharp historical rises in Dublin CBD rents and easier accessibility of offices on the fringe of the centre have pointed occupiers to these latter "core+" locations, while regional office and industrial attractions are increasing.

- **Resources for growth:** In 2019, Yew Grove raised €35.8m equity and purchased €61.8m investment assets throughout 2019 to February 2020. The shorter-term deliverable acquisition pipeline stands at more than €120m. Two months ago, shareholders renewed authority for a further up to €100m new equity raise.

- **Asset strategy:** Management has deep, specialist knowledge. The portfolio has upside from embedded asset management potential and letting two voids (that have already added value). One had voids when bought, the other paid an early-lease termination premium for an asset with good following demand.

- **Valuation:** Strong accounting returns amount to 3.1% p.a. since the 2018 IPO, post all investment costs. Even excluding the special dividend, Yew Grove is 140% of the UK sector's historical dividend yield, on a growing dividend. Return on assets (EPRA EPS vs. NAV) is the highest in the peer group.

- **Risks:** WAULT (term to expiry) stands at 7.5 years. Most asset values are below replacement cost. Yew Grove has deployed in areas where rent rises and capital values have lagged Dublin CBD over the cycle: a good opportunity, with these market rents outpacing CBD in recent years.

- **Investment case**: The well-located office assets offer value for money, both to FDI/government employers and their employees. The industrial assets are located where the IDA is promoting growth, which underpins market forces. The premium investment returns, underpinned by above-market yields, should prove more reliable in all potential market conditions.

Financial summary and valuation

Year-end Dec (€m)	2018	2019	2020E	2021E	2022E
Rental income	2.6	9.4	10.9	11.6	12.0
Finance costs	0.0	-0.7	-1.4	-1.5	-1.3
EPRA operating profit	0.8	6.4	7.7	7.9	9.0
Declared profit	2.4	5.1	9.3	11.4	10.7
EPS reported (c)	4.1	6.3	8.3	10.2	9.6
EPRA EPS (dil., post LTIP, c)	1.4	7.0	5.6	5.7	6.9
DPS (c)	1.0	6.8	5.5	5.7	6.8
Net cash (debt)	-1.0	-5.8	-32.3	-31.9	-31.9
Dividend yield	1.1%	7.7%	6.3%	6.5%	7.7%
Price/EPRA NAV (x)	0.89	0.90	0.88	0.84	0.82
NAV per share (c)	100.2	98.4	101.2	105.6	108.7
EPRA NAV per share (c)	100.2	98.5	101.2	105.6	108.7

Source: Yew Grove accounts, Hardman & Co Research

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Executive summary

Investment case

Income quantum and visibility

Income drives the investment – Yew Grove offers a significantly higher yield and growth is above main Dublin CBD market, which it avoids

We favour real estate investment cases built on income drivers, where there is scope additionally for asset appreciation. This is the case at Yew Grove, where the office net initial yields (NIY) stand at just above 7% with reversionary potential. Industrial yields are higher still. With both asset classes valued at below replacement cost, it is particularly interesting to note that rest of Dublin office rents have been rising faster than Dublin CBD rents for the past four years. CBD rents are approximately 220% of rest of Dublin rents, while capital values are treble those of rest of Dublin (*MSCI data*). CBD Dublin valuations are typically on 4.5% NIY.

Excellent quantified track record and prospects

Successful track record in a strong market segment

Top returns on 2019 comparables – striding ahead in 2020

Yew Grove's investment returns for 2019 were 7.1%. This is the ratio of EPRA EPS to EPRA NAV. Its investment returns for 2019 were just above the large UK regional REITs (each at 6.9%) and above our Hardman Basket of Secure Income REITs (see Glossary and our recent publication, *'Safer harbour REITs: an update'*, for more information). Looking forward, both the rent collection and the all-important dividend prospects set Yew Grove in a better position than the UK regionals (both of which have put future dividends under negative review) and even the Hardman Basket of Secure Income. We expand on this on page 7. Yew Grove's returns are as good as the best for 2019 but much more secure as of 2020 and going forward. This is an all-important quantification of the sound strategic positioning and should bode well for future expansion.

Valuation rises derive from the income base

Valuations compelling, so Yew Grove can offer tenants as well as investors excellent value

Like-for-like values increased by 5.3% in 2019. A good proportion of this was from outperformance of local markets. EPRA EPS return on NAV is the highest in the peer group and asset valuations have risen. The portfolio yields above the much larger Dublin CBD market and offers occupancy resilience. There is reversionary potential. Outside CBD, there is scope to buy well and to enhance the tenant base, "working the asset". On top of this, there has been slight yield compression.

Valuations of assets in the categories in which Yew Grove invests are below new-build costs, and assets are generally modern, with rolling investment in enhancing sustainability and performance. Yew Grove management discussed this further in a DirectorsTalk announcement in May, available here.

In the RoI Financial Crisis recovery period, growth in rents and valuations was concentrated in central Dublin. MSCI data shows a doubling of central Dublin values in the growth upswing 2000 to 2007 and there has been a rise of 110% from the low base of 2013 to now. For rest of Dublin, the rises have been 60% and 40%, respectively.

Post COVID-19, space, accessibility and value all work well

Low-rise offices, good parking and large floorplates at affordable rents

Clearly, COVID-19 has given pause for thought on valuations. We are strongly of the view that valuations will hold up well and will tend to increase for Yew Grove. Not only do we expect reversions, but these may be enhanced by the search for value, for more floorspace and the fact new build is significantly more expensive than the Yew Grove valuation levels. All three factors support further tightening of NIY on valuation. The median reversionary yield on Yew Grove's office assets is 8.0%, the local valuation comparables are a little under 7.0%.

High covenants, long WAULTs, occupiers keen to stay

Tenants ready for ongoing expansion

The WAULT of 7.5 years is only one element of the income visibility. The multinational tenants have long-term and growing commitment to RoI. RoI locations that are well connected, attractive to the workforce and offering much lower occupational costs than CBD Dublin are in strong demand, while their supply is constrained. Later in this report, we expand on how larger corporate tenants are looking to locations that offer a good lifestyle at affordable levels for the workforce as well as for the corporate entity paying the rent. This is not just about the commercial rent, it is about attracting and retaining a loyal workforce. These tenants are often in expansion mode. The Yew Grove locations are excellent in that regard – versus Dublin CBD. So, with a particularly high-covenant tenant base on 95% of the assets, paying rent on time (even on the March 2020 quarter day) and with every reason to commit more not less to the office assets, visibility of the future income stream is high.

As to the industrial assets, many of these operations are tenanted by the high-value manufacturing end of occupiers with highly educated workforces and often with elements of highly bespoke specialised floorspace use in the assets. This makes for long-term occupancy, irrespective of WAULT. Again, further details are given on individual larger assets.

The regional investor – summary

An important reminder: non-Dublin CBD rents have been growing faster than CBD

This is a regional and Dublin non-CBD-focused REIT from which stems the scope for continuing rental growth and eventual yield compression.

Being a regional REIT gives high running yields, which, for the portfolio, average 7.5% or 8.2%, including void elimination but before reversionary uplifts. The office assets alone currently generate rent of €7.6m. This rises to €8.5m once fully let at current market levels. Office valuations stand at €109.2m; therefore, yields on these two bases are respectively 7.0% (current income) and 7.8% (fully let). Again, much of the void level is not frictional (i.e. voids necessary through normal tenant churn) but in two specific cases where the void space is being marketed and set to be eliminated.

Being a regional REIT in RoI offers exposure to locations where market rents are now starting to rise.

No wonder rent collection has remained strong

The start June trading update confirmed 97% of rent having been collected on time; at April it was 95%. This latter put Yew Grove just outside the top decile of UK-quoted real estate stocks (in the top decile, market-size weighted). It offers long-term tenants who, in many cases, work with the landlord on asset management or up-scaling projects. In many cases, fit-out and other costs are high relative to rent and the workforce sees less turnover than in Dublin CBD.

Being a regional REIT, Yew Grove is not paying for assets that are in the front line of investor appetite. Thus, they trade at below replacement values.

Although half of FDI goes to locations outside Dublin, real estate investors not notably present, in part because lot sizes are too modest

Compared with other, large, regional REITs in the UK, such as Custodian REIT and Regional REIT, the asset base appears significantly more secure and it also generates historical returns as high as those REITs without as much risk – as we perceive it. Those REITs have a greater spread of tenant covenant quality and secured less of the March 2020 quarter rent than Yew Grove.

The regional approach is exactly in line with FDI (foreign direct investment) into RoI. It would be wrong to see this FDI as being totally Dublin-centric: 51% of FDI inflows are to Dublin; 46% of Yew Grove assets are in Dublin (see chart overleaf).

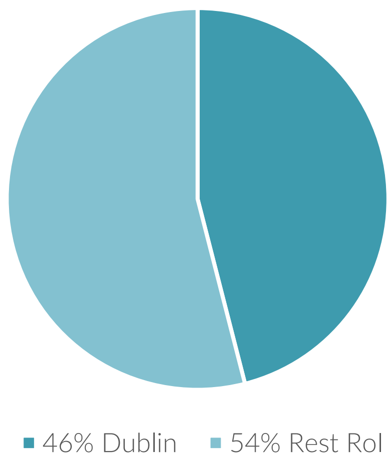
The yield compression in Dublin CBD has resulted in the greatest (since 2008) yield gap between Dublin CBD (with no Yew Grove assets) and Dublin Core+. These are the areas outside the CBD and the surrounding central zones.

Earlier equity fund raises have been deployed rapidly and have seen initial value uplifts. Weight of money into RoI real estate is very much into Dublin CBD (not a target for Yew Grove) where rents in the initial recovery phase of the RoI Financial Crisis had been rising faster and the lot sizes larger, thus more conducive to the typical large international investor.

Summary statistics

- Running yields are 7.5% (passing rent as % asset value) or 8.2% including void elimination but before reversionary uplifts.
- Values increased 5.3% on a like-for-like basis in 2019.
- Policy is to pay out near-100% of revenue account cash profit in dividends. Note, 2019 dividends included a special dividend from an early-lease surrender cash payment.
- The existing structure is efficient, with EPRA cost ratio in 2019 of 26% (32% after remuneration, including bonuses). Growth in the equity and asset base is expected to raise efficiency further.
- The efficient structure is evidenced by dividends paid in 2019, which total 5% on EPRA NAV, even excluding the special dividend, and 6.9% including it.
- 98% dividend per share 2019 vs. EPRA EPS.
- The tenant base is strong, with 95% multinationals or quasi-government tenants.
- 95% offices or industrial; the rest is in retail, of which 0.5% in non-food retail.
- Tenants are increasingly looking for a combination of modern facilities, locations attractive to the workforce, long-stay occupancy.
- Leases average 7.5 years, WAULT to break 4.4 years.

Yew Grove asset location by value



Source: Yew Grove, Hardman & Co Research

Investment case

Good since IPO, even better prospectively

Best-in-class historical ratios and returns

Best in class, both in 2019 achievement and also forward-looking financials

Our *Executive summary* outlined the investment case, the main driver for which is the strong management's delivery of the regional strategy. The table below illustrates the 7.1% investment return (earnings as % NAV), which is best in class and delivered with modest financial gearing (see chart, page 7). Yew Grove invests in assets that attract creditworthy tenants. Large corporations or the government make up 95% of tenants. Page 12 quantifies how comparatively well this approach has performed recently. Therefore, the prospects (see page 7) can be quantified comparatively, and are best in class too.

Like-for-like 5.3% revaluations

Income is the most important component to the returns – we consider – but asset values are rising too, even without yield compression. Reversions come through and there are incremental asset management projects executed. This is quantified by Yew Grove's like-for-like valuation rises of 5.3% in 2019.

Structure of this report: assessing regional emphasis, RoI strength and Yew Grove pipeline

Yew Grove's regional exposure generates superior rental growth, which is valued modestly. Our report turns to these two conjoined aspects in future segments. We then briefly assess the overall RoI macroeconomics. Furthermore, it is important that Yew Grove is growing its capital base, so we also provide an overview of the asset acquisition pipeline, in later sections of this report.

Dividend returns top quartile

- It is noteworthy that only two years post its IPO, Yew Grove is achieving a top quartile dividend return on NAV.
- EPRA earnings drive the dividends, and we compare the Yew Grove ratio of EPRA EPS vs. EPRA NAV with other REITs in the chart below. It compares the EPRA return on assets with larger UK regional REITs: Custodian REIT (CREI) and Regional REIT (RGL), which generate similar, but slightly lower, returns. Well-positioned regional investors are able to secure higher-income returns. The chart below, however, illustrates that they are struggling to maintain this. They are cutting dividends. In contrast, Yew Grove is raising the dividend if one excludes the special dividend paid out last year when a one-off lump sum was received for a lease break.

Our comparables are well-run REITs with good records

Yew Grove best in class

Historical return on capital (%) – based solely on income returns

Source: Company report and accounts, Hardman & Co Research

- The Yew Grove return is as robust as the larger, well-run regional REITs in the UK, but is on a strong footing for future growth, a contrast to the other regionals. We will turn next to the sustainability of returns.

- We also show the income return on capital for Hibernia (HBRN), in the chart above. Although this is lower than the peer group, HBRN's portfolio includes development assets and there is significant exposure to lower-yielding central Dublin commercial assets. For broader comparison, in March 2019, Hardman & Co put together a basket of 16 REITs, introduced in our report, *"Secure income" REITs – Safe Harbour Available*. These REITs aim for secure, generally longer-term income streams. They may aim for security, but the returns are somewhat lower than the best regional REITs, as the chart illustrates.
- The Yew Grove prospects table illustrates that, while the historical return ratios are similar to the two larger UK regional REITs, its prospects are much stronger.

Strong dividend prospects and secure rent collection

The Yew Grove dividend policy is to distribute earnings and not to aim for a fixed progression. A significant cash-based early-lease termination was registered in 2019 and a special dividend was paid to distribute this to shareholders.

Very strong for Yew Grove on any forward analysis

Dividend prospects

REIT	Forward dividend
Custodian REIT (CREI)	Board announced cut
Hibernia (HBRN)	36% rise 2019: 2020 rise likely*
Regional REIT (RGL)	Board announced cut
Hardman Secure Basket	Average 10% cut*
Yew Grove including 2019 special dividend (YEW)	19% cut**
Yew Grove (YEW)	12% rise**

** Consensus; ** Hardman & Co estimates*
Source: Company announcements, Hardman & Co Research

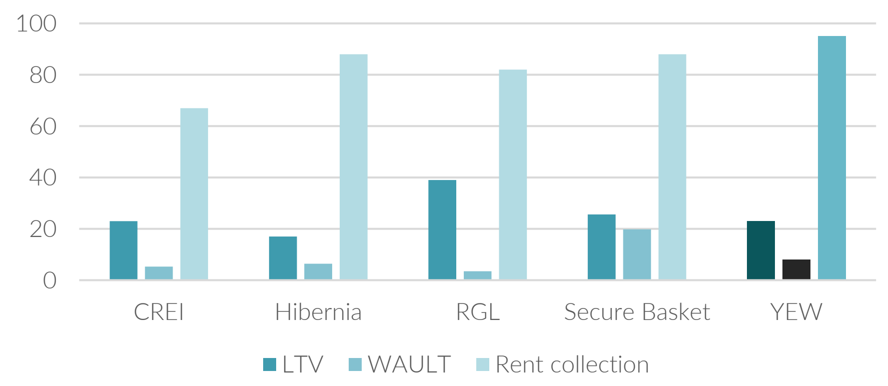
Best for dividends and…

Hardman & Co estimates Yew Grove will declare 2020 dividends of €5.5 cent. This is below the total paid for 2019, which included a special dividend paying out as a result of an early-lease termination payment. If this payment – which was designated a special dividend – is excluded, our 2020 estimate is 12% above the 2019 dividend paid per share. Yew Grove highlighted that the 2019 share issuance diluted 4Q19 dividends from a pro-forma undiluted €1.47 cents to the actual payout of €1.04 cents. Our €5.5 cents per share estimate is driven by the investment made of the equity raised during 2019, thus reversing the dilution.

…best for resilience

- Yew Grove has the best rent collection record for the quarter due end-March 2020. It also has a longer WAULT than many and a modest LTV ratio.

Balance sheet and income resilience ratios



WAULT is stated in years; other figures are percentages
Source: Company report and accounts, Hardman & Co Research

Looking at the comparisons, above, over 90% vs. under 90% collection is a solid benchmark of security. We would not overly emphasise the difference between say

100% rent collection and 90% rent collection (of March 2020 rent), as even Primary Health Properties did not quite achieve 100% – and never quite does – although it derives more than 99% of its rent from government-backed income streams. Regional REIT collected 82% of rent due (its portfolio is mainly regional offices, an asset class we favour). However, last year it collected 83%. Sometimes, portfolios have smaller tenants who are not typically paying on time, even when not financially stretched – and there lies half the point. Yew Grove's tenants (95%) are multinationals or governmental or large corporates: a robust base.

Regional focus raises returns and reduces risks

Targeted to Dublin non-CBD, and to specific well-connected regions with strong, attractive immediate hinterland

Yew Grove's locations comprise:

- Dublin city other than the Dublin CBD;
- within the wider Dublin Catchment Area;
- major regional cities and towns (especially those identified as hubs for industrial development under Project Ireland 2040); and
- Industrial Development Authority (IDA) Ireland Business and Technology Parks.

Open market and also governmental growth hubs

See Glossary for further detail on Project Ireland 2040 and IDA Ireland.

Investors find this too difficult to execute: too detailed, too small a lot-size

- To date, investors have directed the weight of commercial real estate investment to Dublin CBD. We expand on this in detail – including Yew Grove's lot size advantage – later in this document. Yew Grove does not invest in this CBD market, where yields are at least 150 bps lower, and rents – which can typically be three times as high – are now growing more slowly than the rest of Dublin.
- While the office market excluding Dublin CBD is underinvested, it still offers a large investible market of ca.€8.5bn, compared with Dublin CBD of €13.8bn (*Source Cushman & Wakefield, Yew Grove*). The RoI industrial market comprises a further €5.2bn. Within these markets, Yew Grove benefits from a short-term deliverable investment opportunity pipeline of more than €120m at the start of 2020.

Not a waiting game: income is strong now, but so too are valuations, which rose 5.3% like for like in 2019

- The strength of the income base will drive through to rising valuations. Indeed, Yew Grove registered like-for-like valuation rises of 5.3% in 2019. Central Dublin office rents are back up to 2007 levels but, outside that area, Dublin office rents are €45 sq. ft. 46% of Yew Grove assets are in Dublin non-CBD (including Dublin catchment area).
- While Yew Grove remains small after a 2018 IPO and a follow-on equity raise, further equity raises are anticipated within 12 months. There is current authority to issue up to 100m new shares. The pipeline of opportunities is significant.

This is good value, not just cheap…

…why…

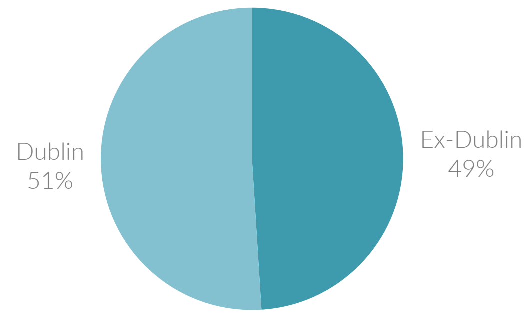
Rest of Dublin Office valuations are ca.40% below peak levels and around 20% below the 20-year average per sq. ft., but CBD Dublin office capital values are a little above the 20-year average and ca.24% below the 2007 peak. Provincial office capital values trends are similar to, or slightly below the rest of Dublin figures. Rest of Dublin capital values are ca.30% of CBD Dublin values, the lowest levels ever since data from the start of the century. The essential case is not that the assets invested in are cheap, even though it is a comfort that they are valued well below replacement cost. No. The momentum is there. Rest of Dublin office asset values are rising: the Yew Grove historical rise in like-for-like asset values at the 2019 results is evidence of that.

...because rents are rising as are capital values and both are strongly underpinned

More importantly, rents are strong. MSCI data show ex-Dublin CBD rents rising at ca.3% or more for each of the past four years (and faster in 2015 and 2016), while CBD Dublin rents have been rising, but at slower rates, since 2016. After all, many of the assets have reversionary potential, which points to a market where rents are rising.

We like the regional focus as it aligns with FDI as well as government policy

FDI incoming destination



Source: Goodbody, Hardman & Co Research

Regional investment promoted by government

Much FDI is targeted at the RoI regions. As the recovery matured, investment spread across centres other than Dublin. We see no reversal of this trend, quite the reverse. The regions of RoI benefit from government policy to promote regional growth, not least Project Ireland 2040. This has a strong regional focus. It is just one driver; most drivers are based on the attractions of the regions for "putting down roots" in Ireland.

Core+ Dublin assets deliver attractive yields; rents starting to rise

Rents are rising – but have lagged and are from low post-crisis levels

Four office assets, 31% of total assets, are located in Dublin outside the CBD. These areas are termed "Core+". Additionally, the large Millennium asset is in the wider catchment area of Dublin, off the M7. The Core+ value drivers are that rents in CBD have risen and now stand at 50%-70% above Core+. Typically, CBD rents are now above 2007 levels. Rents are rising. Rest of Dublin rents have been rising by ca.4% p.a. since 2016 and increased at faster levels in 2015 to 2016 as the economy emerged from the prior crisis. Since 2013, CBD rents have risen 20% more, though.

For investors, the Core+ NIYs are approximately 7% (reversionary may be slightly higher as rents have now begun to track higher), whereas CBD stands ca.4.5%.

Dublin CDB valuations are three times or more multiples of rest of Dublin

Rebuild costs for assets in Core+ are typically in a range around one third below current market value, Hardman & Co believes. Many CBD assets have large floorplates and many have been occupied by technology or other companies, which might employ a significant amount of personnel living in central areas of Dublin. Residential costs in central Dublin are very high.

There is a wider pipeline of potential purchases to choose from in Core+ vs. CBD. We refer to the pipeline later in this report.

It is worth highlighting the company's record of acquisition in improving or attractive locations. Yew Grove's two Gateway Dublin buildings are in an improving area (we give details below) and Athlone's academic credentials are attracting growing businesses that are Yew Grove tenants.

RoI-wide market is robust, but weight of investors is to Dublin

Apparent disparity between broadening inward investment to the regions and tight investment focus on Dublin. Why?

RoI was the fastest-growing European economy in 2019. FDI inflows also remain strong. Approximately 50% or more of recent FDI job creation has been outside Dublin (IDA data 2013 to 2018) – Project Ireland 2040 supports targeted regional growth. This is in the same direction as the market demand generally. Vacancy rates across the country are at multi-year lows, with larger floorplate, Grade A (and equivalent), showing higher take up/lower vacancy. In the principal IDA parks, there is virtually no vacancy. Signs – up to now – are of tenants upgrading, and across the regional cities, the major shift is from secondary buildings into larger Grade A space.

Dublin the main market by far, but also the individual lot size of non-Dublin does not attract large institutions

Looking at investment into real estate, the flow of funds is skewed to Dublin. Dublin CBD is a large market. MSCI and Cushman & Wakefield indicate the Dublin CBD office market is valued at €13.8bn, which compares with a combined €13.7bn for the non-Dublin CBD office market plus the whole of the industrial market. Dublin CBD lot sizes are large. Cushman & Wakefield states the average lot size is €43.1m vs. €10.0m in Dublin outside the CBD.

The right assets for current and future markets

Post COVID-19, space, accessibility and value all work well for Yew Grove

One office block is five storeys high, but others are three or less. While the generous floorspace, good access by car for occupiers and scope for expansion are immediate attractions, the longer-lasting benefits of the particular type of office space Yew Grove offers are clear. Public transport – for good or ill – will be something occupiers may well value as an option, but the flexibility of rapid access by car will be important. More space at less cost is an attractive "selling point."

Drivers for the occupiers

High covenants, long WAULTs, occupiers keen to stay

The WAULT of 7.5 years is only one element of the income visibility. The multinational tenants have long-term and growing commitment to RoI and lower-cost locations are in strong demand while their supply is constrained.

Central Dublin housing costs are particularly high and investors seeking a long-term presence typically will have a Dublin base but expand in locations where family housing is affordable and the workforce highly educated. Later, we will take a detailed look at the largest Yew Grove assets, but would highlight Athlone in this summary. It is a growth hub, in part because of local higher education and convenient access nationally, but also due to the value offered for employee lifestyles ranking even more importantly than the value offered in the real estate.

Industrial assets configured for the tenants by the tenants – at some cost

Turning to industrials; here, too, rents are rising and valuations are still well below replacement cost. The locations are predominantly on IDA parks, placing them high on the list for prospective new tenants. Occupiers undertake high-value operations at the sites and so tenant fit-out investment is high, raising the propensity to maintain a long occupancy.

The modern portfolio offers tenants value; hence a loyal tenant base

Yew Grove not only investing in asset management programmes, but also building small new assets adjacent

The office portfolio is well placed for the evolution in the way people work. The real estate comprises a floorplate which is large, flexible, relatively low rise and represents good value. Further, the locations and accessibility bring employees from catchments offering an attractive lifestyle compared with Central Dublin and hence greater staff loyalty. Some established tenants may want to expand and to take up more space, which could be best done by underwriting lets on adjacent modest new build. As for the industrial assets, tenant loyalty is also a significant benefit. It derives from buildings where fit-out and customisation represents a "sunk" tenant cost, which is a multiple of the cost of the building. High-quality industrial assets located in high-quality estates provide clear value to occupiers. In certain assets, the reversionary potential and the relatively low densities are the icing on the cake for Yew Grove.

Athlone expansion

ESG enhancement

Across the board, the portfolio in many instances offers opportunities to accommodate the operational aspirations of tenants who are growing. For example, at IDA Athlone, Yew Grove has constructed a new car park and added other improvements. Furthermore, Yew Grove is enhancing the environmental performance of its stock, some of which, while fit for purpose, could attract better rent and tenants with improved performance.

Yew Grove's detailed knowledge offers superior asset management and acquisitions record

Worked examples of detailed asset and tenant management

Management purchased the Ashtown Gate office buildings, Dublin via the Yew Tree vehicle in 2016, with significant void space. This was filled almost immediately. Value increases have continued steadily thereafter. The annualised return to Yew Grove exceeds 18% p.a. since its purchase from Yew Tree. The Dublin Gateway office buildings were bought in 2018 shortly post IPO for €29m and are valued, as of end-2019, at €33.5m. The 2018 rent review was at €27.50 per sq. ft. and, in 2019, a vacant floor was let at €32.50. It was purchased on a 7.1% yield (at the acquisition price, or 6.7% at acquisition all-in cost). Also, at IPO, management acquired Units 7 and 8 Airways Industrial Park, Dublin, which comprise large industrial assets, fully let to Essentra Packaging Ireland (part of a large group). It is under-rented and has significant reversionary potential; Yew Grove estimates 90% in the coming year. It is a slightly older building.

The Manager has a deep specialist knowledge and the portfolio has upside from granular asset management potential and letting two notable voids. We consider these to have already added value. By this, we mean that acquiring with a void would tend to reduce the competition of other lessors who might not have the detailed knowledge of the area from which Yew Grove benefits. This plan worked with the Gateway purchase. The Cork void resulted from a tenant offering an early break. This resulted in a multi-million € payment to Yew Grove and the subsequent 2019 special dividend to shareholders. In addition, Yew Grove works closely with its expanding tenants. Finding a new occupier will typically involve bringing in a new tenant, but Yew Grove now has a strong list of multi-location FDI (multinational) and public sector tenants. Yew Grove works alongside its tenants to understand their current space use and future space needs.

Yew Grove has clear, immediate, deliverable expansion plans

We expand on the pipeline of future investments in a later segment of this report.

An expansionary capital base

Yew Grove raised €75m new money in its June 2018 IPO and €36.6m subsequently as part of a €100m follow-on equity programme (renewed in May 2020). All the 2019 new equity raised was deployed or committed within two weeks of the capital being raised.

In 2019, the rent roll grew 42% to €8.9m p.a. The rent roll (post the 2020 Millennium Park purchase) stands at €10.6m. There are two principal voids to be filled and some smaller voids plus asset management projects to come. The voids should equate to ca.€1.59m rent upside.

2019 capital deployment

2019 capital deployment	€m
Equity raised	35.8
Debt raised	9.1
Property purchases	39.3

Source: Yew Grove, Hardman & Co Research

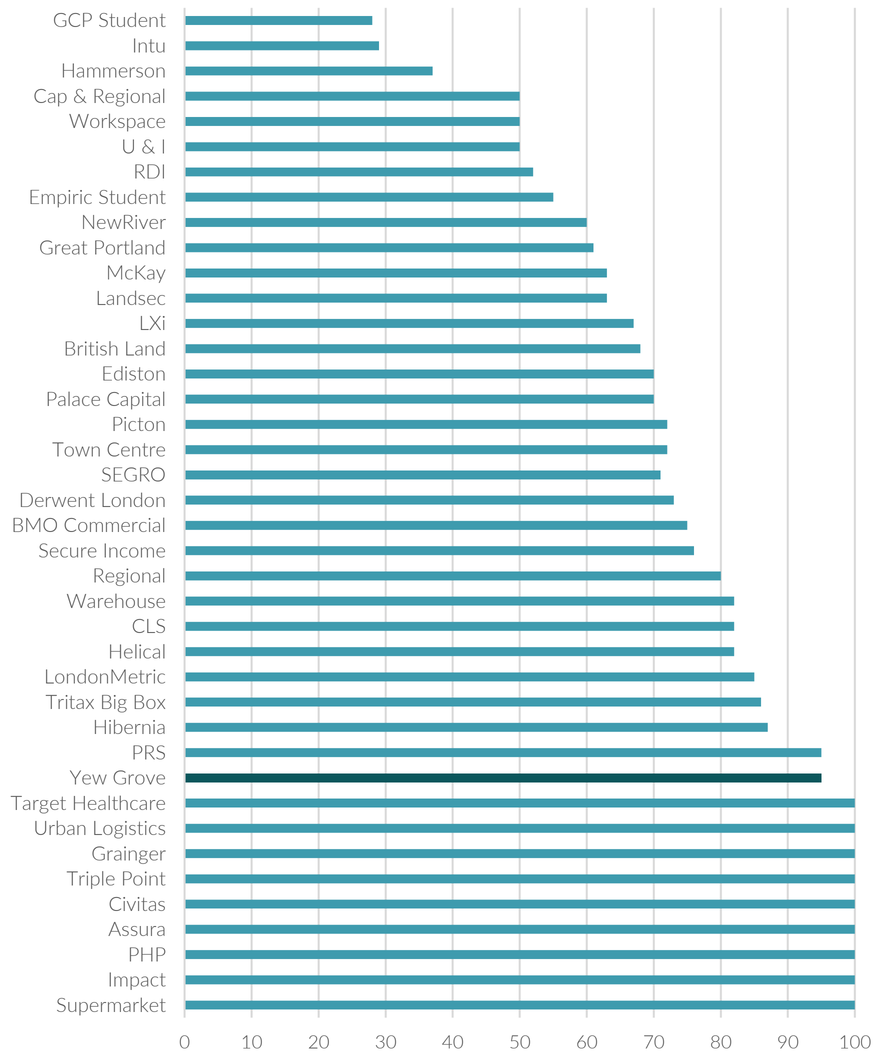
Drivers to our financial estimates

A REIT with strong tenants

As stated on 15 April: "Q2 2020 rent, including leases at the recently acquired Millennium Park properties being invoiced for the first time, is being collected in line with expectations and management currently expects that over 95% will be paid on time. The Irish government, FDI and large corporates account for 95.3% of the Group's contracted rental income, the remaining 4.7% of the rent roll comes from SMEs, of which 0.54% is exposed to non-food retail tenants."

A top performer

2Q20 rents received (%)



Source: Company statements, Hardman & Co Research

Note, in the chart above, certain ratios stated at 100% reflect actual figures received in the 95%-100% range; however, where the REIT has stated, all will be collected promptly, including in some cases a small proportion moving to monthly payments from quarterly in advance.

On 5 June 2020, Yew Grove made the following announcement:

"As at 4 June, the Board is pleased to report collections of 97% for the second quarter rent, which is in excess of our expectations as at 15 April 2020. This includes all of the monthly rental payments due in the quarter. The Company has agreed a temporary rent deferral with a repayment plan on an additional 1.9% of the unpaid balance, bringing the total to 98.9% in due course, with the remainder due from non-food retail outlets which have been closed and are expected to reopen soon and with whom we have begun discussions."

It is from this base strength that we make forward estimates with some confidence.

Possible per-share dilution

EPS forward estimates

The main 2020 risk is a technical one

- The main variable, we consider, is the rate of raising and deploying of new capital.
- Equity capital was raised in 2019 (in two issues) and was deployed throughout 2019 and up to February 2020.
- It is likely that 2020, with approval from shareholders in May and an in-place pipeline, will see a further fund raise. To date, cash drag has been contained and we would expect future cash drag to last for maybe a quarter or so, as there is a significant "ready to go" pipeline. However, this is an uncertainty and could lead to cash drag dilution of earnings per share.
- The growth in the equity base should enhance efficiency further as the company is ready to operate and service a larger portfolio. Management has been keen to establish operational leverage, whereby additional asset purchases have a relatively small impact on central costs, allowing more of the new rental to flow through to shareholders. Asset acquisition costs are an initial drag on EPRA EPS, however.

Significant acquisition costs (affect NAV)

Costs of property purchase are ca.8.5% of the acquisition costs and this increases as a portion of equity due to gearing. The vast majority of this is Irish Stamp tax (7.5%), which rose significantly in October last year. Equity issuance is thus dilutive in year one, absent significant early NAV gains. For 2020, we take into account the issuance and acquisition to date, but make no assumptions of further issuance – although further growth is likely within the next 12 months, we believe.

Rent increases assumed from void reduction

Specific drivers to:

- Void reduction

We assume the two main voids (Cork and Millennium Park) are on average filled and rented by early 2021. We would expect the outcome may well be ahead of this. Note that, in RoI, the landlord does not have to pay business rates on empty property in some regions; however, there will be an element of vacant service charge. The latter is recognised in the direct property cost line of the accounts and our model.

Administrative costs increase in 2021 due to one-off cost

- Market listing costs

We estimate there will be a market-listing-related cost for 2021 as Irish REITs are required to be on, or move to, a main exchange within three years. Yew Grove is required to do so by mid-May 2021.

Finance

We take account of various costs relating to new and renewed facilities.

NAV benefits to 2020 and 2021

Revaluations not based on changes in NIY

For 2020, we estimate filling voids and lease re-gears will lead to modest upward revaluation. For 2021, we expect some of the latent reversions to begin to take effect. There should be further in 2022 but, for now, we add nil to our 2022 estimates. We assume ongoing valuation rises in line with market rent rises, as we estimate nil yield compression.

Valuation of shares and assets

Rating comparables

We consider the closest peer group is the larger-market-capitalisation, well-managed UK regional REITs. See investment case data, pages 6 and 7.

We make a number of caveats, however:

- Yew Grove's market capitalisation is lower than peers and its quoted track record is shorter.
- We believe the Yew Grove covenants are clearly stronger. While Yew Grove has 10.5% vacancy, this is for tactical reasons and can enhance NAV growth prospects; for example, vacancy being knowingly purchased or taking advantage of favourable early-lease termination. Assets outside this category are 100% occupied: demand is high.

Occupancy remains 100% in 8% of Yew Grove assets

- We believe it is right to conclude that Yew Grove's strategy has a "tighter" focus and is stronger than the peer group.
- The regional UK REITs are only comparable to a loose extent; notably, the dividend prospects are worse.
- We also include Hibernia, one of two other RoI-quoted REITs. The third is dedicated to residential assets, which have a totally different tenant, economic and political background.

Assets held by other REITs are markedly different, but we categorise Yew Grove as the best of both worlds: a secure income regional REIT

Ratings for selected UK regional REITs and for Hibernia REIT (RoI-focused)

REIT (* € cents)	Latest price	Latest EPRA NAV/share	Historical div. yield	Price/ NAV (x)
Custodian REIT	90	107.1	6.8%	84.0
Hibernia REIT *	111	179.3	4.3%	61.4
Regional REIT	75	112.7	10.9%	66.5
Yew Grove* including 2019 special dividend	88	98.5	7.7%	89.4
Yew Grove* excluding the special dividend	88	98.5	5.5%	89.4

Source: Refinitiv, Yew Grove

- See data pages 6 and 7 outlining Yew Grove's superior historical returns and prospective dividends.
- We see prospects for secure income and also capital growth. The latter derives from six factors, which we list below.

Six drivers to NAV growth:

Lots of potential "in the tank"

- filling the two voids;
- achieving reversionary uplifts;
- selection of strong geographical locations where assets can be bought for below replacement build cost;
- growth in the market (currently ca. 3% p.a.) in non-Dublin CBD office rents driven by rising demand;
- rising demand (in part e-commerce driven) for FDIs to locate in RoI, and lack of RoI supply, with office and industrial assets valued below replacement cost; and
- acquiring well.

Asset ratings

We submit that Yew Grove valuations are attractive in the context of the peer group. Just as important is to analyse the ratings on the assets. These offer excellent value.

Office: 72% of Yew Grove portfolio

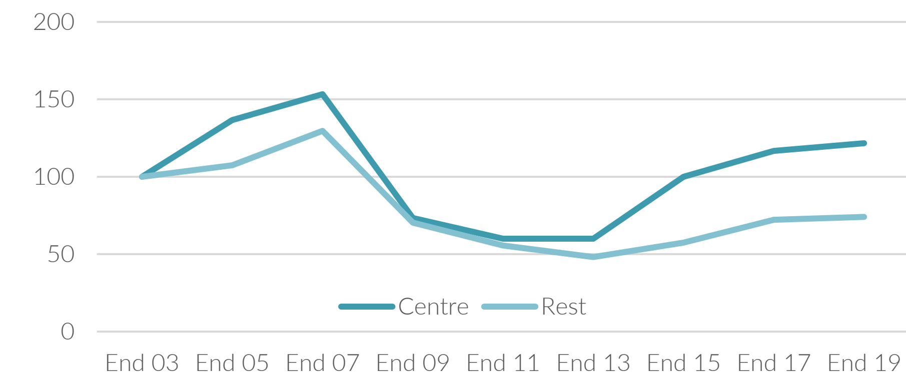
Undervalued assets

The chart below is reproduced in the Dublin office market analysis section of this report that follows.

Yew Grove does not invest in the Dublin CBD. Since IPO in 2018, it has acquired in "rest of Dublin" where prices have lagged, which the chart below quantifies.

Offices undervalued vs. CBD

Dublin office capital values (indexed 100 2003)



Source: MSCI, Hardman & Co Research

We return to Dublin in the following section of this document.

Industrial: 24% of Yew Grove portfolio

Industrial values still down 40% on peak 2007

As in the UK, RoI industrial assets are well below replacement cost. RoI Industrial assets are on average valued (price sq. ft.):

- down 20% on 2000 values; and
- down 40% on peak (2007) values.

Outperformance and value-for-money assets

The investor in Yew Grove has outperformed the broader sector, which the table below quantifies. Judging by the comparable ratings, above, this is not because the shares are over-rated. Judging from the asset valuations above, it is clear the assets are inexpensively rated. Later in this report, we outline why we believe the assets – in addition to being inexpensive – offer superior prospects for outperformance of the market.

Total (share price + div.) returns on Yew Grove vs. UK sector (* € cents)

2018 (flotation) to date	Current value: 100 at start
Yew Grove *	98
Real Estate sector (UK)	88

Source: Bloomberg, priced 3 July 2020

Note, this data is presented in local currency terms but it so happens the rate has moved only 1% (in favour of Sterling) over the period.

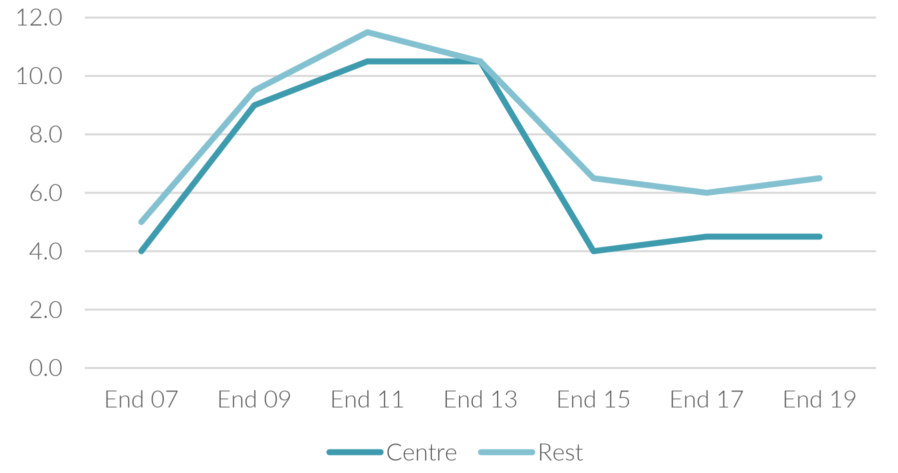
The Dublin office market

Yew Grove's office exposure is regional, Dublin catchment and in Core+ Dublin, not CBD

Yew Grove's office exposure is regional and in Core+ Dublin, well located for the docks area or the ring road. The capital value of CBD offices is back to its 2007 peak. Rest of Dublin capital values are 43% below the peak (MSCI). The latter best represents the Core+ locations of Yew Grove's Dublin office assets.

Higher NIYs equals cheaper, and in this case also, better value

NIYs – Dublin Grade A offices

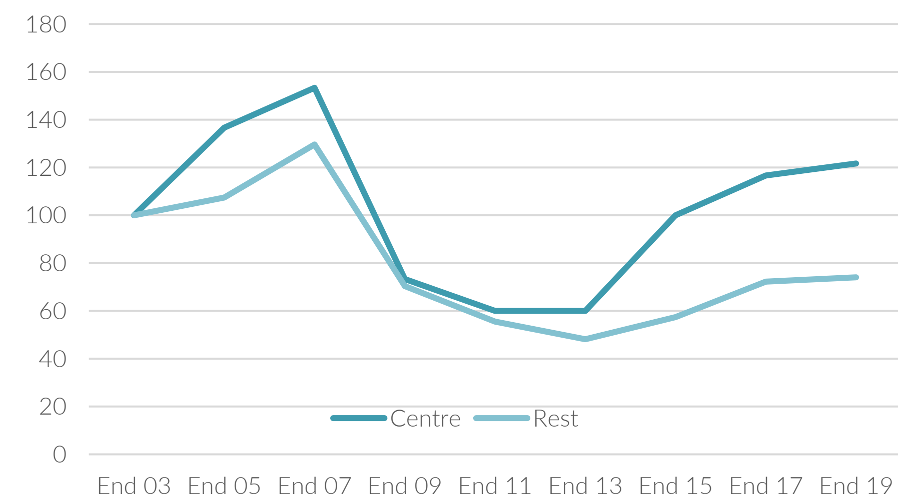


Source: MSCI, Hardman & Co Research

Capital values are ca.€300 per sq. ft. for rest of Dublin (Grade A) offices vs. €950 per sq. ft. for Dublin CBD. Capital values for rest of Dublin have risen slightly since 2014, but are back down to their 20-year average.

Variance now pretty gaping

Dublin office capital values (indexed 100 2003)



Source: MSCI, Hardman & Co Research

Turning to office rents: €55 per sq. ft. for Dublin CBD on average compared with €23 for rest of Dublin. It is worth noting, the Dublin CBD rents are (MSCI) 45% above their 20-year average. Adjusting for inflation, this is ca.20% above average in real terms. Despite the significant advances in FDI into RoI since the late 1990s, we take a broad view that Dublin CBD rents may have reached a plateau and depend on further inward investment (which is likely) and continuation of the intensity of office use per unit GDP (may be less likely).

Right assets, i.e. large floorspace at value-for-money rents

- The trend will be towards more extensive usage, which favours the larger, better value floorspace of Dublin catchment and Core+ Dublin.
- Rents in "rest of Dublin" are (slightly) below their 20-year average in real terms.
- The average 6.5% NIYs available in Core+ further mitigate the downside risk.
- Yew Grove buys at better than 6.5%, again, insulating from – never eliminating – capital risk.

Buying well

- Yew Grove's strong tenant base and tenant relationships provide further insulation both in terms of current occupancy and growing with tenants.

The real estate assets

- 94% of assets are in the pure office and industrial sectors. Some of the remaining 6% is mixed use, including office with retail.
- 100% assets are in RoI.
- 89.5% assets let, with virtually all voids stemming from recent acquisition part vacant and a recent early-lease termination upon payment of €3m by the tenant to Yew Grove.
- 46% of assets in Dublin.

€10.5m rental income at current occupancy, ca.€11.5m once vacancies are filled

Strong reversions, just over half of which stem from filling vacancies with:

- 8.8% average reversionary yield;
- 7.4% average running yield;
- 8.0% median running yield offices;
- 9.4% median running yield industrial;
- 12.4% median running yield retail/mixed use with retail;

Assets

Asset	Location	Contracted rent (€m)	End-2019 valuation (€m)	% on rent
Offices				
Millennium Park (6 assets) *	Naas (Catchment Dublin)	1.656	25.300	83
One Gateway	Dublin	1.306	1,000	100
IDA Letterkenny (3 assets)	Donegal	1.437	15.755	100
Three Gateway	Dublin	0.913	14.460	100
Teleflex Midlands	Midlands	0.948	11.610	100
Unit 2600 Cork Airport	Cork	0	6.200	0
Ashtown Gate Block C	Dublin	0.391	5.140	100
Ashtown Gate Block B	Dublin	0.405	4.915	100
IDA Waterford Block A	Waterford	0.353	4.100	100
Blackwater House	Cork	0.233	2.750	70
Industrial				
IDA Athlone Block B	Midlands	0.530	6.175	100
IDA Athlone Unit B2	Midlands	0.483	5.050	100
IDA Athlone Block A	Midlands	0.250	3.500	100
IDA Athlone Block C	Midlands	0.280	3.150	100
Airways Unit 8	Dublin	0.160	2.740	100
Airways Unit 7	Dublin	0.160	2.470	100
Holly Avenue	Dublin	0.170	1.835	100
Unit L2 Toughers	Dublin	0.170	1.815	100
Centre Point	Dublin	0.110	0.855	100
Mixed use and retail				
Bridge Centre (majority retail)	Midlands	0.229	1.840	86
Old Mill Lane (majority offices)	South West	0.302	1.500	100
Canal House (majority offices)	Midlands	0.107	0.930	100
Total		**10.581**	**141.090**	**92**
Reversions				
From filling vacancy **		1.000	n/a	n/a
From market rates vs current rates **		0.900	n/a	n/a
Total		**12.415**	**141.090**	**n/a**

** As at acquisition, 7 February 2020 completion; ** Hardman & Co estimates and Yew Grove announcements, figures rounded; Source: Yew Grove report and accounts, Millennium acquisition announcement, Hardman & Co Research*

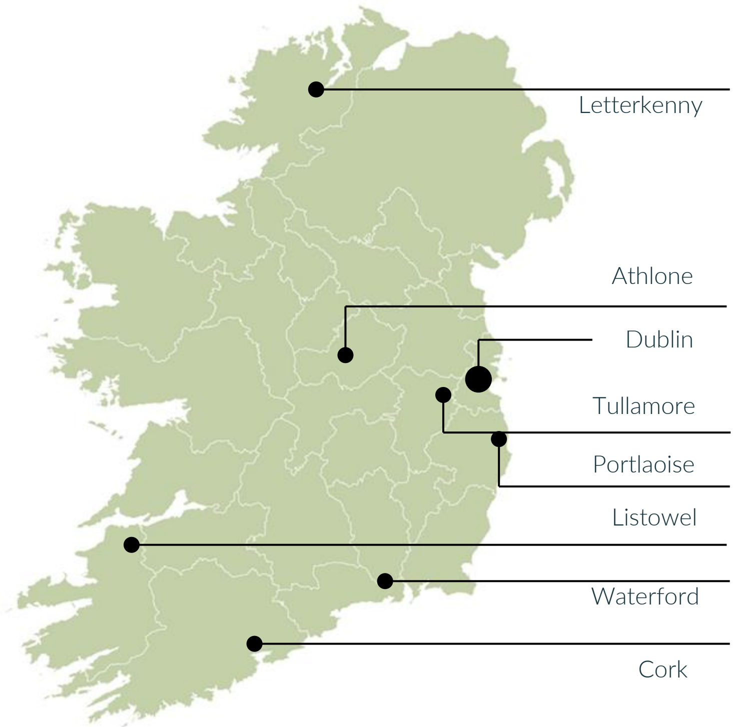
- €10.5m rental income at current occupancy; and
- ca.€11.5m rental income once vacancies are filled, which we expect will be part this summer, fully by early next year.

Note that rent in the Retail segment is €0.648m vs. reversionary €0.41m, with 89% occupancy. Some two thirds of this retail/mixed-use rent are within WAULT to break of 6.9 years, the rest 1.4 years. The latter constitutes downside with current market levels, of ca.1% Yew Grove total rental income.

Note that running yield is the current rent as a percentage of current valuation. NIY calculation uses current valuation plus costs of purchase (e.g. stamp duty and legal fees).

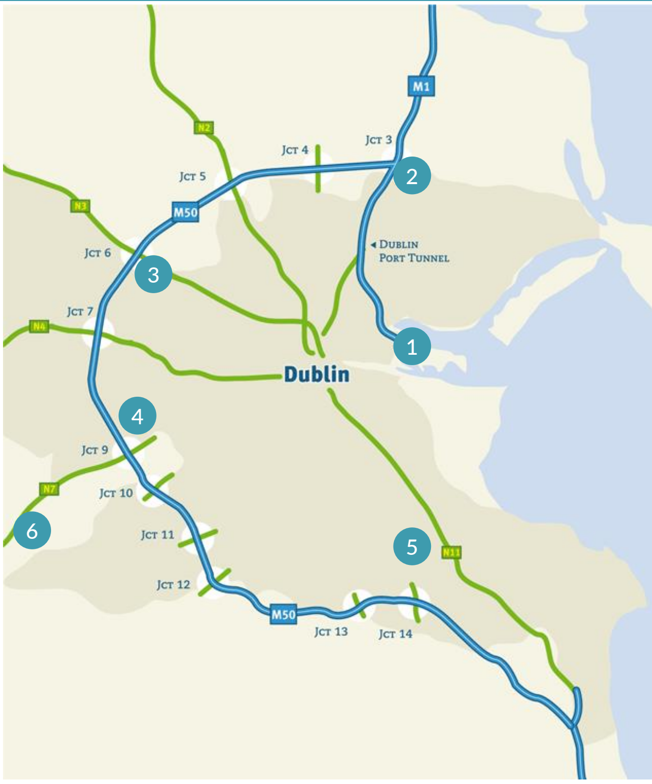
- Yew Grove's individual assets are what constitutes its investment attraction. These, ex the legacy retail, are exactly in the right space, physically, geographically and by sector.
- Most industrial locations are on IDA business parks.
- The office assets alone currently generate rent of €7.6m, which rises to €8.5m once fully let. Office valuations stand at €109.2m, thus yields on these two bases are, respectively, 7.0% rising to 7.8%.

Yew Grove asset locations



Source: Yew Grove, Hardman & Co Research

Yew Grove Dublin asset locations



1. Gateway
2. Airways
3. Ashtown
4. Centrepoint
5. Holly Avenue
6. Towards Naas

Source: Yew Grove, Hardman & Co Research

Gateway and surrounds

Source: Yew Grove

Overview

15 locations

There are 15 locations, several of which have multiple assets.

The largest location is Gateway, Dublin. A very large asset is Millennium Park, in Naas, which is about 30 miles west south west of Dublin on the M7, with the benefit of a new interchange, which is expected to be positive for the Park and its assets. There are 773 car spaces and six acres of greenfield land. It was acquired in 2020 and is one of the largest of Yew Grove's owned assets, measured by passing rent and valuation. Millennium is a strong example to work through to illustrate a variety of ways management adds value. Passing rent has significant upside, as the asset is 25% vacant space by ERV, which is one building out of the six acquired. Potential tenants were identified at the time of final negotiations for purchase. Existing tenants are predominantly FDI and large RoI corporates.

One clearly articulated strategy

- Rising Dublin CBD rents and the greater ease of accessibility of offices on the fringe of the centre point occupiers to these locations.

The prospects for and risks associated with the Dublin office rental market are assessed elsewhere in this report.

- Here, we touch briefly on outlines of the occupier and investor case in the largest 10 assets, two of which (Athlone) are industrial, the rest offices; five are in Dublin, the rest in other RoI locations.

The top 10 assets

Millennium office Dublin hinterland

The Millennium Park asset, 83% occupied by ERV, acquired 7 February 2020, we have summarised above. It has asset management opportunities, was no doubt purchased at a yield slightly higher than if it had been fully let and benefits from the Dublin economic driver and the differentiated product occupiers look for.

It consists of six office buildings at Millennium Park, Naas, County Kildare bought for €25.3m, which, with a rent roll of €1.6m, represents a 5.8% NIY (yield on cost including purchase costs), a 6.3% yield on price excluding costs. Five buildings are let to FDI tenants, one fully vacant. It has reversionary potential expected (as announced by Yew Grove) to yield in excess of 9%, slightly over half the uplift being derived from filling the vacancy in due course.

The combined leases have a weighted average unexpired lease term (WAULT) to break of approaching three years.

Gateway – Dublin docks

The combined Gateway assets are of a higher valuation than Millennium Park. One Gateway is near the docks quarter, which is attracting investment in commercial and apartment new build. In the quarter, a building was sold on a 4.6% yield in 2018, having been let to Facebook. One Gateway is valued at 6.9%, or 7.8% reversionary yield, which illustrates the rising local market rental trend.

Letterkenny – north RoI

The Letterkenny tenant is Optum, subsidiary of the international United Health and the location, among other benefits, has secured the fastest transcontinental communications fibre in RoI. United Health has a Dublin office: the Letterkenny one offers excellent quality-of-life surroundings for employees and staff retention is high. It benefits from 8.3 years to break and rents in line with current market rates.

Gateway – Dublin docks

Three Gateway is adjacent to One Gateway, see commentary above. The drivers are the rising market rents and the still modest rents compared with CBD. One and Three Gateway in total comprise 94,700 sq. ft. of offices.

Athlone – several assets here

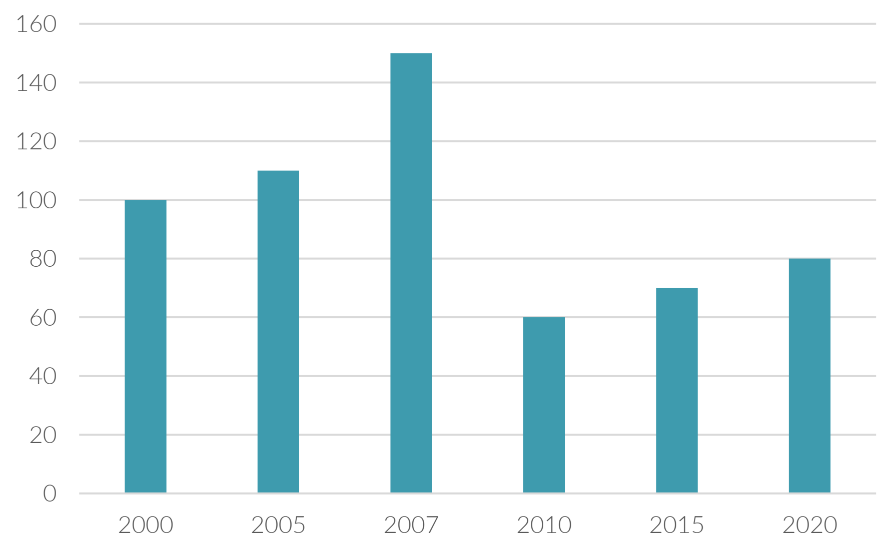
The Teleflex building at Athlone is on the IDA Ireland estate, near the academic centre, the Athlone Institute of Technology, and recruits in part directly from there. The tenant Teleflex has three RoI locations, one of which is the Yew Grove tenant. The buildings were specifically built for the tenant. Some have clean rooms and bespoke specification fire installation and loading specifications. The fit out, therefore, is a multiple of the cost to the tenant. This is just one example where Yew Grove acquired at less than build cost. This is an industrial building on ca.€9 sq. ft. The lease has 8.8 year to break. The rent is ca.10% above ERV. We would highlight the fit out and specification benefits to both landlord and tenant.

IDA Athlone, Building B. This asset is on the same good-quality IDA park, where the agency built some of the assets themselves, then encouraged developers. Yew Grove owns five buildings on the estate of which some are industrial, some office. KCI, the occupant of Building B is a typical tenant, a large multinational in value-added commerce. See comments above on Athlone. It can be seen that Yew Grove has expertise in Athlone and with IDA Ireland (via the management team and board). The weight of money and of transactions in RoI is Dublin-centric. Yew Grove's approach is to develop a deep understanding of a specific location and add more assets if appropriate. Athlone is a good example and we expect that vendors would be encouraged by this to approach Yew Grove directly as it is already an experienced landlord with a detailed understanding of the local market.

10 Industrial assets – not just cheap but good value as demand is strong

Yew Grove has nine industrial assets in five discrete locations. The largest is Athlone, where IDA Athlone Block B is one of four blocks owned by Yew Grove. As in the UK, RoI industrial assets are well below replacement cost and are well down in price over the past 20 years.

RoI industrial capital values (indexed 100 2000)



Source: MSCI, Hardman & Co Research

Cork tenant paid €3.0m for an early break

Cork Airport, an office asset, has been vacant since June 2019, when the former tenant Clearstream Global Securities (parent, Deutsche Borse) paid €3.0m for an early-lease break. €1.4m of the payment (1.86 cents/share) was returned to shareholders as a special dividend in July 2019. The asset was built in 1999 and renovated in 2015. Yew Grove bought it in February 2019 for €7.5m, and there has been a modest refurbishment costing ca.€0.2m since Clearstream's exit. The ERV was ca.€16 sq. ft. at purchase and it is hoped a new letting may be secured at significantly ahead of the former passing rent. Our estimates are that letting Cork Airport and the Millennium Park office space, which was void when acquired, will take place on average by the end of this year. COVID-19 may lengthen times for tenants to move but should not affect re-letting. This building is on an airport estate but is in no manner focused on aviation. Cork is an area that Yew Grove knows but it does not have the same concentration of assets as it has in Dublin or Athlone.

Peripheral urban Dublin

Ashtown Gate Block C, Dublin is located in Dublin 15, close to the M50. It was purchased in 2016 by Yew Tree – the predecessor of Yew Grove. Car parking typically generates around 10% of the rent in office locations and here the spaces were re-let in 2016 at higher rents. The vacant offices were let to the Office of Public Works, one floor having been vacant for 15 years, and subsequently the passing rent has risen 9%.

Ashtown

Ashtown Gate

Source: Yew Grove

IDA Athlone B2 is c-joined with Building 2 on the park. See comments on Building B, above.

IDA Athlone

Source: Yew Grove

Ashtown Gate Block B, Dublin is the only other asset among the larger where current rents are above ERV; but only modestly, at 4%. Those rents have risen since 2016 acquisition. See comments on Ashtown Gate C, above. B is the slightly smaller of the two. The total floor area is 33,150 sq. ft for the two. There are four buildings in the estate.

A summary of how Yew Grove is placed strategically

Low-risk growth

The assets

- Yew Grove has successfully targeted lower-risk, higher-yielding real estate to construct a portfolio of assets in strong demand where valuations offer premium yields.
- The office assets are well placed to optimise value-for-money occupancy cost (€ sq. ft. and rates), high-quality assets and locations attractive both to FDI/government employers and to employees.
- The industrial assets' locations benefit from the IDA (see glossary) as well as market forces driving demand and growth.
- Longer term, post COVID-19, we expect the attractions of floorplate, parking and accessibility will help to boost a supportive occupancy demand profile.
- As to the industrial assets, strategically, we find this sector attractive. Valuations are rising strongly with Yew Grove in 2019 seeing values grow here well into double digits. Despite this, rebuild costs are still above valuations, restricting supply while demand grows. Reversionary potential is the icing on the cake.

We see the IDA business parks as being recognised locations that attract high-quality tenants. The industrial sector is attractive as long as the assets are fit for the purposes of higher-value tenants. Supply is not growing, as build cost is predominantly higher than current valuations.

The growth

- The pipeline of potential assets is good. See page 28 for further details. There is recently confirmed shareholder authority to raise up to €100m additional equity.
- Yew Grove seeks to acquire assets the lot-sizes of which are significantly smaller than the central Dublin commercial assets. These latter are more on the "radar" for institutional investors. This strategy to secure assets may well result in a better yield at acquisition prices.
- We believe a rising market capitalisation at Yew Grove will attract new investors as well as providing an increasingly efficient investment platform. It is important to recall that Yew Grove is the only quoted REIT available as a vehicle into RoI regional commercial real estate.
- The Manager has a deep specialist knowledge. See page 32 for details of the board. This is an internally managed REIT. The portfolio has upside from granular asset management potential and letting two voids – voids which have already added value.

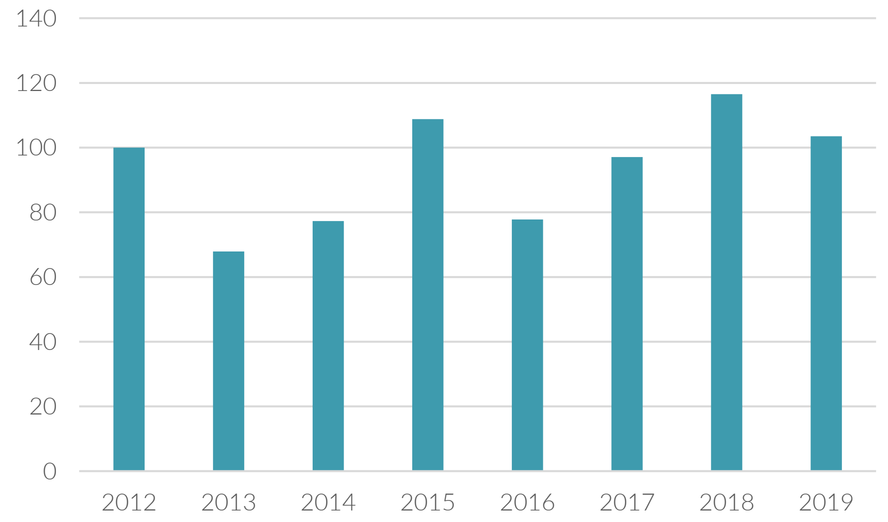
Macroeconomics

Steady and positive

FDI is an important driver to the RoI and is consistently economically additive. Inward migration and a younger (relative to the majority of the EU) population result in a population growing steadily at ca.1% p.a. (*ONS*). The RoI economy was the fastest growing in the EU in 2019.

History

FDI rebased 2012 (100)



Source: Goodbody, Hardman & Co Research

In late November 2019, the Irish Fiscal Advisory Council, more optimistically, predicted that a "hard Brexit" would have slowed but not reversed both consumer spending and employment growth. Some sectors, principally agricultural, will be affected under any Brexit scenario. The same is not the case for FDI overall.

In August 2019, Moody's annual credit analysis of Ireland, said that it is "relatively well prepared" for a no-deal Brexit despite the ongoing uncertainty. It added that Ireland is exposed to risks from international tax changes.

It also added that RoI was receiving FDI that would have otherwise gone to the UK.

Moody's has maintained a country rating on RoI of A2 stable since September 2017, when it reduced from A2 positive, which it gained in May 2016. From 2014, it had been Baa1.

Shorter-term future

RoI does not have a new government post the February 2020 election. Sinn Fein, traditionally a minor party, gained significant ground, taking nearly a quarter of the votes. It won the most first-preference votes amounting to 37 seats, totalling the same as Fianna Fail and two greater than Fine Gael. Here is not the forum to debate the reasons, but the COVID-19 crisis has put the cabinet-forming crisis somewhat on hold. Of relevance to the central Dublin versus regional thesis we have mentioned is that the chronic housing problem is now an acute crisis, with annual rent increases of more than 10% p.a. at least in 2016-18.

A February 2020 Central Bank Ireland report stated its estimation that a WTO exit of the EU by the UK would lower RoI output by 5% over a period of time and a 3.5% lowering would result from an orderly free trade arrangement (FTA).

The future

Ireland has one of the most educated workforces in the world. The share of 30- to 34-year olds in Ireland with a third-level qualification is 56.3%, compared with an EU average of 40.7%. Ireland's education system is among the best in the world. It ranks in the top 10 globally as an education system that meets the needs of a competitive economy. [1]

[1] Source: IDA www.idaireland.com/newsroom/publications/ida_facts_about_ireland_2019

The pipeline

On the ground

We see the target market as one where a high-profile investor such as Yew Grove has the connections, profile and expertise to deliver. There is a diverse range of potential vendors. They may be investors looking at other sectors. Developers still own some stock. The market is underinvested, and Cushman & Wakefield and Yew Grove provide data that shows the average lot size in these markets is €10m-15m vs. €40m plus for Dublin CBD offices. Cushman & Wakefield states the lot size is €43.1m vs. €10.0 in Dublin outside CBD, Dublin 1, 2, 3, 4, 7. Regional lot sizes are stated at €15.1m. This makes the markets Yew Grove targets more specialist and less targeted, hence higher NIYs being available.

This situation strongly supports the ability of a focused management with deep expertise to execute its strong pipeline. It has been demonstrated to be the case for other UK quoted REITs specialising in niche markets, with management rooted deeply and for the long term in that target market.

Yew Grove has clear, immediate, deliverable expansion plans

€75m plus €36.6m raised

The June 2018 IPO raised €75m new equity. €10.0m was raised in June 2019 with a further €25.8m in December 2019. All the new equity was committed within two weeks of the capital being raised.

Delivery of a €300m to €500m portfolio of assets in its chosen market

Management has stated publicly its confidence that its first-mover advantage will support delivery of a €300m to €500m portfolio of assets in its chosen market. The short-term pipeline stands at €120m. Management's expertise is rooted in the market into which it is deploying capital. Senior management and directors invested over 6.0% of the equity, in cash, at IPO. See page 32.

2019 capital deployment

2019 capital deployment	€m
Equity raised	35.8
Debt raised	9.1
Property purchases	39.3

Source: Yew Grove

A desire to expand, but no pressure to do so

Yew Grove is primed to expand but, despite the current relatively modest balance sheet size, cost ratios are very competitive. Its historical EPRA cost ratio of 26% (excluding the performance fee) is below the UK real estate sector average. For a REIT with €115.8m assets (at end-2019 balance sheet date), this is a significant achievement and illustrates that there is no pressure to expand the size of the REIT. Nonetheless, we welcome the stated ambition to expand the balance sheet and to not do so would be a missed opportunity.

Market sizeable enough to offer wide opportunity

The office market, excluding Dublin CBD, comprises a market of ca.€8.5bn. The RoI industrial market comprises a further €5.2bn.

There are three ways to look at management's €300m to €500m ambition. The most relevant is to look at management expertise, connections and established partnerships where acquisitions are deliverable. Within these markets, Yew Grove benefits from a short-term deliverable investment opportunity pipeline of more than €120m at the start of this year. Beyond this, there is a larger pipeline. This is substantially ahead of the €100m p.a. deployment illustration. We consider the €300m figure to be deliverable from identified parties.

One can try to look mathematically at deliverability metrics. This is more difficult as this is a market where first-mover advantage and connections count. Yew Grove's target market could generate €685m annual transactions, illustratively. Our illustration – purely that – is based on assets being placed on the market once every 10 years and for half the assets to reach the market, with the other half held privately or not transacted with investors. Within relatively smaller markets, as this is, we expect an individual participant to be able to target 15%-20% as a long-term, sustainable share of the total transactions. At the lower end of this illustrative range, Yew Grove would look at €100m p.a. sustainably for the long term. Given most of the markets Yew Grove targets have standing stock valuations at below replacement cost, any expansion through new development is likely to be modest, at least for some time.

Risks

- The fallout from COVID-19 both in terms of damage done to tenant and landlord balance sheets alike dominates the global real estate sector. This is barely an issue at all for Yew Grove's tenants and we do not see it having an impact on the company's cashflow.
- The UK's exit from the EU has a well-documented part to play in the economic development of RoI.
- Brexit may slow FDI. There are strong indications it will not. In any case, Yew Grove's multinational tenants see their Yew Grove leases as part of a multi-site strategy in RoI and a multi-country strategy in the EU. Each site has its specific role and is not a simple hierarchy of function. Brexit may alter the pricing of country-specific risk. To the extent this has happened – it has already happened.
- RoI domestic politics have been shaken up in 2020. This has been well documented and we do not feel qualified to comment on details. If Sinn Fein were to form a government after a future election, the tax basis of real estate and REITs might be expected to be reviewed.
- Asset prices may have been inflated by QE since 2008. To the extent this has happened, it should be noted that nearly all Yew Grove's assets are valued below replacement cost. So, for Yew Grove, we do not consider this a material issue; quite the reverse. We believe "lower for longer" long-term interest rates support a revaluation (NIY) of the asset base, progressively from here.
- All real estate has risks, however. Assets held are not new and some may require ongoing small work to remain attractive to tenants. However, the main attraction is that these are well laid out, predominantly generously proportioned assets on good estates in good locations.
- In any sharp recession, one would expect tenants to pull back from peripheral Dublin before Dublin CBD. However, we are not in a sharp recession in terms of FDI into RoI and the rent levels in CBD have far further to fall before Core+ appears unattractive.
- There is a risk some that the value discount of Core+ vs. CBD Dublin may be eroded by any potential post COVID-19 valuation reduction, which might happen for CBD Dublin.
- No material new supply is likely at anywhere near current prices for comparable stock in the Yew Grove regional locations.
- Some industrial assets rely on industries such as packaging. However, the current severe economic test is as good as any and there appear to be no material concerns on the expansion agendas for any industrial tenants.
- Circa three assets are over-rented but the downside in the context of the whole portfolio is *de minimis*. Retail in the context of the portfolio is *de minimis*.
- The LTV is modest and banking facilities in place are more than sufficient to obviate any re-financing risk.
- It should be noted dividends per share are set to rise and fall – as per the strategic policy of high distribution but avoiding uncovered dividends where possible.
- There may be share issuance, which may lead to a brief period of inefficient balance sheet positioning.
- Yew Grove does not undertake speculative (un pre-let) development but any development has some element of risk attached.

- Albeit not a risk, this is a small REIT and management is currently not drawing full remuneration.
- Not a risk, but it should be noted that while the Dublin- and London-listed shares are 100% fungible, there have been at times differences in prices quoted.

Board listing

Listing Dublin and London

Yew Grove REIT is the fourth REIT with a focus on RoI. IPO was 8 June 2018 with listings on Euronext Dublin and the London AIM market. Dublin and London stock is fungible. Yew Grove is internally managed. Until there are 175m shares in issue, management is drawing only 50% of salaries.

Executive board

The management team has a background in fixed income.

- **Jonathan Laredo (CEO):** 27 years' experience in investment markets, previously running the European and Asian structured finance business at JP Morgan where, among other business, he was responsible for CMBS, including both securitised debt issuance and direct lending to real estate-based private equity.
- **Charles Peach (CFO):** more than 23 years' experience in investment markets, structuring and raising capital for companies and funds, previously at Bear Stearns and Nomura.
- **Michael Gibbons (CIO):** more than 26 years' experience in investment markets including high yield, distressed debt and special opportunities businesses.

Non-executive Directors

- **Barry O'Dowd** – non-executive Chairman. He was senior vice president of IDA Ireland until resigning and becoming Chairman of Yew Grove.
- **Garry O'Dea** – independent non-executive director and senior independent director; a former Finance Director of Irish Continental Group.
- **Eimear Moloney** – former senior fund manager at Zurich Life Assurance plc.
- **Brian Owens** – former Chairman and Chief Executive of Hardwicke Property Group.

Expertise and commitment

Management has extensive experience in corporate credit markets – which was applied to fixed income. The executive team (Jonathan Laredo, Michael Gibbons and Charles Peach) managed and invested in the Yew Tree Fund for four years. This cash sum, in aggregate ca.€4.4m, was invested into Yew Grove shares at the time of the IPO. A further €0.4m shares in Yew Grove equity was subscribed to from the performance fees payable by the Yew Tree Fund. Yew Tree Fund assets were rolled into Yew Grove at IPO.

Glossary

CBD. Central business district.

EPRA is the European Public Real Estate Association, the industry body for European REITs.

EPRA cost ratio is a proportionally consolidated measure of the ratio of net overheads and operating expenses against gross rental income (with both amounts excluding ground rents payable). Net overheads and operating expenses relate to all administrative and operating expenses, net of any service fees, recharges or other income, specifically intended to cover overhead and property expenses.

EPRA cost ratio sometimes is stated as including direct vacancy costs, or conversely, excluding direct vacancy costs. Nearly all REITs have some level of vacancies as part of the business model, so we focus little on EPRA costs excluding voids.

ERPA EPS. Earnings per share as measured by standard EPRA definition. This excludes revaluations and acquisition costs. It also excludes various other items. It includes performance fees. Note, this does include non-repeat income such as premiums paid to the REIT for early-lease termination.

EPRA operating profit principally excludes revaluations gains/losses on investing and trading property. It also excludes changes in the fair value of financial instruments. It includes items such as early-lease surrender premiums.

EPRA net asset value (EPRA NAV) is a proportionally consolidated measure, representing the IFRS net assets excluding the mark-to-market on derivatives and related debt adjustments (this is the adjustment of net assets and EPRA net assets in our spreadsheet), as well as deferred taxation. It is adjusted for the dilutive impact of share options.

EPRA net initial yield is the annualised rents generated by the portfolio, after the deduction of an estimate of annual recurring irrecoverable property outgoings, expressed as a percentage of the portfolio valuation (adding notional purchaser's costs), excluding development and residential properties.

EPRA NNNAV is the EPRA NAV adjusted to reflect the fair value of debt and derivatives and to include deferred taxation on revaluations.

Estimated rental value (ERV) is the external valuers' opinion of the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

FDI. Foreign direct investment

IDA Ireland. This agency is responsible for the attraction and retention of inward foreign direct investment into Ireland. The agency was founded in 1949 as the Industrial Development Authority and placed on a statutory footing a year later. In 1969 it became a non-commercial autonomous state-sponsored body. For the purposes of business support, it has facilitated the creation of a number of business parks in RoI.

Investment return. A Hardman & Co ratio namely EPRA EPS (which includes performance fees as well as early-lease termination premium) as a percentage of EPRA NAV (which differs from various IFRS net asset measurements as it does not deduct net present value of expensive fixed rate debt and other adjustment items).

Hardman Basket of Secure Income REITs. In March 2019, Hardman & Co launched an index of 17 REITs, which sought security of income. This is weighted by market capitalisation and comprises UK-based £ income REITs only.

LTV (loan to value). The ratio of debt to total value of investment assets. It is sometimes stated as gross debt ignoring cash, but we use net debt, which includes cash held.

Net initial yield (NIY) equates to the current income as a percentage of current valuation plus costs of purchase; e.g. stamp duty and legal fees. Any rent-free periods are amortised across the length of the lease (not to first break).

Net current assets are often modestly negative for REITs, including rent payable (end-March being a "quarter day" when rent usually falls to be invoiced).

Project Ireland 2040. This is the government's long-term overarching strategy to make Ireland a better country for all of its people. The plan changes how investment is made in public infrastructure in Ireland. It is articulated through the Department of Public Expenditure and Reform.

Revenue can include early-lease surrender premiums (we would highlight this) and it can "gross up" small figures for some of the service charge, which includes insurance, for example. It also includes (notably in 2019 for Yew Grove) early-lease termination premium received.

SME. Small, medium-sized enterprises.

WAULT. Weighted average unexpired lease term. We specify in this document where this refers to time to the first break.

Financial analysis

2019 dividends of 6.75c include 1.86c one-off

Dividends paid for 2019 were €6.75c per share, including a special dividend of €1.86c related to a lease surrender. The 4Q19 dividend was diluted by the issuance of an additional 31% of shares in December 2019. Without the dilution of the late 4Q share issuance, the 2019 dividend would have been €7.08c. 4Q19 DPS was €1.04c. Undiluted it would have been €1.47c.

Shares in issue grew 31% in 2019.

The dividend policy is to distribute near 100% EPRA EPS quarter by quarter. 98% was distributed in 2019. Excluding the special dividend, €4.89c was paid in 2019.

Revenue account

Year-end Dec (€m)	2018	2019	2020E	2021E	2022E
Rental income	2.6	9.4	10.9	11.6	12.0
Vacant property costs	0.0	0.0	-0.3	-0.1	0.0
Direct property costs	0.0	0.0	-0.1	-0.1	0.0
Net income	2.6	9.4	10.5	11.4	12.0
Administrative expenses (excl. performance)	-1.8	-2.4	-2.8	-3.5	-3.0
Performance fee	0.0	-0.6	0.0	0.0	0.0
Other income/costs	0.0	0.0	0.0	0.0	0.0
EPRA operating profit	0.8	6.4	7.7	7.9	9.0
Property Revaluation (excl. transaction cost)	1.6	1.6	5.0	5.0	3.0
Transaction costs	0.0	-2.4	-2.0	0.0	0.0
Profit on disposal, transaction costs	0.0	0.1	0.0	0.0	0.0
Operating profit	2.4	5.8	10.7	12.9	12.0
Finance	0.0	-0.7	-1.4	-1.5	-1.3
EPRA PBT	0.8	5.7	6.3	6.4	7.7
PBT	2.4	5.1	9.3	11.4	10.7
EPRA EPS (c)	1.4	7.0	5.6	5.7	6.9
EPS (c) (diluted) reported	4.1	6.3	8.3	10.2	9.6
DPS (c)	1.0	6.8	5.5	5.7	6.8
Average shares issue (diluted, m)	57.2	81.2	111.6	111.6	111.6
Year-end shares in issue (m)	75.0	111.6	111.6	111.6	111.6

Source: Yew Grove report and accounts; estimates: Hardman & Co Research

Balance sheet

@ 31 Dec (€m)	2018	2019	2020E	2021E	2022E
Investment properties	77.9	115.8	145.2	150.2	153.2
Long-term debt	-5.8	-20.4	-40.4	-40.4	-40.4
Net current assets excl. financial	-1.8	0.0	0.0	0.0	0.0
Cash, deposits, short-term debt	4.8	14.6	8.1	8.1	8.5
Net cash (debt)	-1.0	-5.8	-32.3	-32.3	-31.9
Net assets	75.1	109.9	112.9	117.9	121.3
EPRA net assets	75.1	109.9	112.9	117.9	121.3
NAV/share (diluted) (c)	100.2	98.4	101.2	105.6	108.7
EPRA NAV/share (c)	100.2	98.5	101.2	105.6	108.7
Asset revaluation	1.6	1.6	5.0	5.0	3.0
LTV (net debt)	1.3%	5.0%	22.6%	21.5%	20.8%
LTV (gross debt)	7.4%	17.6%	27.8%	26.9%	26.4%

Source: Yew Grove report and accounts; estimates: Hardman & Co Research

Cashflow

Year-end Dec (€m)	2018	2019	2020E	2021E	2022E
Cash from operations	0.9	7.9	7.7	7.9	9.0
Working capital, other changes	0.8	-1.8	0.0	0.0	0.0
Net cash flow from op. activities	1.7	6.1	7.7	7.9	9.0
Finance	0.0	-0.7	-1.4	-1.5	-1.0
Investing activities	-50.4	-39.3	-26.4	0.0	0.0
Free cash flow operation and investment	-48.7	-33.9	-20.1	6.4	8.0
Share issue	49.7	34.7	0.0	0.0	0.0
Dividends	0.0	-5.1	-6.3	-6.4	-7.6
Net new long-term debt	-2.1	14.1	20.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Net cash change	-1.1	9.8	-6.4	0.0	0.4
Net cash (short-term)	4.8	14.6	8.1	8.1	8.5
Net cash/(debt)	-1.0	-5.8	-32.3	-32.3	-31.9

Source: Yew Grove report and accounts; estimates: Hardman & Co Research

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The full detail is on page 26 of the full directive, which can be accessed here: http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf

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