L1 Capital U.K. Residential Property Fund IV

Investor Update | SEPTEMBER 2021

We are pleased to provide you with your 30 June 2021 Net Asset Value (NAV) and distribution statement for your holding in the L1 Capital U.K. Residential Property Fund IV. The Fund made a distribution of 2.0c per unit for the current period.

We provide below an update of the U.K. residential property market backdrop, together with an overview of the portfolio's performance and key investments.

U.K. macroeconomic update

As a result of suffering the highest COVID-19 death toll in Europe, the U.K. adopted a rapid vaccine rollout which has allowed the U.K. government to remove all social restrictions and reopen all sectors of the economy as of 19 July. Consumer-facing service sectors such as hospitality and accommodation, alongside travel have now restarted and consumer spending is at a yearly high.

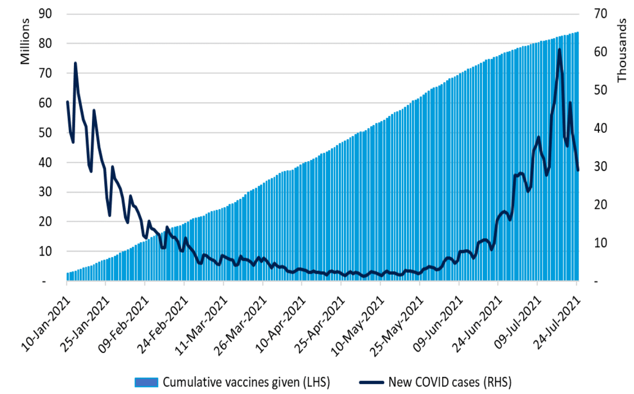
As of July, the annualised U.K. GDP growth was 6.7% for the year to date – up from the 6.2% in June. However, we continue to remain cautious around the Delta variant and the potential for future lockdowns in the U.K. in the event that hospitalisation rates increase. At the time of writing this report, new COVID-19 cases in the U.K. still remain relatively high at 30,000 per day, there still remains a risk of future lockdowns which may weigh on the economic recovery.

To date the furlough scheme (similar to the Jobseeker Scheme in Australia), continues to cushion the blow to the labour market, with unemployment under 5% and job vacancies on the rise.

Like its European and continental peers, the U.K. has been subject to steep inflationary pressures as the pandemic continues to create supply chain disruptions. Inflation was expected to average 2.2% this quarter and peak at 2.7% next quarter (based on consensus Bloomberg data).

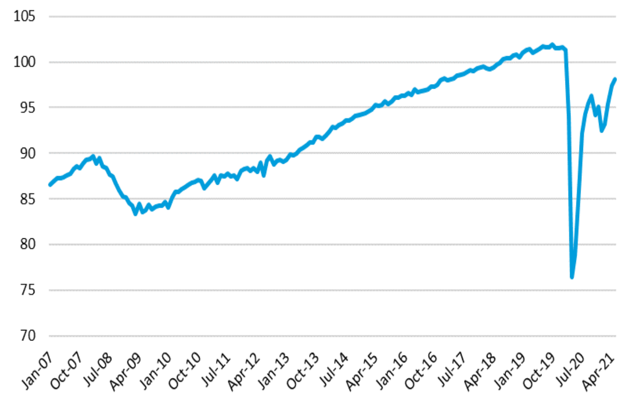
Whilst forecasts are well above the Bank of England's 2.0% inflation target, at this stage the central bank is not expected to increase interest rates from their record low of 0.10%. However, the Bank of England has suggested that the central bank could decide to stop its current programme of government bond purchases early due to the unexpectedly sharp rise in inflation.

Figure 1: Vaccinations and COVID-19 cases



Source: Deloitte

Figure 2: U.K. Monthly GDP (Index 2018 = 100)



Source: U.K. Office of National Statistics

Update on the U.K. residential property market

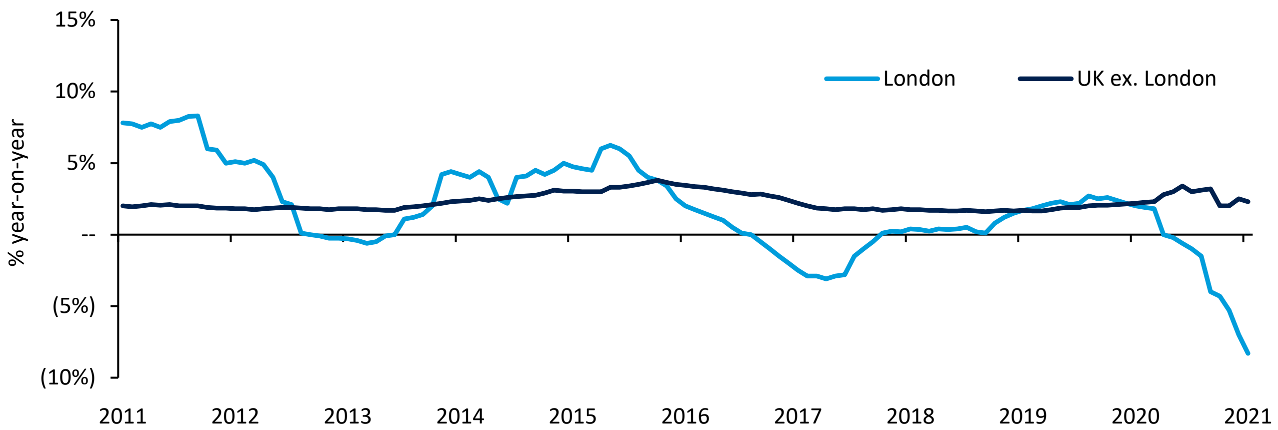
The U.K. residential market has remained resilient due to the Government's stamp duty tax concessions aimed at boosting the housing market. In May, house price inflation reached its strongest level for almost seven years, according to both Halifax and Nationwide. Bolstered by the stamp duty holiday, house prices increased by 1.3% month-on-month in May, taking annual house price growth to 9.5%.

Mortgage approvals rose in April, up 4% on a month earlier, for the first time since November 2020. However, a shortage of homes to buy is placing a limit on the number of loans that lenders can grant. However, as the stamp duty concessions ease off in September 2021, house price growth is expected to be more subdued going forward.

Growth is also evident in the private rental markets. Across the U.K. outside of London, there is strong rental demand amid constrained supply and rents are already up 3% on the year. Rental growth in the regions of Northeast, Southwest and East Midlands is at its highest since March 2011. North of England rents are 5.5% up annually. The rental increase has been assisted by the gradual reopening of the leisure and retail economy through gradual lockdown eases, but also as many offices are slowly increasing daily capacity, with more people being allowed to be in the office at a given time.

Despite resilience in the overall U.K. rental market, the least growth has been seen in London. London was the only region to see rental falls over the last month and quarter.

Figure 3: Change in U.K. average rental prices



Source: Zoopla

The relative rental affordability in the regions, the area that has shown the highest rental growth, means there has been more headroom for rents to rise. Furthermore, consistent demand and supply imbalances continue to drive rents. For example, rental demand outside of London in April 2021 has increased more than 50% over the last few years.

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Portfolio update as at 30 June 2021

Returns		Since Inception	
(% in AUD)	Total	Distributions*	Capital growth
Fund IV Unhedged	-1.8	2.0	-3.8

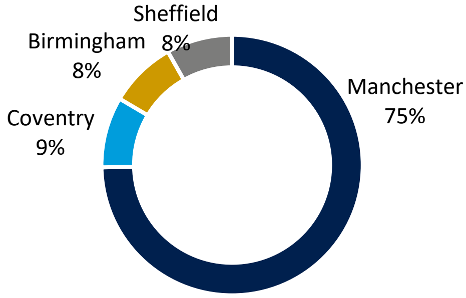
Fund inception is December 2020.

Performance drivers and outlook

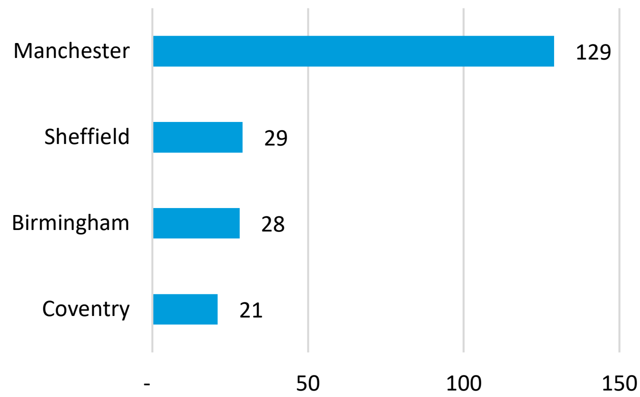
- £23m of cash received has been deployed (~75% of the total Fund), and following the recent refinancing, a further ~£6m in debt has been utilised.
- We expect to lift the Loan-to-Value-Ratio (LVR) to ~50% through further acquisitions in the coming months.
- The Fund comprises investments solely in multi-family residential dwellings, whose rental income was well-supported during the year (as opposed to student assets which have suffered during the pandemic).
- As at 30 June 2021, the assets had an occupancy rate of 88% and a collection rate of 94%.
- Given the Fund is less than 12 months old, the assessed market value of the portfolio's assets remains similar to the purchase price of those assets.
- Skyline, a residential asset in Manchester which is owned partially by Fund IV and partially by Fund III, was settled recently and it is too early to recognise an uplift in asset valuation.
- Overall, the Fund is on track to reach its long term objectives.

Assets	No. of assets	No. of units**	Value (£m)
Total assets	4	207	27.9
Residential	4	207	27.9
Student	-	-	-

Value of assets by city



Number of units** by city



** Distribution includes income, capital gains from asset disposals and/or return of capital, as applicable.*
*** Count includes individual residential flats and individual student rooms. Manchester total represented by full number of units in Skyline, which is jointly owned by Funds III and IV.*

Fund IV featured properties

Skyline, Manchester

- **129 apartments in Manchester**
- **£27.3m purchase price in November 2020 (part ownership by Fund III)**
- **Rooftop swimming pool, gym and sauna**


The Fund invested in a block comprising 129 apartments, 1 commercial unit and 37 car parks in Manchester City Centre. The property additionally offers strong amenities, including a swimming pool and gym on the top floor alongside a full concierge service to tenants. The Fund transacted at £287 per square foot, which offers a discount to rebuild costs.

Being a building that was more than 10 years old, there was value-add potential at Skyline. Due to the strong location, concierge and premium amenities, the fund was able to operate serviced accommodation to short-stay tenants in-house. Typical tenant types include young families or businesspeople who are looking to stay in Manchester city centre for 6-8 weeks. The Fund has now transitioned a total of 24 apartments to the shorter-stay model, which have resulted in a circa 58% premium to assured shorthold tenancy rents.

Furthermore, the Fund has also identified an opportunity to undertake an apartment-by-apartment, light-touch refurbishment programme. After installing new furniture and replacing a selection of kitchen components, the units let for £1,350 to £1,400 pcm, an increase of ~15% from the previous rent of £1,200.

Pre-refurbishment

Post-refurbishment


Bristol Road South, Birmingham

- **28 apartments in Greater Birmingham**
- **12 garages included in the purchase**
- **Total purchase price of £2.3m in Dec 2020**


In December 2020, the Fund invested £2.3m for the Freehold interest of 28 flats in Greater Birmingham. The apartments were purchased tenanted, generating a gross purchase yield of 9.0%. Additionally, the building was purchased for approximately £116 per square foot, representing a 30% discount to the retail value.

Due to the location of Bristol Road South (situated 7.5 miles south-west of Birmingham City Centre), the property has benefited from the ripple effects of COVID-19, where individuals are trading out of city centre locations in favour of larger apartments to work-from-home. All Bristol Road South apartments are 3-bedrooms and, as a result, a new price point of £675 (12.5% increase from purchase rents) has been identified and achieved for units coming to market. The expected reversionary yield (based on the purchase price) is approximately 9.8%, once all apartments are at market levels.

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Fund IV featured properties (continued)

Montgomery Road, Sheffield

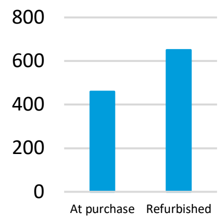
In February 2021, the Fund invested in three unbroken blocks totalling 29 apartments in Sheffield. The blocks were fully tenanted and represented a gross purchase yield of 8.2%.

The Fund was able to purchase Montgomery Road for £126 per square foot, which offered a discount (c.60%) to modern properties in the local area. Furthermore, the building was purchased at a 65% discount to rebuild costs.

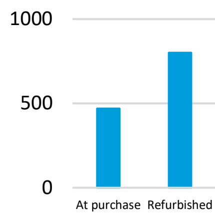
Montgomery Road has had little historical internal investment. The has developed a value-add strategy to undertake an apartment-by-apartment renovation programme to deliver rental uplifts. On completion, the Fund anticipates a rental uplift of 40% for 1-beds and 70% for 2-beds, which will continue to support an increase in the building's capital value.

- **29 apartments in Sheffield**
- **Total purchase price of £2.0m in February 21**
- **Total of 3 blocks**

Rent (1-bed)



Rent (2-bed)



Fund IV pipeline asset

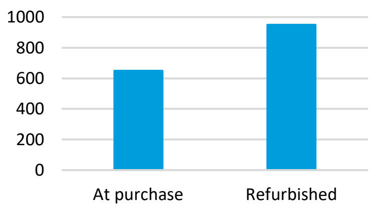
Overdell Court, Southampton

Overdell Court is a pipeline asset, located in the city centre of Southampton. The building is significantly under-invested and under-managed, which presents an opportunity for the Fund. Although Overdell Court is tenanted and income generating, due to the strong location and based on the evidence from market rental comparables, a refurbishment programme would uplift current rental values.

Evidence of an achieved uplift has been demonstrated in one flat which has been refurbished by the vendor. An uplift of approximately 46% was achieved. Should the purchase go ahead, after a total refurbishment cost of £400,000 for all apartments, the Fund expects that the vacant possession value of Overdell Court to be £4.7m.

- **26 apartments in Southampton**
- **Total purchase price of £3.5m**
- **26 car par spaces**
- **In exclusivity**

Rent per calendar month



Pre-refurbishment

Post-refurbishment

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L1 Property | Overview

L1 Property is the residential property team of the L1 Capital Group, a global investment manager with offices in Melbourne, Sydney, Miami and London. The L1 Capital U.K. Residential Property Fund, launched in 2017, invests in a diversified portfolio of modern, high-yielding residential assets that is designed to deliver strong and growing income together with significant capital appreciation. The Fund acquires underperforming or undermanaged U.K. property assets outside of London at a discount, repositioning these assets and/or managing the assets more actively. At the appropriate time, the Fund sells these assets whether via break up to the retail market or as portfolios to institutional investors. By focusing on tenanted and day-one income generating assets in attractive city locations with supportive demographics and micro-location fundamentals, the Fund seeks to deliver on its objective of a total return of at least 10% p.a.

L1 Capital was established in 2007 and is 100% owned by its senior staff, led by founders Raphael Lamm and Mark Landau. The team is committed to offering clients best of breed investment products through strategies that include long only Australian equities, long short equities, international equities, activist equities, a global multi-strategy hedge fund and U.K. residential property. The firm has built a reputation for investment excellence, with all L1 Capital's strategies delivering strong returns since inception versus both benchmarks and peers. The team remains dedicated to delivering on that strong reputation through providing market-leading performance via differentiated investment approaches with outstanding client service, transparency and integrity. L1 Capital's clients include large superannuation funds, pension funds, asset consultants, financial planning groups, family offices, high net worth individuals and retail investors.

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