EDISON

LXi REIT

Initiation of coverage

Diversified, long income

Real estate

LXi REIT is a diversified, multi-sector investor in high-quality, often newly built, assets let on long, upwards only, index-linked leases. Visible growth in contracted income, substantially inflation protected, supports a progressive dividend policy. An ability to source attractively priced assets, including smaller lot size forward developments, and active capital recycling further supports returns.

Year end	Rental income (£m)	Adjusted earnings* (£m)	Adjusted EPS* (p)	EPRA NTA per share (p)	DPS (p)	P/NTA (x)	Yield (%)
03/19	21.6	16.4	6.1	114.6	5.50	1.15	4.2
03/20	38.5	30.5	6.3	124.3	5.75	1.06	4.4
03/21e	43.5	36.3	6.9	123.2	5.55	1.07	4.2
03/22e	54.9	44.3	7.1	126.8	6.00	1.04	4.6

Note: *Adjusted for gain/losses on investment properties, other fair value movements and licence fee income on forward funding extended.

Long income but more than 'buy and hold'

LXi's long (WAULT to first break 21 years), upwards-only, mostly index-linked leases with good-quality tenants provide visibility of growth in contractual income and inflation protection; less volatility in capital values should also be expected. The company's multi-sector approach differentiates it from many specialist peers, and while specialisation can bring advantages, LXi's diversified approach spreads risks and broadens its universe of investment opportunities. Through its experienced investment advisor, it has demonstrated an ability to source attractively priced assets, often off-market and in smaller lot sizes (£5–15m), particularly forward funded development schemes, where there is less competition. This has been demonstrated by significant capital recycling, locking in capital growth and redeploying the proceeds into accretive acquisitions at higher yields.

Successful and accretive growth

LXi has grown strongly since its IPO in February 2017, with its portfolio recently reaching c £1bn, adding scale and increasing diversification. With a gearing target of c 30% including capital commitments, growth has been funded by regular equity raises and the proceeds have been swiftly deployed. Approximately 70% of the March 2021 £125m (gross) equity raise was deployed by the end of that month and LXi expects full deployment into further accretive acquisitions soon. Accounting total returns from IPO to 31 December 2020 were a compound 9.9% pa, ahead of the 8% target. Throughout the pandemic the portfolio has delivered robust rental collection. This averaged more than 90% from March to December, increasing to 98% in the September and December quarters. Tracking cash flows, aggregate FY21 DPS has dipped slightly, but LXi is targeting at least 6.0p in FY22, fully covered, a new high since IPO.

Valuation: Fully covered DPS growth

We expect the FY22e DPS to be fully covered by cash earnings and well covered by EPRA earnings. It represents an attractive prospective yield of 4.6%, supporting the modest 7% premium to Q321 EPRA NTA, below the peer group average.

19 April 2021

Price	**131.8p**
Market cap	**£820m**

Gross debt (£m) as at 31 Dec 2020	232.3
Gross LTV as at 31 Dec 2020	27.5%
'Pro-forma' gross LTV as at 31 Dec 2020	30%
Shares in issue	621.8m
Free float	98.7%
Code	LXI
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	5.1	13.9	24.0
Rel (local)	1.8	8.2	(4.0)
52-week high/low		132p	94p

Business description

LXi is an externally managed UK REIT investing high-quality, smaller lot size (£5–15m) assets, let on long index-linked leases to strong financial covenants across a range of sectors with defensive characteristics. It aims to provide a secure and growing income with capital growth over the medium term, with a total return of at least 8% pa.

Next events

FY21 results	May 2021

Analyst

Martyn King +44 (0)20 3077 5745

financials@edisongroup.com

Edison profile page

LXi REIT is a research client of Edison Investment Research Limited

Investment summary

Company description: More than 'buy and hold'

Even within the long income REIT sector there has been considerable variability in share price performance, by sub-sector, over the past 12 months. While sector specialisation has its own merits, including operational focus, LXi's multi-sector approach diversifies the risks inherent in any sub-sector. This variability underlines the potential attraction of an actively managed vehicle such as LXi to investors who seek but are otherwise unable to achieve an optimal diversification of risks. LXi also expects to be better placed to efficiently increase scale by selecting assets from a wider pool of opportunities, adjusting investment towards those areas where the returns appear most favourable, and avoiding being forced into chasing 'hot' investments in 'fashionable' sub-sectors. Returns are further enhanced by capital recycling and the ability to source and execute on forward funding schemes to acquire high-quality assets at lower cost than would be possible purely from targeting completed assets

Financials: Continuing accretive growth

LXi has grown its portfolio strongly since IPO, benefiting from increased diversification and scale. As a REIT it has substantially distributed income and funded accretive growth with regular equity issuance and moderate gearing (targeting a c 30% gross LTV on a fully developed basis). Our forecasts allow for deployment of the £125m (gross) proceeds from the March 2021 equity with gearing to 30%. With a strong pipeline of opportunities, £85m (c 70% of the equity proceeds) was quickly deployed by end-March and including debt funding we forecast an additional £100m by end-June (end-Q122) at an accretive yield on investment (before costs) of 5.5%. Our forecasts also allow for continuing capital recycling at a rate of c 10% of completed assets each, recycled into new higher-return investment opportunities. With further lockdown easing we expect the already strong (98%) rent collection to return to a normal full collection by the end of June 2021.

Valuation: Fully covered growing DPS provides attractive yield

LXi aims to provide shareholders with secure and growing inflation protected dividend income, fully covered by adjusted earnings, along with capital growth over the medium term, with a medium-term target total return (change in EPRA NTA plus dividends paid) of 8% pa. The trend in DPS since IPO is positive; despite a slight dip in FY21 aggregate DPS to 5.55p (FY20: 5.75p), LXi has already stated an FY22 target of at least 6.0p, a new high since IPO. EPRA NTA return from IPO to 31 December 2020 was 9.9% pa and we expect returns of more than 7% pa through FY22–23 despite the continuing low return environment and investor competition for secure long income assets. We expect the FY22e DPS to be fully covered by cash earnings and well covered by EPRA earnings It represents a prospective yield of 4.6%, supporting a modest 7% premium to Q321 EPRA NTA, slightly below peers. Despite the recent increase, the UK 10-year gilt yield is still only c 0.8%.

Sensitivities: Mitigating sector risks

Long upwards-only, mostly index-linked leases may mitigate some of the cyclical volatility in capital values (and to a greater extent income returns) historically exhibited by the commercial property market. This especially true where careful selection avoids tenant failure and/or where asset selection identifies properties with broad occupier appeal in robust sectors of the economy. LXi's strategy aims to achieve this and should be further supported by its multi-sector approach. Index-linked leases (mostly capped and collared) and fixed uplift leases provide significant inflation protection and ensure continuing rent growth if inflation falls to low levels. Only if inflation rises above c 4% will rent growth lag in real terms. We review the main sensitivities in detail on page 13.

Company description: Multi-sector, long income REIT

LXi REIT is a closed-ended investment company, externally managed by LXi REIT Advisors (the investment adviser). Its shares have been traded on the Main Market of London Stock Exchange, with a premium listing since February 2017 and are a constituent of the FTSE 250 Index and the EPRA/NAREIT Index.

The investment objective is to deliver inflation-protected income and capital growth over the medium term through investing in a diversified portfolio of UK property assets, let or pre-let to a broad range of tenants with strong financial covenants on long (typically 20–30 years at inception), index-linked, triple net leases. This aims to provide shareholders with secure and growing income, fully covered by adjusted earnings, along with capital growth over the medium term.

LXi's diversified multi-sector approach differentiates it from many specialist long-income real estate investment trusts (REITs) that focus on a particular sector of the market. While specialisation can bring many advantages, it can also be vulnerable to significant changes in market conditions or strong competition for assets. Low-risk forward funding of pre-let development assets enhances returns by enabling LXi to source high-quality assets at lower cost than would be possible purely from targeting completed assets, while regular recycling of capital provides a means of rebalancing exposures to manage risk and optimise capital deployment.

Long leases provide security of contractual income, while the upwards-only, substantially indexed lease terms add predictability and visibility to income growth. As a result, property yields and capital values are less volatile than may be the case for short-lease assets. These factors support the use of, and lower the cost of, long-term debt, enabling LXi to lock in positive and increasing (with rent indexation) spreads between yields and funding costs, while avoiding regular refinancing costs.

All of the group's leases are upwards only and 95% are either inflation-linked (retail price index (RPI), consumer price index (CPI)) or include fixed uplifts. Inflation linked uplifts compare favourably with the current consensus expectation for open-market rental growth over coming years. They are generally capped and collared, specifying a minimum and maximum increase at each review, and if inflation were to slow (for example, because of weaker economic growth) the inclusion of fixed and collared (ie minimum) uplifts in the lease mix should deliver rental growth ahead of inflation. It is only with inflation above 4% that rental growth in real terms would lag, given that approaching two-thirds of leases (by income) are capped at around this level.

Since IPO, LXi has grown its portfolio to c £1bn, with accretive acquisitions bringing scale and diversification benefits, funded by the gross IPO proceeds of c £138m and follow-on equity raising amounting to c £560m while targeting a gross loan to value ratio of c 30% including capital commitments. Equity raised has been swiftly deployed, with c 70% of the most recent issue (£125m in March 2021) committed by the end of that month and the previous two issues fully committed within six weeks.

LXi targets a total accounting return (change in net assets plus DPS paid) of a minimum of 8% per annum over the medium term. In the period since IPO (in February 2017) to 31 December 2020 (end-Q321) the aggregate EPRA net tangible asset (NTA) total return was 44.0%, a compound annual average of 9.9%. Quarterly DPS payments have been maintained through FY21 with the indicated (but not yet declared) DPS for the three months to 31 March 2021 (Q421) of 1.46p taking the aggregate FY21 DPS to 5.55p. Although slightly reduced from FY19 (5.75p) with cash flows increasing and with the expected accretion from deployment of the proceeds of the equity issue, LXi has already provided an FY22 aggregate DPS target of 6.0p, which would represent a new high since IPO.

Much more to investment strategy than 'buy and hold'

There is much more to LXi's investment strategy than a simple 'buy and hold' policy for long-lease assets. In this section we review the investment criteria, including asset selection and sourcing within the multi-sector approach, as well as the role of forward funding and capital recycling in further enhancing returns.

Long-lease assets let to strong covenants

Asset selection takes into account the following key investment considerations:

- properties that are let or pre-let (in the case of development assets) to institutional-grade tenants, with strong financial covenants, and a proven record of operational performance;
- long unexpired lease terms of typically 20–30 years to expiry or first break;
- regular upwards-only rent reviews that are indexed to inflation or contain fixed uplifts; and
- strong residual land values, providing additional support for valuations.

Additionally, LXI targets high-quality assets that appeal to long-term occupation (or alternative occupiers should the need arise) as well as assets that are of long-term strategic importance to the tenant (such as a main distribution or production site) and where the tenant may already be accustomed to long-term occupation through freehold ownership.

Through its investment advisor, the company has demonstrated a strong ability to source suitable investments through long-established industry contacts and an extensive knowledge of the property market. The vast majority of transactions to date have been off market, often less competitive with the potential to offer reduced acquisition pricing, and it has been able to access specialised pre-let forward funded development opportunities. It targets lot sizes in the range of £5–15m (the existing portfolio average is c £7m) as there is often less competition; assets of this size are generally too large for private investors but go under the radar of most institutional investors, especially for forward funded developments, a particular area of expertise for the investment manager.

Multi-sector approach spreads risk and widens investment opportunities

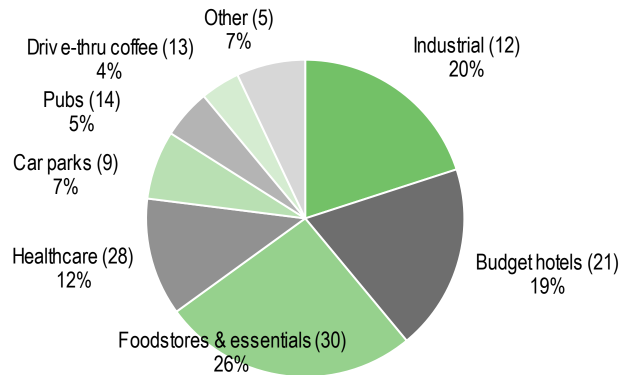
LXi has a multi-sector approach, targeting investment across a broad range of sub-sectors (currently eight), which differentiates it from several other REITs that are sub-sector specialists, while its long-income focus differentiates it from diversified mainstream REITs.

While sector specialisation has its own merits, including operational focus, LXi's multi-sector approach diversifies the risks inherent in any sub-sector. As we note in the valuation section, there has been considerable variability in share price performance, by sub-sector, of the long income peer group over the past 12 months. This variability underlines the potential attraction of an actively managed vehicle such as LXi to investors who seek but are otherwise unable to achieve an optimal diversification of risks. In addition, with a range of sub-sectors into which to deploy capital, LXi expects to be better placed to efficiently increase scale by selecting assets from a wider pool of opportunities, adjusting investment towards those areas where the returns appear most favourable, and avoiding being forced into chasing 'hot' investments in 'fashionable' sub-sectors.

The sub-sector split by rental income (and number of assets in brackets) is shown in Exhibit 1. Recent portfolio growth has focused on smaller lot-size drive-through coffee outlets (let to Costa, Starbucks), discount retailers (eg let to B&M, Home Bargains) and convenience grocery retailers (eg let to Aldi, Lidl, Co-op). Tenant demand is currently strong and LXi is particularly attracted to the long-term, index-linked lease terms available on right-sized, well-positioned grocery real estate assets, let on sustainable rents to financially robust tenants, benefiting from flexible and proven

operating models. The grocery sector has been a beneficiary of the pandemic, unlike much of the general retail sector (especially high-street retail and shopping centres, suffering from lockdowns and an acceleration of the structural shift to online shopping.

Exhibit 1: Sector split of portfolio by percentage weight and number of assets



Source: LXi REIT, Edison Investment Research. Note: Published position at 31 December 2020 (end-Q321) adjusted for March 2021 acquisitions.

Forward funding increases access to attractive assets with enhanced returns

While LXi does not engage directly in development activity, the forward funding (and acquisition at completion) of development assets has been a key element of its growth and has enabled the company to source high-quality assets at lower cost than would be possible purely from targeting completed assets. This has been reflected in a higher average valuation uplift on the investment price, which from IPO until end-Q321 (including assets still under development) was 17% for forward funded assets compared with 12% for the total portfolio.

We consider forward funding to be very low risk compared with direct development while retaining a number of attractions compared with investment in completed assets. Forward funding is undertaken with full planning consent in place, the price fixed and the assets pre-let to tenants with strong financial covenants. The agreements typically include the developer 'paying' an immediate return (a 'licence fee') on the funds extended by LXi during the construction phase and until rental payments commence at completion, providing protection against construction delays.

Compared with the acquisition of completed assets:

- Acquisition costs are typically materially lower (averaging c 2% versus 6.8%) as land transfer tax is only payable on the land cost and not the construction cost.
- Forward funding agreements have allowed the company to target more off-market opportunities, as well as developing brand new assets to tenant specification. The latter may increase the strategic importance of the asset to the tenant, in turn improving the quality of income for LXi.
- Forward funding agreements benefit from brand-new leases, generally over 20 years in duration.

Recycling of capital supports risk-reward enhancement

More than £180m of capital has been recycled since IPO, which the company says crystallised a geared internal rate of return of 23% pa. Disposals to date have been at or above book value, generating capital growth, while the proceeds were quickly redeployed into accretive acquisitions at higher yields, generating additional income and further capital growth. It is not LXi's intention to 'trade' assets; rather, recycling of capital provides an opportunity to rebalance portfolio exposures,

managing risk and optimising capital deployment towards the most promising areas. In most cases disposals have been initiated by unsolicited approaches from interested buyers, but LXi's willingness to sell assets, and the ability to do so ahead of book value provides support for the robustness of its external valuations and is further evidence of its ability to 'buy well' and enhance value. During H121 LXi agreed the significant £68m disposal of an industrial car storage facility in Corby, let to BCA Automotive. The disposal price was at a significant premium to the £61m book value, reflecting a low exit yield of 4.45% and came after an accretive lease re-gear. This was followed soon after by £61m in acquisitions of 11 food stores and two discount stores from five different vendors and developers, all let or pre-let to a strong diversified tenant base (Aldi, Lidl, Waitrose, Co-op, Iceland, B&M and The Range) at a net initial yield of 5.7%. Disposals as a percentage of the start-year value of completed properties have averaged more than 13% pa over the past three years and we expect this to be a continuing element in the company's strategy. Our forecasts allow for the recycling of 10% of the opening value of completed properties pa.

Portfolio overview and recent activity

At 31 December 2020 (Q321), before the first investment of the March 2021 equity raise proceeds, the portfolio was externally valued at £907.25m, including outstanding capital commitments in respect of forward funded developments of £62.7m, all of which were expected to complete within 12 months. There were 125 individual assets (24 of which were under construction), all let or pre-let to more than 50 tenants across the eight selected property sectors, with a long average unexpired lease term of 21 years to first break. The portfolio to end-Q321 was acquired at a yield of 5.8% on invested capital (net of acquisition costs), which compares favourably with the valuation net initial yield (NIY) of 5.0%. While the yields on more recent acquisitions have been slightly lower (c 5.5–5.7%) they remain attractive and accretive and the reduction mainly reflects a focus on food store sector; the operator sector has been a net beneficiary of the pandemic, supporting continued growth and enhancing the tenant covenant. The £907.25m end-Q321 valuation compared with capital invested on a fully developed basis of £808m with the 12% uplift attributable to yield tightening and rental growth. Of the annual passing rent of £48.5m, 95% of contracted rents were either fixed or indexed to inflation, with the remaining 5% subject to upwards-only open-market reviews.

Exhibit 2: Portfolio breakdown as at 31 December 2020 (end-Q321)

	Rents		Valuation		WAULT	Number of assets	Lot size £m
	£m	%	£m	%			
Industrial	10.35	21%	230.55	25%	24	12	19.2
Budget hotels	10.04	21%	197.30	22%	23	21	9.4
Food stores & essentials	9.85	20%	191.00	21%	16	23	8.3
Healthcare	6.12	13%	101.57	11%	24	28	3.6
Car parks	3.86	8%	76.25	8%	31	9	8.5
Pubs	2.65	5%	43.22	5%	13	14	3.1
Drive-through coffee	1.90	4%	24.83	3%	15	13	1.9
Other	3.76	8%	42.53	5%	17	5	8.5
Total	**48.53**	**100%**	**907.25**	**100%**	**21**	**125**	**7.3**

Source: LXi REIT

Shortly after the closing of the March equity increase, LXi announced seven separate acquisitions in the grocery sub-sector, from six different developers/vendors for a total cost of £85m (c 70% of the equity raise proceeds). The acquisitions, a mix of completed (five) and pre-let forward funded developments (two), all benefit from upwards only five-yearly inflation indexed leases (capped and collared), with an average unexpired lease term to first break of 19 years and have been acquired at a blended NIY of 5.25%. Although not disclosed, we estimate this equates to an accretive yield on investment (before acquisition costs) of 5.5–5.6%, consistent with the 5.5% we have assumed on further capital deployment.

Ahead of the March capital raise, LXi reported a strong pipeline of potential acquisitions, diversified across a range of structurally supported sub-sectors with defensive characteristics such as drive-through coffee and garden centres, as well as food stores. When announcing the £85m of acquisitions in March, the company said that it has a number of other assets in solicitors' hands, sufficient to fully deploy the March equity proceeds in a short period of time.

Tenant and geographic diversification

Tenant and geographic diversification further mitigate income risks, in addition to the multi-sector investment approach. At end-Q321 the portfolio was fully let or pre-let to more than 60 tenants. The company's largest 15 tenants accounted for c 68% of annual passing rent (the largest of which was Travelodge at 9.6%). The remaining tenants each contribute less than 2% with an average of 0.8%.

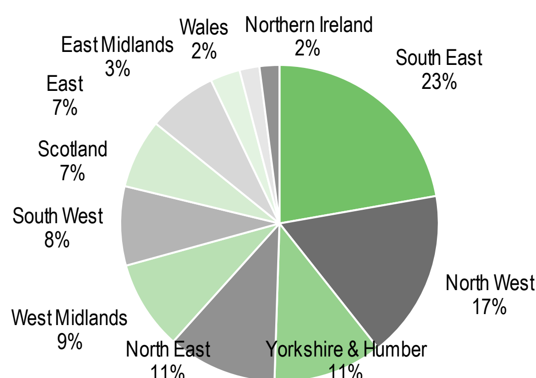
Exhibit 3: Top 15 tenants at 31 December 2020

Tenant	Percentage of contracted passing rent
Travelodge	9.6%
Q-Park	7.8%
Bombardier	7.2%
Greene King	5.5%
Premier Inn	5.4%
BUPA	4.1%
Stobart Group	3.8%
Lidl	3.7%
Jurys Inn	3.6%
Priory Group	3.5%
Aldi	3.2%
Starbucks	3.0%
Mears	2.8%
Co-operative	2.7%
Dobbies	2.5%
Top 15 tenants	**68.4%**
Other	31.6%

Source: LXi REIT

Exhibit 4 shows the portfolio is well spread geographically.

Exhibit 4: Geographic split of portfolio as at 31 December 2020



Source: LXi REIT

Tenant performance and rent collection

Throughout the pandemic the portfolio has delivered robust rental collection averaging more than 90% from March to December 2020 and increasing to 98% in both the September and December quarters (after adjusting for short-term rent reprofiling), underpinning the increased dividend guidance provided by the company.

However, the budget hotel sector, generally defensive during normal economic downturns, was badly affected by the pandemic and lockdown restrictions, with Travelodge going through a company voluntary arrangement (CVA) as a result of the forced closure of almost all of its hotels in the first lockdown. LXi's other tenants in the budget hotel sector (21% of portfolio rents at end-Q321) are Premier Inn and Jurys Inn. The measures introduced later in the year allowed hotels to remain open to service key workers, while garden centres and drive-through coffee outlets were also classified as essential services, continuing to operate. Under the terms of the Travelodge CVA, LXi appears to have fared relatively well, indicating a good tenant relationship and strong asset quality. Half of the 12 hotels leased to Travelodge by LXi (including two pre-let assets) were treated as category A assets, continuing to receive rents in full, and four were treated as category B, receiving 30% of rents due for the balance of 2020 and 70% of rents due for 2021. The two other assets were faced with receiving no rents through 2020 and 2021 but the leases have since been restructured with lower rents and extended duration. Aside from Travelodge, the company provided other, less material forms of tenant support in H121, resulting in £0.8m of rents being waived and £1.2m of rent collections being deferred. With rent collection recently running at 98%, adjusted for short-term rent re-profiling (effectively the deferred Travelodge rents) we have allowed for a small amount of additional rent concession in our forecast until the end of June 2021 (end-Q122) as lockdown easing takes effect.

Significant inflation linkage, ahead of consensus open-market rental growth

The significant indexation of rents provides investors with income protection against inflation. It also enables the company to benefit from the gap between expected inflation and the current consensus for open-market rents.

The HM Treasury comparison of independent forecasts for the UK economy published in March 2021 shows average RPI forecasts of 3.0% for 2021 and 2.9% for 2022. For CPI the average forecasts are 2.1% and 2.0%. The most recent Investment Property Forum (IPF) consensus data published in February 2021 shows an all property average forecast decline in rents of 2.7% in 2021 (slightly improved from the -2.8% in December 2020) followed by growth of 0.4% in 2022 (down from 0.8% growth in December). The IPF consensus has become more optimistic about later years and the five-year rolling average expectation for rent growth is now 0.4% pa (2021–25) compared with -0.7% (2020–24) in December.

Of the 95% of rents that were indexed or fixed at end-Q321, 70% were indexed to inflation (53% indexed to RPI and 17% indexed to CPI). The 25% of rents that provided fixed uplifts did so at an average of 2.4% pa.

The fixed uplift rents provide an income hedge against lower rates of inflation, as do an additional 47% of end-Q321 rents (within the indexed total) that contain a minimum uplift (or collar) at an average 1.4% pa. Taken together, the fixed and collared income amounts to 72% of the total at an average minimum uplift of 2.0% pa regardless of how low inflation may fall.

In addition to the rent collars, most of the indexed rents contain caps, representing the maximum that rents may increase by. The main purpose of rent caps is to avoid growth in rents that is unsustainable, both for current tenants or alternative operators, and the increase in yields (downward pressure on asset values) that typically occurs as lease length erodes over time, especially at lengths of less than 10 years or so. 59% of end-Q321 portfolio rents were capped at an average maximum uplift of 4.0% pa. If inflation were to increase above 4%, rent growth would continue but it would lag in real terms.

Management and governance

The board of LXi REIT, comprising five non-executive members, is responsible for setting strategy and for the company's overall activities, but has appointed Alvarium Fund Managers (100% owned by Alvarium Investments, 'Alvarium') as the alternative investment fund manager (AIFM) and is externally advised by LXi REIT Advisors ('the investment advisor'). The directors bring considerable real estate, corporate and financial experience; they are Stephen Hubbard (chairman), a former UK executive chairman of property advisory firm CBRE; Colin Smith OBE; Jan Etherden, with more than 35 years' experience in the investment industry; John Cartwright, a former chief executive of the Association of Real Estate Funds (AREF); and Patricia Dimond, with an international career of more than 30 years in consumer and financial markets. Detailed biographies can be found on LXi's website.

Alvarium was established in 2009 and has grown to become a substantial, international multi-family office and asset manager, supervising more than US$18bn of assets, for families, private individuals and institutions. It has over 220 employees and 14 offices around the world. The investment advisor is owned by the principals, shareholders and directors of Osprey Equity Partners Limited ('Osprey'), formed in 2011 and 50% owned by Alvarium.

The investment advisor has extensive expertise in the real estate sector, and its core investment team of property, legal and finance professionals has capitalised and transacted over £2bn of commercial property assets with a particular focus on accessing secure, long-let and index-linked UK commercial real estate through forward funding and built-asset structures. The key individuals responsible for executing the company's investment strategy are John White, Simon Lee and Freddie Brookes, for whom biographies can be found on page 16.

Fees are linked to market capitalisation

The fees paid to the investment advisor are, somewhat unusually, calculated by reference to average market capitalisation (rather than portfolio value or net asset value as is more common), which fully aligns its interests with those of shareholders. The fee rates are competitive in a sector context (typically around 1% pa) and are tiered, with the marginal rate dropping to 0.65% with the market capitalisation above £500m. There is no performance fee.

Exhibit 5: Investment advisor fees as % average market capitalisation

Up to £500m	0.75%
Above £500m	0.65%

Source: LXi REIT

Financials

Rental income

Annualised contracted rental income at end-Q321 was £48.5m and the long, upwards-only, predominantly index-linked or fixed rent uplifts mean that contracted rental growth is embedded in the existing portfolio. Triple net leases (whereby the tenant pays the direct property expenses, including taxes, insurance and maintenance) ensure that LXi fully benefits, with no breakage between gross and net rental income.

The £48.5m comprises the contracted rents on completed assets, reported in the income statement, as well as that on the pre-let forward funded development properties, which is reported in the income statement at completion. The licence fees accrued on development funding extended do not appear in the income statement but are included in LXi's measure of adjusted earnings. Over time, as the current developments complete, the full annualised £48.5m should be reported

through the income statement, but by that stage the current developments will have been replaced by new commitments. We model the development of the full contracted rent roll, completed assets and forward funded developments, allowing for acquisitions/disposals (discussed in the next section) and like-for-like rental growth, and include part of this (our estimate of the rents attaching to the completed assets) in the income statement. The developments under construction at end-Q321 were all expected to complete within 12 months, and we assume that new commitments similarly complete over a 12-month period.

Including both completed properties and forward funded developments, just over 40% of leases at end-Q321 were subject to annual rent reviews with the balance five-yearly; and although it is a simplification, we have assumed one-fifth of the five-yearly lease reviews occur each year. On this basis, factoring in consensus RPI and CPI expectations, the fixed rent uplifts, and assuming no change in open market rents, we forecast c 2.5% pa like-for-like growth in contracted rents in each of FY22 and FY22. We expect FY21 to have been c 2%.

H121 rental income was slightly reduced by £0.8m of rent concessions related to the pandemic and we have assumed further concessions at 2% of rental income in H221 and Q122 (in line with the 2% of rents that are not currently being collected). By the end of Q122 (end-June 2021) we assume that all rents due will be collected as the lockdown easing takes effect.

In addition to cash rents, the income statement includes non-cash IFRS smoothing adjustments in respect of straight-line recognition of fixed rent uplifts over the life of the leases as well as any lease incentives. This was £3.5m in H121 and we assume a similar amount going forward.

Although forward funding developments do not contribute to rental income until completion, LXi receives a licence fee coupon in respect of funding extended during the construction period, at completion ‘settled’ by way of a discount in the final cash payment to the developer. The discount is captured in the financial statements as gain in the valuation of the property acquired, reported in the financial statement on a smoothed basis over the construction period. The benefit is not recognised within EPRA earnings, which exclude valuation movements; but, as is common within the sector, LXi includes the licence fee income in its adjusted earnings measure.

Capital deployment and capital recycling assumptions

Our forecasts allow for the deployment of the March 2021 equity raise and associated debt, consistent with LXi’s medium-term gearing target of 30% (defined as aggregate gross borrowings as a percentage of gross assets) with an internal cap of 35%. We also expect LXi to continue to recycle capital from more mature assets into new investments with stronger return potential. Specifically, we assume:

- Including the £85m deployed in late March 2021, we assume £185m of deployment, split equally between completed properties and forward funding developments with the balance of £100m by the end of June 2021 (end-Q122). We estimate a £70m/£15m split between completed properties and development funding in the March acquisitions. This implies a £23m/£77m split in favour of funded developments in the additional commitment.
- A 5.5% yield on invested/committed capital (before acquisition costs). This implies an acquisition NIY of between 5.15% and 5.4% depending on whether the assets are completed properties (we assume standard acquisition costs 6.8%) or forward funded developments (we assume acquisition costs of 2%).
- That c 10% of the completed asset portfolio is sold each year (at book value and reflecting a NIY of 5%) and the capital is recycled in equal parts into new completed investment and forward funding commitments (50%) on the same terms as above.
- A 12-month construction period for both the current and future forward funding transactions, over which the capital committed is advanced.

Other key forecasting assumptions

We assume:

- Administrative costs are primarily driven by investment advisor fees (c 75% of the total), calculated as percent of market capitalisation, for which we assume a 1.05x P/NAV. We expect other costs to be lower in FY21 versus FY20, in line with H121, as receivables provisions drop away, growing modestly thereafter.
- Higher net finance charges are driven by increased borrowings as the equity proceeds are geared up.
- An unchanged valuation NIY of 5.0% on the portfolio. Like-for-like rental growth and gains on acquisition (including both capital deployment and capital recycling) less acquisition costs generate net realised and unrealised valuation gains of c 2% pa from H221 through to end-FY23. H121 showed a like-for-like valuation decline of 1.8% reflecting a 7.7% decline in the valuation of hotel and leisure assets despite strong 3.3% growth in industrial valuations and a broadly flat performance across other sectors. We estimate that a 0.1% increase/decrease in the NIY reduces/increases our EPRA NTA forecasts by c 3%.

Summary of Edison forecasts

Our forecasts are shown in detail in the financial summary at the back of this report (Exhibit 10) with a summary of key forecasts below. We expect continued strong growth in earnings as a result of capital deployment in accretive acquisitions, like-for-like rental growth and capital recycling. Our DPS forecasts reflect company guidance for FY21 and FY22, with DPS well covered by adjusted earnings and fully covered when non-cash IFRS adjustments are excluded (adjusted ‘cash’ earnings). For FY23 we expect DPS to increase further, tracking the growth in adjusted ‘cash’ earnings. We forecast steady EPRA NTA growth, driven by like-for-like rental growth with an assumed unchanged valuation yield, valuation uplifts on acquisitions (including capital recycling) and retained EPRA earnings. Although our forecasts imply EPRA NTA returns in FY22 and FY23 just slightly below the medium-term target of 8%, we think this a good performance in a continuing low-rate environment. For FY21 our forecasts imply a 4.2% return in H2, offsetting a 0.6% decline in H1, resulting from negative valuation movement.

Exhibit 6: Key forecast data

£m unless stated otherwise	FY20	FY21e	FY22e	FY23
Cash rental income	33.1	36.5	47.9	49.8
IFRS rental income adjustments	5.4	7.0	7.0	7.0
Rental income	38.5	43.5	54.9	56.8
Administrative expenses	(6.6)	(6.2)	(7.6)	(7.8)
Net finance expense	(4.8)	(5.2)	(5.9)	(6.9)
EPRA earnings	**27.1**	**32.1**	**41.4**	**42.2**
Adjust for:				
Licence fees	2.1	3.6	2.9	5.2
Other	1.3	0.6	0.0	0.0
Adjusted earnings	**30.5**	**36.3**	**44.3**	**47.4**
Adjust for:				
IFRS rental income adjustments	(5.4)	(7.0)	(7.0)	(7.0)
Adjusted ‘cash’ earnings	**25.1**	**29.3**	**37.3**	**40.4**
EPRA EPS (p)	5.6	6.1	6.7	6.8
Adjusted EPS (p)	**6.3**	**6.9**	**7.1**	**7.6**
Adjusted ‘cash’ EPS (p)	5.2	5.6	6.0	6.5
DPS (p)	**5.8**	**5.6**	**6.0**	**6.2**
EPRA NTA per share (p)	124.3	123.2	126.8	130.2
EPRA NTA total return	13.4%	3.5%	7.8%	7.5%

Source: LXi REIT historical data, Edison Investment Research forecasts

Funding strategy

To fund portfolio growth since IPO, LXi has steadily increased its equity and debt capital resources, sufficient to take advantage of opportunities in the market while avoiding excessive gearing and mitigating any drag on returns. The March 2021 issue of c 100.4m new shares at 124.5p raised gross proceeds of £125m, of which c 70% was deployed by the end of that month. The company expects to soon announce further acquisitions and appears well on target to beat its target of full deployment within three months of the issue.

Aggregate borrowing facilities amount to £270m, comprising three fixed-rate term loan facilities with a long maturity of December 2033, amounting to £170m at a blended average fixed rate of 2.85%, and a shorter maturity, more flexible floating rate revolving credit facility (RCF; £100m). Terms have been agreed for a new lender to be added to the RCF that will provide headroom to gear the expanded equity base to around 30%. The RCF pays interest margin of 1.55% above three-month Libor, representing a current cost of c 1.63% pa. The cost has been capped at 2.95%, providing protection against a material increase in interest rates.

Exhibit 7: Debt portfolio

Facility type	Lender	Maturity	Facility size	Interest margin
Term loan	Scottish Widows	Dec-33	£55m	2.74% fixed
Term loan	Scottish Widows	Dec-33	£40m	2.74% fixed
Term loan	Scottish Widows	Dec-33	£75m	2.99% fixed
RCF	Lloyds Bank	Dec-22*	£100m	3-M Libor +1.55%

Source: LXi REIT. Note: *The Lloyds RCF may be extended by up to two years with the consent of the lender.

The term loans provide long-term certainty of funding costs with the average fixed cost of 2.85% being attractively below the yield on the portfolio. This gap should only increase over the remaining almost 13 years to the maturity of the term loans, during which time the property rental stream should increase through the upwards-only inflation linked/fixed uplift leases. The low-cost RCF provides the flexibility to match forward funded development drawdowns during the construction phase.

Drawn debt at 31 December 2020 (end-Q321) was £232.3m (H121: £212.0m), with unrestricted cash and equivalents of £19.7m (H121: £20.7m) and net £212.6m compared with H121 £191.3m). Q321 gross gearing was 27.5% or 30% on a 'pro-forma' basis allowing for outstanding development commitments. Our forecasts assume debt drawings of an additional £90m, taking gross debt to £322m, deploying much of the expected RCF extension.

The borrowing facilities each contain financial covenants including maximum LTV ratios and minimum interest cover ratios, which are comfortably met. The group's target LTV of 30% and maximum LTV of 35% are both well below the 50% maximum level specified by the borrowing covenants. Interest cover is strong, with operating profit (before realised and unrealised property valuation movements) more than 6x interest expense in H121. Embedded index linked or fixed income growth in most leases and fully fixed/capped debt costs and a long weighted average unexpired lease term (WAULT) further enhance financial security.

Looking beyond our immediate capital deployment forecasts, the March 2021 share issuance forms part of a placing programme, approved by shareholders, providing flexible access to additional equity capital to support continuing growth. Under the programme, a maximum 400m shares may be issued as required between 16 March 2021 and 17 February 2022 (of which c 300m remain). The shares may be issued on a non-pre-emptive basis and the price will be not less than the prevailing net asset value per share at the time of issue plus a premium to cover costs and expenses. The placing programme should allow the company to tailor future equity issuance to its acquisition pipeline, providing flexibility and minimising any drag on returns.

In addition, at the 2020 AGM, the company was given authority to issue up to c 52.1m shares (10% of the outstanding shares at the time) on a non-pre-emptive basis up until the conclusion of the 2021 AGM, and this remains unused.

Valuation and returns

Despite the pandemic, since IPO LXi has achieved its aim of providing shareholders with secure and growing income, fully covered by adjusted earnings along with capital growth over the medium term.

Due to the successful implementation of the strategy post IPO, LXi declared aggregate DPS of 4.0p for the period ended 31 March 2018 (FY18), exceeding the initial 3.0p target. Aggregate DPS increased further in FY19 (5.50p) and FY20 (5.75p), before the impact of the pandemic. The 5.55p indicated for FY21 is slightly reduced but the company is targeting 6.0p in FY22, the highest level since IPO.

EPRA NTA per share have increased from 98p at IPO (adjusted for issue costs) to 123.2p (unaudited) at 31 December 2020 (end-Q321). Including DPS paid the EPRA NTA total return over this period is an aggregate 44.0% or an annual average compound increase of 9.9%, ahead of the medium-term target. Income returns represent almost 60% of the total. Note that Exhibit 9 accounts for dividends as paid and not on a declared basis.

Exhibit 8: EPRA NTA total return since IPO

	FY18	FY19	FY20	9M21	IPO to date
Opening EPRA NTA per share (p)	98.0	107.7	114.6	124.3	98.0
Closing EPRA NTA per share (p)	107.7	114.6	124.3	123.2	123.2
Dividends paid (p)	2.00	6.13	5.69	4.0875	17.90
Capital return	2.0%	5.7%	5.0%	3.3%	18.3%
Income return	9.9%	6.4%	8.5%	-0.9%	25.7%
NTA total return	**11.9%**	**12.1%**	**13.4%**	**2.4%**	**44.0%**
Average annual return					9.9%

Source: LXi REIT data

In Exhibit 9 we show the key valuation and performance metrics for LXi and a group of other long-income REITs, mostly comprising sub-sector specialist investors but also diversified investment peers (Secure Income REIT and to a lesser extent LondonMetric). LXi's long WAULT of 21 years is above the average of the group. For comparative purposes the DPS and NTA/NAV data is shown on a trailing basis, taking the last 12 months DPS declared and last reported NTA/NAV. LXi shows a lower trailing yield than the average of the group, for the reasons discussed above, but we expect significantly faster than average near-term DPS growth. Based on the FY22 target DPS, supported by current rent collections and the growing portfolio, the prospective yield is 4.6% while LXi has a lower P/NTA than the average. Across this long-income group, 12-month share price performance and valuation differ considerably, reflecting the varying fortunes of the sub-sectors on which most are focused. This variability underlines the potential attraction of an actively managed vehicle such as LXi to investors who seek but are otherwise unable to achieve an optimal diversification of risks.

Exhibit 9: Peer group valuation and performance comparison

	Recent WAULT (years)	Price (p)	Market cap. (£m)	P/NAV* (x)	Yield** (%)	Share price performance			
						1 month	3 months	12 months	From 12M high
Assura	12	74	1779	1.31	3.8	2%	-1%	-5%	-15%
Civitas Social Housing	23	112	700	1.04	4.8	3%	8%	15%	-3%
Impact Healthcare	20	114	362	1.04	5.5	1%	4%	26%	-3%
LondonMetric	12	221	1863	1.27	3.8	6%	-3%	20%	-10%
Primary Health Properties	12	149	2109	1.32	4.0	2%	2%	-5%	-10%
Secure Income	20	374	1212	0.97	4.3	10%	19%	10%	-3%
Supermarket Income	16	112	528	1.10	5.2	5%	3%	2%	-3%
Target Healthcare	22	117	533	1.08	5.7	4%	2%	12%	-2%
Triple Point Social Housing	26	104	417	0.98	5.0	4%	-6%	4%	-9%
Tritax Big Box	14	191	3284	1.23	3.4	7%	5%	66%	0%
Average	**18**			**1.11**	**4.6**	**5%**	**4%**	**17%**	**-5%**
Lxi REIT	**21**	**132**	**689**	**1.07**	**4.2**	**8%**	**10%**	**24%**	**-1%**
UK property sector index		1,714				5%	9%	18%	0%
UK equity market index		4,007				5%	6%	26%	0%

Source: Company data, Edison Investment Research, Refinitiv. Note: *Based on last reported EPRA NAV/NTA. **Based on 12-month trailing dividends declared. Prices at 19 April 2021

Sensitivities

The broad commercial property market is cyclical, historically exhibiting substantial swings in valuation through cycles. Income returns are significantly more stable, but still fluctuate according to tenant demand and rent terms. From a sector viewpoint we also highlight the increased risks and uncertainties that attach to development activity, including planning consents, timing, construction risks and the long lead times to completion and eventual occupation. LXi is not a developer and for reasons discussed above we believe its forward funding of fixed-price, pre-let developments, an investment strategy in which the investment manager has considerable experience, is very low risk and enhances returns. We consider the main sensitivities to include:

- **Economic risk:** the COVID-19 pandemic and Brexit continue to create a high level of uncertainty regarding the UK economic outlook. Following the c 10% decline in UK GDP in FY20 the HM Treasury comparison of independent forecasts for the UK economy published in March 2021 shows the average of independent forecasters expecting a 4.7% recovery in 2021. The range of individual forecasts remains very wide (2.1–6.1%). Average expectations for the increase in the rate of unemployment in 2021 versus 2020 have been tempered slightly in recent months, but the average 2021 forecast unemployment of 6.4% is almost double the pre-COVID-19 level. Inflation is forecast to increase notably compared with 2020 (the average forecast for CPI is 2.1% compared with 0.6% in Q420 and the average forecast for RPI is 3.0% versus 1.2% in Q420).
- **Sector risk**: some of the inherent cyclicality to the commercial property sector can be mitigated by portfolio diversification and long leases. LXi's multi-sector approach enables it to adjust to changes in risk-reward across sectors and its long, upwards-only indexed leases provide security and predictability to contractual income; this can mitigate cyclical shifts in property yields/capital values and supports the use of long-term debt.
- **Funding risks**: LXi's long-term leases support its long-term, fixed-rate debt funding, locking in a positive net yield spread. The currently low cost of the variable rate RCF, providing flexible forward funding of pre-let developments during the construction phase, would increase if interest rates increase, but is capped at 2.95% and may be refinanced on completion.
- **Inflation risk**: LXi rents are substantially index linked providing investors with income protection against rising inflation. Fixed rents and collared rents provide an income floor if

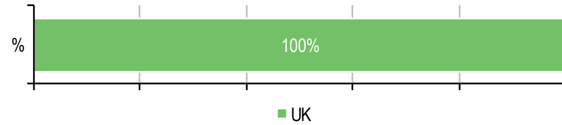
inflation is lower than expected. Only if inflation rises above c 4% would rent growth struggle to keep pace.

- **Management risk:** LXi is externally managed and is dependent upon the ability of its asset manager, Alvarium Fund Managers, to execute successfully on its strategy. The senior Alvarium team is highly experienced but relatively focused and the loss of any member would require a suitable replacement to be found.

Exhibit 10: Financial summary

Year to 31 March (£m)	2018	2019	2020	2021e	2022e	2023e
INCOME STATEMENT						
Rental income	9.3	21.6	38.5	43.5	54.9	56.8
Administrative & other expenses	(2.4)	(3.5)	(6.6)	(6.2)	(7.6)	(7.8)
Operating profit before property & other valuation movements	6.9	18.0	31.9	37.3	47.3	49.0
Change in value of investment property	15.1	15.9	45.4	(13.9)	18.5	17.1
Gain/(loss) on disposal of investment property	0.1	3.3	1.2	5.8	0.0	0.0
Change in fair value of financial instruments	0.0	0.0	(0.1)	0.0	0.0	0.0
Operating profit	22.1	37.3	78.4	29.2	65.7	66.2
Net interest expense	(1.1)	(3.2)	(4.8)	(5.2)	(5.9)	(6.9)
Profit before tax	21.0	34.1	73.6	24.1	59.8	59.3
Tax	0.0	0.0	0.0	0.0	0.0	0.0
Net income	21.0	34.1	73.6	24.1	59.8	59.3
Adjust for:						
Change in value of investment property	(15.1)	(15.9)	(45.4)	13.9	(18.5)	(17.1)
Gain/(loss) on disposal of investment property	(0.1)	(3.3)	(1.2)	(5.8)	0.0	0.0
Change in fair value of financial instruments	0.0	0.0	0.1	0.0	0.0	0.0
EPRA earnings	5.8	14.9	27.1	32.1	41.4	42.2
License fee receivable	1.2	1.5	2.1	3.6	2.9	5.2
Amortisation of cash-backed rental top ups and rent frees	0.0	0.0	1.3	0.6	0.0	0.0
Adjusted earnings	7.0	16.4	30.5	36.3	44.3	47.4
Period-end number of shares (m)	196.9	352.3	521.4	621.8	621.8	621.8
Weighted average number of shares (m)	138.6	267.6	485.4	525.9	621.8	621.8
IFRS EPS (p)	15.1	12.8	15.2	4.6	9.6	9.5
EPRA EPS (p)	4.2	5.6	5.6	6.1	6.7	6.8
Adjusted EPS (p)	5.1	6.1	6.3	6.9	7.1	7.6
Cash EPS (p)	3.8	5.0	5.2	5.6	6.0	6.5
DPS declared (p)	4.0	5.5	5.8	5.6	6.0	6.2
Dividend cover (cash earnings basis)	0.7	0.9	0.9	0.97	1.00	1.05
BALANCE SHEET						
Investment property	255.2	511.5	809.7	929.7	1,075.3	1,119.2
Other non-current assets	0.0	0.0	0.0	1.2	0.0	0.0
Total non-current assets	255.2	511.5	809.7	930.9	1,075.3	1,119.2
Cash (unrestricted)	30.8	19.4	13.4	47.1	18.8	16.8
Restricted cash	17.9	43.2	0.0	9.7	9.7	9.7
Other current assets	6.9	5.9	10.6	14.1	17.6	17.8
Total current assets	55.6	68.5	24.0	70.9	46.1	44.3
Trade & other payables	(5.2)	(9.0)	(16.1)	(23.6)	(29.7)	(29.9)
Other non-current liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total current liabilities	(5.2)	(9.0)	(16.1)	(23.6)	(29.7)	(29.9)
Bank borrowings	(93.5)	(167.3)	(166.1)	(208.8)	(299.6)	(320.4)
Other non-current liabilities	0.0	0.0	(3.5)	(3.5)	(3.5)	(3.5)
Total non-current liabilities	(93.5)	(167.3)	(169.6)	(212.3)	(303.1)	(323.9)
Net assets	212.0	403.7	648.0	765.8	788.6	809.7
Adjust for:						
Mark to market derivative adjustment	0.0	0.0	0.1	0.0	0.0	0.0
EPRA net tangible assets (NTA)	212.0	403.7	648.1	765.8	788.6	809.7
EPRA NTA per share (p)	107.7	114.6	124.3	123.2	126.8	130.2
CASH FLOW						
Net cash flow from operating activity	2.7	19.5	25.8	25.4	44.0	42.1
Acquisition of investment property	(238.5)	(288.0)	(260.1)	(214.9)	(210.2)	(115.6)
Proceeds from sale of investment property	0.7	54.7	20.9	86.5	91.2	97.0
Other investment activity	0.0	0.1	0.4	0.0	0.0	0.0
Net cash flow from investing activity	(237.7)	(233.2)	(238.8)	(128.4)	(119.0)	(18.5)
Net proceeds from equity issuance	195.0	171.8	195.7	122.5	0.0	0.0
Dividends paid	(3.5)	(14.2)	(25.0)	(22.0)	(37.1)	(38.2)
Interest paid	(1.3)	(3.6)	(4.7)	(5.7)	(6.3)	(7.3)
Net debt drawn/(repaid)	77.1	49.7	43.2	42.0	90.0	20.0
Other cash flow from financing activity	(4.3)	(21.0)	(28.0)	(25.5)	(44.0)	(42.1)
Net cash flow from financing activity	265.8	202.3	207.0	136.7	46.6	(25.5)
Change in cash	30.8	(11.4)	(6.0)	33.7	(28.4)	(1.9)
Opening cash	0.0	30.8	19.4	13.4	47.1	18.8
Closing cash	30.8	19.4	13.4	47.1	18.8	16.8
Balance sheet debt	(93.5)	(167.3)	(166.1)	(208.8)	(299.6)	(320.4)
Unamortised loan costs	(1.5)	(2.7)	(3.9)	(3.2)	(2.4)	(1.6)
Net debt	(64.2)	(150.6)	(156.6)	(164.9)	(283.2)	(305.2)
Net LTV	25.2%	29.4%	19.3%	17.7%	26.3%	27.3%
Gross "pro-forma" LTV*	31.0%	32.4%	28.3%	22.9%	29.2%	28.8%

Source: LXi REIT historical data, Edison Investment Research forecasts. Note: *Gross gearing on a fully developed basis.

Contact details	Revenue by geography
LXi REIT plc Mermaid House Puddle Dock London EC4V 3DB Phone: +44 20 7195 1400 www.lxireit.com	

Leadership team

Non-executive chairman, LXi REIT: Stephen Hubbard	Partner & fund manager, Investment Adviser: John White
Stephen Hubbard is non-executive chairman of LXi REIT. He previously served as executive chairman of UK CBRE Group, the world's largest property advisory firm, and before that served as co-head of CBRE Capital Markets Europe. He joined Richard Ellis in 1976 and served as head of EMEA and UK capital markets from 1998 to 2012. He is also a member of the Advisory Board for Redevco, which is a pan-European property holding company. Stephen has also been a director of Workspace Group since July 2014 and has served as chairman from July 2020.	John White is a founding partner of the company's investment advisor, LXi REIT Advisors. He entered the commercial real estate market in 1987 and after qualifying as a chartered surveyor at Allsops moved to the investment team at Cushman & Wakefield. There he became a partner and spent the next 18 years advising a range of institutional investor clients on their UK acquisitions and disposals across the full range of real estate sub-sectors including retail (in and out of town), offices (London, Thames Valley and regional cities), logistics, and alternatives. John moved into private equity real estate in 2007 and co-founded Osprey Equity Partners in 2011 and LXi REIT Advisors in 2017.
Partner & fund manager, investment advisor: Simon Lee	**CFO, Investment Advisor: Freddie Brooks**
Simon Lee is a founding partner of the company's investment advisor LXi REIT Advisors. He trained and practised as a solicitor at City law firm, Slaughter and May, from 1999 to 2006, following which he spent the next 10 years in private equity real estate, co-founding Osprey Equity Partners in 2011 and LXI REIT Advisors in 2017. Simon's role covers a wide range of areas, including formulating investment strategy, raising equity and debt finance, asset selection, and negotiating and implementing transactions with vendors, purchasers, developers, investors, lenders and joint venture partners.	Freddie Brooks is CFO of the company's investment advisor LXi REIT Advisors. He leads on all strategic financial matters including fund reporting, budgeting and forecasting, treasury management and the monitoring of internal controls. Freddie is both a qualified chartered accountant (ACA) and chartered surveyor (property finance & investment pathway). He has significant experience in the property sector and previously worked advising similar businesses at BDO, the number one audit firm and adviser to UK REITs, as well with private property funds, developers and contractors.

Principal shareholders (source: Prospectus pre-issue)	(%)
Quilter Cheviot	5.84
Baillie Gifford	4.66
BMO Global Asset Management	4.63
BlackRock	4.44
JM Finn	3.90

EDISON

General disclaimer and copyright

This report has been commissioned by LXi REIT and prepared and issued by Edison, in consideration of a fee payable by LXi REIT. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2021 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia