abrdn Real Estate Fund

Quarterly Update - Q1 2025

For Professional Investors only - Not for Retail distribution.
Past performance is not a guide to the future.

The abrdn Real Estate Fund quarterly update provides an overview of the market; fund performance, positioning and portfolio changes; and the fund manager's outlook for the months ahead.

abrdn Real Estate Fund, a Sterling denominated sub fund of the abrdn Real Estate Funds ICVC. This fund is managed by abrdn Fund Managers Limited.

abrdn Real Estate Fund invests in assets that may at times be hard to sell. This means that there may be occasions when you experience a delay or receive less than you might otherwise expect when selling your investment. For more information on risks, see the prospectus and key investor information document.

OBJECTIVES AND INVESTMENT POLICY

Transition

The abrdn Real Estate Fund is currently undergoing a portfolio transition to (i) reduce its holdings to approximately 45% in direct UK property , and (ii) increase its holdings to approximately 45% in indirect property. The transition commenced on 18 September 2024 and is expected to be completed within 18 -24 months. However, this timeline may vary depending on market conditions. Investors should be aware that, for a period from 18 September 2024, investments in both direct and indirect holdings in abrdn Real Estate Fund will not align with the target allocations of 45% as stated in the investment policy.

Investment Objective

To generate income and some growth over the long term (5 years or more) by investing in property and property related investments. It is intended that the fund will be a PAIF at all timesand, as such, its investment objective is to carry on property investment business and to manage cash raised for investment in the property investment business.

Performance Target

To achieve a return in excess ofthe following composite index over rolling five-year periods (after charges). 45% MSCI UK Monthly Property Index; 45% FTSE EPRA Nareit Developed Net Total Return Index and 10% SONIA. The Performance Target is the level of performance that the management team hopes to achieve for the fund. There is however no certainty or promise that they will achieve the Performance Target. The ACD believes this is an appropriate target for the sub-fund based on the investment policy of the fund and the constituents of the sector.

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UK Real Estate Market Overview

UK real estate achieved a healthy 8.1% total return during the 12 months to February 2025, according to the MSCI Monthly Index. The favoured sectors of retail and industrial led the index, with the hotel and residential sectors also outperforming. Performance was driven by income returns, as a lack of yield compression has been evident across the market. All property capital values are healthily wading into positive territory at 2.1%, primarily driven by robust rental growth feeding through. For context, over the year to February 2024, capital values experienced a 4.9% annual decline; and over the year to February 2023, values fell by 17%.

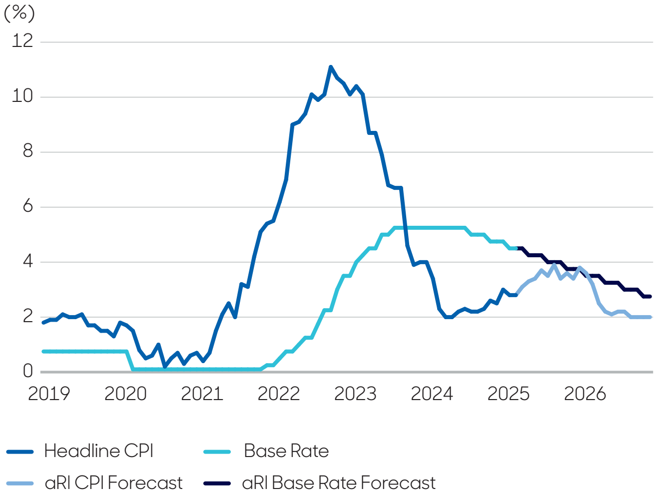
Since income returns drove the majority of performance last year, MSCI's Quarterly Index – which is generally constructed of lower income-yielding assets – posted lower relative total returns of 5.5% during 2024. The favoured sectors of retail and industrial both led the quarterly index at 8.3%. Office returns were exactly neutral over the year, as capital value declines slowed to -4.6%. Polarisation remains strongly in place here, with best-in-class assets driving performance.

Capital values had a story of two halves over 2024. All Property gave -0.6% away over the first six months of the year, but posted a gain of 0.4% over the following six months. Industrial and retail were the primary drivers here, accelerating to 3.6% and 2.1% growth towards the end of 2024, respectively. Some yield compression was evident in prime assets within these segments, but it was otherwise notably absent from the wider market, as investors waited for additional rate cuts.

There is an outside possibility of capital values softening, as global growth is threatened by tariffs and trade escalations. As occupiers and investors hold back on decisions, sectors with higher availability rates like logistics and offices could be more exposed in certain submarkets. Additionally, discretionary-heavy sectors, including hotels and leisure, will likely see a pullback in demand, especially from international sources.

Investment volumes have taken a step back over the first three months of the year, as total transaction volumes fell 33% year-on-year. Just £8 billion was transacted over the first quarter of 2025, down from nearly £20 billion over the prior quarter. Initial uncertainty around macroeconomic and geopolitical tensions held volumes back over the first quarter, and tariff announcements from the US will ensure more investors sit on their hands in the short term.

UK inflation rate and Bank of England policy rate forecasts



Source: Aberdeen, April 2025.
Forecasts are a guide only and actual outcomes could be significantly different.

Activity

Economic growth surprised to the upside over February, recording a strong 0.5% expansion against a consensus of 0.1%. Although monthly figures can be volatile, any growth is welcome following a lacklustre end to 2024. Following US tariff announcements in April, we expect business sentiment in the UK to suffer as 10% tariffs are implemented. Although the UK's composite Purchasing Managers' Index (PMI) registered 52 in March, a six-month high and above the neutral growth threshold of 50, fears of lower growth will feed through to business confidence and decisions. As a result, business activity will almost certainly be more anaemic, despite the UK not suffering the worst of direct tariff measures.

Inflation

The annual Consumer Price Index (CPI) decreased from 3% to stand at 2.8% in February. Although the headline figure came in softer than economists' expectations, inflation remains well above the Bank of England's (BofE) target of 2%. Services inflation also remains sticky at 5%. Further cost pressures coming from price increases of administered utilities, and National Insurance and National Living Wage changes, will test the economy's ability to absorb costs. Additionally, a rise in global tariffs could increase external pressure on goods and supply chains, raising input prices across sectors.

Policy

The BofE held rates at 4.5% in February in an eight-to-one vote. While the BofE initially reiterated a gradual-yet-cautious approach to further rate cuts, recent global tariff announcements have pushed investors to price in a greater chance of swifter and more decisive cuts. We expect three further cuts this year to bring interest rates to 3.75%; the market's expectations are volatile but are more closely reflecting our forecasts at the time of writing. Although there is considerable uncertainty over monetary policy as global headlines surge, a consistent easing cycle is looking more likely as a general consensus.

UK economic outlook

(%)	2022	2023	2024	2025	2026	2027
GDP	4.10	0.10	0.80	1.20	1.40	1.50
CPI	9.10	7.40	2.50	2.30	2.30	2.10
Policy Rate	3.50	5.25	4.75	3.75	2.75	2.50

Source: Aberdeen, April 2025.
Forecasts are a guide only and actual outcomes could be significantly different.

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Fund positioning

Top 10 direct holdings	Value range (£m)
Solar Park, Birmingham	50m – 75m
Axis Park, Peterborough	25m – 50m
George IV Bridge, Edinburgh	25m – 50m
1 America Street, London	25m – 50m
Blighs Meadow Shopping Centre, Sevenoaks	10m – 25m
Woodside Industrial Estate, Bishop's Stortford	10m – 25m
Nursling Industrial Estate, Southampton	10m – 25m
New Clarendon House, Edinburgh	10m – 25m
Hobart House, Edinburgh	10m – 25m
1 Marsden Street, Manchester	10m – 25m

Source: Aberdeen, 31 March 2025.

Top 10 listed holdings	Fund (%)
abrdn Future Real Estate UCITS ETF	9.26
Welltower Inc	0.56
Ventas Inc	0.35
LondonMetric Property Plc	0.35
Prologis Inc	0.31
Simon Property Group Inc	0.30
Equinix Inc	0.28
Public Storage	0.25
Invitation Homes Inc	0.25
Camden Property Trust	0.25

Source: Aberdeen, 31 March 2025.

Fund facts

Fund size	£600m
Average lot size (direct)	£16.5m
Average lease length (direct)	6.5 years
Number of direct holdings	28
Number of tenancies (direct)	253
Number of listed holdings	29
Distribution yield[1]	4.49%
Unencumbered cash[2]	4.02%
Vacancy rate	10.33%

Source: Aberdeen, 31 March 2025.
[1] Historic Distribution Yield at 30/11/24. This represents the income generated by the assets in which the Fund has been invested over the last twelve months, expressed as a percentage of the Fund's value for the Institutional Income share class. Please note that this income stream may be subject to taxes and charges.
[2] The unencumbered cash figure includes cash or cash equivalents plus any short term assets and liabilities within the fund less any future committed capital expenditures.

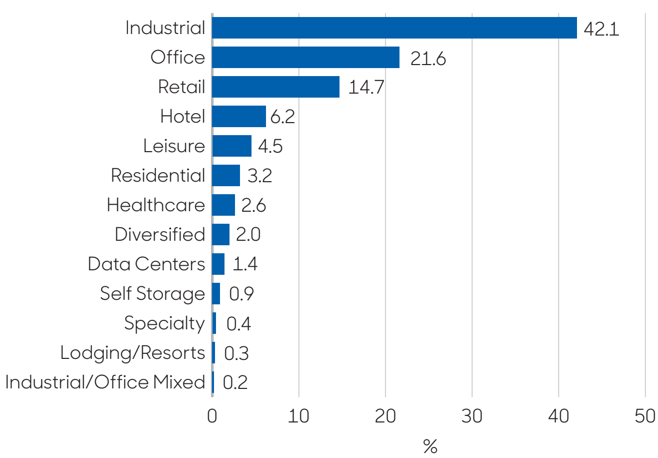
Top 5 tenants (direct)	Contracted rent (%)
T P Bennett LLP	6.31
British Telecommunications plc	3.99
Expro North Sea Limited	3.66
Tesco Stores Limited	2.49
TCL Manufacturing Ltd	2.48

Source: Aberdeen, 31 March 2025.

Performance – % growth	1m	3m	6m	1y	3y p.a.	5y p.a.
Fund Retail Acc	(0.57)	0.58	(0.38)	0.00	(5.64)	(1.31)
Fund Institutional Acc	(0.55)	0.65	(0.18)	0.37	(5.30)	(0.95)
Performance Target[3]	(1.77)	0.41	0.30	3.23	(2.65)	0.17

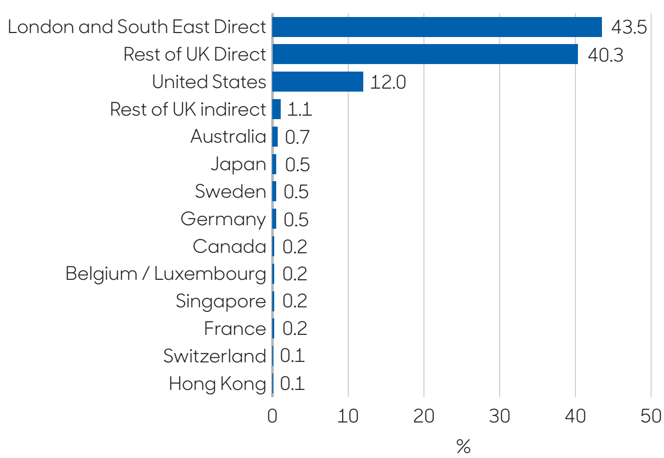
Source: Aberdeen, 31 March 2025.
[3] Performance Target IA UK Direct Property Peer group until 02/10/2024, 45% MSCI UK Monthly Property Index; 45% FTSE EPRA Nareit Developed Net Total Return Index and 10% SONIA thereafter.

Sector allocation



Source: Aberdeen, 31 March 2025.
Figures ex Cash.

Regional allocation



Source: Aberdeen, 31 March 2025.
Figures ex Cash.

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Portfolio Update

Transaction and Asset Management Activity

The Fund is undergoing a portfolio transition to (i) reduce its holdings to approximately 45% in direct UK property, and (ii) increase its holdings to approximately 45% in indirect property. The transition began on 2 October 2024 and is expected to be completed within 18-24 months. This timeline may vary depending on market conditions. Investors should be aware that for a period from 2 October 2024, investments in both direct and indirect holdings in the Fund will not align with the target allocations of 45% as stated in the investment policy.

During the quarter, the sales of Duncan House, Aberdeen (£7 million), a 58,000 square foot (sq ft) office building let to Technip, and Tesco, Congleton (£20.7 million), a 49,000 sq ft supermarket, were completed.

A significant milestone was achieved with the comprehensive refurbishment of New Clarendon, 114/116 George Street, Edinburgh, which reached practical completion in December 2024. The work included the full replacement of mechanical and electrical systems and the removal of gas-fired plant. The building is now fully electric, supplied by renewable sources, and has achieved sustainability accreditations including NABERS 5 Star, EPC A rating, Platinum WiredScore, Platinum ActiveScore, and BREEAM Excellent. Lettings to Patria Private Equity, Inch Cape Offshore, and Cundall Johnston have since completed, each securing 10-year terms at passing rents of £282,960, £246,376, and £211,140 per annum, respectively, reflecting £45-£46 per sq ft and setting a new benchmark for prime rents in the Edinburgh office market. Further activity during the quarter saw a letting to the Mission Group, which has taken a 10-year lease at an initial rent of £85,185 per annum. At 1 Marsden Street, Manchester, VS Salons extended its lease for an additional three years.

In the industrial sector, lease renewals with Isol8 and HSP Valves at Minto Commercial Park, Aberdeen, also completed. Isol8 extended its term for an additional two years, and HSP for an additional 10 years.

In the retail sector, lease renewals with Vision Express and Costa at Bishop Auckland Shopping Park secured additional lease terms of five and 10 years, respectively.

At Avant Garde, Shoreditch, retailer Voyeur Voyeur entered into a new 10-year lease at an initial rent of £90,000 per annum.

As of 31 March 2025, liquid assets in the Fund accounted for 19.0% of net asset value.

Performance Review

The Fund outperformed the performance target during the first quarter of 2025, delivering a total return of 0.65% compared to 0.41%. Provisional figures suggest that the direct property element of the Fund contributed a total return of 1.6% during the period.

The global real estate securities market outperformed the broader global equity market, as measured by the MSCI World, over the first quarter of the year. The listed real estate market held up well despite concerns around trade policy, economic growth and the future direction of inflation and interest rates.

Until the end of September 2024, the performance target was the IA UK direct property sector. Thereafter, it changed to a blend of 45% MSCI UK Monthly Property Index, 45% FTSE EPRA Nareit Developed Net Total Return Index, and 10% Sterling Overnight Index Average.

Forecasts and Outlook

According to the MSCI UK monthly index, UK commercial real estate returned 2.0% over the first quarter of 2025. Residential (+2.7%) was the strongest sector, while offices (+1.1%) remained the weakest. Investment activity remained muted at the start of 2025, with volumes down around 50% year on year through February. Activity was concentrated in the residential sector, as suitable office, retail and industrial stock remained scarce. Stabilising interest rates and greater economic clarity should support a gradual recovery, particularly in the residential, retail and industrial sectors.

The retail sector faces mounting cost pressures ahead of April's Budget-related changes, with the British Retail Consortium expecting 160,000 part-time and full-time jobs to be lost. Large high-street retailers including Tesco, Sainsbury's, ASDA and Morrison's have already announced a raft of redundancies. At the same time, retailers are increasingly turning to automation to replace job functions and improve operational efficiency.

National office take-up in 2024 reached its highest level since 2019 as demand normalised. However, net absorption over the past year has been negative, and the sector faces a supply-heavy year as Covid-19-era construction completions come through. With no large-scale new developments expected for years, the conditions are likely to support further prime rental growth and intensify the polarisation in performance between prime assets and the rest. While secondary stock is likely to continue struggling, refurbishments could gain traction, provided the location is right.

Investment into the UK's living sectors is evolving as demand grows across sub-sectors. Investor surveys consistently show a preference for the living sector, and the Labour government is making strides towards its housing goals. Deloitte's Regional Crane Survey shows that, out of 47 construction starts in 2024 across four major cities, 22 were residential. However, affordability remains a key factor; according to Zoopla, London lagged the rest of the UK in 2024, with rental growth of just 1.3%. More affordable areas are likely to catch up, as major cities – particularly the capital – have reached their pricing limits.

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Risk profile

The following risk factors should be carefully considered before making an investment decision:

The value of investments and the income from them can fall and investors may get back less than the amount invested.

The abrdn Real Estate Fund invests in assets that may at times be hard to sell. This means that there may be occasions when you experience a delay or receive less than you might otherwise expect when selling your investment. For more information on risks, see the prospectus and key investor information document.

The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure amongst market participants. The use of derivatives may result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested) and in these market conditions the effect of leverage will be to magnify losses. The fund does not make extensive use of derivatives.

Commercial property is less liquid than other asset classes such as bonds or equities. Selling property can be a lengthy process so investors in the fund should be aware that they may not be able to sell their investment when they want to.

Commercial property transaction charges are higher than those which apply in other asset classes. Investors should be aware that a high volume of transactions would have a material impact on fund returns.

Property valuation is a matter of judgment by an independent valuer and is therefore a matter of the valuer's opinion rather than fact.

The fund employs a single swinging pricing methodology to protect against the dilution impact of transaction costs. Due to the high transaction charges associated with the fund's assets, a change in the pricing basis will result in a significant movement in the fund's published price.

Equities can lose value rapidly, and typically involve higher (often significantly higher) market risks than bonds or money market instruments. If a company goes through bankruptcy or a similar financial restructuring, its equities may lose most or all oftheir value.

Real estate and related investments can be hurt by any factor that makes an area or individual property less valuable. Specifically, investments in real estate holdings or related businesses or securities (including interests in mortgages) can be hurt by natural disasters, economic declines, overbuilding, zoning changes, tax increases, population or lifestyle trends, environmental contamination, defaults on mortgages, failures of management, and other factors that may affect the market value or cash flow of the investment. Many issuers of real estate related securities are highly leveraged, which can make their securities more volatile. The value of real estate-related securities does not necessarily track the value of the underlying assets.

To the extent that the fund invests a large portion of its assets in a limited number of industries, sectors, or issuers, or within a limited geographical area, it can be more riskythan a fund that invests more broadly. Focusing on any company, industry, sector, country, region, type of stock, type of economy, etc. makes the fund more sensitive to the factors that determine market value for the area of focus. These factors may include economic, financial or market conditions as well as social, political, economic, environmental or other conditions. The result can be both higher volatility and a greater risk of loss.

Annual returns to 31 March 2025 (%)

	2021	2022	2023	2024	2025
Fund Retail Acc shareclass	(1.44)	13.06	(12.44)	(4.06)	0.00
Fund Institutional Acc shareclass	(1.05)	13.46	(12.10)	(3.73)	0.37
Performance Target[1]	(1.38)	10.84	(9.39)	(1.37)	3.23

Source: Aberdeen (Fund), 31 March 2025.
[1] PerformanceTarget IA UK Direct Property Peer group until 02/10/2024, 45% MSCI UK Monthly Property Index; 45% FTSE EPRA NareitDeveloped Net Total Return Index and 10% SONIA thereafter.

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Important Information

Investment involves risk. The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. Past performance is not a guide to future results.

To help you understand this fund and for a full explanation of risks and the overall risk profile of this fund and the share classes within it, please refer to the Key Investor Information Documents and Prospectus which are available on our website www.aberdeeninvestments.com. The Prospectus also contains a glossary of key terms used in this document.

The fund's Authorised Corporate Director is abrdn Fund Managers Limited.

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