

Stellar Market Overview Q4 2022

This report provides an update on all the business sectors that we operate in across our range of asset-backed inheritance services.

Forestry

In a Q4 release Bloomberg again cited how inflation remains a key concern for investors. Commodity producing investments such as forestry have seen a sharp increase in transactions throughout 2022, due to their nature of being a natural hedge against inflation.

The 2022 Tilhill forestry report suggests that the sector will continue to perform well, having already seen the average cost of a plantable hectare increase 50% throughout 2022. Demand therefore continues to outstrip supply.

We continued to actively manage our forestry assets over 2022, with revenue from harvesting activities at Panmure exceeding budget expectation for 2022.

In late Q3 we strengthened our position in this sector securing a 652-hectare Scottish estate primed for planting commercial forestry crops off-market.

Renewables

Throughout 2022 inflation has taken a stranglehold on the energy market. However, there has been less of an impact on operational renewable assets, as the costs of production have not seen the same increases as traditional energy production methods. Inflation, however, has taken its toll on projects under construction as Capex cost rises continue to delay and even kill many projects.

Having placed both our remaining wind assets on the market in early 2022, we completed on their sale in December 2022 for an above target return.

In combination with the disposal of our wind assets in Q4 2022, we continue to manage the sale of our solar portfolio, which will see Stellar exit this sector.

Market conditions do not favour committing new capital to this sector in the near term. However, we will continue to monitor the renewables space for further opportunities.

Hotels

The 2022 UK Hotel Trading Performance Review suggests that a positive outlook remains in the hospitality sector, with the effects of Covid-19 having largely been overcome. This is evidenced in the report through its conclusion that since July

2022 the regional UK Hotel market achieved occupancy above 75%, with RevPAR outperforming levels seen in 2019.

Unlike other sectors the hospitality industry has been able to partially offset the effects of inflation by increasing room rates. Knight Frank report that the ADR of regional UK Hotels has increased by 13.6% when compared to 2019 prices. The continuation of these price increases, however, may prove challenging as the majority of households battle through the cost-of-living crisis.

It is estimated by Savills that demand across the UK and mainland Europe will return to pre-pandemic levels by the end of 2023.

Residential

Historically, residential real estate has been a safe-haven during inflationary periods. However, Savills note how the current political and economic landscape has introduced uncertainty into the market. Recent interest rate rises have had a large impact on the mortgage market with the mini-budget announcement in September further increasing rates. The Bank of England raised interest rates by 0.5 percentage points in early February 2023 owing to high underlying inflation, strong wage growth and broad unexpected resilience in the economy.



The stamp duty changes announced during the 23 September 2022 budget announcement provide some relief for first time buyers. The £300,000 cap increase to £425,000 remains one of the only positive moves in a challenging market which has seen house prices rise c.26% since the price cap was initially introduced in 2017.

We are currently in the final stages of selling units at both our developments in Nayland and Northampton with expectation being that all units at both sites will be sold by the end of Q1 2023.

Care Homes

We have been operating in a very difficult market since the start of the Covid-19 pandemic with Q4 being no exception. The largest challenge facing the sector continues to be the unavailability of qualified staff. Vacancies left by foreign workers during the Covid-19 pandemic remain in the marketplace with many homes operating below capacity due to the unavailability of staff.

Our care home in Bradford saw a positive end to the year with EBITDARM rising in the latter half of Q4. This was attributed to increases in occupancy rates as we continue to refurbish the home.

Bridging

The bridging finance market continues to be very competitive with an increasing number of lenders active in the market. As a result, we have put considerable emphasis on the quality of deal rather than volume of deals completed. Whilst this strategy has seen a lower operating turnover than we are historically used to, extensive due diligence and caution provides investors with more security than can be offered by lenders who prioritise volume of deal flow.

Despite this we have been regularly deploying capital into our bridging finance partnerships with several substantial new deals funded during the quarter.

Golf

Data gathered by tee time management booking services' BRS Golf and Golf Now, shows that a total of 24.7 million rounds were played across Great Britain and Ireland last year. Rounds played finished 2022, 1.8 million ahead of levels seen in 2021 and 2.5 million above those in 2020. Importantly 2022 figures



were c.11 million above pre-pandemic levels. This is testament to the strength of the sector.

Extreme weather in Q4 has resulted in performance at our own assets falling short of expectation however, this was seen nation-wide.

The addition of a gym and spa at Bramshaw will supplement the traditional hotel and golfing revenue streams over the coming months.

Commercial Development

Commercial real estate agent Avison Young reported that despite the uncertain outlook for the property sector, the industrial sector's resilience and strong market fundamentals have held firm. Take-up levels from January to November 2022 fell short of 2021's total however, this has been driven not by the current economic climate but by an undersupplied market. Avison Young has predicted that demand should remain strong, particularly for 'best-in-class' buildings with strong ESG/BREEAM credentials. Existing landlords will therefore look to capitalise on this demand by deploying additional grade A stock and further retrofitting existing stock as they progress towards the government's MEES targets by 2030.

At present we interested parties in all of our commercial developments. Having received a positive planning decision, works at our development in Hoddesdon are now underway, with planning decisions for both Tonbridge Wells and Poole expected by the end of Q1.

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