

Lease overhang significantly reduced

What's New

- New lease agreements secured for c.70% of total DWP income ahead of expectations, with remaining leases still in negotiations and management optimistic on renewals
- Overall impact is broadly favourable, as these leases provide a stable income base, though organic growth is deferred into medium term given flat rents and later rent reviews
- Improved income visibility enhances flexibility, supporting further value creation initiatives across portfolio
- Maintain BUY and TP of GBP 0.40

What happened:

Following a trading halt this morning, Elite UK REIT announced that it has entered into new lease agreements with the UK Government for a large proportion of DWP-occupied assets, ahead of the 2028 lease expiries, with the GBP 24.3mn of annual rent fully retained. Portfolio WALE improves sharply to 7.2 years on a pro forma basis (from 2.4 years) as the bulk of leases are extended into the 7- and 10-year buckets, alongside a small number of 3-year leases and a single 1-year asset, all without break clauses. As a result, the proportion of gross rental income expiring in 2028 is reduced to 32.0% from 95.7%, significantly removing a key overhang. The leases also include renewal options - 3 year extensions for assets with lease maturities in December 2029 and April 2031, where the CPI-linked rent review will kick in upon further extension; and 5 year extensions for assets with lease maturities in April 2035 and April 2038, where the CPI-linked rent review will apply from 1 April 2033, as well as upon further extension.

Our view:

The lease regear covers c.70% of the total DWP income, materially higher than earlier guidance of c.30% of the portfolio in each of 2025, 2026 and 2027. With lease expiries now spread out across multiple years, the maturity profile is more operationally manageable and less risky in our view. The remaining c.30% of leases will form part of a second round of discussions, and management is optimistic that the majority will be renewed, given ongoing tenant capex across many of these assets and a historical retention rate of 85-95%. That said, these renewals could follow a similar lease structure, where contributions remain flat as rent reviews only occur later, deferring organic growth into the medium term (e.g. rents from assets contributing GBP 17.1mn of annual income are expected to remain largely flat until the CPI-linked review in 2033). While assets with lease expiries in 2029 and 2031 (contributing GBP 7.2mn of revenue) could see earlier rent reviews upon renewal, we see some risk of non-renewal. Nonetheless, we view the outcome as broadly favourable, given the enhanced income visibility. These leases provide a stable income base, from which there will be scope for additional value creation initiatives, including the living sector strategy through PBSA conversions, planning application for an 80-megawatt data centre at Peel Park and potential expansion into additional government-leased assets. We also anticipate valuation uplift stemming from the longer lease tenures. Stock is trading attractively at close to 9% yield and around 0.85x forward P/B.

Maintain BUY and TP of GBP 0.40; we will review our estimates on Monday after the FY25 results announcement.

Analyst

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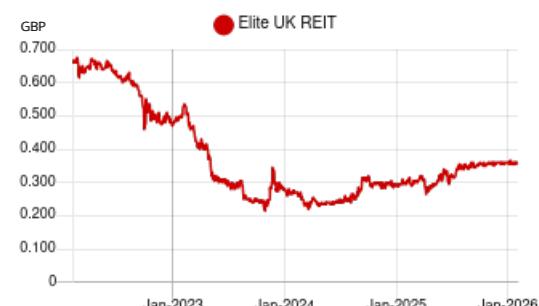
Key Financial Data (FY Dec)

Bloomberg Ticker	ELITE SP
Sector	Equity Real Estate Investment
Share Price(GBP)	0.35
DBS Rating	BUY
12-mth Target Price (GBP)	0.40
Market Cap (USDbn)	0.3
3m Avg. Daily Val (USDmn)	0.1
Dividend yield (%)	8.6
Fwd. P/E (x)	11.4
P/Book (x)	0.9
ROE (%)	7.4

Closing Price as of 04/02/2026

Source: Twelve Data, DBS, Visible Alpha

Elite UK REIT Share Price



Source: Twelve Data

Target Price & Ratings History - Elite UK REIT (ELITE_SP_Equity)



#	Date of Report	Closing Price	12-m Target Price	Rating
1	11 Feb'25	0.31	0.36	BUY
2	01 Aug'25	0.35	0.40	BUY

Source: DBS

Analyst: Tabitha Foo

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*Share price appreciation + dividends

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