

# Real Estate Unit Trust Fact Sheet

AS AT 31 MARCH 2024



## Economic Overview & Outlook

During the first quarter of 2024, Jamaica's economy exhibited moderate growth. The economy grew by an estimated 1.9% from January to March 2024 as reported by the Planning Institute of Jamaica ("PIOJ"). The growth shows continuation in positive momentum slower than the 2.1% expansion recorded in the last quarter. The goods producing industry grew by 1.9% driven primarily by agriculture, forestry and fishing 7.4% and mining and quarrying 18.7%<sup>1</sup>. The mining and quarrying sector was reported to have grown due to increased alumina and crude bauxite output. Similarly, the manufacturing industry grew due to growth in the 'Food, Beverages and Tobacco' and 'Other Manufacturing' sub-industries. On the other hand, the real value added for the construction industry fell by 4.5%, reflecting a downturn in the 'Building Construction' component, which outweighed an estimated growth in the 'Other Construction' component<sup>2</sup>. Despite this, the PIOJ projected that the economy will continue to grow.

The real GDP is anticipated to average 2% over the coming quarters. Growth in Agriculture, Mining and Quarrying and Services are expected to be positive. However, the downsides include aging production plants, weather related shocks and external demand.

## Inflation

Jamaica's inflation rate accelerated to 6.2% in February 2024 which was above the bank's target range of 4.0 to 6.0%. This impact was attributed to an increase in passenger vehicle ("PPV") fares implemented from October 2023, alongside widespread increase across various sectors of the economy<sup>3</sup>.

Core inflation, which excludes food and fuel prices from the consumer price Index ("CPI"), stood at 6.1% in February 2024, down from 6.6% in February 2023. Despite the elevated headline inflation (total inflation in the economy) this indicated relative stability in core inflation rates over the year. This stability suggested that the underlying inflationary pressures are somewhat contained, which is a positive sign for maintaining long-term trends. Downside Inflation risks included weaker than projected economic growth and potential delays or lower than expected second round effects from the PPV.

## Interest Rates & Monetary Policy

On March 28, 2024, the Monetary Policy Committee ("MPC") of the Bank of Jamaica ("BOJ") unanimously decided to maintain the policy interest rate at 7.0% achieving stability in the foreign market, maintaining tight liquidity conditions for the Jamaican dollar. The MPC prioritized maintaining stable inflation within the target range while sustaining the economy.

The committee-maintained vigilance over inflation risks and economic growth such as consumer spending. Finally, growth was expected to pick up in 2025 supported by financial conditions in the United States.

## Exchange Rate

During the March 2024 quarter the Jamaican dollar experienced mixed movement against the US dollar. Specifically, the weighted average selling rate closed at J\$154.70 per US\$1.00 by the end of March 2024, reflecting a slight appreciation of 0.16% relative to the previous quarter, but a depreciation of 2.5% compared to March 2024.

To stabilize the exchange rate the BOJ continued implementing measures to manage Jamaican dollar liquidity. Notably, the BOJ conducted B-FXITT sales totaling US\$208.1 million during the quarter which contributed to the appreciation of the Jamaican dollar<sup>4</sup>.

Remittances to Jamaica saw a decline during the 2024 March quarter which was attributed to regional economic growth and economic challenges which affected the inflow of remittances.

## Commercial Real Estate Market Overview

### Global Commercial Real Estate Market

In Q1 2024, the commercial real estate market continued trends from the previous year, marked by rising vacancy rates and slowing rent growth across most sectors. Office space vacancies doubled year-over-year to 13.7%, driven by the ongoing impact of hybrid work models. High mortgage rates spurred demand in the multifamily sector, doubling net absorption compared to the previous year, although vacancy rates rose to 7.8% due to increased housing supply. Retail space demand dropped below pre-pandemic levels, with a 30% decrease in net absorption, but retail vacancy rates remained low at around 4%. The industrial sector saw net absorption fall to its lowest level in over a decade, 45% below pre-pandemic levels, yet rent growth in this sector remained the strongest, with a 5.3% increase over the past year.

### Local Commercial Real Estate Market

In contrast to global observations, the local commercial real estate market the commercial real estate market in Jamaica is projected to reach a value of US\$16.69 billion by 2024 with a Compound Annual Growth Rate (CAGR) of 0.30% from 2024 to 2029, leading to an estimated market volume of US\$16.94 billion by the end of this period.

<sup>1</sup> [pioj.gov.jm](http://pioj.gov.jm)

<sup>2</sup> [NCB Capital Markets Ltd. - Economy Grew by Estimated 1.9% During March 2024 Quarter](#)

<sup>3</sup> [Summary of Decisions - March 2024 » Bank of Jamaica \(boj.org.jm\)](#)

<sup>4</sup> [May-2024-QMPR.pdf \(boj.org.jm\)](#)

### ➤ Industry Growth

Jamaica's commercial real estate sector is seeing a surge in demand, fueled by the growth of the tourism industry and rising foreign investments. There is a shift towards modern office spaces with enhanced amenities, driven by changing customer preferences and the need for more sophisticated business environments. The influx of international tourists and investors is boosting demand for commercial properties, including hotels, office spaces, and retail establishments.

### ➤ Macro-economic factors

Jamaica's tourism sector and rising foreign investment are driving market activity and property development. Key factors like interest rates, infrastructure improvements, and regulatory conditions have enhanced the country's investment appeal, encouraging both local and foreign businesses to establish or expand their operations.

### ➤ Returns and Credit

Commercial real estate remains a strong asset class with potential for capital appreciation, though growth is modest with moderate lease and rental yields. Despite higher interest rates, the credit environment is stable, allowing investors to acquire assets at more attractive valuations after years of price increases.

## Real Estate (rE) Portfolio Overview

In March 2022, the NCBCM Real Estate (rE) Unit Trust portfolio initiated a leasing agreement with the National Commercial Bank Jamaica Limited ("NCBJ") to acquire and lease back several branches and car parks. The agreement incorporates an annual lease rate increase to accommodate inflation and interest rate fluctuations. Upon the agreement's conclusion on March 31, 2025, the portfolio owner will retain the option to renew and renegotiate lease terms.

The rE Portfolio currently manages a pool of commercial properties with leasable space of over 114k square feet moving from 96K square feet last reporting period, delivering a net operating income yield of over 10%. The independently assessed values of the properties have increased at an average rate of over 12%, for the period August 2023 to March 2024.

### Value Proposition- *Why Invest in the UT Real Estate Portfolio?*

The rE Unit Trust (UT) offers investors a means to diversify their portfolios and increase exposure to real estate without direct property ownership. The rE UT enables investors to access commercial property without requiring the entire capital amount typically needed for individual property investments. Instead, investors can purchase units representing portions of various properties within the fund.

With an average capital gains rate of over 12% in the last two years, it presents an attractive yield potential. Additionally, investors are provided with regular income of quarterly cash distributions of up to 85% of net distributable income annually. The rE UT is cost-effective

and easily accessible to investors. Moreover, the performance benchmark, set at CPI + 100bps, offers a hedge against inflation.

### Investment Objectives

The rE Portfolio seeks long-term capital appreciation by providing investors with access to a broad range of income as well as growth producing real estate assets.

### Target Investor Type

The rE Portfolio is tailored for investors with moderate to aggressive risk profile, who aim for capital appreciation. The target investor should be comfortable with moderate to high short-term fluctuations in unit prices.



### Investment Strategy

The rE portfolio's investment strategies are as follows:

- Investing primarily in high quality local and regional commercial real estate assets that are situated in prime locations, which can attract and retain high occupancy levels.
- Investments may also include development properties for sale and/or leasing as well as listed real estate securities. Direct real estate offers diversification benefits and returns while listed real estate and real estate investment trusts allow for liquidity and further exposure to professional portfolio management.
- The Investment Manager (IM) strategically selects relevant assets in different currencies, considering currency exchange rate fluctuations to maximize the portfolio's total return in Jamaican dollars.
- The portfolio has the flexibility to invest in debt securities issued by corporate and government entities across different countries and hold significant cash or cash equivalents temporarily.
- The portfolio will employ an integrated investment management approach, which spans the real estate risk & return spectrum.
- The goal of the Investment Manager is to maintain the Portfolio's position among the market leaders. This will be achieved by constantly seeking opportunities to improve returns on the commercial properties.



- Commercial properties
- Developmental properties
- Listed real estate securities
- Financial securities
- Other assets

### Portfolio Growth Plans

#### Short-term plans

The portfolio acquired three (3) additional properties, including branches and a car park, from NCB Jamaica Limited, adding 114K

square feet of space expected to enhance portfolio performance. The IM aims to extend or increase property lease terms for stable cash flows and strengthen partnerships within the real estate industry to secure relevant opportunities. The target internal rate of returns (IRR) for these investments is 12% and higher.

### Medium term plans

The IM aims to increase portfolio participation in development opportunities both locally and regionally to yield higher returns. Although property development entails heightened risks, including regulatory hurdles and construction delays, leveraging developments can amplify returns based on the underlying investment value. Hence, the portfolio will prudently manage the allocation of developmental properties considering these factors.

### Portfolio Key Risks

Real estate investments may underperform relative to expectations, much like any other investment. Property values may vary due to global as well as local market conditions and as interest rates change. There may also be risks relating to the IM's ability to select, finance and manage real properties. Management of properties includes handling leases, controlling expenses, property improvement, maintenance and potential disposal. The IM seeks to mitigate these risks by engaging appropriate additional expertise, particularly property management services.

### rE Fund Details as at March 28, 2024

<b>Main Currency</b>	JMD
<b>Net Asset Value per unit:</b>	\$12.76
<b>Year-to-date Growth Rate:</b>	10.49%
<b>Estimated Yearly Yield:</b>	4.50%
<b>Minimum Investment:</b>	\$50,000
<b>Subsequent Investment:</b>	\$5,000
<b>Minimum Holding Period:</b>	3 years
<b>Preliminary Charge:</b>	2.0%
<b>Management Fees:</b>	2.5%
<b>Early Redemption Charge:</b>	4.0%
<b>Performance Relative to Industry Peers:</b>	1 <sup>st</sup>
<b>Fund Manager:</b>	NCB Capital Markets Limited
<b>Trustee:</b>	MF&G Asset Management Ltd

## Real Estate Portfolio Properties- Bank Branches

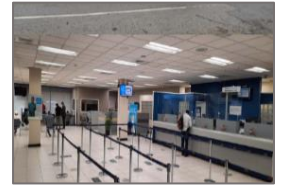
**Location** 1-7 Knutsford Boulevard

**Building Size** 32,464.98 sq. ft.

**Market Value** J\$858.0M

**Valuation CAGR (2021-24)** 8.4%

**Net Operating Income Yield** 12.10%



**Location** 6 Perth Rad, Mandeville

**Building Size** 15,990.00 sq. ft.

**Market Value** J\$530.0M

**Valuation CAGR (2021-24)** 8.3%

**Net Operating Income Yield** 9.1%



**Location** 41 Main Street, May Pen

**Building Size** 10,648 sq. ft.

**Market Value** J\$195.0M

**Valuation CAGR (2021-24)** 7.1%

**Net Operating Income Yield** 10.9%



**Location** 90-94 Half-Way-Tree Road

**Building Size** 37,850 sq. ft.

**Market Value** J\$1.13B

**Valuation CAGR (2021-24)** 17.2%

**Net Operating Income Yield** 8.4%



**Location** 15-151/2 Northside Drive and 3B, 5 & 7 Dunwell Road, Kingston 6

**Building Size** 16,330 sq. ft.

**Market Value** J\$480M

**Valuation CARG (2021-24)** 10.9%

**Net Operation Income Yield** 10.5%



**Location** 9 Knutsford Boulevard

**Building Size** 8,010.00 sq. ft.

**Market Value** J\$290.0M

**Valuation CARG (2021-24)** 6.0%

**Net Operation Income Yield** 8.3%



**Location** 19-21 Main Street, St. Ann's Bay

**Building Size** 72,034.46 sq. ft.

**Market Value** J\$480.0M

**Valuation CARG (2021-24)** 7.5%

**Net Operation Income Yield** 11.0%



**Location** 37 Duke Street, Kingston

**Building Size** 26,793.0 sq. ft.

**Market Value** J\$300M

**Valuation CARG (2021-24)** 8.3%

**Net Operation Income Yield** 11.0%





## Car Parks

<b>Location</b>	<b>17 Trafalgar Road</b>
<b>Building Size</b>	18,183.00 sq. ft.
<b>Market Value</b>	J\$270.0M
<b>Valuation CAGR (2021-24)</b>	63.5%
<b>Net Operating Income Yield</b>	2.9%



<b>Location</b>	<b>39 Main Street, May Pen</b>
<b>Building Size</b>	10,890.00 sq. ft.
<b>Market Value</b>	J\$25.0M
<b>Valuation CAGR (2021-24)</b>	2.1%
<b>Net Operating Income Yield</b>	10.6%



<b>Location</b>	<b>39 Duke Street, Kingston</b>
<b>Building Size</b>	7,942.40 sq. ft.
<b>Market Value</b>	J\$40M
<b>Valuation CARG (2021-24)</b>	49.1%
<b>Net Operation Income Yield</b>	11.0%



## Real Estate Fund Facts

Here are some additional fund facts about the NCB Real Estate Fund!

- The NCBCM Real Estate Fund first launched in March of 2023 to participate in triple-net leasing arrangement with the National Commercial Bank Jamaica Limited (“NCBJ”) to buy and lease back several of its branches and car parks.
- The Real Estate Fund (rE Fund) seeks long term capital appreciation by providing investors with access to a broad range of income as well as growth producing real estate assets.
- The portfolio consists primarily of high quality commercial real estate assets, situated in prime locations in Kingston, Mandeville and May Pen.
- The portfolio acquired an additional three (3) properties consisting of a branches and a car park from NCB Jamaica Limited.
- The rE Fund provides an incredible opportunity for investors diversify their portfolio and potentially benefit from significant Capital Gains that have averaged at 12% in the last two (2) years.
- The Real Estate Portfolio is suitable for investors who have a moderate to aggressive risk profile.
- The minimum investment currently stands at JMD\$50,000 with a minimum holding period of three (3) years.
- The long-term goal of the fund is to expand the portfolio with more active participation in development opportunities locally and across the region, which will attract a higher returns.
- The primary risk faced by the fund is the fluctuating property values due to global as well as local market conditions and as interest rates change. There may also be risks relating to the Investment Manager’s ability to select, finance and manage the properties.

## DISCLOSURE

### Company Identification

NCB Capital Markets Limited (formerly Edward Gayle and Company) was established in 1968 and is Jamaica's oldest stock brokerage company. The company became a part of the NCB Group in 1994 and a fully owned subsidiary in October 2002. In December 2002, the then Edward Gayle and Company was merged with another NCB subsidiary, NCB Investments. The products distributed by this combined subsidiary cover the traditional money market product offerings (J\$ and US\$ Repos), primary dealer services, stock brokerage and investment advisory services. Edward Gayle and Company was renamed NCB Capital Markets Limited in October 2003.

### Important Disclosures

The views expressed in this report are the views of NCB Capital Markets Limited at the date of this report.

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### Data Sources:

[Quarterly Reports » Bank of Jamaica \(boj.org.jm\)](#)

<https://boj.org.jm/summary-of-decisions-december-2023/>

[February-2024-QMPR.pdf \(exactdn.com\)](#)

[Monetary Policy Press Release - December 2023 » Bank of Jamaica \(boj.org.jm\)](#)

[Global Real Estate Outlook 2024 \(jll.com\)](#)

[Commercial Real Estate - Global | Statista Market Forecast](#)

[Emerging trends in real estate 2024: PwC](#)

[February-2024-QMPR.pdf \(exactdn.com\)](#)