



Diversified Financial Services



Source: LSEG, 2025

Market data

EPIC/TKR	RECI
Price (p)	129.0
12m high (p)	132.0
12m low (p)	118.0
Shares (m, exc. Treasury)	221.7
Mkt cap (£m)	286.0
NAV p/sh (Jul'25, p)	143.7
Disc. to NAV (%)	-13.4
Div. yield (FY'24)	9.3%
Country/Ccy of listing	UK/GBP
Market	Premium equity closed-ended inv. funds

Description

Real Estate Credit Investments (RECI) is a closed-ended investment company that originates and invests in real estate debt secured by commercial or residential properties in the United Kingdom and Western Europe.

Company information

Chair	Andreas Tautscher
NEDs	Susie Farnon, Colleen McHugh Mark Thompson
Inv. Mgr.	Cheyne Capital
Main contact	+44 (0)207 968 7328

www.realestatecreditinvestments.com

Key shareholders (Mar'25)

Close Bros.	10.49%
Hargreaves Lansdown AM	7.85%
Premier Miton (Jun'24)	5.97%
Aberdeen	5.51%
Waverton	5.38%
Canaccord Genuity	5.10%
Tilney Smith Williamson	5.00%

Diary

Mid-Sep	Aug NAV
17 Nov	Investor day

Analysts

Mark Thomas	mt@hardmanandco.com
Mike Foster	mf@hardmanandco.com

REAL ESTATE CREDIT INVESTMENTS

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What RECI brings to investors

In this note, we review what RECI brings to investors, specifically noting i) a near 10% dividend yield, significantly covered by recurring interest income and which has been maintained through multiple macro crises, ii) diversification of investors' portfolios with an equity with low correlation to overall markets, iii) an experienced debt manager bringing competitive advantages in deal origination and risk management, iv) a diversified portfolio with proven downside resilience created by Cheyne's actions, and v) liquid access to an attractive illiquid asset class. There are risks (e.g. French macro conditions), but RECI has a proven track record of resilience.

- **Stable business model:** Our August 2019 57-page *initiation* on RECI detailed the investment-positive, -neutral and risk factors. Very little has changed over the past six years, with the key drivers exactly as they were in that report. In our view, this stability is a further core attraction of the RECI model.
- **Opportunities as well as threats:** In a risk-on environment, it is easy to lose sight of the opportunities. When the macro outlook is challenging, many lenders withdraw from financing commercial real estate or cannot get financing themselves. Spreads widen, making RECI's new investments more attractive.
- **Valuation:** RECI traded at premiums to NAV in the five-year, pre-pandemic era. The current discount to NAV is 13.4%. The dividend has been a consistent 3p per quarter for many years and generates a 9.3% yield. RECI is moving to lower-risk but higher-margin exposures, which should improve dividend cover.
- **Risks:** Any lender is exposed to credit risks. We believe RECI has appropriate policies to reduce default probability and loss in the event of default. Positions are illiquid. Its average total commitment to expected value LTV is 64.5%, and most loans (all of the top 10) are senior secured, providing a downside cushion.
- **Investment summary:** RECI generates an above-average dividend yield from well-managed credit assets; directors and management have demonstrated their confidence in its sustainability through share purchases. Market-wide, credit risk is currently above average, but RECI's strong liquidity and debt restructuring expertise should allow it time to manage problem accounts. A new £10m buyback programme was announced on 31 March 2025.

Financial summary and valuation

Year-end Mar (£m)	2023	2024	2025	2026E	2027E
Interest income	31.9	30.3	29.5	38.9	39.1
Operating income	30.7	31.4	34.2	41.9	42.1
Management fee	(4.3)	(4.2)	(4.1)	(4.0)	(3.9)
Performance fee	-	-	-	-	-
Operating expenses	(6.1)	(6.0)	(6.6)	(6.7)	(6.8)
Total comp. income	20.6	21.9	22.8	26.7	26.7
EPS (p)	9.0	9.6	10.2	12.0	11.4
NAV per share (p)	146.9	144.9	143.6	144.2	143.7
S/P prem./disc. (-) to NAV*	-9.1%	-20.7%	-14.9%	-10.5%	-10.2%
Debt to equity	24%	7%	22%	32%	28%
Dividend (p)	12.0	12.0	12.0	12.0	12.0
Dividend yield	9.3%	9.3%	9.3%	9.3%	9.3%

*2023-25 historical at that date, 2026-7E NAV to current s/p. Source: Hardman & Co Research

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Near 10% dividend yield, covered by recurring net interest income

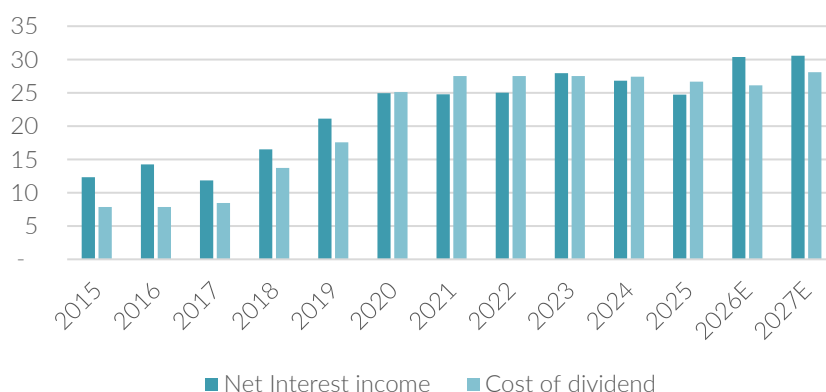
Based on the current share price, RECI is offering investors a 9.3% dividend yield. Looking forward, the sustainability of the dividend is supported by:

Quarterly dividend maintained at 3p since 1Q'16

Supported by recurring income

- ▶ The dividend has been maintained at 3p per quarter since March 2016, despite all the macroeconomic shocks impacting the UK and Europe since that date. We take the sustained dividend as indicative of the importance that the board ascribes to paying the dividend. The dividend was not cut throughout Brexit, COVID-19 or the Ukraine war.
- ▶ As the chart below shows, the dividend is, and has been for some time, supported by recurring net interest income. The stability of net interest income since 2020 is the key issue that investors should focus on in terms of the sustainability of the dividend. Investors can take further comfort from the monthly factsheets, which also demonstrate that, through the year, net interest income is stable month on month.¹

Net Interest income and cost of dividend (£m)



Source: Company R&A, Hardman & Co Research

And proven credit resilience

- ▶ In addition to stable income, the key driver to any lender is credit. We have detailed in multiple notes (and summarise again in the portfolio section below) how RECI has a proven track record of good risk management and downside resilience. It cannot be immune from macro conditions, but both the probability of default and loss in the event of default have a track record of being both low in absolute terms and better than the real estate lending market as a whole.
- ▶ The 2027E fall in EPS is because we assume an equity issue in that year that is not fully deployed within the year, and is not a reason for the dividend not to be maintained.

¹ For the chart above, we have used the comprehensive income statement of net interest as the interest income reported in annual cashflow statements has shown greater volatility. We understand, for example, that the French loans are held in vehicles which require auditing before the interest is paid over to Cheyne and this administrative process has taken varying degrees of time. The cash receipts vary, therefore, a volatility further compounded by French loans being a changing proportion of the portfolio as a whole.

Low correlation to overall markets

-0.22 correlation co-efficient with UK total market

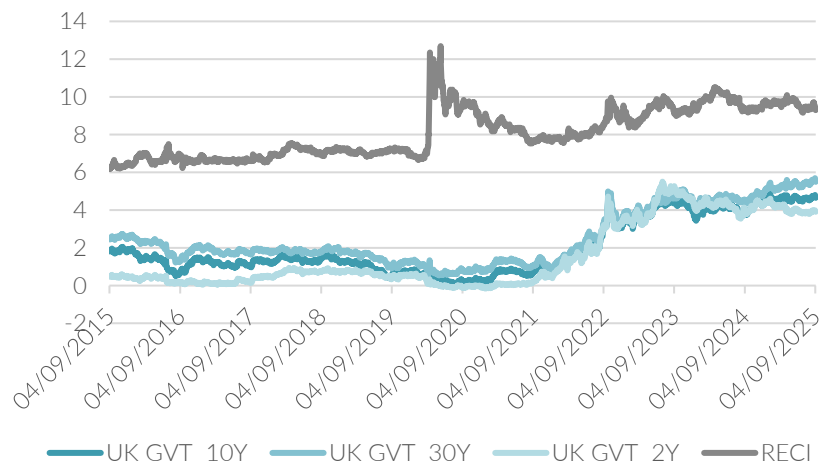
Over the past 10 years, the correlation co-efficient between RECI's share price and the UK whole market index has been -0.22, an inverse correlation but not one with any statistical significance. This is unsurprising given the factors driving RECI's share price (including sentiment to credit, interest rates, non-UK exposure, investment companies overall) are very different from the UK market as a whole. For investors, the key point is that there no correlation with equity markets. It is also worth noting that, over time, a rising interest rate environment will see rising income for RECI but is not generally positive for equity markets; plus, RECI's portfolio is dynamic (with, for example, recent years seeing an increasing and then decreasing proportion of the portfolio in France and development loans).

No statistically significant correlation with UK benchmark bonds either

There is a small positive correlation to UK benchmark bonds yields (10-year 0.57, 30-year 0.54, 2-year 0.66), but it is not statistically significant. The chart below shows RECI and benchmark yields over the past 10 years. As can be seen, not only is the correlation low but the RECI yield has been much more stable than the benchmark bonds.

RECI's yield been much more stable

Yield (%) on UK government benchmark 2-, 10- and 30-year gilts and RECI



Source: LSEG, Hardman & Co Research

Liquid access to an attractive illiquid asset class

Over the past two years, the average monthly value of RECI shares traded has exceeded £10m, with nearly 1k trades per month at an average size of just over £10k. The deal size means that there is liquidity for smaller investors while the total value traded means that many wealth managers/institutions can see sufficient trading for their purposes. The company has had a rolling six-month £10m buyback programme but is careful in its execution so as not to distort trading (so far in 2025, it has only been active for one day and 200k shares traded).

Real Estate Credit Investments

The real estate lending market has a number of attractions:

Asset-backed security

- ▶ One of the most attractive features of real estate lending is that loans are typically secured by tangible properties. This collateral reduces the lender's risk and provides a clear path to recovery in the event of borrower default.

Steady and predictable cashflows

- ▶ Real estate loans, especially those with fixed interest rates, generate consistent and predictable income streams through monthly interest payments. This regular cashflow is particularly appealing to institutional investors seeking stable returns in a low-yield environment.

Inflation hedge

- ▶ Real estate lending can serve as a natural hedge against inflation. As property values and rental incomes rise with inflation, so does the underlying value of the collateral and potentially the loan interest in floating-rate structures.

Demand resilience in certain markets core to Cheyne:

- ▶ Living assets (such as student accommodation and supported housing) accounted for 38% of RECI's most recent portfolio. Such housing is a fundamental human need, creating sustainable, through-cycle demand for property purchases and refinancing.

Accessing this market can be difficult for investors; most real estate lending is held by banks or traded in such large value that only major institutions can be active in the market and achieve a well-balanced portfolio. RECI provides diversified exposure with the liquidity of a stock market listing.

Cheyne's competitive advantages

We have outlined in multiple previous notes how Cheyne, the manager, adds value over and above the private real estate debt financing market (see Appendix for full list of our notes on RECI). In particular, we highlight its credit assessment, monitoring and problem account management, which we reviewed in detail in our note [*Meeting any potential macro challenges head on*](#) (20 May 2025).

In summary:

Proven credit management skills

- ▶ How Cheyne assesses credit, good governance of the credit decision, the value and execution of security, the ongoing relationship reviews and problem account management is designed to both limit the probability of loss and the loss given default.

Culture of ownership of risk

- ▶ It is also very important to understand the culture of the organisation. We highlight the "ownership" of the loan by the relationship manager that originates it. A close relationship is likely to identify problems early and have a better chance of a successful restructuring negotiation than a model based on sequential transactions.

Highly selective lender

- ▶ The commercial real estate financing market is huge, across many jurisdictions, and Cheyne is highly selective by customer, geographical region and sector. In recent years, at the manager level, we estimate the turndown rate has been more than 90%, with RECI only participating in ca.40% of Cheyne deals.

Can select best people

- ▶ Cheyne can be very selective as to whom it hires, taking only the "best" people. We believe its long experience in the market (importantly including through downturns) and its deep and strong personal networks, providing wide and current market knowledge, are hugely important.

Real Estate Credit Investments

Short life of exposures (89% contractually under two years)

- ▶ The book has a relatively short life. The latest factsheet indicates that 89% of the portfolio has a contractual life of less than two years. We believe the actual life is even shorter given customer refinancing.

Focus on senior loans, offering good security and control of any problem resolution

- ▶ Cheyne underwrites each position on a hold-to-maturity basis. RECI does not rely on rating agencies, Cheyne's credit assessment is driven by expected cashflows and not lending to security value.

- ▶ As can be seen in the latest factsheet (available [here](#)), all of RECI's top 10 exposures are senior loans. What this means, in practice, is that i) when there is a problem, RECI has one of the first claims on any assets, and ii) its voice in any restructuring is likely to carry more weight. We note that RECI has often been asked to lead creditor groups, even when it does not have the largest exposure – a testament both to its position as a senior lender but also other participants' views on its expertise in this area. The move to senior secured has been a deliberate management choice – in [December 2019](#), ahead of COVID-19, two of the top 10 exposures were mezzanine finance and four were commercial mortgage-backed securities.

- ▶ We considered the value of RECI's security in our note, [Double tangible security](#) (published 13 June 2023), in which our property analyst concluded that i) potentially more difficult asset classes are well underpinned by appropriate loan-to-value (LTV) ratios, ii) both the geography and asset-class profile are good, and iii) there is strong evidence of Cheyne's value-add.

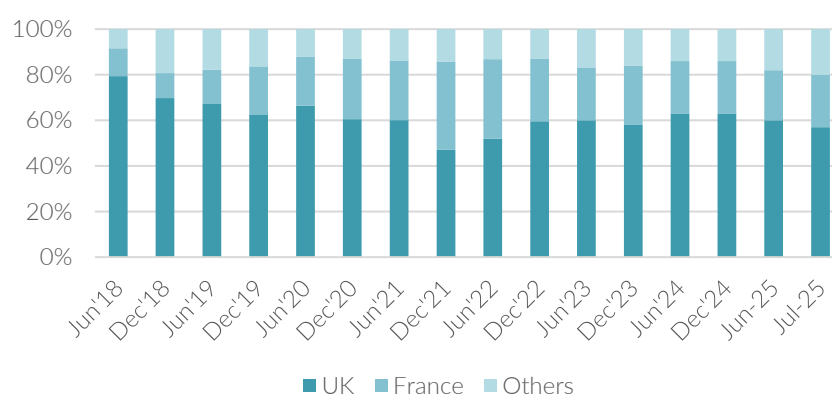
Good security

- ▶ In our initiation we reviewed the processes and procedures for the execution of security. At major lenders, both have proved a point of weakness, which should not be a factor for RECI.

Diverse exposures

- ▶ Geographical diversity ensures there is limited exposure to macro conditions in any one country. Exposure to France – where the political environment has been clearly adverse – has nearly halved from ca.40% in December 2021 to just above 20%.

Geographical mix of portfolio (%)



Source: Company factsheets, Hardman & Co Research

Model's resilience proved by: one realised principal loss since 2011; recovery of MTM downticks; effective restructuring of hospitality loans leading to no losses during COVID-19; and rising yields in uncertain times

Board's confidence shown in stable dividend

Multiple Hardman & Co notes on resilience

French exposure halved since end-2021

Proven downside resilience

In our view, there is multiple evidence of the resilience of RECI's model. We highlight:

- ▶ There has been one realised principal loss since its evolution in 2011.
- ▶ The recovery – in subsequent periods – of MTM losses taken on bonds in uncertain times (see [Marks taken in uncertainty, released thereafter](#) (5 August 2022)).
- ▶ Recognition by RECI that its returns are resilient enough and do not need to be enhanced by the potential higher yields on offer from bonds, which are instruments by means of which RECI's active principal input is less likely to be deployed.
- ▶ The effective restructuring of hospitality loans following COVID-19, resulting in higher spreads and no principal loss.
- ▶ A rise in loan portfolio yields from 12.3% in May 2016 to 12.6% in December 2016 (post Brexit vote) and from 9.4% in January 2020 to 10% in June 2020 (initial COVID-19 impact), when benchmark market rates were falling.

The board's confidence in the resilience of the model has seen the dividend maintained at 12p (3p per quarter)

As the Appendix shows, we have written extensively on the resilience of the model.

French exposure

Given the recent news flow from France, we update investors with our thoughts on RECI's exposures there. Originally, we reviewed RECI's French exposure in our note, [Vive la difference](#) (15 February 2022), when RECI had seen a marked increase in its exposure. We reviewed it again in our note [French and German exposures in perspective](#) (27 February 2024). As we noted above, French exposure, as a proportion of the portfolio, has nearly halved since the end of 2021 and now just two of the top 10 exposures are French. We understand that Cheyne has reduced the higher risk sectors (e.g. office) the most over this period. Going forward, RECI advises that – with the exception of its leisure sector exposure, which, in its view, is less likely to be affected by the turmoil – it expects French exposures to be further curtailed. As would be expected, there is ongoing close monitoring of all positions, including the residual office exposure. Investors will note that RECI came through COVID-19 without losses in its hotel exposures.

In our view, and we believe that of consensus, political and macroeconomic uncertainty has worsened significantly over the past year, including the recent negative confidence vote in the prime minister and this could affect sentiment. As we detailed above, RECI being selective in new lending, being close to customers, taking good security and managing problem accounts well all serve to reduce the probability of default and loss in the event of default.

Valuation

Absolute

Current NAV likely to be on conservative side

In previous reports, we have considered how the NAV is assessed (see pages 23-24 of our initiation report, *7%+ yield from well-secured property debt portfolio*, published on 28 August 2019). The critical issues are how conservative the culture of the organisation is, and the independent checks and controls that are in place to review the process. As we noted in that report, RECI's approach, to both issues, appears to be in line with best practice.

By the nature of being a debt investor, the NAV is recycled via cash from maturing positions. Consequently, there is a marked contrast in how a rising interest rate environment affects REITs and RECI. For the former, the valuation basis is hit. For the latter, the recycling of capital takes returns towards a higher plane.

The short life of RECI's book means that loans are constantly repaying with an illiquid, private asset being recycled into cash. In valuation terms, we believe investors should consider this as marking back to hard cash (rather than marking to market or a model), thus improving their confidence in the NAV calculation.

Yield

12p annual dividend expected

Throughout the COVID-19 crisis, when RECI took large, early MTM hits in 2020, and then steadily released them throughout the rest of the year, it maintained a consistent 3p quarterly dividend. The trust appears very committed to this dividend, and the noise from MTM losses and gains will reduce with a *de minimis* bond portfolio. Despite recent falls in rates, as older loans mature and are re-invested, the new rates still generate higher returns than the maturing ones. The current yield is 9.3%, and a 12p annual dividend is expected, with the recurring interest income forecast broadly covering the dividend at this level.

Relative

Close peer comparisons weak given their wind-down status

Comparisons of RECI with a close peer group are no longer relevant given the wind-down status of LBOW and SWEF; although, for what it's worth, the AIC average discount in the property debt sector is 12%. Looking at the other AIC debt sectors, the direct lending average discount is 14%, the loans and bonds average premium is 2% and the structured finance average discount 2%. The latest reported ratings are available on the AIC website [here](#).

Reversion to historical average levels would see discount close significantly

We reviewed the historical discount in detail in our note *Why the discount has been closing and its outlook*, published on 15 October 2024. The key conclusions from that note were that RECI's discount had halved over the prior six months and that we believed this was due both to actions taken by the trust (with an active buyback programme, changing asset mix, particularly the reduction in bonds, and enhanced disclosure of highest-risk positions) and more favourable markets. Interestingly, not all debt investment companies have benefitted from the more favourable markets. By historical standards, the current level of RECI's discount is very high, ca.10% above the 10-year average. RECI was at an average 2% premium in 2015-19 and traded at a premium again in 2021-22, leaving room for investor concerns to moderate considerably by just reverting to historical average levels.

Financials

Our forecasts are unchanged.

Profit and loss						
Year-end Mar (£m)	2022	2023	2024	2025	2026E	2027E
Interest income bonds	3.2	5.0	1.5	0.8	0.2	-
Interest income loans	23.7	26.7	28.4	28.1	38.0	38.3
Other interest income	0.0	0.2	0.4	0.7	0.7	0.7
Interest income	27.0	31.9	30.3	29.5	38.9	39.1
Net (losses)/gains on investments	5.4	0.8	0.6	3.6	3.0	3.0
Net losses on options	-	-	-	-	-	-
Net gains on foreign exchange instruments	0.0	(2.1)	0.4	1.0	-	-
Total net gains on fin. assets at FV through P&L	5.4	(1.3)	1.0	4.7	3.0	3.0
Operating income	32.4	30.7	31.4	34.2	41.9	42.1
Management fee	(4.4)	(4.3)	(4.2)	(4.1)	(4.0)	(3.9)
Performance fee	-	-	-	-	-	-
Other operating expenses	(1.5)	(1.8)	(1.8)	(2.5)	(2.7)	(2.9)
Operating expenses	(5.8)	(6.1)	(6.0)	(6.6)	(6.7)	(6.8)
Profit before finance costs	26.5	24.5	25.4	27.6	35.2	35.2
Finance costs	(2.0)	(4.0)	(3.5)	(4.8)	(8.5)	(8.5)
Net profit	24.6	20.6	21.9	22.8	26.7	26.7

Note: classification bonds and loans restated in 2021, Source: RECI Report and Accounts, Hardman & Co Research

Balance sheet						
@ 31 Mar (£m)	2022	2023	2024	2025	2026E	2027E
Bonds	98.5	49.2	7.9	6.8	0.0	0.0
Loans	295.9	341.5	305.0	344.9	358.5	371.9
Equity securities	0.0	10.0	16.4	17.8	20.8	23.8
Financial assets at FV through P&L	394.3	400.7	329.4	369.5	379.3	395.7
Cash and cash equivalents	47.4	14.1	18.3	19.3	34.5	64.2
Cash collateral at broker	5.2	2.4	4.5	2.9	2.9	2.9
Derivatives	0.0	1.8	0.0	0.0	0.0	0.0
Other assets	0.0	0.0	0.1	0.1	0.1	0.1
Receivables for investments sold	0.0	0.0	0.0	0.0	0.0	0.0
Total current assets	52.6	18.2	22.9	22.2	37.5	67.1
Total assets	447.0	419.0	352.3	391.7	416.7	462.8
Current liabilities						
Derivatives	1.1	0.0	0.1	0.2	0.2	0.2
Financing	100.4	80.2	23.8	70.9	100.0	100.0
Cash collateral due to broker	0.0	0.0	0.0	0.0	0.0	0.0
Preference shares	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	1.6	1.9	2.0	2.3	2.6	2.9
Total liabilities	103.0	82.0	25.9	73.4	102.8	103.1
Net assets	343.9	337.0	326.4	318.4	313.9	359.7
No. shares (m)	229.3	229.3	225.2	221.7	217.7	250.3
NAV per share (p)	150.0	146.9	144.9	143.6	144.2	143.7

Source: RECI Report and Accounts, Hardman & Co Research

Appendix: list of Hardman & Co reports

Given the regulatory restrictions on distributing research on this company, the monthly book entry for RECI can be accessed through our website, [*Hardman & Co Research*](#). More detailed research reports are listed below. Each link contains a click-through to our *Directors Talk* audio interviews, summarising each report. Company announcements, including buybacks, can be found on [*RECI's*](#) page on the LSE website.

- ▶ [*Our initiation report*](#) (28 August 2019).
- ▶ [*Delivering on its promises*](#) (17 December 2019).
- ▶ [*Getting a balanced view on outlook*](#) (21 May 2020).
- ▶ [*Improving returns on new opportunities*](#) (14 September 2020).
- ▶ [*Portfolio repayments fund enhanced return pipeline*](#) (18 January 2021).
- ▶ [*Experience shows resilience of the model*](#) (6 May 2021).
- ▶ [*Experience shows resilience of the model \(2\)*](#) (12 August 2021).
- ▶ [*Why rising rates should not hurt RECI*](#) (8 November 2021).
- ▶ [*Vive la difference*](#) (15 February 2022).
- ▶ [*New faces, same resilience*](#) (20 May 2022).
- ▶ [*Marks taken in uncertainty, released thereafter*](#) (5 August 2022).
- ▶ [*Positioned for the current crisis*](#) (17 November 2022).
- ▶ [*Looking at the current opportunities*](#) (9 February 2023).
- ▶ [*Double tangible security*](#) (13 June 2023).
- ▶ [*Why CRE equity worries should not apply to RECI*](#) (30 August 2023).
- ▶ [*Portfolio management to optimise risk/reward*](#) (16 November 2023).
- ▶ [*French and German exposures in perspective*](#) (27 February 2024).
- ▶ [*Capital Markets Day*](#) (25 July 2024).
- ▶ [*Why the discount has been closing and its outlook*](#) (15 October 2024).
- ▶ [*The rise of private credit: threats and opportunities*](#) (20 February 2025).
- ▶ [*Meeting any potential macro challenges head on*](#) (20 May 2025).

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