

ABRDN's sale of Far Ralia – asset or liability?

Description



Aerial photo from Knight Frank online sales brochure. The extensive mounding that has been used to plant trees is easily seen in the foreground as are the tracks left by vehicles. The bare area in the centre of the photo was where all the nursery grown trees were kept prior to planting out.

After putting Far Ralia on the market for £12m in July ([see here](#)) at the end of September Abrdn's Property Income Trust (APIT) announced it had reached a deal to sell all the remaining properties it owned to GoldenTree Asset Management ([see here](#)). This post consider the implications.

Far Ralia and the sale of Abrdn Property Holdings

In March APIT shareholders rejected Abrdn's proposal to sell the whole of APIT to Custodian Real Estate Investment Trust on the grounds they could receive more if its properties were sold off individually. Six months later, having sold just two properties from its portfolio, the APIT board has sold the remainder, all that is except Far Ralia, to one company anyway claiming this was "the best solution". The difference to the original plan is that instead of selling APIT itself, they are selling APH (Abrdn Property Holdings) the subsidiary set up to own the properties.

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

27 September 2024

abrdn Property Income Trust Limited

(an authorised closed-ended investment company incorporated in Guernsey with registration number 41352)

LEI Number: 549300HHFBWZRKC7RW84

PROPOSED SALE (the "Transaction")

abrdn Property Income Trust Limited ("API" or the "Company") is pleased to announce that it has entered into an agreement with certain funds and accounts managed by GoldenTree Asset Management LP ("GoldenTree") for the sale of the entire share capital of abrdn Property Holdings Limited ("APH"), a wholly-owned subsidiary of API.

The Transaction comprises the sale of 39 assets (the "**Portfolio**"), being the Company's entire investment property portfolio, with the exception of its interest in the land at Far Ralia. API's debt facility with RBSI will be transferred in full to GoldenTree. The cash consideration for the purchase of the Portfolio is £351m (the "**Consideration**"), and the Company will receive net proceeds after adjusting for debt and other net assets of APH and subject to normal adjustments including those arising from the completion process.

GoldenTree has paid a cash deposit of £35.1m, with the balance of the Consideration being payable in cash on completion.

While Far Ralia was put on the market two months before the deal to sell APH was announced, there was nothing to stop GoldenTree acquiring it as part the purchase. Clearly, GoldenTree did not want it because APIT has had to make special arrangements for Far Ralia in the period leading up to the sale of APH on 29th November and afterwards. This is explained in APIT's Interim Results for 2024 published on 30th September ([see here](#)):

“The land at Far Ralia is the only property asset that is not part of the portfolio sale. The plan is to transfer this asset up from the subsidiary company [i.e APH] (which is being sold) to abrdn Property Income Trust before the completion of the disposal of the portfolio. This process depends on getting certain governmental approvals [including Scottish Forestry]. The managers and advisers are doing all they can to obtain this, but it may not be achievable. If it can’t be done before completion, and to avoid any delay in the sale of the rest of the portolio, GoldenTree has agreed to hold Far Ralia on behalf of the Company and will transfer it back once the appropriate permissions have been obtained. In the meantime, the managers are marketing the land for sale to a third party.”

It is likely that a liquidator will be appointed shortly after the completion of the sale of the portfolio and the proceeds have been received by the Company.....Shortly after that the liquidator will distribute the majority of the proceeds of the portfolio sale to shareholders by way of a capital distribution. The liquidator will then seek to sell Far Ralia, settle all Company liabilities, wind-up the Company and distribute the remaining cash balances to shareholders.

The timing of the final wind-up of the company is highly dependent on when Far Ralia is sold.”

While it may take time, in principle it should not be too difficult for APIT to get permission from Scottish Forestry to transfer Far Ralia from APH to itself because both the management and business plan are likely to remain the same. APIT’s liquidator, however, will then have to seek further permission before they can sell Far Ralia to someone else “whose business plan” must, according to the contract with Scottish Forestry, be “approved by the Scottish Ministers in advance”:

16 Assignment

- 16.1 You must not assign, transfer, hold on trust or otherwise dispose of any of your rights and/or obligations under the Agreement, other than to a successor in occupation of your interest in the Property (or the relevant part of it) who has:-
 - 16.1.1 had their identity and business plan approved by the Scottish Ministers in advance;
 - 16.1.2 agreed to assume the rights and obligations under the Agreement; and
 - 16.1.3 where required by the Scottish Ministers, agreed to grant a standard security over the Property in the form required by the Scottish Ministers; and
- 16.2 The Scottish Ministers are entitled to assign their rights and/or obligations under the Agreement.

Discussion

The whole process as described above could clearly delay the sale of Far Ralia and the proposed liquidation of APIT. It could also affect the sale price and who eventually purchases the estate.

Despite Knight Frank marketing Far Ralia for £12m, APIT's interim results show its value is significantly less than this:

API Annual Report & Accounts Year End 31 December 2023

#	Name	Location	Sub-sector	Market Value	Tenure	Area sq ft	Occupancy
1	B&Q	Halesowen	Retail	£22m-£24m	Freehold	92,400	100%
2	Ickles Way	Rotherham	Industrial	£20m-£20m	Leasehold	364,974	100%
3	54 Hagley Road	Birmingham	Office	£18m-£20m	Leasehold	136,515	89%
4	Morrisons	Welwyn Garden City	Retail	£18m-£20m	Leasehold	61,409	100%
5	Tetron 141	Swadlincote	Industrial	£16m-£18m	Freehold	141,459	0%
6	White Horse Business Park	Shellingford	Industrial	£14m-£16m	Freehold	214,882	100%
7	Hollywood Green	London	Other	£12m-£14m	Freehold	63,634	100%
8	Rainhill Road	Washington	Industrial	£12m-£14m	Freehold	149,676	100%
9	3 Earlstrees Road	Corby	Industrial	£12m-£14m	Freehold	195,225	100%
10	Stadium Way	St Helens	Industrial	£12m-£14m	Freehold	101,087	100%
11	Building 3000 Birmingham Business Park	Birmingham	Other	£12m-£14m	Freehold	40,146	100%
12	Walton Summit	Preston	Industrial	£12m-£14m	Freehold	147,946	100%
13	Badentoy North	Aberdeen	Industrial	£10m-£12m	Freehold	67,843	100%
14	Bastion Point	Dover	Industrial	£8m-£10m	Freehold	84,376	100%
15	15 Basinghall Street	London	Office	£8m-£10m	Freehold	17,465	98%
16	Tetron 93	Swadlincote	Industrial	£8m-£10m	Freehold	93,836	100%
17	Cosford Lane	Rugby	Industrial	£8m-£10m	Leasehold	100,564	100%
18	Villiers Road	Knowsley	Industrial	£8m-£10m	Freehold	107,000	0%
19	Tempsford Road	Sandy	Industrial	£8m-£10m	Freehold	125,774	100%
20	Ocean Trade Centre	Aberdeen	Industrial	£8m-£10m	Freehold	103,120	92%
21	The Pinnacle	Reading	Office	£8m-£10m	Freehold	39,379	69%
22	85 Fullarton Drive	Cambuslang	Industrial	£8m-£10m	Freehold	61,033	100%
23	Far Ralia	Newtonmore	Other	£8m-£10m	Freehold	N/A*	N/A
24	Alston Road	Washington	Industrial	£8m-£10m	Freehold	96,689	100%

All the valuations of the APIT property portfolio appear to be undertaken by Knight Frank

Moreover, while the Interim Results noted that Scottish Forestry had not yet paid APH any of the grant it had awarded for tree planting, it did not mention there had been a serious breach of grant conditions. Following the site inspection in June Scottish Forestry required 16% of the planted trees, which came from the wrong seed zone, to be replaced and the removal of sycamore imported from the tree nursery ([see here](#)). That is a considerable amount of work which APIT will have to do or they will risk enforcement action and losing the Forestry Grant. That could have a further significant impact on the value of the property.

As a consequence of all this it is possible that the liquidator will decide to cut their losses – time is money – and decide to sell off the land for whatever they can get for it. Given the damage to the ground (the top photo provides a further example) it is difficult to see any conservation body or the local community wanting to take it on unless the price was very low.

APIT partly acknowledged this in their interim results statement: "The value obtained from the sale of Far Ralia when the Company can sell it is a further uncertainty." That is a change from their annual

report for last year, when the carbon bubble was still inflating, which stated *“Indications suggest the capital value uplift on a sale will make this investment one of the Company’s better investments.”* Clearly at the time they hoped to get £12m for a piece of land they had bought for £7.5m just two and a half years earlier.

While GoldenTree may not have wanted to buy Far Ralia because of the £12m asking price, it is also quite possible that it has no interest in the potential to offset some of the carbon emissions of the properties it is buying or in land speculation. Having seen how APIT bought the land not for conservation but for speculative purposes, aided and abetted by the promises of grant funding from Scottish Forestry, Scottish Ministers should now resolve to use their powers to try and prevent the same happening again.

More specifically at Far Ralia Mairi Gougeon, who is the lead Scottish Minister, could use Scottish Forestry’s contract with APH, which APIT want re-assigned to them, to make it clear to APIT what sort of purchaser and business plan they would be prepared to approve. While APIT might try and cut and run, the reputational damage to Ayr and the Scottish Forestry grants system would be significant. Far better for both parties to the contract to find a prospective purchaser who might be prepared to pay for conservation on the property on an ongoing basis, most importantly by reducing deer to 2 per km or less, rather than using it for speculative purposes.

Perhaps the Cairngorms National Park Authority could start acting like at National Park and give them a public nudge in that direction?

Category

1. Cairngorms

Tags

1. conservation
2. Deer
3. restoration
4. scottish forestry
5. Scottish Government

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