WARE HOUSE REIT

# THE SPECIALIST WAREHOUSE INVESTOR

WAREHOUSE REIT PLC
RESULTS AS AT 31 MARCH 2018

MAY 18

TILSTONE

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- Performance – The performance of the Company would be adversely affected by a downturn in the UK property market in terms of market value or a weakening of rental yields.
- Operational Performance – Both rental income and market value of the properties acquired by the Company will be affected by the operational performance of the properties or the related business being carried on in the property and the general financial performance of the tenants.
- Failure to Achieve Investment Objectives – The ability of the Company to achieve its investment objectives depends on the ability of TPL to identify, select and execute investments which offer the potential for satisfactory returns. The underperformance of TPL could have a material adverse affect on the Company's financial condition and operations.
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- Regulatory Compliance - The Company cannot guarantee that the Group will maintain continued compliance with all of the REIT conditions. If the Company fails to maintain its REIT status, its rental income and capital gains may be subject to UK taxation which could have a material impact on the financial condition of the Company.
- Borrowing - The Company intends to use borrowings to acquire further properties and those borrowings may not be available at the appropriate time or on suitable terms. If borrowings are not available on suitable terms or at all this will have a material adverse impact on the returns to Shareholders and in particular the level of dividends paid. Whilst the use of borrowings should enhance the NAV where the value of the Company's underlying assets is rising, it will have the opposite effect where the underlying asset value is falling. In addition, in the event that the rental income of the Company's portfolio falls for whatever reason, the use of borrowings will increase the impact of such a fall on the net revenue of the Company.
- Development & Maintenance - Any development or refurbishment works may involve significant costs and may be adversely affected by certain restrictions. This could cause the resulting revenues to be lower than budgeted, and may cause the asset to fail to perform in accordance with the Company's investment projections, consequently impacting on the financial condition of the Company.

# AGENDA

- Overview
- Financial Highlights
- Building the Portfolio with Active Management
- Real Estate Fundamentals Driving Rental Growth
- Outlook and Conclusions

**Externally managed by an experienced team**
**Tilstone Partners – Investment Manager**

**Simon Hope FRICS**
Warehouse REIT
Non-Executive Director
Tilstone Partners – Chairman

**Peter Greenslade FCA**
Tilstone Partners
Finance Director

**Andrew Bird MRICS**
Tilstone Partners
Managing Director

**Paul Makin MRICS**
Tilstone Partners
Investment Director

**£17.7m management co-investment in Warehouse REIT provides alignment with shareholders**

## OVERVIEW

WAREHOUSE REIT

### ACTIVE PERIOD APPLYING EXPERTISE

- Full deployment of capital within 6 months of IPO
- Successful letting of vacant space (£0.8m) and retention of occupiers (£0.8m) to grow income
- Positive valuation performance (£291.0m) benefiting from
  - constrained supply (5% vacancy) driving rental growth
  - intensive asset management

**–translates to→**

### STRONG FINANCIAL PERFORMANCE

- Dividend of 2.5p for period ended 31 March 2018
- Increase in target dividend from 5.5p to 6.0p for year to 31 March 2019 (fully covered)
- Valuation increase of £12.1m (7.2p per share)
- NAV up to 102.1p per share after non-recurring IPO issue costs (1.9p) and asset acquisition fees (4.1p)

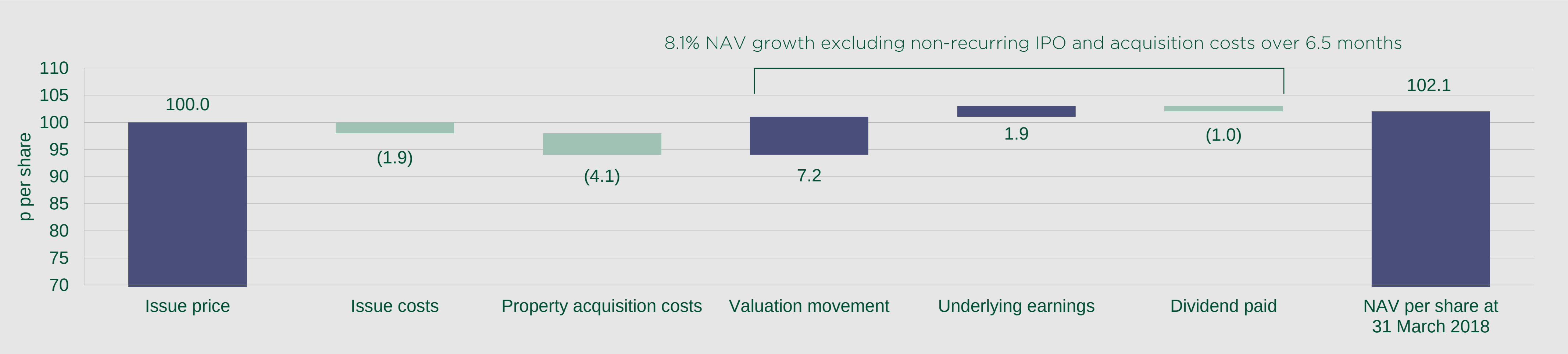
# FINANCIAL HIGHLIGHTS

| | Period from 20 September 2017 to 31 March 2018* |
|---|---|
| IFRS net profit | £8.4m |
| *EPRA profit* | *£3.2m* |
| IFRS EPS | 5.0p |
| *EPRA EPS* | *1.9p* |
| NAV | £169.5m |
| IFRS NAV per share | 102.1p |
| *EPRA NAV per share* | *102.1p* |
| Total accounting return** | 4.6% |
| Dividends per share for period | 2.5p |
| LTV – net | 40.5% |

* The accounting period is from 1 August 2017 to 31 March 2018. Operations commenced post-IPO on 20 September 2017
** Annualised total accounting return of 12.8%

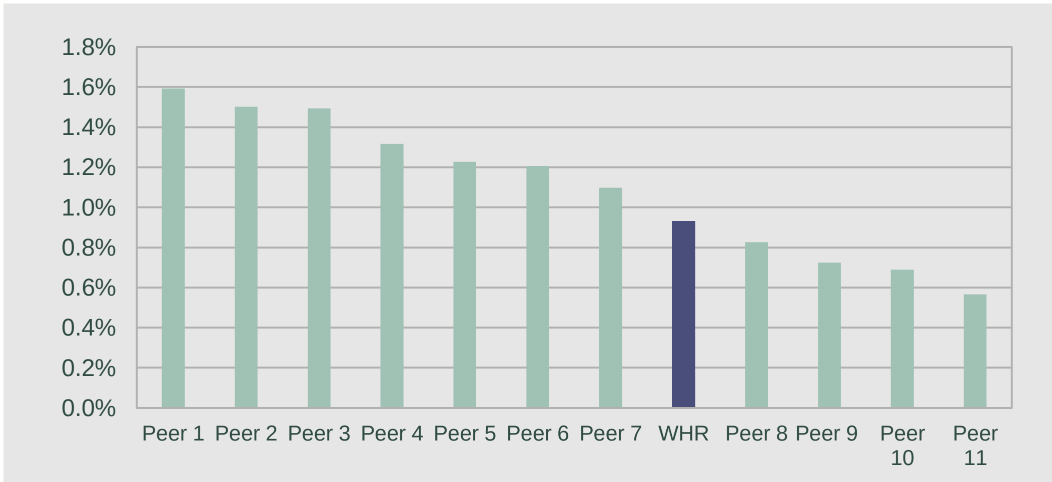
# OUR LEAN OPERATING MODEL PROVIDES A HIGH PAY THROUGH TO DIVIDEND

## Movement in NAV per share




## Costs to gross rent (incl. direct costs)


## Ongoing charge ratio (NAV ratio excl. direct costs)




Indicative analysis based on full deployment of capital but prior to rental growth and asset management

# UNDERLYING PROFITABILITY

## Period to March 2018 (6.5 months)

| | £m |
|---|---|
| Revenue | 6.6 |
| Costs (inc. IM fee) | (2.4) |
| **Recurring EBITDA** | 4.2 |
| Finance costs | (0.8) |
| **Adjusted PBT** | 3.4 |
| Refinance fee | (0.2) |
| **EPRA Profit** | 3.2 |
| Acquisition costs | (6.9) |
| Revaluation | 12.1 |
| **IFRS Net Profit** | 8.4 |
| Dividends paid and proposed | 4.2 |

# BALANCE SHEET

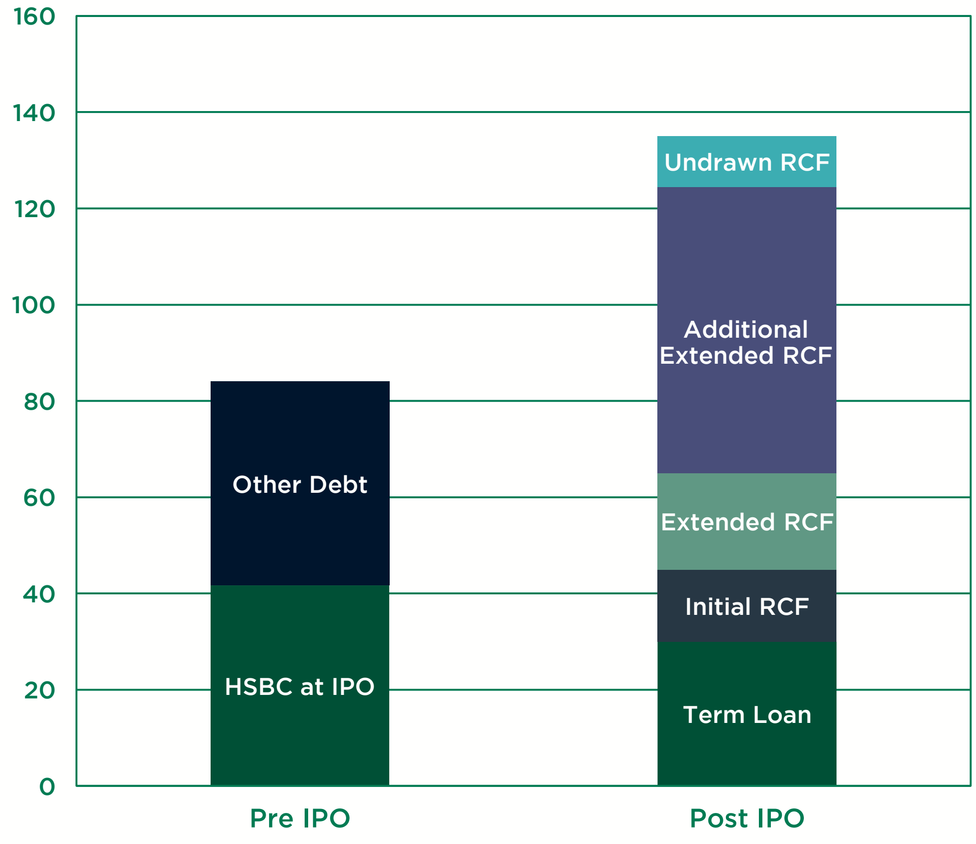
## As at 31 March 2018

| | | £m |
|---|---|---|
| Investment properties at valuation | | 291.0 |
| Cash | | 6.6 |
| Bank debt | (124.5) | |
| Loan arrangement fees | 1.4 | |
| | | (123.1) |
| | | 174.5 |
| Working capital including deferred rents | | (5.0) |
| NET ASSETS | | 169.5 |
| Share capital | | 1.7 |
| Reserves | | 161.1 |
| Retained earnings | | 6.7 |
| TOTAL EQUITY | | 169.5 |
| NAV per share | | 102.1p |

# SUCCESS IN ARRANGING LOW COST BORROWINGS

- September 2017 – £56.3m facilities repaid at IPO
- November 2017 – HSBC facility renewed and extended to £65m (£30m term; £35m RCF)
- March 2018 – HSBC RCF extended by further £70m to fund portfolio acquisitions
- Total facility £135m, margin 225bps (over libor), expiring in November 2022
- £124.5m drawn being 40.5% net LTV
- Covenants:
  - LTV of 55%
  - Interest Cover Ratio of 200%
  - Debt Service Cover Ratio of 105%

HSBC Bank Debt (£m)

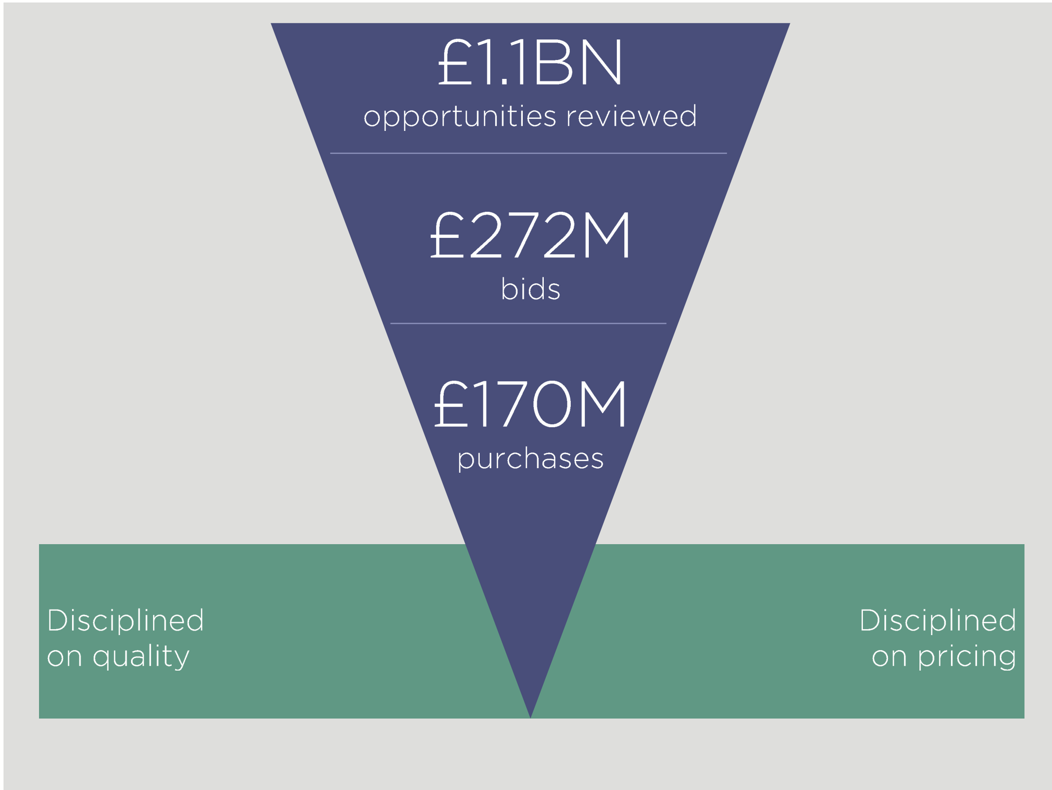


# FULL DEPLOYMENT OF CAPITAL

## 65 assets acquired since IPO – total portfolio of £291.0m

- **Over £1.1bn of investment opportunities assessed**
- **Disciplined on pricing and quality**

- **Our investment criteria**
  - Initial yield > 7%
  - Income growth from vacancy
  - Strong locations – close to urban areas, arterial routes or transport hubs
  - Supportive demand/supply imbalance
  - Asset management and repositioning opportunities

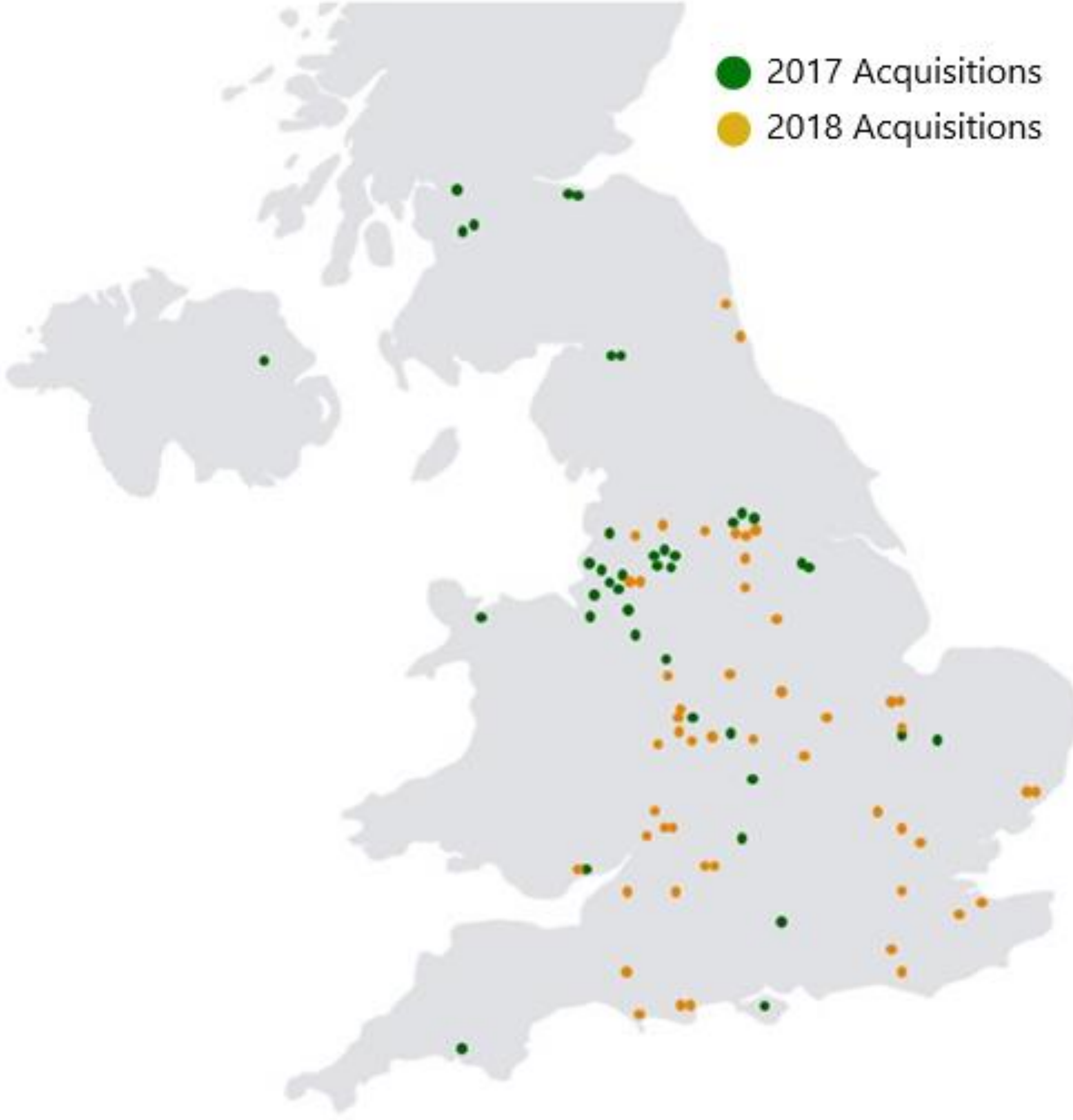



## PROVIDING THE POTENTIAL FOR FURTHER RENTAL GROWTH…

## PORTFOLIO

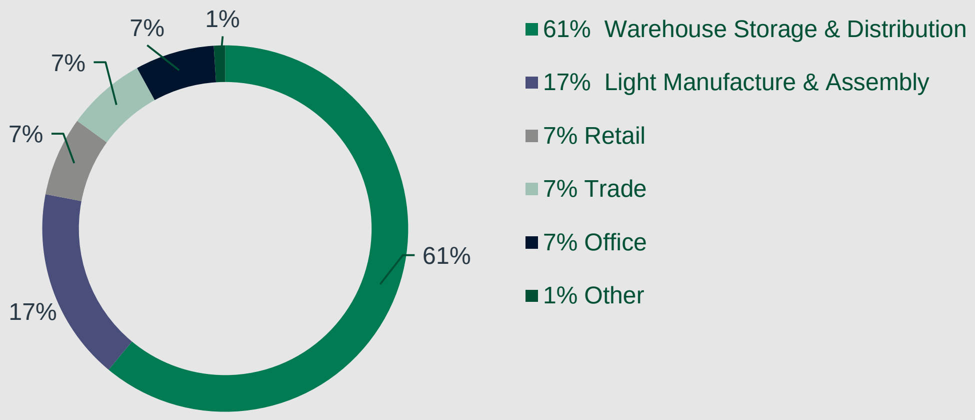
### Typically the assets are either close to urban conurbations or major transport infrastructure

| Units | Assets | Acquisition Date |
|---|---|---|
| 181 | 27 | At IPO – September 2017 |
| 169 | 4 | September 2017 |
| 28 | 10 | November & December 2017 |
| 503 | 51 | March 2018 |
| **881** | **92** | **As at 31 March 2018** |



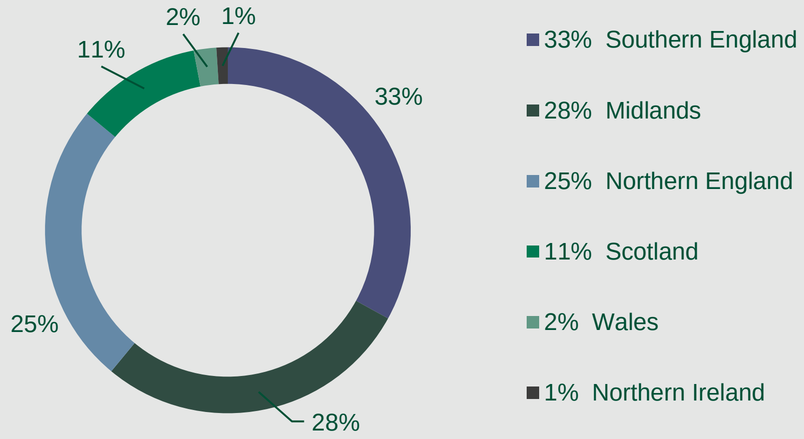
# CONSIDERABLE INBUILT OPPORTUNITY…

## Portfolio Rental Value split by use as at 31 March 2018




| Warehouse sector | Occupancy | Price £m | Net Initial Yield | Reversionary yield | Lease length (yrs to expiry) | Lease length (yrs to break) | Average rent £psf | Average capital value £psf |
|---|---|---|---|---|---|---|---|---|
| Warehouse Storage & Distribution | 90% | 182.2 | 6.7% | 7.6% | 3.8 | 2.6 | 4.82 | 61 |
| Light Manufacture & Assembly | 96% | 48.7 | 7.1% | 7.9% | 3.4 | 1.9 | 4.44 | 57 |
| Retail | 99% | 19.6 | 7.0% | 7.7% | 5.5 | 5.2 | 10.87 | 142 |
| Trade | 100% | 21.8 | 6.1% | 6.7% | 7.1 | 5.2 | 6.16 | 93 |
| Office | 95% | 16.6 | 8.8% | 9.0% | 3.1 | 2.1 | 10.85 | 106 |
| Other | 100% | 2.1 | 7.1% | 7.2% | 8.7 | 6.1 | 5.96 | 79 |
| **TOTAL** | **93%** | **291.0** | **6.8%** | **7.7%** | **4.1** | **2.8** | **5.24** | **66** |

## Portfolio Rental Value split by region as at 31 March 2018




**Area**
Sq ft m
4.4

**Rent**
£m per annum
21.3

**ERV**
£m per annum
23.8

**Net Initial Yield**
%
6.8
rising to
7.7 reversionary

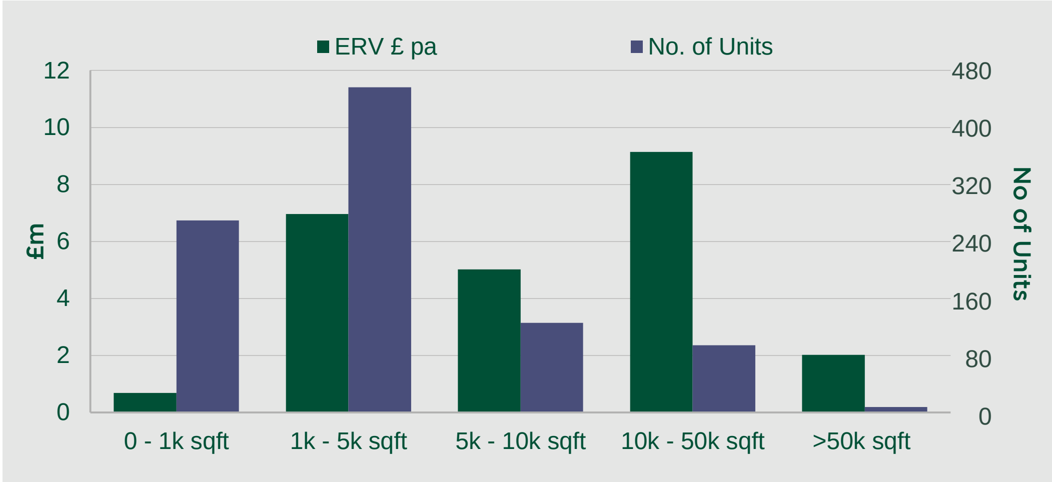
**Value**
£m
291.0
including £170.1m
acquisitions since IPO

**Capital Values**
£ per sq ft
66

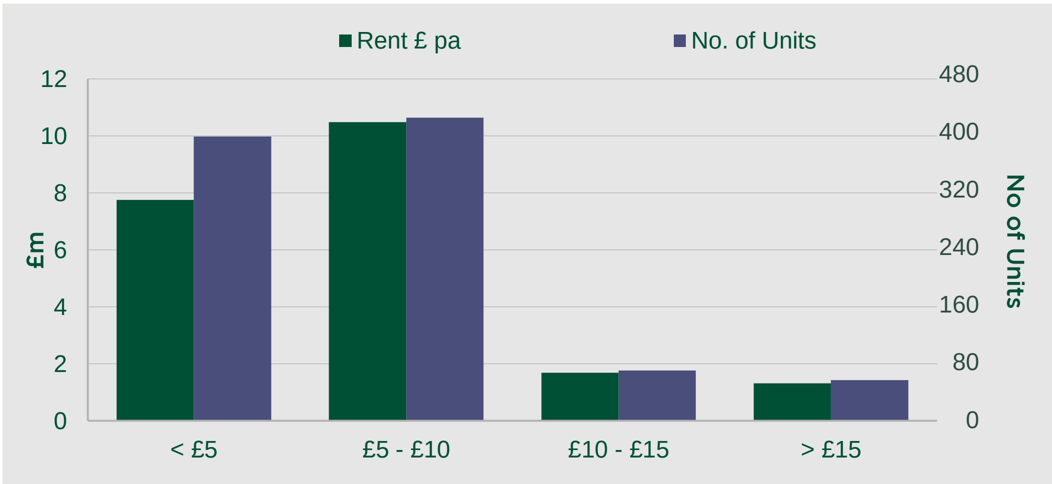
# AND A DIVERSE OCCUPIER BASE...

- 93.1% occupancy
- WAULT: 4.1 years (2.8 to break)
- Our occupiers include:


## Portfolio unit size distribution




## Portfolio rent £psf distribution



# WITH IMMEDIATE OPPORTUNITIES TO CAPTURE RENTAL GROWTH

## Active management of granular portfolio capitalising on vacancy and forthcoming lease events

### Exploiting Tilstone's expertise


- 27 new leases completed since IPO generating £0.8m pa, 7.3% ahead of 31 March 2018 ERV
  - Of these, 17 were in the seed portfolio, 15.6% ahead of IPO valuation ERV
- 79% of leases renew
- 12 lease renewals completed since IPO
  - Of these, 8 were in the seed portfolio generating £0.6m pa, a 10.7% uplift
- Of the 18 leases holding over at IPO, 67% have renewed at 5.3% ahead of their previous contract rent, 8.2% ahead of IPO valuation ERV

# CASE STUDY

## Tramway Industrial Estate, Banbury

- **What is it?**
  - Industrial estate of 9 units totalling 151,000 sq ft now fully let
  - Adjacent 6 acres of land on short term lease with Banbury FC
  - Strong transport links with nearby M40 and adjacent railway station
- **What have we done since IPO?**
  - Let remaining vacant unit to existing adjoining occupier
  - Bought in 6 acres of additional land for £800k
  - Moved headline ERV from £803k to £845k pa.
  - Regeared Magna leases (37% of income) for a new 5 year term
  - Extended WAULT to expiry from 4.0 to 5.4 years
- **What is the future?**
  - Exploring higher value uses and working with occupiers to increase existing retail element
  - Reversionary income of £845k per annum
  - Continue to explore acquiring adjoining sites to enhance longer term development potential

| Valuation 31st March 2018 | Valuation at IPO | Contract Rent 31st March 2018 | Contract Rent at IPO |
|---|---|---|---|
| £12,300,000 (including land acquired for £800k) | £10,500,000 | £775,000 | £723,000 |

| Occupancy | Key tenants |
|---|---|
| 100% | Magna Exteriors, Chiltern Railways, Cleenol |

## CASE STUDY

### Queenslie Business Park, Glasgow

- **What is it?**
  - 348,000 sq ft of warehouse space on 55 acres - average rent £4.19 psf
  - Direct access to M8 motorway junction (J11)
  - Includes 16 acres of potential development plots suitable for a range of occupiers
- **What have we done since IPO?**
  - Planning application for change of use on 16 acres with decision anticipated mid-2018
  - Further increased occupation from 89% to 95% on lettable space
  - Let 4 vacant units, and renewed a further 3 units, moving ERV on lettable space from £1.45m to £1.50m
- **What is the future?**
  - Reposition as the leading mixed use estate in Glasgow
  - Complete £200k refurbishment on Block 14
  - Seek pre-lets to bring forward risk-free development


| Valuation 31st March 2018 | Valuation at IPO | Contract Rent 31st March 2018 | Contract Rent at IPO |
|---|---|---|---|
| £14,450,000 (pre-planning) | £13,800,000 | £1,386,000 | £1,312,000 |

| Occupancy | Key tenants |
|---|---|
| 95% | Siemens, Soapworks, Marine Products |

# CASE STUDY

## Oldbury Point, Birmingham

- **What is it?**
  - Industrial estate of 14 units totalling 96,000 sq ft
  - Strong transport links close to M5 motorway and nearby mainline railway
  - At IPO 9 vacant units (68%) producing £91k per annum
- **What have we done since IPO?**
  - Completed refurbishment programme across units and wider estate
  - Let four units 20% ahead of IPO Valuation ERV
  - Initiated re-gear discussions with current occupiers
- **What is the future?**
  - Let remaining 5 vacant units
  - Increase income with ERV £465,000 per annum
  - Working with occupiers to improve existing WAULT

### Before

### After

| Valuation 31st March 2018 | Valuation at IPO | Contract Rent 31st March 2018 | Contract Rent at IPO |
|---|---|---|---|
| £5,500,000 | £3,450,000 | £210,000 | £91,000 |

**Occupancy**

53%

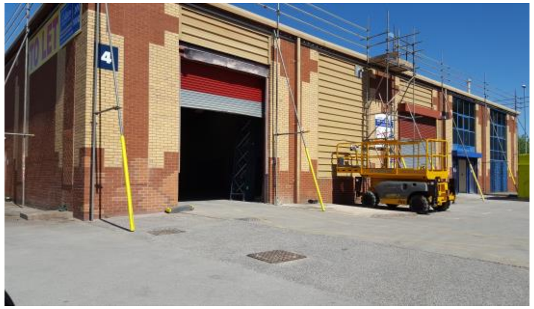
**Key tenants**

Swansway Garages, Euroby

# CASE STUDY – POST IPO ACQUISITIONS

## £170m of new acquisitions post IPO

- **What are they?**
  - 2.7 million sq ft of predominantly warehouse and distribution space
  - 39% Midlands, 36% South, 24% North, 1% Wales
  - Average unit size 4,000 sq ft
  - Average rent of £5.22 psf
  - 7.7% Reversionary Yield
  - WAULT: 3.7 years (to expiry), 2.5 years (to break)
- **What have we done since IPO?**
  - Achieved full investment of IPO proceeds and debt 6 months ahead of target
- **What is the future?**
  - Reduce void levels through active asset management
  - Targeted capital expenditure to increase rental tone
  - Extend WAULT
  - Increase income and value

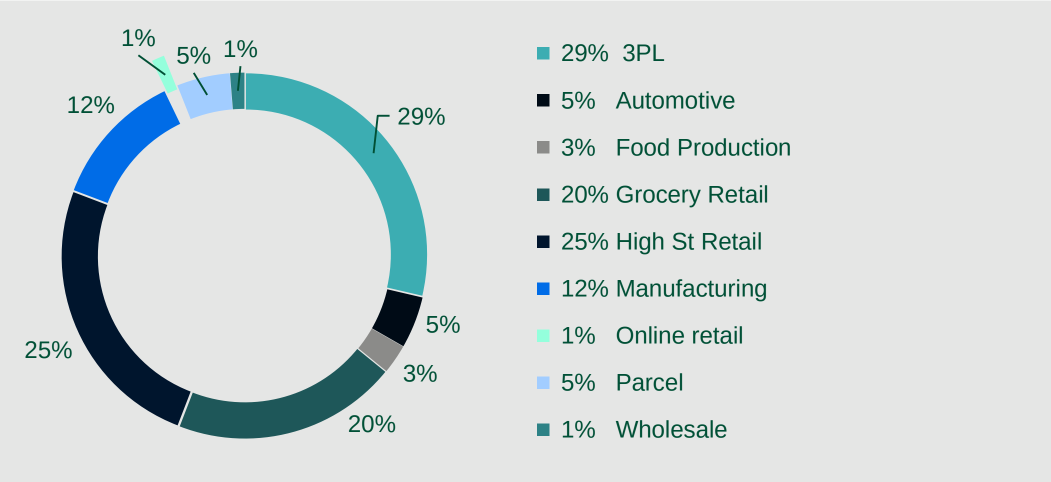



| Valuation 31st March 2018 | Purchase Price | Purchase Contract Rent | Purchase Yield |
|---|---|---|---|
| £172,925,000 | £170,100,000 | £13,000,000 | 7.4% |

| Occupancy | Key tenants |
|---|---|
| 94% | Howdens, Travis Perkins, Screwfix, LFI |

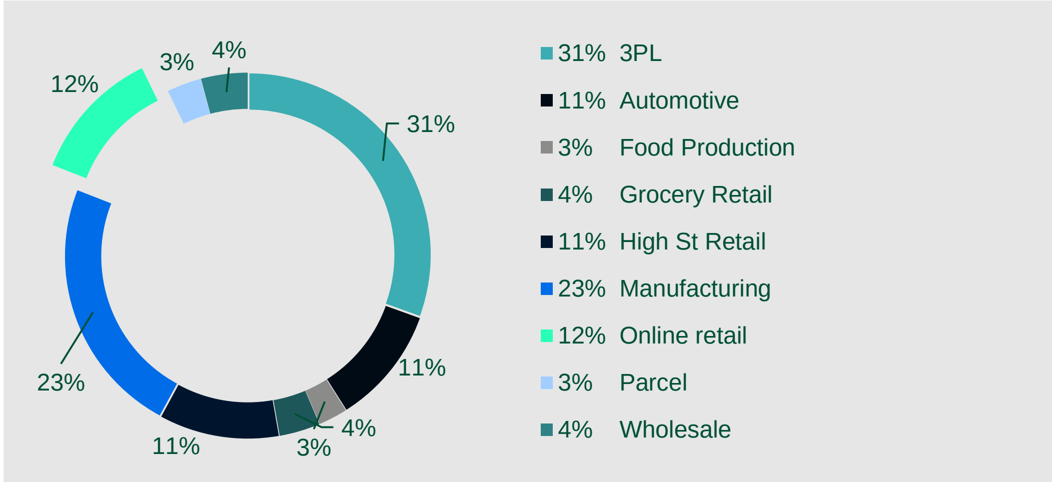
# MARKET FUNDAMENTALS

## Industrial take-up 2007



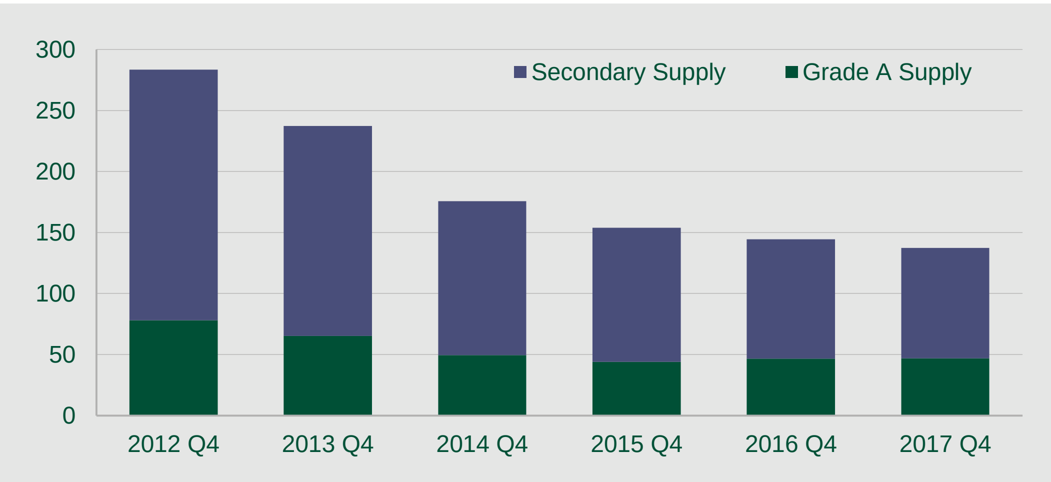

Source: Savills

## Industrial take-up 2017



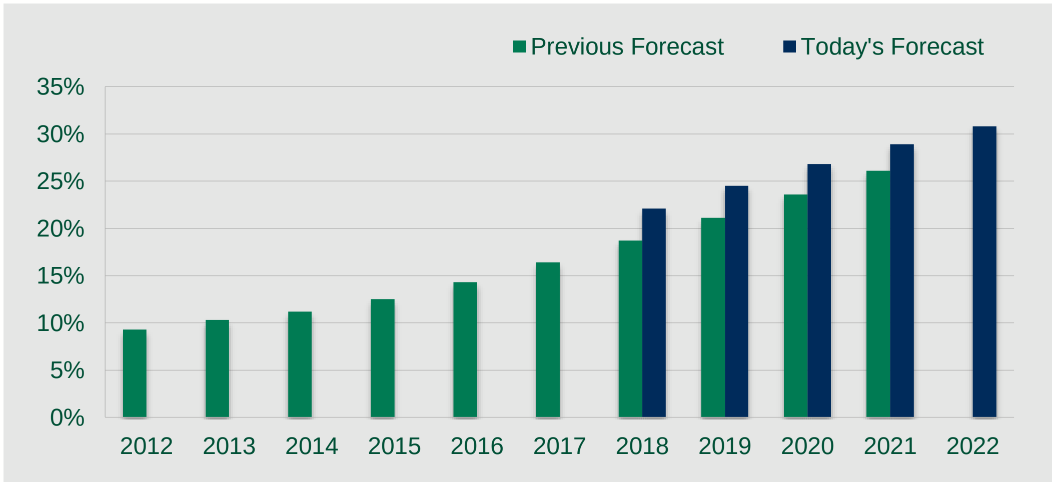

Source: Savills

## UK availability by grade (m sq ft)




Source: CoStar/Savills

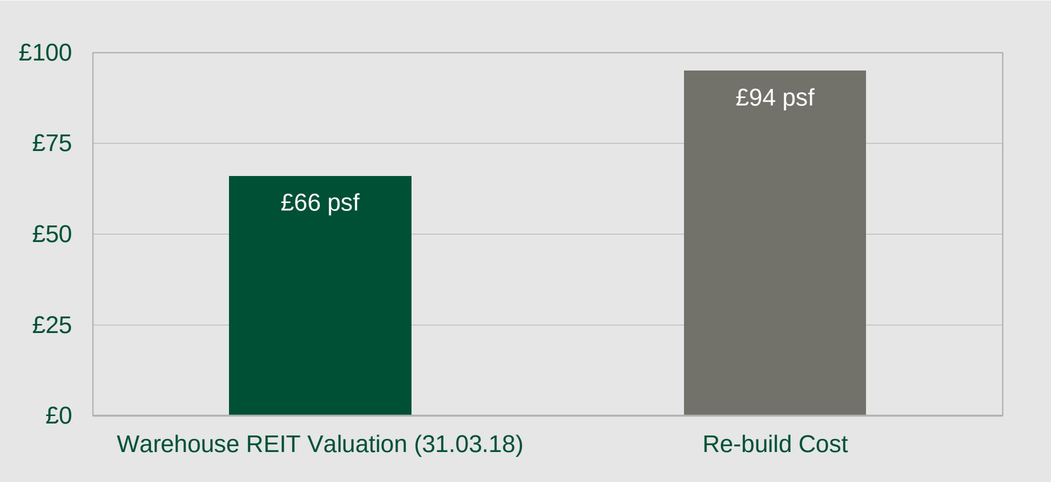
## UK online retail growth (%)




Source: Retail Economics

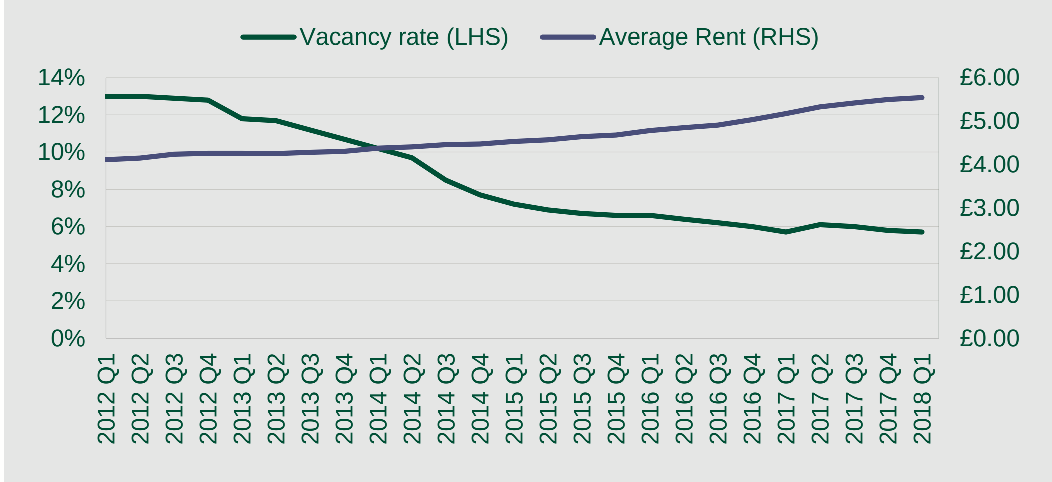
# CONSTRAINED SUPPLY LEADING TO STRONG RENTAL GROWTH

## High build cost psf makes development uneconomical



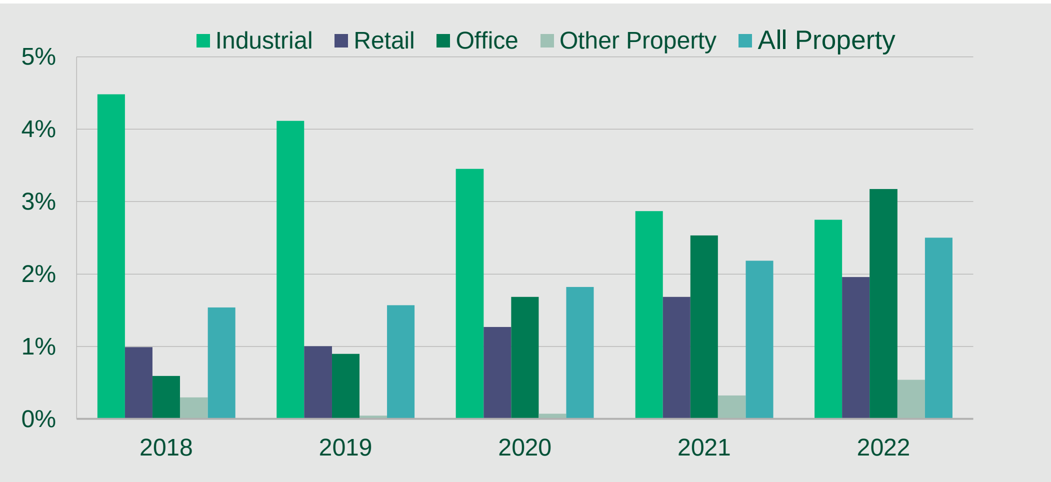

Source: CBRE / Gerald Eve / Savills

## Industrial vacancy rate vs average rent



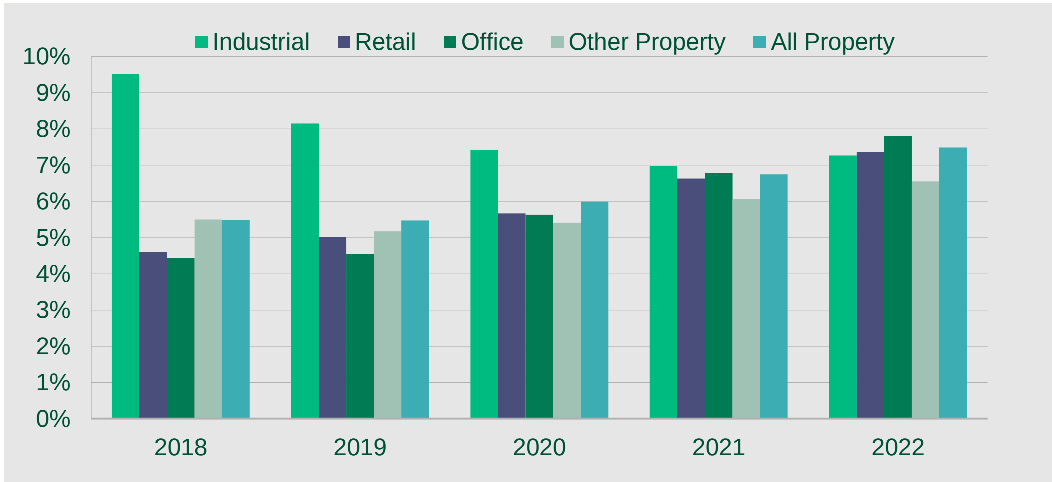

Source: CoStar/Savills

## Rental Growth Forecast 2018 – 2022




Source: Realfor

## UK Industrial – Total Returns Forecast 2018 - 2022




Source: Realfor

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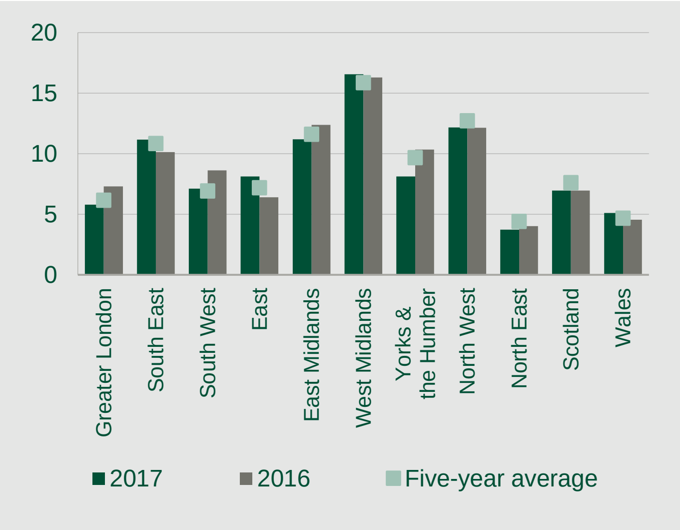
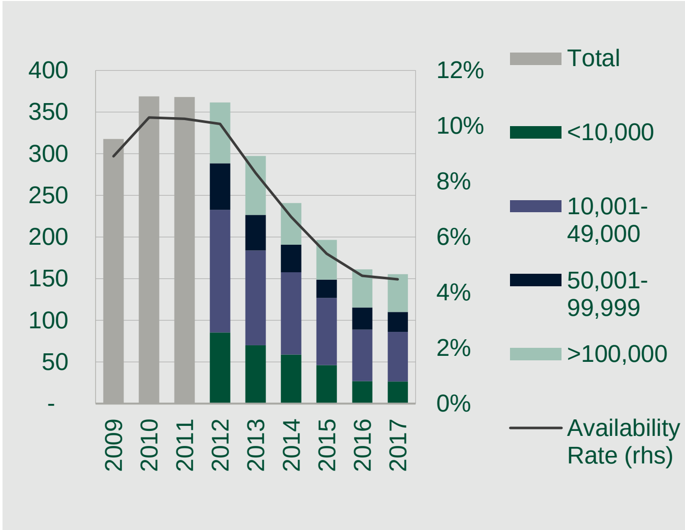
# SMALL (& MEDIUM) IS BEAUTIFUL

## UK industrial take-up (m sq ft)



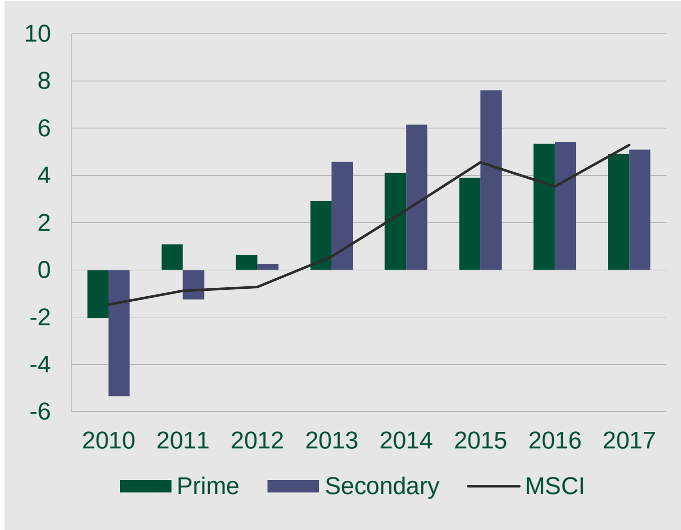

Source: LSH

## UK industrial availability by size-band (sq ft)




Source: LSH

## Average UK industrial rental growth (%)




Source: LSH

- Small and Medium Sized Warehouses (<50k sq ft) account for 55% of total take-up
- Small and Medium Sized Warehouse demand up 6% in 2017 vs. 2016 as compared to 19% fall in demand for logistics space
- Small and Medium Sized Warehouses have just 1.6 years of supply
- Vacancy of Small and Medium Sized Warehouses has dropped from 7% in 2012 to just 3% in 2017
- Rental Growth in secondary stock continues to outperform prime

## CONCLUSIONS

### A strong start, delivering and exceeding the IPO promise

- Capital fully deployed 6 months ahead of schedule – disciplined; ensuring strong fit with investment criteria
- Significant reversion to capture – asset management capability enhanced
- Low cost, long term financing secured
- Supports dividend growth – increase in target dividend from 5.5p to 6.0p for year to 31 March 2019*

### Looking forward

- Market fundamentals remain supportive – rental growth continues
- Robust pipeline of further investment opportunities under review

* This is a target not a profit forecast and there can be no assurances that this will be met.