INDUSTRIALS REIT LIMITED
(Registered in Guernsey)
(Registration number 64865)
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("**Industrials REIT**" or the "**Company**")

28 October 2022

MLI trading update Q2 FY 2023
Strong tenant demand and efficiencies from Industrials Hive

Industrials REIT, the UK multi-let industrial ("**MLI**") property company, today publishes a trading update[1] for the period 1 July 2022 to 30 September 2022 and up-to-date information on transactions and rent collection across the Company's whole portfolio.

Commenting on the trading update Paul Arenson, CEO of Industrials REIT, said:

"Tenant demand has continued to be strong, with the average uplift in rent upon lease renewal or new letting rising to a new high of 30% and allowing us to deliver our eighth successive quarter of over 20% growth in this key KPI. We have also benefitted from the growing efficiency of our Industrials Hive platform which has enabled us to complete 20% more lettings in this quarter than any before, helping to capture and capitalise on this demand.

"This underlying strength in occupier demand gave us full conviction to take our planned proactive steps to actively forfeit and replace nonperforming tenancies that had been protected by the pandemic moratorium for the two years ended 31 March 2022. As a result of this replacement programme taking place in the quarter, our occupancy and like for like passing rent levels decreased marginally by 0.7%. We are confident, given the strength of occupier demand and the levels of interest already received, that this will reverse once the vacated space has been relet to new customers paying higher rents and with more sustainable business models.

"Notwithstanding this, underlying annual growth in like for like passing rent continues at approximately 4.0% per annum, after adjusting for a single large outstanding rent free on a renewal which was recently completed.

"Investment activity has largely been put on hold whilst we see how capital values react to the changes in interest rates, higher inflation and recession risk. We continue to watch the market carefully and believe that attractive and accretive acquisition opportunities will emerge once the market has gone through a period of repricing.

"Demand for MLI remains robust and we can continue to lease space at attractive rents with minimal incentives. We anticipate that the trading environment will become more difficult over the next 12 months, but to date we have not seen any evidence of this in our portfolio and, with our strong balance sheet, feel well placed to weather the challenges that may lie ahead."

Key metrics

	Quarter Ended							
Key metrics	**Q3 FY21**	**Q4 FY21**	**Q1 FY22**	**Q2 FY22**	**Q3 FY22**	**Q4 FY22**	**Q1 FY23**	**Q2 FY23**
Occupancy	93.1%	93.7%	94.7%	93.9%	93.8%	93.8%	93.5%	92.8%
Change in passing rent (L4L over 12 months)	3.6%	5.6%	8.0%	5.0%	4.8%	4.4%	3.2%	2.7%
Change in ERV (L4L over 12 months)	3.8%	5.5%	5.5%	5.1%	8.0%	4.3%	11.4%	12.3%
Average uplift in rent on letting or renewal	25.0%	20.0%	21.0%	21.0%	21.6%	22.3%	27.3%	30.4%

Demand for MLI space continues to outstrip supply

- The average passing rent increased by 30% on the aggregate of all new lettings and lease renewals, the highest growth rate achieved to date and surpassing the previous record, achieved last quarter, of 27%. The growth was driven by average uplifts of 30% and 31% for renewals and new lettings, respectively (previous quarter: 30% on renewals, 23% on new lettings). This is the eighth successive quarter of +20% average uplifts and is driven by a combination of the strong reversionary potential within the portfolio, with average passing rents lagging estimated market rental values on leased units by 19.6%, and the continued occupier demand for good quality MLI space (previous quarter: 19.0%).
- We also grew the number of letting transactions, with 108 completed during the quarter for a combined rent roll of £2.6 million (previous quarter: 89 lettings and £2.1 million). This comprised 71 lease renewals and 37 new lettings across a total of 383,704 sq ft (previous quarter: 62 renewals and 27 new lettings across 307,226 sq ft). A further 10 lettings exchanged during the quarter across 26,000 sq ft (previous quarter: 11 lettings across 19,350 sq ft), taking the total number of leases exchanged or completed during the quarter to 406,000 sq ft (previous quarter: 327,000 sq ft).
- Like-for-like ERV growth across the portfolio was 1.1% over the quarter and 12.3% over the last year (previous quarter: 6.4% for the quarter and 11.4% over the year). ERVs on our MLI units remain highly affordable at an average of £6.87 psf, compared to an average passing rent of just £5.74 psf (previous quarter: £6.76 psf[2] and £5.72 psf[2] respectively), with the cost of the average new lease signed this quarter equating to just £2,000 per month in rent for a 3,550 sq ft unit.
- At 30 September 2022, there were 321,000 sq ft of lettings under offer across 59 transactions (previous quarter: 388,000 sq ft across 81 transactions), of which 160,000 sq ft related to new lettings and 161,000 sq ft to existing customer renewals (previous quarter: 148,000 sq ft of new lettings and 240,000 sq ft of lease renewals).
- The average lease signed during the quarter was for 4.4 years with a tenant break option after 3.3 years, whilst the average leasing incentive fell to a new low of 19 days' rent free on average (previous quarter: 4.6 years, 3.4 years and 28 days, respectively).
- 68% of completed leases were contracted through Industrials REIT's short-form digital 'Smart Leases' (previous quarter: 62%).
- 79% of leases signed included at least a 3% annual uplift in rent throughout the term of the lease (previous quarter: 76% of leases signed).

Occupancy down 0.7% as we actively replace non-performing tenancies that were previously protected by the pandemic moratorium.

- Occupancy across the MLI portfolio (adjusted to exclude yard areas) was 92.8% at 30 September (previous quarter: 93.5%[2]). Following two years where we have been unable to forfeit leases for non-payment of rent, this quarter we executed our previously stated plan to proactively take back space. This comprised a programme of forfeitures across 54,000 sq ft of space (equivalent to 0.75% of total floor area) involving those customers whom we have been unable to find solutions with and who were either no longer in occupation or were unable or unwilling to meet their future rental liabilities. With strong underlying demand for MLI space, we are confident of reletting these units over the course of the coming months, with the benefit of collecting higher rents from new customers with more sustainable business models.
- Like-for-like passing rent over 12 months was +2.7% (previous quarter: 3.2%). During the past six months, we have let or renewed several of our biggest units (see Asset Management Highlight below), meaning that on 30 September we had several large units enjoying rent free periods. Like-for-like passing rents over 12 months were up 4.0% when adjusted for our largest rent free, in Ashby-de-la-Zouch, which expires in November this year (previous quarter: +4.5% when adjusted for Ashby-de-la-Zouch). Notwithstanding this, due to the decrease in occupancy, the quarterly like-for-like passing rent fell 0.7% (previous quarter: +1.5%).

Improving leasing efficiency from Industrials Hive

- Industrials.co.uk website users reached a new high this quarter, up 19% vs the previous quarter, and up 9.0% on a 12-month rolling basis. The growth in visitor numbers is down to continuous improvements to our customer facing industrials.co.uk website, including more targeted advertising through social media, optimised search terms and enhanced user experience when navigating the site.
- Enquiry-to-lead qualification conversion rates continue to improve to 12%, whilst 83% of qualified leads going on to take a viewing on a rolling 12-month basis (previous quarter: 10% and 84% respectively).
- Total viewing/building tour numbers were 179, the best period to date, with 26% of viewings resulting in a new letting on a rolling 12-month basis (previous quarter: 172 viewings with a 27% conversion rate to letting).

Asset management highlight

We completed the letting of the largest vacant space in our portfolio at Huyton Business Centre in Huyton, Liverpool.

The space extends to just over 57,000 sq ft and was vacated at lease expiry in September 2021. Following a full internal and external refurbishment, the unit was let to a cash'n'carry business in August 2022 on a new five-year lease with tenant only break option after two years. The new rent is in line with ERV and reflects an uplift of over 49% to the previous passing rent.

In aggregate, we have renewed or relet three of our five largest units so far in 2022, totaling 317,000 sq ft and £2.3 million of annual rent (representing 4.4% by area and 6.0% by rent of the total MLI portfolio). These deals delivered an average uplift from the previous passing rent of 21% and new lease terms of 6.3 years (3.2 years to first break).

Rent collections returning to normalised level

- 88% of rents due in the quarter ended 30 September 2022 had been collected by 26 October 2022 (previous quarter: 87% of rents collects at the same point after the quarter day).
- 96% of rents due for the financial year ended 31 March 2022 had been collected by 26 October 2022.
- Anticipated rent collections for the financial year to 31 March 2023 are expected to be normalised at pre-Covid levels of 98%+.

Limited investment activity

Two new MLI acquisitions were completed during the quarter, totalling £5.2 million. Both transactions involved the acquisition of units adjacent to existing holdings, hence consolidating and expanding our ownership in these locations which will help deliver greater operational efficiency in the future. The acquisitions completed were:

1. An additional two terraces at Mandale Business Park in Durham. The new additions provide a further 10 units across two terraces comprising 37,218 sq ft. The recently developed terraces are fully let and generate £257,582 of income. This acquisition further consolidates ownership which began in November 2020, with the estate now comprising 256,000 sq ft and generating a passing rent of £1.3 million p.a.

2. A single let industrial unit of 13,600 sq ft adjacent to an existing holding, Davey Close Trade Park, Colchester. The unit, which is let to a single occupier on a new five-year lease with a passing rent of £66,000 pa, allows for future sub-division and potential incorporation into our existing estate. The addition complements the existing 54,000 sq ft at Davey Close Trade Park, which was originally acquired in June 2017, and now comprises 29 units totalling 68,000 sq ft and generating a passing rent of £445,000 p.a.

Beyond these acquisitions, we have largely ceased investment activity whilst the commercial property investment market in the UK adjusts downward due to rising interest rates, high inflation and an increasing risk of recession. In the meantime, we are preserving capital, keeping our leverage low and waiting for an appropriate time to re-enter the market when values stabilise.

Low leverage with significant covenant headroom

As at close of business on 30 September 2022, Industrials REIT's loan-to-value ratio (LTV) was 29% on drawn facilities, and approximately 25% when allowing for unrestricted cash[3]. The average cost of debt is 2.5% (based on SONIA at 2.2%). With 90% interest hedging against drawn debt, a 1% rise in SONIA increases the weighted average cost of debt by 0.10%. The average maturity of drawn debt is 3.5 years, with strong headroom across our debt covenants (please see our recent Capital Markets Day presentation for further information on our debt book and covenant headroom).

Notes

The financial information on which this trading update is based has not been reviewed or reported on by the Company's external auditors.

[1] Trading update refers to the Company's MLI portfolio while rent collection figures include the Company's legacy interest in a Care Homes portfolio in Germany which comprises 6.46% of the rent roll.

[2] Adjusted from previous quarter to exclude all non-built areas e.g. yards, car parking spaces, covered storage etc.

[3] Calculated as gross borrowing less unrestricted cash, divided by gross asset value based on our 31 March 2022 valuations adjusted for subsequent acquisitions and disposals and changes in foreign exchange rates. Unrestricted cash is cash and cash equivalents after deducting amounts for service charge, tenant deposits and cash held in debt service accounts.

To receive details of all future announcements made by Industrials REIT, please add your name and email address to our Investor News email list at https://www.industrialsreit.com/contact-us/subscribe-for-latest-news/

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About Industrials REIT:
Industrials REIT is a UK REIT with a primary listing on the London Stock Exchange and a secondary listing on the Johannesburg Stock Exchange. The objective of the Company is to deliver a combination of sustainable growing income and growth in value to its investors. Industrials REIT focuses on owning and operating a diversified portfolio of UK purpose built multi-let industrial (MLI) estates across the UK. The Company aspires to be the leading MLI business in the UK. For further information, go to www.industrialsreit.com.