

Focusing on Multi-let Industrial in the UK



STENPROP

Agenda



A brief history of Stenprop

The multi-let industrial sector

Current MLI and Non-MLI portfolio

The transition

Share Price Information

A brief history of Stenprop



▶ 1995

Paul Arenson

joins the Stenham Group as part of an MBO with the remit to establish a property fund management business



▶ 2007

Property under management at Stenham Property exceeds **£2bn**

Patsy Watson joins as Finance Director



▶ 2014

Paul and Patsy take management control of a company listed on the **JSE** and Stenham Property investors inject over **£600m** of assets into Stenprop for shares.

The Stenham Property management company is simultaneously internalised and **Paul Arenson** appointed **CEO** and **Patsy Watson, CFO**

▶ 2017

Stenprop acquires the **industrials.co.uk** portfolio of 25 MLI estates for **£127m** from Morgan Stanley and C2 Capital JV. It simultaneously acquires **C2 Capital** and its management platform founded by **Julian Carey**

Julian Carey joins the Board



▶ 2018

Stenprop announces plans to transition its business into a focused **MLI business** in the UK and to reduce overall leverage to **below 40%**

In May 2018 Stenprop converts to a **UK REIT** and in June 2018 Stenprop lists on the **LSE**



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Features of Multi-let Industrial



Versatile, flexible, urban, multi-tenanted, diversified income

- ▶ Typically located in and adjacent to densely populated cities and towns across the UK in areas of strong economic activity
- ▶ Purpose built units comprising 5 to 50 units on an estate controlled by owner
- ▶ Unit sizes on each estate typically range from 500 sq ft to 10,000 sq ft with the average being approximately 3,500 sq ft
- ▶ Highly diversified and granular tenant base in terms of company size and sector
- ▶ Predominantly let to UK Small-to-Medium Enterprises (“SMEs”)
- ▶ 3-5 year lease durations
- ▶ Small / medium lot sizes less than £20m per estate
- ▶ Typical tenant paying c. £18,000 rent p.a. estimated to represent between 1% -2% of their business turnover
- ▶ Low obsolescence, low capex, high versatility of uses
- ▶ Currently MLI assets are valued/traded at c. 50% of their replacement cost



Best Performing Sector in UK Property



Long term outperformance against wider commercial property driven by rental income and low ongoing capex

▶ The industrial asset class has outperformed retail and office in terms of total return since 1986

▶ Industrial sector:

– Total return index **2275** over 30 years

▶ Office and retail sectors:

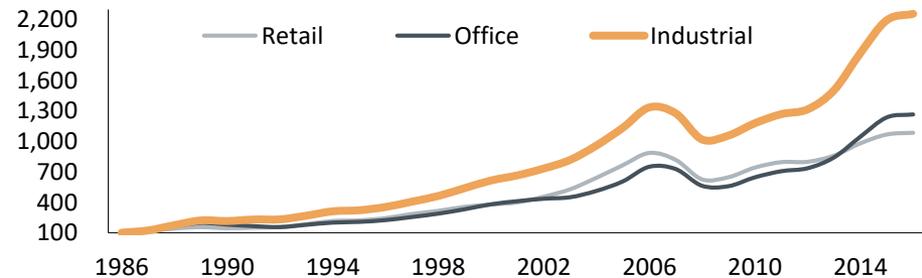
– Total return indices of **1220** and **1290** respectively over 30 years

▶ Industrial property's success is due to consistently higher income returns over the period

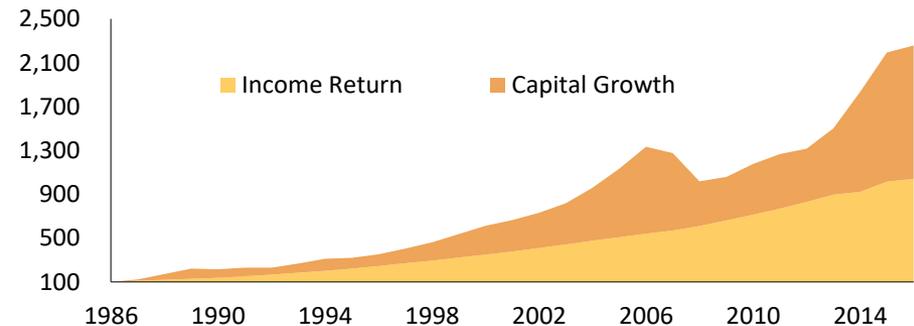
The best performing sector in property over a 30 year period

Retail, office and industrial sectors total return evolution

Total Return Index (1986=100)



Industrial sector return evolution



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Structural shift in the number and range of occupiers needing to operate from MLI units due to changes in communications technology

The growth of small business

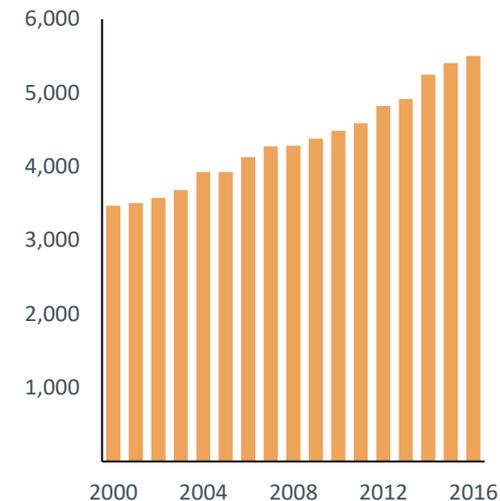
- ▶ The number of SMEs in the UK grew by **63%** between 2000 and 2017
- ▶ SMEs account for **99%** of private sector businesses
- ▶ UK SMEs annual turnover is **£1.9tn** p.a, reflecting **51%** of all private sector turnover, and employ **16.1m** people (c. **60%** of all private sector employees)

The move away from traditional asset classes

- ▶ Shift of retailers from shops to industrial/online
- ▶ Light industrial units provide flexible accommodation to sell, manufacture, dispatch and/or store goods, all under a single planning permission
- ▶ Click'n'Collect and Last Mile Distribution Networks are developing in urban areas
- ▶ Communication technology facilitating smaller more flexible independent businesses able to access suppliers, customers and other relationships more easily

UK private sector businesses

Number of businesses (000s)



Source: Office for National Statistics



A structural shift in long term demand for industrial is occurring

The future

- ▶ The internet continues to make multi-let industrial accommodation increasingly attractive to a wider range of businesses needing functional working space at affordable rent
- ▶ Industrial efficiency gains and new technologies like 3D printing are enabling companies to start 'on-shoring' activities, driving demand for UK manufacturing which would previously have gone abroad
- ▶ Cultural change driven by technology such as driverless cars, big data and virtual reality will drive demand for flexible space near conurbations which can adapt to changing occupational requirements





Supply constrained and diminishing. Rents need to rise to justify building MLI units.

Build Costs

- ▶ Real building costs have gone up **74%** in the last 11 years, whilst only in the last 2 years or so have industrial rents started to move up having remained largely unchanged for a decade
- ▶ Industrial development accounts for just **15%** of private commercial construction vs **30%** in 1997
- ▶ In Stenprop's view it is not economically viable to build small unit multi-let estates until rents increase by at least **50%**
- ▶ Build costs are likely to remain high as there is little ability to financially engineer the design to reduce costs

74% Real build cost increase in the last 11 years	£149 psf Replacement cost of Industrials portfolio
£2m+ Average UK residential land value per acre	<£200k Average UK industrial land value per acre

Land Availability

- ▶ MLI is typically located in and around areas of high population density where land supply is extremely limited
- ▶ In such areas available land is often prioritised for housing, where industrial development is not competitive
- ▶ As a result, MLI supply is inelastic

c. £8.00 psf Rent needed to justify new MLI development	vs	£5.46 psf Average passing rent on our MLI portfolio
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A focus on delivering efficiencies and enhanced sustainable earnings

Branding

- ▶ In Stenprop's view the [industrials.co.uk](https://www.industrials.co.uk) website provides a powerful and recognisable brand to tenants and investors alike
- ▶ Potential to leverage the brand to grow the portfolios reach and **market penetration** in future

Flexible leasing

- ▶ Moving away from traditional leasing model to short form more flexible lease structures. Leases can be signed on the internet and can price in greater flexibility on term and repairing liability

Serviced MLI model

- ▶ Providing tenants with additional services and a high quality service culture will generate **greater additional revenue per sq ft** than traditional landlords

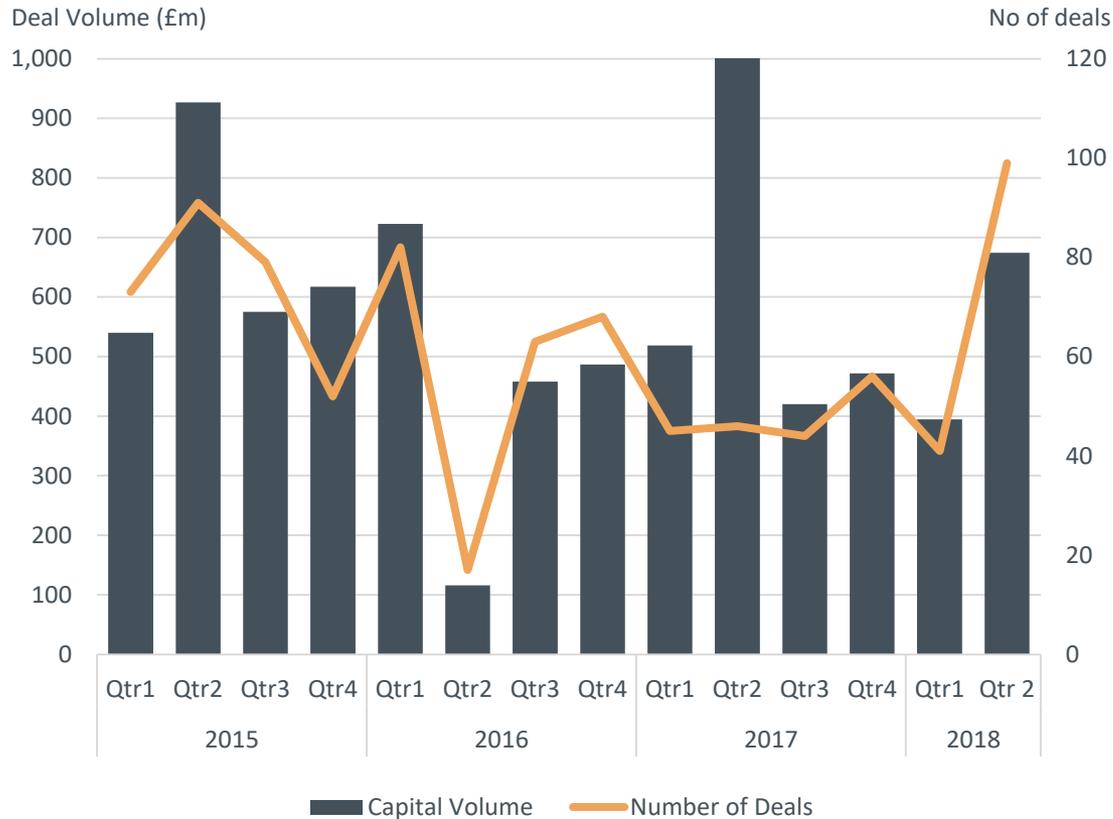
Technology

- ▶ We use innovative technology to improve efficiency, reduce irrecoverable expenditure and **capture additional revenue streams**

The MLI Market and Acquisition Criteria



Multi-let Industrial Deal Flow



Acquisition criteria

- ▶ Purpose-built industrial accommodation
- ▶ Multi tenanted income profile
- ▶ Located within or close to areas of high population density
- ▶ Accessible locations
- ▶ Areas of strong economic activity
- ▶ Acquisition below replacement cost value

Acquisition target of c. £100m p.a. enables disciplined investment

MLI Portfolio as at 19 September 2018



2,634,279 sq ft	861 Units
36 Assets	547 Tenants

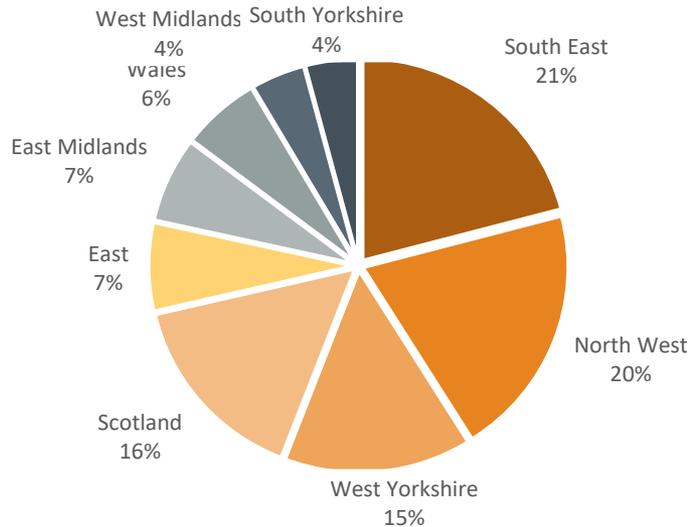
Current Passing Rent	£12,366,124	£5.46 psf
Contractual Rent ¹	£12,619,727	£5.57 psf
Estimated Rental Value (ERV) at 100% occupancy	£14,926,056	£5.67 psf
Current Vacancy ²	189,401 sq ft	7.9%

Notes:

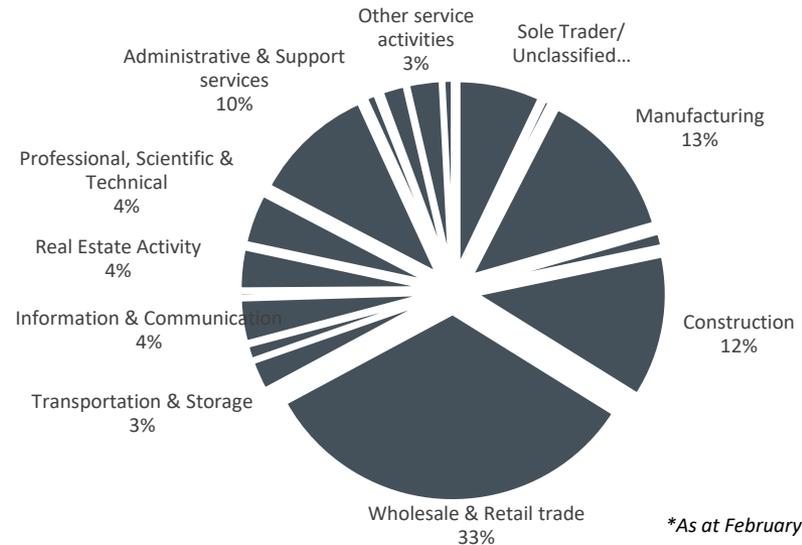
¹ Contractual rent includes contracted uplifts contained in existing leases over period of lease.

² This excludes the vacant space at Coningsby Park, Peterborough which was purchased in December 2017 and is currently undergoing refurbishment and hence is not available to let. If this included then total vacancy is 368,790 sq ft, reflecting 14.0%.

Geographic Breakdown by Passing Rent



Tenant Business Breakdown*



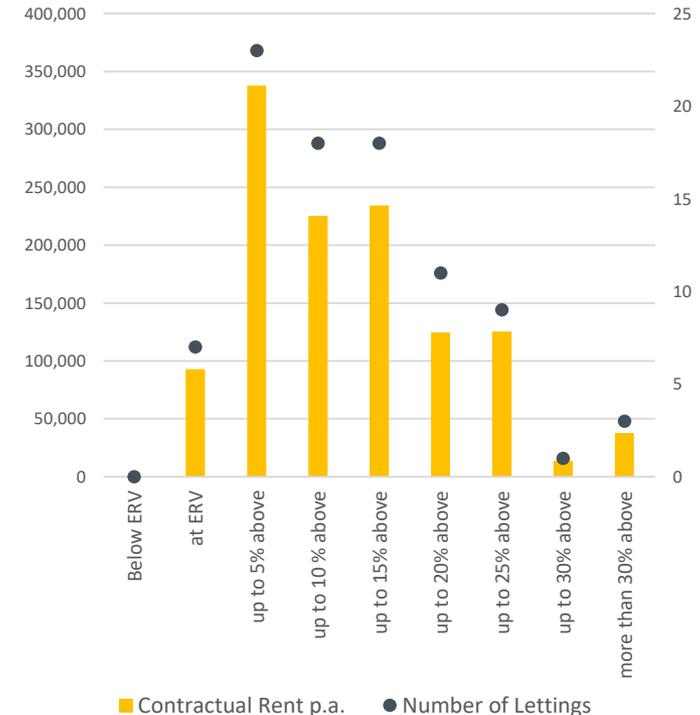
*As at February 2018

Multi-let industrial portfolio performance



12 months from 30th June 2017 (acquisition) to 30th June 2018

- ▶ 71 new lettings (£1.04m p.a. of rent) at an average premium to ERV of 11%
- ▶ 45 lease renewals/regears (£588k p.a. of rent) at an average premium to ERV of 13%
- ▶ On average, the above new lettings and renewals have been 17% ahead of the previous passing rent for each unit
- ▶ The average letting/renewal in excess of 3.6 years contractual term certain, with an average rent free period granted of 1.2 months
- ▶ As at 30th June 2018 there were 28 units under offer to let (£515k p.a. of rent) at an average rent of £5.96 psf.
- ▶ No units let at below ERV over the period



In the 12 months since purchase the average letting/renewal was 12% ahead of the Estimated Rental Value set in June 2017. The Estimated Rental Value set in June 2017 was approximately 10% ahead of the passing rent at that time.

Stenprop's Portfolio as at 19th September 2018



UK portfolio: 53.0%



Dana Trading Estate, Paddock Wood

German portfolio: 44.5%

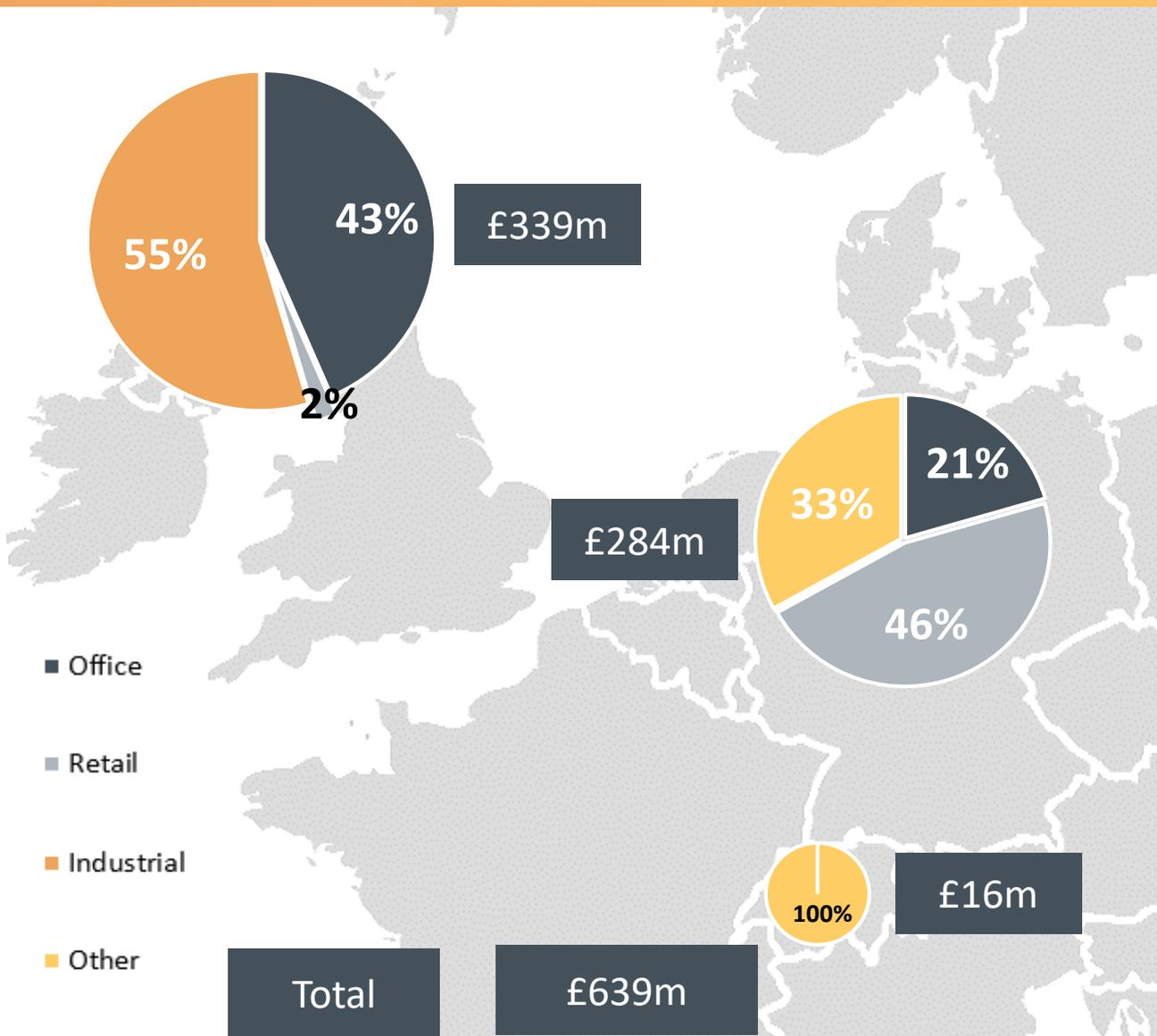


Bleichenhof, Hamburg

Swiss portfolio: 2.5%



Lugano, Switzerland



Key milestones to achieve by March 2020



Sales and Purchases

- ▶ MLI to comprise 65% of total portfolio
- ▶ Manage timings of acquisitions and disposals during transition to minimise cash drag and maintain dividend

Leverage

- ▶ Overall debt to reduce to no more than 40% LTV
- ▶ Manage use of revolving credit facility to smooth financing requirements

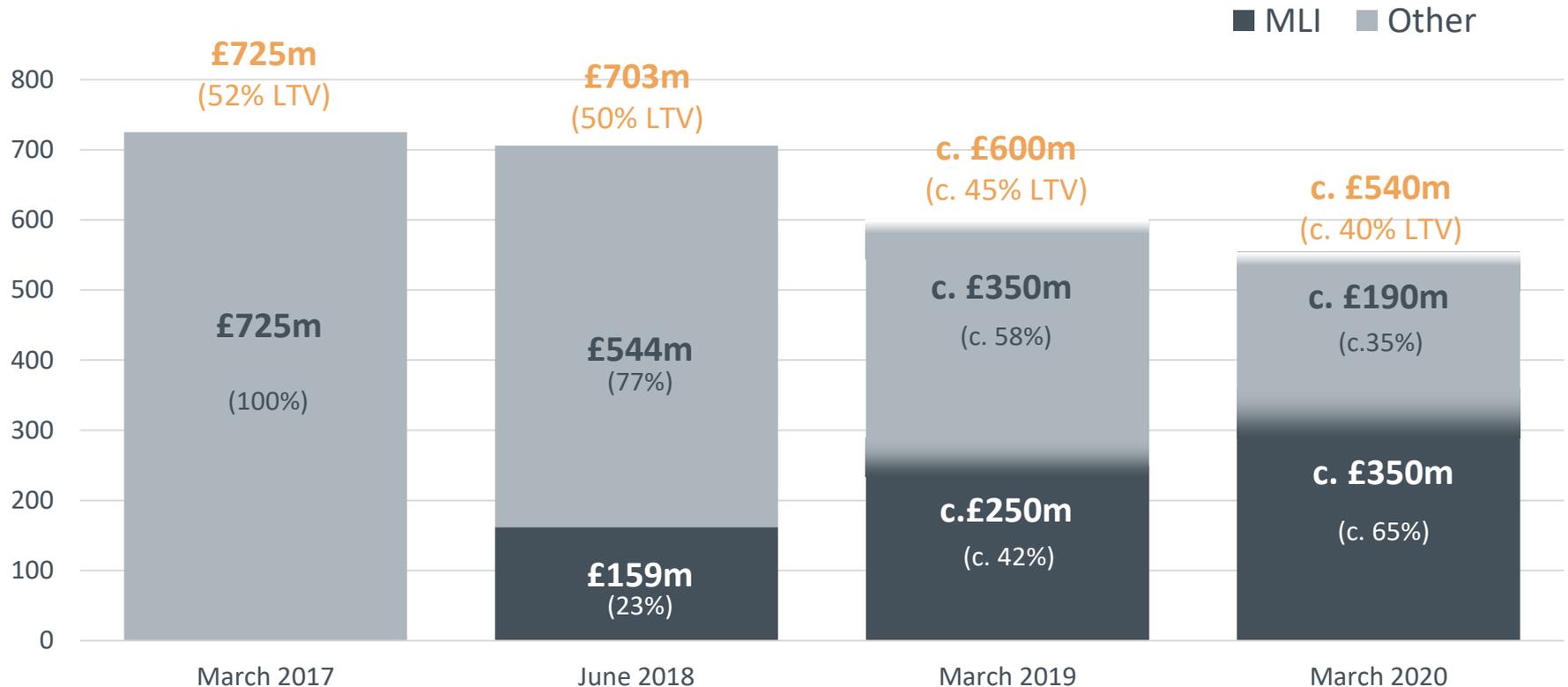
Operating Platform

- ▶ Transition existing business into a scalable MLI focused operating platform
- ▶ Embrace technological solutions to improve operating efficiency
- ▶ Develop the flexible leasing model to improve revenue psf

Transition of portfolio



Portfolio make-up 2017 to 2020



Transition entails selling c. £350m over the period, buying c. £185m of MLI and deleveraging with the difference after cost

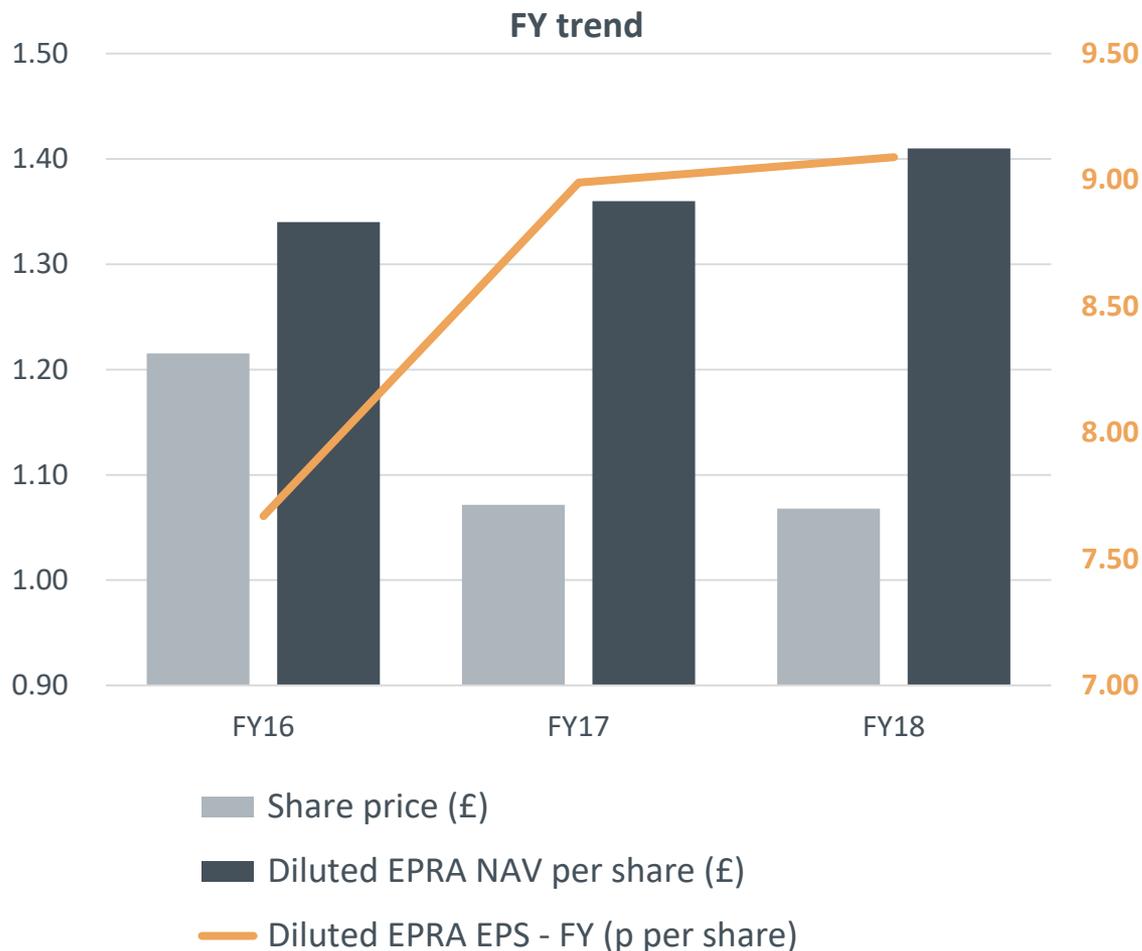
Notes:

Includes c. £29m of friction costs and tax on disposals

Excludes valuation movements during the period



Stenprop historic share price, NAV and EPRA EPS

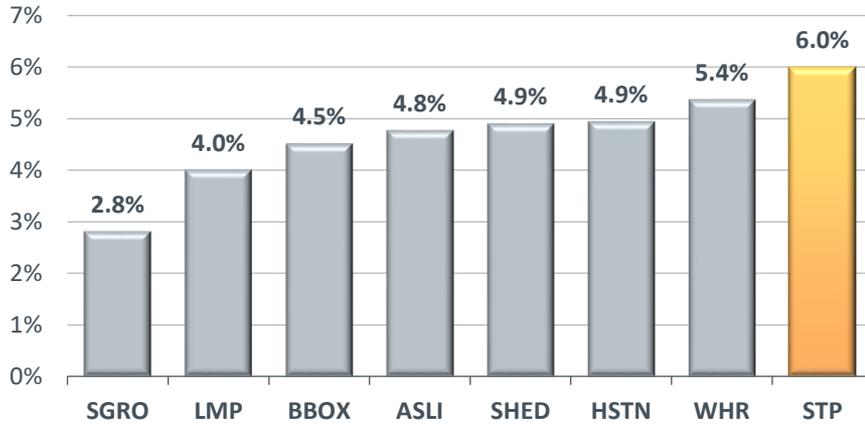


Why does Stenprop trade at a discount to NAV?

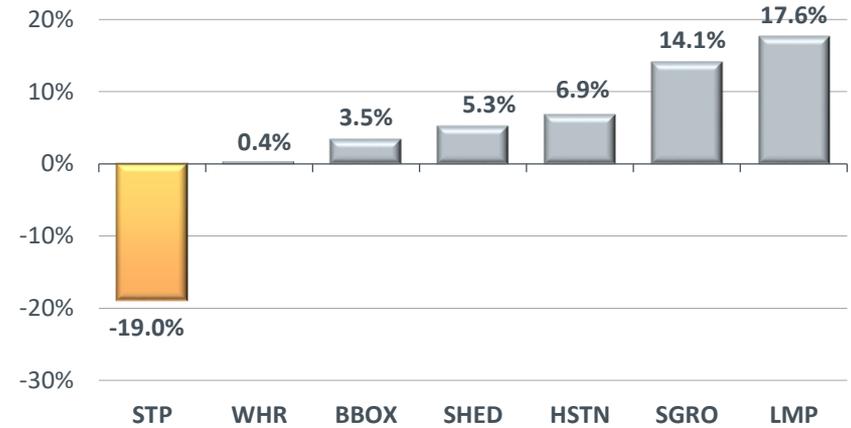
- ▶ Illiquid stock Exchanges
- ▶ Unfocused strategy – mixed asset classes
- ▶ Mixed geographies and currencies
- ▶ High leverage
- ▶ Mix of direct and 3rd party income



Dividend Yield



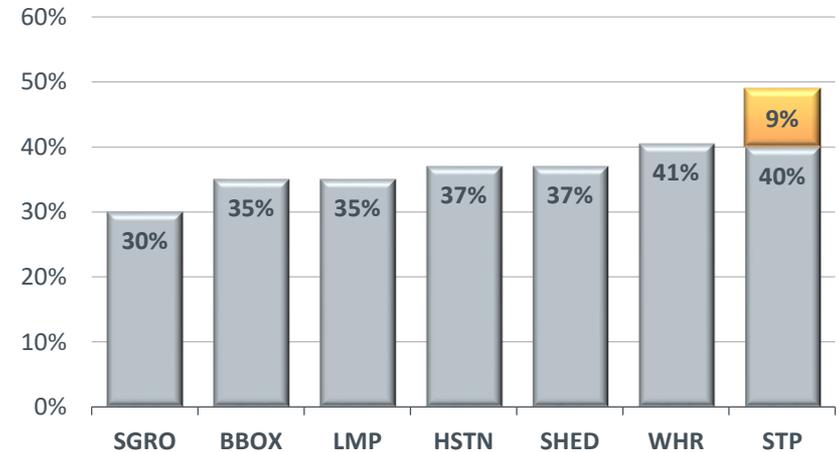
Premium / (Discount) to NAV



EPRA Cost



LTV



Source: Company & Numis Securities Research



Current share metrics

Diluted EPRA NAV / share

141p

(as at 31 March 2018)

Current share price

116pps

(as at 17 Sep 2018)

Projected dividend for year to
March 2019

6.75pps

Projected dividend yield
on share price

5.8%

Top shareholders as at 31st August 2018

- ▶ Directors Holdings 7.47%
- ▶ Sandown Capital Limited 6.87%
- ▶ Investec Wealth & Investment 4.72%
- ▶ 36One Asset Management 4.68%
- ▶ Thames River Capital 3.23%
- ▶ There are no other shareholders with more than 3% of the shares

As at 31st August 2018:

- ▶ Total shares held through JSE 24.1%
- ▶ Total shares held through Guernsey/LSE register 75.9%



Executive Directors

Paul Arenson
Chief Executive Officer

Patsy Watson
Chief Financial Officer

Julian Carey
Executive Property Director

Non-Executive Directors

Richard Grant
Independent
Non-Executive Chairman

Committees

- ▶ Audit & Risk
- ▶ Nominations (chairman)
- ▶ Remuneration
- ▶ Social & Ethics

Phil Holland
Independent
Non-Executive Director

Committees

- ▶ Audit & Risk (chairman)
- ▶ Nominations
- ▶ Remuneration
- ▶ Social & Ethics (chairman)

Paul Miller
Senior Independent
Non-Executive Director

Committees

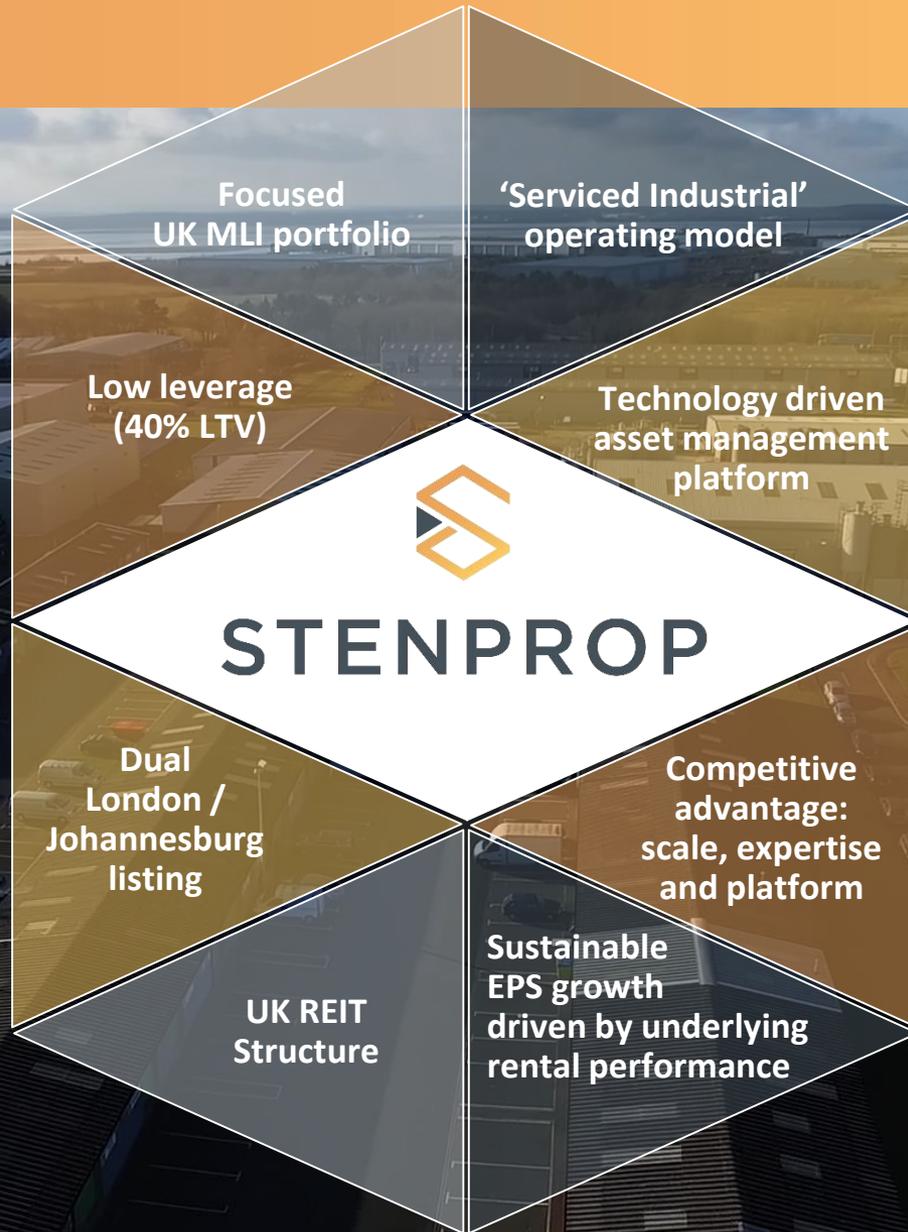
- ▶ Audit & Risk
- ▶ Nominations
- ▶ Remuneration (chairman)

Warren Lawlor
Non-Executive Director

Committees

- ▶ Nominations
- ▶ Remuneration

Conclusion





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Chief Executive Officer

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Patsy Watson
Chief Financial Officer



Julian Carey
Executive Property Director

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