

# 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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Multi-let Industrial  
in the UK



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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:

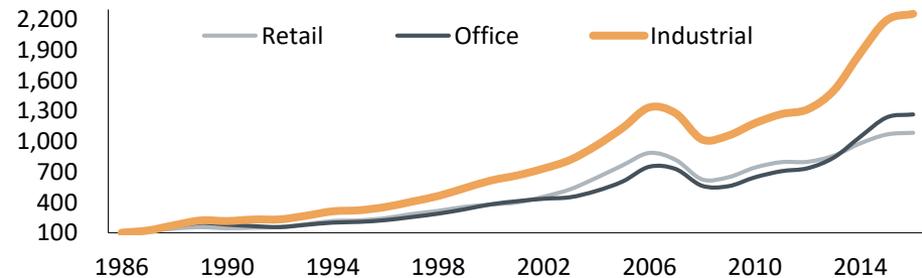
– Total return indices of **1220** and **1290** respectively over 30 years

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

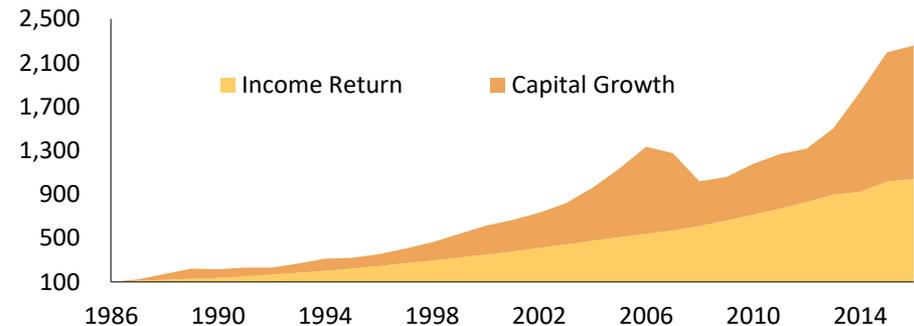
**The best performing sector in property over a 30 year period**

### 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

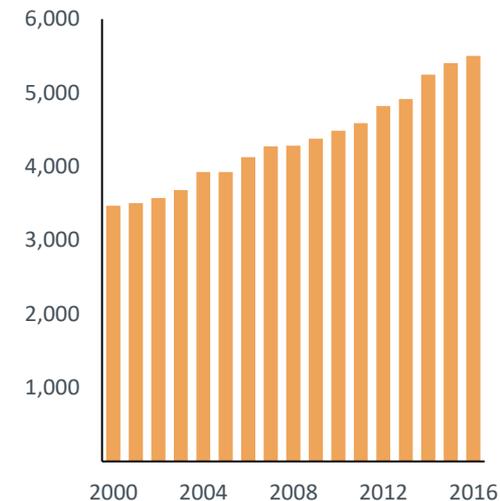
- ▶ The number of SMEs in the UK grew by **63%** between 2000 and 2017
- ▶ SMEs account for **99%** of private sector businesses
- ▶ UK SMEs annual turnover is **£1.9tn** p.a, reflecting **51%** of all private sector turnover, and employ **16.1m** people (c. **60%** of all private sector employees)

### 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



## 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

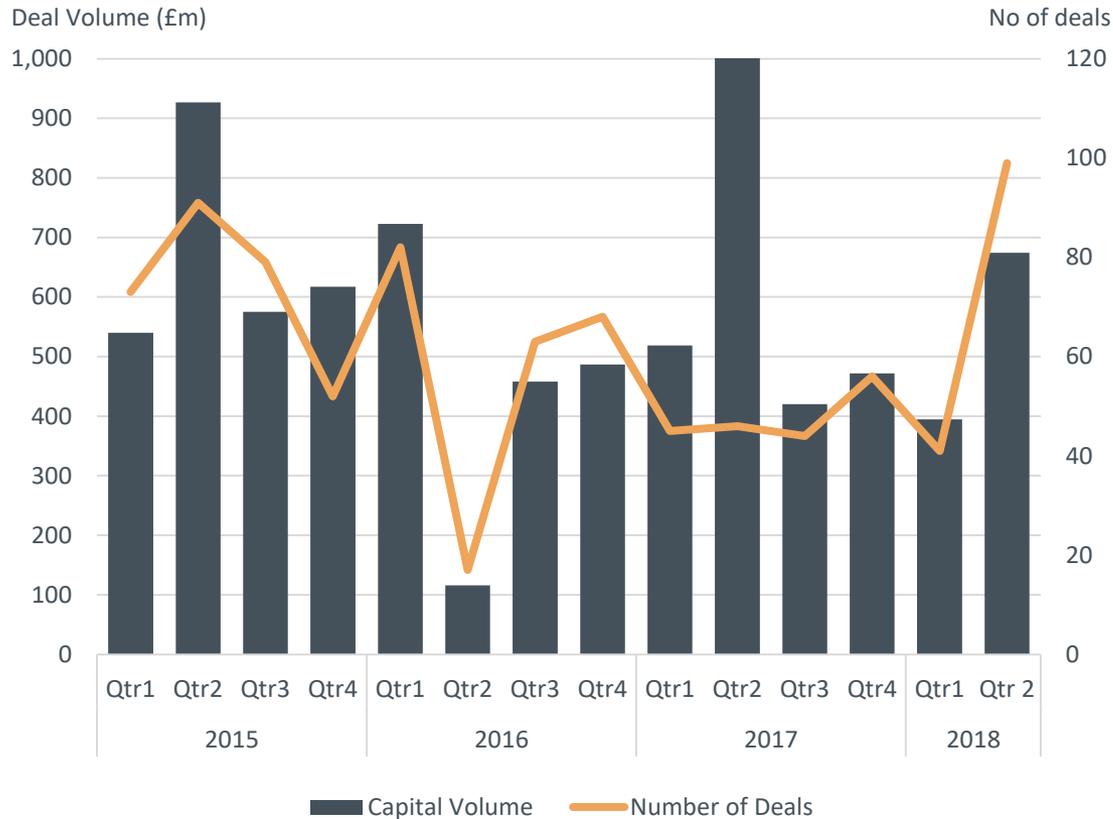
### Technology

- ▶ 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



|                           |                       |
|---------------------------|-----------------------|
| <b>2,634,279</b><br>sq ft | <b>861</b><br>Units   |
| <b>36</b><br>Assets       | <b>547</b><br>Tenants |

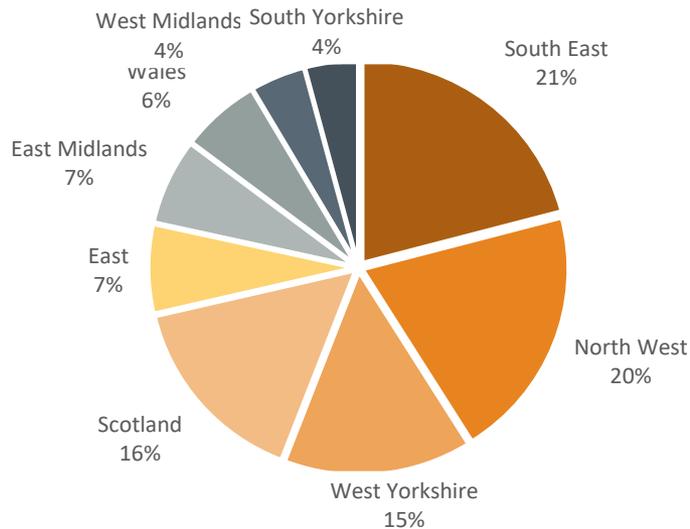
|  |               |           |
|--|---------------|-----------|
| Current Passing Rent                           | £12,366,124   | £5.46 psf |
| Contractual Rent <sup>1</sup>                  | £12,619,727   | £5.57 psf |
| Estimated Rental Value (ERV) at 100% occupancy | £14,926,056   | £5.67 psf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

**Notes:**

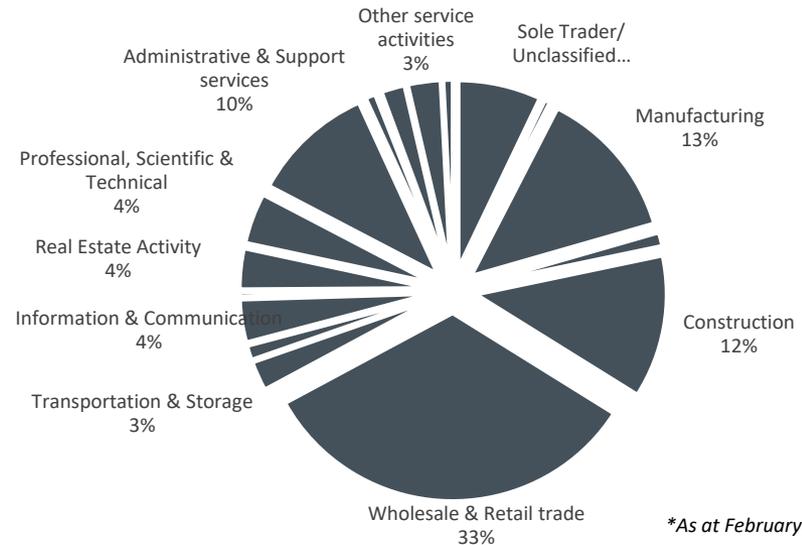
<sup>1</sup> Contractual rent includes contracted uplifts contained in existing leases over period of lease.

<sup>2</sup> 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\*

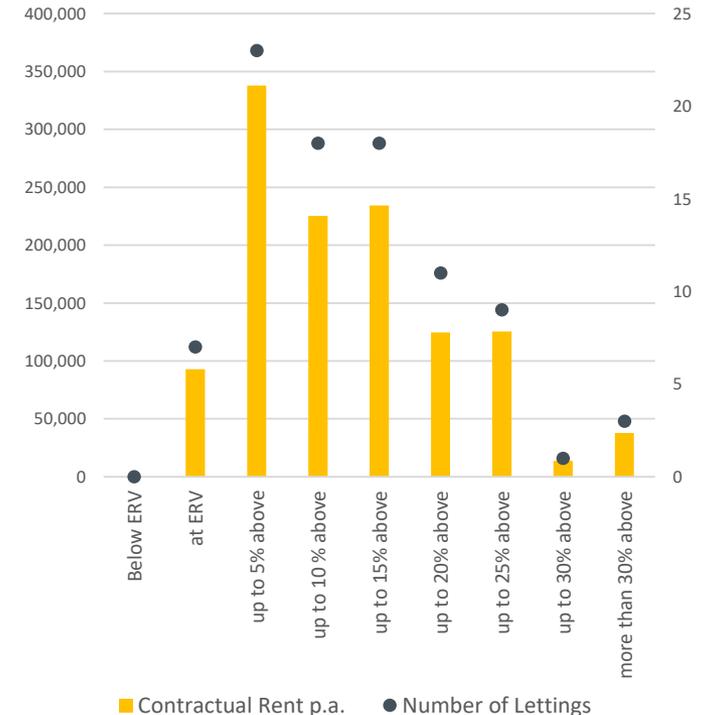


\*As at February 2018



## 12 months from 30<sup>th</sup> June 2017 (acquisition) to 30<sup>th</sup> 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 19<sup>th</sup> September 2018



UK portfolio: 53.0%



Dana Trading Estate, Paddock Wood

German portfolio: 44.5%

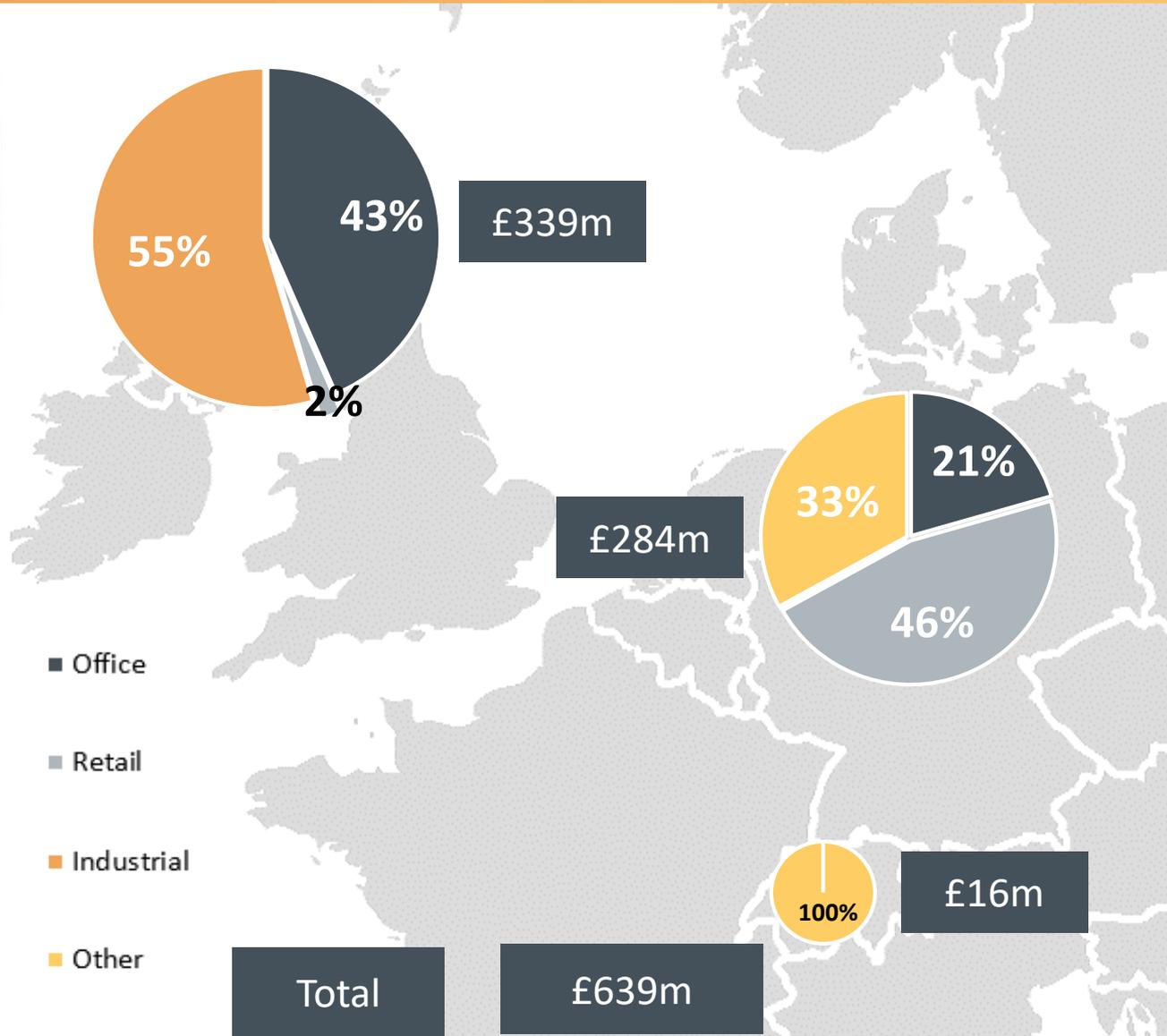


Bleichenhof, Hamburg

Swiss portfolio: 2.5%



Lugano, Switzerland



- Office
- Retail
- Industrial
- Other

# 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

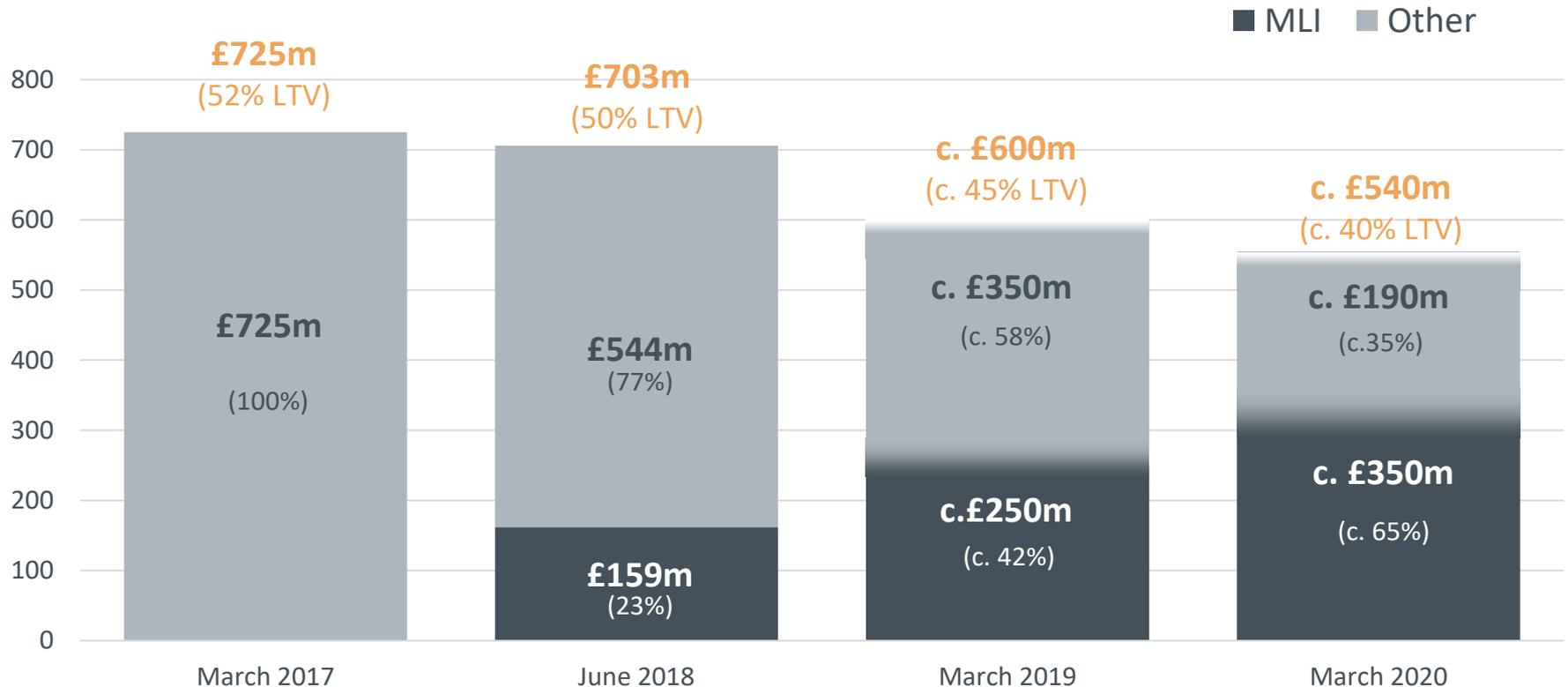
## Operating Platform

- ▶ 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**

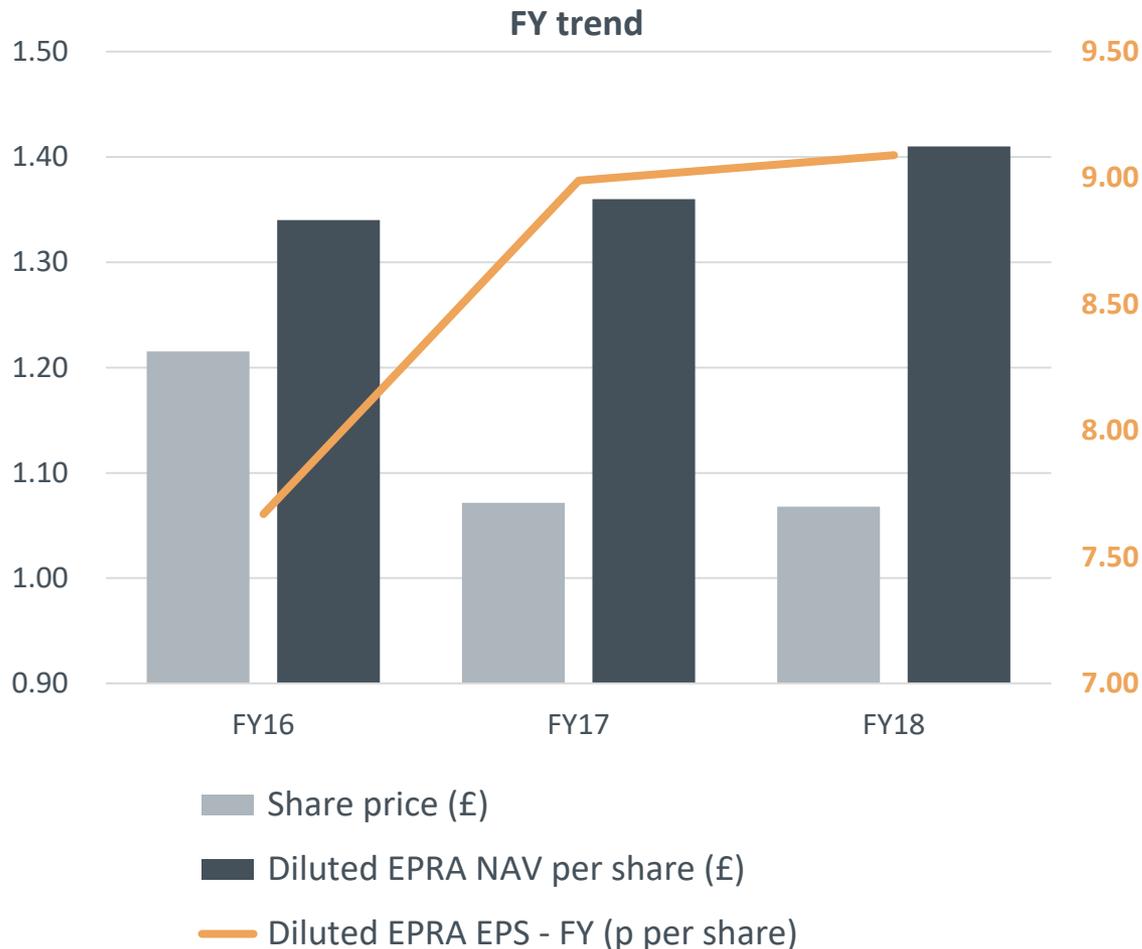
**Notes:**

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

Excludes valuation movements during the period



## Stenprop historic share price, NAV and EPRA EPS

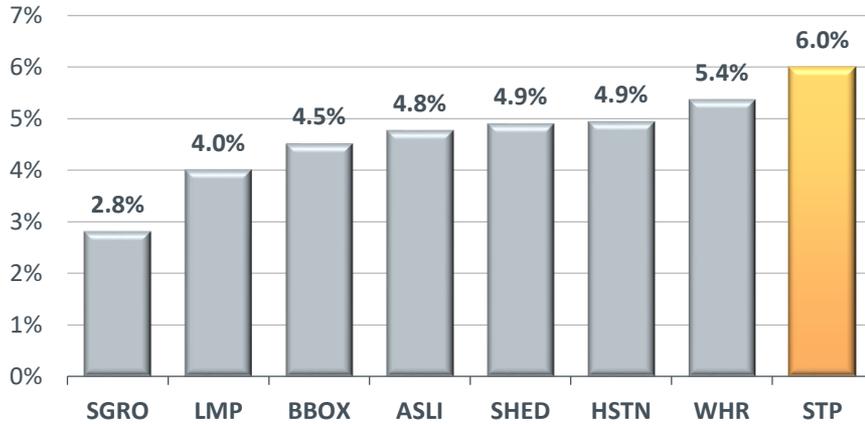


## Why does Stenprop trade at a discount to NAV?

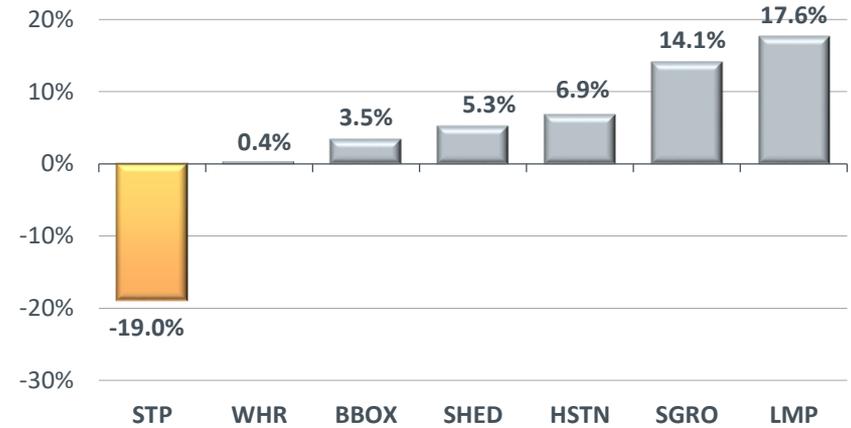
- ▶ Illiquid stock Exchanges
- ▶ Unfocused strategy – mixed asset classes
- ▶ Mixed geographies and currencies
- ▶ High leverage
- ▶ Mix of direct and 3<sup>rd</sup> party income



## Dividend Yield



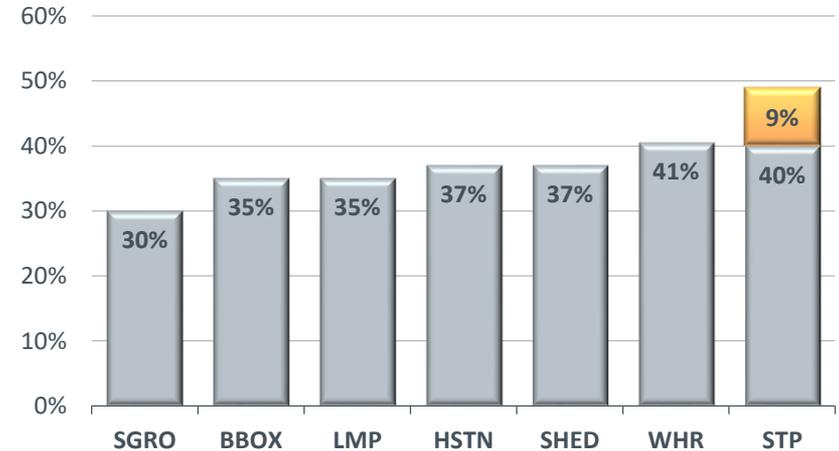
## Premium / (Discount) to NAV



## 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 31<sup>st</sup> 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 31<sup>st</sup> 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

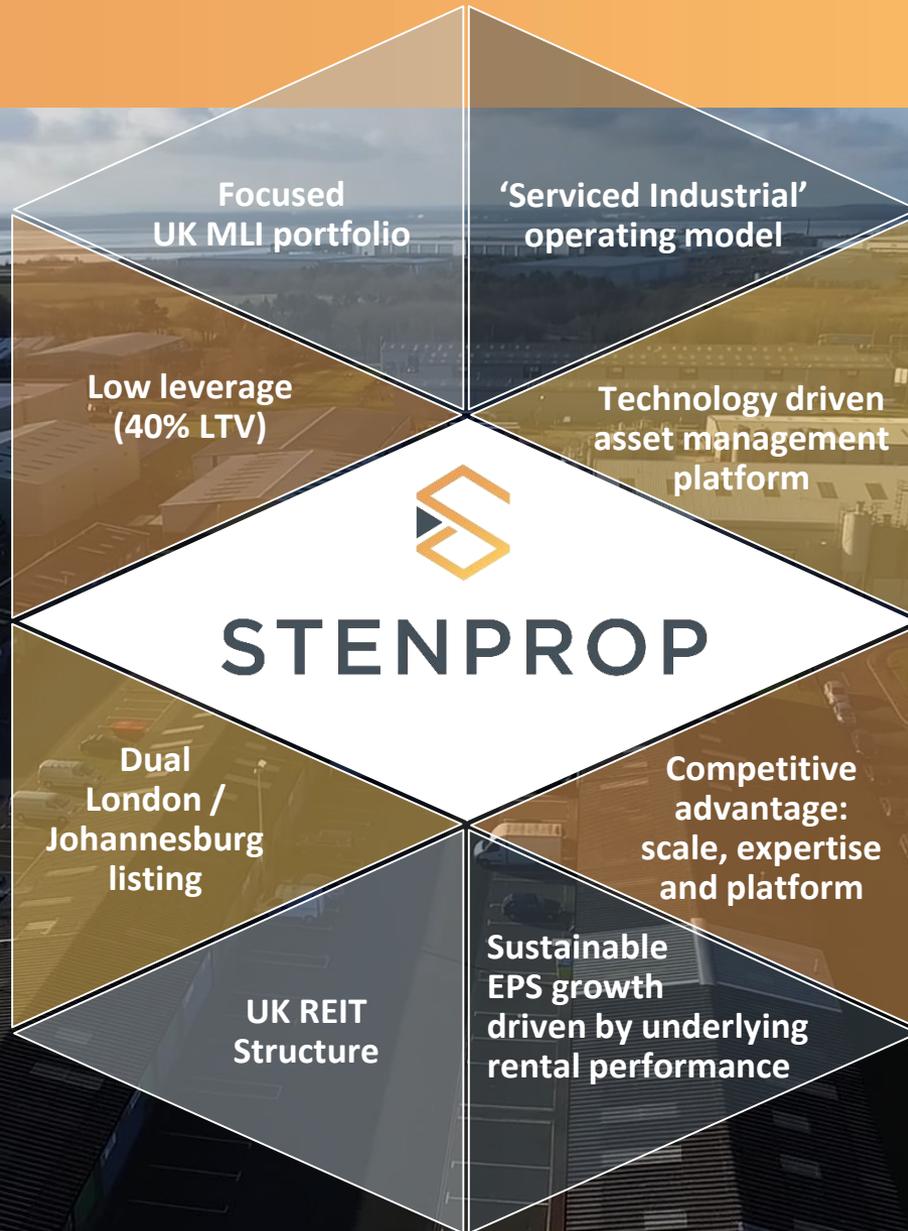
- ▶ Audit & Risk
- ▶ Nominations
- ▶ Remuneration (chairman)

**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**  
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