INDUSTRIALS REIT LIMITED
(formerly Stenprop Limited)
(Registered in Guernsey)
(Registration number 64865)
LSE share code: MLI JSE share code: MLI
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("**Industrials REIT**" or the "**Company**")

29 July 2022

MLI trading update Q1 FY 2023

Another strong quarter of leasing with continued diverse demand driving rental growth

Industrials REIT Limited, the UK multi-let industrial ("**MLI**") property company, today publishes a trading update on its MLI portfolio for the period 1 April 2022 to 30 June 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:

"Since the start of the first quarter in April, the MLI market has continued to be driven by the same high level of occupier demand as last year. Given the backdrop of negative headlines around inflation, rising interest rates and the threat of recession, the fact that our MLI space remains highly affordable to our customers and that demand for space continues to outstrip supply across the UK, provides us with a great deal of comfort and confidence. These dynamics have combined with the quality of our well-located portfolio and the efficiency of our operating platform and enable us to report an average uplift in passing rent of 27% on new lettings and renewals completed during the quarter. Furthermore, like-for-like ERVs are up 11.4% over the last 12 months to £6.76 psf on average, providing further potential for income growth in the future.

"We have also seen continued successes with our asset management initiatives, generating attractive returns on capital expenditure through strategic investment in the portfolio. Further evolution in our Industrials Hive platform is also driving efficiency improvements in our marketing and leasing functions, particularly the speed at which we can relet space, as well as enhancing our customer service proposition.

"On the investment side, during the quarter we completed two small MLI acquisitions and sold a single-let asset in Reading, releasing funds for further accretive multi-let industrial opportunities. The UK commercial investment market is currently experiencing volatility as buyers take stock of rising interest rates and economic uncertainty. Industrials REIT remains well placed to capitalise on any opportunities which arise from this volatility, with a low LTV of 26% and free cash available to deploy into acquisitions at the right time."

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Demand for MLI space continues to outstrip supply[1]

- The average passing rent increased by 27% on the aggregate of all new lettings and lease renewals, the highest growth rate achieved to date, driven by average uplifts of 30% and 23% for renewals and new lettings, respectively (previous quarter: 16% on renewals, 34% on new lettings and 22% overall). This is the seventh successive quarter of +20% average uplifts and is driven by a combination of the strong reversionary potential within the portfolio, with average passing rents now lagging estimated market values by 19.0% (previous quarter: 12.4%), and the continued occupier demand for our affordable space.
- 89 letting transactions completed during the quarter across £2.1 million of leases, with the average lease at just £23,600 per annum representing a small proportion of our customers' overall cost base (previous quarter: 86 lettings and £2.9 million). This comprised 62 lease renewals, itself a record, with a further 27 new lettings across a total of 307,226 sq ft (previous quarter: 32 renewals and 54 new lettings across 399,326 sq ft). A further 11 lettings exchanged during the quarter across 19,350 sq ft (previous quarter: 17 lettings across 54,044 sq ft), taking the total number of leases exchanged or completed during the quarter to the second highest period on record at 326,576 sq ft (previous quarter: 453,000 sq ft).
- ERV growth was also strong over the quarter, with like-for-like growth of 6.4% for the period and 11.4% over the past year (previous quarter: 1.2% for the quarter and 4.3% over the year). These new ERV highs reflect the fact that the average letting was concluded at a premium of 10.1% to March 2022 ERVs and that demand continues to outstrip supply of available units (previous quarter: 8.3% premium to December 2021 ERVs).

Strong pipeline of lettings on favourable terms[1]

- At 30 June 2022 there were 388,000 sq ft of lettings under offer across 81 transactions (previous quarter: 436,000 sq ft across 89 transactions), of which 148,000 sq ft related to new lettings and 240,000 sq ft to existing customer renewals (previous quarter: 142,000 sq ft of new lettings and 294,000 sq ft of lease renewals).
- The average lease signed during the quarter was for 4.6 years with a tenant break option after 3.4 years, whilst the average leasing incentive fell to a new low of 0.9 months' rent free on average (previous quarter: 4.9 years, 3.7 years and 1.2 months respectively).
- Like-for-like rental growth over 12 months was 3.2%, rising to 4.5% when excluding an outstanding rent-free incentive at one of our single-let assets in Ashby-da-la-Zouch which runs until November 2022 having recently renewed the lease (previous quarter: 4.4%).
- Like-for-like passing rents across the whole portfolio grew 1.5% during the quarter, thereby tracking in line with target revenue growth of 4-6% per annum (previous quarter: 1.5%), rising to 2.6% for the quarter when excluding Ashby-de-la-Zouch. The average passing rent remained unchanged at a highly affordable £5.72 psf but would have risen to £5.80 psf during the quarter without the sale of Rose Kiln Court, Reading which was let off a high rent of £22.67 psf.
- 62% of completed leases were contracted through Industrials REIT's short-form digital 'Smart Leases' (previous quarter: 53%).
- 76% of leases signed included at least a 3% annual uplift in rent throughout the term of the lease (previous quarter: 65% of leases signed).
- Occupancy across the MLI portfolio remained stable at 93.7% (previous quarter: 93.8%).

Efficiency improvements from Industrials Hive

- Industrials.co.uk website users were up 7.8% over the year (previous quarter: +8.3%), which coincided with several user experience enhancements aimed at improving traffic and conversion rates.
- Our strategy of improving enquiry quality (and hence efficiency) continues to deliver, with enquiry-to-lead qualification conversion rate of 10% on a rolling 12-month basis, with 84% of qualified leads going on to take a viewing (previous quarter: 8% and 87% respectively).
- Total viewing/building tour numbers were 172, up 9% on the previous period (previous quarter: 158, up 20% on previous quarter), with 27% of viewings resulting in a new letting on a rolling 12-month basis (previous quarter: 31%)

Rent collections returning to normalised level

- 87% of rents due in the quarter ended 30 June 2022 had been collected by 26 July 2022.
- 95% of rents due for the financial year ended 31 March 2022 had been collected by 26 July 2022.
- 98% of rents due for the financial year ended 31 March 2021 had been collected by 26 July 2022, equalling normal pre-Covid collection levels.
- Anticipated rent collections for the financial year to 31 March 2023 are expected to be at normalised pre-Covid levels of 98%+.

Asset management highlight

Hillfoot Industrial Estate comprises 65,000 sq ft of purpose built MLI units in central Sheffield. The estate was acquired in 2019 as part of a portfolio, and since acquisition it has performed well with high levels of occupancy and over 5% per annum valuation growth. However, an opportunity was identified to grow rents by attracting a wider potential customer base through the refurbishment and repositioning of a significant proportion of the estate. The works included new cladding to the roofs and elevations, the installation of new rooflights and replacement roller shutter doors and windows across 32 units (48,500 sq ft of MLI space) with a total capital expenditure of £715,000, equating to approximately £14.75 psf. The expectation was that the works would push the rents on the refurbished units from £6.65 psf to over £10 psf.

Having finished the works in May 2022, we have now completed or agreed eight new lettings or lease renewals, generating an additional £86,000 per annum in recurring revenue and reflecting a yield on cost of over 12% to date. Once all 32 impacted units have been relet or renewed, we anticipate a total uplift in recurring revenue of c. £187,000 per annum, reflecting a yield on cost of over 26% for the project. We also anticipate a significant uplift in the asset value of approximately £2 million, as a result of completing the works.

Acquisitions and disposals update

We began to see a degree of caution enter the commercial property investment markets over the quarter as buyers paused to reflect on the significant increases in the cost of debt and adjusted risk premiums to account for the risk of recession and rising inflation. This was reflected in our own investment activity, with just two acquisitions totalling £3.3 million completed during the period, both assets on or adjacent to existing MLI holdings. However, we will continue to target transactions which we believe will be accretive to our long-term earnings growth and have a strong pipeline of MLI opportunities under consideration.

In addition, post quarter end we completed the disposal of Rose Kiln Court in Reading. The property comprises 31,000 sq ft of hybrid office/industrial accommodation which was let to Thames Water until April 2022 at a rent of £718,458 per annum (£22.67 psf). Having secured vacant possession, the property was marketed as a redevelopment opportunity after we obtained planning permission for either an industrial or residential scheme. The proceeds from the sale will be recycled into further accretive MLI opportunities.

Transaction details are as follows:

1. Acquisition of Primrose Hill Industrial Estate, Phase 2, Stockton on Tees for £3.1 million on 20 April 2022 reflecting a capital value of £104 psf and a NIY of 5.1%;
2. Acquisition of Unit R5, Capital Business Park, Cardiff for £0.2 million on 17 June 2022 reflecting a capital value of £98 psf and a NIY of 6.7%;
3. Disposal of Rose Kiln Court, Reading for £5,881,100 on 8 July 2022, reflecting a capital value of £185 per sq ft and a 2.2% discount to 31 March 2022 book value of £6,015,000.[2]

<u>A strong balance sheet</u>

As at close of business on 30 June 2022, Industrials REIT's loan-to-value ratio (LTV) was 29% on drawn facilities, and approximately 26% when allowing for unrestricted cash[3].

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] All like-for-like statistics exclude Rose Kiln Court in Reading which was sold post period end.

[2] This transaction has already been announced in a previous RNS and SENS or Trading Update. For full details please visit https://www.industrialsreit.com/investor-information/rns-feed/

[3] Calculated as gross borrowing less unrestricted cash, divided by gross asset value based on our 21 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:

Error! Hyperlink reference not valid. Industrials REIT is a UK REIT with a primary listing on the London Stock Exchange and a secondary listing on the JSE. 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.