

INDUSTRIALS REIT LIMITED
(Registered in Guernsey)
(Registration number 64865)
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ISIN: GG00BFWMR296
("Industrials REIT" or the "Company")

28 April 2023

MLI trading update Q4 FY 2023
Strong tenant demand delivers 4.8% p.a. growth in passing rents

Industrials REIT, the UK multi-let industrial ("MLI") property company, today publishes a trading update on its MLI portfolio for the period 1 January 2023 to 31 March 2023 and up-to-date rent collection across the Company's whole portfolio.

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

"Our final trading update of the financial year has seen continued strong underlying occupational conditions in the MLI market driven by high demand, limited supply and affordable rents. Whilst the macro-economic backdrop remains challenging in the UK, our MLI portfolio has delivered on target, with 4.8% like-for-like growth in passing rents and 10.6% growth in estimated rental values over the 12 month period.

"The Industrials Hive platform continues to support the business by generating a strong pipeline of new lettings and enabling the business to transact with increasing efficiency. During the quarter, we concluded 120 leasing transactions taking the total for the financial year to 401, a 50% increase on the prior year. We saw average uplifts in rent of 27% on all lettings signed during the quarter, totalling a further £2.6 million of rent, with 73% of new lettings on Smart Lease® terms and conditions and over 82% of leases including 3% p.a. fixed uplifts. Furthermore, in the small number of instances where units have been handed back due to tenant move-outs, insolvency or forfeiture, demand remains sufficiently robust to maintain occupancy levels and to continue delivering rental growth.

"Finally, in early April, we completed the sale of our interest in a care homes joint venture in Germany, representing the completion of the non-MLI asset disposal programme we started in March 2018, following the initial acquisition of 25 MLI estates in June 2017, and completing our transition into a fully focused MLI operating business. This transaction released approximately £15 million in equity, which we intend to reinvest in accretive MLI opportunities in the UK.

"Despite the economic headwinds, the MLI occupational market remains robust and supportive of rental growth. However, Industrials REIT is not immune to these forces, and during this period is likely to see a proportion of top line revenue growth eroded by higher interest rates and cost base inflation. Nevertheless, the business remains well positioned to weather the storm with a low level of debt and a highly diversified customer base and portfolio."

Key metrics

Key metrics	Quarter Ended								
	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23
Occupancy	93.7%	94.7%	93.9%	93.8%	93.8%	93.7%	92.8%	92.4%	92.3%
Change in rent (L4L over 12 months)	5.6%	8.0%	5.0%	4.8%	4.4%	3.2%	2.7%	5.0%	4.8%
Change in ERV (L4L over 12 months)	5.5%	5.5%	5.1%	8.0%	4.3%	11.4%	12.2%	10.5%	10.6%
Average uplift in rent on letting or renewal	20.0%	21.0%	21.0%	21.6%	22.3%	27.3%	30.4%	31.0%	27.2%

400 leasing transactions completed over the last year

- We completed 120 letting transactions this quarter with a combined rent roll of £2.6 million (previous quarter: 84 lettings and £2.2 million), which takes the total for the year to 31 March 23 to 401 leasing transactions and £9.4 million of rent (previous year: 265 transactions and £7.1 million of rent). This quarter, we completed 65 lease renewals and 55 new lettings across a total of 358,590 sq ft (previous quarter: 50 renewals and 34 new lettings across 280,376 sq ft) with a further 11 lettings exchanged across 38,000 sq ft and expected to complete in the next quarter (previous quarter: 7 lettings across 23,000 sq ft), taking the total area of leases exchanged or completed during the quarter to 397,000 sq ft (previous quarter: 303,000 sq ft).
- The average passing rent increased by 27% on the aggregate of all new lettings and lease renewals (previous quarter: 31%), with average uplifts of 28% and 26% for renewals and new lettings respectively (previous quarter: 28% on renewals, 36% on new lettings). This is the tenth successive quarter of +20% average uplifts and is driven by unlocking the strong reversionary potential within the portfolio, with average passing rents lagging estimated market rental values on leased MLI units by 15.8% (previous quarter: 17.5%).
- Good leasing momentum continues with 301,000 sq ft of lettings under offer across 76 transactions as at 31 March 2023 (previous quarter: 343,000 sq ft across 43 transactions), of which 172,000 sq ft related to new lettings and 129,000 sq ft to existing customer renewals (previous quarter: 185,000 sq ft of new lettings and 158,000 sq ft of lease renewals).
- Lease terms remain unchanged, with the average lease signed during the quarter for 4.5 years with a tenant break option after 3.1 years and 0.9 months' rent free (previous quarter: 4.5 years, 3.3 years and 0.9 months respectively).
- 73% of completed leases were contracted through Industrials REIT's short-form digital 'Smart Leases' (previous quarter: 73%).
- 82% of leases signed included at least a 3% annual uplift in rent throughout the term of the lease (previous quarter: 70% of leases signed).

4.8% p.a. growth in passing rents

- Occupancy across the MLI portfolio (adjusted to exclude yard areas) was stable at 92.3% (previous quarter: 92.4%).
- Like-for-like passing rent over 12 months grew +4.8% (previous quarter: +5.0%) despite a reduction in occupancy over the same period of c. 1.2%, meaning that when adjusting for occupancy the underlying rents have grown by c. 6% p.a. Like-for-like passing rent grew +0.8% over the quarter (previous quarter: +3.1%).
- Like-for-like ERV growth across the portfolio was 0.6% over the quarter and 10.6% over the last year (previous quarter: 1.8% for the quarter and 10.5% over the year). ERVs on our MLI units remain highly affordable at an average of £7.06 psf, compared to an average passing rent of £6.02 psf (previous quarter: £6.99 psf and £5.94 psf respectively).

Industrials Hive generates strong demand

- Industrials.co.uk website users were up +20% vs the previous quarter, and up +34% year-on-year (previous quarter: -6% vs previous quarter and +15% year on year) produced by improvements to our industrials.co.uk website which resulted in better search engine visibility and enhanced user experience.
- Continued efficiency improvements with enquiry-to-lead qualification conversion rates up to 13%, with 92% of leads going on to take a viewing on a rolling 12-month basis (previous quarter: 12% and 83% respectively).
- Lead volumes were up +53% year-on-year, reflecting the depth and quality of leasing enquiries being generated by the Industrials Hive platform and the desirability of space in our portfolio (previous quarter: +27%).
- Total viewing/building tour numbers were 230 for the quarter, up 10% on the previous quarter with 19% of viewings resulting in a new letting on a rolling 12-month basis (previous quarter: 207 viewings with a 22% conversion rate to letting).

Asset management highlight

Lake Enterprise Park in Bromborough was acquired by Industrials in January 2021 and comprises a 37,000 sq ft estate with 35 units averaging 1,050 sq ft. The property is located adjacent to Croft Business Centre, another Industrials REIT property, which was acquired as part of the original Industrials portfolio in June 2017, and also comprises small 'starter units' averaging around 1,000 sq ft. The properties are in a mixed commercial area with a range of industrial and retail uses, including the adjacent 450,000 sq ft Croft Retail & Leisure Park.

Upon acquisition we identified that Lake Enterprise Park would benefit from capital investment to enhance its 'yard appeal' and enhance rental growth. In October 2022, we commenced a four month refurbishment program principally focused on renewing the roofs and other external improvements designed to improve the appearance, appeal and longevity of the property. The investment totalled £350,000 (£9.38 psf) and completed ahead of time and below budget.

We have since renewed, relet or reviewed rents on 16 units on the estate, generating an uplift in rent of over £77,000 vs the previous passing rent. All new lettings and renewals were completed on Smart Leases. In addition, there are a further 13 refurbished units left to renew, relet or review over the next few years, with potential to deliver additional rent of c. £50,000 per annum. In aggregate, the scheme is forecast to deliver an uplift in revenue of £127,000 per annum, a 43% increase from the pre-works passing rent.

Finally, because of upgraded insulation and lighting installed as part of the works, we have seen the average EPC rating across all units on the estate improve from a Grade D to a Grade C. This ensures compliance with all future and proposed EPC regulations until at least 2030 and is in line with our broader strategy of continually upgrading the environmental credentials of our portfolio through active asset management.

Rent collections continue to improve

- 92% of rents due for the quarter ended 31 March 2023 had been collected by 21 April 2023 (previous quarter: 90% of rents collect at the same point after the quarter day)
- 96% of rents due for the financial year ended 31 March 2023 had been collected by 21 April 2023
- 98% of rents due for the financial year ended 31 March 2022 had been collected by 21 April 2023

Completion of the final non-MLI asset sale

On 5 April 23 the Company announced that it had sold its interest in a Care Home joint venture in Germany generating net proceeds of £15.6 million (€17.8 million). For further information please see <https://www.industrialsreit.com/investor-information/rns-and-sens-feed/rns/rns-announcements/?rid=4271499>.

No new MLI acquisitions were completed during the quarter.

Low leverage with significant covenant headroom

As at close of business on 31 March 2023, Industrials REIT's loan-to-value ratio was 29% on drawn facilities, and approximately 23% when allowing for unrestricted cash¹. The average cost of debt is 2.8% (based on SONIA at 4.2%). 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 3.2 years (rising to 4.4 years assuming loan extension options are exercised), with strong headroom across all debt covenants.

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 Calculated as gross borrowing less unrestricted cash, divided by gross asset value based on our 30 September 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.

On 14 April 2023 the Company announced that it had agreed the terms of a cash acquisition of the entire issued, and to be issued, share capital of Industrials REIT. The transaction has been recommended by the Industrials REIT board and remains subject to shareholder approval. The full announcement can be found on the [Company's website, https://www.industrialsreit.com/investor-information/rns-and-sens-feed/rns/rns-announcements/?rid=4274048](https://www.industrialsreit.com/investor-information/rns-and-sens-feed/rns/rns-announcements/?rid=4274048).

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.