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

27 January 2023

MLI trading update Q3 FY 2023
Strong tenant demand continues to drive rental growth

Industrials REIT , the UK multi-let industrial ("**MLI**") property company, today publishes a trading update on its MLI portfolio for the period 1 October 2022 to 31 December 2022 and up-to-date rent collection across the Company's whole portfolio.

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

"The MLI market finished 2022 on a strong footing, with high demand, limited supply and the affordability of our high-quality space translating into a 31% average uplift in rent at renewal or reletting. New lettings were particularly strong this quarter, with average rental uplifts of 36% compared to that paid by the previous tenant, whilst lease terms and incentives remain unchanged. This helped push like-for-like passing rents for the total portfolio up 5.0% over the last 12 months, during which time Estimated Rental Values ("**ERVs**") have grown 10.5%, creating potential for strong rental uplifts between letting or renewal in future. Whilst occupancy fell 0.4% during the quarter, we believe that the continued strength of tenant demand and rental growth in the quarter means this is not an indicator of a trend at this stage.

"We also enter the first quarter of 2023 with a strong pipeline of lettings under offer on the back of another busy period of enquiries and viewings. Our Industrials Hive platform continues to generate demand via our industrials.co.uk website (visitors +15.4% year on year), whilst our dedicated sales team has continued to convert enquiries into viewings and lettings with increased efficiency.

"Investment activity in the last quarter of 2022 remained muted when compared to previous years, with DTRE reporting total MLI transaction volumes down 23% when compared with the same period last year. Despite this, there remains plenty of capital seeking MLI investment opportunities at a repriced level and increasing evidence of vendors adjusting their expectations. We continue to watch the market carefully and believe that attractive and accretive acquisition opportunities will emerge as we move through the first half of 2023.

"Overall, customer demand for MLI remains strong and we continue to lease space at attractive rents with minimal incentives. We remain cautious that the trading environment may become more difficult as we progress through 2023, but to date we have seen limited evidence of this in our portfolio."

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Key metrics

	Quarter Ended								
Key metrics	**Q3 FY21**	**Q4 FY21**	**Q1 FY22**	**Q2 FY22**	**Q3 FY22**	**Q4 FY22**	**Q1 FY23**	**Q2 FY23**	**Q3 FY23**
Occupancy	93.1%	93.7%	94.7%	93.9%	93.8%	93.8%	93.7%	92.8%	92.4%
Change in rent (L4L over 12 months)	3.6%	5.6%	8.0%	5.0%	4.8%	4.4%	3.2%	2.7%	5.0%
Change in ERV (L4L over 12 months)	3.8%	5.5%	5.5%	5.1%	8.0%	4.3%	11.4%	12.2%	10.5%
Average uplift in rent on letting or renewal	25.0%	20.0%	21.0%	21.0%	21.6%	22.3%	27.3%	30.4%	31.0%

31% average uplift in rent at reletting or renewal

- The average passing rent increased by 31% on the aggregate of all new lettings and lease renewals, the highest growth rate achieved to date and surpassing the previous record last quarter (previous quarter: 30%). The growth was driven by average uplifts of 28% and 36% for renewals and new lettings respectively (previous quarter: 30% on renewals, 31% on new lettings). This is the ninth 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 17.5% (previous quarter: 19.6%).
- We completed 84 letting transactions this quarter with a combined rent roll of £2.2 million, which is in line with expectations following exceptionally strong quarters in terms of the value of leases signed in March and September 2022 (previous quarter: 108 lettings and £2.6 million). This comprised 50 lease renewals and 34 new lettings across a total of 280,376 sq ft (previous quarter: 71 renewals and 37 new lettings across 383,704 sq ft). A further seven lettings exchanged across 23,000 sq ft which will complete in the next quarter (previous quarter: 10 lettings across 26,000 sq ft), taking the total area of leases exchanged or completed during the quarter to 303,000 sq ft (previous quarter: 406,000 sq ft).
- Good leasing momentum continues, and as at 31 December 2022 there were 343,000 sq ft of lettings under offer across 43 transactions (previous quarter: 321,000 sq ft across 59 transactions), of which 185,000 sq ft related to new lettings and 158,000 sq ft to existing customer renewals (previous quarter: 160,000 sq ft of new lettings and 161,000 sq ft of lease renewals).
- Lease terms remain stable, with the average lease signed during the quarter for 4.5 years with a tenant break option after 3.3 years and 0.9 months' rent free (previous quarter: 4.4 years, 3.3 years and 0.6 months respectively).
- 73% of completed leases were contracted through Industrials REIT's short-form digital 'Smart Leases' (previous quarter: 68%).
- 70% of leases signed included at least a 3% annual uplift in rent throughout the term of the lease (previous quarter: 79% of leases signed).

5% p.a. growth in passing rents

- Like-for-like passing rent over 12 months grew +5.0% on the back of strong releasing activity and the expiry of a significant rental incentive in Ashby-de-la-Zouch (previous quarter: +2.7%, rising to 4.0% when excluding Ashby de la Zouch). Over the quarter like-for-like passing rents grew 3.1% (previous quarter: -0.7%).
- Like-for-like ERV growth across the portfolio was 1.8% over the quarter and 10.5% over the last year (previous quarter: 1.1% for the quarter and 12.3% over the year). ERVs on our MLI units remain highly affordable at an average of £6.99 psf, compared to an average passing rent of £5.94 psf (previous quarter: £6.87 psf and £5.74 psf respectively), with the average rent on each new lease signed this quarter equating to £2,160 per month for a 3,338 sq ft unit (previous quarter: £2,040 per month for a 3,550 sq ft unit).
- Occupancy across the MLI portfolio (adjusted to exclude yard areas) was marginally lower at 92.4% (previous quarter: 92.8%).

Strong customer demand via Industrials Hive

- Industrials.co.uk website users were down -6.0% vs the previous quarter, as is expected over the Christmas period, but up +15.4% year on year (previous quarter: +18.5% vs previous quarter and +9.0% year on year). 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 +27% 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: +24%).
- Total viewing/building tour numbers were 207, the best period to date, with 22% of viewings resulting in a new letting on a rolling 12-month basis (previous quarter: 179 viewings with a 26% conversion rate to letting).

Asset management highlight

Imex Business Centre comprises 46,786 sq ft of purpose built MLI and office space in Loanhead, six miles south of Edinburgh. The estate was acquired in 2017 and has benefited from strong demand from a diverse range of commercial users attracted by the strategic and well-connected location just south of the city.

An opportunity was identified to enhance rental growth via a full external refurbishment and redecoration of the estate. The works include a roof overclad, the installation of new roof lights, and full external redecoration of 39 units across three terraces. The project has a planned capital expenditure of £608,000 equating to approximately £13.00 psf. The expectation was that the works would increase estimated rental values by just over 25%.

Whilst practical completion is targeted for March 2023, we had already completed 16 new leasing transactions by 31 December 2022 and have a further six units under offer, combining to generate an additional £64,500 per annum in recurring revenue compared to the previous passing rent. These new lettings generate a yield on cost of approximately 10.6% for the scheme, and once all the units have been relet or renewed, we anticipate a total uplift in recurring revenue of c. £108,000 per annum, reflecting a yield on cost of approximately 17.7%.

Once the refurbishment works are completed, we expect the average EPC ratings across the asset to improve from a Grade C to a Grade B, in line with our broader strategy of continually upgrading the environmental credentials of our portfolio through active asset management.

Rent collections continue to improve

- 90% of rents due in the quarter ended 31 December 2022 had been collected by 25 January 2023 (previous quarter: 87% of rents collects at the same point after the quarter day)
- 97% of rents due for the financial year ended 31 March 2022 had been collected by 25 January 2023

Disciplined capital allocation with limited investment activity until repriced opportunities emerge

No new MLI acquisitions were completed during the quarter. The MLI investment market was subdued in the last quarter of the year, with transaction volumes 23% down when compared to the same period last year (Source: DTRE). We continue to monitor the market for attractive opportunities to selectively deploy capital on an accretive basis.

Low leverage with significant covenant headroom

As at close of business on 31 December 2022, Industrials REIT's loan-to-value ratio was 30% on drawn facilities, and approximately 27% when allowing for unrestricted cash[1]. The average cost of debt is 2.6% (based on SONIA at 3.4%). 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.

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.