Clipstone Industrial REIT plc

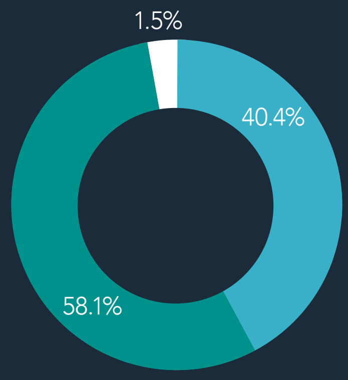
Investor Update – 31 March 2023

CURRENT STATUS OF THE FUND

Number of Properties:	36
Aggregate Value:	£297.3m
Net Asset Value per Share:	£1.7468
Portfolio Net Initial Yield:	5.0%
Portfolio Equivalent Yield:	5.5%
Portfolio Reversionary Yield:	5.6%
Total Passing Rent:	£16.1m pa
Total Headline Rent:	£16.2m pa
Passing Rent:	£10.30 psf
ERV:	£11.45 psf
Number of Units:	230
Number of Tenants:	185
Exposure to Largest Tenant: (shown as a percentage of total rent)	6.5%
Vacancy Rate:	2.8%
Loan to Value:	26.9%
Projected Dividends:	6.50p per share
Dividends at current NAV (£1.7468):	3.7%

PROPERTIES BY REGION

- London/M25*
- South East
- South West



*London / M25 includes properties within the M25 and within a circa 10-mile drive of the M25.

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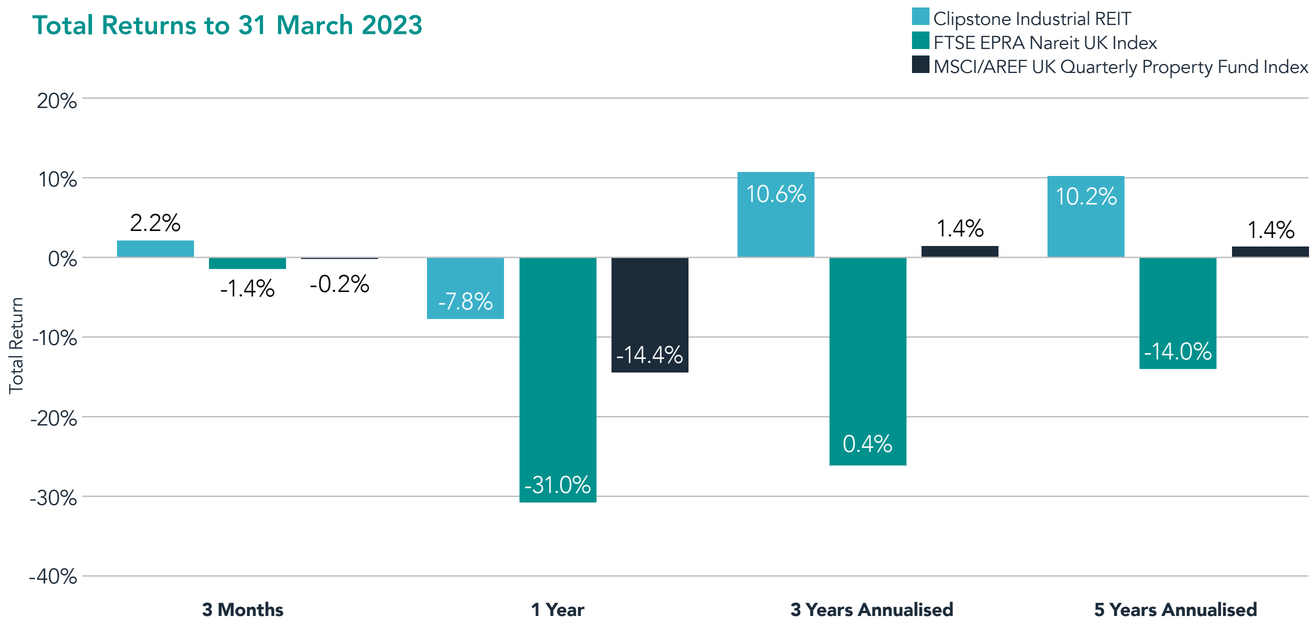
The valuation of our property holdings at 31 March 2023 has increased by 0.9% since 31 December 2022. This translated into an improvement in net asset value ("NAV") to £1.7468 per share, an increase of 1.2% from the NAV at the end of December 2022. Shareholders' total return (NAV increase added to dividends paid) was 2.2% over the quarter.

Whilst only a small increase in NAV, we are pleased the value of our portfolio has currently stabilised. We are also comforted by the relative performance of our properties against the wider market. The Company is the fourth best performing portfolio in the MSCI UK Quarterly Property Index since joining in Q1 2019 (fourth out of 209 portfolios) and continues to outperform the broader property market over all relevant time periods, as shown below.

Total Returns to 31 March 2023



1 **The Investment Market**

Following steep valuation declines in late 2022 caused by rising interest and gilt rates, the investment market for South East industrials stabilised during the first quarter of 2023 – Knight Frank's Prime Yield Guide shows South East Industrial yields (excluding London) moving from 3.25%-3.50% in April 2022 to 5.00%-5.50% in December 2022, and then stabilising to 5.00% - 5.25% by March 2023.

Whilst these sharp valuation declines in late 2022 were, in our view, partly based on sentiment rather than transactional evidence, early 2023 has seen some investment activity. We are aware of three prime London industrial estates going under offer at equivalent yields ("EY") of around 5.00% (with net initial yields of circa 4.00%). This evidence is from early March 2023 and indicates a recovery for London industrial pricing. If prime London industrials have indeed found their floor at around 5.00% EY, then investors will naturally want a discount for lower quality, secondary assets outside of London and we expect the next phase of the market correction to impact pricing for secondary and tertiary assets, where values currently remain unclear due to a lack of investment activity. This is a pattern we witnessed after the GFC in 2008 and, if this is a repeat, it may be that good quality London and South East industrials (such as those owned by the REIT) have already suffered the bulk of their valuation decline.

However, since the early March investment activity referred to above, the market has been impacted by the failure of Silicon Valley Bank ("SVB") and the ensuing regional banking crisis in the USA. There are concerns around the heath of the so-called shadow banks and declining banking liquidity generally has had an impact on investor confidence. There is a risk that further declines in banking liquidity could have an impact on the investment market, particularly as low-cost loans taken out over the last five years come to the end of their terms. New bank debt may be more difficult to source in today's environment and, if terms can be agreed, interest costs will be higher than maturing debt – not only due to higher interest rates, but also due to higher margins due to lower risk appetite from banks. However, again we believe the secondary, regional markets are more at risk, as we expect London and South East industrial property to fare better in this more challenging economic environment, partly due to the better supply and demand dynamic (at an occupational and investment level), and partly due to the positive outlook on the sector from banks.

In summary, by early March there was evidence that yields for London and South East industrials had stabilised or even contracted for London industrials. However, recent banking issues have had an impact on investor confidence, although at this stage it does not appear to have reversed the recent price stabilisation. We are hopeful our sector will prove resilient, although we think more turbulent times lie ahead for the secondary and teritiary industrial markets. Going forward, much will depend on quality of assets and also how the occupational market behaves – a major reversal in the occupational market could spook an already nervous investment market.

2 Occupational Market

The last few years have seen unprecedented levels of rental growth. We are now seeing rents starting to flatten in certain markets, although at this stage there is no evidence of rents declining. Incentives on new lettings are starting to increase marginally, albeit from historically low levels (so we would describe incentives as "normalising"). Tenants now frequently expect to receive incentives on lease renewals. This may provide landlords with an opportunity to improve headline rents in exchange for a rent-free period or a capital contribution towards "green improvements".

We are experiencing increased tenant frustration with the levels of rent being charged, as occupiers often find it difficult to understand why their rents are increasing at a time when there is so much negative economic news.

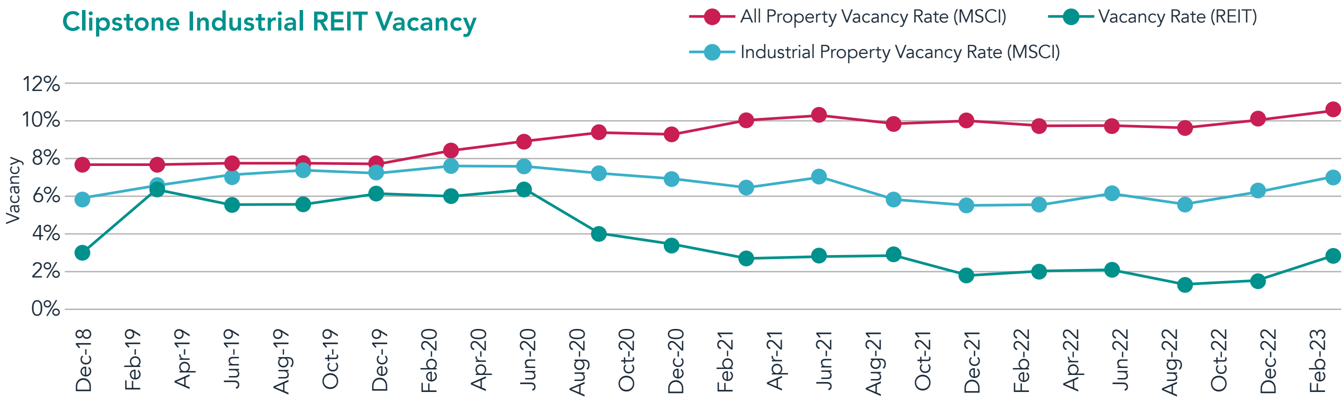
Tenants are being placed under pressure by inflation (materials, utilities, transport, staff costs), higher interest rates, higher taxes and often reduced trade due to the economic environment. These factors will inevitably lead to increases in insolvency rates and reduced occupational demand.

However, generally speaking, tenants do not want to move: moving is expensive, disruptive and the cost of fit-outs has increased with inflation. This helps our tenant retention rates, although these same factors mean fewer tenants are looking to relocate, which impacts occupational demand.

Clipstone Industrial REIT plc
Investor Update – 31 March 2023 *continued*

We continue to receive enquiries from a wide spectrum of companies. However, enquiries for vacant space broadly slowed as the UK was forecast to be heading towards a recession. Tenants are generally cautious of expanding their businesses.

Against this backdrop of a weakening occupational market, we have seen an increase in our void rate from 1.5% at 31 December 2022 to 2.8% at 31 March 2023. Whilst any increase in our void rate is unwelcome, 2.8% remains an extremely low rate and is significantly below market rates (as shown below) - we believe our low void rate is due to the quality and location of our properties, as well as the effectiveness of Clipstone's asset management operations.



Our 2.8% vacancy constitutes 10 vacant units (the portfolio has a total of 230 units). At 31 March 2023 two of those 10 vacant units were under offer, at a combined uplift of 22.7% over previous passing rents.

Despite the economic environment and the increased void, we increased passing rent by 0.4% over the quarter[1] and we completed the lease events listed below at a combined average increase of 8.8% over previous passing rents.

Property	Date of Event	Event	Previous rent pa	New Headline Rent pa	Uplift
Hailsham	Jan 23	Rent review	£47,500	£55,053	16%
Chesham	Jan 23	Rent review	£56,556	£64,500	14%
Whitney	Jan 23	Rent review	£150,000	£150,000	0%
Chesham	Feb 23	New Letting	£17,790	£21,160	47%

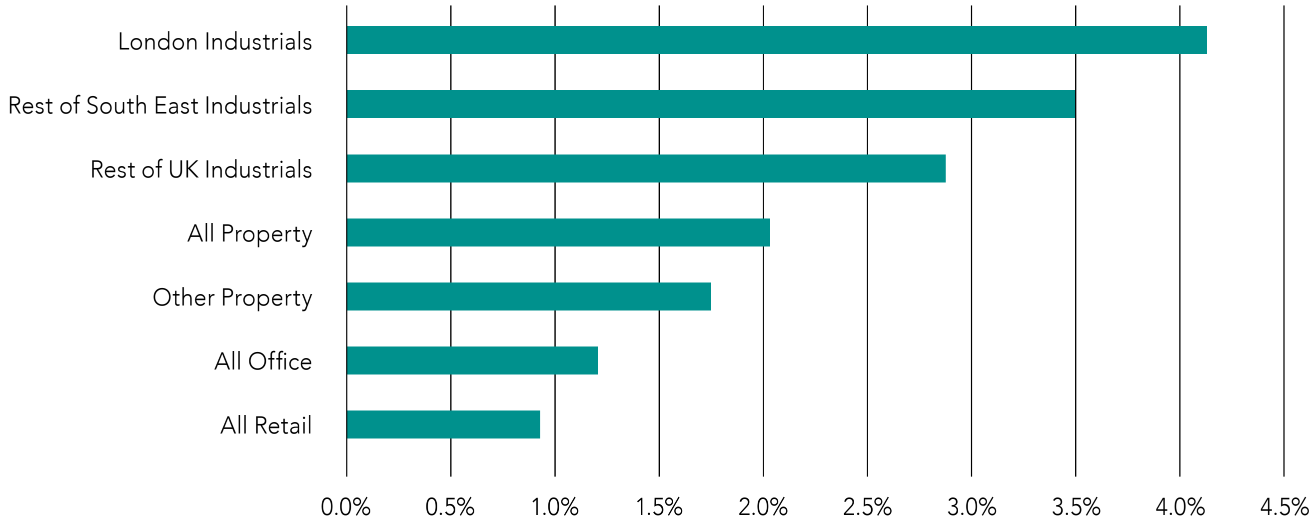
Our portfolio remains reversionary - at 31 March 2023 the passing rent across the portfolio was £10.30 per square foot, whereas the Valuer's estimated rental value (ERV) was £11.45 per square foot. This means we have the ability to increase rents by 11.1% from current passing rent to ERV.

There remains an underlying shortage of industrial space across the South East and, in the current economic environment, the likelihood of material levels of new development is much diminished. Whilst demand may

[1] There were no property acquisitions nor disposals during the quarter, so this is a like-for-like increase.

weaken in the short term, we believe there will remain a shortage of supply of industrial space across the South East over the medium-to long term and so we remain confident in our ability to increase rents.

Rental Growth Forecast 2023-2026 (Colliers - January 2023).



3 Dividend, Stress Testing and Gearing

We currently have two debt facilities: £30m with L&G at a fixed rate of 2.2% until July 2028 and £50m with Barclays at a floating rate of 1.55% over SONIA until April 2025 (with an option to extend by a further two years). We also have £20m undrawn RCF with Barclays, as well as a £30m undrawn accordion facility. As interest rates rise, so the cost of interest payments on the Barclays' debt increases; this has an impact on profitability.

On 25 April 2023 the Board declared the quarterly dividend at the annual dividend rate of 6.5p per share. The dividend of 1.625p per share will be paid on 26 May 2023. This dividend was fully covered by income. However, if interest rates stay at current levels, or increase further, and our rent collection deteriorates, it is possible that the dividend will become uncovered for a period.

The Board has stress tested this scenario. In this stress test model, we have assumed SONIA increases to 5% and remains there for an extended period of time. We have also assumed our void rate increases to 11.6%, which was the peak void rate recorded by MSCI for South East industrials after the 2008 financial crisis. In such circumstances the dividend would become uncovered, although we would be able to continue to pay the 6.5p dividend for two years by using our undistributed reserves. In the absence of a recovery, the dividend would need to be reduced to between 5.00p and 5.25p per share to be covered by income.
These assumptions are, we hope, pessimistic. For example, if the UK goes into recession and void rates return to the 2009 peak, it is likely the Bank of England would reduce interest rates (and our cost of borrowing would therefore fall). This example of stress testing should provide some comfort to shareholders that we will be able to continue to pay the dividend at the current rate, and also that your Board is aware of the risk that inflation proves more persistent than many commentators are currently forecasting.

Clipstone Industrial REIT plc

Investor Update – 31 March 2023 *continued*

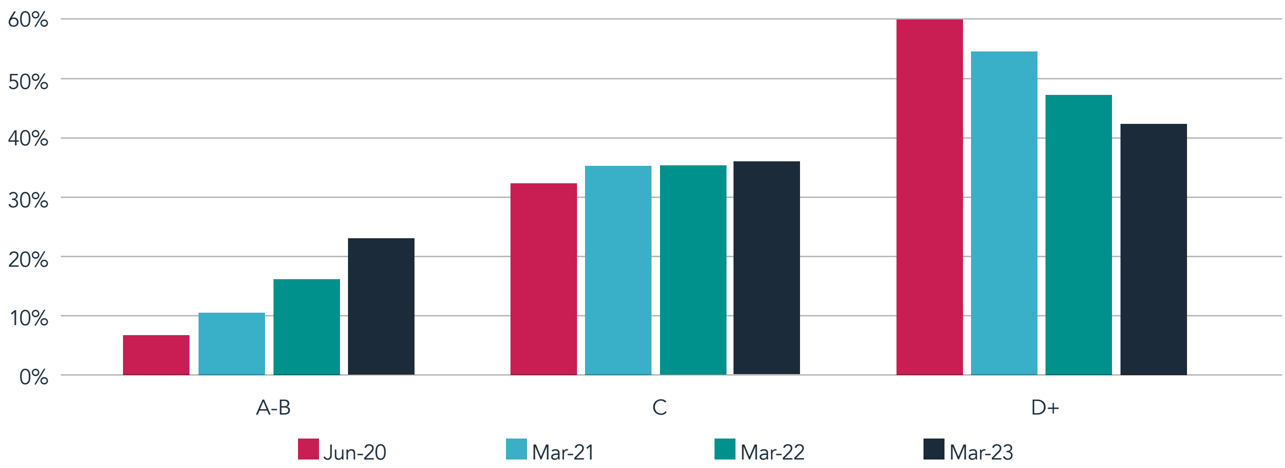
The Company's loan to value (LTV) stood at 26.9% on 31 March 2023, within our strategic range of 25% to 35%. We stress test our debt covenants quarterly. On the L&G facility, it would require falls in property values of over 38.2% to breach our LTV covenant; on our Barclays facility a fall of 64.4% would be required. Our L&G facility is at a fixed interest rate, so rents could drop by 61.2% before breaching interest cover covenants. The interest cover covenants on our Barclays debt could withstand SONIA increasing to 7.78%. If SONIA increased to 5%, it would require a 23.0% reduction in rents to place pressure on covenants.

4 Responsible and Sustainable Ownership

Our net zero strategy has been published on our website (http://www.clipstone.co.uk/environmental-social-and-governance-policies/). We will be working over the coming years to put this strategy into action. We would welcome any questions or comments from investors on our strategy.

It is a legal requirement to obtain an Energy Performance Certificate (or EPC) for a property before it is let. By 2027 the law on Minimum Energy Efficiency Standards will likely mandate that a commercial property cannot be let with an EPC score below a "C", and by 2030 this will rise to a "B". Whilst we have been making progress towards these minimums, including disposing of assets with lower EPC ratings and acquiring buildings with higher ratings, there is still work to be done.

REIT EPC rating



As part of our Net Zero strategy, we will address this requirement and ensure that all of our buildings meet the legal minimum standards and that refurbishments are completed at the optimum time, and to the most economically sensible standard. That may mean some investment in improving buildings is targeted for future years when we anticipate that technology will have improved. We are already taking this into account in refurbishments, fitting LED lighting accompanied by sensors, removing gas heating, and improving insulation, for example. We also plan to install Photovoltaic ("PV") panels to roofs over the coming years where we identify suitable sites. This also presents an opportunity to generate income by selling the electricity generated to tenants at a lower price than they would be paying to draw electricity from the grid.

There will be a cost involved in meeting the legal requirements on minimum EPCs and to achieve Net Zero, however the gap between the cost to achieve Net Zero and being compliant with minimum EPC standards is reducing. We believe that this cost will lead to improved buildings (which cost tenants less to run), greater demand and the potential for improved rental levels in time and less risk of assets becoming 'stranded'. Furthermore, given achieving Net Zero will be a legal requirement by 2050, the capital expenditure required to reach Net Zero will eventually be reflected in valuations. Doing that work over the coming 15-20 years will therefore preserve capital values and drive outperformance.

Our Net Zero Strategy, sustainability targets, policies, and reports can be found on our website: http://www.clipstone.co.uk/environmental-social-and-governance-policies/

Clipstone Industrial REIT plc

Investor Update – 31 March 2023 *continued*

Background to Clipstone Industrial REIT plc

The REIT's strategy is to acquire good quality industrial property across the South of the UK, predominantly in London and the South East.

There are several reasons why the REIT targets this sector, as set out below.

1. If the UK economy improves demand from existing and prospective tenants will increase. We believe demand will be most prevalent around London and the South East, where the economic environment is strongest and where there is the tightest supply of land. This demand should translate into fewer vacancies and higher rents.

2. Industrial space in the South East, and particularly in Greater London, has reduced over the last 30 years (a 20% decrease in London between 2001 and 2016 to quote a report by Colliers). The land has gone to higher value uses, such as residential. We expect this trend to continue. Reduction in supply should lead to improved returns.

3. Development of multi-let industrials remains sporadic. There is a shortage of development land in London and the South East, and where land is available for development it often goes to higher value uses. Where developers build industrial, they tend to opt for larger, single let units, which are more cost-efficient to build* and where you only need to find one tenant, as opposed to a number of tenants for a multi-let scheme. In addition, pre-let development is rare in the multi-let sector. These factors continue to constrain multi-let development in the South East, and so enhance the lack of supply referred to at paragraph 2 above.

4. The growth in online retailing is one of the factors driving increased demand for industrial space, a trend we expect to continue. We expect this to have the most impact in and around London, where there is a large and affluent population with a higher propensity to shop online (a recent Knight Frank report found that the top 30 locations in the UK with the most online shoppers were all in London). In addition, the expansion of the Life Sciences sector, data centres, dark kitchens and 10-minute delivery firms are all phenomena that increase the demand for warehouse space.

5. Smaller, multi-let industrials are less exposed to the widely publicised problems facing UK retailers, as the occupational market for multi-let industrials is highly diversified and not overly dependent on the retail market.

6. Clipstone targets industrial estates capable of improvement by intensive management. That improvement is achieved by refurbishment, by the upgrading of an estate through better parking and signage, by aggressive marketing to let vacant units, by seeking to improve the calibre of tenants on an estate, by the lengthening of leases and by increasing rents. Refurbishment of industrial property can be achieved at a low cost yet have a material impact on rents and capital value. We have specialist asset managers who are experts in this field.

*A large single-let industrial unit can be built for approximately £80 psf, whereas a multi-let scheme can cost in the region of £110+ psf.

Example Asset Management Projects

Valleylink Industrial Estate, Enfield

Before → After

Refurbishment cost: £400,000 (£9.90 psf)

Value: £3.8m in August 2012 to £12.2m on 31 March 2023

Bracknell

Before → After

Refurbishment cost: £450,000 (£8.64 psf)

Value: £7.55m in Nov 2013 to £15.35m on 31 March 2023

Chessington

Before → After

Redevelopment cost (includes demolition)**:** £2.73m (£103 psf)

Value: £4m in June 2017 to £8.6m on 31 March 2023

Fareham

Before → After

Refurbishment cost: £270,000

Value: £1.9m in May 2015 and sold for £4.1m in July 2022

Fund Details

Structure	Real Estate Investment Trust (REIT) listed on The International Stock Exchange
AIFM	Clipstone Capital Limited, which is authorised and regulated by the Financial Conduct Authority
Property Manager	Clipstone Investment Management Limited
PE Depositary	Langham Hall UK Depositary LLP
Target Investors	High net worth individuals, family offices, pension funds (including SIPPs and SSASs), endowment funds and institutional investors
Fees	Clipstone Investment Management Limited fee of 1.25% of NAV per annum up to NAV of £225m, 1% for amounts over £225m and a profit share (on ultimate sale of the Properties) of 20% (over a 9% per annum hurdle)
Minimum Investment	£25,000
Debt Terms	£50m at 1.55% margin over Sonia and £30m at a fixed rate of 2.2% until July 2028
Non-executive Directors	Karl Sternberg (Chairman) and Anna Rule (CVs overleaf)
ISIN:	GB00BMSJTT43

The Listing Document containing full details relating to the REIT is available on request.

Non-executive directors of the REIT

Karl Sternberg

Independent Non-Executive Chairman

Non-executive director of Jupiter Fund Management plc, JPMorgan Elect Plc, Alliance Trust PLC, Herald Investment Trust plc, Lowland Investment Company PLC and The Howard de Walden Estate. He is also Chairman of Monks Investment Trust.

Student (Fellow) of Christ Church and Chairman of the Investment Committee.

Formerly Non-executive Director of RailPen Investments (the asset manager of the Railways Pension Scheme) and Chairman of the Board Investment Committee of Friends Life Group plc.

Previously Chief Investment Officer of Deutsche Asset Management, including the UK property business, and Chief Executive of Oxford Investment Partners.

Anna Rule MRICS

Independent Non-Executive Director

Anna has over 20 years' property industry experience. She is currently Head of Real Assets at RPMI Railpen, where her responsibilities include the management of Railpen's £2.2 billion of property assets. Railpen (The Railways Pension Scheme) is one of the UK's largest and longest established pension funds with £30 billion of assets under management.

Previously at Cushman Wakefield and then a fund manager for a number of institutional funds at Aviva Investors.

Anna is a Member of the Royal Institution of Chartered Surveyors and a non-executive director of The King's Fund.

Clipstone Investment Management – employee structure chart

- **Toby Dean - CEO**
  - **Investment and Asset Management**
    - **Marc Cowley** (CIO)
      - **Andrew Windle** (Fund Manager)
      - **Paul Priestley** (Head of Asset Management)
        - **Alex Richardson** (Asset Manager)
  - **Accounts/ESG/Compliance***
    - **Richard Demarchi** (COO)
      - **Victoria Wombwell** (Financial Controller)
        - **Justine Paton** (Bookkeeping/ Administration)
        - **Thomas Kyriacou** (Finance Manager)
- **Advisory Board**
  - **Andrew Hynard - Chairman**
  - **Toby Dean**
  - **Marc Cowley**

*Clipstone Capital Limited is authorised and regulated by The Financial Conduct Authority
NOTE: The CVs of the above employees of Clipstone Investment Management are available at http://www.clipstone.co.uk/our-people