Clipstone Industrial REIT plc

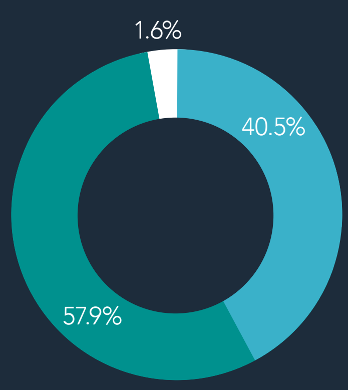
Investor Update – 30 June 2023

CURRENT STATUS OF THE FUND

Number of Properties:	36
Aggregate Value:	£300.8m
Net Asset Value per Share:	£1.7702
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:	£10.32 psf
ERV:	£11.62 psf
Number of Units:	230
Number of Tenants:	181
Exposure to Largest Tenant: (shown as a percentage of total rent)	6.6%
Vacancy Rate:	3.8%
Loan to Value:	25.9%
Projected Dividends:	6.50p per share
Dividends at current NAV (£1.7702):	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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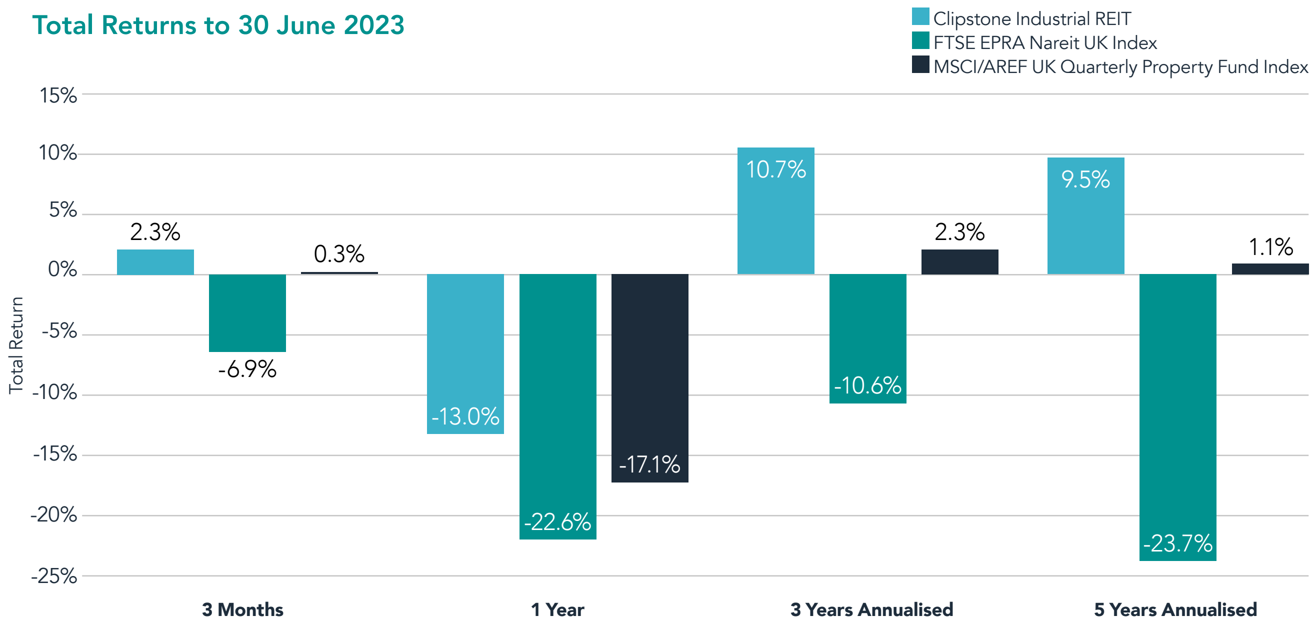
Investor Update – 30 June 2023

The valuation of our property holdings at 30 June 2023 has increased by 1.2% since 31 March 2023. This translates into an improvement in net asset value ("NAV") to £1.7702 per share, an increase of 1.3% from the NAV at the end of March 2023.

Shareholders' total return (NAV increase added to dividends paid) was 2.3% over the quarter. Since the Company's launch in December 2014, shareholder return has been 126%. The Company continues to outperform the broader property market over all relevant time periods (as shown below). The REIT is the third best performing portfolio in the MSCI UK Quarterly Property Index since joining in Q1 2019 (third out of 209 portfolios).

Total Returns to 30 June 2023



1 **The Investment Market**

Since the steep valuation declines in late 2022, caused by rising interest and gilt rates, property fund managers and commentators have been widely discussing the "stabilisation" of pricing in the investment market, evidenced by broadly flat investment yields between January 2023 and July 2023. For example, Knight Frank's prime yield guide suggests that South East industrial yields (excluding London) remained stable at a 5% yield over the first half of the year. London industrial properties have changed hands at reversionary yields[1] of circa 5%, with lower net initial yields. Whilst we agree London and good quality South East industrial yields have currently stabilised at these levels, we believe there is less clarity around pricing for secondary (and tertiary) assets, where there is less transactional evidence and where market valuations do not currently appear to reflect an adequate risk premium to London industrials.

Investors are still buying London industrial at yields materially below the cost of debt, partly due to the potential for rental growth, but also in the expectation that rates will soon decline once inflation subsides. However, we are less convinced that investors are prepared to transact at or around the cost of debt in

[1] Reversionary yield is the yield a property would generate if fully let at current market rates.

secondary and tertiary occupational markets, where rental growth prospects are weaker. If our view is correct, then whilst pricing in our sector, being good quality London and South East industrials, may have stabilised, the secondary and tertiary markets may be subject to further valuation declines, particularly if inflation proves entrenched (and so rates stay higher for longer) and if occupational markets start to weaken as the UK experiences a recession.

There is currently limited pressure on landlords to sell industrial assets. Whilst the cost of debt has increased materially over recent months, banks are not generally withdrawing from the UK industrial sector: landlords are generally able to extend debt terms (albeit at higher rates) in the hope that rates will drop over the next few years, rather than being forced to sell assets to pay down debt. There is also less pressure to sell as gearing levels are more conservative than in 2008.

In the last few weeks, there is increasing acceptance that rates will remain elevated, and we anticipate this to increase pressure to sell assets. It may be relatively straightforward to sell London industrial assets, but it may be more challenging to find investors to buy property with yields the same or lower than the cost of debt in secondary and tertiary locations. We are monitoring this situation carefully. The longer interest rates stay at current levels, the greater the pressure to sell assets, and more investment opportunities may arise. We may be able to identify interesting opportunities if sellers' pricing aspirations reduce and yields cover the cost of debt.

Much will depend on how the occupational market behaves. A major reversal in the occupational market could spook an already nervous investment market, and could disrupt our own rental receipts.

2 Occupational Market

Following a sustained period of high rental growth, we are now seeing signs that the occupational market is cooling and rental growth is slowing, or perhaps even stalling. However, at this stage there is no evidence of ERVs[2] declining. Void rates are starting to increase across the South East (albeit from historically low levels) and occupational deals are taking longer to complete. Since the start of the year the number of aborted transactions has increased significantly with some agencies reporting over 20% of transactions not completing. Incentives on new lettings are also starting to increase in some areas, although again these are increasing from historically low levels.

We are witnessing more tenants being placed under financial pressure by inflation (materials, utilities, staff costs, rent, fuel), higher interest rates, higher taxes and reduced trade due to the economic environment, and these factors are starting to lead to increases in insolvency rates and reduced occupational demand. This situation has been exacerbated as the new business rates revaluations are now starting to filter through to tenants, further increasing occupational costs. The uncertainty caused by rising costs and market instability means we are experiencing reduced enquiries, although again declining from elevated levels. Tenants are also seeking greater flexibility on new leases.

Whatever the short-run pressures, there remains an underlying shortage of industrial space across the South East. The positive aspect of economic uncertainty is that new development is much diminished. As shown in the table below, we continue to complete lettings, rent reviews and lease re-gears at good levels, significantly above previous passing rents and usually marginally above ERVs.

[2] Estimated Rental Value (as estimated by our Valuer, Colliers).

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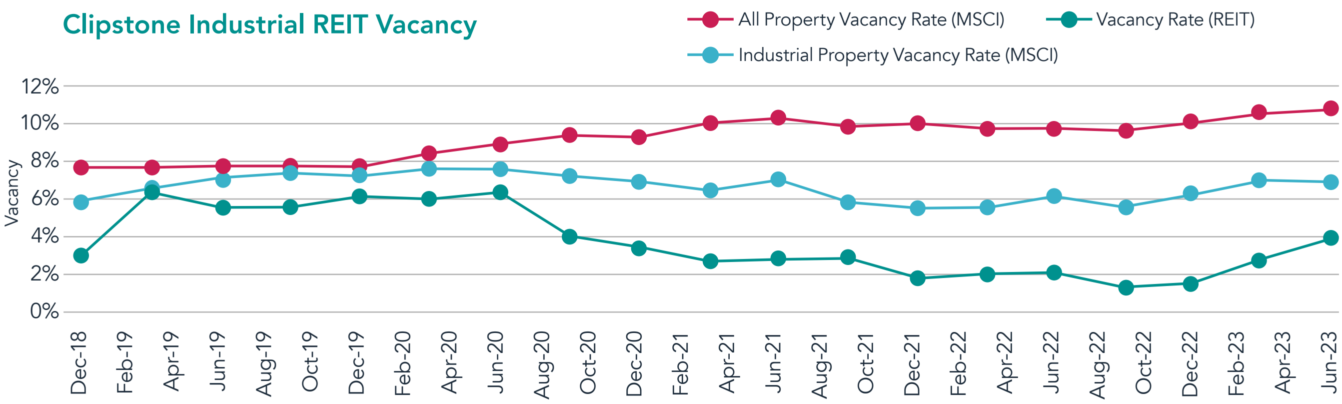
Investor Update – 30 June 2023 *continued*

In order to secure tenants in today's more challenging occupational market the underlying fundamentals are critical: location, build specification, and high-quality refurbished units. We have always focused on location and quality of assets, which is particulary important during a period of weak economic growth. Un-refurbished properties in weaker occupational markets are likely to become increasingly difficult to let.

We have experienced this weaker market: our own void rate has increased from 2.8% at 31 March 2023 to 3.8% at 30 June 2023. Whilst any increase in our void rate is unwelcome, 3.8% remains an extremely low rate and is significantly below market rates (as shown below) - we believe our consistently low void rate is due to the quality and location of our properties, as well as the effectiveness of Clipstone's asset management operations.

Clipstone Industrial REIT Vacancy



Our 3.8% vacancy constitutes 14 vacant units (the portfolio has a total of 230 units). At 30 June 2023 two of those 14 vacant units were under offer, at a combined uplift of 34.9% over previous passing rents.

Despite the increasing void rate and weaker economic environment, the occupational transactions set out below allowed us to maintain the level of passing rent over the quarter.

Property	Date of Event	Event	Previous rent pa	New Headline Rent pa	Uplift
Enfield	Jun-23	Lease Renewal	£70,800	£103,200	46%
Stevenage	Apr-23	Lease Renewal	£56,000	£80,640	44%
Alton	Apr-23	Rent review	£54,000	£68,000	26%
Mundells Court	Jun-23	New Letting	£25,450	£30,950	22%
Mundells Court	Jun-23	New Letting	£ 25,500	£30,000	18%
Bracknell	Jun-23	Rent review	£18,500	£21,500	16%
Romsey	May-23	Lease Renewal	£157,175	£182,655	16%
Romsey	Jun-23	Rent review	£96,500	£110,575	15%
Swindon	Jun-23	Rent Review	£23,100	£26,600	15%
Bracknell	Apr-23	Rent Review	£21,000	£23,400	11%

Our portfolio remains reversionary - at 30 June 2023 the passing rent across the portfolio was £10.32 per square foot, whereas the ERV was £11.62 per square foot. This means we have the ability to increase rents by 12.6% from current passing rent to ERV.

3 Outlook

We are expecting more difficult times ahead. If inflation proves embedded in the UK, interest rates may continue to increase and may remain higher for longer than people currently anticipate. An extended period of higher rates could push the UK into recession and lead to increases in insolvency and void rates. There may be a period where these negative scenarios coincide, so that markets suffer peak interest rates, recession, increased insolvency and therefore void rates simultaneously, which would place pressure on real estate markets generally and in particular make refinancings more challenging.

If these economic factors do coincide, it is unlikely they would co-exist for long as interest rates would likely start to drop, but nonetheless even a short period could create significant unease in the investment and debt markets. The Board is aware of these risks and we are working to ensure that we are well prepared for such circumstances should they arise. We may even be able to benefit from such circumstances by acquiring assets at a low point in the economic cycle.

4 Gearing, Stress Testing and Dividend

We currently have two debt facilities: £30m with L&G at a fixed rate of 2.2% until July 2028 and £48m 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 £22m undrawn RCF with Barclays, as well as a £30m undrawn accordion facility.

The Company's loan to value (LTV) stood at 25.9% on 30 June 2023, at the bottom end of our strategic range of 25% to 35%. We stress test our debt covenants at least quarterly. On the L&G facility, it would require falls in property values of over 38.9% to breach our LTV covenant; on our Barclays facility a fall of 66.3% would be required. Our L&G facility is at a fixed interest rate, so rents could drop by 59.9% before breaching interest cover covenants. The interest cover covenants on our Barclays debt could withstand SONIA increasing to 8.09%. If SONIA increased to 5.5%, it would require a 20.3% reduction in rents to place pressure on covenants.

On 1 August 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 25 August 2023.

5. Responsible and Sustainable Ownership

Our net zero strategy is 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.

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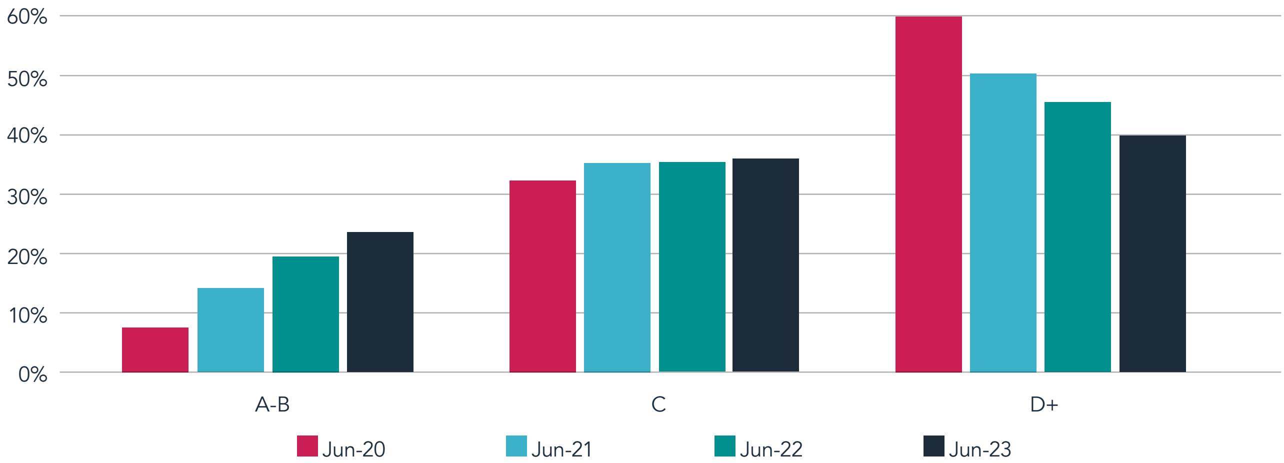
REIT EPC rating



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, or rentalising the PV.

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/

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 £13m on 30 June 2023

Bracknell

Before → After

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

Value: £7.55m in Nov 2013 to £15.6m on 30 June 2023

Chessington

Before → After

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

Value: £4m in June 2017 to £8.6m on 30 June 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	£48m 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

*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