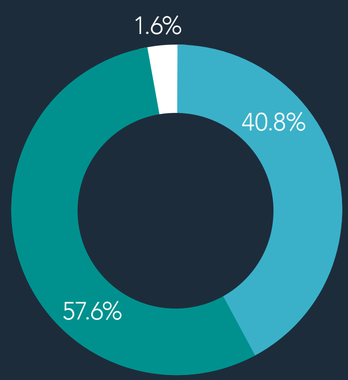
Clipstone Industrial REIT plc

Investor Update – 30 September 2023

CURRENT STATUS OF THE FUND

Number of Properties:	36
Aggregate Value:	£298.7m
Net Asset Value per Share:	£1.7591
Portfolio Net Initial Yield:	5.1%
Portfolio Equivalent Yield:	5.6%
Portfolio Reversionary Yield:	5.7%
Total Passing Rent:	£16.2m pa
Total Headline Rent:	£16.6m pa
Passing Rent:	£10.39 psf
ERV:	£11.82 psf
Number of Units:	230
Number of Tenants:	182
Exposure to Largest Tenant: (shown as a percentage of total rent)	6.4%
Vacancy Rate:	2.8%
Loan to Value:	25.7%
Projected Dividends:	6.50p per share
Dividends at current NAV (£1.7591):	3.7%

PROPERTIES BY REGION



www.clipstone.co.uk

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

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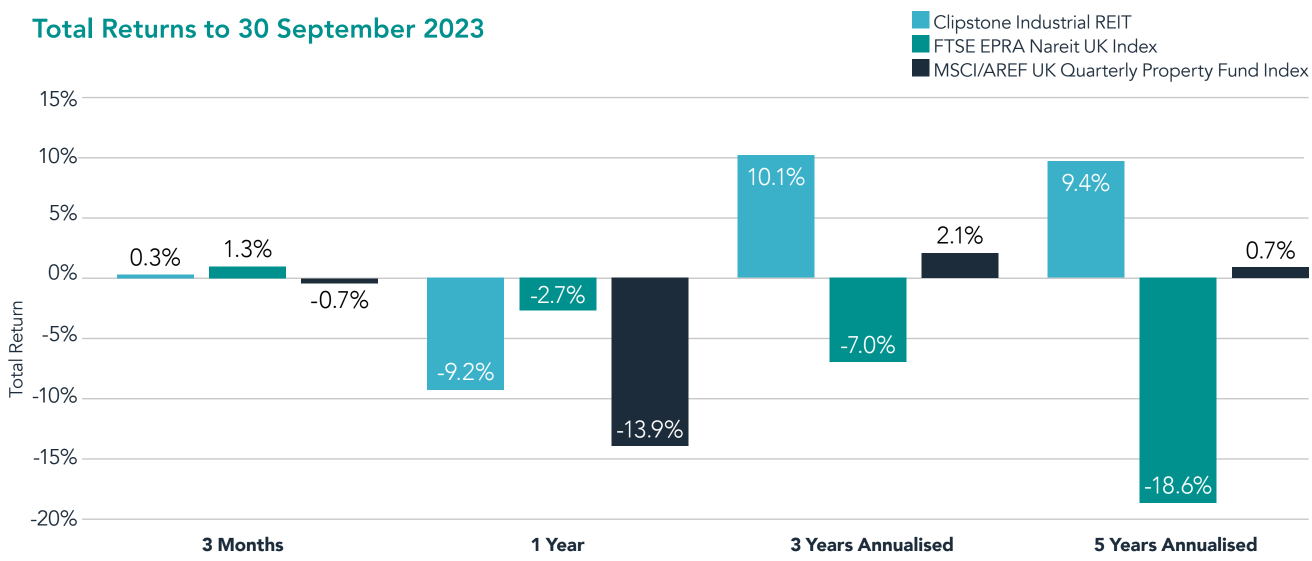
The valuation of our property holdings at 30 September 2023 decreased by 0.7% since 30 June 2023. This translates into a decline in net asset value ("NAV") to £1.7591 per share, a decrease of 0.6% from the NAV at the end of June 2023.

Shareholders' total return (the NAV decline, combined with dividends paid) was +0.3% over the quarter. Since inception in December 2014, shareholder total return has been 126.6%. The Company continues to outperform the broader UK property market and the listed REIT sector over 3 and 5 years, as shown below. The Company is the 4th best performing portfolio out of the 206 funds in the MSCI UK Quarterly Property Index since joining in 2019.

Total Returns to 30 September 2023



1 Valuation, Rents and Dividend

Over the quarter, the net asset value per share declined by 0.6%. The independent valuers, Colliers, increased the valuation yield applied to the Company's properties by 0.1% – rising from 5.0% at 30 June 2023 to 5.1% on a net initial yield basis, and from 5.6% to 5.7% on a reversionary yield basis. Normally this would generate a circa 2% decline in value, but during the quarter we were able to offset some of this by increasing our rents. At an occupational level, we had a positive quarter – we increased passing rent by 0.7%, contracted (headline) rents by 2.4% and ERV by 1.7%. We also reduced the vacancy rate to 2.8% (it was 3.8% at the end of June).

There were no acquisitions or disposals during the quarter.

Over recent quarters we have been able to increase our rents and control our void rate, but we are expecting more difficult times ahead. Government figures show insolvency rates increasing and, despite the fact we have not yet witnessed any material uplift in default amongst our diverse tenant base, we do expect the occupational market to become more challenging for all commercial property sectors.

The rate at which we have been able to increase rents has not matched the increase in interest rates on our debt. As shareholders know, we have two sources of debt: £30m with L&G at a fixed rate of 2.2% until 2028, and £46.75m of floating rate debt with Barclays (at 1.55% over SONIA). Whilst the L&G debt is a fixed rate of interest, the interest payments to Barclays have increased from c.£27,500 per £1m of debt at the end of June 2022 to c.£67,500 today, almost 2.5x as much. This is having an impact on profitability and the September dividend (to be paid in November) was uncovered, albeit only marginally (dividend cover was 0.97 times accounting profits, excluding valuation movements).

In our March 2023 investor update we alerted investors to the risk that a deterioration in the occupational market, combined with a sustained period of higher interest rates, would impact profitability. Despite our success in maintaining our rent roll so far, the reduction in profitability means that our dividend is now marginally uncovered. The Company does have significant levels of undistributed reserves and we believe we will be able to maintain the dividend using these reserves until March 2025, unless there is a further increase in interest costs and a decline in occupancy. If either of these variables reduces profitability, the main tool at our disposal is to flex the dividend payment rather than sell good assets from our portfolio.

On 31 October 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 24 November 2023.

2 The Investment Market

The investment market for South East industrials has remained relatively stable over the last quarter, although there is a greater level of uncertainty as investors adjust to the likelihood of rates staying higher for longer than previously anticipated. The market has been characterised by a lack of transactional activity. Whilst it is common for the summer months to witness a slowdown, the last three months have shown very significant declines in commercial property transactions. Colliers believe that investment volumes in the industrial sector during the first half of the year were down by 62% compared with the same period in 2022. Whilst these numbers are considerable, transaction volumes remain in line with the 5 year pre-Covid average.

There is a limited pool of buyers for industrial property at today's prices. Knight Frank's October prime South East industrial yields (excluding London and Heathrow) show yields at 5%. Since the UK base rate is 5.25%, plus a margin to pay, investors are currently unable to buy good quality industrial property using debt and generate a positive income return. Whilst there are some pure equity buyers, they too are often reluctant to buy at a 5% yield or keener, as it does not offer a material premium to the risk-free rate of Government bonds. Sellers are also conspicuous by their absence. Selling lower quality assets is difficult in today's risk-adverse environment and investors do not want to sell their best quality assets in a market where there are limited purchasers. There remains limited pressure to sell from banks, so many landlords are happy to hold onto their properties in the hope that interest rates will drop.

Assuming rates stay elevated for an extended period of time, we expect this scenario to become less sustainable as increasing numbers of refinancings take place. Between 2016 and 2022 many investors acquired industrial property with low-cost debt at exceptionally low yields. When these assets are refinanced at today's interest rates they will become loss-making. This could lead to asset sales at a time when there are few buyers. Whilst the situation is not as severe as in 2008, we are expecting capital values to decline further, unless interest rates decline or rents continue to materially increase.

Whilst we will not be immune to values dropping further, we think our relative performance will remain strong. The structural shortage of industrial space available in the South East should mean investors will continue to be prepared to pay the lowest yields for assets in our sector, reflecting the possibility of faster rental growth than in other commercial property sectors. There are some pure equity buyers active in our sector. During the last quarter we have seen prime London industrials placed under offer at initial yields below 4% (with reversion to around 5%), indicating investors remain prepared to acquire London industrials significantly below the cost of debt. We also believe we can continue to protect value through active asset management and increasing rents, helped by the shortage of supply our sector currently enjoys.

Any further movement in market conditions may provide opportunities for us to acquire good quality properties at yields above the cost of our debt, so allowing us to generate short term income returns, and long-term capital returns.

3 Occupational Market

Enquiries and viewings were down during the summer months, although September saw an increase in activity. Occupational deals are taking longer than normal to complete, with tenants exercising caution. Tenants remain under financial pressure due to the weak economic environment, inflation and interest rates. Government statistics show Q2 2023 saw the highest level of insolvencies since Q2 2009.

Nevertheless, we continue to see both rents and ERVs increase on our properties. At present we are able to let vacant units at higher rents; and are also able to increase rents at reviews and lease renewals. However, the rate of rental growth we have achieved over the last few years is starting to slow.

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.

Property	Date of Event	Event	Previous rent pa	New Headline Rent pa	Uplift
Enfield	Sep 23	Rent review	£63,375	£100,750	59%
Enfield	Sep 23	Lease renewal	£72,500	£115,000	59%
Bracknell	Sep 23	New letting	£32,000	£48,500	52%
Romsey	Jul 23	New letting	£71,500	£95,500	34%
Welwyn	Jul 23	Rent review	£45,000	£60,000	33%
Alton	Jul 23	Lease renewal	£57,677	£76,780	33%
Hanworth	Jul 23	Rent review	£58,077	£74,670	29%
Worthing	Jul 23	New letting	£46,000	£57,782	26%
Hoddesdon	Aug 23	New letting	£12,950	£16,000	24%
Mundells Court	Jul 23	Rent review	£24,750	£29,000	17%
Bracknell	Aug 23	Lease renewal	£51,750	£58,000	12%
Welwyn	Aug 23	Lease renewal	£60,960	£66,000	8%

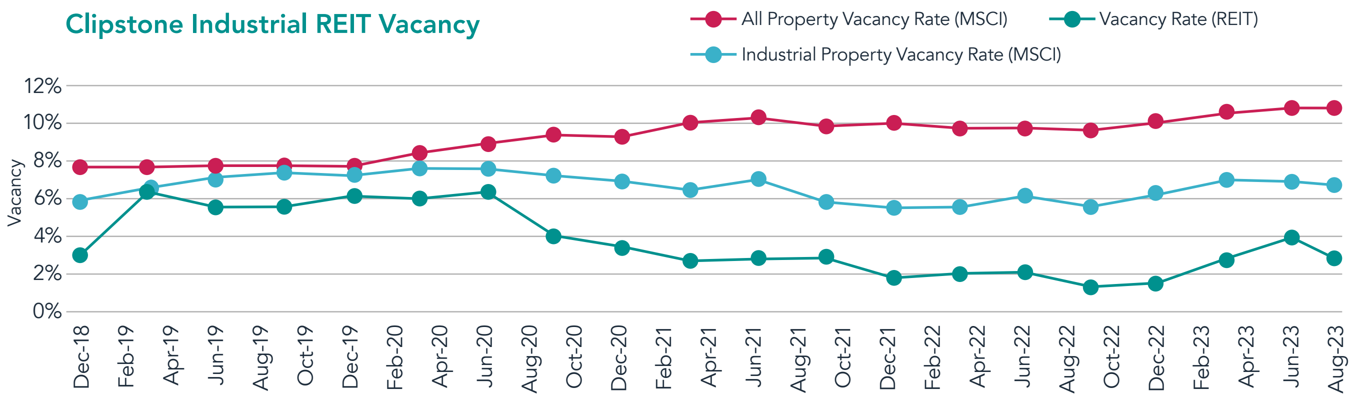
Clipstone Industrial REIT plc

Investor Update – 30 September 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 particularly important during a period of weak economic growth. Un-refurbished properties in weaker occupational markets are likely to become increasingly difficult to let.

The new lettings shown in the table above led to a reduction in our vacancy rate to 2.8% at 30 September (down from 3.8% at 30 June). This is an extremely low void 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 2.8% vacancy constitutes 11 vacant units (the portfolio has a total of 230 units). At 30 September 2023 two of those 11 vacant units were under offer, at an average uplift of 44.9% over previous passing rents.

Our portfolio remains reversionary - at 30 September 2023 the passing rent across the portfolio was £10.39 per square foot, whereas the ERV was £11.82 per square foot. This means we have the ability to increase rents by 13.8% from current passing rent to ERV. And our ERV continues to rise, increasing by 1.7% over the quarter.

4 Gearing and Stress Testing

The Company's loan to value (LTV) stood at 25.7% on 30 September 2023, at the bottom end of our strategic range of 25% to 35%. We stress test our debt covenants at least quarterly. It would require falls in property values of over 37.7% to breach our LTV covenant on our long-term L&G debt; for our Barclays facility, a fall of 67.1% would be required. Our L&G facility is at a fixed interest rate, so rents could drop by 56.5% before breaching interest cover covenants. The interest cover covenants on our Barclays debt could withstand SONIA increasing to 8.29%. If SONIA increased to 5.75%, it would require a 19.2% reduction in rents to place pressure on covenants.

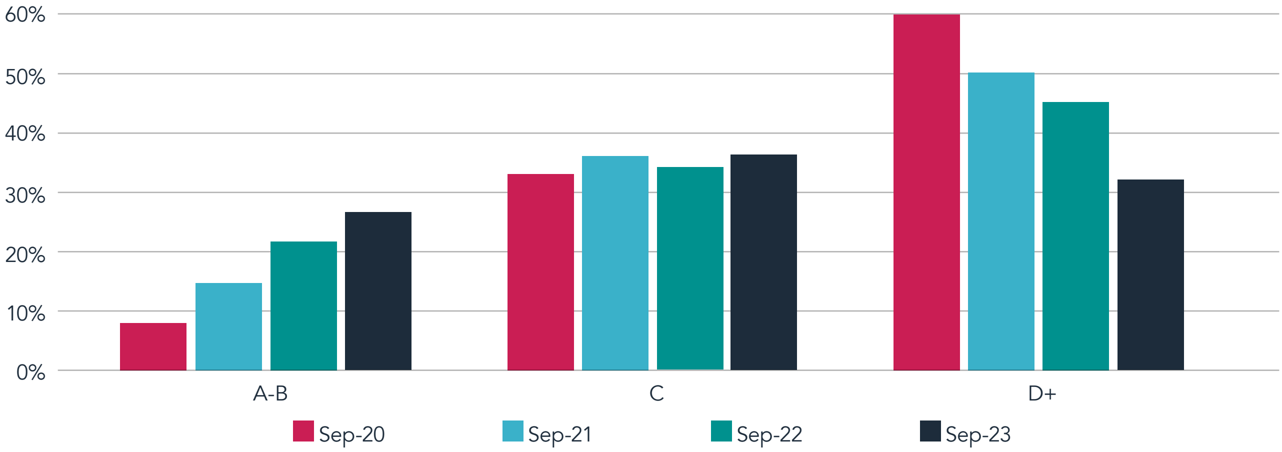
5. Responsible and Sustainable Ownership

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.

During the previous quarter we began installing smart meters in some of our units so that we can automatically collect the utility usage data of our tenants in those units. This will enable us to calculate our scope 3 emissions, which make up by far the largest proportion of our overall carbon footprint. Using this data we will assess which units and estates may be suitable for photovoltaic panels. We will also be able to share this data with our tenants, which will give them detailed data on their usage and could be used to help them improve their own energy efficiency. To date we have installed meters across c.30% of our portfolio by floor area, with an aim of achieving at least 50%. We will be able to report analysis of the data collected in H2 2024 as we need to collect around 12 months' data first for it to be useful.

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 likely 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.

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. As with all refurbishment expenditure we build into our management forecasts all known costs to be incurred. This helps us analyse the potential profitability of the REIT in the short term.

Our Net Zero Strategy, sustainability targets, policies, and reports can be found on our website.

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 £13.7m on 30 September 2023

Bracknell

Before → After

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

Value: £7.55m in Nov 2013 to £14.75m on 30 September 2023

Chessington

Before → After

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

Value: £4m in June 2017 to £8.6m on 30 September 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	£46.75m 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