Clipstone

Real estate investment management

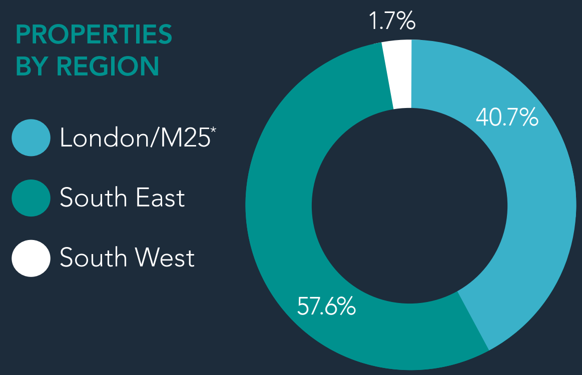
Clipstone Industrial REIT plc

Investor Update – 31 December 2023

CURRENT STATUS OF THE FUND

Number of Properties:	36
Aggregate Value:	£295.3m
Net Asset Value per Share:	£1.7340
Portfolio Net Initial Yield:	5.2%
Portfolio Equivalent Yield:	5.7%
Portfolio Reversionary Yield:	5.9%
Total Passing Rent:	£16.5m pa
Total Headline Rent:	£16.7m pa
Passing Rent:	£10.54 psf
ERV:	£11.95 psf
Number of Units:	230
Number of Tenants:	176
Exposure to Largest Tenant: (shown as a percentage of total rent)	6.4%
Vacancy Rate:	3.2%
Loan to Value:	26.0%
Projected Dividends:	6.50p per share
Dividends at current NAV (£1.7340):	3.8%

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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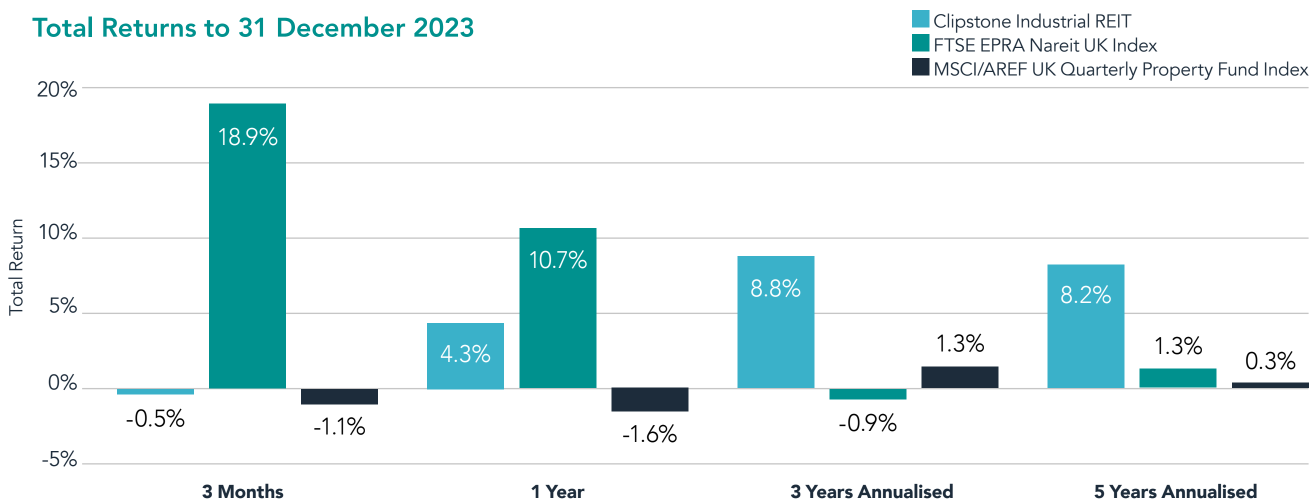
The valuation of our property holdings at 31 December 2023 declined by 1.1% over the quarter. This translates into a net asset value ("NAV") of £1.7340 per share, a decrease of 1.4% from the NAV at the end of September 2023.

Shareholders' total return (the NAV decline, combined with dividends paid) was -0.5% over the quarter. Since inception in December 2014, shareholder total return has been 125.7%. 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 5th best performing portfolio out of the 199 funds in the MSCI UK Quarterly Property Index since joining in 2019.

Total Returns to 31 December 2023



1 **Valuation and Rents**

The independent valuer, Colliers, increased the valuation yield applied to the Company's properties – the net initial yield by 0.1% and the reversionary yield by 0.2%. Normally, the reversionary yield increasing by 0.2% would generate a circa 2.2% decline in value, but during the quarter we were able to offset some of this by asset management and increasing our rents, so that our valuation decreased by only 1.1%. Although the value of our assets continues to be negatively affected by the uncertainty in the investment market and the continued higher interest rate environment, at an occupational level we had another positive quarter: we increased passing rent by 1.4%, despite the fact the vacancy rate increased from 2.8% to 3.2%.

2023 was a particularly challenging year for commercial property due to the impact of rising interest rates. However, during the 12 months to the end of December 2023 our NAV increased by 0.5% and we increased the passing rent across the portfolio by 2.63%. We hope we can continue to grow rents, even if the UK goes into recession since our portfolio remains reversionary: at 31 December 2023 the passing rent across the portfolio was £10.54 per square foot, whereas the ERV was £11.95 per square foot. This means we have the ability to increase rents by 13.4% from current passing rent to ERV.

2 The Investment Market

The Q4 2023 UK investment market for industrial property has been characterised by a lack of transactional activity – for example, industrial investment was £220m during November 2023 and £420m for December, both significantly below the five-year monthly average of £1.1 billion. The market appears to be dysfunctional, with many investors holding industrial assets valued at circa 5%-5.5% NIY, whereas the cost of debt by late December stood at circa 5.5%-6%. Knight Frank's prime South East industrial yields (excluding London and Heathrow) stood at 5% for November 2023, although this softened to 5.25% for December 2023. But even at 5.25% it is still not possible to acquire prime South East industrials using debt and generate an immediate income return. Therefore, buyers are reluctant to buy using debt and sellers are reluctant to sell below valuation, leading to the investment market stagnating.

Where industrial properties are in a strong South East or London location and show a short-term reversion above the cost of debt, there are a number of funds and private equity houses willing to transact – either using debt and accepting a short-term income loss or buying with pure equity. For example, we have seen the following transactions going under offer or exchanging during late Q4 2023:

Location	Lot size	Status at the end of December	NIY	RY
Hayes	£49m	u/o	c.3.5%	c.6%
Poyle	£14.5m	u/o	c.5.3%	c.5.54%
Enfield	£15m	u/o	c.4.5%	c.6.96%
Hayes	£12m	Exchanged 11/2023	4%	6.26%

Generally, these transactions below the cost of debt tend to be focused on strong London locations (as indicated above), where investors are more confident in the reversion and have greater confidence in the potential for rental growth thanks to stronger supply and demand dynamics. This has caused the market to split, with the gap between prime and secondary widening. We anticipate this will lead to our strategy of focusing on good quality, London and South East industrials continuing to outperform the wider industrial market.

To date, there remains limited pressure to sell from banks, so many landlords are happy to hold onto their properties in the hope base rates will fall over the course of 2024. It is too early to tell whether the recent drop in borrowing costs will lead to increased investor activity, although our view is that whilst the reduction in rates will encourage buyers, there will also need to be a more realistic approach from sellers in order to bring genuine life back to the wider industrial investment market. We have witnessed some evidence of this in early 2024 , with a more realistic approach from sellers, as well as increased optimism from buyers, although we would describe such optimism as fragile, and easily undermined by geopolitical events in the Middle East (or elsewhere), inflation proving persistent or by the UK falling into recession. We also expect more pressure on sellers from banks as refinancings at higher rates prove challenging. We are monitoring this situation carefully, as 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 positive income returns, and long-term capital returns.

3 Occupational Market

The occupational market for South East industrials remains similar to the last quarter. Occupational deals continue to take longer than normal to complete, with tenants and their solicitors exercising caution. For good South East and London locations, there remains some on-going rental growth, but this has slowed significantly from the growth we have seen over recent years. To date, we have not seen any evidence of rents dropping, save for a few new developments in London where landlords had pushed headline rents too hard and are having to reduce aspirations to secure deals. Incentives are increasing, but this tends to be in areas where there is more supply or for poorer quality units.

Enquiries during Q4 2023 were subdued and a number of occupiers are reviewing the market following landlords quoting increased rents on lease renewals. New enquiries received in December have resulted in viewings taking place in early January, which may indicate improved confidence.

There has been an increase in company insolvencies and we anticipate this trend to continue. However, across our tenant base we have yet to experience any material change in insolvency rates and our rent collection remains robust.

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 which has the potential to add to further shortage in supply in the short to medium term. 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
Crawley	Nov 23	Lease renewal	£61,945	£109,500	77%
Sydenham	Dec 23	Rent review	£190,000	£295,640	56%
Hoddesdon	Oct 23	New letting	£6,750	£10,000	48%
Hailsham	Nov 23	Lease renewal	£43,925	£63,600	45%
Welwyn	Oct 23	New letting	£44,425	£64,170	44%
Worthing	Dec 23	New letting	£34,355	£48,450	41%
Bracknell	Nov 23	Lease renewal	£39,000	£49,724	27%
Welwyn	Dec 23	Lease renewal	£24,500	£30,000	22%
Stansted	Nov 23	Reversionary lease	£30,000	£35,000	17%
Chelmsford	Dec 23	New letting	£57,500	£64,560	12%
Welwyn	Jul 23	Rent review	£29,000	£31,000	7%

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, and capital-expenditure-intensive.

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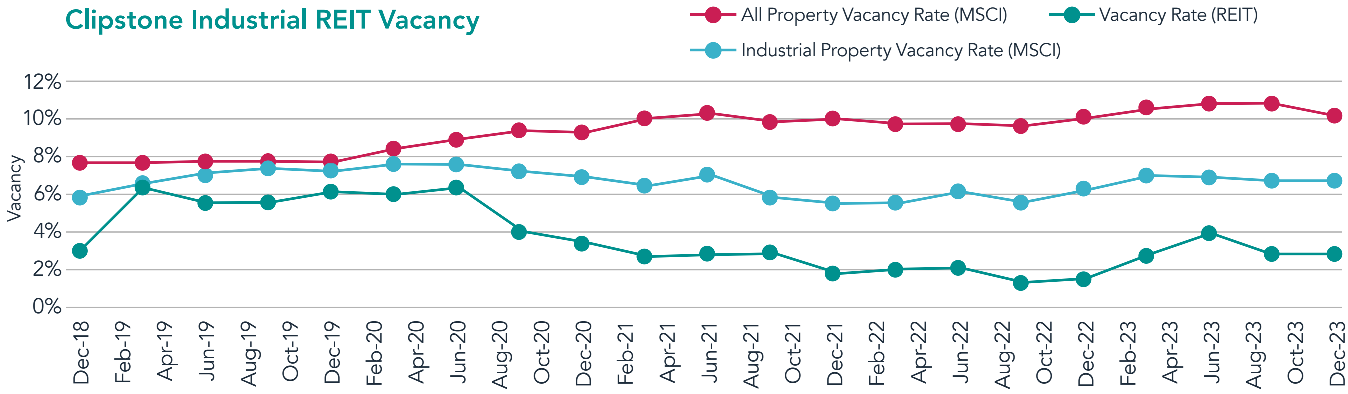
Investor Update – 31 December 2023 *continued*

Our vacancy rate increase from 2.8% on 30 September to 3.2% on 31 December 2023. However, 3.2% is still an extremely low void rate and is significantly below market rates, as demonstrated in the chart below:



Our 3.2% vacancy constitutes 11 vacant units out of a total of 230 units. At 31 December 2023 three of those 11 vacant units were under offer, at an average uplift of 17.6% over previous passing rents. However, we are expecting our void rate to increase, mainly due to a large unit (22,000 square feet) in Crawley that will become vacant in March 2024, with the resulting loss of £215,000 per annum of rent. Crawley becoming vacant will increase the vacancy rate to 4.6%, although we may be able to reduce that by completing the under-offer lettings referred to above. In addition, whilst the loss of rent from Crawley is unwelcome, there is a three-month break penalty (£53,750) payable by the outgoing tenant and the unit is reversionary – the current rent is £9.72 per sq ft, whereas the achievable rent is £12.00 per sq ft.

4 Gearing, Stress Testing and Dividend

We are pleased to report that during the quarter we completed a 12-month extension of our debt with Barclays, moving the repayment date from April 2025 to April 2026. Despite challenging market conditions we were able to retain the low margin on this debt of 1.55%. We are grateful for the support of Barclays in achieving this. At the same time as extending the term, we took out an interest rate swap, which fixes the Sonia rate at 4.513% until 7 April 2026 for £40m of the Barclays debt (there is a total of £46.75m of drawn debt with Barclays). As our L&G debt is at a fixed rate of 2.2%, this means that 91.21% of our debt as at 31 Decemeber 2023 is fixed, with the balance floating. In addition, the swap has reduced our interest payments – at today's Sonia rate of 5.2%, the swap generates an annual cost saving of £275,000.

The Company's loan to value (LTV) stood at 26.0% on 31 December 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 35% to breach our LTV covenant on our long-term L&G debt; for our Barclays facility, a fall of 66.8% would be required. On our L&G facility rents could drop by 59.9% before breaching interest cover covenants and on our Barclays facility by 19.6%. As 91.21% of our debt is now fixed, we are no longer at risk from rises in interest rates.

On 30 January 2024 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 23 February 2024.

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Investor Update – 31 December 2023 *continued*

5. **Asset Management - Stevenage**

We will shortly be commencing a major refurbishment of our Stevenage estate. Shareholders will be aware we have had some success in the past with refurbishment projects (a number of past examples are included overleaf). One of the benefits of industrial property is refurbishment can be undertaken at a relatively low cost and whilst tenants are in situ, meaning the income can continue during refurbishment. Refurbishment can have a material impact on rent, as well as improving sustainability credentials.

Stevenage is a 1980s estate that is now looking tired. We have been working over the last three years to improve the tenant line-up in anticipation of a refurbishment – this has meant moving on occupiers that undertake more disruptive activities, such as car servicing, steel fabrication and heavy manufacturing. In addition, the neighbouring site to our estate is being re-developed from industrial use to retail and has recently been granted planning permission to build a new Morrisons supermarket. We hope our new neighbour will attract more vehicles passing our estate and we plan to use that increased footfall as a springboard to attract new, better quality tenants paying higher rents on our newly refurbished estate.

The works we plan to undertake include redecoration and over-cladding of the entire estate, replacement of old, manual, concertina-loading doors with new electric 'up-and-over' doors, re-surfacing the car park areas, installation of LED lighting, improving signage and re-organising traffic flow to create a better experience for tenants, their staff and customers. Two units on the estate which are currently vacant will be fully refurbished.

The works will also focus on sustainability credentials and will involve improving the EPC ratings. We have commissioned an embodied carbon report to track the impact of the works and inform product selection.

The total cost of the works is expected to be in the region of £500,000. This works out as £11.45 per square foot. The cost of the works will not impact our ability to pay the 6.5p annual dividend.

The passing rent across the estate currently averages £8.29 psf and we hope to let the two vacant units at materially high rents, which will have a knock-on effect across the whole estate. Photos of Stevenage before the works begin, as well as a CGI of the expected end product, are shown below. We will keep shareholders informed of our progress.

Stevenage before refurbishment

A CGI of Stevenage after refurbishment

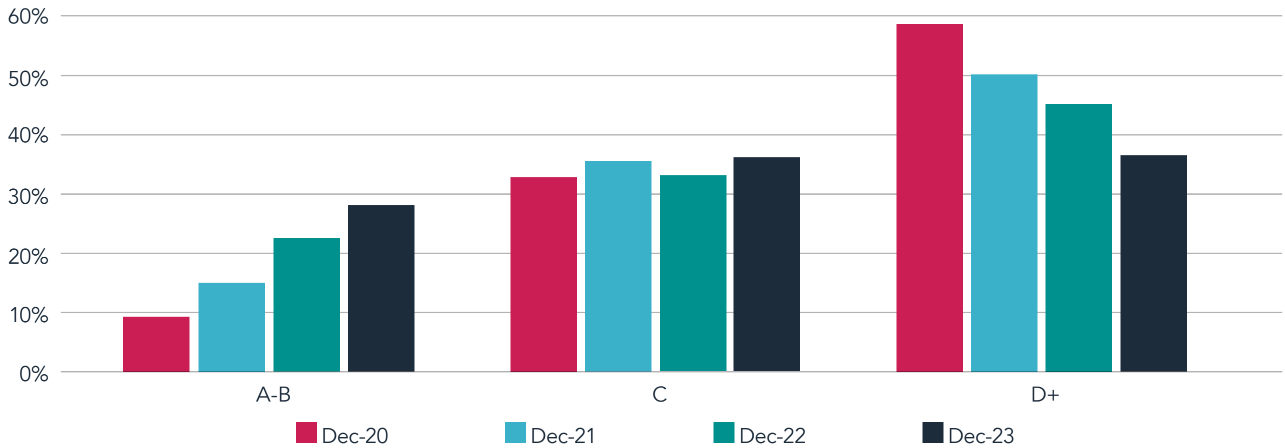
6. Responsible and Sustainable Ownership

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.

We have begun 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 the REIT's 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.38% 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, or continue to 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. It is also worth noting that more tenants are undertaking building improvements to meet their own corporate objectives. We believe that the 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 £13.6m on 31 December 2023

Bracknell

Before → After

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

Value: £7.55m in Nov 2013 to £14.4m on 31 December 2023

Chessington

Before → After

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

Value: £4m in June 2017 to £8.4m on 31 December 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 There is a swap in place for £40m of the floating rate debt which fixes the Sonia rate at 4.513% until 7 April 2026
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