Clipstone

Real estate investment management

Clipstone Industrial REIT plc

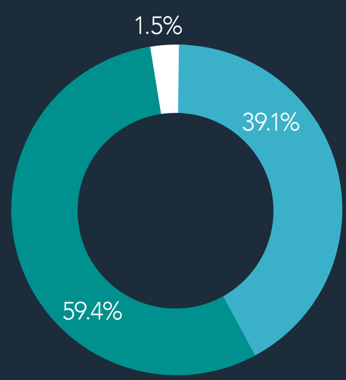
Investor Update – 30 June 2024

CURRENT STATUS OF THE FUND

Number of Properties:	37
Aggregate Value:	£313.2m
Net Asset Value per Share:	£1.7636
Portfolio Net Initial Yield:	5.2%
Portfolio Equivalent Yield:	5.9%
Portfolio Reversionary Yield:	6.1%
Total Passing Rent:	£17.5m pa
Total Headline Rent:	£17.8m pa
Passing Rent:	£10.59 psf
ERV:	£12.34 psf
Number of Units:	238
Number of Tenants:	182
Exposure to Largest Tenant: (shown as a percentage of total rent)	6.0%
Vacancy Rate:	4.7%
Loan to Value:	29.3%
Projected Dividends:	6.50p per share
Dividends at current NAV (£1.7636):	3.7%

PROPERTIES BY REGION

- London/M25*
- South East
- South West



www.clipstone.co.uk

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

Clipstone Industrial REIT plc

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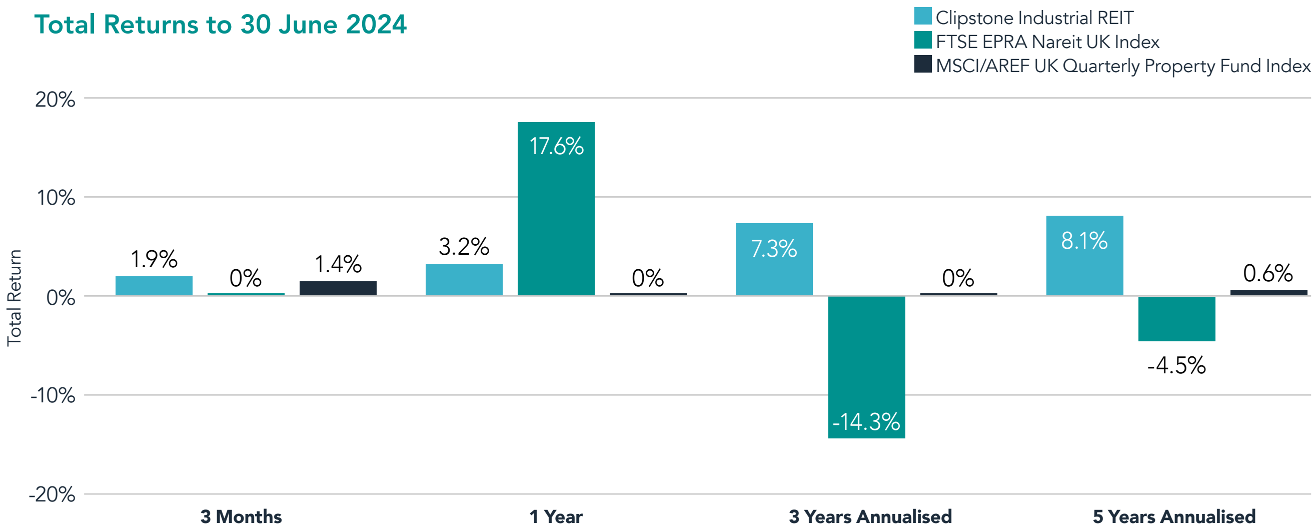
We are pleased to report an increase in net asset value ("NAV") to £1.7636 per share at the end of June, an increase of 1.0% over the NAV at the end of March. Shareholders' total return (NAV increase added to dividends paid) was 1.9% over the quarter, 3.3% over the last 12 months and 131.9% since our launch in December 2014.

The Company has outperformed the broader property market over the most recent quarter and over the previous three and five years. The chart below shows the REIT's performance versus both London-listed property stocks and the MSCI/AREF UK Quarterly Property Fund Index. The REIT has also been the sixth best performing portfolio in the MSCI UK Quarterly Property Index since joining in Q1 2019 (sixth out of 187 portfolios).

Total Returns to 30 June 2024



1 **Acquisition of Stansted**

We are also pleased to announce that on 25 June 2024 the REIT completed the acquisition of Taylors End Industrial Estate ("the Property"). The Property is located adjacent to Stansted Airport and was acquired for £14.15m, representing a Net Initial Yield of 5.69% and a Reversionary Yield of 7.10% (i.e. if the Property was fully let at today's market rent it would generate a yield of 7.10%). The REIT already owns the adjoining industrial estate, so the acquisition of the Property means that the REIT now owns the bulk of the industrial space to the South of Stansted Airport. Insight from our existing holding proves there is strong tenant demand to be located close to this fast-growing Airport and there is very little available space, with certain Airport operators being forced to locate in nearby Bishop's Stortford. Both our existing holding and the Property are currently fully let, and over time we expect this shortage of space to allow us to increase rents across both holdings.

The acquisition of the Property is our first acquisition for two years and represents the redeployment of capital following the sale of 10 properties in the summer of 2022. We believe that this acquisition will enhance both income and capital returns for shareholders. It reflects our belief that the investment market is starting to generate interesting investment opportunities, as pricing adapts to today's higher interest rate environment.



2 The Investment Market

As with previous quarters, the investment market remains subdued and characterised by a lack of transactional evidence. The year-to-date investment total for industrial property is £3bn which is 20% below the corresponding 2023 figure (Source: Colliers, June 2024). Knight Frank's prime South East industrial equivalent yields (excluding London and Heathrow) have again remained static at 5.25% for July 2024 – this is the sixth month in a row South East yields have remained at 5.25%. CBRE also show prime South East equivalent yields at 5.25%. The general consensus appears to be that the market has stabilised, with current pricing potentially reflecting the bottom of the cycle.

Whether South East investment yields have indeed stabilised at 5.25% is difficult to assess whilst there is such limited transactional activity. We are aware of a number of larger investors considering entering the industrial sector, both overseas and private equity capital. However, with prime yields at 5.25% it remains difficult for those investors to fund acquisitions using debt and generate positive income returns. Even after the recent 25 basis point reduction in the UK base rate, fixed rate debt costs currently stand at around 5.75%-6.00%, so many investors are waiting for debt costs to fall further. Likewise, many vendors are reluctant to sell now as they hope rates will come down, leading to better exit prices. The market appears sluggish and tied to the cost of debt. However, even if the base rate continues to drop, it appears unlikely this will have a material impact on the cost of debt, as current swap rates already assume future reductions in the base rate.

In the meantime, pressure is growing on some sellers as refinancings fall due. A number of funds are being forced into managed wind-downs due to persistent discounts to NAV, liquidity issues or where refinancings cannot be achieved on acceptable terms. Examples include the ongoing wind-downs of Aberdeen Property Income REIT (GAV £456m), Lothbury Property Trust (NAV £848m) and the M&G Property Portfolio (GAV £350m). The pricing achieved on these wind-downs will likely set market pricing. These sales processes may provide interesting investment opportunities for those investors with access to capital. Clipstone is monitoring this situation carefully, and we are starting to see some interesting investment opportunities, including our recent acquisition.

3 Occupational Market

The occupational market for South East industrials also remains similar to previous quarters. Occupational deals continue to take longer than normal to complete, with tenants and their solicitors exercising caution. Rental growth has slowed, and in some markets stagnated, although South East passing rents remain reversionary, meaning landlords are still able to increase rents at lease events.

Market void rates are increasing, although these remain at historically low levels. If void rates continue to rise this may lead to occupational deals being undertaken at discounts as landlords look to reduce vacancy. However, to date we have not seen any evidence of rents reducing.

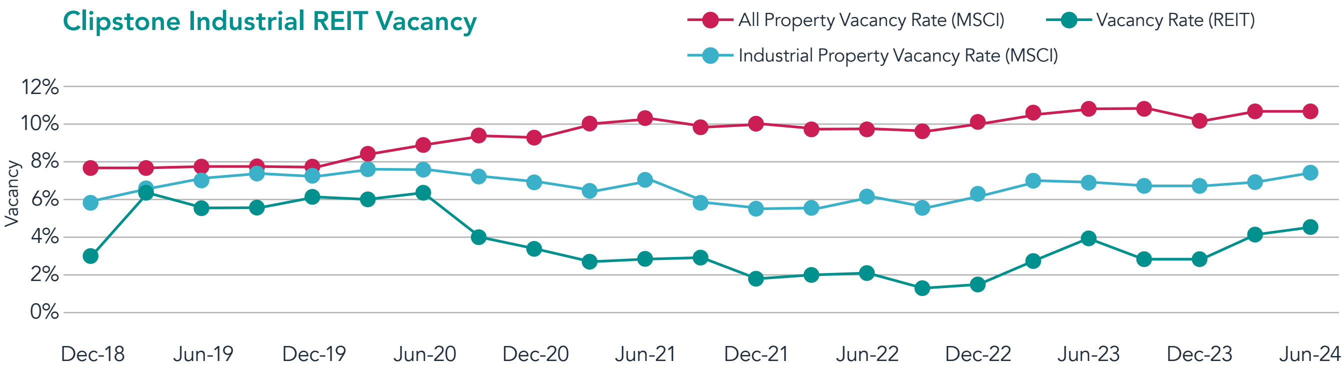
During the quarter we increased the passing rent on the portfolio by 1.9% (on a like-for-like basis, i.e excluding the new acquisition at Stansted), despite the vacancy rate increasing from 4.4% at the end of March to 4.7% at the end of June. In addition, during the quarter our ERV increased by 2.7% and ERV has now increased 9.0% over the last 18 months (all on a like-for-like basis). This increase in ERV over the quarter was partly achieved by completion of the occupational deals set out below.

Property	Date Completed	Event	Previous rent pa	New Headline Rent pa	Uplift
Stevenage	May-24	Lease Renewal	£53,000	£85,000	60%
Stansted 600	May-24	Rent Review	£101,625	£153,975	52%
Optima Park, Crayford	Jun-24	Lease Renewal	£58,524	£80,000	37%
Loverock Road, Reading	Apr-24	Rent Review	£56,322	£75,229	34%
Andover	May-24	Lease Renewal	£29,250	£38,700	32%
Andover	May-24	New Letting	£33,000	£42,000	27%
Bracknell	Apr-24	New Letting	£23,000	£29,000	26%
Swanley	June-24	Rent Review	£307,250	£380,222	24%
Swanley	Jun-24	Rent Review	£260,700	£322,616	24%
Newbury	Apr-24	Lease Renewal	£110,400	£135,600	23%
Optima Park, Crayford	June-24	Rent Review	£36,000	£42,000	17%
Loverock Road, Reading	April-24	Rent Review	£59,274	£68,715	16%
Swindon	Jun-24	Rent Review	£39,000	£44,000	13%

Clipstone Industrial REIT plc

Investor Update – 30 June 2024 *continued*

As mentioned above, during the quarter the vacancy rate increased to 4.7%. This is still a low vacancy rate and is significantly below market rates, as demonstrated in the chart below.



Our 4.7% vacancy constitutes 14 vacant units out of a total of 238 units. Two of those vacant units were under offer at 30 June 2024 and have subsequently completed at an average uplift of 26% over the previous passing rents.

The portfolio remains reversionary, with passing rents at £10.59 psf and ERV at £12.34 psf (headline rent is £10.75 psf). The difference between passing rents and ERV is 16.6% and from headline rent to ERV is 14.8%, showing the potential for further growth. Rents moving from passing to headline will generate rental growth of 1.5%. We expect market rental growth to slow due to the general economic environment, so the majority of income growth will likely come from closing the gap between the passing rent and ERV.

4 Gearing, Stress Testing and Dividend

The Company's loan to value (LTV) stood at 29.3% on 30 June 2024, at the middle 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% to breach our LTV covenant on our long-term L&G debt; for our Barclays facility, a fall of 59.4% would be required. On our L&G facility rents could drop by 60.3% before breaching interest cover covenants and on our Barclays facility by 31.8%. As 100% of our debt is fixed, we are no longer at risk from rises in interest rates until our swaps expire in April 2026.

On 1 August 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 August 2024.

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.

We are continuing to install smart meters in some of our units so that we can automatically collect and analyse the utility usage data of our tenants in those units. To date we have installed meters across c.49% of our portfolio by floor area, with an aim of achieving at least 50% by the end of 2024. We will be able to report on our analysis of the data collected toward the end of 2024 as we need to collect around 12 months' data first for it to be a meaningful representation and base on which to work off.

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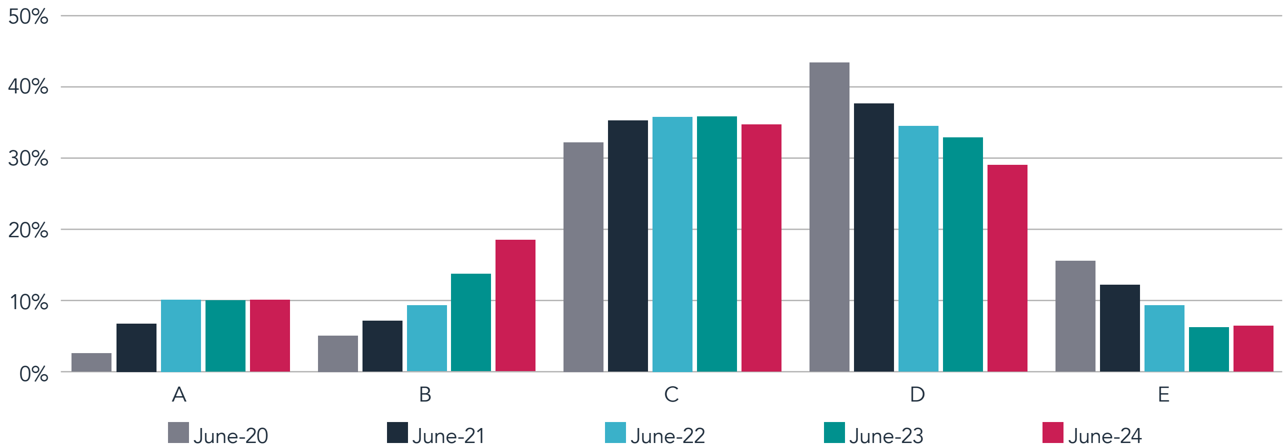
Investor Update – 30 June 2024 *continued*

By 2027 the law on Minimum Energy Efficiency Standards (MEES) 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 minima, including disposing of assets with lower EPC ratings and acquiring buildings with higher ratings, there is still work to be done. We believe that our cashflow forecasts take into account the costs of meeting the expected MEES timeframes.

REIT EPC rating



The slight increase in "E" rated EPCs over the past year is down to the acquisition of Taylors End Industrial Estate in Stansted, which includes a number of "E" rated units. We will be working with our EPC advisors to improve these ratings in line with our net zero strategy.

Clipstone Industrial REIT plc

Investor Update – 30 June 2024 *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 £13.5m on 30 June 2024

Bracknell

Before → After

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

Value: £7.55m in Nov 2013 to £14.55m on 30 June 2024

Chessington

Before → After

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

Value: £4m in June 2017 to £8.4m on 30 June 2024

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	£61.75m at 1.55% margin over Sonia and £30m at a fixed rate of 2.2% until July 2028 There are swaps in place for all the floating rate debt which fixes the Sonia rate as follows: £40m at 4.513%, £6.75m at 4.639% and £15m at 4.556%, all 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

Karl is currently a non-executive director of Jupiter Fund Management plc, Apax Global Alpha Limited and The Howard de Walden Estate. He is also Chairman of Monks Investment Trust plc. He is a Student (Fellow) of Christ Church and Chairman of the Investment Committee. Previously, Karl held non-executive director roles at RailPen Investments (the asset manager of the Railways Pension Scheme), JP Morgan Elect plc and as Chairman of the Board Investment Committee of Friends Life Group plc. Prior to that Karl held executive roles as 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)
      - **Catriona Vedat** (Office Manager)
      - **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