TRITAX BIG BOX

Tritax Big Box Half Year Results 2020

Thursday, 6th August 2020

Introduction

Ian Brown

Head of Investor Relations, Tritax Big Box REIT PLC

Welcome

Good morning, ladies and gentlemen. A warm welcome to all of you joining our results presentation for the six months ended 30th June. My name is Ian Brown, and I recently joined to head up Tritax Big Box's Investor Relations activity. My contact details are available on Big Box's website and are also included in the statement if you have any further questions.

Agenda

I am joined here this morning by Colin Godfrey, our CEO, and our Finance Director, Frankie Whitehead. Before I hand over to Colin, I will quickly run you through the format of this morning's session. Colin and Frankie will run you through today's results, following which, there will be an opportunity for investors and covering analysts to ask questions.

If you have joined via the webcast and want to ask a question, please enter it into the text box on the screen. If you joined via the phone, please dial star one to log your question. We will aim to conclude today's session by 9.30, after which, a recording and a transcript will be available on the website.

And with that, I will hand over to Colin.

H1 Results Highlights

Colin Godfrey

CEO, Tritax Big Box REIT PLC

Welcome

Thanks, Ian, and good morning, everyone. The presentation will take a little over 30 minutes. I will briefly open with the highlights. Our Finance Director, Frankie Whitehead, will cover the financial results. And I will then provide a strategic update, following which we will answer questions, as explained by Ian.

COVID-19

COVID-19 has presented new challenges and uncertainty for us all. Pandemic has impacted on most proceedings. And so with safety in mind, we took the decision to report these results to you remotely and hope that the next time we meet will be in person in March.

Prior to lockdown, we upgraded our home working hardware, software and processes and undertook a home working trial for all of our staff. This stood us in good stead, and we have made seamless transition to home working, operating very effectively in the interim. My thanks to all of our staff who have admirably risen to the challenge in good spirit and done excellent work. Thanks also to our stakeholders for their support. We have enjoyed a particularly high level of engagement with our shareholders since March, which has been very helpful to us.

Of utmost importance is the safety of our employees, other stakeholders and all those with whom we interact directly and those who engage with our business indirectly. For instance, this extends to our development sites. To-date, we have suffered virtually no impact on construction with all of our sites continuing to function with distancing measures imposed and without a delayed programme.

It is well known that some companies have had a tough time. We have purposely undertaken a higher level of engagement with our customers to understand the challenges that they were facing and how we might be able to help them. The response has been positive, and they have been thankful for the support. We believe that this has gone some way to underpin our very high levels of rent collection for the last two quarters. We will, of course, continue a close dialogue and provide support where appropriate.

Delivering resilient income and growth

Moving to slide three. We made good strategic progress during the first half of 2020, in addition to witnessing the benefits of a high quality portfolio in times of great uncertainty.

The key highlights are. We continue to see supportive market fundamentals that have been strengthened by the acceleration of online adoption. Our portfolio has really performed well during this period, particularly in terms of rent collection, reflecting our high-quality tenant roster and also our portfolio valuation, which is up 6.1% in the period.

We have delivered a stable adjusted earnings, and we expect to deliver full year earnings growth from the positive progress on development. We continue to pay an attractive dividend today, bearing an interim dividend of 1.5625p, which together with our Q1 dividend, represents a 96% payout ratio. We are making good progress on asset management, and we are expecting to complete our first investment disposals in the second half of 2020, recycling capital into higher returning opportunities.

And finally, we have made significant progress on development with Europe's largest pre-letting to Amazon at Littlebrook and a number of lettings in our Symmetry portfolio.

Turning to slide four. Frankie will now walk you through financial results. Frankie?

Financial Overview

Frankie Whitehead

Director of Finance, Tritax Big Box REIT PLC

Resilient H1 financial performance

Thank you, Colin, and good morning, everyone. So starting with slide five and the first half financial highlights.

COVID-19 has created a challenging backdrop during the period, but our business has demonstrated great resilience and has produced a robust set of figures. Picking out some of these highlights in more detail. The net rental income increased to £79 million, which is an increase of 14%, £7.5 million of which has been added during the first half following forward-funded development completions, which took place during the prior 12 months.

Portfolio contracted annual rent grew to approximately £179 million, largely due to the Amazon pre-let secured at Littlebrook. Such as the scale of this development that we expect the license fee, which is receivable from mid-June, accelerates our second half earnings. There is also an attractive rental reversion opportunity within the portfolio, which currently stands at approximately 8%.

As expected, our EPRA cost ratio has fallen to 14.1% from 15.3% this time last year, noting the additional contribution to rental income from the recent development completions. The main driver to the growth in operating profit of £124 million is the fair value gain from the property portfolio, which added £55 million during the period.

Capital gain has been fuelled largely by the development portfolio. As a large part of the revenue growth has come from forward-funded development completions, there has also been an unwinded license fee income that these assets were previously generating whilst under construction. This results in the Group adjusted earnings remaining broadly stable, although on a pence per share basis having reduced by 4% to

3.26p. This is principally due to a 3% higher average share count following the equity issued in February 2019.

Dividends declared for the first half totalled 3.125p, noting the prudent stance taken over the dividend since COVID-19, and this converts to a 96% payout ratio. Portfolio value has increased following further deployment of capital into the Group's development activities. The carrying value of the portfolio has increased to £3.96 billion, with the portfolio value now standing at £4.2 billion when including our forward-funded development commitments.

In EPRA NAV, for which we are adopting the NTA measure, increases to 154.85p, which is NAV growth of 2% for the six-month period. When including dividends paid, this takes the total accounting return to 4.2%.

High-quality portfolio delivering strong rent collection

Moving to slide six. Following the effects of COVID-19, close communications with our customers has been a high priority, particularly surrounding rent collection. We highlight the quality of our portfolio, both in terms of our assets and our customers. But the critical role of these assets perform within society has really been highlighted more than ever during this period, and our rent collection is evidence of these factors.

In terms of Q2 rents, we have received 97% of the rent due. For Q3, we saw a stronger performance with 90% of the rents collected as at today and with an expectation for this decline to 99% by the end of this quarter. These numbers are presented on a cash received basis and compared to the total rent fall in June.

Importantly, there have been no rent free periods or rent reductions agreed, and therefore no alterations to any of our leases. And we expect a small level of outstanding rents to be collected over the remainder of 2020 and into 2021. We remain supportive of our tenants and have assisted a limited number with a short-term measure of moving to monthly payments from quarterly.

Finally, our overarching expectation, as we stand here today, is that 100% of all rents across these periods will be received.

Stable H1 earnings with H2 expected to be stronger

Moving to slide seven, please. Looking at the movement in adjusted earnings in more detail and the blue columns comparing the adjusted earnings from half one 2019 to half one 2020. You can see that this has remained stable at approximately £56 million across both periods. Whilst we have delivered higher net rental income of £9.6 million, as mentioned, this has been partially offset by a reduction in license fee income of £7.7 million as buildings roll from development into investment.

The other movement to note is the increase in finance costs of £2.8 million. Our average cost of debt is largely unchanged, but the level of net debt has increased to further finance our development activity.

Talking to the final few columns on the chart. We are expecting the company's earnings to accelerate in the second half. The letting to Amazon at Littlebrook was secured in mid-June and generates £12.3 million per annum of income. This had little effect on the first half earnings due to its timing. As Colin will explain, we expect to generate a further £2.5 million of near-term rent from lettings agreed post the period end across the Symmetry portfolio. And this is expected to be offset in part through various investment sales that we are targeting for completion in half two. For these, we guide to rental income ranging from £5 million to £8 million per annum, and we are looking to the pro rata effect of this activity to have a net positive impact on earnings for the second half.

Strategy continuing to deliver value growth

Moving to slide eight and the NAV bridge, which has been prepared using the NTA measure and includes a restatement of our opening position. Despite the challenging market, we saw attractive levels of capital growth with overall EPRA NAV per share increasing by 2% to 154.85p. This was driven by gains across the property portfolio, which totalled 3.1p.

This equates to capital value growth of 1.5% across the entire portfolio. The investment portfolio valuation was stable, and the valuation yield unchanged at 4.4% compared to last December, meaning that profits from the development portfolio are largely responsible for this gain.

Strong balance sheet

Slide nine. The company has continued to benefit from its strong financial position, which includes its diversified and long-dated debt maturity profile of 7.1 years. The maturity profile demonstrates that there are limited liquidity risks in the short-term with there being no significant refinancing event until 2024. The activity during the period included a successful extension of £190 million of credit within one of the corporate RCFs, taking its maturity out to 2025, as shown by the red box on the chart.

We have a significant level of undrawn headroom, which totalled approximately £370 million at the period end, and the cash cost of debt has remained consistent at 2.68%. Our LTV is within the target range of up to 35%. And following the financing of further growth through the development pipeline, the LTV has moved to 31.8% at the balance sheet date.

Capital allocation and guidance

Finally, slide 10. The left-hand side shows how we have recently deployed capital by summarising our current development commitments. We had four pre-let developments under construction at the balance sheet date with the future expected cash flows summarised for you on slide 28. These transactions each have robust covenants and attractive lease terms attached, but including securing lease terms of 20 years or greater. Supporting this, we have previously guided to an annual disposal target of between £125 million and £175 million per annum, and the expectation is that we will meet this during the current financial year, noting that there are selective assets in advanced stages of sale, and Colin will talk to this more.

Dividend

In terms of our dividend, while we believe the structural drivers to our market are very positive, and to-date our performance during the pandemic has been extremely resilient, we believe it appropriate to maintain a prudent stance, noting the current environment and the fact that the full economic impact of the pandemic is unknown but likely to be significant. We will continue to keep the dividend under review with the potential to increase it once visibility improves. We would also consider this in the context of our payout ratio, whilst being mindful that any increase to the dividend should be something that is both progressive and sustainable.

Leverage

In respect to the balance sheet, we are targeting a long-term LTV range of between 30% and 35%. We will use our gearing as a temporary bridge to disposals when thinking about financing our development opportunities.

Earnings

And finally, as I have discussed, we expect half two earnings to accelerate compared to half one. This is driven by income secured at attractive yields following recent development success, which will in part be offset by a targeted disposal programme.

I will now hand you back to Colin to continue the presentation.

Strategic Update

Colin Godfrey

CEO, Tritax Big Box REIT PLC

Amazon warehouse

Slide 11. Thanks, Frankie. So strong resilient financial performance in the face of some very challenging times for the UK economy. This slide shows the Amazon warehouse going up at our Littlebrook site, already significant progress being made.

Accelerating growth in logistics demand

Turning to slide 12. I will begin by recapping on the strong fundamentals evident within our market. Over the past few months, the UK has witnessed falling total retail sales but a surge in online demand as consumers adapted to the conditions imposed by lockdown and more recently to a restricted reopening. Unsurprisingly, the online share of retail spend has moderated for categories where physical store locations have reopened.

For example, the non-food category where online penetration rose to 44% in April before softening to 33% in June. This compares to food retail, where despite food stores remaining open throughout lockdown, online food sales rose to a record high of 11% in May and have not reduced. Looking beneath the online penetration levels, the growth in online spending remained strong with online sales up 73% year-on-year as of June. There's been an increase in online sales across every retail category, including fashion, although to a more moderate degree.

Categories such as food, home wares and DIY have seen the largest increase in online spending to-date with the year-on-year sales above 100% since May. And so it is no coincidence that these are also the sectors that form the largest component of our rents. Prior to lockdown, online sales represented approximately 19% of total retail sales. This rose dramatically during lockdown. And whilst it is perhaps unlikely that the level of e-commerce penetration will remain at over 30% in the longer term, increased numbers of people have been spending more online. We believe that this will accelerate long-term growth in the logistics property sector.

The right-hand graph indicates the level of additional logistics property that would be required, given specified levels of online growth and based on the assumption that approximately 900,000 square feet of logistics space is required for each £1 billion of additional online spend. In short, there is potential for significant increase in occupational demand in the near-term, but also looking further out.

Favourable market dynamics & fundamentals for Big Boxes

Turning to slide 13. This trend continues to support the long-term fundamentals of large-scale logistics, for which we have seen significant upward trend in demand recently, particularly in the first half of 2020, for the following reasons.

They provide significant cost benefits through economies of scale, particularly when tenants consolidate a number of smaller sites into one larger site. They lend themselves to a high degree of automation, reducing unit cost economies, which are critical to successful, scalable and profitable e-commerce. And they provide resilience and flexibility, particularly with the uncertainty created by COVID-19 and Brexit, which will have long-term impacts on supply chains.

Whilst occupational demand is high, supply remains constrained with only 5.1 million square feet of larger scale logistics buildings having been speculatively built over the past 4.5 years. The resilience of these prime logistics assets has been demonstrated through the COVID-19 pandemic with prime yields holding steady despite some softening of weaker tenanted stock. Nonetheless, the spread between UK yields, currently at 0.3% and the prime distribution yield of 4.5% is currently above long-term averages at around

440 basis points, suggesting that there could be the potential for further yield compression for prime assets. So overall, we are very well placed at the forefront of a standout sector of global real estate.

Strategy focused on high-quality UK logistics real estate

Turning to slide 14. Against this positive market backdrop, we have a very clear vision for our business and strategy on how we will deliver it. Our overall objective is to become the leading integrated property REIT focused on UK high quality real estate assets. With a focus on high quality assets in the right locations, we continue to attract some of the world's leading customers, thereby supporting the strength of our portfolio. This focus on quality helps us provide capital resilience and growing income for our shareholders. We take a direct and active approach to management, which we believe will protect, add and realise value.

We have not outsourced this discipline, and therefore we work directly with our customers, which helps build strong relationships and provides greater insight into their requirements. We are constantly evaluating our existing portfolio, looking at ways to secure growth in income and realise increased value of our assets. We are also keen to keep an eye on market opportunities.

And finally, once we have maximised the value of assets, we will look to crystallise that value through sales and redeploy the capital into higher returning opportunities, including development. We also use our knowledge to identify development opportunities and drive innovation in what we are doing. We reduce the risk and maximise the opportunity for development by only deploying significant capital when we have agreed a pre-lease with the customer, therefore giving us line of sight on returns.

Underpinning our strategy is a rigorous approach to capital allocation, ensuring that we only deploy capital into the best opportunities with a full understanding of the risks and potential returns. Alongside this is our commitment to sustainability, which we believe is central to the long-term interests of our shareholders, customers and the wider society in which we operate. Overall, the strategy is designed to create sustainable, long-term income and value growth for our shareholders.

High-quality portfolio reflective of strategy

We will now move to slide 15. Our high-quality portfolio is reflective of this strategy. We own a significant investment portfolio, which provides shareholders with long-term, stable and growing income. Additionally, through our land acquisition at Littlebrook, Dartford and Tritax Symmetry, we own the UK's largest logistics-focused land bank. This complements the income generation of our investment portfolio and provides potential significant value growth. We believe this combination provides shareholders with an attractive blend of long-term income and capital growth.

Quality customers, resilient sectors, critical assets

Turning to slide 16. As a result of this approach, we have assembled a high-quality investment portfolio with some of the world's leading customers. 70% of our tenants are publicly listed with a market cap of over £2 billion, and many are in highly defensive sectors such as online and food retailing, which comprise a high component of our income. This quality has provided the reliable income that our shareholders become accustomed to, both in good times and bad.

But it also gives us significant insight and relationships that we can apply within our business to grow further. Critically, we think that this portfolio positions us well to weather the long-term economic impacts from COVID-19.

Embedded income growth with further upside potential

So on to slide 17, please. Turning to our asset management during the period, our portfolio includes a number of features that enables minimum level of embedded rental growth. With a portfolio of world-leading customers, we believe overall risk within the portfolio is low and provides a high degree of certainty on a minimal level of rent receipts. 88% of our portfolio rentals are subject to review by December 2022, providing significant near-term upside potential.

We have constructed our portfolio this way because index rent reviews are clear, and the inbuilt colours provide a minimum level of rental growth, as shown by the dotted line on the right-hand graph, which produces a growth of 1.55% per annum.

In addition to this, we have opportunities to further increase rental growth through open-market rent reviews and capturing rental reversions, as shown by the solid blue line, which peaks then to 2.75% per annum over the next three years. This could, of course, grow further through asset management.

Asset management driving rental growth

The next slide is 18. We have outlined here some of the asset management activity implemented during the period, which includes five rent reviews, and we also have further opportunities in the second half of 2020, which we are working on and growing our rental income and value through lease extension negotiations, a number of which are very live at this moment.

Proactive and ongoing evaluation of our portfolio

So turning to slide 19. As part of active management, I have outlined here our approach to asset disposals. Firstly, as I mentioned, our portfolio is under constant evaluation. This ensures that we maximise all possible value-creation opportunities in our shareholders' interests. With a very high-quality portfolio, we can be patient sellers, ensuring that we time our disposals well.

We consider a range of criteria specific to each investments, including tenant calibre, lease length, lot size, location, building quality, capital requirements and future return profile, to name a few. We also look at the broader portfolio implications of selling assets, including impact on earnings, dividend and overall portfolio composition. Principally, we evaluate all new opportunities against potential disposals from our portfolio so that we can redeploy proceeds swiftly and demonstrate a positive value arbitrage.

With progress in our development pipeline accelerating, we see growing opportunities for this. Based on this methodology, until recently we did not consider that sales were in the best interest of shareholders. This is because we saw further value accretion in our assets and because the assets available in the market were less attractive than those that we own. We now have opportunities to enhance value through capital recycling. COVID-19 impacted on the timing of our investment sales. We were keen to ensure that the market conditions have stabilised sufficiently in order to maximise the proceeds of sale.

As a consequence, we now have a number of assets into listers hands and anticipate these completing in the second half of 2020. Overall, we have a medium-term target to sell around £125 million to £175 million of assets a year on the basis of this criteria that I already set out.

Insight driven development growing returns and limiting risk

So moving to slide 20. Turning to development. Through our acquisition of DB Symmetry and purchased land at Littlebrook, Dartford, we believe that we control the UK's largest logistics-focused land bank. This land bank is well located near key infrastructure across the country. Put simply, we believe we can increase returns for our shareholders by selling assets from our existing portfolio into a strong investment market with prime yields of between 4% and 5% and tightening, and redeploy these proceeds into our development portfolio at target yields of 6% to 8%.

While this land bank is large, tenements represents around 9% of our current portfolio by value. We take a cautious approach to development, de-risking the process as much as possible through our deep understanding of the customers future needs. This ensures that we are creating the right product at the right time. We also only commit significant capital once we have lease agreed with the customer, known as a pre-let. And this gives us line of sight on our overall term profile.

There is a role for speculative development here too, particularly in the form of smaller units, but this will form a very small component part of our business, less than 5% of gap, and it currently only represents around 1% of gap. As well as direct development, the highly regarded team we acquired through the Symmetry acquisition also provides development management services to third parties. These require no capital from us since they do not relate to our own assets, but we do benefit from fees, which enhance our earnings, albeit, these fees are unpredictable and modest in the context of our overall business.

We think about our development pipeline in terms of the planning process with current, near-term and future opportunities, as set out on the table on this slide. The current pipeline is essentially pre-let with the near-term and future pipelines comprising just under 9% of current portfolio value in aggregate.

Extensive development progress during the period

Turning to slide 21. We have been very active on the development side of our business over the past six months. Some key highlights to note.

We have now let two out of the five speculatively constructed Symmetry assets with two further lettings imminent and totalling 168,000 square feet and also active discussions on the final building of 163,000 square feet. Some significant pre-lets were delivered during the period, the largest of which was at Littlebrook and Dartford. Strong progress was also made in planning consent on land capable of delivering 4.5 million square feet of space. And we will also subsequently receive development management agreed payment fees on just over 400,000 square feet of space. So in summary, it is been a very positive period for us on development.

Littlebrook – approach to development in action

Turning to slide 22. As I mentioned, Littlebrook, Dartford, which we think encapsulates many of the aspects of the strategy of our work, is shown here on this slide. 114 acres of gross land was acquired in 2017 for £65 million. They are close to our customers. We can see how their requirements were evolving. We identified this site as being able to meet those requirements with excellent location, availability of power and transport infrastructure. This is essentially a Big Box logistics partner last mile location.

Working with our development partner, Bericote Properties, we achieved planning consent on Phase 1 in November 2018. Among other interests, Amazon's requirements outgrew what we can provide on Phase 1, so we had to work up a new design and planning on a site comprising Phase 2, coloyred light green on the plan, and part of Phase 3, coloured dark green. So combining two green elements to provide the overall sight of the new Amazon letting.

The last month, we announced the receipt of planning and securing a 20-year unbroken pre-letting to Amazon for what we understand to be Europe's largest and most valuable logistics facility. This is a state-of-the-art building with 20-meter height to the eaves and three structural mezzanine floors, which we are delivering at a return in line with our stated yield target.

As shown from the last photograph at the beginning of this section, the building frame is already an imposing presence. This incredible building will put Littlebrook well and truly on the map as one of the UK's premier logistics park. We initially underwrote 1.7 million square feet of Littlebrook, but have now achieved planning consent of 2.75 million square feet. So we have already exceeded our original target by over a million square feet.

Our shareholders have benefited from a significant increase in Littlebrook's value of approximately £100 million, as shown on the chart, both from the creation of the Amazon pre-let investment, but also from the increased value of the remaining land. Overall, based on the current value of our holdings at Littlebrook, we have exceeded our original profit expectations. The remaining undeveloped land comprises Phase 1, coloured grey, which is planning consent to 450,000 square feet at the ground floor level and potential for multiple structural mezzanine floors.

An unconsented land comprising the remainder of Phase 3, coloured pink, and Phase 4, coloured light blue, which provides the potential for a further 350,000 square feet and 120,000 square feet at ground floor level, respectively, all additional upside for our shareholders. By taking a long-term view and a thoughtful approach, Littlebrook is delivering significant income growth and returns to our shareholders, and we see similar potential by applying this approach to our broader development land bank.

Our ongoing commitment to sustainability

Turning to slide #23. I have outlined our strategy and the progress that we have made during the period. And the core of what we are doing is a commitment to sustainability, which we are embedding across all of our activities. This underpins our strategy, ensuring that we are making better decisions in the interest of all stakeholders and with the objective of long-term value creation.

This year, we formally launched our vision around sustainability. The four key areas forming our sustainability strategy are set out on this slide, but are more comprehensively set out in our statements released this morning. These are:

- Ensuring that the buildings we create are healthy and sustainable;
- Committing to net zero carbon across all direct operations;
- Ensuring that the environments, which we create, support biodiversity, in addition to the well-being of our customers, employees and the local communities within which our facilities are located; and
- Making sure that all of our investments both demonstrate and create social value.

We have been busy implementing this. And during the period, we have announced our net zero carbon in construction commitment as part of our objective to be a net zero carbon company.

The upcoming DPD development at Vista will be our first net zero carbon development. We also announced that our Amazon Littlebrook development will be BREEAM Excellent and has the largest rooftop solar scheme for new developments in Europe. We benefit from a strong foundation for launching our sustainability strategy. By floor area, around a third of our portfolio comprises buildings, which we have newly developed in the last 6.5 years, and all of which have achieved BREEAM Excellent or Very Good ratings. This underpins our EPC rating scores, which are generally high with 87% of our properties by floor area rated A to Z.

Well positioned to deliver growing income and value

Turning to our final slide #24. So to conclude, despite the challenges of COVID and the uncertainty it will create, we have delivered a very positive start to 2020 and are on track to deliver our seventh consecutive year of growth.

We have a very clear strategy on what we own and that we are making excellent progress on with our high-quality and resilient portfolio and a strong balance sheet. We are exclusively invested in the most attractive and dynamic sector in commercial property with the knowledge and expertise to take advantage. Occupational demand is strong and supply is controlled, which bodes well for rental growth. Demand is also strong for logistics investments, and further yield compression is possible. Structural tailwinds supporting long-term growth in our markets have been accelerated by COVID-19.

We benefit from a high-quality and resilient investment portfolio, built to withstand the test of recession and an extensive development land portfolio capable of exploiting the growing market opportunity. In combination, we are well positioned to deliver long-term income and value growth for our stakeholders.

That concludes our presentation. And I will now open up the session to your questions, which Ian will help coordinate.

Q&A

Ian Brown: Thanks, Colin. The first question that we have actually comes from Sebastian at Peel Hunt. And first question is, the last Board funded letting in the Symmetry portfolio, if he is not mistaken, was to the Co-Op at Biggleswade in the first half of 2019. Are you able to give any indication on the number of units or the amount of space you are in pre-let discussions with tenants over in the Tritax Symmetry portfolio on the non-completed development pipeline?

Colin Godfrey: You are correct, Seb. The last forward funded pre-let was to Co-Op. There are a number of pre-lets that we are currently negotiating, but we are not currently in a position to be able to disclose details on those, which are currently in discussion. But Frankie, would you like to just talk a little more about the pre-let position?

Frankie Whitehead: Well, there is one that has been agreed post the period and the details of that are in the RNS, which is a DPD unit. There are many discussions ongoing. As Colin said, we cannot disclose the sensitivity. There is quantum there in terms of the scale, and further announcements will be made in due course as and when.

Ian Brown: Okay. And then a follow-on question from Sebastian as well was just what was the valuation movement on the portfolio on a like-for-like basis, excluding the effect of developments?

Colin Godfrey: The existing standing investment portfolio was flat, which we feel is a strong result, given the challenges of COVID. We did see a very slight hardening in yields for our promised assets, and we have seen a very slight softening in what I would describe as more secondary stock or stock, which has led to SME income. There’s certainly been a focus from valuers relating to weaker tenants and concerns over future rent collections and obviously closed eye on rent collection levels, and that has impacted on valuations.

I think this is a relatively near-term feature. The rent collection statistics will obviously play out over the fullness of time. And we are probably expecting a greater impact from COVID later this year and probably into ‘21 than we have seen to-date, and that will undoubtedly manifest itself in value. So essentially, what we have seen is the polarisation of the market base.

And the reasons we have mentioned earlier, given the very significant amount of capital that’s circling logistics, both from overseas parties but also from UK institutions that are looking to reweigh their portfolios away from retail, there are now question marks over the use of offices, for example, other sectors such as leisure has obviously been hit pretty hard by COVID.

One, people are wondering how these other sectors are going to cope in the longer term and the effect it might have on those values, and this is obviously all very new. But one thing we do know is that logistics have performed very, very strongly during COVID, keeping the UK economy going to some significant degree. And we believe that, that will play out in a desire for further acquisitions.

And yet, there has been very, very little opportunity to buy, and there has been very little liquidity in the marketplace. So I think you will see that overarching demand for investments pushing down on yields over the coming months.

Ian Brown: Great. The next question, which is from Market Investment Techniques, is, are your planned disposals mainly aimed at existing tenant purchases?

Colin Godfrey: In short, yes. The disposals are aimed at our existing investment portfolio. And I have explained the process by which we undertake an evaluation of our current portfolio. But essentially, what we do is quite an extensive [inaudible], which assets we believe we have maximised value from in terms of asset management initiatives. And having concluded those, it may be the appropriate time to sell.

We also keep an eye on market activity and inbound approaches. We have received quite a number of unsolicited offers, market approaches for our portfolio. We have been very selective about the discussions we have had with those parties. And this is actually ongoing during COVID. And I think these talks to the prime nature of our portfolio, the highly liquid nature of our portfolio. And typically, you would look to see us considering sales right the way across the spectrum from shorter-term income to longer-term income.

But very, very simply, those assets, which we believe either do not sit as well within our current portfolio or we believe we are sitting at maximum performance potential and which we could potentially dispose of and recycle that capital into more accretive investment opportunities, either from the main market, from existing investments, pre-lets or indeed to support the capital requirements from our development portfolio with new pre-lets coming on stream and obviously the potential for construction costs in there.

Peter Bretveld (Kempen): Yes. I have got some follow-up questions on the tenants, which might be a bit of a problem. First of all, I am very happy with the detailed tenants that you provide. Could you give us sort of percentage on tenants you have some concerns about? Colin, for example, you mentioned that in terms of the automotive or especially in Street currently having some difficulties.

Colin Godfrey: Thank you, Peter. The first thing to say is that the tenants, which we are keeping a close eye on from a very small component part of our portfolio, and we had a high and a very good level of dialogue with all of our tenants, but that has been encouraging. So we have got a very good insight into their business activities and how they are currently performing. The number is very small. I would say, it constitutes around probably three parties and revolves around about 4% of our rents. Frankie, do you want to speak to any more detail on that?

Frankie Whitehead: No, I think you have covered it. I think one thing to say is that has not really manifested itself in the rent collection stats, which are obviously strong, and that again articulates the importance of our buildings within the networks of these businesses. So whilst they might be paying on the High Street, we are not seeing that on the logistics front.

Ian Brown: Great. So next question comes from the webcast from Tom Musson at Liberum. He asks, is there any way you would consider increasing the policy on maximum exposure to any single tenant? And can you remind us what the maximum exposure level is currently?

Colin Godfrey: Yeah. There is not a formal policy on this point. It is a subject that has been debated extensively at Board level. Probably you are talking specifically about Amazon here, which represents a little over 19% of our rents currently. Just in that very example, we think Amazon is very, very strong, and would take exposure terms and up a little bit higher. But as a Board, we have debated the highest level, and we think that probably 25% is a level at which we would start becoming uncomfortable for even the strongest tenants on the planet.

But as you will note, other than Amazon, all of our other tenants are some margin below a 10% threshold. So that hopefully gives you some feel for how we see that moving in the future. I think it is pretty unlikely we are going to see many tenants constituting more than 10% of our portfolio. But there is one specific example where we have been prepared to go substantially high for good reasons.

Ian Brown: Great. It looks as though that is the extent of the questions. So Colin, if you want to wrap up, that would be great.

Colin Godfrey: Well, assuming there are no more questions coming in from anyone, that we really appreciate the time you have taken to join us this morning, answer to your questions, no doubt, we will be catching up with a number of you following this call and over the coming months.

Do please send any other questions that you would like to direct to us, and we are more than happy to get back to you in our own time. But for now, it remains good to say thanks very much for joining all of us, and thank you for your support and interest in the business. And I hope you have a good day. Thank you. Bye-bye.

[END OF TRANSCRIPT]