TRITAX BIG BOX

Tritax Big Box
Half Year Results | Webcast
3 August 2023
Transcript

Disclaimer
This transcript is derived from a recording of the event. Every possible effort has been made to transcribe accurately. However, neither Tritax Big Box nor BRR Media Limited shall be liable for any inaccuracies, errors, or omissions.

Ian Brown: Good morning and welcome to our first half results presentation. I'm Ian Brown, Head of Corporate Strategy and Investor Relations for Tritax Big Box. I'm joined here this morning by Colin Godfrey, our CEO and Frankie Whitehead, our CFO.

As a reminder, after the presentation, there will be an opportunity for investors and analysts to ask questions. To ask a question, please use the web chat feature or if you prefer to ask your question verbally, please ensure you've dialled into the presentation using the details in this morning's announcement. Finally, a replay and a transcript will be made available on our website shortly after this morning's meeting. And with that, I'll hand over to Colin Godfrey.

Colin Godfrey: Thanks, Ian, and good morning, everyone. I'm pleased to present the 2023 first half results for Tritax Big Box and to provide you with an update on our market and our positive operational progress.

I will start with a brief introduction. Frankie will run through our financial results for the first half, and I will then explain how our strategy is delivering attractive performance. And Ian will then wrap up with Q&A.

In March this year, we reported strong operational performance for 2022 against the backdrop of weakening capital values. And despite continued macroeconomic uncertainty, I'm pleased to confirm that our strategy continues to deliver strong performance for our business. And I want to start by highlighting four important factors from our first half. Firstly, we have continued our strong operational performance from last year with all key metrics being positive. Our asset values have marginally increased. Earnings per share are up and our costs are down, resulting in a positive total return.

Secondly, our high-quality assets and customers not only insulate us against an uncertain economic future but provide opportunity for value growth. There are clear asset management opportunities and significant development value to unlock going forwards. On top of this, we have a strong balance sheet providing flexibility to take advantage of the market opportunities that we are seeing.

Thirdly, the market remains robust. Occupational demand has largely normalised and there have been some increases in near term supply, but rental growth remains healthy and the powerful long-term structural drivers, deglobalisation, Brexit, cost efficiencies and supply chain challenges all remain.

And lastly, we are very well-placed to take advantage of these market dynamics. There is already significant earnings growth baked into our business through our rental reversion and development rents, which have yet to start flowing. And on top of that, we have the UK's largest logistics focused land portfolio that has the potential to drive strong

income growth into the longer term. And all of this is before we factor in future rental growth, which will further enhance earnings. Frankie will now explain our financial performance. Frankie.

Frankie Whitehead: Thank you Colin, and good morning, everyone. Our 2023 first half results demonstrate a continuation of the strong operational performance that we delivered during the course of last year and includes further growth in adjusted earnings. Following the significant correction in asset values during the second half of 2022, encouragingly investment yields have remained stable over the period resulting in a return to NAV growth for this six month. And whilst we have been selectively deploying capital where we see attractive returns, our successful disposals have ensured our loan to value and liquidity levels remain prudently positioned, meaning that we can continue to take advantage of the opportunities that we are seeing.

Turning to the key financial highlights for the first half. Our adjusted EPS has risen by 5.6% to 3.94 pence. In line with our policy, we have declared dividends equalling 50% of last year's total dividend, which is 3.5 pence per share, a 4.5% increase over the period. With our valuation yield stable, the EPRA NTA growth of 1.5% to 183 pence has been driven by the capitalised effect of underlying income growth.

And as you can see from the bottom left-hand graph, we still have a significant level of income growth embedded within our portfolio. The rent secured within our development pipeline means that our contracted position rests 6% above today's passing rent. Whilst the ERV of the portfolio now sits a further 21% ahead of today's contracted rental position. This provides us with good visibility over the future growth in earnings. And I'll come back to this in a moment.

So, as I said, we're continuing to deliver strong operational performance and we expect this to continue as we make our way through the second half of the year. Further good progress has been made in terms of delivering growth in net rental income. This has increased by 7.7% to £109.3 million for the first half. Once again, this was predominantly driven by development completions and like for like rental growth. The top right-hand chart shows the moving parts behind contracted annual rent, which has opened and closed the period at £224 million with any income growth being offset by our disposals.

This recycling of capital will however be accretive to performance and Colin will touch on this later in the presentation. As previously signalled, EPRA cost ratio has reduced to our lowest ever recorded level to 12.6%. This reflects the lower investment management fee following the reduction in the asset values last December, which despite the inflationary backdrop, has led to a 9.8% reduction to admin costs over the period.

As mentioned, growth of 5.6% in adjusted earnings per share has positioned our earnings along with our dividend at 3.94 pence and 3.5 pence respectively. Our dividend payout ratio stands at 89%. So net rental income has grown and so has adjusted earnings as you can see here starting on the left-hand side and the 2022 half one adjusted earnings of 3.73 pence. We've delivered 3.6% of like for like rental growth from the investment portfolio along with the income growth coming from development and new lease completions, which was the biggest contributor adding 0.4 pence to EPS.

Our net disposal activity is offset by that reduction to admin costs, which includes a 14% reduction in the investment management fee. I will come on to talk about our debt profile in a moment, but the reduction to EPS from higher net finance costs relates to a 13% increase in the average level of net debt rather than to any real change to the average cost of debt throughout the period. And finally, you will see that there was a further reduction due to the fact there was no DMA income recognised for this first half when compared against the £2.6 million of DMA income recognised in the prior period. So, in total, you can see the adjusted earnings grew to 3.94 pence per share, an increase of 5.6% over the period.

Now turning to capital values and with investor confidence starting to return as we progressed through the, we saw our portfolio equivalent yield remains stable at 5.3%. ERV growth across the sector remains positive. As you can see from the middle chart, our own portfolio ERVs have increased by 3.9% across the six months. It's important to recognise that irrespective of the level of rental growth moving forwards from here, capturing the current level of portfolio reversion, which now stands at 21.3%, provides us with a great opportunity to grow our earnings attractively over the medium term. And you can see on the right the stabilised yield positioning together with that income growth means that we have recognised a portfolio valuation surplus of 1% for the half.

Moving on to slide 11, we demonstrate here how we continue to conservatively manage our balance sheet whilst enhancing returns. Looking at the left-hand side, we have been actively recycling capital into higher returning opportunities. Capital allocation has remained predominantly focused on our development program where we have deployed £109 million in the period. This is alongside one opportunistic purchase for £58 million, which Colin will walk you through shortly.

And we've been very pleased with the progress made with disposals and the level of interest shown in a number of our assets. We completed or exchanged on £235 million of disposals in the period which were all conducted at or above prevailing book values. Taking into account the activity that we expect to conduct through the second half, our net deposition should remain broadly level over the course of 2023, therefore leaving us well positioned to capture further opportunities that we may identify.

Moving to the top right chart, we have maintained significant operating headroom under both loan to value and interest covenants. Despite the 20% correction to values witnessed last year, values would need to fall by a further 45% before we encroach on covenant levels. And our net debt to EBITDA ratio remains strong at 8.3 times. And finally, the bottom right-hand chart is an illustration of how our average cost of debt is expected to change over time. The illustration assumes that net debt remains static, applies our current hedging profile and assumes that all refinancing is done at today's marginal cost of debt. Given the limited refinancing events over this timeframe, any increase to our average cost of borrowing is minimal and remains beneath 3% over the period through to the end of 2025.

Slide 12 shows that we have maintained a robust balance sheet, which continues to provide real certainty around our financing. As you can see, we have maintained many of our key metrics over the six months. Firstly, our available liquidity remains in excess of over half a billion pounds. Our average cost of debt remains unchanged at 2.6%, and the ratios that I walked you through on the previous slide have allowed Moody's to reaffirm our Baa1 positive credit rating during the period.

In terms of our fixed to floating ratio, this is also unchanged with 83% of total drawn debt fixed and the balance 100% hedged. Looking at the upcoming debt maturities, we have a revolving credit facility due to mature in December 2024. We have commenced the refinancing process, which has so far indicated strong appetite from both existing and new lenders. This is a process that we hope to conclude in the coming months, at which point there will be no further maturities due for the next three years.

And so, bringing this all together, we have an extremely robust and liquid balance sheet providing a stable platform from which to execute our strategy. Looking forwards, this rental income bridge illustrates the significant potential held within our future land pipeline. This provides us with an attractive, organic development opportunity over the long term, which allows us to grow today's passing rent from £212 million shown on the left-hand side to potentially more than six hundred million pounds shown on the far right.

Moving from the left, this includes £12 million of rent, which is contracted in relation to assets under construction. The vast majority of this income will commence prior to the end of 2023. We have a further eight million pounds of potential rent within the current development pipeline, which is currently unlet, which we expect to deliver by mid 2024.

And looking ahead to the anticipated starts over the next 12 months, we have a potential £25 million of rent attached to these schemes. The rent here is split broadly 50/50 between schemes that we expect to deliver through the second half of 2024, and those we expect to deliver during

the first half of 2025. Further, ERV growth has led to an improved market to market rental position with this rental reversion providing a further £48 million of opportunity.

Putting all of this into the context of the medium term, this gets us to the green bar totalling £305 million, which is some 44% ahead of today's current passing rent. Moving further out, we continue to progress our near term and future development sites through the planning process. And to remind you, this chart assumes no future rental income growth beyond today's ERV level. And so, with our reversion and through our development pipeline, we have this highly accretive organic way to grow our income over the short, medium, and long term.

And finally, from me, I want to finish by outlining some financial guidance. Our high-quality investment portfolio underpins our core income return, and we will be looking to maximise the opportunity inherent within the current portfolio reversion. Our prudent management and financial discipline, particularly over the last 12 months, puts our balance sheet in a strong position and it provides the business with good optionality around our future funding needs.

We paused our disposal plans in half two 2022 due to market conditions. However, we have successfully executed on £235 million of disposals over this six month, and we're targeting a further one hundred to two hundred million pounds of disposals during the second half of the year.

And we're continue to invest for growth. We expect our capital deployment to be focused on development, and we maintain guidance for 2023 of two hundred to £250 million deployed into development. And so, looking forwards, my overall message is that a large part of our near-term income growth has already been secured through development lettings, or is embedded within our existing reversion. And together with our balance sheet strength, this gives us good visibility on how we will drive both earnings and dividend growth into the medium term. And so that concludes the financial review, and I shall now hand you back to Colin.

Colin Godfrey: Thanks, Frankie. As Frankie has just explained, we've carried on the strong operational performance from last year and we expect that to continue. Our market remains robust, but it's important to understand how the dynamics are changing, and that is what I want to update you on here. The first point to make is that the occupational market remains healthy. As shown top left, we've seen further rental growth in the first half of 2023, albeit contrasting between the regions.

London rental growth has slowed markedly, whereas growth in the Northwest and the Midlands have remained above their five-year average, noting that we have a number of sites in those regions. Vacancy has ticked up in most regions, but remains low by historic standards, as

seen top right. We do however expect vacancy to increase through the second half of this year before stabilising in 2024 once the elevated levels of speculative projects that started in 2022 complete. Noting here that planning is not getting any easier and this does serve to limit the level of development.

Turning to the bottom left, this shows that the level of lettings has moderated with 10 million square feet of space leased in the first half of 2023. Although this level is healthy when viewed over the longer term.

Decision-making is understandably taking a little longer given the challenging macroeconomic backdrop, but importantly, underlying occupied demand remains very strong. Savills, for example, reported a 64% increase in inquiries compared to Q4 2022, and inquiry levels in our own occupier hub are close to the highest level for nearly two years. This suggests that pent-up demand is building, which bodes well for market fundamentals and rental growth in the medium term.

And finally, it's encouraging to see that the market is reacting to current dynamics. As the bottom right-hand chart shows, new speculative starts have dropped significantly in 2023, and as I said a moment ago, this will lead to lower speculative completions in 2024 and help keep the market fundamentals in balance. And our strategy is designed to take advantage of these fundamentals.

I make no apology for the familiarity of this slide, which diagrammatically explains our strategy because it's more important now than ever in supporting our performance. At the centre of all we do is ESG, and more on that shortly.

But first I want to remind you that we own the UK's largest logistics investment portfolio, and we control the UK's largest development focused land portfolio. This provides heightened market knowledge and the ability to exploit market opportunity.

And key to this is a fundamental principle of quality. We've handpicked prime logistics assets, led to financially strong customers on long leases, and these make up 93% of our GAV. The strength of our investment portfolio is hugely important to our shareholders, particularly in the face of an uncertain economy. And we use our experience to actively manage our portfolio, improving our buildings, increasing rental and capital values, and helping our customers maximise efficiency from their operations.

We will sell assets which have lower returns potential, or which carry heightened risk. This strengthens our balance sheet, enhances our funding options, and increases firepower to support development capex and accretive investments. One such example being the Junction 6

urban logistics park at Birmingham, which has significant asset management potential and which I will return to later.

Finally, development is very attractive because the income yields that we're consistently achieving are highly accretive. Our development assets and land portfolio comprise only 7% of our GAV, but the value creation potential is much higher due to the control of the land through option agreements, which are very capital efficient and reduce risk.

And across all of these activities, capital discipline is fundamental to our decision making. And this slide brings the benefits of our strategy to life. You can see that during the half year we've been very active with £235 million of investment sales in the period, all at or above book value and securing an average initial yield of 4.4%.

We continue to Favor capital deployment into development because this is producing a very attractive yield on cost, currently around 6.5% and rising. We expect to be towards the lower end of our guidance range of 2 to 3 million square feet of development starts this year, although this is highly flexible, and we apply a prudent approach to the way that we develop.

We also consider investment opportunities which enhance our current portfolio. And with repositioned capital values, we are seeing some attractive opportunities to capture high reversionary yields and total returns than the assets that we're selling. In particular, this includes improved value in the urban last-mile sub-sector, which I'll come back to you later.

So, the successful implementation of our strategy provides value rotation, which is accretive both in terms of capital and income, but also continues to enhance the quality and breadth of our offer. As ever, sustainability is embedded right through our strategy and across all our activities, and we are making great progress.

Having updated our ESG targets in March, we've been busy implementing these within our investment and development processes and right through our ownership as you see here. Our new developments will now be constructed to a minimum standard of EPC grade A and BREEAM excellent. We have ambitious targets to reduce embodied carbon. For example, alongside solar and EV, we are now piloting battery storage at our Biggleswade co-op asset.

These physical attributes complement our social and biodiversity initiatives. As an example, honey from the 1 million bees that we have at Little Brook will soon be on sale to raise funds for local charities. And this supplements over £70,000 that we've already raised for our chosen community's charity, Schoolreaders.

We're working closely with our customers to reduce carbon emissions from their operations, and this is helping to produce improved disclosure and benchmarking of robust data. We've secured over 90% coverage of energy data in our recent GRESB assessment, and this is an ongoing exercise, and our success reflects our close relationships with our customers. ESG will be the focus of our investor day later this year.

Sustainability is central to the first key pillar of our strategy, which is the high quality of our investment portfolio. This has been hand selected and constructed over nearly 10 years to provide both defensive qualities and attractive returns.

Our portfolio is modern with features important to our customers, sustainable with a low estimated cost of only £2.5 million to achieve a minimum EPC rating of B, geographically diverse in locations where our customers want to be, and provides increasingly broad offer of building sizes, allowing us to meet the full range of customer requirements, and noting that 9% of our rent now comes from the complementary urban and last-mile segments.

These qualities have attracted some of the world's best brands with strong balance sheets from a wide range of business sectors as shown here on the left. We are proud to be supporting our customers in optimising their supply chain operations, both through our existing buildings and those that we're developing.

Our average lease length is a healthy 12.6 years pointing to some long leases, but we also benefit from the ability to capture market rental reversion through re-letting 25% of our assets with lease expires within the next five years. All of our leases have upward only rent reviews, so the rent can't go down while the lease is in place. And we have an attractive blend of rent review types as shown here in the middle pie chart.

Over half of our investments are subject to inflation linked rent reviews, and nearly 40% have the ability to capture the prevailing market rental tone, the remaining 9% providing fixed uplifts, which gives certainty of income growth. As the timing, 18% of our rents are subject to annual rent reviews with the remainder reviewed five yearly as shown on the right pie chart. And, as we approach our 10-year anniversary, we've maintained a 100% track record of rent collection.

And that leads me neatly to our active asset management, the second key element of our strategy, which we employ to continually enhance and improve our high-quality investment portfolio and drive returns. As you can see on the left, a lower than average 90% of our rent is due for review this year, and 3% is subject to lease expiry. Activity in the first half has been in line with expectations, having completed six rent reviews

relating to 10% of our rent roll, which secured an additional £2 million in annual rent with the two open market rent reviews contributing well.

EPRA like-for-like rental growth was 3.6%, noting that this metric is influenced by the amount of rent being reviewed in any particular year, and that we expect our rent review performance to improve as we capture the effect of recent higher market rental growth.

And the opportunity for income growth comprises several components. As shown here top right, the growth in market rents is embedding within our portfolio, noting that our like-for-like ERV growth was 3.9% in the first half, and this increased our rental reversion to 21% as at 30 June, and we've got plenty of opportunity to capture this reversion as shown bottom right through the cycle of upcoming rent reviews and lease expires. And just to remind you, this ignores the potential of further rental growth in the market. So, we can drive significant income growth from within our portfolio. Now let's look at the capital side of the equation.

I touched on this earlier, but disposals are an important part of our ambition to enhance returns and maintain quality. In the period we undertook the disposal of five non-core assets, which had delivered an attractive total return of 11.2% per annum. This includes the Howdens sale, which we announced this morning at a price of £84.3 million and reflecting a 4% net initial yield, which is great business for us.

These sales have strengthened our balance sheet, reduced our LTV and provided financial flexibility to support our capex ambitions. Having sold £235 million of assets in the period at a blended initial yield of 4.4%, all at or above valuation, we are targeting a further £100 to £200 million of investment sales in the second half of this year, reflecting the value enhancing opportunities that we see in the market and strong interest from a range of global buyers. And alongside disposals, we continually look to identify logistics investments which will provide complimentary and accretive risk adjusted returns.

Junction 6 of Birmingham is a great example of a value-add investment opportunity that we have secured. The red triangle shows the location right on Junction 6 of the M6 motorway. It represents a top urban logistics estate of scale positioned less than three miles from Birmingham city centre, which is one of the largest UK industrial centres in terms of employment and where there is constrained supply.

This quality urban last-mile logistics park provides near-term opportunities to actively manage vacancy, directly engage with occupiers on lease renegotiations, and enhance ESG credentials. It also benefits from a lease profile, which allows the rapid capture of market rent to enhance the income return, noting the attractive reversionary yield of 6.7%. In short, this is a great opportunity for us to apply our skills and capture significant value.

Let's now turn to development, which is the third key element of our strategy. Before looking at the first half in detail, I've outlined here four schemes which demonstrate our success in delivering value from development. We've already delivered great value by successfully obtaining planning consents, constructing well, and securing lettings at attractive rental levels and above target. And this is clearly demonstrated at Aston Clinton and Biggleswade phases one and two, where the schemes have been successfully completed.

Between them, we have delivered 1.9 million square feet of space and £15 million of rental income at a yield and cost of over 7%. And at Biggleswade, we recently secured planning consent for up to 927,000 square feet on phase three. At Kettering, we have successfully let the first building of 313,000 square feet and have commenced speculative construction of a 502,000 square foot building with completion expected in mid-2024. And we have planning consent for a further 1.2 million square feet. And at Rugby South we have let 967,000 square feet and have strong occupational interest in the remainder of the site where we have planning consent for a further 900,000 square feet.

The key point here is that we have already delivered great success across these and other sites, and there's a lot more to go for, noting that overall, we have 7.2 million square feet of unimplemented planning consents on our sites and further planning applications have been submitted.

Turning to our development activities in the first half, as guided at our full year results with investment market uncertainty in Q4 of 2022, we prudently slowed the pace of our development activity in 2023, and consequently, we anticipate being at the lower end of our 2 to 3 million square foot guidance this year. Supported by the continuation of long-term structural drivers, occupational interest in our pipeline is at record levels. It may however take us longer to convert that interest into lettings than we have seen recently. We continue to secure new lettings above our rental appraisal levels and construction cost inflation is now easing. Consequently, we're maintaining our long run, 6% to 8% yield on cost guidance with current levels at around 6.5% and trending up.

During the first half, we've secured a further 500,000 square feet of new development lettings, adding an incremental £4.1 million to contracted rent, and we practically completed on several buildings that were let during construction, which will add £6.4 million in passing rent. We've also secured a further 900,000 square feet of planning consents, replenishing our pipeline of consented land.

Finally, as we have explained in more detail in this morning's announcement, we've concluded the management succession of our symmetry development team with Andrew Dickman and his experience team providing senior leadership to the business moving forwards. We

are very excited about the future prospects of our development program and confident in Andrew and his team's abilities to continue to maximise the opportunity that we have.

So, to conclude, as we have demonstrated in today's results, our strategy continues to deliver. Through its successful implementation, we're growing our income, we're keeping costs low and increasing our earnings and dividends for shareholders. Our market remains an attractive one, supported by long-term fundamentals. And as we adjust to a more normalised environment, we believe it is a market that can provide sustainable levels of long-term rental growth, particularly for high quality assets that we have in our portfolio.

And as Frankie demonstrated, we have a very strong balance sheet, and that insulates as well from the increases in the cost of debt and combined with returns enhancing disposals provides the headroom and flexibility to continue to finance our strategy.

Colin Godfrey: And flexibility to continue to finance our strategy. Critically, we have a long runway of growth opportunities within our business to continue delivering rental income growth over the short, medium and longer terms, as I've summarised here on the right of the slide. And as mentioned by Frankie, our portfolio benefits from £48 million of rental reversion, which we will capture over time as we complete our rent reviews. This level of reversion means that even if there was no further rental growth in the market, we could still deliver attractive levels of rental growth from our portfolio. On top of this, our near-term development pipeline offers a further £45 million of income, giving us a total near-term opportunity to increase our rental income by nearly 45%, or £93 million. And we can flex the delivery of this to match prevailing market conditions. We're confident therefore, that we will capture this significant opportunity which is inherent within our business. And in doing so, we'll continue to drive our performance and attractive returns for shareholders. Thank you for listening. That concludes today's presentation. Ian will now open the call for your questions.

Ian Brown: Great. We're now going to open up the presentation for Q&A. And just as a reminder, if you've joined us on the webcast, you can type your question into the box on your screen. And if you're on the phone, you need to press star one to register your question. And just whilst we wait for people on the phones to register their questions, we'll take a few questions from the webcast that have come in during the presentation. The first is from Peter Yu at Wellington, who asks how are you thinking about growth opportunities from acquisitions versus developments in terms of relative returns and ability to deploy?

Colin Godfrey: Thank you for that question, Peter. So, this is really a question about financial discipline, protecting our balance sheet, which obviously provides us with flexibility in terms of our investment optionality.

Development, as we've explained, we're targeting two to three million square feet this year. We'll be at the lower end of that range. Development for us is undertaken at a very low risk manner. It's very attractive. The yields are accretive. We're currently delivering around about 6.5% a yield on cost and trending upwards. That's highly accretive.

But of course, we're also looking and thinking about the total returns and for our investment portfolio that is in the sort of high single digits trending into the low double digits and for developments that is significantly higher. Noting that our investment portfolio yield profiling 4.4% initial yield, 5.3% equivalent yield. So, the development activity is arbitraging around 200 basis point margin. That's really attractive to us. So essentially, development is our preferred, if you like, first call on our capital. Once that is satisfied, then we will look to optimise our returns through asset management and of course through opportunities in the investment marketplace. But each of those is considered on an asset-by-asset basis and thinking about the risk return profiling and the balance of the portfolio more generally.

Ian Brown: Great. The next question's coming from Mike Prew at Jefferies. He's got two questions. The first one, Big Box has broadened the size range of logistics to smaller units, is this localised special situation or an ongoing new trend? And the second question, can you please elaborate on how buying out the Symmetry platform B and C shares early will be accounted for?

Colin Godfrey: Okay. Thanks, Mike. So, look, on the urban last mile small box space, we don't have any particular targets. It will be considered on an asset-by-asset basis. In Big Box, our DNA is in the name and that's not going to change overnight. I think we are drawing attention to the fact that we have already developed Big Box's and we have 9% of our GAV, sorry, last mile urban buildings. And we have 9% of our GAV in that space. In addition to which actually when you consider sites such as Littlebrook in London, inside the M25, and our assets at Trafford Park Manchester, by way of example, we have Big Box's in the urban space as well, which aren't in that number.

So really this is about augmenting our offer. It's highly complimentary to our existing platform. And I think what we've seen in the softening of yields and the rebasing of values more recently is it's meant that we see more opportunity in the urban space assets providing returned profile, which wouldn't have been sufficiently attractive for us 12, 18 months ago, but they are now. And obviously, acquiring such investments does provide the opportunity for us to give our customers a broader range across our portfolio as well. The second component of that question, I think, is related to Symmetry.

Ian Brown: Yeah, Symmetry, yeah.

Colin Godfrey: Symmetry situation.

Ian Brown: Yep.

Colin Godfrey: So, look, we're really pleased to have undertaken this deal with our development business partners, Symmetry. The development business is performing really, really well and we're thankful for them, for all that they've done. Of the originating four partners that started the business, Andrew Dickman is staying on. This is a natural evolution. The three departing directors have done a fantastic job and they've been stepping back in the business over the course of the last couple of years or so. That's allowed the younger directors to take the helm. And indeed, they've been leading the line and delivering the value that we've seen very accretive performing in our business in recent times. So, it is very much a process of continuity.

And the framework that we've agreed motivates the younger directors moving forwards in the business. And indeed, the new fee arrangements we've agreed with them moving forwards reduces our pay away on an ongoing basis, year-on-year, moving forwards. And overall, we think this is the right time to do it. That the market is at a lower value level, i.e., we would've potentially agreed a higher deal with these guys 12 months ago and probably would do again in 12 months in the future. So, we think it's the right time to do the deal and we think it will be accretive to shareholders in the medium to longer term based on our expectations for forecast outcomes. Frankie can talk you through the financial arrangements. Frankie?

Frankie Whitehead: Yes. To Mike's point on the accounting, it's a good question. So just to cast your mind back to the original deal in 2019, the Symmetry directors rolled a substantial amount of value into the Symmetry platform that constituted 13% of the equity that sat within a B and C share class. We are recognising a liability on the balance sheets as part of this, we are essentially accelerating what would've been a buyback or a crystallisation event that happened in 2027. We're accelerating that today and in doing so accelerating a charge that we would've otherwise booked between now and 2027. That charge equates to about 1% of NTA. There's full disclosure in the RNS this morning. Crucially, we are extinguishing the B and C shares and tidying up the structure. So TBBR will benefit from 100% of all future value created from the Symmetry platform going forwards.

Ian Brown: Great. I think we'll take one more question from the webcast. We've got quite a few questions on the phone, so we'll go to that next. But final question from the webcast is from Mark Stevenson, who asks, my major concern, the property sector of rule is the increased debt servicing costs. Assuming UK base rates reach 6% and they remain at that rate for 12 to 24 months, and let's assume a 4% base rate for the long term, what

effect will that have on your ability to maintain dividends at the current levels and what are the longer-term prospects for rising dividend yields?

Frankie Whitehead: Probably one for me. I suppose the important part here is how we've constructed our debt book and our debt profile. So just to remind you, we've got a five-year average term across that debt book. Two thirds of that are currently fixed and the balance is hedged. So, we're in a really strong position from an overall sort of cost perspective and the longevity perspective. As I tried to highlight in the slide deck this morning, that evolves gradually over time. I think that's crucial. Our debt profile is smoothed. There's no instant impact. It will be gradual and slow. So, over the next two to three years, as I highlighted, I think the cost of debt moves from 2.6% where we are today to around 2.9%. So, any impact is minimal and therefore will protect earnings over the short to medium term.

Ian Brown: Great. We'll turn to the phones now. I think we hopefully have Colm Lauder from Goodbody on the line. Colm, you are you there?

Colm Lauder: Yes, I'm here. Good morning and thank you for taking my question. Just a couple on the disposals and acquisitions front, if I may. And obviously how that links back to your EPC ratings, which obviously from an A to C rating band perspective are amongst the best in the industry. But maybe sort of thinking about say the Howden's disposal, what sort of bucket did that fit into in terms of EPC ratings and also then the Junction 6 acquisition?

Colin Godfrey: Yes. Thanks, Colm. It's a good question. So, look, you're absolutely right. I mean, our portfolio is in great shape in terms of EPC ratings. We've actually estimated that to meet government targets, it will cost us in the region of £2.5 million, which I think is a stark contrast to some of the other sectors, particularly offices where there's a significant challenge in relation to dealing with carbon. As regarding individual assets, we have a plan for each asset. Every single one of our buildings, if it isn't already fully utilised, has had a solar plan presented to the occupier. Some of those have taken them up, some of them we're still working through. And solar will be a very significant opportunity for us because obviously we've got very large roofs and I think we're the largest investor in the space across the UK. And of course, we're continuing to develop high-grade buildings where we're putting solar on as well as part of EPC ratings. And in our development platform, we're now targeting EPC A or A Plus and BREEAM Excellent. So really high-grade solutions.

Howdens, I can't tell you off the top of my head what the EPC rating was. I suspect it was something like a B, so it'd been the upper quartile there because it was a very modern building. Junction 6 is somewhat different. I think it's a C rating from memory, but there is opportunity for asset management there. And I think one of the things that we need to

be cognisant of as a responsible landlord is not just buying and sitting on high EPC rated buildings because the UK has a challenge on its hand. We need to be prepared to use our skill sets to improve those ratings on other buildings where we believe that we can, and these are relatively modern buildings anyway, and to do our bit in improving the future for our planet.

Colm Lauder: Thank you. And since you brought it up, in terms of that additional two and a half million of CapEx to bring the entire portfolio up to a B or better rating, which is obviously that 1% that's D and 17% that's C, is that likely to require vacant possession for those sort of works to be done or can they be done when a tenant is in situ?

Colin Godfrey: Largely, we believe that we can exercise that when the tenants in situ from scale solar schemes. It's a bit of a win-win to be honest, Colm, because we can deliver renewable power at a more cost-effective pricing point for our occupiers. And we are now looking to bring solar into local power delivery hubs on our larger sites as well. But there may be the odd situation where we can't get access and the occupier doesn't want to engage, and in that circumstance, we may have to wait. But I think that that will be in the significant minority of cases.

Colm Lauder: Just one final question then, and just looking a little bit at spreads in ERVs by asset quality or even you can allude to it in terms of the EPC rating, and was interesting, earlier this week, Savills had a piece out saying that the gap between that prime and secondary warehousing grants of 2.40 pounds, which is the largest ever spread they've observed. Do you have any indication within your portfolio, I know you have an ERV range by region and by location, but perhaps not by asset quality EPC, do you have an indication of where the rental range is between say A rated and your C rated stock?

Colin Godfrey: I can't give you the exact numbers off the top of my head, Colm, but broadly, I would suggest it sort of ranges between high £9 a foot at the top end and, well obviously, outside of London because inside of a London the ERVs are higher, they're in low double digits, for instance at Little Brook, and down to around about sort of £6 a foot. All of the rents have trended up obviously over time. And I think that talks to a really important point in the market in that I think that there has been a heightened focus in recent times on prime investments as distinct from fringe prime and secondary. And so that's where we've got to keep an eye on the grey base that potentially comes back in the market. But you can see that there's still very strong demand for prime assets in the market, which have been continued to be leased up well.

Colm Lauder: Appreciate those answers, gentlemen. Thank you very much.

Colin Godfrey: Thank you. Thanks, Colm.

Ian Brown: I think we'll now turn to Rob Jones from BNP Paribas. Morning, Rob.

Rob Jones: Morning. Can you hear me, okay?

Ian Brown: We can.

Rob Jones: Good.

Ian Brown: Yeah.

Rob Jones: Two questions. They're more numerical than strategic I'm afraid. So, the first one is on portfolio aversions. I think you said earlier about 21% portfolio income aversion at the moment. I don't know, and if you've got a chart on this then apologies, but I don't know if you've got a breakdown in terms of how much of that is coming in '23 and '24, just to give a bit of an indication in terms of the contribution of reversion capture to top line growth. And then the second one was around disposals. Obviously, you flagged that of the 235 million sold in a year-to-date that was at or above book, was obviously a great result. But I wondered what was the level of income that was effectively left on the table for the buyer in terms of reversion? I guess ultimately that's the delta between net initial yield and equivalent yield. But yeah, I don't know about two, three million, just to give some colour on that would be helpful.

Colin Godfrey: Okay. Thanks for those questions. So, there was a slide in our deck that talked to the timing of the reversion. And essentially, this year, 22% of our rents are up for review and with lease expiries. Next year, it's 32%. And the following year, it's 30%. So, over the course of the next three years, by way of example, including the remaining part of this year, we've got about 84% of our rent, which is subject to the potential to kick on and capture that reversion. Broadly, we're suggesting that it should take a little longer than five years to capture the majority of that reversion. So, we think about right around about two thirds, three quarters that within that timeframe. As regards disposals, very, very crudely, our disposals are 4.4% blended initial yield and the reversion sits somewhere in the mid-fives, I would suggest overall. Hopefully, that gives you a bit of a feel. And obviously, compared to the Junction 6 asset we bought at Birmingham where the reversion is in the upper sixes that provides us with a much higher reversion opportunity, and that's what we are looking for in terms of driving our total returns.

Rob Jones: Thanks. Thanks very much.

Ian Brown: Thanks, Rob. Next question comes from Bjorn Zietsman at Liberum. Good morning, Bjorn.

Bjorn Zietsman: Good morning, guys. Thanks for taking my question. Just a quick question on the rental walk, which shows the potential for developments

reaching 614 million. Am I correct in assuming that in order to reach that 614 million, capital markets would have to reopen? Because it's my thinking that if that has to be funded through disposals, there would be some opportunity cost and rental loss. Is that fair?

Frankie: Yeah. Hi, Bjorn. I think that that's fair. This really is to show the opportunity and the timing of the opportunity. So obviously, as things move from right to left, we're trying to give more specific guidance to the timeliness of that income dropping in. I suppose you said what pace do we go. We've shown an ability to self fund, we've rotated capital well in the last six months. We're redeploying that in an accretive fashion into the development channel. But, of course, it's about having flexibility around your funding options. So, we continue to see capital recycling, use of balance sheet, and longer-term equity as our primary sources, and we'll use a combination of those over this timeframe in order to fund that program.

So yes, in short, there'll be an element of disposals in there, but it's really about the scale of the opportunity and the timeliness of that development income slotting in.

Bjorn Zietsman: Very clear. Thank you.

Ian Brown: Great. Next question is from Pieter Runnedoom at Kempen. Good morning, Pieter.

Pieter Runnedoom Good morning, team. Thanks for taking my question. I got one question on economics of installing the solar panels on existing buildings. So, what number of investments do you target here in the coming years? What kind of IRR do you target, and how might solar drive your EPS earnings?

Ian Brown: I'm sorry, we missed the first part of that question. Was that our investment in solar, just to clarify?

Pieter Runnedoom Yeah, indeed. It's on the economics of investments in solar on the existing buildings.

Frankie Whitehead: So, on solar, they are pretty accretive, Peter. So, in terms of the IRRs that we're expecting, we're sort of underwriting in the low double digits from a solar PV perspective. At the moment, off the top of my head, the total income is sort of sub £10 million from solar. I think it's 7 or 8 million pounds against an overall portfolio contracted rent roll of 224. So, to give you a bit of context, that's how the two sit between one another.

Pieter Runnedoom Okay. And going forward with how much might this increase with the new investments in solar?

Frankie Whitehead: But I think we highlighted the requirement for EPC at around 2.5 million, but in terms of total roof space that we've got, the capability of delivering is probably when you take into account the roof lights within the buildings, it's somewhere in the order of 20 million square feet potentially. Now I'm not a power specialist, but based on that area it is quite a significant level of power that we can generate for our customers at what would be quite an attractive cost position and therefore delivering savings for them, which is increasingly important I think in a power-constrained world and where our customs are increasingly deploying automated solutions in product handling within their increasingly sophisticated warehouses.

Pieter Runnedoom Yep. That's very, very helpful. Thank you.

Ian Brown: Great, thanks Peter. Next question comes from Paul May at Barclays. Paul, hope you can hear us.

Paul May: I can. Yes, hope you can hear me. First one, just trying to reconcile the valuation movement over the first half with the like-for-like ERV growth, which think was 3.9 and the flat yields I think all else equal, that would equal a sort of 3.9% value increase, but it came in much lower than that. Just trying to reconcile those numbers if you could. And then second question is, I suppose linked to the earlier question around capital and access to capital. And you obviously note high demand either from yourselves or what you are seeing or what Savills are noting as well. The underlying fundamentals appear to be resilient and moving in the right direction, but you are currently scaling back your investment obviously due to capital constraints.

If capital wasn't a constraint, appreciate that may or may not happen, I just wondered, could you accelerate and would you accelerate your investment to capture those returns that you are seeing and the demand that you are you're seeing from occupiers? Thank you.

Frankie Whitehead: Yeah, if I've got the numbers right there, Paul, I think the difference is going to be timing. So, the ERVs wouldn't be a straight pound-for-pound read-through in terms of the capital value timing associated with that capture. So, there'll be a cash flow behind the scenes and that ERV may not be available for two or three or four years. So, I think that will be the difference between that fitting straight through into the capital growth versus the 1% that we've announced this morning.

Colin Godfrey: And Paul, look, if you look at the strength of our balance sheet right now, with over 500 million available, clearly highly liquid investments as proved by our £235 million worth of investment sales in the first half, all at or above valuation and more inbound inquiries. I mean, in the first half we received six parties making off-market approaches on 10 of our assets, very over half a billion pounds worth of product, and we're getting more inbound inquiries as well.

So, I think it talks to the quality of our investments, the liquidity of our investments that gives us confidence in supporting our balance sheet. And so, we don't feel constrained at the current time. So, the development activity that we are currently guiding to is what we feel is appropriate in the market right now given the supply and demand characteristics we're seeing. And I don't think that's going to change any time soon, but obviously, development is highly accretive both in terms of the yield on cost and the total return potential that we can deliver. So, we will be looking to maximise that opportunity over the medium term.

Paul May: Possibly. Just follow up on that. You still hear me?

Colin Godfrey: Yeah, I can still hear you. Yeah.

Paul May: Yeah. Just on that latter one. And you mentioned it's appropriate for the sort of supply and demand situation, but I mean from what you've noted in the report is, it's one of the best supply ... sorry, one of the best demand situations that you've seen suddenly on your hub is strongest demand in the last two years, but you're scaling back investment. So, I'm just wondering what the blocking factor is if it's not access to capital.

What is the blocking factor as to-

Colin Godfrey: It's timing. Obviously, we've seen an increase in speculative supply in the market. We're cognisant of that. The data print on occupier inquiries is very healthy. Savills have reported a 64% increase in inquiry levels, and that's kind of matched with the really healthy levels as you mentioned in our own development portfolio where we've got nearly 19 million square feet of inquiries. What's happening right now is that UK PLC in the C-suite, decisions are taking longer because they're waiting for a bit more confidence to come into the macroeconomic picture based on where inflation and interest rates are and getting a bit more certainty of the terminal rate of interest rates before I think they push the button on longer-term commitment.

Now, once that starts to free up, I think we'll see a more confident tone applying to the supply and demand characteristics in the market. And at that point, I would expect to see that we could and probably will look to increase our expectations and that might then therefore mean that we are looking to be at the upper end of our guidance range rather than the lower end of our guidance range to take advantage of that.

So that is where we would need a bit more headroom in terms of our capital from our balance sheet. But as we've already said, our balance sheet is incredibly strong, and we've got the ability to self-fund that as well in the near term.

Paul May: Well, thanks. And I'm just ... sorry, following up on the first question and the timing you mentioned around the valuation impact. Is it fair then to

assume that the cashflow impact that you've received on the rent was the 1%, so yield flat value growth 1%, so cashflow on a like-for-like basis increased 1%. Is that the right way to think about it?

Frankie Whitehead: Yes. That's going to be broadly right, Paul, for the first half. Yeah,

Paul May: Thank you very much.

Colin Godfrey: Thank you, Paul.

Ian Brown: Great. Just to a reminder, if you want to ask a question on the phone, you can press star one or you can put the question into the webcast chat. The next question comes from Allison Sun at Bank of America.

Allison Sun: Hi, morning. I have one question on the floor and the cap of the indexation because I noticed as the first half the floor and the cap is 1.5% versus 3.5%. It looks like the number has come down slightly versus last year. So why is that? And also, how do you expect it to develop in future? Thanks.

Frankie Whitehead: I didn't quite catch all of that.

Colin Godfrey: Sorry, Allison. We didn't fully hear your question. Were you talking about the cap and collars on our rents?

Allison Sun: Yes, correct. On the indexation-linked rent. I think you mentioned the minimum and the maximum on average is 1.5 to 3.5%. And looks like this range has calmed down slightly versus 2022 if I'm correct. And why is that?

Ian Brown: Let me see if we can find the cap.

Frankie Whitehead: I think if it's done, so it's been very marginal. I think we were 3.6 at December, so there'll be probably the odd lease in there that's been agreed at a 3.5 to 4% cap that's just weighted that down ever so slightly, Allison. And as you know, I think at the moment, we're clearly favouring on new leasing activity, the open market exposure. So, the order of preference for us at the moment is firstly the hybrid reviews. And we've been very successful in increasing the waiting on the open market side.

So, number one, hybrids, number two, pure open market exposure. And then thirdly out of three, its inflation linked.

Colin Godfrey: The open market reviews we had in the first half of 2AO, and Screwfix delivered a 29% uplift over a five-year time horizon, which is I think demonstrates a very healthy level, particularly given that that's looking back to a period when rental growth was lower. And as Frankie mentioned earlier, we should look to increase that capture over time.

Allison Sun: Okay, thanks. And also, actually, a following-up question on Paul's question on the valuation because if I ... Can you actually explain a little bit more on the timing of the ERV, I'm not sure I fully get it. What kind of timing difference versus the ERV growth and the yield change? And also, because your financial yield has actually compressed, so it looks like just purely based on the yield compression effect, your valuation growth should be definitely more than 1% as decided. So, can you just explain again why the yield movement plus the ERV growth does not really add up to a stronger or higher valuation growth?

Frankie Whitehead: Yeah, I think back to the point here, the ERV growth is not feeding through in terms of direct here and now impact on the cash flows and therefore you're not capitalising those cash flows for a one-pound ERV growth into a one-pound capitalised effect. So obviously, there's many leases in place. They all have different rent review profiles in terms of the ability to capture that ERV. As you know, the majority of our portfolio sits with a five-year rent review. So, there'll be some of that ERV will be abilities to capture that this year, next year, and all the way out to year five. So that is the primary difference as to why the ERV growth does not correlate straight into a one-for-one capital growth.

Colin Godfrey: Because the ERV growth is essentially increasing our reversionary re-yield position, which of course, is time weighted. And just to give you one figure that our capital value growth in our portfolio or valuation was no 0.76% over the period. So, it's pretty marginal in terms of the effect on the, as Frankie said, on the here-and-now initial yield in their portfolio. And our equivalent yield has changed very, very marginally, but rounded it's still 5.3%. So, it's really in the rounding of the basis points in the valuation.

Allison Sun: Okay, thank you.

Ian Brown: Great. There's one final question from Julian Livingston-Booth at RBC on the webcast. He asks, "Given you achieving rents of 15 to 20% above expectation, occupy inquiries of strengthened construction cost inflation is now limited and declines in land values over the last year, is it reasonable to expect yields on your developments to increase to approximately 7.5% in the near term?"

Colin Godfrey: Well, I think it's reasonable to expect that they'll increase. I wouldn't necessarily put a figure on a seven-point half percent, Julian. Look, it's important to recognise that we are providing a guidance. I mean, this will differ site to site depending on the price that we're buying in the land at and depending on the complexity of the building, the ground conditions. We don't give a profit-on-cost guidance, but there's a relationship between profit and cost and yield on cost.

Just to give you a feel, we might do a deal on a site with one of the world's most outstanding covenants in terms of financial strength on a

really long-term lease. Obviously, that will give us the ability to capture significant profit, but it would be ... at the consequence of that would be probably a lower yield on cost. It might be sort of in the lower sixties by way of example.

Now the conversely, we may take a lease from a customer on a shorter-term lease and the covenant strength may not be quite so strong. The profit and cost might be lower, but the yield and cost might be higher. So it's part of our job in terms of the complexion of our portfolio and to do the best deal we can on the site, bearing in mind the topography, getting the right building, mix, et cetera, et cetera, and responding to market dynamics to deliver the best outcomes for our shareholders across all of our sites in our platform.

So it's a highly nuanced framework, so I think it's a bit generalised to suggest the tone that you have, but we are trending up from a current level of 6.5% for the reasons you've mentioned, i.e.., stabilising construction costs, reduced site values and increasing rents, and that is trending therefore towards the 7% i.e.., upper sixes.

Ian Brown: Great. I think that probably concludes the questions.

Colin Godfrey: Thank you very much, everyone for taking the time to join us this morning. Really appreciate all your questions and for joining us on the results announcement. Happy to follow up individually with you via Ian, but for now, have a great day. Thanks for joining. Bye-bye.