# Tritax Big Box

# Interim Results | Webcast

# 7 August 2024

# Transcript

Ian Brown: Good morning and welcome to our results presentation for the six months ended 30 June 2024.

I am Ian Brown, Head of Corporate Strategy and Investor Relations for Tritax Big Box. I will shortly hand over to Colin Godfrey, but first a few reminders.

This presentation is being recorded and a replay and transcript will be made available on our website shortly afterwards.

Secondly, there will be a live Q&A after the presentation and as a reminder, there are two ways to ask questions. You can either use the chat tool on the webcasting portal to type your question, or, if you prefer, you can speak to us over the phone using the dial in details provided on this morning's announcement.

We do find we receive many similar questions on the chat tool, so in the interest of time we will try to aggregate them if possible.

As always, if you have further questions, please do get in touch with us, our contact details are available on our website.

Thank you.

Colin Godfrey: Well, thanks Ian and good morning, everyone. Thank you for joining us.

As usual, I will give a brief introduction and come back later to provide a strategic and market update after Frankie has run through the financial results and operational review. Ian will then coordinate Q&A.

I'm pleased to say that this has been another busy and successful period for us, and we remain very well positioned to drive growth and returns.

We have produced another good set of results and we're on track to deliver attractive earnings growth this year whilst maintaining our strong balance sheet.

It's been a busy period and considerable progress has been achieved through the combination and integration of the UKCM taking our GAV to £6.4 billion.

Successful execution of our strategy through active asset management and development programme is producing value now and embedding future growth into our business.

Following two years of a challenging macro-economic backdrop, there are positive signs that our sector is at an inflection point in both the occupational and investment markets. We see growing occupational interest and expect this to drive increased lettings activity as the year progresses against the backdrop of reducing supply.

The significant opportunities in our investment portfolio and development pipeline, along with the positive tailwinds in our market offer the potential to more than double our rental income in the long term and underpins our confidence in delivering attractive earnings growth for shareholders. I'll cover all of this in more detail shortly, but now I'll hand you over to Frankie to talk through our financial performance in the first half.

Frankie.

Frankie Whitehead: Thank you, Colin, and good morning.

The UKCM acquisition was a significant transaction for us in the period. Our 2024 first half results incorporate the full consolidation of the UKCM portfolio from the middle of May. And so, this is reflected in our operational performance for just six weeks of the first half of 2024.

Now turning to the key financial highlights for the period which demonstrate how implementation of our strategy continues to deliver attractive earnings growth alongside careful management of our balance sheet.

Headline adjusted EPS has risen by over 10% to 4.35 pence per share. When excluding additional development management agreement income adjusted EPS has risen by over 4% to 4.10 pence.

In line with our policy, we have declared dividends equalling 50% of last year's total dividend, which is a 3.65 pence per share, a 4.3% increase.

And with our valuations turning a corner during the period, we report growth in EPRA NTA per share of 1.2% to 179.3 pence.

The UKCM acquisition contributed to a near 30% increase in our total portfolio value, which now stands at £6.4 billion. And our balance sheet remains strong with the LTV reducing to just under 30%.

The headlines demonstrate that it's been a positive half for us, and as you'll hear later with our market and operational momentum feeling as strong as they have done for some time, we also expect strong operational delivery as we move through the second half.

Turning to look at income and earnings in more detail, you can see the further good progress we've made in delivering growth in net rental income. This has increased to over £127m for the half.

We've recognised £12.2m of DMA Income in the period. We also expect to start a second DMA project in the second half, which Colin will cover in more detail later in the presentation.

Our operating costs have again shown further improvement on a relative basis with the operational benefits of further scale resulting in our EPRA cost ratio reducing to 12.5%.

And as in previous periods, we look through to our adjusted earnings, excluding additional DMA Income as the most appropriate measure for basing our dividend. On this basis, our dividends declared of 3.65 pence translates into a payout ratio of 89%.

And as the bottom right-hand chart shows there is more to come, the rent already contracted plus the portfolio rental reversion means that our current portfolio ERVs sit a combined 27% ahead of today's passing rent. This provides us with great near-term visibility over the future growth in our net rental income.

And now to look at the key drivers to growth in adjusted EPS starting on the left-hand side and the half one 2023 adjusted earnings of 3.94 pence.

Net rental income growth has been generated by a number of factors with the largest contribution to growth coming from asset management and development completions. When factoring in the contribution from UKCM and the impact of our net disposal activity from the previous year, net rental income growth has added 0.54 pence to earnings.

The DMA income recognised represents a further 0.44 pence of benefit during the period.

Higher absolute admin costs have also had a marginal impact on earnings. And I'll come on to talk about our debt profile in a moment, but the impact on EPS from higher net finance costs relates to both the increase in average level of drawn debt, plus the fact that this is being drawn down at our higher marginal cost of borrowing.

All of this gets us to the 10.4% increase in adjusted earnings to 4.35 pence. And when excluding the additional DMA income adjusted EPS becomes 4.1 pence per share.

Turning to our operational performance in the period we've outlined here results of the good progress we continue to make across asset management and development.

Starting with asset management, performance is in line with expectation, and we've grown our rental income by £8.0m.

As the top left-hand chart shows our lease events this year are largely second half weighted with a further 18% of the portfolio subject to review in half two compared to just the 7.7% taking place in the first half.

If we look at what we've delivered across all lease events in the period, the bottom left tables summarise this, the average passing rent has been increased by 10.7% or 5.1% when annualised.

And turning to development on the right-hand side, we continue to see significant strengthening across our lettings pipeline. We now have over £18m of rent attached to development lettings, which are in solicitors' hands, and we expect to see a pickup in the speed of conversion through the second half of the year. These lettings spanning 1.8m sq ft are anticipated to be delivered at an average yield on cost of over 7%.

In H1, we commenced 0.9m sq ft of development starts, of this 0.4m sq ft relates to a DMA contract where the freehold has been sold and we are now developing for the owner-occupier.

As I touched on earlier, given our expectation to commence a second DMA project later this year, we are increasing our guidance for DMA income. We now anticipate £25m of DMA income this year and a further £10m in 2025. We will be looking to redeploy the majority of these profits back into the development pipeline or other investment opportunities.

And so, to conclude on our operating performance, we continue to make good progress in asset management and development, and we are well positioned for a busy second half of the year.

Now turning to capital values and with investor confidence starting to return particularly over the last few months, we feel that we have reached an inflection point with respect to investment values. Our portfolio equivalent yield remained broadly stable at 5.7%.

ERV growth across the sector remains positive. As you can see from the middle chart, our own portfolio ERVs have increased by 1.9% across the six months. Whilst this growth has moderated against recent years, as has the inflationary environment, Colin will explain why we feel confident over the levels of rental growth moving forwards.

But irrespective of the level of future ERV growth, capturing the current level of portfolio reversion, which now stands at 25.5% across the logistics assets, provides us with a great opportunity to deliver attractive earnings growth over the medium term.

And finally, on the right, you can see how our portfolio valuation movements have evolved over the last two years. I'm pleased to say that we are now back into positive territory experiencing capital growth of 0.7% across the half year.

And here the NTA bridge provides more detail behind the growth in underlying NAV. As you can see after operating profit, the development assets were the biggest contributor generating 1.2 pence of NAV growth followed by our investment assets and our land option portfolio. The UKCM acquisition was broadly NAV neutral with dividends paid being the other constituent parts to the overall growth in NTA of 1.2%.

With regards to capital allocation, we have deployed broadly half of our £250m annual target into development in this first half. And from an investment perspective, in addition to the UKCM portfolio, we have made one Big Box asset purchase for £46m.

With no disposals taking place during half one we are targeting £150 - £200m of disposals from our non-strategic assets during the second half. And we are already in advanced negotiations across a number of these assets.

And alongside our strong operating performance, we have maintained a robust balance sheet with stability across our key financing metrics.

Firstly, our available liquidity remains in excess of half a billion pounds.

Our average cost of debt remains attractive at 3% with 95% of the drawn amounts either fixed or hedged.

And Moody's upgraded our credit rating outlook to positive in the period, and so we now stand with a Baa1 positive rating.

An additional benefit of the UKCM transaction was the company's attractive balance sheet, and this has contributed to a reduction in the Group Loan to Value to 29.9%.

The UKCM loan arrangements acquired but also attractive and you can see the new debt profile on the left.

We inherited two £100m fixed term facilities shown here in purple with an average coupon of just 2.9%.

And a £150m RCF highlighted in gold, which in the last few weeks we have refinanced. In doing so, we've already been able to implement some of the financing synergies available from the combination by taking the facility from a secured to unsecured framework and benefiting from a 70-basis point reduction in margin.

Looking at our debt maturities, we have two facilities shown by the dashed red lines with options to extend by up to two years, which if exercised in full, would take our average maturity to over 5.2 years remaining.

And so, bringing this all together, our balance sheet continues to provide us with a robust and flexible position from which to execute our strategy.

And finally, some thoughts from me around guidance, which underpins our confidence in delivering attractive and growing returns as we move forwards.

Our high-quality investment portfolio provides us with a significant inherent opportunity to drive 25% income growth through capturing its inbuilt reversion with 64% available for capture via lease events occurring prior to the end of 2026.

We are targeting the realisation of £150 - £200m of non-core asset sales in the second half, this capital will be redeployed into our development pipeline where we maintain guidance for 2024 of £250m into development.

Development is where we see significant opportunity, including crystallising the 1.8m sq ft of lettings currently in solicited hands. And encouragingly, we are seeing upward pressure on our development yield on cost target of 7% for these assets.

And our continued financial discipline means our balance sheet remains in great shape. This has been further enhanced by the impact of the UKCM combination and means we have good optionality to support growth in the business as we move forwards.

Finally, as I covered earlier, we have increased our DMA income guidance for financial years '24 and '25. And as Colin will explain, we have real visibility over 41% of growth to our current passing rental income.

And stepping back, given the inflection point we are seeing in our markets, we expect to see greater total returns for shareholders along with greater opportunity to deploy our capital over the next 12months. And so that concludes the financial review and I will now hand you back to Colin.

Colin Godfrey: Thank you, Frankie.

The key message I will be highlighting today is that we continue to successfully execute our strategy in the context of an increasingly positive market backdrop as highlighted by Frankie.

And to remind you, our strategy is simple but effective.

We own high quality assets attracting some of the world's leading clients, which provides a strong and growing compounding income foundation to our business.

We spend significant time and energy actively managing these assets to enhance value and support our clients' operations.

And once value is maximised, we crystallise it through sales and recycling of capital into our very accretive development pipeline.

Being long-term investors gives us great insight into what our clients need. We use this knowledge to inform our development activity, giving us an edge over our competitors.

With the UK's largest investment and land portfolios, we are unique in listed UK real estate.

And as I've said before, ESG remains at the heart of all that we do.

We continue to make good progress in achieving our market-leading ESG targets, a process that extends right through the full investment cycle with a clear focus on our four ESG priorities:

We refurbish, develop and manage sustainable buildings that meet the increasingly stringent ESG performance requirements of occupiers, market investors, and our stakeholders. The UKCM assets are being integrated into our ESG programme with good levels of opportunity for performance improvement across the board.

And just to briefly highlight some of the examples of the progress that we 'remaking.

We have commissioned a new bespoke data platform to advance our data analysis in support of our net-zero carbon targets. This integrates across our business from new construction to asset management of existing assets. We are future proofing our portfolio by identifying ways to optimise power, resilience, and delivery of renewable energy to our clients.

We're increasing biodiversity net gain in our developments and working with clients to improve nature and well-being at our assets, including social spaces and green infrastructure.

And the Tritax Social Impact Foundation is advancing our five-year social impact strategy, including major new partnerships with the Prince's Trust and Education and Employers, where we have a target of helping 250,000 young people in our communities.

Stepping back a moment from our operations, it's worth reminding you why logistics is the most compelling sector of UK commercial real estate.

This conviction is built upon three key principles. The range of uses that these buildings are put to, their inherent simplicity and the long-term structural drivers that support demand, control supply, and deliver attractive long-term rental growth.

Firstly, logistics buildings are highly flexible spaces that are not just used for storage and distribution. They're increasingly used for manufacturing, cold storage, film studios, data centres, and life sciences to name a few.

Secondly, while the ability to source, develop and manage these assets requires expertise and experience, the buildings themselves are inherently simple, which means maintenance is easy and low cost and with a long-life expectancy, obsolescence is low. They're typically let on long-dated triple net leases. So, occupiers are responsible for maintenance capex. And this factor differentiates logistics buildings from other real estate classes.

And thirdly, there are clear structural features that underpin increasing demand for modern warehousing. Population growth, cost efficiencies, supply chain resilience, ESG, e-commerce and AI. And against all of this supply is constrained.

These factors in combination underpin our confidence that the UK logistics real estate sector will deliver attractive levels of rental growth over the long term.

Right now, the occupational and investment markets appear to be at an inflection point, signalling a positive outlook.

Starting top left with demand:

We saw 11.7m sq ft of take up in the first half: 7.3m sq ft of this was in Q2 when 25 deals closed, 8 of which were greater than 300k sq ft.

And there is plenty more to come with 12.1m sq ft under offer, and requirements increasing in Q2, particularly for very large buildings.

Enquiry levels for our own development sites remain very heathy with interest across a range of client sectors and size bands.

On the supply side, the chart top right shows that overall development activity continues to reduce, and speculative space under construction is now 9.2m sq ft, down from 17.3m sq ft a year ago.

Vacancy has edged up to 5.6%, of which around 2/3rds is new space. But with lower levels of completions to come, market dynamics are back in balance. And with demand picking up, this bodes well for the second half and into 2025.

As the chart bottom left shows, further rental growth is forecast, and we are also seeing this across our development schemes where achieved rents have increased over the first half by approximately 2% and we expect this to improve going forward.

Turning to capital markets, bottom right: Investment activity improved in Q2, but key is the positive shift in sentiment witnessed recently, with a marked increase in competitive bidding on high quality assets. This is yet to show inmost data points, but Savills recently reduced their prime yield by 25bps to 5.0%.

Taking advantage of this inflection point in the market cycle, the combination with UKCM is an excellent strategic fit, with assets of high-quality, that are complementary to our existing portfolio, and which broaden our client offer, especially in the small box/urban category as shown in the table.

You can also see here on the right how the UKCM logistics assets complement our existing portfolio geographically – with an attractive weighting to the key logistics markets of London, the Southeast and midlands.

The portfolio also provides a rich seam of identified asset management opportunities for us to add value through our more hands-on approach.

The transaction delivers attractive cost synergies, strengthens our balance sheet and offers opportunities to capture substantial rental reversion from the logistics assets.

It also supports our development programme by providing additional financial firepower through lower gearing and the planned sale of non-strategic assets.

In summary - a great deal for both sets of shareholders.

The combination of the two businesses creates a high-quality portfolio that is 92% weighted to logistics and within approximately two years will be 100%.

It's composed of small boxes in the urban/last mile segment through to first mile mega-warehouses, in all the key locations within the UK.

And the green elements on this slide demonstrate how UKCM substantially increases our exposure to small boxes, particularly in the attractive South-East region, and improves the opportunity from open market rent reviews.

Critically, the combination enhances our significant opportunities for rental income growth, as demonstrated top left with a portfolio reversion of 23% and a record logistics rental reversion of over 25% with the timed breakdown and review types shown bottom left.

In fact, as you can see on the right, there is opportunity to capture up to approximately 64% of that reversion by the end of 2026. And that is before we factor in any further market rental growth.

I will circle back to this later to demonstrate the impact combined with our development opportunity.

In addition to capturing this significant rental reversion, we are creating value and growing income through our direct and active approach to asset management – a key part of our strategy.

A great example of this is at Stakehill, Manchester as shown here.

The original lease to Tesco expired at the end of last year and we were able to add substantial value through refurbishment of this 1988 constructed building.

Works included upgrading the cladding, adding solar PV and improving the EPC rating from B to A.

Strength of location, building configuration and low site density proved attractive to the market, and prior to completion of the refurbishment works we agreed terms for a new lease to Greene King for 15 years, delivering a 38% increase in rental income and an attractive yield on capex.

This is just one example – we remain focused on identifying and realising asset management opportunities to grow value and income across our portfolio.

Applying the same active approach to the UKCM assets, we have made good progress, having integrated these into our systems and successfully transferred all documentation and data.

We have visited all locations, hosted client engagement days and we're busy undertaking rent reviews and lease renewals. Client feedback has been overwhelmingly positive.

More specifically for the logistics assets, we have already identified exciting asset management opportunities to add value.

The non-strategic assets have attracted significant unsolicited interest, so disposal negotiations are advancing well and as Frankie said, we are targeting £150m-£200m of sales by the year end.

Turning to our development opportunity - and first a reminder of the unique size, breadth and flexibility of our land portfolio.

This is the UK's largest land portfolio dedicated to well-located, high-quality logistics assets.

The large majority of this land is controlled through capital efficient, long-dated options, providing both flexibility and attractive pricing thanks to hard-coded 15-20% discounts to prevailing land values.

Throughout the cycle our development progress has been supported successfully by recycling the proceeds from investment asset disposals.

Our 2024 start developments are expected to deliver a yield on cost of over 7% and this is currently growing.

And the scale of the opportunity is shown here on the pie chart, with our development portfolio having the potential to more than double our rental income over the longer term.

Continuing the development theme and as Frankie flagged earlier, we have benefitted from a significant increase in DMA income in the period and we expect more to come in the second half.

The form of DMA income has changed over the last few years and it's worth spending a moment explaining this in more detail and how this additional income supports our strategic objectives.

Historically, DMA income comprised fees or profit share received from land sales or third-party funders for whom we carried out development management services. This element of DMA income is now modest because we have been concentrating on our own development.

The larger part of current DMA income relates to profit from turnkey development sales to owner occupiers who don’t want to lease a building.

This slide provides two excellent examples of turnkey development sales:

At Oxford North, Siemens Healthcare (a highly regarded and significant employer), supported our planning application, which helped accelerate approval for a new 371,000 sq ft turnkey R&D facility, expandable to 604,000 sq ft. The centre will feature automation technology for manufacture of superconducting magnets for RI scanners and employ over 1,300 people. The Siemens planning consent will aid our future planning application for an additional 1.8m sq ft at the planned logistics park, in a location well suited to further life sciences occupiers.

Similarly, in June, we agreed terms with Greggs at our Kettering site for a turnkey sale of a 311,000 sq ft EPC Grade A, national distribution centre.

So, while leasing developments remains our primary focus, turnkey building sales deliver incremental value for shareholders and allow us to capture the full spectrum of market opportunity.

Bringing everything together, we are really excited about the opportunities that we have within our business to grow rental income.

Now, I've already touched on elements here, but this chart highlights the main components.

Through a combination of capturing the rental reversion embedded within our portfolio and carefully building out our development pipeline, we have the ability to grow our rents by approximately £121m, or 41%, in the near term.

But there's much more to come. Our extensive land portfolio provides additional potential over the medium to long-term to more than double our rental income.

And additionally, as you can see on the right, we have clearly defined opportunities to drive earnings growth still further, because this chart is not taking into account: future rental growth, value from active asset management, our ability to buy and sell investments for incremental value growth, or the incremental value from potential adjacencies such as renewable power and data centres, where we are progressing opportunities.

So, to conclude: our strategy is delivering, as demonstrated by another strong set of results for the period and we look forward to further opportunity in the second half.

Significant income and value growth is already embedded within our business, and we continue to create opportunities to expand this moving forwards.

Our occupational and investment markets appear to be at an inflection point, with the potential to amplify and accelerate our growth opportunities still further.

And with an experienced and capable team and a strong balance sheet, we're really well-placed to take advantage of these opportunities and create value for our stakeholders.

Thank you for listening. That concludes our presentation. I'll now hand over to Ian. He will coordinate Q&A.

# Q&A

Ian Brown: Good morning, everyone. And so, we'll now turn to the live Q&A part of the presentation. And just as a reminder, you can type your question into the chat box on the webcast tool. Or if you're on the phone, I think you press star one and Jess, our operator, is going to help us with that part of the Q&A.

To begin with, I think we'll just start with some questions that have come in during the course of the presentation through the web chat.

The first of which is from Allison Sun at Bank of America. She's asked, *"Vacancy rate has ticked up in H1 for both market and the Big Box portfolio. How do you expect this number to trend in the second half and perhaps into 2025?"*

Colin Godfrey: Thanks, Ian. Good morning, everyone. Thanks for the question, Allison. So, vacancy in the market is 5.6% currently, up from 5.1 at the year-end. That's more or less in line with pre-pandemic levels. I mentioned in the presentation that supply and demand are broadly in balance right now. I think we're expecting to see the vacancy rate in the market edge down a little bit based on reduced level of construction starts and increasing positive sentiment from occupiers in the marketplace.

As for our own portfolio, 3.7% vacancy. I think that's very much as a consequence of the evolution of our business. Some of that comes from the UKCM portfolio that we have acquired and some from our development activity. It is, of course, a very attractive way of capturing the reversionary potential within our business, which is very substantial at 23%, and indeed on the logistics portfolio 25.5% now. So, there's a lot to play for there, and we expect to see vacancy typically around those sorts of levels moving forwards for our business.

Ian Brown: Great. The next question comes from Mike Prew. He's got two questions actually. "*The first one is about the DMA Income, and he asks us if that is part of the Board's dividend setting consideration or they best stripped out from modelling? And the second question relates to the land portfolio, and he notes that at the time of the acquisition of DB Symmetry, the land portfolio had a 10-year supply. Is that still the case or is the hopper being topped up?*"

Colin Godfrey: Shall I take the second one? You take the first one, Frankie.

Frankie Whitehead: Yeah, so on the DMA income, Mike, thanks for the question. That's obviously a constituent part of our overall earnings. It does have the ability to vary from year to year, as we've seen coming out of 2023, recognising no DMA Income last year, and obviously guiding to the £25m for this year. So, for that reason, the policy is to strip out the additional DMA. So, over a longer-term basis, we deem £3 - £5m as a run rate for DMA. That is built into our dividend policy thinking. Anything above that is stripped out. So, with regards to the EPS numbers this morning, I point you to the 4.1(p) EPS number from which we're basing our dividend.

Colin Godfrey: Thanks for the questions, Mike. And I think I would just add to Frankie's comment there that owner occupation is obviously a key feature of the market and so it gives us an opportunity to capture that component part in DMA. As for the DB Symmetry portfolio, when we acquired DB Symmetry in February 2019, the business, we reported, had the potential to deliver over 40m sq ft over approximately a 10-year time horizon. And of course, we've been developing assets in the intervening four and a half years. I'm pleased to say that we have been refilling the hopper very judiciously. We've been careful about our selections in terms of pricing point, quality of location, and today the potential future delivery is somewhere in the order of 42m sq ft. So, it has actually edged up a little bit, but again, largely with options, but we will buy land if we see that there's opportunity to get on site and deliver into a strong market in the near term.

Ian Brown: Great. Next question comes from Corinna Steckemetz at UBS. She asks, *"What should we expect on UKCM? How are the core assets performing so far, and what is the progress and timeline on disposals of non-core?"*

Colin Godfrey: Okay, thank you for the question. Look, we are absolutely delighted with the UKCM combination. We have, over the last 12 weeks, been assimilating all of the information, incorporating all of that within our systems. We've been out, we've made contact with all of our tenants, we've had client liaison days on site. The response from our new clients has been overwhelmingly positive given the engagement levels. And we are now implementing asset management initiatives, particularly with regard to the logistics portfolio, to enhance value.

And as regard, the non-strategic assets, which to remind you is around £450m, of everything other than the industrial logistics assets, we are looking to dispose of those over the course of the next 24months. We have had a very encouraging level of inbound inquiries, right the way across the board from individual assets, sectoral interest and whole portfolio interest, which we are currently pursuing. We've had a number of offers, both verbal and written. They're at encouraging levels and we are progressing some of those and, as we said in the presentation, with the expectation of announcing some sales prior to the end of this year, likely in Q4.

Ian Brown: Great. I think there's a couple of people on the phones with questions. So, Jess, if it's okay, can we open up the phone line and take a few questions from the call?

Operator: Of course. So as a reminder, if you'd like to ask a question on the phone line, please press star one. And our first question comes from the line of Rob Jones from BNP Paribas. Please go ahead.

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

Ian Brown: We can, yeah. Good morning, Rob.

Rob Jones: *Perfect, thank you. Morning, team. So three, one on reversion, one on vacancy, and one on DCs. When you've got the slide in the presentation and you talk about driving rental income growth going forwards and we have the bridge from FY... Sorry, H1 24 contracted rent to total ERV, the figure for the H2 '24 of £7.9m, is that ERV? And if so, what's the passing rent on that income? I'm just trying to think about the potential reversion capture for H2 '24 specifically.*

*Secondly, on vacancy, useful to see the Stakehill case study. Was that part of the vacancy at the balance sheet date? And if so, now that it's obviously been re-elected Greene King, how much of that vacancy now comes down, if so? And then the third and final one just on DCs. Colin, you said we're progressing opportunities. Just wonder if there's any update there? Thanks.*

Frankie Whitehead: I'll do the first one, which was the pointing to £7.9m figure in H2. In effect, that is the element of the reversion that we believe we can capture in the second half, so that's reversionary elements only. The passing rent on that is around about £51m today. So that would be what we anticipate to capture on top of obviously where we are today in terms of passing.

Colin Godfrey: Second question on Stakehill, that would've been in our December '23 vacancy, but not in our June 24 vacancy number.

Thanks, Frankie. On data centres, Rob, I think there's nothing to announce at this stage. We are conscious that data centres are part of the same use class as planning situation for logistics properties. And so, they're interchangeable in planning terms with logistics buildings and, as a consequence, it very much falls into our strengths, our wheelhouses, as you might say, in terms of power and development activity and for our sites. And we have had discussions with data centre operators in the past, so we very much see it as a near adjacency to our business operations. Noting that a few years ago, the management team set up a power team to advance our knowledge, relationships, and expertise in this space. And given the way that data centre markets evolved with lower latency expectations in locations farther away from major city centres, this does play to our strengths in terms of some of the locations that we have sites in.

So, we have been doing more work in this space, noting of course that data centres need significant power and that's where a large part of the work we've been doing has been concentrated. And we do have a preference for powered shell solutions, the co-locators now often being just as attractive as the hyper-scalers. So, we'll continue to look for opportunities and pursue opportunities where that provides incremental value for our stakeholders at or above levels which we're currently delivering from our development activities in logistics.

Rob Jones: Much appreciated, thank you.

Operator: The next question comes from the line of John Vuong from Kempen. Please go ahead.

John Vuong: *Hi, good morning team. Thank you for taking questions. On the development starts for this year, I think in the report you said that it will be at the lower end of the 2-3m sq ft that you're targeting. But on the slides, it says that you already started 0.9m, and that there's another 1.8m in solicitors' hands. Does this imply that part of this 1.8m is more likely to close in 2025? And occupied [inaudible 00:48:56].*

Ian Brown: John, you've gone rather quiet. We can't hear you, I'm afraid. The line isn't particularly good. Could you just repeat that last bit?

John Vuong: *From the occupied amount improving, is there scope to move higher up in the targeted range for next year on the 2-3m sq ft?*

Ian Brown: Okay, I think we got that?

Colin Godfrey: Yeah. Jonathan, thanks for the question. Look, there's an element of caution in relation to the numeracy there because the 1.8m sq ft we have in solicitors' hands, some of that could straddle the year-end. So, with a fair wind, we will be well within the 2-3m sq ft category. But if a major letting, for instance, falls the other side of December 31st, then we might be at the lower end of that range, and we prefer to make an immediate assumption that is more conservative. Is that fair, Frankie?

Frankie Whitehead: That's fair, yeah.

John Vuong: Okay, that's fair. *And as a follow-up on that, on the yield and cost, you mentioned that you target above 7% for this year. Which part of the equation is driving this?*

Colin Godfrey: Yeah, it's quite straightforward really, Johnathan. We've seen a stabilisation in construction costs. In fact, I would say there's probably 5-10% cost reduction in the first half. We're not seeing that trend continue. And against that, we've seen a continuation in rental growth. Just to put that in perspective, in the core markets we're seeing 25p uplift broadly in the market more generally. So, it is a combination of that continued positive momentum between costs and income that's generating the 7% plus level, and we're consistently achieving in excess of that for new development starts.

John Vuong: Okay, that's clear. That's it from my side. Thank you.

Colin Godfrey: Thanks John.

Operator: The next question comes from the line of Callum Marley from Kolytics. Please go ahead.

Callum Marley: Morning guys. Thank you for taking my question. Just a couple, please.

*Could you provide some colour on the level of interest from the 1.6m sq ft of spec development in the current development pipeline?*

*And then as a follow-up, just looking at spec development more broadly, it's declined quite a bit in the UK and currently makes up 1.9% of GAV, well below your threshold. Do you have any appetite to increase this percentage, given some of the tailwinds you highlighted?*

Colin Godfrey: Did you catch this? I couldn't hear the second part very well.

Frankie Whitehead: I can maybe speak to the first part. I think there's interest in assets under construction that are currently being constructed on a speculative basis.

Some of the 1.8m sq ft, Callum, that's in solicitor's, hands relates to that. So, I think broadly we're about 50% of that is in solicitor's hands at the moment and good interest on the balance. So that's where we are in terms of our current active programme.

Colin Godfrey: Yeah. I mean, just to sort of add a bit of colour to that, what we're seeing on the ground, Callum, is I think very reflective of the market sectoral levels more generally.

So, if you look at what we've seen in the market in market take-up terms, so far this year 25% of take-up has been manufacturing, it's been about 30% in the 3PL space, by way of example. A lower level of around 15% for retail, about 10% for online.

And you're seeing similar sort of levels. I mean that kind of reflects what we saw in 2023, and we're seeing similar percentages in our own activity. But of course, some of the lettings can be quite lumpy and that can move the dial, but generally that's the sort of trend.

I couldn't hear very well the second limb of your question. Did you pick that up, Frankie, about GAV?

Callum Marley: *That was just regarding if you have any appetite to increase spec development as a percentage of gross asset value, given some of the tailwinds.*

Colin Godfrey: No, I think we're quite happy with the level of spec right now. I mean, if you look at the level of spec activity last year, 85% of everything we started on site was let by the year end.

So, we typically sort of view the spec pre-let relationship as a sort of a 50/50 position at the outset, where we can. But again, a lumpy letting can move the dial quite significantly there, so you could end up with a higher level of pre-lets.

But we're pretty comfortable with that, because we don't undertake spec into a void, we will only undertake speculative construction where we see a high level of occupier demand with identified prospective occupiers for that specific building.

We get to know exactly what they want, why they want the building there. We get a good understanding as to the risk of capturing that occupier, and we have discussions with them as to the building size that they want, and the specification.

And quite often we'll have at least two occupiers identified that we know that will take that building before we start construction, so we're not speculatively constructing into a void. And that's one of the reasons why the letting levels of our spec developments is particularly high.

Callum Marley: *Good. And just to follow up on that, looking into 2025 and beyond, it seems like we're heading back into a pre-COVID normalised trend of rental growth, development starts, occupancy levels. Are you seeing any bigger macro tailwinds or even headwinds that could make this next cycle different?*

Colin Godfrey: I think we're coming out of the headwinds. I mean, our sector I think has structural tailwinds embedded within it for the long term. But in terms of near term, obviously we've been through an economic cycle that's provided challenges, particularly in the context of inflation and high construction costs. We're now out of the other side of that. As you allude to, we're seeing really strong positive momentum in terms of occupier sentiment, that's being demonstrated in the data in lettings. We're seeing a controlled position in supply with the level of new construction starts reducing.

So, I think it bodes well for continuation of attractive levels of rental growth, particularly with the backdrop of reducing levels of inflation and interest rates. And that is being reflected as well across to the investment market, as I've said earlier, where we're seeing increased levels of investor activity in the direct market. Quite competitive bidding, it's changed quite quickly actually.

So, you're probably not going to see this coming through in terms of the stats until later this year, but what we're seeing at the coal face is actually quite exciting. And I think that that talks to the pent-up demand of investor capital that we've spoken to before, which is tens and tens and tens of billions of pounds particularly focused on UK logistics, because we and most of the market believe it's the most attractive commercial property sector in the UK.

Callum Marley: That's clear. Thank you.

Operator: Your next question comes from the line of Paul May from Barclays. Please go ahead.

Paul May: Hi guys. Got three questions on my side.

*Given your low [inaudible], where you haven't topped up [inaudible 00:57:29] yield, assuming no material market rental growth, and I appreciate you're guiding to market rental growth moving forwards, should we expect limited value growth as you capture existing reversion? As in, does the valuation already reflect the reversion?*

*Second one, which kind of links to that as well, like with the Co-Op acquisition that you did, do you see further opportunities to acquire at materially higher [inaudible] yields than your portfolio?*

*On non-core assets, appreciate you said looking to sell those over the next 24months, are there any assets that concern you, for example, the leisure assets sort of come to mind? And what's the value of those assets? And is there liquidity for those?*

*And then a final one, more technical on the DMA, which I can ask after you've answered those, is probably easier.*

Colin Godfrey: I think that's four, Paul.

Look, I think we should see incremental value growth as we capture the reversion. I mean, the reversion, remember, is being topped up through market rental growth as well. So, as we've been capturing it the market's been topping it up, hence why our overall portfolio reversion has remained at 23%.

As for other opportunities such as more Co-Op Castlewood's, look, I think it demonstrates our patience, we will only acquire investment assets we believe they're particularly attractive, where they're incrementally beneficial to our portfolio construction more generally.

But look, I think we're at a point in the market cycle where we will continue to see opportunities, particularly from... I wouldn't say there's much in terms of true distress in the market right now, but there are and will continue to be for a while yet I think motivated sellers, particularly that have been waiting for interest rates to come down I think more quickly and to a lower level than has actually happened.

So, you will continue to see us being opportunistic in terms of acquisitions in the investment marketplace from time to time, but obviously our primary focus is our development activity.

And as regards to the UKCM sales, look, I mean I think it's fairly obvious sectorally that retail warehousing is on the up. I think retail more generally is being seen as being a bit more favourable now, we've got really good interest in the retail warehousing supermarkets in our portfolio, student accommodation is obviously red-hot.

I think that the assets which one would expect to take a little longer to work through, particularly given the short unexpired lease terms and some asset management initiatives that we're starting to embark upon, is the office sector. But that's of no surprise to anybody. But we do believe that the pricing of those that we acquired the portfolio at are at levels which are commensurate with the market expectations on sale.

Paul May: *Cool, thank you. And then just on the DMA Income, I think the statement highlights £12.2m of income, which I think over the number of shares is 0.6 p. Whereas the slides and the adjustment heights highlight 0.44p, there's a small difference there. What is the difference? Why is it 0.44 and not 0.6 of DMA Income? Thanks.*

Frankie Whitehead: Yeah, I think we're going to quote that net of tax in the slide, Paul, given that the tax charge and the P&L is associated to that.

Paul May: Perfect. Thank you.

Ian Brown: Good stuff. Look, thanks. I think that's all the questions from the call, but we have a couple on the webcast, so I'll just run through those that haven't been already answered through the ones that have come through on the phone.

The first comes from Paul Gorrie at Columbia Threadneedle. He asks, *"On the development guidance how much of the 2 to 3m sq ft is now for DMAs rather than on balance sheet development?"*

Frankie Whitehead: 0.7m sq ft, in terms of starts this year that we expect to be within the 2 - 3 quota.

Ian Brown: Okay. And the next question comes from Emma Bird at Winterflood, who asks, *"Will you look to allocate disposal proceeds to the acquisition or development of small mid box assets to add to those acquired from UKCM? Or will the focus remain on Big Box's?"*

Colin Godfrey: Well, look, Big Box is in our name, it's integral to our DNA. We have really significant knowledge and relationships in that space. You won't see that changing, but we have obviously acquired the UKCM portfolio. That was a conscious decision on our part to increase our exposure to urban last mile small box.

And we will continue to acquire assets in that space, where we think that they're adding incremental value and giving us a good balance across the portfolio. So, it will be some of both, quite frankly. And it's opportunistic in terms of the way we think about these things to add value for our stakeholders.

Ian Brown: Great. Next questions from James Carswell at Peel Hunt who asks, "On the Greene King example, what was the Marginal yield on cost? And how do returns on refurbishments compare to the development pipeline?"

Colin Godfrey: I can give you that number, it's 7% the yield on cost for Greene King. So, it's pretty well bang online with the 7% plus that we're quoting for development activity on our sites.

Ian Brown: I'll put your general knowledge of our portfolio to the test and ask, Mike Francis-MacRae, has asked, *"What is the longest standing asset in the portfolio? How long have we aimed it for?"*

Colin Godfrey: I remember it well, it's Marks & Spencer, Castle Donnington, that we acquired in December 2013. So, I think it's about 900,000 sq ft. And it's a pretty amazing building, highly mechanised. So, Marks & Spencer is our longest standing customer.

Ian Brown: Very good. And I think that's probably it in terms of questions, I don't think there's any further questions on the phone. So, with that, I think we can probably conclude.

Colin Godfrey: Thank you very much for taking the time to join us, everybody. That concludes the presentation. Goodbye.