TRITAX BIG BOX

Tritax Big Box

Interim Results | Webcast

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Transcript

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Ian Brown: Good morning and welcome to Tritax Big Box's full year results presentation for the financial year ended 31 December 2023.

I'm Ian Brown, Head of Corporate Strategy and Investor Relations. Before I hand over to our Chairman, Aubrey Adams, a few points to note.

Firstly, this presentation is being recorded and a replay and transcript will be available on our website later today.

Secondly, there will be a live Q&A session for investors and analysts after the presentation.

You can submit questions via the text box on the presentation viewer, or if you would prefer to speak with the team, please ensure you use your phone to dial in using the details in this morning's announcement.

Thank you.

Aubrey Adams: Good morning, everyone, and welcome to Tritax Big Box REIT's annual results presentation for the year ended 31 December 2023.

2023 was another successful year both operationally and strategically. Against an uncertain macroeconomic backdrop, we have continued to generate income growth and the quality and resilience of our investment portfolio and customer base are reflected in a tenth successive year of 100% rent collection.

This quality is further evident through the asset sales we have achieved at attractive valuations, despite a more challenging investment market. We have successfully recycled capital into higher-returning opportunities in our development pipeline and investment acquisitions with strong value creation potential. We have also carefully managed the balance sheet, to ensure we are prudently financed and can respond as attractive opportunities present themselves.

As we enter 2024, we are confident in delivering our strategy and we are well positioned to take advantage of the opportunities both inherent within our business, and from an increasing number of prospects in the market.

The Group has good potential for long-term growth, supported by long-term structural change in the logistics real estate market, the reversion in the portfolio, which is now at record levels, and the benefits of our asset management and development programmes.

Against this positive backdrop we were pleased to announce in February

that we had reached agreement with the Board of UKCM for a possible all-share offer.

While we work towards a potential firm offer, we are restricted in what we can say by the Takeover code, however we believe the offer has a compelling strategic and financial rationale by bringing together complementary logistics-orientated investment portfolios with a shared focus on resilient and growing income. We hope to update you further on this in due course.

I would also like to take a moment to thank everybody at Tritax for their support throughout the year.

Our ability to deliver consistently against our strategy is testament not only to the quality of our portfolio, but also to the hard work of our team.

I will now hand over to Colin and Frankie for the formal part of the results presentation.

Colin Godfrey: Thanks Aubrey and good morning, everyone. As Aubrey said, our key message today is that we continue to make further excellent progress in delivering our strategy.

I'll start by setting the scene, Frankie will then walk you through our financial results, and I'll return with the strategic and operational update. Ian will then coordinate Q&A.

Before we start, I want to echo Aubrey's thanks to the team at Tritax, who have been critical to delivering the performance we present today. And on behalf of the management team, I would also like to thank Aubrey and the board for their support and input over the course of the year. 2023 was a year in which we continued to produce strong operational performance.

We delivered attractive earnings growth, through active management of the portfolio and efficiently deploying capital by recycling disposal proceeds into higher earning assets. There are signs that the investment market has stabilised, whilst the occupational market has remained resilient, supported by long-term structural drivers. And we've prudently managed the balance sheet to support our strategy, our ongoing growth and capitalise on opportunities offered by our market.

Despite the more challenging macroeconomic and geo-political influences we’ve seen over the last 2 years, our business continues to deliver. We are doing what we said we would do – delivering our strategy and driving strong operational performance.

I'll now hand over to Frankie to run you through the financial results.

Frankie Whitehead: Thank you, Colin, and good morning, everyone. Our results for the full year 2023, once again demonstrate good operational performance, resilient income growth and our disciplined approach to balance sheet management.

Encouragingly, we saw stabilisation within the investment market as we moved through the year, with our own portfolio values broadly stable across 2023. And we are particularly pleased with our disposal activity / which has allowed us to recycle capital into more accretive opportunities / some of which we will cover within this presentation.

Turning to the key financial highlights. Our Adjusted EPS has risen by 3.2% to 7.75 pence, driven by development completions and like-for-like rental growth. In line with our policy, we have declared dividends equalling 7.3 pence per share, a 4.3% increase over the year. Our EPRA NTA has seen a modest reduction of 1.8% / to 177.2 pence per share. And our balance sheet remains in great shape, with our LTV largely unchanged, at 31.6%.

And as the right-hand chart shows - our portfolio ERV continues its strong progression. The rent secured within our development pipeline / along with 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 net rental income and we will come back to this in more detail in a moment.

You can see here the progress made during the period in terms of delivering growth in net rental income and this supports the underlying growth in our dividend.

The Group net rental income increased by 7.8%. Our in-year development completions were a significant contributor to this growth. The total contracted annual rent closed the year at £225.3 million. An important point to highlight at this stage is the fact that there was no DMA income recognised during the year. DMA income by its very nature is more variable / as it's driven by the timing of specific development projects and it's important to recognise this when looking at the make-up of Earnings growth this year. As a result of a fall in operational costs we record our lowest ever annual EPRA cost ratio of 13.1%. Headline Adjusted Earnings per Share was in line with the prior period / at 7.75 pence, remembering that in 2022 this included over £9 million of DMA income and consistent with previous period.

We also look through to our Adjusted earnings excluding additional DMA above £4 million which we consider to be our recurring Earnings metric.

And so Adjusted EPS excluding additional DMA grew by 3.2% over the period.

Finally, the 4.3% increase in our dividend to 7.30 pence equates to a pay-out ratio of 94%. And here I've stripped out the DMA income entirely so you can see the strong underlying growth in Adjusted earnings which stood at 6.2%

On the left we start with the 2022 position of 7.79p and remove all DMA income to reach 7.30p. Then in the dashed box you can see we delivered growth from our investment portfolio which was driven by 3.6% of like-for-like rental growth, then with a significant element coming from development completions, which added £19 million to net rental Income, and this was partially offset by our net disposal activity.

A reduction in admin costs, driven by a 15% fall in the Investment Manager Fee and the increase to Net finance costs, due to the slightly higher average cost of debt and average indebtedness are the other key moving parts here.

This brings us to the 7.75 pence per share as shown on the right which as I said, is an attractive 6.2% increase on a like-for-like basis when compared to last year.

Now we turn to capital value performance in greater detail which demonstrates a yield environment which stabilised through the year. The equivalent yield on the portfolio expanded by 30 bps, to 5.6%.

As you can see from the middle chart, our own ERV growth has been consistently strong, increasing by 6.9% through 2023, with a large part of our portfolio in core regions which have performed the strongest, and with a record 23% portfolio reversion, this presents a significant opportunity for us over the medium term.

And finally on the right, this translated into valuation performance which has stabilised over the course of 2023, with just a 0.7% reduction.

As we will come on to highlight / development profits and income growth have been helpful mitigants to the yield softening we experienced / we are also closer to the point at which we can capture any reversion and therefore this is also reflected in our 2023 yield profile. And as I mentioned in my opening, we have maintained our disciplined approach to Balance Sheet management.

In terms of key Balance Sheet metrics, our overall portfolio value is largely unchanged at £5.03 billion. As we suggested, we have maintained

a neutral net debt position, whilst investing over £300 million into opportunities across a combination of our development pipeline and two investment acquisitions, which Colin will touch on in a moment.

With other funding options less attractive during the period, we achieved this by delivering £327 million of disposals, at [or above] book values, which allowed us to recycle capital accretively. this also means that we report a stable loan to value of 31.6%. Our EPRA NTA has modestly reduced to 177.2 pence / and our Total Accounting Return, driven by income / stood at 2.2% for the 12 months.

This slide sets out in detail the components of the movement in EPRA NTA. A key point to highlight here is the split between the capital performance from operations shown in the left-hand box and the one-off charge recorded in relation to the B and C shares / which you see on the right.

Our actual portfolio performance was very resilient with some small write downs across our investment assets, these were in part offset by growth across our development assets and our land pipeline. Alongside operating profit and dividends paid, this led to a 0.8% reduction in NTA. And just to remind you of some of the detail surrounding the B and C share buyback.

The B and C shares were a 13% interest retained by the Symmetry Management team in the Symmetry development portfolio. We felt that the timing was right to buy back these shares early / which extinguished a future balance sheet liability and generated a one-off accelerated charge to NTA of 1.8 pence per share.

And as highlighted at the time of our interim results, this additional charge translates into an approximate 1% reduction in NAV.

Having fully extinguished the B and C shares, shareholders now benefit from 100% of the future profits attached to our attractive development pipeline. And its also important to note / that we have maintained the strength, diversity and liquidity of our debt financing / which continues to support our strategy.

During the year we refinanced our largest revolving credit facility / which was due to mature at the end of 2024. In doing so we agreed a new Sustainability-linked 5-year RCF, increased the size of the facility to £500 million, and agreed this on the same margin as the previous facility. This new RCF now matures at the end of 2028 / and subject to lender consent, may also be extended to 2030.

Elsewhere, our available liquidity remains in excess of over half a billion

pounds; Our average cost of debt remains attractive at below 3.0%; Of which 96% is either fixed or hedged. We continue to report Interest cover and Net Debt to EBITDA ratios which comfortably support our Baa1 stable rating from Moody's. And, importantly, we now have no refinancing events until mid 2026.

And now a familiar slide, but one which highlights how we are continuing to convert our land pipeline into growth in contacted income.

This rental income bridge illustrates the potential we have to grow todays passing rent / from £217 million shown on the left hand side / to an estimated £655 million, shown on the far right.

Moving from the left / £7m is attached to current vacant space / we have assets under construction with lettings attached also totalling £7 million / and we have a further £16 million of potential rent which is attached to assets under construction which are currently unlet.

We do, however have £8m agreed and in solicitors' hands. And looking ahead to our anticipated starts over the next 12 months / we have a potential £22 million of rent attached to these assets. ERV growth has led to an improved mark-to-market rental position, totalling £45 million of further opportunity, and Colin will set out a possible timeframe over which we could capture this reversion.

Taking all of this into account this gets us to the terracotta bar setting out the total embedded opportunity at £313 million, which is some 44% ahead of today's current passing rent / the vast majority of which is available for capture over the next 2-3 years.

Moving further out / we continue to progress our near-term and future development sites through the planning process / and have added two new sites to the portfolio this year to replenish our pipeline. And to remind you, this significant opportunity assumes no future rental income growth beyond todays ERV level.

And finally, I want to finish by outlining some financial guidance for the year ahead. We will be looking to maximise the performance within the current portfolio which includes driving income growth through the current reversion, but also looking to continue intelligently rotating capital into more favourable opportunities.

Our disposal guidance for 2024 is £100-200 million, and whilst we will target the higher end of the range this will remain subject to the level of investment opportunities that we see.

We expect our capital deployment to be focussed on development once

again and for 2024 target development capex towards the higher end of our £200-250 million range / all targeting an attractive 7.0% yield on cost.

Our prudent management over the last few years puts our balance sheet in a strong position / and this supports the business with good optionality around its future funding needs.

Given the deferral of the DMA project previously mentioned / from 2023 into 2024 / we therefore expect to recognise DMA income this year in excess of £8 million.

And with a strategy founded on income quality / alongside a highly flexible growth engine through development / the total embedded opportunity for income growth / being 44% above todays passing rent / gives us confidence in producing attractive levels of dividend growth as we move forwards.

So that concludes the financial review – and I shall now hand you back to Colin.

Colin Godfrey: Thanks Frankie

So Frankie's described our resilience and how we are financially well positioned for the future. I'll provide an update on current market dynamics, take a closer look at how we are applying our strategy, and explore the significant growth opportunity that underpins our positive outlook.

The industrial logistics capital market has been through a challenging 18 months, with transaction volumes down 40% on 2022. But the investment market is now showing signs of price stabilisation, with the prime yield holding at 5.25% in the second half. Continued attractive rental growth, weakening inflation and the prospect of interest rates cuts later this year are giving rise to increased optimism.

Starting top left, after three years of exceptional demand, 2023 saw 'take up' revert to pre-pandemic levels, encouraging given the more challenging economic environment which negatively impacted some business decision making.

Looking forward, demand remains well supported. Across the market there was just over 11m sq ft under offer at year end, and enquiry levels for our development sites remain very healthy.

If the macroeconomic picture improves this year, we would expect to see growth in overall lettings.

As shown top right, low vacancy, buoyant demand, and strong rental growth encouraged a wave of construction starts in 2022.

In response to an increased cost of capital and higher vacancy, the market demonstrated discipline by reducing the pace of new construction starts in 2023, and this has continued in the first few months of 2024. At 5%, vacancy remains low historically.

Occupational dynamics remain healthy, and we have seen further rental growth across the UK, but differentiated regionally as we see bottom left, with attractive levels in core markets but noting a particularly strong showing in the Northwest. And as the map, bottom right shows, we are well positioned to take advantage, because our investment and development portfolios are weighted in favour of the regions which are delivering the strongest growth.

This opportunity is core to our strategy, which is carefully designed to capitalise on the long-term structural trends that underpin our market.

We have deliberately built a portfolio focused on high quality assets, attracting great customers which provide compounding income. This represents 92% of GAV and is the largest logistics real estate portfolio in the UK. This quality also provides resilience through economic cycles.

We add further value to our portfolio through direct and active management and sell assets we believe have reached their full potential. We reinvest the proceeds into higher returning opportunities, particularly within our land portfolio, the largest in the UK, where we are developing at a very attractive yield on cost whilst maintaining a disciplined approach to capital allocation.

Running through all elements of our strategy is ESG.

And we have made further excellent progress in delivering against our four ESG pillars. We're delivering sustainable buildings fit for the future by further integrating our ESG targets across the investment and asset life cycle, including through our due diligence and asset selection.

Power resilience & carbon performance are now key considerations for our customers. So, we've increased solar capacity with 17.4MW operational today and 20MW in the near-term pipeline; We're rolling out more EV charging – now available across 54% of the portfolio; And we're working ever closer with customers on their decarbonisation plans. We're also enhancing biodiversity, wellbeing infrastructure, and adding to the communities around our assets.

To accelerate this, we've established the Tritax Social Impact Foundation, which will help us deliver more, and allow us to better measure our social impact. Our data driven approach supports clearly defined targets. We measure our progress against these and, consequently, take pride in achieving the market leading ratings that you can see here.

We are implementing our path to net zero across the business.

We now measure carbon risk upon investment acquisition then build in our customers' carbon objectives into our asset management plans. For developments we've updated our low carbon baseline specification to achieve our targets more quickly.

I said earlier that the first key element of our strategy is quality, in our buildings, customers, and what we do as a team. Through a more unsettled macro economic period, quality is more important than ever.

Our buildings are modern, well configured, and flexible. They have high EPC ratings, are well located to serve their markets and are often critical to our customers' operations. We have a wide range of building sizes from 2.3 million sq ft down to 12,000 sq ft, so serving both the first and last mile of our customers' supply chains.

Our customers, as shown here, represent globally familiar brands – they are typically large and strong, across a diverse range of sectors. And we have a good mix of rent review types, noting that we purposely increased our exposure to hybrid and uncapped open market rent reviews from 36% in 2021, to over 42% today, to enhance overall returns.

These factors underpin the resilient and growing income characteristics of the portfolio, reflected in 100% rent collection and zero voids in our investment portfolio over the last 10 years. But we don't rest on our laurels. We are always trying to add further value through our active approach to management, even to a high-quality portfolio such as ours.

Starting with disposals: Despite challenging market conditions we sold six assets above book value, for a combined £327m. This was achieved through an in-depth understanding of buyer appetite, strong relationships, and an unrivalled track record of transactional performance.

The assets varied in location, age, size and lease length, and were selected based on risk and future performance expectations.

Through these disposals we have crystalised value at a blended net yield of 4.3%; reinvested these proceeds into highly accretive development

opportunities with a current yield on cost target of around 7%; acquired attractive urban logistics assets with higher reversionary potential; and maintained balance sheet strength.

We have acquired two prime urban logistics parks at Birmingham and Enfield in London for £108m at a blended initial yield of 4.2%. We have commenced a programme of upgrading the estates and have further asset management initiatives identified.

We have the potential to increase the passing rent by 50% and are making good progress. At Birmingham we have let one vacant building and extended the lease of another, whilst at Enfield we have let the only vacant building.

We are already exceeding our ERV assumptions at the time of purchase and expect to achieve a blended running yield of 5.5% by the end of this year. This type of asset complements our existing Big Box weighted portfolio and enables us to increasingly offer our customers an end-to-end solution for their supply chain networks.

In addition to optimising the portfolio through acquisitions and disposals, we continue to actively manage assets – seeking ways to continue to grow their income:

Starting top left, during the period, 19% of rents were subject to review, with a further 3.5% held over from 2022, totalling 22.5% of rents in 13 rent reviews. The fixed and inflation linked ones were annual reviews whereas the open market and hybrid reviews were 5-yearly.

Together these reviews generated a £4.9 million increase in annual passing rent, reflecting annualised like-for-like rental growth of 3.6%. With market rents continuing to rise at attractive levels, our rental reversion increased from 19% at the start of 2023 to a record 23%, or £51m, at the year-end, as shown top right.

Turning to the bottom left, we have a healthy cadence of reviews and expiries providing opportunities to grow our income. 27% of rents are due for review this year and 3% are subject to lease expiry, so, 30% in total. Looking forward we also have a healthy level of rents subject to review, particularly in 2026 and 2027.

To provide you with further guidance on this, as outlined bottom right, we have the potential to capture around £40m of income growth through rent reviews and lease expiries by the end of 2026.So we have been busy adding value within our investment portfolio. And we have also been very active in the third key element of our strategy.

Our land portfolio. This has the potential to deliver over 42 m sq ft of logistics real estate over the course of the next decade and currently

comprises 24 well-diversified schemes in key locations across the UK.

During the year we completed the construction of 8 buildings totalling 2.2m sq ft in 6 locations, all to EPC grade A. Since June 2023 all our buildings have been constructed to a minimum standard of BREEAM Excellent. Seven of these buildings, totalling 1.9m sq ft, were either pre-let or let during construction.

These development completions have added a further £13.6m to our contracted rent and the vacant building at Littlebrook, Dartford, has the potential to add a further £3.5m in rent when let. So that covers development completions in 2023.

Let's now look at development starts in 2023.

With investment market uncertainty and rising vacancy levels in the occupational market, we adopted a more prudent stance in 2023, with 1.7m sq ft of development starts, and were consequently below our medium-term guidance of 2-3 million sq ft per annum.

Our 2023 development starts have the capacity to add £15.6m in annual rent once completed and let.

In the year we made 6 lettings totalling 900,000 sq ft, securing £7.8m in rent, largely from buildings which completed in 2022.

In addition, we placed three potential lettings in solicitor's hands totalling approximately 900,000 sq ft and which have the potential to add a further £8.3m to our rent roll.

We are also seeing positive momentum on profit, as rents continue to increase, and construction costs reduce. Our blended Yield on Cost has improved from 6.7% on lettings made last year, to over 7% expected for our 2023 development starts. During the year we also secured a further 900,000 sq ft of planning consents, increasing our planning consented land total to 6.3m sq ft.

Turning then to 2024. Occupational interest in our pipeline remains at record levels and we have a strong level of occupier interest across our near-term development locations, with positive engagement on 8.4m sq ft.

Reduced development starts in the market are likely to help lower vacancy rates and we expect a continuation of attractive levels of rental growth in the Big Box market. We are consequently targeting the mid-range of our 2-3m sq ft guidance for 2024, back-weighted in the year, but noting that this will remain flexible and subject to market conditions.

To conclude, we continue to make further excellent progress in delivering our strategy, having produced solid capital performance and continued attractive operational performance.

Through our successful investment sales programme and by maintaining financial discipline, we have maintained a strong balance sheet, modest LTV, no near-term refinancing, and a range of funding options.

Our high-quality portfolio, with strong ESG credentials, generates attractive, sustainable and growing rental income with embedded reversion. We are recycling capital from investment sales into development - this is scalable, flexible and significantly enhances earnings growth for our stakeholders.

Structural change continues to benefit our market with occupational demand remaining robust and controlled levels of supply supporting further attractive levels of rental growth.

The investment market is demonstrating stabilisation and there is hope for improving economic conditions in 2024. And with a strong balance sheet we are well placed to take advantage of market opportunities as they arise.

Thank you for joining us. That concludes today's presentation and I'll now hand over to Ian to coordinate the Q&A session.

Ian Brown: Good morning, everyone. So, thank you. We'll now turn to Q&A. Just as a reminder, to ask your question, you've got two options. If you've joined us on the webcast, please do type your question into the text box on the screen and if you've joined on the phone, you need to press star one on your keypad. What we'll do, we'll begin with a few questions that have come from the webcast whilst people on the phone get the chance to log their questions and then we'll turn to the calls.

The first question that's come in, I think it's come in from Rob Jones at Exxon. He's asked three questions. The first being, "Given the rate of e-commerce penetration growth slowing in the UK, how much of a headwind is that for us?"

Colin Godfrey: Okay. Let's take them one at a time? So, the first thing is I think it's been relatively stable in the high twenties. Obviously, it peaked as a consequence of COVID. If you look at the constituents of the market actually following Amazon's withdrawal a few years ago from the market significantly, it has, in the main, been quite broad, which is pretty attractive. Third party logistics constituting 36% of take up last year. And from memory, I think manufacturing was 28, the two largest components.

And Amazon is actually back in the market again and we have quite a number of inquiries from Amazon across our development portfolio.

Ian Brown: Great. So, the second part of the question is, "With the UK vacancy at 5.1% versus our portfolio of 2.5%, is this evidence of a bifurcation between prime and secondary assets? And how are inquiries for your Big Box assets holding up?"

Colin Godfrey: Okay, well the first thing to say is I think that we have a really high-quality portfolio. We are highly cognizant of the importance of quality. I do think into the face of a recession that one has to be cognisant of weaker income from SMEs by way of example. There are of course strong occupiers at the larger end and the smaller end of the market, but we do tend to find stronger balance sheet companies supporting larger scale assets.

I think on the scale point, we are still seeing really healthy levels of demand for larger scale buildings and in fact, I would say that the 500,000 square foot plus bracket is probably the most attractive at the moment in the context of the relationship between supply, i.e. current availability in the market, and demand that we're seeing. And under our own portfolio, we are actually seeing quite a number of inquiries for larger scale buildings.

Ian Brown: And final question from Rob. He asks, "We see increasing evidence of construction costs rolling and development margins improving. How does this affect your thinking on capital allocation between development and acquisitions?"

Frankie Whitehead: Look, I think it's important that we continue to appraise all options, all ways and means of deploying capital. For us, development and development IRRs are particularly attractive. We've increased our yield on cost target for our 2024 development starts to 7%. And I'll also quote that if we look at our current development pipeline and our near term starts within the next 12 months, the incremental yield on cost from that is around 11%. So, the 7% number is an all-in cost. The incremental yield on cost on that particular part of the portfolio is around 11%. So that is particularly attractive.

I think when we look at the investment market, we do see opportunities growing potentially as we move through 2024, but that will be opportunity driven as it always has been for us.

Ian Brown: Great. The next question is from Andrew Saunders at Shore Capital. He asks, "How did land values per acre move during 2023 and can you tell us how plans to add more sites are progressing?" He also asks, "Given the strong rental growth in the northwest, can you remind us of the current delivery projections for Parkside East and likely rent contribution?"

Colin Godfrey: Thank you. The first thing to say is that land values have been stable during 2023. Obviously, we continue to look for opportunities where we see value to add to our future development pipeline. Typically, they would be several years out. Turning in particular to the northwest where rental growth has been particularly strong as you saw in our presentation, Parkside East, we are targeting around 2.3 million square feet. That's a DCO lead application, which we will be looking to be on site around about 2027, so about three years away.

We do have a couple of other sites, one at Weatherby and another site in the northwest as well. Weatherby, around about 1.1 million square feet and another larger site of around about three and a half million square feet, which I can't say too much about at the moment. So quite active in the northwest and the rental contribution from that will be obviously very healthy but we're not giving any detail at this time.

Ian Brown: Great. Look, as Aubrey outlined at the beginning of the session, we are in an offer period in relation to UKCM. We have had a number of questions regarding that, so we are very limited in what we can say, but Colin, do you want to make a few points in relation to that?

Colin Godfrey: Sure. Okay. So, I would obviously point you to the 2.4 announcement. It would be a share for share deal, NTA to NDA. We do see the highly complimentary relationship between the assets in the portfolio. There's a high-quality logistics component in the UKCM portfolio with around about 38% rental reversion. We've identified asset management opportunities. We believe that there are clear capital recycling opportunities which we believe will be accretive, both in terms of investment and development assets.

There will be clearly cost savings that would emanate from the transaction, and they would be set out in the 2.7 announcement, should we reach that stage. And of course, one would expect to benefit from a stronger balance sheet with a lower gearing level. We've indicated around about 29% from the enlarged company. And of course, scale. The transaction would give rise to a business with a GAV of around about £6.3 billion and a market cap of just under £4 billion with the increased liquidity that would naturally flow from that.

Ian Brown: Great. Look, let's turn to the phone. Jess, our operator, I think will facilitate the Q&A on that. So, Jess, would you mind taking our first question please?

Conference call host: Of course. The first question comes from the line of Paul May from Barclays. Please go ahead.

Paul May: Hi team. Thanks for the presentation and a good set of results. I won't ask anything on UKCM hopefully. But just following up, I think all my questions are linked to the last point you made on that, it's not related to that, but with regard to scale. If you look at your contracted annual rent on a year-on-year has hardly moved because the capital recycling, as

you've highlighted a few times, basically offset the growth. And I appreciate there's a timing differential there. You mentioned around capital deployment into development, but you are pre-letting at the moment only 17% and so there's probably a risk to that moving forwards, and certainly with your marginal cost of debt of near 7% and probably a longer term of near five to five and a half the accretion from using debt probably doesn't make sense either.

So, isn't the best opportunity now to be looking at acquisitions? So similar to what you've highlighted with UKCM funded by equity, basically taking Big Box back to what it was originally set up to do and to capitalise on, especially as you say, scale matters. And that was a key point that you've just made on the UKCM deal. Thank you.

Colin Godfrey: You okay taking that, Frankie?

Frankie Whitehead: There's lots in there. Talking about the cost of capital point, but obviously yeah, marginal cost of debt for us from a floating rate perspective is around 6%, from a term perspective, it's more like five and a quarter to five and a half. I think again to day one, yield on cost from development at day one, incremental yield on cost at 11%. The margins there are sufficient to warrant that development risk and provide attractive returns. That's a day one standpoint. Clearly there is future income growth to come once those investments are up and stabilised. And from an IRR perspective that's particularly attractive. So, development continues to be an attractive way of deploying capital for us.

Equally, from an investment standpoint, yes, we have recently acquired one particular asset in January of this year, an attractive day one yield with some embedded reversion. And again, from an unlevered IRR perspective, we're getting pretty quickly into territory of high single digits from a return standpoint. So, in terms of the opportunity and the landscape to deploy capital, given incremental cost of debt, given our weighted average cost of capital and given the relativity within our own portfolio and future returns, we absolutely feel that we can deploy capital well and deploy it accretively for shareholders as we move forwards.

Paul May: Sorry, following up on that, you mentioned a lot around deploying debt capital. Why no mention around deploying equity capital moving forwards? Given that, I suppose, cost differential between debt and equity is closed materially and the risk profile of equity is probably significantly lower, and you get the scale benefits that you eloquently highlighted from the UKCM deal?

Frankie Whitehead: Yeah, I think from a funding perspective, it's important to continue to evaluate all of the options that you mentioned. I think over the long term, we absolutely see equity debt and capital recycling as funding sources for the business. I think for 2023, we rotated capital particularly well. We're pleased with the investment sales. That was the best ways to fund the business through 2023. I think as we look forward, you're right, the

options are becoming closer in terms of the attractiveness of the ways of funding the business. So, it's about evaluating all of those in the context of the opportunity and as we have done in the past, where we see opportunities to accelerate the value creation within the business, accelerate EPS growth, equity is absolutely something that we will consider and continue to do so.

Paul May: And just slightly change that, sorry, for my last question. The cost ratio, 13% obviously looking very attractive relative to peers. Am I right, that's likely to come down again given where the NTA is at the year end?

Frankie Whitehead: I think given NTA has nudged down ever slightly, Paul, I think it's fair to say that yes, we're expecting marginal improvement on the 13% position as we move through 2024.

Paul May: Okay. Thank you very much, guys.

Colin Godfrey: Thanks, Paul.

Conference call host: The next question comes from the line of Allison Sun from Bank of America. Please go ahead.

Allison Sun: Hi. Morning, two questions from my side. First is on the valuation, because we noticed there's a acceleration of value decline in the second half. Can you give a bit more color on what's going on at that time and do you think the trend will continue into the first half, 2024? The second question is on the urban logistics. So, I wonder, besides the UKCM portfolio, do you intend to even buy more after that? And if that's the case, what's your acquisition criteria if there is any? Thank you.

Colin Godfrey: Thank you, Allison. So, the first point you make, yes, there was fragility in the investment market in the second half of 2023. We saw lower transactional volumes. There was very little liquidity and price discovery and I think this was really a delayed reaction to the macroeconomic position and the expectation for improving market, particularly in the context of inflation, which was really taking longer than people expected. However, we did approach the Christmas period with a much more buoyant mood, and I think that's carried into the early part of 2024. And that's really what you've seen in the stabilisation of values.

We believe that the market is in a position of stability right now. We're not really expecting much if any further softening of values in the market. We do expect to see probably some hardening of values during the course of 2024. How much remains to be seen, but so we do see upside potential during the course of this year.

Turning to the second component of your question, urban logistics. Well, as we mentioned in the presentation, having sold £327 million of investments during the year above valuation, we did choose to invest £108 million into two urban logistics parks. One in Birmingham, one in London. And the reason we did that was because we saw a change in

the attractiveness of those. When London urban yields were, for instance, down into the twos, we didn't see value in that market. The back solve against where rental growth would have to be year-on-year consistently didn't make sense to us at that time against the relative performance of Big Box assets and the growth that we were seeing coming through there. And by the way, I think that the big-box rental growth has been far more sustainable levels. We saw pretty explosive levels of rental growth in London, 55% growth in about two years at the prime end of the market. We said that it wasn't sustainable, and that's proved to be correct because London rental growth has come off very significantly. It's pretty flat. I think it was 4% across the board, but actually, on the west side at the prime end of the market, flatter.

And I think, therefore, once the change in the cost of capital impacted, we saw yields move out, we saw urban logistics as a much more attractive proposition, and that's where you saw us make those moves. Every transaction we look at will be considered on its own merits. We're not setting ourselves any targets. We're looking for value. And of course, we continue to create small-box urban logistics investments in our own development activity.

Conference call host: Thank you. The next question comes from the line of Ventsi Iliev from Kempen. Please go ahead.

Ventsi Iliev: Good morning. Thank you for taking my questions. First one on the EPRA like-for-like, so we report 3.6%. If I'm not mistaken, that's more or less just in line with previous years. So, could you perhaps add a bit more on the moving parts?

Frankie Whitehead: Yeah. Within that, I think slide 23 lists the reviews have been settled within the year. So, about half of our portfolio is inflation-linked. And typically, they are a combination of annual and five-yearly reviews. The inflation-linked reviews do come with caps and collars. So, the average cap on those sits at about 3.7%.

With regards to the capture of income from that part of the portfolio, whilst it provides that regular inflation-linked income for us, there is that natural ceiling on that. The bit where I think we're particularly pleased this year with the way we've captured that income growth and the consistently strong ERV growth that we've witnessed is through the open market rent. So about 40% of our portfolio is linked to open market. These are five-yearly backward-looking reviews.

And we've averaged around a 30% cash-on-cash increase on the reviews that we've settled with regards to that. So, broadly, a 6% per annum increase.

Now, I suppose overlaying all of this is the frequency of the reviews. So again, page 23 highlights not all of our portfolio reviews every year. So, we don't have the ability to move the like-for-like on in sequence with that ERV growth necessarily. So, it's about the makeup of the reviews

and the frequency of the reviews in any one given year that's going to underpin and generate that EPRA like-for-like rental growth figure.

Ventsi Iliev: Okay, thank you. And then there's a slide where you mentioned that you have 23% reversion, and you expect to capture 78% in the next three years. So just that by itself implies that you'll be able to increase rent by 6% annually. Is that the right way to look at it? So, in that respect, do you expect like-for-like to move from 3.6 to 6 or even above?

Frankie Whitehead: Yeah. So, there'd be an upward trend subject to the capture of that ERV. We're not quoting a forecasted EPRA like-for-like figure as we move through time. I think you're looking at that in the right way. I think the other thing that I would just caveat within that is there is some vacancy in there as well, so it would be subject to the timing and the lettings of those buildings with regards to the numbers that you've quoted.

Colin Godfrey: But there is essentially a catch-up that is taking place where, obviously, as Frankie mentioned, there's a five-yearly backward-looking review process for open market rents. And whilst the market rents have been strong, we're obviously backward-looking over that timeframe. And given rental growth has been particularly strong in the market in the last few years, we're looking to capture that, but in arrears, essentially.

Ventsi Iliev: Okay. Thank you. And then just one more question, it is on UKCM. You mentioned that there are capital-recycling possibilities. I'm assuming that applies for the non-logistics assets. Could you shed some light on your expectations for how quickly you can disclose those?

Colin Godfrey: I'm afraid we can't say any more on that for the time being. The information that we've delivered on that element has been captured within the 2.4 announcement, to the extent that we subsequently make a 2.7 announcement, then further information will be contained within that statement.

Ventsi Iliev: Okay. Thank you. That's it from my side.

Colin Godfrey: Yeah. Sorry, we can't say more for the time being. Thank you. Thanks for the questions.

Ventsi Iliev: The next question comes from the line of Tom Musson from Goldman Sachs. Please go ahead.

Tom Musson: Hi. Morning, gents. Thanks very much for the presentation. You mentioned in an earlier question, Amazon coming back to the market, which is interesting. Can you give some color perhaps on what type of space that they're looking at whether they're back in any material sites? I appreciate some is that classic big-box you mentioned from your development pipeline. But do you know if their requirements are perhaps a little bit more broad than that?

Colin Godfrey: Yeah. Thanks, Tom. Actually, it's quite broad. We're currently seeing Amazon with requirements at the lower end of the spectrum in the urban market. But also, they've got some very large requirements out as well. So, for the fulfillment centers, we're all the way up to 2.3 million square feet, similar design profile to the building that we have at Littlebrook, and that's a ground-plus-three structure with mezzanine floors.

And also, Amazon have a large-scale format which is around about 1 million square feet, 1.1 million square feet. So, they have requirements out for all of those buildings across several locations in the UK at the current moment in time. Obviously, looking through to what would now be 25, 26 delivery.

Tom Musson: Got it. Thanks. And then maybe just a second question on mix of assets. You increased the mix of value-add assets in the portfolio over the last couple of years. Now it's 31%, and understandably why, more recently, given what sort of stabilised yield on prime is and we're in a higher cost of capital environment.

How do you want to see that mix evolve and settle that going forward, whether organically or not? And does changing that mix effect have much an effect on the cost of the business either within the NRI margin or perhaps in terms of needing more people?

Colin Godfrey: Thanks, Tom. Look, yes, of course, more active, smaller-scale assets with more occupiers does mean that we need more people on the ground. It is a more active process of asset management, and that's something that we've been recruiting significantly into in recent times.

But we do see it as a way of being able to generate, as Frankie mentioned, the five-yearly review cycle, but being able to generate and prove rental growth more regularly throughout a 12-month period. But I think one needs to think about this as well in the context of the really high-quality, long-term income that we have in our business.

We've got a very, very strong core to our rental income, noting that we've had 10 years of 100% rent collection in our portfolio. And we've never had a void in one of our investment assets that has come to lease expiry, having re-leased all of those either to the incumbent tenant or immediately let to a new occupier. So, I think the strength of that quality of income and our assets gives us confidence that we can bring in a proportion of more active smaller-scale assets to help drive that income growth.

Tom Musson: That's great. Thanks very much.

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

Callum Marley: Hi, guys. Thank you for the presentation. Just two questions, please. I appreciate you might not be able to give too much information away here, but is it fair to assume a slightly higher development CapEx going

forward, potentially above the 250 million target, given the attractive 7% yield on cost and any potential cash you might generate this year?

Colin Godfrey: Do you want to take that one, Frankie?

Frankie Whitehead: Yeah. Look, the guidance as we stand is the 2-250 million pounds per annum run rate and we're signaling will be at the higher end of that. I think one of the joys in the way we position the development portfolio is that it's got a large degree of flexibility, so we can reign back if required. And equally, we can put the foot down slightly harder and deploy capital slightly faster.

Whilst those are top-down guidance ranges, this is a bottom-up approach in terms of occupier interest, where we think we can deploy it, start building in respect of that. At the moment, we're looking towards the top end of that range. But subject to how we see the year pan out and occupier interest, we can go harder than that and obviously push closer towards the 300 mark. But that is something that we'll keep an eye on as we move through the year.

Colin Godfrey: And I'll just add to that. Obviously, we view that in the context of occupier inquiries in our development portfolio, which is at an all-time high of around about 20 million square feet. We actually have, very encouragingly, about 8.5 million square feet of active engagement, with potential existing and new customers.

And we currently have over a million square feet, we're around a million square feet in solicitor's hands. So, it's obviously marrying the development activity against the confidence we have in occupier interest in our development sites.

Callum Marley: Got it. Thank you. And last one. We saw a few weeks ago that one of your peers was getting involved in the data center space, which is quite a hot topic at the moment. Do you see any opportunities for these assets in your portfolio going forward?

Colin Godfrey: Yes, we do. We've analysed the portfolio, our existing investment portfolio. We think that around... What's the percentage we were talking about, Ian, in terms of the-

Ian Brown: It's around about 10%.

Colin Godfrey: 20%?

Ian Brown: 10%.

Colin Godfrey: 10%. Okay. We think around about 10% of the investment portfolio could be of interest to data center operators. It's very difficult to analyse that precisely. Obviously, power is a very important component part to

that. We have a power team that's looking at all of our sites in terms of the ability to increase our power delivery.

We're very conscious of doing that in an environmentally sustainable way as well. So, we're looking at bringing solar into those sites. And of course, this segues into what we're doing in our development portfolio as well, where exactly the same credentials are really important in terms of high levels of solar and very sustainable buildings.

But again, in our development portfolio, we're increasingly looking at the potential for data center operations in terms of our customer engagement. And I think it's worthwhile just mentioning, for those that aren't in tune with this, is that data center requirements are changing. They used to be driven very much by the financial sector.

Lower levels of latency now in terms of the use for long-term data storage, gaming, and all these sorts of things is very much changing the locations of where data centers can be in the country. And I think that that plays to our strengths in some of the locations where we have development sites and existing investment assets.

Callum Marley: Got it. Thank you.

Conference call host: The next question comes from the line of Matthew Saperia from Peel Hunt. Please go ahead.

Matthew Saperia: Thank you. Morning.

Colin Godfrey: Morning, Matthew.

Matthew Saperia: A very quick one from me. I was just interested if you could provide a bit more colour on the comment around falling construction costs.

Colin Godfrey: Sure. Yeah. It's really quite gratifying to see them coming down. I would say that it's around about 5%, maybe a little more, in construction cost savings we've seen over the course of the last six months or so. Labor costs have been fairly stable. The majority of that cost has come in cost savings coming through commodity prices having softened off.

And we do have quite a lot of live proof points on this in relation to sites where we've got live tenders out. And there's competitive tendering. Obviously, we're also being very conscious of the quality of contractors that we are engaging with as well, given that there have been a couple of casualties in the sector more recently.

Matthew Saperia: Thanks, Colin.

Colin Godfrey: Thank you, Matthew.

Ian Brown: Great. Look, thank you very much. There's one important point of clarification I should make. I incorrectly attributed those three questions at the beginning of the webcast to Rob Jones from Exane. They're

actually from Rob Virdee at Green Street. So, apologies for that to the two Robs. But there are no further questions as I see it either from webcast or from the phone line.

Colin Godfrey: In that case, well, thank you very much, everyone, for taking the time to join us today on the presentation and supporting the company. Enjoy the rest of your day. Thank you. Goodbye.