

# STENPROP

## MULTI-LET INDUSTRIAL ACQUISITION AND STRATEGY



SP

## Acquisition completed on 30<sup>th</sup> June 2017

**£127m**  
portfolio

**2m**  
sq ft

**25**  
properties

**£4.94 psf**  
average rent

**400**  
tenants

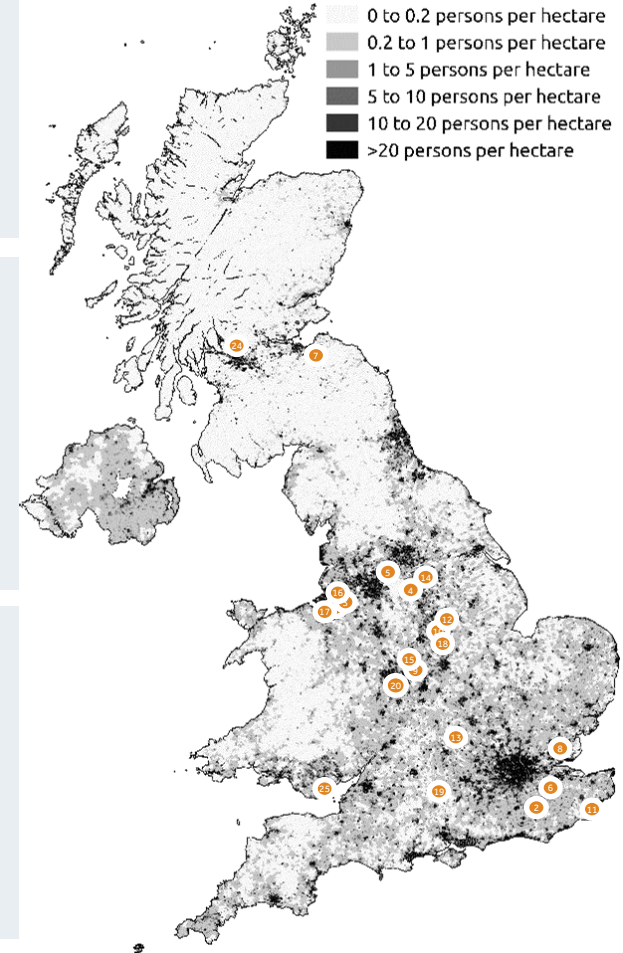
**93%**  
occupancy

**8%**  
initial portfolio  
ROE

**9%**  
forecast portfolio  
stabilised ROE in  
2019

**£65 psf**  
purchase  
price

### A focus on densely populated areas



SP

## Versatile, flexible, urban, multi-tenanted, diversified income

- Located in:
  - high population-density locations
  - mixed use areas
  - accessible areas with good connectivity
- 3-5 year lease durations giving inflation protection
- Predominantly let to UK Small-to-Medium Enterprises (“SMEs”), the core of the UK economy
- Highly diversified tenant base in terms of company size and sector
- Small/medium lot sizes less than £20m
- Low obsolescence, low capex





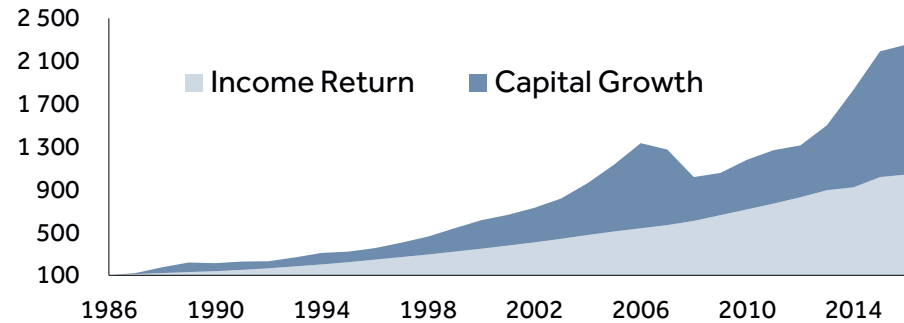
## Long term outperformance against wider commercial property driven by rental income

- The industrial asset class has outperformed retail and office in terms of total return since 1986
- Industrial sector:
  - Total return index **2275** over 30 years
- Office and retail sectors:
  - Total return indices of **1220** and **1290** respectively over 30 years
- Industrial property's success is due to consistently higher income returns over the period

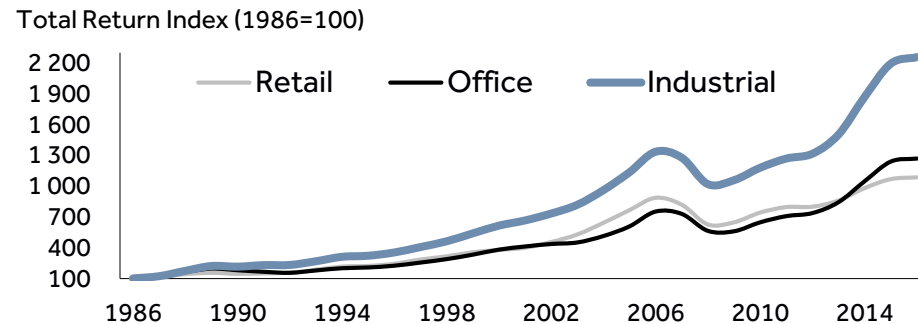
**2.8% rental growth forecast 2017-2021**

Sources: IPD and Capital Economics

Industrial sector return evolution



Retail, office and industrial sectors total return evolution



## A structural shift in long term demand for industrial is occurring

### The growth of small business

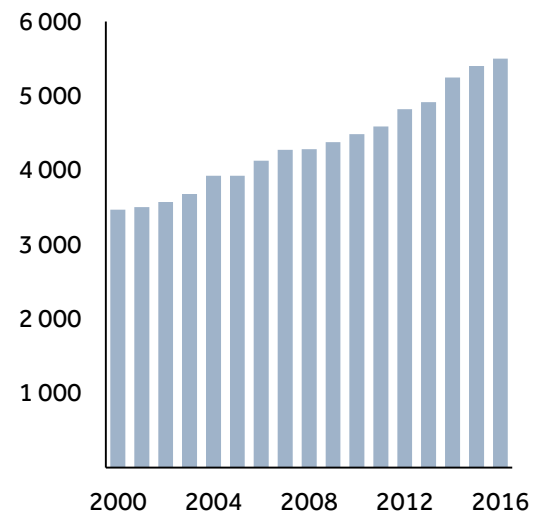
- The number of SMEs in the UK has grown by **59%** since 2000
- SMEs account for **99%** of businesses in every main industry sector
- UK SMEs annual turnover is **£1.8tn** p.a, reflecting **47%** of all private sector turnover, and employ **15.7m** people (c. **50%** of all UK employees)

### The move away from traditional asset classes

- Shift of retailers from shops to industrial/online
- Light industrial units provide flexible accommodation to sell, manufacture, dispatch and/or store goods, all under a single planning permission
- Click'n'Collect and Last Mile Distribution Networks are developing in urban areas, but they are at an early stage
- Demand from 3PL operators for local depots outstrips supply

#### UK private sector businesses

Number of businesses



## A structural shift in long term demand for industrial is occurring

### The future

- The internet continues to make warehouse accommodation more relevant, with a greater focus on quality, value and functionality of space
- Industrial efficiency gains and new technologies like 3D printing are enabling companies to start 'on-shoring' activities, driving demand for UK manufacturing which would previously have gone abroad
- Cultural change driven by technology such as driverless cars, big data and virtual reality will drive demand for flexible space near conurbations which can adapt to changing occupational requirements



## Supply is severely constrained

### Build Costs

- Real building costs have gone up **74%** in the last 11 years, whilst only in the last 2 years or so have industrial rents started to move up having remained largely unchanged for a decade
- Industrial development accounts for just **15%** of private commercial construction vs **30%** in 1997. It is rarely economically viable to build small unit multi-let estates
- Build costs are likely to remain high as there is little ability to financially engineer the design to reduce costs

### Land Availability

- There is little land available in the UK in and around urban areas
- Most land supply is allocated to residential uses, or wider employment uses with higher values (such as retail or office)
- Industrial supply is inelastic – no material change in the last 20 years

**74%**

Real build cost increase in the last 11 years

**£100** psf

Replacement cost of Industrials portfolio

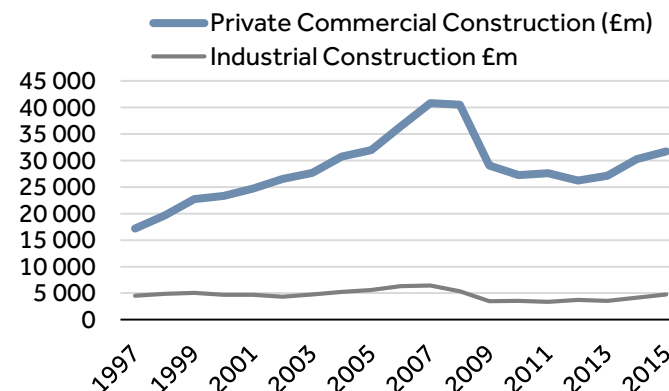
**£2m+**

Average UK residential land value per acre

**<£1m**

Average UK industrial land value per acre

Industrial Construction vs Private Commercial Construction 1997-2015



UK Industrial supply is inelastic

## Supply is severely constrained

### Competition

- Government sponsorship for residential development on brownfield land means that industrial locations are increasingly being redeveloped and reallocated into residential
- Typically located in highly accessible locations, industrial sites are also attractive for retail, leisure and other prominent uses (e.g. self-storage)
- Big Box industrial has lower build costs and similar rents, and hence most industrial sites are developed into single occupier properties





## Opportunities to create sustainable long term value

<b>Technology</b>	<ul style="list-style-type: none"><li>▪ We use innovative technology to improve efficiency, reduce irrecoverable expenditure and capture additional revenue streams</li></ul>
<b>Branding</b>	<ul style="list-style-type: none"><li>▪ The <a href="https://www.industrials.co.uk">industrials.co.uk</a> website provides a powerful and recognisable brand to tenants and investors alike</li><li>▪ Potential to leverage the brand to grow the portfolios reach and market penetration in future</li></ul>
<b>Serviced industrial</b>	<ul style="list-style-type: none"><li>▪ Providing tenants with additional flexibility, services and a high quality environment will generate sustainable additional revenue</li></ul>
<b>Competition</b>	<ul style="list-style-type: none"><li>▪ Lack of listed competition provides the opportunity to become the UK's dominant listed multi-let landlord</li></ul>
<b>Scale</b>	<ul style="list-style-type: none"><li>▪ Benefit from economies of scale by building a market leading industrial platform with truly diversified income</li></ul>

## Specialist asset management platform with local knowledge

<p><b>Performance</b></p>	<ul style="list-style-type: none"> <li>▪ Strong track record in delivering value enhancement and asset management in multi-let industrial</li> </ul>
<p><b>Delivering growth</b></p>	<ul style="list-style-type: none"> <li>▪ Ability to deliver the business plan on the Industrials.co.uk will deliver earnings growth through the cycles</li> </ul>
<p><b>Enhancing income</b></p>	<ul style="list-style-type: none"> <li>▪ Industrial delivers high diversified income and consistent earnings</li> </ul>
<p><b>Acquisitions</b></p>	<ul style="list-style-type: none"> <li>▪ C<sub>2</sub> Capital has extensive deal flow in the UK. Strong asset selection track record will deliver value for investors</li> </ul>
<p><b>Depth of management</b></p>	<ul style="list-style-type: none"> <li>▪ Julian Carey (MD of C<sub>2</sub> Capital) will be joining the Stenprop Board adding significant real estate expertise and depth of knowledge</li> </ul>

## Positioning the platform for future growth

### Further acquisitions

Actively pursue further acquisitions in the multi-let industrial space to add to the existing Industrials.co.uk portfolio

### Industrials.co.uk Platform

Develop the Industrials.co.uk portfolio to become a market leading company in the multi-let market. Use technology to increase efficiency and deliver additional revenue streams

### Recycling of Equity

Fund acquisitions (in the short term) by continued recycling out of assets with less growth potential

## FORWARD-LOOKING STATEMENTS

Certain statements made in this document constitute forward-looking statements. Forward-looking statements can be identified by the use of words such as “may”, “will”, “should”, “predict”, “assurance”, “aim”, “hope”, “risk”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “plan”, “seek”, “continue” or other similar expressions that are predictive or indicative of future events. All statements other than statements of historical facts included in this document, including, without limitation, those regarding the Company’s expectations, intentions and beliefs concerning, amongst other things, the Company’s results of operations, financial position, growth strategy, prospects, dividend policy and the industries in which the Company operates, are forward-looking statements. By their nature, such forward-looking statements involve known and unknown risks, uncertainties and other factors, many of which are outside the control of the Company and its Directors, which may cause the actual results, performance, achievements, cash flows, dividends of the Company or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. As such, forward-looking statements are no guarantee of future performance.

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