This quarter we completed the sale of another mature asset, disposing of our office building in Reading town centre. The asset was forecast to underperform.

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PORTFOLIO

Market view

Investment and letting markets continue to shrug off the uncertainties brought about by the Brexit process and the changed political situation. Overseas investors are the largest buyers by volume with the statistics distorted by some large central London transactions.

Yields have generally remained static for the quarter. We do not see significant yield change over the remaining part of the year. However, it is likely the weight of money will push the pricing of long lease properties up further and those assets with income uncertainty will see some valuation falls. The latter assets have the greater scope for mispricing and could be attractive targets with well-founded knowledge of occupational markets, backed by management capability. We see greatest value in the retail warehouse sector for schemes that are let on the correct rental levels.

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Refreshing the portfolio

Following on from the investment activity completed in June, we have continued to refresh the portfolio through the disposal of a second office property. In August, we sold our office building in Reading for £20.5m. The asset, which extended to c.52,000 sq. ft., was forecast to underperform over the next five years and we felt the capital could be used to generate better returns by reinvesting it in other opportunities.

The asset was acquired by the Company, as part of the seed portfolio, in October 2014. On acquisition it had over 20,000 sq. ft. vacant and to let. Prior to sale, we had let 14,000 sq. ft. of this space to two new tenants, against the retail rental value of the property from £25.00 per sq. ft. In excess of £30.50 per sq. ft.

Proposed acquisition and fund raising

On 6 October, the Board announced that the Company is in discussions to acquire a portfolio of retail warehouse parks with an aggregate value of approximately £146 million. The vendor will receive a material proportion of the consideration in the form of new ordinary shares in the Company. The balance of the consideration will be funded through a combination of the Company’s existing cash resources, the proceeds of an open offer to existing shareholders, a placing, and an offer of subscription, including an intermediaries’ offer, of up to 100 million new ordinary shares and through debt finance. The acquisition, which has been favourably received by the major shareholders in the Company, if approved, will increase the Company’s property portfolio to over £315 million.

The Company expects to make a further announcement of the progress on the transaction closer to when the formal documentation is ready for publication.

Performance

Despite the costs associated with the sale, the Company’s NAV has increased by 1.03% to 111.32 pence per share, resulting in a NAV total return of 2.3% for the quarter.

Property portfolio as at 30 September 2017

Location Name Sub-sector Market Value Range (£) Tenure
Birmingham St Philips Point Office – Rest of UK 30-35m Freehold
Newcastle Citygate 2 Office – Rest of UK 15-20m Leasehold
Edinburgh 145 Morrison Street Office – Rest of UK 10-15m Heritable
Bath Midland Bridge House Office – Rest of UK 5-10m Freehold
Sunderland Pallion Retail Park Retail Warehouse 25-30m Freehold
Wrexham Plas Coch Retail Park Retail Warehouse 20-25m Freehold
Coatbridge B&Q Retail Warehouse 15-20m Heritable
RhyL Clwyd Retail Park Retail Warehouse 15-20m Freehold
Daventry Abbey Retail Park Retail Warehouse 10-15m Leasehold
Telford Mecca Bingo Leisure 0-5m Freehold
Liverpool Mecca Bingo Leisure 0-5m Freehold
Harptlepool Mecca Bingo Leisure 0-5m Freehold

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