Ediston Property Investment Company plc

(LEI: 213800JRL87EGX9TUI28)

Net Asset Value ('NAV') as at 31 March 2020

And Trading Update

Ediston Property Investment Company plc (LSE: EPIC) (the 'Company') announces its unaudited NAV as at 31 March 2020.

Quarter Summary

- 72.2% of the rent for Q2 2020 and rent due by 1 April collected across the portfolio.
- Fair value independent valuation of the property portfolio as at 31 March 2020 of £293.8 million, a like-for-like decrease of 4.9% compared to the valuation at 31 December 2019. The valuation is subject to a Material Uncertainty Clause, in common with other property valuations at this time.
- NAV per share at 31 March 2020 of 96.23 pence (31 December 2019: 103.69 pence), a decrease of 7.2%, taking into account the impact of operating and gearing costs.
- Monthly dividend maintained and paid for the quarter at an annualised rate of 5.75 pence per share.
- Dividend was fully covered over the quarter at a rate of 115%.
- NAV total return (including dividends) for the quarter of -5.8%.

Net Asset Value

The unaudited NAV of the Company at 31 March 2020 was £203.36 million, or 96.23 pence per share, a decrease of 7.2% on the Company's NAV per share as at 31 December 2019.

	Pence Per Share	£ million
NAV at 31 December 2019	**103.69**	**219.13**
Valuation of property portfolio*	(7.45)	(15.75)
Capital expenditure	(0.18)	(0.38)
Income earned	2.41	5.09
Expenses & finance costs	(0.80)	(1.69)
Dividends paid	(1.44)	(3.04)
NAV at 31 March 2020	**96.23**	**203.36**

** As a result of the material effect the COVID-19 emergency is having in the economy and all markets, the Company's valuer, in line with the market wide adopted approach, has included a Material Uncertainty Clause in its valuation.*

The NAV attributable to the ordinary shares has been calculated under International Financial Reporting Standards ('IFRS'); the EPRA NAV is not reported separately in this update as it is the same as the IFRS NAV.

The NAV incorporates the independent portfolio valuation as at 31 March 2020 and undistributed income for the quarter but does not include a provision for any accrued dividend.

Overview

The economic picture across markets has significantly changed since the last reported NAV in January 2020. It is doubtful there has ever been such a contrast between the market environment at the start of a quarter period and the conditions prevailing at its end. The COVID-19 pandemic and its sudden and negative impact on the economy has obviously affected the Company and presented it with challenges. The effects have only just been felt across the UK commercial property market and further challenges will be faced in all sub sectors of traded markets.

The Company's rent collection for the Q1 period was at normal levels. It has experienced reduced rent collection levels for Q2 (the majority of which became due on 25 March and 1 April), as the Government prohibited many businesses from operating out of properties they occupied, and the country moved into lockdown.

Valuers have also been presented with a difficult task in trying to reflect this very sudden change in circumstances on portfolio investment values. Alongside a Material Uncertainty Clause being added to valuations, the anticipated economic impact of the COVID-19 emergency has resulted in downward pressure on valuations which, combined with a fall in rent collection, have been the principal reasons for the 4.9% reduction in the portfolio valuation.

The Investment Manager's asset management of the portfolio will continue to be critically important to the letting of any units which become vacant as a result of this crisis, and to maintain rental income levels across the portfolio as far as reasonably practical.

Income

Maintaining income is fundamental for the Company, therefore the immediate focus for the Investment Manager is on rent collection. The Company has always adopted a proactive approach with its tenants. It will continue to do so, but in a way that is mindful of the immediate cashflow difficulties that some tenants are currently experiencing. That said, the Company is clearly faced with more intense challenges than normal. The Investment Manager is doing what it can to keep on top of events and will provide support, reassurance, and appropriate assistance to those tenants struggling as a result of lockdown where necessary.

As at 22 April, 72.2% of the rent for Q2 2020 and rent which was due by 1 April has been collected across the portfolio. Several tenants pay their rent monthly and are not required to make further payments until 1 May and 1 June. These payments will be monitored closely as the quarter progresses, with further updates provided in due course.

For the same period, the Company has collected 100% of rent from its office tenants. Whilst the office market has been more resilient to date, the impact of an economic downturn on the office sector is likely to reduce tenant demand and thus rental growth prospects. An increase in supply due to vacated space is also anticipated.

The Company has collected no Q2 rent across the three units let to Bingo operators and the two units let to gym tenants. This represents 7.4% of the portfolio's income. The leisure sector has been particularly badly hit by the COVID-19 pandemic and is predicting a slower recovery when restrictions are lifted. The

Investment Manager is in discussions with these tenants, who in the main have strong covenants, to agree a repayment plan for any rent foregone during the pandemic.

The Company has collected 68.5% of rent from its retail warehouse tenants, which it has always disassociated from high street and shopping centre retail, where there were already perceived issues before the current crisis. This is higher than many retail rent collection statistics and has been aided by the fact that 56% of the retail warehouse income is from tenants who are defined as providing 'essential services' by the UK Government and are permitted to stay open for trade. These retailers continue to report good trading and are finding ways to operate as efficiently as possible during this period of restriction.

Portfolio valuation

Throughout Q1 2020, an increase in investment transaction volumes was witnessed in the UK property market, spurred on by a decisive general election result in December. This renewed activity, particularly in the retail warehouse sector where there were encouraging signs that values were beginning to bottom out, was brought to an abrupt halt by the COVID-19 emergency.

Establishing the value of real estate in the immediate aftermath of the enforced shutdown was always going to be difficult, with only one week left of the quarter for new transactional evidence to become apparent. The problem has been compounded by the restrictions on movement, social distancing and enforced working from home, which has made it extremely difficult for investment transactions to occur. The investment transactional market is going to be heavily subdued throughout the period of lockdown and it will be some time before it returns to normal operating conditions.

The full effect of this crisis on UK property values could take several months to emerge. As a result of this uncertainty, the Company's valuer, in line with the approach adopted by other valuers, has included a Material Uncertainty Clause in its valuation. This states that at the valuation date the valuer believes it can attach less weight to previous market evidence for comparison purposes, to inform its opinion of value.

However, the valuer has produced a valuation which forms the basis of the reporting statistics in this statement. As anticipated, there were signs in February and March that buying in the retail warehouse sector had picked up, with the market beginning to recognise the value on offer. Unfortunately, this positive momentum ended with the onset of the crisis and it was not sufficiently widespread to be reflected in valuations.

Dividends

The Company paid a dividend of 0.4792 pence per share in each of January, February, and March 2020, resulting in a cumulative dividend payment in the quarter of 1.4376 pence per share. The monthly dividend rate of 0.4792 pence per share equates to an annualised dividend of 5.75 pence per share. The Company also declared a dividend of 0.4792 pence per share in April, which is due to be paid on 30 April to those on the record at 17 April.

The Board will do what it can to continue to pay the Company's shareholders monthly dividends from the income it is able to collect, having ensured that the Company can meet its other financial commitments over the medium term. However, there can be no guarantee that the current dividend level can be maintained if cash collection at current levels does not improve or indeed deteriorates.

The Board will continue to monitor the rent collection each month and will consider the future of monthly payments and report to shareholders accordingly.

Cash and cash management

As at 22 April the Company had approximately £13.0m of cash for operational purposes, and an additional £10.7m of cash available for investment. The Board recognises the importance of maintaining cash levels to protect the Company's balance sheet, given the illiquidity of the underlying assets. It has cut back on expenditure and will not make new capital commitments until market conditions are more certain.

The Board considers it essential for the Company to have enough cash resources not only to meet the expenses of running the Company and fulfil its debt repayment obligations, but also to fund asset management initiatives to protect income and value. Despite the current uncertainty, there will be asset management initiatives which will need to be completed so it is important for the Investment Manager to have funds available to execute them when they arise.

The Company has delayed the commencement of its development in Haddington, a pre-let retail warehouse park where the principal future tenants are Aldi, Iceland, Home Bargains and Euro garages. All would be considered as providing essential services and be allowed to open in the current environment. The decision to pause development will preserve cash levels in the Company during this challenging period. The Company has agreements in place with the tenants which will allow a delay of at least six months before a decision to commence the development needs to be taken.

Debt and loan covenants

The Company's debt is provided by Aviva Commercial Finance Limited ('Aviva') through two facilities, totalling £111.1 million of which only £100 million is drawn. There are no imminent refinancing events as £56.9 million matures in 2025 and £54.2 million matures in 2027. The facilities have a blended all-in fixed rate of interest of 2.86%. At the date of the March valuation, the average loan-to-value ('LTV') across both facilities was 34%, based on portfolio asset values and in accordance with the loan agreements' covenants. The Company is fully compliant with all debt covenants and has significant headroom against income and asset cover covenants.

With respect to the LTV, the valuation of the property portfolio would need to fall by approximately 30% to breach the debt facilities' 50% loan-to-value covenant. Under the current agreement with Aviva, a small increase in the interest rate of 10bps would be triggered at 40% LTV.

Similarly, the interest cover covenants, on a historic and projected basis, stand at 630% and 590% respectively, with the covenant being 300%. This covenant would only be breached if the Company did not collect approximately 50% of its rent roll over a full 12-month period.

Asset management and post period end activity

During the period, at Widnes Shopping Park, Widnes, Outfit (Arcadia) vacated its 13,202 sq. ft. unit after the Company exercised its option to break the lease. As reported last quarter, the Company will split this unit in two and has signed an Agreement for Lease ('AFL') with JD Sports on a unit of 6,792 sq. ft. The Company has received planning consent for the proposed works and will commence construction when it is prudent to do so.

At Coatbridge, the Company started construction of its pod development. The units, which extend to 1,800 and 2,750 sq. ft., have been pre-let to Costa Coffee and Burger King. Costa has signed a 15-year lease with a 10-year break option, whilst Burger King has signed a 20-year lease with a 15-year break option. On completion, the units will provide a combined rental income of £160,000 per annum and deliver a return on the additional capital employed of c. 8.0% per annum. In accordance with guidance from the Scottish Government, construction work has stopped during the lockdown and will not recommence until it is safe to do so.

Post period end, at Barnsley East Retail Park, Barnsley, the Company has received planning consent for a Costa Coffee drive-thru unit. Costa has signed an AFL for a 1,800 sq. ft. unit and on completion of the construction works will enter into a 15-year lease (no break). On completion Costa will pay a rent of £72,500 per annum.

Outlook

There is little question that the real estate market will have to grapple with some extremely testing issues over at least the next two quarters, including more difficulty in collecting rent, potential tenant failures and a transactional market that will struggle with price discovery to provide valuation data points. Where it goes from here will depend considerably on whether we have a V, U or L shaped outlook for the economy and the duration of the restrictions on movement and activity and what those restrictions entail.

More specifically, the COVID-19 outbreak, which has seen many businesses forced to close by the Government, may accelerate the structural change that has been a feature in the retail market for the last few years. The office sector may also be disrupted far more directly than was being anticipated. One reason for this is the adoption of flexible working practices that have been utilised during the lockdown.

In terms of retail warehouses, the crisis puts the spotlight back on weaker tenants and their ability to survive in the longer-term. It also highlights those retailers who have a strong brand proposition and provide customers with what they want. Retail warehouse parks offer tenants an ability to trade from accessible, supply constrained, efficient, and more economical accommodation, which may become even more apparent when market conditions open up again.

The Company is going to face several challenges over the next six months. It is likely we will see some weaker tenants fail altogether, whilst others will use the Company Voluntary Arrangement process to streamline their operations and reduce financial burdens. Therefore, the immediate focus is on income collection and protection and over time, hopefully, achieving a re-rating of the Company’s share price, which has been severely impacted in recent months.

Whilst the timing of the recovery from the impact of COVID-19 is unknown, the Board is confident that the convenience led retail warehouse assets the Company owns, combined with the resource and active management style of the Investment Manager, puts the Company in a strong position to deal with these challenges and to identify the opportunities for value creation within the portfolio to unlock in the future.

Portfolio composition

Sector

Sector	Exposure (%)
Retail warehouse	61.6
Office	26.6
Supermarket	8.9
Other commercial/ Leisure	1.9
Development	1.0

Geography

The portfolio is diversified across the regional markets.

Sector	Exposure (%)
Wales	30.2
North East	15.8
West Midlands	13.4
North West	12.4
Yorkshire	11.2
Scotland	10.6
East Midlands	4.1
South West	2.3

Top five tenants

Tenant	Exposure (%)
B&Q plc*	8.8
Tesco Stores Limited*	7.1
B&M Retail Limited*	5.9
Marks & Spencer plc*	5.0
Ernst & Young LLP	5.0

***Denotes a tenant providing 'essential services' which can stay open for trade during the shutdown**

William Hill, Chairman, commented:

"The Company has a committed and talented management team working with its tenants and other stakeholders to deal with the considerable challenges that lie ahead and to emerge at the end with a business capable of flourishing over the medium to longer term. I know I can speak for all those involved with the Company in acknowledging the dedication of the staff of many of its tenants, who continue to put themselves 'in harm's way' to provide essential services to the public."

Forthcoming events

The Company expects to produce its unaudited interim results for the period to 31 March 2020 in May, with trading updates being provided with the dividend announcements as required.

The next interim dividend announcement is expected to be made by 6 May 2020. The next scheduled independent quarterly valuation of the property portfolio will be conducted by Knight Frank LLP as at 30 June 2020, with the unaudited NAV per share at that date expected to be announced in July 2020.

The Company intends to publish its next factsheet shortly which will be made available on the Company's website at www.ediston-reit.com.

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement via Regulatory Information Service, this inside information is now considered to be in the public domain.

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