EDISTON PROPERTY
INVESTMENT COMPANY PLC

Quarterly Update | March 2016

# Continued Progress

## Who We Are

**Ediston Property Investment Company is a UK-listed Real Estate Investment Trust (REIT) investing in commercial property throughout the UK. It has a strong track record of, and continued focus on, improving value through intensive and entrepreneurial asset management.**

Our approach is to add value at all stages of the investment process through the expertise and skill-set of the team at our investment manager, Ediston Real Estate. We invest in the main UK commercial property sectors but without regard to a traditional property market relative-return benchmark.

## What we do

**Our goal is to provide investors with an attractive level of income through well-researched acquisitions,** which offer the opportunity to improve income and add value through entrepreneurial asset management.

Fund Manager:
Ediston Investment Services Limited
Launch date: 28 October 2014
SEDOL: BNGMZB6

"We have had an active period, acquiring the Company's thirteenth asset and delivering asset management initiatives."

**Calum Bruce**
Director of Investment,
Ediston Real Estate

## Key Financial Facts
at 31 March 2016

| | |
|---|---|
| £181.1m | 2.75p |
| Portfolio value | Dividend per share |
| 107.21p | 5.26% |
| EPRA NAV per share | Annualised dividend yield |
| £134m | 3.27% |
| Market capitalisation | EPRA NAV total return |
| 104.5p | 8.2years |
| Share price | WAULT |
| 5.5% | 28.95% |
| EPRA vacancy rate | Loan to value |

# Portfolio

## Voids and lease expiry profile

The EPRA vacant rate is 5.5%. This falls to 1.5% if the vacant space covered by guarantees is excluded.

The Company has a robust income profile with 22.5% of the income secured on leases in excess of ten years. 82.1% of the income is from tenants with a Dun & Bradstreet rating of 4A1 or better. The WAULT of the Company to earliest termination is 8.2 years.

## Focused regional approach

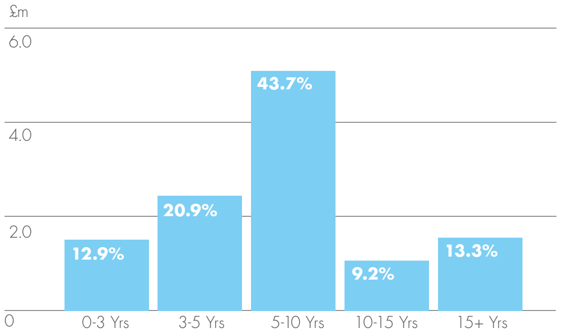
The portfolio contains properties located throughout the regions of the UK. While the Company's investment policy does not preclude investment in London, the current low yields on offer do not sit well with our focus on income. We have benefited from a less crowded market-place in the regional locations, allowing us to select the assets we believe are right for the strategy.


**ediston-reit.com**

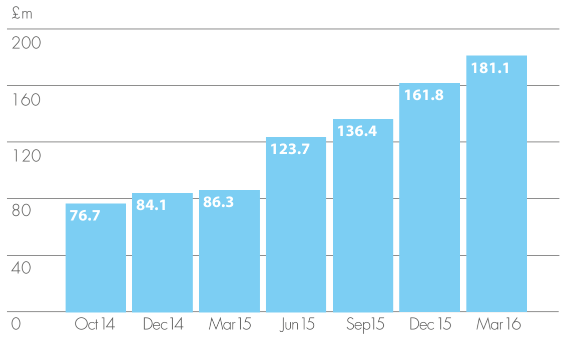
**0131 225 5599 | info@ediston.com**

Ediston Real Estate, 39 George Street,
Edinburgh, EH2 2HN

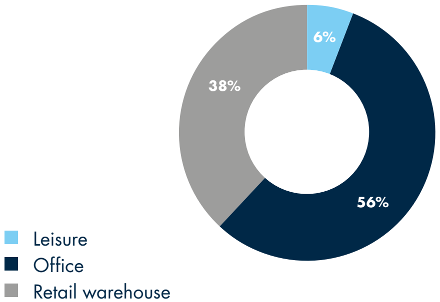

## Lease expiries illustrating the revenue impact on the portfolio at 31 March 2016



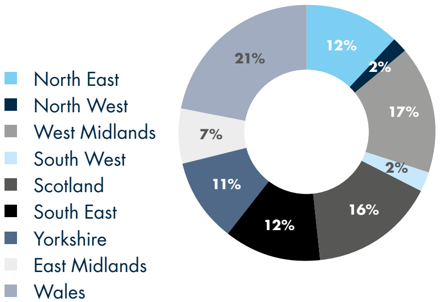

## Property assets under management at 31 March 2016



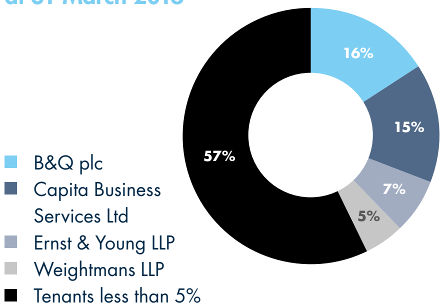

## Sector exposure at 31 March 2016




## Regional exposure at 31 March 2016




## Tenant exposure/concentration at 31 March 2016




## Top Ten Property portfolio as at 31 March 2016

| Location | Name | Sub-sector | Market Value Range (£) | Tenure |
|---|---|---|---|---|
| Birmingham | St Philips Point | Office – Rest of UK | 25-30m | Freehold |
| Reading | Phoenix House | Office – Rest of South East | 20-25m | Freehold |
| Wrexham | Plas Coch Retail Park | Retail Warehouse | 20-25m | Freehold |
| Sheffield | Cutlers Gate | Office – Rest of UK | 15-20m | Freehold |
| Newcastle | Citygate 2 | Offices – Rest of UK | 15-20m | Leasehold |
| 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 |
| Edinburgh | 145 Morrison Street | Office – Rest of UK | 10-15m | Heritable |
| Bath | Midland Bridge House | Office – Rest of UK | 0-5m | Freehold |

# Portfolio Update

**The portfolio now comprises 13 assets invested across the regional markets.**

### Portfolio valuation

The Company's property portfolio is valued by Knight Frank on a quarterly basis throughout the year. As at 31 March 2016 it was valued at £181.1 million, compared to £161.8 million at end December 2015. The valuation was affected by the changes in the Stamp Duty Land Tax (SDLT) regime, announced by the Chancellor of the Exchequer in his Budget statement on 16 March 2016. The unexpected increase in SDLT affects all properties in England, Wales and Northern Ireland and raises the top rate of tax from 4% to 5%. Property valuations have therefore been adjusted downwards to reflect the higher acquisition costs to the buyer. Scottish assets were not affected by the change. The knock-on effect of the SDLT change on the Company's independent valuation was to reduce the uplift in valuation from 0.8% to 0.1%, ignoring the new asset acquired during the period.

### Performance

Over the half-year to 31 March 2016, the Company's EPRA NAV total return was 3.27% and its share price total return was -2.07%.

### Investment Activity

In January, a prime office building in Newcastle, Citygate, was acquired for £19.0 million, reflecting a net initial yield of 6.6%. The building provides 63,500 sq. ft. of modern office accommodation with 70 car parking spaces. It is let to three tenants, EY, UNW and N+D (London) Limited, guaranteed by Grainger plc, and has a WAULT in excess of six years. The investment benefits from upward-only rent reviews in 2017 and is well placed to benefit from the rental growth forecast to materialise in the city owing to the favourable supply-demand imbalance.

# Market Outlook

**The property market is in an interesting place. As it enters a new part of the cycle in which market yield improvement is at an end and income return and income growth will deliver the major component of total returns.**

After a record year in 2015, total investment volumes for all property in the UK fell in the first quarter of 2016, a 27% year-on-year decline. This is not surprising, since after such a strong 2015 it was likely that volumes would fall. It is not all doom and gloom, while volumes are down, they remain 7% higher than the long-term average, with good demand in the regional markets as investors move away from Central London.

There is still an appetite to invest in the UK property market, with demand from global investors. However, the reduction in activity reflects some general caution in the market as a result of issues such as Brexit, the increase in Stamp Duty Land Tax and a possible overshoot in London residential and commercial values.

This reduced activity may well cause some real estate prices to fall, but this is unlikely to be a long term re-rating of the market to a lower level. As such there could be really interesting buying opportunities for the Company as investors adopt different positions on key issues.

The occupational market is performing well, with strong take up and real rental growth a prospect in many locations. The good news story of the last two years, the UK regional office market, continues with Glasgow, Edinburgh, Birmingham and Bristol each having significant letting deals (over 50,000 sq. ft.) transacted during the period at increases in net effective rental levels. Little speculative development, low vacancy rates and reasonable occupier demand indicates further rental growth is expected.

**"While rental growth will help drive returns, it will be our strength as the investment manager and our ability to work the portfolio which will deliver the edge investors seek."**

**Danny O'Neil**
Chief Executive Officer,
Ediston Real Estate