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INTERNATIONAL

Urban Logistics REIT

Real estate | Initiation | 10 August 2021

Shed load of growth to come

Urban Logistics REIT (SHED) is pressing ahead with its ambitious growth strategy, having raised £108.3m in a placing in July 2021. This is the third successful capital raise it has made during the pandemic (totalling £336.7m), which may highlight the strength and resilience of its investment proposition. SHED is the only listed company focused solely on the urban logistics sub-sector, which its manager says is benefitting from a surge in demand from e-commerce operators and a chronic lack of supply.

SHED's manager, led by Richard Moffitt, has an active asset management approach whereby it can impact the portfolio's value through lease re-gears and new lettings, which should mean that it is less reliant on market conditions. The majority of SHED's assets are acquired off-market, testament perhaps to the manager's reputation and skillset – with the logistics investment market being so hot right now.

The company has reached a size that it says justifies a move from the AIM market to a premium listing on the main market of the London Stock Exchange, which could happen in the near future.

'Last mile' logistics

SHED invests in a diverse portfolio of single-let, urban logistics properties located in the UK with the aim of providing its shareholders with a 10% to 15% total return per annum.

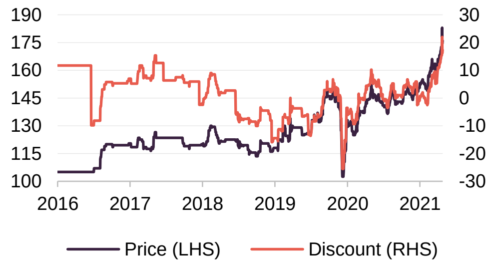
Year ended	Share price total return (%)	NAV total return (%)	Morningstar UK REIT total return (%)	Earnings per share (pence)	Dividend per share (pence)
31/03/2017*	16.7	23.0	(2.6)	7.8	6.0
31/03/2018	5.3	15.0	7.5	4.9	6.3
31/03/2019	2.2	18.4	1.4	7.0	7.0
31/03/2020	10.0	8.6	(15.8)	4.0	7.6
31/03/2021	29.4	12.7	20.8	6.6	7.6

Source: Morningstar, Marten & Co. Note*: from launch on 13 April 2016

Sector	Property – UK Logistics
Ticker	SHED LN
Base currency	GBP
Price	176.0p
NAV	150.0p
Premium/(discount)	17.3%
Yield	4.3%

Share price and discount

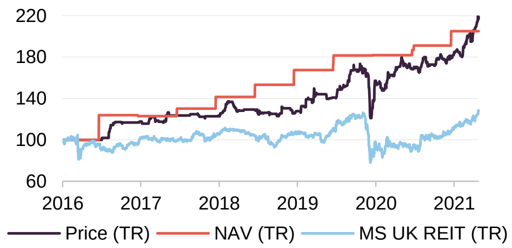
Time period 14/04/2016 to 06/08/2021



Source: Morningstar, Marten & Co

Performance over five years

Time period 14/04/2016 to 06/08/2021



Source: Morningstar, Marten & Co

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Contents

Fund profile	**3**
The manager – PCP2 Limited	3
‘Last touch’ logistics	**4**
COVID impact on the market	4
Insatiable demand	5
Supply at historic lows	6
Sustained rental growth forecast	6
Buoyant investment market	7
Investment process	**8**
Active asset management	8
ESG	9
Asset allocation	**9**
Tenants	10
Asset management initiatives	**11**
£108.3m raised – the pipeline	**12**
Performance	**13**
Peer group comparison	13
Dividend	**14**
Premium/(discount)	**15**
Fees and costs	**16**
Cost ratio	16
Capital structure and life	**16**
Gearing	16
Major shareholders	17
Management team	**17**
Board	**18**

Domicile	England and Wales
Inception date	13 April 2016
Manager	PCP2 Limited
Market cap	£571.9m
Shares outstanding (exc. treasury shares)	324.9m
Daily vol. (1-yr. avg.)	494.4k shares
Loan to value	27.9%

Click for updated SHED factsheet

Click for SHED’s peer group analysis

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Click to provide feedback to the company

Click if you are interested in meeting SHED’s managers

Click for news, research and events

Fund profile

The fund's website is urbanlogisticsreit.com

Urban Logistics REIT (SHED) was initially listed on the AIM market of the London Stock Exchange on 13 April 2016 as Pacific Industrial & Logistics REIT. The group invests in and manages a portfolio of urban logistics assets – defined as smaller single-let warehouses (in the 20,000 sq ft to 200,000 sq ft size range) located close to major conurbations across the UK – which is diversified by tenant. SHED is the only real estate investment trust (REIT) wholly focused on these assets. The strategy aims to capture rental value growth through active asset management initiatives and upward momentum in rents and capital value.

SHED deployed the capital (and debt) from its IPO into a portfolio of 11 urban logistics property assets across the UK and has since made several successful placings to grow its portfolio. It now has a portfolio of 76 assets, worth £507.6m at 31 March 2021.

Figure 1: Timeline of growth

	2016/17	2017/18	2018/19	2019/20	2020/21
Capital raised (£m)	21	53	20	136	92
Portfolio value at year-end (£m)	43	132	186	207	508

Source: Urban Logistics REIT, Marten & Co

On 9 July 2021, SHED raised a further £108.3m through an oversubscribed placing and will look to spend the proceeds on acquiring an identified pipeline of assets worth around £150m (more detail on page 12).

Plans to move to a premium listing on the London Stock Exchange

While its shares are currently traded on AIM, the group has plans to move to a premium listing on the main market of the London Stock Exchange soon, which should increase liquidity in its shares. SHED has a conservative capital structure and a measured approach to the use of debt, with a target loan to portfolio value (LTV) of 30% to 40%. At 31 March 2021, the group's LTV was 27.9%.

The manager – PCP2 Limited

The company's manager is PCP2 Limited – part of the Pacific Investments Group, which was founded by Sir John Beckwith and has an extensive track record in real estate, having developed more than 65m sq ft of real estate assets globally. SHED's manager is led by Richard Moffitt and Christopher Turner. Richard is chief executive and looks after investment management, while Christopher looks after the asset management. They are backed up by the financial team, led by Stuart Roberts. More detail on the investment team is on page 17.

Both Richard and Christopher have considerable sector knowledge and have a long track record of success in logistics and real estate, built up over more than 25 years. The manager identifies and acquires assets (the majority of which have been off-market, utilising its contacts and reputation in the sector) and implements its asset management strategy to create value for shareholders.

'Last touch' logistics

Urban logistics properties are typically smaller in size and enable the last mile distribution of products to homes or businesses

SHED focuses on a specific sub-sector of the wider logistics market that enables the last part of a product's journey in the supply chain to homes or businesses. The manager calls this 'last touch', but another popular term is 'last mile' logistics. Tenants in this part of the sector are focused on the distribution of domestic UK products, such as food and pharmaceuticals. SHED's tenants are typically third-party logistics companies and UK businesses that deliver staple domestic products to homes and businesses and require last mile or e-fulfilment services.

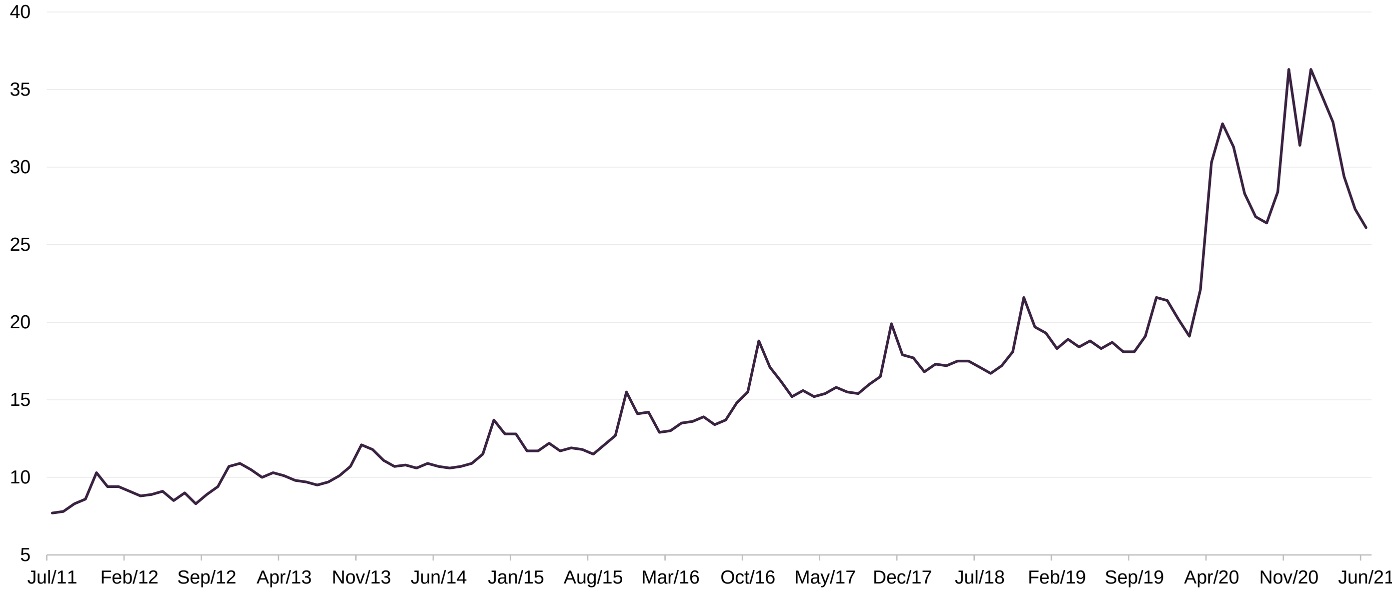
It is the part of the market that the manager says is the most supply-constrained, and has also witnessed strong demand growth over the last five years as the prevalence of e-commerce has increased in the UK. The COVID-19 pandemic has only exacerbated this demand growth, the manager states, particularly from online retailers. This supply-demand imbalance has led to rental growth across the sector, with SHED reporting 6.5% rental growth across its portfolio in the year to 31 March 2021.The facilities are typically 20,000 sq ft to 200,000 sq ft in size and are located close to towns and cities, and on arterial roads.

COVID impact on the market

Online retail sales reached 26.1% of all retail sales in the UK in June 2021

Since the COVID-19 pandemic was declared in early 2020, a surge in demand for e-commerce has arisen. Figure 1 shows the increase of online retail sales as a proportion of all retail sales in the UK. In February 2020, e-commerce accounted for 19.1% of all retail sales in the UK; by June 2021 this had reached 26.1%, having been as high as 36.3% in January 2021 (previous Office for National Statistics estimates suggested the UK would reach 25% by the end of 2022).

Figure 2: Online retail sales as a percentage of total retail sales in the UK



Source: Office for National Statistics, Marten & Co

Whilst COVID-19 has certainly accelerated the trend to e-commerce, Figure 1 shows that this had been building over many years. Although e-commerce penetration rates have dropped off slightly as lockdown restrictions were eased, the manager predicts that consumer behavioural patterns developed during the pandemic will prevail post-pandemic, and a majority of the new e-commerce demand will stick.

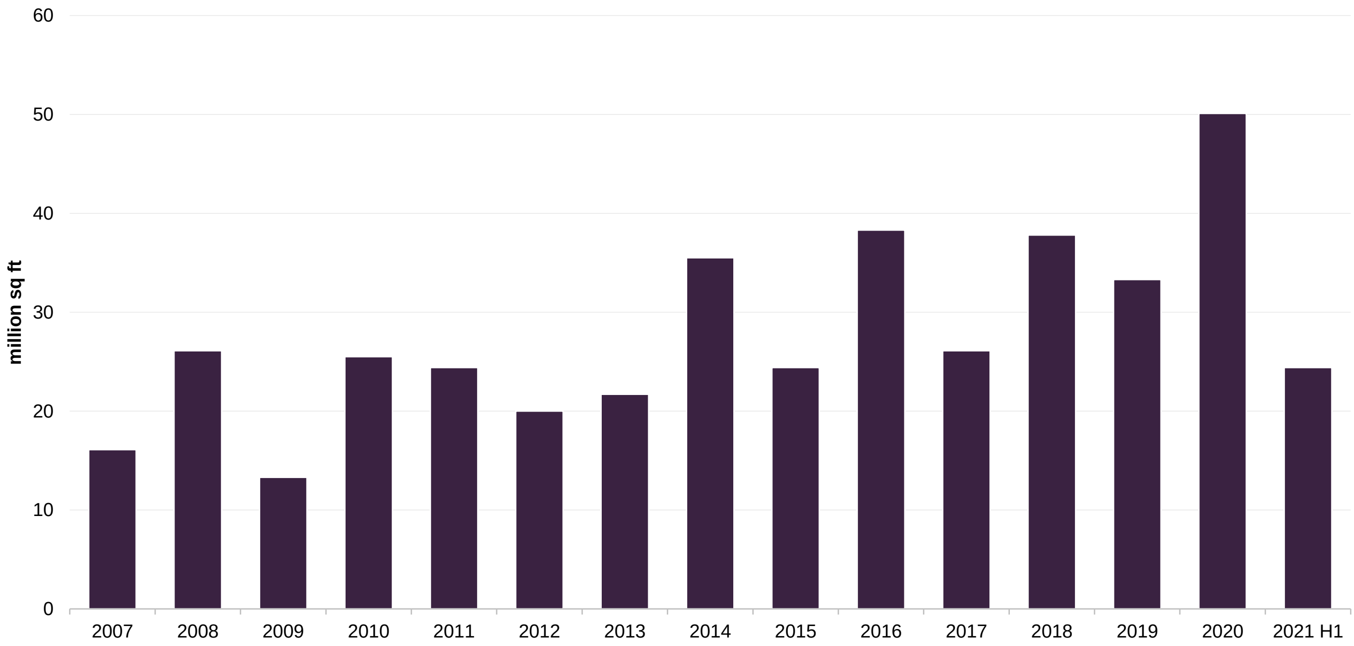
Supply chains have been tested during the pandemic, with shortages and issues across the UK – notably for essential items such as food, pharmaceuticals and PPE. Weaknesses in global supply chains were exposed and found to be lacking in sufficient levels of stock.

Insatiable demand

A new record for logistics take-up was set in 2020 and the first half of 2021

The surge in e-commerce during the pandemic has been matched by a rise in demand for logistics property. The manager feels that demand for logistics space was not all to do with e-commerce (although a significant portion was), but also reflected a need for supply chain resilience. A 'just-in-time' supply chain model had been deemed to be the most cost-efficient by industries, according to the manager, but since the pandemic shut off supply chains from Asia, a re-shoring or near-shoring has taken place. This has seen manufacturing facilities moved closer to the end consumer. Inventory levels have also increased to stave off any further supply chain shocks, exacerbated by the Suez Canal incident in March 2021, which further created a focus on shorter, more dependable supply chains, the manager says. Brexit has also compounded the issue, giving freight operators a renewed focus on resilience. All these factors have led to increased occupier demand.

Figure 3: Logistics take-up



Source: Savills Research, Marten & Co

After a record breaking 2020, in which 50.1m sq ft of warehouse space was let (12.7m sq ft ahead of the previous record set in 2016), the first half of 2021 has continued in the same vein. At the halfway point of 2021, 24.41m sq ft of warehouse space has been transacted, according to Savills, setting a new half-year take-up record, 82% above the long-term half-year average.

Urban logistics units accounted for 36% of all logistics take-up in the first half of 2021

Demand for urban logistics units (between 100,000 sq ft and 200,000 sq ft) has increased, accounting for 36% of the take-up in the first half of the year, up from 27% in 2020. In the most part, this has been driven by online retailers taking smaller parcel delivery style units, Savills said. Meanwhile, take-up of big box units (over 500,000 sq ft) fell to 22% of the market, down from 44% of the market in 2020.

Online retail remains the dominant sector accounting for 38% of all take-up during the first six months of the year, which is followed by third-party logistics operators (the majority of which run contracts for online retailers) at 25%. The biggest jump, however, was by manufacturers at 15%, compared to 8% in the first half of 2020, illustrating the supply chain resilience point.

Supply at historic lows

Logistics vacancy rates at all-time lows of 4.4%

Supply of logistics space in the UK is at an all-time low, with vacancy rates at 4.4%, a fall of 221 bps in 12 months, according to Savills. SHED's manager believes that the urban logistics sub-sector is the most constrained part of the wider logistics market, and that the lack of supply is due to a number of factors, including:

- high percentage of warehouse development land being taken for "big box" units (above 300,000 square foot);
- a time lag of three to five years for sites to obtain planning and then be built;
- costs of construction rising (100,000 square foot building at £30–£35 per square foot in 2015 is now at £60–£65 per square foot in the Midlands, for example);
- development land costs doubling in five years (£400,000 per acre in 2015 now at more than £900,000 an acre in Northampton, for example); and
- industrial and logistics land being lost to higher-value uses, such as residential, in the last 10 years (for example, 35% of all industrial land in the South East of the UK has been lost to higher-value uses).

Whilst the market is responding to a surge in demand, most of the new logistics schemes will not help to ease market pressure on urban logistics space in the short term, as they are larger build-to-suit facilities (whereby developers work with occupiers to deliver a property that suits their needs). The manager says that when developers focus on providing sites for build-to-suit opportunities, rather than building speculatively, it diminishes the ability of the market to absorb surges in demand for ready-to-occupy space. Around 85% of the space under construction at the end of 2020 was pre-let to tenants.

Sustained rental growth forecast

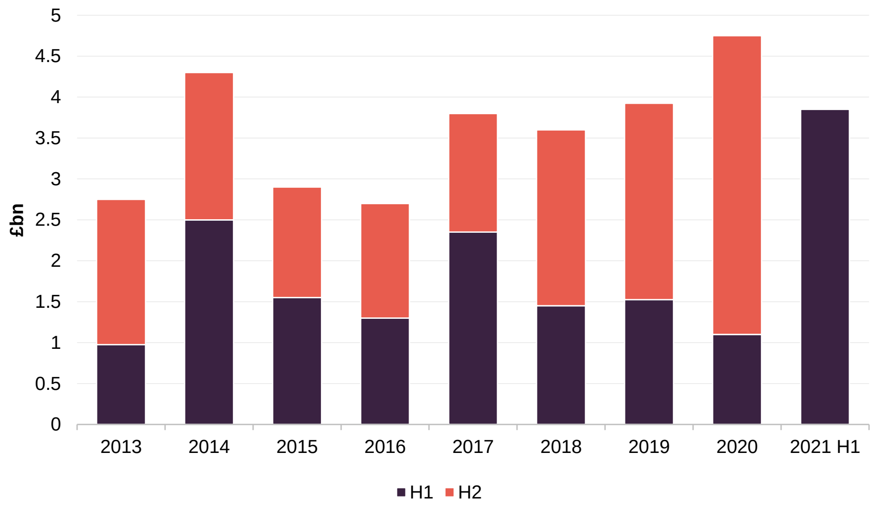
Given these market dynamics, sustained rental growth should follow. Generally, rental growth is observed at a vacancy rate in any market of less than 12%, according to Savills. With vacancy at sub-5% and construction of new-build stock unlikely to see vacancy rates increase, Savills said there was a strong case to suggest that rental growth will outperform its current forecast of 2.7% per year to 2025. As previously mentioned, the market dynamics in the urban logistics sub-sector are even more acute. SHED reported like-for-like contracted rental income growth in the year to 31 March 2021 of 6.5%.

Buoyant investment market

> Investor activity also broken the record in 2020 with £4.7bn transacted

The positive sentiment in the occupational market is mirrored in the investment market, with investment volumes for the half-year reaching £3.8bn, according to Savills. This already exceeds the five-year annual average investment volume, which stands at £3.7bn per year. This follows a record-breaking year for logistics investment in 2020 of £4.7bn, despite activity being hampered by the COVID-19 lockdowns.

Figure 4: Logistics investment volumes



Source: Savills Research, Marten & Co

Investment demand has come from all investor types, with UK institutional investors increasing their exposure to the sector, and private equity and sovereign wealth funds being very active too. The sheer weight of capital focused on the sector has seen further downward pressure on yields, which now stand at record low levels of 3.5%, moving in 100 bps in the last 12 months.

Investment process

Focused on single-let assets in the 20,000 sq ft to 200,000 sq ft size range

SHED invests in urban distribution properties that fulfil a key part of the logistics and distribution supply chain. The hubs help occupiers – including third-party logistics operators (3PLs), retailers and manufacturers – to fulfil the final part of a product's journey to a home or business. These are single-let, modern properties typically between 20,000 sq ft to 200,000 sq ft in size and are located close to towns and cities.

The company focuses on good real estate in good locations, with limited supply and strong occupational demand. The majority of the company's portfolio is currently invested in completed, let investments and pre-let income-producing forward funded developments; however, a proportion may be invested in funding speculative developments, whereby a development scheme has yet to have a tenant signed up. These types of investments allow the group to source higher-quality, lower-priced assets than could be found in the investment market, but it takes on the letting risk.

All acquisitions must satisfy the following criteria:

- Location – with good transportation links and workforce availability as well as strong tenant demand and limited supply of appropriate properties;
- Lot size – under £10m and under 200,000 square foot in size, magnifying the results of active asset management;
- Tenancy – a focus on strong tenant covenants (avoiding the fashion sector), with a rating of low to low-moderate risk. Properties with riskier tenant covenants and/or short- to medium-term lease lengths are considered, enabling asset management initiatives to grow tenant covenant strength and lease length; and
- Price – at a level 30% to 70% of replacement cost, creating price resilience.

The majority of SHED's acquisitions since it launched have been made "off market" (whereby the property is not openly marketed) where vendors sometimes prefer the certainty of the deal, and are testament to its manager's connections within the logistics sector and reputation for swift and certain deal execution. The company can also provide funding to developers (no more than 10% of gross asset value on development activity at any one time), and provide a sale-and-leaseback option to an occupier.

Active asset management

Investments with asset management potential are favoured

SHED likes to add value to an investment, and will favour assets that have asset management potential (such as near-term lease events or development opportunities) with the aim of increasing rent and capital values. It will invest in properties where it has the potential to achieve rental growth and outperformance through:

- securing new tenants with stronger financial covenants;
- securing new lease terms focused on duration and rental growth built into the lease; and

- positive geographical characteristics, including: age and repair; location; building quality; site cover; transportation links; workforce availability; and internal operational efficiencies.

In the year to 31 March 2021, SHED's portfolio rose in value by 13.2%, with 69% of this valuation uplift attributable to asset management initiatives and 31% to market movement and since inception 75% of the portfolio valuation uplift is due to asset management. More detail on SHED's asset management initiatives is on page 11.

ESG

76% of the portfolio has an EPC rating of A-C

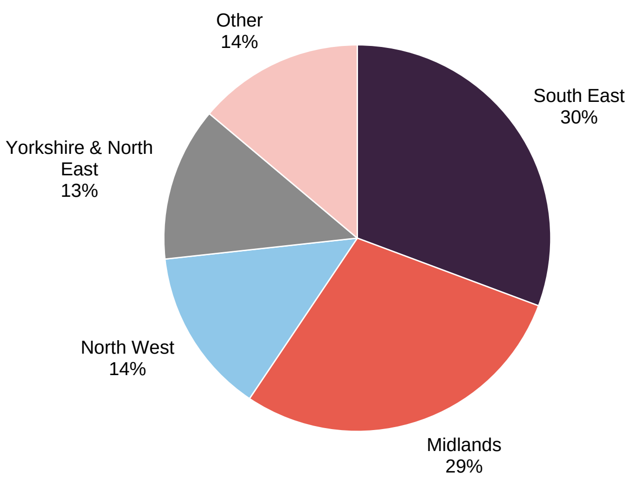
SHED has established an ESG committee that will scrutinise performance across a full range of ESG commitments. The nature of SHED's assets (being single-let, mainly to large global logistics operators) mean that there is constructive dialogue between landlord and tenant on improving the ESG credentials of a building, with both sides showing willing.

Energy Performance Certificate (EPC) rating across SHED's portfolio was 76% A-C. SHED's investment process involves assessment of energy efficiency ratings to ensure properties are sustainable in the long term, while new developments will all have an EPC rating of A and a BREEAM sustainability rating of excellent or very good.

Asset allocation

SHED has a portfolio of 76 assets worth £507.6m (at 31 March 2021) located across the UK, with a focus on the South East and the Midlands. The portfolio has a WAULT of 7.4 years, with a spread of short- and long-term leases.

Figure 5: Portfolio by location



Source: Urban Logistics REIT, Marten & Co

Tenants

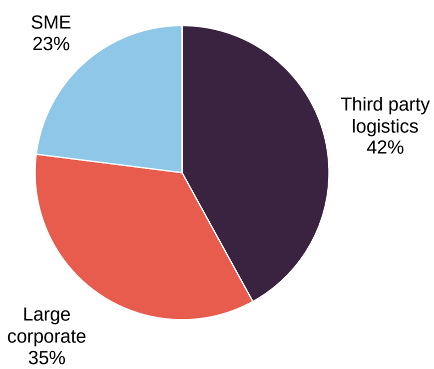
Figure 6: Top 10 tenants

Company	Sector	% of rent
Culina Group	Third party logistics	9.3
XPO	Third party logistics	6.9
Unipart Group	Third party logistics	6.1
Fidens Studios	TV and film location agent	5.6
Giant Booker	Food wholesale	4.7
Amazon	Online retail	3.9
Pegler Yorkshire Group	Manufacturer	3.8
Tuffnells Parcels Express	Third party logistics	2.6
Agility Logistics	Third party logistics	2.4
Iron Mountain	Data storage	2.4
Total		**47.7**

Source: Urban Logistics REIT, Marten & Co

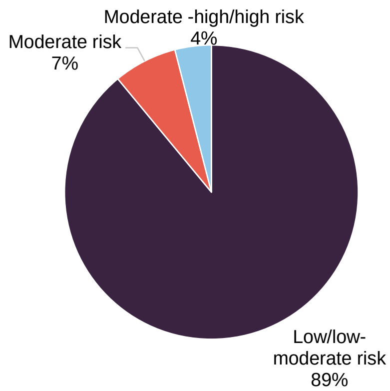
SHED's top 10 tenants account for 47.7% of its contracted rent and are made up of largely global third-party logistics operators, as shown in Figure 6. The manager states that a large proportion of the SME category (23% of portfolio – as shown in Figure 7) is also made up of smaller third-party logistics companies. 'Third-party logistics' refers to the outsourcing of e-commerce logistics processes and includes inventory management, warehousing, and fulfilment. They typically run contracts for e-commerce companies from their sites. SHED's largest tenant, Culina Group, is the logistics arm of the Müller Group – the multinational dairy giant. The Unipart Group is running a contract on behalf of the NHS. Other top 10 tenants that may not be household names include Fidens Studios, which provides space for Netflix filming productions, and Pegler Yorkshire, which is part of the €5.7bn market cap Dutch manufacturing conglomerate Aalberts, which is listed on Euronext Amsterdam.

Figure 7: Tenant diversity



Source: Urban Logistics REIT, Marten & Co

Figure 8: Tenant credit rating

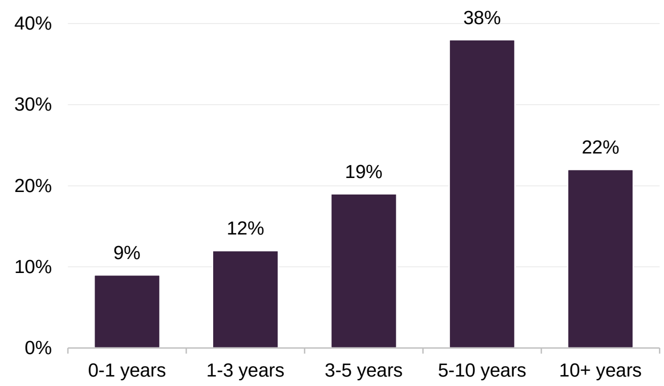


Source: Urban Logistics REIT, Dun & Bradstreet, Marten & Co

Figure 8 shows that 89% of tenants across SHED's portfolio have been rated low/low-moderate risk (as a percentage of contracted rental income) by Dun and Bradstreet, which is reflected in rent collection figures during the pandemic. The company has received near-100% of rent due since March 2020.

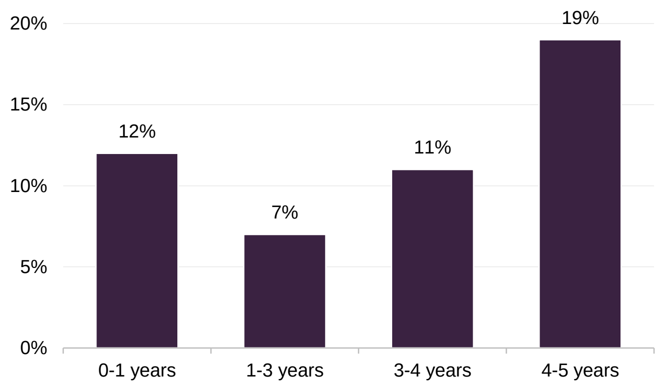
SHED has a good blend of long- and short-term lease expiries across its portfolio. The majority of leases in SHED's portfolio have an expiry date beyond five years, as shown in Figure 9, giving it security of income. Around 40% expire within the next five years, which allows SHED to either renegotiate the lease at new market rents or get a new tenant in (which should in the vast majority of cases be at rents greater than current levels, due to recent and projected rental growth in the market). Figure 10 shows the frequency of rent reviews that are built into SHED's leases, with 12% due in the next year. The manager says that, in reality, a bulk of rent reviews are settled long before rent review date, due to its close relationship with tenants. The manager adds that around half of the portfolio is currently in landlord-tenant discussions regarding lease extensions or rent reviews.

Figure 9: Lease expiry profile



Source: Urban Logistics REIT, Marten & Co

Figure 10: Contractual rent reviews



Source: Urban Logistics REIT, Marten & Co

Asset management initiatives

As mentioned earlier, SHED likes to buy assets that have asset management potential so that it can drive capital values. A prime example of the impact of its asset management capabilities can be found in its Hoddesdon asset, in Hertfordshire, which it acquired in October 2020 for £34.3m, at a net initial yield of 5.4%. Two of the five units at the 181,996 sq ft scheme were vacant on acquisition (with the other three let to Müller UK & Ireland). In February 2021, SHED let the vacant units to Fidens Studios on new 10-year leases at a rent of £13 per sq ft – 15% ahead of the estimated rental value (ERV). Following the lettings, the asset's WAULT was increased to 9.7 years (6.3 years to first break) and the valuation rose to £41.4m, a 20.7% uplift since acquisition.

During the year to 31 March 2021, SHED completed 31 lettings or rent reviews, achieving like-for-like rental growth of 14% overall and generating an additional £4.6m of annual rent.

Being able to grow the valuation of its portfolio through asset management (as mentioned earlier, 75% of portfolio valuation uplift since inception has been due to asset management initiatives) allows SHED to control its LTV. The value of the portfolio is less reliant on the wider market, meaning that it is somewhat shielded from a turn in market conditions and valuation falls.

As if to prove the concept, SHED sold a portfolio of five assets In March 2021 for £30m, a net initial yield of 4.8% and a premium to book value of 35.4%. Over the course of its ownership, SHED increased the contracted rent on the portfolio by 12% and increased the WAULT to 7.4 years (from 3.9 years at acquisition) through asset management initiatives.

SHED can also drive value through developments (no more than 10% of gross asset value is permitted to be deployed on developments at any one time). It has a small development portfolio comprising five sites and eight units, which completed earlier this year. Three of the units have been let, with the rest close to being let (most of which come with rent guarantees). The total gross development cost was £35.1m and SHED expects to generate a total of £2.1m of annual rent once they are fully let, representing a yield on cost of 5.7%.

£108.3m raised – the pipeline

On 9 July 2021, SHED successfully raised £108.3m through an oversubscribed placing of shares at 155p per share (a 3.5% premium to adjusted EPRA net tangible assets – NTA) and will now look to deploy those proceeds on its acquisition pipeline. The pipeline is worth around £150m, has a net initial yield of 6.1% and has a South East and Midlands focus. It has a WAULT of 8.0 years and a low average rent of 5.40 per sq ft.

Figure 11: SHED's acquisition pipeline

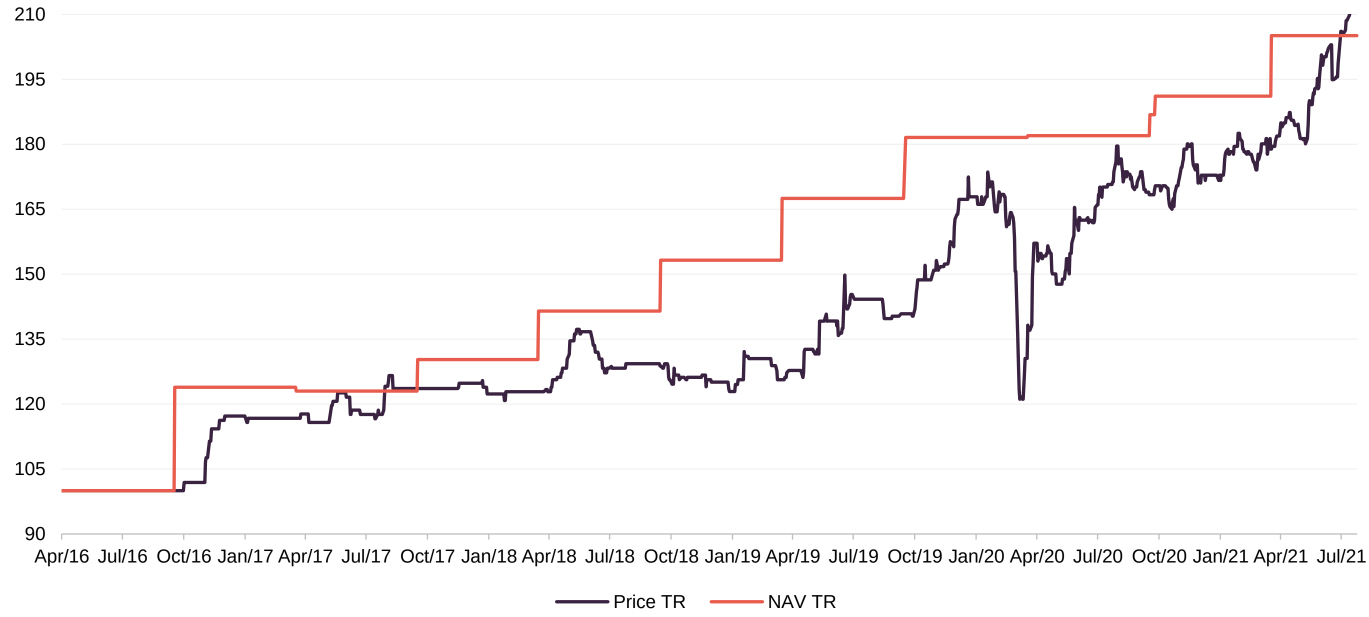
Location	Price (£m)	Net initial yield (%)	Area (sq ft)	Annual rent	Rent per sq ft	WAULT (years)
South East	39.9	6.5	478,317	£2.8m	£5.77	5.3
Midlands	59.1	5.9	631,754	£3.7m	£5.86	6.1
North West	14.2	5.7	156,781	£0.9m	£5.54	11.3
Yorkshire & North East	40.2	6.2	587,561	£2.7m	£4.56	12.5
Total/Average	**153.4**	**6.1**	**1,854,413**	**£10.1m**	**£5.40**	**8.0**

Source: Urban Logistics REIT, Marten & Co

Performance

SHED's NAV has made strong progress since its inception, as the portfolio has expanded and valuations increased through a combination of asset management initiatives and market movement. At its last valuation report, at 31 March 2021, the group's EPRA NTA (a new reporting measure replacing NAV for property companies – more information below) rose 10.5% in the year.

Figure 12: SHED performance since launch



Source: Morningstar, Marten & Co

Peer group comparison

Figure 13: Peer group analysis – UK listed companies focused on logistics

	Market cap (£m)	Premium/ (discount) (%)	Yield (%)	NAV total return 1 year (%)*	Price total return 1 year (%)*
Urban Logistics REIT	572	17.3	4.3	16.3	25.4
Warehouse REIT	687	19.1	3.8	30.4	47.5
Tritax Big Box REIT	3,763	16.9	2.9	30.7	44.4
SEGRO	14,949	38.9	1.8	28.9	28.2
LondonMetric Property	2,318	33.1	3.4	17.6	11.9

Source: Morningstar, Marten & Co. Note*: performance calculated over one year to 31 July 2021

Click here for an up-to-date comparison of SHED and its Property – UK Logistics peer group

SHED is listed in the Property – UK Logistics sector by the AIC, which also comprises Warehouse REIT and Tritax Big Box REIT. As previously mentioned, there is no other listed company that is exclusively focused on the urban logistics sub-sector and therefore it is difficult to make a like-for-like comparison. Warehouse REIT's portfolio is more focused on multi-let industrial assets (which have a completely different tenant base type), while Tritax Big Box REIT is focused on the larger end of the logistics market (warehouses in the 500,000 sq ft plus size range), which perform a different role in the supply chain to urban logistics. We have included other listed property companies focused on the industrial and logistics sector for further comparison. SEGRO is by far the largest and has a mixed portfolio of big box assets, urban logistics and developments. LondonMetric has a big weighting to urban logistics assets, but also owns big box and a separate long-income portfolio.

SHED is the smallest among the peer group, for now, but has a comparable NAV total return over one year and a superior dividend yield.

NAV and portfolio valuation

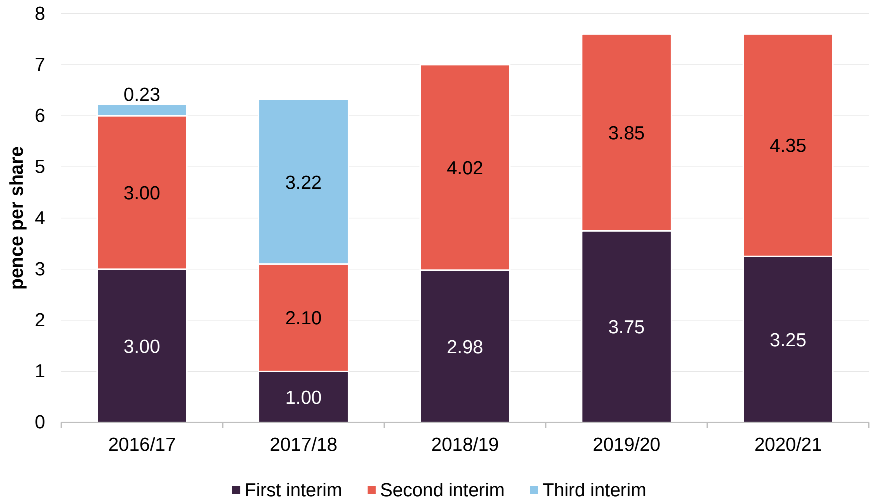
SHED publishes its NAV twice a year, based on portfolio valuations, which are approved by the board prior to publication. Independent international real estate consulting firm CBRE performs the valuation, in accordance with RICS guidance. Each property is unique, and the fair value includes subjective selection of assumptions, most significantly the estimated rental value and the yield. These key assumptions are impacted by a number of factors including location, quality and condition of the building, tenant credit rating and lease length. Whilst comparable market transactions can provide valuation evidence, the unique nature of each property means that a key factor in the property valuations are the assumptions made by the valuer.

In October 2019, the European Public Real Estate Association (EPRA) published new best practice recommendations for financial disclosures by public real estate companies and introduced three new measures for reporting net asset value: EPRA net reinstatement value (NRV), EPRA net tangible assets (NTA) and EPRA net disposal value (NDV). SHED considers EPRA NTA to be the most relevant measure for its operating activities and has been adopted as the group's primary measure of net asset value, replacing previously reported EPRA NAV.

Dividend

SHED declared a second interim dividend for the year to 31 March 2021 of 4.35p per share, bringing total dividends paid to shareholder for the year to 7.6p – in line with the previous year, despite new shares being issued. Part of the second interim dividend was paid out of the profits on the disposal of properties in March. The annual dividend has grown steadily since it launched in 2016, as shown in Figure 14.

Figure 14: SHED dividend history since launch

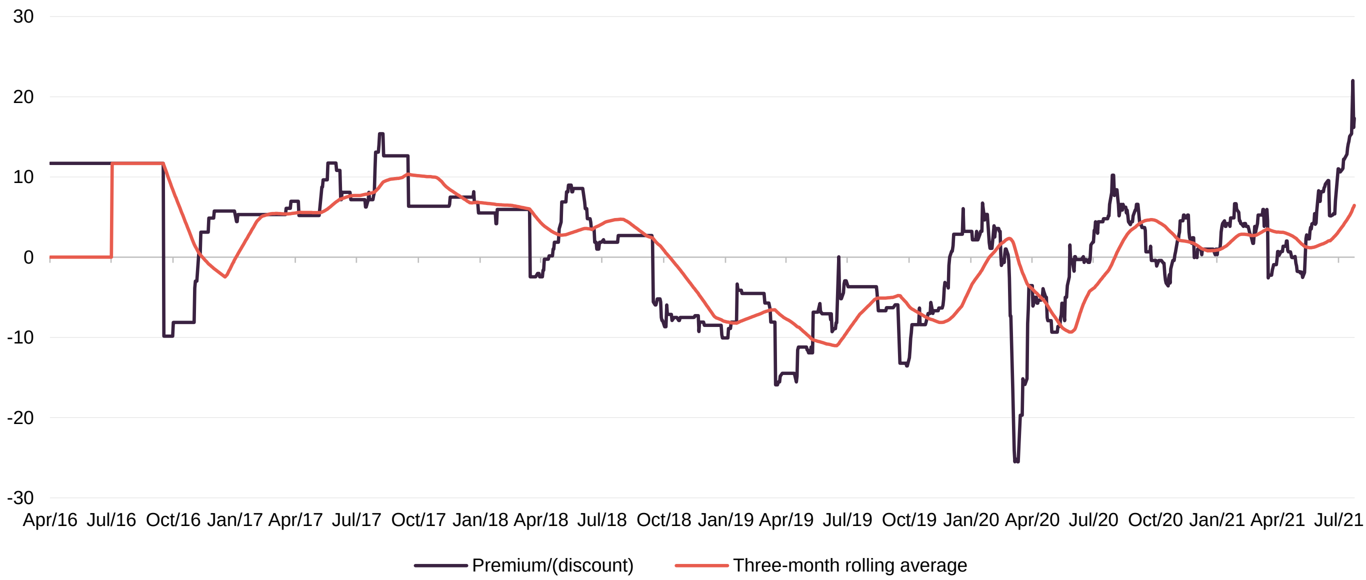


Source: Urban Logistics REIT, Marten & Co

Premium/(discount)

SHED has fluctuated between trading at a discount to NAV and a premium for much of its existence (the early days skewed by a lack of liquidity in its shares). Its share price slumped in March 2020 as part of a wider market sell-off as the COVID-19 pandemic hit, with its discount widening to around 25%. It quickly regained its losses and its rating moved to a premium. On 6 August 2021 it was trading at a 17.3% premium.

Figure 15: Premium/(discount) since launch



Source: Morningstar, Marten & Co

SHED has the authority to buy back or issue ordinary shares to address anomalies in the share price performance, if necessary. In the event that the ordinary shares trade at a discount, SHED has authority to repurchase up to 14.99% of its issued share capital. Similarly, should the shares trade at a premium, SHED has the authority to issue new shares that could be used to satisfy any excess market demand.

Fees and costs

Tiered management fee and long-term incentive plan in place

SHED's management fees are charged according to the following structure: 0.95% per annum of the group's EPRA NTA up to, and including, £250m; 0.90% per annum in excess of £250m and up to and including £500m; and 0.85% per annum in excess of £500m. The management agreement runs until April 2024, with a 12-month termination provision.

A long-term incentive plan (LTIP) is in place, which has both NAV and share price elements. It is assessed for the period from 7 February 2020 to 30 September 2023 and is capped at three times the average annual management fees paid in that period. The NAV element is calculated as 5% of the excess return on EPRA NTA between the two dates, with an annualised 10% hurdle. The share price element is calculated as 5% of the amount by which the market cap of the company has grown between the two dates, with an annualised 10% hurdle.

The LTIP will be settled, at the board's discretion, in either shares or cash, or a combination of both.

Cost ratio

SHED's EPRA cost ratio was 21.3% at 31 March 2021 (March 2020: 18.9%). The manager expects this to reduce as gross rental income will benefit from a full period of rental income from acquisitions made in the year.

Capital structure and life

SHED has a simple capital structure with a single class of ordinary shares in issue and trades on the AIM market of the London Stock Exchange. As at 9 August 2021, there were 324,916,587 ordinary shares in issue and no shares in treasury.

Gearing

Target LTV of 30% to 40%

SHED uses gearing with the aim of enhancing shareholder returns and has total drawn debt of £199.4m and a loan to value (LTV – debt relative to gross assets) of 27.9% at 31 March 2021, which is below its medium-term target of between 30% and 40%.

The weighted average debt maturity was 3.5 years and the blended all-in rate was 2.50% (subject to movements in LIBOR). Of the total debt facilities, 69% is hedged and the net finance costs, excluding fair value movements in interest rate derivatives, for the year to 31 March 2021 were £4.0m.

The group's debt facilities consist of:

- a £151m loan facility with Barclays, Santander and Lloyds (which replaced an existing loan facility, totalling £76m, which was due to expire in December 2022). This facility was secured in August 2020 and provides a three-year term with an option to extend for a further two years; and
- a £48.4m sustainable green debt facility with Aviva Investors, which was entered into in March 2021, providing a seven-year term and comes at a fixed cost of 2.34%.

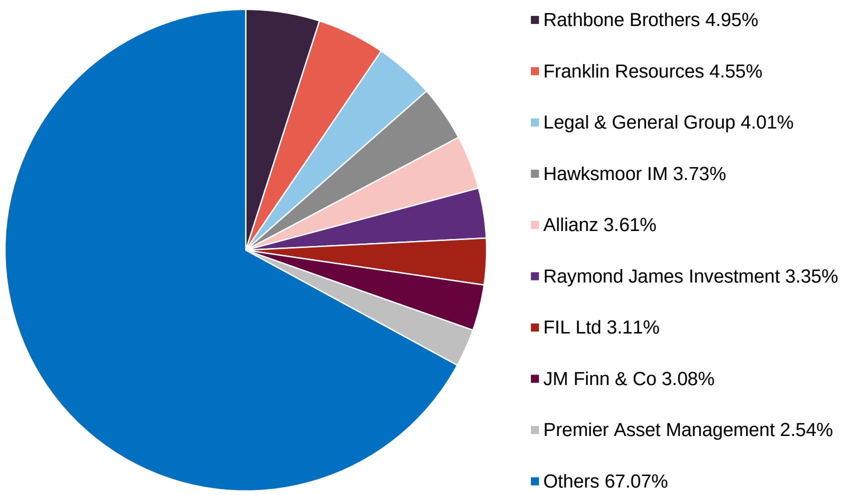
At 31 March 2021, SHED's cash balance was £60.5m, of which £39.5m is earmarked for new developments.

Financial calendar

SHED's year-end is 31 March. The annual results are usually released in June (interims in November) and its AGMs are usually held in July of each year. SHED pays two interim dividends per year in June and December.

Major shareholders

Figure 16: SHED's major shareholders at 26 July 2021



Source: Bloomberg, Marten & Co

Management team

The manager has in place an experienced team of investment and asset management specialists, with specific expertise in the logistics property sector. The team has the ability to access off-market transactions in the logistics real estate sector through an extensive and established network across the UK. Key senior personal include:

Richard Moffitt (chief executive)

Previously an executive director at CBRE, where he was head of the UK industrial team, Richard has over 25 years' experience of the UK industrial and logistics markets. He has an in-depth understanding of the market's dynamics, credibility with owners and operators of real estate assets, a thorough understanding of owner and tenant requirements and an extensive network, which includes institutional funds. Richard is a member of the Chartered Institute of Logistics and Transport.

Christopher Turner (property director)

Christopher is a Chartered Surveyor with more than 25 years' experience in the UK and European investment markets, where he has built up extensive contacts with investors and developers of industrial, office and retail real estate. He has considerable experience in the acquisition, management and disposal of investments through all sectors, focusing on tenant management, covenant performance and active asset management to achieve overall investment returns.

Board

SHED's board is comprised of six directors, four of whom are considered to be independent of the investment manager (Mark Johnson and Richard Moffitt both have an interest in the manager). All directors stand for re-election on an annual basis.

Figure 17: Board member – length of service and shareholding

Director	Position	Date of appointment	Length of service	Annual director's fee (GBP)	Shareholding
Nigel Rich	Chairman	1 January 2017	4.2	80,000	440,536
Jonathan Gray	Senior independent director	14 January 2016	5.2	45,000	60,000
Bruce Anderson	Non-executive director	14 January 2016	5.2	45,000	50,000
Heather Hancock	Non-executive director	15 June 2020	0.75	45,000	14,388
Mark Johnson	Non-independent director	1 January 2017	4.2	-	309,986
Richard Moffitt	Non-independent director and chief executive	14 January 2016	5.2	-	1,019,503

Source: Urban Logistics REIT, Marten & Co

Nigel Rich

Nigel has a wealth of board experience, having operated across the world in senior positions, most recently at SEGRO Plc. He served as the group chief executive of Trafalgar House Plc from 1994 to 1996 and previously spent 20 years at the Jardine Matheson Group in Asia, serving as a managing director from 1989 to 1994.

Nigel has served as the chairman of the board at Hamptons International, Excel Plc, Xchanging plc and most recently at SEGRO Plc, from October 2006 until April 2016. His other directorships have included Pacific Assets Trust Plc, Granada Plc and ITV

Plc. He has also served as a member of The Takeover Panel (UK) and is a Chartered Accountant. Current external appointments include Matheson & Co Ltd and AVI Global Trust Plc.

Jonathan Gray

Jonathan has extensive financial services experience, having worked in senior roles at HSBC, UBS and NCB. He has worked on numerous flotations, including a number of property companies such as Property Fund Management, Cleveland Trust and CLS Holdings. From 2010 to 2014 he was the non-executive chairman of PGF II SA, a London-based £200m private property fund. Jonathan currently works as a financial adviser/consultant to a variety of international companies.

Bruce Anderson

Bruce has considerable real estate and financial services experience, having worked in senior roles at Lloyds, HBoS and Bank of Scotland with 15 years of investment-led boardroom positions. He has experience with both real estate companies and REITs across the UK, Europe and the Far East. At Lloyds he was head of joint ventures for the specialist finance division, responsible for a mixed portfolio of real estate, including both equity and debt elements. Bruce is a Chartered Accountant and currently a non-executive director at Green Property Limited.

Heather Hancock

Heather has many years of high-level experience in strategy, governance and leadership gained in the real estate sector and wider economy. She is currently Master of St. John's College, Cambridge, and was previously chairman of the Food Standards Agency. Heather was executive director of Yorkshire Forward between 2000 and 2003 leading on asset realignment and the assembly of a £350m property portfolio. She then spent a decade at Deloitte's strategy consulting business, serving as a managing partner from 2008 until her 2014 retirement. Heather is a director of Amerdale Limited, a non-executive director of Rural Solutions Limited and a trustee of the Chatsworth Settlement Trust.

Mark Johnson

After qualifying as a lawyer, Mark worked in corporate finance at Barclays Merchant Bank and Barclays de Zoete Wedd before co-founding Pacific Investments Management Limited with Sir John Beckwith. He is a founding partner and shareholder/director of Pacific's investment portfolio and private equity companies, including Liontrust, Thames River Capital, River & Mercantile, Argentex and Pacific Asset Management. Previously, Mark was chief executive of the Riverside Group, one of the UK's leading leisure companies, under the chairmanship of Sir John, and oversaw its successful sale.

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