Urban Logistics REIT – Full year results

REITs | QDnewswire – FY Results | 20 June 2024

Focused on dividend cover

- Urban Logistics REIT (SHED) has reported its full year results for the year end 31 March 2024 this morning. It has been another year of strong operational performance, with net rental income up 8.4% to £57.4m. Valuations have stabilised, with EPRA net tangible assets (NTA) was down just 1.3% to 160.27p.
- The value of the company's portfolio of mid-box urban logistics assets was stable over the 12 months falling just 0.3% on a like-for-like basis to £1.1bn.
- Although net rental income was up 8.4% to £57.4m, adjusted earnings per share was down slightly to 6.89p (2023: 6.93p), due to higher interest costs on its debt. That means its dividend of 7.6p was just 90.6% covered by earnings. The management team said that dividend cover was a priority for the company and is confident it can be achieved through the leasing up of vacant space.
- The company has total debt of £354m (equating to a conservative LTV of 29.3%), with a weighted average cost of debt in the period of 4.02% (2023: £351m, 3.21%). The debt is 97% hedged and a weighted average maturity of 5.4 years. The first debt refinancing is due in August 2025, and the manager said that negotiations with the lender were well advanced.
- The fundamental mismatch in supply and demand in the occupational market continued to push rents higher, with 35 lease events during the year generating an additional £3.0m in rental income, at an average 19% like-for-like rental uplift.

Click here for the Chair's comments

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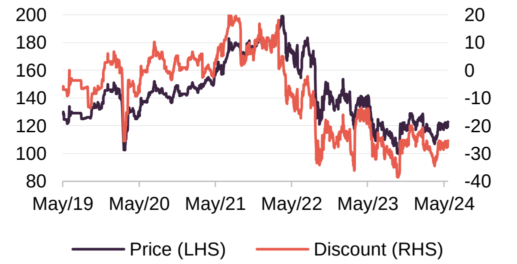
Sector	Property – UK logistics
Ticker	SHED
Base currency	GBP
Price	122.40p
NAV	160.27p
Premium/(discount)	(23.6%)
Yield	6.2%

Share price and discount

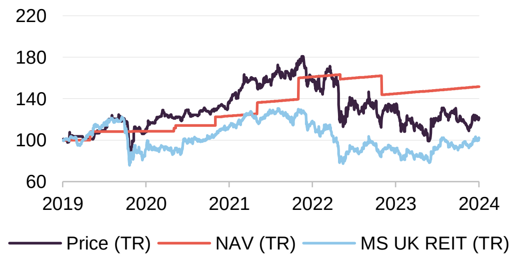
Time period 31/05/2019 to 19/06/2024



Source: Morningstar, Marten & Co

Performance over five years

Time period 31/05/2019 to 31/05/2024



Source: Morningstar, Marten & Co

Chair's comments

"2023 was characterised by geopolitical conflicts, high inflation and interest rates at higher relative levels. These factors led to UK property shares across the sector trading at substantial discounts. This made it almost impossible to raise money in the market. The presumption was that income could be affected by tenant failures and rising costs, in particular rising interest rates, resulting in potentially uncovered dividends. The industrial sector, and in particular a company like Urban Logistics associated with logistics providers as tenants, was largely unaffected by these issues. Vacancy has remained low, and asset management initiatives, including improving the environmental ratings of our properties, have led to improved lease terms. The valuation of the portfolio is only marginally down on last year. Through hedging and fixing our interest, costs have remained at a manageable level. This means we have been able to maintain our dividend, albeit it is marginally uncovered.

"With inflation falling and interest rates very likely to reduce through the current year, opportunities for Urban Logistics should emerge once again, and we are well placed to take advantage of them. We are considering increasing our LTV towards the lower end of our stated range in order to acquire properties with suitable asset management opportunities. At the same time, we will proactively recycle those assets where we have maximised returns.

"The portfolio has performed well through the property cycle, and we are well set to grow earnings, allowing us to maintain and ultimately grow the dividend. We continue to believe that our shares trade at a value which does not reflect either the demand for the underlying real estate or the operational performance of the Company, and believe there is significant upside to be captured in the years ahead.."

Nigel Rich, SHED chair

QuotedData's view

Urban Logistics REIT's (SHED's) manager's expertise in asset management has come to the fore again in these annual results, with 35 lease events signed at an average 19% like-for-like rental uplift. This contributed to a net rental income uplift of 8.4% to £57.4m.

The asset management also had the effect of offsetting the impact of yield expansion in its portfolio, with valuation remaining remarkably stable, with a slight reduction of just 0.3% on a like-for-like basis.

The dividend was not covered by earnings, mainly due to an uplift in finance costs. The manager is in advanced discussions with lenders to refinance debt facilities that are due to mature in August 2025 at a reduced margin, while future lettings should help plug the gap.

Letting up vacant space, which stood at 5.8%, will be a top priority for the manager. The majority of this is on assets that were acquired by the company with asset management plans in mind. It is close to announcing a deal that would add £1.0m to the rent roll and future lettings are in the works.

Promisingly, occupational markets appear to be rebounding – demonstrated in SHED's results, where deals signed in the first half of the financial year were conducted at an average 10% uplift compared to 27% in the second half of the year. The last-mile, urban end of the logistics sector has far more favourable supply and demand dynamics than the rest of the market due to their location close to major towns and cities. Although the headline vacancy rate across UK logistics rose to 7.8%, the vacancy rate for the 'mid-box' sub-sector (in which SHED operates) is far more encouraging at just 4.5% (according to CoStar).

Click to read SHED's full year results

Click for an updated SHED factsheet

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