



Urban Logistics REIT – Half year results analysis

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The tide is turning

- Urban Logistics REIT (SHED) has reported half year results for the six months to 30 September 2024 this morning. EPRA net tangible assets (NTA) was down 1.4% to 158.05p over the period, primarily due to costs associated with asset acquisitions. NAV total return for the period was 1.3%.
- The value of the company's portfolio of mid-box urban logistics assets increased to £1.14bn (from £1.10bn at 31 March) due to acquisitions and a 0.2% like-for-like valuation uplift over the six months. The portfolio ERV grew 3.5% in the period, while the yield moved out slightly to 6.4% (from 6.3%).
- Management has taken strides to achieve full coverage of its 7.6p annual dividend, with asset management initiatives, portfolio recycling, and debt refinancing all feeding through to a 3.5% uplift in adjusted earnings per share in the six months to 3.57p (annualised 7.14p). Gross rental income was £30.6m, up 3.0% compared with the same period in 2023.
- After refinancing a portion of its debt in August, the company now has total debt of £407.2m (equating to a conservative LTV of 33.2%), with a weighted average cost of debt of 4.0% (March 2024: £353.8m, 4.0%). The debt is now 100% hedged and has a weighted average maturity of 5.1 years. The earliest debt maturity is now August 2027.
- The market continues to be characterised by a severe mismatch in supply and demand, which equated to a 21% like-for-like rental increase across 13 lease events in the period. Encouragingly, the investment market is turning the corner, with volumes up 41% versus 2023 and 47% above the pre-COVID average.

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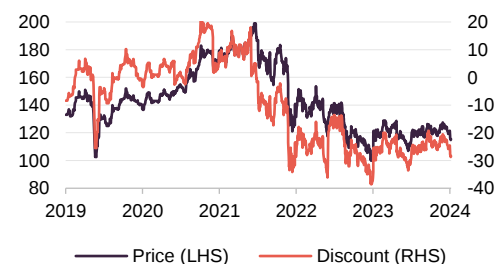
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Sector	Property – UK logistics
Ticker	SHED
Base currency	GBP
Price	112.60p
NAV	158.05p
Premium/(discount)	(28.8%)
Yield	6.7%

Share price and discount

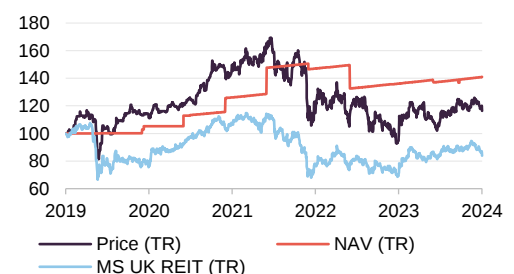
Time period 31/10/2019 to 05/11/2024



Source: Morningstar, Marten & Co

Performance over five years

Time period 31/10/2019 to 31/10/2024



Source: Morningstar, Marten & Co

Chair's comments

"Through refinancing the debt, we have strengthened the balance sheet and provided additional firepower to acquire further assets. We have deployed some of that capital into assets which not only yield more than the cost of debt, and thereby enhance EPRA EPS, but also provide ample total return opportunities which our investment adviser has proved adept at capitalising upon.

"We firmly believe that the best method for delivering value for our shareholders is through the active management of the portfolio, the delivery of earnings accretive acquisitions and the demonstration of the portfolio value through sales where asset management has been completed.

"This will lead to a growth in earnings, allowing us to fully cover and, in due course, grow our dividend, and support valuation growth in our portfolio. It is these activities, combined with our continued belief in the single let logistics sector and strategy, that we believe will help reduce the discount at which the shares currently trade at, and grow shareholder value.

"With the stabilisation of interest rates, we are seeing an increase in transactional activity in the market place, providing us not only with opportunities to selectively sell 'core' assets but also to acquire attractive assets and portfolios of assets which meet our target acquisition criteria, thereby increasing our portfolio weighting of assets in the 'active asset management' category.

"Our belief in the strong prospects for the sub sector of the property market in which we operate continues to be validated by growth in rental rates at our properties, driven by the fundamental supply and demand mismatch for this type of space."

Nigel Rich, SHED chair

QuotedData's view

Urban Logistics REIT's (SHED's) manager has made encouraging steps in delivering on its priority to grow earnings and achieve a fully covered dividend. Capturing rental growth within its portfolio, where it attained a 21% uplift in rents on lease events in the period, is the manager's bread-and-butter. It is also undertaking an asset recycling programme, under which it acquired four properties in the six months, utilising capital released from the refinancing of a portion of its debt.

As well as extending the maturity of the facility by two years to 2027, the company also increased the size of the facility from £151m to £190m and reduced the margin by 47 bps. The new facility has an interest cost of 4.5% for the first 12 months, rising to 5% thereafter. The deployment of capital into the four new assets (for a combined £42.2m) provides an attractive day one spread, with the average net initial yield being 6.7%, and a reversionary yield of 7.3%.

Further portfolio recycling can be expected, and post period end the company sold a 'core' asset for £7.7m at a 4.65% net initial yield and bought a vacant asset in Dunstable for £3.6m, where the manager completed a

letting between exchange of completion resulting in a net initial yield of 7.1%. If this blueprint can be replicated, the positive impact on earnings will go a long way to achieving a covered dividend.

Over the medium term, the manager says it will look to rebalance its portfolio weightings, with 'core' assets (where asset management initiatives have largely been completed) being reduced to 35% (from 48%) and 'active management' and 'development' categories (where management can realise value through active asset management) growing to 65% (from 52%).

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