

THE UK'S ONLY MIDLANDS FOCUSED REIT  
Results for period ended 30 June 2019  
Investor and Analyst Presentation

# THE MIDLANDS INVESTOR

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Coventry Oldbury Derby Worcester  
Acocks Green Tunstall Kingswinford Wy  
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# INTRODUCTION



**Birmingham Commonwealth Games 2022**  
Image courtesy of Birmingham City Council

# REAL ESTATE INVESTORS PLC



## REI Today

- UK's only Midlands focused/ Birmingham based REIT
- Portfolio of £220 million+ and a growing income stream
- Multi-sector diversification, no material reliance on any sector, asset or occupier – 268 occupiers – 51 assets

## Strong Platform

- Internally managed/ proven track record/100+ years of combined experience/ equity alignment/6.7% management holding
- REI's advantage is its market insight from its network and knowledge of the region
- Scalable property management platform

## Active Asset Management

- Value creation through reviews, lease renewals, lettings, change of use and embedded Permitted Development
- Criteria compliant acquisitions at high initial yields - Targets: 8-20% yield and £2m-£20m lot size
- Disposals at/above book value post asset management with capital recycled

## Prudent Finance

- Prudent leverage providing certainty and security – current net LTV 39.7%
- Can execute quickly with cash/strong market reputation and access to debt
- 67% of debt now fixed, with low average cost of debt of 3.7%

## Attractive Returns

- Aim to deliver capital growth and income enhancement through active asset management
- Fully covered progressive dividend paid quarterly
- 6 years of consecutive double-digit dividend growth - £25.6 million paid to shareholders

# HIGHLY EXPERIENCED BOARD & PROVEN TRACK RECORD

## Non-Executive



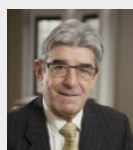
**John Crabtree** OBE D.UNIV  
Non-Executive Chairman

- Joined REI Board in 2010
- **0.12% shareholder in REI**
- Chairman of Glenn Howells Architects, Staffline Group plc, White & Black Limited & Brandauer Holdings. Until 2003, Senior Partner of Wragge & Co
- In 2014, Government Secretary Eric Pickles named John as Chairman of the Birmingham Improvement Panel
- John is Chair of the organising committee for the 2022 Commonwealth Games
- In January 2017, John was appointed Her Majesty's Lord Lieutenant of the West Midlands



**William Wyatt**  
Non-Executive Director

- Joined REI Board in 2010
- **0.05% shareholder in REI**
- Joined Caledonia in 1997 from Close Brothers Group Plc. He was appointed a director in 2005 and Chief Executive in 2010
- Non-executive Director of Cobehold S.A., Chairman of Newmarket Racecourses and a Trustee of The Rank Foundation



**Peter London**  
Non-Executive Director

- Joined REI Board in 2014
- **0.03% shareholder in REI**
- Peter is an Independent Financial Adviser with Ascot Lloyd
- Peter has a lifetimes experience in providing IFA services to HNW individuals and sold his company to a Swiss Bank in 2007
- Non-Executive Chairman of a number of property related companies

## Executive



**Paul Bassi** CBE DL D.UNIV DSC  
Chief Executive Officer

- Joined REI Board in 2006
- **5.51% shareholder in REI**
- Non-executive Chairman of Bond Wolfe
- Non-executive Chairman of Likewise Plc
- Former Non-executive Chairman of CP Bigwood Chartered Surveyors
- Former Regional Chairman & Strategy Advisor to Coutts Bank (West Midlands)



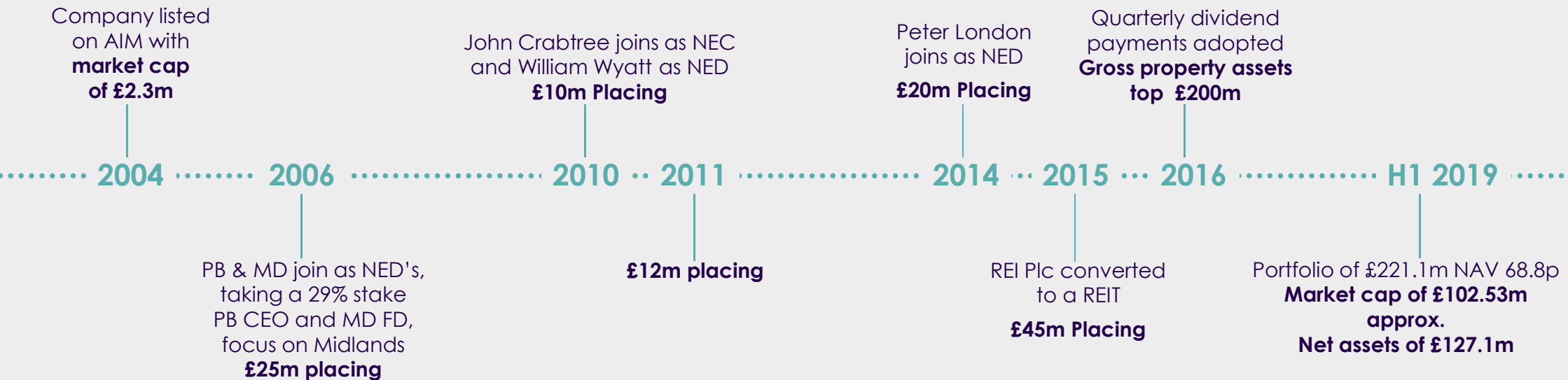
**Marcus Daly** FCA  
Finance Director

- Joined REI Board in 2006
- **1.00% shareholder in REI**
- Chartered Accountant with 30 years experience in advising on strategic matters and corporate planning, particularly in the property sector
- Former non-executive director of CP Bigwood Chartered Surveyors
- Former non-executive Chairman of the Tipton & Coseley Building Society

# REI PLC BUILDING A BUSINESS OF SUBSTANCE



**IN LINE WITH THE COMPANY'S PROGRESSIVE DIVIDEND POLICY  
SINCE 2013 TOTAL DIVIDENDS PAID TO SHAREHOLDERS = £25,577,000**



# THE REI BUSINESS MODEL ACTIVE ASSET MANAGEMENT

## Generating value through asset management

Buys	REI market expertise	Sells/holds
Institutional sales	<b>VALUE ADD</b> 12 - 24 months of Asset Management  Lease renewals  Rent reviews  Small scale refurbishment  Income maximisation  Planning revision	Institutional quality assets
Offices		HNW/investors/pension funds – buyers now active in this segment
Value & convenience retail		High quality earnings to support dividend
Leisure/food		
Vacant property		
Opportunistic		
Short leases		

20%

**Unparalleled market insight via external relationships**  
e.g. Bond Wolfe, Knight Frank, Savills, GVA, CBRE & JLL

8%

# HIGHLIGHTS AND FINANCIALS



## Canalside, Birmingham City Centre

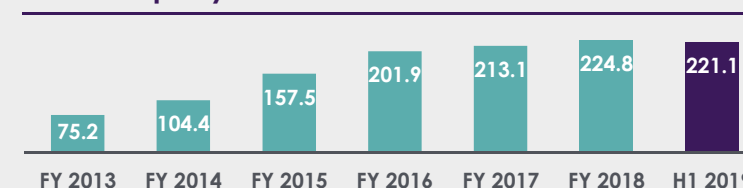
Did you know?..

**Birmingham has 35 miles of canals within the city, 9 miles more than Venice**

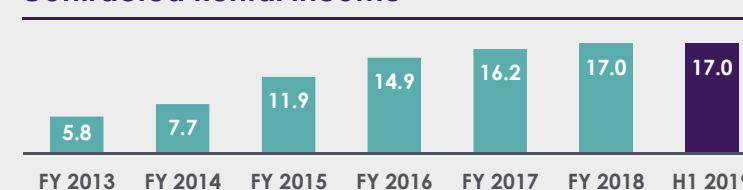
# H1 2019 OPERATIONAL HIGHLIGHTS

- Contracted rental income: **£17.0 million p.a.**  
(H1 2018: £15.8 million p.a.) up 7.59%
- Gross property assets: **£221.1 million**  
(FY 2018: £224.8 million) down 1.65%
- Expected post-period disposal proceeds of £2.6 million from the sale of City Gate House, Leicester
- Active asset management with **268 tenants**  
(H1 2018: 269) across 51 assets
- Occupancy: **96.2%**  
(H1 2018: 92%) up 4.57%
- WAULT of **4.04 years** to break and 6.0 years to expiry  
(H1 2018: 4.33 years/ 6.38 years)

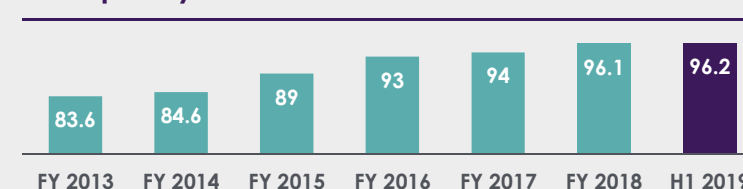
## Gross Property Assets £m



## Contracted Rental Income



## Occupancy %



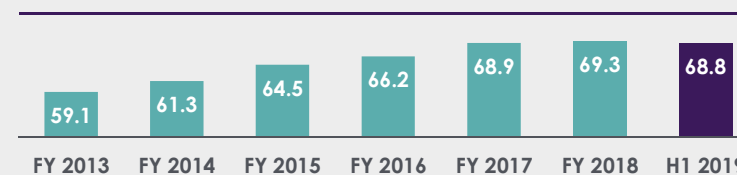


# H1 2019 FINANCIAL HIGHLIGHTS

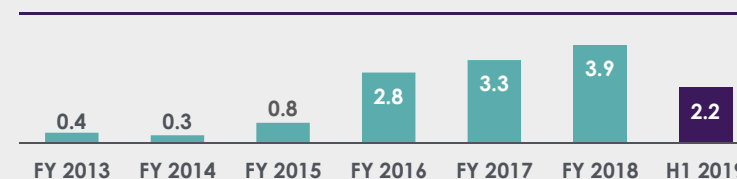
- Underlying profit before tax\* of **£4.0 million** (H1 2018: £3.4 million) up 17.9%
- Revenue **£8.1 million** (H1 2018: £7.4 million) up 8.4%
- EPRA EPS **2.15p** (H1 2018: 1.8p) up 19.4%
- EPRA NAV per share of **68.8p** (FY 2018: 69.3p) down 0.7%
- Total Dividend per share of **1.875p** (H1 2018: 1.75p) up 7.1%
- NET LTV of **39.7%** (FY 2018: 39.8%)
- Average cost of debt **3.7%** (H1 2018: 4.1%)
- Like for like valuation **£221.1 million** (FY 2018: £222.8 million)
- Like for like rental income **£16.1 million** (H1 2018: £15.7 million) up 2.5%

\*underlying profit excludes profit/loss on revaluation, sale of properties and interest rate swaps

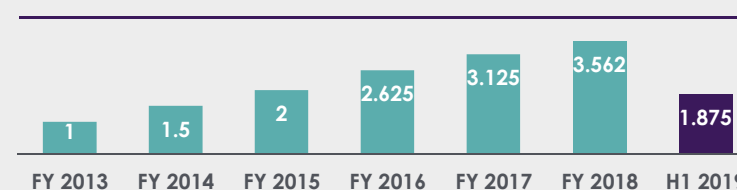
## EPRA NAV



## EPRA EPS



## Dividend P



# H1 2019 FINANCIALS: GROWING INCOME

- Revenue of £8.1 million – up 8.4%
- Underlying profit before tax of £4.0 million – up 17.9%\*
- Pre-tax profit of £1.7 million (H1 2018: £5.3 million) after deficit on revaluation of interest rate swaps of £212,000 (H1 2018: £565,000 surplus) and property revaluations and sales deficit of £2.1 million (H1 2018: £1.4 million surplus), both non-cash items
- EPRA EPS of 2.15p - up 19.4%

## Growing dividend

- Progressive, covered, dividend policy
- Quarterly dividend payments for 2019:
  - Q1 dividend of 0.9375p paid in July 2019
  - Q2 dividend of 0.9375p to be paid in October 2019

\*Adjusted for movement on property revaluations, sales and hedge revaluation

Income Statement	H1 2019 £m	H1 2018 £m	Change
Revenue	<b>8.1</b>	7.4	+8.4%
Cost of sales	<b>(0.8)</b>	(0.7)	-14.3%
Admin expenses	<b>(1.5)</b>	(1.5)	-
Property revaluation and sales	<b>(2.1)</b>	1.4	-
EBIT	<b>3.7</b>	6.6	-43.9%
Underlying profit before tax	<b>4.0</b>	3.4	+17.9%
Profit on ordinary activities before tax	<b>1.7</b>	5.3	-67.9%
Diluted EPS	<b>2.1p</b>	2.8p	-25.0%
EPRA EPS	<b>2.2p</b>	1.8p	+19.4%
DPS	<b>1.875p</b>	1.75p	+7.1%

# H1 2019 FINANCIALS: STRONG BALANCE SHEET

Gross property assets of

£221.1m

Net assets of

£127.1m

EPRA NAV per share of

68.8p

Well capitalised with  
net LTV of

39.7%

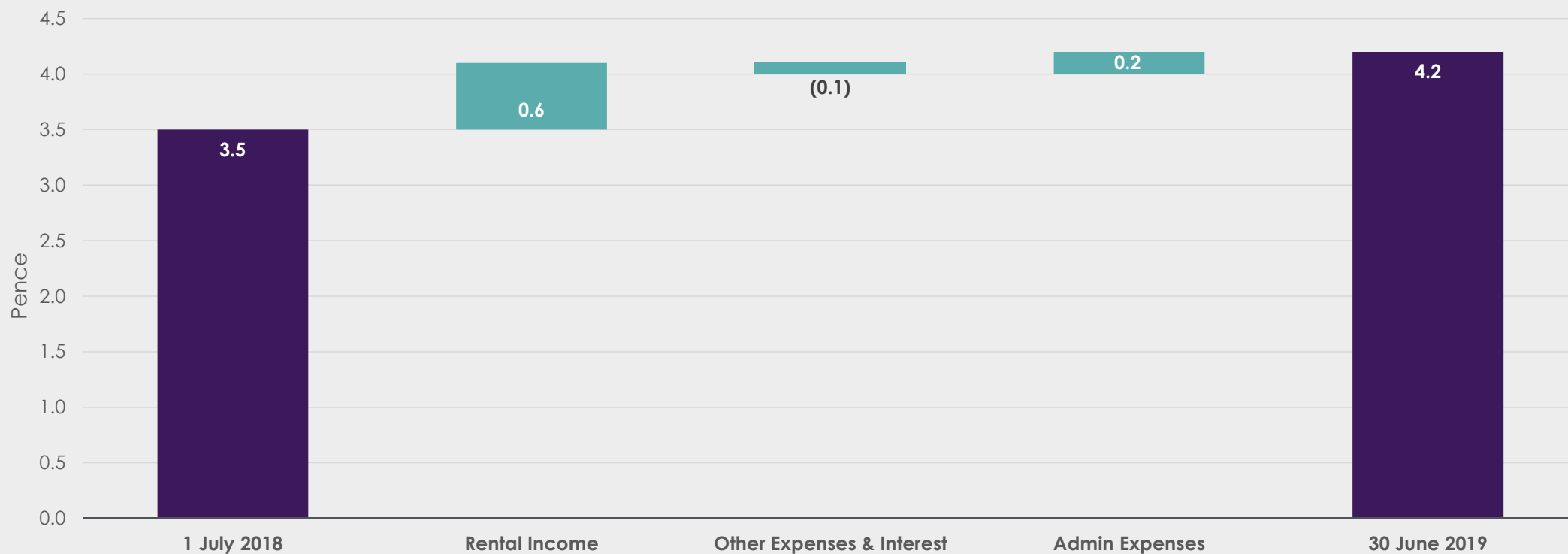
and net debt of  
£86.3 m

Balance Sheet	H1 2019 £m	FY 2018 £m	Change
Property	221.1	224.8	-1.6%
Cash	12.2	10.8	+12.9%
Debt	(98.5)	(98.8)	-0.3%
Other	(7.7)	(8.1)	+4.5%
Net assets	127.1	128.7	-1.2%
Adjustments	2.8	2.6	+7.7%
EPRA NAV	129.9	131.3	+1.1%
EPRA NAV per share	68.8p	69.3p	-0.7%
Net Debt	86.3	88.0	+2.0%
LTV (net of cash)	39.7%	39.8%	+0.3%

# MOVEMENT IN EPRA NAV PER SHARE



# MOVEMENT IN EPRA EARNINGS PER SHARE



Note: Chart based on 12 months of EPRA EPS from 1 July 2018 to 30 June 2019

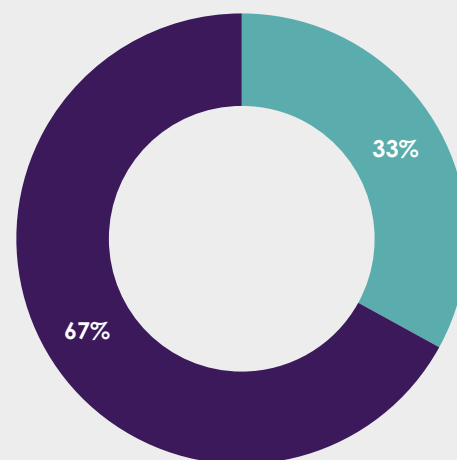
# H1 2019 FINANCIALS: SIMPLIFIED DEBT POSITION

- Cost of debt lowered to **3.7%** at 30 Jun 2019 (H1 2018: 4.1%)
- Property net LTV **39.7%** (We aim to keep LTV below 40%)
- **67%** of debt is fixed
- Interest cover of **3.2x** (H1 2018: 2.8x)

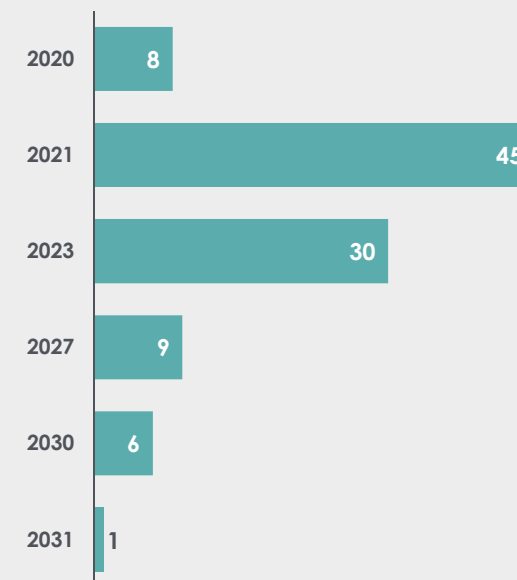
Net Debt (£m)	30 Jun 2019 £m	31 Dec 2018 £m
Borrowings	98.5	98.8
Cash	(12.2)	(10.8)
	<b>86.3</b>	<b>88.0</b>

## Debt Structure % at 30 Jun 2019

- Floating
- Fixed



## Debt Maturity £m at 30 Jun 2019



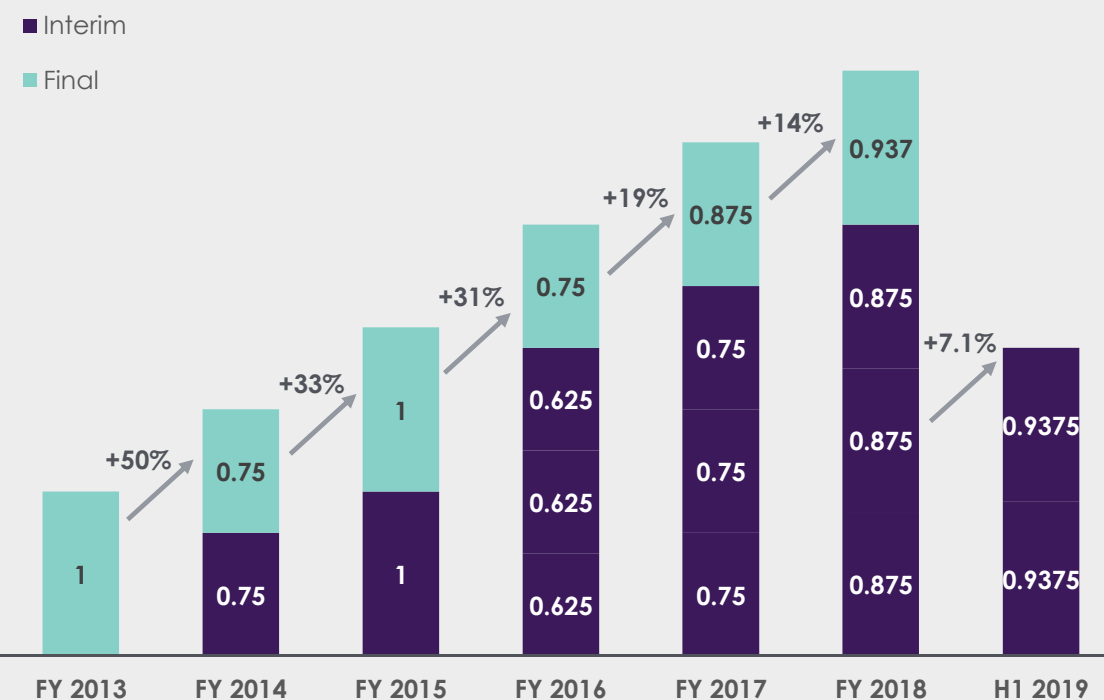
# H1 2019 FINANCIALS: GROWING, FULLY COVERED DIVIDEND

- REI adopted a quarterly dividend policy with effect from the financial year beginning 1 January 2016
- Dividend is fully covered by EPRA earnings
- Aim to grow dividend in line with earnings

Dividend	Total	Announcement	Payment
Q1 2019	0.9375p	June 2019	July 2019
Q2 2019	0.9375p	September 2019	October 2019
Q3 2019	TBC	December 2019	January 2020
Q4 2019	TBC	March 2020	April 2020

Note: Timings for quarterly payments are indicative only

## Increasing Shareholder Distribution Year on Year



# REBIRTH OF A REGION



## Cityscape, Birmingham City Centre



# AN EMERGING ECONOMY

## The Next London?

West Midlands is gaining the title as the **fastest growing economy** outside of London and the South East with productivity across the region expected to grow by **1.7% p.a. until 2021**.

## Population Migration

**No. 1 destination for those migrating from London.** Boosted by infrastructure/major business relocations – attracting young professionals and families to the regions homes, schools and jobs. **32% of Birmingham's population is under 25 years of age**, making it one of Europe's youngest cities.

## Business Confidence

According to the latest Business Barometer from Lloyds Bank Commercial Banking, companies in the **West Midlands** reported higher confidence in their business prospects, up 3 points to **36 per cent**, the most confident UK region.

## Flexible Working

Birmingham is set to be at the forefront of flexible office sector due to the high proportion of start-ups and entrepreneurs, as it looks to grow to **1.2m sq ft** by **2023**.

## Big wins

**2021 Coventry City of Culture** is a unique opportunity for the City to boost its economy.  
**2022 Commonwealth Games** Expected to boost the region's economy by **£1.5bn**.

## Infrastructure

A new era of **vast infrastructure with HS2 on the horizon** and with a £2 billion package of improvements submitted to transform east-west connections on the Midlands' rail network.

## Relocations

Major corporate relocations are boosting confidence  
**HSBC** - 1,000 staff  
**HMRC** - 3,500 staff  
**PWC** - 1,500 staff

## Housing

**Zoopla** names the West Midlands as Britain's best-performing region, with average property increases of **£36.58** a day, or £6,695 in total, since the start of 2019.

## Funding

In June 2019, the Government announced its intentions to invest **£778 million** in Birmingham and the West Midlands in advance of staging the **2022 Commonwealth Games**.

## Tourism & Leisure

Birmingham Airport has published its final Master Plan for expansion, to increase annual passenger numbers to **18 million** by **2033**. £500m is to be invested to generate more than **£2 billion** in regional economic benefit.

## Education

With **12 universities & 50 tech centres of excellence**, the region boasts over **65,000 graduates** per year and retains more than any other region post-graduation .

## Employment

The West Midlands bucked the national trend with a **0.5 per cent** rise in employment rate between April and June compared to the previous quarter – the second biggest drop of any UK **region**.

## Manufacturing & Engineering & Technology

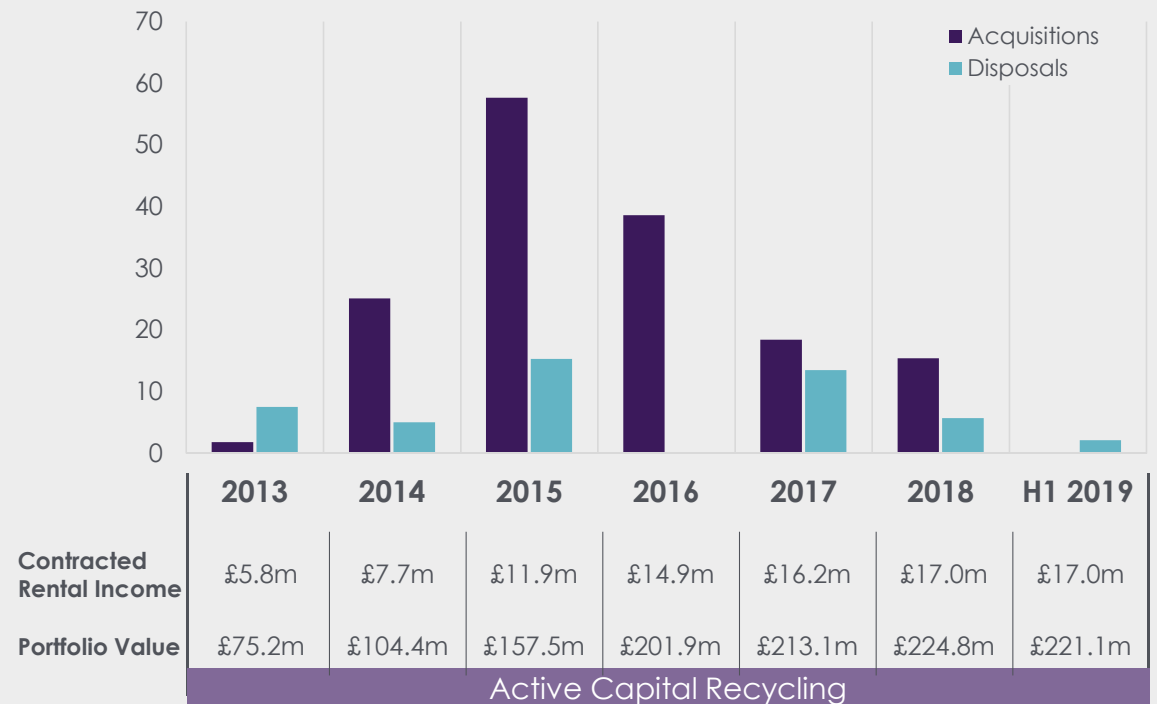
**Jaguar Land Rover** has been boosted by a **£500m** government loan to sell the next generation of electric cars around the world, with funds from UK Export Finance and £125 million from commercial lenders.  
**Vodafone** has turned on its high-speed **5G network** across 7 UK cities including Birmingham, providing a fast speed network for consumers and transforming the way businesses operate.

Sources: ONS, LSH, E&Y & Birmingham City Council Economic Research

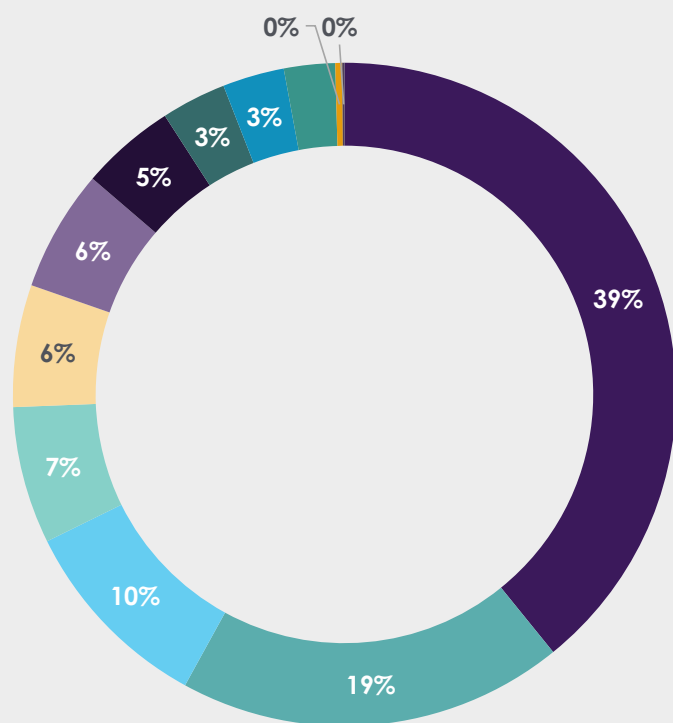
# ACTIVE CAPITAL RECYCLING MAKING CAPITAL WORK

- H1 2019 - Inactive market/unrealistic pricing/no distressed vendors/no criteria compliant opportunities
- REI completed the sale of Metro Court in March 2019 for the sum of £2.1 million
- Disposals are considered when assets are fully valued, or where they can realise significant value on an opportunistic basis
- Expected post-period disposal proceeds of £2.6 million from the sale of City Gate House, Leicester
- Proposed £25 million spend over next 12 months

## Acquisitions & Disposals



# DIVERSE AND ATTRACTIVE PORTFOLIO



Sector	Rent £	30 Jun 2019 % by Income
Office	6,649,961	39.20%
Traditional Retail	3,195,866	18.84%
Discount Retail	1,650,902	9.73%
Medical and Pharmaceutical	1,137,540	6.70%
Food Stores	1,011,150	5.96%
Restaurant/Bar/Coffee	1,007,802	5.94%
Financial/Licences/Agency	766,002	4.51%
Leisure	537,596	3.17%
Hotel	511,000	3.01%
Car Park	424,613	2.50%
Industrial	57,094	0.34%
Assured Shorthold Tenancies	16,520	0.10%
<b>TOTAL</b>	<b>16,966,046</b>	<b>100.00%</b>

# TOP 10 TENANTS BY INCOME NO MATERIAL EXPOSURE

Rank	Tenant	Rent £'000	%	Sector	Property
1		572	3.36	Discount Retail	Crewe Shopping Centre, Acocks Green & Kings Heath
2		518	3.05	Office	Birch House, Oldbury
3		481	2.83	Office	Molineux House, Wolverhampton & Citygate House, Leicester
4		450	2.65	Discount Retail	Jasper, Tunstall
5		310	1.82	Hotel	West Plaza, West Bromwich
6		300	1.76	Food Stores	Bearwood, Birmingham
7		290	1.71	Office	Titan House, Telford
8		289	1.70	Office	Westgate House, Warwick & Kingston House, West Bromwich
9		282	1.66	Food Stores	Kingswinford
10		263	1.55	Medical and Pharmaceutical	Dudley Street, Wolverhampton/Crewe
		<b>3,755</b>	<b>22.09</b>		

**0.58%**  
of our contracted rental income has been impacted by CVAs

**22%**  
Top 10 tenants represent only 22.09% of REI's contracted income

**5%**  
No tenant to represent more than 5% of group contracted rent

**10%**  
No asset to represent more than 10% of group portfolio value

# UNTAPPED RESIDENTIAL VALUE AND PIPELINE OPPORTUNITIES



## CITYGATE HOUSE, LEICESTER – Sold for £2.6m with permitted development rights

- The property occupies a **prominent position on a main route to Leicester City Centre** and comprises a self-contained, four storey office building with parking
- Acquired from receivers for **£1.8 million in 2014** (excluding costs)
- The property has a total net office space of **18,070 sq ft** and is let entirely to the Secretary of State until August 2024, with a tenant break in April 2021. The rental income is £157,500 p.a
- Exchanged contracts in late 2018 to a **residential developer at £2.6 million** (a 40% uplift on the Dec 2017 valuation of £1.855 million).



## LAND AT COSELEY, BIRMINGHAM – Planning consent for 100 homes secured

- Land purchased in 2016 for **£1.15 million** and zoned residential
- The land was acquired with the view to securing **planning approval** and subsequently, sold with a planning gain
- An application was submitted and initially refused
- **REI engaged with advisers** to submit an appeal
- During the period, we **successfully secured residential planning consent** for approximately 100 units in Coseley
- We have also **secured repayment of costs** in this matter relating to the application and appeal
- We are currently in legals to sell this to a national housebuilder

# ASSET MANAGEMENT CASE STUDIES: VALUE ADD – ACTIVE INVESTORS



## WESTGATE HOUSE, WARWICK

- Purchased in June 2014 for **£7.25 million** at a net initial yield of 8.25%
- 'Tactical' S25 Notice served on the NHS office Leases to instigate review of Leases that were ending
- In addition to the Notice, a Dilapidations claim was issued by REI to 'focus' the Tenant
- New Leases were agreed at £285,758 per annum; passing rent was £244,935 – an uplift of £40,823
- New 5-year leases were agreed with the tenant
- June 2019 valuation **£9.40 million** up 30% on purchase price



## VIRGINIA HOUSE, WORCESTER

- Purchased in June 2015 for **£1.20 million** at a net initial yield of 11.93%
- Identified as alternative use to office
- Based on REI's knowledge of how the tenants occupied the building and their future prospects, REI took surrender premiums where possible to achieve VP
- New Agreement for Lease with Student Accommodation operator agreed, subject to VP
- Following lengthy negotiations with CAFCASS and Tactical Notice Serving, a Surrender was agreed and VP achieved
- New Letting at £145,000 (ERV £141,238) for 125 years
- June 2019 valuation **£2.10 million** up 75% on purchase price

# WHY REI?

## PLATFORM, OUTLOOK & OPPORTUNITIES

### Platform

- Aligned management with proven track record and 6.7% holding
- Scalable property management platform
- Diversified multi-sector portfolio – a long-term strategy – mitigating risks that are present within sub-sectors
- Market insight from REI's network and knowledge of the region
- Progressive fully covered dividend
- Prudent gearing with a 39.7% LTV
- Low average cost of debt 3.7%
- £25m available to capitalise on downturn

### Outlook

- Operating in a transformational region in the process of rebirth
- Growing economy
- Well publicised relocations of businesses and population migration
- Huge infrastructure projects complete or underway and big regional wins
- Booming residential market
- Limited supply of stock in high demand
- Low interest rate environment in a strong regional investment market
- Attracting international investors who traditionally invest in London

### Opportunities

- Selective Investment Sales – where asset management has been completed and value fully enhanced
- Possible JV – Local authority ownership restructure (£50-£100m)
- Opportunity to acquire institutional orphaned assets
- Brexit 'Cliff Edge' –could be short-term pressured sellers - £25m available
- Permitted development gains
- Add value via letting of void to generate rental and capital growth (£1.6m ERV)
- Pipeline of known opportunities in advanced discussions

# OPERATIONAL TEAM



**Anna Durnford**  
Investor Relations

- Joined REI in 2007
- Provides executive assistance to the Board & oversees operations within the business, to include regulatory announcements and investor relations
- 20 years experience within the legal, financial, accountancy and property sectors
- Previously worked for Ernst & Young & Independent HNW IFA's



**Ian Clark**  
BSc (Hons) MRICS  
Senior Asset Manager

- Joined REI in 2011
- Responsible for the coordinating portfolio asset management strategy across the portfolio
- Qualified chartered surveyor with over 22 years experience in the property market
- Previously worked for GVA and Argent Estates Limited as Asset Manager where he was responsible for the asset management of the 1.5 million sq ft Brindleyplace Estate



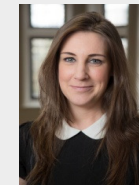
**Andrew Osborne**  
BSc (Hons)  
Investment Manager

- Joined REI in 2014
- Responsible for coordinating investment strategy, specialising in investment acquisition and disposals of commercial properties
- Over 22 years experience in the UK commercial property market
- Previously Senior Asset Manager at Square Metre Properties, on behalf of Goldman Sachs and Fund Manager at Canada Life and Regional Director of Highcross in Birmingham



**Jack Sears**  
BSc (Hons) MRICS  
Asset Management

- Joined REI in 2016
- Responsible for the management of the assets across the portfolio, liaising with managing and letting agents
- Qualified Chartered Surveyor with nearly 10 years experience in the property market
- Previously worked at Bilfinger GVA and BNP Paribas Real Estate as a property manager, assisting corporate clients



**Catherine Gee**  
Property Management

- Joined REI in 2015
- Provides administrative assistance and property related support to management team in the areas of Health and Safety, System Training and Property/Asset Management
- Oversees capital projects works, client office refurbishments and facilities management functions
- Previously worked for Highcross Strategic Advisers for 8 years



**Donna Mooney**  
Receptionist/Administrator

- Joined REI in 2016
- Provides Front of House support and administrative support to the Executive team and operations function
- Donna has had a long and varied career as a Personal Assistant most recently supporting members of the UK&I Leadership team within Corporate Finance and Tax at Ernst & Young LLP





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