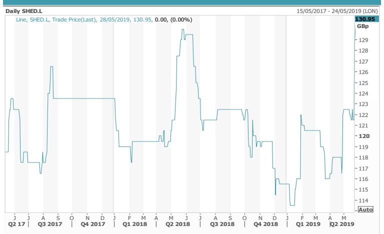
URBAN LOGISTICS

Plenty of future growth stored up

Real Estate



Source: Refinitiv Eikon

Market data

EPIC/TKR	SHED
Price (p)	130
12m High (p)	130
12m Low (p)	113
Shares (m)	87.8
Mkt Cap (£m)	114
EV (£m)	176
Market	AIM

Description

This REIT focuses on strategically located (e.g. urban "last mile"), smaller (typically ca.70,000 sq. ft.) single let industrial and logistics properties, servicing high-quality tenants. The market is in strategic under-supply.

Company information

CEO	Richard Moffitt
Chairman	Nigel Rich

www.urbanlogisticsreit.com
+44 (0)20 7591 1600

Key shareholders %

Directors	1.2
Allianz	11.8
Rathbone	11.0
Janus Henderson	10.5
Sir John Beckwith	8.0
Premier	7.9
GLG	4.4
Blankstone Sington	4.4

Diary

Mid-Jul'19	AGM
Nov'19	Interim

Urban Logistics (SHED) results (24 May) were robust. Prospects for continuing value-adding investment and capital recycling are clear and strong. SHED owns "mid-box", "last mile" distribution warehouses. Just as important is that this asset class is clearly placed to benefit consistently from engrained market trends in logistic requirements. SHED's marketplace is broader than the rising demand for logistics space from online (or multichannel) retail. But, this driver alone sustains strong demand. Supply is strictly constrained by the dominant trend – that the cost of new-build is generally above the current valuations placed on assets in SHED's category (last-mile logistics).

- **FY'19 (March): Results** showed an encouraging total accounting return (NAV rise plus dividend) at over 17% and solid asset growth at 41%. The scale of this underlines the sustainable ambition and another year of success since the IPO in April 2016 – and the dichotomy of a sub-NAV share price.
- **Sector dynamics:** Attention focuses on the different, "big-box" sector. Asset price rises there have bid net initial yields (NIYs) below 6.0%. SHED's average purchase NIY is 7.1%. There is no obvious logic; demand is just as strong and, in SHED's "mid-box" specialism, supply is falling and demand rising.
- **Valuation:** The shares trade at 94% of 2019 EPRA NAV. We find this odd, as 20% of SHED space has short leases, meaning prospects for growing rental income are clear, as rents rise to current market levels. MSCI states 6.5% 2018 sector market rental growth. SHED adds value through asset management.
- **Risks:** 5.5-year leases mean there are reversionary rent rises to come, but also that new leases must be secured. In the past ca.20 years, aggregate rent rises have been minimal. So, once rents and values rebase to higher levels and omni-channel retail growth tails off, new macro drivers need to be found.
- **Investment track record**: SHED listed on AIM in April 2016 and has since built a £185m portfolio of warehouses, generating annualised NAV and dividend returns of 17.7%. Across the market, nationwide, vacancies are low, ca.5% (and SHED nil), so there are many years of growth "baked in", yet to come. Market rents have risen to ca.25% above SHED's current £4.83 sq. ft. level.

Financial summary and valuation

Year-end Dec (£m)	2017	2018	2019	2020E
Rental Income	2.28	5.56	10.80	12.40
Finance costs	-0.60	-0.93	-2.20	-2.80
EPRA operating profit	1.76	4.06	8.30	10.00
Declared profit	4.89	9.86	18.88	18.00
EPS reported (p)	34.12	19.50	22.29	20.52
EPRA EPS (diluted, pre LTIP, p)	7.82	6.12	7.20	8.21
DPS (p)	6.23	6.32	7.00	7.50
Net debt	16.52	44.39	61.64	67.23
Dividend yield	4.7	4.8	5.4	5.8
Price/EPRA NAV (x)	1.12	1.06	0.94	0.88
NAV per share (p)	118.23	123.64	137.37	147.54
EPRA NAV per share (p)	116.11	122.49	138.18	148.00

Source: Hardman & Co Research

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

Table of contents

Results to March 2019

On the day

The results were slightly ahead of expectations and we note the share price rise, indicating possibly that the company is being overlooked and reminding the market of its performance is the principal pleasant surprise.

Net initial yield (NIY) stood at 6.0%.

Buying in at 7.1% yields

Purchase yield (on assets held) is 7.1%.

Showing the ability to grow

The April 2018 follow-on £20m equity capital raise has been successfully deployed – LTV (net) of 33.1% at year-end. Hardman & Co estimates a medium-term LTV range at ca.35.0%.

Showing the ability to grow

Seven logistics properties were acquired for £48.0m, all with asset management potential. Asset management is predominantly related to re-marketing to better quality tenants prepared to pay modestly higher rent and putting in place new (thus lengthened) leases. Asset management includes a modest sum of maintenance capital expenditure but substantial sums do not need to be spent (even in the scenario above).

Disposals in FY'19 totalled £11.3m, all at or above book value, representing average Total (ungeared) Property Return of 25.2%.

Showing the ability to grow

SHED has proven its ability to grow – with investment assets up 41.4% at the year-end, after capital recycling (selling and re-deploying to enhance income streams, profits, cash and hence shareholder value).

WAULT (weighted average unexpired lease term) at year-end was 5.5 years (2018: 5.0 years). Assets are fully occupied.

Three out of three years at or above target

SHED's target total accounting return (TAR) is a range of 10%-15%. Total accounting return equates to NAV growth plus dividends paid.

SHED's TAR for FY'19 was 17.7%.

The TAR is not based on stretched valuations, with NIY at 6.0%

Plenty to go for

Reversionary potential is good with ERV (estimated current market levels of rental value) ca.25% ahead of SHED's current £4.83 sq. ft. rents.

Urban Logistics total accounting returns

	Annual return
FY'17	19.1%
FY'18	10.9%
FY'19	17.7%

Source: Urban Logistics accounts, announcements

Post year-end

Two disposals and an acquisition

17 May disposal a 74% total return in 37 months

Every year we expect a modest amount of capital recycling to take place

On 17 May 2019, Urban Logistics sold a site located on Postley Road, Bedford for £9.2m realising a Total Property Return of 74%, over three years and one month from the purchase date.

Total Property Return is calculated as capital growth plus net rental income plus sale profit expressed as a percentage of the purchase price. The company will adopt this metric going forward when reporting on disposals. The 85,012 sq. ft. site was purchased at the time of the Urban Logistics' IPO in April 2016 for £5.5m. It comprises four industrial units (now disposed) together with a piece of development land, which has been retained. Apperly Estates Limited, the purchaser, has an option to acquire this development land (for £0.5m) if planning permission is granted.

Often purchases have suboptimal leases or suboptimal presentation of the properties…

….the best mode of operation is to buy well and sell at the normal market value

The units are fully let, with an average WAULT (weighted unexpired lease length) of 5.9 years. A five-year lease is the standard lease in this sector (with occupiers tending to remain in situ over several full lease terms). They have undergone extensive asset management, with new rents agreed at £6.52 per sq. ft. on Unit A and £6.26 per sq. ft. on Unit B. A yield basis of a fraction under 6.0% gross rent is a good, but not excessive price, Hardman & Co considers. The value was created by the purchase cost, plus the selection of the appropriate tenant. On acquisition, it was £4.24 average rent and a new tenant was found.

5 April disposal a 21% total return in 19 months

Urban Logistics sold its Nuneaton asset for £8.1m. The 130,508 sq. ft. asset was purchased for £6.7m as part of a portfolio in September 2017 and refurbished. The sale is to Cofresh Ltd, the occupier. The IRR on equity invested at the property level is 24%.

5 April acquisition

M4 corridor. rents are at a premium but that premium is modest

An asset in Thatcham was purchased for £3.4m, which has a net initial yield of 5.9%. The site has a rent of £7.97 per sq. ft. The site comprises a 26,478 sq. ft. logistics warehouse let on a new five-year lease to DHL's UK Mail, which uses it as a last mile strategic hub. Given expected rental increase in this location serving the Reading, Henley and Newbury areas, the asset is valued as being on a reversionary yield of ca.7.0%.

The stated Investing Policy

For completeness, Urban Logistics' stated Investing Policy is that it "will not invest in assets (including development assets) which are unoccupied or not producing income at the time of acquisition unless it is less than 10% of the gross asset value." Urban Logistics from time to time may purchase sites which have vacant assets, but this does not weight the portfolio materially to such assets. In this context, current vacancy levels in the total portfolio are ca.2%.

Share issue

Back end of last year

This announcement, on 21 March, is just prior to the March year-end and the new shares are captured in the year-end total. For completeness, however, we point to the issue of 1.48m new ordinary shares of 1p each, pursuant to the exercise of 1.48m warrants. At IPO, Urban Logistics had outstanding preference debt, now all redeemed, and warrants. The amount of warrants outstanding is nil. The strike price was 97p.

Investment case

Growth

Strong rental growth

Rental growth: Last year's lettings were at annual increases of approximately 7.0% across the portfolio. The increases are stated based on new leases and leases are renewed typically at five-year or shorter intervals.

Growth in value from added "alpha": Last year's disposals showed on average a 25% total property return.

Growth in valuation: The acquired NIY of the portfolio has been 7.1% and the year-end valuation was 6.0% – SHED buys well. It buys well not simply through good negotiation or finding the more motivated sellers, but it actively adds value, driven by improving tenant quality and positioning the offer into the current resilient, rising markets. Rents rise and leases lengthen. Note, the ongoing refurbishment capital expenditure (the quantum which is over and above dilapidations) is expected to run at ca.0.75% of gross asset value. This illustrates to us that SHED is working steadily to enhance its assets but is not relying on particularly substantial expenditure to raise the rents.

A third set of good, double figure % returns

Growth in shareholder value: The accounting return (growth in NAV plus dividends) totalled 17.7% last year. Note, the medium-term target is 10%-15% growth p.a. The market has momentum behind it.

Goldilocks

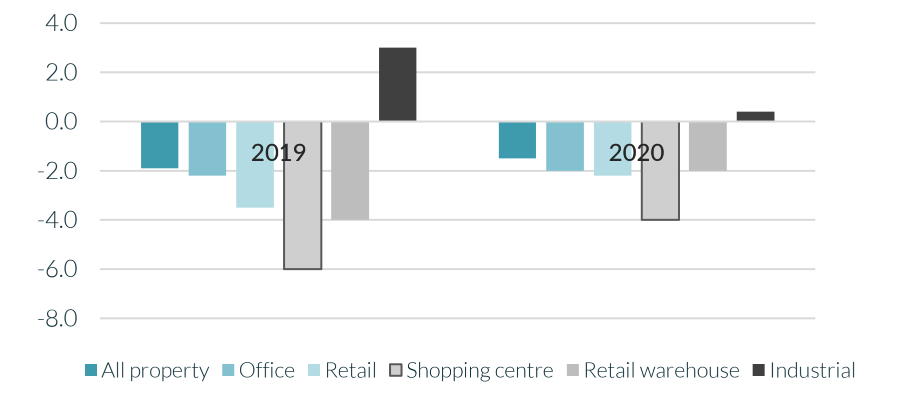
Current position is not over-stretched

Urban Logistics is working from a base, which can be described as firm but not too "hot" at all. First, we look at the current position. Then we will assess the recent base we are working from.

A "stand-out" sector but these modestly priced assets remain below replacement build cost

Urban Logistics rents average £4.83 per sq. ft. This means the cost of moving elsewhere is substantial compared with the rent (and there is no reason to choose elsewhere in this firm market and with SHED offering good assets). It costs the occupier, we understand, some £4m typically to move a 100,000 sq. ft. tenancy. The average Urban Logistics capital value is ca.£80 per sq. ft. This is below ca.£120 (or more) new-build cost, even before factoring in any land value at all.

IPF consensus capital value change (%)



NOTE: "Industrial is "prime" Industrial *Source: IPF*

Good momentum but not "stretched"...

....rents are not high enough to stimulate any meaningful new build

Note, in the chart above, the assets are assessed on the basis that the "Industrial" definition is "prime" Industrial. Figures from MSCI show 2018 growth in secondary (i.e. not Grade A or new-build) rents of 6.5% vs. prime at 5%.

Our thesis is that the current position is for good momentum but not "stretched". Rents are not high enough to stimulate any meaningful new build. There is a land-value planning gain to be had for change of use and the small/mid-(sized) "boxes" are tending incrementally to drift to other uses. Build costs are higher and rising faster for small/mid "box" vs. big box, simply for physical reasons. The smaller more urban sites are much more labour intensive and "difficult" than non-urban (motorway linear) parks' locations for 100,000 sq. ft.-sized objects. We now turn to the recent past (the cycle since 2007) and assess the position of the current market base SHED is working from.

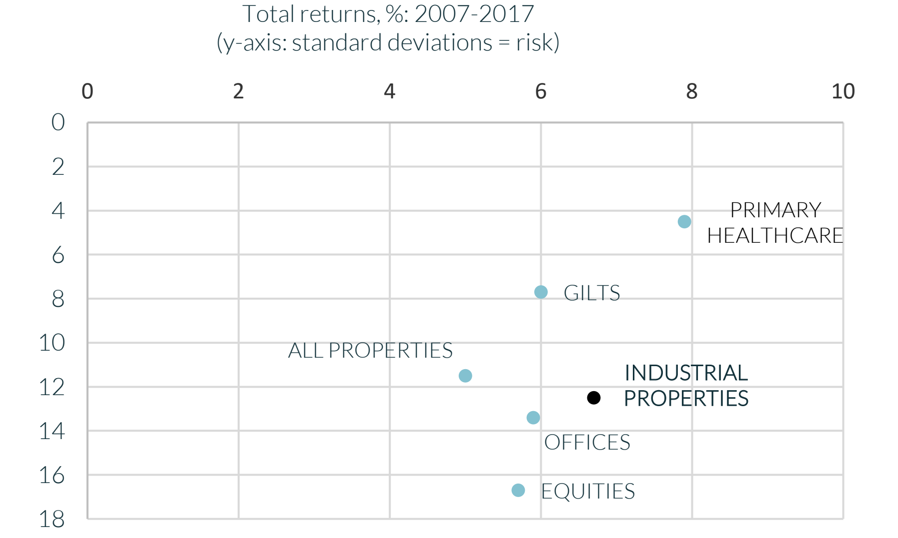
Logistics' historical performance has been good but not "hot"

There are no standard-accepted statistics for logistics as opposed to manufacturing-related real estate assets. Industrial property as a class (dominated by logistics, now) has an interesting track record in recent years.

This asset class generated greater annual returns through the whole cycle (2007-2017) compared with any other major UK asset class. It underperformed only the niche asset class of primary medical assets (local hub doctors' surgeries). Even taking returns from the effective market peak of 2007, the total return through the subsequent 10 years averaged 6.7% for industrial (i.e. logistics) assets in the UK, vs. gilts 6.0%, all-property 4.9% and equities 5.9%.

Through the cycle, industrial properties have outperformed most asset classes

Asset class total returns over the past cycle



Source: Primary Health Properties

We consider that it is encouraging to assess an asset class that has performed well; however, it is also encouraging that the performance has not been "off the scale".

The rise in small/mid-box has not been sufficient to encourage new supply. Since 2012, availability has fallen by 67% (source: LSH), to 75m sq. ft. vs. peak 230m (2012) and the level at the last market peak (2008) of ca.160m.

Pipeline and capital redeployment

FY'20E redeployments

Disposals FY'20 to date enhance shareholder returns in the year alone by over 4%. We would not "bake this in" to our medium-term estimates but, if we did, shareholder returns could be well above 10% p.a.

Regarding FY'20, Urban Logistics has made two disposals and one acquisition – all since the FY'19 year-end (only two months ago). It has also committed to a forward funding (late during FY'19) for completion in FY'20.

The net sum is just over £1m, but this represents a redeployment of £18.8m, merely from announcements in the past three months. We would not extrapolate this to a figure four times the size for the whole year; however, we certainly would point to the strong conviction that Urban Logistics is growing. The management team can be redeploying capital in meaningful size and optimise returns on a much larger future Urban Logistics.

If we just stay with the £18.8m redeployment and £5.1m profits on the disposals, this enhances shareholder returns in the year alone by more than 4%.

25 February 2019

Gross development value of £15.4m

Urban Logistics acquires assets and undertakes forward funding of third-party trusted developer partners. It undertakes no development nor does it expose itself to development risk other than the forward funding. As an example, Urban Logistics exchanged contracts on 25 February 2019 with Carbide Properties Ltd., for the forward funding of two assets at Staffordshire's Stone Business Park and Leicestershire's Lime Kilns Business Park in Hinckley. The forward acquisition is conditional on receipt of planning permission. With a gross development value of £15.4m, the acquisition will be financed from the Urban Logistics' cash resources, including the proceeds from two identified property sales.

FY'20 estimated benefit to interest line of £0.2m and rental income £0.1m

Our forward estimates assume that this acquisition proceeds. Construction of both assets is expected to commence imminently: in June 2019. During the construction period, Urban Logistics will receive a 6.0% interest rate coupon on the forward funding provided. Our estimates assume this within our overall interest figures. Practical completion on the two sites is being targeted for December 2019 and January 2020, respectively. Our income assumption in the year to March 2020 is £0.1m, albeit we expect this may well prove a conservative figure. As stated by Urban Logistics: "We have experienced strong interest from prospective tenants and expect to be fully pre-let by the time both assets reach practical completion."

Relative rating attractions

In the 12-month period subsequent to reporting FY'17 results, the share price traded between 100% and 109% of historical NAV. In the 12-month period subsequent to reporting FY'18 results, the share price traded between 93% and 107% of historical NAV.

SHED currently stands near the bottom of its historical rating vs NAV

Ratings Urban Logistics vs. EPRA NAV

12-month period commencing at reporting of full-year results	Share price low–high (p)	Share price as % of historical NAV
May 2017-May 2018	116-128	100–109%
May 2018-May 2019	114-130	93–107%
May 2019 current	130	94% current

Source: Urban Logistics report accounts, Bloomberg, priced 24 May 2019

The share price appears to be "in the range" for other logistics investors. We note the respective market capitalisation makes Urban Logistics less high profile.

Urban Logistics has a market capitalisation of £114m. Warehouse REIT market capitalisation is £270m. Tritax Big Box market capitalisation stands much higher at £2,460m.

Other logistics REITs trade at below NAV currently

Ratings for the UK logistics REITs on historical data

	P/EPRA NAV	Dividend yield
Tritax Big Box (BBOX) 144p	94.7%	4.7%
Urban Logistics (SHED) 130p	94.2%	5.4%
Warehouse REIT (WHR) 103p	93.6%	5.8%

Source: Bloomberg, priced 24 May 2019

The consistent record of adding value through capital recycling (evidence of recent transactions is stated in this document) and of the spread between NIY at acquisition and NIY of current valuation shows a strong past. The future is indicated by our research on the dynamics of the market. Therefore, we consider that the share price being at a discount to NAV is noteworthy.

Evidence for continuing strong returns

We are only two months in to FY'20 and disposals enhance FY'20 shareholder returns by more than 4%.

Disposals to date fir FY'20 enhance shareholder returns in the year alone by more than 4%. Even only taking into account activity exchanged and completed to date in this fiscal period (two months in), there has been an £18.8m redeployment and £5.1m profits on disposals. Although we see scope for these returns to continue, especially as the 4% is just from activity in a part of the year, let us use 2% as the figure – just to be conservative. This also ignores the benefit of financial gearing.

Figures from MSCI show 2018 growth in secondary (i.e. not Grade A or new-build) rents of 6.5%. In this definition, secondary is the best fit to smaller- and medium-sized assets, which Urban Logistics owns. Although we see scope for these increases to continue, let us use 4% as the figure – just to be conservative.

Net initial yields are 6.0%. Post EPRA costs, this takes the yield to ca.4.5%.

Funding costs are usefully lower but let us ignore this benefit – just to be conservative.

Exceptionally difficult to see FY'20 shareholder returns below 10.5%....

Hardman & Co illustration of potential shareholder returns

	Annual illustrative return
Asset yield net of all property and corporate administrative costs	4.5%
Assumed enhancement through capital redeployment	2.0%
Assumed conservative market rent growth	4.0%
Total – on Hardman & Co's conservative estimates (see above)	10.5%

Source: Urban Logistics accounts and Hardman & Co illustrations and estimates

The current rate is running at a significantly higher level to the illustration, above. Note, this figure also is conservative as the 4% assumed gain from recycling capital is just from activity already booked in this relatively short part of the fiscal year to date.

...Hardman estimates 17.5% is plausible – but it's early days

Current run rates of Urban Logistics shareholder returns FY'20E

	Annual return
Asset yield net of all property and corporate administrative costs	4.5%
Enhancement through capital redeployment (see text above)	4.0%
Estimated market rent growth	5.0%
Effect of financial gearing on the above	4.0%
Total – on Hardman & Co's conservative estimates (see text above)	17.5%

Source: Urban Logistics accounts and Hardman & Co illustrations and estimates

Note that the financial estimates (see page 13) assume a 2% asset revaluation, to be conservative. We see scope for asset values to track market rent growth, namely ca.5.0%. We also note, however, that MSCI forecasts valuation increases of only 3% (for the larger-sized assets and for calendar year 2019).

Total shareholder returns are defined as change in EPRA NAV plus dividends

Total shareholder returns: NAV rise plus dividends paid

Urban Logistics total accounting returns

	Annual return
FY'17	19.1%
FY'18	10.9%
FY'19	17.7%

Source: Urban Logistics accounts

Risks and mitigation

Sector

Sector average rents in 2018 stood at 580p sq. ft. (Savills) vs. 410p sq. ft. end-1Q'12. It is clear that current reinstatement cost of assets (at ca.£100 sq. ft – source CBRE) is well above the valuation on SHED and peer group's assets, so new supply should prove modest and patchily location-specific. So, the rise in rents is justified. However, should demand reverse, a major prop is removed. Still, the other major prop is the shortage of supply. Vacancy rates stand at 5.5%, down from 13% in 1Q'12. Further, the 2012 rental lows were well down on previous highs and rents have gone nowhere for two decades. The dynamics of the sector have been strong for a number of years, but prior to that the supply/demand story was not supportive.

Rents have risen but, of course, given vacancy rates stand at 5.5%, down from 13% in 1Q'12

Yet, is the low vacancy rate and 67% fall in availability 2012-2019 a sign of an over-heating market? We have outlined above why we think not (structural reasons for low supply and ongoing structural reasons for demand growth). Take-up is running at 45m sq. ft. p.a. for "secondary UK industrial" (Savills) and 85m sq. ft. for all industrial (all is including logistics). Since 2012, "secondary UK industrial" (Savills) has been steady at 45-50m sq. ft. p.a. It is availability which has plummeted – to 75m sq. ft. This looks like an inflection point upwards for rents – or at the very least, continuing growth building on past rises.

Since 2012, "secondary UK industrial" demand has been steady at 45-50m sq. ft. p. a. It is availability that has plummeted – by 67% to 75m sq. ft

Online retail is considered to be driving the "story". Online omni-channel fashion and other broad segments of retail are growing strongly but they are not driving logistics real estate. 28% of UK industrial take-up in 2018 was online retail, a large number and much larger than the 3% figure for 2013 (Savills). Nevertheless, still 51% came from TPL (third-party logistics), manufacturing, grocery and high street.

However, if take-up has been steady since 2012 and online has grown from 3% of take-up to 28%, were online to slow, surely that would weigh on the sector take-up? Take-up, ex the expansion in online, would be lower. Certainly, yes. Mathematically, the ca.45m sq. ft take-up would be ca.95% of that level (i.e. 43m sq. ft.) ex the online. The difference is there, but not particularly material.

Online retail is helpful to the sector but is only ca.5% of annual take-up, we estimate

By historical logistics market standards, the current NIY of the sector, including SHED, is low. The NIY adjusted for current ERVs (see the first paragraph in the next section, specific to SHED) makes the rating look much more in line with the higher yields in the past.

Urban Logistics

We understand ERV is ca.25% ahead of passing rent on the SHED portfolio. The NIY being 6.0%, applying a 25% uplift that yield comes to 7.5%.

WAULT (weighted average lease length) stands at 5.5 years, a low number. Is this a risk? Yes: it is a near certain risk of rental increases as units fall vacant and all at below current market rents. This conclusion is the only one possible, given the preceding paragraph. Furthermore, leases are one thing, occupancy another. We understand the average length of occupancy for SHED tenants is 19 years.

Reversionary, so short leases are a positive

Were the take-up growth to halt, *and* new build come onstream (which for reasons outlined above, it will not) and, say, *and* Brexit were to cause a collapse in demand, the rating of the sector might come under pressure. We do not expect items one and three to be likely and, if item two seems logically impossible under current strong markets, in a weaker market, that would be all the more so.

All assets are let to a single tenant. They are all good covenants (Experian ratings data).

Glossary

EPRA is the European Public Real Estate Association, the industry body for European REITs.

EPRA cost ratio is a proportionally consolidated measure of the ratio of net overheads and operating expenses against gross rental income (with both amounts excluding ground rents payable). Net overheads and operating expenses relate to all administrative and operating expenses, net of any service fees, recharges or other income specifically intended to cover overhead and property expenses.

EPRA Cost Ratio sometimes is stated as including direct vacancy costs or conversely excluding direct vacancy costs. Nearly all REITs have some level of vacancies as part of the business model, so we focus little on EPRA costs excluding voids.

EPRA operating profit principally excludes revaluations gains/losses on investing and trading property. It also excludes changes in the fair value of financial instruments. It includes items such as early lease surrender premiums.

EPRA net asset value (EPRA NAV) is a proportionally consolidated measure, representing the IFRS net assets excluding the mark-to-market on derivatives and related debt adjustments (this is the adjustment of net assets and EPRA net assets in our spreadsheet), as well as deferred taxation. It is adjusted for the dilutive impact of share options.

EPRA net initial yield is the annualised rents generated by the portfolio, after the deduction of an estimate of annual recurring irrecoverable property outgoings, expressed as a percentage of the portfolio valuation (adding notional purchaser's costs), excluding development and residential properties.

EPRA NNNAV is the EPRA NAV adjusted to reflect the fair value of debt and derivatives and to include deferred taxation on revaluations.

Estimated rental value (ERV) is the external valuers' opinion of the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

Direct property costs are fairly self-explanatory; this usually is a low figure as leases are fully repairing. However, the figure may include (amortisation of pre-paid) lettings fees. It will not include capitalised capital expenditure, some of which may be prompted by refurbishment when tenants vacate. As an aside, we understand that over the medium term this figure may be ca.0.75% of gross assets for Urban Logistics, although this may change over time as the portfolio is constantly evolving.

LTV is loan to value of the ratio of debt to the total value of investment assets. It is sometimes sated as gross debt ignoring cash but we use net debt, which includes cash held.

LTIP is a long-term incentive plan for senior management and Urban Logistics had an A, B and C share scheme. A shares crystallised in FY'18 and some B and C shares are likely to crystallise in FY'21. There are fair value movements in the year. These are excluded from EPRA profits.

Net current assets are often modestly negative for REITs, including rent payable (end-March being a "quarter day" when rent usually falls to be invoiced).

Other income may, for example, include payments from tenants for dilapidations (when they vacate) over and above the monies spent to refurbish the asset which the dilapidation deposit covered.

Revenue can include early lease surrender premiums (we would highlight this) and it can "gross up" small figures for some of the service charge, which includes insurance, for example.

Financial analysis

Revenue account				
Year-end Mar (£m)	**2017**	**2018**	**2019**	**2020E**
Rental income	2.28	5.56	10.80	12.40
Vacant property costs	0.00	-0.49	-0.60	-0.30
Direct property costs	-0.02	-0.07	-0.10	-0.20
Net income	2.26	5.00	10.10	11.90
Administrative expenses	-0.50	-1.07	-1.80	-1.90
Other income/ costs	0.00	0.13	0.00	0.00
EPRA operating profit	1.76	4.06	8.30	10.00
Property Revaluation	3.88	7.19	13.40	5.80
Profit on disposal, transaction costs	0.00	0.06	0.20	5.10
LTIP charge	-0.03	-0.66	-0.12	-0.10
Other income/ costs	0.00	0.00	0.00	0.00
Operating profit	5.60	10.65	21.78	20.80
Finance	-0.60	-0.93	-2.20	-2.80
Fair value changes	-0.11	0.13	-0.70	0.00
EPRA PBT (pre LTIP, etc.)	1.32	3.13	6.10	7.20
PBT, as declared	4.89	9.86	18.88	18.00
Tax	0.00	0.00	0.00	0.00
EPRA PAT	1.32	3.13	6.10	7.20
EPRA EPS (p) (pre LTIP, diluted)	7.82	6.12	7.20	8.21
EPRA EPS (p) (adj. post LTIP, diluted)	7.82	4.91	7.06	8.09
EPS (p) (diluted) reported	34.12	19.50	22.29	20.52
DPS (p)	6.23	6.32	7.00	7.50
Average shares issue (diluted)	14.33	50.56	84.70	87.75
Year-end shares issue	21.45	68.11	87.69	87.75
Adj. EPS adds back LTIP crystallisation stated here	0.00	0.62	0.12	0.10

Source: Urban Logistics report and accounts; estimates: Hardman & Co Research

Balance sheet				
@ 31 Mar (£m)	**2017**	**2018**	**2019**	**2020E**
Investment properties	43.42	131.85	186.40	199.70
Derivatives	0.00	0.02	0.00	0.00
Long term liabilities (deposits, derivatives)	-0.76	-0.67	-1.64	0.00
Long-term debt	-18.20	-47.67	-71.40	-71.40
Net current assets excluding financial	-0.78	-2.60	-2.66	-3.00
Cash, deposits, short term debt	1.68	3.28	9.76	4.17
Net cash (debt)	-16.52	-44.39	-61.64	-67.23
Net assets	25.36	84.21	120.46	129.47
EPRA net assets	24.91	83.43	121.17	129.47
NAV/share (p)	118.23	123.64	137.37	147.54
EPRA NAV/share (p)	116.11	122.49	138.18	148.00
Asset revaluation	3.88	7.19	13.40	5.80
LTV (net debt)	38.0%	33.7%	33.1%	33.7%
LTV (gross debt)	41.9%	36.2%	38.3%	35.8%

Source: Urban Logistics report and accounts; estimates: Hardman & Co Research

Our estimates assume £5m additional net acquisitions of investment properties are made in FY'20E. WE believe the likely outcome may be a higher level of net investment. The investment in FY'20E also includes all transactions to date as well as the forward funding entered into.

Were our estimates to assume no additional acquisitions of investment properties in FY'20E, EPRA EPS would be estimated at 8.00p and LTV (net) would be 32.9%. We consider this to be an unlikely scenario.

Cashflow				
Year-end Mar (£m)	2017	2018	2019	2020E
Cash from operations	3.29	4.80	8.47	10.00
LTIP	0.03	0.66	0.12	0.12
Net cash flow from op. activities	3.32	5.46	8.59	10.12
Investing activities	-23.11	-51.40	-18.22	-7.50
Finance	-0.52	-0.78	-1.83	-2.40
Free cash flow operation and investment	-20.31	-46.72	-11.46	0.22
Share issue	20.68	51.23	22.80	0.00
Dividends	-0.31	-2.91	-4.76	-5.81
Other	0.00	0.00	0.00	0.00
Net cash change	0.06	1.60	6.58	-5.59
Net cash (short-term)	1.68	3.28	9.76	4.17
Net cash/(debt)	-16.52	-44.39	-61.64	-67.23

Source: Urban Logistics report and accounts; estimates: Hardman & Co Research

Disclaimer

Hardman & Co provides professional independent research services and all information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. However, no guarantee, warranty or representation, express or implied, can be given by Hardman & Co as to the accuracy, adequacy or completeness of the information contained in this research and they are not responsible for any errors or omissions or results obtained from use of such information. Neither Hardman & Co, nor any affiliates, officers, directors or employees accept any liability or responsibility in respect of the information which is subject to change without notice and may only be correct at the stated date of their issue, except in the case of gross negligence, fraud or wilful misconduct. In no event will Hardman & Co, its affiliates or any such parties be liable to you for any direct, special, indirect, consequential, incidental damages or any other damages of any kind even if Hardman & Co has been advised of the possibility thereof.

This research has been prepared purely for information purposes, and nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell any security, product, service or investment. The research reflects the objective views of the analyst(s) named on the front page and does not constitute investment advice. However, the companies or legal entities covered in this research may pay us a fixed fee in order for this research to be made available. A full list of companies or legal entities that have paid us for coverage within the past 12 months can be viewed at http://www.hardmanandco.com/legals/research-disclosures. Hardman may provide other investment banking services to the companies or legal entities mentioned in this report.

Hardman & Co has a personal dealing policy which restricts staff and consultants' dealing in shares, bonds or other related instruments of companies or legal entities which pay Hardman & Co for any services, including research. No Hardman & Co staff, consultants or officers are employed or engaged by the companies or legal entities covered by this document in any capacity other than through Hardman & Co.

Hardman & Co does not buy or sell shares, either for their own account or for other parties and neither do they undertake investment business. We may provide investment banking services to corporate clients. Hardman & Co does not make recommendations. Accordingly, they do not publish records of their past recommendations. Where a Fair Value price is given in a research note, such as a DCF or peer comparison, this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities, companies and legal entities but has no scheduled commitment and may cease to follow these securities, companies and legal entities without notice.

The information provided in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hardman & Co or its affiliates to any registration requirement within such jurisdiction or country.

Some or all alternative investments may not be suitable for certain investors. Investments in small and mid-cap corporations and foreign entities are speculative and involve a high degree of risk. An investor could lose all or a substantial amount of his or her investment. Investments may be leveraged and performance may be volatile; they may have high fees and expenses that reduce returns. Securities or legal entities mentioned in this document may not be suitable or appropriate for all investors. Where this document refers to a particular tax treatment, the tax treatment will depend on each investor's particular circumstances and may be subject to future change. Each investor's particular needs, investment objectives and financial situation were not taken into account in the preparation of this document and the material contained herein. Each investor must make his or her own independent decisions and obtain their own independent advice regarding any information, projects, securities, tax treatment or financial instruments mentioned herein. The fact that Hardman & Co has made available through this document various information constitutes neither a recommendation to enter into a particular transaction nor a representation that any financial instrument is suitable or appropriate for you. Each investor should consider whether an investment strategy of the purchase or sale of any product or security is appropriate for them in the light of their investment needs, objectives and financial circumstances.

This document constitutes a 'financial promotion' for the purposes of section 21 Financial Services and Markets Act 2000 (United Kingdom) ('FSMA') and accordingly has been approved by Capital Markets Strategy Ltd which is authorised and regulated by the Financial Conduct Authority (FCA).

(Disclaimer Version 8 – Effective from August 2018)

Status of Hardman & Co's research under MiFID II

Some professional investors, who are subject to the new MiFID II rules from 3rd January, may be unclear about the status of Hardman & Co research and, specifically, whether it can be accepted without a commercial arrangement. Hardman & Co's research is paid for by the companies, legal entities and issuers about which we write and, as such, falls within the scope of 'minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive II.

In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are: (b) 'written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public…'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf

In addition, it should be noted that MiFID II's main aim is to ensure transparency in the relationship between fund managers and brokers/suppliers, and eliminate what is termed 'inducement', whereby free research is provided to fund managers to encourage them to deal with the broker. Hardman & Co is not inducing the reader of our research to trade through us, since we do not deal in any security or legal entity.

research@hardmanandco.com

35 New Broad Street
London
EC2M 1NH

+44(0)20 7194 7622

www.hardmanandco.com