TRITAX EUROBOX

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2022 Full Year Financial Results

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Tritax EuroBox plc

3rd Floor, 6 Duke Street St James's, London SW1Y 6BN

T: +44 (0)20 7290 1616 E: eurobox@tritax.co.uk www.tritaxeurobox.co.uk

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Registered office: 3rd Floor, 6 Duke Street St James's, London SW1Y 6BN

Robert Orr, Chairman:

Good morning and welcome to our full year results for the financial year ended September 2022.

I am Robert Orr, Chairman of Tritax EuroBox and I'm joined by Phil Redding, Mehdi Bourassi and Jo Blackshaw.

This has been a significant year for EuroBox.

During the first 6 months, we carefully deployed the proceeds from our equity raise in September 2021 into high quality assets that will reinforce the strength of our portfolio. And, as market conditions changed over the summer, we focused on the ongoing optimisation of the business. An important part of this was revising the Investment Management Agreement. This has reduced the Manager's fee by over €2 million and will significantly lower our cost ratio. Another significant change in the year was leadership. I would like to take this opportunity to thank Nick Preston for his key role in establishing our high-quality portfolio.

I am delighted that Phil Redding has taken on the leadership of EuroBox: with his extensive experience in the European logistics market, we feel he is ideally placed to do so. As you will hear from the team, the strength of our portfolio and robust balance sheet means we are very well positioned to weather the economic headwinds we are facing. The steps taken by the board and the management team over the last 12 months will support attractive income growth in the years to come, optimise performance and create value for our shareholders.

With that I will hand over to Phil.

Phil Redding, CEO:

Thank you, Robert, and good morning, everyone.

I am delighted to be presenting my first Annual Results for Tritax EuroBox - and to provide you with an update on the good progress the Company has made during the year

We will follow the normal format - with a brief introduction from me, followed by Mehdi taking you through the financial performance. Then I will come back to provide some thoughts on the business, the market and the key elements of our activity over the last 12 months.

After that Jo will co-ordinate the Q&A. And if you do have any questions, please submit them on the webcast for Jo to collate.

So, to start, some opening comments from me.

I have been working in the European logistics sector now for over 30 years, and during that time I have been involved in all aspects of the market and have worked through a number of market cycles.

And it is clear that we are entering a more challenging environment, and the logistics sector will not be immune.

But, in thinking about this changing context, it's also clear to me that EuroBox is very well positioned, having a strong, resilient platform, with opportunities to further optimise performance, and capture income growth.

Looking at our platform here on the left. The portfolio has the right assets, in the right locations to fully benefit from the positive structural drivers in our sector.

And, as I say, the portfolio is very resilient, being focused on high quality assets, producing high quality income, and with opportunities to grow rental income from within the existing portfolio. This is underpinned by a robust financial position, with a low average cost of debt, no near-term refinancings, and the ability to fund existing and future initiatives. And in terms of the performance of the business on the right, I am pleased with the progress made on several fronts, in particular on achieving our priorities of lowering the cost ratio and covering the dividend. This has been achieved by growing our income and improving operational efficiencies – in particular the lowering of the Managers fee. These activities have had a positive impact on this year's results, but will flow through more fully next year.

So, as we enter our fifth year, the business has a strong, established platform, a portfolio with significant potential and we are delivering against our priorities. I will come back to expand on these points in more detail later, but first Mehdi will run through the financial results.

Mehdi Bourassi, CFO:

Thank you Phil, good morning, everyone. In the next few minutes, I will run through our financial results for the year which demonstrate the strength of our enlarged portfolio, and the benefits of our focus on growing income and lowering costs, while maintaining a robust balance sheet.

Our financial period 2022 has been an important year. During the first 6 months we were successful in deploying the €250m we raised just before the start of the year, and the benefits of our investments are now coming through, with the full effect expected in FY23. We also made important changes to our Investment Management agreement and delivered a number of successful asset management initiatives.

In terms of headline figures, our Adjusted EPS is 4.24 cents a share, with a dividend for the year of 5 cents, and although this means we are only 85% covered for the full year, the dividend was fully covered for the 4th quarter, as we committed to do, and we expect to continue to be covered going forward.

Our NAV has increased slightly for the entire year, which reflects an increase in the first 6 months of the year, followed by a decrease in the last 6 months. This was mainly driven by valuation movements, with a marked softening in yields in the last quarter of the financial year.

Let's first break down the profit and loss statement, starting with the growth in our income. You can see here how our contracted rent has evolved during the financial year, and you can also see that we have high visibility on the drivers of our additional contracted income in the short term.

To illustrate this clearly, the chart here refers to annualised figures for each component. Starting on the left, we began the financial year with an annualised contracted rent of 53.4m. We acquired 9 properties, for circa €533m, driving the contracted rent up by €18.9m. As we acquired these properties throughout the first 6 months, these have not yet made a full contribution to the earnings.

Moving right, you can see how indexation has driven rents up €1.3m. A majority of our rents have yearly uncapped indexation, and during this period of increasing inflation we expect the indexation effect to accelerate as we capture recent movements. Phil will talk more in detail about indexation in our leases later in the presentation. Continuing right, you see an additional €0.7m rent generated through asset Management initiatives, such as the Hammersbach lease surrender and re-letting. This takes us to contracted rent at the end of the period of €74.3m. We define contracted rent as rent actually being paid, and hence we expect to see the full effect of it in the 2023 financial year. Finally, to the right and in the near future, you can see we have three projects for which capex is currently being spent and which are expected to deliver €5.3m of further income in the next 12 months. The Barcelona extension is now complete, and the tenant has started paying rent from the end of November. The Oberhausen development, which is expected to receive permit imminently, will start benefiting from licence fee income as soon as we start construction, expected in calendar Q1 next year. Finally, the Settimo development will benefit from a rental guarantee from completion, which is expected in calendar Q2 2023. These projects would take yearly contracted income to €79.6m. This means we have good visibility as to our short term top line growth, and you will hear a bit later from Phil how further effects from indexation and asset management, will drive more rental growth in the medium term.

Moving on to cost, this has been a clear priority for us and I am very pleased we delivered an amendment to our Investment Management agreement during the period, lowering the Manager fees significantly starting August 2022. FY 22 only sees two months benefit, and we expect the full annual savings to be circa €2m based on the latest NAV. Looking now at the chart, you can see how we calculate an adjusted EPRA cost ratio of 29.5%. Starting on the left, the unadjusted EPRA cost ratio is 41.3% for the full year.

A significant portion of this reflects the €4.3m we paid our tenant at Hammersbach to vacate the building early. This enabled us to re-let immediately at 24% higher rent, capturing the reversion and generating €12m net profit. So, we see this as an investment to improve rents and values but under IRFS it is expensed as a direct property cost

The next bar relates to licence fees and rental guarantees we received during the year, which cannot be recognised as income under IFRS, but which are part of our Adjusted Earnings. Taking into account these two adjustments, we have an Adjusted Cost ratio for the year of 29.5%. And as I mentioned, the adjusted ratio for the year reflects only two months of reduced management fees. As we move into 2023, the full year effect of this saving, coupled with additional income, means that we expect to achieve a mid 20% adjusted cost ratio in the next financial year, and we aim to keep that ratio in a range between 20% and 25%, in line with our pan European peers.

We have now seen how top line and cost have evolved, and what we expect for the short term. This leads us to our Earnings position, and dividend. We have declared during the year a total of 5 cents dividend, which is 85% covered for the full year. However, the positive evolution throughout the year, leads us to a covered position in the last quarter, and confirms we are structurally covered going forward. The further benefits in cost savings and additional income I have just described in previous slides, will continue to improve the level of quarterly Adjusted earnings per share throughout 2023. Going forward, our objective continues to be to deliver a covered and progressive dividend. We will also maintain our policy of distributing at least 90% of our Adjusted Earnings. For simplicity and to ensure full coverage, we are guiding to a steady dividend for the first 3 quarters of the next financial year, at 1.25 cents a quarter and will then decide the amount of any progression in the fourth quarter.

Moving on to the balance sheet now. I will first cover the asset side, with a focus on valuation movements, before covering the debt. The portfolio is valued at year end at €1.77bn. The valuation NIY is 3.8%, and reversionary yield is 4.2%. Overall, on a like for like basis, our valuation increased 5.6% compared to last year. From an investment market's perspective, the financial year can be broken down into two distinct periods. Until the start of summer 2022, we saw continued yield compression leading to a strong positive valuation movement in the first 6 months. Since summer, we have seen the effect of high inflation and higher risk-free rates leading to a softening of market yields, and a significant reduction in transactions across all our markets. Between March 2022 and year end, our valuation NIY increased by circa 30bps, from 3.5% to 3.8%, representing a circa 8% rise. The valuation decrease in the second half was however mitigated by a number of factors inherent to our portfolio: increased income through asset management and indexation, completion of the Mango extension, and finally strong ERV growth.

Turning to ERV in the bottom chart, at year end, the reversionary potential of the portfolio is 9.5%; this means that if all our properties reverted to market rents, we would capture a €7.1m increase in rent. As Phil will describe a bit later, all our markets are characterised by tight supply and very low vacancy, which continues to support rental growth; This is especially the case in core, Western European locations where our portfolio is concentrated. Moving on to the liabilities side of the balance sheet, our debt position is strong. As you can see on the chart, we have no maturities before Q4 2025, when our most expensive debt, the RCF will mature. 73% of all our debt benefits from fixed coupons, with the remainder all hedged. The Green Bond benefits from an all-in 0.95% coupon, whilst the Private Placement benefits from an average 1.37% fixed coupon. The RCF is floating, but benefits from an interest-rate cap maturing at the end of 2023, limiting the rise in Euribor to 0.65%.

All in all, our average cost of debt during the year was 1.22%, and the run-rate cost of debt, when all debt is drawn is 1.46%. We expect the average cost of debt in next financial year to be between these two figures. Our LTV is 35.2% as at year end and increases to 40.6% if you include all our commitments on developments and extensions. We expect a large majority of these commitments to be paid during 2023 calendar year and will be funded through drawing on our RCF. At this point, the RCF has another 130m undrawn capacity, but we will be cautious with respect to our debt levels, until we have better visibility on market conditions.

To conclude, we have taken some significant steps to improve our financial performance during the year, with the full effect of these actions also flowing into next year's numbers:
- Our contracted income will continue to grow and benefit from the Asset Management and development activities.
- Our cost ratio will come down with the full effect of the reduced Management fee and other measures.
- We expect to structurally cover the dividend through 2023 and beyond.
- And we will continue to maintain the strength of the balance sheet by adopting a cautious approach to our capital deployment.

I am confident we can further improve our performance during 2023 through our focus on delivering organic growth and driving operational efficiencies

And now I will hand back to Phil.

Phil Redding:

Thank you, Mehdi.

Before I provide an update on the market and our activities during the year, I'll first take a moment to briefly summarise my perspective on our portfolio strategy, our approach to creating value – and how these factors come together to build resilience. The quality that we have created in our portfolio is based on the four key elements that you can see here on the left:
-Primarily, large-scale, modern buildings, with excellent ESG credentials.
-Focused on key transport corridors close to large centres of population.
-Leased to strong customers with inflation-linked reviews.
-And with the portfolio having the appropriate exposure to risk.

And on the right, I've highlighted the way we proactively manage the portfolio to add value:
-Through Portfolio Management – that is maintaining the optimum portfolio composition and balance.
-Through working with our locally based asset management partners on leasing, regears and other value enhancement initiatives.
-Through collaboration with our customers to support their growth ambitions.
-And through our relationships with key developer-partners to fund and develop new buildings.

This approach is underpinned by a set of core principles:
-A disciplined approach to capital allocation.
-Managing the balance sheet to maintain a robust financial position.
-And our commitment to ESG which permeates through all aspects of how we run the business.

This strategy has delivered the strong portfolio that we have today, and it will continue to provide both resilience and opportunities to grow our income over the long term. And it is this portfolio strength that will be particularly important as we move into more challenging market conditions Starting here with the investment market. As has been widely reported that the changing macro picture is feeding through into European property markets with adjustments to asset pricing becoming more apparent over the second half of the year. And although investment volumes remained high in Continental Europe into Q3. Investor sentiment has now shifted, and we are likely to see the number of transactions fall significantly over the next two quarters. This will continue to impact pricing in the short term, and I expect capital values to soften further as we move into 2023. But although the logistics sector will not be immune to the short-term macro headwinds, it's important to remember that inflation linked reviews, rental growth, reversions and the ability to capture asset management gains, will insulate the sector to some degree. All of these characteristics are present in our portfolio - and I will talk more about these in a moment.

Turning now to occupational markets, and the outlook is more positive. What we are hearing from our customers is that they continue to seek long term solutions to three important priorities:
- Enhancing their e-commerce capability.
- Building resilience in their supply chains.
- And reducing the environmental impact of their operations.

These structural drivers remain an important source of demand across all our markets. So, as you can see in the top right chart. Take up remains robust and is derived from a diverse range of occupiers and sectors.

Moving now to the supply-side. While the development of new space has been relatively high, this has not kept pace with demand and as shown in the chart on the bottom right, the net effect being that rents continue to grow, and vacancies remain very low. Looking forward, although take-up is likely to fall from the current high levels to a more normalised run rate, this will still represent a very healthy amount of demand. And we also expect development activity to reduce, helping to keep market dynamics favourable.

So, we will continue to monitor market conditions very closely, but I remain confident that the business is well positioned to benefit from the positive structural drivers, and strong market fundamentals, that will continue to support to the sector for some time to come. Before I turn to our activities in the year, I just want to emphasise the resilience of our business - this is a really key strength and one that we have deliberately built into the portfolio. This resilience is derived from two elements, the high quality of our sustainable assets, and the strength of our income. The high quality of our assets is captured here:
-The portfolio is focused on modern buildings, located in core Western European markets, close to large sources of consumption.
-And comprising large-scale buildings, which can be easily adapted to accommodate a range of occupier demand.
-The integration of our ESG targets into our portfolio strategy underpins this position – and is reflected in the further improvement in our ESG credentials during the year.
-The fully integrated asset plans and our close collaboration with customers, ensure this high-level performance is maintained, and we will continue to invest in projects that lower environmental impact and allow us to meet our ESG goals over the long term.

I'm really encouraged by these on-going initiatives and further progress here is a key objective for the team in 2023. The second key component of portfolio resilience is the quality of our income and you can see that the portfolio is extremely well positioned:
-It is well-diversified;
-Our customers are large and financially strong;
-And the assets are let on predominantly long-term leases with an average WAULT of 8 years.
In addition, our customers have the scale and resources to take long-term decisions, which enables them to invest in automation and technology to improve operations within their buildings.
-And the strength of this income is demonstrated by the occupancy of over 99%, and the rent collection rate of 100% that is consistently delivered by the portfolio

I also want to highlight the indexed-linked structure of our leases, which is particularly important with the high levels of inflation across Europe.

Nearly all of our occupational leases have some sort of annual uplift. 54% have uncapped annual increases linked to inflation - 29% have a hybrid arrangement or caps - and 14% have fixed uplifts This structure enables inflationary increases to be passed efficiently into rental income. So taken together, our high quality, sustainable assets and high-quality income give us a resilient asset base, which will underpin performance over the coming years. And turning to our activities during the year, these have reinforced the strength of our portfolio.

The priority in the first half was the deployment of the proceeds from the prior year's equity raise and during this period, we acquired 9 high quality assets totalling €530m, comprising a range of stabilised, value-add and development strategies. I have highlighted here two of the acquisitions which demonstrate our approach:
-Roosendaal in the Netherlands was purchased off-market through LCP, one of the company's preferred developer-partners. The warehouse totalling over 113,000 sqm is a rarity in a market, where the land, and gaining consent for such a large-scale building, is extremely challenging. It is occupied in its entirety by Lidl who use it for back-up storage to provide additional capacity to their network. Whilst this is a stabilised investment, the relatively low commencing rent, together with the full annual indexation, and potential to capture the 24% reversion at the end of year 5 provides the ability to meaningfully grow rents through the initial period of ownership.
-The second example is an off-market acquisition in Sweden, sourced through Verdion, again a preferred developer-partner. A speculative funding in a very constrained market 9 km north of Stockholm just south of Arlanda Airport. The current ERV is 8% above the agreed rental guarantee - with on-going lease negotiations well in excess of this level, providing the opportunity to capture this reversion on the lease-up of the building – which we expect to do well within the 12-month guarantee period.

Our acquisitions demonstrate that we can intelligently source high quality investments, which add to our portfolio resilience, but also offer the near-term potential to increase underlying rental income. And as market conditions shifted in the second half of the year, our priorities moved to be focused on growing income and extracting value from the existing portfolio. The 3 examples shown on the slide provide a cross-section of the type of approaches we adopt to increase rents and generate value:
-With Hammersbach, which Mehdi has mentioned, we proactively agreed a surrender of the existing lease and accelerated the capture of the reversionary potential, by immediately re-letting the warehouse to a strong new customer, resulting in a 24% increase in the passing rent. We also took the opportunity during the negotiations to amend the indexation and review clauses to improve the overall investment.
-The Mango extension, which is now complete and income producing, highlights the advantages of owning buildings with expansion land, and the attractive returns that can be generated from

working collaboratively with our customers to facilitate their growth. As Mehdi has outlined, the additional income of €2.3m per annum will be a big contributor to our top-line rent growth in 2023.
-And the development at Bornem shows how speculative development carefully targeted in the right markets can attract new customers, create new rental income streams and generate attractive returns.

These and other asset management activities have added around €4.4m to the annual rent roll during this last financial year. And we will continue to use our proven asset management skills to unlock the additional income opportunities that are embedded within the portfolio. This chart provides an illustration of the income growth potential that we see in the current portfolio over the near to medium term. Starting on the left, you can see the €79.6m of rental income that Mehdi described earlier, including the contracted income at Barcelona, Oberhausen and Settimo. Moving right. In the near term, we have good visibility on capturing the reversion from leasing up our speculative developments with these projects currently generating an encouraging level of interest. And discussions are on-going with existing customers on a number of extension possibilities, and preparation work is also progressing well on the redevelopment at Malmo. While timing will be dependent to some extent on market conditions, we would expect all these projects to be delivered over the next 2 -3 years. Indexation assumed here over a 5-year period will of course be driven by levels of inflation, but we will continue to improve the structure of our inflation clauses whenever the opportunity arises. And finally, on the right you see the portfolio reversion some of which may take some time to fully crystalise but again, as the Hammersbach example demonstrates, it is possible to accelerate the capture of these uplifts through proactive asset management. So, this chart illustrates the attractive income growth potential within the existing portfolio and delivering this will be the focus of the team over the coming years.

So to summarise today's presentation, during the year we have continued to build on our strong platform and optimise our operational performance. The priorities for the year were clear:
-From a portfolio perspective – to deploy the proceeds of our prior year equity raise - to reinforce portfolio resilience and provide future income growth opportunities.
-And from an operational perspective - to reduce the cost ratio and cover the dividend, by lowering the management fee and increasing revenues through growing rental income.

As Mehdi and I have both outlined, we have taken significant steps during the year to deliver these priorities, with the positive impacts expected to feed through into earnings more fully in 2023. And looking forward - the near-term focus will be on securing the income growth opportunities we currently have within the portfolio, as well as seeking further operational efficiencies. So, to conclude, our portfolio is well positioned to benefit from the long-term structural drivers in our markets, we have an established platform, a resilient portfolio and strong balance sheet, and the team will continue to focus on growing income and optimising performance.

And with that we can open up to questions.

Jo Blackshaw, Investor Relations Director:

Thank you. Just a reminder, if you would like to ask a question, please use the toolbar below and type your questions in. I'll just leave a few moments for people to get their questions in.
Thank you. So, we've got a couple of questions on the broader market. Paul May is asking, how negotiations with tenants have been affected, if at all, by the cost pressures that tenants are facing with regard to energy and wages?

Phil Redding:

So, in talking to our customers at the moment, these don't seem to be big factors. I think as we said before, the total occupational costs relating to logistics buildings is a smaller percentage than some of these other costs. And so, in terms of what people, when they're looking at rents and inflationary increases on the rents, it is a smaller proportion to some of their others. So, we are not hearing any pushback from tenants regarding that at the moment.

Jo Blackshaw:

Thank you. And another broader market question around the insulation for EuroBox in terms of the threats caused by any economic slowdown across the portfolio.

Phil Redding:

Yeah, well I think the first thing is we are very aware of the market outlook and the potential for conditions to weaken. I think the important thing about the EuroBox portfolio is the strength of its assets. I've mentioned in the presentation the strength of the underlying customers that we have, the long leases, the fact that the portfolio is fully let with an eight years WAULT. All these things will insulate the portfolio to some degree together with the great locations that it's at. I suppose also in terms of the EuroBox portfolio, there is a number of things we can do to add value to the portfolio in terms of asset management activities, the developments and the extensions that will also add to the performance and insulate the business to some degree.

Jo Blackshaw:

Thank you. So further questions around strategy in the portfolio. We're being asked about indexation of the rental contracts, and I know we've spoken to this in the presentation, but just a reminder of what percentage of our leases are capped and uncapped and fixed uplift.

Phil Redding:

Yeah, so I think this was in the presentation, but to remind everybody. In the portfolio, 54% of the leases are uncapped CPI, or paid annually. So, 54% annual uncapped. Another 29% of the portfolio link to CPI, but some of these are hybrid arrangements, so some will have caps, the majority of the caps around 4% of CPI. Then we have a fixed percentage of about 14%, that's fixed at 0.9%. And finally, 3% with no increases, and that is really just short-term leases or leases approaching the end.

Jo Blackshaw:

Okay. And looking at the rental income, so on rents, what is the current IFRS rental income? And what's the quantum of rental guarantees and or license fees in the €74.3 million of contracted rent?

Mehdi Bourassi:

Thank you, Jo. So, the IFRS rental income is 57.9 million for the year. As a reminder, the IFRS rental income has a number of accounting adjustments such as rent smoothing. We try to strip that out to get to a free cash flow position in our adjusted earnings, which is then based to determine the dividends we paid. So that's on rental income. And then on your second question, which is on rental guarantees, the rental guarantees represent circa 7% of the contracted income of the 74.3 million. Out of the 7%, some of it is license fee on existing developments which have a pre let in place. So, the rental guarantees are licensed. When it expires it will be replaced immediately by the tenant in place already. And some of it is on the speculative basis where we are actively looking for tenants as we build the buildings.

Jo Blackshaw:

Thank you, Mehdi. So, moving on to looking at the balance sheet, what's been the impact of rising interest rates on any debt obligations of the company? And how do we view the current financing environment in terms of interest rate caps on our RCF?

Mehdi Bourassi:

So currently as I explained in the presentation, we have 73% of our total debt, which is benefiting from fixed coupons. That's the green bond we raised last year and the private placement we raised at the end of last year. The 27%, which is floating, is currently benefiting from an interest rate cap, which limits the rise a year to 0.65%. That cap is maturing at the end of 2023, and we will be looking to renew that cap during the calendar year next year.

Jo Blackshaw:

Thank you. And then looking at your LTV, are there any plans to increase the LTV, or looking at what LTV and net to ND/EBITDA levels we feel comfortable with?

Mehdi Bourassi:

So just as a reminder, the LTV at period end was around 35%, but if we include all the CapEx and commitments, that gets us to 40.7%. We still have c.€130 million of available undrawn debt beyond that. But we are conscious that valuations are currently under pressure from yield expansion and that means that the 45% LTV targets, which is a medium term through the cycle target, at this point we are happy with the current level of LTV, and we are not looking to increase our level of drawdown to get to that 45%. So, in the short term we are not expecting to increase the LTV by further deployments.

Jo Blackshaw:

Thank you. Now looking at the portfolio further, could you please outline how you're thinking about new standing investments going forward?

Phil Redding:

Is that acquiring standing investments? Is that the question?

Jo Blackshaw:

So how we're thinking about the standing investments and whether we're going to diversify more in terms of the tilt to value add?

Phil Redding:

Yeah okay. Well look I think, and you would've picked it up from the presentation, the main focus of the business at the moment is to deliver the growth opportunities and the income that we currently have from within the existing portfolio. And that will be the main focus of the team. I think in terms of undertaking new acquisitions, we will continue to look at the market. Obviously, we've got great contacts all over continental Europe, so our intelligence there is strong. But in terms of acquiring new investments, that isn't a priority for the business at the moment. Again, the focus will be on trying to get as much value and income out of the opportunities we currently have.

Jo Blackshaw:

Thank you, yes. And in the same vein question from Mike Prew at Jeffries, are there any assets we might consider selling to reinvest in land development? And if we can talk a little bit more about our development partners?

Phil Redding:

Yeah. Well in terms of disposals, I probably should remind everyone we undertake a regular bottom-up asset by asset review. This is to ensure that we maintain the portfolio performance. And part of this exercise is to identify disposals. I mean this is part of our normal portfolio management process. I would say at the current time we've seen investments volumes fall, so there is limited liquidity, a lot of investors pausing investment decisions at the moment. So, I don't think it is a good time to be actively looking to sell at the moment, when the only buyers are looking for substantial discounts. Now I do expect this situation to change as we go into the new year, and I would expect market conditions to become more supportive to disposals. And so, in terms of disposals, I think that is something that we will look to explore more fully next year rather than right now.

I think the second part of that was investing into land. And again, as I said before, at the moment the priority is to use the money we have available to fund the existing projects that we have within the existing portfolio. So that will be the priority. And so again, new acquisitions, whether that's investments or land, not the priority. And I think the final part of that was about our development partners, Dietz and LCP, which we have a very strong relationship with, who I have met on several occasions since taking the leadership role. Of course, we have other development partners as well in Verdion and also MIGS Logistik AB in Sweden. Hopefully we'll continue to build the relationships with those development partners. But also yeah, I think definitely look to try and expand the relationships we have with other development partners in the new year. I don't see any reason why we can't grow the number of partners that we have.

Jo Blackshaw:

Thank you. And then going back to looking at our tenants and customers, in terms of looking forward to vacancies, are we aware of any tenants that plan to vacate or indeed are there any conversations ongoing to renew or extend contracts?

Mehdi Bourassi:

We have regular conversations with our tenants. We will not be commenting on specific discussions with specific tenants, but obviously we keep a very close eye to all our tenants, the great worthiness of our tenants and also what the reversion in this space or in these buildings are. So yes, we are having a lot of these discussions.

Phil Redding:
Just to add maybe a little bit more colour about what we're hearing from our customers. Because from my perspective from going out into the portfolio and meeting the customers, it's been quite noticeable how they are still focusing on growing. I think there is a number of solutions that they're looking for. I mentioned it in the presentation, they're still looking to enhance their eCommerce capabilities, still looking to build resilience in their supply chains. Obviously looking to reduce environmental impact. So, I think companies, particularly the companies that we have in EuroBox, tend to be bigger organisations in bigger buildings, stronger companies. They're looking at multiyear investments in their supply chains. And it seems that in my conversations, some of those customers are looking through short term challenges.
I think we are closely watching how the economy evolves and obviously we recognise that growth could slow, and business confidence may be affected, and this could affect decisions on leasing and expansion and maybe this could feed through into lower overall demand levels. But I think we've got to remember that demand is coming from exceptionally high levels. Market conditions are still fundamentally tight on the supply side. We don't expect more development to come through, particularly with the cost and limited availability of debt. And it's getting increasingly hard to source land for these opportunities. So, I think that will keep market dynamics favourable going forward.

Jo Blackshaw:

Thank you, Phil., So also another question. So, we've seen spreads widen between the level's buyers are willing to pay and sellers are willing to accept. Could you provide some more colour please in relation to your acquisitions, how these negotiations are going, as well as if you're seeing any early signs of distress among sellers, please?

Phil Redding:

Yeah, I think I've mentioned it. The priority of the business at the moment is to focus on the opportunities that it has. We're fortunate that the business has a number of expansion opportunities through building extensions and developments. And that is the focus rather than doing acquisitions. And I think more generally in terms of buyers and sellers in the market, I briefly commented, we have seen values weaken and this is a result of the liquidity and transactions in the market falling. So, the sellers out there at the moment are faced with some pretty opportunistic buyers and that is coming through in the yields. Indeed, that has come through in the EuroBox portfolio to a degree in the second half. Now I would expect as we go into the new year for yields to probably soften a little bit more, to reflect that buyer and seller dynamic. But I do think that the market, the liquidity will return, and transactions will increase as we move through the year in 2023.

Jo Blackshaw:

Great, thank you. And Mehdi, question from Saravana at RBC is you negotiating all new leases to be uncapped inflation linked? And do you aim to increase your exposure to these leases over time to a certain level, or prefer to retain some exposure to fixed uplifts in anticipation of inflation returning to historical levels over time?

Mehdi Bourassi:

I mean we clearly prefer uncapped inflation linked. It's currently, as we said earlier, representing 54% of the total leases and we'd like that figure to be higher. We believe the fixed components currently in the portfolio is averaging 0.9% fixed indexation. We believe over the long term that inflation will be higher than the 0.9%. We've been successful actually in signing in all our recent leases, unlimited CPI and that translates the favourable landlord market we have currently and the tight supply and low vacancy we have in the market. So yes, to your question, the plan is to continue to try and aim for uncapped CPI in all the leases.

Jo Blackshaw:

Thank you, Mehdi. Broader questions now about where we think capital values and yields are going Phil?

Phil Redding:

Yeah, I've sort of touched on it haven't I. In my presentation, I noted that transactions volumes were likely to fall into Q4 and pricing in the logistics sector will continue to soften. And again, this has come through in the EuroBox portfolio over the second half. I mean it really was a year of two halves with values at 8% first half and then down to 2.3% in the second half on a like for like basis. But then I think as we look forward, I think it is pretty difficult to predict where the yields are going to go. And at the moment a lot of the pricing is being driven by the macro. But probably just worth two things to touch on here, in terms of things that may mitigate for the yield expansion, particularly in the logistics sector. And I think firstly the point to get across is on the macro, that picture does seem to be stabilising and I think interest rate and bond yields in continental Europe maybe will not increase sharply as other jurisdictions.

Obviously at the moment bond yields and swap rates in continental Europe are much lower than the UK. And also, there is still a significant amount of capital looking to gain exposure to the listings sector. And any pricing adjustment could be seen by some as an attractive entry point. That may help make the yield movements in continental Europe a little bit more shallow than what we're seeing perhaps here in the UK. And the other thing is, in terms of the portfolio itself, the EuroBox portfolio, there are things that we will be doing that will help mitigate as well, such as the rental growth that we have in the existing portfolio indexation, the asset management initiatives, capturing those reversions, all that organic growth will help to offset the market yield shifts, which may come through in the new year.

Jo Blackshaw:

Thank you. Another question from Paul May at Barclays, would analysing the fourth quarter '22 adjusted earnings of 1.26 cents be a good guide for full year '23? Or will additional income from higher starting rents and lower cost from the investment management fee propel earnings growth further?

Mehdi Bourassi:

Yes, I think yes and yes. The annualising the Q4 is, call it a floor for our EPS, but you've seen in the presentation how we expect additional income and lower costs to further enhance that EPS number. So, we expect the dividend to be covered. As I said, we expect dividends to be steady in the first three quarters. Our objective is for that dividend to be covered and will decide for any uplift in that dividend in the fourth quarter, yes.

Jo Blackshaw:

Thank you, Mehdi. And another question on how we're looking at views on potentially selling assets across the portfolio and how we look at that.

Phil Redding:

Yeah, well I think I've mentioned this haven't I, it is a process that we go through on a regular basis. And as I said, I think at the moment with liquidity very low and the opportunistic crisis around that, it's not a good time to be doing that. But I would expect us to, market conditions to get more supportive and certainly undertaking disposals next year be something that I'll be very keen to explore.

Jo Blackshaw:

Thank you. Just a reminder, if you've got any questions, please use the toolbar to type them in. I think we've got across most of the questions now. Thank you, I'll hand back to you Phil.

Phil Redding:

Well thank you very much for everyone to dial in this morning. Thank you very much for your time. I hope you found the presentation and the Q&A informative and if you have any other questions that Mehdi and I or Jo can help with, please feel free to forward them after we finish. But thank you very much for your time and good morning.