SEGRO

17 October 2018

SEGRO plc

Trading Update

SEGRO plc ("SEGRO" or the "Group") today publishes a trading update for the period from 1 July 2018 to 16 October 2018[1].

David Sleath, Chief Executive, said:

"SEGRO's business has continued to perform well in the third quarter of 2018. Ongoing favourable occupier market conditions have enabled us to achieve another strong leasing performance for both new and existing space. The development pipeline is strong, with 891,000 sq m approved or under construction, of which 71 per cent has been pre-leased.

"In line with our disciplined approach to capital allocation, we have exchanged or completed disposals totaling over £200 million during the period at a significant premium to book value, taking advantage of strong investor demand and a limited supply of prime, well-located assets.

"The structural trends of e-commerce and urbanisation continue to underpin occupier and investor demand for prime warehouse space, notwithstanding near-term economic and political uncertainty in the UK. We remain optimistic about our prospects for the remainder of the year and into 2019."

Positive leasing momentum driven by robust occupier market (Appendix 1)

- We contracted £12.6 million (Q3 2017: £8.8 million) of new headline rent[2] during the third quarter, including £4.2 million (Q3 2017: £3.8 million) in rent from existing space. Total contracted headline rent for the nine months to 30 September 2018 was £52.0 million (9M 2017: £36.4 million), 43 per cent ahead of a very strong prior year comparator.
- We completed 219,800 sq m (Q3 2017: 313,000 sq m) of new developments in the quarter, capable of generating £10.6 million (Q3 2017: £12.0 million) of headline rent, of which £8.5 million has been leased.
- The vacancy rate increased slightly to 5.2 per cent (30 June 2018: 4.8 per cent) primarily due to completion of speculative developments during the period. The vacancy rate on the standing portfolio has remained stable.
- We have continued to capture reversionary potential from our portfolio, with new headline rents on review and renewal 9.5 per cent higher in the nine months to 30 September 2018 (30 June 2018: 5.5 per cent).

Significant investment activity focused on delivering profitable and low risk developments

- At 30 September 2018, 891,000 sq m of space was in the current development pipeline, equating to potential future headline rent of £46 million (30 June 2018: 1.1 million sq m, £54 million) of which 71 per cent has been secured (30 June 2018: 71 per cent). Once complete and fully let, the pipeline is expected to generate a yield on total development cost of approximately 7 per cent. Developments capable of generating £10 million of headline rent are expected to complete in the fourth quarter, of which £7 million has been secured.
- In 2018 to date, we have invested £454 million in our development pipeline (including land, infrastructure and asset development) and we remain on course to invest in excess of £500 million in 2018 as whole.

Enduring investor demand for high quality warehousing continues to support capital values (Appendices 2 and 3)

- During the third quarter we completed an off-market acquisition of a recently completed, speculatively developed big box warehouse in the Netherlands for £22 million (SEGRO share £11 million). We also invested £25 million in our land bank, of which approximately half is associated with development projects in London, Bologna and Lyon due to commence imminently.
- We disposed of £106 million of land and assets during the third quarter, including the portion of the site of the former Nestlé factory in Hayes, west London, approved for residential development. We have retained the land zoned for industrial development and intend to commence construction of urban warehouses in this supply-constrained market in 2019.
- On 11 October 2018 we exchanged contracts to sell a 158,000 sq m warehouse in Rome for €118 million, taking the opportunity to capitalise on very strong demand from a wide range of international investors. This transaction completed on 16 October 2018.
- The CBRE Monthly Index reported a 2.3 per cent increase in UK industrial property capital values for the third quarter (9.4 per cent increase for the first nine months of 2018).

Financing activity has improved the balance sheet by extending debt maturity and reducing the cost of debt

- Net debt (including our share of debt in joint ventures) at 30 September 2018 was £2.8 billion (30 June 2018: £2.6 billion), equating to a pro forma[3] look-through LTV of 31 per cent (30 June 2018: 29 per cent).
- During the period, we completed a US Private Placement of €300 million 10 year and 15 year senior unsecured notes at a blended coupon of 2.2 per cent, using the proceeds in part to repay the remaining 2019 bonds.
- At 30 September 2018 the average cost of debt (including our share of debt in joint ventures) was 1.9 per cent (30 June 2018: 2.0 per cent).
- As disclosed in our half year results, we expect to receive a performance fee from the SELP joint venture during the fourth quarter, currently estimated to have a net impact of approximately £10 million on adjusted profit. Further details can be found in SEGRO's half year results statement at www.segro.com.
- Approximately 22 per cent of the interim dividend was paid as scrip, resulting in the issue of 1.8 million new shares during the period. Earnings per share for 2018 are expected to be based on an average of 1,009 million shares.

Financial calendar

The 2018 full year results will be published on Friday 15 February 2019.

[1] In this statement, space is stated at 100 per cent, whilst financial figures are stated reflecting SEGRO's share of joint ventures. Financial figures are stated for the period to, or at, 30 September 2018 unless otherwise indicated. The exchange rate applied is €1.12:£1 as at 30 September 2018.

[2] Headline rent is annualised gross passing rent receivable once incentives such as rent free periods have expired.

[3] Based on values at 30 June 2018, adjusted for acquisitions, disposals and other capital expenditure during the third quarter.

Appendices

1. Leasing data for the period to 30 September[1 2]

		Q3 2018	Q3 2017	9M 2018	9M 2017
Take-up of existing space (A)	£m	4.2	3.8	10.1	7.2
Space returned[2] (B)	£m	(2.7)	(1.5)	(9.5)	(4.5)
NET ABSORPTION OF EXISTING SPACE (A-B)	**£m**	**1.5**	**2.3**	**0.6**	**2.7**
Other rental movements (rent reviews, renewals, indexation) (C)	£m	4.0	1.0	6.3	3.5
RENT ROLL GROWTH FROM EXISTING SPACE	**£m**	**5.5**	**3.3**	**6.9**	**6.2**
Take-up of developments completed in the period – pre-let space (D)	£m	8.5	11.8	20.3	14.8
Take-up of speculative developments completed in the past two years (E)	£m	0.7	2.7	4.0	6.5
TOTAL TAKE UP (A+C+D+E)	**£m**	**17.4**	**19.3**	**40.7**	**32.0**
Less take-up of pre-lets and speculative lettings signed in prior periods	£m	(8.5)	(11.8)	(22.5)	(15.5)
Pre-lets and lettings on speculative developments signed in the period for future delivery	£m	3.7	1.3	33.8	19.9
RENTAL INCOME CONTRACTED IN THE PERIOD[2]	**£m**	**12.6**	**8.8**	**52.0**	**36.4**
Take-back of space for redevelopment	£m	(0.1)	(0.6)	(0.3)	(3.2)

1 All figures reflect headline rent (annualised gross rental income, after the expiry of any rent-free periods), exchange rates at 30 September and include joint ventures at share.
2 Excluding space taken back for redevelopment.

2. Acquisitions completed during the three months to 30 September 2018

Asset location / type	Purchase price[1] (£m, SEGRO share)	Net initial yield (%)	Topped-up net initial yield[2] (%)
Continental Europe: Big box warehouse	11.4	0.0	6.4
Continental Europe: Land	24.8	n/a	n/a
UK: Land	0.1	n/a	n/a
Total acquisitions during the quarter	**36.3**	**0.0[3]**	**6.4[3]**

1 Excluding acquisition costs; purchase price reflects exchange rate at 30 September 2018 and includes joint ventures at share.
2 Topped up net initial yield includes rent due after expiry of rent-free periods.
3 Yield excludes land acquisitions.

3. Disposals completed during the three months to 30 September 2018

Asset location / type	Gross proceeds[1] (£m, SEGRO share)	Net initial yield (%)	Topped-up net initial yield[2] (%)
UK: Big box warehouse	21.1	5.2	5.2
Continental Europe: Big box warehouse	24.6	6.1	6.2
UK: Land	60.5	n/a	n/a
Total disposals during the quarter	**106.2**	**5.7**	**5.8**
Continental Europe: Big box warehouse (completed on 16 October 2018)	*105.4*	*5.1*	*5.1*

1 Proceeds reflect exchange rate at 30 September 2018 and include joint ventures at share.
2 Topped up net initial yield includes rent due after expiry of rent-free periods.

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This Trading Update, the most recent Annual Report and other information are available on the SEGRO website at www.segro.com/investors.

Neither the content of SEGRO's website nor any other website accessible by hyperlinks from SEGRO's website are incorporated in, or form part of, this announcement.

Forward-Looking Statements: This announcement contains certain forward-looking statements with respect to SEGRO's expectations and plans, strategy, management objectives, future developments and performances, costs, revenues and other trend information. These statements are subject to assumptions, risk and uncertainty. Many of these assumptions, risks and uncertainties relate to factors that are beyond SEGRO's ability to control or estimate precisely and which could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Certain statements have been made with reference to forecast process changes, economic conditions and the current regulatory environment. Any forward-looking statements made by or on behalf of SEGRO are based upon the knowledge and information available to Directors on the date of this announcement. Accordingly, no assurance can be given that any particular expectation will be met and SEGRO's shareholders are cautioned not to place undue reliance on the forward-looking statements. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules and the Disclosure and Transparency Rules of the Financial Conduct Authority), SEGRO does not undertake to update forward-looking statements to reflect any changes in events, conditions or circumstances on which any such statement is based. Past share performance cannot be relied on as a guide to future performance. Nothing in this announcement should be construed as a profit forecast. The information in this announcement does not constitute an offer to sell or an invitation to buy securities in SEGRO plc or an invitation or inducement to engage in any other investment activities.

About SEGRO

SEGRO is a UK Real Estate Investment Trust (REIT), and a leading owner, manager and developer of modern warehouses and light industrial property. It owns or manages 6.3 million square metres (68 million square feet) of space valued at over £8 billion, serving customers from a wide range of industry sectors. Its properties are located in and around major cities and at key transportation hubs in the UK and in nine other European countries.

For further information see www.SEGRO.com/investors.