**20 October 2016**

# SEGRO plc

## Trading Update

SEGRO plc ("SEGRO" or the "Group") today publishes a trading update for the period from 1 July 2016 to 19 October 2016[1].

**David Sleath, Chief Executive, said:**

"Our operating business has shown continued strength over the third quarter. We have seen further absorption of existing space and our development pipeline continues apace with £8 million of new pre-lets signed, funded by the well-supported equity placing in early September.

"Despite an initial hiatus following the UK's Referendum on EU membership, liquidity is starting to return to the UK investment market and there remains strong demand for high quality warehouse assets from a broad range of investors.

"During the third quarter, we have completed sales of £131 million of assets and land, all in line with or above book value at 30 June, and invested £174 million in improving and growing our portfolio, including the acquisition of big box warehouses near Barcelona and Turin and £84 million of development capex."

**Continued momentum on leasing and pre-leasing of warehouse space (Appendix 1)**

- Continuing the positive leasing trend seen in the first half of 2016, we contracted £13.5 million of new rent during the third quarter, including £3.9 million in rent from existing space. We completed 169,500 sq m of new developments, capable of generating £11.0 million of gross passing rent once fully let, of which £6.1 million has been leased.
- As expected, the vacancy rate has increased since 30 June 2016 to 5.7 per cent (from 4.8 per cent) reflecting the completion of speculatively developed space during the period which has not yet let (adding 1.3 percentage points to the vacancy), particularly two big box warehouses in Rugby Gateway, partly offset by net absorption of existing space and lettings of other recently completed speculative developments.
- Rents are continuing to improve in our UK markets, especially in London and South East England. In the nine months to 30 September 2016, new rents on review and renewal were 5.5 per cent higher in the UK (4.6 per cent for H1 2016) and 0.4 per cent lower (1.7 per cent lower for H1 2016) in our Continental European portfolio, due mainly to slightly lower rents on renewal in Central Europe, stable rents in Germany and modest increases in France.

**New pre-let developments added to committed development pipeline since 30 June 2016**

- We signed eight new, unconditional pre-let agreements totaling £8.2 million of new rent during the period, including a big box warehouse in Rome let to a global online retailer and an urban warehouse in Paris let to FedEx/TNT.
- At 30 September 2016, 553,400 sq m of space was under development, equating to potential future annualised rent of £28.8 million (30 June 2016: £26.5 million) of which 76 per cent is now let or pre-let (30 June 2016: 440,469 sq m, 67 per cent let or pre-let). These projects should generate a yield on total development cost of 7.8 per cent with a cost to complete of £188 million (30 June 2016: £125 million).

- We invested £41 million in land for future development, including in Frankfurt for urban warehousing and in Rome for development of a pre-let big box distribution warehouse.

**Disciplined Capital Allocation: evidence of enduring investor demand for quality warehousing (Appendices 2 and 3)**

- The IPD Monthly Index showed a 2.1 per cent fall in UK industrial property capital values for the third quarter (1.6 per cent decline for the first nine months of 2016), although values stabilised in September.
- During the quarter, we invested £49 million in asset acquisitions at a blended initial yield of 6.6 per cent. Included in these were big box warehouses let to ID Logistics (50,000 sq m, 10 year lease) just outside Barcelona and to sports retailer Decathlon (23,400 sq m, 12 year lease) in Turin. We also purchased a 10,800 sq m urban warehouse within Milan's ring-road let to AF Logistics and Amazon which is ideally located for rapid distribution into the city.
- We generated proceeds of £131 million from disposals of standing assets (at a blended topped-up initial yield of 5.5 per cent) and land. The sale proceeds, which include a £37 million net receipt from the sale of two big box warehouses in the Netherlands into our SELP joint venture, reflect a blended premium of 1 per cent to book values at 30 June 2016.

**Financing activity focused on funding development capex and improving SELP flexibility**

- Net debt (including our share of debt in joint ventures) at 30 September 2016 was £1.9 billion (30 June 2016: £2.1 billion) principally reflecting the receipt of proceeds from the equity placing and net investment during the period. We continue to expect to deploy the funds raised in the equity placing into our development pipeline over the next 12 to 18 months.
- The look-through loan to value (LTV) ratio at 30 September 2016 (based on asset values at 30 June 2016, adjusted for development expenditure, acquisitions and disposals) was 32 per cent.
- Our stated currency hedging policy is to protect the value of our euro-denominated net assets and earnings from exchange rate volatility, which is currently achieved principally through the use of currency swaps. Based on the current exchange rate of £1:€1.12, the LTV ratio would increase to 34 per cent when adjusted for the anticipated cash settlement in the fourth quarter of the outstanding currency swap liability on our balance sheet. The translation gain on our euro denominated assets arising from the strengthening euro more than offsets this liability, whilst our reported earnings also benefit from the re-translation of our net euro-based income.
- On 18 October 2016, our SELP joint venture announced that it had launched and successfully priced an issue of unsecured, €500 million notes due 2023. The net proceeds, expected to be received on or about 25 October 2016, will be used to prepay the majority of SELP's existing secured debt which will both reduce the cost and improve the efficiency of financing the joint venture.

**Financial calendar**

The 2016 full year results will be published on Friday 17 February 2017.

[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 2016 unless otherwise indicated. The exchange rate applied is €1.16:£1 as at 30 September 2016.

## Appendices

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

| | | Q3 2016 | Q3 2015 | 9M 2016 | 9M 2015 |
|---|---|---|---|---|---|
| Take-up of existing space[2] (A) | £m | 3.9 | 6.2 | 12.0 | 15.8 |
| Space returned[3] (B) | £m | (2.4) | (3.9) | (9.0) | (12.2) |
| **NET ABSORPTION OF EXISTING SPACE (A-B)** | **£m** | **1.5** | **2.3** | **3.0** | **3.6** |
| Other rental movements (rent reviews, renewals, indexation)[2] (C) | £m | 0.5 | 0.1 | 1.3 | 0.3 |
| **RENT ROLL GROWTH FROM EXISTING SPACE** | **£m** | **2.0** | **2.4** | **4.3** | **3.9** |
| Take-up of pre-let developments completed in the period[2] (D) | £m | 5.1 | 0.6 | 11.6 | 3.6 |
| Take-up of speculative developments completed in 2015 and 2016 to date[2] (E) | £m | 1.3 | 1.0 | 6.4 | 1.6 |
| **TOTAL TAKE UP[2] (A+C+D+E)** | **£m** | **10.8** | **7.9** | **31.3** | **21.3** |
| Less take-up of pre-lets and speculative lettings signed in prior periods[2] | £m | (6.2) | (0.6) | (13.7) | (3.7) |
| Pre-lets and speculative lettings signed in the period for delivery in later periods[2] | £m | 8.9 | 3.3 | 17.8 | 8.1 |
| **RENTAL INCOME CONTRACTED IN THE PERIOD[2]** | **£m** | **13.5** | **10.6** | **35.4** | **25.7** |
| Take-back of space for redevelopment | £m | (0.4) | (0.1) | (0.9) | (0.9) |

*1 All figures reflect exchange rates at 30 September and include joint ventures at share.*
*2 Annualised rental income, after the expiry of any rent-free periods.*
*3 Annualised rental income, excluding space taken back for redevelopment.*

### 2. Acquisitions completed during the three months to 30 September 2016

| Asset location / type | Purchase price[1] (£m, SEGRO share) | Net initial yield (%) | Topped-up net initial yield[2] (%) |
|---|---|---|---|
| Continental Europe: Big box warehouse | 40.9 | 6.4 | 6.4 |
| Continental Europe: Urban warehouse | 7.8 | 7.5 | 7.5 |
| Continental Europe: Land | 41.0 | n/a | n/a |
| **Total acquisitions during the quarter** | **89.7** | **6.6[3]** | **6.6[3]** |

*1 Excluding acquisition costs; purchase price reflects exchange rate at 30 September 2016 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 2016

| Asset location / type | Gross proceeds[1] (£m, SEGRO share) | Net initial yield (%) | Topped-up net initial yield[2] (%) |
|---|---|---|---|
| UK: Light industrial | 84.8 | 4.5 | 5.2 |
| Continental Europe: Big box (sale to SELP) | 37.1 | 6.0 | 6.0 |
| Continental Europe: Land (sale to SELP) | 9.3 | n/a | n/a |
| **Total disposals during the quarter** | **131.2** | **4.9[3]** | **5.5[3]** |

*1 Proceeds reflect exchange rate at 30 September 2016 and include joint ventures at share.*
*2 Topped up net initial yield includes rent due after expiry of rent-free periods.*
*3 Yield excludes land disposals.*

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**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 over six million square metres of space valued at £7.4 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.