



**THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION FOR IMMEDIATE RELEASE. THE INSIDE INFORMATION RELATES TO SEGRO'S PROPOSED RIGHTS ISSUE DESCRIBED BELOW.**

**10 March 2017**

**SEGRO ACQUIRES FULL OWNERSHIP OF £1.1 BILLION  
AIRPORT PROPERTY PARTNERSHIP**

***Near-term and future growth potential from  
asset management and development***

SEGRO plc ('SEGRO') has acquired the 50 per cent interest in the Airport Property Partnership joint venture ('APP') it does not already own from the Aviva Group Entities<sup>1</sup>.

SEGRO has acquired the 50 per cent interest for £365 million, which has been funded with a combination of £216 million of cash and the disposal of £149 million of assets to the Aviva Group Entities.

SEGRO acquired its original stake in APP in June 2010, and was asset manager for the joint venture, with Aviva Investors acting as fund manager. APP contains 21 direct property assets, valued at £1,097 million (in line with book value at 31 December 2016) and totalling 350,000 sq m, 87 per cent of which (by value) are located at London's Heathrow Airport, including the majority of the airport's airside cargo facilities. The portfolio also includes one development project underway, which is expected to complete in 2017. The portfolio had a vacancy rate (at 31 December 2016) of 7.5 per cent and an average lease length of 11 years to the earliest of break or expiry.

At 31 December 2016, the properties generated annualised passing rent of £42 million with a further £6 million payable after expiry of rent-free periods. This reflects a net initial yield of 3.6 per cent rising to 4.2 per cent on expiry of rent-free periods. However, the net initial yield on acquisition does not reflect the expiry of leases on peppercorn rents in 2019 which are reversionary and, if current market rates are realised, should increase the headline rent by approximately £11 million.

**Acquisition funded with a combination of cash and standing assets**

The total consideration for the acquisition was broadly in line with 50 per cent. of the net asset value of APP at 31 December 2016. SEGRO has paid the Aviva Group Entities a cash consideration of £216 million for its 50 per cent interest. Today, SEGRO announced the launch of a fully underwritten 1 for 5 rights issue in part to fund such cash consideration.

The balance of the consideration has been satisfied by the disposal to the Aviva Group Entities of four wholly-owned London industrial assets and a recently-completed manufacturing facility in Portsmouth, valued at £149 million, in line with book value at 31 December 2016, adjusted for deferred income and tenant deposits. The assets total approximately 70,000 sq m of space, and generated £6.0 million of passing rent at 31 December 2016, with a further £1.6 million payable after

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<sup>1</sup> The "Aviva Group Entities" are Aviva Life & Pensions UK Limited, acting on its own behalf, as nominee of A/C A214, and for and on behalf of Aviva Linked Property Fund; Quarryvale One Limited; and Norwich Union (Shareholder GP) Limited.

expiry of rent-free periods. This translates into a net initial yield of 3.7 per cent, rising to 4.8 per cent on expiry of rent-free periods.

### **Benefits of the transaction**

- **Asset management opportunities within the portfolio:** There are a number of opportunities to enhance the income generation of the portfolio over the next three years, including reducing the portfolio void rate and the capture of reversionary potential, particularly the re-gearing of peppercorn leases that expire in 2019.
- **Future development potential:** There is one development underway, within the North Feltham Trading Estate, on which 7,300 sq m of new urban warehouse properties are being constructed, but there are also a number of other sites suitable for either near-term in-fill developments or longer-term redevelopment. The most significant of the longer-term opportunities is the Heathrow Cargo Centre which was built in the 1960s and requires redevelopment to cater for the current needs of cargo handlers and to expand its capacity to meet occupier demand for space.
- **Future expansion of Heathrow Airport:** The UK government's decision to support a third runway at Heathrow significantly increases the likelihood of expansion in the medium to long-term which would enable airlines to serve an increased number of international and domestic markets. This should, in turn, increase the volume of cargo passing through Heathrow Airport and, therefore, the demand from airlines, airport and airline service companies, cargo handlers and other users of industrial property for the limited space in and around the airport.
- **In line with SEGRO's strategy:** SEGRO is familiar with the assets through its current asset management role and will not incur any incremental management costs through attaining full ownership, although it will no longer earn fees in relation to its role as asset manager. The acquisition is in line with SEGRO's strategy of building scale in its core markets, and having full control will improve operational flexibility to take future decisions regarding the portfolio and to pursue asset management and investment opportunities.

Commenting on the acquisition, SEGRO's Chief Executive Officer, David Sleath, said:

"The strong working relationship between the teams at SEGRO and Aviva Investors has enabled the APP portfolio to deliver excellent performance over the last five years and we appreciate Aviva's contribution to making APP such a successful partnership.

"We believe now is the right time to take full control and ownership over APP in which we see a number of opportunities to realise further value from its unique portfolio in the short and long term. We look forward to pursuing our development plans, taking advantage of strong occupier demand for facilities around Heathrow from customers needing rapid access both to the airport and to Central London.

"Our Heathrow portfolio is one of the jewels in our crown and we are delighted to be able to add scale in this supply-constrained market."

**ENDS**

## **Conference call for investors and analysts**

The Company has released a separate announcement this morning in relation to its fully underwritten 1 for 5 rights issue described above. A conference call in relation to the rights issue will be held at 08:00 (UK time) this morning and further details, including with respect to eligibility requirements for participation, can be found in this separate announcement.

### **For further information, please contact:**

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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 £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](http://www.segro.com/investors).