

23 February 2017

Regional REIT Limited

Conditional Acquisition of c. £129m of Property Assets from The Conygar Investment Company PLC

Significant deal to expand UK regional footprint and expand asset management opportunities

Regional REIT Limited (LSE: RGL) (“Regional REIT”, “the Group” or “the Company”), the UK regional office and industrial property focused REIT, today announces that it has reached an agreement with The Conygar Investment Company PLC (“Conygar”) (LSE: CIC) to acquire UK regional office, industrial and retail & retail distribution investment properties owned by Conygar (the “Conygar Property Portfolio” or the “Portfolio”), valued at c. £129m. Regional REIT will acquire the properties by way of purchasing the Special Purpose Vehicles (“SPVs”) that own the individual assets. Pursuant to the terms of the proposed acquisition Regional REIT will issue ordinary shares at its EPRA Net Asset Value (30 June 2016), adjusted as agreed between the parties, to acquire the Conygar Property Portfolio at the net asset value of the SPVs, again adjusted as agreed between the parties.

The consideration will be satisfied as to £28.0m by the issue of approximately 26.3m Regional REIT ordinary shares to Conygar (subject to adjustment) and the assumption of two existing secured banking facilities (totalling £69.5m). The balance of the consideration will be satisfied by Regional Commercial Midco Limited, a wholly owned subsidiary of Regional REIT, acquiring Conygar ZDP PLC (“Conygar ZDP”) (LSE: CICZ), a wholly-owned subsidiary of Conygar, and assuming Conygar’s obligations to fund the liabilities of Conygar ZDP (subject to certain agreed adjustments), being approximately £35.7m in relation to zero dividend preference shares (“ZDPs”) issued by Conygar ZDP as at the expected date of completion on 24 March 2017. The total consideration for the proposed acquisition, which includes shared transaction savings and certain balance sheet adjustments agreed between the parties, is subject to a potential net assets adjustment following completion.

The proposed acquisition is conditional upon the approval of Conygar’s ordinary shareholders and, separately, of the holders of the ZDPs. In addition, the completion of the proposed acquisition requires the approval of the change of control by the two banks currently providing secured debt facilities to Conygar.

Transaction Highlights

- The Conygar Property Portfolio to be acquired comprises 31 mixed-use property assets amounting to 1,280,980 sq. ft. with a gross investment value of c. £129m (as at 30 September 2016). The Portfolio consists of 153 units and 115 tenants.
- By value, offices represent some 60% of the Portfolio and 12% is industrial. In addition, retail & retail warehousing represents 21% and leisure is 7%. The largest single asset is c. 11% of the gross asset value of the Portfolio being acquired.
- The Portfolio is geographically spread across the regions of England & Wales outside of the M25 motorway, with Scotland amounting to c. 20% (by value). There is a minimal overlap of tenants with the existing lettings of Regional REIT.
- The net initial yield of the Portfolio is 7.0%, assuming standard purchaser’s costs of 6.8%.
- Occupancy (as at 30 September 2016) amounted to 82.9% (by rental value) of the Portfolio.
- The weighted average unexpired lease term to expiry is 5.8 years; WAULT to first break is 3.8 years.
- The Portfolio comprises institutional investment quality assets and Regional REIT has identified numerous active asset management opportunities across the Portfolio, offering increased occupancy, reduced void costs and higher rental income.
- The proposed acquisition is expected to complete on 24 March 2017.

Strategic Rationale for the Proposed Acquisition

- Consistent with Regional REIT's strategy for the opportunistic purchase of commercial property investment assets, complementary to the existing asset base of the Group and aligns well with the expertise and experience of the Asset Manager, London & Scottish Investments Limited.
- Regional location, geographically diverse throughout the UK.
- Benefits of portfolio scale and coverage, for recycling capital and flexibility of the asset base and for diversifying risk.
- Extensive active asset management opportunities, whilst requiring only limited investment.
- Retail properties of high quality, with opportunities to manage for income and growth and potential sale.
- Additional debt facilities with a low interest margin, to mature in 2021; broadens the banking relationships of the Group.

Financing Summary

- The independent gross investment valuation of the Conygar Property Portfolio to be acquired amounts to c. £129m (as at 30 September 2016).
- The net asset value on completion, taking into account the Conygar ZDP liabilities (as at the expected date of completion of the proposed acquisition) and certain agreed adjustments, amounts to approximately £28m.
- Regional REIT will issue approximately 26.3m ordinary shares (subject to adjustment) in satisfaction of £28.0m of the consideration. The shares will be issued at the Group's EPRA NAV per share as at 30 June 2016 (108.012pps) adjusted, as agreed between the parties, to an issue price of 106.347 pence per share. These shares represent 9.6% of the existing Regional REIT share base, of 274.22m shares, and 8.8% of the enlarged share base.
- The Regional REIT shares will be issued on completion of the proposed acquisition on 24 March 2017. These shares will qualify for the first-quarter 2017 dividend of Regional REIT, expected to be declared on 25 May 2017.
- The ordinary shares issued to Conygar will be subject to a lock-in of 6-months for the first one-third, 12-months for the second third and 18-months for final third, commencing on the date of completion of the acquisition.
- The Group will assume two secured bank debt facilities totaling £69.5m, bearing a blended interest margin of c. 2%, and maturing in 2021.
- The Group will also acquire Conygar ZDP, a wholly owned subsidiary of Conygar, and assume Conygar's obligations to fund the financial obligations of the ZDPs which principally relate to the zero dividend preference shares. The outstanding liability on the preference shares at the expected completion date of the proposed acquisition will be c. £35.7m, and an agreed value on maturity, as at 9 January 2019, of £39.9m.
- On completion of the proposed acquisition the Group estimates (based on its own Consolidated Balance Sheet as at 30 June 2016) that it would have a net LTV-ratio of c. 47%.
- Following completion of the proposed acquisition, there will be an adjustment for the difference between the estimated net asset value of the SPVs and the net asset value of the SPVs at completion.

Stephen Inglis, Group Property Director and Chief Investment Officer of London & Scottish Investments, the Asset Manager of Regional REIT, commenting on the proposed transaction, said: *"This is a quality investment portfolio secured 'off market', offering substantial asset management opportunities and income growth potential. The transaction is expected to be earnings accretive to Regional REIT, with significant upside potential as we implement our property management projects for each asset and increase occupancy"*.

"The deal is complementary to the existing asset base of Regional REIT and aligns well with expertise and experience of the Asset Manager. There are the benefits of portfolio scale and coverage, for recycling capital and flexibility of the asset base and for diversifying risk. The spread of properties and tenants further underpins the strength of the Group's income base."

"I look forward to welcoming and working with Conygar as a Shareholder."

This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulation that came into effect on 3 July 2016.

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About Regional REIT

Regional REIT Limited (LSE: RGL) is a London Stock Exchange Main Market traded specialist real estate investment trust focused on office and industrial property interests in the principal regional locations of the United Kingdom outside of the M25 motorway.

Regional REIT is managed by London & Scottish Investments, the Asset Manager, and Toscafund Asset Management, the Investment Manager, and was formed by the combination of two existing funds previously created by the Managers as a differentiated play on the expected recovery in UK regional property, to deliver an attractive total return to Shareholders and with a strong focus on income.

The Group's investment portfolio, as at 30 June 2016, was spread across 128 regional properties, 974 units and 719 tenants. As at 30 June 2016, the investment portfolio had a value of £501.3m and a net initial yield of 7.1%. The weighted average unexpired lease term to first break was approximately 3.6 years.

The Company's shares were admitted to the Official List of the UK's Financial Conduct Authority and to trading on the London Stock Exchange on 6 November 2015. For more information, please visit the Group's website at www.regionalreit.com.

Cautionary Statement

This document has been prepared solely to provide additional information to Shareholders to assess the Group's performance in relation to its operations and growth potential. The document should not be relied upon by any other party or for any other reason. Any forward looking statements made in this document are done so by the Directors in good faith based on the information available to them up to the time of their approval of this document. However, such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Other Information

The release, publication, transmission or distribution of this announcement in, into or from jurisdictions other than the United Kingdom may be restricted by law and therefore persons in such jurisdictions into which this announcement is released, published, transmitted or distributed should inform themselves about and observe such restrictions. In particular (but without limitation) this announcement is not for release, publication or distribution, directly or indirectly, to US persons, or into the United States, or into or from Canada or any other jurisdiction in which the same would be unlawful. Any failure to comply with the restrictions may constitute a violation of the securities laws of any such jurisdiction.

Additional Information

Further Information on the Conygar Property Portfolio Being Acquired

The Conygar Property Portfolio potentially being acquired comprises 31 mixed-use property assets:

- a) 16 offices, with a mix of multi-lets and single-lets;
- b) 4 industrial sites, comprising a mix of multi-lets and single lets;
- c) 7 retail properties, with a mix of high street parades, high street standalone and a shopping centre, and 3 retail warehouses, comprising two parks and one standalone warehouse; and,
- d) 1 leisure asset, a mixed retail and leisure facility.

There have been no material changes to the Portfolio since 30 September 2016.

Management of the Enlarged Portfolio

Regional REIT will incorporate the SPVs that own the individual assets that the Vendors are selling into the Group's own existing corporate structure. Regional REIT will maintain its existing external management arrangements.

The Asset Manager manages the Group's existing property portfolio in-house. The main activity that is outsourced is to letting agents to find tenancies. The Asset Manager's principal office is in Glasgow, and it has additional offices in Leeds, Manchester and London. The Asset Manager believes that it has sufficient in-house capacity and experience to manage the incremental Portfolio within its existing business model. Similarly, the additional requirements on the Investment Manager are manageable within existing resourcing.

Financial Effects of the Proposal on the Enlarged Regional REIT

The Board's expectation is for the transaction to be earnings accretive, with additional accretion in later years based on active management progressively improving occupancy but with no assumption of any increase in rental rates.

The contracted rent roll of the Conygar Property Portfolio amounted to £9.7m per annum as at 30 September 2016.

The pro forma net LTV of the Group on the combined portfolio, incorporating the bank loans to SPVs and the current ZDP liability as debt, would increase to approximately 47%, based on the Group's Consolidated Balance Sheet as at 30 June 2016.

Expected Timetable for the Transaction

Announcement of the transaction	23 February 2017
Transaction expected to complete	24 March 2017

Other Key Announcement Dates for Regional REIT

2016 Preliminary Results Announcement	23 March 2017
Q4 2016 Dividend Paid	13 April 2017
Q1 2017 Trading Update, AGM Statement and Dividend Announcement	25 May 2017

Note: all future dates are provisional and subject to change.

Appendix 1 - List of The Conygar Investment Company Property Assets to be Acquired

Town	Address	Use	Floor Area (sq. ft.)	Main Tenants
Ashby Park	Ashby-de-la-Zouch, Ashby Park,	Office	90,898	Ceva Logistics Ltd, Alstom UK Ltd, Hill rom Ltd
Dundee	Compass House, 11 Riverside Drive, Dundee	Office	30,342	Care Inspectorate
Farnborough	Brennan House, Farnborough Aerospace	Office	29,707	-
Fleet	Integration House, Ancells Business Park	Office	11,679	Gleeson Homes Ltd
Northampton	Charles House, 61/69 Derngate, Northampton	Office	28,677	Reed Specialist Recruitment Ltd, Ingeus UK Ltd
Fleet	Waterfront Business Park, Fleet Road	Office	30,342	Commslogic Ltd, The Lofic Group Holdings Ltd
Lincoln	Witham Park House, Waterside South Lincoln	Office	63,021	Lincolnshire County Council Lincs FM Group Ltd
Livingston	1 Garbett Road, Kirkton Campus, Livingston	Office	5,032	Konica Minolta Business Solutions (UK) Ltd
Livingston	3 Baird Road, Kirkton Campus, Livingston	Office	13,752	Diagnostic Sonar Ltd
Livingston	6 Flemming Road & Site, Kirkton Campus, Livingston	Office	10,108	Viju Ltd
Reading	Advantage, Castle Street, Reading	Office	24,915	Acquia, Atex
Swindon	Pagoda Park, Westmead Drive, Swindon	Office	41,112	Alacatel-Lucent Telecom
Warrington	Birchwood Park, Kelvin Close, Warrington	Office	50,549	Hewlett Packard Ltd
Warrington	The Links, Kelvin Close, Warrington	Office	26,194	Dassault Systems Ltd
Welwyn City	Garden Units 1/6 Silver Offices Court, Welwyn Garden City	Office	29,757	Quantum Care Ltd, E2E Service Ltd, Sidel (UK) Ltd
Aberdeen	Kirkhill Industrial Estate, Aberdeen	Office	58,826	Frontica Business Solutions Ltd
Blantyre	3 Watt Place, Hamilton International Technology Park	Industrial	33,338	Edinburgh Napier University
Stratford Upon Avon	Swan Centre, Avenue Farm Industrial Estate, Birmingham Road, Stratford Upon Avon	Industrial	33,965	Stratford Tyres Ltd, Plantool Ltd, Hatton Electrical Wholesale
Witham	3, 16/18 Freebournes Road, Witham	Industrial	145,902	Amtek Investments UK 2 Ltd
Colwyn Bay	Mochdre Commerce Park, Colwyn Bay	Industrial	173,450	Conwy County Borough Council, Mochdre Biomass Ltd
Ayr	156 & 158/160 High Street, Ayr	Retail	8,601	The Works Store Ltd, Caspian Food Retailers Ltd
Ayr	52/56 Newmarket Street, Ayr	Retail	10,717	Thomas Rogerson & Sons
Milton Keynes	The Brunel Centre, Bletchley	Retail	96,723	Wilkinson Hardware Stores Ltd, Poundland Ltd
Felixstowe	York House, 96/102a Hamilton Road	Retail	17,934	Poundland Ltd, Seafast Logistics Plc
Rugeley	Shrewsbury Arms Shopping Mall, Rugeley	Retail	9,633	Wilkinson Hardware Stores Ltd, K & V Lowndes
St Helens	Wilkinson, 1 Cotham Street, St Helens	Retail	41,619	Wilkinson Hardware Stores Ltd
Wolverhampton	Network House, School Street, Wolverhampton	Retail	20,171	XLR8 Ltd, JCCA
Birmingham	Trident Retail Park, Birmingham	Retail Warehouse	29,502	Competition Line, Boing Zone, Birmingham Triumph Ltd
Coventry	31 Foleshill Road, Coventry	Retail Warehouse	14,888	Halfords Ltd
Kettering	Linnell Way, Kettering	Retail Warehouse	18,329	Travis Perkins (properties) Ltd, Tile Choice Ltd
Dundee	Kingscourt Leisure Complex, Dundee	Leisure	81,297	Odeon Multiplex Ltd, Coveburn Ltd