



# RR | REGIONAL REIT

Investor Presentation - Year to 31 December 2016

March 2017



**High dividend distribution UK REIT, offering an unrivalled exposure to the regional commercial property market with active management by an experienced Asset Manager**

# Highlights – Full Year 2016

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- Business performing well – delivering good income growth with H2 momentum
- Occupier activity remained robust – investment market now showing signs of increasing activity
- Repositioning the portfolio - completed £133.6 million of acquisitions; disposals of £44.9 million net
- Ongoing active and intensive management of the property portfolio – increasing rental income
- c. £129 million Conygar investment property portfolio acquisition
- Strong dividend return for Shareholders – yield amongst the best in the sector

# Delivering on our IPO Commitments

At the IPO (November 2015) we made a number of commitments for the year ahead:

Targeted acquisitions



**Property assets increased c. 30%\***

Targeted acquisitions in 2016 amounted to £133.6m; net initial yield c. 8.6%

H2'16 management focus on Conygar deal (Feb'17)

Disposals of non-core assets



**Property disposals of c. £50m**

Disposals in 2016 of £44.9m net of costs (£45.9m gross); net initial yield c. 6.8%

Increased office and industrial exposure



**Office and industrial exposure increased 9.0 percentage points**

92.7% (by value) versus 83.7% at IPO

Continued reduction of Scottish exposure



**Scottish exposure reduced 8.6 percentage points**

26.8% (by value) versus 35.4% at IPO

Reducing cost of debt



**Cost of bank debt financing reduced 1.1 percentage points**

3.7% versus 4.8% at IPO

Attractive Total Return to Shareholders of 10-15% pa; with 7-8% 2016 dividend



**Since IPO, 13.2% Total Return**

7.65p of dividends declared for 2016

11.5% annualised Total Return

*\*Based on IPO gross investment property valuation*

# Active and Intensive Management of the Portfolio in 2016

Growing the revenue stream;  
underpinning values

Increased borrowings  
and improved terms

## 116 new lettings this year (69 since 30 June)

New lettings of c. 728,382 sq. ft.  
When fully income producing provide rents of c. £5m pa

## Quality enhancement programme for assets

Capital expenditure of £9.1m net; to increase achievable rents and reduce periods of void

## Disposal of £44.9m net of non-core assets

Sale of Blythswood House for £17.4m. Exited on 5.0% yield; 83% gain on invested capital  
Recycling of capital to higher yields

## Low rents and capital values vs. benchmarks

Offices (average): £12.5psf, £117psf  
Industrial sites (average): £3.7psf, £36psf

## Borrowings increased to c. £220m

Cost of debt reduced to 3.7%; most recent loan maturities to 2021  
Net LTV of 40.6%; limit of 50%

# Risk Limited by Scale and Diversification

Low risk  
proposition;  
ensuring  
sustainability of the  
income base

## Diversified business base

123 properties, 941 units and 717 tenants  
Lease renewal managed by active asset management and large and diverse portfolio

## Office/Industrial mix; balancing the regions

Increased Office/Industrial exposure to 92.7% (by value) (IPO, 83.7%); increased England & Wales exposure to 73.2% (IPO, 64.6%)

## Limited single exposure

Largest tenant 3.7% (by rental income); largest property 6.4% (by value)

## Broad base of business activity

Diversified mix of tenants: largest is wholesale & retail trade (13.7% of rental income); financial & insurance (exc banking) c. 12%; manufacturing c. 12%

## Active asset management throughout the year

Occupancy to 83.8%, off year low of 80.9% (31 Mar'16)  
Completed 62 lease renewals, c. 67% arising in the period  
c. 76% of units with renewals remain occupied

# Momentum of Rental Income

	Year ending 31 December 2016	For period ending 31 December 2015*
Gross rental income	£43.0m	£5.4m (56 days)
Costs ratio	30.4% (H2'16: 29.3%)	39.3% (Adj. c. 26%**)
Adjusted costs ratio (exc Performance Fee)	29.9% (H2'16: 28.2%)	n/a
Operating profit before gains/losses on property assets/other investments	£29.9m	£3.3m
EpS (fully diluted)	4.9pps	7.7pps
EPRA EpS (fully diluted) (loss)	7.7pps	(1.1)pps
Dividend declared for the period (of which PID)	7.65pps (6.6537 pps) (H2'16: 4.15p (3.7945p))	1.0pps (0.6572 pps)

- Rental income momentum building in the second-half. Rent roll at end 2016 on full occupation of £53.1m pa
- 2016 costs ratio impacted by acquisitions and refinancings costs, additional expenses on becoming a public company and initial performance fee. Efficiencies from active asset management realised in H2'16
- Reduced cost of debt funding
- PBT impacted by £(6.8)m fair value movement on investment properties – valuation increase outweighed by costs and capex
- EPRA EpS 7.7p fully covers dividend. DpS at higher end of 7-8% IPO commitment

\*Regional REIT Limited was incorporated on 22 June 2015 but did not begin trading until 6 November 2015 when the shares were admitted to trading on the Premium segment of the London Stock Exchange

\*\*Adjusted costs/rental income ratio is adjusted for certain costs on a pro rata basis. The adjusted cost base (irrecoverable costs and expenses) is estimated by the Group to be c. £1.4m for the 56 day period

# Financial Position Remains Strong

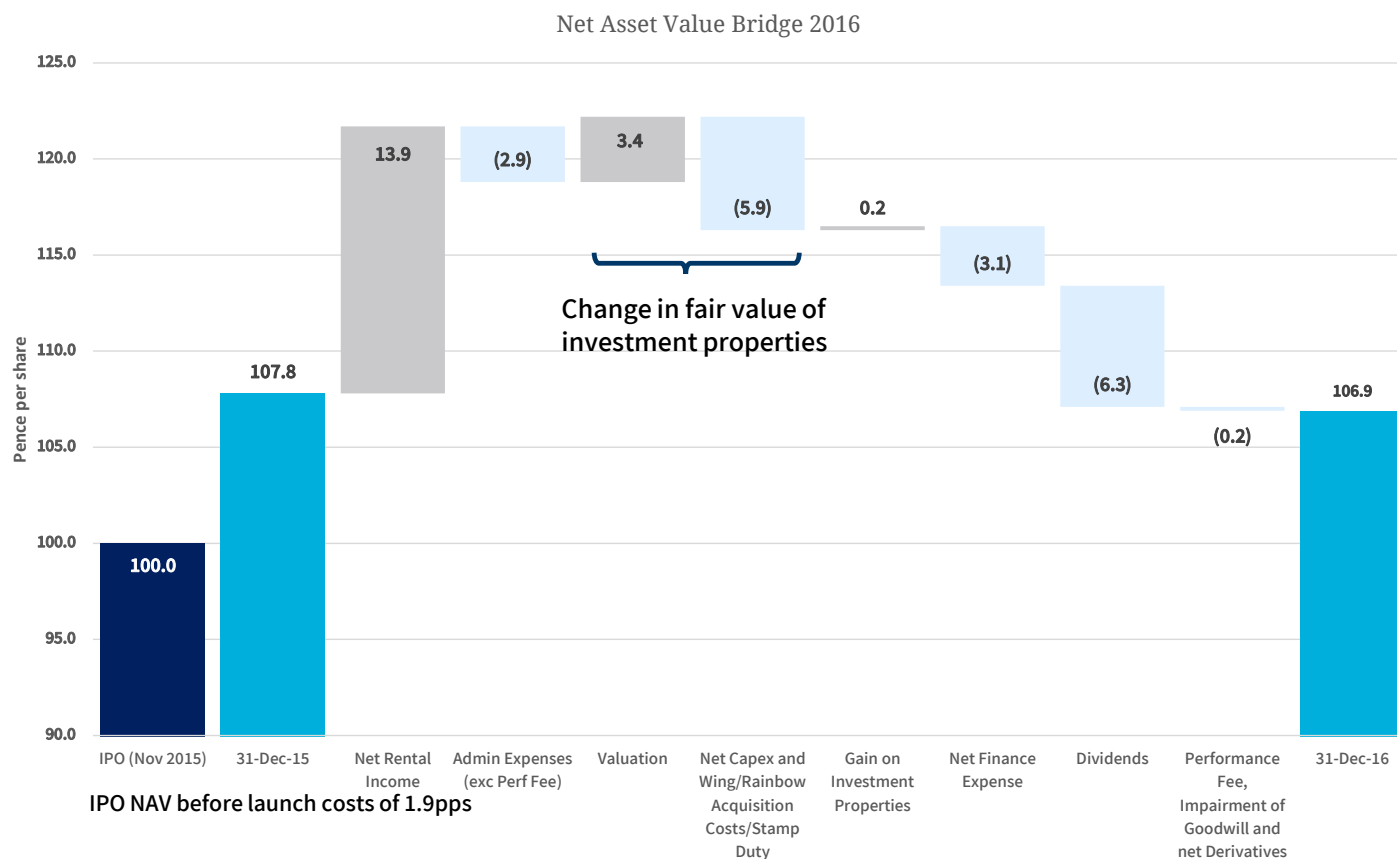
	As at 31 December 2016	As at 31 December 2015*
Gross property asset value	£502.4m	£403.7m
NAV (fully diluted)	106.3pps	107.7pps
EPRA NAV (fully diluted)	106.9pps	107.8pps
Bank borrowings**	£220.1m	£128.6m
Cost of debt (inc hedging)	3.7%	4.5%
Net Loan-to-value	40.6%	25.4%
Occupancy	83.8%	83.9%
Occupancy like-for-like	86.2%	84.2%
Contracted rent roll like-for-like	£32.5m	£32.4m

- Gross investment property value includes +2.25% like-for-like valuation improvement (H2'16: lfl +0.03%), acquisitions of £133.6m and disposals of £44.9m net
- NAV impacted by 2.5pps for Wing/Rainbow acquisition-related costs/increased stamp duty and net capex of £9.1m. H2'16 impacts include dividend uplift, performance fee accrual and goodwill write off
- Bank borrowings and LTV increased as a result of acquisitions
- Total Returns to Shareholders since IPO of 13.2% (11.5% annualised)

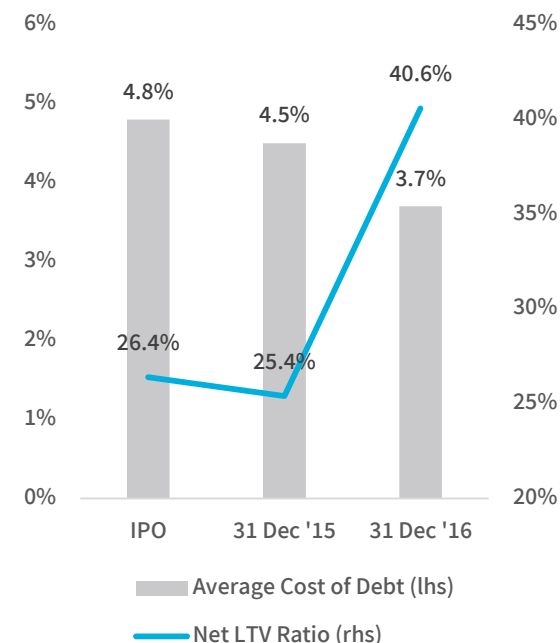
\*Regional REIT Limited was incorporated on 22 June 2015 but did not begin trading until 6 November 2015 when the shares were admitted to trading on the Premium segment of the London Stock Exchange

\*\* Including unamortised loan arrangement fees

# Delivering Returns to Shareholders



- **EPRA:** £293.2m (106.9pps fully diluted)  
(31 Dec'15: £295.7m, 107.8pps;  
IPO, £274.2m, 100pps (pre costs of listing))
- **IFRS:** £291.7m (106.3pps fully diluted)  
(31 Dec'15: £295.3m, 107.7pps;  
IPO, £273.8m, 100.0pps (pre costs of listing))

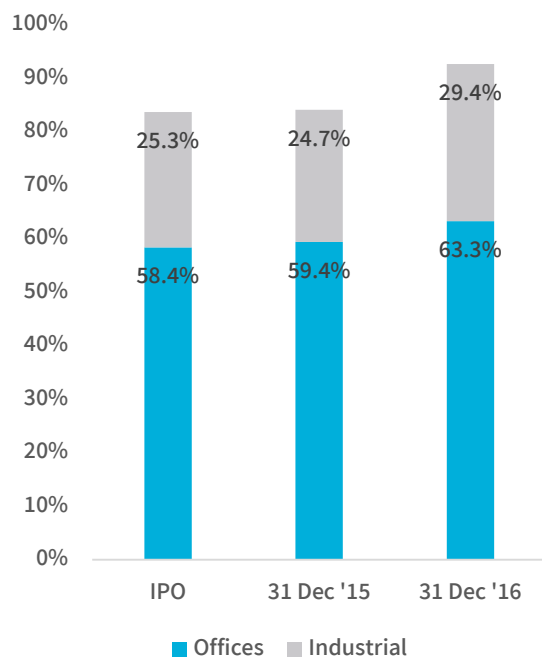


- **Drawn:** £220.1m  
(31 Dec'15, £128.6m; IPO, £130.2m)
- **Cash:** £16.2m  
(31 Dec'15, £24.0m; IPO, £26.2m)
- **Maturity: 2.9 years**  
(31 Dec'15, 3.4 years; IPO, 3.8 years)

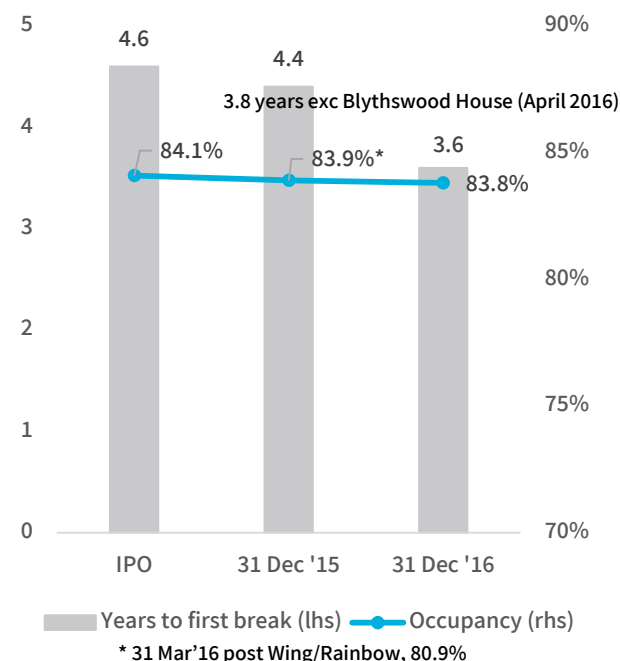
# Diversified Property Portfolio

## Property - £502.4m gross investment properties

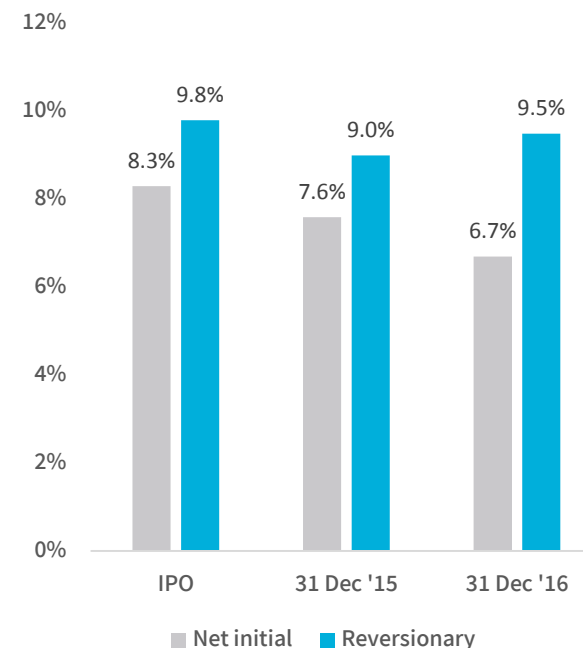
### Gross property assets



### WAULT to first break & Voids



### Valuation yields



- **7.2% - Retail** (31 Dec'15, 11.2%; IPO, 11.3%)
- **0.1% - Other** (31 Dec'15, 4.7% - inc Student Accom; IPO, 5.0%)
- **Contracted rent roll – c. £44.0m** (31 Dec'15, £35.9m; IPO, £37.2m)

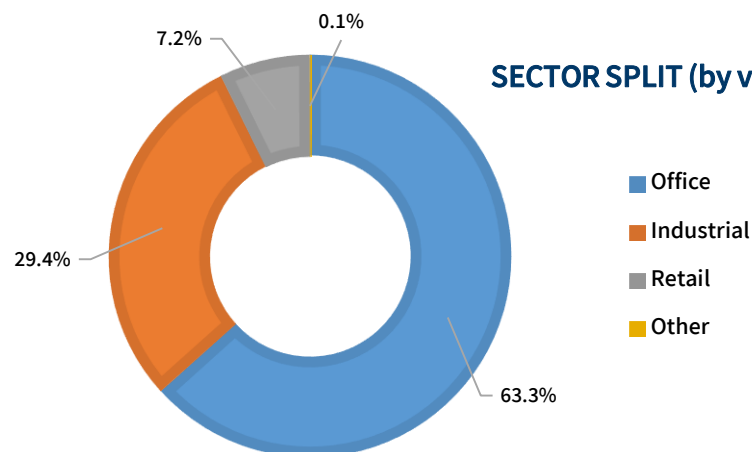
- **5.2 years WAULT to lease expiry** (31 Dec'15, 6.1 years (5.6 years exc. Blythwood House); IPO, 5.8 years)

- **Equivalent: 8.6%** (31 Dec'15, 8.3%; IPO, 8.6%)

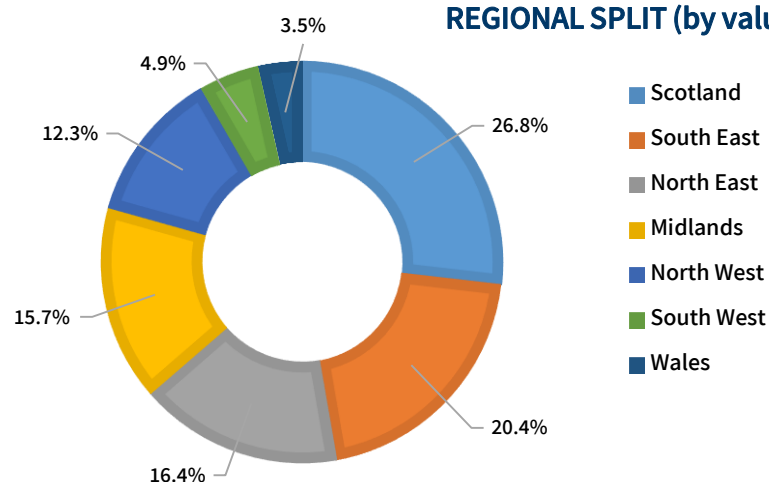
# £502.4m Property Portfolio as at 31 December 2016

Diversified office-led portfolio – unrivalled exposure to the UK regional property market (by value) - and broad base of business activity

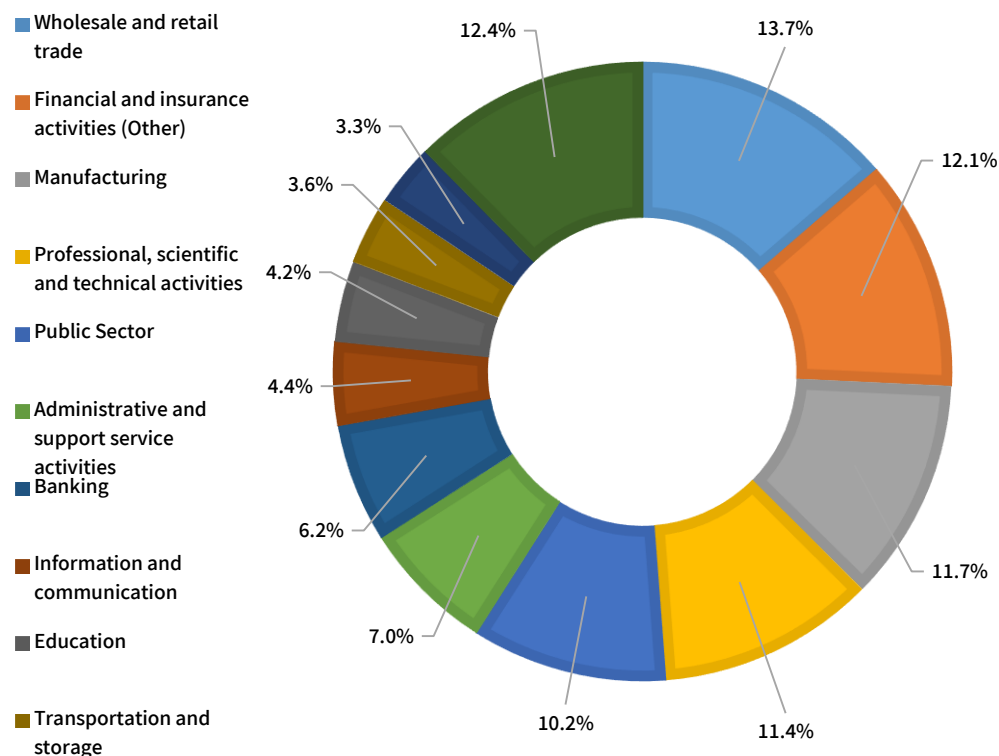
**SECTOR SPLIT (by value)**



**REGIONAL SPLIT (by value)**



**TENANTS BY SIC CODES (% of gross rent)**



Charts may not sum due to rounding

# Targeted Acquisitions Growth in 2016

- 2 major portfolio acquisitions of 17 properties (£117.5m) completed in March 2016 – Wing and Rainbow office/industrial portfolios
- Total acquisitions of 20 properties for £133.6m. Recycling of capital from disposals of £44.9m net
- Extensive asset management opportunities with the acquisitions from reducing voids and progressing refurbishments – planned active asset management programme for each property

## Wing portfolio

- 4 offices/1 industrial site; 82.4%/17.6% (value)
- £37.5m - 8.5% net initial yield
- Refurbishments and letting vacant space, change of use application ongoing
- Occupancy (by area): acquisition, 78.2%; year end, 82.8%
- Arena Point – new marketing campaign and major internal/external refurbishment to complete Q3'17. Potential sale of podium
- Oakland House – refurbishment and new lettings
- Tokenspire – additional lettings in 2017

## Rainbow portfolio

- 5 offices/7 industrial sites; 47.5%/52.5% (value)
- £80.0m - 8.2% net initial yield
- Lease re-gears and lettings and refurbishments of vacant space
- Occupancy (by area): acquisition: 77.2%; year end, 74.9%
- Aylesbury – ahead of plan. Lease surrender - new letting of two floors and major works (Sept'17). Strong letting interest
- Aztec West – refurbishment to Q3'17. Potential single whole building occupier. Good multi-occupier interest
- Basildon - terms agreed for letting of Unit 1A (65,603 sq. ft.)

# Organic Growth for RGL from UK Regional Property Portfolio

**Significant portfolio to embed; further acquisitions under review**

- Further opportunities remain to scale the business
- Group remains opportunistic and pro-active in its approach in the current environment
- Will seek EpS accretion and NAV growth with acquisitions
- Group is well positioned with vendors and a recognised 'player' in the regional office and industrial property markets

**In-house management initiatives to deliver organic growth**

- Continuing tenant demand and limited supply of property across all of the main regional markets
- Quality enhancement programmes and capex underway to increase achievable rents and secure lettings
- Improving reversions on existing stock and rising occupancy will drive rental income and reduce void costs

# Prospective Acquisition of c. £129m of Commercial Properties

Conditional 'NAV-for-NAV' acquisition for shares, complementary to the existing assets and which aligns well with the expertise and experience of the Asset Manager

## Transaction highlights

- 31 mixed-use property assets (1,280,980 sq. ft.); 153 units and 115 tenants.
- Offices 60% (by value); industrial 12%; retail & retail warehousing 21%; leisure 7%
- Geographically spread across England & Wales outside of the M25 motorway; minimal overlap with existing RGL tenants. Scotland c. 20% (by value)
- Occupancy (as at 30 September 2016) 82.9% (by rental value)
- Weighted average unexpired lease term to expiry 5.8 years; WAULT to first break 3.8 years
- Portfolio contracted rent roll (30 Sept'16) £9.7m; net initial yield 7.0%

## Financing summary

- Expected completion date, 24 March 2017
- Net assets of c. £28m. RGL to issue c. 26.3m shares; c. 8.8% of enlarged share base. Shares will qualify for RGL Q1'17 dividend
- RGL will assume two secured banking facilities of c. £69.5m, c. 2% margin
- RGL will acquire Conygar ZDP and assume the zero dividend preference shares of c. £35.7m at an interest rate of 6.5% pa, maturing Jan'19
- On completion RGL's net LTV will be c. 49%

*\*The Conygar Investment Company PLC ("Conygar"). Refer to announcement of 23 February 2017 for full details; data as at 30 September 2016 for Conygar, 30 June 2016 for Regional REIT*

# Outlook

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**Regional commercial property; an attractive opportunity**

- Yield differential between the regions and London remains above average; continuing capital inflows to the regions
- Regional economic and business fundamentals remain positive – continued limited supply of office and industrial properties
- Tenant interest in regional industrial sites and offices continues – lower rentals and earlier in their cycle; refurbishment opportunities

**RGL income security underpins performance strength**

- Momentum of income stream, providing one of the sector's best dividend yields
- Potential to improve occupancy – towards 90% - and support of modest rents and capital values
- Experienced and professional asset manager, with a strong reputation in the sector, underpinning business growth
- Continued opportunistic strategy of acquisitions

# Appendix 1

## Debt Financing and Summary Financials

# Debt Profile and LTVs as at 31 December 2016

## Additional borrowing and refinancings substantially reduced average cost of debt

Lender	Original Facility £'000	Outstanding Debt £'000*	Maturity Date	Gross LTV**	Annual Interest Rate	Amortisation	Hedging and Swaps: Notional Amounts/Rates***
Santander UK	48,300	45,432	Dec-18	43.0%	2.00% over 3mth LIBOR	Mandatory Prepayment basis	£6m/1.867% & £18.15m/1.014%
<b>Santander UK</b>	25,343	<b>14,340</b>	<b>Dec-18</b>	34.2%	<b>2.00% over 3mth LIBOR</b>	Mandatory Prepayment basis	<b>£3.40m/2.246% &amp; £9.271m/1.010%</b>
Royal Bank of Scotland	25,000	24,450	Jun-19	42.1%	2.15% over 3mth LIBOR	None	£12.48m/1.790% & £0.02m/1.110%
<b>ICG Longbow Ltd</b>	65,000	<b>65,000</b>	<b>Aug-19</b>	44.3%	<b>5.00% pa for term</b>	None	<b>n/a</b>
Santander UK	30,990	30,990	Jan-21	48.1%	2.15% over 3mth LIBOR	Mandatory Prepayment basis	£9.375m/1.086% & £6.920m/1.203% & £5.280m/1.444%
<b>Royal Bank of Scotland</b>	40,000	<b>39,848</b>	<b>Mar-21</b>	50.2%	<b>2.40% over 3mth LIBOR</b>	Prepayment basis	<b>£19.9m/1.395%</b>

\* Including unamortised loan arrangement costs

\*\* Based on the Group's own investment properties valuation undertaken by Cushman & Wakefield

\*\*\* Hedging arrangements: As at 31 December 2016, the swap notional amount was £90.8m (31 December 2015: £35.2m). Under the swap agreements, the notional amount reduces on a quarterly basis

Note: As at 31 December 2016 the Group's outstanding debt (including unamortised loan arrangement costs) amounted to £220.1m (2015: £128.6m), with an average cost of 3.7% (31 December 2015: 4.5%) per annum (including hedging and other borrowing costs) and a net LTV ratio of 40.6% (31 December 2015: 25.4%)

# Financials - Group Income Statement

	1 January 2016 to 31 December 2016	22 June 2015 to 31 December 2015*
	£'000	
Rental income	42,994	5,361
Non recoverable property costs	(4,866)	(753)
<b>Net rental income</b>	<b>38,128</b>	<b>4,608</b>
Administrative & other expenses	(8,217)	(1,353)
<b>Operating profit (loss) before gains/losses on property assets/other investments</b>	<b>29,911</b>	<b>3,255</b>
Gains on the disposal of investment properties	518	86
Change in fair value of investment properties	(6,751)	23,784
<b>Operating profit/(loss) before exceptional items</b>	<b>23,678</b>	<b>27,125</b>
Exceptional items	-	(5,296)
<b>Operating profit/(loss) after exceptional items</b>	<b>23,678</b>	<b>21,829</b>
Net finance income/expense, impairment of goodwill and net movement in fair value of derivative financial instruments	(10,283)	(705)
<b>Profit/(loss) before tax</b>	<b>13,395</b>	<b>21,124</b>
Income tax expense	23	-
<b>Profit/(loss) after tax for the period (attributable to equity shareholders)</b>	<b>13,418</b>	<b>21,124</b>
Earnings/(losses) per share - basic	4.9p	7.7p
Earnings/(losses) per share - diluted	4.9p	7.7p
<b>EPRA earnings/(losses) per share - basic</b>	<b>7.7p</b>	<b>(1.1)p</b>
<b>EPRA earnings/(losses) per share - diluted</b>	<b>7.7p</b>	<b>(1.1)p</b>

Exceptional items are in relation to 2015 Launch costs

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# Financials - Group Balance Sheet

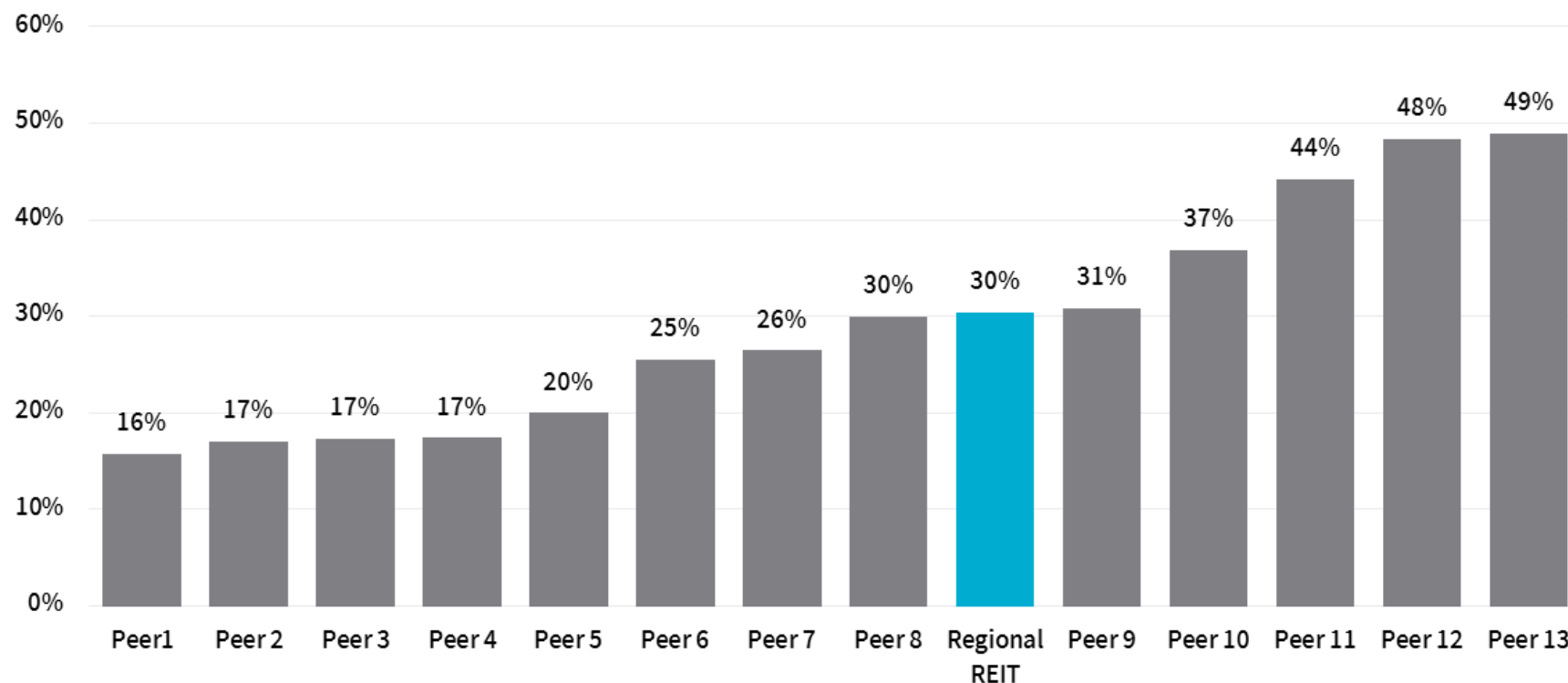
	As at 31 December 2016	As at 31 December 2015*	Change		As at 31 December 2016	As at 31 December 2015*	Change
£'000				£'000			
<b>Assets</b>				<b>Liabilities</b>			
<b>Non-current Assets</b>				<b>Current liabilities</b>			
Investment properties	502,425	403,702	24.5%	Bank and loan borrowings - current	-	200	n/a
Goodwill	2,229	2,786	-20.0%	Other current liabilities	23,285	20,869	11.6%
Other non-current assets	1,747	1,004	74.0%				
<b>Current assets</b>				<b>Non-current liabilities</b>			
Cash and cash equivalents	16,199	23,955	-32.4%	Bank and loan borrowings – non current	217,442	126,469	71.9%
Other current assets	11,375	11,848	-4.0%	Other non-current liabilities	1,513	416	263.7%
<b>Total assets</b>	<b>533,975</b>	<b>443,295</b>	<b>20.5%</b>	<b>Total liabilities</b>	<b>242,240</b>	<b>147,954</b>	<b>63.7%</b>
				<b>Net assets</b>	<b>291,735</b>	<b>295,341</b>	<b>-1.2%</b>
				Share capital	274,217	274,217	n/a
				Retained earnings/Accumulated (losses)	17,518	21,124	-17.1%
				<b>Total equity</b>	<b>291,735</b>	<b>295,341</b>	<b>-1.2%</b>
				Net assets per share - basic	106.4p	107.7p	
				Net assets per share - diluted	106.3p	107.7p	
				<b>EPRA net assets per share - basic</b>	<b>106.9p</b>	<b>107.8p</b>	
				<b>EPRA net assets per share - diluted</b>	<b>106.9p</b>	<b>107.8p</b>	

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# Financials - Cost Efficiency

Cost efficiency despite number and spread of properties and in-house management

Total Costs to Gross Rent 'EPRA Cost Ratio'



Regional REIT EPRA ratio is based on the reported results of the Group for the year ending 31 December 2016. For peers it is the last reported Full Year or, if later, Half Year. Total Costs include Irrecoverable Costs and Administrative and Other Expenses

Peers include: CLS, Custodian, Ediston, Hansteen, London Metric, McKay, Mucklow, NewRiver, Picton, Real Estate Investors, Redefine, Town Centre, Tritax.

Source: Peel Hunt and company analysis

## Appendix 2

# Time to Invest in Regional Property

# Expecting Regional Property Returns to Outperform

Average property total returns forecast for the whole UK market (including London)\*:

Offices	1.5% for 2017	2.5% for 2018	4.8% for 2019
Industrial	6.6% for 2017	6.1% for 2018	6.5% for 2019

Total returns forecast has improved, following the immediate aftermath of the EU referendum

- 1) Capital inflows to the regions increasing
- 2) Secondary regional commercial property expected to continue to outperform prime
- 3) Tenant demand to outweigh office and industrial supply even when office space currently under construction is complete

	Rental value growth (%)				Capital value growth (%)				Total return (%)			
	2017	2018	2019	2017/21	2017	2018	2019	2017/21	2017	2018	2019	2017/21
Office	-1.3	-1.2	0.3	0.2	-3.2	-2.2	0.1	-0.6	1.5	2.5	4.8	4.1
Industrial	1.8	1.1	1.4	1.5	1.3	0.7	1.0	1.0	6.6	6.1	6.5	6.4
Standard Retail	0.7	0.4	0.9	1.0	-1.1	-0.2	1.1	0.6	3.6	4.6	6.0	5.4
Shopping Centre	0.4	0.2	0.7	0.8	-2.2	-0.9	0.6	0.0	2.8	4.4	6.0	5.2
Retail Warehouse	0.2	0.1	0.6	0.7	-1.8	-0.6	0.5	0.0	3.8	5.2	6.4	5.8
All Property	0.2	0.1	0.8	0.8	-1.6	-0.7	0.8	0.2	3.2	4.3	5.8	5.2

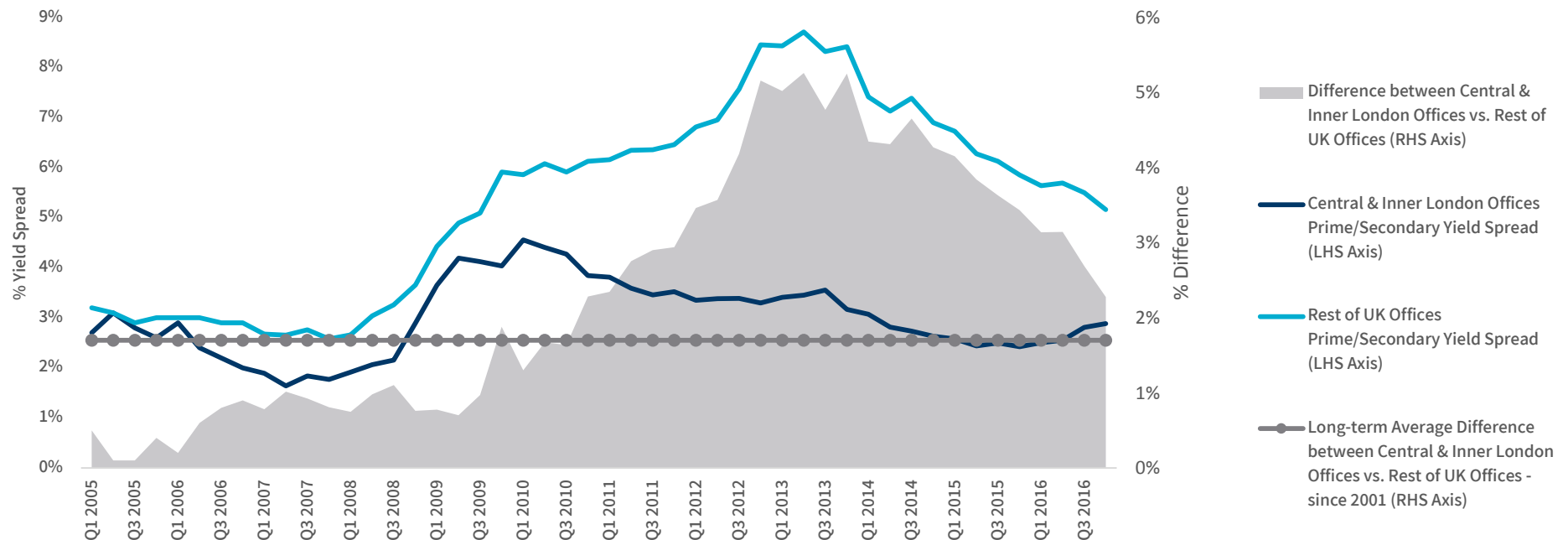
\* Source: The Investment Property Forum UK Consensus Forecasts ipf.org.uk (February 2017)

## 2) Secondary Set to Outperform Prime

### Yield spread narrows towards long-term average

- The spread between prime and secondary commercial property yields has fallen from its historic highs of 2013-14
- Spread remains well above long-term average levels
- Strong potential for high quality regional secondary properties to achieve stronger returns in the short-to medium-term than prime London properties

London vs. UK Regions Prime/Secondary Yield Spread (to December 2016)



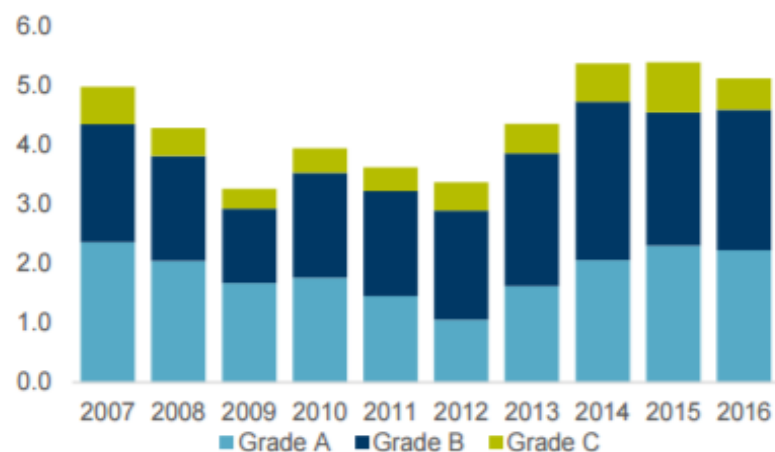
Source: Cushman & Wakefield, IPD/MSCI (December 2016)

## 4) Opportunity for Regional Offices

### Demand increasing – Supply limited

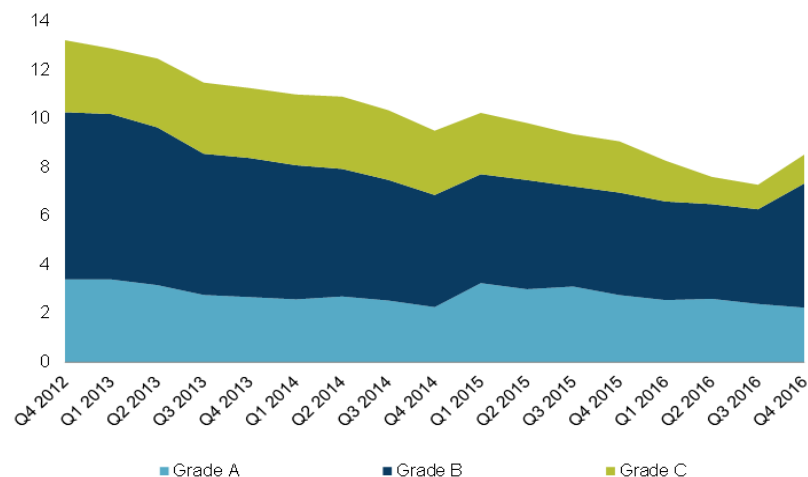
- Uncertainty surrounding the EU referendum resulted in lower levels of take-up ahead of the referendum and directly after the UK voted to leave. An increase in the level of activity in Q4 2016 boosted letting activity in the main regional markets
- Take-up of office space reached 5.1 million sq. ft. in 2016, lower than the 5.6 million sq. ft. of 2015
- Office supply in regional markets remains low, with occupier activity continuing to reduce availability, particularly for grade A offices. Has resulted in an increase in pre-lets signed (developments under construction) in 2016

### Annual take-up by grade (million sq. ft.)



Source: Cushman & Wakefield Research (February 2017)

### Availability of office by grade (million sq. ft.)



Source: Cushman & Wakefield Research (February 2017)

### Regional REIT's exposure to key UK regions

Well exposed to key UK regions	Office portfolio by value
Birmingham	2.2%
Bristol	4.3%
Edinburgh	2.0%
Glasgow	19.6%
Leeds	12.4%
Manchester	6.7%
Total Big 6 regional office market	47.1%
South East	20.5%
Other	32.3%

Source: In-house analysis based on Cushman & Wakefield valuation (31 December 2016)

## 4) Opportunity for Regional Offices (continued)

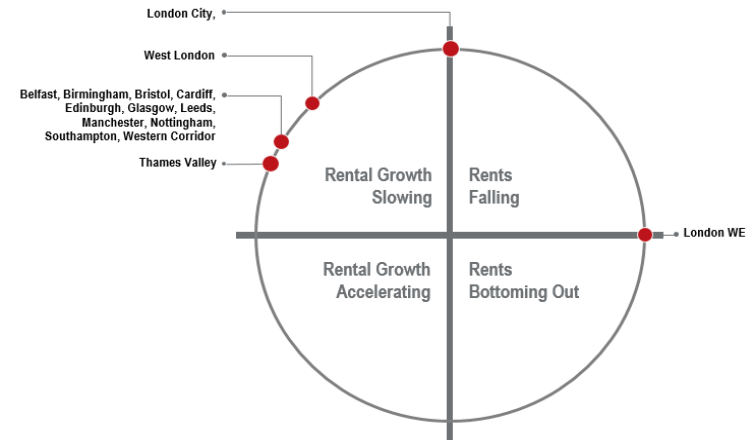
### Rental growth accelerating in regional markets

- Prime rental growth across the core 8 regional office markets increased by an average of 3.3% year-on-year in 2016. JLL indicates that a slowdown in rental growth continued in Q4 2016
- According to JLL:
  - Headline rental growth to remain well supported throughout 2017
  - Falling supply levels for prime properties in UK cities to result in an uplift in rent as the year progresses

The Asset Manager anticipates that increased occupier activity in Q4 2016 will continue through 2017, with a critically low supply of prime properties resulting in rising demand for high quality secondary properties. This will likely put an upward pressure on rents and a downward pressure on rent incentives

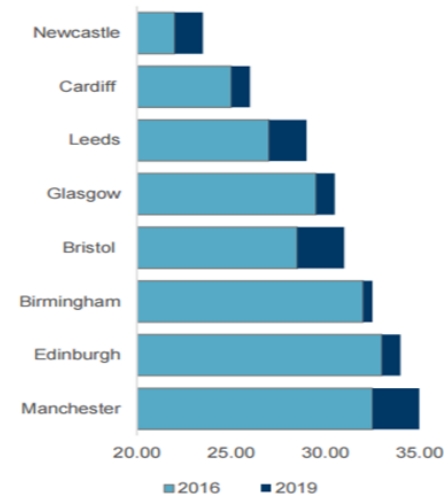
<sup>1</sup> Note. This diagram illustrates where JLL estimate each prime office market is within its individual rental cycle as at end of December 2016. Markets can move around the clock at different speeds and directions. The diagram is a convenient method of comparing the relative position of markets in their rental cycle. Their position is not necessarily representative of investment or development market prospects. Their position refers to Prime Face Rental Values

### UK office rental growth (Q4 2016) – The JLL Property Clock<sup>1</sup>



Source: JLL (January 2017)

### Prime offices rent by centre (£/sq. ft.)



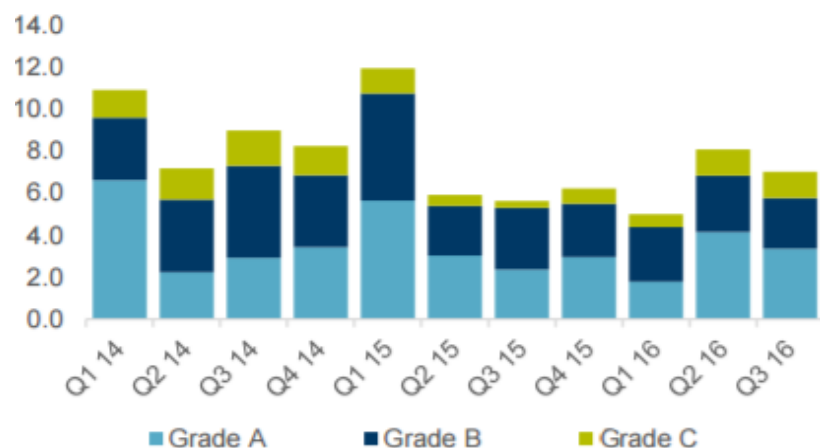
Source: Cushman & Wakefield Research (February 2017)

## 5) Opportunity for Regional Industrial

### Demand increasing – Supply limited

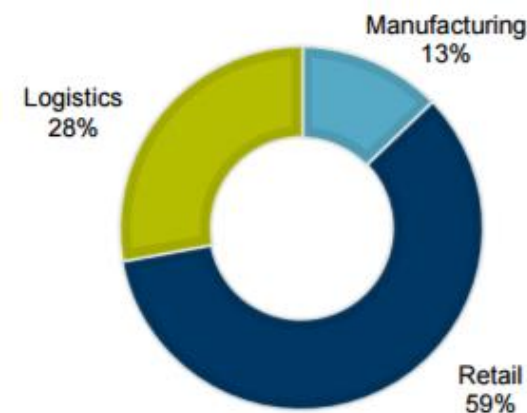
- The industrial sector was robust in most UK regions throughout 2016, with particularly strong occupier demand in Midlands, London and the South East
- Industrial market experienced the highest rental value growth in 2016 - a c. 4% increase according to IPD
- Continued growth in online shopping, which has seen its internet market share increase to 16%, has resulted in increased demand for both big box and mid-size industrial/warehouse space in urban areas

### Annual take-up by grade (million sq. ft.)



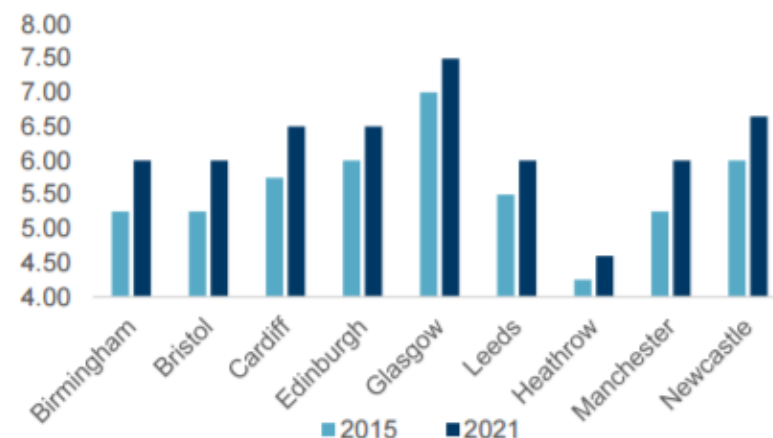
Source: Cushman & Wakefield Research (Q3 2016)

### 2016 take-up by sector (%)



Source: Cushman & Wakefield Research (Q3 2016)

### Logistics prime yield and forecast (%)



Source: Cushman & Wakefield Research (Q3 2016)

## Appendix 3

# Regional REIT UK Property Portfolio

# High Yielding Portfolio set for UK Regional Market Recovery

## Portfolio details at 31 December 2016

	Properties	Valuation	% by valuation	Sq. ft.	Occupancy %	WAULT to first break (yrs)	Gross rental income £m	Net rental income £m	Average rent £psf	ERV	Capital rate	Yield (%)		
		£m		(mil)								Net initial	Equivalent	Reversionary
Office	61	318.2	63.3%	2.72	82.2%	3.5	28.0	23.4	12.52	34.6	116.95	6.6%	8.6%	9.7%
Industrial	35	147.5	29.4%	4.06	85.3%	3.5	12.9	10.9	3.72	14.9	36.35	6.9%	8.7%	9.3%
Retail	26	36.4	7.2%	0.32	87.5%	4.9	3.1	2.3	11.10	3.5	113.05	6.2%	8.3%	8.7%
Other	1	0.4	0.1%	0.04	2.7%	18.7	0.0	0.0	9.85	0.0	10.30	1.7%	9.8%	5.1%
<b>Total</b>	<b>123</b>	<b>502.4</b>	<b>100.0%</b>	<b>7.14</b>	<b>83.8%</b>	<b>3.6</b>	<b>44.0</b>	<b>36.7</b>	<b>7.36</b>	<b>53.1</b>	<b>70.37</b>	<b>6.7%</b>	<b>8.6%</b>	<b>9.5%</b>

	Properties	Valuation	% by valuation	Sq. ft. (mil)	Occupancy %	WAULT to first break (yrs)	Gross rental income £m	Net rental income £m	Average rent £psf	ERV	Capital rate	Yield (%)		
		£m										Net initial	Equivalent	Reversionary
Scotland	40	134.7	26.8%	2.41	82.2%	3.5	12.7	11.1	6.43	15.5	55.86	7.8%	9.7%	10.7%
South East	18	102.6	20.4%	0.95	84.3%	3.6	8.9	7.1	11.17	10.1	108.54	6.2%	7.4%	8.4%
North East	19	82.3	16.4%	1.36	86.7%	2.5	7.0	5.8	6.00	8.3	60.69	6.7%	8.5%	9.4%
Midlands	22	79.1	15.7%	0.97	81.5%	3.6	6.7	5.9	8.52	7.7	81.58	6.6%	8.2%	8.5%
North West	15	61.6	12.3%	1.02	89.9%	5.3	5.5	4.9	6.05	6.6	60.41	7.3%	9.1%	9.7%
South West	7	24.6	4.9%	0.22	58.4%	3.0	1.5	0.7	11.47	3.3	110.83	2.4%	8.5%	10.8%
Wales	2	17.5	3.5%	0.21	88.1%	4.8	1.5	1.1	8.17	1.7	81.46	6.2%	8.4%	9.0%
<b>Total</b>	<b>123</b>	<b>502.4</b>	<b>100.0%</b>	<b>7.14</b>	<b>83.8%</b>	<b>3.6</b>	<b>44.0</b>	<b>36.7</b>	<b>7.36</b>	<b>53.1</b>	<b>70.37</b>	<b>6.7%</b>	<b>8.6%</b>	<b>9.5%</b>

Net yields are based on gross rental income after voids and irrecoverable costs and based on standard purchasers costs of approximately 6.8%

Note: Reversionary yield excludes expired leases

Tables may not sum due to rounding

# Top 15 Investments (market value) as at 31 December 2016

Property	Sector	Anchor tenants	Market value (£m)	% of portfolio	Lettable area (Sq Ft)	Let by area (%)	Annualised gross rent (£m)	WAULT to first break (years)
Tay House, Glasgow	Office	Barclays Bank Plc, Glasgow University	32.3	6.4%	156,933	87.7%	2.2	4.5
Juniper Park, Basildon	Industrial	Schenker Ltd, Vanguard Logistics Services Ltd, Telent Technology Services Ltd, Tigers Global Logistics Ltd	21.8	4.3%	296,100	70.0%	1.5	1.2
Buildings 2 & 3 HBOS Campus, Aylesbury	Office	Scottish Widows Limited, The Equitable Life Assurance Society	20.3	4.0%	146,936	73.9%	1.8	5.2
Wardpark Industrial Estate, Cumbernauld	Industrial	Thomson Pettie Limited, Cummins Limited, Balfour Beatty WorkSmart Limited, Bott Ltd, Bunzl UK Limited	19.9	4.0%	707,775	90.7%	2.4	2.3
Hampshire Corporate Park, Chandler's Ford	Office	Aviva Health UK Limited, Royal Bank of Scotland plc	15.4	3.1%	85,422	97.8%	1.4	5.0
One & Two Newstead Court, Annesley	Office	E.ON UK plc	15.4	3.1%	146,262	100.0%	1.4	3.6
Columbus House, Coventry	Office	TUI Northern Europe Limited	14.6	2.9%	53,253	100.0%	1.1	7.0
Road 4 Winsford Industrial Estate, Winsford	Industrial	Jiffy Packaging Limited	13.5	2.7%	246,209	100.0%	0.9	17.7
1-4 Llansamlet Retail Park, Swansea	Retail	Steinhoff UK Group Property Limited, Wren Living Limited, Halfords Limited	12.0	2.4%	71,615	100.0%	1.0	6.3
Arena Point, Leeds	Office	JD Wetherspoon PLC, Expotel Hotel Reservations Ltd	12.0	2.4%	98,856	66.8%	0.6	2.2
The Point, Glasgow	Industrial	See Woo Foods (Glasgow) Limited, Howden Joinery Properties Limited, Euro Car Parts Limited	11.6	2.3%	183,690	100.0%	0.9	6.2
Portland Street, Manchester	Office	Mott MacDonald Limited, New College Manchester	10.8	2.2%	54,959	100.0%	0.8	3.1
Oaklands House, Manchester	Office	HSS Hire Service Group Limited, Rentsmart Ltd	10.4	2.1%	161,768	80.0%	1.1	3.8
CGU House, Leeds	Office	Aviva Insurance Limited	9.1	1.8%	50,763	100.0%	1.0	0.7
The Genesis Centre, Warrington	Office	Evolution Recruitment Solutions Ltd, Enviroment Partnership (TEP) Ltd, Zentek Engineering (UK) Ltd	9.0	1.8%	95,544	64.8%	0.9	1.5
<b>Total</b>			<b>228.0</b>	<b>45.4%</b>	<b>2,556,085</b>		<b>19.0</b>	

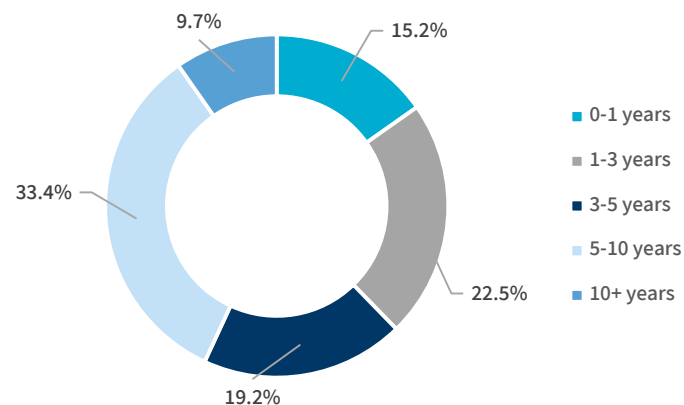
Table may not sum due to rounding

# Stable Income Profile - Lease Expiries as at 31 December 2016

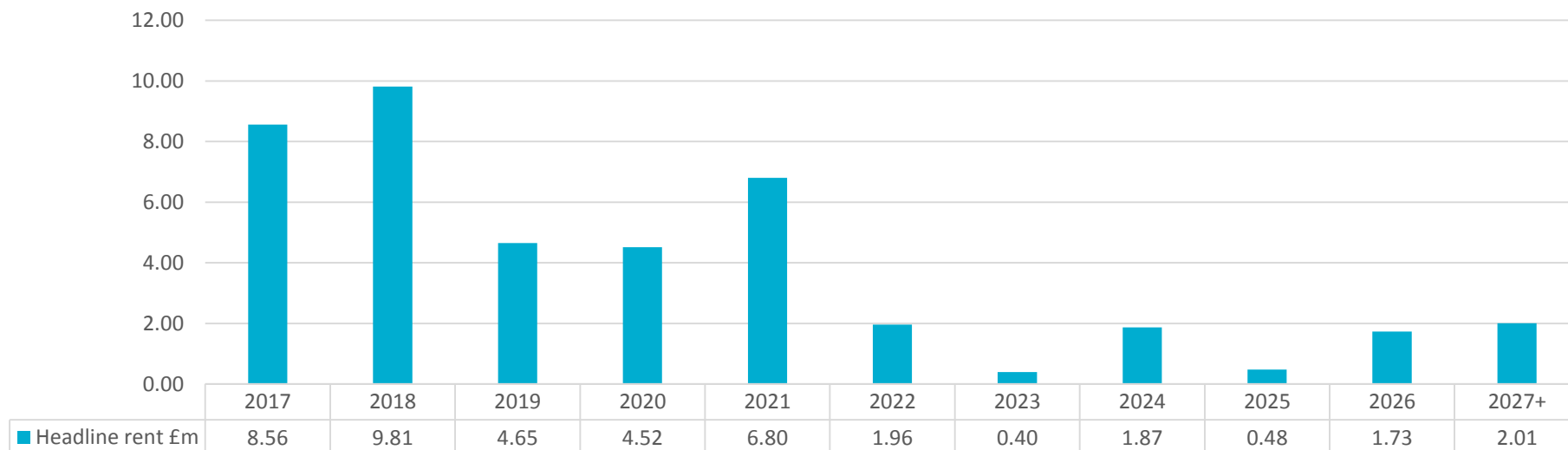
A large number of tenants offers income diversification and security of lease renewals

- Number of units: 941
- Number of tenants: 717
- Contracted rent roll: £44.0m
- WAULT of 5.2 years
- WAULT to first break of 3.6 years

Lease Expiry Income Profile



Lease Expiry Income Profile to First Break



# Top 15 Tenants (share of rental income) as at 31 December 2016

Stable income profile - income security core to management aims

Tenant	Property	Sector	WAULT to first break	Lettable area (Sq Ft)	% of Gross rental income
Barclays Bank Plc	Tay House, Glasgow	Financial and insurance activities	4.9	78,044	3.7%
E.ON UK Plc	One & Two Newstead Court, Annesley	Electricity, gas, steam and air conditioning supply	3.6	146,262	3.3%
Scottish Widows Limited	Buildings 2 & 3, Aylesbury	Financial and insurance activities	4.9	80,103	3.1%
TUI Northern Europe Ltd	Columbus House, Coventry	Professional, scientific and technical activities	7.0	53,253	2.5%
Aviva Insurance Ltd	CGU House, Leeds	Financial and insurance activities	0.7	50,763	2.3%
Sec of State for Communities & Local Govt	Bennett House, Hanley, Sheldon Court, Solihull, & Oakland House, Manchester	Public Sector	0.6	74,886	2.1%
Jiffy Packaging Ltd	Road 4 Winsford Industrial Estate, Winsford	Manufacturing	17.7	246,209	2.0%
The Secretary of State for Transport	St Brendans Court, Bristol, & Festival Court, Glasgow	Public Sector	3.5	55,586	1.6%
Lloyds Bank Plc	Victory House, Meeting House Lane, Chatham	Financial and insurance activities	1.4	48,372	1.5%
Aviva Health UK Ltd	Hampshire Corporate Park, Chandler's Ford, Eastleigh	Financial and insurance activities	2.0	42,612	1.5%
The Scottish Ministers c/o Scottish Prison	Calton House, Edinburgh	Public Sector	0.8	51,914	1.4%
Europcar Group UK Ltd	James House, Leicester	Administrative and support service activities	4.5	66,436	1.4%
Schenker Ltd	Juniper Park, Basildon	Transportation and storage	0.5	86,548	1.3%
Office Depot UK Limited	Niceday House, Meridian Park, Andover	Wholesale and retail trade	2.1	34,262	1.3%
W S Atkins (Services) Ltd	Century Way, Thorpe Park, Leeds	Professional, scientific and technical activities	1.6	32,647	1.2%
<b>Total</b>				<b>1,147,897</b>	<b>30.3%</b>

Table may not sum due to rounding

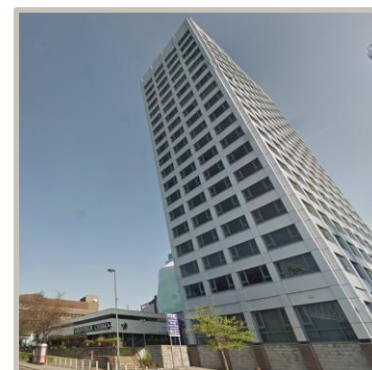
# Case Study Update - Portfolio Acquisition Q1 2016: Wing Portfolio

## Oakland House, Manchester

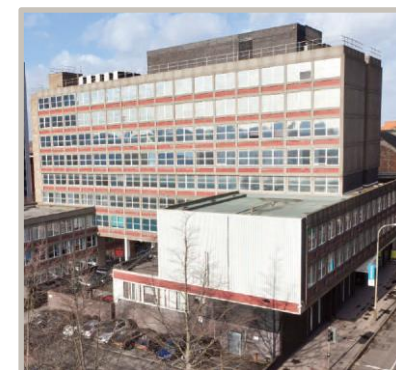
- Front of house works undertaken to improve immediate presentation to include installation of coffee facility/ improvements to washroom facilities/relining all external road areas/creation of external garden/picnic area/installation of high-level external illuminated signage to “landmark” the building in the city
- Management agreement entered into with serviced office provider for second and third floors (21,871 sq. ft.) to provide additional “offer” for occupiers in terms of flexible serviced accommodation. £294,000 capex investment
- Lease of fourteenth floor east surrendered and subsequently re-let to expanding occupier. Lease of ninth floor in turn re-gearred from Sept’17 for 10-years with tenant break September 2022



Oakland House, Manchester



Arena Point, Leeds



James House, Leicester

## Arena Point, Leeds

- Marketing campaign launched with new name (formerly Tower North Central) and branding. Planning consent for high-level illuminated signage received and installation progressing
- Design, specification and tender completed and in respect of foyer refurbishment, creation of basement shower/cycle hub and refurbishment of ground, sixth and seventh floors. Works advancing with completion anticipated Q2-Q3 2017. £1.1m capex investment. Second (4th & 5th floors) and third (1st, 2nd & 3rd floors) phases to follow
- Fifteenth floor south letting complete following exit of existing tenant due to downsizing
- Lock out period in place with respect of sale of podium area

## Northern Cross, Basingstoke

- Comprehensive repair scheme successfully completed to elevations and roof to address longstanding water ingress as a result of original design defects. Costs of £185,000 to be recovered from service charge over next few years



Northern Cross, Basingstoke



Tokenspire Business Park, Beverley

## Tokenspire Business Park, Beverley

### New lettings:

- Unit 11 (12,243 sq. ft.) let from Dec’16 on 5-year lease
- Unit 2a (2,000 sq. ft.) let from Jan’17 on 3-year lease
- Unit 6 (9,626 sq. ft.) let from Jan’17 on 3-year lease
- Unit 14 (8,813 sq. ft.) let to existing occupier from Feb’17 at headline rent of £25,000 pa in addition to their ongoing tenancy

Acquisition Price (£m)	37.5
Anchor tenants	BNP Paribas, Europcar, HSS Hire, Greater Manchester Police, JD Wetherspoons and Foundation for Credit Counselling

# Case Study - Portfolio Acquisition Q1 2016: Rainbow Portfolio

## Aylesbury

- Building 2 – concurrent re-letting of first and second floors to Equitable Life completed Nov 2016 for 10-years subject to tenant break options at £426,360 pa following expiry of the Lloyds Banking Group lease
- Building 2 – coffee shop installed to reception to satisfy requirements of Equitable Life and to promote remaining floors
- Building 2 - dilapidation negotiations ongoing with Lloyds – anticipating significantly improved settlement. Tender exercise for internal/external works completed - to be progressed over the next two quarters
- Terms issued for letting of part of fourth floor, 5,821 sq. ft.



Buildings 2 & 3, Aylesbury



Juniper Park, Southfield Industrial Estate, Basildon

## 800 Aztec West, Bristol

- Design scheme completed and planning approval received
- £5.7m refurbishment scheme commenced - completion Q3 2017
- Terms issued to potential single whole building occupier
- Good occupier interest on basis of multi let basis



The Genesis Centre, Warrington



800 Aztec West, Bristol

## Phoenix Business Park, Paisley

- Chiron House – all space under offer to gym operator on 15-year lease (no breaks) at headline rent of £89,950 pa

## Juniper Park, Basildon

- Lease renewal discussions being advanced with Schenker in relation to their office space. Looking to relocate Schenker to adjoining vacant unit to release more marketable office space to market
- Terms agreed for letting of Unit 1A (65,603 sq. ft.) from 1 September 2017 for 10-years with a tenant break at the fifth anniversary, at a headline rent of £328,015 pa

Acquisition Price (£m)	80.00
Anchor tenants	Clerical Medical, Equitable Life, Invensys, Vanguard Logistics, Schenker, Veolia and FMC Technologies

# Case Study – Offices: St James Court, Bristol

## Lease termination with re-let and refurbishment, enhancing the capital value

### Investment Overview

- Two out-of-town office buildings situated in the popular Almondsbury area to the north of Bristol City Centre
- Building A – 30,000 sq. ft.; Building B – 17,266 sq. ft.
- Secure “campus” environment with strong car parking ratio

### Investment Strategy

- Both buildings were let to EE until December 2015. EE were not in occupation at point of acquiring and it was known they would not renew
- Dilapidations settlement agreed with EE on both buildings
- Design team appointed to undertake full refurbishment of both buildings to Grade A specification at a capital cost of £3.1m and a marketing campaign initiated
- Letting of 2/3rds of Building A completed with South West Ambulance Service NHS, in December 2016; 15-year term with tenant break at year 10 – headline rent £300,165 pa
- Letting of 3/4qtrs of Building B completed with Semtech EMEA Limited, July 2017 – 10-year term with tenant break at year 5 – headline rent £231,880 pa
- Balance of space being offered into a strong market



# Case Study – Offices: Hampshire House, Hampshire Court, Eastleigh

Lease termination with re-let and refurbishment, enhancing the capital value

## Investment Overview

- 42,810 sq. ft. out-of-town modern office building
- Let to Aviva until December 2016 and to Royal Bank of Scotland to December 2021 with option to break in December 2016

## Investment Strategy

- Programme of common works undertaken, principally to the roof, and external and internal decoration – capex of £250,000 to be recovered by the service charge
- In addition, improvements carried out to entrance and foyer, together with creation of ground floor toilet and shower facilities with upgrading of WC's on tenant floors. Landlord's capital investment £162,000
- In the knowledge that Aviva would not renew their occupation a marketing campaign was initiated, with the building re-branded to Hampshire House from NatWest House
- Design team appointed to undertake Cat A refurbishment to former Aviva second floor space immediately upon expiry of Aviva's lease – gross capex, before dilapidations settlement, of £1.1m
- Terms agreed with two occupiers for whole of space (10,000 sq. ft. per letting) at improved headline rent of £19.75 psf – passing Aviva rent of £16.68 psf
- Opportunity to grow Royal Bank of Scotland rent from December 2016 review



# Case Study – Offices: St James House, Bath

Lease surrender with re-letting and refurbishment of vacant space and active management of tenants providing enhancement to the capital value

## Investment Overview

- Modern four story office building located to the south of Bath and within walking distance of city centre
- Let on long lease to the BBC with tenant break option in September 2017. BBC not in occupation

## Investment Strategy

- Consent provided to BBC to sublet top two floors
- Surrender of BBC lease agreed at £1.1m in September 2015
- Sub leases of top two floors re-gearred to extend occupation
- Refurbishment undertaken to vacant ground and first floors
- Lettings now completed of ground and first floors on 10-year terms with tenant breaks at year 5, at a headline rent of £20 psf – building is now fully let



# Case Study – Office: Festival Court, Brand Street, Glasgow

## Regear of leases and maintaining headline rent

### Investment Overview

- Three modern pavilion offices within secure “campus” environment located to the south of Glasgow City Centre
- Let to the Home Office on individual leases with phased expiry dates November 2016, January 2018 and May 2019

### Investment Strategy

- Early and pro-active engagement with tenant resulted in all three leases being re-gearred to November 2021, subject to tenant breaks in July 2020
- Headline rent retained and no incentives granted until post breaks



# Case Study – Industrial: Manor Road, Erith

Refurbishment of vacant units and re-letting into strong market at significantly improved rental tone

## Investment Overview

- Multi-let industrial estate comprising of four units, 15 miles to the south-east of London
- Three units vacant on acquisition by Regional REIT

## Investment Strategy

- Dilapidations settled with former tenants of Units A and D
- Comprehensive refurbishment of Units A, B and D advanced to include removal of asbestos – capex of £610,000
- Unit A let from December 2016 on a 10-year lease with a tenant break at year 5. Headline rent £7.28 psf – 141% improvement on previous ERV
- Unit B let under offer on a 10-year lease with a tenant break at year 5. Headline rent £6.64 psf – 121% improvement on previous ERV



# Case Study – Industrial: Wardpark Industrial Estate, Cumbernauld

Lettings and regears. Retention of asset based on business development prospects for the site

## Investment Overview

- Strategically located industrial estate with direct access to Central Scotland's motorway triangle
- The most recognised industrial and business area on the M80 with over 2m sq. ft. of space, of which Regional REIT owns c. 700,000 sq. ft.

## Investment Strategy

- Strategy is to let vacant space and re-gear existing leases in improving market
- Offered for sale with strong investor interest
- Decision to retain based on outlook for stronger rental growth
- The site is proximate to the proposed new Scottish Film Centre, with whom the Asset Manager is in discussions as regards a potential sale of 3 blocks of adjacent units totalling 29,363 sq. ft.
- If completed this will result in a capital receipt and reduce voids to below 10%. On this basis, vacant possession of the units would be provided and displaced tenants re-located within the Estate



# Case Study – Retail: Llansamlet Retail Park, Swansea

## Retention of asset based on business development prospects for the site

### Investment Overview

- Acquired in August 2014
- Six unit 71,615 sq. ft. retail park with bulky goods only consent. Located on southern edge of the city adjacent to the M4 and a Tesco Extra

### Investment Strategy

- Following acquisition Regional REIT completed the planned sub-division of Unit 1 into two smaller retail units which were then let
- New 10-year lease in respect of final void (Unit 4b) completed with Tapi carpets, for £139,901 pa. As part of this letting, Regional REIT refurbished with new contemporary glazed frontage and full height external canopy, matching adjacent units to provide shell finish – capex of £405,000
- Completion of the Unit 4b letting lifts site rental income c. 19%, to £858,409 pa
- Secured planning consent for ‘drive-thru’ unit and conditional terms agreed with international retailer on the basis of 20-year lease with a break at the 10th anniversary
- Potential disposal - whilst there was encouraging interest from potential purchasers, bids were not at an acceptable level. The decision made was to advance the above letting and undertake the drive-thru development with a view to remarketing at a later date



# Appendix 4

## Introduction to Regional REIT & External Management

# Introduction to Regional REIT Limited

- Listed in November 2015; initial portfolio £386m - 128 properties, 512 tenants and 713 units
  - Combination of 2 commercial property investment funds
  - Joint venture between London & Scottish Investments and Toscafund Asset Management
  - Strategy is to take advantage of an over-correction in the commercial property market and strong economic growth prospects for the UK's regions
- 
- Invests in a diversified portfolio of good secondary offices and industrial assets in the principal regions of the UK outside of the M25
  - Acquires mis-priced or under-managed, principally income-producing, properties
  - Property management is intensive and granular, close to the tenant, with each property modelled and planned
  - Assets managed by an experienced and established team
- 
- Premium listed on the LSE's Main Market and included in the FTSE All Share and EPRA NAREIT Developed Europe indices
  - UK REIT with market capitalisation of c. £300m, governed by an experienced independent Board
  - Aiming for an attractive total return to Shareholders of 10-15%pa; targeting net LTV ratio of c. 35%

High dividend distribution UK REIT, offering an unrivalled exposure to the regional commercial property market with active management by an experienced Asset Manager

# Management Contract

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Term	<p><b>Initial period:</b> Fixed for 5-years with 12-month notice period (ie, notice period will run from end of year 5 for 12 months)</p> <p><b>Thereafter:</b> 3-years with 12-month minimum notice period (ie, notice has to be given before the end of year 2)</p>
Management Fees	<p>1.1% of EPRA NAV up to £500m; 0.9% on EPRA NAV over £500m. Payable quarterly in arrears (split 50:50 between LSI and Toscafund)</p> <p>4% of gross rental income payable quarterly in arrears (LSI only)</p>
Performance fee:	<p>15% of the Total Return (EPRA NAV growth plus dividends declared) over an 8% annual Hurdle Rate, subject to a high-water mark (split 50:50 between LSI and Toscafund)</p> <p><b>Initial period:</b> First calculation from Admission (6/11/15) to 31/12/18; paid 50% in cash and 50% in shares (at the then market price) locked in for 1-year</p> <p><b>Thereafter:</b> Incentive fee calculated annually; paid one-third in cash, one-third in shares locked in for 1 year and one-third in shares locked in for 2-years</p>
Management lock-ins	<p>Management holdings at IPO were locked in for 1-year. Shares received in lieu of performance up to 30 June 2015 were locked-in for 180 days</p>
Internalisation	<p>Commitment to no internalisation for first 5-years or until EPRA net assets above £750m; then subject to independent shareholders' vote</p>

# Asset Manager, Investment Criteria and Management Approach

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## Highly experienced management with strict investment criteria and a hands-on approach

### London & Scottish Investments – Asset Manager

- A long established property investment management company
- Senior management collectively have 150+ years of property experience and an in-depth knowledge of construction and development
- Offices in Glasgow, Manchester, Leeds and London
- Employs 42 people as at 31 December 2016, including: 20 property managers, 12 finance and 4 support staff (mid-March 2017, 49 people)

### Investment criteria

- Targeting an attractive 10-15% annual total return for Shareholders
- Net LTV target of 35% (maximum 50%)
- To expand portfolio via regional office and industrial acquisitions
- No single property to exceed 10% (20% in special circumstances) of Gross Asset Value
- Minimum value of single acquisition (unless part of a portfolio) is £5m

### Management approach – to improve asset quality by applying forensic attention to detail of tenants and assets

- Lease renewals and rent reviews
- Minimising voids via aggressive marketing of vacant space
- Enhancing the tenant mix and covenant strength
- Refurbishments, extensions, changes of use, etc, to exploit potential
- Recycling of capital out of the legacy portfolio to focus on selected core markets

# Disclaimer

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