Regional REIT: Economic & Regional Office Update

03 November 2020

UK Economy

Regional REIT Portfolio Overview

Occupational Market

Investment Market

Summary

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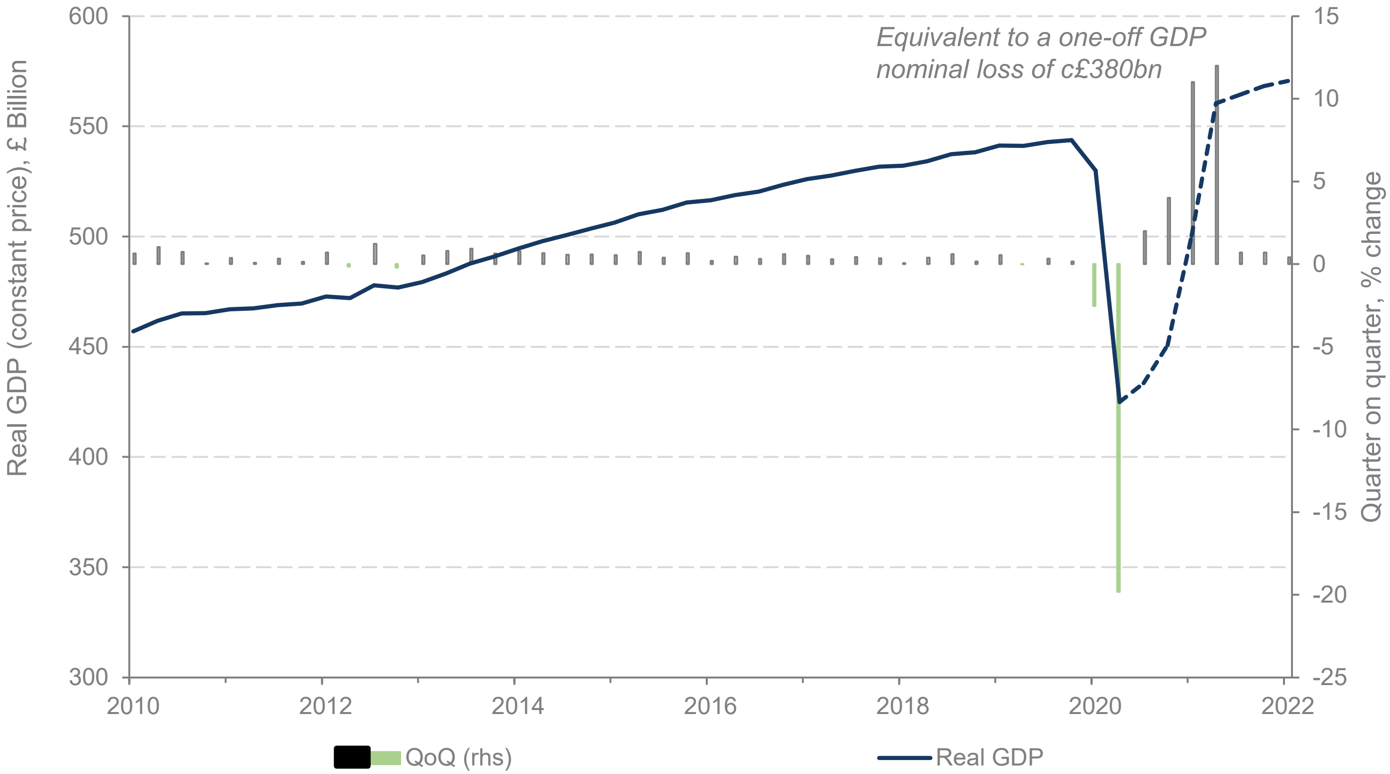
UK Economy

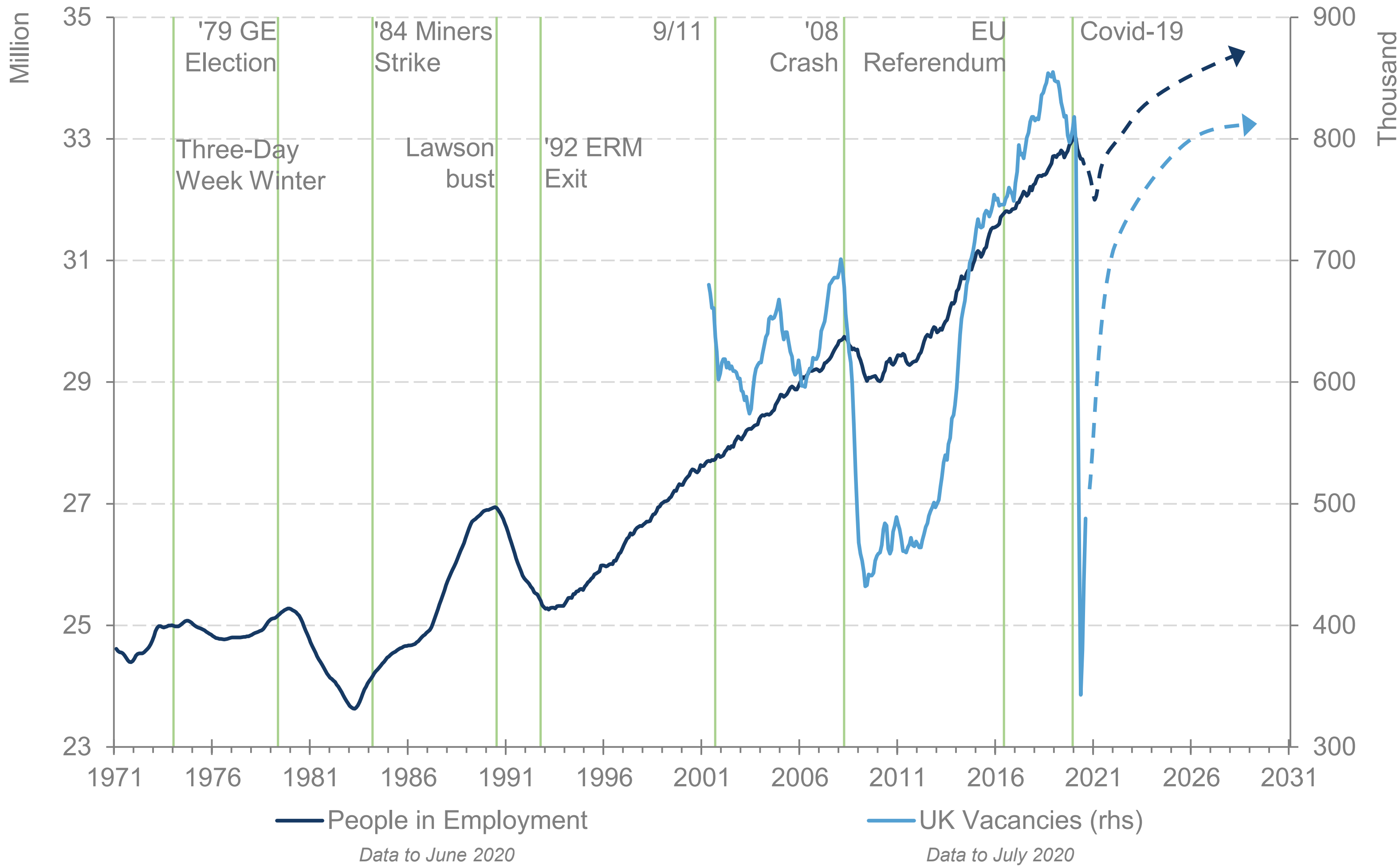
UK Real GDP – The shape of recovery isn't alphabetical but logical



UK Real GDP		
2013	2.1	
2014	2.6	
2015	2.4	
2016	1.9	
2017	1.9	
2018	1.3	
2019	1.4	
	Toscafund	OBR
2020	-15.2	-12.8
2021	20.6	17.9
2022	5.2	1.5
2023	2.3	1.3
2024	2.3	1.4

Source: ONS, OBR (Forecasts from Updated Coronavirus Analysis – July 2020), Toscafund

UK Employment powering higher through shocks

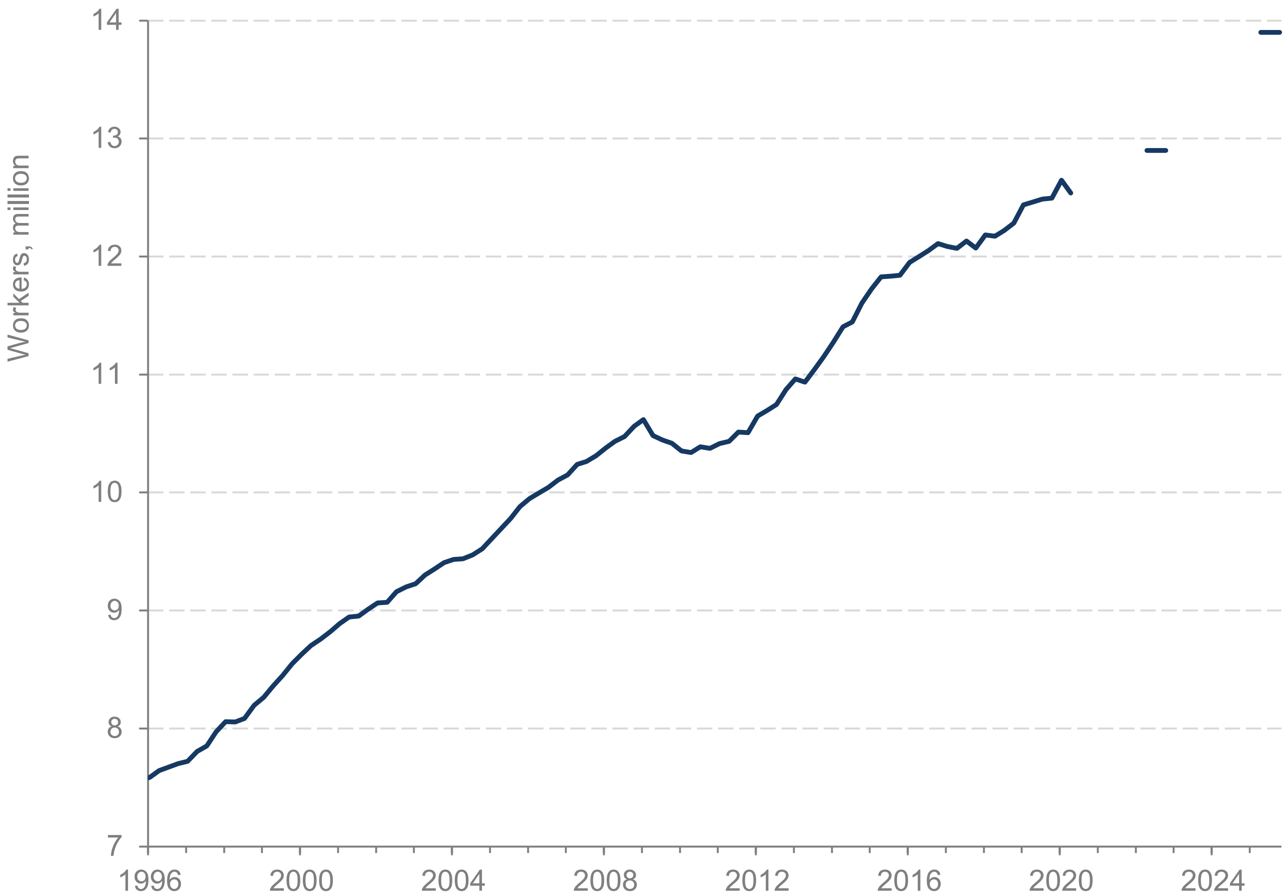


REGIONAL REIT

Source: ONS, Toscafund

UK public sector office workers, with forecasts

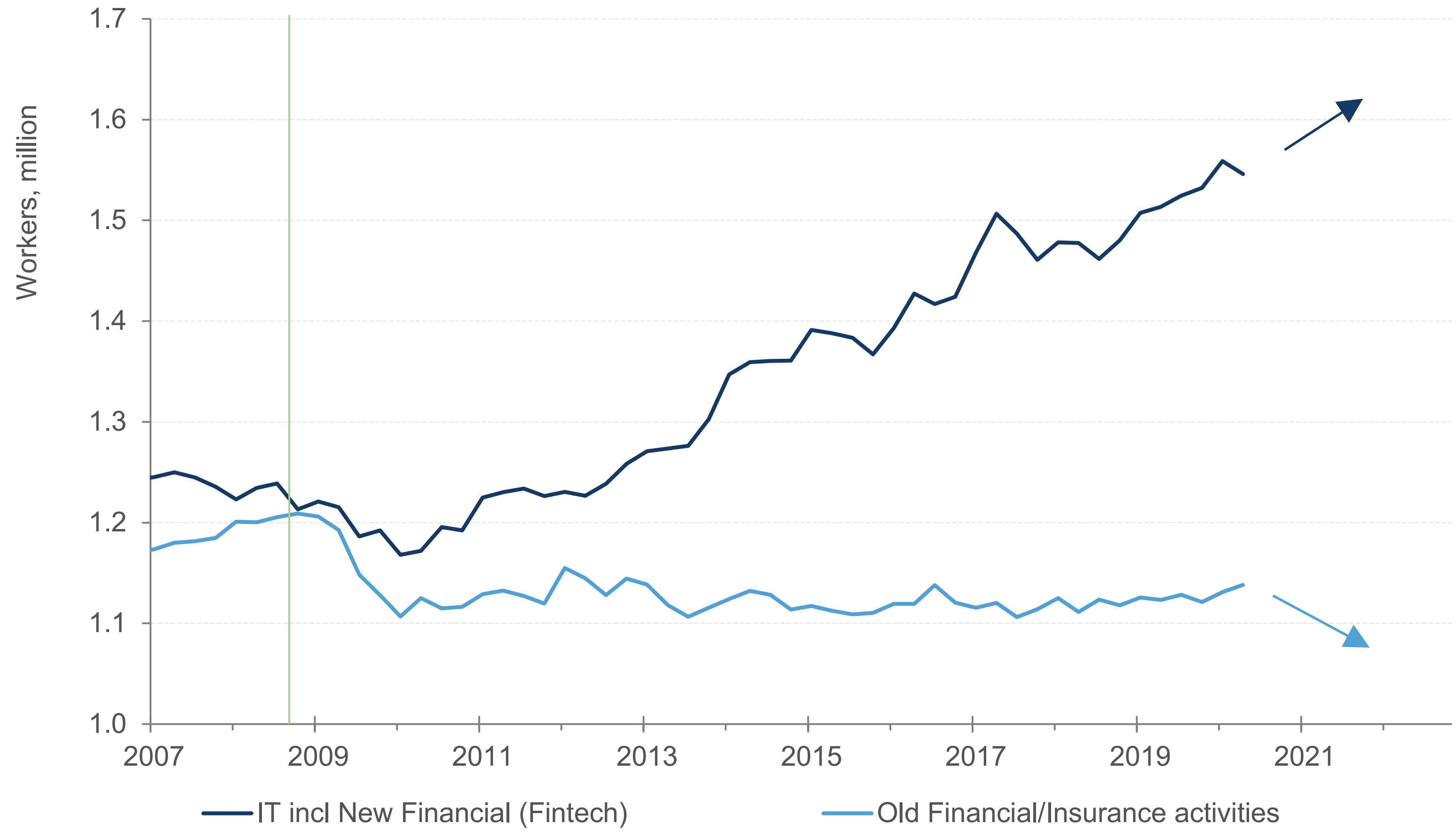
Well-protected UK private sector office workers, with forecasts



Categories included:

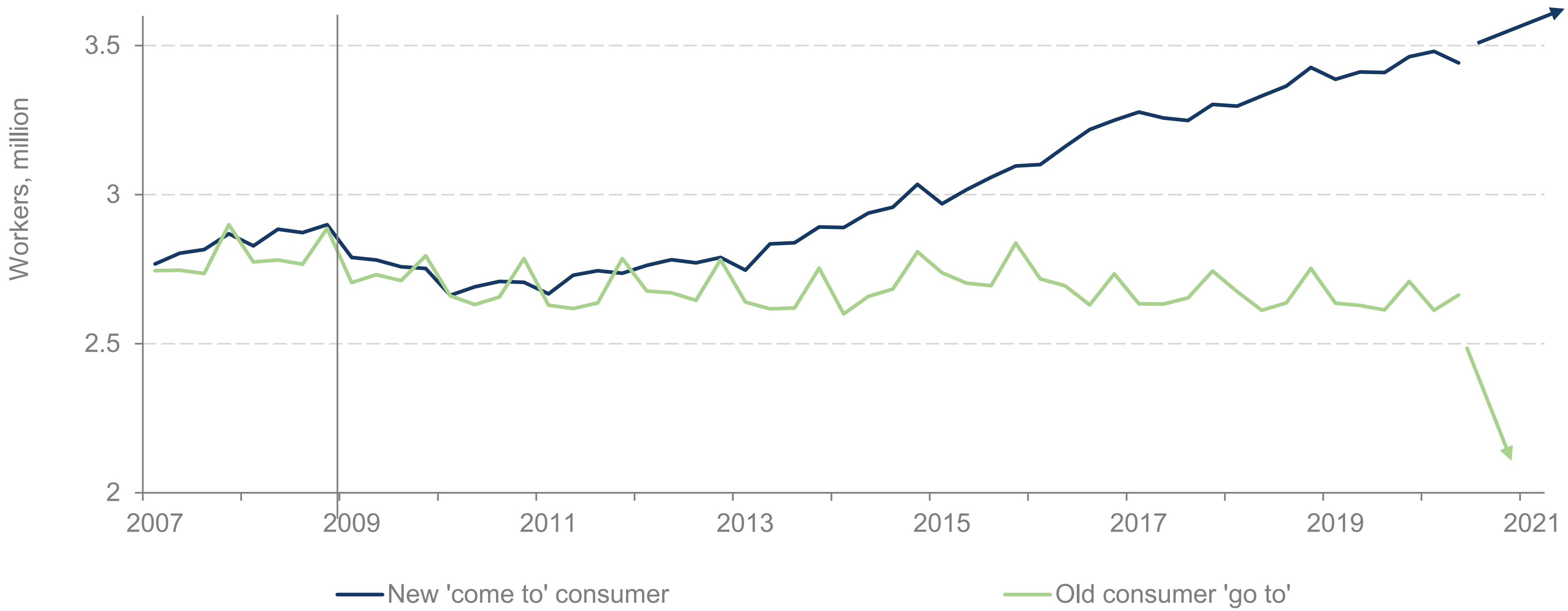
Professional, scientific and technical activities
Financial and insurance activities
Information and communication
Education

UK jobs in new e-forms of finance vs old



Source: ONS, Toscafund

UK jobs in new e-forms of consumerism vs old



New 'come to' consumer
Wholesale of food, beverages and tobacco
Wholesale of household goods
Freight transport by road and removal services; Transport via pipeline
Warehousing and support activities for transportation
Postal and courier services
Restaurants and mobile food service activities
Event catering and other food service activities
Beverage serving activities

Old consumer 'go to'
Retail sale in non-specialised stores, food, beverages and tobacco predominating
Other retail sale in non-special stores
Retail sale of food, beverages and tobacco in specialised stores
Retail sale of automotive fuel in specialised stores
Retail sale of information and communication equipment
Retail sale of other household equipment in specialised stores
Retail sale of cultural and recreation goods in specialised stores
Retail sale of clothing, footwear and leather goods in specialised stores
Retail sale of other goods in specialised stores

Source: ONS, Toscafund

Regional REIT portfolio Overview


Tay
House
300
Bath Street

Tenants

BARCLAYS

Department for Communities and Local Government

BANK OF SCOTLAND

e·on

AVIVA

NHS Property Services

Royal Bank of Scotland

LLOYDS BANK

Tenants

Ministry of Defence

CEVA LOGISTICS

ageas

BNP PARIBAS LEASING SOLUTIONS

Clydesdale Bank

SPARK44

Scottish Enterprise

Europcar

Department for Transport

Quorn™

ABRISO PROTECTIVE PACKAGING & INSULATION

Jiffy®

WE PROTECT

Scottish Government
Riaghaltas na h-Alba
gov.scot

University of Glasgow
VIA VERITAS VITA

John Menzies plc

MORRIS

Tenants

Nestlé PURINA

ST. JAMES'S PLACE
WEALTH MANAGEMENT

BOEING®

GE Capital

sodexo

EATON
Powering Business Worldwide

smsplc

Capgemini

Tenants

REED

ADT Always There®

serco

Biffa

British RedCross

RHEINMETALL DEFENCE

BOUYGUES UK

Tenants

AECOM

BSS

NEWSQUEST
Media Group

sky

O2

TÜV SÜD

nel
technology for life

Virgin media

Tenants

Schindler

petprotect est 1983

Save the Children

SECOM

NHS South Western Ambulance Service NHS Foundation Trust

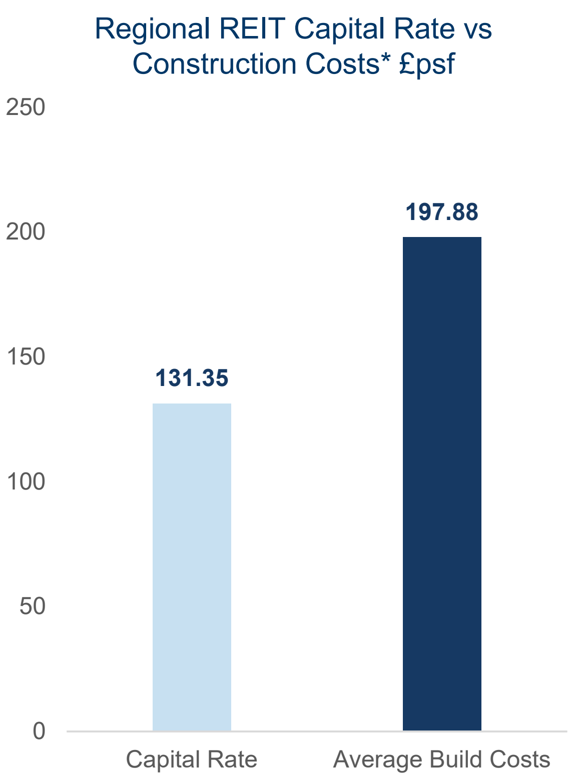
Clearblue

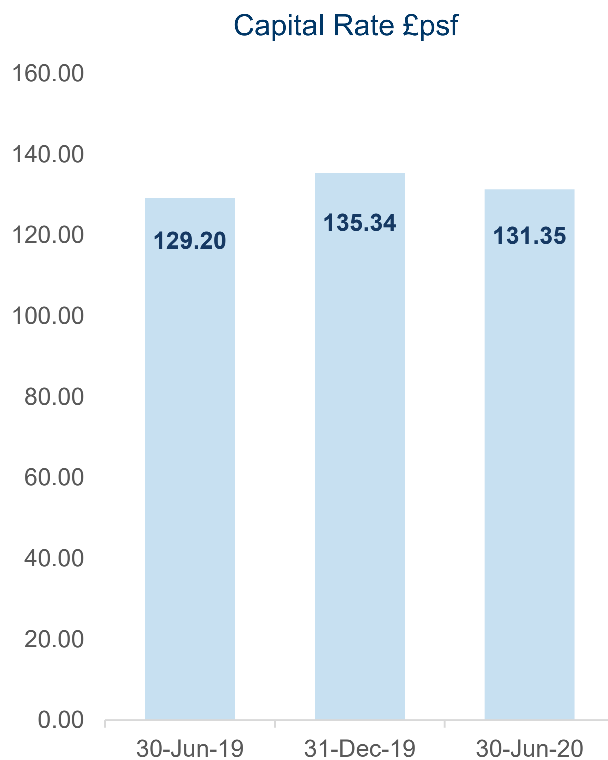
GBG

utilita

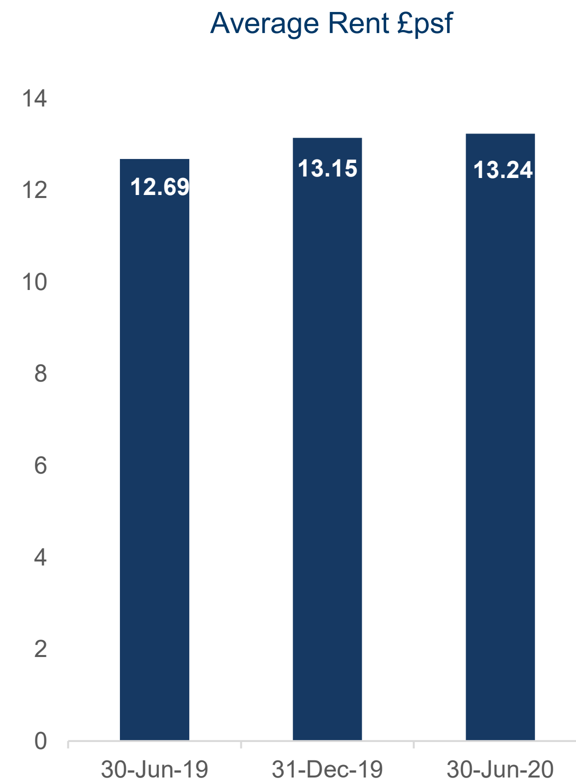
Diversified Office Focussed Portfolio in the UK Regions

Regional REIT office assets:





- **EPRA Occupancy– 89.0%**
  (31 Dec'19, 89.4%)



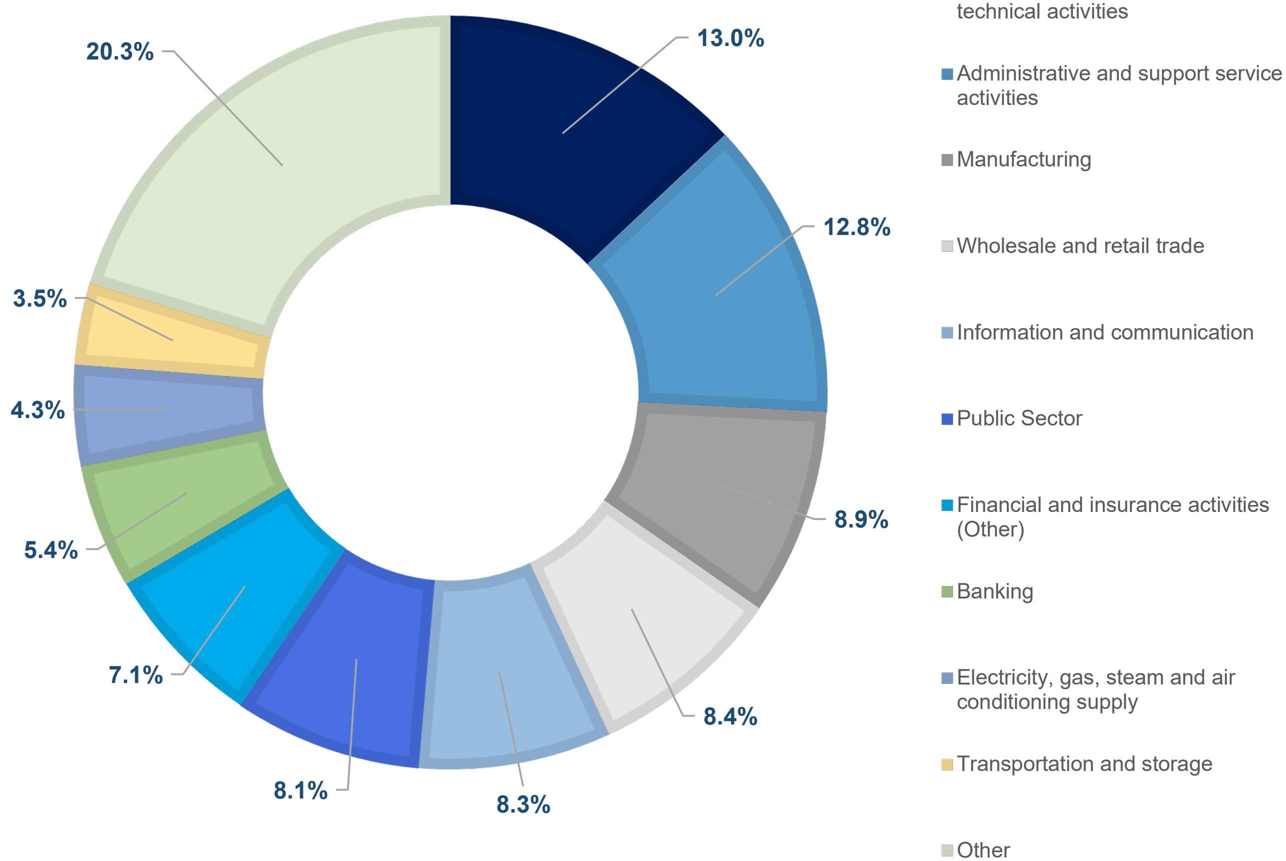
** Figures from BCIS for regional offices with air conditioning (October 2020)*

Highly Diversified Portfolio

Diversified Tenant Base

- Diversified income - large tenant mix with 876 tenants and 1,249 units
- Large spread of tenants businesses
- A broad geographic spread
- Spread of assets – 151 properties
- No tenant represents more than 4.0% of rent roll – largest 3.6%
- Top 15 tenants represent 26.4% of the Group's gross rent roll
- Largest single property accounts for only 4.2% of portfolio by value

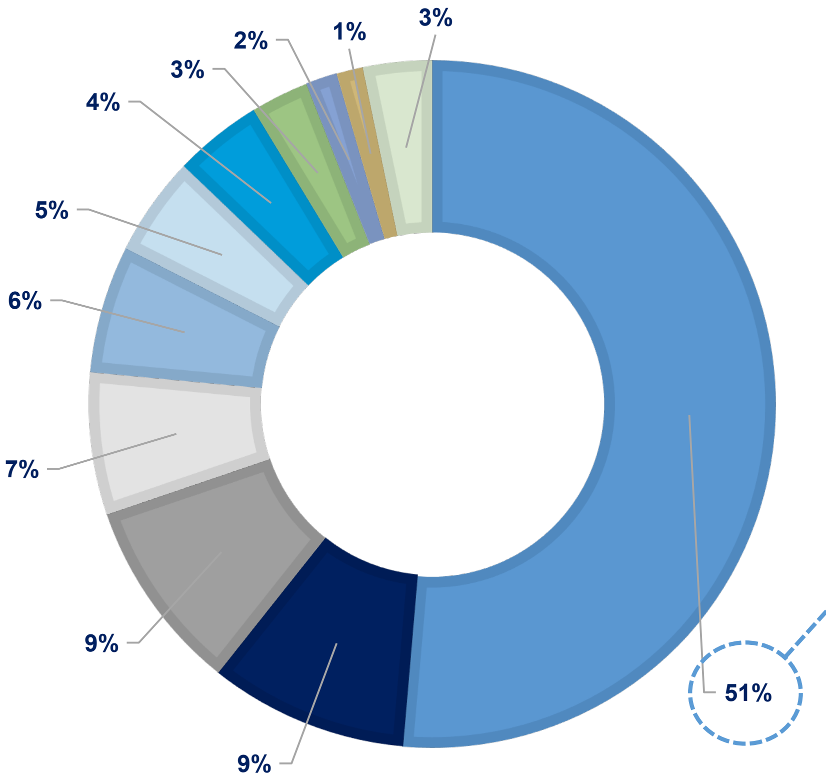
Tenants by SIC code, as a % of rent roll



Other - Other service activities, Human health and social work activities. Construction, Education, Real estate activities, Accommodation and food service activities, Arts, entertainment and recreation, Water supply, sewerage, waste management and remediation activities, Charity, Public administration and defence; compulsory social security, Activities of extraterritorial organisations and bodies, Registered Society, Residential

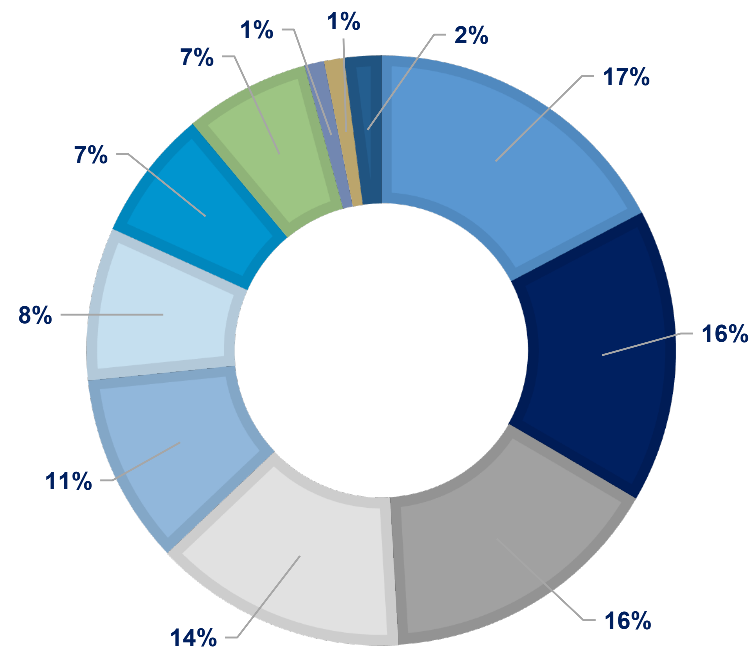
COVID-19 & Our Occupiers

Tenants as a % of gross rent



- Essential Services
- Large UK
- Large International
- Medium UK
- Small UK
- UK Plc
- FTSE 100
- Medium International
- FTSE 250
- UK University/ College
- Other

Essential Services Breakdown by SIC



- Manufacturing
- Information and communication
- Public Sector
- Financial and insurance activities (Other)
- Banking
- Electricity, gas, steam and air conditioning supply
- Administrative and support service activities
- Transportation and storage
- Real estate activities
- Public administration and defence; compulsory social security
- Other

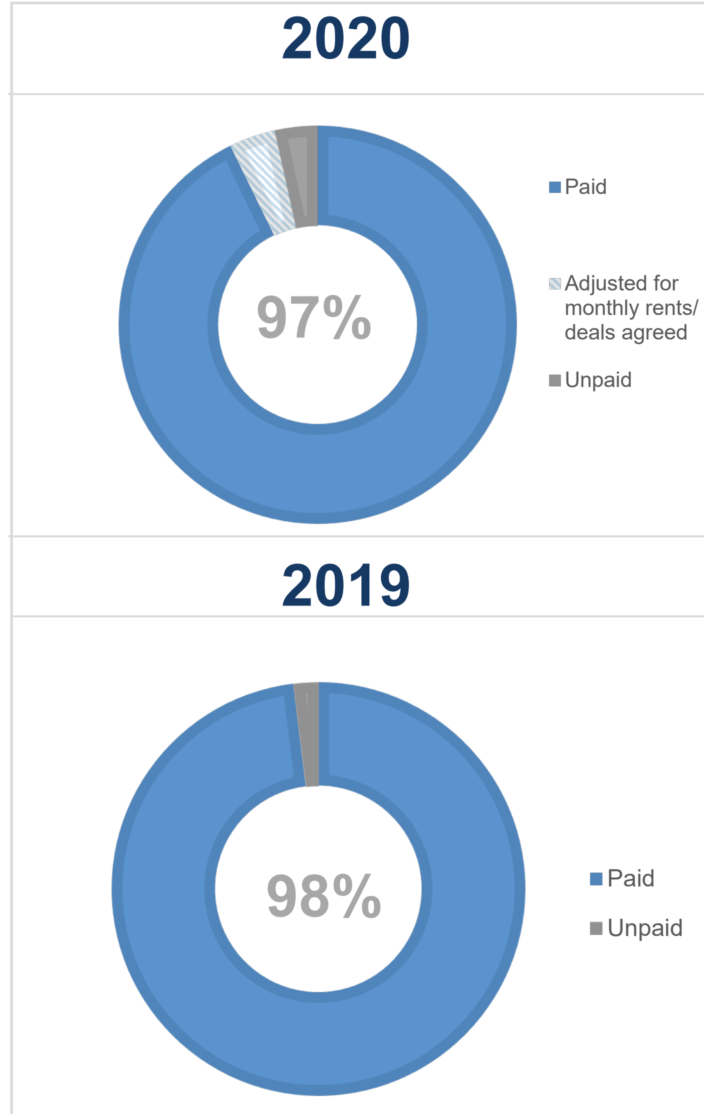
** Classification based upon LSPIM Research department analysis in accordance with Government designated essential services guidelines*

Strong Rent Collection

Strong levels of rent collection continue

- Rent collection has continued to strengthen*:
  - Q1 increasing to 99.2% (2019: 99.4%)
  - Q2 increasing to 97.0% (2019: 100.0%)
  - Q3 stands at 93.5% (2019: 94.2%)
- As at 30 October 2020, the Company had collected 97% of rent due for the year to date, adjusting for monthly rent and agreed collection plans, which is in line with 98% of rent collected for the equivalent period in 2019

Rent Collection Q1, Q2 & Q3 Combined



(As at 30 October 2020)

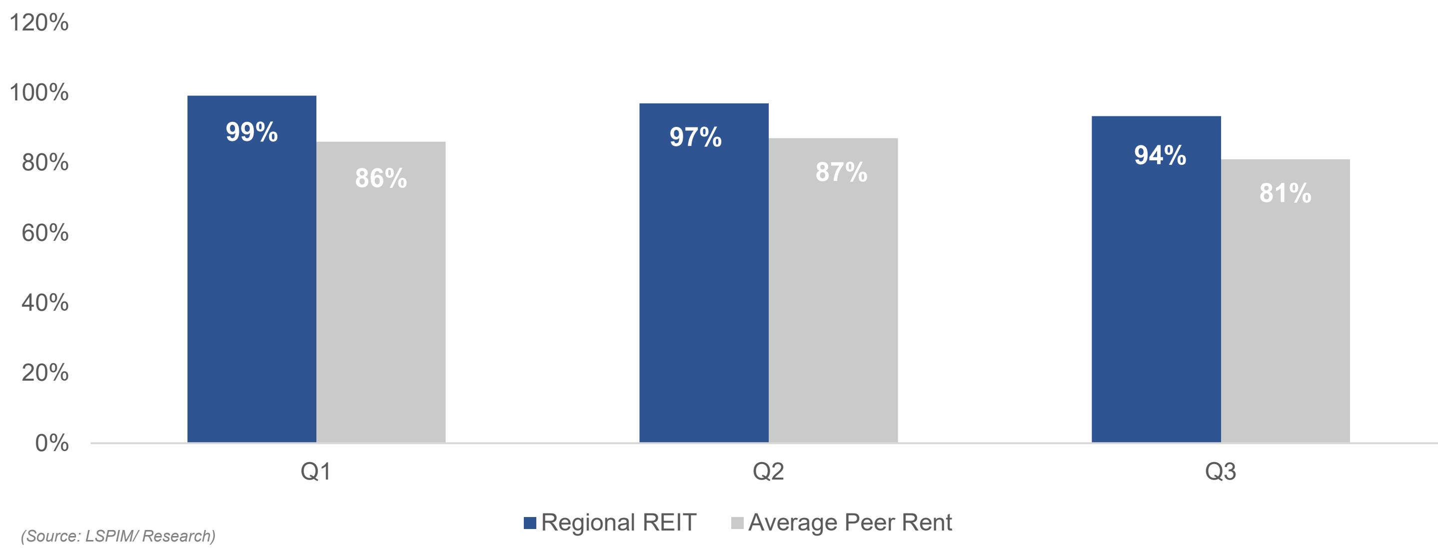
* *adjusting for monthly rent and agreed collection plans*

Rent Collection Peer Comparison

REIT rent collection outperforms against peer group

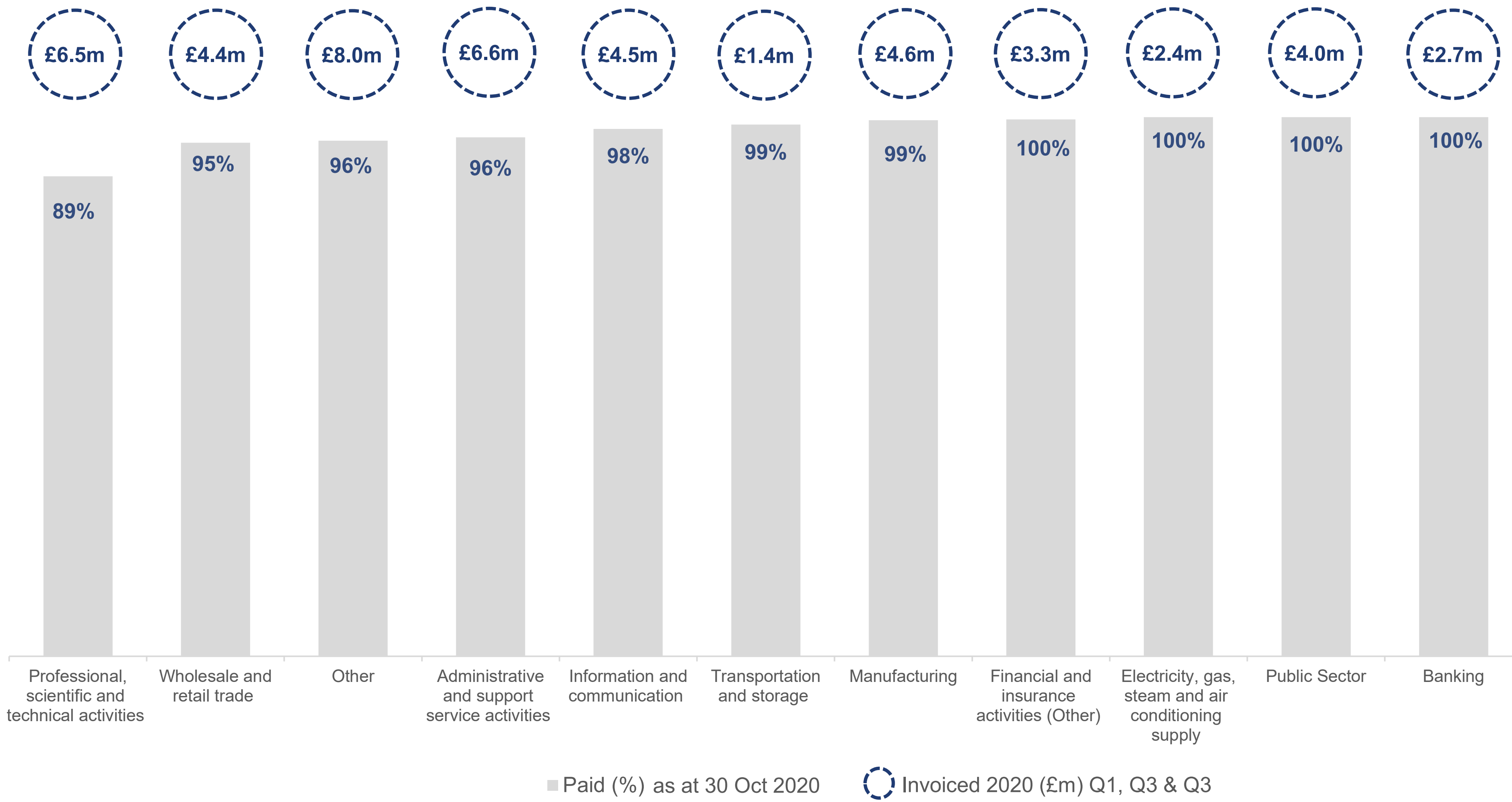
- Regional REIT has continued to outperform when compared to the average peer group each of the three quarters in 2020
- We continue to work closely with our tenants and anticipate receipts will continue to increase in line with our expectations

Rent Collection 2020 – Average Peer Comparison



(Source: LSPIM/ Research)

Rent Collection by SIC



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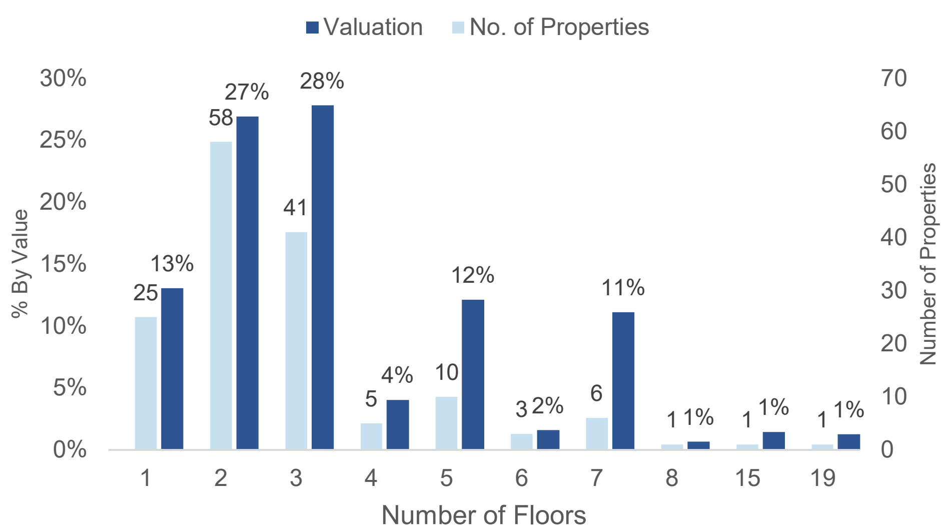
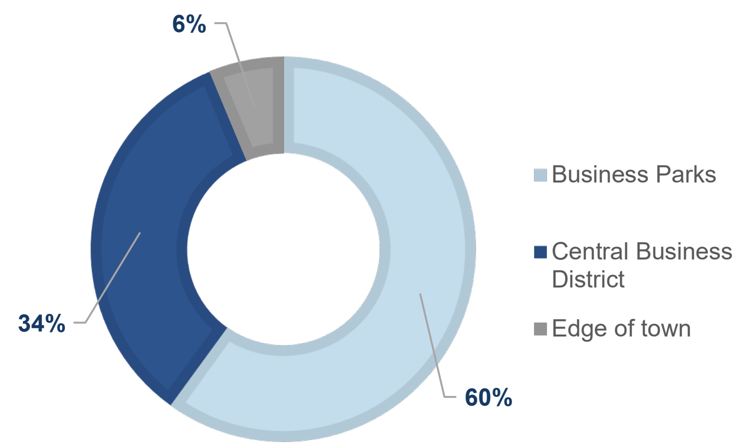
Portfolio details as at 30 June 2020

- Offices represent 79.9% of the portfolio – the majority of offices (60%) are located on business parks
- The majority of the portfolio by value has between 1-3 floors. Only 2 properties have over 10 floors, which accounts for 2% of the portfolio by value

Number of Floors (by number of properties and value)



Office Property Split (by Value)

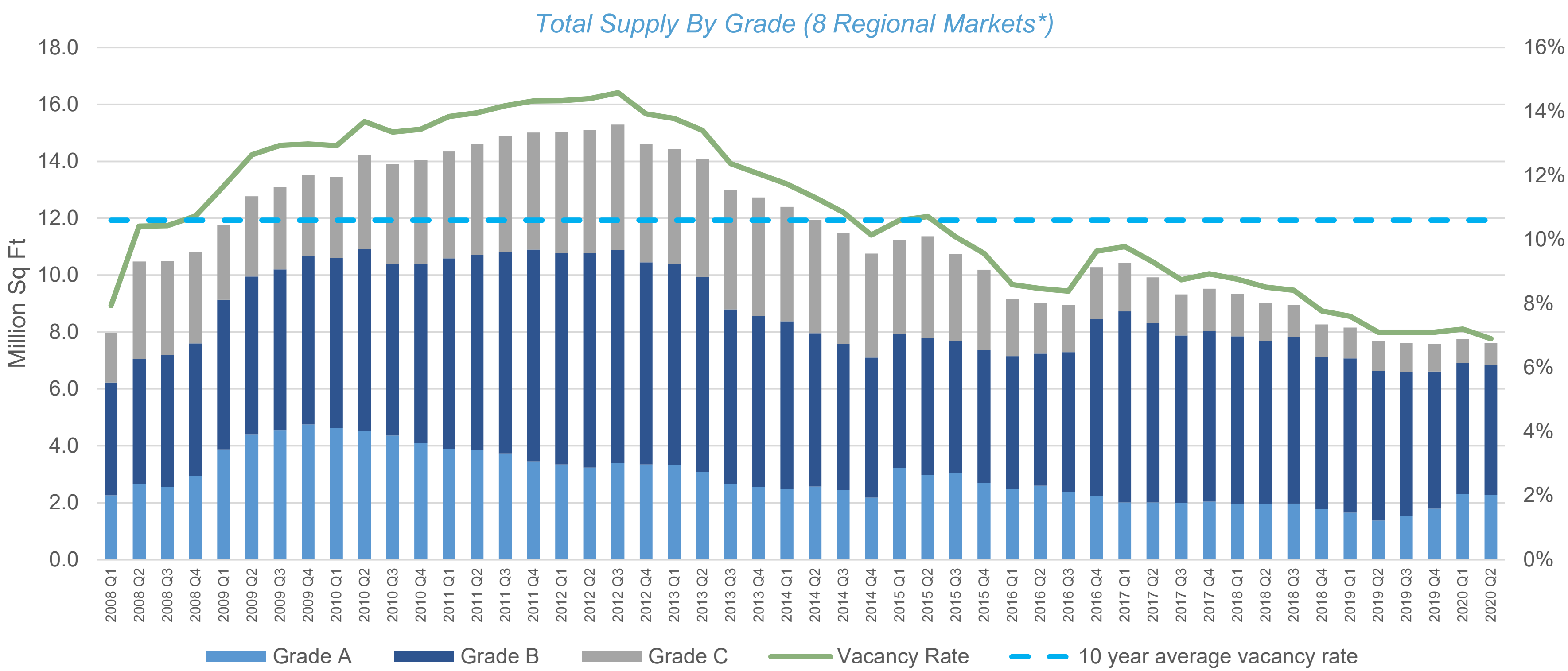


Occupational Market

Occupier Market - Supply

Supply of good second hand office space has continued to decrease in H1 2020

- Despite an increase in vacancy rates in Q1 2020 to 7.2%, vacancy rates fell to 6.9% in Q2 2020
- Supply remains limited, hence rents are relatively stable given the substantial COVID-19 impact.
- Supply of Grade B stock has decreased to its lowest level since Q2 2008 at 4.6 million sq. ft.
- Supply has fallen by 13% since Q2 2020



(Source: Cushman & Wakefield)

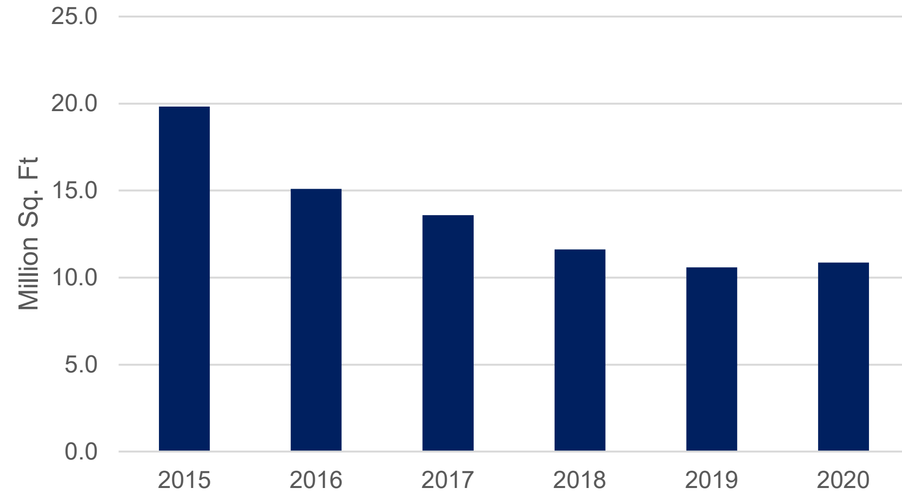
* Cushman & Wakefield Big 8 Office markets report includes: Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Leeds, Manchester, Newcastle

Occupier Market – Supply

Office Market Supply 44% less than 2008-09 levels

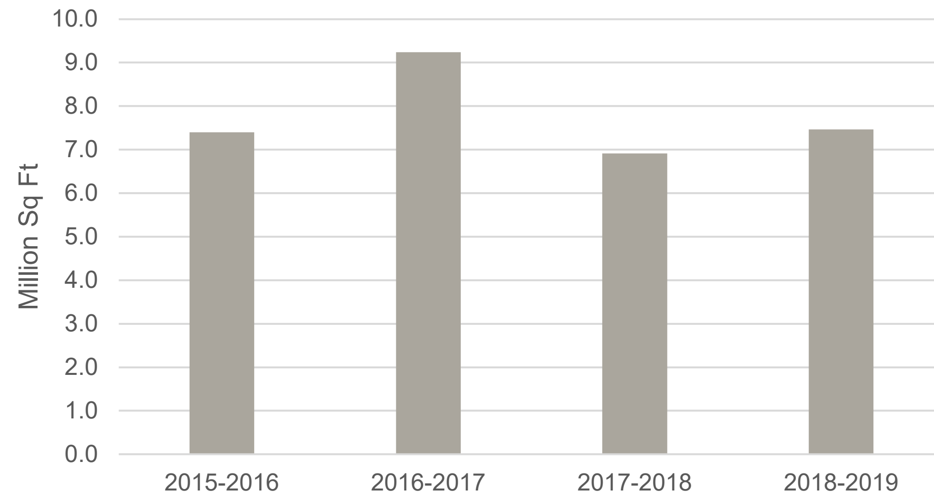
- Supply in UK's regional office markets in 2008-09 (the last time the country was in recession) reached 20.4 million sq. ft. following years of rigorous development.
- In 2020 supply is 44% less with only 11.3 million of office space available across the UK's regional markets.
- Savills research shows that 31 million sq. ft. of Grade B & C office space has been converted to residential under permitted development rights (PDR) since 2015 in England (excluding London)
- Over supply of Grade B & C in 2008-09 was one of the main factors why rental growth then stagnated.
- The current long-term outlook for rental growth today is therefore robust.
- Including other repurposing or demolition and new builds, we estimate that an additional 11.4 million sq. ft. in the Big 9 regional office markets has now been repurposed – this does not include space repurposed outside the Big Nine regional markets which we estimate could be as much as 5 times this.

Regional Office Market Grade B & C Supply



(Source: Savills, September 2020)

Office Space Converted to Residential Under PDR (Excluding London)

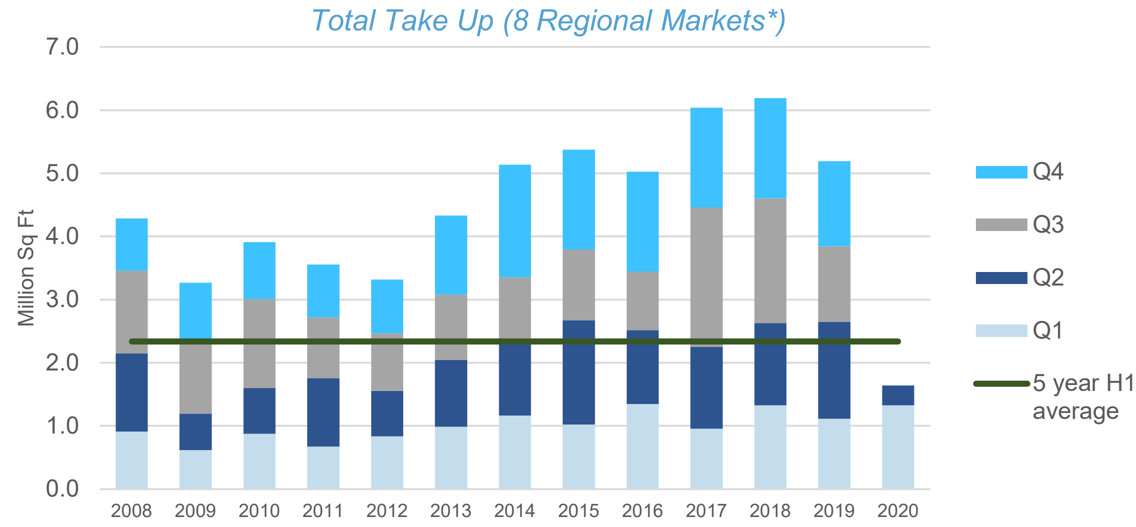


(Source: Savills, September 2020)

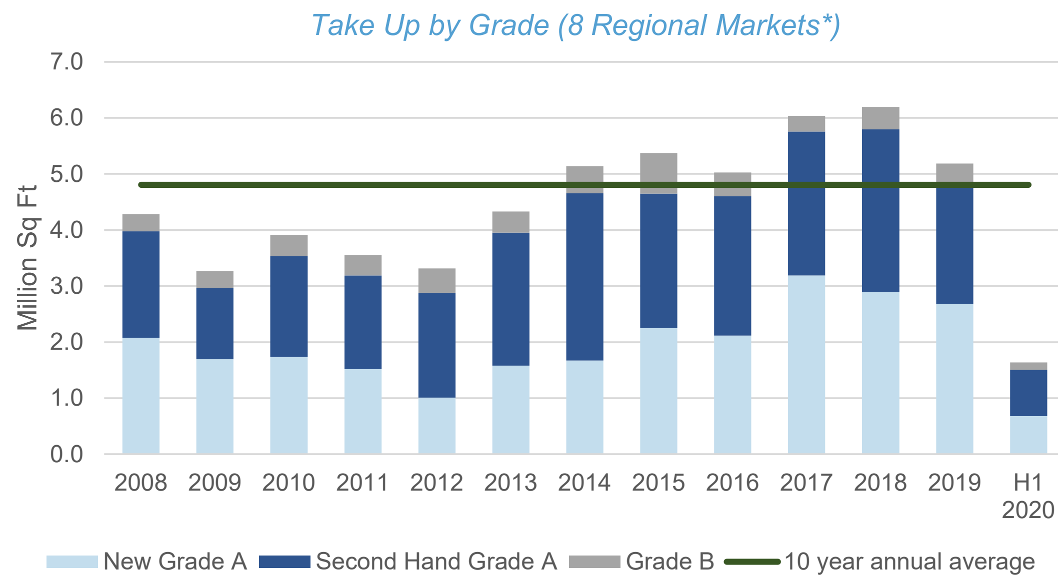
** Big 9 Office markets includes: Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Leeds, Liverpool, Manchester, Newcastle*

Occupier Market – Demand

- Take-up in H1 2020 reached 1.6 million sq. ft.
- 12-month rolling take-up amounted to 4.2 million sq. ft. - Down 25% on five-year annual average 0f 5.6 million sq. ft.
- 37% of space in Q2 2020 was taken by Government, public & associations
- Following this, IT & Technology accounted for the second largest proportion of take-up at 14%



(Source: Cushman & Wakefield)

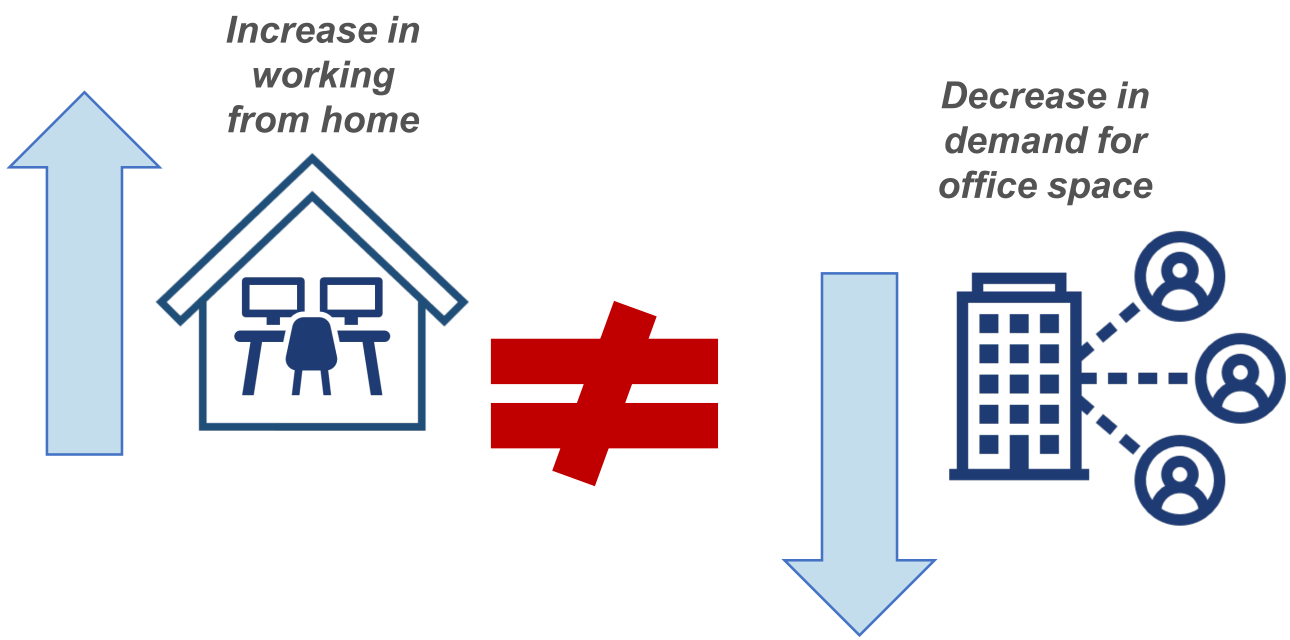


(Source: Cushman & Wakefield)

* Cushman & Wakefield Big 8 Office markets report includes: Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Leeds, Manchester, Newcastle

Current assumptions are overly simplified

- The assumption that a rise in working from home will directly result in lower demand for office space is too simplistic
- JLL research highlights that the office provides a much broader role in company culture and productivity.
- The office has long provided a place for concentrated work and increasingly a place for collaboration, connection, innovation and social interaction, and the desire for these characteristics has not diminished.



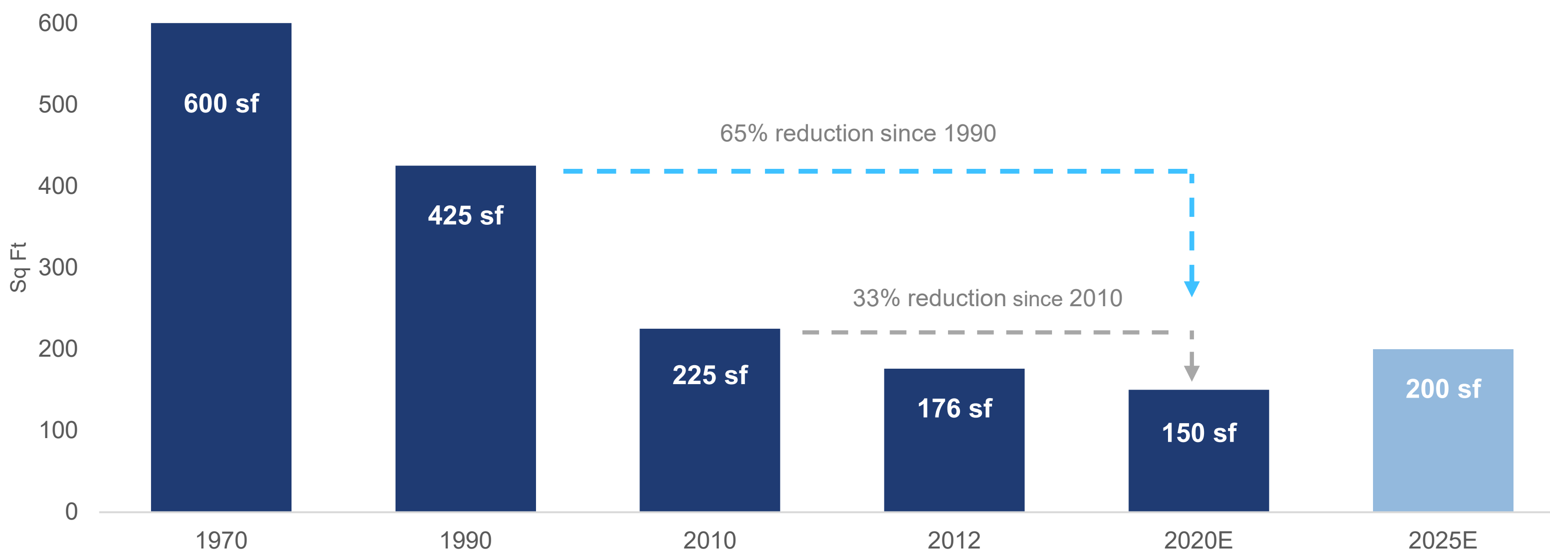
(Source: JLL)

Impact of WFH on Office Density

Floor area let will remain stable

- COVID-19 has changed the way both employers and employees view space
  - Although going forward many employers will allow adopt a more flexible approach to working from home, all employees will still come into the office some. This means that companies will still require space to accommodate employees
  - It is likely that employees will require more personal space going forward in order to ensure health and safety
  - Reduction in the average office space per employee has drastically reduced since 1990s will have to be reversed to accommodate this

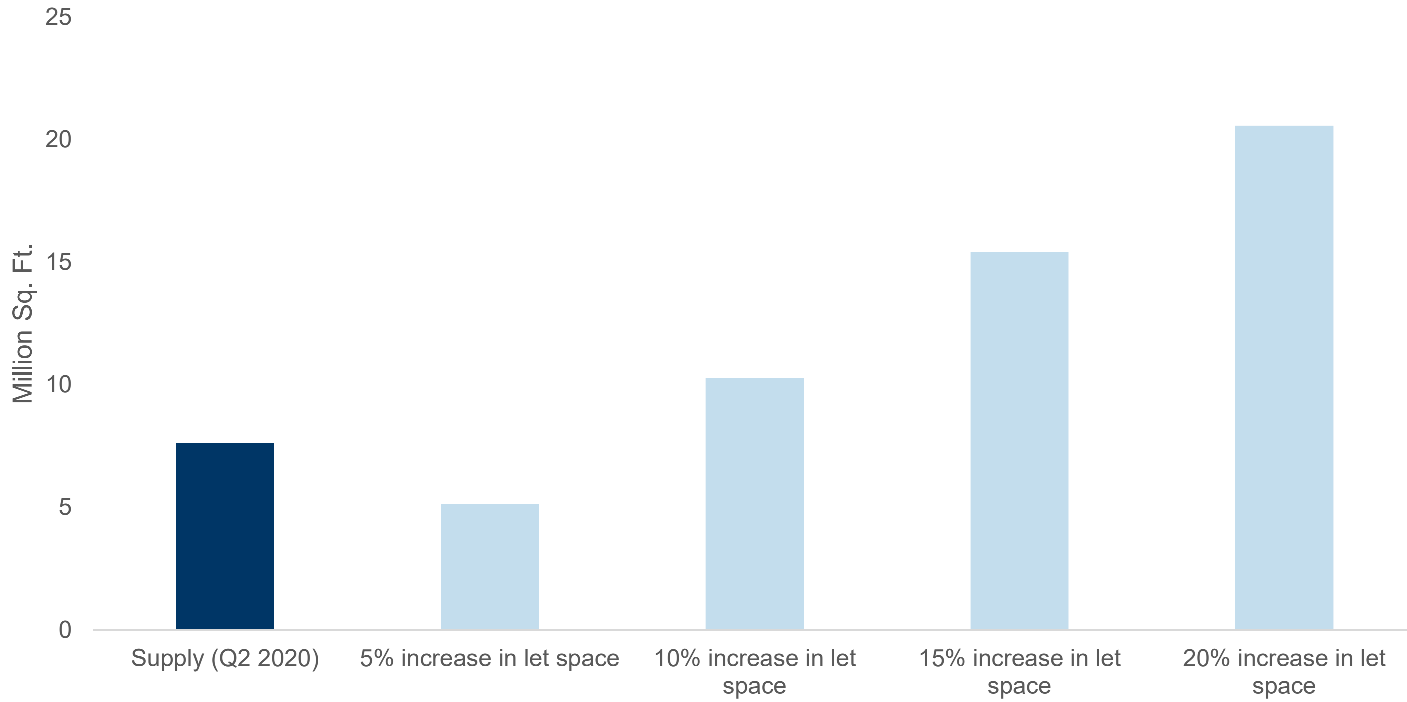
Average Office Square Footage Per Employee



(Source: UBS, Cushman & Wakefield, Brookfield Research – Data from US Sources)

An increase in personal space could supply fall further

- The below chart show the impact of a rise in floor area against supply in the big 8 regional office markets



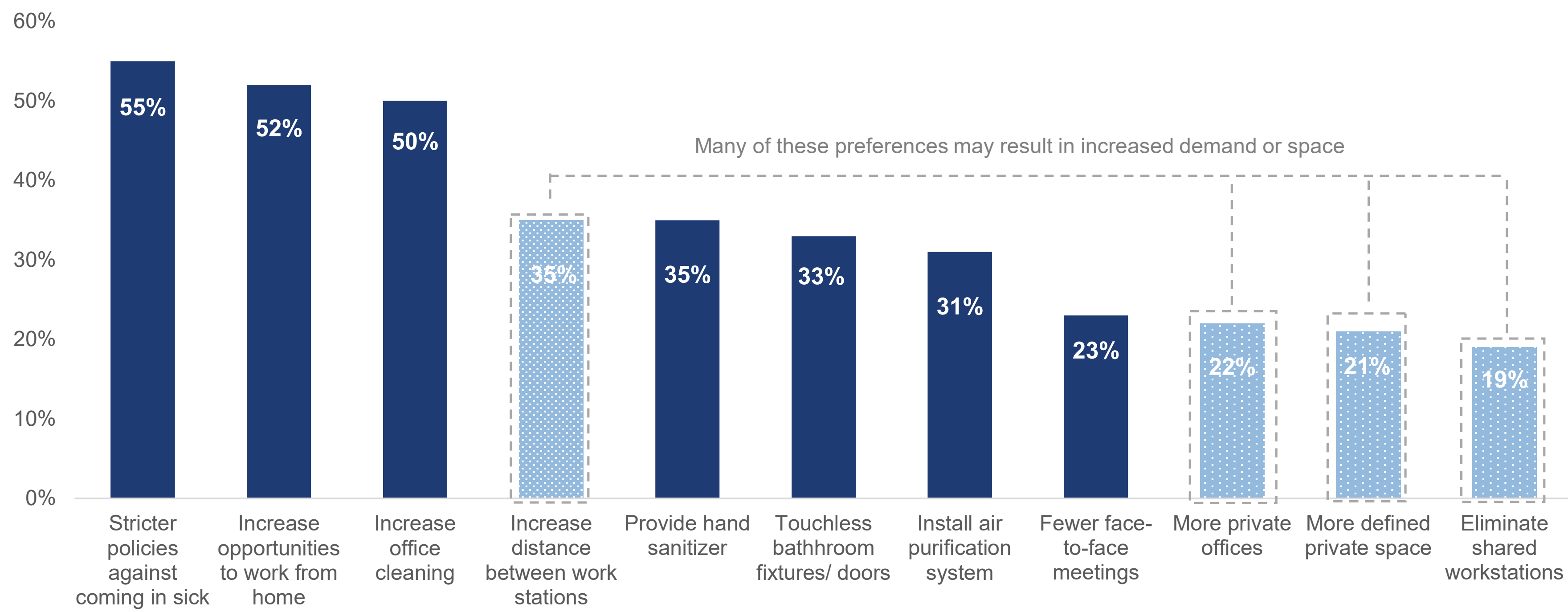
(Source: Cushman & Wakefield Big 8 Regional Markets/ LSPIM Research

** Cushman & Wakefield Big 8 Office markets report includes: Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Leeds, Manchester, Newcastle*

Anticipated shift toward providing employees with more personal space

- UBS research highlights that the requirement for more personal space will remain in a post-vaccine environment as both employers and employees require lower density per employee as fears remain and businesses move to a sustainable set-up. This will include:

Changes to office environment that employees would like to see



(Source: Brookfield Research, Gensler U.S. Work From Home Survey 2020. The survey was conducted online through an anonymous, panel-based survey of over 2,300 U.S.-based workers who were full-time employees of a company of 100+ people. Each respondent routinely worked within an office environment prior to COVID-19 and was currently working from home at the time when the survey was released between April 16 and May 4, 2020. Responses were evenly distributed across 10 industries and represent a wide range of seniority levels, roles, ages and geographies.)

Hot Desking Trend to be Reversed

COVID-19 looks likely to push hot-desking down the agenda

- Even if companies are able to reduce the number of desks in an office, the cost savings are likely to be smaller than expected once the inefficiencies of hot-desking are taken into account
- It is typically unpopular with staff, who value their own desk and a place to store their belongings
- Staff are not always able to sit close to colleagues they work closely with.

How much space can hot-desking save?

40% reduction of workers in the office

Working from home unlikely to be uniform across all days

Reduction in desks of c. 20%

Meeting rooms, lifts, corridors etc maintained

Reduction floor space of c. 10-15%

(Source: Peel Hunt Estimates)

What Leaders are Saying about WFH

"Prolonged remote working could threaten productivity and creativity in the long term"

"I do not miss the commute. But I feel acutely the loss of working relationships and external stimuli – the chance conversations, listening to very different people with very different lived experiences, the exposure to new ideas and experiences. These losses will grow with time. At some point, they will offset the benefits of avoiding South West Trains."

Andy Haldane, Chief Economist, Bank of England

"We've seen productivity drop in certain jobs"

"I don't know the future better than anyone else. I think going back to work is a good thing. I think there are negatives to working from home…We've seen productivity drop in certain jobs and alienation go up in certain things. So we want to get back to work in a safe way."

James Dimon, CEO, JPMorgan Chase & Co

"At the moment we need more space than ever because of social distancing"

"The future of the market for office space is difficult to predict, if anything at the moment we need more space than ever because of social distancing. From the messages I get from our people, I know that many really value having the option to use an office, whether for a personal or business need. Hybrid working is here to stay, and therefore the office will remain a key part of working life."

Kevin Ellis, Chairman, PWC

What Leaders are Saying about WFH

"I can't wait for everybody to be able to come back into the office"

"In all candor, it's not like being together physically. And so I can't wait for everybody to be able to come back into the office."

Tim Cook, CEO, Apple Inc

"Most of us are not hermits"

"Most of us are not hermits…We need that social interaction, not only from a business standpoint but truly from a kind of personal-development standpoint."

Jim Fish, CEO, Waste Management Inc

"Being together delivers value in productivity and creativity and relationships that is irreplaceable"

"It's a much harder way to work for anything that requires a personal relationship. And as a consequence, I think we're going to find that we maybe not go back to 100% in the office all the time. Because remote work clearly works for many things, but I think we're going to find that being together delivers value in productivity and creativity and relationships that is irreplaceable."

Arne Sorenson, CEO, Marriott International Inc

What Leaders are Saying about WFH

HermanMiller

"That unplanned kind of interaction that contributes so much to how we build relationships with people and how we build culture, those things are what are missing."

Andi Owen, CEO, Herman Miller Inc

STIFEL

"I am concerned that we would somehow believe that we can basically take kids from college, put them in front of Zoom, and think that three years from now, they'll be every bit as productive as they would have had they had the personal interaction [of work in offices]."

Ronald J. Kruszewski, CEO, Stifel Financial Corp

Carbon®

"What I worry about the most in innovation. Innovation is hard to schedule – it's impossible to schedule."

Ellen Kullman, CEO, Carbon Inc

NETFLIX

"I don't see any positives"

"Not being able to get together in person, particularly internationally, is a pure negative."

Reed Hastings, Co-Chief Executive, Netflix Inc

Strong Affinity for the Office Amongst Employees

Enhancing the employee experience will be key moving forward

- A recent global survey carried out by JLL showed that office users have a strong affinity for the office
- Evidence from this illustrated the need amongst employees for human and social interaction that the office facilitates
- The office also provides an important facilitator to a clear routine and distinction between personal and professional lives.
- Additionally, the workplace has become part of the employee value proposition as companies have competed to secure and retain the best talent.

Most missed elements of the office	Average	Under 35s	Over 50s
Human interaction, socializing with colleagues	**44%**	37%	54%
Collective face-to-face work	**29%**	28%	34%
Informal communications that give me the big picture about my company	**25%**	22%	29%
An environment that helps me focus on my job	**23%**	25%	17%
An ergonomic workstation	**21%**	23%	17%
The possibility to work in different spaces and choose the most suitable space for each task	**14%**	16%	9%

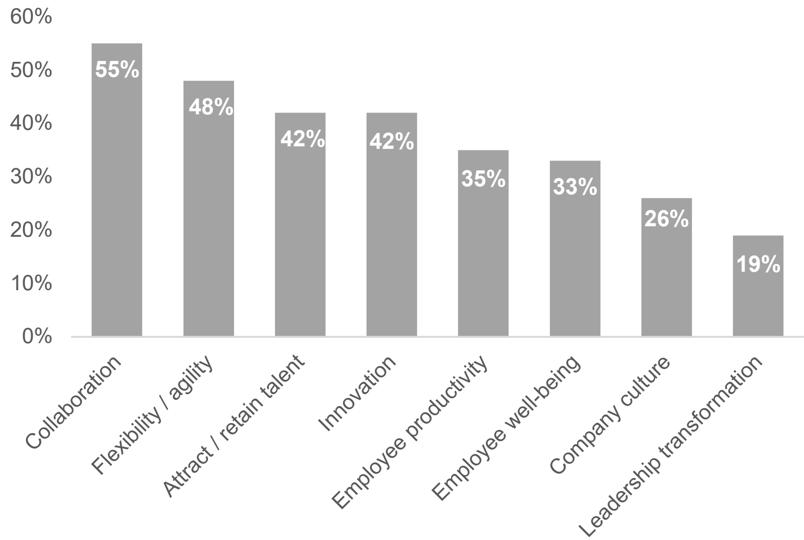
(Source: JLL Human Performance Survey)

Overall implications for the future of the office

Additional findings from research carried out by JLL:

- A JLL survey of over 7,000 office users globally identified concerns around workplaces:
    - 66% lack spaces where they can be creative and feel inspired at work
    - 60% of employees are not fully engaged in work
    - 50% say their working environment does not enable them to work effectively

Desired outcomes from enhancing the employee experience



(Source: JLL - The Future of Global Office Demand)

When asked which spaces that they did NOT currently have access to would have the greatest impact on Productivity, they highlighted:

Other Potential Issues: Work From Home

- The FICC* markets standard board report about widely distributed remote workforces in relation to WFH identified over forty specific risks to companies.
  - Mental health
  - Cyber security
  - Confidentiality
  - Productivity
  - Quality control
  - Training
  - Identity
  - Culture
  - Creativity
  - Personal development

*The Fixed Income, Currency and Commodities ("FICC") Markets Standards Board

Tenant Survey Results

Response Level To Date

Response Demographic

- Survey was conducted over a 5 week period across September and October 2020.
- 342 responses
- This accounts for 63% of rental income
- Respondents let approximately 61% of floor area across the portfolio
- Diverse mix of respondents in terms of sector covered (as shown in table)

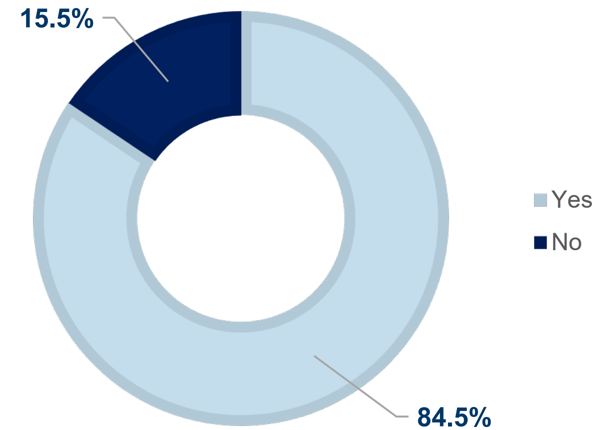
Standard Industrial Classification
Accommodation and food service activities
Activities of extraterritorial organisations and bodies
Administrative and support service activities
Arts, entertainment and recreation
Banking
Charity
Construction
Education
Electricity, gas, steam and air conditioning supply
Financial and insurance activities (Other)
Human health and social work activities
Information and communication
Manufacturing
Mining and Quarrying
Not specified
Other service activities
Professional, scientific and technical activities
Public administration and defence; compulsory social security
Public Sector
Real estate activities
Residential
Sole Trader
Transportation and storage
Water supply, sewerage, waste management and remediation activities
Wholesale and retail trade

Returned to Premises

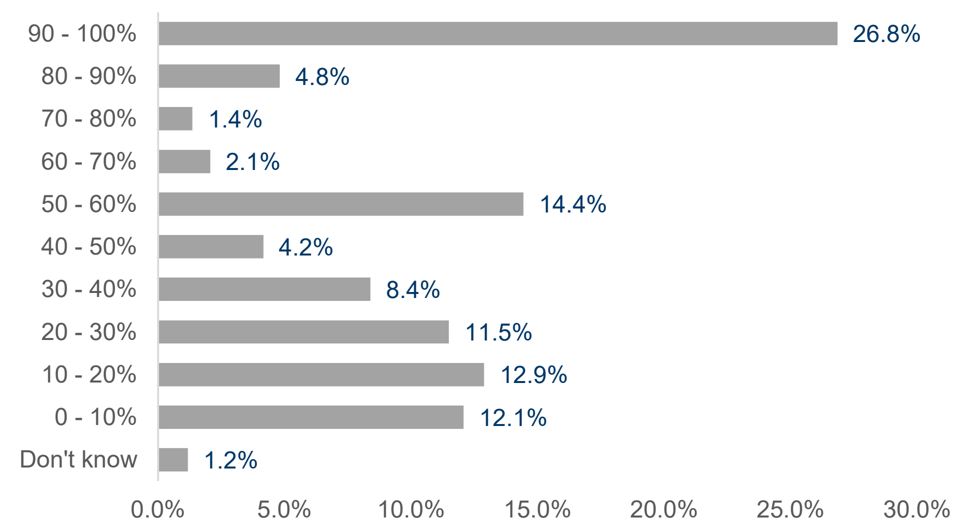
84% of tenants have returned to premises

- The vast majority of tenants have returned to their premises
- The percentage of staff working from these premises varies as shown in below chart
- 50% (as a % of rental income) report that between 50 – 100% of staff are back working from their premises
- Below sectors had the strongest return rate with over 95% reporting that they had returned to their premises:
    - Construction
    - Wholesale and retail trade
    - Transportation and storage
    - Manufacturing

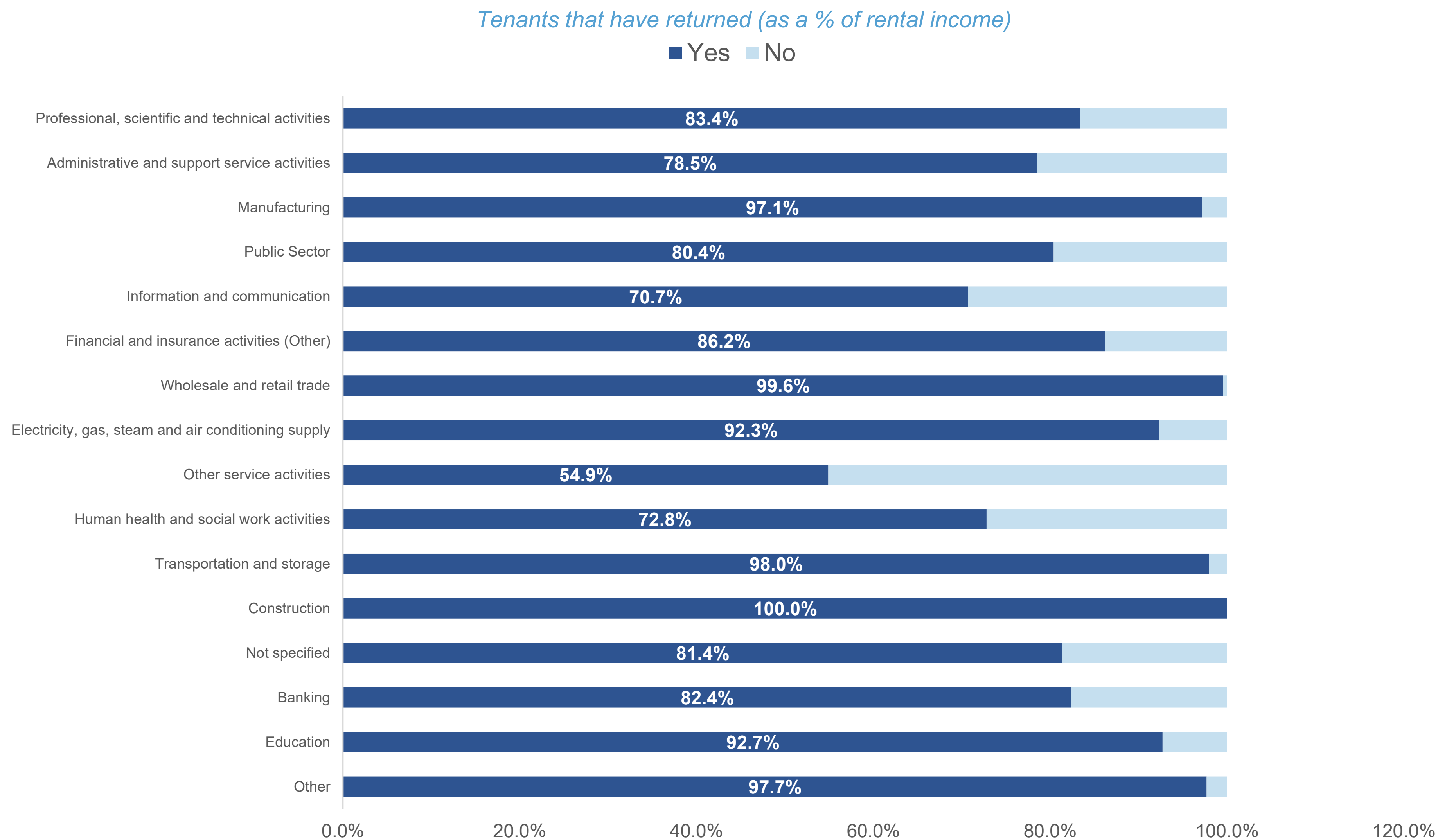
Tenants that have returned (as a % of rental income)



Percent of staff returned to premises (as a % of rental income)



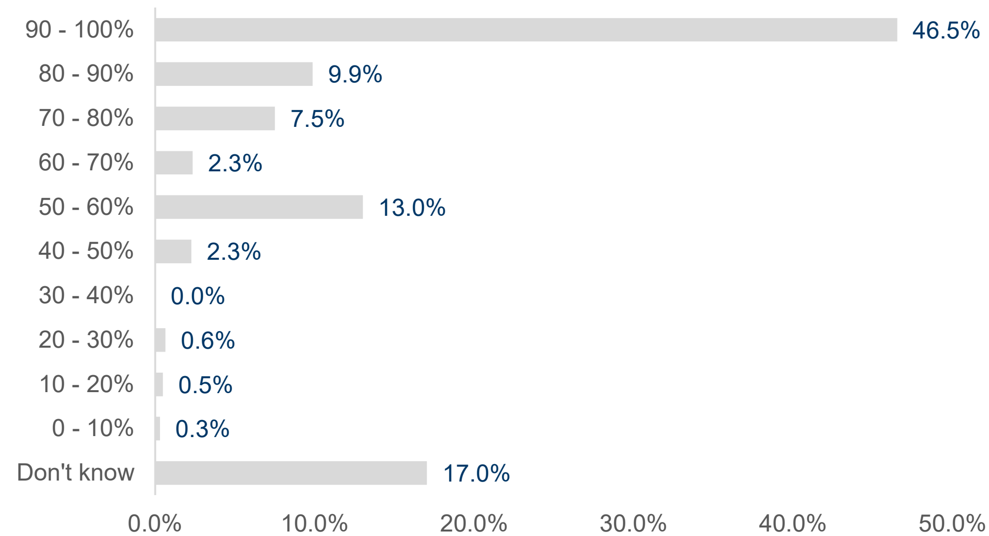
Returned to Premises by SIC Code



Other - Arts, entertainment and recreation, Real estate activities, Charity, Public administration and defence; compulsory social security, Water supply, sewerage, waste management and remediation activities, Accommodation and food service activities, Mining and Quarrying, Residential, Sole Trader, Activities of extraterritorial organisations and bodies

Returned to Premises

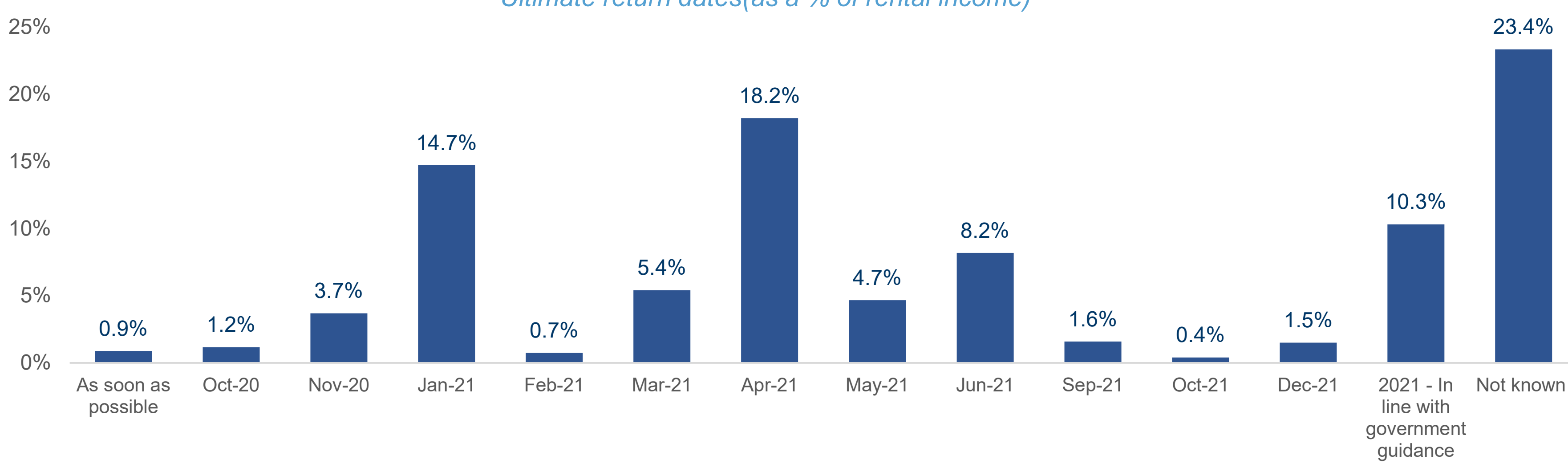
Ultimate level of occupancy tenant expect (as a % of rental income)



On-site staff levels will increase going forward

- From those that have not already fully returned to their premises, 46.5% of tenants expect their full workforce to return
- 55.5% plan to return in 2021
- 23.4% remain unsure on when they will return

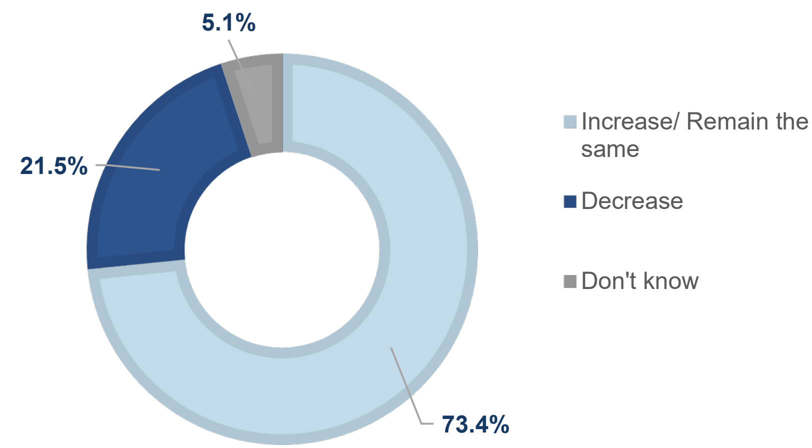
Ultimate return dates(as a % of rental income)



Biggest factors influencing tenants decision to fully reoccupy?

- Government guidance
- Availability of a vaccine
- Infection rates
- Staff safety

Space requirements going forward (as a % of rental income)



Space requirements will not change for the majority of tenants

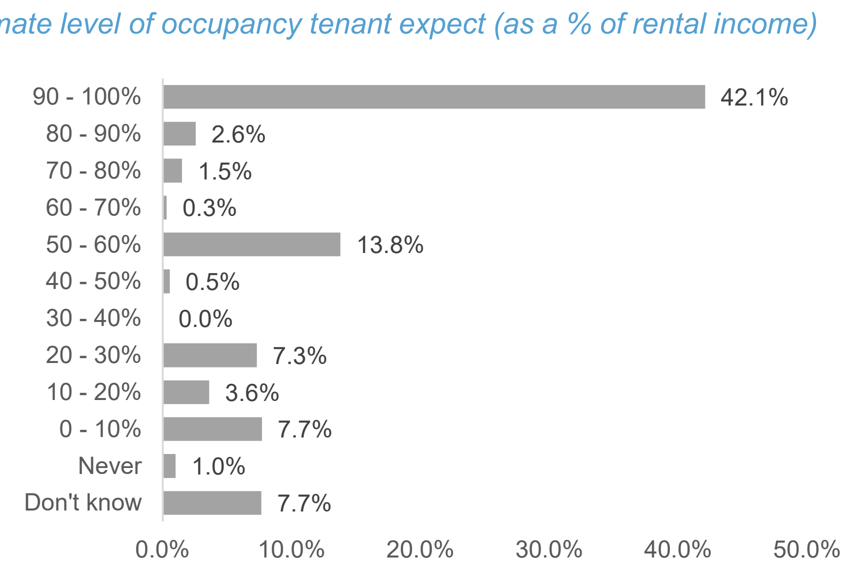
- 73.4% of tenants expect their space requirements to increase or remain unchanged going forward.
- 21.5% think that their space requirements will decrease going forward. It is worth noting that c. 45% of this was known prior to COVID-19 and formed part of tenant restructuring plans
- The majority of tenants planning to increase their space requirements have the following SIC codes:
  - Electricity, gas, steam and air conditioning supply
  - Professional, scientific and technical activities
  - Manufacturing
  - Administrative and support service activities

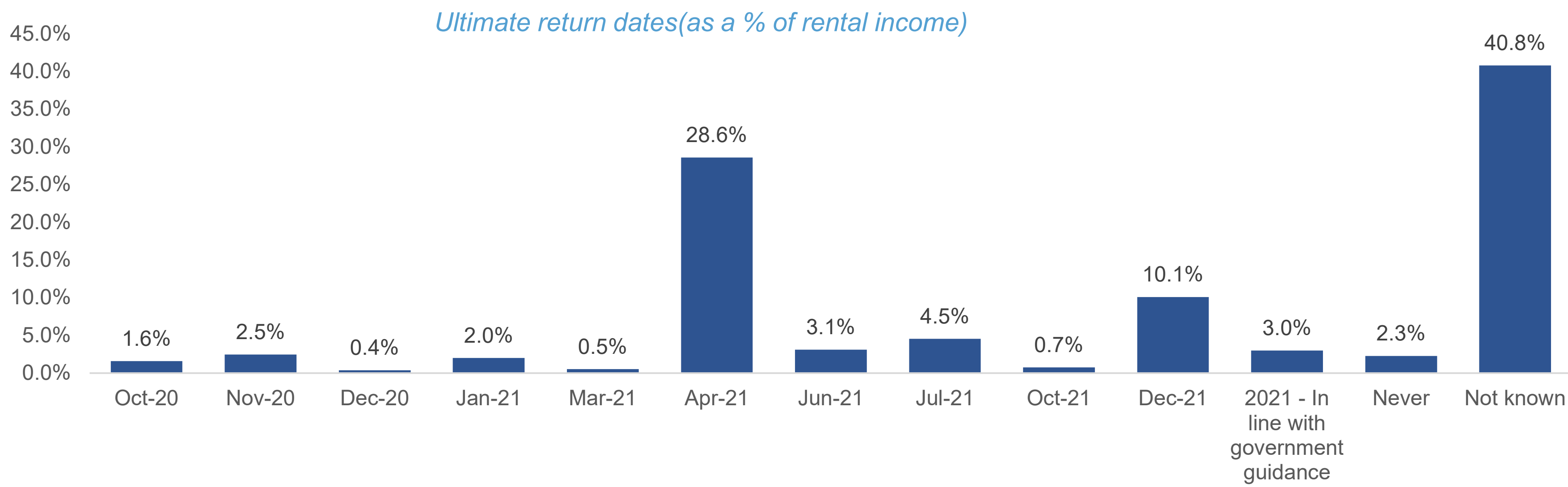
From those that said decrease the main reason stated for this was the success of WFH

Tenants that have not returned

Majority of tenants plan to return in 2021

- From the 15.5% that have not already returned, **79.4% expect to return** to their premises at some point in the future.
- From those who have not already returned to their premises in some form, 42.1% expect to fully return.
- 52.5% plan to return in 2021





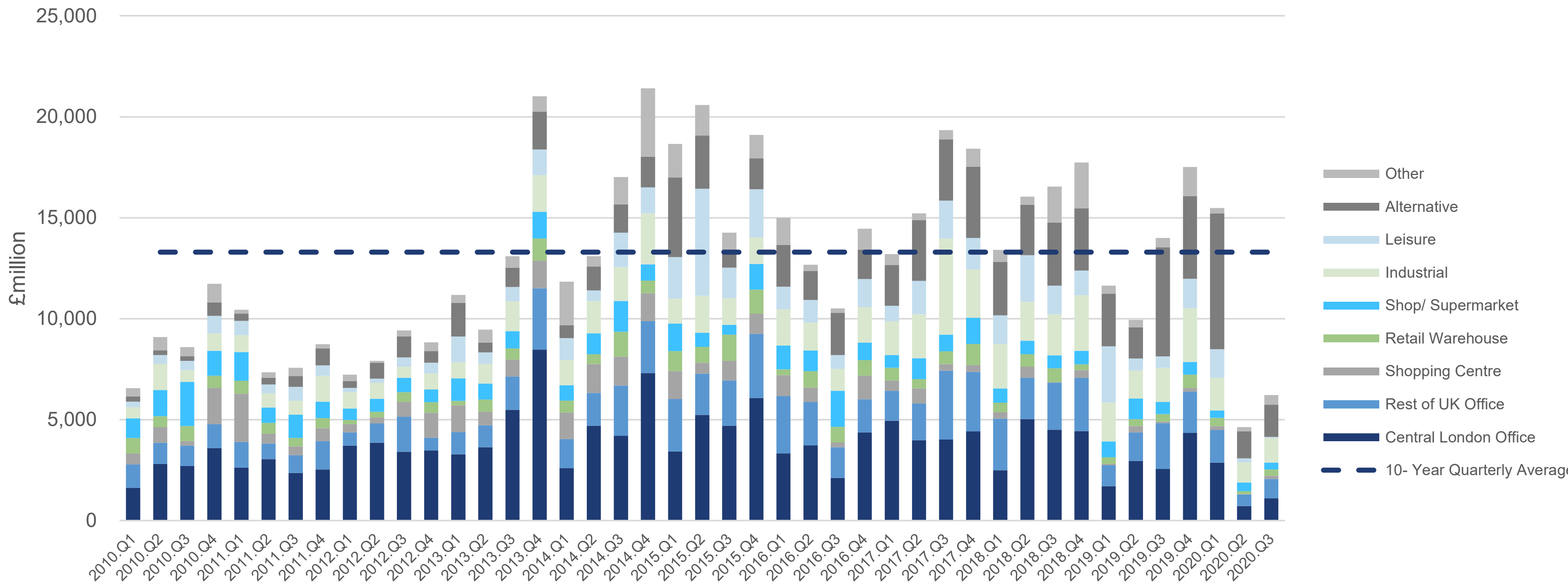
Investment Market

Investment Market

Uptick in investment in Q3 2020

- Investment across all sectors reached £6.2 billion in Q3 2020, 34% higher than Q2 2020, but 56% less than the volume recorded in Q3 2019
- This brings total investment in 2020 to £26.3 billion – 26% below the same period in 2019
- Investment in regional offices increased by 62% from £588 million in Q2 2020 to £954 million in Q3 2020. Total investment in regional offices reached £3.2 billion in 2020 YTD – 33.3% below 2019 levels

Quarterly Investment Volumes by Sector



(Source: Property Data)

Recently Purchased

Combined purchase price of £10.2m (NIY: 10.1%)

Waterside Business Park Swansea

- Floor Area: 68,535 sq. ft.
- Rent: £0.7m pa
- WAULT: 4.5 years
- NIY: 11.7%
- Key Tenants: Secretary of State for Communities & Local Government and JCP Solicitors Ltd

Waterside Business Park Swansea

2410 Aztec West, Bristol

- Floor Area: 22,349 sq. ft.
- Rent: £0.4m pa
- WAULT: 3.6 years
- NIY: 8.2%
- Key Tenant: Liverpool Victoria Friendly Society Ltd

2410 Aztec West, Bristol

Global Reach, Cardiff

- Price: £8.4m
- NIY: 8.9%
- Floor Area: 61,641 sq. ft.
- Rent: £0.8m pa (£13.02 psf)
- WAULT: 2.6 years to breaks and 5.0 years to expiry
- 100% occupied and multi - let to 6 tenants
- Key Tenants: Relx UK Ltd, NFU Mutual Insurance, The British Diabetic Association, Active Quote Ltd, Source Insurance Ltd and Wilmott Dixon Construction Ltd

Global Reach, Cardiff

Significant £32.7m disposal - 59.4% above acquisition price

- Price: £32.7m
- Floor Area: 277,760 sq. ft.
- Rent: £2.0m pa
- WAULT: 2.8 years to break and 4.5 years to expiry
- This disposal reflects an uplift of 59.4% from the acquisition price, including subsequent capital expenditure, and 3.9% above the 30 June 2020 valuation.
- Key Tenants: Schenker Ltd, A Share & Sons Ltd, Vanguard Logistics Services Ltd

Juniper Park, Basildon


Aeris
Aeris

Century Way, Thorpe Park, Leeds

Acquired in 2014

The property comprises a modern good quality office pavilion over three storeys providing a combined floor area of 31,805 sq. ft.

The building was previously 100% let to WS Atkins

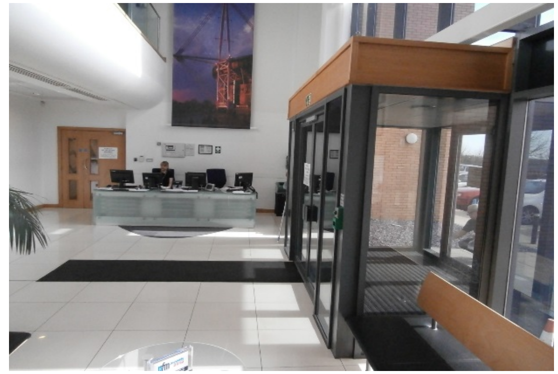
Dilapidations settled at £710,000

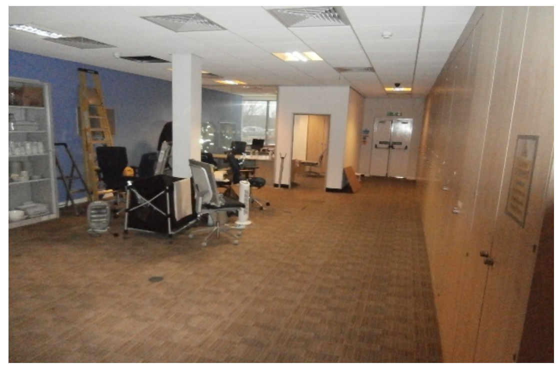
Entire first floor of 10,705 sq. ft. let to Sodexo Ltd. at £17psf

Entire second floor of 10,550 sq. ft. let to Countryside Properties Plc at £19psf

The final remaining space of 10,550 sq. ft. on the ground floor has been let to Marlow Foods Limited trading as Quorn Foods at £20 per sq. ft.

Before





After

Acquisition Price	£5.7m
Valuation Jun 20	£7.3m
ERV (Dec 19)	£0.6m
Capital Expenditure	£2.2m (gross), £1.5m (net)
Capital uplift	6%

RR REGIONAL REIT

Summary

What of the Future?

- The current position is creating issues and challenges in the immediate term but we will come through it in the relative short term
- The office has a secure future as a workplace in the 21st century
- Occupiers will return to their office either in full time work mode or in some form of hybrid WFH/WFO arrangement
- Working from home could well become part of the weekly work life but this will ultimately be in addition to the office – not instead of
- It is our strongly held view that more space will be required going forward not less
- Lower density and additional provision of different areas and services in offices was already becoming mainstream and will be exacerbated by the current pandemic

What of the Future?

- The regions will benefit from additional Government requirements and a decentralisation/Hub and spoke models being adopted by many occupiers

- We expect demand not to be confined to the big 8 regional cities CBD's but more widely spread across conurbations

- Office buildings in smaller towns and cities will benefit from a move to localisation created in part from the WFH success and advantages of not commuting or using various forms of public transport - this will be particularly the case in commuting towns for London.

- Business parks with plentiful parking will become increasingly popular for some.

- But this will not necessarily be at the expense but rather as well as offices in CBD's.

- With limited supply in the secondary market and increased demand we anticipate good rental growth potential across the regions moving forward but there will be a lag given current challenges.

Summary

- We think the death of the office is vastly overstated
- There will be challenges in the immediate term
- There will be change – landlords will need to be flexible and adjust to changes
- The supply side of our marketplace is constrained
- Demand to recover and will increase overall
- Constrained supply and improving demand for accommodation suggests rental growth

Regional REIT well placed to benefit from predicted changes to the office market

Q & A

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