

25 May 2017

Regional REIT Limited

May 2017 Trading Update and Outlook Statement

Strong pace of lettings. Good progress with recent property portfolio acquisition

Regional REIT Limited (LSE: RGL) ("Regional REIT", "the Group" or "the Company"), the UK regional office and industrial property focused REIT, in advance of its Annual General Meeting today, announces its Trading Update as at 25 May 2017 and provides a statement on the Group's Outlook for the full year 2017.

Stephen Inglis, Group Property Director and Chief Investment Officer of London & Scottish Investments Limited, commented: *"We have maintained a strong pace of lettings year-to-date, picking up on the second-half of 2016, with both industrial units and regional offices performing well."*

"Our active asset management has been reinforced by selective capital expenditure as we continue to enhance our properties to build organic growth. The acquisition and embedding of the new investment properties has gone well and we are achieving good progress with prospective lettings. At present regional property is tempered by more limited investment activity, however, we continue to consider a number of opportunities."

May 2017 Trading Update

The Group has continued to pursue its strategy of providing investors with an attractive return on a sustained and consistent basis from investing in and managing, predominantly, offices and light industrial properties, as well as opportunistic acquisitions, in the main regional centres of the UK outside of the M25 motorway.

Since 1 January 2017 to date, the Group has exchanged on 26 new leases, totaling 113,651 sq. ft.; when fully occupied these are expected to provide approximately £0.6m pa of rental income. In addition, the Group has completed a number of regears, achieving an average c. 2.8% uplift on the headline rent. The occupier market remains robust at this time and the pace of enquiries and lettings has strengthened over the past year.

Regional REIT has also been active and opportunistic with acquisitions through 2017 to date. On 24 March 2017 the Group completed the acquisition of c. £129m UK regional office, industrial and retail & retail distribution investment properties, with a net initial yield of 7.0%, from The Conygar Investment Company PLC. In part settlement of the acquisition, the Company issued 26,326,644 new ordinary shares and assumed additional borrowings of some £105m.

In the first quarter of 2017 the Group undertook a number of minor property disposals amounting to some £2.5m net, in line with book value.

Capital expenditure year-to-date is £2.11m gross, amounting to £2.06m net after recoveries and dilapidations, demonstrating our commitment to invest in and control our asset quality enhancement programme. To date this year we have commenced or planned gross capital expenditure (before dilapidations and other recoveries) on refurbishment of some £16m for the full year 2017.

- **Portfolio as at 31 March 2017:**

- 150 properties, 1,115 units and 833 tenants, amounting to c. £630m of gross property investments; a contracted rent roll run-rate of c. £54.3m pa.
- Offices were 62.6% (by value) of the portfolio (IPO, November 2015: 58.4%) and industrial sites 25.8% (IPO, November 2015: 25.3%); England & Wales represented 74.5% (IPO November 2015: 64.6%) of the portfolio.
- Occupancy was 82.8% (by value), versus 82.7% at 31 December 2016; 31 March 2017 like-

for-like (versus 31 December 2016) occupancy was steady at 82.9% (by value) (31 December 2016: 82.7%). (Note: the Group has restated its measurement of occupancy to a value methodology, as a percentage of Estimated Rental Value ("ERV")).

- Average lot size increased to c. £4.2m (31 December 2016: £4.1m).
- Largest tenant c. 3.0% (by gross rental income) (31 December 2016: 3.7%); largest property c. 5.1% (by value) (31 December 2016: 6.4%).
- Net loan-to-value ratio c. 48% (31 December 2016: 40.6%). Gross borrowings, including zero dividend preference shares of £35.7m, of £335.2m (31 December 2016: £220.1m); cash and cash equivalent balances £34.3m (31 December 2016: £16.2m). Average cost of debt (including hedging) of 3.7% pa (31 December 2016: 3.7% pa) (as at 31 March 2017: excluding zero dividend preference shares, 3.4% pa).

- **Asset Management Activity Highlights year to date:**

- 9 Portland Street, Manchester – Completion of Letting Programme. Final available floor space let to an existent tenant, Mott MacDonald Limited, along with the removal of a break in their existing letting; Mott MacDonald is secured for an 8-year term. With 100% occupancy, the property yields an annual rental income of £756,150 pa. The property was acquired vacant from receivership in December 2013, for £3.75m, followed by a £1.1m refurbishment. Since refurbishment the rental value has been improved 44%, to £19.50 psf. With a current average rental of £13.75 psf there is the potential for significant reversionary growth on lease renewals and rent reviews.
- Tokenspire Business Park, Beverley – Multiple New Lettings. Letting of 28,527 sq. ft. of space in January-February 2017, comprised five separate deals ranging from 2,000 sq. ft. to 9,626 sq. ft., to produce a headline rent of £63,500 pa.
- Hampshire House, Hampshire Corporate Park, Chandlers Ford, Eastleigh - Commencement of Final Stage of Refurbishment and Completion of Lettings. Refurbishment of the 20,000 sq. ft. first floor. Building was re-branded as part of the refurbishment works. Final phase of refurbishment follows the expiry of the lease to Aviva in December 2016 and will conclude a £1.5m investment in the building. Most recently completed lettings of the vacant first-floor to internet and telecoms provider, Daisy, and to Utilita Energy, the leading supplier of 'pay as you go' energy in the UK. Each will occupy 10,000 sq. ft. on new 10-year leases, at a rent of £19.75 psf.
- Donegal House, Bromley – Completion of Letting. Following completion of a full refurbishment programme, amounting to £825,000, the letting of available units has been completed with an ERV uplift to £20 psf, from £15 psf.
- 'Blue Leanie', Aylesbury – Commencement of Refurbishment Programme. A comprehensive refurbishment of all floors following the expiry of the previous lease to Scottish Widows, an investment amounting to £3.27m. Strong tenant interest in the vacant two floors.
- Llansamalet Retail Park, Swansea – Letting of Final Unit. Completed the letting of the last remaining unit to Tapi Carpets & Floors Limited. Tapi will take a 10-year lease of the 10,235 sq. ft. retail warehouse unit at a headline rent of £150,290 pa, subject to a break option at the fifth anniversary. Have also secured outline planning consent for a 2,500 sq. ft. drive-thru food service unit on the retail park and in advanced negotiations with a multi-national operator.
- 800 Aztec West Park Avenue, Bristol - Commencement of Refurbishment Programme. A comprehensive refurbishment, investing £5.5m, in the 71,651 sq. ft. three storey office building, acquired as part of the £80m "Rainbow Portfolio" acquisition in March 2016.
- Arena Point, Leeds - Commencement of the Refurbishment. Commencement of the first phase of refurbishment of the 20-storey office, initially investing £1.1m. The building was originally acquired in March 2016 as part of the "Wing Portfolio".

Outlook Statement

We remain positive on the prospects for the Group in 2017. The strength of business activity evident throughout the UK's regions is sustaining a positive momentum of office and industrial occupancy and we are well positioned for growth in rental income whilst maintaining tight control of costs and of our debt. We are confident of meeting our stated objectives for the longer term growth of NAV and returns to our Shareholders.

- ENDS -

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 31 December 2016, was spread across 123 regional properties, 941 units and 717 tenants. As at 31 December 2016, the investment portfolio had a value of £502.4m and a net initial yield of 6.7%. The weighted average unexpired lease term to first break was 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.