

21 April 2016

## **Drum Income Plus REIT plc ("Drum" or the "Company")**

### **Company Up-date**

#### **Highlights**

##### ***Period from 1 January 2016 to 31 March 2016***

- Three properties acquired for total of £15m (excluding costs).
- Fair value independent valuation of property portfolio as at 31 March 2016 of £40.6m.
- NAV per share at 31 March 2016 of 92.6p.
- Dividend paid during the quarter of 1.3125p fully covered by earnings for the period.
- £2.8m gross equity proceeds raised.
- Gosforth Shopping Centre - the Company secured a new 10 year lease to Naked Deli at a rent of £45,000pa with a break option at year 5.

##### ***Post 31 March 2016***

- Gosforth Shopping Centre - the Company has secured a new 10 year lease without a break to existing tenant Boots at a rent of £77,000pa.
- The final vacant unit at Gosforth Shopping Centre is currently under offer and is expected to complete imminently.

#### ***Outlook***

- The Company's investment manager continues to focus on its differentiated investment strategy of multi-let assets of between £2m and £15m in strong regional locations with opportunities to increase value.
- Research from the national agencies continues to show a significant yield differential between assets valued at less than £15m and those greater than £15m which continue to be the focus of larger less entrepreneurial organisations.
- Target aggregate dividends of 5.25p per share in respect of the period from launch to 30 September 2016\* (1.3125p per quarter, commencing in respect of the quarter ended 31 December 2015).
- Target fully covered aggregate dividends of at least 5.5p per share and 6.0p per share in respect of 12 months ending 30 September 2017 and 30 September 2018 respectively\*.

*\*Target returns only and not a profit forecast. There can be no assurance that these targets will be met and they should not be taken as an indication of expected or actual current or future results.*

## Introduction

The Company aims to provide shareholders with a regular dividend income plus the prospect of income and capital growth over the longer term. The Company invests in smaller UK commercial properties, principally in the office, retail (including retail warehouses) and industrial sectors, which have the potential to offer a secure income stream and to create value through active asset management and strong prospects for future income and capital growth.

## Unaudited Net Asset Value (As at 31 March 2016)

	<i>£m</i>	<i>Pence per Share</i>
Unaudited NAV as at 31 December 2015	30.3	95.1
Fundraising proceeds (net of costs)	2.7	0.1
Portfolio acquisition costs	(0.9)	(2.6)
Valuation change in property portfolio	0.2	0.6
Income earned for the period	0.7	2.2
Expenses for the period	(0.2)	(0.6)
Expenses charged to capital in the period	(0.3)	(0.9)
Dividend paid	(0.4)	(1.3)
Unaudited NAV as at 31 March 2016	32.1	92.6

The unaudited NAV has been calculated in accordance with International Financial Reporting Standards and incorporates the independent portfolio valuation as at 31 March 2016 and income for the period but does not include a provision for the second interim dividend, which will be paid on 27 May 2016. The earnings per share for the period from 1 January 2016 to 31 March 2016 (excluding revaluation gains and losses on fair value of investments and expenses charged to capital) were 1.93p. Acquisition costs on new property purchases have been written-off.

As at 31 March 2016, the Company had cash balances of £3.3 million and borrowings of £11.1 million (loan to value of 27.3%).

## Current Portfolio

Property	Sector	Gross Annual Rent		Acquisition Yield <sup>2</sup> (%)	Market Value <sup>3</sup> (£m)	Notes
		Current <sup>1</sup> (£'000)	Estimated (£'000)			
Gosforth Shopping Centre, Newcastle	Retail	949	1,004	7.3	12.6	Anchored by Sainsbury's (lease expiry – 2032)
Monteith House, Glasgow	Offices	465	461	7.6	5.9	Entities related to Scottish Government account for c.80% of contracted revenues
Lakeside 5500, Manchester	Offices	453	453	7.8	5.3	Both tenants are S&P 500 constituents
Duloch Park, Dunfermline	Retail	357	363	7.4	4.5	Fully let, with 12 tenants
Mayflower House, Gateshead	Offices	257	259	9.3	2.6	Fully let
Eastern Avenue, Gloucester	Retail	472	389	8.4	5.3	Fully let: WAULT c8.5 years
Arthur House, Manchester	Offices	417	461	8.9	4.4	Largely let to professional service firms
Total / Weighted Average		3,370	3,390	7.9	40.6	

Notes: <sup>1</sup>Current contracted gross annual rent, including vendor top-ups. <sup>2</sup>Acquisition yield is based on acquisition gross contracted rent.

As at 31st March 2016

- the sector weighting, by value, of the portfolio was 66% retail and 34% offices;
- the weighted average unexpired lease term of the portfolio was 5.92 years to break and 6.97 years to expiry; and
- the vacancy rate of the portfolio was 6.4% (rental top-ups reduced the effective vacancy rate to 4.2%).

The ten largest tenants are as follows:

Tenant	Property	Current Contracted Gross Annual Rent (£'000)	% of Portfolio Current Contracted Gross Annual Rent (%)	Next Lease Break / Expiry
Sainsbury's	Gosforth SC	386	11.5	10-Apr-32
Staples UK Ltd	Gloucester	315	9.3	24-Mar-24
Agilent Technologies LDA UK	Lakeside 5500	299	8.9	24-Mar-22
Scottish Network & Tourist Board	Monteith House	235	7.0	26-Jan-21
Worldpay	Mayflower House	158	4.7	11-Mar-20
Micron Europe	Lakeside 5500	153	4.6	24-Mar-17
The Skills Development Scotland Co	Monteith House	126	3.8	23-Jul-18
LS Buchanan	Monteith House	104	3.1	19-Jan-17
Maplin Electronics Ltd	Gloucester	87	2.6	27-Mar-21
WH Smith	Gosforth SC	79	2.3	28-Jan-16
Total		1,942	578	

## **Investment Activity**

During the period from 1 January 2016 to 31 March 2016, the Company acquired three properties for a total of £15 million (excluding costs).

The current portfolio benefits from a high occupancy level of 96%. In March 2016, the Company agreed a new letting at Gosforth Shopping Centre on Units 30/31 to Naked Deli thus leaving only 1 unit in the centre vacant but currently under offer.

Post the quarter end the Company agreed a lease renewal for 10 years with Boots at Gosforth Shopping Centre.

The Investment manager remains focussed on the income return of the portfolio and driving forward portfolio returns.

## **Market Overview**

The majority of UK regions continue to show growth in output, employment and consumer spending, demonstrating that the UK economic recovery is now more evenly spread across the country. As a result, tenant demand is increasing for all types of commercial property outside London.

This increase has been mirrored by Investor demand for commercial real-estate assets, currently at record levels, with a rising proportion of this demand being focused on locations outside the South East.

Average and prime property yields are significantly higher outside London, and falling void rates in the office, retail and industrial sectors are also beginning to put upward pressure on rents. There remains a pricing differential in favour of small and medium assets

## **Investment Pipeline**

The Company's investment manager has fully invested the initial equity and part of the debt facility from RBS. The investment manager continues to identify an attractive pipeline of further investment opportunities which is expected to lead to the Company being fully invested shortly.

## **Debt Facility**

The Company has a £20 million revolving facility with The Royal Bank of Scotland plc which expires in July 2017 (the "**Facility**"). At 31 March 2016 the Company had drawn down £11.1m. The interest rate on the facility is LIBOR plus 1.1%.

## **Changes to the Fee Arrangements**

Under the terms of the management agreements among the Company, R&H Fund Services (Jersey) Limited (the "AIFM") and Drum Real Estate Investment Management Limited (the "Investment Manager"), the Company paid to the AIFM a total management fee of 1.25% per annum of the Company's net assets until 31 December 2015. With effect from 1 January 2016, this total management fee was reduced to 1.15% per annum of the Company's net assets up to £150 million and 1% of net assets over £150 million.

## **Dividends**

In the absence of unforeseen circumstances, the Company intends to pay dividends of 1.3125p per share in respect of the quarters ending 30 June 2016 and 30 September 2016\*. The Board is targeting fully covered aggregate quarterly dividends of at least 5.5p per share in respect of the year ending 30 September 2017 and at least 6.0p per share in respect of the year ending 30 September 2018\*.

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## **Equity Issuance**

In March 2016 the Company raised gross equity proceeds of £2.8 million (the new shares were issued at 100p per share).

A 12 month placing programme opened on 24 March 2016. Any capital raising under the placing programme will be subject to prevailing market conditions.

Under the placing programme, shares will only be issued at a premium to the most recent NAV per share at the time of issue (adjusted, where appropriate, for any dividends subsequently paid). The premium will be intended to cover the direct costs of issue and will seek to contribute to the financial impact of investing the net proceeds. The price at which new shares are issued will also take into account the prevailing price of the existing shares in the market.

## **Enquiries:**

### **Drum Real Estate Investment Management** (Investment Manager)

Bryan Sherriff 0131 285 0050

### **Cantor Fitzgerald Europe** (Financial Adviser and Corporate Broker)

Sue Inglis (Corporate Finance) 020 7894 8016

Andrew Davey / Ben Heatley (Sales) 020 7894 8646 / 020 7894 8529

### **Dickson Minto W.S.** (Sponsor)

Douglas Armstrong 020 7649 6823

### **Drum Income Plus REIT Plc**

Martin Cassels, Company Secretary 0131 550 3760

### **Weber Shandwick** (Financial PR)

Richard Bright 0131 556 6649

Nick Osborne 020 7067 0721