

Regional REIT

Preparing the ground

Q324 trading update

Real estate

13 November 2024

Regional REIT (RGL) has issued a Q324 trading update and has declared a quarterly DPS of 2.2p, in line with previous guidance. The retention rate on lease renewals remains high, partly reflecting the benefits of portfolio capex, also reflected in a further improvement in the EPC rating. A more general uptick in leasing is yet to be seen, with budget-related torpor also acting as a drag on the completion of disposals. There is no change to our [forecasts](#).

Year end	Net rental income (£m)	EPRA earnings* (£m)	EPRA EPS* (p)	NAV**/ share (p)	DPS (p)	P/NAV (x)	Yield (%)
12/23***	53.7	27.0	52.3	564	52.5	0.22	42.0
12/24e	45.9	21.3	21.1	222	18.6	0.56	14.9
12/25e	45.1	23.6	14.6	224	13.0	0.56	10.4
12/26e	47.2	24.5	15.1	226	13.6	0.55	10.9

Note: *EPRA earnings exclude revaluation movements, gains/losses on disposal and other non-recurring items. EPRA EPS is fully diluted. **NAV is EPRA net tangible assets per share. ***FY23 per share numbers reflect the August 2024 share consolidation (one new share for 10 old shares) but are unadjusted for the new shares issued.

By far the most significant event in Q324 was the successful close of RGL's £110m equity fund-raise. The proceeds funded the repayment at maturity of the £50m retail bond and will reduce secured bank debt by at least £26m. The balance of the proceeds is available to support investment in selected property assets, both as part of its rolling refurbishment programme and to capture a greater share of the upside from disposals for alternative use. Refurbishment enhances the quality, occupier appeal and income potential of core rental assets, as evidenced by the significant advance in portfolio EPC ratings and lettings well above estimated rental value (ERV). For non-core, alternative use assets, where it is profitable to do so, RGL intends to invest (in planning, architect and other professional fees) to bring forward planning consent prior to sale, creating additional value and realised gains. Eight capex projects, with a total investment of £15m, were commenced in Q3, while the recent completion of one £2.7m refurbishment project has seen the previously vacant asset let on new 10-year leases, generating an aggregate £0.5m pa in rental income.

Leasing has remained active but is yet to show a material uplift. Year to date, RGL has exchanged on 55 new leases (11 in Q3), adding £2.6m pa (£0.5m in Q3) of rents but, perhaps more importantly, at a 9.3% uplift to ERV (H1: 8.4%), an indication that RGL can offer the quality of property that tenants are demanding. Also encouraging is the further strengthening of the retention rate, to 77.7% in Q3 (H1: 71.4%). However, with c £8m of H224 rents 'at risk' from lease expiries or break clauses, a pick-up in new letting is needed to maintain annualised rental income, which was £62.1m at the end of Q3 (H1: £63.5m).

Total asset disposals in Q3 amounted to £1.75m (before costs), on average 2.9% above the H1 valuation. We expect this to accelerate in the coming months and RGL's future asset disposal programme comprises 48 assets valued at an aggregate c £72.7m.

The portfolio is not revalued on a quarterly basis but, adjusting the H1 position for capex and disposals, it was little changed at £649m and the loan-to-value ratio was 41.4%.

Price **125p**

Market cap **£200m**

Net debt (£m) at 30 September 2024 268.2

Net LTV at 30 September 2024 41.4%

Shares in issue 162.1m

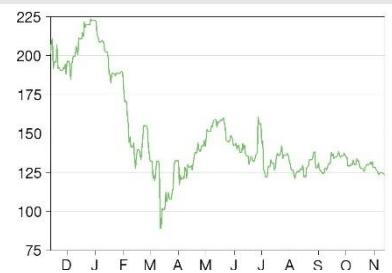
Free float 79%

Code RGL

Primary exchange LSE

Secondary exchange N/A

Share price performance



Business description

Regional REIT is focused on office assets in the regional centres of the UK, outside the M25, highly diversified by property, tenants and the underlying industry exposure of those tenants. It is actively managed with a strong focus on income.

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