Pacific Industrial & Logistics REIT plc

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Interim Report 2016

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Find more information on our website
www.pacificil.com

Pacific Industrial & Logistics REIT plc is a recently incorporated property investment company, quoted on the AIM market of the London Stock Exchange.

Our vision is to become the market leader in smaller industrial and logistics property investment. We believe that the focused acquisition of these properties in key geographical areas, coupled with limited current opportunities for investors to independently access the smaller lot logistics property sector, make these properties attractive assets.

Once fully invested, we aim to target an annualised net dividend yield of 6% per annum and a total return over the medium term of between 10% and 15% per annum.

Winit UK, Bardon

Financial Highlights

- The Company was admitted to trading on the AIM market of the London Stock Exchange on 13 April 2016 and became an HM Revenue and Customs approved REIT upon Admission. Shortly after Admission, the company raised gross proceeds of £12.2 million at an issue price of 100 pence per share.
- The Group's investment properties were independently valued on 30 September 2016 at £29.9 million, representing an increase in value totalling £2.9 million (excluding purchaser costs of £0.5m), or 10.7% from the date of acquisition.
- As at 30 September 2016, the Company's Adjusted Net Asset Value ("Adjusted NAV") per share was 123.87 pence, an increase of 23.87 pence from an issue price of 100.00 pence, or 24%. Further details on the Adjusted NAV have been disclosed in note 16 of the notes to the interim financial statements.
- The loan to value ("LTV") ratio for the Group was 51% as at 30 September 2016 with closing long-term drawn bank debt of £15.35 million.

Asset Overview

Summary of Portfolio
at 30 September 2016

Tenant	Location	Month of Acquisition	Acquisition Cost (£k)	Net Book Value (£k)	Size (sq ft)
Marshall Thermo King Ltd	Dunstable	Apr 16	600	750	9,912
The BSS Group Ltd	Northampton	Apr 16	750	760	13,633
The BSS Group Ltd	Bedford	Apr 16	2,300	4,350	59,607
Blackburn Metals Ltd	Bedford	Apr 16	1,250	1,390	24,380
Prince's Patent Candles Ltd	Bedford	Apr 16	2,200	2,150	44,195
Jas Bowman & Sons Ltd	Bedford	Apr 16	2,675	3,150	39,306
ACO Technologies Plc	Bedford	Apr 16	1,675	2,250	38,762
Ball and Young Ltd	Bedford	Apr 16	1,100	1,410	22,535
Ideal Industries Ltd	Bedford	Apr 16	2,850	2,300	42,392
Professional Fulfilment Services	Bedford	Apr 16	1,392	1,321	21,182
7 Day Shop.com Ltd	Bedford	Apr 16	1,396	1,323	21,139
Arqadia Ltd	Bedford	Apr 16	2,812	2,666	42,677
Winit (UK) Ltd	Bardon	Apr 16	6,000	6,080	73,791
			27,000	**29,900**	**453,511**

Locations
The property portfolio consists of eleven properties (thirteen units) all located within the Greater South East and "Golden Triangle" regions, concentrated in five locations and four towns allowing for greater landlord control over estates where multiple units are held.

Buildings
A considerable amount of capital expenditure had been undertaken on the properties in recent years and as a result the majority of the buildings within the portfolio have been recently refurbished. All works have been carried out in compliance with the Energy Act 2011 to maintain tenant demand and rental value.

Tenants
We note exceptional occupational history across all the properties within the portfolio, highlighting the local demand, location and quality of the buildings.

Chairman's Statement

I am pleased to present the interim unaudited consolidated results for Pacific Industrial & Logistics REIT plc (the "Group") for its first reporting period from the date of incorporation of 8 December 2015 to 30 September 2016.

Overview

The Company's IPO in April 2016 raised gross proceeds of £12.2m. The Company's Ordinary Shares were admitted to trading on the AIM Market of the London Stock Exchange on 13 April 2016.

In accordance with the Company's Investment Policy, the net proceeds of the IPO were invested on 14 April 2016 in a portfolio of smaller lot size industrial and logistics properties (single let) situated across the Midlands, with an average lot size across the portfolio of less than £10m. The purchase value of the portfolio was £27.0m (excluding purchaser costs of £0.5m) on 14 April 2016 and had rental income of £2.0m (representing a Net Initial Yield of 7.3%)

As at 30 September 2016, the Group's portfolio consisted of 11 properties, let to an array of SME tenants, all of whom have continued to trade well following the result of the EU referendum. The acquisition was funded from the proceeds of the IPO and the drawdown of a senior debt facility (£15.5m) provided to the Group by Santander.

The Group's portfolio has been independently valued by CBRE in accordance with the RICS Valuation – Professional Standards (the "Red Book"). As at 30 September 2016 the Group's portfolio had a market value of £29.9m (up 10.7% from IPO).

The Group's investment manager, Pacific Capital Partners Limited, has identified further opportunities to acquire high yielding assets which meet the Group's investment criteria and the Company will be exploring opportunities to raise additional equity proceeds this year.

Shareholders' vision and faith has been justified in supporting the Company at its April 2016 IPO. The Board takes real encouragement from the initial performance of the Group and is actively exploring the prospect of raising further equity proceeds to diversify the portfolio and provide further opportunities for growth in line with our Investment Policy.

Financial Results

On an IFRS basis, operating profit for the Group for the period from 13 April 2016 to 30 September 2016 was £3.1m, with total comprehensive income of £2.6m. Net earnings per Share for the period were 25.29 pence (basic), which includes the net valuation gain recognised as a result of the revaluation of investment property and derivative interest rate swaps. The unaudited Adjusted Net Asset Value per share as at 30 September 2016 was up 24% to 123.87 pence per share from an issue price of 100.00 pence per share.

Financing

As at 30 September 2016, the Group has raised £12.2m of (gross) proceeds and signed a senior debt facility with Santander totalling £50m (of which £15.3m remains drawn across the first portfolio of assets which were acquired as a corporate transaction). This facility has a term of 3 years and reflects a current loan to value (LTV) of 51%.

In the medium term the Group's target LTV is 45% which is allowed for in the facility.

Chairman's Statement
continued

Hedging
A significant portion (70%) of the Group's senior debt facility has been hedged, with the Group entering into a three year interest rate swap (fixed) effective from 14 April 2016. The fixed rate, excluding lending margin of 235 bps, was 93bps. The Group's average cost of borrowing on senior debt is approximately 318bps, including the lending margin.

Outlook
The Company has performed well since IPO, delivering on its stated initial objectives. The Board believes that by consolidating a high quality logistics and industrial portfolio of smaller lot sizes across established regions, the Group will offer investors exposure to a sector that offers high yields and attractive returns.

The smaller lot size market has excellent fundamentals and compared to other asset classes offers both income and capital preservation. The sector that the Company operates in has shown little change since the result of the EU referendum and we are aware of a number of transactions recently closing at pre-referendum valuations. We believe the sector remains robust as consumers continue to migrate online and demand for last mile and regional logistics remains high.

The Board and the manager has an identified pipeline of attractive assets that are complementary to its existing portfolio and located in attractive logistical locations. We are confident of continuing to deliver excellent returns for our shareholders.

Jonathan Gray Chairman
9 November 2016

Manager's Report

Overview

Price's Patent Candles, Bedford

The industrial and logistics market in the UK continues to see strong occupier demand outweighing available supply. This is due to on-going under-investment in the sector which is principally due to some substantial barriers to entry; namely, the cost of replacement, availability of land, planning constraints, letting risk and lack of available funding. This results in an ongoing supply constraint regarding quality industrial and logistics assets across the UK. Strong occupier demand, owing in particular to the growth in e-commerce and investment by retailers and suppliers in e-fulfilment supply chain capability, also means that there is sustained low void across key locations. Amazon, for example, acquired 15 buildings totalling 2.4m sq ft during 2015 as it continued to expand it logistics business.

The Company's focus and Investment Policy is to invest in well-located, fit-for-purpose last mile or regional logistics facilities in the UK, which display appealing characteristics :

- A strong tenant financial covenant and evidence of commitment (including fit-out, location and value within the tenant's operation)
- Quality stock which may be mispriced by the market (leveraging the experience and track record of the manager to drive a stock selection strategy)
- Opportunity for rental growth and out-performance by way of asset management, tenant mix and the re-gearing of leases
- Strong local occupational market
- Existing buildings, which are acquired at below replacement cost
- Property and location characteristics (building quality, age, scale, site cover, internal operational efficiencies)
- Logistical access to main arterial roads

The manager's focus is on upward-only rent review leases, with reviews typically taking place every 5 years and delivering an increase in the rent at the relevant agreed growth rate, compounded over the period.

Manager's Report
continued

Investment Activity
The Group acquired 11 assets on 14 April 2016. A selection of these assets are discussed below in Current Portfolio Analysis.

The assets were acquired by way of an off-market portfolio transaction. They are modern assets which are centred in and around the "Golden Triangle" logistics hub of the Midlands. The portfolio has good geographic spread, tenant diversification and presents a variety of asset management opportunities which have the potential to provide income growth and capital appreciation to shareholders.

Current Portfolio Analysis
The Group has invested in 11 assets, comprising 13 tenants. Select properties include:

Winit, Bardon

1. Winit, Bardon
Annual passing rent – £356,000
Size (sq ft) – 73,791
Rent per sq ft - £4.82
Tenure – Freehold

Constructed in 2007 to institutional standards, this is a detached distribution warehouse located in Bardon, Leicestershire. Of steel portal frame, with profile steel cladding and an office element to the south the warehouse specification includes 3 dock levellers and 2 ground level loading doors and a minimum eaves height of 10m.

The facility is let to Winit, a packaging company who operate an eBay distribution licence across the UK. The next rent review is due March 2019. There is scope to increase the number of dock levellers, install a mezzanine and discuss an additional facility with the tenant who continues to see an improvement in trade.

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Arqadia, Bedford

2. Arqadia, Bedford
Annual passing rent - £190,000
Size (sq ft) – 42,677
Rent per sq ft - £4.45
Tenure – Freehold

The property comprises two semi-detached units. Construction is of a steel frame with brick and blockwork and profile steel cladding.

The Units are let to Arqadia, a company which distributes framing materials, a subsidiary company of Berkshire Hathaway. Lease expiry is March 2020 and the business is in a growth phase and there are ongoing discussions regarding existing and additional space for the tenant.

Manager's Report
continued

Prince's Patent Candles, Bedford

Jas Bowman, Bedford

3. Prince's Patent Candles, Bedford
Annual passing rent - £160,000
Size (sq ft) – 44,195
Rent per sq ft - £3.62
Tenure – Leasehold

This detached distribution warehouse, of steel portal frame construction with brick and blockwork walls, has an office and retail outlet. The building was refurbished and a new roof was installed in 2012.

Leasehold extension discussions are ongoing with Bedfordshire Borough Council. This will result in a new 150 year lease and permit a build out and consent as retail outlet.

4. Jas Bowman, Bedford
Annual passing rent - £167,000
Size (sq ft) – 39,306
Rent per sq ft - £4.24
Tenure – Freehold

The building comprises an industrial unit which has recently been fully refurbished, including replacement of the cladding and roof at a cost of approximately £9 million.

The manager has recently negotiated a 20 year lease which expires in 2036.

Valuation
The Company's portfolio has been independently valued by CBRE in accordance with the RICS Valuation – Professional Standards (the "Red Book").

As at 30 September 2016, the Company's portfolio had a market value of £29.9m as compared with the combined initial purchase price of £27.0m (excluding purchaser costs of £0.5m), an increase of £2.9m or 10.7%. This increase in valuation reflects a combination of asset management conducted by the manager to date, examples are included to the left, the prevailing supply and demand imbalance which is applying upward pressure on rents, with yields holding steady post-referendum, and the advantage gained by the manager's stock selection and off-market transaction.

Financial Results
On an IFRS basis, underlying operating profit (before accounting for changes in fair value on investment properties) for the interim period was £0.7m. The main driver of this positive performance was the strong rental income generated by the portfolio, which equates to a running yield on book cost of 7.3% per annum.

The results were also impacted by the gain recognised on the revaluation of investment properties of £2.4m, covering all costs associated with the portfolio purchase.

Administrative and other costs, which includes Manager fees and other costs attributable to the running of the Company, for the period, were £0.2m, equivalent to 0.9% of the market value of the portfolio as at 30 September 2016.

The total comprehensive income for the period was £2.6m, which equates to an earnings per share (basic) of 25.29 pence.

Manager's Report
continued

Financing and Hedging
During the period, the Group drew down £15.5m with Santander on a long term borrowing facility of £50m. The average margin across these loans is 235bps (excluding lender margin).

The Group's medium term target is to reduce the LTV ratio from its current 51% to a more conservative level of 45% against the Group's gross asset value. The Company has £2m of redeemable preference shares outstanding which were issued to affiliates of Pacific Investments Limited. These are entitled to 6% cumulative interest and are redeemable at anytime over a period of up to 18 months.

The facility includes an amortisation charge and is secured against the properties of the portfolio. The manager is in discussions with a view to broadening the Company's debt funding relationships.

The Company's debt strategy is to minimise the effect of a significant rise in underlying interest rates by utilising interest rates swaps.

Market Outlook
The Board and the manager believe that a significant opportunity exists for investment in the UK industrial and logistics market, owing to strong tenant demand and limited stock supply.

The UK continues to be one of the fastest growing adaptors of online retail and there is a requirement for tenants to develop their e-fulfilment capability accordingly. As such, key geographic regions across the UK are seeing improvements year-on-year in leasing activity. Demand for lots has increased significantly and is driven by manufacturing / distribution and the continued growth in e-commerce. Parcel carriers, retailers and companies within the UK manufacturing supply chain are all involved with the rise in take-up of smaller format lots.

Smaller lots

Yields on smaller lots (sub-£10m) are historically c. 1.0% higher than those of larger lots as investors and real estate investment funds are almost unilaterally focussed on lot sizes in excess of £10m. Smaller lots therefore trade at a discount to more institutional grade assets due to the reduced weight of money targeting this stock. There is also a less active debt market for smaller companies and investors in this lot size, which can be seen as a hangover from the 2008 financial crisis.

Online

The growth in online retail has been a key driver of the increase in logistics facilities. According to research by Goldman Sachs (2015), online sales are expected to grow by 15% CAGR over the next five years in the UK.

Supply

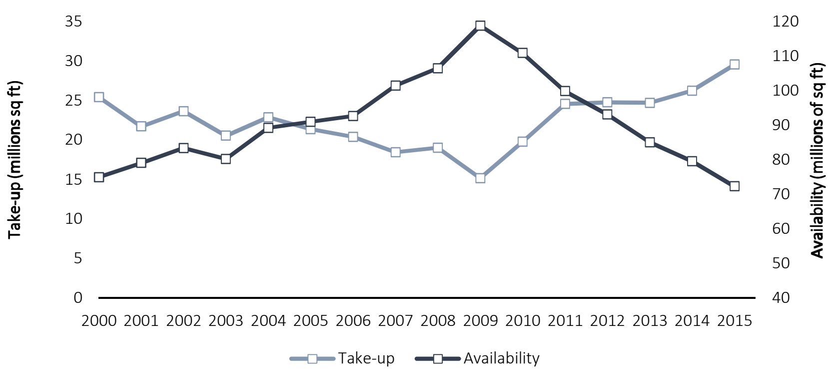
Supply levels for logistics property peaked in 2009 following a period of speculative development in the run up to the economic downturn. Following strong occupational demand resulting from the recent economic recovery there is now a significant shortage.

Manager's Report
continued

Whilst there have been recent tentative steps towards the speculative development of smaller floorplate buildings, this has yet to result in availability matching the requirement for take-up across the UK. Indeed, supply is more than a third lower than the peak post-recession in 2009.

Supply remains low by historical standards and there remains a lack of land earmarked for warehouse development.

Sub-100,000 sq. ft. industrial lots



Source: CBRE & IPD Monthly Digest

Demand
Demand for smaller lot size warehouses in recent years has been strong. The underlying driver being a lack of new building availability and high replacement cost. According to CBRE's United Kingdom Logistics – The Property Perspective H1 2016 report, demand for logistics warehousing has been exceptionally strong in H1 2016, with take-up of 13.5m sq ft compared to 9.5m sq ft in H1 2015. CBRE also note that whilst theoretically the referendum result may influence the market there is little evidence to suggest this is the case and that the "changes hitting the logistics sector at present, and the growth of key sectors including online retail will … continue to be the biggest influence on occupier demand and [this] has not been changed by the referendum result". The Midlands was the most active location in H1 with 42% of the UK take-up.

Rents
According to CBRE's Monthly Index (August 2016), industrial and logistics was the best performing commercial property sub-sector year-on-year. This strong performance has continued through 2016 with positive rental growth and total return, whilst rental values have held steady post-referendum.

Acquisitions
The focus on the manager will be to continue acquiring attractive assets with the potential for rental growth in light of the current market dynamic of diminishing supply and increasing occupier demand.

The manger is focussed on maintaining and building existing tenant relationships with a view to extending the Company's reputation as a leader in the smaller lot size market.

Richard Moffitt, Christopher Turner, 9 November 2016

Principal Risks

The IPO Prospectus issued in April 2016 (available on the Company's website) includes details of what the Group considers to be the key principal risks faced by the business. However, as the Group has a limited operating history some risks are not yet known and some that are currently not deemed material, could later turn out to be material. A summarised list of the principal risks is set out below:

Property Market Risks

- Both the condition of the real estate market and the overall UK economy will impact on the returns of the Group.

- Market conditions may also negatively impact on revenues earned from property assets and the price at which the Group is able to dispose of these assets.

- The Group will continue to focus exclusively on the UK smaller lot size, a sub-sector of the UK logistics market, therefore it will have direct reliance on the online and general retailer requirements in the UK.

- Other competitors in the sector may have greater financial resources than the Group or greater ability to borrow or leverage funds to acquire properties. With a limited supply of smaller lot assets existing in the UK, competition for available properties in the UK may be strong, hence no assurance that the Group will be able to secure suitable assets at competitive prices.

Operational Risks

- The REIT Group will continue to be reliant on the management and advisory services the Group receives from the Manager. As a result, the Group's performance will, to a large extent, be dependent upon the ability of the Manager and retention of its key staff by the manager.

Taxation Risks

- If the Group breaches any of the REIT regulations, this may lead to the Group losing its REIT status and therefore members of the Group may become subject to UK corporation tax.

Pacific Industrial & Logistics REIT plc

Funding Risks

- The Group's strategy anticipates incurring debt with interest payable based on LIBOR and it intends to hedge or partly hedge interest rate exposure on borrowings. However, such measures may not be sufficient to protect the Group from adverse movements in prevailing interest rates.

- Acquisition of properties may be funded partly by borrowings. If the value of the Group's assets falls, the NAV of the Group will reduce. Furthermore, the borrowings which the Group uses contain loan to value covenants, if the Groups assets decrease in value there is a risk that such covenants could be breached.

- Without the continued availability of debt on acceptable terms, the Group may be unable to progress investment opportunities as they arise and continue to grow the Group in line with the long-term strategy.

Independent Review Report to
Pacific Industrial & Logistics REIT plc

1. Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly report for the period ended 30 September 2016 which comprise the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Cash Flow Statement and the Condensed Consolidated Statement of Changes in Equity and related notes.

We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the AIM Rule 18. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report or the conclusions we have reached.

2. Directors' responsibility

The half-yearly report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly report in accordance with AIM Rule 18.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRS as adopted by the European Union. It is the responsibility of the directors to ensure that the condensed set of financial statements included in this half-yearly report have been prepared on a basis consistent with that which will be adopted in the Group's annual financial statements.

3. Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

Pacific Industrial & Logistics REIT plc

4. Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom.

A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

5. Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the period ended 30 September 2016 is not prepared, in all material respects, in accordance with the requirements of the AIM rules.

Nexia Smith & Williamson

Nexia Smith & Williamson Audit Limited
Statutory Auditor
Chartered Accountants

25 Moorgate
London
EC2R 6AY

9 November 2016

Condensed Consolidated Statement of Comprehensive Income
For the period ended 30 September 2016

	Note	30 September 2016 (unaudited) £'000
Rental income		988
Cost of sales		(10)
Gross income		**978**
Administrative and other expenses		(234)
Long-term investment plan charge	*8*	(17)
Operating profit before changes in fair value of investment properties and interest rate derivatives		**727**
Changes in fair value of investment property	*9*	2,383
Operating profit		**3,110**
Finance expense	*5*	(327)
Changes in fair value of interest rate derivatives		(174)
Profit before taxation		**2,609**
Tax credit/(charge) for the period		-
Profit and total comprehensive income (attributable to the shareholders)		**2,609**
Earnings per share - basic	*7*	**25.29p**
Earnings per share - diluted	*7*	**25.07p**

Condensed Consolidated Statement of Financial Position
As at 30 September 2016

	Note	30 September 2016 (unaudited) £'000
Non-current assets		
Investment property	*9*	29,900
Total non-current assets		**29,900**
Current assets		
Trade and other receivables		181
Cash and cash equivalents		1,890
Total current assets		**2,071**
Total assets		**31,971**
Current liabilities		
Trade and other payables		(1,530)
Deferred rental income		(513)
Total current liabilities		**(2,043)**
Non-current liabilities		
Redeemable preference share	*13*	(2,000)
Interest rate derivatives	*12*	(174)
Bank borrowings	*11*	(15,147)
Total non-current liabilities		**(17,321)**
Total liabilities		**(19,364)**
Total net assets		**12,607**
Equity		
Share capital	*13*	103
Share premium	*14*	9,787
Share warrant reserve		91
Other reserves		17
Retained earnings		2,609
Total equity		**12,607**
Net Asset Value per share basic	*16*	**122.18p**
Net Asset Value per share diluted	*16*	**116.47p**

Condensed Consolidated Cash Flow Statement

For the period ended 30 September 2016

	Note	30 September 2016 (unaudited) £'000
Cash flows from operating activities		
Profit for the period (attributable to equity shareholders)		2,609
Less: changes in fair value of investment property		(2,383)
Add: changes in fair value of interest rate derivatives		174
Add: finance expense		327
Long-term investment plan		17
Increase in trade and other receivables		(159)
Increase in trade and other payables		582
Cash generated from operations		**1,167**
Net cash flow generated from operating activities		**1,167**
Investing activities		
Acquisition of a subsidiary, net of cash acquired	***10***	(26,135)
Net cash flow used in investing activities		**(26,135)**
Financing activities		
Proceeds from issue of ordinary share capital		10,177
Proceeds from issue of preference shares		2,000
Cost of share issue		(196)
Bank borrowings drawn		15,525
Bank borrowings repaid		(175)
Loan arrangement fees paid		(240)
Interest paid		(233)
Net cash flow generated from financing activities		**26,858**
Net increase in cash and cash equivalents for the period		**1,890**
Cash and cash equivalents at start of period		**-**
Cash and cash equivalents at end of period		**1,890**

Condensed Consolidated Statement of Changes in Equity

For the period ended 30 September 2016

	Share capital £'000	Share premium £'000	Share warrant reserves £'000	Other reserves £'000	Retained earnings £'000	Total £'000
1 April 2016	**-**	**-**	**-**	**-**	**-**	**-**
Profit for the period	-	-	-	-	2,609	2,609
Total comprehensive income	**-**	**-**	**-**	**-**	**2,609**	**2,609**
Long term incentive plan	-	-	-	17	-	17
Issue of Ordinary Shares	103	9,983	91	-	-	10,177
Share issue costs	-	(196)	-	-	-	(196)
30 September 2016 (unaudited)	**103**	**9,787**	**91**	**17**	**2,609**	**12,607**

Notes to the Interim Financial Statements

1. General information
Pacific Industrial & Logistics REIT plc (the "Company") and it subsidiaries (the "Group") carry on the business of property asset management throughout the United Kingdom. The Company is a public limited company incorporated and domiciled in England and Wales and listed on the AIM Market of The London Stock Exchange. The registered office address is 124 Sloane Street, London, SW1X 9BW.

2. Basis of preparation
The condensed consolidated financial statements for the Group for the period ended 30 September 2016 have been reviewed by the Company's Auditor for issue on 9 November 2016.

The Group's financial information has been prepared on a historical cost basis, except for investment property and derivative interest rate caps which have been measured at fair value.

The functional currency of the Group is considered to be pounds sterling as this is the currency of the primary environment in which the company operates.

Going concern
The directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that the Group has sufficient resources to continue in business for the foreseeable future, a period of not less than twelve months from the date of this report. For this reason, the directors adopt the going concern basis of accounting in preparing these consolidated interim financial statements.

Statutory accounts
Financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of Companies Act 2006 ("the Act"). The first set of statutory accounts the company will file with the Registrar of Companies will be for the period ended 31 March 2017.

The information for the period ended 30 September 2016 is unaudited.

3. Significant accounting judgements, estimates and assumptions
The preparation of the financial statements in conformity with the generally accepted accounting practices requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the statement of financial position date and the reported amounts of revenue and expenses during the reporting period.

Business combinations
The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property.

Where such acquisitions are not judged to be the acquisition of a business, they are not treated as business combinations. Rather the cost to acquire the corporate entity is allocated between identifiable assets and liabilities of the entity based upon their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred tax arises.

Long-term investment plan
In determining the fair value of equity settled share based awards and the related charge to the statement of comprehensive income, the group makes assumptions about future events and market conditions.

In particular, judgement must be formed as to the likely number of shares that will vest, and the fair value of each award granted.

The fair value is determined using a valuation model which is dependent on a number of assumptions of the group's future dividend policy and the future volatility in the price of the group's shares. Such assumptions are based on publicly available information and reflects market expectation. Different assumptions about these factors to those made by the group could materially affect the reported value of long-term investment plan.

Details of the group's long-term investment plan can be found in note 8.

Fair value of investment property
The market value of investment property is determined by real estate valuation experts, to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. Each property has been valued on an individual basis. The valuation experts use recognised valuation techniques and the principles of IFRS 13.

Notes to the Interim Financial Statements
continued

Fair value of Investment property (continued)
The valuations have been prepared in accordance with RICS Valuation – Professional Standards January 2014 (the "Red Book"). Factors reflected include current market conditions, annual rentals, lease lengths and location. The significant methods and assumptions used by the valuers in estimating the fair value of investment property are set out in note 9.

4. Principal accounting policies
The principal accounting policies applied in the preparation of these interim financial statements are set out below. These policies, which are also applicable to the financial statements of the Company, have been consistently applied to all the years presented.

Basis of consolidation
The financial statements consolidate the accounts of the Company and all subsidiary undertakings drawn up to the same year end.

Subsidiaries
Subsidiaries are entities which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiary entities are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date on which control ceases. In respect of subsidiaries, inter-company transactions and unrealised gains on intra-group transactions are eliminated on consolidation.

The financial information of the subsidiaries is prepared for the same reporting periods as the parent company, using consistent accounting policies.

Borrowing costs
Borrowing costs in relation to interest charges on bank borrowings are expensed in the period to which they relate. Fees incurred in relation to the arrangement of bank borrowings are capitalised and expensed on a straight line basis over the term of the loan.

Segmental reporting
IFRS 8 requires operating segments to be identified on the basis of internal reports that are regularly reported to the chief operating decision maker to allocate resources to the segments and to assess their performance. Following the strategic review, the directors consider there to be only one reportable segment, being the investment in the United Kingdom in medium size industrial warehouses.

Investment properties
Investment properties comprises completed property that is held to earn rentals or for capital appreciation or both.

Investment properties are initially recognised at cost including transactions costs. Transaction costs include transfer taxes and professional fees for legal services. Subsequent to initial recognition investment properties are carried at fair value, as determined by real estate valuation experts. Gains or losses arising from change in fair value is recognised in the statement of comprehensive income in the period in which they arise.

On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is recognised in the statement of comprehensive income.

Revenue recognition
Revenue comprises rental income from operating leases on investment property (net of any incentives given to the lessees) and is recognised on a straight line basis over the term of the lease.

Long-term investment plan
The fair value of long-term investment plan is calculated at the grant date using the Monte Carlo Model.

The resulting cost is charged to the Condensed Statement of Comprehensive Income over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting.

Financial instruments
Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets
Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method.

A provision is established for irrecoverable amounts when there is objective evidence that amounts due under the original payment terms will not be collected. The amount of any provision is recognised in the statement of comprehensive income.

Notes to the Interim Financial Statements
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Financial instruments (continued)
Cash and cash equivalents are recognised initially at fair value and subsequently measured at amortised cost. Cash and cash equivalents comprise cash in hand, deposits held with banks and other short-term, highly liquid investments with original maturities of three months or less.

Financial liabilities
Financial liabilities and equity instruments issued by the Group are classified in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

Derivative financial instruments
Derivative financial instruments, comprising interest rate caps and swaps for hedging purposes, are initially recognised at cost and are subsequently measured at fair value being the estimated amount that the Group would receive or pay to terminate the agreement at the period end date, taking into account current interest rate expectations and the current credit rating of the Group and its counterparties. The gain or loss at each fair value measurement date is recognised in the statement of comprehensive income. Premiums payable under such arrangements are initially capitalised into the statement of financial position, subsequently they are remeasured and held at their fair values.

Preference shares
Preference shares issued by the Company are classified in accordance with the contractual arrangements entered into. Issued preference shares that pay a fixed dividend or have a mandatory redemption features at a future date are recognised within liabilities.

5. Finance expense

For the six months ended	30 September 2016 (unaudited) £'000
Interest on bank borrowings	233
Amortisation of loan arrangement fees	37
Interest on preference shares	57
	327
Changes in fair value of interest rate derivative	174
	174

6. Taxation
As a REIT, the Group is exempt from corporation tax on the profits and gains from its property investment business, provided it continues to meet certain conditions as per REIT regulations. For the period ending 30 September 2016, the Group did not have any non-qualifying profits and accordingly there is no tax charge in the period. Any non-qualifying profits and gains however will continue to be subject to corporation tax.

Notes to the Interim Financial Statements
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7. Earnings per share
The calculation of the basic earnings per share (EPS) was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the period.

This calculation is as follows:

For the six months ended	30 September 2016 (unaudited)
Profit attributable to Ordinary Shareholders	
Total comprehensive income (£'000)	2,609
Weighted average number of Ordinary Shares in issue	10,317,910
Basic earnings per share (pence)	**25.29p**
Number of diluted shares under warrant	90,810
Weighted average number of Ordinary Shares for the purpose of dilutive earnings per share	10,408,720
Diluted earnings per share (pence)	**25.07p**

The calculation of diluted earnings per share assumes conversion of all potentially dilutive Ordinary Shares, which arise from warrants. A calculation is performed to determine the number of warrants that are potentially dilutive based on the number of shares that could have been acquired at fair value, considering the monetary value of the subscription rights attached to outstanding warrants.

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8. Long-term investment plan (LTIP)
Under the terms of the Company's Long Term Investment Plan (LTIP), accounted for as an equity settled share based payment, at 30 September 2016 Pacific Industrial LLP, an affiliate of Pacific Investments Limited, has subscribed for 1,000 A Ordinary Shares of £0.01 each and 1,000 B Ordinary Shares of £0.01 each issued in Pacific Industrial & Logistics Limited, a subsidiary of the Company, as detailed.

Date granted	Class of Share	Number	Fair Value at Grant £'000	Charge for the Period £'000
April 2016	A Ordinary	1,000	76	13
April 2016	B Ordinary	1,000	43	4

1. The Company is obliged to acquire the A Ordinary Shares and B Ordinary Shares on the third and fifth anniversary of Admission respectively (or on a change of control of the Company) in return for Ordinary Shares (at the prevailing market value) or, at the election of the Company for cash.

2. On the third anniversary of Admission the holders of the A Ordinary Shares shall receive, in aggregate the greater of: (i) £10 multiplied by the number of A Ordinary Shares in issue; and (ii) 20 per cent. of the increase in market value of an Ordinary Share (adjusted to take dividends and other distributions into account) above the Issue Price increased by an 8 per cent. Compounding hurdle from Admission multiplied by the number of Ordinary Shares in issue.

3. On the fifth anniversary of the IPO, the Company will acquire the second class of incentive shares from Pacific LLP. The price that the Company will acquire these incentive shares will be an amount equal to 20 per cent. of the increase in the price of an Ordinary Share since the higher of: (i) the IPO above an 8 per cent. compounding hurdle from Admission; and (ii) the third anniversary of Admission (again adjusted to take dividends and other distributions into account), above an 8 per cent. compounding hurdle from the third anniversary multiplied by the number of Ordinary Shares then in issue.

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9. Investment property

In accordance with IAS 40 “Investment Property”, the carrying value of investment property at its fair value as determined by an external valuer. This valuation has been conducted by CBRE and has been prepared as at 30 September 2016, in accordance with the RICS Valuation – Professional Standards January 2014 (the “Red Book”).

The valuations have been prepared in accordance with those recommended by the International Valuation Standards Committee and are consistent with the principles in IFRS 13.

	Investment properties freehold £'000	Investment properties long leasehold £'000	Total £'000
As at 1 April 2016	-	-	-
Property additions	25,270	2,247	27,517
Change in fair value during the period	2,151	232	2,383
As at 30 September 2016	**27,421**	**2,479**	**29,900**

10. Business combinations

On 14 April 2016 the Group obtained sole control of Alanchoice Limited, through the acquisition of the entire issued share capital in the company. The acquisition increased the Group’s owned property portfolio by £27.5m (including purchaser costs of £0.5m), comprising 11 assets.

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10. Business combinations (continued)

Any associated fees in arranging the bank borrowings that are unamortised as at the period end are offset against amounts drawn on the facilities as shown in the table below.

	Book Value £'000	Fair Value Adjustments £'000	Total £'000
Investment properties	27,000	517	27,517
Cash	1,382	-	1,382
Other receivables	247	(225)	22
Other liabilities	(1,660)	256	(1,404)
Total	**26,969**	**548**	**27,517**

Net cash outflow arising on acquisition:	
Total consideration	27,517
Cash and cash equivalents acquired	(1,382)
Cash consideration net of cash acquired	**26,135**

11. Bank borrowings

Any associated fees in arranging the bank borrowings that are unamortised as at the period end are offset against amounts drawn on the facilities as shown in the following table.

Notes to the Interim Financial Statements
continued

11. Bank borrowings (continued)

	30 September 2016 (unaudited) £'000
Bank borrowings drawn: due in more than one year	15,350
Less: unamortised costs	(203)
Total bank borrowings per the Condensed Consolidated Statement of Financial Position	**15,147**

12. Interest rate derivatives

The Group has used interest rate swaps to mitigate exposure to interest rate risk. The total fair value of these contracts are recorded in the statement of financial position. The interest rate derivatives are marked to market by the relevant counterparty banks on a quarterly basis in accordance with IAS 39. Any movement in the fair value of the interest rate derivatives are taken to finance costs in the statement of comprehensive income.

	30 September 2016 (unaudited) £'000
Non-current liabilities: derivative interest rate swaps	(174)

13. Share capital

	30 September 2016 (unaudited) Number	30 September 2016 (unaudited) £'000
Issued and fully paid up Ordinary shares at 1p each	**10,317,910**	**103**
At beginning of period	-	-
Issued and fully paid - 8 December 2015	1	-
Redeemed at par value - 13 April 2016 (IPO)	(1)	-
Issued and fully paid - 13 April 2016 (IPO)	10,317,910	103
At 30 September 2016	**10,317,910**	**103**

The Company has two million redeemable £1 preference shares outstanding which were issued at par to affiliates of Pacific Investments Limited. These are entitled to 6% cumulative interest and are redeemable over a period of up to 18 months and accordingly have been accounted for as a liability.

On winding-up of the Company, the preference shares will convert into Ordinary shares on a one-for-one basis in accordance with the Articles, and such Ordinary shares will rank pari passu with existing Ordinary shares.

At 30 September 2016, there were 3,027,000 warrant shares in issue. Each warrant holder has the right to subscribe for new Ordinary shares on the basis of one new Ordinary share for each warrant held at a strike price of 97.00 pence per Ordinary share.

Notes to the Interim Financial Statements
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14. Share premium

	30 September 2016 (unaudited) £'000
Balance at the beginning of the period	-
Share premium on the issue of Ordinary shares	9,983
Share issue costs	(196)
	9,787

15. Related party transactions
Transactions between the Company and its subsidiaries are in the normal course of business. Such transactions are eliminated on consolidation.

Share capital
The below table details the share transactions of related parties over the period.

Name	How related	No. of shares	Transaction	Date
Richard Moffitt	Non-executive director	250,000	Share purchase	13 April 2016
Jonathan Gray	Non-executive director	20,000	Share purchase	13 April 2016
Bruce Anderson	Non-executive director	10,000	Share purchase	13 April 2016

15. Related party transactions (continued)

Long-term investment plan
Under the terms of the Company's long-term investment plan, at 30 September 2016 Pacific Industrial LLP, an affiliate of Pacific Investments Limited has subscribed for shares in Pacific Industrial & Logistics Limited. Further details have been provided in note 8.

16. Net asset value per share (NAV)
Basic NAV per share is calculated by dividing net assets in the Consolidated Statement of Financial Position attributable Ordinary shareholders by the number of Ordinary shares outstanding at the end of the period.

Net Asset Values have been calculated as follows:

	30 September 2016 (unaudited)
Net assets per Condensed Consolidated Statement of Financial Position (£'000)	12,607
Ordinary shares:	
Weighted average number of Ordinary Shares in issue	10,317,910
Basic Net Asset Value per share (pence)	**122.18p**

At 30 September 2016, there were 3,027,000 warrant shares in issue. Each warrant holder has the right to subscribe for new Ordinary shares on the basis of one new Ordinary share for each warrant held at a strike price of 97.00 pence per Ordinary share.

Notes to the Interim Financial Statements
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16. Net asset value per share (NAV) (continued)

	30 September 2016 (unaudited)
Net assets per Condensed Consolidated Statement of Financial Position (£'000)	12,607
Add: cash received from issued share warrants (£'000)	2,936
Diluted Net Asset Value (£'000)	**15,543**
Ordinary shares:	
Weighted average number of Ordinary shares for the purpose of dilutive Net Asset Value per share	13,344,910
Diluted Net Asset Value per share (pence)	**116.47p**

The adjusted NAV is seen as a fairer reflection of the Group's financial position. This is calculated by adding back the derivative interest rate swap to the net assets as at 30 September 2016 per the Condensed Consolidated Statement of Financial Position.

Net asset values have been calculated as follows:

	30 September 2016 (unaudited)
Net assets per Condensed Consolidated Statement of Financial Position (£'000)	12,607
Add back: derivative interest rate swaps (£'000)	174
Adjusted Net Asset Value (£'000)	**12,781**
Ordinary shares:	
Weighted average number of Ordinary Shares in issue	10,317,910
Adjusted basic Net Asset Value per share (pence)	**123.87p**

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	30 September 2016 (unaudited)
Adjusted Net assets per Condensed Consolidated Statement of Financial Position (£'000)	12,781
Add: cash received from issued share warrants (£'000)	2,936
Adjusted diluted Net Asset Value (£'000)	**15,717**
Ordinary shares:	
Weighted average number of Ordinary Shares for the purpose of dilutive Net Asset Value per share	13,344,910
Adjusted diluted Net Asset Value per share (pence)	**117.78p**

Company Information

Directors
Jonathan James Mark Olav Gray
(Independent, Non-Executive Chairman)
John Richard (Richard) Moffitt
(Non independent, Non-Executive Director)
Bruce Smith Anderson
(Independent Non-Executive Director)

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