



Supermarket Income REIT PLC - SUPR Formation of joint venture to buy portfolio stake
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SUPERMARKET INCOME REIT
(the "Company")
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FORMATION OF JOINT VENTURE TO ACQUIRE A STAKE IN A SUPERMARKET PORTFOLIO

Supermarket Income REIT (LSE: SUPR), the UK supermarket real estate investor, announces the formation of a 50:50 joint venture (the "JV") with British Airways Pension Trustees Limited ("BAPTL") acting on behalf of the British Airways Pension Fund to acquire from British Land Plc a 25.5% stake (the "Acquisition") in one of the UK's largest portfolios of supermarket properties (the "Portfolio") for £102 million.

The Company's contribution to the JV is £51 million, excluding costs which will be satisfied from its existing cash balances and credit facilities.

The Portfolio consists of 26 Sainsbury's supermarkets. It is a geographically diverse high quality portfolio of stores with a London and south east bias. It was created through two sale and leaseback transactions by Sainsbury's in 2000. Following this transaction, the freeholds of the properties are now owned by Sainsbury's (49%), Aviva (25.5%) and the JV (25.5%).

The Portfolio is funded by bonds, which mature in 2023. The rental income received from the Portfolio pays down the outstanding balance of the bonds to a final amount which will be repayable in 2023 by way of a refinancing or sale of the Portfolio.

The directors of the Company (the "Board") believe that the principal benefits of the Acquisition to shareholders are as follows:

- **High quality portfolio:** the JV investment will give the Company an interest in a large freehold high quality portfolio of predominantly omnichannel supermarkets with strong property fundamentals.
- **Progressive valuation growth:** the Board is targeting annualised NAV growth from the investment in excess of the Company's targeted annualised total shareholder return of 7-10%⁽¹⁾.
- **Optimal capital structuring:** the 50% JV investment interest is sized to minimise dividend cover dilution for the Company while maximising the total return to shareholders.
- **Attractive future pipeline:** the acquisition gives the JV a stake in a significant portfolio and the opportunity to increase that holding at the appropriate time.

1 There is no certainty that these illustrative projections will be achieved

Nick Hewson, Chairman of Supermarket Income REIT, said:

"We are very pleased to have formed a strategic long term partnership with British Airways Pension Trustees Limited to facilitate this transaction."

"Our investment in this Sainsbury's property portfolio gives us an interest which we believe will be highly NAV accretive over the next three years. We will work closely with the co-owners, Sainsbury's and Aviva, to extend the leases and find a solution to the longer term ownership of the properties."

Further information:

The Portfolio

The Portfolio was created in 2000 through two sale and leaseback transactions which were funded by bonds issued under two securitisations Highbury Finance B.V. ("Highbury") and Dragon Finance B.V. ("Dragon"). Highbury and Dragon comprise 16 and 10 Sainsbury's supermarkets respectively. The offering circulars for the original securitisation transactions are available from www.euroabs.com.

Out of the 26 stores in the Portfolio, 23 are omnichannel, offering physical shopping, click and collect and online home delivery. The majority of stores incorporate an Argos. The average store net sales area is approximately 61,000 sq.ft. with an average gross internal area of approximately 79,000 sq.ft. The average site size for each store is 7.3 acres. Approximately 60% of the Portfolio is located in London and the south east.

The Occupational Leases

Sainsbury's occupies the stores under the current occupational leases (the "Occupational Leases") and pays 100% of the rents. The Occupational Leases generate an annual rental income of £53 million, with the lease rent subject to fixed annual uplifts of 1% per annum. They expire conterminously with the maturity of the bonds in March 2023 (in relation to Highbury) and July 2023 (in relation to Dragon).

The income from the Occupational Leases services the interest and principal repayments of the bonds. The bonds amortise out of the rental income to a remaining outstanding debt amount of £315 million on expiry in 2023. The debt due on expiry is expected to be funded by way of a re-financing or sale of the Portfolio.

At lease expiry in 2023, Sainsbury's has the option to extend the leases for a further term of 20 years at the higher of passing rent or open market rent, subject to upward-only, five yearly market rent reviews or to vacate the properties.

JV Investment Adviser and fees:

Atrato Halliwell Limited (the "JV Investment Adviser") will act as the investment adviser to the JV and is a newly established affiliate of Atrato Capital Limited. The JV Investment Adviser will receive an annual advisory fee payable by the JV only on the proportion attributable to BAPTL. There will be no additional advisory fee payable by the Company. The JV will also pay the JV Investment Adviser a promote fee based on the financial performance of the JV. The promote fee is a market standard, carry waterfall accruing from an 8% IRR but only payable by the JV if annualised returns to the Company exceed 10% at refinancing or sale.

Full store list:

Alperton, Ealing Road, HA0 4LL	Gloucester, Barnett Way, GL4 3RT
Alton, Draymans Way, GU34 1SS	Guildford, Clay Lane, GU4 7JU
Aylesford, Mills Road, ME20 7NA	Hastings, John Macadam Way, TN37 7SQ
Bromley, Walters Yard, BR1 1TP	Haywards Heath, Bannister Way, RH16 1DG
Chester, Caldly Valley Road, CH3 5QJ	Hemel Hempstead, Apsley Mills, HP3 9QZ
Chichester, Westhampnett Road, PO19 7YR	Kettering, Rockingham Road, NN16 8JY
Coventry, Austin Drive, CV6 7NS	Kidlington, Oxford Road, OX5 2PE

Denton, Oldham Street, M34 3SJ	Knotty Ash, East Prescott Road, L14 5PT
Derby, Wyvern Way, DE21 6NZ	Leamington Spa, Tachbrook Park Drive, CV34 6RH
Doncaster, Thorpe Road, DN2 5PS	Norwich, Queens Road, NR1 3RX
East Grinstead, Brooklands Way, RH19 1DD	Shrewsbury, Hereford Road, SY3 9NB
Eastbourne, Broadwater Way, BN22 9PW	Taplow, Lake End Road, SL6 0QH
Ferndown, Ringwood Road, BH22 9AL	Witney, Witan Way, OX28 6HF

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NOTES TO EDITORS:

Supermarket Income REIT plc (LSE:SUPR) is a real estate investment trust dedicated to investing in supermarket properties that form a key part of the future omnichannel model of grocery and are let to leading UK supermarket operators.

The Company provides investor with attractive, long-dated, secure, inflation-linked, growing income with the potential for capital appreciation over the longer term and targeting a 7% to 10% p.a total shareholder return over the medium term⁽¹⁾. The Company has increased its dividend target for the year ending 30 June 2020 in line with UK RPI inflation to 5.80 pence per share, payable in quarterly instalments.

The Company's ordinary shares were admitted to trading on the Main Market of the London Stock Exchange, Specialist Fund Segment, on 21 July 2017.

Atrato Capital is the Company's Investment Adviser.

Further information is available on the Company's website
www.supermarketincomereit.com