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This trust offers a 5.4pc yield, the prospect of dividend rises and a discount of 7.7pc

Questor
Trust Bargains
Richard Evans

The experienced managers of Urban Logistics Reit invest in the warehouses that make online shopping possible

WE are all familiar with the crisis faced by high street retailers but the other side of the coin is the need for new logistical infrastructure to support the rise of online shopping.

One investment trust that aims to meet some of this need is Urban Logistics Reit, which joined the junior Aim market as Pacific Industrial & Logistics Reit in 2016.

While other property investment vehicles in this area focus on the vast regional warehouses operated by the likes of Amazon, Urban Logistics concentrates on smaller properties more suited to deliveries to the local area.

Its approach could be summarised as: buy cheaply, improve the property and then increase the rent.

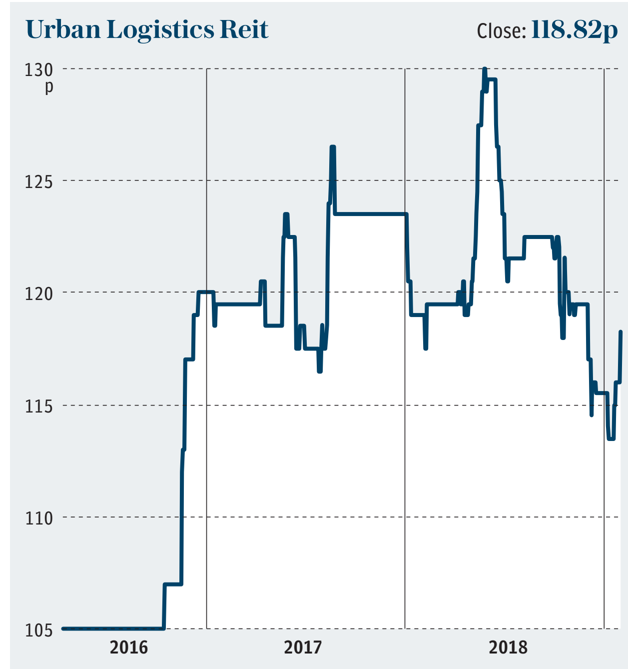
"The trust owns well-located, cheap and cheerful warehouses that tend to be near the motorway network in the centre of the country," said James de Bunsen, whose Henderson Alternative Strategies trust has a stake in Urban Logistics.

> **Urban Logistics Reit**
> **Buy**
> **Managers buy cheaply then refurbish with a view to rent rises**

"We think there is still growth to go for in this market, whereas the number of very large warehouses available to invest in is minimal."

Urban Logistics' managers use their extensive experience and network of contacts in the sector to source new properties, which are often bought "off market" at attractive prices.

"This team are the real industry experts," de Bunsen said. "Richard Moffitt, the chief executive, was the head of industrial logistics at CBRE, the property consultancy – he knows everyone. Christopher Turner, a chartered surveyor, is the one who rolls up his sleeves and extracts the value." The trust said many smaller-size assets were acquired at 30pc-70pc of replacement cost, "creating price resilience and enabling greater returns at realisation".



Key numbers

- **Market value: £99.9m**
- **Year of listing: 2016**
- **Discount: 7.7pc**
- **Ave discount over past year: 3.5pc**
- **Yield: 5.4p**
- **Most recent year's dividend (2018): 6.32p**
- **Gearing: 40pc**
- **Annual charge (Mar 2018): 2.13pc**

Once an asset is acquired the managers will often refurbish it – "you can do a lot with a few fairly inexpensive changes", de Bunsen said. This then gives rise to the possibility of rent increases.

"We are happy to take on properties with flexible short or medium-term tenancies, enabling us to effectively manage the assets and sign high-quality new tenants on strong covenants with longer-term leases," the trust said. Tenants include DHL, the logistics firm, Sainsbury's and Travis Perkins, the builders' merchant.

The trust currently yields 5.4pc but there is scope for dividend rises as a result of rental increases. Capital appreciation is also possible; the managers have a target for total returns of 10pc to 15pc, although de Bunsen said he would expect a figure at the lower end of that range, which would still be a "healthy number".

The share price has fallen from 133p last summer to 116p now, reflecting the emergence of a discount of 7.7pc. The shares traded at a premium throughout 2017 and at times last year. "Property investment trusts were almost in a bubble until the last quarter of last year, when reality caught up with them," de Bunsen said. "There are very few premiums now. This is a reflection of a general revulsion against UK domestic stocks, which I think is overdone."

Now looks like a good time to buy this well managed portfolio.

Questor says: buy
Ticker: SHED
Share price at close: