'You never have to do a deal'

Warehouse REIT's Andrew Bird tells **Mitchell Labiak** about the company's IPO, the setbacks it has overcome and its plans for the future

Considering the success of the industrial real estate market over the past few years, it should come as no surprise to discover that the last successful real estate initial public offering (IPO) in the UK came from an industrial real estate company.

Warehouse REIT raised £150m in its IPO in 2017 after assembling a seed portfolio of £109m. Andrew Bird, chief executive of Tilstone Partners, which manages Warehouse REIT, explains to *Property Week* – in the company's first interview since the IPO – that part of the appeal of Warehouse REIT for investors is that the management team and the non-executive board had a lot of "skin in the game". By that, he means that £17m of the money in the pot had come from them.

Warehouse REIT made some big promises at its IPO and it has big plans for the future. And even with the ongoing Brexit saga threatening to create an economic downturn, Bird is confident that the company can deliver.

"At IPO, we said to our investors that in the medium term we want to be £500m net assets," he recalls. The company is currently on £250m in net assets and Bird is confident that it will not be long before the REIT reaches the £500 milestone.

"Let's have a cup of coffee in three years' time and – depending on whether we've done it or not – we'll decide who pays," he quips.

As bullish as Bird is, the company's path to £500m net assets has been far from smooth. The REIT suffered a setback in 2018 when plans to buy Hansteen's £460m industrial portfolio fell through. Warehouse REIT was at £170m net assets at the time and this one deal would have more than doubled its assets and helped it far surpass its target of £500m net assets several years ahead of schedule.

However, there were concerns that the plan was too much too fast for a company that had listed less than a year earlier. Bird accepts those criticisms to a degree.

"If you were taking a textbook example of how to grow steadily, then it was a big chunk," he concedes.

When news of the deal went public, Warehouse REIT suspended trading in the company's shares. The REIT received a lot of complaints about that as well.

"We'd never want that to happen again," he says, reflecting on the decision made to suspend the shares at the time.

He explains that Warehouse REIT couldn't talk to shareholders because news of the deal was deemed to be special knowledge.

"If it did happen again, we wouldn't want the situation to continue for more than a couple of days – even if it means walking away from the deal," he says. "Some people might think that if you've come this far you have to do it. No, you never have to do a deal."

No regrets

Bird admits he was somewhat frustrated to turn down the deal at the time, because he claims the banks were willing to back them, but he says that Warehouse REIT ultimately rejected it because it thought the price for the portfolio was too high. "It was a great portfolio and we don't regret looking into it," he maintains.

"'It's better to have loved and lost than to have never loved at all,'" he adds, quoting the famous Tennyson poem. "If we had read that someone had done the deal, we would have felt that we had been sleeping on the job."

Bird thinks the young company learned a lot from that experience, not least about journalism. He notes that he was surprised to see the deal mentioned in the press so early on.

Now that Warehouse REIT is older and wiser, it is fair to say it has settled into its own niche in the market. The REIT specialises in acquiring warehouses that are typically between 100,000 sq ft and 150,000 sq ft, and are occupied by SMEs.

With the size of warehouse it typically wants to own, Bird doesn't want the REIT to forward-fund development. He notes that most developers would rather build something bigger because the build cost per square foot is lower.

"It's not one for us," he says flatly. "But it is the reason people are saying that the most acute shortage is in the less than 50,000 sq ft unit size. There's no new supply. And nobody's going to take a punt until rents are higher."

While Warehouse REIT's tenants tend to be SMEs, Bird says that there are some exceptions to this. He says that John Lewis is the company's largest tenant, followed by Amazon. »

Northampton base: John Lewis is the REIT's largest tenant

As for third-party logistics (3PLs) providers, Bird says that they make up about 20% of Warehouse REIT's tenant roster. He confirms he has seen more 3PLs enter the market as online shopping becomes more prominent, but he does not want to be lured into taking on just one kind of tenant.

The important thing for Bird is that Warehouse REIT's tenant base is diverse. "We don't want to have too much exposure to one sector," he says. "We are, of course, heavily exposed to the warehouse asset class – rightly or wrongly – but we're happy with that."

Not purely ecommerce

Wanting a diverse portfolio means that Warehouse REIT wants to avoid retailers that are too heavily dependent on the high street "with all its CVAs and legacy portfolios". However, that doesn't mean that Warehouse REIT worries too much about whether or not a tenant is a purely ecommerce business. After all, as Bird points out, most successful businesses requiring warehouse space have at least some element of ecommerce in their revenue stream.

"What percentage of our portfolio is ecommerce? Hard to say. What percentage of our portfolio is in part driven by the internet? One hundred per cent," he says.

Although Warehouse REIT is determined to grow, the industrial and logistics market is not as obviously attractive as it was in 2017. Brexit, high valuations and increasing vacancy rates are causes for concern, but Bird thinks there is still money to be made.

Around Brexit specifically, Bird feels that some of the concerns have been overhyped. "Occupiers are still signing long leases," he says. "There's a stark contrast between the noise and confusion coming out of Westminster and the business that is being conducted by SMEs across the UK."

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"There has been no Brexit handbrake, nor have we seen a big take-up from people looking to stockpile because of it," he adds.

On increasing development activity in the sector, Bird is equally unconcerned. Although he recognises that vacancy rates are creeping up on a national level, he says that good stock selection can alleviate those risks.

Warehouse REIT has good reason to be confident about its approach. Despite some bumps along the way and the continuing Brexit uncertainty, the company's share prices have been on a general upward trend since its IPO in 2017 – something that Bird puts down to a scrupulous attitude to what the company buys.

Looking to the future, Bird says that Warehouse REIT is not afraid to adapt and acquire larger warehouses as its portfolio gets bigger, especially as the number of smaller warehouses in the market decreasing. "Yes, we may," he says simply.

But for now, the company will continue with the smaller warehouse strategy that has allowed it to capitalise on the industrial and logistics boom for the last two years. ■