Investment manager's report

Picton capital limited

"Our portfolio now comprises 53 assets, with over 350 occupiers and is valued at £624.4 million. As a result of leasing activity, income growth and active management, the passing rent on a like-for-like basis has increased by 4.4% to £40.0 million, with an estimated rental value of £45.9 million."

Occupancy

94%

Average Lot Size

£11.8m

Estimated Rental Value

£45.9m

We have had another successful year whilst continuing to embrace our occupier focused and opportunity led approach.

Our asset allocation and proactive management of the portfolio, including some value accretive disposals, has enabled us to again outperform the MSCI IPD Quarterly Benchmark, on a total return basis over one, three, five and ten years. Additionally, we have won an award for the quality of our data submitted to MSCI as part of the benchmarking process.

Our portfolio now comprises 53 assets, with over 350 occupiers and is valued at £624.4 million. As a result of leasing activity, income growth and active management, the passing rent on a like-for-like basis has increased by 4.4% to £40.0 million, with an ERV of £45.9 million.

We have completed 35 lettings securing over £3.2 million of income, 6.9% ahead of the March 2016 ERV. The year ended with occupancy at 94%, which we have already subsequently increased after the year end. Income retained through lease renewals and re-gears totalled £1.2 million, 5.7% ahead of the March 2016 estimated rental value.

Two City office buildings were sold for total proceeds of £45 million, 4% ahead of the March 2016 valuation. These sales were in line with our strategy to realise value and reduce our exposure to this market, where we believe growth prospects are weaker due to a combination of factors, including the EU referendum, business rate revaluations and high rental values. Three central London buildings have been retained: at Covent Garden, where we have residential planning consent; at Farringdon, where we have good quality space to let and which will benefit from Crossrail; and, at Angel Gate, which is highly reversionary. We have value add initiatives at all of these properties.

In addition, we have sold four smaller assets where business plans have been completed generating total proceeds of £7.0 million, 41% ahead of the March 2016 valuation. The net effect of these disposals is to have increased the average lot size to £11.8 million.

Pictured: Queen's House, Glasgow

We have set out below the principal activity in each of the sectors in which we are invested. We believe our proactive approach will continue to unlock further value through active management initiatives.

Despite the EU referendum, the occupational markets remain resilient, especially in the industrial and regional office sectors and take-up remains positive which is demonstrated by more recent activity showing further occupancy improvements. Our focus remains being exposed to areas of the market where occupational demand is likely to lead to positive rental and, in turn, income growth.

In terms of wider trends affecting the markets we are operating in, we are conscious of the Government led proposals aiming to increase economic growth, wealth and employment in regions outside of London and the South East. We already have exposure in the cities of Birmingham, Bristol, Glasgow, Leeds and Manchester but during the year we reduced our London exposure and placed more reliance on our existing buildings in regional cities that we think offer interesting opportunities.

The office environment is continuing to evolve and workers increasingly require a more socially cohesive environment with informal seating areas, cafés and relaxation zones to encourage creativity, collaboration, well-being and enjoyment. Office providers need to adapt to these changing dynamics in order to deliver space that meets the requirements of modern businesses.

An example of where we are embracing this change is at our Angel Gate property where over the past few years we have been working to reposition it to meet modern occupier requirements. This has been achieved through the refurbishment of the office suites, the internal and external common areas and provision of onsite amenities. We have seen an increase of approximately 150% in ERV since commencing the repositioning process.

Portfolio performance

The portfolio's total return for the year to 31 March 2017 was 9.9%, outperforming the MSCI IPD Quarterly Benchmark, which delivered 4.6%. Our overweight position to the industrial sector and regional offices together with the active management carried out has contributed to this outperformance.

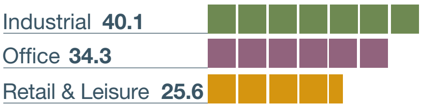
As at 31 March 2017, the portfolio generated a net initial yield of 5.9% after void costs with a reversion to 6.9%. Overall, like-for-like growth in the portfolio's estimated rental values was 3.3% during the year to March 2017. Estimated rental values in the industrial sector grew 4.3% and by 2.9% in the office sector. The retail and leisure estimated rental values remained flat, with the exception of our London retail, which saw positive rental growth.

The portfolio's capital value for the year grew by 3.0% on a like-for-like basis. We saw positive valuation growth in the industrial sector of 6.3% and in the office sector of 2.5%. The retail and leisure holdings, despite remaining 99% let, declined in value by 2.0% reflecting the subdued outlook in the retail sector.

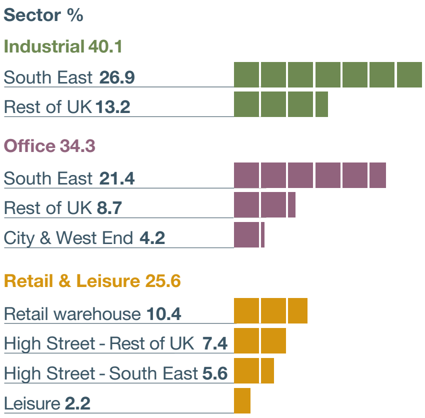
The estimated rental value of the void space is £2.6 million per annum and 94% has been vacant for less than a year.

INVESTMENT MANAGER'S REPORT
CONTINUED

Sector split (%)



Portfolio Allocation (%)



OUTLOOK FOR THE COMING YEAR

The occupational market remains robust in the industrial and regional office markets. The uncertainty surrounding the EU referendum and more recently the forthcoming general election has resulted in lower demand for central London offices. The retail sector is going through a fundamental change due to shopping habits evolving and the continued momentum of online retailing, meaning that retail markets continue to suffer from a structural void.

We have maintained a high occupancy level and captured rental growth. Whilst we have a shorter than average lease expiry profile in the industrial and office sectors, we see this as a positive in an active market. On lettings and renewals, we are able to secure longer leases locking in higher rents and creating value.

Our two largest letting opportunities are at 50 Farringdon Road in London and at 180 West George Street in Glasgow, where a comprehensive refurbishment completes this summer. Both buildings provide high quality space in central locations and we expect to secure occupiers quickly and improve our income position.

The focus is on continuing the strategy of de-risking income through active management and capturing rental growth. With high occupancy levels and good demand, we believe we are in a strong position to capitalise on this throughout the portfolio.

Jay Cable
Head of Asset Management,
Picton Capital Limited

Fraser D'Arcy
Investment Director,
Picton Capital Limited

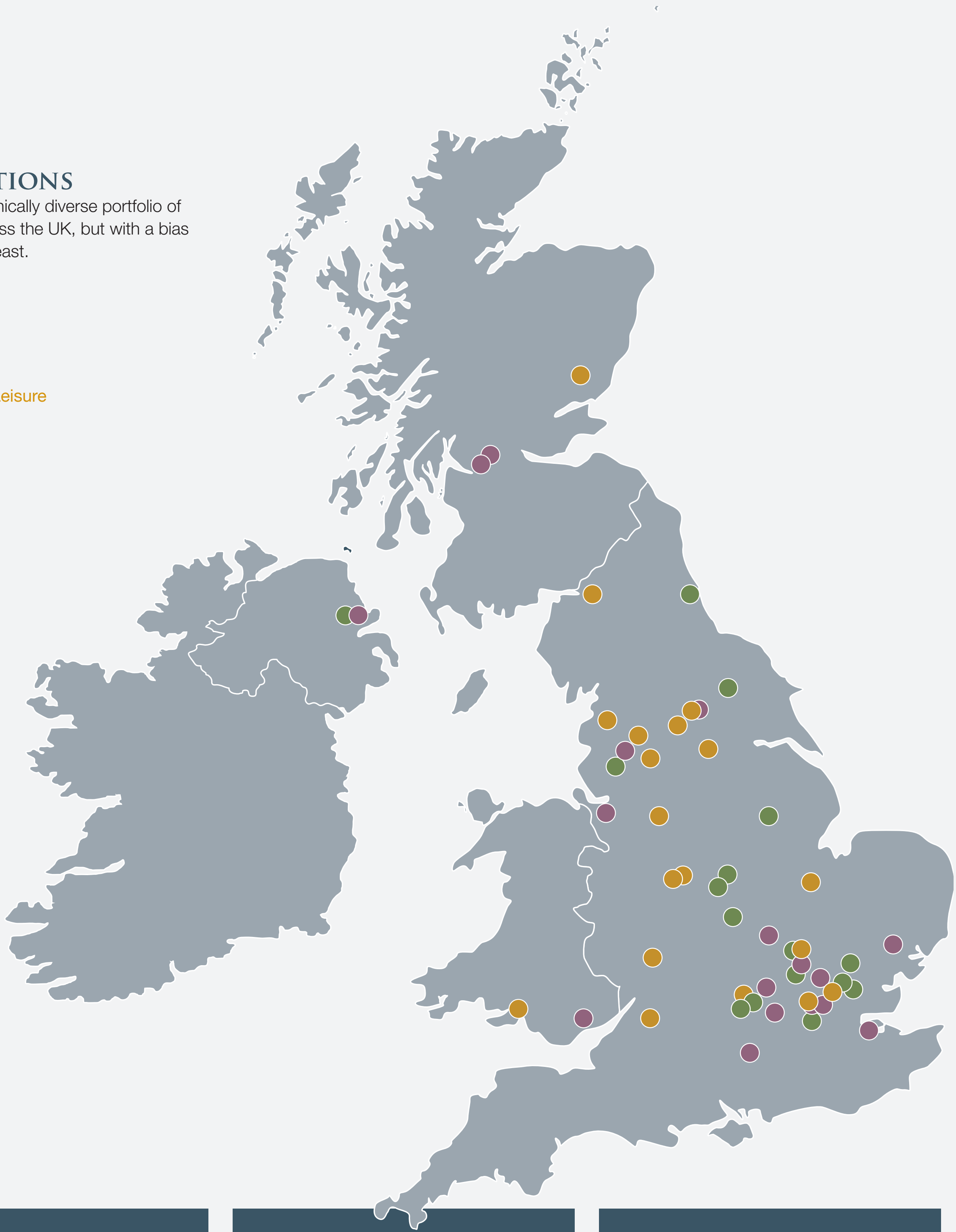
6 June 2017

Our locations

We own a geographically diverse portfolio of assets located across the UK, but with a bias towards the south east.

Key to map:

- Industrial
- Office
- Retail and Leisure



Number of Assets

53

2016: 58

Portfolio Value

£624.4m

2016: £646.0m

Floor Area

4.5m sq ft

2016: 4.6m sq ft

Investment manager's report

CONTINUED

Longevity of income

As at 31 March 2017, based as a percentage of contracted rent, the average length of the leases to the first termination was 5.7 years. This is summarised as follows:

0 to 1 years	7.2%
1 to 2 years	16.9%
2 to 3 years	13.0%
3 to 4 years	15.2%
4 to 5 years	10.9%
5 to 10 years	23.7%
10 to 15 years	9.4%
15 to 25 years	2.5%
25 years and over	1.2%

The average length of the leases to lease expiry is 6.6 years.

Top ten occupiers

The largest occupiers, based as a percentage of contracted rent, as at 31 March 2017, are summarised as follows:

	Occupier	Contracted Rent (£000)	%
1.	Belkin Limited	1,691	4.0
2.	DHL Supply Chain Limited	1,505	3.6
3.	B&Q Plc	1,243	3.0
4.	Snorkel Europe Limited	1,123	2.7
5.	The Random House Group Limited	1,000	2.4
6.	Cadence Design Systems Limited	972	2.3
7.	Edward Stanford Limited	785	1.9
8.	Portal Chatham LLP	725	1.7
9.	XMA Limited	653	1.6
10.	Ricoh UK Limited	640	1.5
	Total	10,337	24.7

Retention rates

Over the year total income at risk due to leases expiring or break options totalled £4.3 million, compared to £2.4 million for the year to March 2016, a 77% increase.

The portfolio retained 29% of total income at risk in the year to March 2017; this comprised 21% retention for those on lease expiry and 8% after break options. Occupancy reduced during the year, but at 94% is still ahead of the MSCI IPD Quarterly Benchmark.

The retention figure is significantly lower for the year; however, it includes the floors at 50 Farringdon Road becoming vacant, which creates an opportunity to increase income ahead of the capped level in the previous lease. As expected, two floors at 180 West George Street in Glasgow were returned which was envisaged on purchase and forms part of the repositioning strategy for this asset. A small office building in Bracknell fell vacant and is now being sold, with vacant possession, considerably in excess of the March 2016 valuation. If these three properties are excluded, our retention rate for the year is 76%.

Income concentration

There is a wide diversity of occupiers within the portfolio, as set out below, which are compared to the MSCI IPD Quarterly Benchmark by contracted rent, as at 31 March 2017.

Industry Sector	Picton (%)	Benchmark (%)
Services	30.2	22.8
Retail Trade	22.7	36.7
Manufacturing	12.9	7.2
Financial Services	12.7	14.7
Transportation, Communications	8.8	5.4
Wholesale Trade	5.4	4.4
Public Administration	3.8	4.0
Construction	2.0	1.2
Mining	0.0	0.5
Other	1.5	3.1
	100	100

Source: MSCI IPD IRIS Report March 2017

Top ten assets

The largest assets as at 31 March 2017, ranked by capital value, represent just over 48% of the total portfolio valuation and are detailed below.

01. PARKBURY INDUSTRIAL ESTATE, RADLETT, HERTS

Acquisition date	**03/2014**
Property type	**Industrial**
Tenure	**Freehold**
Approx. area (sq ft)	**336,700**
No. of occupiers	**23**
Occupancy rate (%)	**100**

02. RIVER WAY INDUSTRIAL ESTATE, HARLOW, ESSEX

Acquisition date	**12/2006**
Property type	**Industrial**
Tenure	**Freehold**
Approx. area (sq ft)	**455,000**
No. of occupiers	**10**
Occupancy rate (%)	**93**

03. ANGEL GATE, CITY ROAD, LONDON EC1

Acquisition date	**10/2005**
Property type	**Office**
Tenure	**Freehold**
Approx. area (sq ft)	**64,500**
No. of occupiers	**37**
Occupancy rate (%)	**93**

04. STANFORD HOUSE, LONG ACRE, LONDON WC2

Acquisition date	**05/2010**
Property type	**Retail**
Tenure	**Freehold**
Approx. area (sq ft)	**19,700**
No. of occupiers	**4**
Occupancy rate (%)	**100**

05. 50 FARRINGDON ROAD, LONDON EC1

Acquisition date	**10/2005**
Property type	**Office**
Tenure	**Leasehold**
Approx. area (sq ft)	**32,000**
No. of occupiers	**2**
Occupancy rate (%)	**35**

06. BELKIN UNIT, SHIPTON WAY, RUSHDEN, NORTHANTS

Acquisition date	**07/2014**
Property type	**Industrial**
Tenure	**Freehold**
Approx. area (sq ft)	**312,850**
No. of occupiers	**1**
Occupancy rate (%)	**100**

07. PEMBROKE COURT, CHATHAM, KENT

Acquisition date	**06/2015**
Property type	**Office**
Tenure	**Leasehold**
Approx. area (sq ft)	**86,300**
No. of occupiers	**3**
Occupancy rate (%)	**100**

08. QUEENS ROAD, SHEFFIELD

Acquisition date	**08/2015**
Property type	**Retail**
Tenure	**Freehold**
Approx. area (sq ft)	**103,000**
No. of occupiers	**1**
Occupancy rate (%)	**100**

09. PHASE II, PARC TAWE RETAIL PARK, SWANSEA

Acquisition date	**10/2005**
Property type	**Retail**
Tenure	**Leasehold**
Approx. area (sq ft)	**116,700**
No. of occupiers	**8**
Occupancy rate (%)	**100**

10. METRO, SALFORD QUAYS, MANCHESTER

Acquisition date	**02/2016**
Property type	**Office**
Tenure	**Freehold**
Approx. area (sq ft)	**71,000**
No. of occupiers	**4**
Occupancy rate (%)	**100**

Investment manager's report

Industrial portfolio review

The industrial portfolio delivered the strongest sector performance for the year, due to a combination of positive rental growth, a shortage of supply, limited development, yield hardening and significant asset management activity.

Values increased by 6.3% on a like-for-like basis and the rent roll increased by 5.8% to £15.3 million per annum, while reducing holding costs. The portfolio has a weighted average lease length of five years and £2.0 million of reversionary potential.

Our portfolio comprised two main asset types: strategically located distribution warehouses and light industrial units, which generally comprise multi-let estates.

The distribution warehouse portfolio totals 1.3 million sq ft in six units, let to occupiers including Belkin, DHL and The Random House Group, and remains fully income producing. The only notable activity was at our 246,800 sq ft warehouse in Washington where we secured a rental uplift of £0.1 million at the June 2016 rent review, increasing the passing rent by 11% to £1.12 million per annum, which was 12% ahead of ERV.

The multi-let portfolio, totalling 1.4 million sq ft in 131 units, is 98.6% let. We had one vacant unit in Harlow (where we completed a new letting post year end) and two small units in Belfast with a combined ERV of £20,000 per annum.

We are experiencing occupier demand across all of our estates, which is demonstrated by the 16 lettings completed during the year for a combined rent of £1.5 million, 5.8% ahead of the March 2016 ERV.

Notable lettings include our largest industrial void, at Unit D River Way in Harlow. This was comprehensively refurbished and let less than three months after the works completed, to a gas provider on a ten year lease with no break at £0.35 million per annum, which is in line with the March 2016 ERV.

The second largest void, at Unit O Lyon Business Park in Barking, was let to a catering firm servicing London City Airport on a ten year lease, subject to break, at £0.25 million per annum, 17% ahead of the March 2016 ERV and the previous passing rent.

Seven lease renewals or re-gears were completed during the year, securing £0.33 million per annum, 3% ahead of the March 2016 ERV. Eight rent reviews were settled, increasing the combined passing rent by £0.18 million to £1.65 million per annum which was 10% ahead of the March 2016 ERV.

Break clauses were removed from two leases at Parkbury, Radlett and Datapoint, London E16, securing £0.14 million per annum for an additional five years term certain and we also actively surrendered three leases in order to facilitate re-lettings.

Several of our estates will benefit from infrastructure improvements in the short and medium term. Dencora Way in Luton will benefit from the recently completed Junction 11a on the M1, improving connectivity. Harlow Council are proposing to create a new access to River Way, Harlow alleviating traffic congestion and providing a faster link to the M11. At Parkbury in Radlett, a proposed new rail freight terminal and associated road improvements will significantly improve journey times to the M25, albeit this is a longer term project.

Investment activity

During the year, there were no acquisitions or disposals in the industrial portfolio but we secured a change of use at our asset in Oldham from industrial to leisure. This accounts for the reduction in the number of assets held within the sector.

Sector outlook

Tight supply, limited development and healthy demand across the majority of the country will continue to support rental growth, which has been positive since 2013. This sector has seen significant valuation growth over the past five years. Looking forward, we expect to see valuations stabilising, with active management and the capturing of rental growth being the main drivers of value in the short to medium term.

Our portfolio consists of good quality units in strong locations demonstrated by the current occupancy level. Over the coming year, we have 17 lease events with a passing rent of £0.84 million and an ERV of £0.94 million per annum.

Industrial portfolio key metrics

	2017	2016
Value	£250.4 million	£236.6 million
Internal Area	2,730,000 sq ft	2,745,200 sq ft
Annual Rental Income	£15.3 million	£14.4 million
Estimated Rental Value	£17.3 million	£16.8 million
Occupancy	98.6%	94.2%
Number of Assets	17	18

Property	Area (sq ft)	Freehold/ Leasehold
Units A–G2, River Way Industrial Estate, Harlow, Essex	455,000	F
Parkbury Industrial Estate, Radlett, Herts.	336,700	F
Grantham Book Services, Trent Road, Grantham, Lincs.	336,100	L
Belkin Unit, 3 Shipton Way, Rushden, Northants.	312,850	F
Vigo 250, Birtley Road, Washington, Tyne and Wear	246,800	F
Unit 3220, Magna Park, Lutterworth, Leics.	160,900	L
Lawson Mardon Buildings, Kettlestring Lane, York	157,800	F
Units 1–13 Dencora Way, Sundon Park, Luton, Beds.	127,500	L
Haynes Way, Swift Valley Industrial Estate, Rugby, Warwickshire	101,800	F
The Business Centre, Molly Millars Lane, Wokingham, Berks.	100,500	F
Lyon Business Park, Barking, Essex	99,450	F
Easter Court, Gemini Park, Warrington	81,500	F
Abbey Business Park, Mill Road, Newtownabbey, Belfast	61,700	F
Datapoint Business Centre, Cody Road, London E16	54,800	L
Nonsuch Industrial Estate, 1–25 Kiln Lane, Epsom, Surrey	41,700	L
Western Industrial Estate, Downmill Road, Bracknell, Berks.	41,500	F
Magnet Trade Centre, Winnersh, Reading	13,700	F

	Largest occupiers	% of total portfolio
1.	Belkin Limited	4.0
2.	DHL Supply Chain Limited	3.6
3.	Snorkel Europe Limited	2.7
4.	The Random House Group Limited	2.4
5.	XMA Limited	1.6

Investment manager's report

Office portfolio review

The office portfolio delivered the second strongest sector performance for the year. This was a result of attractive sale prices being achieved in London, positive rental growth across most regional markets and significant asset management activity.

Values increased by 2.5% on a like-for-like basis and we were able to increase the rent roll by 7.0%, while reducing holding costs. The portfolio has a weighted average lease length of four years and has £3.8 million of reversionary potential.

Our portfolio comprises both single and multi-let offices, which total 925,000 sq ft in 19 assets and is 87.5% let with the largest void at 50 Farringdon Road in London. At this location, we have let 7,800 sq ft of office space to a leading multidisciplinary engineering contractor at an annual rent of £0.42 million, in line with the preceding ERV but 3% less than the March 2016 ERV. The second floor and small suites on the ground and first floors remain available to let and there is good interest.

The second largest void is at 180 West George Street in Glasgow, which was acquired with short income in 2015 for £14.25 million, reflecting a high net initial yield of 7.8%. We were expecting on purchase to have four floors falling vacant; however, we have retained Standard Life and Michael Page on two floors at a rent of £0.34 million per annum, 8% ahead of the March 2016 ERV. The two vacant floors and common areas are currently being refurbished to launch as some of the best in class space available in this market.

These two properties account for 55% of the total void across the entire portfolio and provide further opportunity to increase the rent roll. We are confident of securing occupiers in the short term.

We are seeing good demand, which is demonstrated by the 14 lettings completed during the year for a combined rent of £1.3 million, 8% ahead of the March 2016 ERV.

Notable lettings in the regions include the repositioned Trident House in St. Albans, where we comprehensively refurbished one floor and secured three new occupiers at a combined rent of £0.32 million per annum, 29% ahead of the March 2016 ERV. The final letting was at a rent of £37.50 per sq ft, which we believe sets a new rental level in this market.

We secured Benugo at Angel Gate, London for their head office at a rent of £0.15 million per annum, in line with the March 2016 ERV.

12 lease renewals or re-gears were completed during the year, securing £0.77 million per annum, 7% ahead of the March 2016 ERV. Two rent reviews were settled, increasing the combined passing rent to £80,000, 11% ahead of the March 2016 ERV. We actively surrendered seven leases in order to facilitate re-lettings and sales, as detailed below.

Investment activity

Boundary House, Jewry Street, London EC3, where we completed two lettings (one following an active management surrender) achieving full occupancy, was sold in August 2016 for £27.8 million, which (including a Rights of Light settlement) was 3.3% ahead of the March 2016 valuation. The property was acquired in 2006 for £16.1 million.

The sale of 1 Chancery Lane, London WC2 completed in October 2016 realising £17.25 million and reflecting a net initial yield of 3.9%, which was 9.3% ahead of the March 2016 valuation. The property was acquired in 2005 for £9.0 million.

These sales crystallised the value created since purchase and concluded our strategy to reduce the portfolio's central London exposure whilst capturing significant valuation gains over the last few years.

A small office building was sold in Bracknell, following the occupier vacating on lease expiry. Dilapidations of £0.4 million were secured and the building sold for £1.5 million, 23% ahead of the March 2016 valuation.

Sector outlook

The impact of the decision to leave the EU, and in particular its effect on London and the financial services sector, remains uncertain. Consequently, sentiment towards London is weakening. However, it appears to be improving in the stronger regional office markets where there is a shortage of suitable space and a limited development pipeline.

We are seeing good occupational activity in the regions, with low supply in many markets and positive rental growth. By providing the best space in the local market we are maintaining good occupancy levels and capturing rental growth.

The short-term opportunities are the letting of 50 Farringdon Road, London which is being marketed with good interest and 180 West George Street, Glasgow where we have already received interest. With a combined ERV of £1.4 million, the lettings will be significantly income accretive and further save void hold costs.

Over the coming year, we have 26 lease events with a passing rent of £1.9 million and an ERV of £1.7 million per annum.

Office portfolio key metrics

	2017	2016
Value	£213.9 million	£252.1 million
Internal Area	925,000 sq ft	999,400 sq ft
Annual Rental Income	£13.8 million	£14.8 million
Estimated Rental Value	£17.6 million	£19.9 million
Occupancy	87.5%	95.8%
Number of Assets	19	21

Property	Area (sq ft)	Freehold/ Leasehold
Colchester Business Park, The Crescent, Colchester, Essex	150,700	L
Pembroke Court, Chatham, Kent	86,300	L
Longcross Court, Newport Road, Cardiff	72,100	F
Metro, Salford Quays, Manchester	71,000	F
Angel Gate Office Village, City Road, London EC1	64,500	F
401 Grafton Gate East, Milton Keynes, Bucks.	57,100	F
180 West George Street, Glasgow	52,000	F
800 Pavilion Drive, Northampton Business Park, Northampton	49,400	F
Queens House, 19/29 St Vincent Place, Glasgow	49,400	F
Citylink, Addiscombe Road, Croydon	48,200	F
L’Avenir, Opladen Way, Westwick, Bracknell, Berks.	41,300	F
Sentinel House, Ancells Business Park, Fleet, Hants.	33,600	F
50 Farringdon Road, London EC1	32,000	L
Waterside House, Kirkstall Road, Leeds	25,200	F
Atlas House, Third Avenue, Globe Park, Marlow, Bucks.	24,800	F
Merchants House, Crook Street, Chester	21,900	F
Trident House, 42/48 Victoria Street, St Albans, Herts.	18,900	F
Waterside Park, Longshot Lane, Bracknell, Berks.	18,000	F
Marshall Building,122–124 Donegall Street, Belfast	8,700	F

	Largest occupiers	% of total portfolio
1.	Cadence Design Systems Limited	2.3
2.	Portal Chatham LLP	1.7
3.	Ricoh UK Limited	1.5
4.	Canterbury Christ Church University	1.5
5.	BPP Holdings Limited	1.2

Investment manager's report

RETAIL AND LEISURE PORTFOLIO REVIEW

Despite positive activity during the year, as outlined below, and continued high occupancy, the retail portfolio delivered the weakest sector performance, which was primarily a result of limited rental growth across the wider market.

Values decreased by 2% on a like-for-like basis and the rent roll remained static with the only notable ERV growth at Stanford House, London and Gloucester Retail Park, Gloucester. The portfolio has a weighted average lease length of just over eight years and is slightly over rented.

Our portfolio comprises 17 assets across retail warehouse parks, retail shops and two leisure assets and remains 99% let for the second year in a row. We have four small retail units available, and a restaurant in Birmingham, with a combined ERV of £0.13 million per annum.

We completed five lettings during the year for a combined rent of £0.37 million, 17% ahead of the March 2016 ERV. The most notable letting was at Gloucester Retail Park, where in a back-to-back transaction we accepted the surrender of Carpetright's lease for a premium of £0.21 million and let the unit to Pure Gym for a minimum of ten years at a rent of £0.14 million per annum, which is 32% ahead of the March 2016 ERV. We believe the letting significantly improves the occupier line up and has helped us to attract Starbucks onto the park where we are currently on site developing a new unit for them.

A settlement of £5.25 million was received in relation to a dispute at the Strathmore Hotel, Luton. The existing valuation and leasing arrangements at this asset remained unchanged. The hotel is currently being comprehensively refurbished by the tenant and is due to re-open in the summer.

Four lease renewals or re-gears were completed during the year, securing £0.12 million per annum, 9% ahead of the March 2016 ERV. At Queens House in Glasgow, an increase of over 60% on the prior passing rent was achieved on a restaurant unit securing a new rent of £0.16 million per annum, over 50% ahead of the March 2016 ERV.

Investment activity

Two small non-core retail assets in Bath were sold for a total of £3.2 million, reflecting an aggregate net initial yield of 4.7% and a 30% premium to the March 2016 valuation. These assets were originally purchased with a combined value of £2.1 million as part of the Rugby REIT acquisition in 2010 and have since generated attractive income and capital returns.

Drury Lane in Oldham was sold for £2.2 million, completing the business plan for this asset. The warehouse was purchased in April 2010 for £0.4 million with an annual rent of £74,000 as part of the acquisition of Rugby REIT. During Picton's ownership, we secured planning consent to change the use from industrial to leisure, completed a full refurbishment, acquired adjacent land for car parking and subsequently let the transformed asset to The Gym Group Limited until 2031 at an annual rent of £150,000. The sale price reflects a net initial yield of 6.4% and a 85% premium to the March 2016 external valuation. Net of the £0.5 million of costs incurred since acquisition, the asset was sold at an 130% profit.

The disposals are in line with our ongoing strategy to reshape the portfolio in favour of larger assets with greater potential for capital and income growth.

Sector outlook

Online retailing continues to challenge traditional shopping habits and in turn the demand for retail assets. Changes in the delivery of goods, such as same-day delivery and e-lockers, are changing the retail landscape and we see that with more discerning demand from retailers.

Our portfolio is currently significantly underweight to the retail sector, compared to the MSCI IPD Quarterly Benchmark, and overweight to the industrial sector, which is more likely to be positively affected by these changing trends. The retail we do hold in the portfolio is approximately 45% invested in retail warehouses, which are expected, by consensus forecasts, to be one of the better performing segments over the medium term.

Rental levels have been static in the majority of the UK high streets and retail parks, with the exceptions being central London, busy shopping destinations in major cities and prime parks. Rents are still below their 2008 peak and it is unlikely that high street rents will recover to pre-recession levels due to an over-supply and structural changes in shopping habits. Retail warehousing is seeing a resurgence due to additional demand from leisure occupiers.

68% of our retail and leisure portfolio is invested in five assets, which are Stanford House in Covent Garden and four fully let retail warehouse parks. We believe these properties are well positioned to perform in the medium term. The remaining portfolio is well let, with values rebased and the majority of the rents reset, providing a strong income return of 8.3% from our high street portfolio.

Over the coming year we have six lease events with a passing rent of £0.36 million and an ERV of £0.27 million per annum.

Retail and leisure portfolio key metrics

	2017	2016
Value	£160.1 million	£165.9 million
Internal Area	824,000 sq ft	830,700 sq ft
Annual Rental Income	£11.0 million	£11.2 million
Estimated Rental Value	£11.0 million	£10.9 million
Occupancy	98.8%	99.4%
Number of Assets	17	19

Property	Area (sq ft)	Freehold/ Leasehold
Parc Tawe, Phase II, Link Road, Swansea	116,700	L
Gloucester Retail Park, Eastern Avenue, Gloucester	113,900	F
Queens Road, Sheffield	103,000	F
62/68 Bridge Street, Peterborough	88,700	F
Strathmore Hotel, Arndale Centre, Luton, Beds.	81,600	L
Angouleme Way Retail Park, Bury, Greater Manchester	76,200	F/L
17/19 Fishergate, Preston, Lancs.	59,900	F
Regency Wharf, Broad Street, Birmingham	44,300	L
Scots Corner, High Street/Institute Road, Birmingham	30,000	F
56 Castle Street, 2/12 English Street and 12–21 St Cuthberts Lane, Carlisle, Cumbria	23,900	F
Stanford House, 12–14 Long Acre, London WC2	19,600	F
6/12 Parliament Row, Hanley, Staffs.	17,300	F
Units 1–3, 18/28 Victoria Lane, Huddersfield, West Yorks.	14,600	L
53/55/57 Broadmead, Bristol	10,500	L
72/78 Murraygate, Dundee	9,700	F
7 & 9 Warren Street, Stockport	8,700	F
78–80 Briggate, Leeds	7,700	F

	Largest occupiers	% of total portfolio
1.	B&Q Plc	3.0
2.	Edward Stanford Limited	1.9
3.	Asda Stores Limited	1.4
4.	Homebase Limited	1.1
5.	Central England Co-operative Limited	1.0