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Drum Income Plus REIT plc
("Drum" or the "Company")

Unaudited Net Asset Value as at 30 June 2018

Drum Income Plus REIT plc (LSE: DRIP) announces its unaudited net asset value (**"NAV"**) as at 30 June 2018.

Highlights

Period from 1 April 2018 to 30 June 2018

- Fair value independent valuation of property portfolio as at 30 June 2018 of £58.7m (31 March 2018: £58.7m).
- NAV per share at 30 June 2018 of 95.7p (31 March 2018: 95.4p).
- Earnings per share (excluding revaluation gains and losses on fair value of investments) for three months ended 30 June 2018 were 1.8p.
- Dividend paid during the quarter of 1.50p fully covered by earnings for the period.
- NAV total return (NAV movement plus dividend paid) of +1.9%.

Introduction

The Company aims to provide shareholders with a regular dividend income plus the prospect of income and capital growth over the longer term. The Company invests in smaller UK commercial properties, principally in the office, retail (including retail warehouses) and industrial sectors, which have the potential to offer a secure income stream, to create value through active asset management and have strong prospects for future income and capital growth.

Unaudited NAV (As at 30 June 2018)

	£m	*Pence per Share*
NAV as at 31 March 2018	36.4	95.4
Capital expenditure	0.0	0.0
Valuation change in property portfolio	0.0	0.0
Income earned for the period	1.2	3.0
Expenses for the period	(0.3)	(0.8)
Interest paid	(0.2)	(0.4)
Dividend paid	(0.6)	(1.5)
Unaudited NAV as at 30 June 2018	36.5	95.7

The NAV has been calculated in accordance with International Financial Reporting Standards and incorporates the independent portfolio valuation as at 30 June 2018 and income for the period, but does not include a provision for the third interim dividend, which will be paid in August 2018. The earnings per share for the period from 1 April 2018 to 30 June 2018 (excluding revaluation gains and losses on fair value of investments and expenses charged to capital) were 1.8p.

As at 30 June 2018, the Company had cash balances of £1.7 million and borrowings of £22.8 million (loan to value of 38.8%)

Market Overview

There was a marginal softening in average yields of four basis points (bps) in May, following a hold in April, with the outward shift originating in retail.

Out-of-town retail parks, both open A1 and restricted, reported 25bps softening in prime yields. Leisure parks also saw a 25bps outwards shift. While yields for shopping centres and high street held, there is mounting outward pressure on pricing (Savills June 2018). Clearly the negative newsflow surrounding retail in light of recent CVAs and the structural shifts related to the growth in online is tempering investor confidence. However, this may offer opportunities to investors confident in the longer term fundamentals of prime and strong convenience focused retail, such as Gosforth Shopping Centre and Duloch Park. For example, forecasts suggest that online growth is slowing with online expected to account for 19% of retail sales by 2022, with the online penetration rate for some retail segments far lower. Also, while a number of legacy retailers are rationalising store portfolios, there are still retailers who are expanding. The reality is that it is not a case of offline vs online. Rather the store is increasingly seen as a key tool in driving online sales. Given the evidence the Manager has seen we believe the winning locations of this strategy will be prime destinations and strong convenience focused locations along with Bulky Goods Retail Parks.

All parts of the retail market are exposed to the structural and operational challenges facing the sector, yet there are certain types of locations that are faring better than others. Destination and strong convenience led locations would appear to be faring better with this prime end of the market continuing to report rental growth.

For non-retail sectors the outlook points to relative yield stability for the remainder of 2018, despite a backdrop of rising interest rates. IPE's annual survey of the world's 100 largest real estate investors found that Europe, including the UK, remains a key target market. Investors, on average, remain c.130bps below their target allocations, and with 62% stating that they expect to remain net buyers in 2018, this should support current prime pricing.

While the future of secondary weak retail locations looks bleak, this is not to say that they wouldn't work with some smaller element of retail, repurposing redundant retail space for other uses. This could include logistics, co-working, healthcare and residential; subject to viability and planning constraints, these are uses that could add value to the retail that remains. It is worth noting that the polarisation of prime and secondary is not necessarily a simple reflection of geography. For example, London and the South East does not automatically equate as prime. The store and location requires to be fit for purpose.

Current Portfolio

	Mar-18		Jun-18	
Location	**Value**	**% Weighting**	**Value**	**% Weighting**
North East	£16,200,000.00	27.60%	£16,200,000.00	27.60%
Scotland	£18,400,000.00	31.35%	£18,400,000.00	31.35%
North West	£19,150,000.00	32.62%	£19,150,000.00	32.62%
South West	£4,950,000.00	8.43%	£4,950,000.00	8.43%
	£58,700,000.00	**100.00%**	**£58,700,000.00**	**100.00%**
Sector	**Value**	**% Weighting**	**Value**	**% Weighting**
Office	£24,250,000.00	41.31%	£24,450,000.00	41.65%
Shopping Centre	£13,700,000.00	23.34%	£13,700,000.00	23.34%
Retail	£18,400,000.00	31.35%	£18,400,000.00	31.35%
Industrial	£2,350,000.00	4.00%	£2,150,000.00	3.66%
	£58,700,000.00	**100.00%**	**£58,700,000.00**	**100.00%**

Key KPIs		
	Mar-18	**Jun-18**
Total Number of Units	108	108
Total Number of Tenants	91	92
Total SQFT	336,303	336,303
Vacancy (% SQFT)	8.00%	8.00%
Vacancy (% ERV)	4.50%	4.50%
WAULT (Expiry)	6.48	6.35
WAULT (Breaks)	5.30	5.18

Differentiated Investment Strategy

- Target lot sizes of £2m - £15m in regional locations.
- Sector agnostic – opportunity driven.
- Entrepreneurial asset management.
- Risk-controlled development.
- Dividend paid quarterly.
- Fully covered dividend policy – growing incrementally.

Portfolio Attributes

In the context of the market uncertainty, the Board believes it is helpful to shareholders to highlight some key attributes of the Company's property portfolio:

- The Company has no exposure to Central London markets, which may take the brunt of any Brexit-related market weakness.
- The weighted average unexpired lease term (WAULT) to expiry is 6.35 years.
- The portfolio yield is 7.8% (based on 30 June 2018 valuation).
- The occupancy rate is high at greater than 95% by ERV

- Gearing - the loan-to-value ratio of 38.8% is directly in line with the stated intended target of 40%.
- Further asset management angles to exploit.

Asset Management Overview and Update

Arthur House, Manchester

Vacant possession of the 5th and 6th floors have been secured and the contractor will be instructed imminently to progress the refurbishment of both floors. The agents acting remain confident in the take up levels for Manchester in and around the Piccadilly and Portland Street areas.

Burnside Industrial Estate, Aberdeen

The contractor will be instructed imminently to progress the refurbishment of Units1-3. This should assist with letting prospects as the industrial market in Aberdeen shows further signs of recovery.

3 Lochside Way, Edinburgh

We received notification from DNV in May that they wished to vacate in December 18. We carried out a short marketing period and have let the space with a date of entry 1 week after the existing tenant vacates at a rent of £20 per square foot. The previous tenant was paying £17.50 per square foot. The new Agreement for Lease is agreed and will be signed imminently.

Duloch Park, Dunfermline

Heads of Terms are agreed with Johnson Cleaners for a 10 year lease with a break at year 5 at a rent of £32,000 per annum which is ahead of the Business Plan. Solicitors instructed.

Dividends

The Board is targeting a fully covered annual dividend of 6.0p per share in respect of the year ending 30 September 2018*. At the current share price of 94.5p this would represent an annualised dividend yield of 6.3%.

**Target returns only and not a profit forecast. There can be no assurance that these targets will be met and they should not be taken as an indication of expected or actual current or future results.*

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