

# Padlock Partners UK Fund II Q4 2021 UPDATE

TORONTO, Feb. 7, 2022 /CNW/ -

## A Letter to our Partners

To Our Valued Partners,

We at Padlock Capital Partners continue to be excited about the United Kingdom real estate market and the benefits it provides relative to other investment asset classes. The UK self storage market is especially attractive and has continued the rapid adoption across the country even as barriers to entry have increased. Many pandemic induced behaviors (working from home, home/room renovations, relocating, cohabitating, job loss) provide continued demand drivers for storage as the UK self storage industry has seen robust growth trends continue. Green Street, a leading real estate research and advisory firm, has continued to report that "U.K. Self-Storage sector remains the most attractive listed group...". Among the comparable asset classes were multi-family, student housing, senior housing, office, commercial retail, and mobile home communities.

We are constantly sourcing new opportunities across the UK and are seeing the results of those efforts. We are pleased to report that our development and acquisition pipeline is growing with additional opportunities which meet our strict criteria.

Please note, our current pipeline of acquisitions exceeds the available capital of the Trust, however, we are working on possible plans to take advantage of these additional attractive opportunities through an affiliated or successor entity to the Trust. We will keep you apprised.

We appreciate your continued interest and participation in the Trust and look forward to providing additional updates on the Trust's progress. In the meantime, please feel free to contact me, or any member of the team with any questions.

SINCERELY,  
JOHN STEVENSON  
CEO Padlock Capital Partners

## Property Update

Padlock Capital Partners, LLC, an affiliate of Clear Sky Capital, Inc, is pleased to present this update for Padlock Partners UK Fund II (the "Trust") for the quarter ending December 31, 2021. The Trust will file and distribute the year end audited financials and management discussion and analysis on or before March 31, 2022. The Trust targets 10-14% Gross IRR, 7% Annual Return, and a 5 Year Term.

The Trust completed its initial public offering on June 8, 2021, and received total capital commitments of C\$33.8 million, exclusive of UK Manager's C\$1.69 million co-investment, and simultaneously acquired two properties as originally described in the offering document.

Currently, the portfolio comprises one site in the London MSA with one operating site north of London.

## HUNTINGDON

On June 10, 2021, the Trust closed the Huntingdon self storage property located approximately 46 miles north of London and 15 miles northeast of Cambridge. The newly built (2019) facility consists of warehouse, bulk, drive up, interior self storage and exterior parking totaling 54,485 net rentable square feet. The property is currently in lease up. Our plan to add circa 7,487 square feet of

rentable self storage space, via drive up units and fitting out previously unused space, is currently underway and is expected to be completed by this quarter on time and on budget. Occupancy during the quarter averaged just over 70% which is a significant improvement from the 55.5% occupancy at acquisition. In addition, we have achieved significant rental rate increases and we have implemented our ancillary sales program, including tenant insurance and merchandise sales, which has grown substantially. The property has achieved its highest quarter ever in total income with almost a 12% increase from Q3 results. Going forward, we will be focusing on improving occupancy, increasing rental rates and finalizing the bulk/warehouse space fit out.

## **BRENTWOOD**

On June 25, 2021, the Trust completed the acquisition of the Brentwood property, located within the London MSA, just off the M25 and A12 motorways. Brentwood is an upscale community just northeast of central London. The property consists of a modern warehouse and offices totaling 43,417 square feet with a self-contained, secure yard with 29 parking spaces. Upon closing of the freehold property, the seller signed a lease to "lease back" the property until December 31, 2021 at a rate of £275,000 per annum. The tenant planned to move into its newly constructed warehouse by the end of 2021. In October, we were informed the tenant's new warehouse construction was significantly delayed and they wished to remain on the property a short time longer. We secured a lease extension which doubled the rent (to £550k per annum) for the first 4 months of 2022 and then triples the base rent should they need to remain until August of 2022. We expect they will vacate in Q2 2022 as their new warehouse construction is 85% completed. Upon expiration of the lease, the Trust plans to fit out the current warehouse to develop a circa 53,000 square foot Class "A" facility in two phases. Management expects the first phase to be completed in the fourth quarter of 2022, which enables the property to begin lease up while the second phase of the construction commences. To prepare for the development of the property, the Trust has secured materials, supplies, and necessary planning for the site conversion.

## **NEWMARKET**

Effective in December, the Trustees elected to purchase the freehold Newmarket self storage property located at Willie Snaith Road, Newmarket, England. The Trustees had initially approved a loan agreement with a convertible option to Padlock Partners UK Fund I to facilitate the earlier than expected completion of the construction. However, after review by management and the Trustees, it was decided the Trust would seek to purchase the site, rather than convert the loan option to equity in a joint venture scenario. Pursuant to the property appraisal on December 8<sup>th</sup>, 2021, the Trustees tendered a market price offer, which was accepted, to purchase 100% of the property which is scheduled to complete in Q1 2022. The Trust expects to benefit by leasing up the property in a highly sought-after market. The newly built facility has approximately 48,000 net rentable square feet, of which 19,000 NRSF are available now as lease up begins.

## **Trust Update**

### **DISTRIBUTIONS**

Since inception, the Trust has paid monthly distributions equal to 6% on an annualized basis.

### **NET ASSET VALUE (NAV)**

The Trust has conducted end of year valuations on each property. The Manager expects Net Asset Values will reflect the short holding period of the Fund since inception with minimal change. Expect the update to the NAV to follow once the property year-end audits are completed.

### **DEBT**

The Trust has begun exploring suitable partners for the Trust debt. We are seeking 50-60% LTV at competitive rates. The Trust expects the debt facility, once arranged, to sufficiently support the Trust operations, further enhance contingency budgets, and potentially enable further property

acquisitions. More updates to follow as this process continues.

## **INVESTMENT MARKET UPDATE**

Commercial real estate investment activity continues to be strong across the United Kingdom. There is significant demand from real estate private equity firms and public companies and attractive debt terms support a strong UK market. Market conditions have prompted capitalization rates to continue to compress. Capitalization rates for core market, Class "A", self storage properties are approximately 4%-5.25%, depending on the quality and location of the site with some London locations trading for sub-4% cap rates. Commuter and secondary markets are approximately 4.75%-6%, depending on site factors. Headwinds may emerge as the yield on the UK 10-year notes has risen to 1% for the first time since March 2020, as markets are confronted with a mix of inflation concerns and fears of curtailed growth from a potentially tightening cycle.

## **UK SELF STORAGE TRENDS**

The UK Self Storage sector has seen strong growth in occupancy and rent during the past several years, according to the 2021 UK Self Storage Association Annual Report and commercial self storage agents Cushman & Wakefield. In fact, Big Yellow and Safestore, two of the largest public UK self storage operators, both reported record performance. Drivers benefitting the self storage sector include a growing adoption by the UK consumer, a temporary residential Stamp Duty Land Tax holiday (reducing or eliminating the tax buyers typically pay on home purchases), home renovations, a shift to work from home, a growing small and medium sized entrepreneurial business market, job changes, and relocations. The overall market fundamentals remain strong and adoption of self storage continues to grow throughout the country.

## **OUTLOOK**

The Manager believes the portfolio will continue to benefit from strong demand for self storage space based on the quality of its self storage sites, class leading management, Search Engine Optimization, and local store marketing. Periods of change have historically been enhanced demand drivers for self storage with both positive and negative economic and social trends providing local need. Although the market environment has been strained by a very tight labor pool and numerous supply chain disruptions, we have been able to navigate these challenges and the portfolio is benefitting from the strong team we have in place. The Trust expects to continue to produce consistent investment returns while building enterprise value for the unitholders.

## **Disclosures**

### **About Padlock Partners UK Fund II**

The Trust is an unincorporated investment trust and was established for the primary purpose of investing in a diversified portfolio of income producing commercial real estate properties in the United Kingdom with a focus on self storage and mixed-use properties. Currently, the Trust has acquired one operating self storage property in Huntingdon, and one development property in Brentwood.

### **Forward-looking Statements**

This newsletter contains statements that include forward-looking information within the meaning of Canadian securities laws. These forward-looking statements reflect the current expectations of the Trust regarding future events, including statements concerning the Trust's plans for certain properties. In some cases, forward-looking statements can be identified by terms such as "may", "might", "will", "could", "should", "would", "occur", "expect", "plan", "anticipate", "approximate", "believe", "intend", "seek", "aim", "estimate", "target", "project", "predict", "forecast", "potential", "continue", "likely", "schedule", or the negative thereof or other similar expressions concerning matters that are not historical facts.

Material factors and assumptions used by management of the Trust to develop the forward-looking

information include, but are not limited to, the Trust's current expectations about: the development and fit out of properties; the development timeline; the availability of materials and labor; the impact of COVID-19; the availability of debt financing; the capital structure of the Trust; the global and United Kingdom economic environment; foreign currency exchange rates; and governmental regulations or tax laws. While management considers these assumptions to be reasonable based on currently available information, they may prove to be incorrect.

Although management believes the expectations reflected in such forward-looking statements are reasonable and represent the Trust's internal projections, expectations and beliefs at this time, such statements involve known and unknown risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities may not be achieved. A variety of factors, many of which are beyond the Trust's control, could cause actual results in future periods to differ materially from current expectations of estimated or anticipated events or results expressed or implied by such forward-looking statements. Readers are cautioned against placing undue reliance on forward-looking statements. Except as required by applicable Canadian securities laws, the Trust undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

SOURCE Padlock Partners UK Fund II

View original content: <http://www.newswire.ca/en/releases/archive/February2022/07/c2550.html>

%SEDAR: 00052182E

**For further information:** Stevenson, Chief Executive Officer, Padlock Partners UK Fund II, 480-309-6184, [jstevenson@clearskycap.com](mailto:jstevenson@clearskycap.com); Matthew Collins, Chief Financial Officer, Padlock Partners UK Fund II, 480-428-0152, [mcollins@clearskycap.com](mailto:mcollins@clearskycap.com)

CO: Padlock Partners UK Fund II

CNW 18:49e 07-FEB-22