UK Commercial Property REIT
Q1 2020

Investment Objective

UK Commercial Property REIT (UKCM) is a Guernsey registered investment company which aims to provide an attractive level of income together with the potential for capital and income growth by investing in a diversified portfolio of UK commercial property.

Key Statistics as at 31st March 2020

- Launch date: 20 Sep 2006
- Total assets: £1.4bn
- Share price (per closing LSE price): 75.0 p
- NAV: 86.3 p
- Premium/(Discount) to NAV: (13.1)%
- Occupancy levels: 92.4%
- Average lease length: 8.5 years
- Net Gearing: 13.1% (Gross Gearing 18.3%)
- Gross dividend yield: 4.9%
- Management fees: 0.6% on gross assets up to £1.75 billion, 0.475% on gross assets over £1.75 billion
- Stock code: UKCM
- Dividend pay dates: May, Aug, Nov, Feb

* Gross borrowing less cash divided by total assets (excluding cash) less current liabilities

Corporate Performance – % growth

<table>
<thead>
<tr>
<th></th>
<th>Q1 2020</th>
<th>1 yr</th>
<th>3 yrs</th>
<th>5 yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAV Total Return</td>
<td>-2.9</td>
<td>-4.4</td>
<td>11.3</td>
<td>26.0</td>
</tr>
<tr>
<td>Share Price Total Return</td>
<td>-14.6</td>
<td>-8.8</td>
<td>-1.0</td>
<td>1.3</td>
</tr>
<tr>
<td>IPD Benchmark</td>
<td>-1.1</td>
<td>0.4</td>
<td>16.6</td>
<td>35.4</td>
</tr>
</tbody>
</table>

Source: Internal as at 31/03/2020. IPD Quarterly Benchmark Report to end December 2019. Past performance is not a guide to future performance. The value of investments and any income generated can fall as well as rise and is not guaranteed.

Top 10 holdings

- Ventura Park, Radlett: Radlett, M25/M1: Over £100m
- Dolphin Est, Sunbury-on-Thames: London: £70-£100m
- Hannah Close, Neasden: London: £50-£70m
- Hatfield Business Park: Hatfield: £50-£70m
- Phase II Newton's Court: Dartford: £50-£70m
- The White Building: Reading: £50-£70m
- The Rotunda: Kingston on Thames: £50-£70m
- Great Lodge Retail Park: Tunbridge Wells: £30-£50m
- Junction 27 Retail Park: Leeds: £30-£50m
- Kew Retail Park: London: £30-£50m

Source: Internal as at 31/03/2020

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Investment Objective (Continued)

<table>
<thead>
<tr>
<th>Discrete year data</th>
<th>31/03/2020 (%)</th>
<th>31/03/2019 (%)</th>
<th>31/03/2018 (%)</th>
<th>31/03/2017 (%)</th>
<th>31/03/2016 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct portfolio Return</td>
<td>-2.4</td>
<td>5.6</td>
<td>11.5</td>
<td>6.3</td>
<td>7.5</td>
</tr>
<tr>
<td>IPD Benchmark</td>
<td>0.4</td>
<td>5.1</td>
<td>10.5</td>
<td>4.7</td>
<td>10.9</td>
</tr>
<tr>
<td>NAV Total Return</td>
<td>-4.4</td>
<td>4.5</td>
<td>11.3</td>
<td>6.1</td>
<td>6.7</td>
</tr>
<tr>
<td>Share Price Total return</td>
<td>-8.8</td>
<td>0.0</td>
<td>8.5</td>
<td>7.9</td>
<td>-5.2</td>
</tr>
</tbody>
</table>

Continued asset management

- Agreed a new 10 year reversionary lease with Rhenus Logistics at Gallan Park, Cannock, from the expiry of their current lease in 2024. The lease contains fixed increases in 2024 and 2029. The current rent passing is £667,680 per annum and a lease incentive of £315,000 was paid to the tenant. The asset was acquired as part of a portfolio in 2019 and the lease restructurc secured a 12% uplift in value which was reflected in the March valuation.
- A new occupier, Express Logistics Ltd, was secured at Unit D, Ventura Park, Radlett, under a new 10 year lease without incentive, at a new headline rent of £11 psf per annum, 5% ahead of the ERV for the unit. The unit was let at a rent £177,914 per annum with a break option at year five.
- Settled two rent reviews at Dolphin Industrial Estate, Sunbury at a total rent of £388,500 per annum, 33% ahead of the previous passing rent and 6% ahead of ERV.
- Completed a dilapidations settlement with the previous tenant at XDock 377, Magna Park, Lutterworth with a cash receipt to the Fund of £3,400,000.

Financial Position and Dividend

- Robust, lowly geared balance sheet with significant financial resources available of £194 million after the sale above completes. This comprises uncommitted cash of £94 million after allowing for future capital commitments and the May 2020 dividend plus £100 million available from its low cost, revolving credit facility. Together, these resources provide the Company with significant liquidity and flexibility at both a corporate and portfolio level.
- As at close of business on 28 April 2020, the Company had received payments reflecting 70% of rents due for what can

UK Real Estate Market

The Covid-19 pandemic has resulted in the UK facing an unprecedented economic shock, both in terms of the magnitude and the speed in which swathes of the UK economy have essentially been switched off. The unprecedented economic conditions have had a stark and widespread impact on the property occupier market, putting unique stress on leisure and hospitality businesses and severely disrupting most of the retail market. Away from consumer-facing sectors, activity has slowed dramatically - many deals already in train are completing but new activity is constrained by the inability to inspect and uncertainty around taking occupation. There are some new, more urgent requirements in the distribution sector but many require flexibility. Offices across the country are largely empty as staff work from home or are furloughed. The impact on fundamentals will depend on the duration of the economic shock. Increased voids and grey space for sub-letting are likely to depress rents, and this crisis may accelerate and accentuate the trend already in train are completing but new activity is constrained by the inability to inspect and uncertainty around taking occupation.

After a flurry of investment deals in December, transaction activity was subdued in the first quarter even before the Covid-19 pandemic took hold, with only £2 billion of transactions, lower than any quarter since 2010. Towards the end of the quarter, valuers across the industry and its professional body, the RICS, agreed wording for “material uncertainty” clauses to be attached to quarter-end valuations in March, with comparable evidence drying up and unprecedented set of circumstances on which to base a judgement.

Net Asset Value & Earnings

- NAV per share of 86.3p (31 December 2019: 89.8p), resulting in a NAV total return of -2.9% in the period with continued low net gearing of 13.1%.
- As previously disclosed like-for-like portfolio capital value decreased by 3.1% net of capital expenditure. This compares to the 2.7% fall in the MSCI monthly index over the period. The portfolio is now valued at £1.29 billion (31 Dec 2019: £1.38 billion) following the sales previously announced at Portsmouth Motor Park and Broadbridge Retail Park, Horsham, for a combined £47.9 million. The occupancy rate remained at 92% as at 31 March 2020 (31 December 2019: 92%).

Positive Investment Activity

- The Company has agreed to a forward funding of a new 221 bed student residential development in Exeter, adjacent to the main university campus, with completion expected for the start of the 2022/23 academic year. The land, with full planning permission, was acquired for £6.5 million with an additional capped funding commitment of c. £21.5 million.
- On 5 May 2020, the Company unconditionally exchanged contracts to sell Eldon House, its only office asset in the City of London, to CLI-Dartriver within one of its European private investment programs, for £40 million representing a 3.6% discount to its valuation as at 31 March 2020. The property was purchased for £27.8 million in 2015 and the sale follows the completion of an asset management plan which comprised a refurbishment of public spaces, as well as capturing reversionary potential by achieving full occupancy and regearing existing leases.

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collectively be termed advance billing for the second quarter of the year; this comprises both old and new English quarter days (25 March and 1 April) and the Scottish quarter day (28 February) and includes those tenants who have paid, by agreement, on a monthly in advance basis.

The Board has taken the decision to maintain a quarterly dividend, due in May 2020, but at the reduced rate of 50% which equates to 0.46 pence per share, while clearly communicating its aspiration to use the strength of its balance sheet and its current financial resources to continue paying a dividend throughout this period of uncertainty. The Board will, however, continue to monitor closely the evolution of COVID-19, together with its impact on the economy, rent receipts and recurring earnings, while balancing the income requirements of its shareholders, and keep its future dividend policy under review. In particular the Board will have clear visibility of 2020 earnings at the time of the Q4 distribution and therefore this will provide the opportunity to review the total dividend distribution for 2020 and future dividend policy.

Investment Outlook

As a result of the COVID-19 pandemic we expect a contraction in UK GDP of more than 15% in the second quarter of 2020 and a fall of around 10% for the year as a whole. However, as a crisis rooted in the real economy rather than a financial crisis, our base case assumes a vigorous and relatively rapid recovery, particularly given the magnitude of monetary and fiscal support already announced. We expect the UK economy to grow by more than 5% in 2021. Despite the enormous scale of policy support, its transmission into the pockets of households and businesses is not instant and there are signs that the immediate stresses are forcing some companies into immediate action and pushing up unemployment. Downside scenarios exist, with a longer period of recessionary conditions. The likelihood of permanent damage to fixed and human capital increases in such scenarios, reducing productivity and growth. With UK-EU negotiations on hold, given the government’s full focus on Covid-19 and the practical challenges of face-to-face talks, we expect the Brexit transition period to be extended and we believe a limited free trade agreement remains the most likely ultimate outcome.

We expect Real Estate capital values to fall this year but, in our view, there will be significant dispersion across the sectors. There is good reason to believe that the pricing of long income will continue to be well supported but not all long income is secure and rising default risk will be closely watched through this crisis. Urban logistics continues to be an area of the market we favour on a structural basis – likely amplified by this crisis – and one where the fundamentals remain supportive of rental tension. There is strong potential for consumers previously cautious around online shopping to gain confidence and retain a higher proportion of spending online after the crisis, which will drive increased demand for ‘last touch’ logistics in particular. So while industrials are forecast to see stable capital values, it is likely that retail values, except for supermarkets, will fall substantially, with rents under downward pressure and yields set to move out. A relative outperformance of lower risk assets is set to come through later in the year – and for a protracted period if the economic downside materialises – as the degree of income risk at asset level becomes clearer.
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**Further Information**

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