UK Commercial Property REIT
Q3 2021

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 30th September 2021

Launch date	20 Sep 2006
Total assets	£1.5bn
Share price (per closing LSE price)	73.5 p
NAV	94.5 p
Premium/(Discount) to NAV	(22.2)%
Occupancy levels	96.9%
Average lease length	8.4 years
Net Gearing	4.3%* (Gross Gearing 14.0%)
Gross dividend yield	4.0%**
Management fees	0.6% on gross assets up to £1.75 billion, 0.475% on gross assets over £1.75billion
Stock code	UKCM
Dividend pay dates	Nov, Feb, May, Aug

* Gross borrowing less cash divided by total assets (excluding cash) less current liabilities.
** Based on last 12 months dividends paid (Nov 20, Feb 21, May 21 and Aug 21) and share price as at end of Sep 21.

Corporate Performance – % growth

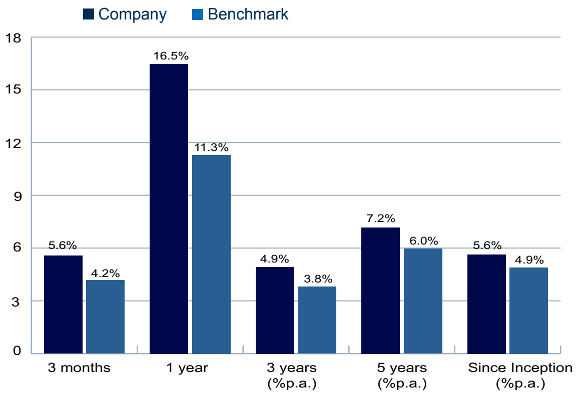
	Q3 2021	1 yr	3 yrs	5 yrs
NAV Total Return	5.5	16.1	10.9	35.6
Share Price Total Return	-3.2	11.8	-5.5	13.9
MSCI Benchmark	4.2	11.3	11.9	33.8

Source: Internal as at 30/09/2021. MSCI Quarterly Benchmark Report to end September 2021. 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	Location	Value Band
Ventura Park, Radlett	Radlett, M25/M1	Over £100m
Dolphin Est, Sunbury-on-Thames	London	£70-£100m
Hatfield Business Park	Hatfield	£70-£100m
Hannah Close,Neasden	London	£70-£100m
Phase II Newton's Court	Dartford	£70-£100m
XDock 77	Lutterworth	£50-£70m
Junction 27 Retail Park	Leeds	£30-£50m
Emerald Park East	London	£30-£50m
The Rotunda	Kingston on Thames	£30-£50m
The White Building	Reading	£30-£50m

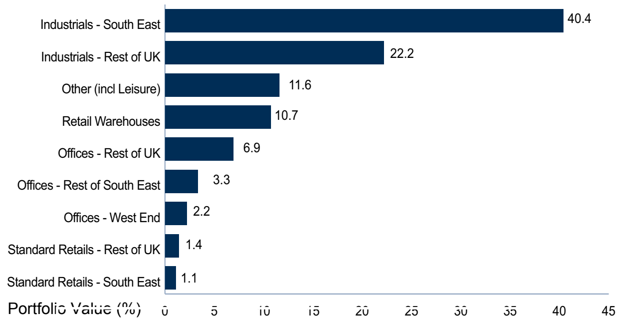
Source: Internal as at 30/09/2021

Portfolio Total Returns - Annualised

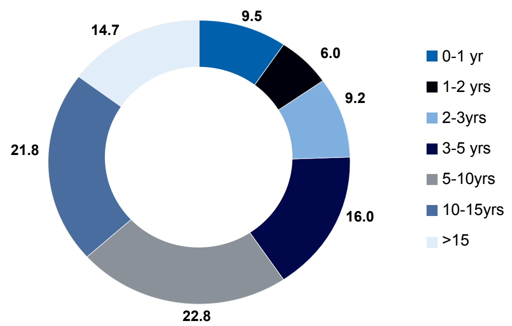


Source: MSCI; Benchmark: UK Balanced Portfolios Quarterly Property Index. Past performance is not a guide to future performance. The value of investments and any income generated can fall as well as rise and is not guaranteed.

Sub Sector Weightings



Lease expiry profile (% of Portfolio Income)



Source: Internal as at 30/09/2021

Past performance is not a guide to the future.
This information is for professional clients and investment professionals only and should not be relied upon by retail investors.

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UK Commercial Property REIT

Investment Objective (Continued)

Discrete year data	30/09/2021 (%)	30/09/2020 (%)	30/09/2019 (%)	30/09/2018 (%)	30/09/2017 (%)
Direct portfolio return	16.5	-1.8	1.0	9.4	11.9
NAV Total Return	16.1	-4.3	-0.2	8.5	12.7
Share Price Total return	11.8	-15.7	0.3	-1.0	21.7
MSCI Benchmark	11.3	-2.2	2.7	8.7	9.9

Kerri Hunter
Interim Lead Manager

Market Commentary

Investment volumes picked up considerably during the second quarter of 2021, reaching £15.8 billion. Despite a modest slowdown during the summer, the trend has continued into the third quarter; investment volumes were over £10 billion, according to property data. Sentiment towards UK real estate has improved markedly, which is now feeding through into the investment market.

UK real estate performance has rebounded during the third quarter, as restrictions were lifted and the economy has re-opened. During the 12 months to August 2021, all property total returns reached 11.6%, with the industrial sector recording an exceptional 27.2% return over the same period. A recovery in retail warehouse performance is now evident, with a total return of 12.4% recorded over the 12 months to August. This helped lift overall retail total returns to 5.1%, which were ahead of those from the office sector (1.8%) and is reflected in our own portfolio.

The demand for prime office assets was evident once again this quarter, with offices accounting for six of the top-ten deals recorded. Overseas investors continue to play a very important role in terms of demand in this area of the market.

There is little indication that demand for industrial space is waning, with the sector continuing to record impressive take-up numbers. As a result, the vacancy rate for the sector is now below 3%, according to CoStar data. The industrial sector has experienced a supply response but with increased build-cost inflation presenting a major headwind, it is widely anticipated that some of this supply pipeline will face delays in completion. This will benefit up-and-built assets.

Workers in the UK have been gradually returning to offices throughout the third quarter, after coronavirus restrictions were lifted. Levels of occupation remain significantly below pre-pandemic levels and it is clear that there is no one-size-fits-all approach applied by employers. The long-term impact on the way that offices are utilised, and how much space businesses will require in the future, remains highly uncertain at present. Although vacancy rates are higher, they have shown tentative signs of stabilisation – particularly for Grade A offices in central London.

Retail footfall data is recovering as restrictions have been lifted across the UK, but it remains below pre-Covid-19 levels. High street footfall is being supported by a move back to the office, demonstrated by a greater increase in central London and large city centres outside the capital. However, with inflation increasing and National Insurance contributions set to increase by 1.25% in April 2022, there is a risk that consumer spending will be detrimentally affected heading into next year. This presents a headwind for the retail sector.

Structural tailwinds are now acutely visible within the industrial sector in particular. Driven predominantly by yield compression, total returns in the 12 months to August reached 27.2% – a figure not seen since December 1989. Moving forward, the occupational market is expected to be the key driver of performance, with prime industrial assets best placed to capture rental value growth.

Polarisation within the retail sector is expected to continue, given recent performance within the retail warehouse sector. The sector rebounded strongly in the second half of 2021, with prime yields moving in by 75-100 basis points (bps). But this is narrowly focused on assets that are let on affordable rents, and anchored by grocery, discount and DIY occupiers. The outlook for fashion-oriented parks, high-street shops and shopping centres remains more challenging, given their vulnerability to online retail sales.

As is the case with the retail sector, the polarisation in performance will become more evident in the office sector, in our view. The best-quality space will continue to experience more robust demand, providing greater support for rents and pricing. However, for secondary office assets that fail to comply with increasingly stringent ESG requirements and don't possess the necessary amenity or flexibility credentials, the outlook is far more challenging. This is yet to be shown in performance, but we expect this to be more evident as we move into 2022

Despite indications that the Bank of England could be looking to increase interest rates in 2022, rates will remain at low levels in a historical context. This will continue to support real estate pricing and, in particular, long-let secure income.

The recovery in pricing for a select portion of the retail warehouse sector can be partly attributed to the more attractive income yield on offer relative to other sectors. Demand remains narrowly focused on modern parks, let on affordable rents, with a food or DIY anchor tenant. Despite yields moving in by 75-100 bps during the third quarter alone, the weight of capital targeting this portion of the retail warehouse sector (and a lack of suitable investment stock) is expected to result in further yield compression for the sector.

Despite a recent increase in gilt yields on the back of increased inflation expectations, the pricing of secure, indexed real estate relative to index-linked bonds offers a very large yield premium. While the margin for conventional real estate over conventional gilts has also narrowed, the margin remains healthy in a historical context.

Investment Outlook

UK GDP grew by more than previously thought in the April-to-June period, increasing by 5.5% in the second quarter. This was stronger than the preliminary estimate of growth of 4.8% from the ONS. Encouragingly, this means that the UK economy is now 3.3% below its level in the fourth quarter of 2019, before the pandemic struck. The underlying pace of recovery is expected to slow from here but the trajectory remains positive.

Despite the upward revision to second-quarter GDP, more timely monthly figures showed that the recovery had largely stalled in July. Hesitation caused by the spread of the Delta variant of Covid-19 and the 'pingdemic' kept many workers at home self-isolating. Despite a slowdown in recovery in July, the abrdn Research Institute (aRI) forecasts GDP growth of 6.8% for the calendar year 2021.

Pricing pressures are building in the UK, with headline and core CPI inflation increasing to 3.2% and 3.1%, respectively, in August. Some of the increase reflected coronavirus schemes that were introduced last summer to help support the economy. These included 'eat out to help out', which lowered prices temporarily. Cost pressures on businesses, supply chain issues and a tight labour market are expected to keep inflation at higher levels for the remainder of 2021. aRI expects UK inflation to reach a peak of around 5% heading into 2022, before gradually returning to more normalised levels.

The Bank of England has given clear signals that interest rates may have to be increased gradually to bring inflation back closer to the 2% target rate. Expectations are that increases are imminent, rates are forecast to remain very low in a historical context.

Important information

Risk factors you should consider prior to investing:

- The value of investments and the income from them can go down as well as up and investors may get back less than the amount invested.

- Past performance is not a guide to future returns.

- The value of property and property-related assets is inherently subjective due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty. There is no assurance that the valuations of Properties will correspond exactly with the actual sale price even where such sales occur shortly after the relevant valuation date.

- Prospective investors should be aware that, whilst the use of borrowings should enhance the net asset value of the Ordinary Shares where the value of the Company's underlying assets is rising, it will have the opposite effect where the underlying asset value is falling. In addition, in the event that the rental income of the falls for whatever reason, including tenant defaults, the use of borrowings will increase the impact of such fall on the net revenue of the Company and, accordingly, will have an adverse effect on the Company's ability to pay dividends to Shareholders.

- The performance of the Company would be adversely affected by a downturn in the property market in terms of market value or a weakening of rental yields. In the event of default by a tenant, or during any other void period, the Company will suffer a rental shortfall and incur additional expenses until the property is re-let. These expenses could include legal and surveying costs in re-letting, maintenance costs, insurance costs, rates and marketing costs.

- Returns from an investment in property depend largely upon the amount of rental income generated from the property and the expenses incurred in the development or redevelopment and management of the property, as well as upon changes in its market value.

- Any change to the laws and regulations relating to the UK commercial property market may have an adverse effect on the market value of the Property Portfolio and/or the rental income of the Property Portfolio.

- Where there are lease expiries within the Property Portfolio, there is a risk that a significant proportion of leases may be re-let at rental values lower than those prevailing under the current leases, or that void periods may be experienced on a significant proportion of the Property Portfolio.

- The Company may undertake development (including redevelopment) of property or invest in property that requires refurbishment prior to renting the property. The risks of development or refurbishment include, but are not limited to, delays in timely completion of the project, cost overruns, poor quality workmanship, and inability to rent or inability to rent at a rental level sufficient to generate profits.

- The Company may face significant competition from UK or other foreign property companies or funds. Competition in the property market may lead to prices for existing properties or land for development being driven up through competing bids by potential purchasers. Accordingly, the existence of such competition may have a material adverse impact on the Company's ability to acquire properties or development land at satisfactory prices.

- As the owner of UK commercial property, the Company is subject to environmental regulations that can impose liability for cleaning up contaminated land, watercourses or groundwater on the person causing or knowingly permitting the contamination. If the Company owns or acquires contaminated land, it could also be liable to third parties for harm caused to them or their property as a result of the contamination. If the Company is found to be in violation of environmental regulations, it could face reputational damage, regulatory compliance penalties, reduced letting income and reduced asset valuation, which could have a material adverse effect on the Company's business, financial condition, results of operations, future prospects and/or the price of the Shares.

Other important information:

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