

Quarterly Update

Q3 21

AEW UK REIT plc invests in and intensively asset manages a diversified portfolio of high yielding commercial properties across the UK.



Fund Highlights

- Interim dividend of 2.00 pence per share for the three months ended 30 September 2021, in line with the targeted annual dividend of 8.00 pence per share.
- NAV of £174.29 million or 110.01 pence per share as at 30 September 2021 (30 June 2021: £169.69 million or 107.11 pence per share).
- NAV total return of 4.58% for the quarter (30 June 2021 quarter: 10.04%).
- EPRA earnings per share ("EPRA EPS") for the quarter of 1.30 pence (30 June 2021 quarter: 2.14 pence).
- Sales of Langthwaite Industrial Estate, South Kirkby for £10.84 million and Wella Warehouse, Basingstoke for £5.86 million.
- The Company remains conservatively geared with a loan to NAV ratio of 28.97% (30 June 2021: 29.76%). At the quarter end, the Company had a cash balance of £15.16 million and £9.50 million of its loan facility available to draw up to the maximum 35% Loan to NAV at drawdown. Following completion of the sale of Wella Warehouse, Basingstoke, on 15 October 2021, the Company's cash balance is £20.06 million.
- For the rental quarter commencing on 29 September 2021, 89% of rent has been collected or is expected to be received under monthly payment plans prior to quarter end. The remainder of rents owed will continue to be pursued.
- We are very encouraged by continuing improvements in rent collection levels, which now stand at over 99% for each quarter since the onset of the pandemic (excluding current quarter).

Portfolio Managers' Comments

Following its highest quarterly valuation increase since IPO last quarter (30 June 2021 quarter: 7.47% on a like-for-like basis), the portfolio has again generated strong capital growth, with valuations increasing by 3.11% on a like-for-like basis.

As with the previous quarter, this was largely driven by the performance of the industrial assets in the portfolio which saw a like-for-like increase of 4.33% and make up 55.5% of the portfolio as at 30 September 2021. This has again partly been driven by yield compression, but we have also seen our ERVs move on as a result of continued strong occupier demand, supported by a compelling asset management story. We have also seen good performance at our office holding in Bristol, with two recent lettings at above ERV moving the valuation onwards. Our office park at Oxford continues to perform well with its transition to life sciences/medical use, a sector which is seeing particularly strong demand from both tenants and investors. After a tumultuous period for the retail sector, we have seen valuations stabilise this quarter, with our valuations increasing by 1.36% on a like-for-like basis, particularly driven by our new retail warehousing holding in Shrewsbury.

Over the summer, the Company decided to sell two of its strong performing industrial holdings which have delivered excellent returns to AEWU shareholders over the last few years (Units 16 & 16A, Langthwaite Industrial Estate in South Kirkby for £10.84 million and Wella Warehouse in Basingstoke for £5.86 million). The value of the properties had climbed considerably, and these sales allowed us to realise a profit, exceeding both the prevailing valuations and the prices AEWU paid at acquisition.

The sale of South Kirkby, which completed in August, was 31% ahead of the March 2021 valuation and 87% ahead of its purchase price. Basingstoke, which completed recently on 15th October, was 35% and 72% above the March 2021 valuation and purchase price respectively. The combined total of these sales (£16.7 million) will be reinvested into accretive opportunities that we are seeing in the market.

The Company's EPRA EPS was 1.30 pence for the quarter, providing a dividend cover of 65% (30 June 2021: 2.14 pence and 107%). During the quarter, the Company made a prudent provision against service charge arrears on the ongoing remedial works in Blackpool, which amount to 0.27 pence per share. The Company also continues to incur vacancy costs at its property in Glasgow where contracts have been exchanged for sale. The Blackpool and Glasgow properties are temporarily restricting the Company's earnings. Following the planned sale of Glasgow in December 2021 and completion of the works at Blackpool in early 2022, we expect the cost overheads to fall, leading to an increase in the EPRA EPS.

In the coming quarters, the Company's earnings will also benefit from new acquisitions as well as the completion of asset management

initiatives. We currently have an attractive retail warehouse opportunity under offer and expect to complete imminently.

We are very encouraged by continuing improvements in rent collection levels, which now stand at over 99% for each quarter since the onset of the pandemic (excluding current quarter).

The Company has £15.16 million of cash and £9.50 million of its loan facility available to draw up to the maximum 35% Loan to NAV at drawdown, which will allow us to take advantage of further attractive opportunities in the market. Following completion of the sale of Wella Warehouse, Basingstoke, on 15 October 2021, the Company's cash balance is £20.06 million, all else equal. The Company's share price was 102.80 pence as at 30 September 2021 (30 June 2021: 96.00 pence) and we hope that continued improvement in economic conditions will bring about the return of a share price premium to NAV.

Valuation movement

As at 30 September 2021, the Company owned investment properties with a fair value of £206.69 million. The like-for-like valuation increase for the quarter of £6.24 million (3.11%) is broken down as follows by sector:

Sector	Valuation 30 September 2021		Valuation movement for the quarter	
	£ million	%	£ million	%
Industrial	114.72	55.50	4.76	4.33
Office	39.95	19.33	0.95	2.44
Retail	39.47	19.10	0.53	1.36
Leisure	12.55	6.07	0.00	0.00
Total	206.69	100.00	6.24	3.11

Fund Facts

Portfolio Managers

Alex Short
and Laura Elkin



Investment Objective and Strategy

The Company exploits what it believes to be the compelling relative value opportunities offered by pricing inefficiencies in smaller commercial properties let on shorter occupational leases in strong commercial locations. The Company supplements this core strategy with active asset management initiatives to improve the quality of income streams and maximise value.

Launch date: 12 May 2015

Fund structure: UK Real Estate Investment Trust

SRI policy: [Click here](#)

Year end: 31 March

Fund size (Net Asset Value): £174.29m

Property valuation: £206.69m

Number of properties held: 35

Average lot size: £5.91m

Property portfolio net initial yield (% p.a.): 6.5%

Property portfolio reversionary yield: 7.7%

LTV (Net Asset Value): 28.97%

Average weighted unexpired lease term

To break: 4.0 years **To expiry:** 6.2 years

Occupancy: 94.6%* * As a % of ERV

Occupancy is stated excluding vacancy contributed by the asset at 225 Bath Street Glasgow (the overall level is 91.4% including this asset). This asset has now been exchanged for sale for alternative use redevelopment and as a condition of the sale agreement, full vacancy must be achieved in the building before the sale can be completed.

Number of tenants: 116

Share price as at 30 Sep: 102.8p

NAV per share: 110.01p

Premium/(discount) to NAV: (6.6%)

Shares in issue: 158.42m

Market capitalisation: £162.86m

Annual management charge

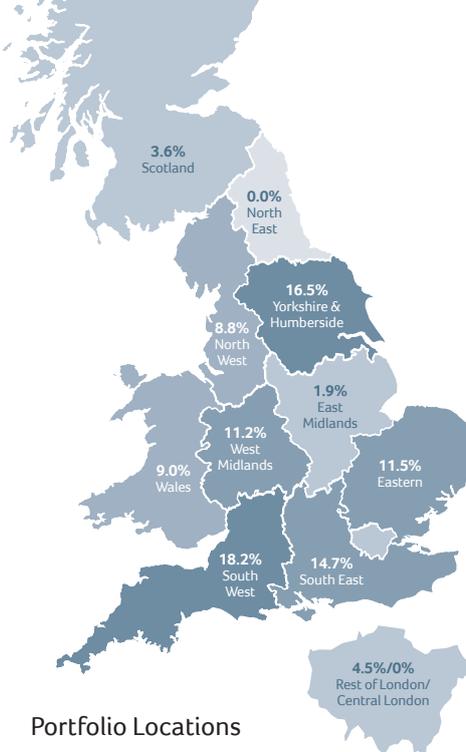
0.9% per annum of invested NAV

Dividend target

The Directors will declare dividends taking into account the level of the Company's net income and the Directors' view on the outlook for sustainable recurring earnings. As such, the level of dividends paid may increase or decrease from the current annual dividend, which was 8 pence per Share. It remains the Company's intention to continue to pay future dividends in line with its dividend policy, however the outlook remains unclear given the current COVID-19 situation.

ISIN: GB00BWD24154 **Broker:** Liberum

Ticker: AEWU **SEDOL:** BWD2415



Portfolio Locations

Based upon Knight Frank valuation.
As a percentage of portfolio (excluding cash).

Asset Management Update

Vantage Point, Hemel Hempstead (office)

We have completed a new 5-year ex-Act lease (tenant break option at the end of year 3) to Netronix Integration Limited at a rent of £33,683 pa /£14.50 psf, which is £3 psf above ERV. 4 months rent free incentive was given, with a further 2 months should the tenant not exercise their tenant break option at the end of the third year.

Bristol, 40 Queen Square (office)

Following the completion of a new 5-year ex-Act lease to Brewin Dolphin at £30 psf during the previous quarter, we have now also completed a lease renewal to Candide Limited until February 2025 at the same rent of £30 psf (£116,970 pa). The previous passing rent was £22.81 psf and only 1.5 months rent free incentive was given.

Above Bar Street, Southampton (high street retail)

We have exchanged on a new straight 5-year ex-Act lease to Shoe Zone at a gross rent of £80,000 pa, subject to approx. £40,000 landlord works. 12 months rent free incentive was given.

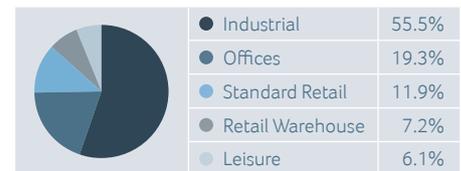
Sarus Court, Runcorn (industrial)

We have completed a 10-year lease renewal with NTT United Kingdom Limited (Dimension Data) at £5.75 psf (£64,066.50 pa) versus the previous passing rent of £5.25 psf. There is a tenant break option in December 2025. 5 months rent free incentive was given.

Key contact

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Sector Weightings



Based upon Knight Frank valuation. As a percentage of portfolio (excluding cash).

Top 10 Assets (by value)

Eastpoint Business Park, Oxford	7.4%
Gresford Industrial Estate, Wrexham	6.3%
40 Queens Square, Bristol	5.6%
5-33 Union Street, Bristol	4.9%
Lockwood Court, Leeds	4.8%
London East Leisure Park, Dagenham	4.5%
Arrow Point Retail Park, Shrewsbury	4.4%
Wyndeham	4.0%
Units 1001-1004 Sarus Court, Runcorn	3.8%
225 Bath Street	3.6%



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