AEW UK REIT Plc (AEWU)

Quarterly Update

Q2 18

Fund Facts

Portfolio Manager
Alex Short

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

Year end: 31 March

Fund size (Net Asset Value): £149.1m

Property valuation: £192.0m

Number of properties held: 36

Average lot size: £5.33m

Property portfolio net initial yield (% p.a.): 7.75%

Property portfolio reversionary yield: 7.83%

LTV (Gross Asset Value): 26.10%

Average weighted unexpired lease term
To break: 4.93 years **To expiry:** 6.12 years

Occupancy: 94.73%* * As a % of ERV

Number of tenants: 96

Share price as at 30 Jun: 96.61p
NAV per share: 98.40p **Premium/(discount) to NAV:** (1.82%)

Shares in issue: 151.56m

Market capitalisation: £146.42m

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 pro-rated over the 11 months ended 31 March 2018. Based on the current market conditions as at the date of this Registration Document, the Company expects to pay an annualised dividend of 8 pence per Share in respect of the financial year ending 31 March 2019 and for the interim financial period to 30 September 2018.

ISIN: GB00BWD24154 **Broker:** Liberum

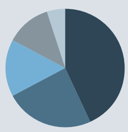
Ticker: AEWU **SEDOL:** BWD2415

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

Fund Highlights

- At 30 June, the fair value independent valuation of the property portfolio was £191.95 million (31 March 2018: £192.34 million), following the part sale of Pearl Assurance House, Nottingham, during the quarter. On a like-for-like basis the valuation of the property portfolio increased by £3.26 million (1.73%) over the quarter (31 March 2018: £0.74 million and 0.48%).
- NAV of £149.14 million or 98.40 pence per share (31 March 2018: £146.03 million or 96.36 pence per share).
- EPRA earnings per share ("EPRA EPS") for the quarter of 2.04 pence per share (31 March 2018: 1.76 pence per share), in line with the Company's target annual dividend of 8.00 pence per share. The increase in earnings compared with the prior quarter reflects a full quarter's income having been received from the five acquisitions made during the prior quarter.
- The Company today announces an interim dividend of 2.00 pence per share for the three months ended 30 June 2018.
- NAV total return of 4.28% and shareholder total return of 3.22% for the three months ended 30 June 2018.
- The Company remains conservatively geared with a gross loan to value ratio of 26.05% (31 March 2018: 26.00%).
- At 30 June 2018, the Company held £6.72 million cash for investment.
- There has been significant portfolio and asset management activity during the period at a number of assets including: part sale of Pearl Assurance House, Nottingham, a new lease at Cedar House, Gloucester and a reversionary lease renewal at 40 Queen Square, Bristol. Further details are provided overleaf.
- Post period-end, the Company has completed a ten year lease renewal with Greggs Plc. at its retail property located on Commercial Road in Portsmouth. The new rent agreed exceeds the unit's previous ERV by 11%.

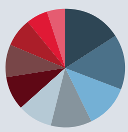
Sector Weightings



Industrial	43.3%
Offices	24.0%
Other	15.6%
Standard Retail	12.1%
Retail Warehouse	5.0%

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

Portfolio Locations



Yorkshire and Humberside	16.11%
South East	14.82%
South West	12.01%
Eastern	11.16%
East Midlands	9.42%
West Midlands	9.22%
North West	8.80%
Wales	7.67%
Rest of London	5.97%
Scotland	4.82%
Central London, North East, Northern Ireland	0.00%

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

Investment Summary

Following a strong quarter of acquisitions for the Company at the start of the year, Q2 has seen the portfolio benefit from a number of asset management transactions and, as we are now entering our fourth year of investment, the portfolio is looking very well established with business plans beginning to mature across many of the assets. As a result of this, we have seen vacancy within the portfolio fall from 7.1% in Q1 to 5.3% as at the end of Q2. We are very pleased with this result. This further supports the Company's ability to pay its target dividend of 8p per share per annum, which remains the highest in its peer group. We expect the level of vacancy to decline further during the remainder of 2018.

We have also seen some strong leasing performance over the quarter with new lettings or lease renewals achieved in Bristol, Runcorn and Wakefield all showing levels ahead of ERV. Bristol and Runcorn in particular have benefitted from strong valuation growth, with Wakefield being a new acquisition showing strong potential for the future.

In terms of the wider market, we continue to see polarised performance from the various sectors. Industrial still represents a strong area for continued growth, both in terms of income and capital value. We therefore see attractive acquisition opportunities in this sector, as evidenced by our various industrial acquisitions over the past 12 months. Conversely, the retail market outside major city centres appears to be much less robust, however all of the assets acquired by the Company over the past three years have been acquired with this underlying economic backdrop in mind. As such, they have been made with very conservative rental performance assumptions and show low entry values that will support alternative uses. We are therefore making sure that, in these cases, downside protection for investors is backed up with supports such as the ground work required for change of use consents and redevelopment. As in recent quarters, office performance remains location dependent, with centres such as Bristol still showing strong expectations of growth.

To date, the Company's income stream has not been affected by the myriad of Company Voluntary Arrangements ("CVAs") seen of late in the retail sector, which can allow for tenants in financial distress to restructure their rent obligations, often at the landlord's expense. Only one tenant has been affected and, in this case, an under tenant was already in place to pay the rent. This provides further evidence of the Company's effective stock selection process and the rigorous approach that AEW, as manager, applies to its acquisition analysis and due diligence. We believe that this is the best approach to providing our investors with both strong performance and long term value protection.

Company Update

Broker change

During May the Company announced that it had appointed Liberum Capital Ltd to act as its sole broker and nominated corporate advisor. The Investment Manager welcomes this new appointment given Liberums successful track record as a trusted advisor to a number of similar companies.

Q2 Disposals

Pearl Assurance House, Nottingham

- Sale of upper floors for £3.65 million reflecting a net initial yield of 6.9%
- Vacancy at portfolio level reduced by by 1.5%
- Retention of fully let ground floor accommodation in this busy city centre location with a running yield of 9.5%

Q2 Asset Management

Cedar house, Gloucester

- Lease renewal to the Secretary of State for Communities and Local Government completed
- A 10 year lease at a rent of £321,000 per annum exceeds expectations at purchase
- Value has risen by 20.3% over the quarter

40 Queen Square Bristol

- Lease renewal to Ramboll Whitbybird Ltd completed
- New 10 year term and rental increase of 37%
- Value has risen by 9.8% over the quarter

Diamond Business Park, Wakefield

- New letting at Unit 7, totalling c 13,700 sq ft
- Stepped rental increases show an average rent receivable over the term of £3.30 per sq ft which is above ERV
- Value has risen by 1.8% over the quarter

10 largest assets	Location	Sector
Geddington Road	Corby	Other
40 Queens Square	Bristol	Other offices
London East Leisure Park	Dagenham	Other
Plastipak UK Ltd	Wrexham	Industrial
225 Bath Street	Glasgow	Other offices
Eastpoint Business Park	Oxford	Other offices
69, 71, 73 and 75 Above Bar Street	Southampton	Standard retail
Barnstaple Retail Park	Barnstaple	Retail warehouses
Unit 16 and Unit 16a Langthwaite Grange Industrial Estate	South Kirkby	Industrial
Commercial Road	Portsmouth	Standard Retail

As at 30 June 2018.

The management team

Richard Tanner, Managing Director – AEW UK

Alex Short, Portfolio Manager

Laura Elkin, Assistant Portfolio Manager

Key contacts New investors: Dana Eisner | dana.eisner@eu.aew.com | T: 020 7016 4883 Existing investors: Kari Clarke | kari.clarke@eu.aew.com | T: 020 7016 4804