

Quarterly Update

Q2 20

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): £148.24m

47.8% of the Company's portfolio valuation as at 30 June 2020, which includes all of its assets that do not sit within the industrial sector, is subject to material uncertainty as per VPS 3 and VPGA 10 of the RICS Red Book Global, due to the unprecedented set of circumstances surrounding the COVID-19 Global Pandemic. The industrial sector was removed from this clause a short time prior to the valuation date.

Property valuation: £171.49m

Number of properties held: 34

Average lot size: £5.04m

Property portfolio net initial yield (% p.a.): 8.20%

Property portfolio reversionary yield: 8.20%

LTV (Gross Asset Value): 30.03%

Average weighted unexpired lease term

To break: 4.9 years **To expiry:** 6.3 years

Occupancy: 95.7%* * As a % of ERV

Number of tenants: 89

Share price as at 30 Jun: 66.6p

NAV per share: 93.37p **Premium/(discount) to NAV:** (28.67%)

Shares in issue: 158.77m

Market capitalisation: £105.74m

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 of 8.00 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

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

Fund Highlights

- On 23 July the Company announced an interim dividend of 2.00 pence per share for the three months ended 30 June 2020, in line with the targeted annual dividend of 8.00 pence per share.
- EPRA earnings per share ("EPRA EPS") for the quarter of 1.81 pence (31 March 2020: 2.12 pence).
- NAV of £148.24 million or 93.37 pence per share as at 30 June 2020 (31 March 2020: £147.86 million or 93.13 pence per share).
- NAV total return of 2.40% for the quarter (31 March 2020: -2.17%).
- During the quarter, the Company disposed of 2 Geddington Road, Corby, for gross proceeds of £18.80 million, 25% ahead of prior valuation. The property was purchased for £12.40 million in February 2018.
- EPRA occupancy 95.70% (31 March 2020: 96.32%). During the quarter, the Company completed a 15 year lease renewal with the Secretary of State for Housing, Communities and Local Government at Sandford House, Solihull. The asset increased in value by 37% over the quarter.
- For the rental quarter commencing on 24 June, as at 23 July, 84% of rent had so far been collected or was expected to be received under monthly payment plans prior to quarter end. A further 6% of income is expected to be received under agreed, longer term payment plans with an additional 4% still under negotiation. It should be noted that this is an evolving situation with further payments being received each week.
- The Company remains conservatively geared with a gross loan to value ratio of 30.03% (31 March 2020: 27.21%). The Company had a cash balance of £28.09 million and net loan to value ratio of 13.65% as at 30 June 2020. Post quarter-end, the Company repaid £12.00 million of the facility, reducing the gross loan to value to 23.03%.

Portfolio Managers' Comment

We are very pleased to be able to announce an increase in NAV for the quarter providing a NAV total return of 2.4%. This success is a result of two main factors, firstly, the unceasing hard work carried out by our asset management team whose proactive approach is such a key piece of the AEWU strategy. Asset Management gains have resulted in two significantly NAV accretive wins for the Company during the period at our asset in Solihull and our former asset in Corby. Both of these transactions are examples of the Investment Manager's major business plans reaching fruition and it has been very encouraging to see our assets demonstrating such resilience in the current market. The second factor is the defensive nature of the portfolio's assets. This, combined with the portfolio's majority weighting in the industrial sector, we believe will continue to provide a robust base for investors' capital.

Another major focus of the Investment Manager in recent weeks has been to take steps to ensure that the Company has the ability to retain its conservative outlook towards its borrowings across a range of market conditions, including the current market. We have therefore taken a number of steps during the period including amending the facility to allow unrestricted rights of repayment and draw down which will allow AEWU to bring its borrowing below its long term target of 25% in the short term whilst not prejudicing its ability to access borrowing over the long term. Another action taken has been to obtain a waiver of interest cover covenant tests until

2021 with the lender pledging further support past this date if needed. These changes were enacted despite banking covenants having been passed with significant headroom.

A highlight of the Company's announcement on 23 July was confirmation of the Company's dividend of 2p per share for the quarter to 30 June 2020. We are very pleased to be able to announce this as it shows the continuation of the Company's track record, now in excess of 4 years, in paying dividends at this level. Our strong performance in achieving the sale of Corby during May at a level 25% ahead of valuation, has created a significant profit in cash reserves that we can call on at this time. Going forward, we would hope to see normalisation in our rent collection that will continue to support the dividend at this level over the long term.

The aforementioned sale of Corby leaves the Company holding a significant cash balance which we believe is advantageous in current market conditions as it increases Management optionality. We have held regular discussions with the Board over recent weeks to assess potential uses of this capital and this has led to the approval of a share buy-back programme under which the Company's corporate advisor, Liberum Capital, can use its discretion to buy-back shares within set parameters. In addition, we believe that the investment market will continue to yield attractive purchasing opportunities over coming weeks and months and we are currently analysing a number of opportunities within our pipeline.

The like-for-like valuation decrease for the quarter of £2.81 million (1.61%) by sector is broken down as follows:

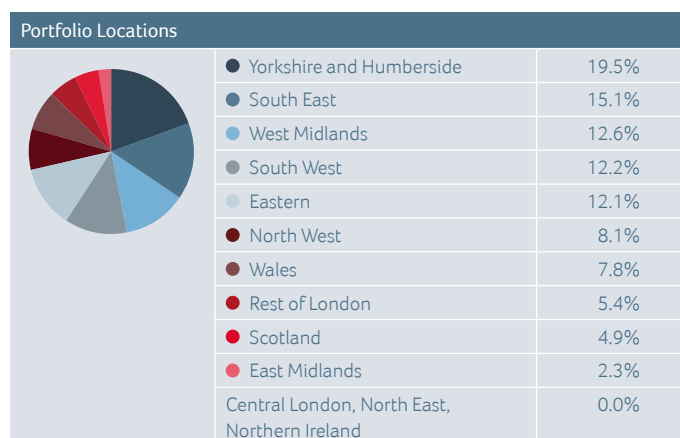
Sector	Valuation 30 June 2020		Valuation movement for the quarter	
	£ million	%	£ million	%
Industrial	89.61	52.2	-1.59	-1.75
Office	46.25	27.0	1.35	3.01
Retail	22.48	13.1	-0.92	-3.91
Other	13.15	7.7	-1.65	-11.15
Total	171.49	100.0	-2.81	-1.61

10 largest assets	Location	Sector
40 Queens Square, Bristol	South West	Offices
Eastpoint Business Park, Oxford	South East	Offices
Sandford House, Solihull	West Midlands	Offices
London East Leisure Park, Dagenham	Rest of London	Other
Gresford Industrial Estate, Wrexham	Wales	Industrial
225 Bath Street, Glasgow	Scotland	Offices
Lockwood Court, Leeds	Yorkshire and Humberside	Industrial
Unit 16 and Unit 16a Langthwaite Grange Industrial Estate, South Kirkby	Yorkshire and Humberside	Industrial
Storeys Bar Road, Peterborough	Eastern	Industrial
Apollo Business Park, Basildon	Eastern	Industrial

As at 30 June 2020.



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



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

Asset Management Update

2 Geddington Road, Corby

On 22 May, the Company disposed of its largest asset for £18.80 million, 25% ahead of the March 2020 valuation and 52% ahead of its acquisition price in 2018. The asset had been delivering an income stream to the Company of 10% per annum.

Sandford House, Solihull

During June, the Company completed a 15 year renewal lease with the Secretary of State for Housing, Communities and Local Government which documents the increase of rental income from the property by 30%. The Company has so far received a net income yield from the asset of 9% per annum and the property's value increased by 37% over the quarter. No incentive was given to the tenant.

Bank Hey Street, Blackpool

During May, the Company signed a reversionary lease with existing tenant JD Wetherspoon taking the earliest possible lease expiry date from 2025 to 2050.

Bessemer Road, Basingstoke

Post period end, the Company has completed a 5 year lease renewal. No rent free incentive was given to the tenant and the new lease secures a rental income to the Company 6% ahead of independent valuer's estimated levels.

The management team



Richard Tanner
Managing
Director – AEW UK



Alex Short
Portfolio
Manager



Laura Elkin
Portfolio
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