

AEW UK REIT plc invests in and intensively asset manages a value-focused portfolio of high yielding commercial properties across the UK



## FUND HIGHLIGHTS

- NAV of £166.24 million or 104.93 pence per share as at 31 December 2022. (30 September 2022: £193.08 million or 121.88 pence per share).
- NAV total return of -12.26% for the quarter
- 10.82% like-for-like valuation decrease for the quarter.
- Share price total return of 10.68% for the quarter.
- EPRA earnings per share ("EPRA EPS") for the quarter of 1.34 pence (30 September 2022 quarter: 1.08 pence).
- Interim dividend of 2.00 pence per share for the three months ended 31 December 2022, paid for 29 consecutive quarters and in line with the targeted annual dividend of 8.00 pence per share.
- Loan to NAV ratio at the quarter end was 36.09% (30 September 2022: 31.07%). Significant headroom remains on all loan covenants.
- Acquisition of two high yielding retail assets.
- Central Six Retail Park, Coventry: exchanged two agreement for leases. Completed two lease renewals.
- £6.50 million available for deployment on new purchases.
- 98% of rental income collected, consistent with each quarter since the onset of the COVID pandemic.

## PORTFOLIO MANAGER'S COMMENTARY

Following interest rate rises and the unfolding UK macro-economic backdrop, real estate valuations across all market sectors, in particular at the prime end of the industrial and warehousing sector, fell significantly during the quarter. The value of the Company's assets has not been immune from this trend with like-for-like value loss of 10.82% during the quarter ending 31 December. Nevertheless, this compares favourably to wider market declines with the CBRE monthly index showing capital value falls of 6.8%, 5.5% and 3% for all UK property in October, November and December respectively. This indicates total value loss in the index of 14.57% during the quarter.

Volatile markets can present significant opportunities for an actively managed value strategy such as our own and, following a number of timely disposals which helped to maximise the values of key assets during the summer of 2022, we purchased two high-quality retail assets over the period. During the quarter, vendor requirements for sale led to valuations moving materially in favour of purchasers and this has allowed AEWU to access quality locations at more favourable pricing. This opportunity is also demonstrated in our investment pipeline where attractive assets in a number of sectors can currently be bought at income levels that are accretive to the Company's earnings and at capital values in line with their long-term fundamentals.

The Company's diversified exposure and active asset management style help provide investors with counter-cyclical performance from some assets, with the values of several properties bucking wider market trends - either gaining or

holding value during the quarter as a result of accretive business plans. The Odeon Cinema in Southend on Sea increased in value by 37 per cent. during the period as a result of a completed lease renewal. In addition, four new leases or agreement for leases were completed at the Central Six Retail Park in Coventry and the value of the asset remained the same during the quarter. Further capital and income growth is expected in future periods as a result of our focus on active asset management.

Other tenant lettings continued this quarter and we completed leases with Sports Direct in Blackpool and Konica Minolta in Bristol. Generally, occupier health remains resilient, with a number of occupiers either choosing not to action lease break options during the quarter or entering into renewal discussions.

The Company's EPS for the quarter remains below target. The full benefit of income earned from recent purchases is yet to be seen and a

further sum of £6.50 million remains available for deployment on new purchases, while retaining sufficient cash for working capital. As previously stated, our projections indicate a return to full dividend cover during the third quarter of 2023, assuming full investment of the Company's cash resources at this time and with assets such as Coventry benefitting from improved levels of income as a result of this quarter's letting activity.

Reflecting on the strategy's overall performance, we are comfortable with the Company's position, especially following the prudent decisions taken on debt refinancing during 2022.

### Valuation movement

As at 31 December 2022, the Company owned investment properties with a fair value of £209.37 million. The like-for-like valuation decrease for the quarter of £23.18 million (10.82%) is broken down as follows by sector:

SECTOR	VALUATION 31 DECEMBER 2022		VALUATION MOVEMENT FOR THE QUARTER	
	£ million	%	£ million	%
Industrial	95.88	45.80	-17.45	-15.39
Office	16.09	7.68	-0.66	-3.94
High Street Retail	40.20	19.20	-2.80	-11.34
Retail Warehouses	37.30	17.82	-2.40	-6.05
Leisure	19.90	9.50	0.13	0.63
<b>Total</b>	<b>209.37</b>	<b>100.00</b>	<b>-23.18</b>	<b>-10.82</b>

## FUND FACTS

### Portfolio Manager

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):** £166.24m

**Property valuation:** £209.37m

**Number of properties held:** 37

**Average lot size:** £5.66m

**Property portfolio net initial yield (% p.a.)**  
7.23%

**Property portfolio reversionary yield:** 8.85%

**LTV (Net Asset Value):** 36.09%

**Average weighted unexpired lease term**  
**To break:** 2.69 years **To expiry:** 4.18 years

**Occupancy:** 92.52%\* \* As a % of ERV

**Number of tenants:** 144

**Share price as at 31 Dec:** 101.6p  
**NAV per share:** 104.9p  
**Premium/(discount) to NAV:** (3.18%)

**Shares in issue:** 158.42m

**Market capitalisation:** £160.96m

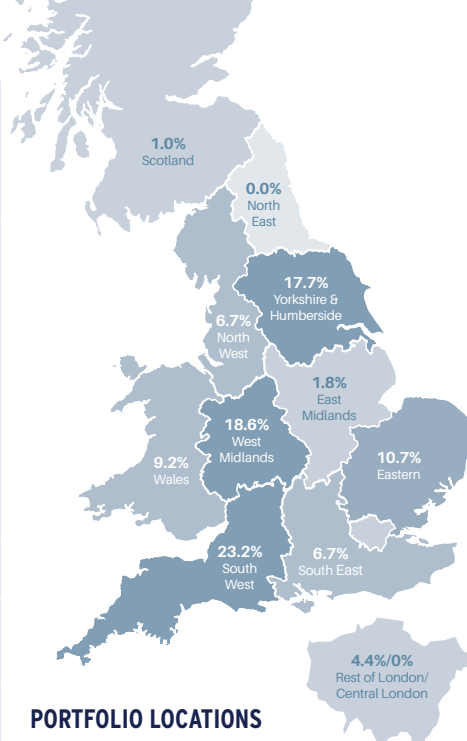
**Annual management charge**  
0.9% per annum of invested NAV

### 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 declared for the year ended 31 March 2022. Based on the current market conditions, the Company expects to pay an annualised dividend of 8 pence per Share in respect of the financial year ending 31 March 2023.

**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

### Central Six Retail Park, Coventry (retail/leisure)

The Company completed an agreement for lease with Aldi who will enter into a new 20-year lease with a 15-year tenant break option at a rent of £270,166 per annum. The letting is subject to landlord works at a cost of £894,212. The letting also includes a 12-month rent-free incentive.

The Company completed a five-year lease renewal with Next Group Plc. at a rent of £151,800 per annum, reflecting £15 per sq ft, with a nine-month rent-free incentive.

The Company completed a 10-year lease renewal with existing tenant Caspian Food Services Limited, trading as Burger King at a rent of £100,000 per annum, reflecting £40 per sq ft.

The Company completed an agreement for lease with new tenant Iceland Foods Limited. The tenant will enter into a new 10-year lease at a rent of £250,000 per annum, reflecting £16.51 per sq ft. The letting includes a three-month rent free and a £812,500 cash incentive which will be paid to the tenant on completion of the lease which is expected to be in November 2023.

### Odeon Cinema, Southend (leisure)

The Company has completed a five-year reversionary lease with Odeon Cinemas Ltd at the previous passing rent of £534,000 per annum. The valuation increase for the quarter was £1.35 million.

## SECTOR WEIGHTINGS



INDUSTRIAL	45.8%
RETAIL WAREHOUSE	17.8%
STANDARD RETAIL	19.2%
LEISURE	9.5%
OFFICES	7.7%

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

## TOP 10 ASSETS (BY VALUE)

Central Six Retail Park, Coventry	8.9%
Northgate House, Bath	6.2%
40 Queens Square, Bristol	5.6%
Gresford Industrial Estate, Wrexham	5.2%
London East Leisure Park, Dagenham	4.4%
15-33 Union Street, Bristol	4.3%
Lockwood Court, Leeds	4.2%
Arrow Point Retail Park, Shrewsbury	4.0%
Apollo Business Park, Basildon	3.4%
Units 1001-1004 Sarus Court, Runcorn	3.1%

### Pricebusters Building, Blackpool (retail/leisure)

The Company has completed a five-year lease renewal with Sports Direct. The lease has a tenant rolling break option, subject to 18 months term certain.

### 40 Queen Square, Bristol (office)

The Company has now completed on the lease with existing tenant, Konica Minolta Marketing Services Ltd, on the third floor. A new 10-year lease commenced on 19th December at a rent of £218,840 per annum, reflecting a new high rental tone for the building of £40 per sq ft.

## INVESTMENT UPDATE

### NEXT, Bromley (retail)

The Company completed the purchase of a freehold retail asset in Bromley for £5.30 million, reflecting a low capital value of £100 per sq ft and a net initial yield of 8.7%. The asset is let in its entirety to Next Holdings Limited.

### Northgate House, Bath (retail)

The Company completed the purchase of a 67,020 sq ft mixed-use block located in Bath city centre at a price of £13.00 million, reflecting a low capital value of £194 per sq ft and a net initial yield of 8.5%. The asset provides 48,805 sq ft of retail accommodation let to 11 tenants, anchored by TK Maxx. The remaining 18,215 sq ft of accommodation comprises grade A specification offices fully let to a wholly owned subsidiary of Regus Group until 2032.

## KEY CONTACT

### Investor Relations

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