

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 £169.56 million or 107.03 pence per share as at 30 June 2023 (31 March 2023: £167.10 million or 105.48 pence per share).
- NAV total return of 3.36% for the quarter (31 March 2023 quarter: 2.42%).
- 0.74% like-for-like valuation increase for the quarter (31 March 2023 quarter increase: 0.77%).
- EPRA earnings per share ("EPRA EPS") for the quarter of 1.75 pence (31 March 2023 quarter: 1.77 pence).
- Interim dividend of 2.00 pence per share for the three months ended 30 June 2023, paid for 31 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 35.39% (31 March 2023: 35.91%). Loan to GAV ratio at the quarter end was 30.54% (31 March 2023: 28.06%). Significant headroom remains on all loan covenants.
- Company continues to benefit from a low fixed cost of debt of 2.959% until May 2027.
- Disposal of an industrial holding at Deeside Industrial Estate for £4.75 million, reflecting an 8.0% premium to the 31 March 2023 valuation.
- Disposal of an industrial holding at Lockwood Court, Leeds, for £9.65 million, reflecting a 5.9% NIY and a 3.8% premium to the 31 March 2023 valuation.
- Disposal of an industrial holding at Euroway Trading Estate, Bradford, for £6.45 million, reflecting a 6.8% NIY and a 26.5% premium to the 31 March 2023 valuation.
- Post quarter end, purchase of a car park asset in central York for £10.02m, reflecting a NIY of 9.3%.
- Cash available for deployment as at 30 June 2023 of £25.0m, reduced to circa £15.0m following the post quarter end acquisition of York.
- 14 asset management transactions completed during the quarter.
- 99% of rental income collected, excluding the current rent quarter, consistent with each quarter since the onset of the COVID pandemic in March 2020.

PORTFOLIO MANAGER'S COMMENTARY

We are pleased to report continued NAV growth this quarter, demonstrating the resilience of the Company's strategy, even during times of prolonged economic uncertainty. This has been driven by a like-for-like valuation uplift of 0.74% in the Company's portfolio, following the completion of key asset management transactions and the profitable sale of three industrial assets at prices exceeding prior quarter-end valuations. These sales are also expected to be accretive to earnings, once the capital is redeployed, as yields achieved are notably lower than those observed in the Company's investment pipeline.

The Company continues to make progress in our aim to return towards full dividend cover. Earnings were, however, negatively impacted by 0.09 pence per share during the quarter due to an increase in bad debt provision for arrears relating to Wilko Retail at Union Street in Bristol after the tenant appointed CBRE to advise on its portfolio restructuring in June. Despite the route forward being as yet unclear, we have taken the prudent decision to provide for a majority of the outstanding arrears in the quarter but will continue to pursue the tenant's arrears using all appropriate means.

The Company has now committed to pay its market-leading dividend of 2.00 pence per share per quarter for 31 consecutive quarters, with EPS cover from EPRA earnings since IPO amounting to 94%. The remainder

of the Company's dividend payments have been funded by the significant sum of profit generated on the NAV accretive sale of assets. Further gains in EPS are expected in the coming quarters as high yielding purchases are completed and the ongoing programme of new lettings provides a boost to income streams.

Valuation movement

As at 30 June 2023, the Company owned investment properties with a fair value of £196.47 million. The like-for-like valuation increase for the quarter of £1.45 million (0.74%) is broken down as follows by sector:

SECTOR	VALUATION 30 JUNE 2023		VALUATION MOVEMENT FOR THE QUARTER	
	£ million	%	£ million	%
Industrial	77.29	39.34	1.49	1.97
Office	15.26	7.77	-0.04	-0.26
High Street Retail	39.32	20.01	-0.58	-1.45
Retail Warehouses	44.60	22.70	0.70	1.59
Leisure	20.00	10.18	-0.12	-0.62
Total	196.47	100.00	1.45	0.74*

*This is the overall weighted average like-for-like valuation increase of the portfolio.

INVESTMENT UPDATE - DISPOSAL



Excel 95, Deeside Industrial Estate (industrial)

The Company has completed the sale of its industrial holding in Deeside for £4,750,000, reflecting a capital value of circa £49 per sq ft. The 96,597 sq ft industrial unit, known as Excel

95, was acquired in July 2017 for £4,310,000, reflecting a 7.9% net initial yield. The property was let to Magellan Aerospace until they vacated in July 2022, paying a £250,000 dilapidations settlement. The Company has disposed of the vacant asset to an owner-occupier, with the price reflecting an 8.0% premium to the 31 March 2023 valuation. By disposing of the asset, the Company has also avoided a speculative refurbishment project costing approximately £1,000,000.



Euroway Trading Estate, Bradford and Lockwood Court, Leeds (both industrial)

During June, the Company completed the sale of two industrial assets, being Euroway Trading Estate, Bradford and Lockwood Court, Leeds, for combined proceeds of £16,100,000. This reflects a blended net initial yield (NIY) of 6.2% and a weighted average premium to acquisition price of 31.2%.

Euroway Trading Estate was acquired in November 2016 for £4,950,000, reflecting an 8.1% NIY. Lockwood Court was acquired in February 2019 for £7,320,000, reflecting a 7.7% NIY.

Both sales realise significant profit for AEWU's shareholders. For Euroway Trading Estate and Lockwood Court respectively, their sale prices exceeded their 31 March 2023 valuations by 26.5% and 3.8%, as well as their acquisition prices by 30.3% and 31.8%. Reinvestment of the sales proceeds into comparatively higher yielding pipeline assets will be accretive to the Company's earnings.

INVESTMENT UPDATE - PURCHASE



Tanner Row, York (car park)

In July, the Company completed the acquisition of a mixed use asset within York city centre for £10,020,000, reflecting an attractive net initial yield of 9.3%. The site totals 0.8 acres and is well located inside the York City Wall, bounding the historic centre of the city, within the "Micklegate Quarter".

The 99,769 sq ft asset is multi-let to five tenants, with 75% of the income received from National Car Parks Ltd who have a further nine years remaining. NCP have occupied the 297-space car park since 2005 and the lease benefits from a 2027 rent review which will increase rent payable in line with uncapped Retail Price Index, resulting in a forecast reversionary yield in excess of 10%. A further four tenants occupy ground and first floor retail and office accommodation fronting onto George Hudson Street.

ASSET MANAGEMENT UPDATE

The Company completed the following asset management transactions during the quarter:



Central Six Retail Park, Coventry (retail warehousing)

In April, the Company completed a lease renewal with existing tenant, Grahams Baked Potatoes Limited. The tenant has entered into a new four-year lease with rolling mutual break options at a rent of £24,500 per annum, equating to £45 per sq ft.

In May, the Company completed a lease renewal with existing tenant, Oak Furnitureland Group Limited, for Unit 12. The tenant has entered into a new two-year lease with rolling mutual break options at a rent of £25,000 per annum, equating to £2.50 per sq ft. This flexible renewal will facilitate a longer-term transaction to a new tenant, which is currently being negotiated.

In May, the Company also completed a reversionary lease with existing tenant, Boots UK Limited, for Unit 7. The tenant has entered into a new five-year lease with effect from 28 February 2024 at a rent of £259,293 per annum, equating to £14.25 per sq ft. The letting also includes seven and a half months' rent free taken under the existing lease.

In June, the Company completed the acquisition of the freehold interest in units 1-11, which had previously been held by way of long leasehold from Friargate JV Projects Limited. The acquisition of the freehold interest is expected to increase the liquidity of the asset in case of its future sale and also removes user restrictions within the long lease which are constrictive to lettings. In exchange for the freehold interest, the Company has granted to Friargate JV Projects an option to acquire the Company's long leasehold interest in units 12 A & B over a five-year period, commencing in two years' time.

Post quarter end, the Company completed a new 20-year lease to Aldi Stores Limited, following the completion of the agreement for lease in October 2022. The lease provides an annual rent of £270,166 per annum, reflecting £13 per sq ft, to be reviewed every five years based on compounded annual RPI, collared and capped at 1% and 3% respectively. The lease provides Aldi with a 12-month rent-free incentive and a tenant break option at year 15.



Barnstaple Retail Park, Barnstaple (retail warehousing)

The Company has completed an eight-year reversionary lease with B&Q from 29 September 2024 at the current passing rent of £348,000 per annum (£9.75 per sq ft). In return, the tenant has been granted a six-month rent-free period.



40 Queens Square, Bristol (office)

After protracted negotiations, the Company has settled three outstanding rent reviews at the building dating back to 2021 and 2022 with the following tenants: Leonard Curtis Recovery Limited, Chapman Taylor LLP, and Turley Associates. The outcome of the reviews will see the annual rent from the three tenants increase from £213,812 per annum to £281,550, reflecting a 32% uplift.



Arrow Point Retail Park, Shrewsbury (retail warehousing)

The Company has completed a three-year lease to Universal Consumer Products Limited at a rent of £110,000 per annum (£8 per sq ft). The previous passing rent was £95,844 (£7 per sq ft). No lease incentive was given.

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): £169.56m

Property valuation: £196.47m

Number of properties held: 33

Average lot size: £5.95m

Property portfolio net initial yield (% p.a.)
7.66%

Property portfolio reversionary yield: 8.68%

LTV (Net Asset Value): 35.39%

Average weighted unexpired lease term
To break: 3.31 years **To expiry:** 4.26 years

Occupancy: 92.68%* * As a % of ERV

Number of tenants: 136

Share price as at 30 Jun: 92.7p
NAV per share: 107.03p
Premium/(discount) to NAV: (13.39%)

Shares in issue: 158.42m

Market capitalisation: £146.86m

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 declared for the year ended 31 March 2023. 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 2024.

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Ticker: AEWU **SEDOL:** BWD2415



Oak Park, Droitwich (industrial)

The Company has completed a new three-year ex-Act lease on units 266-270 to Roger Dyson at a stepped rent starting at £123,000 per annum in year one, £135,000 per annum in year two and £148,000 per annum in year three. There is a mutual break option on the expiry of the second year. The tenant was granted a one-month rent free period.

The Company has also completed a new three-year ex-Act lease to Adam Hewitt Ltd at units 263 and 265 at a rent of £70,000 per annum. There is a tenant break option after the first year. No rent incentive was given.



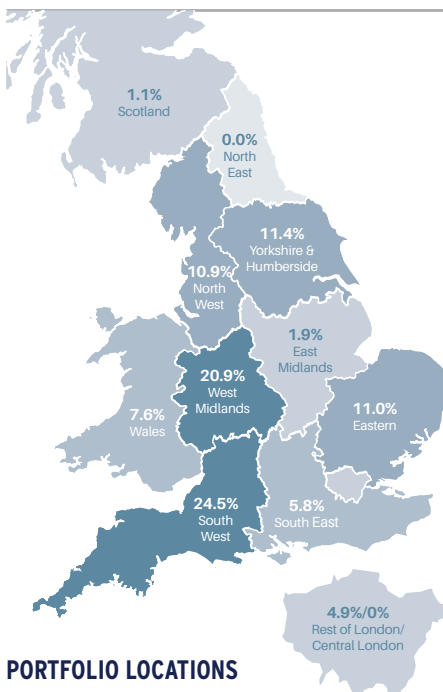
Diamond Business Park, Wakefield (industrial)

In April, the Company completed the settlement of an open market rent review with Tasca Tankers, dating back to June 2022. The review will see the rent received increase from £209,000 to £229,900 per annum, reflecting an uplift of 9.6%.



Northgate House, Bath (retail)

In June, the Manager completed a new five-year ex-Act lease to Dimension Vintage limited at a rent of £40,000 per annum. Four months' rent-free has been granted.



PORTFOLIO LOCATIONS

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

SECTOR WEIGHTINGS



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

TOP 10 ASSETS (BY VALUE)

Central Six Retail Park, Coventry	10.1%
Northgate House, Bath	6.7%
Gresford Industrial Estate, Wrexham	6.1%
40 Queens Square, Bristol	6.0%
London East Leisure Park, Dagenham	4.9%
Arrow Point Retail Park, Shrewsbury	4.3%
15-33 Union Street, Bristol	4.0%
Units 1001- 1004 Sarus Court, Runcorn	3.7%
Apollo Business Park, Basildon	3.6%
Matalan, Preston	3.3%

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