## AEW UK REIT Plc (AEWU/The Company)

# Quarterly Update

# Q1 21

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

### Fund Highlights

- Interim dividend of 2.00 pence per share for the three months ended 31 March 2021, in line with the targeted annual dividend of 8.00 pence per share.
- EPRA earnings per share ("EPRA EPS") for the quarter of 1.10 pence (31 December 2020 quarter: 1.68 pence).
- NAV of £157.08 million or 99.15 pence per share as at 31 March 2021 (31 December 2020: £151.88 million or 95.87 pence per share).
- NAV total return of 5.51% for the quarter (31 December 2020: 5.53%).
- During the quarter the Company completed the sale of Sandford House, Solihull at a price of £10.5 million. The asset was acquired in August 2015 for £5.4 million and the Company invested no further capital in the asset during its hold period.
- The Company remains conservatively geared with a loan to NAV ratio of 25.15% (31 December 2020: 26.01%). As at 31 March 2021, the Company had a cash balance of £17.45 million and has £15.48 million of its loan facility available to draw up to the maximum 35% Loan to NAV at drawdown.
- Having sold two properties in the past 12 months, the Company is currently in the process of acquiring new assets.
- For the rental quarter commencing on 25 March 2021, 84% 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.

### Portfolio Managers' Comments

We are pleased to see continued NAV recovery during the quarter, driven by the strong performance of the Company's industrial properties which saw a like-for-like valuation increase of 5.78%. Changing consumer habits and the resulting improved sentiment towards the industrial sector have been accelerated somewhat by the pandemic and, as the general economic outlook begins to improve with the effective rollout of vaccines and the easing of lockdown measures, we are beginning to see this reflected in valuations. In this respect, the Company benefits from its high weighting towards industrials, which was 60.8% of the portfolio valuation (excluding cash) as at 31 March 2021. Weightings in the retail and leisure sectors, which have been most negatively affected by the pandemic, remain low at 11.6% and 7.0% respectively.

The Company also saw a steep like-for-like valuation increase of its business park in Oxford, increasing 19% to a value of £13.15 million. This reflects the investment market's strong appetite for properties and locations associated with life sciences and the medical industry.

Stock selection and active asset management continue to be key features of the Company's strategy and drivers of performance. During the quarter, the Company completed the sale of Sandford House, Solihull, for gross proceeds of £10.5 million, delivering an IRR in excess of 20% over the hold period (further details in Asset Management Update).

The Company's EPRA EPS was 1.10 pps for the quarter, providing dividend cover of 55.0% (31 December 2020: 1.68 pence and 84.0%). This fall in earnings is partly due to the Company's prudent doubtful debt provision policy, which reduced EPRA EPS by £0.52 million or 0.33 pps this quarter. While rent collection rates have remained high throughout the pandemic, there remain certain tenants who appear able, but unwilling, to pay. These tenants are being pursued, following the Company's recent success in Court against two of its larger national tenants who have withheld rent (further details provided overleaf).

The Company's income also fell following the disposal of Sandford House, Solihull, on 1 February 2021, amounting to a loss of income of c. £0.11 million (0.07 pps) during the quarter. As at 31 March 2021, the Company had a cash balance of £17.45 million and has £15.53 million of its loan facility available to draw up to the maximum 35% Loan to NAV at drawdown. As the economic backdrop improves, this spending power puts the Company in a good position to take advantage of attractive opportunities coming to the market and it is our aim over the coming months to return the Company to a position of being fully invested and increase EPRA EPS to its target of 8 pps per annum.

Ongoing remedial works at the Company's property in Blackpool, which amounted to 0.13 pps for the quarter, and a high level of vacancy at its property in Glasgow, which has exchanged to be sold subject to achieving planning for student accommodation and vacant possession, are also temporarily restricting the Company's earnings potential. Both are expected to be complete by early 2022.

We are encouraged that the Company's defensive strategy and diversification has allowed it to manage its risk profile during this turbulent economic period, while maintaining its target dividend of 8 pps per annum and increasing its NAV per share in comparison with the pre-pandemic level. As lockdown measures begin to ease, and the economic outlook improves, we believe the Company is well positioned to take advantage of opportunities in the market and our short term focus will be to optimise shareholder value from the deployment of available cash and debt, with a view to restoring earnings to target levels.

As at 31 March 2021, the Company owned investment properties with a fair value of £179.00 million. The like-for-like valuation increase for the quarter of £6.85 million (3.98%) is broken down as follows by sector:

| Sector | Valuation 31 March 2021 | | Valuation movement for the quarter | |
|---|---|---|---|---|
| | £ million | % | £ million | % |
| Industrial | 108.85 | 60.81 | 5.95 | 5.78 |
| Office | 36.80 | 20.56 | 1.75 | 4.99 |
| Retail | 20.80 | 11.62 | -0.85 | -3.93 |
| Leisure | 12.55 | 7.01 | 0.00 | 0.00 |
| Total | 179.00 | 100.0 | 6.85 | 3.98 |

## 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):** £157.08m

**Property valuation:** £179m

**Number of properties held:** 34

**Average lot size:** £5.26m

**Property portfolio net initial yield (% p.a.):** 7.0%

**Property portfolio reversionary yield:** 8.2%

**LTV (Net Asset Value):** 25.15%

**Average weighted unexpired lease term**
**To break:** 4.8 years **To expiry:** 6.3 years

**Occupancy:** 94.4%* * As a % of ERV

Occupancy is stated excluding vacancy contributed by the asset at 225 Bath Street Glasgow (the overall level is 91.0% 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:** 99

**Share price as at 31 Mar:** 83.0p
**NAV per share:** 99.15p
**Premium/(discount) to NAV:** (16.3%)

**Shares in issue:** 158.42m

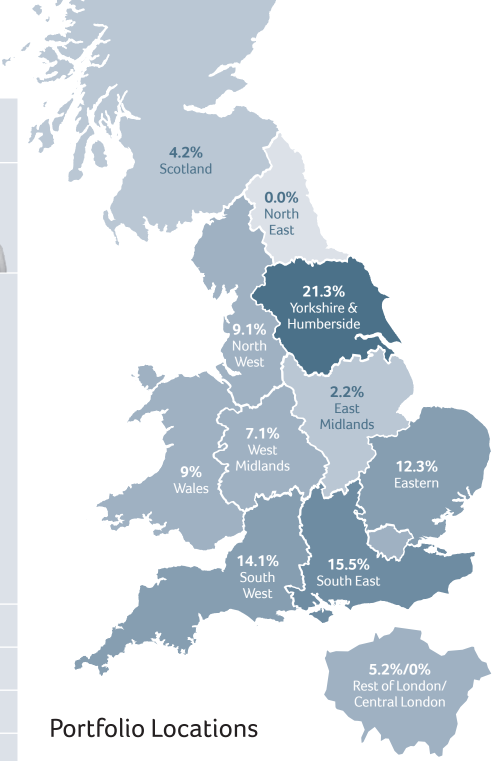
**Market capitalisation:** £131.49m

**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

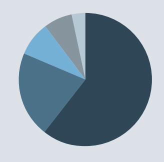
**Ticker:** AEWU **SEDOL:** BWD2415




## Portfolio Locations

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

## Sector Weightings



| | |
|---|---|
| Industrial | 60.8% |
| Offices | 20.6% |
| Standard Retail | 8.5% |
| Leisure | 7.0% |
| Retail Warehouse | 3.1% |

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

## Top 10 Assets (by value)

| | |
|---|---|
| Eastpoint Business Park, Oxford | 7.35% |
| Gresford Industrial Estate, Wrexham | 6.42% |
| 40 Queens Square, Bristol | 5.92% |
| London East Leisure Park, Dagenham | 5.17% |
| Unit 16 and Unit 16a Langthwaite Grange Industrial Estate, South Kirkby | 4.61% |
| Lockwood Court, Leeds | 4.53% |
| Storeys Bar Road, Peterborough | 4.25% |
| 225 Bath Street, Glasgow | 4.19% |
| Units 1001-1004 Sarus Court, Runcorn | 3.83% |
| Bridge House, Bradford | 3.46% |

## Result of legal proceedings

The Company is pleased with the successful outcome of its legal action against two well-funded national tenants to recover unpaid rent. In addition, the Company has written to the tenants to claim the outstanding rent arrears that have fallen due for payment since the claims were issued. The combined total of the amount already claimed and the outstanding rent arrears is £1,200,566, including VAT.

The expected receipt of the outstanding amounts that have previously been provided for will contribute to the Company's EPRA EPS. AEWU has always made it clear that it will take legal action against well-resourced companies that it believes are able to pay their rent and have sought to take advantage of government legislation intended to protect financially vulnerable tenants.

## Asset Management Update

**Sandford House, Solihull**
The Company has completed the sale of Sandford House for £10.5 million, achieving an IRR in excess of 20%. The property was acquired in August 2015 for £5.4 million with the Company investing no further capital in the asset during its hold period. Significant value was gained from the completion of a 15 year lease with the existing tenant, the Secretary of State, at 30% above the passing rent.

**Land off Chester Road, Gresford**
The Company has completed on the acquisition of a 2.76 acre plot of land adjacent to its existing industrial holding at Wrexham for a price of £60,200. The land has rights over the Company's existing ownership, therefore the purchase of this land prevents any risks from third parties demanding access. Plastipak, the tenant of the existing property, is potentially interested in expanding into this newly acquired piece of land.

**Clarke Road, Milton Keynes**
Following the administration of the previous tenant, a new letting has been completed to Run My Car Ltd with a parent company guarantee. The letting provides for a new 10 year lease with a tenant break at the end of the fifth year, subject to a 3 month rent penalty being paid by the tenant if exercised. The commencing rent of £185,000 pa equates to £5 per sq ft, with an open market rent review at the end of the fifth year. Only three months' rent free was given and the administrator paid all the rent due up to lease completion. In completing this letting we have let the unit to a stronger tenant and now have the benefit of a parent company guarantee.

## Key contact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