

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 £193.08 million or 121.88 pence per share as at 30 September 2022 (30 June 2022: NAV of £200.40 million or 126.50 pence per share)
- NAV total return of -2.07% for the quarter
- 3.71% like-for-like valuation decrease
- EPRA earnings per share for the quarter of 1.08 pence
- Interim dividend of 2.00 pence per share for the three months ended 30 September 2022, paid for 28 consecutive quarters
- Loan to NAV ratio at the quarter end was 31.07%
- Capital available for deployment of £38.28 million
- Cost of debt fixed at 2.959% in May 2022 for the next five years
- Share price total return of -16.89% for the quarter
- Acquisition of JD Gyms, Glasgow, for a purchase price of £2.60 million
- Completed sale of Moorside Road, Swinton, for £1.71 million
- Completed sale of Bath Street, Glasgow, for £9.30 million
- Completed sale of Eastpoint Business Park, Oxford, for £29.0 million, producing an IRR in excess of 22%
- New ten-year lease to Senior Architectural Systems Ltd at Mangham Road, Rotherham, providing a significant uplift in income

## PORTFOLIO MANAGERS COMMENTARY

With its low fixed cost of debt and value investment style, we believe that the Company's portfolio is robustly positioned to withstand the challenges presented by current market conditions. We expect the number and extent of value investment opportunities in the direct property market to increase against this economic backdrop. The Company's current high weighting of cash and the fact that its strategy is unconstrained by sector leave it well placed to benefit from upcoming investment opportunities. In addition, we are seeing resilience in occupational demand from the Company's tenants. Following full investment of capital available for deployment, the Company's earnings are expected to return to full cover of its dividend, which has now been paid for 28 consecutive quarters.

We are currently analysing a pipeline of potential acquisitions, including those assets that the Company had placed under assessment over the summer, albeit these are being re-evaluated against today's pricing. The focus of the Company's investment strategy remains to return to full investment and to full cover of its dividend. We believe that balancing the Company's upcoming investment rate against current and prospective pipeline opportunities will be beneficial to shareholder total returns.

The Company's current weighting to cash is reflected in low earnings for the quarter, which are depressed by lost rental income from disposals as well as one-off costs associated with improvement works being undertaken at a number of the portfolio's holdings. These works include those detailed below in Bristol and Rotherham which are both associated with new lettings that will be accretive to the Company's earnings going

forward. The Company's prudent accounting provision for doubtful debtors has also been increased this quarter, given the deteriorating economic outlook. The Company will continue to pursue all outstanding arrears. Our prudent projections indicate a return to full dividend cover during the third quarter of 2023, following the Company's intended return to full investment during the first half of the year.

We believe that the Company and its portfolio are defensively positioned to weather higher interest rates for a number of reasons. The Company took the prudent decision to complete a full refinancing of its loan in May 2022, fixing its cost of debt below 3% for the next five years. This will protect the Company from the impact of rising interest rates on its cost of borrowing.

Although the outlook from a capital market perspective is one of increased volatility, we

are not seeing this reflected in the uptake by tenants of the portfolio's occupational space. Active asset management is a key driver of value and income resilience within the Company and, during the quarter, we agreed terms with three key tenants to take space, all of which were in line with the rental estimates of our independent valuer, Knight Frank.

Several of these lettings have been in the portfolio's industrial assets, including the letting in Rotherham to Senior Architectural Systems Ltd. This activity highlights the ongoing demand from industrial occupiers at a time when the sector's capital values have generally declined. The Company's industrial holdings show an average passing rent of £3.37 per sq. ft. and, despite the expectation of some medium-term volatility in capital values, are expected to continue to deliver growth over the long term from this low starting point.

SECTOR	VALUATION 30 SEPTEMBER 2022		VALUATION MOVEMENT FOR THE QUARTER	
	£ million	%	£ million	%
Industrial	113.32	52.89	-7.65	-6.32
Office	16.75	7.82	-0.15	-0.96
High Street Retail	24.70	11.53	-	-
Retail Warehouses	39.70	18.53	-0.35	-0.87
Leisure	19.78	9.23	-	-
<b>Total</b>	<b>214.25</b>	<b>100.00</b>	<b>-8.15</b>	<b>-3.71</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):** £193.08m

**Property valuation:** £214.25m

**Number of properties held:** 35

**Average lot size:** £6.12m

**Property portfolio net initial yield (% p.a.)**  
6.70%

**Property portfolio reversionary yield:** 7.90%

**LTV (Net Asset Value):** 31.07%

**Average weighted unexpired lease term**  
**To break:** 3.58 years **To expiry:** 5.66 years

**Occupancy:** 91.52%\* \* As a % of ERV

**Number of tenants:** 124

**Share price as at 30 Sep:** 93.6p  
**NAV per share:** 121.9p  
**Premium/(discount) to NAV:** (23.20%)

**Shares in issue:** 158.42m

**Market capitalisation:** £148.29m

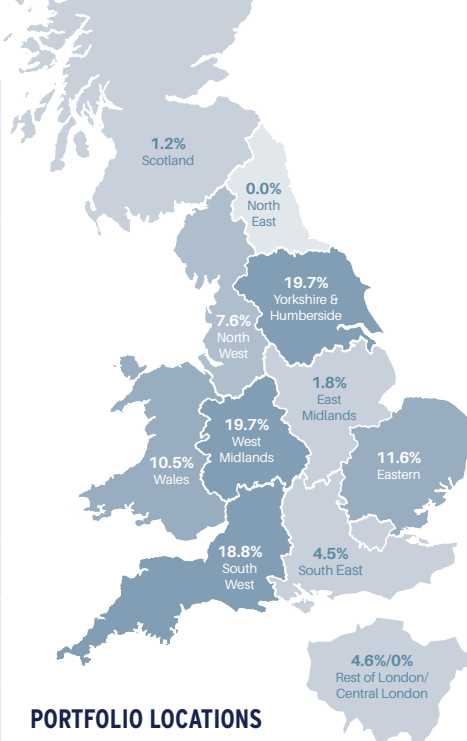
**Annual management charge**  
0.9% per annum of invested NAV

### 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

### 40 Queen Square, Bristol (office)

The Company completed an agreement for a new ten-year lease with a five-year tenant break option at a rent of £218,840 per annum with existing tenant Konica Minolta Marketing Services Ltd. The letting reflects a new high rental tone for the building of £40 per sq. ft. The letting is subject to landlord refurbishment works at a cost of £1.07 million plus eleven months' rent-free incentive. Works are due to complete before the end of the year.

### Mangham Road, Rotherham (industrial)

The Company has completed a new ten-year ex-Act lease to Senior Architectural Systems Ltd at a rent of £410,000 per annum reflecting a rent of £5 per sq. ft. This shows a significant uplift to the rent paid by previous tenant of £275,000 per annum. The lease provides for five-yearly rent reviews to the higher of open market rent or RPI, with collar and cap at 2% & 4% per annum, respectively. There was no rent-free incentive granted to the tenant, however the landlord undertook works to upgrade the building at a cost of £964,700. These works were completed during the quarter.

### Bank Hay Street, Blackpool (retail/leisure)

Repair works at the property which commenced in 2020 have now reached practical completion. The total cost of these works amounted to circa £2.40 million, of which approximately £800,000 is expected to be recovered from tenants.

## SECTOR WEIGHTINGS



INDUSTRIAL	52.9%
RETAIL WAREHOUSE	18.6%
STANDARD RETAIL	11.5%
LEISURE	9.2%
OFFICES	7.8%

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

## TOP 10 ASSETS (BY VALUE)

Central Six Retail Park, Coventry	8.7%
Gresford Industrial Estate, Wrexham	6.0%
40 Queens Square, Bristol	5.6%
15-33 Union Street, Bristol	5.0%
Lockwood Court, Leeds	4.7%
London East Leisure Park, Dagenham	4.6%
Arrow Point Retail Park, Shrewsbury	4.5%
Apollo Business Park, Basildon	3.7%
Wyndeham, Peterborough	3.7%
Units 1001-1004 Sarus Court, Runcorn	3.6%

## INVESTMENT UPDATE

### JD Gyms, Glasgow (leisure)

The Company completed the purchase of a leisure asset in Glasgow for £2.60 million reflecting a low capital value of £99 per sq. ft. and a net initial yield of 7.4%. The property is let to JD Sports Gym Ltd, a subsidiary of JD Sports Fashion Plc. The lease provides an unexpired lease term of 10.4 years, benefitting from five-yearly upward-only reviews. The site also contains a vacant plot of land which may be suitable for redevelopment over the medium term, subject to planning.

### Bath Street, Glasgow (office)

Following the expiry of the three-month planning judicial review period, the Company completed on the sale of the property for £9.30 million (£109 per sq. ft.). The sale realises a long-term change of use strategy for the asset.

### 349 Moorside Road, Swinton (industrial)

The Company completed the sale of the property for £1.71 million. The property was acquired in September 2015 for £1,071,577 reflecting a 9.0% net initial yield. A sale at £1.71 million represents a 58% premium to the acquisition price.

## KEY CONTACT

### Investor Relations

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