

Quarterly Update

Q4 21

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



Fund Highlights

- NAV of £180.94 million or 114.21 pence per share as at 31 December 2021 (30 September 2021: £174.29 million or 110.01 pence per share).
- NAV total return of 5.63% for the quarter (30 September 2021 quarter: 4.58%).
- 3.49% like-for-like valuation increase for the quarter (30 September 2021: 3.11%), driven by retail warehousing (like-for-like increase of 6.73%) and industrial (like-for-like increase of 5.16%) sectors.
- EPRA earnings per share ("EPRA EPS") for the quarter of 1.80 pence (30 September 2021 quarter: 1.30 pence).
- Interim dividend of 2.00 pence per share for the three months ended 31 December 2021, in line with the targeted annual dividend of 8.00 pence per share.
- Disposal of Wella Warehouse, Basingstoke, for gross proceeds of £5.86 million, which was 1.7x its purchase price.
- Purchase of Central Six Retail Park in Coventry for a purchase price of £16.41 million/£110 per sq ft. The purchase price reflects a net initial yield of circa 11%, with an anticipated reversionary yield of 12.5%.
- The Company remains conservatively geared with a loan to NAV ratio of 29.84% (30 September 2021: 28.97%). At the quarter end, the Company had a cash balance of £7.39 million and £6.0 million of its loan facility available to draw up to the maximum 35% Loan to NAV at drawdown.
- For the rental quarter commencing on 25 December 2021, approximately 98% of rent has been collected or is expected to be received prior to quarter end.
- We remain encouraged by the consistent rent collection levels, which stand at over 98% for each quarter since the onset of the pandemic (excluding current quarter).
- The continued improvement in economic conditions has brought about the return of a share price premium to NAV. We hope the Company will be in a position to take advantage of continued strong demand for its shares to grow our capital base in due course.

Alex Short, Portfolio Manager, AEW UK REIT, commented:

The portfolio continues to generate strong capital growth, with valuations increasing by 3.49% on a like-for-like basis (30 September 2021: 3.11%). As with the previous quarter, this was largely driven by the performance of the industrial assets in the portfolio which saw a like-for-like increase of 5.16% and make up 51.09% of the portfolio as at 31 December 2021.

We have again seen good performance at our office holding in Bristol, with recent lettings at above ERV moving the valuation higher. We are likely to implement a programme of refurbishment works at this asset in the expectation of achieving further rental growth in an ever-improving market. Our office park at Oxford has also continued to perform well with its transition to life sciences/medical use, a sector which is proving particularly popular with both tenants and investors.

It continues to be a challenging period for the high street retail sector, but with valuations in the portfolio stable again this quarter, we are starting to see cause for selective optimism. We are often seeing divergence between high street retail and retail warehousing assets, in terms of both tenant and investor demand, with this being evident in our retail warehousing

valuations, which have seen a 6.73% like-for-like valuation increase this quarter (30 September 2021: 5.69%). This is reflected in our recent purchase of a 94,891 sq ft retail warehouse at Shrewsbury, offering an 8.7% NIY on purchase, where we are seeing robust tenant commitment to the scheme at rents in excess of ERVs. This is also true at our newly purchased asset at Central Six, Coventry, where we expect tenant demand to support successful asset management deals and, in time, rental growth which will be accretive to EPRA EPS. We will continue to appraise buying opportunities and our existing portfolio with this noticeable divergence in mind.

We have one further asset under offer to buy and the completion of this purchase will take us back to full investment and gearing in line with our target of a 30–35% Loan to NAV ratio. It is anticipated

that the sale of our office asset in Glasgow, where we have a high level of vacancy, will complete in the first half of 2022 (subject to planning consent), and the ongoing service charge works at our Blackpool asset will also conclude. Each of these events will lead to the cost overheads falling, supporting the rebuilding of EPS, with the aim of returning to full dividend cover in due course.

We are pleased to be paying a dividend of 2p for the 25th consecutive quarter.

The Company's EPRA EPS was 1.80 pence for the quarter, providing a dividend cover of 90% (30 September 2021: 1.30 pence and 65%).

As at 31 December 2021, the Company owned investment properties with a fair value of £225.84 million. The like-for-like valuation increase for the quarter of £7.05 million (3.49%) is broken down as follows by sector:

Sector	Valuation 31 December 2021		Valuation movement for the quarter	
	£ million	%	£ million	%
Industrial	115.39	51.09	5.66	5.16
Office	40.32	17.86	0.38	0.94
High Street Retail	24.63	10.90	0.01	0.04
Retail Warehouses	32.95	14.59	1.00	6.73
Leisure	12.55	5.56	0.00	0.00
Total	225.84	100.00	7.05	3.49

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): £180.94m

Property valuation: £225.84m

Number of properties held: 35

Average lot size: £6.45m

Property portfolio net initial yield (% p.a.): 5.89%

Property portfolio reversionary yield: 7.83%

LTV (Net Asset Value): 29.84%

Average weighted unexpired lease term
To break: 3.91 years **To expiry:** 5.93 years

Occupancy: 93.08%* * As a % of ERV

Occupancy is stated excluding vacancy contributed by the asset at 225 Bath Street Glasgow (the overall level is 88.98% 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: 129

Share price as at 31 Dec: 112.8p

NAV per share: 114.21p

Premium/(discount) to NAV: (1.24%)

Shares in issue: 158.42m

Market capitalisation: £178.70m

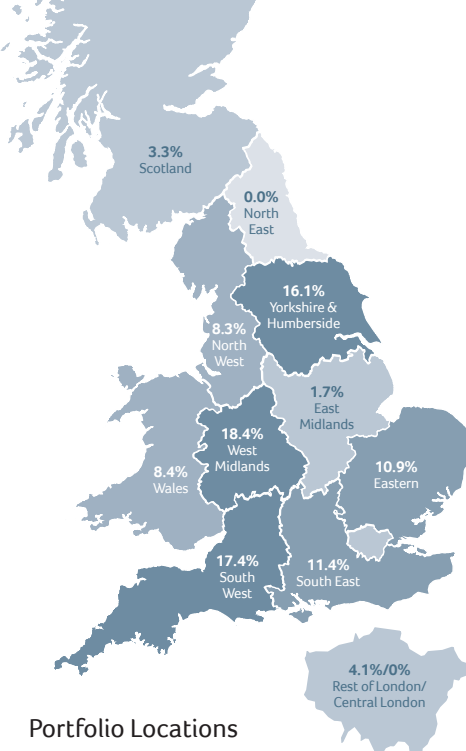
Annual management charge
0.9% per annum of invested NAV

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 2021. Based on the current market conditions as at the date of this document, the Company expects to pay an annualised dividend of 8 pence per Share in respect of the financial year ending 31 March 2022 and for the interim financial period to 30 September 2022.

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

15–33 Union Street, Bristol (high street retail)

We have completed a new 15-year lease to Roxy Leisure Limited, a “competitive social” leisure occupier, at a rent of £181,000 p.a./£10 psf with five yearly RPI reviews, collared and capped at 1.5% and 4% respectively. We granted the tenant a 12-month rent free incentive and made a £300,000 capital contribution to the tenant's fit out. On acquisition (June 2021), the 18,122 sq ft of upper-floor space was vacant, with the Company benefiting from a 12-month rental guarantee of £190,000.

Pearl House, Nottingham (high street retail)

Having held over since April 2021, we have completed the renewal of Cancer Research's lease on a 5-year term with a tenant break in year three, subject to a break penalty equivalent to three months' rent. The rent agreed is £21,000 p.a. Three months' rent-free incentive was given. This letting secures an established and financially robust high street retailer for a minimum of three years.

69–75 Above Bar Street, Southampton (high street retail)

We have completed a new 5-year lease to Shoe Zone at a gross rent of £80,000 p.a. in exchange for a 12-month rent free period and circa £40,000 landlord works. The unit has been vacant since Waterstone's lease expired in July 2019, so we are delighted to have secured this letting to a well-

Sector Weightings



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

Top 10 Assets (by value)

Central Six Retail Park, Coventry	7.6%
Eastpoint Business Park, Oxford	6.9%
Gresford Industrial Estate, Wrexham	5.8%
40 Queens Square, Bristol	5.2%
Lockwood Court, Leeds	4.7%
15–33 Union Street, Bristol	4.6%
Arrow Point Retail Park, Shrewsbury	4.2%
London East Leisure Park, Dagenham	4.1%
Units 1001–1004 Sarus Court, Runcorn	3.7%
Storeys Bar Road, Peterborough	3.6%

known high street retailer for a 5-year term with no tenant break option.

Walkers Lane, St Helens (industrial)

After protracted negotiations, we have settled Kverneland's October 2020 open market rent review at £389,000 p.a./£4.16 psf, representing a £89,000 p.a. increase. Rental evidence suggested the passing rent was reversionary at review, targeting £4.00 psf. The tenant's lease expires in October 2025.

Westlands Distribution Park, Weston-Super-Mare (industrial)

We have completed a new letting to North Somerset District Council at £20,000 p.a., rising to £30,000 p.a. in April 2022. There are five yearly upwards-only rent reviews to the higher of open market or RPI (capped at 1.5%) in 2027 and 2032. The lease expires in April 2037 with mutual rolling break options in 2024, 2027 and 2032.

Sarus Court, Runcorn (industrial)

We have completed a new 10-year lease to KMS (Europe) Ltd at a headline rent of £6 psf (£95,000 p.a.) vs. the previous passing rent of £4.83 psf (£76,100 p.a.). The tenant has the benefit of a 12-month rent free period spread out over the first three years of the lease (four months' rent free per annum). In doing so, we have set a new rental tone at £6 psf for the estate.

Key contact

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