AEW UK REIT Plc (AEWU/The Company)

AEW

Quarterly Update

Q1 22

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

EPRA BPR GOLD | EPRA sBPR SILVER | GRESB 2021 | CITYWIRE WINNER INVESTMENT TRUST 2020 UK PROPERTY AEW UK REIT | CITYWIRE WINNER INVESTMENT TRUST 2021 UK PROPERTY AEW UK REIT ORD

Fund Highlights

- NAV of £191.10 million or 120.63 pence per share as at 31 March 2022 (31 December 2021: £180.94 million or 114.21 pence per share).
- NAV total return of 7.37% for the quarter (31 December 2021 quarter: 5.63%).
- 4.74% like-for-like valuation increase for the quarter (31 December 2021 quarter: 3.49%), driven by the office and industrial sectors (like-for-like increases of 7.32% and 4.65%, respectively).
- EPRA earnings per share ("EPRA EPS") for the quarter of 1.55 pence (31 December 2021 quarter: 1.80 pence). This is expected to return to the Company's target level of 2 pence per quarter once the sale of Bath Street, Glasgow, completes later in the year.
- Interim dividend of 2.00 pence per share for the three months ended 31 March 2022, in line with the targeted annual dividend of 8.00 pence per share.
- Acquisition of PRYZM nightclub in Cardiff for a purchase price of £3.63 million/£92 per sq. ft. The price reflects a net initial yield of circa 8%, with an anticipated reversionary yield of circa 9%.
- Loan to NAV ratio at the quarter end was 28.26% (31 December 2021: 29.84%). The Company had a cash balance of £6.77 million and £6.0 million of its loan facility was available to draw up to the maximum 35% Loan to NAV at drawdown.

Portfolio Managers Commentary

The portfolio's strong capital performance continues this quarter with a very pleasing NAV total return of 7.37%. In a change to recent trends, in which the portfolio's industrial and warehousing assets have provided the strongest NAV growth, this quarter's growth comes predominantly from the portfolio's office assets, which have achieved a valuation uplift of 7.3%.

With respect to income, EPS this quarter has been temporarily reduced by implementation of the same asset management initiatives that have provided significant capital value uplift. A high proportion of the void costs were incurred at Bath Street, Glasgow, which is contractually committed for disposal later in the calendar year, with vacancy being a condition of the sale that, once completed, will be beneficial to the Company's overall performance. Vacancy costs this quarter had a negative impact on EPS of 0.21pps. Once the sale of Glasgow completes and its sale proceeds are reinvested, EPS is expected to return to a level in line with the Company's target level of 8p per annum.

The total returns generated by AEWU have been the strongest in the UK diversified REIT peer group over a one, three and five-year time horizon. This has been recognised by Citywire which has for the past two years awarded AEWU its award for Best UK Property Trust (diversified) based on returns over a three-year period.

We are very pleased that for the 26th consecutive quarter, a dividend of 2.00p per share will be paid. During this time, dividends have been covered by the Company's EPRA earnings by over 98% on average and total property value generation has been in the order of 18 pence per share. We are pleased to be the only REIT in the UK diversified peer group not to have reduced or suspended our dividend payment during the pandemic, demonstrating the resilience of our strategy.

Looking forward, the portfolio's future income generation prospects appear strong as assessed independently by Knight Frank, the Company's valuer. As at 31st March 2022, despite strong rental growth performance recorded to date, the portfolio's total estimated market rental value remained 20% higher than its current gross income, demonstrating their belief in the portfolio's inherent ability to grow income receipts over the medium term. This seems particularly topical in today's inflationary environment where leases with inflation-linked rent reviews, which are often seen as protective in such markets, generally have inflation caps and can only track inflationary growth so far, commonly only up to 3% or 4% pa. For example, the rent review settled this quarter for the Company's asset in Bradford resulted in a 14% increase in income over a three-year period. This is just one example where such levels of growth have been achieved.

We are pleased to see that the Company's strong performance has been recognised in the rating of its shares, where demand has continued to deliver a share price premium to NAV. With an attractive pipeline of opportunities, we hope the Company will be in a position to take advantage of continued strong demand for its shares to grow its capital base.

Valuation movement

As at 31 March 2022, the Company owned investment properties with a fair value of £240.18 million. The like-for-like valuation increase for the quarter of £10.72 million (4.74%) is broken down as follows by sector:

Sector	Valuation 31 March 2022		Valuation movement for the quarter	
	£ million	%	£ million	%
Industrial	120.75	50.27	5.37	4.65
Office	43.28	18.02	2.95	7.32
High Street Retail	24.98	10.40	0.35	1.42
Retail Warehouses	34.25	14.26	1.30	3.95
Leisure	16.92	7.05	0.75	0.06
Total	240.18	100.00	10.72	4.74

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): £191.10m

Property valuation: £240.18m

Number of properties held: 36

Average lot size: £6.67m

Property portfolio net initial yield (% p.a.): 5.69%

Property portfolio reversionary yield: 7.64%

LTV (Net Asset Value): 28.26%

Average weighted unexpired lease term
To break: 3.94 years **To expiry:** 5.78 years

Occupancy: 94.58%* * As a % of ERV

Occupancy is stated excluding vacancy contributed by the asset at 225 Bath Street Glasgow (the overall level is 89.31% 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: 131

Share price as at 31 Mar: 119.8p
NAV per share: 120.625p
Premium/(discount) to NAV: (0.68%)

Shares in issue: 158.42m

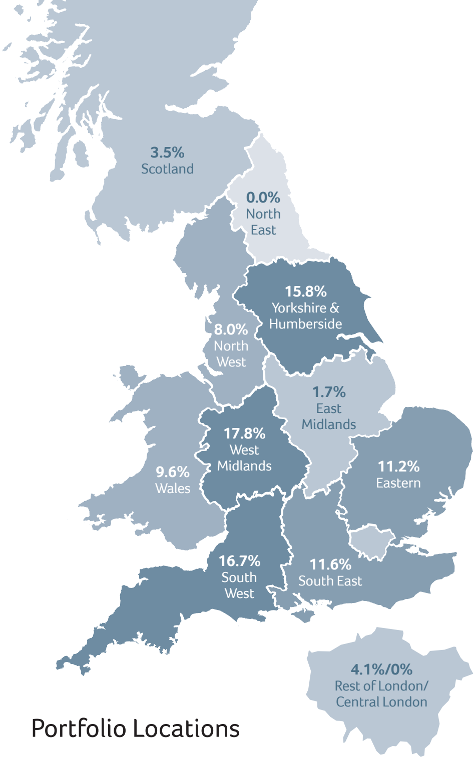
Market capitalisation: £189.79m

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

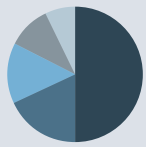
Ticker: AEWU **SEDOL:** BWD2415



Portfolio Locations

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

Sector Weightings



Industrial	50.3%
Offices	18.0%
Retail Warehouse	14.3%
Standard Retail	10.4%
Leisure	7.0%

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

Top 10 Assets (by value)

Central Six Retail Park, Coventry	7.5%
Eastpoint Business Park, Oxford	7.3%
Gresford Industrial Estate, Wrexham	5.5%
40 Queens Square, Bristol	4.9%
Lockwood Court, Leeds	4.5%
15–33 Union Street, Bristol	4.4%
London East Leisure Park, Dagenham	4.1%
Arrow Point Retail Park, Shrewsbury	4.0%
Apollo Business Park, Basildon	3.6%
225 Bath Street	3.5%

Asset Management Update

Knowles Lane, Bradford (industrial)
During the quarter, the Company settled the September 2021 open market rent review with tenant, Pilkington United Kingdom Ltd, at our industrial unit in Bradford. The agreed rent is £208,000 per annum reflecting £4.50 psf. The previous passing rent was £182,500 per annum reflecting £3.95 psf, representing a 14% increase over a three-year period.

Apollo Business Park, Basildon (industrial)
During March, the Company completed a new 10-year letting at Unit 1 Apollo Business Park, Basildon. The lease provides the tenant with a five-year break option and offers six months' rent free. The letting produces annual rental income of £240,750 and realises a new headline rent of £8 per sq ft versus an expected market rental value of £7 per sq ft.

First Avenue, Deeside (industrial)
In Q4 2021, incumbent tenant, Magellan Aerospace (UK) Ltd, served notice to bring their lease to an end on 1 April 2022. Discussions have however been ongoing since the service of the break notice to agree terms for a short-term lease extension. This agreement has now been signed, extending the tenant's occupation by six months. Upon completion of the new lease, the tenant paid to the Company a dilapidations settlement of £250,000, three months' rent up front at a rate of £6 per sq ft (vs market rent value of £5.25 per sq ft and previous passing rent of £3.75 per sq ft) and a single lease premium of £50,000. The total capital receipt from the tenant upon completion was £457,400 excluding VAT. The property continues to be marketed.

Bath Street, Glasgow (office)
During February, the Company received confirmation that planning consent had been granted for the demolition and development of a 527-unit student accommodation scheme at 225 Bath Street in Glasgow city centre. This follows the exchange of contracts for the sale of the site with a subsidiary company of IQ Student Accommodation in October 2020. The sale of 225 Bath Street is expected to complete after the standard three-month judicial review period.

Once the sale has completed, occupancy within the portfolio is expected to increase by just over 4% with a corresponding decrease in the Company's costs and associated increase in income once sale proceeds have been reinvested. Earnings are then expected to normalise at a level much closer to the Company's long-term target.

Key contact

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