

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 £167.10 million or 105.48 pence per share as at 31 March 2023 (31 December 2022: £166.24 million or 104.93 pence per share).
- NAV total return of 2.42% for the quarter (31 December 2022 quarter: -12.26%).
- 0.77% like-for-like valuation increase for the quarter (31 December 2022 quarter decrease: -10.82%).
- EPRA earnings per share ("EPRA EPS") for the quarter of 1.77 pence (31 December 2022 quarter: 1.34 pence).
- Interim dividend of 2.00 pence per share for the three months ended 31 March 2023, paid for 30 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 35.91% (31 December 2022: 36.09%). Significant headroom remains on all loan covenants.
- Company continues to benefit from a low fixed cost of debt until May 2027.
- Acquisition of a freehold retail warehousing unit in Bamber Bridge, Preston for £6.45 million, providing an attractive net initial yield of 9.5%.
- Disposal of two assets, both at a premium to the December 2022 valuation.
- 99% of rental income collected, consistent with each quarter since the onset of the COVID pandemic.

PORTFOLIO MANAGER'S COMMENTARY

Following significant asset repricing during Q4 2022 in the UK, it is pleasing to see values hold firm across AEWU's portfolio during Q1 2023. Overall, the portfolio has seen a like-for-like increase of 0.77%. Transaction volumes remain below average across the commercial property market, with a lower level of competition and pricing transparency. In this environment, AEWU has been able to find accretive assets that complement its value investment style. An excellent example of this is the Matalan store the Company acquired in Preston during the quarter for a net initial yield of 9.5%. This income yield is in stark contrast to our largest sale during the quarter, where a single-let industrial asset in Milton Keynes achieved a net initial yield of 6.3% and a 6.6% premium to December 2022's valuation.

Transactions of this nature should prove to be accretive to the Company's income stream as demonstrated by an improvement in earnings per share during the quarter. We will continue to pursue this strategy and look to recycle assets from the portfolio that are deemed to have limited further scope for income or capital return, in comparison to those we see in our pipeline. An example of this is the sale of Mark Road in Hemel Hempstead, which completed this quarter. The asset was chosen for disposal due to the risk of significant future capital expenditure and loss of income if the tenant, who had previously not been forthcoming in negotiations, were to leave. The sale achieved a price exceeding the asset's December 2022 valuation by 66%. This strategy is designed to maximise both shareholder value and support the payment of our dividend and we are pleased that this is the 30th consecutive quarter where the Company will have paid 2p per share.

Rent collection from our tenants remains strong, with collection levels in excess of 99% having been achieved for the previous quarter. On the whole, we are very happy with ongoing tenant engagement levels with examples this quarter of our tenants not actioning break clauses, as evidenced by The Secretary of State for Communities and Local Government at Cedar House in Gloucester. In addition, tenants committing to our properties by way of lease renewal include Subway at Union Street in Bristol, other prospective tenants are seeking terms to take vacant space in our portfolio.

Valuation movement

The Company's unaudited NAV at 31 March 2023 was £167.10 million, or 105.48 pence per share. This reflects an increase of 0.52% compared with the NAV per share at 31 December 2022. The Company's NAV total return, which includes the interim dividend of 2.00 pence per share for the period from 1 October 2022 to 31 December 2022, was 2.42% for the three-month period ended 31 March 2023.

INVESTMENT UPDATE - PURCHASE



Matalan, Preston (retail warehouse)

Purchase of a freehold solus retail warehousing unit Preston for £6,450,000, reflecting a low capital value of circa £110 per sq ft and an attractive net initial yield of 9.5%. The 58,696 sq ft unit is single-let to Matalan Retail Limited and has 9.2 years unexpired. Matalan is known to trade strongly from the location, with the store being one of its top 10 performers. The lease benefits from a 2027 rent review to the higher of open market value, or 2.5% per annum compounded, resulting in a minimum reversionary yield of 10.7%. In January, Matalan announced the completion of a refinancing, reducing its gross debt by 43% from £593 million to £336 million.

| SECTOR | VALUATION 31 DECEMBER 2022 | | VALUATION MOVEMENT FOR THE QUARTER | |
|--------------------|-------------------------------|---------------|---------------------------------------|--------------|
| | £ million | % | £ million | % |
| Industrial | 94.60 | 44.24 | 1.30 | 1.39 |
| Office | 15.30 | 7.16 | 0.20 | 1.32 |
| High Street Retail | 39.90 | 18.66 | -0.30 | -0.75 |
| Retail Warehouses | 43.90 | 20.53 | 0.15 | 0.40 |
| Leisure | 20.13 | 9.41 | 0.23 | 1.13 |
| Total | 213.83 | 100.00 | 1.58 | 0.77* |

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

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): £167.10m

Property valuation: £213.83m

Number of properties held: 36

Average lot size: £5.94m

Property portfolio net initial yield (% p.a.)
7.19%

Property portfolio reversionary yield: 8.75%

LTV (Net Asset Value): 35.91%

Average weighted unexpired lease term
To break: 3.05 years **To expiry:** 4.33 years

Occupancy: 93.43%* *** As a % of ERV**
91.00% including vacant units where agreements for lease have been signed at Central Six, Coventry.

Number of tenants: 145

Share price as at 31 Mar: 92.1p
NAV per share: 105.48p
Premium/(discount) to NAV: (12.68%)

Shares in issue: 158.42m

Market capitalisation: £145.91m

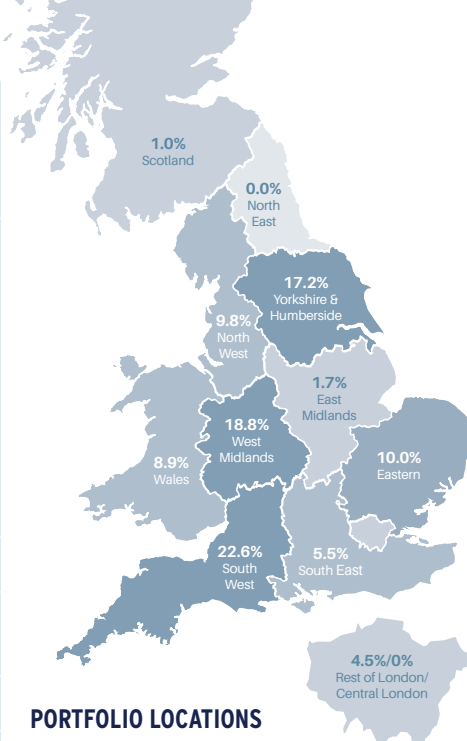
Annual management charge
0.9% per annum of invested NAV

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).

INVESTMENT UPDATE - SALE

Mark Road, Hemel Hempstead (office)

The Company completed the sale of its office holding, Vantage Point, on Mark Road, Hemel Hempstead for £1,650,000 (circa £92 per sq ft), reflecting an 11.5% net initial yield. The valuation as at 31 December 2022 was £990,000 (circa £55 per sq ft) with the sale price reflecting a 66.6% premium. Due to a deadlock with the main tenant, Trinity Property Group Limited, regarding their future occupation of the building, and the strong likelihood of there being significant capex for refurbishment if they were to vacate, as well as the potential for long-term vacancy, the Company took the decision to mitigate this risk and dispose of the asset.

Clarke Road, Milton Keynes (industrial)

In mid-March, the Company completed the sale of its industrial holding at Clarke Road, Milton Keynes, for £2,750,000 (circa £91 per sq ft), reflecting a 6.3% net initial yield. The 30,262 sq ft industrial unit was acquired in October 2015 for £1,526,000 (circa £50 per sq ft) at a circa 8.3% net initial yield. Since acquisition, the property has been re-let to FMG Repair Services Limited, with a guarantor from Northgate Vehicle Hire, on a 10-year lease, with a five-year tenant break option. By securing a stronger tenant covenant on a longer lease, the sale realises significant profit, exceeding the 31 December 2022 valuation of £2,580,000 by 6.6%.

KEY CONTACT

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SECTOR WEIGHTINGS



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

TOP 10 ASSETS (BY VALUE)

| | |
|--------------------------------------|------|
| Central Six Retail Park, Coventry | 9.0% |
| Northgate House, Bath | 6.1% |
| 40 Queens Square, Bristol | 5.6% |
| Gresford Industrial Estate, Wrexham | 5.3% |
| London East Leisure Park, Dagenham | 4.5% |
| Lockwood Court, Leeds | 4.3% |
| Arrow Point Retail Park, Shrewsbury | 3.9% |
| 15-33 Union Street, Bristol | 3.9% |
| Apollo Business Park, Basildon | 3.3% |
| Units 1001-1004 Sarus Court, Runcorn | 3.3% |

ASSET MANAGEMENT UPDATE

Cedar House, Gloucester (office)

The Secretary of State for Communities and Local Government, who occupy the entire 37,753 sq ft office property, have not actioned their 1 April 2023 tenant break option. Consequently, they will remain in occupation for another five years until 2028. Permitted development rights for conversion to 45 residential units was approved in December 2022, meaning there is now the ability to change the use of the building to residential use, without having to submit a full planning application, until December 2025.

North Moons Industrial Estate, Redditch (industrial)

The August 2022 annual uncapped RPI rent review has been settled at £269,963 per annum, reflecting an £11,445 per annum/4.43% increase. The 37,992 sq ft property is entirely let to Carrs Coatings Ltd until August 2028.

15-33 Union Street, Bristol (retail)

The Company has completed a two-year lease renewal with VIRR Ltd, trading as Subway, with a landlord rolling break option. The new lease is at the same rent of £32,500 per annum and is outside the Landlord and Tenant Act, with no tenant incentive given. This short-term renewal makes it possible to let the unit along with the neighbouring unit, let to Kemps, whose lease expires in September, later this year.

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