UK Commercial Property REIT
Q4 2018

Investment Objective

UK Commercial Property REIT (UKCM) is a Guernsey registered investment company which aims to provide an attractive level of income together with the potential for capital and income growth by investing in a diversified portfolio of UK commercial property.

Key Statistics as at 31st December 2018

Launch date	20 Sep 2006
Total assets	£1.5bn
Share price (per closing LSE price)	83.2 p
NAV	93.3 p
Premium/(Discount) to NAV	(10.8)%
Occupancy levels	93.1%
Average lease length	9.4 years
Net Gearing	14.6%* (Gross Gearing 17.1%)
Gross dividend yield	4.4%
Management fees	0.65% pa on gross assets (changing on 01 January 2019 to 0.60% pa up to £1.75bn gross assets and 0.475% on gross assets over £1.75bn)
Stock code	UKCM
Dividend pay dates	May, Aug, Nov, Feb

* Gross borrowing less cash divided by total assets (excluding cash) less current liabilities

Corporate Performance – % growth

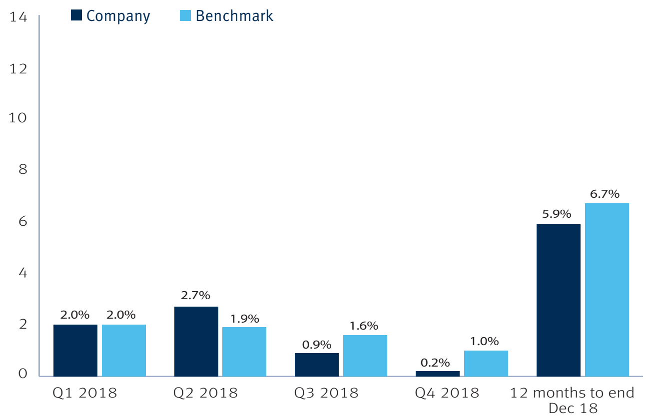
	Q4 2018	1 yr	3 yrs	5 yrs
NAV Total Return	-0.1	4.5	21.7	59.0
Share Price Total Return	-3.7	-2.0	11.3	35.1
IPD Benchmark	1.0	6.7	22.2	61.8

Source: Internal as at 31/12/18. IPD Quarterly Benchmark Report to end December 2018. Past performance is not a guide to future performance. The value of investments and any income generated can fall as well as rise and is not guaranteed.

Top 10 holdings	Location	Value Band
Ventura Park, Radlett	Radlett, M25/M1	Over £100m
Hatfield Business Park	Hatfield	£50-£70m
Dolphin Est, Sunbury-on-Thames	London	£50-£70m
Junction 27 Retail Park	Leeds	£50-£70m
Great Lodge Retail Park	Tunbridge Wells	£50-£70m
The Rotunda	Kingston on Thames	£50-£70m
Kew Retail Park	London	£50-£70m
The White Building	Reading	£30-£50m
Phase II Newton's Court	Dartford	£30-£50m
Hannah Close,Neasden	London	£30-£50m

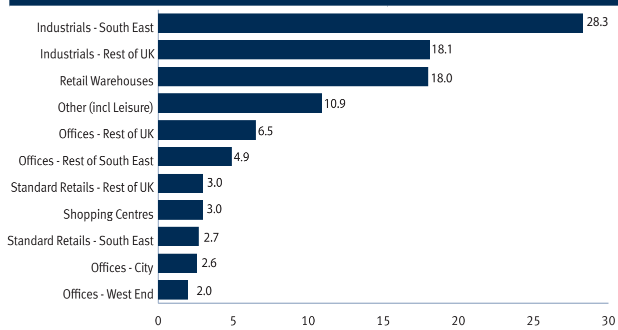
Source: Internal as at 31/12/18

Portfolio Total Returns



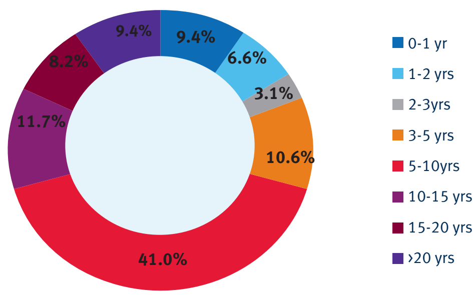
Source: IPD Balanced Monthly and Quarterly Funds to end December 2018. Past performance is not a guide to future performance. The value of investments and any income generated can fall as well as rise and is not guaranteed.

Sub Sector Weightings



Portfolio Value (%)

Lease expiry profile (% of Portfolio Income)



Source: Internal as at 31/12/18

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Aberdeen Standard Investments

Will Fulton
Lead Manager

UK Real Estate Market

UK economic growth has been fairly uneven this year. After a weak, weather-affected start to the year, third quarter growth was well above trend at 0.6%. However, this appears to be a temporary spike rather than a decisive strengthening of the economy, with indicators in the fourth quarter turning down sharply.

The ongoing uncertainty surrounding Brexit negotiations appears to be restraining business investment and household spending. With trend growth estimated to be lower, the output gap largely closed, and a relatively weak global backdrop, it is hard to see a substantial acceleration in economic growth.

Occupational markets continue to behave quite differently across sectors, with structural forces being the key drivers. The familiar pattern of falling retail rents, modest upticks in office rents and robust growth in industrials is little changed. The risk of more serious declines in the retail sector is affecting investor sentiment.

The industrial sector continues to be the stand-out performer in the UK real estate market. Although MSCI IPD data suggests that rental growth is beginning to moderate, with vacancy rates remaining exceptionally low and interest in available space healthy, the necessary drivers are still in place to support further rental growth for the sector.

The structural challenges facing the retail sector are now beginning to be reflected in MSCI IPD data with the majority of retail experiencing declining rental values. With few retailers expanding, aside from the value operators, this rental trend is expected to continue through 2019.

'All Property' capital values experienced a small decline in Q4 2018, according to the MSCI IPD Monthly Index, with declines in retail offsetting growth in the industrial sector. It is our observation that towards the end of the year the investor pool reduced and became more selective and, whilst not all investment activity during the final quarter has been recorded as yet, the number of deals is down on the recent quarterly average. Despite this, total investment volumes in 2018 reached £61 billion, only £5 billion less than 2017 and substantially more than the 2016 total of £52 billion.

The listed sector has seen discounts to NAVs widen over the quarter, which in part reflects the wider equity market sell-off experienced over the fourth quarter, but it is also a function of slowing NAV growth rates in the second half of this year. The hierarchy of preferred sectors remains largely unchanged with industrials and income-focussed real estate stocks remaining the top picks, and wide discounts for the major retail specialists.

Positive NAV performance

- A NAV total return of 4.5% for 2018 with a NAV per share of 93.3p at 31 December 2018 (30 September 2018: 94.3p); a total return of -0.1% for the final quarter with continued low net gearing of 14.6%*.
- Like-for-like portfolio capital value increased by 0.2% to £1.45 billion (30 Sep 2018: £1.45 billion). Overall capital performance net of capital expenditure investment was -0.8% (which includes the transaction costs and stamp duty associated with the Company's December 2018 purchase of an £85.4 million portfolio of distribution warehouses, described below).This compares to the –0.1% in the Company's MSCI IPD benchmark over the period.
- The overweight position to the Industrial sector and the Company's prime office portfolio continued to produce strong positive capital returns offset by a decline in values across the Company's retail holdings.

Delivering on strategy of producing sustainable income streams

The Company continues its strategy of recycling capital into good quality assets in favoured sectors, which are earnings accretive and offer growth potential, as follows:

- Acquisition of a portfolio of five strategically located distribution warehouses across the Midlands for a headline price of £85.4 million, based upon an attractive topped-up net initial yield of 5.5%. The portfolio, which is 100% let to a diverse range of high quality tenants such as TJX UK (TK Maxx), Clipper Logistics and Bestway Pharmacy Ltd, has an average weighted unexpired lease term of 7.3 years and offers opportunities to enhance income through asset management initiatives. With this transaction UKCM's exposure to the strongly performing industrial sector has risen to 46%, spread between approximately 28% South East and London urban industrial / logistics assets and 18% regionally strategic assets.

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- Having completed a number of asset management initiatives UKCM sold its 15 Great Marlborough Street, London office asset for £73.2 million, ahead of the prior period valuation.
- £23.5 million sale of a high street retail asset let to H&M and Barclays Bank in Exeter reflecting a net initial yield of 4.75%.

Asset management and leasing momentum underpinning performance

- Completion of two new 25 year leases to Snows Business Holdings Ltd at Motor Park, Portsmouth, incorporating annual RPI increases of between 1.00% and 3.25%, at a total annual rent of £440,000. Combined with a new 20 year lease signed with Harwoods in Q3 2018, the average weighted unexpired lease term for this asset has increased from 5.5 years to 12.8 years, with a significant proportion of its income now benefitting from RPI inflation-linked rent reviews.
- Good asset management progress at St George's Retail Park, Leicester, securing four national tenants at a cumulative annual rent of £420,000 and an average weighted unexpired lease term of 10.25 years, comprising:
    - New lettings to Dreams Ltd and Card Factory in line with ERV.
    - Ahead of Wickes' lease expiry in January 2019 and associated anticipated vacation of a 25,000 sq ft unit, the Company exchanged an agreement for lease with Home Bargains at ERV on a 15 year term with fixed rental uplifts, commencing on completion of refurbishment works in April 2019.
    - The development and 10 year lease of a new Costa Coffee unit completing at the end of February 2019, providing the park with an appropriate food and beverage offer to increase shopper dwell time.

- Newton's Court, Dartford - Unit one in this industrial estate let to Millmoll Group Holdings Ltd on a 10 year lease with a tenant only break option in year five at a rent of £240,578 per annum, 8.5% ahead of the ERV at the time and two ten year lease renewals with Wilhelmsen Ship Services Ltd and Baxi Heating UK Limited for a new combined rent of £244,779 per annum, 3% ahead of ERV.
- Eldon House, UKCM's only City of London office was fully let by the year end following lettings to Proclinical Ltd, MLM Building Control Ltd and Civilised Bank securing rents 5-10% ahead of ERV at the time.
- Lease renewal agreed 47% ahead of the previous passing rent and 15% ahead of ERV at the time, at Dolphin Trading Estate in Sunbury with Lubkowski Saunders & Associates Ltd for 10 years with a break at five, securing a new rent of £510,763 per annum.
- Occupancy increased from 91% to 93% during the quarter with over half of the remaining vacancy in high quality, well located industrial assets offering strong leasing prospects. The largest of these is the Company's recently refurbished 377,000 sq ft prime, cross-docked distribution warehouse at Magna Park, Lutterworth in the centre of the Midlands' logistics "Golden Triangle".
- Following the investment and asset management activity described above the gross rent of the portfolio as at 31 December was £69.0 million per annum.

Strong balance sheet providing flexibility

- £50 million currently available for investment through an unutilised revolving credit facility.
- Low net gearing of 14.6%* (gross gearing of 17.1%**) remaining one of the lowest in the Company's peer group and the quoted REIT sector.
- The Company is at an advanced stage of negotiation with its lenders to both extend the maturity and increase the quantum of debt available by £50 million in order to take advantage of investment opportunities.

*Net gearing - Gross borrowing less cash divided by total assets (excluding cash) less current liabilities

**Gross gearing - Gross borrowings divided by total assets less current liabilities

Investment Outlook

UK Commercial Property REIT

Uncertainty around the near-term political outlook makes it difficult to predict an economic outcome with strong conviction. In the property market this uncertainty is reducing liquidity and visibility of pricing in many areas of the market. With the exception of highly sought after and expensive long term income, those with capital to invest may be able to access good-quality real estate at prices that are attractive in the long term. As ever, it is vitally important to assess asset-level risk and income prospects to identify such opportunities.

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This information is for professional clients and investment professionals only and should not be relied upon by retail clients.

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