UK Commercial Property REIT
Q4 2020

Aberdeen Standard Investments

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 2020	
Launch date	20 Sep 2006
Total assets	£1.3bn
Share price (per closing LSE price)	69.0 p
NAV	86.7 p
Premium/(Discount) to NAV	(20.4)%
Occupancy levels	93.5%
Average lease length	8.9 years
Net Gearing	6.4%* (Gross Gearing 15.1%)
Gross dividend yield	3.3%**
Management fees	0.6% on gross assets up to £1.75 billion, 0.475% on gross assets over £1.75billion
Stock code	UKCM
Dividend pay dates	May, Aug, Nov, Feb

* Gross borrowing less cash divided by total assets (excluding cash) less current liabilities.
** Based on last four quarterly dividends paid (Feb 20, May 20, Aug 20 and Nov 20) and share price as at end of December 20).

Corporate Performance – % growth

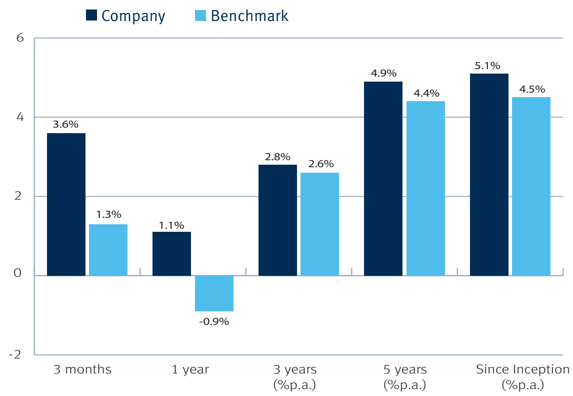
	Q4 2020	1 yr	3 yrs	5 yrs
NAV Total Return	3.8	-0.9	3.8	20.8
Share Price Total Return	1.8	-19.7	-12.4	-0.5
MSCI Benchmark	1.3	-0.9	7.9	23.8

Source: Internal as at 31/12/2020. MSCI Quarterly Benchmark Report to end December 2020. 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
Hannah Close,Neasden	London	£70-£100m
Dolphin Est, Sunbury-on-Thames	London	£70-£100m
Hatfield Business Park	Hatfield	£70-£100m
Phase II Newton's Court	Dartford	£50-£70m
The White Building	Reading	£30-£50m
The Rotunda	Kingston on Thames	£30-£50m
Kew Retail Park	London	£30-£50m
XDock 77	Lutterworth	£30-£50m
Junction 27 Retail Park	Leeds	£30-£50m

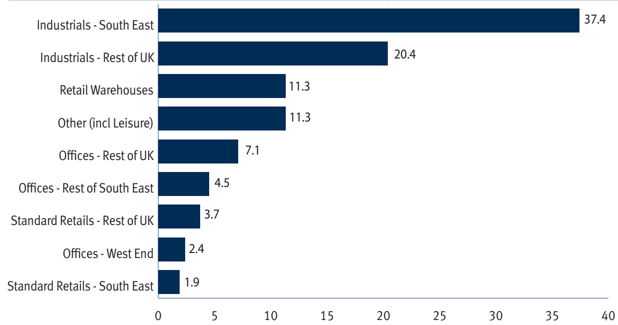
Source: Internal as at 31/12/2020

Portfolio Total Returns



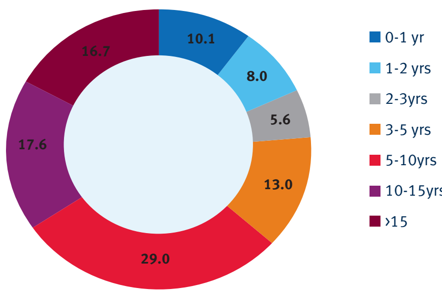
Source: MSCI; Benchmark: UK Balanced Portfolios Quarterly Property Index. Past performance is not a guide to future performance. The value of investments and any income generated can fall as well as rise and is not guaranteed.

Sub Sector Weightings



Portfolio Value (%)

Lease expiry profile (% of Portfolio Income)



Source: Internal as at 31/12/2020

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Investment Objective (Continued)

Discrete year data	31/12/2020 (%)	31/12/2019 (%)	31/12/2018 (%)	31/12/2017 (%)	31/12/2016 (%)
Direct portfolio return	1.1	1.4	5.9	12.2	4.3
NAV Total Return	-0.9	0.1	4.5	12.2	3.8
Share Price Total return	-19.7	11.3	-2.0	9.4	3.8
MSCI Benchmark	-0.9	2.1	6.7	10.7	3.7

UK Commercial Property REIT

Will Fulton
Lead Manager

UK Real Estate Market

While activity in early December ticked up notably, it was curtailed by restrictions being re-tightened following the emergence of a new, more transmissible variant of Covid-19. The latest data available demonstrated that the UK economy shrank for the first time in six months in November, with GDP down 2.6% compared with October. This is the first contraction since April's lockdown and increases the likelihood that the UK economy will enter into a double-dip recession.

Trading for the consumer-facing retail, leisure and hospitality sectors remains challenging in the face of current restrictions. However, the Covid-19 impact on UK retail has not been homogenous across retail sub-sectors as illustrated by the resilience of supermarket trading. Kantar data illustrates that all UK supermarket groups benefitted from unprecedented Christmas demand in 2020. Take home grocery sales rose 11.4% year-on-year over the 12 weeks to December 27, despite higher online penetration than the previous year.

In offices, the occupational market remains weak, particularly in Central London where the availability rate has reached levels not seen since 2005. However, it is important to highlight a clear distinction by building quality. Grade A office space remains relatively well balanced in the capital, especially for larger floorplates but there has been a sharp increase in sub-let or so-called grey space coming to the market, accounting for close to 80% of the total.

With a sizeable increase in demand, 2020 broke all previous records for the UK logistics sector, with occupiers signing up to 50.1 million square feet of new space. The sector has been a key beneficiary of shuttered shops and the marked acceleration in online retailing. Although Amazon was by far the largest single occupier, accounting for a quarter of all leased space during 2020, it is interesting to note that take-up would have still broken new records even if Amazon was removed from the numbers, as the sector was buoyed by many businesses of all sizes increasing online sales or shoring up their supply chains.

Although investment volumes at £43 billion for 2020 were 25% lower than 2019, at close to £12.8 billion, the fourth quarter of 2020 saw a noticeable pick up when compared with the previous two quarters. Despite the occupational uncertainties, offices accounted for over 35% of total Q4 investment and the industrial sector 30%.

We are forecasting further capital declines across retail exposed to discretionary spend in 2021, with greater declines in rental values. The renewed lockdown, which is likely to last for most of Q1, will put further pressure on retailers, leisure operators and hospitality providers, reinforcing that view.

In offices, the occupational fundamentals have weakened substantially; availability has increased notably without any meaningful impact on rents thus far. We do not believe that situation is sustainable and are forecasting rental declines in Central London this year, with more modest declines in the main regional markets. However, we expect quality buildings in strong locations to hold up better through this adjustment period.

Industrials are set to be the best performing sector in 2021 for a fifth successive year resulting from the continued strong sentiment towards the positive structural drivers of the occupier market. In our view, those drivers are strongest for logistics units in urban areas.

Performance is expected to be dispersed across the risk spectrum, with the most reliable cash flows from the highest quality covenants and longest lease terms significantly outperforming assets carrying income risk. Rising vacancy and availability across consumer facing real estate and offices is set to see the most difficult to let buildings lose the most value in what is expected to be a weak demand environment for most of the year. We do not expect risk to be rewarded in 2021.

Net Asset Value & Earnings

- NAV per share of 86.7p (30 September 2020: 84.0p), resulting in a NAV total return of 3.8% in the period with continued low net gearing of 6.4%* (gross gearing 15.1%**).
- Like-for-like portfolio capital value increased by 2.9% net of capital expenditure outperforming the MSCI monthly index which increased 0.6% over the quarter.
- Portfolio value of £1.21 billion (30 Sep 2020: £1.22 billion) following the positive investment activity described below.
- Total rent currently collected for the COVID-affected 2020 billing year (being the four rounds of billing centred around March, June, September and December 2020), currently amounts to 83% of all rents due.
- Rent collection for the first quarter of 2021 (collectively the 25 December and 1 January English, and 28 November Scottish, quarterly billing dates) stood at 84% after allowing for agreed rent deferrals and including those tenants who have paid, by agreement, on a monthly basis.
- Dividend maintained at 0.46 pence per share for the fourth quarter of 2020, due in February 2021. In addition, the Board intends to pay a 5th top-up 2020 dividend, in line with the REIT legislation to pay at least 90% of the 'property income' for the year. This will be determined and announced along with the full 2020 audited financial statements in April and is currently expected to be no less than 0.4p per share.

*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.

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Positive Investment Activity

- M8 Industrial Estate in Coatbridge sold for £25.4 million in December which was an opportunistic transaction 11% ahead of valuation which will also reduce short/medium term void risk.
- In December, £16.6 million acquisition of an ASDA supermarket in Torquay let for 15 years and benefitting from RPI linked rent reviews. The store is in a strong catchment with limited competition, driving high sales rates. Although this will marginally increase retail weighting, the supermarket segment is a resilient haven and this asset offers a durable and growing income stream to the Company.
- Following legal agreement in December for the land purchase and development funding of a 230 unit student residential scheme at Gilmore Place in central Edinburgh for £29.1 million, the land was acquired in January 2021 for £6.5 million leaving an additional capped funding commitment of £22.6 million. The scheme is located in a prime location for access to The University of Edinburgh and is scheduled for delivery to meet the 2022/2023 academic year. The University of Edinburgh has an outstanding global reputation being ranked in the top 30 universities in the world by The Times World University rankings 2020.

Asset management driving occupancy and value

The further lockdown of the UK Economy at the start of 2021 is likely to have a significant impact on the property market and the broader economy. Positively UKCM is in a resilient position with a 58% weighting to the favoured industrial sector and an occupancy rate of 94%. Unlike the first lockdown there is a more optimistic outlook with many businesses having now adapted to operating in restricted conditions and, most importantly, the rollout of the UK vaccination program offering real hope of a potential return to normality later in the year.

The asset management team continue to actively manage the portfolio to drive down the void rate and increase income. Notable transactions over the last quarter include:

- Completed new 3 year leases with DFS at units 3b and 3c Gatwick Gate, Crawley at a rent of £243,246 per annum and equating to £12.00 psf, which is in advance of the estimated rental value (ERV) of £11.50psf. This led to a re-appraisal of ERVs on the estate and subsequent 6% uplift in valuation. Interest in the remaining vacancy on the estate is good.
- Re-gearing Forward Trucking's lease at Unit 6a, Ventura Park, Radlett comprising a 10 year extension that takes the lease expiry to October 2033 (with a tenant only break option in October 2028) and a 38% increase in rent to £138,500 (£12 psf) per annum. This lease re-gear has extended the average weighted unexpired lease length on the estate, increased the quantum of income and has enhanced the valuation.

Strong balance sheet with significant covenant headroom and flexibility

- Robust balance sheet with low gearing and significant financial resources of £218 million available, comprising uncommitted cash of £68 million, after allowing for future capital commitments and the February 2021 dividend, as well as £150 million available from UKCM's low cost, revolving credit facility. Together, these resources provide the Company with significant liquidity and flexibility at both a corporate and portfolio level.
- At 6.4% as at 31 December 2020, the Company's net gearing continues to be one of the lowest in its peer group and the wider REIT sector. The drawn debt has an overall blended interest rate of 2.88% per annum with a weighted maturity of 8.2 years. Gross gearing as at 31 December 2020 was 15.1% (Sep 20: 18.7%).

Investment Outlook

A renewed sense of optimism moving into 2021, with a no-deal Brexit averted, is likely to be tempered, at least initially, by the latest national lockdown as investors assess the potential damage to occupier markets. With liquidity likely to be impaired in the first quarter, 2021 looks set to be a year of two halves for the investment market. Provided vaccinations can be rolled out at sufficient scale in the first half of the year to materially supress the virus, we expect to see a recovery in activity in the second half 2021.

Investment strategies will continue to favour sectors with more defensive characteristics. Fundamentally, we prefer investing in areas where the structural drivers of demand are positively impacted by or largely insulated from the ongoing pandemic, including logistics and supermarkets.

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

Past performance is not a guide to future performance. The value of units/shares in the fund and the income from them can go down as well as up and is not guaranteed. Property investments are relatively illiquid compared to bonds and equities and can take a significant length of time to sell and buy.

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