

AEW UK REIT plc (AEWU)

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25 January 2018

NAV Update and Dividend Declaration for the three months to 31 December 2018

AEW UK REIT plc (LSE: AEWU) ("the Company"), which, as at 25 January 2019, directly owns a diversified portfolio of 35 regional UK commercial property assets, announces its unaudited Net Asset Value ("NAV") and interim dividend for the three month period ended 31 December 2018.

Highlights

- At 31 December 2018, the fair value independent valuation of the property portfolio was £192.66 million (30 September 2018: £193.53 million), following the sale of Stoneferry Retail Park, Hull, during the quarter. On a like-for-like basis the valuation of the property portfolio increased by £1.03 million (0.53%) over the quarter (30 September 2018: £2.48 million and 1.30%).
- NAV of £152.12 million or 100.37 pence per share (30 September 2018: £151.65 million or 100.06 pence per share).
- EPRA earnings per share ("EPRA EPS") for the quarter of 1.98 pence per share (30 September 2018: 2.06 pence per share).
- The Company today announces an interim dividend of 2.00 pence per share for the three months ended 31 December 2018.
- NAV total return of 2.31% for the three months ended 31 December 2018.
- The Company remains conservatively geared with a gross loan to value ratio of 25.95% (30 September 2018: 25.84%).
- At 31 December 2018, the Company held £8.91 million cash for investment, which we expect to invest in an attractive and high-yielding industrial asset in the coming months.
- Portfolio and asset management activity during the period included:
 - The renewal of the lease at Mangham Road, Rotherham, for a term of ten years at a rent of £275,000 per annum, representing an increase in rent of 20%.
 - The letting of Unit 3, Above Bar Street, Southampton, for a ten year term at a rent of £135,000 per annum.
 - The sale of Stoneferry Retail Park, Hull, for gross proceeds of £1.80 million.
 - A regear of the lease at London East Leisure Park, Dagenham, with McDonalds Restaurants Ltd for a 15 year term at a rent of £75,000 per annum in years 1 to 3, increasing to £90,000 thereafter.

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

"Despite an uncertain political outlook, property performance generated from the Company's portfolio continues to be strong, highlighting the expertise of the Manager in selecting assets that will deliver sustainably strong returns under a range of economic outlooks. We are pleased to start the New Year with both a valuation uplift and stable EPRA earnings for the quarter, which demonstrates the ongoing resilience of our strategy.

The like-for-like valuation uplift for the quarter of £1.03 million (0.53%) is detailed as follows by sector:

Sector	Valuation 31 Dec 18 £ million	Valuation movement for the quarter £ million	Valuation movement for the quarter %
Industrial	87.23	2.35	2.77
Other	30.33	0.38	1.25
Office	43.20	(0.20)	(0.46)
Retail	31.90	(1.50)	(4.49)
Total	192.66	1.03	0.53

Whilst there continue to be concerns around the retail sector, we are pleased the Company's exposure has fallen during the quarter from 18.24% to 16.56% of the portfolio valuation. This is partly as a result of the disposal of Stoneferry Retail Park, Hull, for £1.80 million and partly as a result of the valuation losses shown above. Although the Company's remaining retail assets have seen a fall in valuation due to negative sentiment towards the sector, they are generally located in town and city centres with large catchment populations and in many cases are supported by strong alternative use values and asset management options, limiting the downside risk.

We firmly believe that, given the Company's light exposure to retail property and lack of exposure altogether to the Central London Office Market where Brexit related demand concerns may be building, the Company is well positioned to weather challenges in the wider economy and to take advantage of opportunities in the market.

Following on from recent quarters' asset management successes, this quarter saw further letting success with a 10 year lease renewal being signed with Hydro Components UK Ltd on an 80,000 sq ft industrial unit in Rotherham, which crystallised a 20% uplift in the level of passing rent. In addition, a new letting was completed with Footasylum on Above Bar Street in Southampton, which highlighted that well located retail property is still able to attract tenant demand and, as such, vacancy across the portfolio remains low at 3.08%. Despite this low level of vacancy, we still expect to see significant value add opportunity from the portfolio in coming quarters as other asset management transactions that are currently being negotiated start to reach fruition. Other activity during the quarter included the sale of the Stoneferry Retail Park in Hull to an owner occupier which further reduced the portfolio's exposure to the retail sector.

The sale of the asset in Hull, along with the use of our debt facility up to an LTV of 25.95%, provides us with further capital to invest and as such, we are currently undertaking detailed due diligence on a new industrial asset which we hope to be able to announce imminently. As shown by this potential acquisition, the Company's investment pipeline continues to look strong with a variety of opportunities that could be accretive to our earnings."

Net Asset Value

The Company's unaudited NAV as at 31 December 2018 was £152.12 million, or 100.37 pence per share. This reflects an increase of 0.31% compared with the NAV as at 30 September 2018. The Company's NAV total return, which includes the interim dividend for the period from 1 October 2018 to 31 December 2018 of 2.00 pence per share, is 2.31% for the three month period ended 31 December 2018. As at 31 December 2018, the Company owned investment properties with a fair value of £192.66 million.

	Pence per share	£ million
NAV at 1 October 2018	100.06	151.65
Loss on disposal of investment properties	(0.20)	(0.30)
Capital expenditure	(0.13)	(0.21)
Valuation change in property portfolio	0.75	1.14

Valuation change in derivatives	(0.09)	(0.14)
Income earned for the period	2.90	4.40
Expenses and net finance costs for the period	(0.92)	(1.39)
Interim dividend paid	(2.00)	(3.03)
NAV at 31 December 2018	100.37	152.12

The NAV attributable to the ordinary shares has been calculated under International Financial Reporting Standards and incorporates the independent portfolio valuation as at 31 December 2018 and income for the period, but does not include a provision for the interim dividend for the three month period to 31 December 2018.

Dividend

The Company today announces an interim dividend of 2.00 pence per share for the period from 1 October 2018 to 31 December 2018. The dividend payment will be made on 28 February 2019 to shareholders on the register as at 8 February 2019. The ex-dividend date will be 7 February 2019.

The dividend of 2.00 pence per share will be designated 2.00 pence per share as an interim property income distribution ("PID").

The EPRA EPS for the three month period to 31 December 2018 was 1.98 pence (30 September 2018: 2.06 pence). The fall in EPRA earnings is largely as a result of one-off charges on void units, equating to 0.07 pence per share. The Company had £8.91 million cash for investment as at 31 December 2018, which will provide the opportunity to increase earnings through re-investment into high yielding assets.

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 of 8.00 pence per share. Based on current market conditions, the Company expects to pay an annualised dividend of 8.00 pence per share in respect of the financial period ending 31 March 2019.

Investors should note that this target is for illustrative purposes only, based on current market conditions and is not intended to be, and should not be taken as, a profit forecast or estimate. Actual returns cannot be predicted and may differ materially from this illustrative figure. There can be no assurance that the target will be met or that any dividend or total return will be achieved.

Financing

Equity

The Company's issued share capital consists of 151,558,251 Ordinary Shares and there was no movement during the quarter.

Debt

The Company's borrowings remained at £50.00 million throughout the quarter and at 31 December 2018, the Company was geared at a gross loan to value of 25.95% and a net loan to value of 21.33%.

The loan continues to attract interest at LIBOR + 1.4%. To mitigate the interest rate risk that arises as a result of entering into a variable rate linked loan, the Company has entered into interest rate caps on £36.51 million of the total value of the loan (£26.51 million at 2.5% cap rate and £10.00 million at 2.0% cap rate) up to October 2020, resulting in the loan being 73% hedged. The Investment Manager and the Company will keep the levels of gearing and hedging under review.

On 22 October 2018, the Company extended the term of the loan facility by three years up to October 2023, incurring arrangement fees of £270,000. The Company also entered into interest rate caps covering the extension period, capping a notional value of £46.51 million at LIBOR of 2.00% per annum from October 2020 to October 2023, which represents 90% of the current loan balance. The premium paid was £512,000.

Portfolio activity and asset management

Mangham Road, Rotherham

In October 2018, the Company completed a lease renewal with Hydro Components UK Limited for a ten year term at a rent of £275,000 per annum at its c. 80,000 sq ft industrial unit in Rotherham. This represents an increase of 20% in passing rent and the valuation of the property increased by over 30% for the quarter.

Above Bar Street, Southampton

In October 2018, the Company completed the lease of Unit 3, 69/75 Above Bar Street, Southampton, to Footasylum Plc. for a term of ten years at a rent of £135,000 per annum.

Stoneferry Retail Park, Hull

In December 2018, the Company completed the sale of Stoneferry Retail Park, Hull, for gross proceeds of £1.80 million, reducing the Company's exposure to the retail sector.

London East Leisure Park, Dagenham

In December, the Company completed the regear of the lease at London East Leisure Park, Dagenham, with McDonalds Restaurants Ltd for a 15 year term at a rent of £75,000 in years 1 to 3, increasing to £90,000 thereafter. The letting led to an increase in value of £250,000 for the quarter.

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Notes to Editors

About AEW UK REIT

AEW UK REIT plc (LSE: AEWU) aims to deliver an attractive total return to shareholders by investing predominantly in smaller commercial properties (typically less than £10 million), on shorter occupational leases in strong commercial locations across the United Kingdom. The Company was listed on the Official List of the UK Listing Authority and admitted to trading on the Main Market of the London Stock Exchange on 12 May 2015, raising £100.5m. Since IPO it has raised a further £51m.

The Company is currently invested in office, retail, industrial and leisure assets, with a focus on active asset management, repositioning the properties and improving the quality of the income stream.

AEWU is currently paying an annualised dividend of 8p per share.

www.aewukreit.com

About AEW UK Investment Management LLP

AEW UK Investment Management LLP employs a well-resourced team comprising 23 individuals covering investment, asset management, operations and strategy. It is part of AEW Group, one of the world's largest real estate managers, with just over EUR63.5bn of assets under management as at 30 September 2018. AEW Group comprises AEW SA and AEW Capital Management L.P., a U.S. registered investment manager and their respective subsidiaries. In Europe, as at 30 September 2018, AEW Group managed nearly EUR30bn in value in properties of all types located in 9 countries, with close to 400 staff. The Investment Manager is a 50:50 joint venture between the principals of the Investment Manager and AEW.

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