UK Commercial Property REIT

A diversified portfolio of high quality real estate, built for the future

Performance Data and Analytics for Quarter 1, 2022

UK Commercial Property REIT

Investment Objective

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.

Corporate Performance – % growth

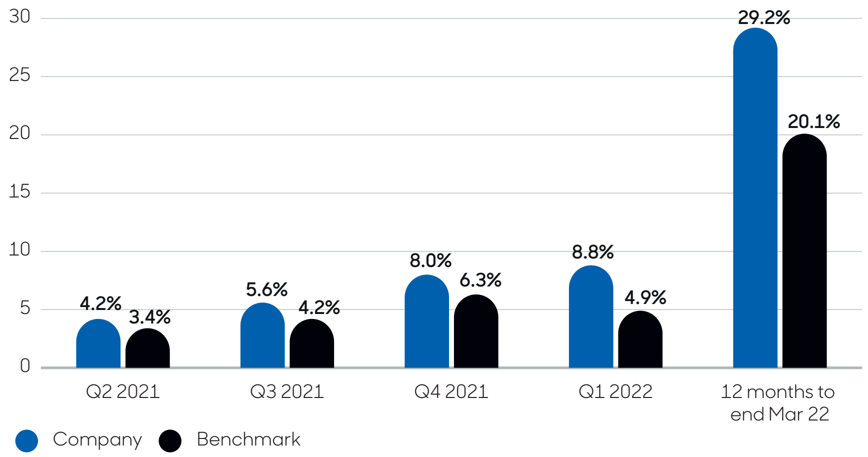
	Q1 2022	1 yr	3 yrs	5 yrs
NAV Total Return	9.82	30.80	30.34	51.67
Share Price Total Return	19.42	27.71	15.25	25.11
MSCI Benchmark	4.89	20.10	22.78	42.43

Discrete Performance (%)

	31/03/22	31/03/21	31/03/20	31/03/19	31/03/18
Direct portfolio return	29.20	5.55	(2.38)	5.58	11.55
NAV Total Return	30.80	4.19	(4.35)	4.53	11.31
Share Price Total return	27.71	(1.06)	(8.79)	0.02	8.53
MSCI Benchmark	20.10	2.02	0.21	5.03	10.43

Source: abrdn as at 31/03/2022. MSCI Quarterly Benchmark Report to end March 2022.
Past performance is not a guide to future results.

Portfolio Total Returns - Annualised



Source: MSCI; Benchmark: UK Balanced Portfolios Quarterly Property Index.
Past performance is not a guide to future results.

Key Statistics as at 31 March 2022

Launch date	20 Sep 2006
Total assets	£1.7bn
Share price (per closing LSE price)	90.7p
NAV	111.2p
Premium/(Discount) to NAV	(18.4%)
Occupancy levels	97.6%
Average lease length	8.9 years
Gearing	12.6%[A]
Gross dividend yield	3.5%[B]
Management fees	From 1 April 2022, 0.525% on gross assets up to £1.75 billion, (excluding any cash held over £50 million) 0.475% on gross assets over £1.75billion
Stock code	UKCM
Dividend pay dates	Feb, May, Aug, Nov

[A] Gearing is calculated as gross debt less cash divided by portfolio value.
[B] Based on last 12 months dividends (settled May-21, Aug-21, Nov-21 and Feb-22).

All sources (unless indicated): abrdn: 31 March 2022.

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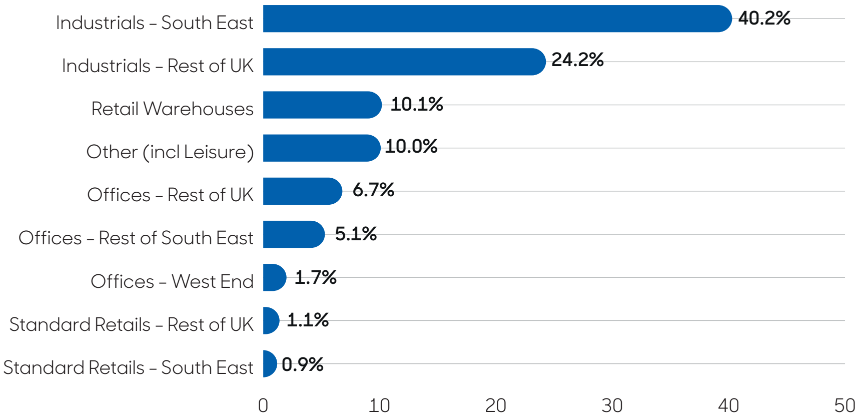
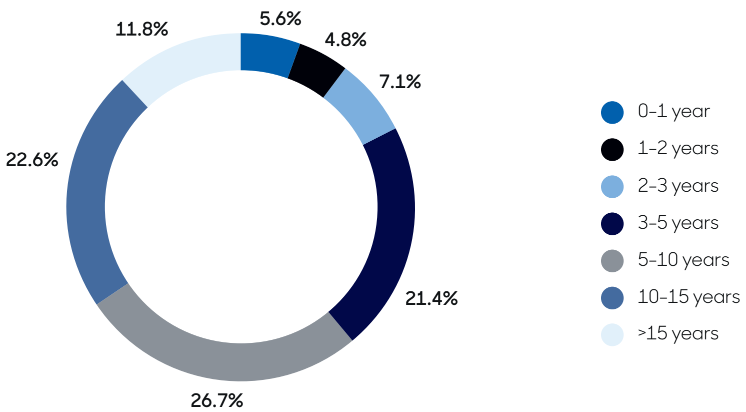
Sub Sector Weightings



Lease Expiry Profile (% of Portfolio Income)



Market Commentary

Economic outlook

- GDP grew by 0.1% month-on-month to February 2022, down from 0.8% in January, according to the latest data published by ONS. Growth in GDP for February was predominantly driven by strong recovery in travel agencies, tour operators and hotels as consumers become more confident booking holidays in the UK and abroad. Tour operation and accommodation output grew by 33% and 23%, respectively. This was partially offset by a reduction in Covid-19 Test and Trace vaccination programmes. This was a major contributor to UK GDP growth at the start of the year but contributed to a 5.1% contraction across the health sector in February.
- UK GDP growth is expected to weaken from here as the recovery in consumer spending fades, largely as a result of a squeeze on consumer household incomes in light of the inflationary pressures. Growth is likely to slow sharply through this year, albeit at a rate above trend. Indeed, aRI forecasts UK GDP growth of 3.8% in 2022, before moderating to 1.1% in 2023.
- UK inflation rose to 7.0% in the year to March 2022, up from 6.2% in February. The most recent reading exceeded the 6.7% forecast by economists polled by Reuters and marks the highest level of consumer price index inflation since March 1992 as higher fuel, energy and food prices continued to put upward pressure on the inflation rate. aRI expects inflation to reach a peak of 8.5% in April 2022, before falling back to reach 6.2% by the end of 2022. Inflation is expected to remain higher for a more prolonged period, largely as a result of rising prices in the wholesale energy markets.

Top 10 holdings

	Location	Value Band
Ventura Park, Radlett	Radlett	Over £100m
Hannah Close, Neasden	London	Over £100m
Dolphin Est, Sunbury-on-Thames	London	Over £100m
Hatfield Business Park	Hatfield	£70-£100m
Phase II Newton's Court	Dartford	£70-£100m
Wellington Parkway	Lutterworth	£50-£70m
Junction 27 Retail Park	Leeds	£50-£70m
Emerald Park East	Bristol	£50-£70m
The Rotunda	Kingston on Thames	£30-£50m
Centrum 260	Burton upon Trent	£30-£50m

Factsheet

Receive the factsheet by email as soon as it is available by registering at www.invtrusts.co.uk/#signup
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- The UK labour market continued to tighten in the three months to February. While employment growth has slowed; the unemployment rate fell and now sits at 3.8%. The tighter labour market is being reflected in nominal pay growth data which increased by 5.4% in the 12 months to February 2022, according to the ONS. However, real wages are falling as pay growth is failing to keep pace with inflation, with households likely to face falling income through much of this year.
- At its meeting on 16 March 2022, the Bank of England's Monetary Policy Committee (MPC) voted by a majority of 8-1 to increase the Bank Rate by 0.25% to 0.75%. aRI now expects the Bank of England to hike rates to 1.25% by the end of this year, and to start to run down its balance sheet by selling the bonds it has built up in its Quantitative Easing (QE) processes by mid-year. Two further hikes are then expected in 2023, taking rates to 1.75%. As such, UK monetary policy will be actively slowing the economy by the end of the forecast period.

Occupier trends

- Office take-up in Central London showed signs of recovery in 2021 and totalled 9.1 million square feet, which was 63% higher than in 2020 but remained down on the 10-year average of 12.2 million square feet. However, according to CBRE, take-up in both January and February 2022 was down significantly on the 10-year monthly average, by 47% and 33% respectively, likely in response to the shock of the Omicron variant of Covid-19.
- Looking forward, we expect occupational demand to continue to narrow on best-in-class office accommodation, as wellness and ESG factors increasingly weigh on occupier decision making. The weaker economic environment is also likely to lead to poorer business sentiment and reduced job growth, leading to a fall in overall office demand. These factors will serve to expedite the polarisation of the office sector and secondary office accommodation is likely to suffer as a result.
- The industrial and logistics sector continues to benefit from a positive supply/demand dynamic and, according to CoStar data, UK leasing activity topped 110m square feet in 2021, 20% higher than the previous year. With the UK-wide vacancy rate understood to be around 3% and development availability remaining constrained, we expect robust rental growth to continue within this sector. Additionally, around 30% of leased industrial space in 2021 had a BREEAM rating of very good or better and we anticipate the adoption of ESG considerations within the sector will continue to rise.
- The retail sector surprised to the upside in January 2022 as total sales rose by 1.9%, despite the impact of the Omicron variant. The proportion of non-food online retail sales also continued to trend downwards and fell to 21.4% in February 2022, down from the February 2021 peak of 43%. However, rising inflation and the cost-of-living crisis are likely to impact consumer spending and this will be most patently felt in the discretionary end of the market. In contrast, budget and discount retailers are in line to benefit. We expect occupier sentiment to weaken as a result and the prospect for rental value growth remains remote.

Investment trends

- Over Q1 2022, UK investment volumes reached approximately £16.1 billion, according to RCA, which was 9% ahead of the 10-year quarterly average and represented the highest Q1 volume since 2015. Overseas capital continued to dominate and accounted for 59.1% of capital deployed in Q1 2022. The US remains the principal source of investment in the UK commercial real estate market, totalling £6.2 billion in the first three months of the year.
- Investor focus is showing signs of narrowing, particularly within the office sector, where investors are primarily targeting prime central London assets. Of the £5.35 billion invested in the office sector in Q1 2022, 49.9% was invested in just three central London assets, the largest of which was NPS' purchase of 5 Broadgate for £1.21 billion. Therefore, while the overall office investment numbers look positive, they do not tell the full story.
- In the industrial sector, Q1 transaction volumes totalled £4.7 billion. While this was slightly down on the same period in 2021, it is in fact 103% higher than the 10-year quarterly average, once again demonstrating the sector's popularity. Yields have continued to tighten over the previous 12 months, with prime industrial yields in Greater London now at 2.85%, according to CBRE.
- The retail market continues to be driven by the retail warehouse sector, where yields have come in between 150-275 basis points (bps) since March 2021. Investors have been primarily focused on discount and budget led schemes with little exposure to fashion retailers. However, as yields have compressed markedly over the last 12 months and the income yield differential between retail parks and other sought-after sectors has narrowed, there is an indication that some investors are moving up the risk curve in search of yield.
- The alternatives sector continued to grow in Q1 and accounted for 33% of total transaction volumes over the quarter. The private residential (PRS) and purpose-built student accommodation (PBSA) sectors remained the focus for investors as they were drawn to the sectors' income resilience that they provide, as illustrated by high levels of rent collection in the midst of the covid pandemic. As a result, over £4 billion was invested into the sectors over the quarter.

Investment themes

- UK real estate recorded an incredibly strong performance in 2021 and some of that momentum has continued into 2022. As has been the case for some time now, investor focus remains very narrow with the industrial sector remaining the key sector call. Yields for this sector have compressed again, with the prime yield for multi-let estates in Greater London reaching a new record of 2.85%, according to CBRE. While the occupier market remains strong, supporting our view that rental growth still has further to go, we believe that yield compression has run its course for the sector.
- Yields in the retail warehouse sector have come in quicker and to a greater extent than expected. Prime yields for retail parks have moved to 4.5% over the last 12 months and we are of the view that the capital cycle for this sector has largely run its course, particularly for open market rental value growth linked properties. Retail parks with the correct line-up, where rents are linked to inflation, should continue to be sought after in the current environment.
- With rising inflation, consumer spending will come under pressure this year. This will be felt most acutely by discretionary-led retail. However, the supermarket sector is still sought after, particularly the discount end where Aldi and Lidl continue to gain market share. Indeed, year-on-year sales comparable data for Lidl and Aldi illustrates positive momentum. Supermarket operators are better placed to pass on inflation to consumers in the current environment.
- ESG considerations for UK real estate were already fundamental for both sector and asset projections. The Covid-19 pandemic accelerated this trend, but with the current energy crisis, the pathway to net zero carbon has been expedited even further. A lot of the focus to date has centred on the office sector, but it is equally as pertinent for all UK commercial real estate sectors.

Important information

Risk factors you should consider prior to investing:

- The value of investments and the income from them can go down as well as up and investors may get back less than the amount invested.
- Past performance is not a guide to future returns.
- The value of property and property-related assets is inherently subjective due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty. There is no assurance that the valuations of Properties will correspond exactly with the actual sale price even where such sales occur shortly after the relevant valuation date.
- Prospective investors should be aware that, whilst the use of borrowings should enhance the net asset value of the Ordinary Shares where the value of the Company's underlying assets is rising, it will have the opposite effect where the underlying asset value is falling. In addition, in the event that the rental income of the falls for whatever reason, including tenant defaults, the use of borrowings will increase the impact of such fall on the net revenue of the Company and, accordingly, will have an adverse effect on the Company's ability to pay dividends to Shareholders.
- The performance of the Company would be adversely affected by a downturn in the property market in terms of market value or a weakening of rental yields. In the event of default by a tenant, or during any other void period, the Company will suffer a rental shortfall and incur additional expenses until the property is re-let. These expenses could include legal and surveying costs in re-letting, maintenance costs, insurance costs, rates and marketing costs.
- Returns from an investment in property depend largely upon the amount of rental income generated from the property and the expenses incurred in the development or redevelopment and management of the property, as well as upon changes in its market value.
- Any change to the laws and regulations relating to the UK commercial property market may have an adverse effect on the market value of the Property Portfolio and/or the rental income of the Property Portfolio.
- Where there are lease expiries within the Property Portfolio, there is a risk that a significant proportion of leases may be re-let at rental values lower than those prevailing under the current leases, or that void periods may be experienced on a significant proportion of the Property Portfolio.
- The Company may undertake development (including redevelopment) of property or invest in property that requires refurbishment prior to renting the property. The risks of development or refurbishment include, but are not limited to, delays in timely completion of the project, cost overruns, poor quality workmanship, and inability to rent or inability to rent at a rental level sufficient to generate profits.
- The Company may face significant competition from UK or other foreign property companies or funds. Competition in the property market may lead to prices for existing properties or land for development being driven up through competing bids by potential purchasers.
- Accordingly, the existence of such competition may have a material adverse impact on the Company's ability to acquire properties or development land at satisfactory prices.
- As the owner of UK commercial property, the Company is subject to environmental regulations that can impose liability for cleaning up contaminated land, watercourses or groundwater on the person causing or knowingly permitting the contamination. If the Company owns or acquires contaminated land, it could also be liable to third parties for harm caused to them or their property as a result of the contamination. If the Company is found to be in violation of environmental regulations, it could face reputational damage, regulatory compliance penalties, reduced letting income and reduced asset valuation, which could have a material adverse effect on the Company's business, financial condition, results of operations, future prospects and/or the price of the Shares.

Other important information:

The Company is a Closed-ended investment scheme registered pursuant to the Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended and the Registered Collective Investment Scheme Rules 2008 issued by the Guernsey Financial Services Commission.

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