UK Commercial Property REIT
Q3 2018

AberdeenStandard 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.

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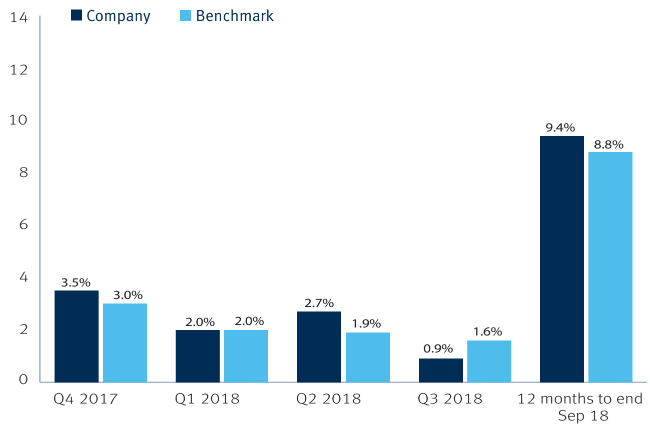
Key Statistics as at 30th September 2018	
Launch date	20 Sep 2006
Total assets	£1.5bn
Share price (per closing LSE price)	87.4 p
NAV	94.3 p
Premium/(Discount) to NAV	(7.3)%
Void levels	8.6%
Average lease length	9.0 years
Net Gearing	14.3%* (Gross Gearing 16.9%)
Gross dividend yield	4.2%
Management fees	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

Portfolio Total Returns

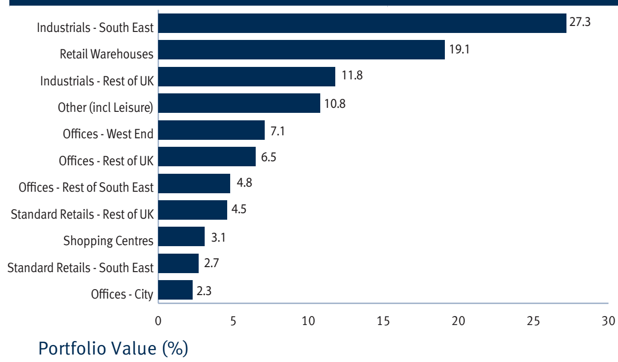


Source: IPD Balanced Monthly and Quarterly Funds to end September 2018. Past performance is not a guide to future performance. The value of investments and any income generated can fall as well as rise and is not guaranteed.

Corporate Performance – % growth	Q3 2018	1 yr	3 yrs	5 yrs
NAV Total Return	0.8	8.5	24.0	70.5
Share Price Total Return	0.3	-1.0	16.1	46.5
IPD Benchmark	1.6	8.8	24.4	67.5

Source: Internal as at 30/09/18. IPD Quarterly Benchmark Report to end September 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

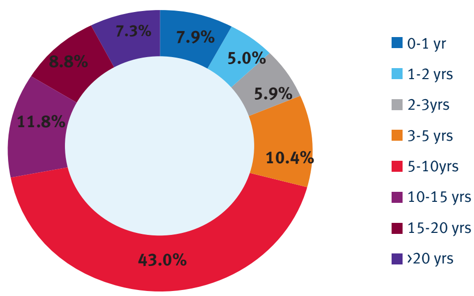


Top 10 holdings	Location	Value Band
Ventura Park, Radlett	Radlett, M25/M1	Over £100m
15 Great Marlborough Street*	London	£70-£100m
Hatfield Business Park	Hatfield	£50-£70m
Junction 27 Retail Park	Leeds	£50-£70m
Great Lodge Retail Park	Tunbridge Wells	£50-£70m
Dolphin Est, Sunbury-on-Thames	London	£50-£70m
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

*Sold October 2018

Source: Internal as at 30/09/18

Lease expiry profile (% of Portfolio Income)



Source: Internal as at 30/09/18

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Will Fulton
Lead Manager

UK Real Estate Market

Whilst the UK economy bounced back in the second quarter, after a weak start to the year, this recovery of 0.4% amounted to little more than a return to trend growth, rather than making up for any 'lost ground'.

As expected, the Bank of England (BoE) increased interest rates by 25 basis points (bp) to 0.75% at the August meeting of the monetary policy committee. The BoE has highlighted rising unit labour costs (ULC) as a reason for more monetary tightening; it effectively thinks the 'speed limit' of the economy is much lower than in the past.

Aberdeen Standard Investments (ASI) is of the view that the relationship between ULC and inflation is not always robust and are forecasting just one further 25 bp hike in rates in 2019.

The manager's Brexit base case is that a 'no deal' scenario will be averted but there are a number of very different ways in which this could happen. Nevertheless, the risk of 'no deal' has risen and is uncomfortably high with less than six months until the UK leaves the EU.

The Industrial sector remains comfortably the strongest part of the market in terms of occupier sentiment and fundamentals. While monthly MSCI data suggests a slowing in the rate of rental growth in August, the managers see no visible change in rental tension, with vacancy rates remaining exceptionally low. London office markets remain broadly static with uncertainty around Brexit regularly cited as a factor for occupiers. The trend is slightly more positive in the 'big six' regional office markets, with the modest but steady upward trajectory of rents continuing and the vacancy rate being gradually eroded.The retail sector continues to face significant long-term structural challenges that the modest rates of rental decline in the MSCI indices do not yet reflect. There are very few expansionary retailers away from the value end of the market. Early data on investment volumes by value for the third quarter suggest the lowest quarterly total in two years and substantially less than during the same quarter in 2017.

Positive NAV performance

- NAV per share of 94.3p (30 June 2018: 94.5p), resulting in a NAV total return of 0.8% in the period with continued low net gearing of 14.3%**.
- Like-for-like portfolio capital value increased by 0.8% with overall capital performance net of capital expenditure investment flat, compared to the 0.4% increase in the MSCI/IPD Monthly index over the period. The portfolio is now valued at £1.45 billion (30 June 2018: £1.42billion).
- The overweight position to Industrials (42% after the transactions discussed below) and the Company's prime office portfolio continued to produce strong capital returns offset by a negative capital return from retail.

Delivering on strategy of producing sustainable income streams

- Acquisition of M8 Industrial Estate near Glasgow in Scotland from a privately owned Company for a headline price of £24.6 million, based on a topped up net initial yield of 5.9%. The asset has 92% occupancy and is well let to tenants including Boots UK and Rentokil with an attractive average lease term of seven years. With an affordable average passing rent of £5.25 per sq ft across the estate, there is an opportunity to let up the small amount of vacant space and grow rents.
- Post the quarter end an off-market sale of 15 Great Marlborough Street, an office asset in London's Soho, to a major UK Insurance Company for £73.2 million. Having completed a number of asset management initiatives during UKCM's ownership, the sale was ahead of the last valuation as at 30th June 2018.
- Also after the quarter end, the sale of a retail asset let to H&M and Barclays Bank at 16-20 High Street in Exeter, to a UK pension fund for £23.5 million reflecting a net initial yield of 4.75%.
- These transactions match the Company's strategy to invest in good quality assets in favoured sectors. They also offer the opportunity to grow earnings whilst securing profits on keenly priced assets with the aim of transferring capital to higher yielding stock that have sustainable income streams and growth potential.

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Asset management and leasing momentum underpinning performance

- Completion of a new 20 year lease to Harwoods Ltd which operates the Audi car showroom at Motor Park, Portsmouth, incorporating annual RPI increases capped and collared at between 1% and 3%, at an annual rent of £265,500.
- At the Cineworld complex in Glasgow, a new 25 year lease was completed with the Stone Gate Pub Company at a rent of £250,000 per annum, incorporating RPI increases capped and collared at between 1% and 4%. The unit has also been extensively refurbished by the tenant.
- Completion of a new lease with Natwest Bank at The Parade, Swindon, delivering £170,000 per annum over 10 years.
- In addition, £381,000 of annual rental income, 8% ahead of estimated rental value ("ERV"), secured from two lease renewals and a rent review, including:
    - A new ten year reversionary lease with Rhys Davies & Sons Ltd at Ventura Park, Radlett, incorporating a new rent of £343,485 per annum, 10% ahead of ERV. The new contract will commence upon the expiry of their current lease in 2020 and incorporates a tenant break option in 2025.
    - Rent review agreed with William Hill at Eldon House, City of London, securing a new rent of £79,000 per annum, 22% ahead of the previous passing rent.
- Occupancy marginally decreased to 91%; approximately half the vacancy is well located within the generally under-supplied industrial sector with strong leasing prospects; the Company is also experiencing good interest in its office vacancy and making progress with its retail vacancy.

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- Post the completion of the Dalata Hotel 16.5% of the portfolio income will be in leases that have fixed or inflation linked uplifts.
- Successes achieved across industry environmental, social and governance (ESG) benchmarks - sector Leader status in the Global Real Estate Sustainability Benchmark ("GRESB") as a top ESG performer and awarded an 'A' score for Public Disclosure; EPRA "Gold" rating for European Sustainability Best Practice Recommendations in September 2018.

Strong balance sheet providing flexibility and attractive dividend yield

- Post the transactions reported above, cash resources of £90 million are currently available for investment (after allowing for dividend commitment and projected capital expenditure on the portfolio) in addition to a further £50 million of undrawn revolving credit facility.

Investment Outlook

In the short term, our forecasts are muted and below the current consensus view. From a top-down perspective, we expect existing industrial investments to deliver considerably stronger returns than retail and offices over the next three years, but accessing the yield component of those returns through new purchases is hard. We expect retail returns to be negative over the next three years, with rents declining and yields rising, but that dynamic is not uniform across the sector with dominant affordable schemes performing more favourably. Although there are clear differences in the outlook for the various sectors of Industrial, Office and Retail, it is important to maintain a disciplined approach at asset level to invest in good quality assets that meet occupier needs.

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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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