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UNAUDITED NET ASSET VALUE AT 31 DECEMBER 2023

UK COMMERCIAL PROPERTY REIT LIMITED

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UK COMMERCIAL PROPERTY REIT LIMITED

(an authorised closed-ended investment company incorporated in Guernsey with registration number 45387)

LEI Number: 213800JN4FQ1A9G8EU25

(The "Company")

7 FEBRUARY 2024

Unaudited Net Asset Value at 31 December 2023

PORTFOLIO MANAGEMENT DRIVES EARNINGS GROWTH

Sale of Craven House office property in line with market value

7 February 2024: UK Commercial Property REIT Limited ("UKCM" or the "Company") (FTSE 250, LSE: UKCM), which, is managed and advised by abrdn and owns a £1.25 billion portfolio of high quality and diversified real estate across the UK, today provides a net asset value ("NAV") and trading update for the fourth quarter to 31 December 2023.

Portfolio management and weighting to structurally supported sectors driving earnings growth

- 6.3% growth in annual EPRA EPS to 3.35p[1] (Q4 2023 0.88p, FY 2022 3.15p).
- Total dividend paid in 2023 increased 5% to 3.40p and 99% covered (FY2022: 3.25p), with Q4 dividend maintained at 0.85p per share, payable 29 February 2024.
- Annual NAV total return of 3.0%, including a -1.4% total return in Q4. Unaudited NAV per share 78.7p (30 September 2023: 80.7p, 31 December 2022: 79.7p).

Strong occupier markets supporting leasing momentum and rental growth

- Three industrial leases signed in Q4 at a 30% average premium to previous passing rent, with two further renewals agreed expected to capture a 36% reversionary uplift (starting in March and September 2024). Two offices leases agreed at c.9.75% above previous passing rent.
- Strong track record of high occupancy maintained at 96% at year-end following a number of positive asset management initiatives in Q4.

Values stable with continued outperformance from diversified portfolio

- Portfolio valuation remained broadly stable, with a marginal 0.89% drop over the year following a 2.1% decrease in Q4, net of capital expenditure, to £1.25 billion. The Company's portfolio continues to compare favourably to the MSCI UK Monthly Property Index's 2.6% fall in Q4 and has outperformed the MSCI benchmark[2] over 1, 3, 5 and 10 years.

Investing in future earnings growth

- Capital expenditure of £8.4 million in Q4 as the Company continues to invest in driving future earnings growth, with the majority used to progress UKCM's Hyatt hotel development in Leeds which is expected to generate a 7.25% yield on cost when it completes later this year.

Portfolio recycling facilitating continued disciplined balance sheet management

- At the end of January 2024, the Company completed the sale of its Craven House offices in London's West End for £22 million at December valuation, representing a 4.6% net initial yield. The Company believes that the benefits of recycling sale proceeds to reduce floating rate debt costing 7.2% at this time outweigh the planning risk and capex required to generate rental growth.
- The Company also reduced its revolving credit facility with Barclays at the end of the period reducing the maximum from £180 million to £150 million, saving £228,000 per annum in non-utilisation costs. At the end of the period £37.5 million of this facility was utilised, reducing to £15.7 million post the sale of Craven House.
- Balance sheet provides flexibility with total group LTV now 15.8%[3] at a blended drawn cost of 3.19%, compared to 17.2% and 3.56% per annum, respectively, at year end.
- 93% of Group debt as of the date of this announcement is at a low fixed rate with all covenants well covered.

[1] Excludes Cineworld non cash adjustment announced in Q2 2023 results.

[2] Benchmark: MSCI UK Balanced Portfolios benchmark to 30 September 2023 +MSCI UK Monthly Property Index to 31 December 2023

[3] Calculated under AIC guidance, as gross borrowings less cash divided by portfolio value.

Peter Pereira Gray, Chair of UKCM, commented: "Having taken over as chair of UKCM in the middle of 2023, I am pleased that at the end of the financial year we are able to show that we continue to make meaningful progress as a company. We have reported stable asset values and outperformed the MSCI index, while delivering earnings growth of 6.3% over the year. I take further confidence from the fact that our voids are very low and that there is significant prospective rental reversion within our diversified portfolio.

"The Company's balance sheet remains one of the lowest geared in the sector, with an LTV of just under 16% as of today, following the sale of our Craven House office asset last week. This gives us significant security, as well as flexibility for when we feel the right opportunities arise either from within the portfolio or from outside.

"We delivered a 5% growth in dividend paid in 2023 and will continue to review the dividend level going forwards, particularly as our earnings visibility improves and our hotel development comes online at the end of the year.

"We continue to manage the Company actively with an engaged board and investment manager and, with the broader economic and interest rate outlooks improving, I remain confident about the Company's future prospects."

Will Fulton, Lead Manager of UKCM at abrdn, said: "I am encouraged by the strong progress our team made in 2023 in capturing rental reversion and the potential to boost earnings further from the portfolio in the years to come.

"The outlook for 2024 seems much more positive, with the expectation that interests rates have peaked leading to renewed confidence in the sector. Many commentators are anticipating valuations to begin to improve from the middle of the year and into 2025, assisted by an increase in transaction volumes as investors adjust to the new interest rate environment. We expect this to benefit UKCM's diversified portfolio given the weighting we have built up in structurally supported sectors, such as industrial and logistics."

Asset management delivering rental growth potential and high occupancy

The Company has a very low void rate of 4% which provides good visibility of future income and clearly demonstrates both the quality of the Company's portfolio and the asset management team's ability to retain income while focusing on capturing reversionary rent potential. This has continued with another quarter of good leasing momentum, particularly within the Company's industrial portfolio where a number of strong deals were agreed:

A 56% increase in rent on a lease at a Dolphin Industrial Estate, Sunbury on Thames, following a rent review settlement over the 64,488 sqft unit D1/2, which is let to Transglobal Freight Management at a rent of £1,096,000 (£17.00 psf) per annum; compared to a previous rent of £704,000 per annum. This, along with another renewal which is currently in legal hands, provides compelling evidence to push rents on across the estate as lease events occur.

A 30% uplift on the previous passing rent higher at the Newton's Court multi let industrial estate in Dartford on a new lease over Unit 2, also reflecting a 2% premium to ERV. Flint Hire & Supply Ltd entered into a 15-year lease with a tenant-only break option in year ten, at an annual rent of £214,377 p.a. (£14.50 psf p.a.) and a six month rent free period. The lease set a new record rent for the estate. Importantly, the Company was able to sign Flint as a replacement for the previous occupier on a back-to-back basis without any vacancy period.

Two tenants committed to long-term leases at our Emerald Park multi-let industrial estate in Bristol. At unit 201, occupied by CarCo Ltd, the tenant entered into a new 10 year lease from expiry of its existing lease in August 2024. The lease incorporates a day one upwardly only rent review to the open market rent which will allow us to capture reversion at that time. The Secretary of State, tenant at unit 203, also entered into a 10 year reversionary lease ahead of their lease expiry in March 2024, subject to a break option at the end of year five. The rent will also be agreed via an upward only rent review. Together, based on today's rental value, we estimate we can capture 36% reversionary rent increases at rent review.

At Gatwick Gate Industrial Estate, Crawley a 3 year reversionary lease was agreed with DFS at a rent of £256,000 (£12.74 per sqft) per annum reflecting an increase of 5.6% from the previous rent of £242,346 per annum and in line with ERV.

Within UKCM's retail warehouse portfolio a lease renewal was secured with Iceland Foods Ltd t/a Food Warehouse at Unit 5, Trafford Retail Park, Manchester, which has agreed a new 5 year reversionary lease from expiry of its existing lease on 1 March 2026, incorporating a day one upwardly open rent review to the higher of the open market rent or the rent passing which is currently £180,576 per annum.

A further lease renewal was completed at 18% above the previous passing rent on 6,700 sq ft at the Company's office Central Square in Newcastle upon Tyne. Trimble UK Limited has taken a new 10 year lease, subject to a tenant break option at year 5, at a rent of £156,250 or £23.00 per sqft. The tenant was also granted a 5 month incentive package

At The White Building, Reading we completed an outstanding rent review from September 2022 over the 13,348 sqft fifth floor with the tenant Roc Search at a rent of £460,506 (£34.50) per annum, reflecting a small increase of 1.5% from the previous rent of £453,832 per annum. While this reflects a marginal increase, it helps to substantiate the ERV across the wider building.

ESG

We commenced a portfolio-wide initiative to introduce EV chargers at the Company's retail parks during the year. Working with RAW Charging, we have introduced 28 ultra rapid charging hubs at St George's Retail Park, Leicester and at Junction 27 Retail Park, Leeds. RAW Charging entered into leases of 30 years in Leicester and 15 years in Leeds. The Company will receive a base rent of £32,750 per annum in addition to a usage top-up.

Development

The Company has one current development, its Hyatt-branded 305 bed hotel development at Sovereign Square in Leeds, which continues to make good progress towards its target opening in Q3 2024. On completion the hotel will serve a strong regional market which lacks good quality mid-priced hotels such as this, with the added benefit of strong ESG credentials.

Strong balance sheet with significant covenant headroom and flexibility

The Company's prudent approach to debt has allowed it to maintain a robust balance sheet with its gearing remaining low at 15.8% (Q4 23:17.2%) across three debt facilities, as calculated using AIC methodology. All covenants are well covered and there is an additional £308 million of unencumbered property which provides further significant headroom and flexibility with respect to the Company's covenant package.

UKCM has financial resources of £113.3 million available, after allowing for future capital commitments and the February 2024 dividend. The bulk of these resources relate to the Company's reduced RCF which is currently a relatively expensive form of debt and so only likely to be deployed if a compelling and accretive opportunity arises.

Rent Collection

Rent collection rates remain strong with 98% of fourth quarter rents already received allowing for those tenants who have paid, by agreement, on a monthly basis. Cumulative rent collection for 2023 was 99%.
The Company has a diverse tenant mix of quality occupiers, the largest five of which comprise resilient businesses such as Ocado (5.8% of rent), Public Sector (5.1%), Armstrong Logistics (3.6%), Total (3.1%) and Kantar (2.8%). In total the portfolio's income is secured from 192 tenancies.

Dividends

Dividend maintained at 0.85p per share for the fourth quarter, payable 29 February 2024, which was 104% covered.

Breakdown of NAV movement for Q4 2023

Set out below is a breakdown of the change to the unaudited net asset value per share calculated under International Financial Reporting Standards ("IFRS") over the period from 30 September 2023 to 31 December 2023:

UK Commercial Property REIT Limited	Per Share (p)	Attributable Assets (£m)	Comment
Net assets as at 30 September 2023	80.7	1,048.8	
Unrealised decrease in valuation of property portfolio	(1.4)	(17.5)	
Capex in the quarter	(0.7)	(8.4)	Predominantly relates to ongoing development capex for the hotel in Leeds.
Income earned for the period	1.4	18.1	Dividend cover of 103.8% for the period
Expenses for the period	(0.5)	(6.8)	
Dividend paid in November 2023	(0.8)	(11.0)	
Net assets as at 31 December 2023	78.7	1,023.2	Decrease of 2.5%

The EPRA Net Tangible Assets per share is 78.7p (30 September 2023: 80.7p) with EPRA earnings per share for the quarter being 0.88p.

Sector Analysis

	Portfolio Value as at 31 Dec 23 (£m)	Exposure as at 31 Dec 23 (%)	Like for Like Capital Value Shift (net of CAPEX) (%)	Capital Value Shift (incl development spend) (£m)
Valuation as at 30 Sept 23				**1,269.2**
Industrial	**739.8**	**59.1**	**-0.8**	**-5.6**
South East		34.0	-0.2	-0.8
Rest of UK		25.1	-1.3	-4.8
Retail	**176.1**	**14.1**	**-2.9**	**-5.2**
Supermarkets		2.1	-5.8	-0.8
Retail Warehouses		12.0	-2.9	-4.4
Offices	**143.6**	**11.5**	**-7.5**	**-11.0**
West End		1.8	-6.5	-1.5
South East		4.5	-8.1	-5.0
Rest of UK		5.2	-6.1	-4.5
Alternatives	**191.6**	**15.3**	**-3.0**	**3.7**
Leisure		5.2	-3.9	-2.6
Student Accommodation		4.7	-5.0	0.0
Hotels		5.4	-0.2	6.3
Valuation as at 31 Dec 23	**1,251.1**	**100.0**	**-2.1**	**1,251.1**

UKCM Yield Profile Q4 2023

Sector	**Net Initial Yield**	**Reversionary Yield**
Industrial	4.3%	6.0%
Office	6.2%	8.4%
Retail	6.3%	6.1%
Alternatives*	6.4%	6.2%
Portfolio	**5.1%**	**6.3%**

***excludes Hyatt, Leeds development**

Top Ten Investments

Properties valued in excess of £100 million	**Sector**
Ventura Park, Radlett	Industrial
Properties valued between £50 million and £100 million	
Ocado Warehouse, Hatfield	Industrial
Dolphin Industrial Estate, Sunbury-on-Thames, London	Industrial
Newton's Court, Dartford	Industrial
Junction 27 Retail Park, Leeds	Retail Warehouse
XDock 377, Lutterworth	Industrial
Properties valued between £25 million and £50 million	
The Rotunda, Kingston on Thames	Alternatives
Emerald Park, Bristol	Industrial

Trafford Retail Park, Manchester	Retail Warehouse
The Maldron Hotel, Newcastle	Alternatives

The independent valuation as at 31 December 2023 was carried out by CBRE Ltd.

Net Asset Value analysis as at 31 December 2023 (unaudited)

	£m	% of net assets
Total Property Portfolio	**1,251.1**	**122.2**
Adjustment for lease incentives	(27.5)	-2.7
Fair value of Property Portfolio	**1,223.6**	**119.5**
Cash	22.1	2.2
Other Assets	42.0	4.1
Total Assets	**1.287.5**	**125.8**
Current liabilities	(28.2)	-2.7
Non-current liabilities (bank loans)	(236.3)	-23.1
Total Net Assets	**1.023.2**	**100.0**

Breakdown of NAV movement for 2023
Set out below is a breakdown of the change to the unaudited net asset value per share calculated under International Financial Reporting Standards ("IFRS") over the period from 1 January 2023 to 31 December 2023:

UK Commercial Property REIT Limited	Per Share (p)	Attributable Assets (£m)	Comment
Net assets as at 1 January 2023	79.7	1,035.7	
Unrealised increase in valuation of property portfolio	1.3	17.3	
Realised gain on sale	-	0.3	
Capex in the year	(2.4)	(29.0)	Predominantly relates to ongoing development capex for the Hyatt Hotel in Leeds.
Income earned for the year	5.6	71.2	Dividend cover of 98.6%[1] for the year
Expenses for the year	(2.2)	(28.3)	
Dividend paid in 2023	(3.4)	(44.0)	
Net assets as at 31 December 2023	78.7	1,023.2	Decrease of 1.3%

The EPRA Net Tangible Assets per share is 78.7p (31 December 2022: 79.7p) with EPRA adjusted earnings per share for the year being 3.35p[1].

The NAV per share at 30 December 2023 is based on 1,299,412,465 shares of 25p each, being the total number of shares in issue at that time.

Investment Manager's Market Commentary

Economy and Investment Outlook

2024 has started with renewed but cautious confidence and displaying the hallmarks of a positive turning point in sight. Led by the REIT market, and triggered by clear anticipation of an improved macro-picture, the direct property market is expected to follow later in the year and into 2025 as lower interest rates bed-in, inflation stabilises and economic growth appears.

The REIT market has been stimulated by improving expectations of peak interest rates having been reached, and set to fall mildly in 2024 and more materially into 2025, and coupled with a sense of more controlled and declining inflation. The direct property market is set to follow later in 2024 and into 2025 as lower rates are embedded and economic growth picks. The REIT sector ended the year on a high, taking the FTSE EPRA Nareit UK Index to a total return of 10.7% for 2023, significantly outperforming the FTSE All-Share Index' s 7.9% over the same period. An expectation of peak and falling interest rates was clearly illustrated by the UK interest rate swap market where five-year interest swaps reached recent lows of 3.3% by year-end, considerably lower than the July 2023 peak of around 5.3%. The UK listed real estate index has historically led the UK direct real estate sector by six-to-nine months, which adds weight to the argument that the fortunes for the latter will improve over the course of 2024.

Encouragingly, the direct UK property market saw a massive brake on value declines and stabilisation across many sectors in 2023, when compared with 2022. All Property capital decline in 2023, according to the MSCI monthly index data, was 5.6% when compared to 2022's 14.1%. Total return -0.1% 2023 versus -10.1% in 2022. It remains the case that not all sectors are equal, far from it in fact, with a wide range in cross-sector performances. Those benefitting from structural and thematic tailwinds, such as the logistics and living sectors are a clear example of this trend, proving to be more resilient in the face of a weaker macroeconomic environment and outperforming the wider market with total returns of 5.1% and 8.2% respectively. The office sector was the laggard over the course of the year, facing some structural challenges with a negative return of 11.9% during the year. In overview, following erratic UK GDP data in the final quarter of 2023, we expect a stagnant economy in 2024 followed by growth of 1.5% in 2025 which would, we believe, materially improve business confidence.

UK GDP growth rebounded in November 2023, expanding 0.3% month-on-month, slightly ahead of the 0.2% consensus, but following a contraction of 0.3% in October. While we do not currently forecast a technical recession in the UK, recession-like conditions look set to continue into 2024, with the prospect of further fiscal easing to be announced in March helping limit the extent of the downturn. We anticipate an Autumn 2024 UK general election which will undoubtedly create some short-term fog around forecasting however, based on our base case political outcome, we do not anticipate any economic shock to result.

Despite an unexpected increase in headline inflation CPI from 3.9% to 4% in December, UK inflation no longer looks like such an international outlier. The bigger picture is that headline inflation is still expected to fall further over the course of 2024, aided by favourable base effects. Meanwhile, cooling wage growth should help to bring down underlying inflation pressure down too. We forecast UK CPI headline inflation to fall to 2.7% by the end of 2024, and to 2.2% by 2025.

Monetary policy remained in the driving seat in 2023 with the UK base rate ending the year at 5.25%. At the Bank of England's (BoE) December meeting, there was a concerted effort to push back against recent market pricing for an earlier rate-cutting cycle. Indeed, the policy communication and voting pattern from the BoE suggest that it wants to keep the possibility of further rate hikes alive. However, a higher for longer profile for interest rates is unlikely to prove sustainable in our view as headwinds mount and underlying inflation pressures fade. We expect rate cuts to start in June, with the policy rate reaching 4% by the end of 2024 and 2.5% by the end of 2025.

Whilst yields have rebased outwards across all UK real estate sectors, the rental cycle remains positive for structurally supported sectors. This is particularly the case for the logistics sector, where structural drivers continue to support demand at a time when the supply pipeline remains constrained, particularly for best-in-class space. Whilst vacancy rates have picked up in the industrial sector, they remain low in a historical context at an estimated 4.1% at year-end according to CoStar data. Importantly, the increased cost of capital, higher construction costs and limited availability of suitable sites reduced the sector's development pipeline providing the platform for continued rental growth over the medium to long term. With a weaker economic growth backdrop anticipated in 2024, greater attention will be placed on occupier strength and capturing reversion. Both take-up and investment levels are expected to trend towards long-term historical averages, following a covid-19 induced surge in both metrics.

Sentiment towards the office sector remains weak as the sector grapples with new working habits, environmental regulation and an increase in capital expenditure requirements. The most recent data indicates that vacancy rates across all major office sub-markets have started to plateau, but at elevated levels compared with historical averages. This is being driven by the availability of 'grey', or second-hand, space as occupiers rationalise their office footprint in light of a fundamental shift in working habits. Despite a consistent improvement in office occupancy rates across the UK in 2023, it is unlikely that we will see this translate into any meaningful improvement in the vacancy rate as businesses become more selective about the quality of office stock they want to occupy. However, the availability of truly best-in-class office accommodation remains in short supply and is creating a two-tier leasing market, even producing rental growth for prime office assets. Any office that falls out with this definition will see further pressure on rents in 2024. Pricing yields, for all offices remain under negative pressure.

The retail sector faced a challenging year in 2023, with consumer confidence creating a headwind. Month-on-month retail sale volumes fell by 3.2% in December 2023, according to the Office for National Statistics (ONS), with retail sales down 2.4% compared to December 2022. Black Friday tempted some consumers to bring forward their spending to November, which partly explains the slowdown in Decembers retail sales. Real wages are now in positive territory, driven by wage increases interaction with a fall in inflation. Whilst this has the potential to provide some support for the sector, we do not expect it to materially alter retail fortunes this year given the ongoing cost-of-living pressure. We retain a more favourable outlook for retail warehousing, largely because of lower vacancy, lower operating costs for retail tenants, and with footfall and the occupier proving resilient considering the cost-of-living pressures.

We expect an improvement in UK property performance as we move through 2024, driven by improved investor confidence and greater liquidity in the market. The catalyst for an improvement in the fortunes for UK real estate is the increasing likelihood of an interest rate cutting cycle in the second half of 2024, matched to a repriced real estate market, and the prospect of a far more positive real estate yield margin.

While the macro environment will continue to dominate as we move through 2024, sector allocation will remain crucial. Polarisation in performance from both a sector- and asset-quality perspective will remain a key differentiator for performance. Real estate refinancing poses a risk to our outlook in 2024, but we believe that the risk is more heavily skewed towards the office sector, given the amount of outstanding debt and lack of appetite for lending in this sector.

Sectors that benefit from longer-term growth drivers, such as the industrial and logistics sector, will continue to garner the most interest from investors. It is unlikely that there will be a material change in investor sentiment towards the office sector, but more attractively priced re-positioning opportunities will emerge over the course of 2024, with debt re-capitalisation and funds working through redemption queues the most likely source of product. However, underwriting assumptions, particularly around capital expenditure, are crucial. Long income assets now look more attractively priced, and we anticipate there will be some good buying opportunities in this area of the market in 2024.

Disclosures

The Board is not aware of any other significant events or transactions which have occurred between 31 December 2023 and the date of publication of this statement which would have a material impact on the financial position of the Company.

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement via Regulatory Information Service this inside information is now considered to be in the public domain.

Details of the Company may also be found on the Company's website which can be found at: www.ukcpreit.com

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The above information is unaudited and has been calculated by abrdn Fund Managers Limited.