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 30th June 2019

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Launch date</td>
<td>20 Sep 2006</td>
</tr>
<tr>
<td>Total assets</td>
<td>£1.5bn</td>
</tr>
<tr>
<td>Share price (per closing LSE price)</td>
<td>88.5 p</td>
</tr>
<tr>
<td>NAV</td>
<td>93.2 p</td>
</tr>
<tr>
<td>Premium/(Discount) to NAV</td>
<td>(8.6)%</td>
</tr>
<tr>
<td>Occupancy levels</td>
<td>92.5%</td>
</tr>
<tr>
<td>Average lease length</td>
<td>9.6 years</td>
</tr>
<tr>
<td>Net Gearing</td>
<td>16.2% (Gross Gearing 17.7%)</td>
</tr>
<tr>
<td>Gross dividend yield</td>
<td>4.2%</td>
</tr>
<tr>
<td>Management fees</td>
<td>0.6% on gross assets up to £1.75 billion, 0.475% on gross assets over £1.75 billion</td>
</tr>
<tr>
<td>Stock code</td>
<td>UKCM</td>
</tr>
<tr>
<td>Dividend pay dates</td>
<td>May, Aug, Nov, Feb</td>
</tr>
</tbody>
</table>

Past performance is not a guide to the future.

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UK Commercial Property REIT
Q2 2019

Investment Objective (Continued)

<table>
<thead>
<tr>
<th>Discrete year data</th>
<th>30/06/2019 (%)</th>
<th>30/06/2018 (%)</th>
<th>30/06/2017 (%)</th>
<th>30/06/2016 (%)</th>
<th>30/06/2015 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAV Total Return</td>
<td>2.5</td>
<td>10.6</td>
<td>7.2</td>
<td>5.7</td>
<td>14.4</td>
</tr>
<tr>
<td>Share Price Total return</td>
<td>4.7</td>
<td>-0.4</td>
<td>33.6</td>
<td>-17.2</td>
<td>16.5</td>
</tr>
<tr>
<td>IPD Benchmark</td>
<td>3.8</td>
<td>9.7</td>
<td>5.8</td>
<td>8.9</td>
<td>15.3</td>
</tr>
</tbody>
</table>

Will Fulton
Lead Manager

UK Real Estate Market

Although UK GDP recorded robust growth in Q1, inventory building was key to this, as companies stockpiled resources ahead of the anticipated disruption to supply chains caused by a potential "cliff edge" withdrawal from the EU at the end of March. The eventual six-month extension to the Article 50 process averted this and leading indicators suggest economic growth has slowed in Q2 as that inventory building unwinds. As long as questions remain around the Brexit process, we expect business investment to remain subdued.

In spite of a relatively tight labour market, accommodative monetary policy and high corporate profit margins, inflation remains stubbornly low. Although the Bank of England has given hawkish signals, we expect interest rates to remain lower for longer if they are to support the backdrop of decelerating growth, particularly until greater clarity on the UK’s future relationship with the EU emerges. Indeed, we have taken very modest tightening cycles in the UK and the Eurozone out of our forecasts entirely, with the US Federal Reserve expected to cut interest rates twice this year and monetary policy easing also expected in most major economies. Low inflation globally, slowing growth and trade war uncertainty, on top of those more UK-specific risks, are pointing towards a longer period of ultra-low interest rates.

According to MSCI, UK real estate capital values are now falling but continued to deliver a positive total return of 1.1% for the first six months of 2019. While retail returns have been negative as expected, and have borne the brunt of the capital decline, growth in the industrial sector has moderated after a period of record capital value gains but remains positive, resulting in a 2.9% total return within MSCI’s index over the six month period.

The second quarter has seen a fall in transaction activity to levels last seen in 2012. Overseas investors have been net sellers of the UK office market with Chinese capital controls now appearing to have a significant effect on global real estate markets. Although New York has perhaps borne the brunt of Chinese disinvestment, London is not immune, and there are indications that other global investors are displaying more caution towards London too, which could see London office pricing soften in the second half of the year. The retail sector has a very shallow pool of buyers tending to be opportunistic in nature with a large amount of stock being quietly marketed. The lack of demand in the occupier market and uncertainty about where rental values will settle mean investors are, in many retail sub-sectors, demanding discounts to valuation. The share price discount to net asset value for listed stocks with a high retail weighting provides an indication of sentiment towards this sector.

Take-up in the office sector remains robust and central London take-up has recovered, following a muted period around the EU referendum, and is now back close to the high watermark set in 2015. However, this is largely driven by flexible office providers; traditional take-up has been broadly flat-lining since early 2016. The now roughly 20% of take-up accounted for by flexible office providers does not actually absorb supply, as it must all be re-let into the market and, importantly, at higher densities of occupation.

Regionally, office headline rents are steadily rising in the big six office markets, boosted by the trend towards consolidation among some of the largest corporate occupiers, as well as the public sector’s shift towards large regional hubs. Vacancy rates have been steadily falling in these markets since 2017, with high net absorption pushing rents on and virtually no new construction in the last two years. While supply has tightened, the economic backdrop is expected to affect demand going forward and, therefore, rents. A similar dynamic has been playing out in the South East office markets, although vacancy has not fallen as dramatically and some of the smaller markets, especially those with limited new stock, have seen demand gravitate towards those markets with critical mass and good infrastructure, such as Reading.

A wave of company voluntary arrangements (CVAs) in retail has put downward pressure on rental values in the sector, and on risk premia requirements, and so also on certain valuations. Industrial demand, however, remains especially high in London and the South East, while logistics has had another strong start to the year with a number of significant lettings of speculatively developed space in core markets.

Net Asset Value

- NAV per share of 93.2p (31 March 2019: 93.9p), resulting in a NAV total return of 0.2% for the quarter with continued low net gearing of 16.2%*.
- Like-for-like portfolio capital value decreased by -0.2% with overall capital performance net of capital expenditure investment of -0.6%. This compares to a -0.7% fall in the MSCI IPD monthly index over the period. The portfolio is now valued at £1.459 billion (31 March 2019: £1.462 billion).
- The Company’s strategically overweight position to Industrial, constituting 48% of its portfolio, combined with successful asset management activity in the portfolio, generated positive capital returns in the period, when which were offset by a decline in values predominantly in the Company’s retail holdings.

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Asset management and leasing momentum underpinning performance

£2.96 million per annum of new headline rent secured across 12 lettings/lease renewals during the period, reflecting a combined 13% uplift on previous rent and 5% ahead of Estimated Rental Value ("ERV"), including:

- Lease renewal with Veerstyle Limited at The Cargo Centre, Newton’s Court, Dartford, for a 10 year lease at a rent of £575,237 per annum, up 31% on the previous passing rent of £440,000 per annum and in line with ERV.

- Lease renewal with Hertfordshire County Council in Apsley One, Hemel Hempstead, where a new 10 year reversionary lease was entered into at an improved rent of £825,000 per annum, up 36% from the previous rent of £670,068 per annum and 19% ahead of ERV.

- Completion of a new 20 year index-linked lease with Aldi at Great Lodge Retail Park, Tunbridge Wells, for a 27,000 square feet ("sq.ft.") unit formerly sub-let by B&Q to Toys R Us. UKCM successfully negotiated a part-surrender of the space from B&Q obtaining a surrender premium of £1.1 million. Aldi has signed a new 20 year lease at a rent of £500,000 per annum and incorporating five yearly upward only rent reviews compounded yearly to RPI indexation with a collar and cap of 1% and 3%. B&Q continues to occupy 80,400 sq. ft. on a lease with nine years remaining under the existing rental terms. In contrast to the wider retail warehouse market, this activity delivered a capital value increase.

- Continued asset management progress at St George's Retail Park, Leicester, with the completion of the new 15 year lease with fixed rental increases to Home Bargains at an annual rent of £200,000 following refurbishment work. In addition, a new 10 year lease to Costa Coffee for a new bespoke ‘pod’ unit was completed at a rent of £58,240 per annum. Both lettings were in line with ERV.

An additional £193,400 of annual rental income, 13% ahead of ERV at the time, secured from three rent reviews, including one agreed with Trans Global Freight Management Ltd at Dolphin Trading Estate, Sunbury at a new rent of £704,000 per annum, 38% ahead of the previous passing rent.

Portfolio occupancy remained relatively constant at 92% with over half of the remaining vacancy in well located industrial assets.

Following this successful asset management activity the passing rent of the portfolio at 30 June 2019 was £66.5 million with an ERV of £81.5 million, demonstrating the reversionary nature of the portfolio. In addition, over the last 12 months, 99% of the Company’s rent roll continues to be collected within 21 days.

Strong Balance Sheet with significant resources

- Prudent net gearing of 16.2%* (gross gearing of 17.7%**) remains one of the lowest in the quoted REIT sector.

- £90 million of unutilised revolving credit facility still available for investment.

*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

Investment Outlook

The UK economy continues to be affected by political and macroeconomic uncertainty which looks likely to persist in the near term, holding back growth. Our investment manager has revised its GDP growth expectations downwards to 1.4% in both 2019 and 2020 in its base case, although downside risks exist and leading indicators have weakened in recent months.

Occupier markets are, overall, holding up relatively well with office demand being supported by the rapid expansion of flexible office providers and, in the regions, by corporate and public sector consolidation. The polarisation of retail is an ongoing trend and weaker locations are under increasing pressure, however, the twin engines of urbanisation and the rise of e-commerce continue to propel the industrial sector.

Whilst the investment market has slowed this year, and with political uncertainty causing many to adopt a cautious approach to investment, there remains considerable capital with potential for deployment attracted to UK real estate’s income yield and, retail sector aside, good occupational fundamentals.
**Important Information**

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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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<th>Web: <a href="http://www.ukcreit.com">www.ukcreit.com</a></th>
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<tr>
<td>Web: <a href="http://www.aberdeenstandard.com">www.aberdeenstandard.com</a></td>
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</tr>
<tr>
<td><strong>Company secretary:</strong> Northern Trust, PO Box 255, Trafalgar Court, Les Banques, St Peter Port, Guernsey GY1 3QL</td>
<td></td>
</tr>
<tr>
<td><strong>Corporate Brokers:</strong> JPM Cazenove, 25 Bank Street, Canary Wharf, London E15 5JP</td>
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