

## Investment Objective

The UK Commercial Property Trust 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 2017

Launch date	20 Sep 2006
Total assets	£1.4bn
Share price (per closing LSE price)	92.2 p
NAV	88.9 p
Premium/(Discount) to NAV*	3.7%
Void levels	4.4%
Average lease length	8.3 years
Gearing	17.8% (Net Gearing 11.6%)
Gross dividend yield	4.0%
Management fees	0.65% on total assets
Stock code	UKCM
Dividend pay dates	May, Aug, Nov, Feb

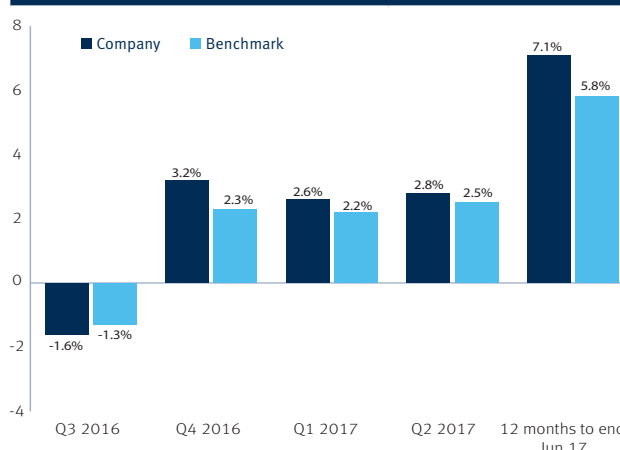
\* Gross borrowing less cash divided by total assets (excluding cash) less current liabilities

### Corporate Performance – % growth

	Q2 2017	1 yr	3 yrs	5 yrs
NAV Total Return	2.8	7.2	29.6	61.3
Share Price Total Return	8.3	33.6	28.9	71.0
IPD Benchmark	2.5	5.8	32.8	61.2

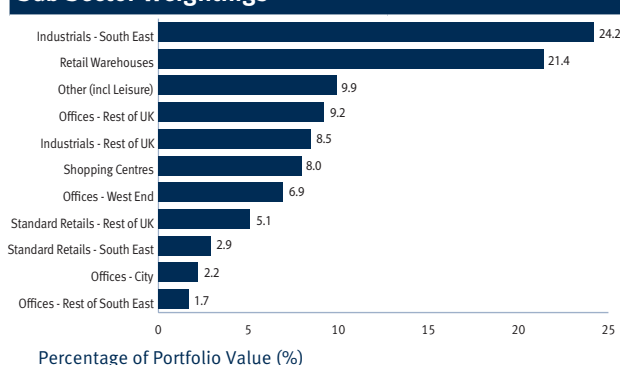
Source: Internal as at 30/06/17. IPD Quarterly Benchmark Report to end June 2017. Past performance is not a guide to future performance. The value of investments and any income generated can fall as well as rise and is not guaranteed.

### Portfolio Total Returns



Source: IPD Balanced Monthly and Quarterly Funds to end June 2017. 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.

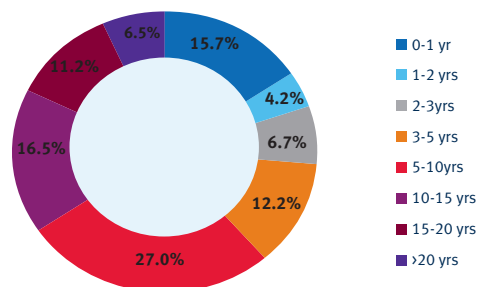
### Sub Sector Weightings



Top 10 holdings	Location	Value Band
Ventura Park, Radlett	AL2 2DB	£70-£100m
Junction 27 Retail Park	Leeds	£50-£70m
Great Lodge Retail Park	Tunbridge Wells	£50-£70m
15 Great Marlborough Street	London	£50-£70m
The Rotunda	Kingston upon Thames	£50-£70m
The Parade	Swindon	£50-£70m
Hatfield Business Park	Hatfield	£50-£70m
Kew Retail Park	London	£50-£70m
Dolphin Est, Sunbury-on-Thames	London	£50-£70m
St. George's Retail Park	Leicester	£30-£50m

Source: Internal as at 30/06/17

### Lease expiry profile (% of Portfolio Income)



Source: Internal as at 30/06/17

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**Will Fulton**  
Lead Manager

## UK Real Estate Market

While UK real estate continues to provide an elevated yield compared to other asset classes, in the first half of 2017 the resilience of the UK economy seen post the EU Referendum has somewhat diminished. A weaker consumer sector, impacted by a squeeze on spending power, caused the economy to grow by only 0.3% in the second quarter of 2017, a pronounced slowdown from the 0.7% growth recorded in Q4 2016.

As wages lagged further behind inflation, forecasts for household spending continued to be mixed, despite the employment rate in the three-month period to May showing the strongest rise since 1975. Wage growth is one of the key indicators that the Bank of England is monitoring closely as in recent weeks the Monetary Policy Committee ("MPC") is becoming increasingly divided as to the timing of shifting its policy stance. Ultimately, the MPC's interest rate decision is dependent on how the economy evolves and currently the Bank's forecast GDP growth is a solid 1.9% for the 2017 calendar year. However, the in-house forecast of our Investment Manager, Standard Life Investments, is for slower growth and implies a small increase in UK spare capacity, which should ease the MPC's concerns about a trade-off between growth and inflation. Any interest rate increases are therefore expected to be gradual and modest.

Within real estate, the industrial and logistic distribution sector has continued to demonstrate its strength generating a total return of 4.6% in Q2 2017. Retail and offices fell behind industrial with similar total returns for the quarter of 1.8% and 1.9% respectively. Office returns are feeling the impact of political uncertainty feeding into the leasing market. Rents remained largely stable over the last three months with rental growth in the retail, office and industrial sectors of 0.1%, 0.3% and 1% respectively.

## UKCPT Q2 Highlights:

- ▶ NAV total return of 2.8%
- ▶ Like-for-like portfolio capital value increase of 1.8% during the quarter; after allowing for capital expenditure investment on the existing portfolio, net capital growth was 1.6%, comparing favourably to the 1.3% increase in the MSCI/IPD Balanced Monthly & Quarterly Funds over the same period.
- ▶ Share price total return of 8.3% in the quarter.
- ▶ During the quarter to 30 June 2017, the Company secured a further £2.1 million of annual rental income, in line with estimated rental value, through a successful focus on asset management initiatives. In total, four new leases and eleven lease renewals / rent reviews were concluded.
- ▶ Low void rate of 4.4%, well below the latest available MSCI/IPD benchmark figure of 6.8% and 99% of rent collected within 21 days of due date.
- ▶ Acquisition of Hartshead House, Sheffield, for £20.2 million, reflecting a net initial yield of 5%. This office asset is let to Capita Business Services Limited (part of Capita plc) on a lease with annual inflation-linked rent increases and 22 years to expiry.
- ▶ Purchase of two strategic units at the entrance to The Parade, Swindon, which, when combined with an existing unit, allowed the Company to secure a new 25 year lease with Metro Bank Plc at a rent of £275,000 per annum. Metro Bank will fund the construction of a new flagship unit, scheduled to open in December 2017.
- ▶ In July, completion of the 280,000 sq.ft. industrial logistics warehouse forward funding in Burton on Trent with a payment of £17.5m. The asset is occupied on a 15 year lease to Palletforce Ltd, with annually compounded inflation-linkage (adjusted every five years) reflecting a yield on capital of 5.8%. When combined with Hartshead House in Sheffield, as described above, these two recent purchases total £42.4 million at a blended index-linked yield on cost of 5.4%.
- ▶ Also in July, after the period end, the Company sold for £4.69 million its smallest investment, an industrial warehouse let to Dreams Ltd, at Loudwater, High Wycombe.

- ▶ Financial resources of £50 million are currently available for targeted investment in line with the Company strategy. Additional firepower from the undrawn £50 million revolving credit facility remains available.
- ▶ Low net gearing of 11.6%\* (gross gearing of 17.8%\*) ensuring that UKCPT's leverage remains one of the lowest in the Company's peer group and the quoted REIT sector.



**UK  
Commercial  
Property  
Trust**

## Investment Outlook

UK real estate continues to provide an elevated yield compared to other assets and the market has stabilised following last year's post-Brexit upheaval. Lending to the sector is at a lower level than in 2007/08 and liquidity remains reasonable, while at the same time development continues to be relatively constrained by historical standards, with below average vacancy levels in most markets, which should help to maintain the positive returns that the sector is currently recording. In this environment, the steady secure income component generated by the asset class is likely to be the key driver of future returns, and the strategy for UKCPT reflects this. The market is expected to continue to be sentiment driven in the short term as the political and economic impact associated with the UK's withdrawal from the European Union continues to evolve. The retail sector continues to face a series of headwinds that may hold back recovery in weaker locations due to oversupply and structural issues. Given the backdrop of continuing heightened macroeconomic uncertainty, investors are becoming more risk averse and better quality assets are once again broadly outperforming those of a poorer quality.

Against this backdrop, UKCPT is well positioned to continue to deliver value for shareholders.

## REIT Conversion

In its 2016 annual report and 2017 Interim Report, the Company stated that it was actively considering joining the UK REIT regime as a result of the proposed restrictions on interest deductions for non UK resident property companies. More information can be found in the Interim report available on the Company's website, [www.ukcpt.com](http://www.ukcpt.com)

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**This information is for professional clients and investment professionals only and should not be relied upon by retail clients.**

**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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<b>Web: <a href="http://www.ukcpt.co.uk">www.ukcpt.co.uk</a></b>
<b>Web: <a href="http://www.standardlifeinvestments.com">www.standardlifeinvestments.com</a></b>
<b>Company secretary: Northern Trust, PO Box 255, Trafalgar Court, Les Banques, St Peter Port, Guernsey GY1 3QL</b>
<b>Corporate Brokers: JPM Cazenove, 25 Bank Street, Canary Wharf, London E15 5JP</b>

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