

2 February 2021

Custodian REIT plc

("Custodian REIT" or "the Company")

Unaudited net asset value as at 31 December 2020 and dividend update

Custodian REIT (LSE: CREI), the UK commercial real estate investment company, today reports its unaudited net asset value ("NAV") as at 31 December 2020, highlights for the period from 1 October 2020 to 31 December 2020 ("the Period") and dividends payable.

Dividends

- Dividend per share for the Period increased by 19% to 1.25p (quarter ended 30 September 2020: 1.05p), fully covered by net cash receipts with 96% of rent collected relating to the Period, adjusted for contractual rent deferrals
- Target dividend per share of 1.25p for the quarter ending 31 March 2021 ("FY21 Q4"), expected to be fully covered by net cash receipts with rent collected to date relating to FY21 Q4, adjusted for contractual rent deferrals, in line with the Period's collection profile
- Target dividend per share of not less than 5.0p for the year ending 31 March 2022, based on rent collection levels remaining in line with expectations

Financial highlights

- EPRA earnings per share¹ for the Period increased to 1.5p (30 September 2020: 1.2p)
- NAV total return per share² for the Period of 2.4%, comprising 1.1% dividends paid and a 1.3% capital increase
- NAV per share of 96.4p (30 September 2020: 95.2p)
- NAV of £405.0m (30 September 2020: £399.8m)
- Net gearing³ of 24.0% loan-to-value (30 September 2020: 23.4%)

Portfolio highlights

- Property portfolio value of £546.8m (30 September 2020: £532.3m):
 - £4.1m aggregate valuation increase for the Period (0.8% of property portfolio) from successful asset management initiatives, with general valuation increases in the industrial sector of £6.6m being offset by similar aggregate decreases in the retail, office and other sectors
 - Acquisition of an industrial unit in Hilton, Derby and offices in Oxford for an aggregate consideration of £9.8m⁴
 - Disposal of three high street retail units at valuation for an aggregate consideration of £1.3m. Since the Period end, the disposal of a further high street retail unit at valuation for £0.3m
- EPRA occupancy⁵ 92.3% (30 September 2020: 92.9%)

¹ Profit after tax excluding net gains or losses on investment property divided by weighted average number of shares in issue.

² NAV per share movement including dividends paid during the Period.

³ Gross borrowings less cash (excluding rent deposits) divided by portfolio valuation.

⁴ Before acquisition costs of £0.6m

⁵ Estimated rental value ("ERV") of let property divided by total portfolio ERV.

Net asset value

The unaudited NAV of the Company at 31 December 2020 was £405.0m, reflecting approximately 96.4p per share, an increase of 1.2p (1.3%) since 30 September 2020:

	Pence per share	£m
NAV at 30 September 2020	95.2	399.8
Valuation movements relating to:		
- Asset management activity	1.0	4.1
- General valuation increases in the industrial sector	1.6	6.6
- General valuation decreases in the retail, office and other sectors	(1.6)	(6.6)
- Loss on disposal	-	(0.1)
Net valuation movement	1.0	4.0
Acquisition costs	(0.2)	(0.6)
	0.8	3.4
Income earned for the Period	2.2	9.6
Expenses and net finance costs for the Period ⁵	(0.8)	(3.4)
Dividends paid ⁶ relating to the previous quarter	(1.0)	(4.4)
NAV at 31 December 2020	96.4	405.0

⁶ Dividends of 1.05p per share relating to the quarter ended 30 September 2020 were paid on 30 November 2020.

The NAV attributable to the ordinary shares of the Company is calculated under International Financial Reporting Standards and incorporates the independent portfolio valuation as at 31 December 2020 and net income for the Period. The movement in NAV reflects the payment of a 1.05p per share dividend

relating to the quarter ended 30 September 2020 during the Period, which was fully covered by net cash collections and EPRA earnings in that quarter, but does not include any provision for the approved dividend of 1.25p per share for the Period to be paid on 26 February 2021.

Market commentary

Commenting on the market, Richard Shepherd-Cross, Managing Director of Custodian Capital Limited (the Company's discretionary investment manager) said:

"While the COVID-19 pandemic dominates the headlines, recent levels of commercial property investment activity demonstrate that investors are looking beyond the pandemic. The focus on reporting rent collection statistics over the past nine months highlights the importance of real estate's strongest investment attribute – the right to receive rent and its consequent distribution as dividends. Direct investors seek to secure properties to provide long-term cash flows and indirect investors are primarily pricing investment company stocks off their capacity to pay cash covered dividends rather than off NAV.

"The property market has shown itself to be remarkably resilient in a year when the enforcement of rent obligations was suspended, occupiers deserted their offices and shoppers were forced online. Landlords have been able to work closely with most tenants to reach agreement on the payment of rent and, across the board, rent collection rates of 90% plus have not been unusual.

"While property investment company dividends were set at cautious levels early in the pandemic, rent collection has been better than many feared and dividends appear to be reacting to a more optimistic outlook for real estate.

"Savills recorded investment of £4.7bn in the industrial and logistics market in 2020, a 25% increase on 2019 figures and £500m higher than the previous record of £4.2bn set in 2014. The undoubted popularity of this sector has supported further price increases through the quarter as a limited supply is pursued by excess demand. Custodian REIT has benefited from this trend with a 3.8% increase in the valuation of its industrial and logistics portfolio during the Period.

"The final quarter of 2020 saw £4.9bn of investment into central London, well above the average quarterly investment of £3.4bn, according to Knight Frank. Much of the activity was driven by overseas investors who identified value relative to other leading European cities. Many commentators are optimistic for the future of offices but have identified flexibility and accessibility as key determinants of successful office investments. These determinants could be positive for regional office locations and were key factors in Custodian REIT's recent acquisition of offices at Willow Court, Oxford.

“Activity in the out of town, retail warehouse market has also increased as investors are attracted by income yields more than 50% higher than achievable in prime logistics. Added to the attractive initial yield are large site areas, strategic locations close to town centres and high alternate use values which provide good downside valuation protection.

“The high street retail, shopping centre and hospitality sectors still feel high risk. However, redevelopment and re-purposing of retail and shopping centres is starting to deliver solutions to investors, albeit this still has some way to go. Hospitality occupiers that can survive the pandemic may prosper but it is likely to take some time before we see growth in this sector.

“Perhaps the surprising feature of real estate performance, in the midst of yet another national lockdown, is that many occupiers are also looking beyond the pandemic enabling continuing positive asset management outcomes, which have driven this quarter’s positive NAV performance, and are detailed below.”

Rent collection

As Investment Manager, Custodian Capital invoices and collects rent directly, importantly allowing it to hold direct conversations promptly with most tenants regarding the payment of rent. This direct contact has proved invaluable through the COVID-19 pandemic, facilitating better outcomes for the Company.

The Period

96% of rent relating to the Period, net of contractual rent deferrals, has been collected as set out below:

	£m	
Rental income (IFRS basis)	9.6	
Lease incentives	(0.6)	
Cash rental income expected, before contractual rent deferrals	9.0	
Contractual rent deferrals relating to the Period	0.0	
Contractual rent deferred from prior periods falling due during the Period	0.4	
Cash rental income expected, net of contractual deferrals	9.4	100%
Outstanding rental income	(0.4)	(4%)
Collected rental income	9.0	96%

89% of the £0.4m contractual rent deferred from prior periods falling due during the Period has been collected, indicating that the support offered to tenants during the initial national lockdown is returning a positive result on overall rent collections.

Outstanding rental income remains the subject of discussion with various tenants, and some arrears are potentially at risk of non-recovery due to disruption caused by the current national lockdown and from CVAs or Administrations.

FY21 Q4

To date 76% of rent relating to FY21 Q4 has been collected, net of contractual deferrals⁷, which is in line with the same point in the Period.

All contractual deferrals offered to date are due to be recovered through payment plans over the next 12-18 months.

⁷ The proportion of rent collected relating to FY21 Q4 invoiced rents now due, adjusted for the agreed deferral of 1% of FY21 Q4 invoiced rents and the rents now due having been deferred from previous periods.

Dividends

An interim dividend of 1.05p per share for the quarter ended 30 September 2020 was paid on 30 November 2020.

The Board is pleased to approve an interim dividend per share of 1.25p for the Period, an increase of 19.0% on the previous quarter. This higher dividend reflects the continuing levels of rent collection seen since the onset of the COVID-19 pandemic. This dividend is fully covered by net cash receipts, 119% covered by EPRA earnings and is in line with the Board's current policy of paying dividends at a level broadly linked to net rental receipts.

In the absence of unforeseen circumstances and assuming rent collection levels remain in line with forecast, the Board intends to pay a fourth quarterly dividend per share of 1.25p, resulting in a target dividend⁸ per share for the year ending 31 March 2021 of 4.5p.

The Board has also set a target dividend⁸ per share of not less than 5.0p for the year ending 31 March 2022. The Board's objective is to grow the dividend on a sustainable basis, at a rate which is fully covered by projected net rental income and does not inhibit the flexibility of the Company's investment strategy.

The quarterly interim dividend for the Period of 1.25p per share is payable on 26 February 2021 to shareholders on the register on 12 February 2021 and will be designated as a property income distribution ("PID").

⁸ This is a target only and not a profit forecast. There can be no assurance that the target can or will be met and it should not be taken as an indication of the Company's expected or actual future results. Accordingly, shareholders or potential investors in the Company should not place any reliance on this target in deciding whether or not to invest in the Company

or assume that the Company will make any distributions at all and should decide for themselves whether or not the target dividend yield is reasonable or achievable.

Asset management

Despite the ongoing economic uncertainty caused by the COVID-19 pandemic, the Investment Manager has remained focused on active asset management during the Period, undertaking the following initiatives:

- Completing a 10 year lease with Life Technologies at an industrial unit in Warrington at an annual rent of £378k, with a tenant only break option and open market rent review in year five, increasing valuation by £1.6m;
- Completing a lease extension without break with DX Networks at a logistics unit in Nuneaton, with lease expiry moving from March 2022 to March 2032. The March 2022 rent review is expected to result in an increase in the annual £267k passing rent. This lease extension increased valuation by £1.4m;
- Completing a new lease to Nuffield Health at Stoke for a term of 20 years without break, at an annual rent of £300k subject to five yearly CPI-linked rent reviews, increasing valuation by £0.9m;
- Exchanging an agreement for lease with Nationwide Building Society on a high street retail unit in Shrewsbury for a term of 10 years without break, at an annual rental of £100k, increasing valuation by £0.1m;
- Completing a five year lease extension with Homebase at Leighton Buzzard, maintaining annual passing rent of £341k and moving lease expiry from December 2023 to 2028, increasing valuation by £0.1m;
- Commencing the letting of a newly developed drive-through coffee restaurant in Burton upon Trent let to 1 Oak (t/a Starbucks) on a 20 year lease subject to a tenant break option in year 10, at an annual rent of £55k with five-yearly RPI-linked rent reviews;
- Exchanging an agreement for lease with Tim Hortons Fast Food Restaurants on a drive-through restaurant in Perth (formerly a Frankie & Benny's) at an annual rent of £90k for a term of 15 years, with a tenant only break option in year 10, with no impact on valuation;
- Completing a five year lease renewal with Reiss on a high street retail unit in Guildford at an annual rent of £170k, which reduced Reiss' footprint to allow access to the unused upper floors for potential residential conversion, with no impact on valuation;
- Completing a five year lease to Oak Furniture Land Group in Carlisle with annual tenant break options and landlord break options in years two and four, at an annual rent of £100k, with no impact on valuation.

The positive impact of these asset management outcomes has been partially offset by the Administration of OyezStraker Group (t/a as Office Team) which resulted in the tenant exiting an industrial unit in West Bromwich, reducing passing rent by £280k (c.0.7% of the Company's rent roll). Edinburgh Woollen Mill's Administration has put a further £93k (c.0.2% of the Company's rent roll) rent at risk.

The portfolio's weighted average unexpired lease term to first break or expiry was maintained at 5.1 years at 31 December 2020 with the impact of lease re-gears, new lettings and disposals offsetting the natural elapse of a quarter of a year due to the passage of time.

Borrowings

The Company operates the following loan facilities:

- A £35m revolving credit facility ("RCF") with Lloyds Bank plc ("Lloyds") expiring on 17 September 2022 with interest of between 1.5% and 1.8% above three-month LIBOR, determined by reference to the prevailing LTV ratio of a discrete security pool. The RCF facility limit can be increased to a maximum of £50m with Lloyds' approval;
- A £20m term loan with Scottish Widows plc ("SWIP") repayable on 13 August 2025 with interest fixed at 3.935%;
- A £45m term loan with SWIP repayable on 5 June 2028 with interest fixed at 2.987%; and
- A £50m term loan with Aviva Investors Real Estate Finance comprising:
 - a) A £35m tranche repayable on 6 April 2032 with fixed annual interest of 3.02%; and
 - b) A £15m tranche repayable on 3 November 2032 with fixed annual interest of 3.26%.

Each facility has a discrete security pool, comprising a number of the Company's individual properties, over which the relevant lender has security and covenants:

- The maximum LTV of the discrete security pool is between 45% and 50%, with an overarching covenant on the Company's property portfolio of a maximum 35% LTV; and
- Historical interest cover, requiring net rental receipts from each discrete security pool, over the preceding three months, to exceed 250% of the facility's quarterly interest liability.

During the Period the Company charged five additional properties valued at £21.1m to alleviate short-term LTV covenant compliance pressure on certain security pools. The Company has £154.6m (28% of the property portfolio) of remaining unencumbered assets which could be charged to the security pools to enhance the LTV on individual loans. The Company complied with all loan covenants during the Period.

Portfolio analysis

At 31 December 2020 the Company's property portfolio comprised 160 assets with a net initial yield⁹ of 6.7% (30 September 2020: 6.9%). The portfolio is split between the main commercial property sectors, in line with the Company's objective to maintain a suitably balanced investment portfolio. Sector weightings are shown below:

Sector	Valuation 31 Dec 2020 £m	Weighting by value 31 Dec 2020	Period valuation movement £m	Period valuation movement	Weighting by income ¹⁰ 31 Dec 2020	Weighting by income ¹⁰ 30 Sep 2020
Industrial	262.6	48%	9.6	3.8%	41%	41%
Retail warehouse	100.8	19%	(2.5)	(2.4%)	21%	21%
Other ¹¹	82.8	15%	0.7	0.8%	16%	17%
Office	55.9	10%	(1.6)	(3.3%)	12%	10%
High street retail	44.7	8%	(2.1)	(4.5%)	10%	11%
Total	546.8	100%	4.1	0.8%	100%	100%

⁹ Passing rent divided by property valuation plus purchaser's costs.

¹⁰ Current passing rent plus ERV of vacant properties.

¹¹ Includes car showrooms, petrol filling stations, children's day nurseries, restaurants, gymnasiums, hotels and healthcare units.

The Company operates a geographically diversified property portfolio across the UK, seeking to ensure that no one region represents more than 50% of portfolio income. The geographic analysis of the Company's portfolio at 31 December 2020 was as follows:

Location	Valuation 31 Dec 2020 £m	Weighting by value 31 Dec 2020	Period valuation movement £m	Period valuation movement	Weighting by income ⁸ 31 Dec 2020	Weighting by income ⁸ 30 Sep 2020
West Midlands	116.4	21%	1.2	1.1%	20%	20%
North-West	91.3	17%	2.9	3.2%	17%	17%
East Midlands	69.0	13%	1.2	1.7%	13%	13%
South-East	71.8	13%	(1.5)	(2.3%)	14%	13%
South-West	60.9	11%	(1.2)	(1.9%)	10%	11%
North-East	52.3	9%	0.7	1.4%	10%	10%
Scotland	48.1	9%	1.0	2.0%	8%	8%
Eastern	31.5	6%	(0.2)	(0.6%)	6%	6%
Wales	5.5	1%	-	1.2%	2%	2%
Total	546.8	100%	4.1	0.8%	100%	100%

For details of all properties in the portfolio please see www.custodianreit.com/property-portfolio.

- Ends -

Further information:

Further information regarding the Company can be found at the Company's website www.custodianreit.com or please contact:

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Notes to Editors

Custodian REIT plc is a UK real estate investment trust, which listed on the main market of the London Stock Exchange on 26 March 2014. Its portfolio comprises properties predominantly let to institutional grade tenants on long leases throughout the UK and is principally characterised by properties with individual values of less than £10m at acquisition.

The Company offers investors the opportunity to access a diversified portfolio of UK commercial real estate through a closed-ended fund. By targeting sub £10m lot-size, regional properties, the Company seeks to provide investors with an attractive level of income with the potential for capital growth.

Custodian Capital Limited is the discretionary investment manager of the Company.

For more information visit www.custodianreit.com and www.custodiancapital.com.