





Custodian REIT plc (“Custodian REIT” or “the Company”) is a UK real estate investment trust (“REIT”) with a portfolio comprising properties predominantly let to institutional grade tenants throughout the UK, principally characterised by properties with individual values of less than £10m at acquisition.



Shrewsbury





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For more information, visit:  
[custodianreit.com](https://custodianreit.com)

## Highlights and performance summary

### Property highlights

#### Property value

£565.3m

2021	£565.3m
2020	£532.3m
2019	£547.2m
2018	£547.0m
2017	£474.3m

- Property portfolio value of £565.3m (31 March 2021: £551.9m, 2020<sup>1</sup>: £532.3m)
- £32.3m aggregate valuation increase comprising a £2.3m property valuation uplift from asset management initiatives and £30.0m of general valuation increases, primarily due to hardening yields in the industrial and logistics sector
- £12.5m<sup>2</sup> invested in three property acquisitions
- £4.2m profit on disposal<sup>3</sup> from the disposal of 10 properties for aggregate consideration of £38.5m comprising:

1. The six-month period ended 30 September 2020.
2. Before rent top-ups of £0.3m and acquisition costs of £1.1m.
3. Net of rent top-ups of £0.2m and disposal costs of £0.4m.
4. The European Public Real Estate Association.
5. Profit after tax excluding net gain or loss on investment property divided by the weighted average number of shares in issue.
6. Profit after tax divided by the weighted average number of shares in issue.
7. Net Asset Value ("NAV") movement including dividends paid during the period on shares in issue at 31 March 2021.

- A portfolio of seven industrial assets for £32.6m, £5.1m (19%) above the properties' 31 March 2021 valuation, when terms of the sale were agreed, and £2.9m (10%) above the 30 June 2021 valuation, representing a net initial yield ("NIY") on sale price of 5.9%;
- A retail warehouse in Galashiels to a special purchaser for £4.5m, £1.8m (67%) ahead of the 30 June 2021 valuation, representing a NIY on sale price of 5.73%; and
- Two smaller assets in the retail and other sectors £0.1m above valuation for aggregate consideration of £1.4m
- Since the Period end:
  - An aggregate £46.5m invested in a portfolio of 10 office, retail and industrial assets through the corporate acquisition of DRUM Income Plus REIT plc ("DRUM REIT"), and separately, an industrial unit in York; and
  - Three properties sold for consideration of £14.1m

8. Before issue costs of £0.1m.
9. Share price movement including dividends paid during the six-month period.
10. Following the recent update to EPRA's Best Practice Recommendations Guidelines the Company's peer group has adopted EPRA net tangible assets ("NTA") as the primary measure of net asset value. There are no differences between the Company's IFRS NAV, EPRA NAV and EPRA NTA.

### Financial highlights and performance summary

#### EPRA<sup>4</sup> EPS<sup>5</sup>

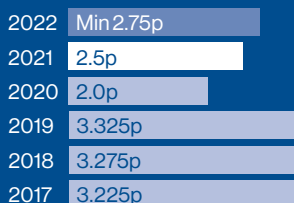
3.0p

2021	3.0p
2020	2.6p
2019	3.4p
2018	3.5p
2017	3.4p

- 95% of rent collected relating to the six-month period, adjusted for contractual rent deferrals (year to 31 March 2021: 91%, 2020: 88%)
- EPRA<sup>4</sup> earnings per share<sup>5</sup> for the six-month period increased to 3.0p (2020: 2.6p) due to the movement in the doubtful debt provision during the six-month period changing from a £2.9m increase in 2020 to a £0.1m decrease during the Period
- Basic and diluted earnings per share<sup>6</sup> increased to 11.4p (2020: -3.8p) primarily due to property portfolio valuation increases of £32.3m (2020: £27.4m decrease)
- Profit before tax of £48.1m (2020: loss of £16.1m)
- 11. Gross borrowings less cash (excluding tenant rental deposits and retentions) divided by property portfolio value.
- 12. ERV of vacant space as a percentage of the ERV of the whole property portfolio.
- 13. For properties in Scotland, English equivalent EPC ratings have been obtained.

## Aggregate dividends per share

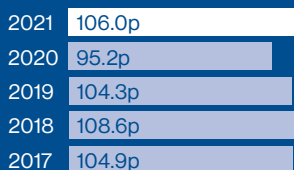
2.5p



- Aggregate dividends per share of 2.5p declared for the Period (2020: 2.0p)
- Target quarterly dividend per share increased by 10% to 1.375p commencing from the quarter ending 31 December 2021, resulting in target dividends per share of no less than 5.25p for the year ending 31 March 2022 and 5.5p for the year ending 31 March 2023, based on rent collection levels remaining in line with expectations

## NAV per share

106.0p



- NAV per share 106.0p (31 March 2021: 97.6p, 2020: 95.2p)
- NAV per share total return<sup>7</sup> of 11.7% (2020: -3.7%) comprising 3.1% income (2020: 2.6%) and a 8.6% capital change (2020: -6.3% capital change)
- £0.6m of new equity<sup>8</sup> raised at a premium of 5.9% to dividend adjusted NAV

The Company presents alternative performance measures ("APMs") to assist stakeholders in assessing performance alongside the Company's results on a statutory basis.

APMs are among the key performance indicators used by the Board to assess the Company's performance and are used by research analysts covering the Company. Certain other APMs may not be directly comparable with other companies' adjusted measures, and APMs are not intended to be a substitute for, or superior to, any IFRS measures of performance. Supporting calculations for APMs and reconciliation between APMs and their IFRS equivalents are set out in Note 18.

	Unaudited 6 months to 30 Sept 2021	Unaudited 6 months to 30 Sept 2020	Audited 12 months to 31 Mar 2021
<i>Total return</i>			
Share price total return <sup>9</sup>	4.7%	(7.7%)	2.3%
<i>Capital values</i>			
NAV and EPRA NTA <sup>10</sup> (£m)	445.9	399.7	409.9
NAV per share and EPRA NTA per share (p)	106.0	95.2	97.6
Share price (p)	93.1	88.8	91.8
Net gearing <sup>11</sup>	19.6%	23.4%	24.9%
EPRA vacancy rate <sup>12</sup>	8.4%	7.1%	8.4%
Weighted average energy performance certificate ("EPC") rating <sup>13</sup>			
	C (62)	C (66)	C (63)

## Chairman's statement



### Target quarterly dividends increased to an annualised rate of no less than 5.5p

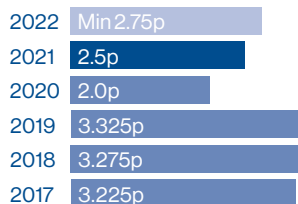
David Hunter  
Chairman



The UK property market has shown significant resilience since the outbreak of the COVID-19 pandemic. The subsequent recovery, in certain sectors, since the successful vaccination roll-out has been marked with the Company enjoying a £32.3m valuation increase during the six months ended 30 September 2021 ("the Period").

#### Target H1 dividends per share

# 2.75p



EPRA earnings per share increased to 3.0p (2020: 2.6p) reflecting the stabilisation of the Company's rent roll and the Company's rent collections improving to 95%, net of contractual deferrals, which provided 120% cover for dividends relating to the Period.

The recent volatility in markets has emphasised the importance of having a well-diversified, income focused property portfolio. I was very pleased to be able to announce that despite the inevitable disruption to cash collection caused by the COVID-19 pandemic, dividends per share of 2.5p (2020: 2.0p) have been declared relating to the Period. From the quarter ending 31 December 2021 the Board intends to increase quarterly dividends per share to 1.375p to achieve a target dividend per share for the year ending 31 March 2022 of no less than 5.25p and for the year ending 31 March 2023 of no less than 5.5p, based on rent collection levels remaining at least in line with expectations.

While it is clear that a renewed spread of the pandemic, possibly through further variants, will lead to a reintroduction of some restrictions, the UK Government has made it clear that they are committed to avoiding a return to lockdown, if at all possible. We will approach any such event in the same manner as previous restrictions, optimising rent collection through close liaison with our tenants. The Company's strategy of direct rent collection ensures a close understanding of tenant needs and an ability to react appropriately to these, to mutual benefit.

The Board acknowledges the importance of income for shareholders and its 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.

These have been testing times which have necessitated an exceptional effort from the Investment Manager, both in the collection of rents and in operating remotely as a team. I would like to acknowledge the results of their efforts. I also thank my fellow Board members who have been flexible and supportive during a period which has required numerous formal and informal additional Board meetings.

### Borrowings and cash

The Company operates the following debt facilities:

- A £35m revolving credit facility ("RCF") with Lloyds Bank plc ("Lloyds") with interest of between 1.5% and 1.8% above three-month LIBOR, determined by reference to the prevailing LTV ratio, and expiring on 17 September 2024. The RCF facility limit can be increased to £50m with Lloyds' consent;
- A £20m term loan with Scottish Widows plc with interest fixed at 3.935% and repayable on 13 August 2025;
- A £45m term loan with Scottish Widows plc with interest fixed at 2.987% and repayable on 5 June 2028; and
- A £50m term loan with Aviva Real Estate Investors ("Aviva") comprising:
  - a) £35m Tranche 1 repayable on 6 April 2032 attracting fixed annual interest of 3.02%; and
  - b) £15m Tranche 2 repayable on 3 November 2032 attracting fixed annual interest of 3.26%.



### Net asset value

The NAV of the Company at 30 September 2021 was £445.9m, approximately 106.0p per share, an increase of 8.4p (8.6%) since 31 March 2021:

	Pence per share	£m
NAV at 31 March 2021	97.6	409.9
Issue of equity	–	0.5
Valuation movements relating to:		
• Asset management activity	0.5	2.3
• Other valuation movements	7.2	30.0
Valuation increase before acquisition costs	7.7	32.3
Impact of acquisition costs	(0.3)	(1.1)
Valuation increase including acquisition costs	7.4	31.2
Profit on disposal of investment property	1.0	4.2
Net valuation movement	8.4	35.4
Revenue	4.8	20.2
Expenses and net finance costs	(1.8)	(7.5)
Dividends paid <sup>14</sup> during the Period	(3.0)	(12.6)
<b>NAV at 30 September 2021</b>	<b>106.0</b>	<b>445.9</b>

14. Dividends of 3.0p per share were paid during the Period on shares in issue throughout the Period.



## Chairman's statement continued



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

- The maximum LTV of each 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.

The Aviva facility also contains a projected interest cover covenant requiring net contractual rents from the security pool over the next 12 months to exceed 250% of the facility's quarterly interest liability.

The Company complied with all loan covenants during the Period.

The Company is in the process of charging £30.3m of property to replace charged assets sold during the Period which, once complete, will mean £153.4m (27% of the property portfolio at 30 September 2021) of unencumbered assets will be available to be charged to the security pools to enhance the LTV on individual loans if required.

Banbury



Through the corporate acquisition of DRUM REIT since the Period end, the Custodian REIT group now also operates a £25m RCF facility with the Royal Bank of Scotland expiring on 30 September 2022 with interest of 1.75% above three-month LIBOR. The facility's key financial covenants comprise a maximum LTV of DRUM REIT's property portfolio of 50% and minimum historical interest cover of 250%.

The weighted average cost of the Company's agreed debt facilities is 2.9% (2020: 2.9%) with a weighted average maturity of 6.9 years (2020: 7.3 years). 78% (2020: 77%) of the Company's agreed debt facilities are at a fixed rate of interest, significantly mitigating interest rate risk.

## Dividends

During the Period the Company paid fourth and fifth interim dividends per share for the financial year ended 31 March 2021 of 1.25p and 0.5p respectively, and the first quarterly dividend per share for the financial year ending 31 March 2022 of 1.25p, relating to the quarter ended 30 June 2021.

In line with the Company's dividend policy the Board approved an interim dividend of 1.25p per share for the quarter ended 30 September 2021 which will be paid on 30 November 2021 to shareholders on the register on 12 November 2021.

## Business model and strategy

Custodian REIT offers investors the opportunity to access a diversified portfolio of UK commercial real estate through a closed-ended fund. The Company seeks to provide investors with an attractive level of income and the potential for capital growth, becoming the REIT of choice for private and institutional investors seeking high and stable dividends from well-diversified UK real estate.

The Company's investment policy<sup>15</sup> is summarised below:

- To invest in a diverse portfolio of UK commercial real estate, principally characterised by individual property values of less than £10m at acquisition.
- The property portfolio should be diversified by sector, location, tenant and lease term, with a maximum weighting to any one property sector or geographic region of 50%.
- To focus on areas with high residual values, strong local economies where demand for property exceeds supply, acquiring modern buildings or those considered fit for purpose by occupiers.

- No one tenant or property should account for more than 10% of the rent roll at the time of purchase, except for:
  - i) governmental bodies or departments; or
  - ii) single tenants rated by Dun & Bradstreet as having a credit risk score higher than two<sup>16</sup>, where exposure may not exceed 5% of the rent roll.
- The Company will not undertake speculative development except for the refurbishment of existing holdings, but may invest in forward funding agreements where the Company may acquire pre-let development land and construct investment property with the intention of owning the completed development.
- The Company may use gearing provided that the maximum LTV shall not exceed 35%, with a medium-term net gearing target of 25% LTV.

## Investment Manager

Custodian Capital Limited ("the Investment Manager") is appointed under an investment management agreement ("IMA") to provide asset management, investment management and administrative services to the Company.

15. A full version of the Company's Investment Policy is available at [custodianreit.com/wp-content/uploads/2021/02/CREIT-Investment-policy.pdf](http://custodianreit.com/wp-content/uploads/2021/02/CREIT-Investment-policy.pdf)

16. A risk score of two represents "lower than average risk".

## Chairman's statement continued

### Board succession

We were delighted to welcome Elizabeth McMeikan and Chris Ireland to the Board on 1 April 2021 who bring a range of different but complementary skills, strengthen the Board's property and governance experience and add to its diversity.

Two of the Company's five independent Directors were appointed in 2014. The Company's succession policy allows for a tenure of longer than nine years, in line with the 2019 AIC Corporate Governance Code for Investment Companies ("AIC Code"), but the Board acknowledges the benefits of ongoing Board refreshment. For this reason expected Director retirement dates are staggered within a nine year tenure period. Where possible, the Board's policy is to recruit successors well ahead of the retirement of Directors and a recruitment process is underway to appoint an Audit and Risk Committee Chair designate.

The Board is conscious of the increased focus on diversity and recognises the value and importance of diversity in the boardroom. No Directors are from a minority ethnic background. The appointment of Elizabeth McMeikan increased the female representation on the Board to 33% which meets the gender diversity recommendations of the Hampton-Alexander Review for at least 33% female representation on FTSE350 company boards. As a constituent of the FTSE SmallCap Index Custodian REIT is not bound by this recommendation.

The Board supports the overall recommendations of the Hampton-Alexander and Parker Reports although it is not seen to be in the interests of the Company and its shareholders to set prescriptive diversity targets for the Board at this point.

### Environmental, social and governance ("ESG")

The Board recognises that its decisions have an impact on the environment, people and communities. It also believes there are positive financial reasons to incorporate good ESG practices into the way we do business.

The Board shares the increased stakeholder interest in, and recognises the importance of, compliance requirements around good ESG management. It seeks to adopt sustainable principles wherever possible, actively seeking opportunities to make environmentally beneficial improvements to its property portfolio and encouraging tenants to report and improve emissions data. The ESG Committee monitors the Company's performance against its environmental key performance indicators ("KPIs") to ensure it complies with its environmental reporting requirements and encourages positive social outcomes being achieved for its stakeholders and the communities in which it operates.

As a result, the Board has committed to:

- Seek to minimise emissions, energy consumption and waste;
- Comply with all relevant environmental legislation and real estate reporting best practice;

- Gather and analyse data on our environmental performance across our property portfolio;
- Monitor environmental performance and achievements against targets for our properties;
- Invest in on-site renewables and carbon reducing technology as a commitment to continuous improvement; and
- Let buildings which are comfortable, safe and high-quality spaces where the wellbeing of occupants and the quality of their occupancy is maximised.

### Outlook

The absolute focus on rent collection, financial resilience and maintaining fully covered dividends has occupied the Board's attention throughout the Period. Indeed, the COVID-19 pandemic has reinforced Custodian REIT's strategy which, over and above decisions in relation to investment approach, has always placed income and financial resilience at the heart of the Company's objectives. When allied to the appropriate property strategy this focus underpins sustainable dividends, which in turn support long-term total return.

The Board is confident that the Company's portfolio is well placed to meet these objectives through income and valuation growth.

### David Hunter Chairman

29 November 2021



The retail warehouse sector is recovering strongly as occupiers have proved resilient through the pandemic





## Investment Manager's report



We offer properties to our tenants that are fit for purpose and that lead on environmental performance improvements

Richard Shepherd-Cross  
Investment Manager



## Portfolio value

£565.3m

2021	£565.3m
2020	£532.3m
2019	£547.2m
2018	£547.0m
2017	£474.3m

## Property market

The valuation movements by sector in the Custodian REIT property portfolio during the Period tell a story that is repeated across the market. Industrial and logistics assets continue to see strong demand from investors and occupiers.

Occupier demand is driving rental growth, which is encouraging investors still further in their pricing. This virtuous circle appears to have some way to run, particularly amongst smaller regional properties, where inflationary pressures on construction costs, limited development and an ongoing excess of occupier demand over supply support continued rental growth.

Pricing in the retail warehouse sector is recovering strongly as occupiers have proved resilient through the pandemic with those in DIY, discounting, homewares and food all trading well. Where investors are confident that rental levels are sustainable, pricing has moved noticeably during the Period.

We were delighted to take advantage of the strength and depth of demand in the industrial/logistics sector and the increasing demand for retail warehousing by making some opportunistic sales during the Period. We completed the sale of a portfolio of seven industrial units which we felt did not meet our medium-term aspirations for rental growth or might require a level of capital expenditure that we would not recover in the valuation. As part of the sale we agreed a delayed completion which enabled us to part-invest the expected proceeds in advance of completion which helped reduce cash drag. We also sold, to a special purchaser, a B&Q retail warehouse in Galashiels 67% ahead of valuation. While this property would normally be considered a target property for Custodian REIT we did not feel holding the property would achieve the upside value delivered by the sale.

To capitalise on the marginal yield achievable when buying smaller lot-size regional property, during the Period we acquired a distribution unit in Dundee and an office building in central Manchester and, since the Period end, a distribution unit in York for a combined sum of £11.1m at an aggregate net initial yield of c.6%. In all cases we believe there is strong rental growth potential over the short term.

### Rent collection

Custodian Capital invoices and collects rent directly, importantly allowing it, as Investment Manager, to hold direct conversations promptly with most tenants regarding the payment of rent. This direct contact has proved invaluable through the COVID-19 pandemic disruption, enabling better outcomes for the Company. Many of these conversations have led to positive asset management outcomes, some of which are discussed below.

95% of rent relating to the Period net of contractual rent deferrals has been collected, or 98% before contractual deferrals, as set out below.

Outstanding rental income remains the subject of discussion with various tenants, although some arrears are potentially at risk of non-recovery from CVAs or Pre-pack Administrations.

### Property portfolio performance

At 30 September 2021 the Company's property portfolio comprised 152 assets (31 March 2021: 159 assets), 197 tenants and 263 tenancies with an aggregate NIY<sup>17</sup> of 6.2% (31 March 2021: 6.6%) and weighted average unexpired lease term to first break or expiry ("WAULT") was 5.0 years (31 March 2021: 5.0 years).

The property portfolio is split between the main commercial property sectors, in line with the Company's objective to maintain a suitably balanced portfolio, with a relatively low exposure to office and a relatively high exposure to industrial, retail warehouse and alternative sectors, often referred to as 'other' in property market analysis.

Industrial and logistics property remains a very good fit with the Company's strategy. The demand for smaller lot-sized units is very broad, from manufacturing, urban logistics, online traders and owner occupiers. This demand, combined with a restricted supply resulting from limited new development, supports high residual values (where the vacant possession value is closer to the investment value than in other sectors) and drives rental growth. Despite a long period of growth in this sector, we still see opportunity.

	£m	Net of contractual rent deferrals	Before contractual rent deferrals
Rental income from investment property (IFRS basis)	19.3		
Lease incentives	(0.7)		
Cash rental income expected, before contractual rent deferrals	18.6		100%
Contractual rent deferrals relating to the Period	(0.1)		(1%)
Contractual rent deferred from prior year falling due during the Period	0.7		4%
Cash rental income expected, net of contractual rent deferrals	19.2	100%	103%
Outstanding rental income	(1.0)	(5%)	(5%)
<b>Rental income collected</b>	<b>18.2</b>	<b>95%</b>	<b>98%</b>

17. Passing rent divided by purchase price plus assumed purchasers' costs.

## Investment Manager's report continued

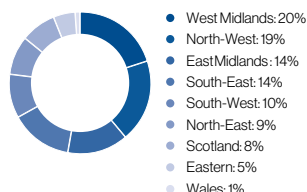
The COVID-19 pandemic has deepened the challenges facing the high street retail sector causing further declines in retail values and the Company has continued to re-balance the portfolio away from secondary high street locations. By contrast we have witnessed a strong recovery in out-of-town retail/retail warehousing which remains an important asset class for the Company.

We expect that well-located retail warehouse units, let off low rents, located on retail parks which are considered dominant in their area will continue to be in demand by retailers. The importance of convenience, free parking, the capacity to support click and collect and the relatively low cost compared to the high street should continue to support occupational demand for the Company's retail warehouse assets.

Regional offices will remain a sector of interest for the Company and we expect there to be activity post-pandemic in regional office markets. The rise in working remotely may not be restricted to working from home with a potential increase in working from regional satellite offices. Locations that offer an attractive environment to both live and work in and that offer buildings with high environmental standards and accessibility to a skilled workforce, will be most desirable. There is latent rental growth in many regional office markets where supply has been much diminished through redevelopment to alternative uses across all asset classes.

Custodian REIT targets properties that are capable of supporting the Company's ESG objectives and it is fully committed to investing in and refurbishing both new properties and the existing portfolio to meet these objectives.

### Regional split by income



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 30 September 2021 was as follows:

For details of all properties in the portfolio please see [custodianreit.com/property-portfolio](https://custodianreit.com/property-portfolio).

### The current sector weightings are:

Sector	Valuation 30 Sept 2021 £m	Weighting by income <sup>18</sup> 30 Sept 2021	Valuation 31 Mar 2021 £m	Weighting by income 31 Mar 2021	Valuation movement before acquisition costs £m	Weighting by value 30 Sept 2021	Weighting by value 31 Mar 2021
Industrial	275.9	40%	270.2	41%	28.3	49%	49%
Retail warehouse	105.3	21%	99.7	21%	8.1	19%	18%
Other <sup>19</sup>	85.2	16%	84.4	16%	1.2	15%	15%
Office	61.8	13%	54.8	12%	0.4	11%	10%
High street retail	37.1	10%	42.8	10%	(5.7)	6%	8%
<b>Total</b>	<b>565.3</b>	<b>100%</b>	<b>551.9</b>	<b>100%</b>	<b>32.3</b>	<b>100%</b>	<b>100%</b>

18. Current passing rent plus ERV of vacant properties.

19. Includes drive-through restaurants, car showrooms, trade counters, gymnasiums, restaurants and leisure units.



**The current sector weightings are:**

Location	Valuation 30 Sept 2021 £m	Weighting by value 30 Sept 2021	Period valuation movement £m	Period valuation movement	Weighting by income 30 Sept 2021	Weighting by income 31 Mar 2021
West Midlands	119.1	21%	7.0	6%	20%	20%
North-West	102.2	18%	1.4	2%	19%	17%
South-East	80.9	14%	9.2	13%	14%	14%
East Midlands	73.7	13%	2.6	4%	14%	14%
South-West	59.6	11%	1.6	3%	10%	10%
Scotland	49.0	9%	3.1	7%	8%	9%
North-East	48.0	8%	3.7	9%	9%	10%
Eastern	26.9	5%	3.3	14%	5%	5%
Wales	5.9	1%	0.4	8%	1%	1%
<b>Total</b>	<b>565.3</b>	<b>100%</b>	<b>32.3</b>	<b>6%</b>	<b>100%</b>	<b>100%</b>

**Acquisitions**

The Company invested £12.475m in three acquisitions during the Period described below:

- A 20k sq ft office building on Fountain Street, Manchester for £6.25m. The property comprises basement parking and six floors let to Leyton UK, Meridian Healthcomms, Venditan and Fourthline with a weighted average unexpired term to first break or expiry ("WAULT") of 1.2 years and an aggregate annual rent of £407k, reflecting a NIY of 6.1%;
- A 49k sq ft industrial asset in Knowsley, Liverpool for £4.325m. The asset comprises six units occupied by Engineering Solutions and Automations, Portakabin, Green Thumb, Central Electrical Armature and Med Imaging with a WAULT of 4.0 years and an aggregate annual passing rent of £260k, reflecting a NIY of 5.6%; and
- A 30k sq ft industrial unit in Dundee for £1.9m occupied by Menzies Distribution with a WAULT of 5.2 years and an annual passing rent of £118k, reflecting a NIY of 5.9%.

On 20 October 2021 the Company acquired a 29k sq ft industrial unit in York for £2.962m occupied by Menzies Distribution with a WAULT of 2.8 years and an annual passing rent of £186k, reflecting a NIY of 5.9%.

## Investment Manager's report continued

On 3 November 2021 the Company acquired 100% of the ordinary share capital of DRUM Income Plus REIT plc. Consideration for the acquisition of 20,247,040 new ordinary shares in the Company was calculated on an 'adjusted NAV-for-NAV basis', with each company's 30 June 2021 NAV being adjusted for respective acquisition costs with DRUM REIT's property portfolio valuation adjusted to the agreed purchase price of £43.5m.

DRUM REIT's property portfolio at 30 September 2021 is summarised below:

- 10 regional properties comprising five offices, three retail parks, one shopping centre and one industrial estate in aggregate covering approximately 330k sq ft
- 78 tenants, the largest of which is Skills Development Scotland with annual rent of £0.5m (c.14% of DRUM REIT's rent roll)
- EPRA occupancy rate of 86.1%, providing some short-term asset management opportunities

- WAULT of 4.7 years
- Contractual annual rent roll of £3.6m with an ERV of £4.4m
- Portfolio valuation of £49.3m
- Reversionary yield<sup>20</sup> ("RY") of 8.4%
- All properties charged under a £25m RCF facility with The Royal Bank of Scotland

DRUM REIT represents an excellent fit with Custodian REIT's investment policy, targeting smaller regional property with a strong income focus. The purchase price reflected a sufficient discount to DRUM REIT's NAV to be accretive to existing Custodian REIT shareholders and to provide DRUM REIT shareholders with an increase in like for like share price, as well as delivering them a growing dividend from a much larger specialist in the smaller regional property sector with much improved liquidity.

Details of each property within DRUM REIT's portfolio are:



**Location:** Central Manchester  
**Sector:** Office  
**Tenants:** Multiple  
**RY:** 12.4%  
**Purchase price:** £4.503m



**Location:** Cheadle, Greater Manchester  
**Sector:** Office  
**Tenants:** Agilent Technologies, Micron Europe  
**RY:** 9.3%  
**Purchase price:** £5.036m

<sup>20</sup> ERV of portfolio divided by property valuation plus purchaser's costs.



**Location:** Dunfermline  
**Sector:** Retail warehouse  
**Tenants:** Multiple  
**RY:** 9.8%  
**Purchase price:** £3.687m



**Location:** Edinburgh Business Park  
**Sector:** Office  
**Tenants:** Multiple  
**RY:** 10.0%  
**Purchase price:** £4.593m



**Location:** Gloucester  
**Sector:** Retail warehouse  
**Tenants:** Farmfoods  
**RY:** 8.3%  
**Purchase price:** £2.396m



**Location:** Aberdeen Airport  
**Sector:** Industrial  
**Tenants:** Multiple  
**RY:** 11.8%  
**Purchase price:** £1.66m



**Location:** Southport  
**Sector:** Retail warehouse  
**Tenants:** Multiple  
**RY:** 9.0%  
**Purchase price:** £3.963m



**Location:** Gateshead  
**Sector:** Office  
**Tenants:** Worldpay, Datawright  
**RY:** 17.0%  
**Purchase price:** £1.6m



**Location:** Central Glasgow  
**Sector:** Office  
**Tenants:** Skills Development Scotland  
**RY:** 6.8%  
**Purchase price:** £7.087m



**Location:** Gosforth, Newcastle  
**Sector:** Retail (shopping centre)  
**Tenants:** Sainsbury's, multiple small local retailers  
**RY:** 8.1%  
**Purchase price:** £8.975m



## Investment Manager's report continued

### Disposals

Owning the right properties at the right time is a key element of effective property portfolio management, which necessarily involves periodically selling properties to balance the property portfolio. Custodian REIT is not a trading company but identifying opportunities to dispose of assets significantly ahead of valuation or that no longer fit within the Company's investment strategy is important.

The Company sold the following properties during the Period for an aggregate consideration of £38.5m:

- A portfolio of seven industrial properties located in Gateshead, Stockton-on-Tees, Warrington, Stone, Christchurch, Aberdeen and Bedford for £32.6m, £5.1m (19%) above the 31 March 2021 valuations. The properties were acquired either in the seed portfolio at IPO or within subsequent portfolio acquisitions and have an aggregate current passing rent of £2.0m, reflecting a NIY on sale price of 5.9%;
- A 31,062 sq ft retail warehouse in Galashiels for £4.5m to a special purchaser, £1.8m (67%) ahead of the 30 June 2021 valuation;

- A vacant children's day nursery in Basingstoke for £0.65m, £0.1m ahead of the last published valuation; and
- A retail unit in Nottingham at auction for £0.7m, in line with the most recent valuation.

Since the Period end the Company has sold:

- A 42,289 sq ft car showroom in Stockport for £9.0m, £1.4m (18%) ahead of the 30 June 2021 valuation;
- A 22,720 sq ft car showroom in Stafford for £4.9m, £1.15m (31%) ahead of the 30 June 2021 valuation; and
- A high street retail unit in Cheltenham at valuation for an aggregate £0.2m.

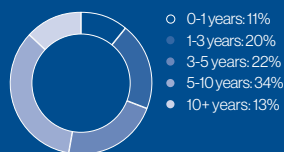




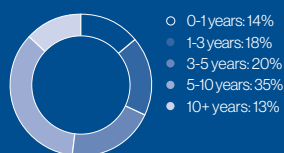
Aberdeen

## Investment Manager's report continued

### Aggregate income expiry Mar 21



### Aggregate income expiry Sept 21



### Property portfolio risk

The property portfolio's security of income is enhanced by 18% of income benefitting from either fixed or indexed rent reviews.

Short-term contractual income at risk is a relatively low proportion of the property portfolio's total income, with 32% expiring in the next three years and 14% within one year.

The Company's Annual Report for the year ended 31 March 2021 set out the principal risks and uncertainties facing the Company at that time. We do not anticipate any changes to those risks and uncertainties over the remainder of the financial year, but highlight the following:

### Unidentified liabilities

The purchase of DRUM REIT increases the likelihood of unidentified liabilities having been acquired, but this risk has been mitigated through comprehensive financial, tax, property and legal due diligence being undertaken in conjunction with the Company's professional advisers.

### COVID-19 pandemic

The impact of the COVID-19 pandemic has been pervasive across the globe and we believe it will continue to impact rental receipts, tenant stability, property valuations and government legislation for at least the remainder of the financial year ending 31 March 2022.

We believe the Company is well placed to weather any further negative impacts of the COVID-19 pandemic because of its diverse portfolio by sector and location with an institutional grade tenant base and low net gearing.

### Environmental

The Board is aware of the increasing focus from external stakeholders on the Company's environmental credentials and the increasing level of disclosure requirements regarding the Company's environmental impact. We continue to work with specialist environmental consultants to ensure compliance with new requirements and identify cost-effective opportunities to improve the Company's environmental performance.

### Health and safety

Although the Company's portfolio has no exposure to 'high risk' assets, typically high-rise properties (over 18m tall) or properties used for multiple residential occupation, it owns properties where cladding material has been used in construction. Whilst there is no legal requirement to remove composite cladding which is not Loss Prevention Certification Board ("LPCB") compliant (typically used in construction prior to 2005), to mitigate risk, the Investment Manager:

- Ensures tenants provide up to date Fire Risk Assessments (FRA) undertaken by a reputable assessor;
- Ascertains the composition of cladding, where practical, and ensures the tenant and local Fire Authority are notified of any risks; and
- Confirms tenants comply with FRA recommendations and remediations.

If core drilling identified non LPCB compliant cladding and the FRA recommended removal as potential mitigation measures might not be sufficient the Investment Manager would work with the tenants to ensure cladding was replaced.



## Outlook

The resilience shown by real estate during the pandemic and its strong recovery in the last six months, notwithstanding the threat from new COVID-19 variants, bears testament to continued occupier demand in industrial/logistics and retail warehousing, in particular. In addition, the motor trade has also performed well and we are witnessing a recovery in occupier demand for offices.

Increasingly tenants require properties that meet their environmental and social objectives, never more so than in the office sector, where businesses will need to attract their staff back to the office and away from home. Custodian REIT is poised to meet the demands of its tenants and potential new occupiers, in this regard, investing in EV ("electric vehicle") charging on its retail parks and office sites and focusing refurbishment and re-development budgets on environmentally responsible fit out while working with tenants to improve the energy performance of existing buildings.

For so long as we can offer properties to our tenants that are fit for purpose and that lead on environmental performance improvements, we remain confident that the Company's diversified portfolio of smaller regional property will continue to deliver the long-term returns demanded by our shareholders.

**Richard Shepherd-Cross**  
for and on behalf of  
Custodian Capital Limited  
Investment Manager  
29 November 2021



## Asset management report



### Continued close collaboration with tenants is generating asset management opportunities

Alex Nix  
Assistant Investment Manager



Our continued focus on asset management during the year including rent reviews, new lettings, lease extensions and the retention of tenants beyond their contractual break clauses and expiries resulted in a £2.3m valuation increase in the Period.

During the Period we have seen that continued close collaboration with tenants will generate asset management opportunities including lease extensions and re-gears which has seen the Company maintain its weighted average unexpired lease term to first break or expiry ("WAULT") at five years despite the effects of the COVID-19 pandemic.

Key asset management initiatives completed during the Period include:

- A new five year lease with a third year break option to Green Retreats at a vacant industrial unit in Farnborough at an annual rent of £185k, increasing valuation by £0.9m;
- A new five year lease without break to Galliford Try on a vacant office suite in Leicester with an annual rent of £165k, increasing valuation by £0.5m;
- A 10 year lease renewal with a fifth year break option with BSS Group at an industrial unit in Bristol, increasing the annual passing rent from £250k to £255k with an open market rent review in year five, increasing valuation by £0.3m;
- A new 10 year lease of the vacant ground floor and a five year extension of the first floor with Dehns at the Company's recently acquired offices in Oxford with an aggregate annual passing rent of £271k, increasing valuation by £0.2m;
- A new 10 year lease with a fifth year tenant break option with Livingstone Brown on a vacant office suite in Glasgow with an annual rent of £56k, increasing valuation by £0.2m;
- A five year lease renewal with a third year break option with DHL at an industrial unit in Aberdeen, maintaining passing rent at £208k and increasing valuation by £0.1m;

#### Property portfolio summary

	30 Sep 2021	31 Mar 2021
Property portfolio value	<b>£565.3m</b>	£551.9
Separate tenancies	<b>263</b>	265
EPRA occupancy rate	<b>91.6%</b>	91.6%
Assets	<b>152</b>	159
WAULT	<b>5.0 years</b>	5.0 years
NIY	<b>6.2%</b>	6.6%
Weighted average EPC rating	<b>C (62)</b>	C (63)

- A 10 year lease renewal with a fifth year break option with MP Bio Science at an industrial unit in Hilton, increasing passing rent from £28k to £36k, resulting in an aggregate valuation uplift of £0.1m;
- A new 10 year lease to SpaMedica at a vacant office building in Leicester with annual rent of £87k and open market rent review in year five, with no impact on valuation;
- A new lease with Just for Pets on a vacant retail warehouse unit in Evesham for a term of 10 years with a break in year six, at an annual rent of £95k, with no impact on valuation;
- A five year lease renewal with Quantem Consulting at an office building in Birmingham, increasing the annual passing rent from £30k to £39k, with no impact on valuation;
- A 10 year lease extension with a break option in year five with Subway at a retail unit in Birmingham, maintaining the annual passing rent of £14k, with no impact on valuation;
- A new five year lease without break to Realty Law on a vacant office suite in Birmingham with an annual rent of £28k, with no impact on valuation; and
- A five year lease renewal with a third year break option to Done Brothers (t/a Betfred) at a retail unit in Cheltenham with an annual rent of £25k, with no impact on valuation.

Since the Period end the following initiatives have been completed:

- A new 15 year lease to Loungers at Pride Hill, Shrewsbury at an annual rental of £90k;
- A new 10 year lease to Ramsdens Financial at a retail unit on Argyle St, Glasgow at an annual rent of £55k, increasing to £60k in year five;
- A new five year lease of a retail unit at Pride Hill, Shrewsbury to Clogau Shrewsbury Limited at an annual rental of £55k;
- A 15 year reversionary lease to Smyths Toys at a retail warehouse unit at Eastern Avenue, Gloucester at an annual rental of £130k;
- A new five year lease to Midon Limited at an industrial unit in Penrhyn Court, Knowsley at an annual rental of £37k.

These positive asset management outcomes have been partially offset by the impact of the Administrations of JTF Wholesale (£586k of annual rent) and Rapid Vehicle Repair (£71k of annual rent) which have resulted in an aggregate 1.8% decrease in the annual rent roll.

While the short-term impact of an Administration is a hit to cash flow and valuation, the opportunity created by taking back control of the JTF site in Warrington in a prime distribution location, with the prospect of redeveloping the site to create a BREEAM 'Excellent' rated, high bay distribution unit should lead to a substantial net valuation uplift and also help meet the ESG objectives of Custodian REIT.

Tenant business failures have resulted in occupancy levels being maintained at 91.6% since 31 March 2021, but letting activity is increasing across most sectors.

## Outlook

Looking forward, we maintain a positive outlook with many of the asset management initiatives currently under way expected to come to fruition over the next 6-12 months which should see new tenants secured, leases extended and new investment into existing assets improving their environmental credentials and realising their full potential.

## Alex Nix

**Assistant Investment Manager for and on behalf of Custodian Capital Limited Investment Manager**

29 November 2021

## ESG Committee report



# The Board's responsibility to society is broader than simply generating financial returns for shareholders

Hazel Adam  
Chair of the ESG Committee



**The Company is committed to delivering its strategic objectives in an ethical and responsible manner and meeting its corporate responsibilities towards society, human rights and the environment.**

The Board acknowledges its responsibility to society is broader than simply generating financial returns for shareholders. The Company's approach to ESG addresses the importance of these issues in the day-to-day running of the business, as detailed below.

### ESG policy

#### Environmental

We want our properties to minimise their impact on the local and wider environment. The Investment Manager carefully considers the environmental performance of our properties, both before we acquire them, as well as during our period of management. Sites are visited on a regular basis by the Investment Manager and any obvious environmental issues are reported.

#### Social

Custodian REIT strives to manage and develop buildings which are comfortable, safe and high-quality spaces. As such, our aim is that the safety and wellbeing of occupants of our buildings is maximised. We have implemented a portfolio approach to wellbeing which encourages engagement with tenants, ensures maximum building safety and optimises comfort and quality of occupancy.

#### Governance

High standards of corporate governance and disclosure are essential to ensuring the effective operation of the Company and instilling confidence amongst our stakeholders. We aim to continually improve our levels of governance and disclosure to achieve industry best practice.

The Committee encourages the Investment Manager to act responsibly in the areas it can influence as a landlord, for example by working with tenants to improve the environmental performance of the Company's properties and minimise their impact on climate change.

The Committee believes that following this strategy will ultimately be to the benefit of shareholders through enhanced rent and asset values.

The Company's environmental policy commits the Company to:

- Seek to reduce pollution and comply with all relevant environmental legislation;
- Gather and analyse data on the environmental performance of our properties; and
- Set targets for the environmental performance of our properties and monitor achievements as a commitment to continuous improvement.



## Environmental key performance indicators

Target environmental key performance indicators ("KPIs") provide a strategic way to measure the Company's success towards achieving its environmental

objectives and ensure the Investment Manager is embedding key ESG principles in order to directly support climate risk mitigation and capture some ESG opportunities from the transition to a low-carbon economy.

The Company's qualitative and quantitative environmental targets, measured via the KPIs, cover four 'boundaries' and are set out below:

Area	KPI	Progress during the Period
Emissions and energy	Reduce total portfolio absolute emissions against a 2019 baseline by 30% by 2025	Tenant data collection via a data platform currently covers c. 35% of the Company's portfolio by floor area which is expected to increase with improved tenant engagement. Analysis of this data will allow us to analyse the portfolio and identify assets which are performing poorly in order to make improvements
	Reduce absolute energy consumption of the property portfolio by 15% against a 2019 baseline by 2025	
EPCs	All 'D' EPC ratings to be removed or improved by 2027, all 'E' EPC ratings to be removed or improved by 2025 and all 'F' and 'G' EPC ratings to be removed or improved by 31 March 2022	Weighted average EPC rating has moved from C(63) to C(62) during the Period, detailed further below, and all F and G ratings have been removed or improved
Green procurement	Switch all landlord-controlled sites to 100% renewables by 2025	Currently at 95% and expect to achieve further improvements by the end of the financial year
	Switch all landlord-controlled sites to green gas by 2025	11 properties have moved over to renewable energy contracts during the Period
Onsite renewables	Install EV charging points across 100% of the Company's retail warehouse assets by 2025 and investigate onsite renewables on one asset by 2025	We have EV charging points on seven of our 11 retail park assets which have landlord-controlled areas. We are working with PodPoint to target 100% coverage across the retail park portfolio and exploring roll out of EV charging points on a selection of single let properties. On-site renewables have been introduced by way of solar PV panels at a property in West Bromwich described in more detail below and are now being considered across other assets within the portfolio

## ESG Committee report continued

Area	KPI	Progress during the Period
Waste and water	Zero waste to landfill from landlord-controlled waste by 2022	We are working with managing agents and contractors in order to achieve this
	Reduce landlord-controlled water consumption by 50% by 2025	Working with managing agents on initiatives in buildings such as sensor taps, flow regulators, reduced leakage, water saving showers
Tenant engagement	Engage with tenants during lease negotiations to incorporate sustainability clauses into new leases	We have updated the green clause to include renewable energy as standard and our lawyers are using this when drafting new leases
	Engage with tenants on quarterly basis on ESG issues	Tenant benchmark reports were circulated in June 2021 for the first time which has led to positive feedback
External reporting	Achieve EPRA Gold Standard for the year ended 31 March 2021	Achieved
Due diligence	Report to TCFD by 2021	Appropriate disclosures were made in the 2021 Annual Report. Although TCFD are not mandatory for the Company, reporting will continue to be developed in the current financial year following TCFD guidance where considered appropriate
	Incorporate ESG factors into all investment due diligence undertaken	Investment Committee reports for any new property acquisition/ refurbishment now include dedicated ESG rationale detailing improvements to be made alongside relevant capital expenditure

### Case study

During the Period we completed a comprehensive refurbishment of an industrial unit in West Bromwich which involved installing six electric vehicle charging points, solar photovoltaic coverage to over 700 sq.m of the roof area, air source heat pumps to provide heating and hot water, new energy efficient radiators and LED lights with passive infrared sensors. The refurbishment is expected to increase the EPC rating from C (69) to a high B, with the ERV of the property increasing from £280k pa (£4.80 per sq ft) to £345k pa (c.£6.00 per sq ft). Once re-let we expect the uplift in property valuation will be well in excess of the capital outlay for refurbishment.

We expect to commence the redevelopment of an industrial asset in Redditch to BREEAM 'Excellent' standard, once it becomes vacant in January 2022, with further initiatives planned as we continue to invest in our property portfolio to minimise its environmental impact and maximise shareholder value.

## EPC ratings

During the Period the Company has updated EPCs at 20 units across 14 properties covering 272k sq ft for properties where existing EPCs had expired or where works had been completed, and at the Period end have a weighted average EPC rating of C (62) (31 March 2021: C (63)). For updated EPCs, there was an aggregate improvement in the rating of 16 energy performance asset rating points<sup>21</sup>.

Some of the properties showing an improvement are detailed below:

- Burton upon Trent – a new Starbucks drive through restaurant was built on the site of a former tool hire centre, improving the EPC score from D (99) to B (43)
- Daventry – a significant refurbishment of this industrial property was carried out during the year, improving the EPC score from C (52) to B (46)
- Glasgow West George Street – a refurbishment of these offices improved the EPC score from E (62) to B (34)

The Company's weighted average EPC score is illustrated below:

## Outlook

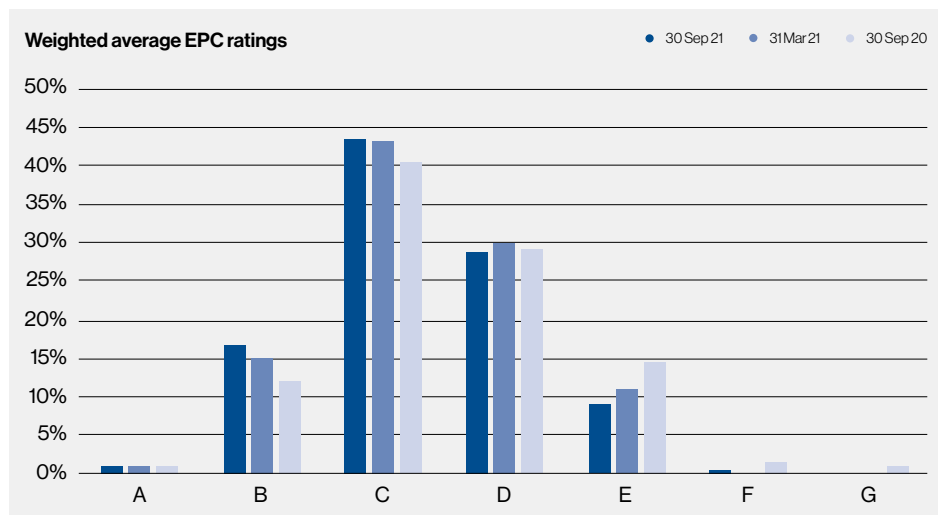
The Committee is pleased with the progress made on the Company's environmental credentials during the Period, in particular the continued improvement in the weighted average EPC rating and looks forward to the Company making further progress against its environmental KPIs over the remainder of the financial year.

## Approval

This report was approved by the Committee and signed on its behalf by:

**Hazel Adam**  
Chair of the ESG Committee

29 November 2021

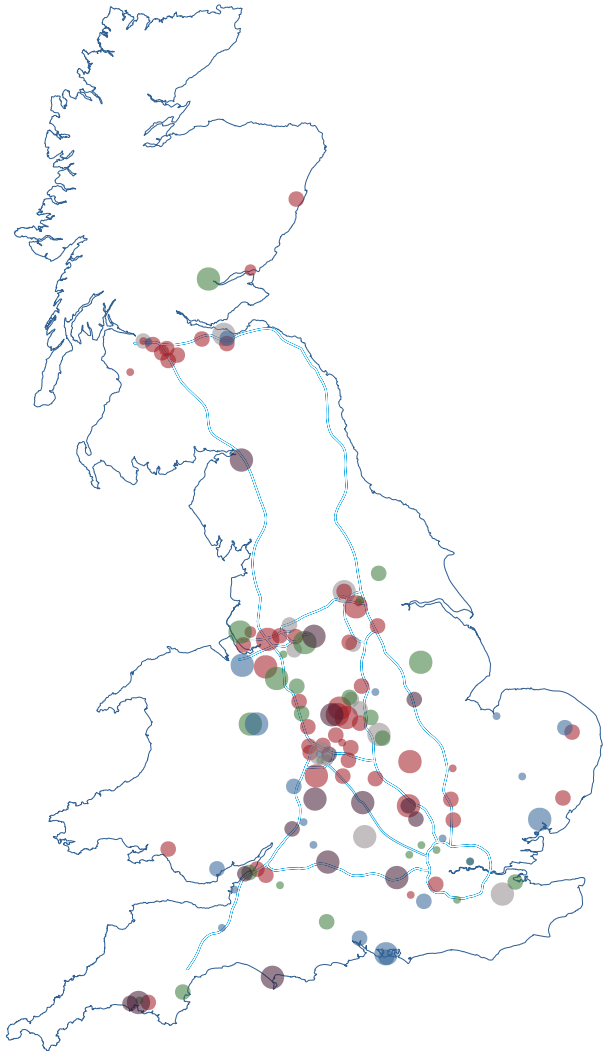


21. One EPC letter represents 25 energy performance asset rating points.

## Property portfolio

### Our locations

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.



#### Sector key

- Industrial
- Retail warehouse
- Other
- Retail
- Office

#### Property income

- <£100k
- £101-350k
- >£350k



## Industrial

Location	Tenant	% Portfolio income <sup>22</sup>
Winsford	H&M	1.5%
Ashby	Teleperformance	1.3%
Burton	ATL Transport	1.2%
Salford	Restore	1.1%
Hilton	Daher Aerospace	1.0%
Doncaster	Silgan Closures	1.0%
Eurocentral	Next	0.9%
Warrington	Life Technologies	0.9%
Milton Keynes	Massmould	0.9%
Tamworth	ICT Express	0.9%
Kettering	Multi-let	0.9%
Normanton	Yesss Electrical	0.8%
Biggleswade	Turpin Distribution	0.8%
Warrington	Procurri Europe and Synertec	0.8%
Cannock	HellermannTyton	0.8%
Bellshill	Yodel Delivery Network	0.8%
Daventry	Multo-Color	0.7%
Edinburgh	Menzies Distribution	0.7%
Gateshead	Worthington Armstrong	0.7%
Plymouth	Sherwin-Williams	0.7%
Nuneaton	DX Network Service	0.6%
Milton Keynes	Saint-Gobain Building Distribution	0.6%
Avonmouth	Superdrug	0.6%
Bristol	BSS Group	0.6%
Coventry	Royal Mail	0.5%
Manchester	Unilin Distribution	0.6%
Bedford	Heywood Williams Components	0.6%
Glasgow	Menzies Distribution	0.6%
Weybridge	Menzies Distribution	0.6%
Knowsley	Multi-let	0.6%
Aberdeen	Menzies Distribution	0.6%
Hamilton	Ichor Systems	0.6%
Stevenage	Morrison Utility Services	0.6%
Cambuslang	Brenntag	0.5%
Livingston	A Share & Sons (t/a SCS)	0.5%
Oldbury	Sytner	0.5%
Warwick	Semcon	0.5%
Farnborough	Green Retreats	0.4%
Norwich	Menzies Distribution	0.4%
Leeds	Sovereign Air Movement and Tricel Composites	0.4%
Coalville	MTS Logistics	0.4%
Erdington	West Midlands Ambulance Service NHS Trust	0.4%
Langley Mill	Warburtons	0.4%
Ipswich	Menzies Distribution	0.4%
Irlam	Northern Commercials	0.4%
Sheffield Parkway	Synergy Health	0.4%
Castleford	Bunzl	0.4%
Liverpool, Speke	Powder Systems	0.4%
Hilton	Multi-let	0.3%
Swansea	Menzies Distribution	0.3%
Leeds	Tricel Composites	0.3%
Sheffield	Arkote	0.3%
Kettering	Sealed Air	0.3%
Atherstone	North Warwickshire Borough Council	0.3%

22. % of property portfolio passing rent plus ERV of vacant units.

## Property portfolio continued

### Industrial

Liverpool, Speke	DHL International	<b>0.3%</b>
Huntingdon	PHS Group	<b>0.3%</b>
Dundee	Menzies Distribution	<b>0.3%</b>
Glasgow	DHL Global Forwarding	<b>0.3%</b>
Normanton	Acorn Web Offset	<b>0.3%</b>
Sheffield	ITM Power	<b>0.3%</b>
Kilmarnock	Royal Mail Group	<b>0.2%</b>
Sheffield	River Island	<b>0.1%</b>
Knowsley, Leeds, Redditch, Warrington and West Bromwich	Vacant	<b>4.3%</b>
		<b>40.4%</b>

### Office

Location	Tenant	% Portfolio income
West Malling	Regus (Maidstone West Malling)	<b>1.6%</b>
Oxford	Multi-let	<b>1.4%</b>
Birmingham	Multi-let	<b>1.0%</b>
Leicester	Galliford Try, Regus (Leicester Grove Park) and SpaMedica	<b>1.0%</b>
Sheffield	Secretary of State for Communities and Local Government	<b>0.9%</b>
Castle Donnington	National Grid	<b>0.8%</b>
Leeds	First Title (t/a Enact Conveyancing)	<b>0.8%</b>
Cheadle	Wienerberger	<b>0.8%</b>
Leicester	Countryside Properties and Erskine Murray	<b>0.7%</b>
Derby	Edwards Geldards	<b>0.6%</b>
Solihull	Lyons Davidson	<b>0.5%</b>
Glasgow	Multi-let	<b>0.4%</b>
Manchester	Fourthline, Meridian Healthcomms and Venditan	<b>0.4%</b>
Birmingham, Glasgow, Leicester and Manchester	Vacant	<b>1.3%</b>
		<b>13.0%</b>

## Other

Location	Tenant	% Portfolio income
Stockport	Williams Motor Co	1.6%
Liverpool	Liverpool Community Health NHS Trust and Royal Base Restaurants	1.0%
Perth	Bannatyne Fitness, Scotco Eastern (t/a KFC) and TH UK (t/a Tim Hortons)	1.0%
Derby	VW Group	0.8%
Crewe	Mecca Bingo, Mecca Bingo (sublet to Odeon Cinemas) and Pizza Hut	0.8%
Stafford	VW Group	0.7%
Stoke	Nuffield Health	0.7%
Lincoln	Total Fitness Health Clubs	0.7%
Torquay	Multi-let	0.7%
Gillingham	Co-Op	0.7%
York	Pendragon	0.6%
Salisbury	Parkwood Health & Fitness	0.5%
Shrewsbury	VW Group	0.5%
Lincoln	MKM Buildings Supplies	0.5%
Crewe	Multi-let	0.4%
Loughborough	Listers Group	0.4%
Bath	Chokdee (t/a Giggling Squid)	0.3%
Castleford	MKM Buildings Supplies	0.3%
High Wycombe	Stonegate Pub Co	0.3%
Maypole	Starbucks	0.3%
Shrewsbury	TJ Vickers & Sons	0.3%
Nottingham	Kbeverage (t/a Starbucks)	0.3%
Carlisle	The Gym Group	0.3%
Portishead	AGO Hotels	0.3%
Shrewsbury	Ask Italian and Sam's Club (t/a House of the Rising Sun)	0.3%
Plymouth	McDonald's	0.2%
Portishead	JD Wetherspoons	0.2%
King's Lynn	Loungers	0.1%
Stratford	Universal Church of the Kingdom of God	0.1%
Burton	1 Oak (t/a Starbucks)	0.1%
Chesham	Bright Horizons Family Solutions	0.1%
Knutsford	Knutsford Day Nursery	0.1%
Leicester	Pizza Hut	0.1%
Watford	Pizza Hut	0.1%
Crewe	Vacant	0.5%
		15.9%

## Property portfolio continued

### High street retail

Location	Tenant	% Portfolio income
Worcester	Superdrug	0.9%
Cardiff	Multi-let	0.9%
Portsmouth	Poundland, Sportsworld and Your Phone Care	0.6%
Southampton	URBN UK	0.6%
Guildford	Reiss	0.4%
Colchester	H Samuel, Leeds Building Society and Lush	0.4%
Southsea	Portsmouth City Council and Superdrug	0.4%
Birmingham	Multi-let	0.4%
Chester	Felldale Retail (t/a Lakeland) and Signet Trading (t/a Ernest Jones)	0.3%
Shrewsbury	Holland & Barrett and Greggs	0.3%
Norwich	Specsavers	0.3%
Edinburgh	Phase Eight	0.3%
Chester	Aslan Jewellery & Der Touristik	0.3%
Portsmouth	The Works	0.3%
Shrewsbury	Nationwide Building Society	0.3%
Stratford	Foxtons	0.2%
Taunton	Wilko Retail	0.2%
Bury St Edmunds	The Works	0.2%

Colchester	Kruidvat Real Estate (t/a Savers)	0.2%
St Albans	Crepeaffaire	0.2%
Cirencester	Brook Taverner & The Danish Wardrobe Co (t/a Noa Noa)	0.2%
Weston- super-Mare	Superdrug	0.2%
Bury St Edmunds	Savers Health & Beauty	0.1%
Chester	Ciel (Concessions) (t/a Chesca)	0.1%
Cheltenham	Done Brothers (t/a Betfred)	0.1%
Chester, Colchester, Glasgow, Guildford, Portsmouth and Shrewsbury	Vacant	1.3%
		9.7%



## Retail warehouse

Location	Tenant	% Portfolio income
Evesham	Multi-let	<b>2.2%</b>
Carlisle	Multi-let	<b>2.0%</b>
Weymouth	B&Q, Halfords and Sports Direct	<b>1.9%</b>
Winnersh	Pets at Home and Wickes	<b>1.4%</b>
Burton	CDS Superstores (t/a The Range) and Wickes	<b>1.3%</b>
Swindon	B&M, Go Outdoors and InstaVolt	<b>1.3%</b>
Leicester	Matalan	<b>1.2%</b>
Banbury	B&Q	<b>1.2%</b>
Ashton-under-Lyne	B&M	<b>1.0%</b>
Plymouth – Transit Way	B&M, Magnet and InstaVolt	<b>1.0%</b>
Plymouth	A Share & Sons (t/a SCS) and Oak Furniture Land	<b>0.9%</b>
Gloucester	Magnet, Smyths Toys and InstaVolt	<b>0.9%</b>
Sheldon	Multi-let	<b>0.9%</b>
Leighton Buzzard	Homebase	<b>0.8%</b>
Leicester	Magnet	<b>0.6%</b>
Torpoint	Sainsburys	<b>0.5%</b>
Portishead	InstaVolt, Majestic Wine Warehouse and TJ Morris (t/a Homebargains)	<b>0.5%</b>
Grantham	Carpetright, Poundstretcher and InstaVolt	<b>0.4%</b>
Grantham and Milton Keynes	Vacant	<b>1.0%</b>
		<b>21.0%</b>

## Condensed consolidated statement of comprehensive income

### For the six months ended 30 September 2021

		Unaudited 6 months to 30 Sept 2021 £000	Unaudited 6 months to 30 Sept 2020 £000	Audited 12 months to 31 Mar 2021 £000
	Note			
<b>Revenue</b>	4	<b>20,152</b>	20,286	39,578
Investment management fee		<b>(1,788)</b>	(1,653)	(3,331)
Operating expenses of rental property				
– rechargeable to tenants		<b>(882)</b>	(892)	(914)
– directly incurred		<b>(1,708)</b>	(3,781)	(5,559)
Professional fees		<b>(262)</b>	(195)	(489)
Directors' fees		<b>(145)</b>	(115)	(218)
Administrative expenses		<b>(356)</b>	(310)	(551)
<b>Expenses</b>		<b>(5,141)</b>	(6,946)	(11,062)
<b>Operating profit before financing and revaluation of investment property</b>		<b>15,011</b>	13,340	28,516
Unrealised gains/(losses) on revaluation of investment property:				
– relating to gross property revaluations	9	<b>32,310</b>	(27,388)	(19,611)
– relating to acquisition costs	9	<b>(1,069)</b>	(69)	(707)
Net valuation increase/decrease		<b>31,241</b>	(27,457)	(20,318)
Profit on disposal of investment property		<b>4,165</b>	485	393
Net profit/(losses) on investment property		<b>35,406</b>	(26,972)	(19,925)
<b>Operating (loss)/profit before financing</b>		<b>50,417</b>	(13,632)	8,591
Finance income	5	<b>–</b>	27	61
Finance costs	6	<b>(2,347)</b>	(2,471)	(4,903)
Net finance costs		<b>(2,347)</b>	(2,444)	(4,842)
<b>Profit/(loss) before tax</b>		<b>48,070</b>	(16,076)	3,749
Income tax	7	<b>–</b>	–	–
<b>(Loss)/profit and total comprehensive (expense)/income for the Period, net of tax</b>		<b>48,070</b>	(16,076)	3,749
<b>Attributable to:</b>				
Owners of the Company		<b>48,070</b>	(16,076)	3,749
<b>Earnings per ordinary share:</b>				
Basic and diluted (p)	3	<b>11.4</b>	(3.8)	0.9
EPRA (p)	3	<b>3.0</b>	2.6	5.6

The profit/(loss) for the Period arises from the Company's continuing operations.

**Condensed consolidated statement of financial position****As at 30 September 2021**

Registered number: 08863271

	Note	Unaudited 30 Sept 2021 £000	Unaudited 30 Sept 2020 £000	Audited 31 Mar 2021 £000
<b>Non-current assets</b>				
Investment property	9	565,279	532,250	551,922
Total non-current assets		565,279	532,250	551,922
<b>Current assets</b>				
Trade and other receivables	10	6,452	7,754	6,001
Cash and cash equivalents	12	37,139	26,205	3,920
Total current assets		43,591	33,959	9,921
<b>Total assets</b>		<b>608,870</b>	566,209	561,843
<b>Equity</b>				
Issued capital	14	4,206	4,201	4,201
Share premium		251,015	250,469	250,469
Retained earnings		190,648	145,032	155,196
<b>Total equity attributable to equity holders of the Company</b>		<b>445,869</b>	399,702	409,866
<b>Non-current liabilities</b>				
Borrowings	13	145,713	148,493	138,604
Other payables		571	575	572
Total non-current liabilities		146,284	149,068	139,176
<b>Current liabilities</b>				
Trade and other payables	11	10,098	10,653	6,185
Deferred income		6,619	6,786	6,616
Total current liabilities		16,717	17,439	12,801
<b>Total liabilities</b>		<b>163,001</b>	166,507	151,977
<b>Total equity and liabilities</b>		<b>608,870</b>	566,209	561,843

These interim financial statements of Custodian REIT plc were approved and authorised for issue by the Board of Directors on 29 November 2021 and are signed on its behalf by:

David Hunter  
Director

## Condensed consolidated statement of cash flows

### For the six months ended 30 September 2021

		Unaudited 6 months to 30 Sept 2021 £000	Unaudited 6 months to 30 Sept 2020 £000	Audited 12 months to 31 Mar 2021 £000
	Note			
<b>Operating activities</b>				
Profit/(loss) for the Period		<b>48,070</b>	(16,076)	3,749
Net finance costs	5,6	<b>2,347</b>	2,444	4,842
Net revaluation (profit)/loss	9	<b>(31,241)</b>	27,457	20,318
Profit on disposal of investment property		<b>(4,165)</b>	(485)	(393)
Impact of lease incentives	9	<b>(741)</b>	(877)	(1,932)
Amortisation		<b>4</b>	4	7
Income tax	7	<b>–</b>	–	–
<b>Cash flows from operating activities before changes in working capital and provisions</b>		<b>14,274</b>	12,467	26,591
Increase in trade and other receivables		<b>(451)</b>	(2,457)	(704)
Increase/(decrease) in trade and other payables		<b>3,913</b>	2,576	(2,065)
<b>Cash generated from operations</b>		<b>3,462</b>	12,586	23,822
Interest and other finance charges		<b>(2,176)</b>	(2,301)	(4,556)
<b>Net cash flows from operating activities</b>		<b>15,560</b>	10,285	19,266
<b>Investing activities</b>				
Purchase of investment property		<b>(12,217)</b>	(900)	(11,443)
Capital expenditure and development		<b>(1,803)</b>	(348)	(2,308)
Acquisition costs		<b>(1,069)</b>	(69)	(707)
Proceeds from the disposal of investment property		<b>38,299</b>	2,800	4,422
Costs of disposal of investment property		<b>(424)</b>	(15)	(69)
Interest received and similar income	5	<b>–</b>	27	61
<b>Net cash flows from/(used in) investing activities</b>		<b>22,786</b>	1,495	(10,044)
<b>Financing activities</b>				
Proceeds from the issue of share capital		<b>558</b>	–	–
Costs of the issue of share capital		<b>(5)</b>	–	–
New borrowings	13	<b>7,000</b>	–	(10,000)
New borrowings origination costs	13	<b>(62)</b>	–	(66)
Dividends paid	8	<b>(12,618)</b>	(10,974)	(20,635)
<b>Net cash flows (used in)/from financing activities</b>		<b>(5,127)</b>	(10,974)	(30,701)
Net increase in cash and cash equivalents		<b>33,219</b>	806	(21,479)
Cash and cash equivalents at start of the Period		<b>3,920</b>	25,399	25,399
<b>Cash and cash equivalents at end of the Period</b>		<b>37,139</b>	26,205	3,920



## Condensed consolidated statements of changes in equity

For the six months ended 30 September 2021 and 30 September 2020

	Note	Issued capital £000	Share premium £000	Retained earnings £000	Total equity £000
<b>As at 31 March 2021 (audited)</b>		<b>4,201</b>	<b>250,469</b>	<b>155,196</b>	<b>409,866</b>
Profit and total comprehensive income for Period		—	—	48,070	48,070
<b>Transactions with owners of the Company, recognised directly in equity</b>					
Dividends	8	—	—	(12,618)	(12,618)
Issue of share capital	14	5	546	—	551
<b>As at 30 September 2021 (unaudited)</b>		<b>4,206</b>	<b>251,015</b>	<b>190,648</b>	<b>445,869</b>
	Note	Issued capital £000	Share premium £000	Retained earnings £000	Total equity £000
<b>As at 31 March 2020 (audited)</b>		<b>4,201</b>	<b>250,469</b>	<b>172,082</b>	<b>426,752</b>
Loss and total comprehensive expense for Period		—	—	(16,076)	(16,076)
<b>Transactions with owners of the Company, recognised directly in equity</b>					
Dividends	8	—	—	(10,974)	(10,974)
<b>As at 30 September 2020 (unaudited)</b>		<b>4,201</b>	<b>250,469</b>	<b>145,032</b>	<b>399,702</b>

# Notes to the interim financial statements

## For the period ended 30 September 2021

### 1. Corporate information

The Company is a public limited company incorporated and domiciled in England and Wales, whose shares are publicly traded on the London Stock Exchange plc's main market for listed securities. The interim financial statements have been prepared on a historical cost basis, except for the revaluation of investment property, and are presented in pounds sterling with all values rounded to the nearest thousand pounds (£000), except when otherwise indicated. The interim financial statements were authorised for issue in accordance with a resolution of the Directors on 29 November 2021.

### 2. Basis of preparation and accounting policies

#### 2.1. Basis of preparation

The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial statements do not include all the information and disclosures required in the annual financial statements. The Annual Report for the year ending 31 March 2022 will be prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB (together "IFRS") as adopted by the United Kingdom, and in accordance with the requirements of the Companies Act applicable to companies reporting under IFRS.

The information relating to the Period is unaudited and does not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006. A copy of the statutory financial statements for the year ended 31 March 2021 has been delivered to the Registrar of Companies. The auditor's report on those financial statements was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The interim financial statements have been reviewed by the auditor and its report to the Company is included within these interim financial statements.

Certain statements in this report are forward looking statements. By their nature, forward looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by those statements. Forward looking statements regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Accordingly, undue reliance should not be placed on forward looking statements.

#### 2.2. Significant accounting policies

The principal accounting policies adopted by the Company and applied to these interim financial statements are consistent with those policies applied to the Company's Annual Report and financial statements.

## 2. Basis of preparation and accounting policies continued

### 2.3. Key sources of judgements and estimation uncertainty

Preparation of the interim financial statements requires the Company to make judgements and estimates and apply assumptions that affect the reported amount of revenues, expenses, assets and liabilities.

The areas where a higher degree of judgement or complexity arises are discussed below:

*Valuation of investment property* – Investment property is valued at the reporting date at fair value. In making its judgement over the valuation of properties, the Company considers valuations performed by the independent valuers in determining the fair value of its investment properties. The valuers make reference to market evidence of transaction prices for similar properties. The valuations are based upon assumptions including future rental income, anticipated maintenance costs and appropriate discount rates.

The areas where a higher degree of estimation uncertainty arises significant to the interim financial statements are discussed below:

*Impairment of trade receivables* – As a result of the COVID-19 pandemic the Company's assessment of expected credit losses is inherently subjective due to the forward-looking nature of the assumptions made, most notably around the assessment over the likelihood of tenants having the ability to pay rent as demanded, as well as the likelihood of rent deferrals and lease incentives being offered to tenants as a result of the pandemic. The expected credit loss which has been recognised is therefore subject to a degree of uncertainty which may not prove to be accurate given the uncertainty caused by COVID-19. Details of the changes made to the assessment of expected credit losses are set out in Note 10.

### 2.4. Going concern

Provision 30 of the UK Corporate Governance Code 2018 ("the Code") requires the Board to report whether the business is a going concern and identify any material uncertainties to the Company's ability to continue to do so. 95% of rent, adjusted for contractual deferrals, was collected for the Period and in considering the Code's requirements the Investment Manager has continued to forecast prudently in particular regarding cash flows and borrowing facilities. This 12 month forecast indicates that:

- The Company has surplus cash to continue in operation and meet its liabilities as they fall due;
- Interest cover and LTV covenants on borrowings are complied with; and
- REIT tests are complied with.

This assessment considered the following key assumptions and judgements included in the financial projections to understand what circumstances would result in potential breaches of financial covenants or the Company not being able to meet its liabilities as they fall due:

- The anticipated level of rents deferred due to the impact of the COVID-19 pandemic;
- Tenant default;
- Length of potential void period following lease break or expiry;
- Acquisition NIY, disposals, anticipated capital expenditure and the timing of deployment of cash;
- Interest rate changes; and
- Property portfolio valuation movements.

## Notes to the interim financial statements continued

### For the period ended 30 September 2021

## 2. Basis of preparation and accounting policies continued

### 2.4. Going concern continued

The results of this assessment are described below:

#### Covenant compliance

The Company operates four loan facilities which are summarised in Note 13. At 30 September 2021 the Company has significant headroom on lender covenants at a portfolio level with net gearing of 19.6%, compared to a maximum LTV covenant of 35% and, once the process of charging £30.3m of property to replace charged assets sold during the Period is complete, £153.4m (27% of the property portfolio at 30 September 2021) of unencumbered assets will be available to be charged to the security pools to enhance the LTV on individual loans if required.

Completion of property acquisitions and disposals since the Period end have increased net gearing to approximately 22%.

While the assumptions applied in these scenarios are possible, they do not represent the Board's view of the likely outcome, but the results help inform the Directors' going concern assessment. The testing indicated that at a portfolio level:

- The rate of loss or deferral of contractual rent would need to deteriorate by a further 44% from the 5% level included in the Company's forecasts to breach interest cover covenants; and
- Property valuations would have to decrease by 44% from the 30 September 2021 position to risk breaching the overall 35% LTV covenant.

The Board notes that the October 2021 IPF Forecasts for UK Commercial Property Investment survey suggests an average 0.7% reduction in rents during 2021 and a 1.2% increase in 2022, with capital value increases forecast of 2.3% in both 2021 and 2022. The Board believes the valuation of the Company's property portfolio will prove resilient due to its higher weighting to industrial assets and overall diverse and high-quality asset and tenant base comprising over 150 assets and circa 200 typically 'institutional grade' tenants across all commercial sectors.

#### Liquidity

At 30 September 2021 the Company has:

- £37.1m of cash with gross borrowings of £147m resulting in low net gearing, with no short-term refinancing risk and a weighted average debt facility maturity of circa seven years; and
- An annual contractual rent roll of £37.4m, with interest costs on drawn loan facilities of only c. £3.5m per annum.

The acquisition of DRUM REIT since the Period end has resulted in the addition of a £25m RCF facility, currently £22.5m drawn, which expires in September 2022. We expect this facility to be refinanced before expiry.

The Company has sufficient cash and undrawn facilities at 30 September 2021 to settle DRUM REIT's RCF facility and its expense and interest liabilities for a period of at least 12 months, even assuming no further rent is collected. Liquidity is therefore not considered a key area of sensitivity for the going concern assessment.

The Board has considered the scenario used in covenant compliance reverse stress testing, where the rate of loss or deferral of contractual rent deteriorates by a further 44% from the levels included in the Company's prudent forecast. In this scenario all financial covenants and the REIT tests are complied with and the Company has surplus cash to settle its liabilities.

Having due regard to these matters and after making appropriate enquiries, the Directors have reasonable expectation that the Company has adequate resources to continue in operational existence for a period of at least 12 months from the date of signing of these condensed consolidated financial statements and, therefore, the Board continues to adopt the going concern basis in their preparation.

## 2. Basis of preparation and accounting policies continued

### 2.5. Segmental reporting

An operating segment is a distinguishable component of the Company that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about the allocation of resources and assessment of performance and about which discrete financial information is available. As the chief operating decision maker reviews financial information for, and makes decisions about, the Company's investment property as a portfolio, the Directors have identified a single operating segment, that of investment in commercial properties.

### 2.6. Principal risks and uncertainties

The Company's assets consist of direct investments in UK commercial property. Its principal risks are therefore related to the UK commercial property market in general, the particular circumstances of the properties in which it is invested and their tenants. Principal risks faced by the Company are:

- COVID-19 pandemic response;
- Loss of revenue;
- Decreases in property portfolio valuations;
- Reduced availability or increased costs of debt and complying with loan covenants;
- Inadequate performance, controls or systems operated by the Investment Manager;
- Non-compliance with regulatory or legal changes;
- Business interruption from cyber or terrorist attack or pandemics;
- Failure to meet ESG compliance requirements or shareholder expectations; and
- Unidentified liabilities associated with acquisitions.

These risks, and the way in which they are mitigated and managed, are described in more detail under the heading 'Principal risks and uncertainties' within the Company's Annual Report for the year ended 31 March 2021. The Company's principal risks and uncertainties have not changed materially since the date of that report. Brexit is not considered to be a principal risk to the Company.

## 3. Earnings per ordinary share

Basic earnings per share ("EPS") amounts are calculated by dividing net profit for the Period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the Period.

Diluted EPS amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the Period plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. There are no dilutive instruments.



## Notes to the interim financial statements continued

### For the period ended 30 September 2021

#### 3. Earnings per ordinary share continued

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	<b>Unaudited 6 months to 30 Sept 2021</b>	Unaudited 6 months to 30 Sept 2020	Audited 12 months to 31 Mar 2021
Net profit/(loss) and diluted net profit/(loss) attributable to equity holders of the Company (£000)	<b>48,070</b>	(16,076)	3,749
Net (profit)/losses on investment property (£000)	<b>(35,406)</b>	26,972	19,925
EPRA net profit attributable to equity holders of the Company (£000)	<b>12,664</b>	10,896	23,674
Weighted average number of ordinary shares:			
Issued ordinary shares at start of the Period (thousands)	<b>420,053</b>	420,053	420,053
Effect of shares issued during the Period (thousands)	<b>441</b>	–	–
Basic and diluted weighted average number of shares (thousands)	<b>420,494</b>	420,053	420,053
Basic and diluted EPS (p)	<b>11.4</b>	(3.8)	0.9
EPRA EPS (p)	<b>3.0</b>	2.6	5.6

#### 4. Revenue

	<b>Unaudited 6 months to 30 Sept 2021 £000</b>	Unaudited 6 months to 30 Sept 2020 £000	Audited 12 months to 31 Mar 2021 £000
Rental income from investment property	<b>19,270</b>	19,394	38,664
Income from recharges to tenants	<b>882</b>	892	914
	<b>20,152</b>	20,286	39,578

#### 5. Finance income

	<b>Unaudited 6 months to 30 Sept 2021 £000</b>	Unaudited 6 months to 30 Sept 2020 £000	Audited 12 months to 31 Mar 2021 £000
Bank interest	–	27	28
Finance income	–	–	33
	–	27	61

## 6. Finance costs

	<b>Unaudited 6 months to 30 Sept 2021 £000</b>	Unaudited 6 months to 30 Sept 2020 £000	Audited 12 months to 31 Mar 2021 £000
Amortisation of arrangement fees on debt facilities	<b>171</b>	170	347
Other finance costs	<b>34</b>	96	287
Bank interest	<b>2,142</b>	2,205	4,269
	<b>2,347</b>	2,471	4,903

## 7. Income tax

The effective tax rate for the Period is lower than the standard rate of corporation tax in the UK during the Period of 19.0%. The differences are explained below:

	<b>Unaudited 6 months to 30 Sept 2021 £000</b>	Unaudited 6 months to 30 Sept 2020 £000	Audited 12 months to 31 Mar 2021 £000
(Loss)/profit before income tax	<b>48,070</b>	(16,076)	3,749
Tax charge/(benefit) on profit/(loss) at a standard rate of 19.0% (30 September 2020: 19.0%, 31 March 2021: 19.0%)	<b>9,133</b>	(3,054)	712
Effects of: REIT tax exempt rental (profits)/losses	<b>(9,133)</b>	3,054	(712)
Income tax expense for the Period	<b>–</b>	–	–
Effective income tax rate	<b>0.0%</b>	0.0%	0.0%

The Company operates as a Real Estate Investment Trust and hence profits and gains from the property investment business are normally exempt from corporation tax.

## Notes to the interim financial statements continued

### For the period ended 30 September 2021

#### 8. Dividends

	Unaudited 6 months to 30 Sept 2021 £000	Unaudited 6 months to 30 Sept 2020 £000	Audited 12 months to 31 Mar 2021 £000
Interim equity dividends paid on ordinary shares relating to the periods ended:			
31 March 2020: 1.6625p	–	6,983	6,983
30 June 2020: 0.95p	–	3,991	3,990
30 September 2020: 0.95p	–	–	4,411
31 December 2020: 1.25p	–	–	5,251
31 March 2021: 1.25p	<b>5,258</b>	–	–
31 March 2021: 0.5p	<b>2,102</b>	–	–
30 June 2021: 1.25p	<b>5,258</b>	–	–
	<b>12,618</b>	10,974	20,635

All dividends paid are classified as property income distributions.

The Directors approved an interim dividend relating to the quarter ended 30 September 2021 of 1.25p per ordinary share in November 2021 which has not been included as a liability in these interim financial statements. This interim dividend will be paid on 30 November 2021 to shareholders on the register at the close of business on 12 November 2021.

#### 9. Investment property

	£000
At 31 March 2021	551,922
Impact of lease incentives	741
Additions	13,286
Capital expenditure	1,803
Disposals	(33,710)
Amortisation of right-of-use asset	(4)
Valuation increase before acquisition costs	32,310
Acquisition costs	(1,069)
Valuation increase including acquisition costs	31,241
<b>As at 30 September 2021</b>	<b>565,279</b>

**9. Investment property continued**

	£000
At 31 March 2020	559,817
Impact of lease incentives	877
Additions	969
Capital expenditure	348
Disposals	(2,300)
Amortisation of right-of-use asset	(4)
Valuation decrease before acquisition costs	(27,388)
Acquisition costs	(69)
Valuation decrease including acquisition costs	(27,457)
<b>As at 30 September 2020</b>	<b>532,250</b>

The investment property is stated at the Directors' estimate of its 30 September 2021 fair value. Savills and Knight Frank LLP ("KF"), professionally qualified independent valuers, valued the properties as at 30 September 2021 in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors. Savills and KF have recent experience in the relevant location and category of the properties being valued.

Investment property has been valued using the investment method which involves applying a yield to rental income streams. Inputs include yield, current rent and ERV. For the Period end valuation, the equivalent yields used ranged from 4.0% to 11.5%. Valuation reports are based on both information provided by the Company (e.g. current rents and lease terms) which are derived from the Company's financial and property management systems and are subject to the Company's overall control environment, and assumptions applied by the valuers (e.g. ERVs and yields). These assumptions are based on market observation and the valuers' professional judgement. In estimating the fair value of the property, the highest and best use of the properties is their current use.

## Notes to the interim financial statements continued

### For the period ended 30 September 2021

#### 10. Trade and other receivables

	<b>Unaudited as at 30 Sept 2021 £000</b>	Unaudited as at 30 Sept 2020 £000	Audited as at 31 Mar 2021 £000
Trade receivables before expected credit loss provision	<b>8,875</b>	10,220	7,222
Expected credit loss provision	<b>(2,940)</b>	(3,246)	(3,030)
Trade receivables	<b>5,935</b>	6,974	4,192
Other receivables	<b>477</b>	218	1,706
Prepayments and accrued income	<b>40</b>	562	103
	<b>6,452</b>	7,754	6,001

The Company has provided fully for those receivable balances that it does not expect to recover based on a specific assessment of the reason for non-payment and the creditworthiness of the counterparty.

For remaining balances the Company has applied an expected credit loss ("ECL") matrix based on its experience of collecting rent arrears and deferred rents since the onset of the COVID-19 disruption. The ECL matrix fully provides for receivable balances more than 90 days past due, partially provides against receivable balances between one and 90 days past due and partially provides against receivable balances subject to contractual deferral.

The movement in the expected credit loss provision is recognised within directly incurred operating expenses of rental property of £1,788k in the income statement.

#### 11. Trade and other payables

	<b>Unaudited as at 30 Sept 2021 £000</b>	Unaudited as at 30 Sept 2020 £000	Audited as at 31 Mar 2021 £000
Falling due in less than one year:			
Trade and other payables	<b>4,714</b>	2,956	1,730
Social security and other taxes	<b>1,144</b>	4,302	882
Accruals	<b>3,235</b>	2,717	2,665
Rental deposits and retentions	<b>1,005</b>	678	908
	<b>10,098</b>	10,653	6,185

The Directors consider that the carrying amount of trade and other payables approximates their fair value. Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. For most suppliers interest is charged if payment is not made within the required terms. Thereafter, interest is chargeable on the outstanding balances at various rates. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timescale.



## 12. Cash and cash equivalents

	<b>Unaudited as at 30 Sept 2021 £000</b>	Unaudited as at 30 Sept 2020 £000	Audited as at 31 Mar 2021 £000
Cash and cash equivalents	<b>37,139</b>	26,205	3,920

Cash and cash equivalents at 30 September 2021 include £24.5m (2020: £3.5m, 31 March 2021: £2.6m) of restricted cash comprising: £23.4m (2020: £15.2m, 31 March 2021: £nil) disposal proceeds held in charged disposal accounts, £0.8m (2020: £0.7m, 31 March 2021: £0.7m) rental deposits held on behalf of tenants, £0.3m (2020: £0.2m, 31 March 2021: £0.2m) retentions held in respect of development fundings and £nil (2020: £2.6m, 31 March 2021: £1.5m) interest 'prepayments' in connection with arranging interest cover covenant waivers in April 2020.

## 13. Borrowings

	Bank borrowings £000	Costs incurred in the arrangement of bank borrowings £000	Total £000
At 31 March 2021	140,000	(1,396)	138,604
New borrowings	7,000	–	7,000
Costs incurred in the arrangement of bank borrowings	–	(62)	(62)
Amortisation	–	171	171
<b>At 30 September 2021</b>	<b>147,000</b>	<b>(1,287)</b>	<b>145,713</b>

	Bank borrowings £000	Costs incurred in the arrangement of bank borrowings £000	Total £000
At 31 March 2020	150,000	(1,677)	148,323
New borrowings	–	–	–
Costs incurred in the arrangement of bank borrowings	–	–	–
Amortisation	–	170	170
<b>At 30 September 2020</b>	<b>150,000</b>	<b>(1,507)</b>	<b>148,493</b>

## Notes to the interim financial statements continued

### For the period ended 30 September 2021

#### 13. Borrowings continued

All of the Company's borrowing facilities require minimum interest cover of 250% of the net rental income of the security pool. The maximum LTV of the Company combining the value of all property interests (including the properties secured against the facilities) must be no more than 35%.

The Company's borrowing position at 31 March 2021 is set out in the Annual Report for the year ended 31 March 2021.

During the Period the Company extended the term of its RCF facility by one year, with expiry now on 17 September 2024.

#### 14. Issued capital and reserves

	Ordinary shares of 1p	£000
<b>Share capital</b>		
At 31 March 2021	420,053,344	4,201
Issue of share capital	550,000	5
<b>At 30 September 2021</b>	<b>420,603,344</b>	<b>4,206</b>

	Ordinary shares of 1p	£000
<b>Share capital</b>		
At 31 March 2020	420,053,344	4,201
Issue of share capital	—	—
<b>At 30 September 2020</b>	<b>420,053,344</b>	<b>4,201</b>

The Company has made no further issues of new shares since the Period end.

The following table describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share premium	Amounts subscribed for share capital in excess of nominal value less any associated issue costs that have been capitalised.
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

## 15. Financial instruments

### Fair values

The fair values of financial assets and liabilities are not materially different from their carrying values in the half yearly financial report. The IFRS 13 Fair Value Measurement fair value hierarchy levels are as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There have been no transfers between levels 1, 2 and 3 during the Period. The main methods and assumptions used in estimating the fair values of financial instruments and investment property are detailed below.

### Investment property – level 3

Fair value is based on valuations provided by independent firms of chartered surveyors and registered appraisers. These values were determined after having taken into consideration recent market transactions for similar properties in similar locations to the investment property held by the Company. The fair value hierarchy of investment property is level 3. At 30 September 2021, the fair value of investment property was £565.3m and during the Period the valuation increase was £31.2m.

### Interest bearing loans and borrowings – level 3

As at 30 September 2021, the amortised cost of the Company's loans with Lloyds, Scottish Widows plc and Aviva approximated their fair value.

### Trade and other receivables/payables – level 3

The carrying amounts of all receivables and payables deemed to be due within one year are considered to reflect the fair value.

## 16. Related party transactions

### Directors and officers

Each of the Directors is engaged under a letter of appointment with the Company and does not have a service contract with the Company. Under the terms of their appointment, each Director is required to retire by rotation and seek re-election at least every three years. Each Director's appointment under their respective letter of appointment is terminable immediately by either party (the Company or the Director) giving written notice and no compensation or benefits are payable upon termination of office as a Director of the Company becoming effective.

Ian Mattioli is Chief Executive of Mattioli Woods plc ("Mattioli Woods"), the parent company of the Investment Manager, and is a director of the Investment Manager. As a result, Ian Mattioli is not independent.

The Company Secretary, Ed Moore, is also a director of the Investment Manager.

### Investment Management Agreement

The Investment Manager is engaged as AIFM under an IMA with responsibility for the management of the Company's assets, subject to the overall supervision of the Directors. The Investment Manager manages the Company's investments in accordance with the policies laid down by the Board and the investment restrictions referred to in the IMA. The Investment Manager also provides day-to-day administration of the Company and acts as secretary to the Company, including maintenance of accounting records and preparing the annual and interim financial statements of the Company.

## Notes to the interim financial statements continued

### For the period ended 30 September 2021

#### 16. Related party transactions continued

##### Investment Management Agreement continued

During the Period asset management and investment management fees payable to the Investment Manager under the IMA were calculated as follows:

- 0.9% of the NAV of the Company as at the relevant quarter day which is less than or equal to £200m divided by 4;
- 0.75% of the NAV of the Company as at the relevant quarter day which is in excess of £200m but below £500m divided by 4;
- 0.65% of the NAV of the Company as at the relevant quarter day which is in excess of £500m but below £750m divided by 4; plus
- 0.55% of the NAV of the Company as at the relevant quarter day which is in excess of £750m divided by 4.

Administrative fees payable to the Investment Manager under the IMA during the Period were:

- 0.125% of the NAV of the Company as at the relevant quarter day which is less than or equal to £200m divided by 4;
- 0.08% of the NAV of the Company as at the relevant quarter day which is in excess of £200m but below £500m divided by 4;
- 0.05% of the NAV of the Company as at the relevant quarter day which is in excess of £500m but below £750m divided by 4; plus
- 0.03% of the NAV of the Company as at the relevant quarter day which is in excess of £750m divided by 4.

The IMA is terminable by either party by giving not less than 12 months' prior written notice to the other, which notice may only be given after the expiry of the three year term which commenced in June 2020. The IMA may also be terminated on the occurrence of an insolvency event in relation to either party, if the Investment Manager is fraudulent, grossly negligent or commits a material breach which, if capable of remedy, is not remedied within three months, or on a force majeure event continuing for more than 90 days.

The Investment Manager receives a marketing fee of 0.25% (2020: 0.25%) of the aggregate gross proceeds from any issue of new shares in consideration of the marketing services it provides to the Company.

During the Period the Investment Manager charged the Company £1.79m (2020: £1.63m) in respect of asset management and investment management fees, £0.21m (2020: £0.21m) in respect of administrative fees and £2k (2020: £nil) in respect of marketing fees.

#### 17. Events after the reporting date

##### Property acquisitions

On 4 November 2021 the Company completed the corporate acquisition of DRUM REIT for consideration of 20,247,040 new ordinary shares in the Company. Based on the nature of the acquisition it does not fall within the scope of IFRS 3 Business Combinations and the assets acquired were purchased at fair value. The transaction was financed by way of a share for share exchange with DRUM REIT maintaining its existing £25m RCF which expires in September 2022.

On 20 October 2021 the Company acquired a 29k sq ft industrial unit in York for £2.962m.

##### Property disposals

On 21 October 2021 the Company sold a 42,289 sq ft car showroom in Stockport for £9.0m.

On 29 October 2021 the Company sold a 22,720 sq ft car showroom in Stafford for £4.9m.

On 11 November the Company sold a high street retail unit in Cheltenham at valuation for £0.2m.

## 18. Additional disclosures

### NAV per share total return

A measure of performance taking into account both capital returns and dividends by assuming dividends declared are reinvested at NAV at the time the shares are quoted ex-dividend, shown as a percentage change from the start of the Period.

	<b>Unaudited 6 months to 30 Sept 2021</b>	Unaudited 6 months to 30 Sept 2020	Audited 12 months to 31 Mar 2021
Net assets (£000)	<b>445,869</b>	399,702	409,866
Shares in issue at the period end (thousands)	<b>420,603</b>	420,053	420,053
NAV per share at the start of the period (p)	<b>97.6</b>	101.6	101.6
Dividends per share paid during the period (p)	<b>3.0</b>	2.6125	4.9125
NAV per share at the end of the period (p)	<b>106.0</b>	95.2	97.6
<b>NAV per share total return</b>	<b>11.7%</b>	(3.7%)	0.9%

### Share price total return

A measure of performance taking into account both share price returns and dividends by assuming dividends declared are reinvested at the ex-dividend share price, shown as a percentage change from the start of the period.

	<b>Unaudited 6 months to 30 Sept 2021</b>	Unaudited 6 months to 30 Sept 2020	Audited 12 months to 31 Mar 2021
Share price at the start of the period (p)	<b>91.8</b>	99.0	99.0
Dividends per share for the period (p)	<b>3.0</b>	2.6125	4.9125
Share price at the end of the period (p)	<b>93.1</b>	88.8	91.8
<b>Share price total return</b>	<b>4.7%</b>	(7.7%)	(2.3%)



## Notes to the interim financial statements continued

### For the period ended 30 September 2021

#### 18. Additional disclosures continued

##### Net gearing

Gross borrowings less cash (excluding rent deposits), divided by property portfolio value.

	<b>Unaudited as at 30 Sept 2021 £000</b>	Unaudited as at 30 Sept 2020 £000	Audited as at 31 Mar 2021 £000
Gross borrowings	<b>147,000</b>	150,000	140,000
Cash	<b>(37,139)</b>	(26,205)	(3,920)
Tenant rental deposits and retentions	<b>1,142</b>	908	1,179
Net borrowings	<b>111,003</b>	124,703	137,259
Investment property	<b>565,279</b>	532,250	551,922
<b>Net gearing</b>	<b>19.6%</b>	23.4%	24.9%

##### EPRA EPS

A measure of the Company's operating results excluding gains or losses on investment property, giving a better indication than basic EPS of the extent to which dividends paid in the year are supported by recurring net income.

	<b>Unaudited 6 months to 30 Sept 2021 £000</b>	Unaudited 6 months to 30 Sept 2020 £000	Audited 12 months to 31 Mar 2021 £000
Profit/(loss) for the Period after taxation	<b>48,070</b>	(16,076)	3,749
Net (profits)/losses on investment property	<b>(35,406)</b>	26,972	19,925
EPRA earnings	<b>12,664</b>	10,896	23,674
Weighted average number of shares in issue (thousands)	<b>420,494</b>	420,053	420,053
<b>EPRA EPS (p)</b>	<b>3.0</b>	2.6	5.6

## 18. Additional disclosures continued

**EPRA vacancy rate**

EPRA vacancy rate is the ERV of vacant space as a percentage of the ERV of the whole property portfolio.

	<b>Unaudited as at 30 Sept 2021 £000</b>	Unaudited as at 30 Sept 2020 £000	Audited as at 31 Mar 2021 £000
Annualised potential rental value of vacant premises	<b>3,424</b>	3,024	3,562
Annualised potential rental value for the property portfolio	<b>41,009</b>	42,516	42,554
<b>EPRA vacancy rate</b>	<b>8.4%</b>	7.1%	8.4%

**EPRA Net Tangible Assets ("NTA")**

Assumes that the Company buys and sells assets for short-term capital gains, thereby crystallising certain deferred tax balances.

	<b>Unaudited as at 30 Sept 2021 £000</b>	Unaudited as at 30 Sept 2020 £000	Audited as at 31 Mar 2021 £000
Group and Company			
IFRS NAV	<b>445,869</b>	399,702	409,865
Fair value of financial instruments	—	—	—
Deferred tax	—	—	—
<b>EPRA NTA</b>	<b>445,869</b>	399,702	409,865
Closing number of shares in issue (thousands)	<b>420,603</b>	420,053	420,053
<b>EPRA NTA per share (p)</b>	<b>106.0</b>	95.2	97.6

## Directors' responsibilities for the interim financial statements

The Directors have prepared the interim financial statements of the Company for the Period from 1 April 2021 to 30 September 2021.

We confirm that to the best of our knowledge:

- a) The condensed interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU;
- b) The condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4R;
- c) The interim financial statements include a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year, and their impact on the Condensed Financial Statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- d) The interim financial statements include a fair review of the information required by DTR 4.2.8R of the Disclosure and Transparency Rules, being material related party transactions that have taken place in the first six months of the current financial year and any material changes in the related party transactions described in the last Annual Report.

A list of the current Directors of Custodian REIT plc is maintained on the Company's website at [custodianreit.com](http://custodianreit.com).

By order of the Board

**David Hunter**  
**Chairman**

29 November 2021

## Independent review report to Custodian REIT plc

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2021, which comprise the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of cash flows, the condensed consolidated statement of changes in equity and related notes 1 to 18. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

### Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2.1, the annual financial statements of the Company will be prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34 "Interim Financial Reporting".

### Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

### Use of our report

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

**Deloitte LLP**

**Statutory Auditor**

London, United Kingdom

29 November 2021

## Company information

### Directors

David Hunter	(Independent Non-Executive Chairman)
Elizabeth McMeikan	(Senior Independent Non-Executive Director)
Ian Mattioli MBE	(Non-Executive Director)
Matthew Thorne	(Independent Non-Executive Director)
Hazel Adam	(Independent Non-Executive Director)
Chris Ireland	(Independent Non-Executive Director)

### Company secretary

Ed Moore

### Registered office

1 New Walk Place  
Leicester  
LE1 6RU

### Registered number

08863271

### Investment Manager

Custodian Capital Limited  
1 New Walk Place  
Leicester  
LE1 6RU

### Depository

Langham Hall UK Depository LLP  
1 Fleet Place  
London  
EC4M 7RA

### Broker

Numis Securities Limited  
45 Gresham Street  
London  
EC2V 7BF

### Banker

Lloyds Bank plc  
114-116 Colmore Row  
Birmingham  
B3 3BD

### Solicitors

DWF LLP  
20 Fenchurch Street  
London  
EC3M 3AG  
  
Walker Morris LLP  
Kings Court  
12 King Street  
Leeds  
LS1 2HL

### Tax adviser

KPMG LLP  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH

### Registrars

Link Market Services Limited  
Unit 10  
Central Square  
29 Wellington Street  
Leeds  
LS1 4DL

### Valuers

Savills  
33 Margaret Street  
London  
W1G 0JD

Knight Frank LLP  
55 Baker Street  
London  
W1U 8AN

### Auditor

Deloitte LLP  
1 New Street Square  
London  
EC4A 3HQ



## Financial calendar

<b>11 November</b>	Ex-dividend date for Q2 dividend
<b>12 November</b>	Record date for Q2 dividend
<b>30 November</b>	Payment of Q2 dividend
<b>30 November</b>	Announcement of results for the period ended 30 September 2021



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