10 February 2022

Custodian REIT plc

("Custodian REIT" or "the Company")

Unaudited net asset value as at 31 December 2021

Custodian REIT (LSE: CREI), the UK commercial real estate investment company focused on smaller lot-sizes, today reports its unaudited net asset value ("NAV") as at 31 December 2021 and highlights for the period from 1 October 2021 to 31 December 2021 ("the Period").

Financial highlights

- Dividend per share approved for the Period of 1.375p, a 10% increase from the quarter ended 30 September 2021 of 1.25p
- 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
- NAV total return per share[1] for the Period of 8.5%, comprising 1.2% dividends paid and a 7.3% capital increase
- NAV per share of 113.7p (30 Sept 2021: 106.0p)
- NAV increased to £501.4m (30 Sept 2021: £445.9m) due to valuation increases of £36.2m during the Period and issuing £19.1m new equity for the corporate acquisition of DRUM Income Plus REIT plc ("DRUM REIT")
- Dividend cover[2] for the year ending 31 March 2022 to date of 109%
- EPRA earnings per share[3] for the Period decreased to 1.3p (quarter ended 30 Sept 2021: 1.6p) primarily due to;
  - Net gearing[4] of 19.5% loan-to-value (30 Sept 2021: 19.6%) remaining below the 25% target as we continue to redeploy the proceeds from profitable disposals in September and October 2021; and
  - EPRA occupancy[5] decreasing to 90.9% (30 Sept 2021: 91.6%). Of the vacant space, 34% is currently under offer to let and a further 32% is planned vacancy to enable redevelopment or refurbishment.

Portfolio highlights

- Property portfolio value of £637.9m (30 Sept 2021: £565.3m)
- £36.2m aggregate valuation increase for the Period comprising:
  - £6.2m from successful asset management initiatives;
  - £22.7m of general valuation increases, primarily in the industrial and logistics sector; and
  - £7.3m increase from acquiring DRUM REIT at a c.28% discount to its NAV
- £49.2m[6] invested during the Period in DRUM REIT's portfolio, an industrial unit in York and a retail warehouse in Cromer
- £1.1m profit on disposal from the sale of four properties for an aggregate consideration of £14.8m[7]

[1] NAV per share movement including dividends paid during the Period.
[2] Profit after tax, excluding net gains or losses on investment property, divided by dividends approved relating to the period.
[3] Profit after tax excluding net gains or losses on investment property divided by weighted average number of shares in issue.
[4] Gross borrowings less cash (excluding rent deposits) divided by portfolio valuation.
[5] Estimated rental value ("ERV") of let property divided by total portfolio ERV.
[6] Before acquisition costs.
[7] Before disposal costs.

Net asset value

The unaudited NAV of Custodian REIT at 31 December 2021 was £501.4m, reflecting approximately 113.7p per share, an increase of 7.7p (7.3%) since 30 September 2021:

	Pence per share	£m
NAV at 30 September 2021	106.0	445.9
Issue of equity[8]	(0.5)	19.1
Valuation increase having acquired DRUM REIT at a discount to valuation	1.6	7.3
Corporate acquisition and equity issuance costs	(0.2)	(0.9)
Net increase from the DRUM REIT acquisition	0.9	25.5
Valuation movements relating to:		
- Asset management activity	1.4	6.2
- General valuation increases	5.2	22.7
- Profit on disposal	0.2	1.1
Net valuation movement	6.8	30.0
Asset acquisition costs	-	(0.2)
	6.8	29.8
EPRA earnings for the Period	1.3	5.7
Interim dividend paid[9] during the Period	(1.3)	(5.5)
NAV at 31 December 2021	113.7	501.4

[8] Issue of 20,247,040 new shares at their market value on 3 November 2021 of 94.5p.
[9] An interim dividend of 1.25p per share relating to the quarter ended 30 September 2021 was paid on 30 November 2021.

The NAV attributable to the ordinary shares of the Company is calculated under International Financial Reporting Standards and incorporates the independent portfolio valuation as at 31 December 2021 and net income for the Period. The movement in NAV reflects the payment of an interim dividend of 1.25p per share during the Period, but does not include any provision for the approved dividend of 1.375p per share for the Period to be paid on 28 February 2022.

Investment Manager's market commentary

Inflation is a clear and present risk in the market today and traditionally investors have looked to real estate as a hedge against the negative impact of inflation on investment returns. Over the longer term history suggests property values and rents will increase broadly in line with inflation. Following a period of growth, the challenge for managers is to own properties with further rental growth potential whose valuation will most closely keep pace with rising prices.

Over the 12 months to 31 December 2021 Custodian REIT's like-for-like[10] portfolio has seen rental growth and sharp valuation increases across its principal investment sectors as shown below:

	12 months to 31 December 21		3 months to 31 December 21	
Sector	Capital value change	Rental value change	Capital value change	Rental value change
Industrial	+23.2%	+9.7%	+8.2%	+2.6%
Retail warehouse	+12.0%	-2.6%	+4.7%	0.0%
Office	-0.7%	+0.9%	-0.3%	-0.6%
Other	+5.0%	-3.3%	+1.8%	+0.7%
High street retail	-11.3%	-6.6%	+4.3%	+1.9%

[10] Adjusting for the impact of acquisitions and disposals.

Across the industrial and logistics portfolio, notwithstanding the rental growth to date, the average rent stands at only £5.27 per sq ft with an estimated rental value of £6.20 per sq ft, suggesting a latent rental uplift of c.18%. Furthermore, both passing rents and estimated rental values are some way below the rent required to bring forward new development, indicating further growth potential.

Retail warehousing and high street retail rents appear to be bottoming out and we are even seeing some recent demand led rental growth in these sectors. Importantly these rents are growing from a low base making them affordable for tenants. By way of example, the average retail warehouse rent across the portfolio stands at circa £13.50, in line with current estimated rental values, and much lower than previous market levels.

In select locations, notably prime regional city centres, we are seeing office rents increasing. This is by no means applicable to all regional offices but is focused on high quality, flexible office space with strong environmental credentials. The recent acquisition of 60 Fountain Street in Manchester is an example of how Custodian REIT is taking advantage of the opportunity to reposition property to meet the expected demands of tenants, post pandemic, and to pick up the higher rents attributable to refurbished space.

The greater driver of inflation appears to be cost-push rather than demand-pull as the economy struggles with supply chain constraints, labour shortages and the aftermath of pandemic restrictions. These factors all mitigate against widespread, low cost, speculative development which would otherwise help resolve the demand/supply imbalance that is promoting rental growth.

We believe Custodian REIT's portfolio is particularly well positioned to see rental growth as it is focused on smaller regional properties:

In the industrial and logistics sector, which accounts for 50% of the portfolio by value, smaller properties are more expensive to develop, pro-rata, so require higher rents to justify development. Rents will continue to grow until they balance out inflation in build costs.

The retail warehouse portfolio is almost exclusively focused on DIY, homewares, discounters and food, all let off affordable rents. This occupier profile is best matched with current market demand and so well placed to pick up rental growth.

We have reorganised our high street retail portfolio over the last two years, exiting most of the secondary retail locations. We completed three new lettings in the Period and have terms agreed or are seeing active demand for the very limited vacant space we have in the high street portfolio from both retail and leisure occupiers. Low vacancy rates in prime locations and occupier demand should be supportive of future rental growth.

In the office portfolio we have identified, or are progressing, a number of refurbishment opportunities with a keen eye on environmental improvements. Owners of smaller regional offices are often not sufficiently well resourced to create high quality small suite offices that are a match for the larger floorplates. However, we believe that occupier demand will be focused on higher quality space to support businesses in attracting their employees back into the office. We believe that by positioning our office portfolio to meet occupier demand we will reduce vacancy and drive rental growth.

Dividends

During the Period the Company paid an interim dividend of 1.25p per share relating to the quarter ended 30 September 2021, fully covered by EPRA earnings, and approved an interim dividend per share of 1.375p for the Period.

The Board intends to pay further quarterly dividends per share of at least 1.375p to achieve a target dividend[11] per share for the year ending 31 March 2022 of at least 5.25p and for the year ending 31 March 2023 of at least 5.5p.

The Board's objective is to grow the dividend on a sustainable basis, at a rate which is fully covered by net rental income and does not inhibit the flexibility of the Company's investment strategy.

[11] This is a target only and not a profit forecast. There can be no assurance that the target can or will be met and it should not be taken as an indication of the Company's expected or actual future results. Accordingly, shareholders or potential investors in the Company should not place any reliance on this target in deciding whether or not to invest in the Company or assume that the Company will make any distributions at all and should decide for themselves whether or not the target dividend yield is reasonable or achievable.

Acquisitions

On 3 November 2021 the Company acquired 100% of the ordinary share capital of DRUM REIT for consideration of 20,247,040 new ordinary shares in the Company, calculated on an 'adjusted NAV-for-NAV basis', adjusting each company's 30 June 2021 NAV for respective acquisition costs and adjusting DRUM REIT's property portfolio valuation to the agreed purchase price of £43.5m (31 December 2021 valuation: £49.0m).

The Company also invested £7.5m in the following asset acquisitions during the Period:

- A 29k sq ft industrial unit in York for £3.0m occupied by Menzies Distribution with an annual passing rent of £186k, reflecting a net initial yield[12] ("NIY") of 5.9%; and
- A 46k sq ft retail warehouse in Cromer for £4.5m occupied by Homebase with an annual passing rent of £300k, reflecting a NIY of 6.3%.

[12] Passing rent divided by property valuation plus purchaser's costs.

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 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 £14.8m:

- A 42k sq ft car showroom in Stockport for £9.0m, £1.4m (18%) ahead of the 30 June 2021 valuation;
- A 23k sq ft car showroom in Stafford for £4.9m, £1.15m (31%) ahead of the 30 June 2021 valuation; and
- High street retail units in Kings Lynn and Cheltenham at valuation for an aggregate £0.9m.

Asset management

The Investment Manager has remained focused on active asset management during the Period, completing the following initiatives:

- A new 10 year lease with a fifth year tenant break option with Harbour International Freight on an industrial unit in Manchester with an annual rent of £316k, increasing valuation by £2.1m;
- A new 10 year lease with a fifth year tenant break option with PDS Group on a newly refurbished industrial unit in West Bromwich with an annual rent of £395k, increasing valuation by £2.0m;
- Exchanging agreements for lease for 15 year leases with Tim Hortons on former Pizza Hut restaurants in Leicester and Watford, which are to be converted to drive-through restaurants following Pizza Hut's CVA with aggregate annual rent of £275k, increasing valuations by £1.9m;
- A new 10 year lease with third and fifth year tenant break options with Ramsdens Financial on a vacant retail unit in Glasgow with an annual rent of £55k, increasing valuation by £0.1m;
- A new 10 year lease with fifth and seventh year tenant break options with Industrial Control Distributors on an industrial unit in Kettering with an annual rent of £25k, increasing valuation by £0.1m;
- A new 15 year lease without break with Loungers on a retail unit in Shrewsbury, with an annual rent of £90k, with no impact on valuation;
- A 15 year lease renewal with a tenth year tenant break option with Smyths Toys on a retail warehouse unit in Gloucester with an annual rent of £130k, with no impact on valuation;
- A new 10 year lease with a fifth year tenant break option with Diamonds of Chester Camelot on a vacant retail unit in Chester, with an annual rent of £35k, with no impact on valuation;
- A new five year lease without break with Midon on an industrial unit in Knowsley, with an annual rent of £37k, with no impact on valuation;
- A new five year lease with a third year tenant break option with Clogau on a vacant retail unit in Shrewsbury with an annual rent of £50k, with no impact on valuation;
- A six month lease extension with Saint Gobain on an industrial unit in Milton Keynes, with passing rent increasing from £265k to a 'premium rent' of £441k, with no impact on valuation; and
- A short-term four month licence with Royal Mail on a vacant industrial unit in Redditch for a licence fee of £135k, with no impact on valuation.

Despite the positive impact of these asset management outcomes EPRA occupancy decreased from 91.6% at 30 September 2021 to 90.9% primarily due to the acquisition of DRUM REIT which had an EPRA occupancy rate of 86.1% on acquisition.

In line with the Company's environmental objectives, during the previous quarter we completed a £1.4m 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. Letting this property during the Period meant rents increased from £280k pa (c.£4.80 per sq ft) to £395k pa (c.£6.75 per sq ft) with valuation increasing by £2.0m.

Borrowings

Custodian REIT and its subsidiaries operate the following loan facilities:

- A £35m revolving credit facility ("RCF") with Lloyds Bank plc ("Lloyds") expiring on 17 September 2024 with interest of between 1.5% and 1.8% above SONIA[13], determined by reference to the prevailing LTV ratio of a discrete security pool. The RCF facility limit can be increased to a maximum of £50m with Lloyds' approval;
- A £25m RCF with The Royal Bank of Scotland expiring on 30 September 2022 with interest of 1.75% above SONIA;
- A £20m term loan with Scottish Widows plc ("SWIP") repayable on 13 August 2025 with interest fixed at 3.935%;
- A £45m term loan with SWIP repayable on 5 June 2028 with interest fixed at 2.987%; and
- A £50m term loan with Aviva Investors Real Estate Finance comprising:
  a) A £35m tranche repayable on 6 April 2032 with fixed annual interest of 3.02%; and
  b) A £15m tranche repayable on 3 November 2032 with fixed annual interest of 3.26%.

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

- The maximum LTV of the discrete security pool is between 45% and 50%, with an overarching covenant on the 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 Company and its subsidiaries complied with all loan covenants during the Period.

[13] The sterling overnight index average ("SONIA") which has replaced LIBOR as the UK's main interest rate benchmark.

Portfolio analysis

At 31 December 2021 the property portfolio comprised 160 assets with a NIY of 6.1% (30 Sept 2021: 6.2%). The portfolio is split between the main commercial property sectors, in line with the Company's objective to maintain a suitably balanced investment portfolio. Sector weightings are shown below:

Sector	Valuation 31 Dec 2021 £m	Weighting by value 31 Dec 2021	Period valuation movement[14] £m	Period valuation[14] movement	Weighting by income[15] 31 Dec 2021	Weighting by income[15] 30 Sep 2021
Industrial	302.4	47%	21.8	8.3%	39%	40%
Retail warehouse	120.9	19%	4.8	4.5%	21%	21%
Office	88.4	14%	(0.3)	(0.5%)	16%	13%
Other[16]	75.0	12%	2.2	2.6%	12%	16%
High street retail	51.2	8%	0.4	1.1%	12%	10%
Total	637.9	100%	28.9	5.2%	100%	100%

[14] Excluding the £7.3m increase from acquiring DRUM REIT at a discount to its NAV.

[15] Current passing rent plus ERV of vacant properties.

[16] Comprises drive-through restaurants, car showrooms, trade counters, gymnasiums, restaurants and leisure units.

The Company and its subsidiaries operate 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 property portfolio at 31 December 2021 was as follows:

Location	Valuation 31 Dec 2021 £m	Weighting by value 31 Dec 2021	Period valuation movement[14] £m	Period valuation[14] movement	Weighting by income[15] 31 Dec 2021	Weighting by income[15] 30 Sep 2021
West Midlands	124.9	20%	9.2	8.0%	18%	20%
North-West	114.5	18%	5.3	5.7%	19%	19%
South-East	83.0	13%	2.1	2.6%	13%	14%
East Midlands	78.3	12%	4.4	6.0%	13%	14%
Scotland	70.5	11%	2.0	4.1%	10%	8%
North-East	64.8	10%	2.1	4.3%	12%	9%
South-West	63.6	10%	1.9	3.2%	9%	10%
Eastern	32.4	5%	1.8	6.9%	5%	5%
Wales	5.9	1%	0.1	1.7%	1%	1%
Total	637.9	100%	28.9	5.2%	100%	100%

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

- Ends -

Further information:

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

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Notes to Editors

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

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

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

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