10 May 2022

Custodian REIT plc

("Custodian REIT" or "the Company")

Unaudited net asset value as at 31 March 2022

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 March 2022 and highlights for the period from 1 January 2022 to 31 March 2022 ("the Period").

Company summary

The Company's £0.7bn portfolio comprises 160 smaller lot-sized regional commercial properties diversified by sector, tenant, location and lease length and offers investors a prospective 5.5% income return[1] with the potential for capital growth. The portfolio is conservatively geared with a target 25% loan-to-value paying aggregate interest of below 3% on its majority fixed-rate debt facilities. The Board's objective is to grow the dividend on a sustainable basis whilst satisfying the Company's environmental, social and governance targets and create long term value for the Company's stakeholders.

Financial highlights

Dividends

- Dividend per share approved for the Period of 1.375p
- Aggregate dividends per share declared relating to the year ended 31 March 2022 ("FY22") of 5.25p (2021: 5.0p)
- Target dividends per share of no less than 5.5p for the year ending 31 March 2023

Earnings

- EPRA earnings per share[2] ("EPS") for the Period of 1.6p and for FY22 increasing to 5.9p (2021: 5.6p) primarily due to a £0.3m decrease in the doubtful debt provision during the year (2021: £2.7m increase)
- EPRA EPS 110%[3] covered the FY22 dividend (2021: 113%)

- The accretive acquisition of DRUM Income Plus REIT plc ("DRUM") in November 2021 has delivered an annualised 11p of EPRA earnings per new share issued in consideration since acquisition, with DRUM's portfolio valuation remaining steady at £49m

NAV

- NAV total return per share[4] of:
    - 6.4% for the Period comprising 1.2% dividends paid and a 5.2% capital increase
    - 28.4% for FY22 (2021: 0.9%) comprising 5.8% dividends paid (2021: 4.8%) and a 22.6% capital increase (2021: 3.9% capital decrease)
- NAV per share of 119.7p (31 December 2021: 113.7p, 31 March 2021: 97.6p)
- NAV of £527.6m (31 December 2021: £501.4m)

Portfolio highlights

- Property portfolio value of £665.2m (31 December 2021: £637.9m)
- £25.5m aggregate valuation increase for the Period comprising:
    - £5.0m from successful asset management initiatives; and
    - £20.5m of general valuation increases, primarily in the industrial and logistics and retail warehouse sectors
- £1.875m[5] invested during the Period in an industrial unit in Nottingham
- Disposal of a high street retail unit in Norwich at valuation for £1.3m
- Net gearing[6] decreased to 19.1% loan-to-value (31 March 2021: 24.9%) due to valuation increases of £94.0m over the last 12 months
- EPRA occupancy[7] decreased to 89.9% (31 March 2021: 91.6%)
- Since the Period-end, £7.5m invested in an industrial facility in Grangemouth

[1] Target dividend per share for the year ending 31 March 2023 of 5.5p divided by the last available share price prior to publication of 100.6p.
[2] Profit after tax excluding net gains or losses on investment property divided by weighted average number of shares in issue.
[3] Profit after tax, excluding net gains or losses on investment property, divided by dividends approved relating to the period.
[4] NAV per share movement including dividends paid during the Period.
[5] Before acquisition costs.
[6] Gross borrowings less cash (excluding rent deposits) divided by portfolio valuation.
[7] Estimated rental value ("ERV") of let property divided by total portfolio ERV.

Net asset value

The unaudited NAV of Custodian REIT at 31 March 2022 was £527.6m, reflecting approximately 119.7p per share, an increase of 6.0p (5.3%) since 31 December 2021:

	Pence per share	£m
NAV at 31 December 2021	113.7	501.4
Valuation movements relating to:		
- Asset management activity	1.1	5.0
- General valuation increases	4.7	20.5
Net valuation movement	5.8	25.5
Other movements	-	0.2
Acquisition costs	-	(0.2)
	5.8	25.5
EPRA earnings for the Period	1.6	6.8
Interim dividend paid[8] during the Period	(1.4)	(6.1)
NAV at 31 March 2022	119.7	527.6

[8] An interim dividend of 1.375p per share relating to the quarter ended 31 December 2021 was paid on 28 February 2022.

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 March 2022 and net income for the Period. The movement in NAV reflects the payment of an interim dividend of 1.375p 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 31 May 2022.

Investment Manager's commentary

UK property market

Market sentiment remains strongly positive for industrial and logistics, notwithstanding recent uncertainty in the 'big-box' sector caused by Amazon's announcement of excess warehouse capacity. Positivity has emerged, post covid lockdowns, for central London and major regional city offices and the retail warehouse sector has challenged the general retail malaise. As we reported last quarter there is a nascent recovery in sentiment towards high street retail, but only in prime pitches and in leading retail centres. So, with the exception of secondary retail, business park offices and secondary leisure schemes, market demand is driving values across the board which has led directly to the seventh consecutive quarter of net asset value growth for Custodian REIT.

Sector by sector Custodian REIT portfolio valuations have broadly followed the wider market trends during the period with the industrial and logistics valuation increasing by 6.5%, retail warehousing increasing

3.5%, the ‘other’ sector increasing 1.8% and high street retail increasing by 0.8%. The office portfolio saw no valuation movement reflecting the 50% weighting to business park offices but recent acquisitions have been focused on strong city locations, having bought recently in both Manchester and Oxford, where we are witnessing the strongest occupier and investor demand and we believe the office portfolio is set fair to see growth.

Thematic investment continues to dominate fund raising and is polarising property investment demand and pricing. The weight of capital chasing the industrial and logistics sector and more recently retail warehousing has led to some extraordinary yield compression. While this drives NAV growth for existing investors, income yields are being squeezed. In the long term, income comprises 70%-80% of the total return from property so it makes sense to target property investment that provides a higher level of income. Custodian REIT’s smaller-lot size specialism of targeting the marginal income advantage (ie the additional income for the same level of risk) of investing in smaller regional properties has never been more accretive than in current market conditions.

While thematic investment, if focused on the right sectors, has been demonstrably successful for active investors over the last two years we do not believe the yield compression driven growth will continue over the next two years. Therefore, a re-focus on diversified strategies where managers can exploit mispricing in sub-sectors of the office and retail market, and as stated above a focus on income, is likely to deliver for investors.

Inflation

There is rightly a keen focus on inflation at present and questions as to whether real estate investment can offer a degree of inflation hedging. In short, the answer must be yes as rents should grow over time, but with typically five-yearly rent reviews and average unexpired lease terms of circa five years, investors should not expect a straight-line relationship between rents and inflation. Much focus is currently on RPI and CPI linked rent reviews, which of course provide shorter-term comfort but can have the effect of creating bond like investment characteristics with a greater emphasis placed on tenant covenant than the property fundamentals. At some point in a property’s life cycle rents will always be re-based to open market values. An over-reliance on index linked rent reviews can lead to disparity between investment values and underlying property values. Over the long term we do not feel indexed rent reviews are a worthy substitute for owning good real estate where we back open market rent reviews to deliver rental growth. For long-term investors, such as Custodian REIT, the aim is to provide inflation protection from the bricks and mortar, not the lease contracts.

Earnings

EPRA earnings per share for FY22 increased to 5.9p (2021: 5.6p) due primarily to a £0.3m decrease in the doubtful debt provision (2021: £2.7m increase), reflecting an improved sentiment regarding the collection of overdue rents.

Based on the most recent valuation, the Custodian REIT portfolio is offering an aggregate 10% rental reversion on occupied properties and a 20% reversion including vacant properties. This latent increase to earnings should provide a useful buffer against cost inflation and potentially increase dividend capacity once crystallised.

We believe that earnings and earnings growth should be a much higher profile metric when considering the relative pricing of property investment companies' stock, rather than an over-reliance on NAV based metrics. As Investment Manager, protecting and growing earnings is much more of a focus than NAV growth, which is often largely driven by market sentiment. As set out below this focus is demonstrated in the recent asset management which has added to the rent roll and secured additional cash flow over the short to medium term.

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 DS Smith Packaging on a vacant industrial unit in Redditch with an annual rent of £401k, increasing valuation by £3.5m;
- A 10 year lease renewal with a fifth year tenant break option with MTS Logistics on an industrial unit in Bardon with a stepped annual rent of £175k, rising to £205k, increasing valuation by £0.8m;
- A new 15 year lease without break with Pure Gym on a vacant retail warehouse unit in Grantham with an annual rent of £90k, increasing valuation by £0.3m;
- A new five year lease with a fourth year tenant break option with Carbide Properties (t/a Tungsten Properties) on a vacant office suite in Leicester with an annual rent of £78k, increasing valuation by £0.2m;
- A five year lease renewal with a third year tenant break option with The Works on a retail unit in Bury St Edmunds with an annual rent of £85k, increasing valuation by £0.2m;
- A five year lease renewal with a third year tenant break option with Superdrug on a retail unit in Weston-super-Mare with an annual rent of £60k, with no impact on valuation;
- A five year lease renewal without break with Holland and Barrett on a retail unit in Shrewsbury with an annual rent of £60k, with no impact on valuation; and
- A new three year lease with Saima Rani Salon on a vacant retail unit in Shrewsbury, with an annual rent of £15k, with no impact on valuation.

Despite the positive impact of these initiatives EPRA occupancy decreased to 89.9% (31 December 2021: 90.9%). Of the vacant space, 37% is currently under offer to let and a further 29% is planned vacancy to enable redevelopment or refurbishment and once complete we expected these new lettings and developments to enhance earnings and deliver valuation increases in excess of capital expenditure.

Dividends

During the Period the Company paid an interim dividend of 1.375p per share relating to the quarter ended 31 December 2021 and approved an interim dividend per share of 1.375p for the Period, fully covered by EPRA earnings, achieving its target dividend per share for the year ending 31 March 2022 of 5.25p. The Board is targeting aggregate dividends per share[9] of at least 5.5p for the year ending 31 March 2023. 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.

[9] 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

During the Period the Company invested £1.875m on a 24,134 sq ft industrial unit on Moorgreen Industrial Park, Nottingham occupied by Hickling & Squires commercial printers. The unit has a passing rent of £130k per annum, reflecting a net initial yield[10] ("NIY") of 6.53%.

Since the Period end the Company has acquired a 87k sq ft industrial facility in Grangemouth for £7.5m occupied by Thornbridge Sawmills with an annual passing rent of £388k, reflecting a NIY of 5.5%.

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

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, 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 ("RBS") 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.

The Company is in discussions with its lenders regarding refinancing the £25m RBS facility ahead of its expiry later this year.

Portfolio analysis

At 31 March 2022 the property portfolio comprised 160 assets with a NIY of 5.7% (31 December 2021: 6.1%). 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 Mar 2022 £m	Weighting by value 31 Mar 2022	Period valuation movement £m	Period valuation movement	Weighting by income[11] 31 Mar 2022	Weighting by income[11] 31 Dec 2021
Industrial	324.5	49%	19.5	6.5%	38%	39%
Retail warehouse	125.4	19%	4.2	3.5%	21%	21%
Office	88.1	13%	-	-	17%	16%
Other[12]	76.9	12%	1.4	1.8%	13%	12%
High street retail	50.3	7%	0.4	0.8%	11%	12%
Total	665.2	100%	25.5	4.0%	100%	100%

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

[12] 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 March 2022 was as follows:

Location	Valuation 31 Mar 2022 £m	Weighting by value 31 Mar 2022	Period valuation movement £m	Period valuation movement	Weighting by income[11] 31 Mar 2022	Weighting by income[11] 31 Dec 2021
West Midlands	133.7	20%	8.5	6.8%	18%	18%
North-West	116.2	17%	1.8	1.6%	19%	19%
South-East	87.2	13%	4.2	5.0%	14%	13%
East Midlands	84.7	13%	4.1	5.3%	13%	13%
Scotland	72.5	11%	1.8	2.6%	10%	10%
North-East	65.5	10%	0.7	1.0%	12%	12%
South-West	65.5	10%	1.9	3.0%	9%	9%
Eastern	33.9	5%	2.5	7.9%	4%	5%
Wales	6.0	1%	-	-	1%	1%
Total	665.2	100%	25.5	4.0%	100%	100%

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

Inside information

The Board is satisfied that any inside information which the Directors and the Investment Manager may have has been notified to a regulatory information service. The Directors and those closely associated are therefore not prohibited from dealing in the Company's shares during the closed period which ends on the date of the announcement of the Annual Report for the year ended 31 March 2022.

- 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.