9 August 2022

Custodian REIT plc

(“Custodian REIT” or “the Company”)

Asset management and strong leasing momentum driving first quarter NAV growth

Custodian REIT (LSE: CREI), which seeks to deliver a strong income return by investing in a diversified portfolio of smaller lot-size regional properties across the UK, today reports its unaudited net asset value (“NAV”) as at 30 June 2022 and operational and financial highlights for the period 1 April 2022 to 30 June 2022 (“Q1” or the “Quarter”).

Strong leasing momentum supporting rents and underpinning fully covered dividends

- 1.375p dividend per share approved for the Quarter in line with target dividend of no less than 5.5p for the current financial year
- Q1 EPRA earnings per share[1] decreased to 1.4p (quarter ended 31 March 2022: 1.6p; Q1 2021 1.4p) due to the timing of redeployment and changes in occupancy, providing 100% dividend cover
- 13 new leases agreed during Q1, securing £1.8m of annual rent for a further average 6.8 years

Asset management led portfolio valuation growth supporting further NAV increase

- Q1 NAV total return per share[2] of 3.2% comprising 1.1% dividends paid and a 2.1% capital increase, growing NAV per share to 122.2p (31 March 2022: 119.7p) with a NAV of £538.7m (31 March 2022: £527.6m)
- 1.7% like-for-like growth in valuation of the Company’s diversified portfolio of 161 assets with an £11.4m valuation increase comprising £6.9m from active asset management and leasing activity and £4.5m of general valuation increases primarily in the industrial and logistics and retail warehouse sectors
- EPRA occupancy[3] of 88.7% (31 March 2022: 89.9%) with the positive impact of letting four vacant units offset by two already anticipated industrial vacancies earmarked for refurbishment and a further being profitably divested since the Quarter end

Year to date, £41.6m invested driving a 4.9% net increase in rent roll to £42.4m, with £14.8m of disposals at an average 49% premium to valuation providing further capital for recycling into higher income growth assets

- Investment activity during the Quarter:
  - £26.2m[4] invested across four acquisitions comprising a £15.0m retail park in Nottingham, a £7.5m industrial facility in Grangemouth and two high street retail units in Winchester for an aggregate £3.7m
  - £1.3m[4] profit generated from the disposal of car dealership in Derby and a high street retail unit in Weston-Super-Mare for an aggregate £6.3m at an overall 25% premium to valuation
  - Net deployment during the Quarter increased the annual rent roll by 1.5% to £41.1m (31 March 2022: £40.5m)
  - Continued investment towards achieving environmental targets with the weighted average energy performance certificate (“EPC”) score improving to 60 (C) from 61 (C) and continuation of the Company’s roll out of electric vehicle (“EV”) chargers
- Investment activity since 30 June 2022:
  - £15.4m invested in the acquisition of two DFS retail warehouses in Droitwich and Measham for £8.9m, two drive-through restaurants in York for £3.0m and a £3.5m industrial unit in Chesterfield
  - Sale of an industrial unit in Milton Keynes to a special purchaser for £8.5m, 73% above valuation
  - Net deployment since the Quarter end increased the annual rent roll by a further 3.2% to £42.4m

Low gearing and significant borrowing headroom

- Property portfolio value of £699.8m (31 March 2022: £665.2m)
- Net gearing[5] increased to 21.5% loan-to-value (31 March 2022: 19.1%) due to £19.9m of net deployment during the Quarter and remaining below the target 25% level at 21.7% following the post Quarter investment activity
- Refinancing £25m of variable rate debt expiring in September 2022 with a £25m, 10 year fixed rate loan, increasing the proportion of debt facilities at fixed interest rates to 74%

[1] Profit after tax excluding net gains or losses on investment property divided by weighted average number of shares in issue.
[2] NAV per share movement including dividends paid during the Quarter.
[3] Estimated rental value (“ERV”) of let property divided by total portfolio ERV.
[4] Before costs.
[5] Gross borrowings less cash (excluding rent deposits) divided by portfolio valuation.

Richard Shepherd-Cross, Managing Director of Custodian Capital Limited, said: “Custodian REIT made a positive start to the financial year with a strong operational performance driven by our active asset management and the portfolio’s continued ability to capture occupational demand. We expect that this ongoing demand will reduce vacancy rates and deliver rental growth, both of which are strongly supportive of earnings and underpin the Company’s dividend strategy. I am also particularly encouraged by the longer-term nature of the 13 new leases we have agreed this quarter which provide an average seven years of additional income visibility to those assets. This average lease length demonstrates both the strength of demand for space within our portfolio and occupiers’ continued desire to plan for the future, despite some near-term economic headwinds. We believe that Custodian REIT is well insulated from the negative impact of interest rates rises continuing in the short to medium-term. We still see value in the market as recent acquisitions demonstrate and continue to achieve sales above valuation. In addition, we remain confident that our ongoing intensive asset management of the portfolio will both maintain and grow cash flow and support values."

Net asset value

The unaudited NAV of Custodian REIT at 30 June 2022 was £538.7m, reflecting approximately 122.2p per share, an increase of 2.5p (2.1%) since 31 March 2022:

	Pence per share	£m
NAV at 31 March 2022	119.7	527.6
Valuation movements relating to:		
- Asset management activity	1.6	6.9
- General valuation increases	1.0	4.5
Net valuation movement	2.6	11.4
Profit on disposal	0.3	1.3
Acquisition costs	(0.4)	(1.6)
	2.5	11.1
EPRA earnings for the Quarter	1.4	6.1
Interim dividend paid[6] during the Quarter	(1.4)	(6.1)
NAV at 30 June 2022	122.2	538.7

[6] An interim dividend of 1.375p per share relating to the quarter ended 31 March was paid on 31 May 2022.

The NAV attributable to the ordinary shares of the Company is calculated under International Financial Reporting Standards and incorporates the independent portfolio valuation at 30 June 2022 and net income for the Quarter. The movement in NAV reflects the payment of an interim dividend of 1.375p per share during the Quarter, but does not include any provision for the approved dividend of 1.375p per share for the Quarter to be paid on 31 August 2022.

Investment Manager's commentary

UK property market

During the Quarter the Company grew NAV by 2.1% through a combination of active asset management of the portfolio, a strong underlying occupational market maintaining upward pressure on rents and positive investment market sentiment. Of these three, sentiment currently has the greatest bearing on valuations and has been responsible for much of the market's strong NAV growth witnessed over the last 12 months.

However, sentiment can change and our continued focus is instead on driving income streams and gaining the additional marginal yield from our strategy of investing in smaller lot sized regional properties. We continue to position the portfolio to attract the best of occupational market demand through careful stock selection and asset management. We are able to deliver these positive asset management outcomes through the close management of the portfolio, meeting tenant demand, capturing rental growth and securing environmental and social improvements through refurbishment and innovative lease structures.

The question of changing sentiment towards real estate investment is currently uppermost in many investors' minds. Rising interest rates in the UK and the US have had a marked impact on investor activity for big-box logistics and prime central London assets and, while Custodian REIT is exposed to neither of these sectors, it is reasonable to expect that this impact will flow through to the wider market to some degree over the next six months.

As we have long maintained, we believe an investment in Custodian REIT should be judged by its income performance. Such an assessment should include the strength of the regional occupational market, rental growth potential and the high 5.5p per share target annual dividend, expected to be fully covered by recurring net earnings. In particular we believe our strong track record of value creation and expertise in finding incremental income gains through active asset management should give confidence to investors in the long-term. These dynamics should be unaffected by changes in sentiment in the investment market, or indeed in any potential falls in valuation. In fact, any falls in the valuation of our target assets will allow us to reinvest shareholders' funds into properties that offer a more generous rental yield, supporting earnings and enhancing dividend capacity.

As testament to the health of the occupational market rental values continue to rise across most of the portfolio. The table below compares the portfolio on a like-for-like basis (ie excluding property sales and purchases during the Quarter) and shows positive growth in aggregate estimated rental values and valuations.

Sector	Mar – Jun 2022 like-for-like ERV change £000	%	Mar – Jun 2022 like-for-like valuation change £m	%
Industrial	327	1.7%	6.0	1.8%
Office	273	3.4%	(0.3)	(0.1%)
Other	27	0.6%	0.9	0.3%
Retail	(19)	(0.5%)	(0.3)	(0.1%)
Retail warehouse	11	0.1%	5.0	1.5%
	619	1.4%	11.3	1.7%

Year to date we have invested £41.6m in seven asset acquisitions comprising two industrial units, two drive-through restaurants, five retail warehouse units, a fast-food restaurant and two prime high street shops at an average net initial yield of 6.6%, which have a weighted average unexpired lease term to first break or expiry of 10 years. The income profile of these acquisitions and the high quality nature of the tenants occupying them demonstrate the strength of the smaller regional property strategy in delivering above average, long-term income returns from a diverse portfolio of properties.

This investment strategy is supported by our strong balance sheet with modest levels of debt. During the Quarter the Company refinanced a £25m variable rate revolving credit facility ("RCF") from the Royal Bank of Scotland ("RBS"), which was due to expire in September 2022, with a 10 year fixed rate loan with Aviva Real Estate Investors ("Aviva"). This fixed rate loan keeps total borrowing facilities at £190m but with 74% of these facilities now locked in at a low rate of interest, with a weighted average cost of debt of 3.2% and weighted average maturity of 6.3 years. Given the short-term risks surrounding interest rates, the Company's debt profile provides a stable and low risk platform that is well-matched to its investment strategy, which aims to be both defensive and income focused.

In summary, if interest rates continue to rise, Custodian REIT is well insulated from the short to medium-term impact. Occupational demand is reducing vacancy rates and driving rental growth, both of which are strongly supportive of earnings and underpin the Company's dividend strategy. We still see value in the market as recent acquisitions demonstrate and the ongoing intensive asset management of the portfolio will maintain cash flow and support values.

Asset management

The Investment Manager has remained focused on active asset management during the Quarter, completing the following 13 new leases with a weighted average unexpired term to first break or expiry ("WAULT") of 6.8 years:

- A 10 year lease renewal without break with B&Q on a retail warehouse unit in Banbury with an annual rent of £400k, increasing valuation by £2.6m;
- A new 10 year lease without break with Nationwide Platforms on a vacant industrial unit in Avonmouth with an annual rent of £300k, increasing valuation by £1.5m;
- A 10 year lease renewal with a fifth year tenant break option with Heywood Williams on an industrial unit in Bedford with an annual rent of £289k, increasing valuation by £1.4m;
- A new 10 year lease with a fifth year tenant break option with Bunzl on an industrial unit in Castleford with an annual rent of £164k, increasing valuation by £0.4m;
- A new 10 year lease with a fifth year tenant break option with Jollyes Pets on a vacant retail warehouse unit in Southport with an annual rent of £48k, increasing valuation by £0.3m;
- A five year lease extension with The Range on a retail warehouse unit in Burton-on-Trent, including extending the external demise to create a new garden centre area generating an additional £10k of annual rent, increasing valuation by £0.3m;
- A new 10 year lease with a sixth year tenant break option with Costa on a vacant retail unit in Colchester with an annual rent of £65k, increasing valuation by £0.2m;
- A 10 year lease renewal with a fifth year tenant break option with Harris Cars on an industrial unit in Kettering with an annual rent of £80k, increasing valuation by £0.1m;
- A three year lease extension with H Samuel on a retail unit in Colchester with an annual rent of £71k, increasing valuation by £0.1m;
- A five year lease renewal with a third year tenant break option with Savers on a retail unit in Colchester with an annual rent of £56k, increasing valuation by £0.1m;
- A five year lease renewal with a third year tenant break option with Savers on a retail unit in Bury St Edmunds with an annual rent of £40k, with no impact on valuation;
- A new 10 year lease with a fifth year tenant break option with Massarella on a vacant retail unit in Gosforth with an annual rent of £18k, with no impact on valuation; and
- A five year lease renewal with Scope on a retail unit in Gosforth with an annual rent of £16k, with no impact on valuation.

The positive impact of letting vacant space has been offset by industrial assets in Winsford, Aberdeen and Milton Keynes becoming vacant during the Quarter, which in aggregate decreased EPRA occupancy to 88.7% (31 March 2022: 89.9%). Of the vacant space, 34% is currently under offer to sell or let and a further 38% is planned vacancy to enable redevelopment or refurbishment and once complete we expect these new lettings and developments to enhance earnings and deliver valuation increases in excess of capital expenditure.

These initiatives also helped improve the weighted average EPC score of the portfolio to 60 (C) from 61 (C) through the re-assessment of 11 units across the portfolio with the average re-rating decreasing by 29 Energy Rating Points.

Electric vehicle charging points

During the Quarter we completed the installation of five twin rapid 75kW chargers at retail warehousing sites for public use which are now income producing. These installations represent another step in our roll out of EV chargers with Pod Point having installed 12 twin fast 7kW chargers across three office and industrial sites for tenants' use earlier this year. We have a further 12 twin fast 7kW chargers and 10 twin rapid 75kW charger installations in the pipeline and are actively assessing further sites for both tenant and public use.

Dividends

On 31 May 2022 the Company paid an interim dividend of 1.375p per share relating to the quarter ended 31 March 2022 and approved an interim dividend per share of 1.375p for the Quarter, fully covered by EPRA earnings, payable on 31 August 2022. The Board is targeting aggregate dividends per share[7] 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.

[7] 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.

Further details on acquisitions

The four acquisitions for £26.2m undertaken by the Company during the Quarter comprised:

- A 86,922 sq ft industrial facility in Grangemouth for £7.5m let to Thornbridge Sawmills for a further 18 years. The unit has a passing rent of £388k per annum, with a reversion in September 2023 linked to RPI, which is expected to reflect a net reversionary yield[8] of 5.5%;

- The 70,160 sq ft Springfield retail park in Nottingham for £15.0m comprising four units occupied by Wickes, Matalan, Poundland and KFC. The leases have a WAULT of nine years with an aggregate passing rent of £994k per annum, reflecting a reflecting a net initial yield[9] ("NIY") of 6.21%; and
- Two retail units on Winchester high street covering an aggregate 5,228 sq ft for £3.65m let to Nationwide Building Society and Hobbs. The tenants' leases expire in April 2028 and December 2031 respectively at an aggregate current passing rent of £249k per annum, reflecting a NIY of 6.41%.

Since the Quarter-end the Company has acquired:

- Two retail warehouses covering an aggregate 40,077 sq ft in Droitwich and Measham for £8.9m. Both units are let to DFS with an aggregate WAULT of 8 years and aggregate annual passing rent of £894k reflecting a NIY of 9.43%;
- Two drive-through restaurants on Clifton Moor Retail Park, York for £3.025m. The units are occupied by Burger King and KFC franchisees with a WAULT of 9.7 years and an aggregate passing rent of £163k per annum, reflecting a NIY of 5.07%; and
- A 47,882 sq ft industrial facility in Chesterfield for £3.5 million let to Container Components on a 20 year lease. The annual rent is £227k reflecting a NIY of 6.10%.

[8] Reversionary rent divided by purchase price plus assumed purchasers' costs.

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

Additional details on disposals

The Company sold the following properties during the Quarter for an aggregate consideration of £6.3m:

- An Audi car dealership in Derby for £5.6m, £1.2m ahead of valuation; and
- A high street retail unit in Weston-Super-Mare at valuation for £0.7m.

Since the Quarter end the Company has sold an industrial unit in Milton Keynes to a special purchaser for £8.5m, reflecting a 73% premium to valuation.

Borrowings

On 15 June 2022 the Company arranged a £25m tranche of 10 year debt with Aviva at a fixed rate of interest of 4.10% per annum to refinance a £25m variable rate revolving credit facility with RBS which was due to expire in September 2022. This refinancing mitigates interest rate risk and refinancing risk, increasing the proportion of the Company's agreed debt facilities that are at fixed rates of interest from 61% to 74% and extending the weighted average maturity to 6.3 years. The refinancing maintains the significant accretive margin between the Company's 3.2% weighted average cost of debt at 30 June 2022 and its property portfolio's NIY of 5.5%.

Custodian REIT now operates the following agreed borrowing facilities:

- A £50m RCF with Lloyds Bank plc 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;
- 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 £75m term loan with Aviva comprising:
  - A £35m tranche repayable on 6 April 2032 with fixed annual interest of 3.02%;
  - A £25m tranche repayable on 3 November 2032 with fixed annual interest of 4.10%; and
  - 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.

Portfolio analysis

At 30 June 2022 the property portfolio comprised 161 assets with a NIY of 5.5% (31 March 2022: 5.7%). 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 30 Jun 2022 £m	Weighting by value 30 Jun 2022	Quarter valuation movement £m	Quarter valuation movement	Weighting by value 31 Mar 2022
Industrial	339.6	48%	6.2	1.9%	49%
Retail warehouse	144.8	21%	4.8	3.8%	19%
Office	74.5	12%	(0.4)	(0.4%)	13%
Other[11]	87.8	11%	0.9	1.4%	12%
High street retail	53.1	8%	(0.1)	(0.5%)	7%
Total	699.8	100%	11.4	1.7%	100%

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

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.