Custodian
REIT PLC

9 November 2022

Custodian REIT plc

("Custodian REIT" or "the Company")

Leasing momentum continues to drive income returns and support fully covered dividends

Custodian REIT (LSE: CREI), which seeks to deliver a strong income return by investing in a diversified portfolio of smaller regional properties across the UK, today provides a trading update for the quarter ended 30 September 2022 ("Q2" or the "Quarter").

Strong leasing activity supporting rents and underpinning fully covered dividends

- 1.375p dividend per share approved for the Quarter, in line with a target dividend of no less than 5.5p for the current financial year, fully covered by EPRA earnings
- EPRA earnings per share[1] maintained at 1.4p for Q2
- Five new leases signed during the Quarter at an aggregate 9% ahead of ERV adding £0.4m of annual rent with a weighted average of 6.3 years to first break (Q1 2022: 13 new leases adding £1.8m of rent for 6.8 years)
- Two rent reviews settled during the Quarter with an aggregate 22% rental increase (£0.1m of annual rent)
- Following these lettings, EPRA occupancy[2] increased to 89.3% (30 June 2022: 88.7%), with 54% of the vacancy being subject to refurbishment or redevelopment and a further 25% under offer for sale or lease.
- 1.1% increase in the like-for-like rent roll since 30 June 2022 and ERV growing by 0.8%. The industrial and office sectors saw 1.6% and 2.2% ERV growth respectively while retail ERV decreased by 0.8%.
- Lettings momentum has continued into the second half of the financial year with a further five new leases completing since the Quarter end, adding £0.6m of annual rental income for an average 7.0 years

Valuation movements

- 5.4% like-for-like valuation decrease across the Company's diversified portfolio of 165 assets, driven by current investor and market sentiment around the UK's economic outlook, but positively impacted by a £1.4m uplift from active asset management activity

- Q2 net asset value ("NAV") total return per share[3] of -5.8% comprising 1.1% dividends paid offset by a -6.9% capital movement, decreasing NAV per share to 113.7p (30 June 2022: 122.2p) with a NAV of £501.4m (30 June 2022: £538.7m)

£26.5m of capital deployed during the Quarter alongside a profitable disposal driving a 4.5% net increase in rent roll, supporting earnings while maintaining net gearing at its target level

- Investment activity during the Quarter:
  - £26.5m[4] invested at an average net initial yield of 6.8% with net deployment during the Quarter increasing annual rent roll by 4.5% to £43.0m (30 June 2022: £41.1m)
  - Acquisitions comprised a distribution unit near Glasgow for £11.1m, two DFS retail warehouses in Droitwich and Measham for £8.9m, a £3.5m industrial unit in Chesterfield and two drive-through restaurants in York for £3.0m
  - £3.4m[4] profit generated from the disposal of an industrial unit in Milton Keynes to a special purchaser for £8.5m, 67% above valuation
  - £2.2m capital expenditure during the Quarter, primarily on ongoing refurbishment work on offices in Manchester and a retail warehouse in Swindon which are expected to enhance rents and the assets' environmental credentials once complete
- Environmental, social and governance ("ESG") investment activity:
  - Continued progress towards achieving the Company's minimum target of removal or improvement of all 'D' and 'E' energy performance certificate ("EPC") ratings by 2027 and 2025 respectively with the weighted average EPC score improving to 58 (C) from 60 (C) during the Quarter
  - £0.7m invested in installing electric vehicle ("EV") chargers during the six months to 30 September 2022 across the retail warehouse, industrial and office sectors, with further installations planned that will surpass the Company's minimum target of installing chargers across its freehold retail warehouse assets by 2025
- Investment activity since 30 September 2022:
  - Disposal of a shopping centre in Gosforth for £9.3m, 3.5% ahead of the November 2021 purchase price and 4% below the 30 September 2022 valuation
  - Disposal of an industrial unit in Kilmarnock at auction for £1.4m, 12% ahead of valuation

Low gearing and significant borrowing headroom

- At 30 September 2022:
  - Net gearing[5] remains in line with the Company's 25% target, increasing to 25.4% loan-to-value during the Quarter (30 June 2022: 21.5%) as a result of valuation movements and £18.0m of net deployment
  - Weighted average cost of drawn debt of 3.5%. Of the Company's £178m of drawn facilities 79% is at a fixed rate of interest with no expiries until September 2024 and a weighted average term of 6.3 years
- Since the Quarter end, due to the disposals outlined above:
  - Net gearing has decreased to 24.3%
  - Weighted average cost of drawn debt remains 3.5% despite base rate rises, demonstrating the insulation provided by the Company's majority fixed rate debt which now represents 84% of drawn facilities

[1] Profit after tax excluding net gains or losses on investment property divided by weighted average number of shares in issue.
[2] Estimated rental value ("ERV") of let property divided by total portfolio ERV.
[3] NAV per share movement including dividends paid during the Quarter.
[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: "We believe strong recent leasing activity demonstrates the resilience of Custodian REIT's well-diversified investment portfolio and the depth of the occupational market, the strength of the Company's balance sheet, low gearing and a longer-term fixed rate debt profile will continue to support a high income return strategy.

"Despite recent valuation decreases our active asset management has enabled us to capture occupational demand, lease vacant space and deliver rental growth which support earnings and underpin the Company's fully covered dividend.

"Custodian REIT's prudent approach to investment and the management of its balance sheet has left the Company well insulated from the negative impact of interest rate rises continuing in the short to medium-term. We also remain confident that our ongoing intensive asset management of the portfolio will maintain cash flow and support consistent returns. The current market volatility, particularly in relation to valuations, further strengthens our ongoing belief that earnings yield is the more reliable and important measure of value as income supports the greater part of total return."

Net asset value

The unaudited NAV of Custodian REIT at 30 September 2022 was £501.4m, reflecting approximately 113.7p per share, a decrease of 8.5p (7.0%) since 30 June 2022:

	Pence per share	£m
NAV at 30 June 2022	122.2	538.7
Valuation movements relating to:		
- Asset management activity	0.3	1.4
- General valuation decreases	(9.2)	(40.6)
Net valuation movement	(8.9)	(39.2)
Profit on disposal	0.8	3.4
Acquisition costs	(0.4)	(1.8)
	(8.5)	(37.6)
EPRA earnings for the Quarter	1.4	6.4
Interim dividend paid[6] during the Quarter	(1.4)	(6.1)
NAV at 30 September 2022	113.7	501.4

[6] An interim dividend of 1.375p per share relating to the quarter ended 30 June was paid on 31 August 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 September 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 30 November 2022.

Investment Manager's commentary

UK property market

We believe strong recent leasing activity demonstrates the resilience of Custodian REIT's well-diversified investment portfolio and the depth of the occupational market, the strength of the Company's balance sheet, low gearing and a longer-term fixed rate debt profile will continue to support a high income return strategy.

The investment market reached record highs in certain sectors earlier this year as positive market sentiment pushed valuation increases. That sentiment has recently reversed due primarily to inflation, the rising cost of debt as well as global economic and market uncertainty, with associated valuation decreases commencing in August 2022. Certain sectors, particularly prime logistics, have seen the most significant valuation increases over the last 12-18 months but pricing of Custodian REIT's smaller regional properties never hit the heights of super-prime logistics, so we expect to see a more correspondingly muted pricing correction as the market reacts to current circumstances.

Custodian REIT has delivered a diversified portfolio strategy, despite the recent trend for single sector investing. This has enabled the acquisition of some prime high street retail properties and strong, regional, city centre offices which have held their value through the Quarter. When combined with a smaller regional property strategy, the Company has assembled a portfolio comprising 165 properties with an average value of £4.2m and no one tenant in any single property accounting for more than 1.5% of the Company's rent roll. This spread significantly mitigates property specific risk and tenant default risk.

The depth of the occupational market remains the backbone of Custodian REIT's robust earnings and this was demonstrated by the 18 new leases signed during the first half adding £2.2m of annual rent. During the Quarter, five new leases have been agreed securing £0.4m rent for a further 6.3 years. This follows on from the previous quarter where 13 new leases were agreed securing £1.8m of rent for a further 6.8 years.

The Company has continued to see good levels of occupier activity, with five new leases already signed since the Quarter end and a strong pipeline of asset management and refurbishment/redevelopment opportunities.

EPRA earnings per share of 1.4p showed an annualised earnings yield[7] of 5.8% at 30 September 2022 and 6.4% at the time of writing. As pricing for listed property companies is increasingly out of step with NAV, investors should look to earnings yield as a more reliable measure of value and comparator between different companies with differing strategies, as income supports the greater part of total return. On this measure Custodian REIT rates very strongly against its close peers, offering an annual dividend per share of 5.5 pence, fully covered by net earnings, representing a dividend yield[8] of 5.7% at 30 September 2022 and 6.3% at the time of writing.

Custodian REIT's loan-to-value at 30 September 2022 of 25.4% now stands at 24.3% following post Quarter end sales. Of the Company's £178m of drawn debt facilities 84% is at fixed rates of interest and the balance is drawn on a variable rate revolving credit facility. The weighted average term of drawn debt is 6.3 years and the average cost of debt is 3.5%. Thanks to a strong balance sheet with significant covenant headroom and no debt facility maturities until September 2024 the Company is under no pressure to sell and the relatively low cost of debt should remain accretive to earnings through this phase of market turbulence.

[7] Annualised EPRA earnings per share divided by the prevailing share price (97.0p.at 30 September 2022, 87.8p at 8 November 2022).
[8] Annual target dividend per share of 5.5p divided by Quarter-end share price of 97.0p.

Asset management

The Investment Manager has remained focused on active asset management during the Quarter, completing the following new leases with a weighted average unexpired term to first break or expiry ("WAULT") of 6.2 years bringing the portfolio total to 4.8 years:

- A new 20 year lease with a 15 year tenant break option to Giggling Squid Restaurants on a vacant retail unit in Shrewsbury at an annual rent of £80k, increasing valuation by £0.5m;
- A new 10 year lease with a fifth year tenant break option to CVS Vets on a vacant retail warehouse unit in Southport with an annual rent of £48k, increasing valuation by £0.3m;
- A new six year lease with a third year tenant break option to CD Transport UK on a vacant industrial unit in Weybridge with an annual rent of £219k, increasing valuation by £0.2m;
- A five year lease renewal with a third year tenant break option to Signet on a retail unit in Chester with an annual rent of £68k, increasing valuation by £0.1m; and
- An 8.5 year lease renewal without break to Leeds Building Society on a retail unit in Colchester with annual rent of £30k, increasing valuation by £0.1m.

During the Quarter the following rent reviews were settled with:

- Yesss Electrical on an industrial unit in Normanton with annual rent increasing from £337k to £448k, increasing valuation by £0.2m; and
- Audi at a car showroom in Shrewsbury with annual rent increasing from £198k to £203k, with no impact on valuation.

The positive impact of letting vacant space has been partially offset by offices in Castle Donington and a trade counter in Crewe becoming vacant during the Quarter meaning in aggregate EPRA occupancy is now 89.3% (30 June 2022: 88.7%). Of the Company's remaining vacant space, 25.0% is currently under offer to sell or let and a further 53.8% is planned vacancy to enable redevelopment or refurbishment as illustrated below:

	Number of assets	ERV £m	% ERV	% of vacancy
Vacant assets:				
- Undergoing or earmarked for refurbishment/redevelopment	11	2.8	5.7%	53.8%
- Under offer to sell or let	9	1.3	2.7%	25.0%
- Being marketed to let	11	1.1	2.3%	21.2%
		5.2	10.7%	100%
Let property	134	43.4	89.3%	N/a
Portfolio	165	48.6	100%	N/a

Since the Quarter end the following initiatives have completed:

- A 10 year lease renewal to SCS Furniture on an industrial unit in Livingston with annual rent increasing from £221k to £282k. The agreement also involves some refurbishment work and the Company constructing a 20k sqft extension of the property during 2023 which, once complete, will increase annual rent to £413k and is expected to result in an approximate £1.5m valuation increase;
- A new 25 year lease with a 15 year tenant break option to Tenpin Bowling on a leisure park in Crewe with an annual rent of £210k, increasing valuation by £0.9m;
- A 15 year lease renewal to F1 Auto Centres on a trade counter unit in Crewe with an annual rent of £25k, increasing valuation by £0.3m;
- A new 10 year lease with a fifth year tenant break option to Rexel on an retail warehouse unit in Gloucester with an annual rent of £55k, increasing valuation by £0.3m; and
- A new five year lease with mutual two and three year break options to IJ Tours for additional space in an office building in Manchester at an annual rent of £24k with no impact on valuation.

The Company has a very strong pipeline of ongoing asset management initiatives, including those detailed below, which we expect to complete during the next 12 months and which are expected to enhance earnings and deliver valuation increases in excess of capital expenditure:

- A £2m refurbishment is in progress of five floors of an office block on Fountain Street, Manchester involving developing a roof terrace, installing a high-specification internal fit-out and adding EV charging points, air source heat pumps and tenant wellbeing facilities. The refurbishment is expected to increase rents at the property from c. £20 per sqft towards c. £30 per sqft. Once fully let, the refurbishment is expected to enhance valuation by c. £3.0m – £4.0m;
- A £6.5m redevelopment of a 60,000 sqft industrial unit in Redditch which commenced in September 2022 to build a BREEAM excellent, EPC A rated unit with solar panels covering the roof, EV chargers, with the construction targeting net zero carbon. Annual rent of the completed asset is expected to be c. £0.5m, with an expected gross development profit of c. £2.0m;
- An application has been submitted for planning at the Company's Carlisle retail park for a 2,500 sq ft drive-through restaurant. A 20-year lease without break at an annual rent of £80k has already been agreed and the expected valuation increase on completion is c. £1.4m; and
- Discussions are at an advanced stage for new leases with Tenpin Bowling on a vacant retail warehouse unit in Milton Keynes and with CB Printforce regarding a lease renewal on an industrial property in Biggleswade. If successful, these initiatives are expected to result in aggregate valuation increases of c. £2.5m.

ESG

The Board recognises that its decisions have an impact on the environment, people and communities and believes the Company's property strategy and ESG aspirations create a compelling rationale to make environmentally beneficial improvements to its property portfolio.

EPC Rating

The Company is targeting, as a minimum, removal or improvement of all 'D' EPC ratings by 2027 and all 'E' EPC ratings by 2025, having achieved its initial objective to remove all 'F' and 'G' EPC ratings by 31 March 2022.

The weighted average EPC score of the portfolio improved to 58 (C) from 60 (C) during the Quarter through the re-assessment of six units with the average re-rating decreasing by 27 Energy Rating Points.

Significant improvements in rating occurred through the:

- Refurbishment and conversion of a former Pizza Hut restaurant into a Tim Hortons drive-through in Leicester moving the EPC rating from 87 (D) to 24 (A)
- Refurbishment of a retail store in Chester improving the rating from 103 (E) to 61 (C)
- Refurbishment of an industrial unit in Avonmouth improving the rating from 51 (C) to 29 (B)

Electric vehicle charging points

The Company is targeting, as a minimum, installation of EV charging points across 100% of its freehold retail warehouse assets by 2025.

During the Quarter we completed the installation of five twin rapid 75kW chargers at retail warehousing sites for public use in line with this environmental and social objective. The payback on the Company's investment is anticipated to be realised within 4-5 years subject to energy market volatility. These installations represent another step in our roll out of EV chargers with Pod Point, having installed 11 twin fast 7kW chargers across three office and industrial sites for tenants' use earlier this year. We have a further 15 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.

Fully covered dividend

The Company paid an interim dividend of 1.375p per share on 31 August 2022 relating to the quarter ended 30 June 2022. The Board has approved another interim dividend per share of 1.375p for the Quarter, fully covered by EPRA earnings, payable on 30 November 2022. 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.

Further details on acquisitions

The five acquisitions undertaken by the Company for £26.55m during the Quarter comprised:

- A 91,955 sq ft distribution facility on Eurocentral industrial estate between Edinburgh and Glasgow for £11.125 million let to Gist, a subsidiary of M&S, on a five year lease with a third year break option. The annual rent is £623k reflecting a net initial yield[10] ("NIY") of 5.25% with an expected reversionary yield[11] of 7.0%.
- 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%;
- A 47,882 sq ft industrial facility near Chesterfield let to Container Components with 20 years remaining on the lease for £3.5 million. The property produces an index linked passing rent of £227k per annum, reflecting a NIY of 6.10%; and
- 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%.

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

[11] Reversionary rent divided by purchase price plus assumed purchaser's costs.

Additional details on disposals

During the Quarter the Company sold a 44,187 sq ft warehouse and distribution unit in Milton Keynes to a special purchaser for £8.5m, reflecting a 67% premium to valuation and an aggregate 183% ahead of purchase price.

Since the Quarter end the Company has sold:

- A shopping centre in Gosforth for £9.3m, which had been part of the purchase of DRUM Income Plus REIT plc in November 2021, for a 3.5% premium to the £8.975 million apportioned value of the asset at purchase. Since acquisition, the asset has produced rental income of c. £0.9m with the completion of several asset management activities increasing occupancy and extending contractual lease terms; and
- An industrial unit in Kilmarnock at auction for £1.4m, 12% ahead of valuation. The unit's environmental credentials did not fit with the Company's ESG objectives and it was not considered practical to mitigate these risks.

Borrowings

Custodian REIT operates the following agreed borrowing facilities:

- A £40m 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. At 30 September 2022 £38m was drawn under the RCF. The RCF limit can be increased to £50m with Lloyds' consent;
- 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%.

The Company's weighted average cost of its drawn debt facilities is 3.5% with 79% at a fixed rate of interest and a weighted average maturity of 6.3 years. Disposals since the Quarter end have increased the proportion of drawn debt which is at a fixed rate of interest to 84% with weighted average cost remaining 3.5% despite increases in base rate, demonstrating the insulation provided by the Company's majority fixed rate debt strategy.

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 September 2022 the property portfolio comprised 165 assets with a NIY of 5.9% (30 June 2022: 5.5%). 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 Sept 2022 £m	Weighting by value 30 Sept 2022	Quarter valuation movement £m	Quarter valuation movement	Weighting by value 30 Jun 2022
Industrial	327.3	48%	(22.6)	(7.1%)	48%
Retail warehouse	147.3	22%	(7.5)	(6.0%)	21%
Office	83.4	12%	(5.0)	(5.7%)	12%
Other[12]	77.2	11%	(2.7)	(3.5%)	11%
High street retail	50.2	7%	(1.4)	(2.8%)	8%
Total	685.4	100%	(39.2)	(5.4%)	100%

[12] 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 £15m 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 £15m, 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.