Custodian PROPERTY INCOME REIT

8 February 2023

Custodian Property Income REIT plc

("Custodian Property Income REIT" or "the Company")

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

Custodian Property Income 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 31 December 2022 ("Q3" or the "Quarter").

Strong leasing activity continues to support rental growth and underpin 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 (102% year to date)
- 7% increase in EPRA earnings per share[1] to 1.5p for Q3 (Q2: 1.4p) due to £18m of net investment into acquisitions during the previous quarter and recent positive asset management outcomes
- 10 new lease agreements signed across a range of property sectors during the Quarter at an aggregate 7% ahead of ERV, adding £1.2m of annual rent for a weighted average of 7.3 years to first break (Q2: five new leases adding £0.4m of annual rent for 6.3 years)
- EPRA occupancy[2] improved to 89.9% (30 September 2022: 89.3%) due to letting five vacant properties during the Quarter
- 18% aggregate rental increase across two rent reviews settled during the Quarter, a total additional £0.4m of annual rent
- 48% of current vacancy is subject to refurbishment or redevelopment, 8% was let post Quarter end and a further 8% has been put under offer for sale or lease
- 1.4% increase in the like-for-like[3] rent roll since 30 September 2022 and like-for-like ERV growing by 0.6%
- Lettings momentum has continued into the final quarter of the financial year with a further four new leases completing since the Quarter end, adding £0.8m of annual rental income for a weighted average 12 years to first break

[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] Adjusting for property acquisitions, disposals and capital expenditure.

Valuation movements

- 9.1% like-for-like valuation decrease across the Company's diversified portfolio of 162 assets to £612.8m following a market wide rerating of UK commercial property driven by sentiment around the UK's economic outlook, but positively impacted by a £3.0m (0.5% increase) from active asset management activity
- Q3 net asset value ("NAV") total return per share[4] of -11.0% comprising 1.2% dividends paid offset by a -12.2% capital movement, leading to a NAV per share of 99.8p (30 September 2022: 113.7p) with a NAV of £440.0m (30 September 2022: £501.4m)

£13.5m of disposals during the Quarter achieved at valuation, demonstrating the continued demand for small lot sized commercial property

- Disposals during the Quarter comprised:
  - A shopping centre in Gosforth for £9.3m, 3.5% ahead of the November 2021 purchase price and 4% below valuation
  - A business park office in Leicester for £2.8m in line with valuation
  - An industrial unit in Kilmarnock at auction for £1.4m, 12% ahead of valuation
- Since 31 December 2022 a high street retail unit in Bury St Edmunds has been sold at auction for £0.5m, £0.1m (35%) ahead of valuation
- £3.0m of value enhancing capital expenditure undertaken during the Quarter, primarily on the redevelopment of an industrial unit in Redditch and the refurbishment of an industrial unit in Winsford which are expected to enhance rents and the assets' environmental credentials once complete

[4] NAV per share movement including dividends paid during the Quarter.

Gearing remains low and in line with target, with significant borrowing headroom

- At 31 December 2022:
  - Net gearing[5] remains low and broadly in line with the Company's 25% target, increasing to 27.1% loan-to-value during the Quarter (30 September 2022: 25.4%) as a result of valuation decreases, partially offset by £13.5m of disposals
  - £175m of drawn debt of which 80% is at a fixed rate of interest and with an aggregate weighted average cost of 3.7%. There are no facility expiries until September 2024 and agreed facilities have a weighted average term of 6.1 years

Richard Shepherd-Cross, Managing Director of Custodian Capital Limited, said: "Our active asset management has enabled us to capture occupational demand, lease vacant space across all sectors and deliver rental growth which will support earnings and underpins the Company's fully covered dividend. This strong recent leasing activity demonstrates the resilience of Custodian Property Income REIT's well-diversified investment portfolio and the depth of the occupational market for space in high quality, well located and affordable assets such as ours.

"Despite recent market wide valuation decreases, Custodian Property Income REIT's prudent approach to investment and the management of its balance sheet, with low gearing and a longer-term fixed rate debt profile, has left the Company well insulated from the negative impact of interest rate rises continuing in the short to medium-term.

"More broadly, despite investment market volatility during 2022 and the threat of an imminent recession, I believe the real estate market is in a much better place than it has been for the last 18 months. Rent collection levels remain very strong, the restrictions and impact of COVID-19 on tenants' businesses are largely resolved and unlike in previous recessions we are not faced with an over-supply of real estate and rising vacancy rates at the outset.

"As a result, we remain confident that our ongoing intensive asset management of the portfolio, which still offers a number of wide-ranging opportunities to add value, will maintain cash flow and support consistent returns. Coupled with the strength of the Company's balance sheet, this will continue to support our high income return strategy."

[5] Gross borrowings less cash (excluding rent deposits) divided by portfolio valuation.

Net asset value

The unaudited NAV of Custodian Property Income REIT at 31 December 2022 was £440.0m, reflecting approximately 99.8p per share, a decrease of 13.9p (-12.2%) since 30 September 2022:

	Pence per share	£m
NAV at 30 September 2022	113.7	501.4
Valuation movements relating to:		
- Asset management activity	0.7	3.0
- General valuation decreases	(14.7)	(64.5)
Net valuation movement	(14.0)	(61.5)
Loss on disposal	-	(0.1)
	(14.0)	(61.6)
EPRA earnings for the Quarter	1.5	6.3
Interim dividend paid[6] during the Quarter	(1.4)	(6.1)
NAV at 31 December 2022	99.8	440.0

The NAV attributable to the ordinary shares of the Company is calculated under International Financial Reporting Standards and incorporates the independent portfolio valuation at 31 December 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 28 February 2023.

Investment Manager's commentary

UK property market

During the last six months Custodian Property Income REIT has demonstrated the strength of its strategy and the continued attractiveness to all sizes of occupiers of the assets in the Company's portfolio, despite significant economic adversity. While our capital values are not immune from the effects of cost inflation and rising interest rates the Company's income focused strategy and highly diversified portfolio of smaller regional properties has delivered robust earnings, supporting fully covered dividends and lower volatility in valuations than the wider market.

The broader UK property market saw valuations fall by 18% during the second half of 2022[7]. By contrast the Company's smaller regional property strategy, which had not seen the pricing extremes of the post-COVID-19 period, experienced only a 15% decrease in like-for-like values over that six-month period. This

[6] An interim dividend of 1.375p per share relating to the quarter ended 30 September 2022 was paid on 30 November 2022.
[7] Source: React News 18 January 2023.

contrast is even more marked for the industrial sector where during the Quarter the market recorded a 20% reduction in logistics values[8] compared to the Company's industrial portfolio experiencing only an 11% decrease.

The lower volatility of the Company's underlying property portfolio was mirrored in share price total return[9]. 2022 delivered negative total returns for nearly all listed property companies and REITs recorded aggregate -34% share price total returns for 2022 with companies ranging from just positive to -46%[10]. Custodian Property Income REIT delivered -2% share price total return during 2022 and we believe as confidence in real estate is restored in 2023 dividends, fully covered by earnings, will be recognised as the key element of total return.

In common with many market commentators, we believe that market values are stabilising, as the Bank of England makes increasingly clear statements about the trajectory of interest rates and gilt rates offer a more consistent comparator for investment returns and provide some certainty for lending banks.

Despite investment market volatility during 2022, in many ways the real estate market is in a much better place than it has been for the last 18 months. Rent collection levels are very strong, COVID-19 restrictions appear to be behind us and the impact of COVID-19 on tenants' businesses is largely resolved. Despite the threat of an imminent recession, unlike in previous recessions we are not faced with an over-supply of real estate and rising vacancy rates at the outset.

Indeed, record low vacancy rates in the industrial sector are still driving rental growth. The economics of development now require rents on new developments to be higher than six months ago. To generate the necessary gross development value required to deliver new developments, higher investment yields and increased costs of labour and materials dictate that rents must also be higher, adding to upward rental growth pressure in the sector.

We still see rental growth potential in strong regional city centres for offices that are well-specified for post-pandemic working practices, with high levels of amenity, excellent environmental credentials, flexible lease terms and a high quality fit out – possibly fully fitted by the landlord. There is, however, a two-tier office market developing with buildings that cannot meet occupational trends seeing continued valuation falls and a very limited investor market.

We see continued growth in drive-through restaurant rents and have recently settled rent reviews ahead of ERV at two drive-throughs in York.

[8] Source: Goodbody equity research.
[9] Share price movement including dividends paid during the year.
[10] Source: Jeffries research.

Across the whole portfolio, valuers' estimates of rental value stand some 15% ahead of passing rent. While part of this reversion is due to vacancy, the balance is latent rental growth which will be unlocked at rent review and lease renewal.

During the Quarter, the Company agreed ten new leases securing £1.2m rent for a further 7.3 years and has continued to see good levels of occupier activity. Four new leases have already been signed since the Quarter end and there is a strong pipeline of asset management and refurbishment/redevelopment opportunities.

One of the strengths of a diversified and mature real estate portfolio is that even when market conditions do not favour acquisitions or disposals there are wide ranging investment opportunities in the standing portfolio. We have a 12-18 month capital investment pipeline of c.£28m across 23 projects, which is forecast to deliver superior investment properties, improved energy performance, enhanced rental cash flows and a positive impact on net asset value.

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 7.3 years, bringing the portfolio total to 4.8 years:

- A new 25 year lease with a 15 year tenant break option to Ten Pin Bowling on a vacant leisure unit in Phoenix Leisure Park, Crewe at an annual rent of £210k, increasing valuation by £0.9m (24%);
- A new 20 year lease with a 15 year tenant break option to Ocado Retail on a vacant industrial unit in Leeds at an annual rent of £103k, increasing valuation by £0.4m (13%);
- A 10 year lease renewal with a five year tenant break option to Warburtons on an industrial unit in Langley Mill with annual rent increasing by 23% from £165k to £203k, reflecting a 27% premium to ERV, and increasing the valuation by £0.4m (13%);
- A new 10 year lease with a five year tenant break option to Rexel on a vacant retail warehouse unit in Gloucester at an annual rent of £55k, increasing valuation by £0.3m (15%);
- A 15 year lease renewal without break to F1 Autocentres on an industrial unit in Crewe with annual rent of £50k, increasing valuation by £0.3m (19%);
- A new 10 year lease with a five year tenant break option to Galaxy Technical Services on a vacant industrial unit in Weybridge at an annual rent of £158k, increasing valuation by £0.2m;
- A new 10 year lease with a five year tenant break option to iON Ambulance on a vacant industrial unit in Kettering at an annual rent of £40k, increasing valuation by £0.2m;
- A new five year lease with a year two tenant break option to IJ Tours on the 5th floor of an office unit in Manchester at an annual rent of £24k, with no impact on valuation;

- A 15-year lease renewal with a tenth-year tenant break option to Tesco on a convenience retail unit in Birmingham with an annual rent of £69k, with no impact on valuation; and
- An interim tenancy regear until practical completion to A Share & Sons (t/a SCS) on an industrial unit in Livingston at an annual rent of £282k, with no impact on valuation.

During the Quarter the following rent reviews were settled with:

- Morrison Utility Services at an industrial unit in Stevenage with annual rent increasing by 19% to £271k, increasing valuation by £0.3m; and
- Karali (t/a Burger King) on a drive-through unit in York with annual rent increasing 11% to £83k, with no impact on valuation.

The positive impact of letting vacant space has increased EPRA occupancy to 89.9% (30 September 2022: 89.3%). Of the Company's remaining vacant space 48% is subject to refurbishment or redevelopment, 8% was let post Quarter end and 8% is under offer for sale or lease.

Since the Quarter end the following initiatives have completed:

- A new 25 year lease with a 15 year tenant break option to Ten Pin Bowling on a vacant retail warehouse unit in Milton Keynes, at an annual rent of £320k, increasing valuation by £1.2m;
- A new 10 year lease straight term to CB Printforce on an industrial unit in Biggleswade with an annual rent of £400k, increasing valuation by £0.5m;
- A new five year lease straight term to Intelligent Facility Solutions on an industrial unit in Sheffield with an annual rent of £35k, increasing valuation by £0.1m; and
- Exchanged on an Agreement for Lease, subject to Landlord works, for a new year 15 year lease with a 10 year tenant break to Campana (t/a Taco Bell) on a vacant leisure unit in Phoenix Leisure Park, Crewe at an annual rent of £65k.

Fully covered dividend

The Company paid an interim dividend of 1.375p per share on 30 November 2022 relating to the quarter ended 30 September 2022. The Board has approved another interim dividend per share of 1.375p for the Quarter, fully covered by EPRA earnings, payable on 28 February 2023. The Board is targeting aggregate dividends per share[11] 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.

[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.

Additional details on disposals

During the Quarter the Company made the following disposals:

- 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;
- An out-of-town office property in Leicester for £2.8m, in line with the most recent valuation. The asset was acquired as part of the Company's IPO portfolio in 2014 and had been fully let since, delivering an average yield of 9% per annum, but had seen no rental or valuation growth over our period of ownership and that trend was expected to continue; 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.

Since the Quarter end the Company has sold a high street retail unit in Bury St Edmunds at auction for £0.54m, £0.14m (35%) ahead of valuation. The lease term had been recently increased by five years but with annual rent decreasing from £53k to £40k, and rents were not anticipated to recover in the short-medium term.

Borrowings

Custodian Property Income REIT operates the following agreed borrowing facilities, with £175m currently drawn of which 80% is at a fixed rate of interest. These facilities have no expiries until September 2024 and a weighted average term of 6.1 years:

Variable rate borrowing

- 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 31 December 2022 £35m was drawn under the RCF. The RCF limit can be increased to £50m with Lloyds' consent;

Fixed rate borrowing

- 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 3.7%.

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 31 December 2022 the property portfolio comprised 162 assets with a net initial yield[12] ("NIY") of 6.5% (30 September 2022: 5.9%). 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	NIY 31 Dec 2022	Valuation 31 Dec 2022 £m	Weighting by value 31 Dec 2022	Quarter valuation movement £m	Quarter valuation movement	Weighting by value 30 Sept 2022
Industrial	5.5%	291.6	48%	(36.0)	(11%)	48%
Retail warehouse	7.1%	135.0	22%	(11.5)	(8%)	22%
Other[13]	6.9%	74.3	12%	(4.6)	(6%)	11%
Office	7.2%	73.9	12%	(7.1)	(9%)	12%
High street retail	9.7%	38.0	6%	(2.3)	(6%)	7%
Total	6.5%	612.8	100%	(61.5)	9%	100%

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

- Ends -

[12] Passing rent divided by property valuation plus purchaser's costs.
[13] Comprises drive-through restaurants, car showrooms, trade counters, gymnasiums, restaurants and leisure units.

Further information:

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

Custodian Capital Limited
Richard Shepherd-Cross / Ed Moore / Ian Mattioli MBE Tel: +44 (0)116 240 8740
www.custodiancapital.com

Numis Securities Limited
Hugh Jonathan / Nathan Brown Tel: +44 (0)20 7260 1000
www.numis.com/funds

FTI Consulting
Richard Sunderland / Ellie Sweeney / Andrew Davis Tel: +44 (0)20 3727 1000
custodianreit@fticonsulting.com

Notes to Editors

Custodian Property Income 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.