10 May 2023

Custodian Property Income REIT plc

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

Fourth quarter trading update shows strong leasing momentum driving income and supporting fully covered dividend as well as value stabilisation

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 fourth quarter ended 31 March 2023 ("Q4" or the "Quarter") and the year ended 31 March 2023 ("FY23").

Strong leasing activity continues to support rental growth and underpin fully covered dividends

- 1.375p dividend per share approved for the Quarter achieving aggregate FY23 dividends per share of 5.5p, in line with target, 102% covered by unaudited EPRA earnings
- Target dividends per share of no less than 5.5p for the year ending 31 March 2024
- EPRA earnings per share[1] of 1.4p for Q4 (Q3: 1.5p) and 5.6p for FY23 (FY22: 5.9p) with the impact of positive asset management outcomes offset by increases in interest rates and Q3 disposals
- £2.5m of new rental income secured during the Quarter through leasing, renewals and rental uplifts reflecting a 5% aggregate premium to ERV and comprising:
  - Six new leases and two agreements for lease signed across a range of property sectors at an aggregate 5% ahead of ERV, adding £2.4m of annual rent for a weighted average of 9.5 years to first break (Q3: 10 new leases adding £1.2m of annual rent for 7.3 years)
  - 24% (£0.1m) aggregate rental increase across three open market rent reviews settled during the Quarter, at an aggregate 5% ahead of ERV
- 1.4% increase in like-for-like[2] ERV since 31 December 2022. ERV now exceeds passing rent by 16%
- EPRA occupancy[3] improved to 90.3% (31 December 2022: 89.9%) primarily due to letting a vacant leisure unit in Milton Keynes on a 25 year lease at an annual rent of £320k during the Quarter, which had been vacant since 2019
- 84% of current vacancy is subject to refurbishment or redevelopment (57%) or is under offer to let (27%)

[1] Profit after tax excluding net gains or losses on investment property divided by weighted average number of shares in issue.
[2] Adjusting for property acquisitions, disposals and capital expenditure.
[3] Estimated rental value ("ERV") of let property divided by total portfolio ERV.

Valuation movements

- £2.2m (-0.7% like-for-like) valuation decrease, net of a £2.6m (0.4%) valuation increase from active asset management activity (Q3: £3.0m increase from asset management), moves the Company's diversified portfolio of 161 assets to £613.6m
- Q4 net asset value ("NAV") total return per share[4] of 0.9%
- NAV per share of 99.3p (31 December 2022: 99.8p) with a NAV of £437.6m (31 December 2022: £440.0m)

Sales continued at above book value while £5.8m was invested in the development and refurbishment of existing assets

- During the Quarter:
  - A high street retail unit in Bury St Edmunds was sold at auction in January 2023 for £0.54m, £0.14m (35%) ahead of valuation
  - £5.8m of capital expenditure was undertaken, primarily on the redevelopment of an industrial unit in Redditch and the refurbishment, including improving the environmental credentials, of an industrial unit in Winsford and offices in Manchester, which are expected to enhance valuation, and rents once complete and let

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

- Net gearing[5] remains low at 27.4% loan-to-value as of 31 March 2023 (31 December 2022: 27.1%), broadly in line with the Company's 25% target
- £173.5m of drawn debt with an aggregate weighted average cost of 3.8% and of which 81% is at a fixed rate of interest
- Fixed rate debt facilities have a weighted average term of 7.0 years and a weighted average cost of 3.4% offering significant medium-term interest rate risk mitigation
- The Company's £50m variable rate revolving credit facility, of which £33.5m is drawn, expires in September 2024 and discussions are underway regarding an extension to the facility

[4] NAV per share movement including dividends paid during the Quarter.
[5] Gross borrowings less cash (excluding rent deposits) divided by portfolio valuation.

Richard Shepherd-Cross, Managing Director of Custodian Capital Limited, said: "We are beginning to see some optimism returning to real estate markets following six months of economic turbulence, which had a direct impact on real estate values. Property pricing has reacted quickly to the new interest rate environment allowing the market to continue to function despite transaction levels remaining low. As a result, and assisted by our asset management initiatives, valuations have largely stabilised during the Quarter allowing delivery of a positive quarterly NAV total return.

"Much of the optimism in real estate is due to the prospect of rental growth which is the key component of anticipated total returns. In an inflationary environment, real returns from real assets can be achieved when rents are growing. The Company's portfolio has an EPRA net initial yield[6] of 5.8% and an equivalent yield[7] of 7.3%, demonstrating the reversionary potential of the Company's properties, which we continue to capture.

"Our asset management of the portfolio and the types of assets we own are focused on where occupational demand is strongest, allowing us to lease vacant space across all sectors and deliver rental growth. This has supported EPRA earnings per share and underpins the Company's long term track record of paying a fully covered dividend.

"Custodian Property Income REIT's balance sheet resilience, 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. Rental growth feeding into the portfolio will create headroom for eventual refinancing.

"As energy performance certificate ("EPC") requirements of the Minimum Energy Efficiency Standards ("MEES") tighten we expect to maintain a compliant portfolio of properties. With energy efficiency a core tenet of the Company's asset management strategy and with tenant requirements aligning with our energy efficiency goals we see the advance of MEES as an opportunity to secure greater tenant engagement and higher rents.

"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."

Net asset value

[6] Annualised cash rents at the Quarter-end, less estimated non-recoverable property operating expenses, divided by the gross property valuation plus estimated purchaser's costs.
[7] Weighted average of annualised cash rents at the Quarter-end date and ERV, less estimated non-recoverable property operating expenses, divided by property valuation plus estimated purchaser's costs.

The Company’s unaudited NAV at 31 March 2023 was £437.6m, or approximately 99.3p per share, a marginal decrease of 0.5p (-0.5%) since 31 December 2022:

	Pence per share	£m
NAV at 31 December 2022	99.8	440.0
Valuation movements relating to:		
- Asset management activity	0.6	2.6
- General valuation decreases	(1.1)	(4.8)
Net valuation movement	(0.5)	(2.2)
Profit on disposal[8]	0.0	(0.2)
	(0.5)	(2.4)
EPRA earnings for the Quarter	1.4	6.1
Interim dividend paid[9] during the Quarter	(1.4)	(6.1)
NAV at 31 March 2023	99.3	437.6

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 March 2023 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 May 2023.

Investment Manager’s commentary

UK property market

In the 12 months to 31 March 2023 the UK commercial property market saw valuations decline by 17% with the bulk of the rerating in the quarter to December 2023. The Company’s portfolio experienced a more muted fall of only 11.8% like-for-like and we believe this lower volatility is primarily due to Custodian Property Income REIT’s smaller regional property strategy and focus on income returns. Firstly, the Company’s valuations did not ‘overheat’ during mid-2022 to the same extent as, say, prime logistics. Secondly, the diversified strategy provided a softer landing as sub-sectors such as high street retail, drive through restaurants and car showrooms saw much less pricing volatility than logistics. With valuations appearing to have stabilised it is possible to see the rapid correction due to the new interest rate environment as strongly positive for the market, maintaining liquidity and providing future acquisition opportunities.

[8] Net of £0.3m movements in prior period disposal cost and rent top-up accruals.
[9] An interim dividend of 1.375p per share relating to the quarter ended 31 December 2022 was paid on 28 February 2023.

The table below shows the reversionary potential of the portfolio by sector once asset management initiatives are complete, by comparing EPRA net initial yields to the equivalent yield, which factors in expected rental growth and the letting of vacant units. Across the whole portfolio, valuers' estimated rental values are 16% ahead of passing rent and while part of the reversionary potential is due to vacancy, the balance is this latent rental growth which will be unlocked at rent review and lease renewal.

Sector	Equivalent yield[10] 31 Mar 2023	EPRA Topped-up NIY[11] 31 Mar 2023	EPRA NIY[12] 31 Mar 2023
Industrial	6.6%	5.1%	4.9%
Retail warehouse	7.3%	7.2%	6.7%
Other	8.0%	6.8%	6.3%
Office	8.9%	6.4%	5.4%
High street retail	8.6%	9.6%	9.4%
Portfolio total	7.3%	6.2%	5.8%

Retail warehousing has been a key sector for acquisitions for some time and it demonstrated extraordinary resilience through the pandemic, particularly in our favoured sub-sectors of food, homewares, DIY and the discounters. Vacancy rates are very low and future rental growth appears affordable for occupiers.

In the office sector, a much clearer picture is emerging of how tenants will use and occupy offices in the new world of hybrid working. Occupiers are demanding much higher levels of amenity both from their offices and from their office locations. This favours modern, flexible office space in city centre locations with strong transport links and high environmental credentials. Where this space can be provided there appears to be meaningful rental growth, but conversely office space that cannot meet these criteria risks becoming obsolete and will need to be re-purposed. In our portfolio we have seen strong rental growth in Oxford and central Manchester where we are currently refurbishing offices to meet the new market demand.

Rental growth remains strong in the industrial and logistics sector which accounts for 40% of the Company's rent roll and 48% of the portfolio by value. Lack of supply, limited development of smaller and mid-box industrial units and construction cost inflation have all combined to heighten occupational demand and produce low vacancy rates, driving rental growth for new-build regional industrial units and well specified, refurbished space.

[10] Weighted average of annualised cash rents at the Quarter-end date and ERV, less estimated non-recoverable property operating expenses, divided by property valuation plus estimated purchaser's costs.
[11] Annualised cash rents at the Quarter-end date, adjusted for the expiration of lease incentives, less estimated non-recoverable property operating expenses, divided by property valuation plus estimated purchaser's costs.
[12] Annualised cash rents at the Quarter-end, less estimated non-recoverable property operating expenses, divided by the property valuation plus estimated purchaser's costs.

Asset management

The Investment Manager has remained focused on active asset management during the Quarter, completing leasing initiatives, with a weighted average unexpired term to first break or expiry ("WAULT") of 9.5 years, increasing the portfolio total to 5.0 years:

- A five year reversionary lease to B&M on a retail warehouse unit in Ashton Under Lyme at an annual rent of £421k, increasing valuation by £0.7m (13%);
- A 25 year lease with a 15 year tenant break option to Ten Pin Bowling on a leisure unit in Milton Keynes which had been vacant since July 2019 at an annual rent of £320k, increasing valuation by £0.7m (22%);
- A 10 year lease to CB Printforce on an industrial unit in Biggleswade with annual rent increasing from £330k to £400k, increasing valuation by £0.6m (13%);
- A five year lease to Intelligent Facility Solutions on an industrial unit in Sheffield at an annual rent of £35k, increasing valuation by £0.1m;
- A five year lease renewal with a year three break to Portakabin on an industrial unit in Knowsley at an annual rent of £64k, increasing valuation by £0.1m;
- A five year lease renewal with a year three break to Lush on a retail unit in Colchester at an annual rent of £36k with no impact on valuation; and
- Exchanging agreements for lease with First Title Limited (t/a Enact Conveyancing) on two office buildings in Leeds. The transaction will see CREIT fund the comprehensive refurbishment of both buildings to achieve A rated EPCs at a total cost of circa £3.9m, with the tenant taking on new 10 year leases without break on completion. Following completion of the refurbishment the aggregate annual passing rent is set to increase from £649k to £942k, a 45% increase, with an expected increase in valuation of c. £1m above expenditure once completed.

During the Quarter rent reviews were settled with:

- Synertec at an industrial unit in Warrington with annual rent increasing by 62% to £190k, increasing valuation by £0.4m (5%);
- Edmundson Electrical at a trade counter unit in Crewe with annual rent increasing by 11% to £31k, with no impact on valuation; and
- Pendragon at a car dealership unit in York with annual rent increasing by 6% to £255k, with no impact on valuation.

The positive impact of letting vacant space has increased EPRA occupancy to 90.3% (31 December 2022: 89.9%). Of the Company's remaining vacant space 57% is subject to refurbishment or redevelopment and 27% is under offer to let.

The weighted average EPC score of the portfolio has improved during the last 12 months from 61 (C) at 31 March 2022 to 58 (C) at the Quarter end.

Fully covered dividend

The Company paid an interim dividend of 1.375p per share on 28 February 2023 relating to the quarter ended 31 December 2022. The Board has approved another interim dividend per share of 1.375p for the Quarter, fully covered by EPRA earnings, payable on 31 May 2023. The Board is targeting aggregate dividends per share[13] of at least 5.5p for the year ending 31 March 2024. 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.

Additional details on disposals

During the Quarter the Company 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

At 31 March 2023 the Company had £173.5m of debt drawn at an aggregate weighted average cost of 3.8% with no expiries until September 2024. This debt comprised:

- £33.5m (19%) at a variable prevailing interest rate of 5.83% and a facility maturity of 1.5 years; and
- £140m (81%) at a weighted average fixed rate of 3.4% with a weighted average maturity of 7.0 years.

The Company's borrowing facilities are:

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 March 2023 £33.5m was drawn under the revolving credit facility ("RCF"). The RCF limit can be increased to £50m with Lloyds' consent. Discussions are underway regarding an extension to the facility.

[13] 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.

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%.

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 March 2023 the property portfolio comprised 161 assets. 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 2023 £m	Weighting by value 31 Mar 2023	Quarter valuation movement £m	Quarter valuation movement	Weighting by value 31 Dec 2022
Industrial	295.1	48%	1.4	1%	48%
Retail warehouse	131.8	21%	(0.3)	-	22%
Other[14]	78.6	13%	0.9	1%	12%
Office	71.7	12%	(3.3)	(4%)	12%
High street retail	36.4	6%	(0.9)	(3%)	6%
Total	613.6	100%	(2.2)	-	100%

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

- Ends -

[14] 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:

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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.