31 October 2023

Custodian Property Income REIT plc

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

Second quarter trading update shows rental growth supporting fully covered dividends and stable values

Custodian Property Income REIT (LSE: CREI), which seeks to deliver an enhanced income return by investing in a diversified portfolio of smaller, regional properties with strong income characteristics across the UK, today provides a trading update for the quarter ended 30 September 2023 ("Q2" 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, fully covered by unaudited EPRA earnings, in line with target of no less than 5.5p for the year ending 31 March 2024, representing a 6.8% yield based on the prevailing 81p share price[1]
- EPRA earnings per share[2] of 1.4p for the Quarter (FY24 Q1: 1.5p, FY23 Q4: 1.4p)
- Nine new leases signed and one rent review settled during the Quarter across a range of property sectors, on average, in line with ERV and 24% above previous passing rent. These initiatives added £1.0m of new annual rent through letting vacant assets and secured a further £0.7m of existing annual rent roll, increasing property capital value by £4.5m
- ERV has increased by 0.7% since 30 June 2023, driven primarily by capital expenditure. Portfolio ERV (£49.7m) now exceeds passing rent (£43.2m) by 15% (30 June 2023: 17%) demonstrating the portfolio's significant reversionary potential
- EPRA occupancy[3] increased to 91% (30 June 2023: 90%). 2.8% of ERV is vacant subject to refurbishment or redevelopment with 2.2% of ERV vacant but under offer to let or sell

[1] Price on 30 October 2023. Source: London Stock Exchange.
[2] Profit after tax excluding net gains or losses on investment property divided by weighted average number of shares in issue.
[3] Estimated rental value ("ERV") of let property divided by total portfolio ERV.

Valuations remain stable

- The valuation of the Company's diversified portfolio of 159 assets decreased like-for-like[4] by 1.8% (£12.3m) to £609.8m, net of a £4.5m valuation increase from active asset management activity (FY24 Q1: £2.0m increase from asset management)
- Q2 net asset value ("NAV") total return per share[5] of -1.4%
- NAV per share of 95.9p (30 June 2023: 98.6p) with a NAV of £422.8m (30 June 2023: £434.9m)

Redevelopment and refurbishment of existing assets continues to be accretive with an expected yield on cost above average cost of borrowing

- £6.9m of capital expenditure undertaken during the Quarter, including buying the long-leasehold of a unit at a 10-unit industrial asset in Knowsley (£1.3m) and the refurbishment of: offices in Manchester and Leeds (£2.7m); an industrial unit in Ashby-de-la-Zouch (£1.1m) and retail assets in Shrewsbury and Liverpool (£0.6m)
- All ongoing capital works are expected to enhance the assets' valuations and environmental credentials and, once let, increase rents to give a yield on cost of at least 7%, ahead of the Company's marginal cost of borrowing
- Weighted average energy performance certificate rating has improved to C(56) (30 June 2023: C(58)) due to re-ratings being carried out at three assets following refurbishment (Redditch, Winsford and Liverpool) and one following a new letting (Grantham), with ongoing capital expenditure initiatives expected to drive further improvements in subsequent quarters

Prudent debt levels mean gearing remains broadly in line with target, with significant borrowing covenant headroom

- Net gearing[6] was 29.6% loan-to-value as of 30 September 2023 (30 June 2023: 28.0%), broadly in line with the Company's 25% target
- £185.0m of drawn debt comprising £140m (76%) of fixed rate debt and £45m (24%) drawn under the Company's revolving credit facility ("RCF"). We expect that sales proceeds from the disposal of properties under offer will reduce drawn debt over the remainder of the financial year
- Aggregate borrowings have a weighted average cost of 4.2%
- Fixed rate debt facilities have a weighted average term of 6.5 years and a weighted average cost of 3.4% offering significant medium-term interest rate risk mitigation

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

Asset recycling continues to generate proceeds in excess of valuation

- At 30 September 2023 five properties were under offer to sell valued at c.£19m which are expected, in aggregate, to generate proceeds more than 10% in excess of valuation. Proceeds are expected to be invested in the Company's remaining pipeline of profitable capital expenditure and to reduce variable rate borrowings
- Of these properties under offer, we have exchanged contracts to sell a children's day nursery in Chesham for £0.55m and out-of-town offices on Pride Park, Derby for £2.05m (including receipt of a £0.2m deposit)

Net asset value

In line with the portfolio valuation, the Company's unaudited NAV at 30 September 2023 decreased to £422.8m, or approximately 95.9p per share, a decrease of 2.7p (-2.7%) since 30 June 2023:

	Pence per share	£m
NAV at 30 June 2023	98.6	434.9
Valuation movements relating to:		
- Asset management activity	1.0	4.5
- General valuation decreases	(3.7)	(16.8)
Net valuation movement	(2.7)	(12.3)
EPRA earnings for the Quarter	1.4	6.3
Interim dividend paid[7] during the Quarter	(1.4)	(6.1)
NAV at 30 September 2023	95.9	422.8

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 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 as usual this does not include any provision for the approved dividend of 1.375p per share for the Quarter to be paid on 30 November 2023.

Investment Manager's commentary

UK property market

The disconnect between the occupational and investment markets in UK real estate continues to persist. While the impacts of high inflation and interest rates appear to weigh heavily on investor sentiment,

[7] An interim dividend of 1.375p per share relating to the quarter ended 30 June 2023 was paid on 31 August 2023.

perhaps the greater influence has been the marked re-rating of valuations in the final quarter of 2022, which still seems to colour investors' attitude to real estate investment. However, since the start of 2023 valuations have been reasonably stable across the market, with some sub-sectors showing signs of recovery while others continue to drift. The outcome for the NAV of Custodian Property Income REIT has been a marginal decrease of 3.9% over the past three quarters.

By contrast, occupational demand has been consistently strong which has led to a reduced vacancy rate and increase in the portfolio rent roll. We experienced a post lockdown increase in vacancy to c.10%, but this has steadily improved and based on lettings under offer, vacancy is expected to reach c.7% by 31 December 2023.

Similarly, the portfolio rent roll has grown 2.9% from £42.0m at the start of the financial year to £43.2m at the end of the Quarter, through both reduced vacancy and rental growth. During the Quarter, letting vacant units added £1.0m (2.3%) to the rent roll.

It is the strength of the occupational market driving rental growth and low vacancy that will ultimately support fully covered dividends and earnings growth. Income/earnings remain a central focus for Custodian Property Income REIT, and it is income that will deliver positive total returns for shareholders. On this basis we remain cautiously optimistic.

Asset management

The Investment Manager has remained focused on active asset management during the Quarter, completing nine new leases adding £1.0m of new annual rent through letting vacant assets and secured a further £0.7m of existing annual rent roll, increasing property capital value by £4.5m. These new leases had a weighted average unexpired term to first break or expiry ("WAULT") of 5.5 years, with the overall portfolio WAULT remaining at 4.8 years. These asset management initiatives included completing:

- A 10 year lease with fifth year break option to Zavvigroup on a vacant, comprehensively refurbished industrial unit in Winsford at annual rent of £741k, a 75% increase on the previous passing rent, increasing valuation by £2.2m (24%);
- A 10 year lease renewal with fifth year break option on an industrial unit in Hamilton let to Ichor Systems at an annual rent of £295k, a 29% increase on the previous passing rent, increasing valuation by £0.8m (27%);
- A 15 year lease with tenth year break option to JD Gyms on a vacant retail warehouse unit in Swindon at an annual rent of £150k, in line with ERV, increasing valuation by £0.7m (12%);
- A 15 year lease with tenth year break to Farmfoods at a vacant retail warehouse unit in Grantham at an annual rental of £100k, in line with ERV, increasing valuation by £0.5m (22%);
- A five year lease renewal with Next on a retail warehouse unit in Evesham, at an annual rent of £128k, in line with ERV;

- A 10 year lease with fifth year break to Aubin & Wills on a retail unit in Edinburgh at an annual rent of £95k, in line with ERV, increasing valuation by £0.3m (31%);
- A five year lease renewal with third year break option to Halfords on a retail warehouse unit in Weymouth at an annual rental of £71k, in line with ERV;
- A five year lease to Blue Cross on a retail unit in Shrewsbury at an annual rental of £33k, in line with ERV; and
- A three year lease to Community 360 at a retail unit in Colchester at an annual rental of £24k.

During the Quarter the Company also settled an open market rent review with Charles Stanley at Willow Court, Oxford at £111k, a 43% increase on the previous passing level, and completed the following capital initiatives:

- Purchased the long leasehold interest of a unit at a 10-unit industrial asset in Knowsley for £1.25m; and
- Achieved practical completion of a £7m redevelopment of an industrial unit in Redditch.

The impact of these positive outcomes was partially offset by the Administration of Wilko, which exited the Company's retail unit in Taunton, decreasing the Company's annual rent roll by £0.1m.

Post Quarter end we exchanged contracts for the disposal of an out-of-town office property on Pride Park, Derby for £2.05m. A deposit of £0.2m was received with completion expected in December 2023.

Fully covered dividend

The Company paid an interim dividend of 1.375p per share on 31 August 2023 relating to the quarter ended 30 June 2023. The Board has approved an interim dividend per share of 1.375p for the Quarter, fully covered by EPRA earnings, payable on 30 November 2023. The Board is targeting aggregate dividends per share[8] 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.

Borrowings

[8] 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.

At 30 September 2023 the Company had £185.0m of debt drawn at an aggregate weighted average cost of 4.2% with no expiries until September 2024 and diversified across a range of lenders. This debt comprised:

- £45m (24%) at a variable prevailing interest rate of 6.84% and a facility maturity of 1.0 years; and
- £140m (76%) at a weighted average fixed rate of 3.4% with a weighted average maturity of 6.5 years.

At 30 September 2023 the Company's borrowing facilities are:

Variable rate borrowing

- £45m drawn under the Lloyds RCF.

The Company expects to complete an extension of the Lloyds RCF during November 2023, increasing the total funds available from £50m to £75m for a term of three years, with an option to extend the term by a further two years subject to Lloyds' approval.

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 pools is either 45% or 50%, with an overarching covenant on the property portfolio of a maximum of 35% LTV; and
- Historical interest cover, requiring net rental receipts from the discrete security pools, over the preceding three months, to exceed either 200% or 250% of the associated facility's quarterly interest liability.

Portfolio analysis

At 30 September 2023 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 2023 £m	Weighting by value 30 Sept 2023	Quarter valuation movement £m	Quarter valuation movement	Weighting by value 30 Jun 2023
Industrial	303.2	50%	(0.2)	-	49%
Retail warehouse	127.6	21%	(3.7)	(3%)	21%
Other[9]	78.1	13%	(1.8)	(2%)	13%
Office	67.5	11%	(5.9)	(8%)	11%
High street retail	33.4	5%	(0.7)	(2%)	6%
Total	609.8		(12.3)	(2%)	100%

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

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 throughout the UK and is principally characterised by smaller, regional, core/core-plus properties.

The Company offers investors the opportunity to access a diversified portfolio of UK commercial real estate through a closed-ended fund. By principally targeting smaller, regional, core/core-plus 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.