

Custodian Property Income REIT plc

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

Third quarter trading update shows rental growth supporting fully covered dividends

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 31 December 2023 ("Q3" or the "Quarter").

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 at least 5.5p for the year ending 31 March 2024, representing a 8.0% yield based on the prevailing 69p share price¹
- EPRA earnings per share² of 1.4p for the Quarter (FY24 Q2: 1.4p, Q1: 1.5p)
- Passing rent increased to £43.4m (FY24 Q2: £43.2m) driven by continued occupier demand for space across all sectors in the Company's portfolio, with four rent reviews settled during the Quarter, on average, in line with ERV and 21% above previous passing rent. Four new leases also signed securing £0.5m of annual rent. These initiatives have increased property capital value by £1.0m
- Like-for-like ERV has increased by 0.8% since 30 September 2023, driven primarily by rental growth in the industrial sector. Portfolio ERV (£50.1m) exceeds passing rent by 15% (30 Sept 2023: 15%) demonstrating the portfolio's significant reversionary potential
- EPRA occupancy³ has remained at 91% (30 Sept 2023: 91%). 1.0% of ERV is vacant subject to refurbishment or redevelopment with 3.1% of ERV vacant but under offer to let or sell

¹ Price on 6 February 2024. 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

- The valuation of the Company's diversified portfolio of 158 assets decreased on a like-for-like⁴ basis by 1.7% (£10.5m) to £602.4m, net of a £1.0m valuation increase from active asset management activity (FY24 Q2: £4.5m increase from asset management)
- Q3 net asset value ("NAV") total return per share⁵ of -1.3%
- NAV per share of 93.3p (30 Sept 2023: 95.9p) with a NAV of £411.2m (30 Sept 2023: £422.8m)

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

- £3.6m of capital expenditure undertaken during the Quarter, 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(54) (30 Sept 2023: C(56)) with re-ratings being carried out across 30 assets

Prudent debt levels

- Net gearing⁶ was 30.6% loan-to-value as of 31 December 2023 (30 Sept 2023: 29.6%). Property disposals since the Quarter end, detailed below, have reduced net gearing to 29.4%, drawing the LTV closer to the Company's 25% medium-term target
- £190.0m of drawn debt comprising £140m (74%) of fixed rate debt and £50m (26%) drawn under the Company's revolving credit facility ("RCF")
- Aggregate borrowings have a weighted average cost of 4.3%
- Fixed rate debt facilities have a weighted average term of 6.3 years and a weighted average cost of 3.4% offering significant medium-term interest rate risk mitigation

⁴ Adjusting for capital expenditure and disposals.

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 aggregate proceeds in excess of valuation

- During the Quarter a children's day nursery in Chesham was sold at valuation for £0.55m
- Since the Quarter end, two properties have been sold for an aggregate £10.1m, 14% ahead of valuation. Two further properties, which are both vacant, are under offer to sell for an aggregate £4.4m, 17% in excess of valuation. Proceeds are expected to be used to reduce variable rate borrowings

Net asset value

The Company's unaudited NAV at 31 December 2023 decreased to £411.2m, or approximately 93.3p per share, a decrease of 2.6p (-2.7%) since 30 September 2023:

	Pence per share	£m
NAV at 30 September 2023	95.9	422.8
Valuation decreases	(2.5)	(11.0)
Costs of property acquisitions ⁷	(0.1)	(0.6)
Net valuation movement	(2.6)	(11.6)
EPRA earnings for the Quarter	1.4	6.1
Interim dividend paid ⁸ during the Quarter	(1.4)	(6.1)
NAV at 31 December 2023	93.3	411.2

The unaudited 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 2023 and net income for the Quarter. The movement in unaudited 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 29 February 2024.

The Company's unaudited NAV at 31 December 2023 is 0.4p below the Company's unaudited rolled-forward NAV at 31 December 2023 as per the combined circular and prospectus associated with the recommended all-share merger with abrdn Property Income Trust Limited, announced on 1 February 2024. The difference reflected movements in the Company's capital expenditure, lease incentives and acquisition costs during the Quarter.

⁷ Includes £0.5m of non-contingent costs relating to the proposed acquisition of abrdn Property Income Trust Limited.

⁸ An interim dividend of 1.375p per share relating to the quarter ended 30 September 2023 was paid on 30 November 2023.

Investment Manager's commentary

UK property market

2023 saw rising interest rates, weak investor sentiment and low transaction volumes. This was in contrast to occupier demand which delivered rental growth and has further improved the reversionary potential in Custodian Property Income REIT's portfolio, which is now greater than it was at the start of 2023.

Investor sentiment towards real estate appears to have been closely correlated with the expected trajectory of interest rates, as determined by inflation data. Consensus opinion and the interest rate forward curve suggest that the next move for interest rates will be down, with the potential for a number of base rate cuts in late 2024 and into 2025, subject of course to an improving geopolitical environment. This should be positive for real estate investors and occupiers.

Asset management

Over the 12 months to 31 December 2023 the passing rent of the Company's portfolio has grown by c.3% to £43.4m and ERV has grown from £48.4m to £50.1m, an increase of c.3.5%, demonstrating the continued prospects for strong rental performance which will support earnings and the companies aim of paying fully covered dividends.

The Investment Manager has remained focused on active asset management during the Quarter, completing four rent reviews at an aggregate 21% increase in annual rent from £1.1m to £1.4m, and regearing four leases which secured £0.5m of annual rent. These initiatives increased property capital value by £1.0m. The new leases had a weighted average unexpired term to first break or expiry ("WAULT") of five years, with the overall portfolio WAULT remaining at 4.8 years.

Details of these asset management initiatives are shown below:

Rent reviews

- Restore plc at an industrial unit in Salford with annual rent increasing by 33% to £605k.
- West Midlands Ambulance Service at an industrial unit in Erdington with annual rent increasing by 12% to £186k.
- National Timber Group at an industrial unit in Grangemouth with annual rent increasing by 13% to £438k.
- Starbucks at a drive-through unit in Maypole with annual rent increasing by 17% to £140k.

New leases

- A 20-year lease with a tenth year break to Andrew Sykes Hire at an industrial unit in Farnborough, Hampshire, at an annual rent of £226k, a 22% increase on the previous passing rent, increasing valuation by £0.8m (28%).
- A five-year lease over a smaller floor-plate with 18 and 36 month break options to Liverpool University Hospitals NHS Foundation Trust in Liverpool at an annual rent of £125k, increasing valuation by £0.1m (3.6%).
- A five-year lease renewal with a third year tenant only break option to ITM Power at an industrial asset in Sheffield, with an annual rent of £141k reflecting a 36% increase on previous passing rent, increasing valuation by £0.1m (5%).
- A 10-year lease renewal with fifth year break option on a retail unit in Dunfermline let to Greggs at an annual rent of £26k in line with ERV, an 11% increase on the previous passing rent.

Since the Quarter end the Company has completed seven further asset management initiatives, including:

- Letting a vacant office unit in Edinburgh and a vacant retail unit in Liverpool with aggregate annual rent of £161k; and
- Completing the comprehensive refurbishment of David House offices in Leeds which has seen the tenant, First Title Limited, take a 10.5 year lease without break at an annual rental of £462k, a 49% increase on the previous passing level. This refurbishment has resulted in the EPC rating of the building improving from C to A, with refurbishment works now commencing to the adjoining building let to the same tenant.

Since the Quarter end the Company has also settled the following rent reviews at an aggregate 29% ahead of previous passing rent with:

- Chicken Cabins at a drive-through unit in York Clifton Moor with annual rent increasing by 42% to £118k;
- Listers Group at a motor dealership in Loughborough, with annual rent increasing by 13% to £181k; and
- Acorn Web Offset at an industrial unit in Normanton, with annual rent increasing by 42% to £155k.

Disposals

Acknowledging the higher cost of variable rate debt, of which the company currently has £50m drawn under its Lloyds Bank revolving credit facility ("RCF"), steps have been taken to advance a number of property sales, where special purchasers can unlock prices ahead of valuation, but more importantly ahead of the cost of the RCF, in order to enhance earnings per share.

During the Quarter a children's day nursery in Chesham was sold for £0.55m at valuation.

Since the Quarter end, an industrial unit in Milton Keynes and an office building on Pride Park, Derby have been sold for an aggregate £10.1m. Two further properties in Redhill (former car dealership) and Castle Donington (offices), which are both vacant, are under offer to sell for an aggregate £4.4m. These disposals are expected to complete during the quarter ending 31 March 2024 and proceeds are expected to be used to reduce variable rate borrowings.

Fully covered dividend

The Company paid an interim dividend of 1.375p per share on 30 November 2023 relating to the quarter ended 30 September 2023. The Board has approved an interim dividend per share of 1.375p for the Quarter, fully covered by EPRA earnings, payable on 29 February 2024. The Board is targeting aggregate dividends per share⁹ 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

On 10 November 2023 the Company and Lloyds Banking Group agreed to extend the RCF for a term of three years, with options to extend the term by a further year on each of the first and second anniversaries of the renewal. The RCF includes an 'accordion' option with the facility limit initially set at £50m, which can be increased up to £75m subject to Lloyds' consent. The headline rates of annual interest now include a LIBOR transition fee previously applied separately, increasing by 12bps to between 1.62% and 1.92% above SONIA, determined by reference to the prevailing LTV ratio. As a result there is no change to the aggregate margin from the renewal.

At 31 December 2023 the Company had £190.0m of debt drawn at an aggregate weighted average cost of 4.3% with no expiries until August 2025 and diversified across a range of lenders. This debt comprised:

- £50m (26%) at a variable prevailing interest rate of 6.9% and a facility maturity of 2.9 years; and
- £140m (74%) at a weighted average fixed rate of 3.4% with a weighted average maturity of 6.3 years.

At 31 December 2023 the Company's borrowing facilities are:

Variable rate borrowing

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.

- A £50m RCF with Lloyds Bank plc (“Lloyds”) with interest of between 1.62% and 1.92% above SONIA, determined by reference to the prevailing LTV ratio of a discrete security pool of assets, and expiring on 10 November 2026. The facility limit can be increased to £75m with 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% or 40% 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 31 December 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	31 December 2023			30 September 2023			
	Val'n £m	Weighting by value	Weighting by income	Quarter valuation movement £m	Quarter valuation movement	Weighting by value	Weighting by income
Industrial	301.0	50%	41%	(3.9)	(1%)	50%	41%
Retail warehouse	124.6	21%	22%	(3.2)	(3%)	21%	22%
Other ¹⁰	78.7	13%	13%	0.4	1%	13%	13%
Office	65.8	11%	16%	(3.2)	(5%)	11%	16%
High street retail	32.3	5%	8%	(1.1)	(3%)	5%	8%
Total	602.4	100%	100%	(11.0)	(2%)	100%	100%

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

Recommended all-share merger with abrdn Property Income Trust Limited ("API")

On 19 January 2024 the Company announced a recommended all-share merger with API and on 1 February 2024 published an associated combined circular and prospectus incorporating notice of a General Meeting to be held on 27 February 2024. The Board believes that the merger would bring together two complementary portfolios to create a differentiated REIT with enhanced diversification and share liquidity and a fully covered and sustainable dividend for the combined group's shareholders.

Documentation relating to the merger is available, subject to certain access restrictions, on the Company's website at <https://custodianreit.com/proposed-all-share-merger-with-abrdn-property-income-trust-limited/>.

- Ends -

Further information:

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

Custodian Capital Limited

¹⁰ Comprises drive-through restaurants, car showrooms, trade counters, gymnasiums, restaurants and leisure units.

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 / Andrew Davis / Oliver Parsons

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 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.