

Custodian Property Income REIT plc

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

Fourth quarter trading update delivers earnings growth supporting a 9% target dividend increase

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 March 2024 ("Q4" or the "Quarter") and the year ended 31 March 2024 ("FY24").

Q4 dividend level maintained, with continued strong leasing performance and confidence in outlook enabling a special dividend relating to FY24 and an increase in the FY25 target dividend

Dividend period	Dividend per share	Comment
Q4	1.375p	In line with target, fully covered by EPRA earnings per share ¹ of 1.5p
FY24 special	0.3p	Increasing aggregate FY24 dividends per share from 5.5p to 5.8p, fully covered by unaudited EPRA earnings for FY24 of 5.8p (FY23: 5.6p)
FY25 target	6.0p	Represents a 9% increase from FY24 target of 5.5p and an 8.1% yield based on the prevailing 74p share price ²

¹ Profit after tax excluding net gains or losses on investment property divided by weighted average number of shares in issue.

² Price on 30 April 2024. Source: London Stock Exchange.

Strong leasing activity, with 15% reversion available, continues to support rental growth and underpins higher fully-covered dividends

- Like-for-like³ ERV has increased by 0.8% since 31 December 2023, driven primarily by rental growth in the industrial sector. Portfolio ERV (£49.4m) exceeds passing rent (£43.1m) by 15% (31 December 2023: 15%) demonstrating the portfolio's significant reversionary potential
- Like-for-like passing rent increased by 1.7% during the Quarter driven by resilient occupier demand for space across all sectors of the Company's portfolio.
- Three rent reviews were settled during the Quarter, on average, 7% ahead of ERV and 29% above previous passing rent.
- Thirteen new leases and regears were also signed securing £1.4m of annual rent which increased property capital value by £2.0m
- EPRA occupancy⁴ has increased to 92% (31 December 2023: 91%), rising to 94% when the 2% of ERV vacant that is currently under offer to let or sell is excluded. A further 1% of ERV is subject to refurbishment.

Valuations now stabilised across the Company's c.£590m portfolio

- The valuation of the Company's diversified portfolio of 155 assets of £589.1m remained flat on a like-for-like basis during the Quarter, net of a £2.0m valuation increase from active asset management activity (Q3: £1.0m increase from asset management)
- Q4 net asset value ("NAV") total return per share⁵ of 1.6%
- NAV per share of 93.4p (31 Dec 2023: also 93.3p) with a NAV of £411.8m (31 Dec 2023: £411.2m)

Asset recycling continues to generate aggregate proceeds in excess of valuation

- During the Quarter an office building in Derby and industrial units in Weybridge and Milton Keynes were sold for an aggregate £16.1m, 11% ahead of their 31 December 2023 valuations
- Since the Quarter end, a former car showroom in Redhill and an industrial property in Warrington have been sold for £11.3m, 49% ahead of their 31 December 2023 valuations
- Proceeds of all disposals are being used to reduce variable rate borrowings

³ Adjusting for property acquisitions, disposals and capital expenditure.

⁴ Estimated rental value ("ERV") of let property divided by total portfolio ERV.

⁵ NAV per share movement including dividends paid during the Quarter.

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

- £0.9m 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(52) (31 Dec 2023: C(54)) with re-ratings being carried out across 11 assets

Prudent debt levels

- Net gearing⁶ was 29.2% loan-to-value as of 31 March 2024 (31 Dec 2023: 30.6%). Property disposals since the Quarter end, detailed above, have reduced pro-forma net gearing to 27.9%, drawing the LTV closer to the Company's 25% medium-term target
- £179.0m of drawn debt comprising £140m (78%) of fixed rate debt and £39m (22%) drawn under the Company's available revolving credit facility ("RCF")
- Weighted average cost of aggregate borrowings has decreased to 4.1% (31 December 2023: 4.3%) due to proceeds from the disposal of properties being used to repay the RCF
- Fixed rate debt facilities have a weighted average term of 6.0 years and a weighted average cost of 3.4% offering significant medium-term interest rate risk mitigation

⁶ Gross borrowings less cash (excluding rent deposits) divided by portfolio valuation.

Dividend increase

On announcing the 9% increase in the prospective target⁷ rate of annual dividend per share from 5.5p to 6.0p and a special dividend which increased the FY24 dividend from 5.5p to 5.8p, **David MacLellan, Chairman of Custodian Property Income REIT, said:**

“These dividend increases, which are expected to be fully covered by net rental income, reflect and improving earnings characteristics of the Company’s portfolio with recent asset management initiatives and the disposal of vacant properties increasing occupancy and crystallising rental growth. Our Investment Manager continues to control costs tightly, while the Company’s substantially fixed-rate debt profile is keeping borrowing costs below the current market rate.

“The Board’s objective is, as previously stated, to continue 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.”

The Company paid an interim dividend of 1.375p per share on 29 February 2024 relating to the quarter ended 31 December 2023. The Board has approved a fourth interim dividend per share of 1.675p for the Quarter, comprising the previous target dividend of 1.375p and a fifth interim (special) dividend of 0.3p, both payable on 31 May 2024 to shareholders on the register on 10 May 2024, which will be designated as property income distributions (“PID”).

⁷ 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.

Net asset value

The Company's unaudited NAV at 31 March 2024 was £411.8m, or approximately 93.4p per share:

	Pence per share	£m
NAV at 31 December 2023	93.3	411.2
Valuation decreases	(0.1)	(0.5)
Profit on disposal	0.3	1.4
Costs of aborted property acquisitions ⁸	(0.2)	(0.9)
	-	-
EPRA earnings for the Quarter	1.5	6.7
Interim dividend paid ⁹ during the Quarter relating to Q3	(1.4)	(6.1)
NAV at 31 March 2024	93.4	411.8

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 March 2024 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 dividends totalling 1.675p per share to be paid on 31 May 2024.

⁸ Provisional costs relating to the aborted acquisition of abrdn Property Income Trust Limited.

⁹ An interim dividend of 1.375p per share relating to the quarter ended 31 December 2023 was paid on 29 February 2024.

Investment Manager's commentary

Corporate activity

The Board of CREI believes strongly in the benefits of diversification in mitigating property and sector specific risk, while still delivering dividends that are fully covered by recurring earnings. The Board also remains firm in its belief that this strategy of spreading the risk is well suited to long-term investors in real estate and sets CREI apart from the single sector funds which have dominated the market over the last few years.

On 19 January 2024 the Company announced a potential all-share merger with API ("the Merger") but at General Meetings on 27 March 2024, while the majority of API shareholders supported the Merger, the final count was below the requisite 75% needed to pass, meaning the Merger did not proceed.

Immediately after this vote our Chairman, David MacLellan, made the following statement:

"Having heeded clear calls from the market regarding the need for consolidation amongst the listed REITs, we worked with our investment manager and the API board of directors ("API Board") to negotiate what we believed to be a fair deal for all shareholders of both API and CREI. Our proposal was fully aligned with the existing investment strategies of both companies and structured on a net tangible asset ("NTA")-to-NTA basis to ensure that the exchange ratio was based upon the latest respective underlying property valuations. Furthermore, it was unanimously recommended by the API Board and allowed both API and CREI shareholders to benefit from the long-term benefits of being invested in a combined business which brought together two highly complementary portfolios, with a growing and fully covered dividend.

"We are therefore disappointed that despite the majority of votes cast being in favour of the Merger at the API Meetings, this was not enough to meet the 75% threshold required to approve the Merger. In fact, shareholders accounting for just 14% of API's register proved sufficient to prevent the resolutions passing. These votes were, we understand, primarily from institutional investors who believe a 'managed wind-down' of API's portfolio will better protect shareholder value, despite the API Board clearly and publicly setting out the flaws in this conclusion."

Market update

2024 began with greater confidence in the market than at the close of 2023. Much of this confidence was rooted in an expectation of falling interest rates and an acknowledgement that, in many sectors of the property market, valuations had adjusted sufficiently to reflect investor sentiment. However, the early part of the year witnessed an increase in the five year swap rate, and a hiatus in the improving inflation statistics. These factors may have delayed a recovery, but a recovery is still expected later this year as inflation settles and interest rate decreases follow. We expect transactional activity to increase as the recovery takes hold.

Core statistics from the Company's portfolio tell a more promising story for the Quarter than investment market sentiment might suggest. Over the year to 31 March 2024, on a like-for-like basis, the portfolio's rent roll has grown by 5.6% and the estimated rental value has grown by 3.6%. Occupancy rates increased from 90% to 92% by the year end, and post year end have improved still further to 93%. This points to the strength in occupational markets and a greater level of confidence from tenants than from investors. These strongly positive numbers are set against a portfolio valuation which fell modestly, on a like-for-like basis by 4.0%, but was flat for the Quarter overall. Perhaps this prefaces a turning point in market sentiment.

Rental growth can be seen in the new lettings negotiated during the Quarter, examples of which include:

- Willow Court, Oxford is an office building acquired in 2020 when the ground floor suite was let at a rent reflecting £26.50 per sqft. The letting agreed in March 2024, expected to complete soon, reflected a rent of £42 per sqft.
- In Atherstone two refurbished industrial units have been let at rents reflecting c.£10.50 per sqft, well ahead of the previous rent of £6.50 per sqft.

Of the five assets sold during the Quarter and since the Quarter end, four were to owner-occupiers or developers at an aggregate 30% premium to valuation. This is a further demonstration of the strength of a smaller lot strategy and the portfolio we have assembled, where we can access both investor and owner-occupier demand. Sale proceeds will be used to repay the Company's revolving credit facility, reducing pro-forma LTV to 27.9%.

This demonstrable rental growth and expected significant reduction in void holding costs is having a positive impact on earnings, enabling the payment of a special dividend, to bring the dividend per share for the year ended 31 March 2024 to 5.8p, and an increase in the prospective dividend per share to 6.0p for the year ending 31 March 2025.

Asset management

The Investment Manager has remained focused on active asset management during the Quarter, completing three rent reviews at an aggregate 29% increase in annual rent from £0.4m to £0.5m, along with thirteen new lettings, lease renewals and lease regears, with rental levels remaining affordable to our occupiers. In aggregate these initiatives increased property capital value by £2.0m and had a positive impact on WAULT, which increased to 4.9 years (31 December 2023: 4.8 years).

Details of these asset management initiatives are shown below:

Rent reviews

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

New leases

- A 10-year reversionary lease with a fifth-year open market rent review to Procurri Europe at an industrial unit in Warrington, with an annual rent of £341k reflecting a 64% increase on previous passing rent, increasing valuation by £0.7m.
- A 10-year reversionary lease with tenant break options in years four and eight to Tricel Composites on an industrial unit in Leeds, at an annual rent £192k reflecting a 43% increase on previous passing rent and increasing valuation by £0.4m.
- A 10-year lease to Rough Trade Records on a vacant retail unit in Liverpool, at an annual rent of £115k, increasing valuation by £0.4m.
- A five-year lease renewal with third year tenant only break to Card Factory at a retail unit in Portsmouth, at a reduced annual rent of £49k, increasing valuation by £0.2m.
- A new five-year lease with a third-year break to Millar & Bryce at a vacant office unit in Edinburgh, at an annual rent of £46k, increasing valuation by £0.1m.
- A new five-year straight lease to Howdens on a vacant trade counter unit in Crewe, at an annual rent of £22k, increasing valuation by £0.1m.
- A 10-year lease renewal to Central Electrical Armature Winding on an industrial unit in Knowsley, with an annual rent of £91k reflecting a 48% increase on previous passing rent, increasing valuation by £0.1m.
- A new 10.5-year lease to Enact Conveyancing on offices in Leeds, at an annual rent of £462k, increasing annual passing rent by 49% following a comprehensive refurbishment, which has seen the EPC improve to an A rating.
- A 10-year licence to McLaren Group on a vacant office suite in Glasgow, at an annual rent of £29k.
- A five-year lease with a second-year tenant only break to a sole trader on a retail unit in Shrewsbury, at an annual rent of £15k.

- Two new leases on a recently refurbished multi-let industrial estate in Atherstone securing tenants on five-year leases with third-year tenant only breaks at an aggregate annual rent of £21k.
- A 20-year lease to Vivid Outdoor Media Solutions for an electronic advertising board at a retail park, at an annual rent of £11k.

Since the Quarter end the Company has completed the following further asset management initiatives, completing:

- A 10-year lease with a fifth-year break option for a vacant office suite at Lochside House, Edinburgh Park to Ark Housing Association at an annual rent of £92k, 12% ahead of ERV;
- A 10-year lease with a fifth-year break option for a vacant lower ground floor office suite in Glasgow, at an annual rent of £29k; and
- A five-year lease renewal with a third-year break option to Superdrug at a retail unit in Southsea, at an annual rent of £46k.

Disposals

Acknowledging the high prevailing cost of variable rate debt, of which the Company had £39m drawn at the Quarter end under its Lloyds Bank 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 vacant office building in Derby and industrial units in Weybridge and Milton Keynes were sold for an aggregate £16.1m. Since the Quarter end, a vacant former car showroom in Redhill and a vacant industrial property in Warrington have been sold for £11.3m. In aggregate these disposals were made 24% ahead of their 31 December 2023 valuations.

A further office building in Castle Donington, which is also currently vacant, is under offer to sell for £2.0m.

Borrowings

At 31 March 2024 the Company had £179.0m of debt drawn at an aggregate weighted average cost of 4.1% with no expiries until August 2025 and diversified across a range of lenders. This debt comprised:

- £39m (22%) at a variable prevailing interest rate of 6.9% and a facility maturity of 2.6 years; and
- £140m (78%) at a weighted average fixed rate of 3.4% with a weighted average maturity of 6.0 years.

At 31 March 2024 the Company's borrowing facilities are:

Variable rate borrowing

- 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 March 2024 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 March 2024			31 December 2023			
	Val'n £m	Weighting by value	Weighting by income	Quarter valuation movement £m	Quarter valuation movement	Weighting by value	Weighting by income
Industrial	291.4	49%	40%	2.8	1%	50%	41%
Retail warehouse	122.7	21%	23%	(2.0)	(2%)	21%	22%
Other ¹⁰	78.8	13%	13%	0.2	-	13%	13%
Office	63.9	11%	16%	(1.6)	(3%)	11%	16%
High street retail	32.3	6%	8%	0.1	-	5%	8%
Total	589.1	100%	100%	(0.5)		100%	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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¹⁰ 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.