5 February 2025

Custodian Property Income REIT plc

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

Diversified strategy, strong leasing and active asset management continue to drive income growth

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 2024 ("Q3" or the "Quarter").

Commenting on the trading update, Richard Shepherd-Cross, Managing Director of Custodian Capital Limited, said: "*This Quarter saw further evidence that the market has bottomed out, with the last 12 months seeing two quarters of broadly flat valuations followed by two quarters of like-for-like valuation growth. These valuation increases add further support to our belief that we are at the start of a gradual upwards trend having delivered like-for-like average rental growth of more than 5.0% per annum over the last 18 months, with proactive asset management being the key driver of returns. We completed 25 plus lettings, lease renewals, re-gears and rent reviews during the Quarter at significant average premiums to ERV and previous rent, as well as continuing to make disposals on terms ahead of valuation. These activities will be supportive of future earnings and our longstanding track record of fully covering our dividend, which now offers investors an attractive c.8% yield.*"

Highlights

Strong leasing activity continues to support rental growth, underpinning fully covered dividend

- 1.5p dividend per share approved for the Quarter, fully covered by unaudited EPRA earnings per share[1], in line with target of at least 6.0p for the year ending 31 March 2025 (FY24: 5.8p). This target dividend represents a 7.9% yield[2] based on the prevailing 76p share price[3]
- EPRA earnings per share of 1.5p for the Quarter (Q2: 1.5p)

[1] Profit after tax excluding net gains or losses on property divided by weighted average number of shares in issue as defined by the European Public Real Estate Association.
[2] Prospective target dividend divided by share price.
[3] Price on 4 February 2025. Source: London Stock Exchange.

- During the Quarter, a 0.9% increase in like-for-like[4] passing rent (FY25 year-to-date ("YTD"): 3.1%) and an increase in like-for-like estimated rental value ("ERV") of 0.6% (FY25 YTD: 2.1%), driven primarily by 1.0% like-for-like rental growth in the industrial sector (FY25 YTD: 4.7%)
- Significant potential for further rental growth with the portfolio's estimate rental value ("ERV") of £49.5m exceeding the current the passing rent of £44.5m by 11% (30 Sept 2024: 11%). Approximately 35% of this reversion is available from leasing events with the remainder from letting vacant space. Based on our track record and occupier demand for space in our assets we expect to capture this potential rental upside at (typically) five-yearly rent reviews or on re-letting, in addition to continuing to drive passing rent and ERV growth further through asset management initiatives
- Leasing activity during the Quarter comprised the completion of eight rent reviews at an average 19% increase in annual rent and the letting of eight vacant units which, in aggregate, added £1.0m to the rent roll. 10 lease renewals and regears were also completed in line with ERV and previous passing rent
- EPRA occupancy[5] was stable at 93.4% (30 Sept 2024: 93.5%). 1.8% of vacant ERV is subject to refurbishment or under offer to let or sell

Valuations stable across the Company's c.£590m portfolio, with a small uptick on a like-for-like basis

- The value of the Company's portfolio of 151 assets at the Quarter end was £586.4m (30 Sept 2024: £582.4m), a like-for-like increase of 0.5% during the Quarter (FY25 YTD: 0.8%), net of £1.9m of capital expenditure. Benefitting from a diversified portfolio, in the last 12 months the Company has seen two quarters of stable valuations followed by two quarters of modest like-for-like capital growth across almost all asset classes
- Q3 net asset value ("NAV") total return per share[6] of 2.5%
- NAV per share grew by 0.9% to 94.4p (30 Sept 2024: 93.6p) with a NAV of £416.1m (30 Sept 2024: £412.7m)

Asset recycling continues to generate aggregate proceeds in excess of valuation

- During the Quarter, the Company successfully disposed of a recently vacant office asset in Solihull to a local owner occupier for £1.4m, 33% ahead of the 30 June 2024 valuation. Proceeds have been used to fund earnings accretive capital expenditure.

[4] Adjusting for property acquisitions, disposals and capital expenditure.
[5] ERV of let property divided by total portfolio ERV.
[6] NAV per share movement including dividends paid during the Quarter.

Redevelopment and refurbishment activity continues to be accretive with an expected yield on cost of c.7%

- £1.9m of capital expenditure undertaken during the Quarter, primarily relating to the pre-let extension of an industrial building in Livingston, which will allow the current occupier to expand into the new space to help with its plans for growth. Practical completion is expected in February 2025
- During the Quarter, the Company generated £0.1m (Q2: £0.1m) of revenue from its owned solar panel installations across 10 assets, selling the clean electricity generated to tenants and exporting any surplus. New solar arrays were installed in Lincoln and Daventry during the Quarter, with further installations under consideration at 12 sites over the next 12 months
- Weighted average energy performance certificate rating was C(52) (30 Sept 2024: C(52)) with re-ratings being carried out across three units during the Quarter

Prudent debt levels

- Net gearing[7] was 28.5% loan-to-value at 31 December 2024 (30 Sept 24: 28.5%)
- £171m (30 Sept 24: £174m) of drawn debt at 31 December 2024 comprising £140m (82%) of fixed rate debt and £31m (18%) drawn under the Company's variable rate revolving credit facility ("RCF")
- Weighted average cost ("WAC") of aggregate borrowings decreased to 3.9% (30 Sept 24: 4.0%) following the 25bps base rate reduction in November 2024
- The Board intends to utilise the Company's RCF to repay a £20m fixed rate loan with Scottish Widows which is due to expire in August 2025. This refinancing is expected to have a minimal impact on the Company's WAC, as this loan represents only 12% of drawn debt
- £120m of longer-term fixed-rate debt facilities have a weighted average term of 6.0 years and a WAC of 3.3%, offering significant medium-term interest rate risk mitigation

Dividends

The Company paid an interim dividend per share of 1.5p on Friday 29 November 2024 relating to Q2, fully covered by EPRA earnings.

The Board has approved a fully covered interim dividend per share of 1.5p for the Quarter payable on 28 February 2025 to shareholders on the register on 7 February 2025, which will be designated as a property income distribution ("PID").

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

Net asset value

The Company's unaudited NAV at 31 December 2024 was £416.1m, or approximately 94.4p per share:

	Pence per share	£m
NAV at 30 September 2024 per Interim Report	93.6	412.7
Valuation increase and depreciation	0.7	3.0
Profit on disposal	0.1	0.3
EPRA earnings for the Quarter	1.5	6.7
Interim quarterly dividend, paid during the Quarter, relating to Q2	(1.5)	(6.6)
NAV at 31 December 2024	94.4	416.1

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 2024 and net income for the Quarter. The movement in unaudited NAV reflects the payment of an interim dividend per share of 1.5p during the Quarter, but as usual this does not include any provision for the approved dividend of 1.5p per share for the Quarter to be paid on 28 February 2025.

Investment Manager's commentary

Market update

The listed property sector has yet to deliver the forecast recovery despite recent positive indicators in the direct property market. Notwithstanding discernible rental growth and the clear identification of an inflection point in direct investment markets, economic gloom and high 10-year gilt rates are acting as a brake on the listed sector.

However, there are reasons to be cheerful. Property market commentators are forecasting stronger returns in 2025 than 2024, highlighting the importance of income in driving total return. There is a sense that after property values adjusted from 2022-24, reflecting the impact of increasing cost of debt and other external factors, it would take a significant shock to knock the recovery off course. That said, it is also widely believed that the rate and near-term magnitude of recovery will now be more muted relative to earlier estimates.

In considering the current share price and likely performance there are four factors that mitigate against downside risks: the current discount to NAV and associated high dividend yield, the reversionary potential of the portfolio, the benefits of diversification which offers defensiveness of income and flexibility of strategy, and the risk premium of commercial real estate over 10-year gilts.

While we remain firm in our belief that earnings and the dividend we consistently deliver our shareholders are the most effective ways to assess the Company's performance, its average discount to NAV has recently widened to around 20%. While this remains favourable versus many peers, it implies a yield shift on the underlying value of the property portfolio of 1.35% which is sharply at odds with both the Company's independent quarterly valuations, which show a stable portfolio topped-up net initial yield[8] of 6.9%, as well as the direct market expectation that valuations have reached the bottom. With the reasonable expectation of falling interest rates over the short to medium term, there would appear to be far more upside potential on valuations than downside risk, which we do not believe is reflected in the current discount.

Dividends are fully covered by recurring (EPRA) earnings, which are in turn supported by a growing rent roll from the 151 properties in the portfolio. Over the last 18 months annual like-for-like growth in passing rent has averaged 5.8% per annum with ERV growing at 3.2% per annum. We expect this growing rent roll to continue to support dividends of 6.0p per share, a rate that has grown annually by a compound 4.65% since March 2021. Our diversified portfolio is deliberately weighted towards sectors with the most rental growth potential to support both future dividends and capital values.

Research reported by Legal and General last year[9] indicated that since 1981 the risk premium of commercial real estate over 10-year gilts[10] was estimated at 2.6%. Comparing the prevailing 10-year gilt rate[11] of 4.5% to Custodian Property Income REIT's share price yield of 7.9% implies a current risk premium of 3.4%, which excludes rental growth. However, with rental (ERV) growth running at over 3% per annum for the last 18 months, this implies a full risk premium of 6% plus, which is well ahead of the long-term average.

As some of the fear in market prospects is replaced by confidence, this risk premium should reduce, which again provides greater upside potential than downside. Against this setting, timing appears to be optimal for securing a high, fully covered dividend with upside potential on both income and capital. It is our strong contention that with the benefit of hindsight in three to five years' time, 2025 is unlikely to be viewed as a poor entry point into UK real estate.

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[8] Annualised cash rents adjusted for the expiration of lease incentives (rent free periods, discounted rent periods and stepped rents), less estimated non-recoverable property operating expenses, divided by property valuation plus estimated purchaser's costs.
[9] Source: L&G Research.
[10] Current yields plus growth expectations less depreciation and gilt yields.
[11] Source: FT.com.

Asset management

Custodian Capital, the Investment Manager, has remained focused on active asset management during the Quarter, completing eight rent reviews at an aggregate 19% increase in annual rent, along with letting eight vacant units and completing 10 further new lettings, lease renewals and lease regears, with rental levels remaining affordable to our occupiers. These initiatives had a positive impact on weighted average unexpired lease term, which only decreased by 0.1 years to 4.8 years during the Quarter (30 Sept 24: 4.9 years).

Details of these asset management initiatives are shown below:

Rent reviews

The following rent reviews were settled in the Quarter, in aggregate increasing rent by 19%, and comprising:

- Applying fixed rental uplifts across six industrial units let to Menzies Distribution, increasing annual rent by 13% to £1.4m;
- Increasing the passing rent at an industrial unit in Kettering by 78% from £128k to £227k; and
- Increasing the passing rent at a retail unit in Dunfermline by 10% from £20k to £22k.

Renewals

10 lease renewals/regears across retail, retail warehouse and industrial assets in aggregate maintaining passing rent levels, comprising:

- Five-year reversionary lease to YESSS Electrical at an industrial unit in Normanton, maintaining annual rent at £449k;
- Removal of a tenant break option with DS Smith in Redditch, extending the lease by five years in return for six months' rent free, with annual rent remaining £404k;
- Two-year reversionary lease to global consumer brands owner URBN at a retail unit in Southampton, maintaining annual rent of £195k;
- Five-year lease renewal with Magnet at a retail warehouse unit in Gloucester, with annual rent remaining £116k;
- 10-year new lease to Telefonica (t/a O2) at a retail unit in Shrewsbury, with a tenant break option on the fifth anniversary, increasing annual rent on the unit by 38% to £73k;
- 10-year lease to RTV Worldnet Shipping at an industrial unit in Aberdeen, with annual rent increasing by 33% to £48k;
- Five-year lease renewal with Der Touristik at a retail unit in Chester, with annual rent decreasing 42% to £41k line in with ERV;

- Removal of a tenant break option with Your Phone Care at a retail unit in Portsmouth, extending the lease by five years, with annual rent decreasing 13% to £40k;
- Five-year lease extension with Mobile Care Services at an industrial unit in Atherstone with annual rent increasing by 69% to £23k; and
- 10-year lease renewal with Greggs at a retail unit in Birmingham, with a tenant break option on the fifth anniversary, at an annual rent of £19k.

Vacant premises

£0.7m of new annual rental income was added to the rent roll through letting eight vacant units in line with ERV in aggregate:

- Five new leases with Elizabeth School of London at a newly refurbished office building in Manchester for a term of 12 years with a year seven tenant only break option, at an aggregate annual rent of £596k;
- A 10-year lease to Katani & Co at an office suite in Glasgow, with a tenant break option in the fifth year, at an annual rent of £58k;
- A 10-year lease to MST Invest at a retail unit in Liverpool, with a tenant break option on the fifth anniversary, at an annual rent of £45k; and
- A five-year lease to Igneus UK at an office unit in Birmingham, with an annual rent of £43k.

The impact of this positive letting activity has been tempered since the Quarter end with an industrial asset in Biggleswade and offices in Sheffield falling vacant, in aggregate representing 1.6% (£0.8m) of portfolio ERV. The asset in Biggleswade will now be refurbished with rents expected to increase by c. 40% once re-let.

Disposals

During the Quarter, a recently vacant office building in Solihull was sold to an owner occupier for £1.4m, 33% ahead of the 30 June 2024 valuation.

Circa £8m of office and retail assets are either under offer to sell or being actively marketed, with proceeds expected to be used to pay down the variable rate RCF or fund earnings accretive capital expenditure.

Borrowings

During the Quarter, the Company and Lloyds Bank plc (“Lloyds”) agreed to extend the term of the RCF by one year to expire in 2027. An option remains in place to extend the term by a further year to 2028, subject to Lloyds’ consent.

At 31 December 2024 the Company had £171.0m of debt drawn at an aggregate weighted average cost of 3.9% (30 Sept 24: 4.0%) diversified across a range of lenders. This debt comprised:

- £31m (18%) at a variable prevailing interest rate of 6.3% and a facility maturity of 2.9 years; and
- £140m (82%) at a weighted average fixed rate of 3.4% with a weighted average maturity of 5.2 years.

At 31 December 2024 the Company's borrowing facilities were:

Variable rate borrowing

- A £50m RCF with 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 now expiring on 10 November 2027. 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.

Upcoming expiry

Despite persistent inflationary pressures, multiple UK base rate decreases are expected during 2025[12]. The Board intends to utilise the Company's RCF to repay the £20m fixed rate loan with SWIP due to expire in August 2025 and will consider longer-term options once debt markets are more stable.

Portfolio analysis

At 31 December 2024, the portfolio was 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:

	31 Dec 2024					30 Sept 2024	
Sector	Val'n £m	Weighting by value	Weighting by income	Quarter valuation movement £m	Quarter valuation movement	Weighting by value	Weighting by income
Industrial	290.5	49%	41%	1.6	0.8%	49%	41%
Retail warehouse	126.2	22%	22%	1.2	0.9%	22%	22%
Other[13]	77.6	13%	14%	0.4	0.5%	13%	14%
Office	58.7	10%	16%	(0.7)	(1.2%)	10%	16%
High street retail	33.4	6%	7%	0.5	1.7%	6%	7%
Total	586.4	100%	100%	3.0		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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[12] Source: City AM.
[13] Comprises drive-through restaurants, car showrooms, trade counters, gymnasiums, restaurants and leisure units.

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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 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.