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9 August 2023

Custodian Property Income REIT plc

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

First 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 first quarter ended 30 June 2023 ("Q1" 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
- Target dividends per share of no less than 5.5p for the year ending 31 March 2024, representing a 6.4% yield based on the prevailing 86p share price[1]
- EPRA earnings per share[2] of 1.5p for the Quarter (FY23 Q4: 1.4p, Q3: 1.5p)
- £2.2m of annual rental income secured, in aggregate in line with ERV, which added £2.0m in property capital value during the Quarter through leasing, renewals and rental uplifts, comprising:
  - 14 new leases signed across a range of property sectors at an average 5% ahead of ERV, adding £1.1m of annual rent for a weighted average of 4.9 years to first break; and
  - 15% (£0.1m) aggregate annual rental increase across six rent reviews settled during the Quarter
- Like-for-like[3] ERV has increased by 1.2% since 31 March 2023, driven primarily by capital expenditure in refurbishing industrial assets successfully. Portfolio ERV (£49.0m) now exceeds passing rent (£42.1m) by 17% (31 March 2023: 16%) demonstrating the portfolio's significant reversionary potential
- EPRA occupancy[4] maintained at 90% (31 March 2023: 90%). 3.7% of vacant ERV is subject to refurbishment or redevelopment with 3.9% under offer to let or sell.

Stable valuations

- The valuation of the Company's diversified portfolio of 159 assets remained broadly flat at £614.3m, reflecting a marginal like-for-like decrease of 0.5% or £3.3m, net of a £2.0m valuation increase from active asset management activity (FY23 Q4: £2.6m increase from asset management)
- Q1 net asset value ("NAV") total return per share[5] of 0.7%
- NAV per share of 98.6p (31 March 2023: 99.3p) with a NAV of £434.9m (31 March 2023: £437.6m)

£5.3m invested in the redevelopment and refurbishment of existing assets

- During the Quarter:
  - £5.3m of capital expenditure was undertaken primarily on completing the redevelopment of an industrial unit in Redditch (£2.7m) and the refurbishment of: offices in Manchester and Leeds (£1.4m); retail assets in Shrewsbury and Liverpool (£0.6m); and an industrial unit in Winsford (£0.4m)
  - 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. The redevelopment in Redditch is nearing completion and based on potential letting demand ERV of the asset has increased by 122% from £298k pa to £660k pa
  - High street retail units in Bury St Edmunds and Cirencester were sold at auction for an aggregate £1.6m, in line with valuation
- Weighted average energy performance certificate rating remains C (58) with ongoing capital expenditure initiatives expected to drive improvements in subsequent quarters

Gearing remains broadly in line with target, with significant borrowing covenant headroom

- Net gearing[6] was 28.0% loan-to-value as of 30 June 2023 (31 March 2023: 27.4%), broadly in line with the Company's 25% target

- £178.0m of drawn debt comprising £140m (79%) of fixed rate debt and £38m (21%) drawn under the Company's revolving credit facility ("RCF")
- Aggregate borrowings have a weighted average cost of 4.0%
- Fixed rate debt facilities have a weighted average term of 6.8 years and a weighted average cost of 3.4% offering significant medium-term interest rate risk mitigation
- £10m of properties are under offer to sell, expected to generate proceeds in excess of valuation, which will be invested in the Company's remaining pipeline of profitable capital expenditure. Further potential sales have been identified with proceeds expected to be used to reduce borrowings

Net asset value

In line with the portfolio valuation, the Company's unaudited NAV at 30 June 2023 remained stable at £434.9m, or approximately 98.6p per share, a marginal decrease of 0.7p (-0.7%) since 31 March 2023:

	Pence per share	£m
NAV at 31 March 2023	99.3	437.6
Valuation movements relating to:		
- Asset management activity	0.4	2.0
- General valuation decreases	(1.2)	(5.3)
Net valuation movement	(0.8)	(3.3)
Profit on disposal	-	-
EPRA earnings for the Quarter	1.5	6.7
Interim dividend paid[7] during the Quarter	(1.4)	(6.1)
NAV at 30 June 2023	98.6	434.9

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 June 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 August 2023.

Investment Manager's commentary

UK property market

The listed property market is acutely sensitive to broader economic news with inflation, interest rates and potential recession all impacting investors' confidence. Interest rate outlook bites the hardest and at the start of the previous quarter there was a belief that interest rates might have been close to topping out. This optimism saw yields harden in some sectors following a market rerating in the second half of 2022, but by the end of the Quarter that confidence had been eroded with the 50bps rise in the base rate to 5% and the expectation of more to come. On the back of the rate rise listed real estate prices fell sharply, but there has been some recovery since then on the back of the most recent inflation numbers for June 2023.

This volatility suggests that investors are keen to upweight to real estate but are waiting for a more certain economic future to be revealed before we see share prices really rally. There is a strong logic for investing in real estate in the current market as real assets should be a good store of value in an inflationary environment as rents grow over time. In the current market, occupational demand is continuing to drive rental growth which is positive for interest cover and dividends. All of this produced stable valuations over the Quarter, with a marginal like-for-like decrease of 0.5%.

We are engaged in an active capital expenditure programme including re-development, refurbishment, EPC improvements and the roll out of photovoltaic arrays and electric vehicle chargers. This investment is focused on keeping the portfolio up to date, compliant with environmental legislation and positioned to capture rental growth with returns expected well ahead of the prevailing cost of borrowing. During the Quarter this investment and the asset management of the properties has increased the like-for-like estimated rental value of the portfolio by 1.2% (£0.6m). Continued rental growth is the Investment Manager's key objective together with capturing the reversionary potential through the letting of vacant space.

The vacancy rate as a proportion of the ERV of the portfolio stands at 10% of which 39% is under offer to let and 37% is under refurbishment, leaving only 24% (or 2.4% of the total) available to let. Vacancy has increased recently as we have taken back space from the residual COVID-19 affected tenants which has allowed us to refurbish that space and, based on current level of interest, we are confident of increasing occupancy and rents going forwards.

Asset management

The Investment Manager has remained focused on active asset management during the Quarter, completing 14 leasing initiatives adding £1.2m of new income at an average 5% ahead of ERV and adding £2.0m in portfolio valuation. These new leases had a weighted average unexpired term to first break or expiry ("WAULT") of 4.9 years, with the portfolio WAULT now at 4.8 years and included:

- A six-year reversionary lease to Wickes on a retail warehouse unit in Winnersh, maintaining annual rent of £450k and increasing valuation by £0.4m (5%);
- A five-year lease to Communicorp on a vacant industrial unit in Hilton, Derby at an annual rent of £46k, reflecting a 2% premium to ERV and increasing valuation by £0.4m (20%);
- A new 15-year lease in line with ERV with a year 10 break option to Howdens Joinery on a trade counter in Crewe at an annual rent of £55k, increasing valuation by £0.3m (12%);
- A surrender of North Warwickshire Borough Council's headlease over a multi-let industrial estate in Atherstone, with the tenant paying a £375k surrender premium which will be used to fund a comprehensive refurbishment plan, increasing passing rent by 20% and valuation by £0.2m (11%);
- A new five-year lease with a third year tenant break option to Menzies Aviation on a vacant office unit in Edinburgh at an annual rent of £88k (12% above the ERV of £78k), increasing valuation by £0.2m (4%);
- A 10-year lease renewal with a five year break to Ladbrokes on a retail unit in Birmingham, at an annual rent of £35k 40% ahead of the £25k ERV, increasing valuation by £0.2m (7%);
- A 10-year reversionary lease to Scotco Restaurants Limited (t/a KFC) on a drive-through unit in Perth with annual rent increasing by 5% to £75k, increasing valuation by £0.2m (2%);
- A new 10-year lease with a fourth year tenant break option to RSK Group on an office in Lancaster House, Birmingham at an annual rent of £78k, increasing valuation by £0.1m;
- A five year lease renewal with annual mutual breaks to Dreams on a retail warehouse unit in Sheldon, at an annual rent of £90k;
- A 10-year lease renewal with fifth year break to Subway on a retail unit in Dunfermline, at an annual rent of £23k; and
- A 10-year lease renewal with fifth and seventh year break to Innovate Hair Salon on a retail unit in Dunfermline, at an annual rent of £27k.

Post Quarter end we have completed:

- A 15-year lease with a 10-year break to JD Sports Gyms on a vacant retail warehouse unit in Swindon at an annual rent of £150k, increasing valuation by £0.7m;
- A 15-year straight term lease to Farmfoods on a vacant retail warehouse unit in Grantham at an annual rent of £100k, increasing valuation by £0.3m;
- A five-year lease renewal with Next on a retail warehouse unit in Evesham at an annual rent of £128k and
- Buying in the long leasehold interest of a unit at a multi-let industrial asset in Knowsley for £1.25m.

During the Quarter rent reviews were settled at an aggregate of 15% ahead of previous passing rent with:

- DX at an industrial unit in Nuneaton with annual rent increasing by 31% to £350k;
- Sytner at an industrial unit in Oldbury with annual rent increasing by 12% to £236k;
- VP Packaging at two industrial units in Kettering with aggregate annual rent increasing by 8% to £190k;
- KFC at a leisure unit in Perth, Scotland with annual rent increasing by 5% to £75k; and
- PSL at an industrial unit in Speke with annual rent increasing by 3% to £150k.

Fully covered dividend

The Company paid an interim dividend of 1.375p per share on 31 May 2023 relating to the quarter ended 31 March 2023. The Board has approved an interim dividend per share of 1.375p for the Quarter, fully covered by EPRA earnings, payable on 31 August 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

At 30 June 2023 the Company had £178.0m of debt drawn at an aggregate weighted average cost of 4.0% with no expiries until September 2024. This debt comprised:

- £38.0m (21%) at a variable prevailing interest rate of 6.58% and a facility maturity of 1.25 years; and
- £140m (79%) at a weighted average fixed rate of 3.4% with a weighted average maturity of 6.8 years.

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

Variable rate borrowing

- A £40m RCF with Lloyds Bank plc expiring in 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 30 June 2023 £38.0m was drawn under the RCF. The limit on the RCF facility can be increased to £50m 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% 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 30 June 2023 the property portfolio comprised 159 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 30 Jun 2023 £m	Weighting by value 30 Jun 2023	Quarter valuation movement £m	Quarter valuation movement	Weighting by value 31 Mar 2023
Industrial	300.1	49%	1.6	1%	48%
Retail warehouse	130.7	21%	(1.3)	(1%)	21%
Other[9]	79.4	13%	0.2	-	13%
Office	70.0	11%	(3.0)	(4%)	12%
High street retail	34.1	6%	(0.8)	(2%)	6%
Total	614.3	100%	(3.3)	(1%)	100%

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

Board changes

In accordance with Listing Rule 9.6.11 the Company advises that, at the conclusion of its AGM on 8 August 2023, David Hunter retired as a Non-Executive Director of the Company, with David MacLellan replacing him as Chair.

- 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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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 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.

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[1] Price on 8 August 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] Adjusting for property 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.
[6] Gross borrowings less cash (excluding rent deposits) divided by portfolio valuation.
[7] An interim dividend of 1.375p per share relating to the quarter ended 31 March 2023 was paid on 31 May 2023.
[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.
[9] Comprises drive-through restaurants, car showrooms, trade counters, gymnasiums, restaurants and leisure units.

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