Custodian Property Income REIT plc (CREI)
Custodian Property Income REIT plc: Continued strong leasing supporting a c. 8% dividend yield

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Custodian Property Income REIT plc

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

Continued strong leasing supporting a c. 8%dividend yield

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 June 2024 ("Q1" or the "Quarter").

Strong leasing activity continues to support rental growth and underpins fully covered dividend

- 1.5p dividend per share approved for the Quarter, fully covered by unaudited European Public Real Estate Association ("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 7.7% yield based on the prevailing 78p share price[2]
- EPRA earnings per share of 1.5p for the Quarter (FY24 Q4: 1.5p)
- During the Quarter, 1.2% increase in like-for-like[3] passing rent and 1.0% increase in like-for-like estimated rental value ("ERV"), driven by rental growth in the industrial sector, with all other sectors showing stable ERVs
- Portfolio ERV (£49.4m) exceeds passing rent (£43.6m) by 13% (31 Mar 2024: 15%) reflecting the reversion captured and sales undertaken during the Quarter. There remains significant potential to grow rental income by capturing reversion typically at five-yearly rent reviews or on re-letting, in addition to continuing to drive rental growth through asset management
- Leasing activity during the Quarter added £0.7m of new annual rent, comprising:
  - Three rent reviews on industrial assets at an aggregate 11% ahead of ERV and 41% above previous passing rent;
  - Two renewals agreed in aggregate in line with previous passing rent and at a 6% premium to ERV; and
  - Seven new leases across various sectors adding £0.3m of new rent, in line with ERV.
- EPRA occupancy[4] has remained stable at 92% (31 Mar 2024: 92%) and is expected to rise towards 95% when vacant property currently under offer to let or sell is excluded. A further 1% of ERV is vacant but subject to refurbishment
- Asset management initiatives completed during the Quarter increased property capital values by £0.8m

Valuations now stabilised across the Company's c.£580m portfolio

- The valuation of the Company's portfolio of 153 assets of £579.6m remained flat on a like-for-like basis during the Quarter, net of a £0.8m valuation increase from active asset management activity (FY24 Q4: £2.0m increase from asset management) and £1.9m of capital expenditure
- Q1 net asset value ("NAV") total return per share[5] of 1.6%
- NAV per share of 93.1p (31 Mar 2024: 93.4p) with a NAV of £410.3m (31 Mar 2024: £411.8m)

Asset recycling continues to generate aggregate proceeds in excess of valuation

- During the Quarter a former car showroom in Redhill and an industrial property in Warrington were sold for £11.3m, an aggregate 49% ahead of their 31 December 2023 valuations
- Proceeds from disposals have been used to reduce variable rate borrowings

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 office refurbishments in Leeds and Manchester, 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
- During the Quarter the Company generated £0.1m of revenue from its owned solar panel arrays, selling the clean electricity generated to tenants and exporting any surplus. During the Quarter new solar arrays in Swansea and Warrington were brought into use with

further installations planned during the remainder of the financial year
- Weighted average energy performance certificate rating has remained at C(53) with re-ratings being carried out across six assets during the Quarter

Prudent debt levels

- Net gearing[6] was 28.8% loan-to-value as of 30 June 2024 (31 Mar 24: 29.2%) with property disposals during the Quarter drawing the LTV closer to the Company's 25% medium-term target
- £168.0m of drawn debt comprising £140m (83%) of fixed rate debt and £28m (17%) drawn under the Company's available revolving credit facility ("RCF")
- Weighted average cost of aggregate borrowings has decreased to 3.9% (31 Mar 24: 4.1%) due to proceeds from the disposal of properties being used to repay the RCF
- Fixed rate debt facilities have a weighted average term of 5.8 years and a weighted average cost of 3.4% offering significant medium-term interest rate risk mitigation

Dividends

The Company paid total dividends per share of 1.675p on 31 May 2024, comprising the FY24 Q4 target dividend of 1.375p and a fifth interim (special) dividend of 0.3p, resulting in aggregate dividends relating to the year ended 31 March 2024 of 5.8p, fully covered by EPRA earnings.

The Board has approved a fully covered interim dividend per share of 1.5p for the Quarter payable on Friday 30 August 2024 to shareholders on the register on 12 July 2024, which will be designated as a property income distribution ("PID").

Net asset value

The Company's unaudited NAV at 30 June 2024 was £410.3m, or approximately 93.1p per share:

	Pence per share	£m
NAV at 31 March 2024	93.4	411.8
Valuation decrease and profit on disposal	(0.1)	(0.8)
EPRA earnings for the Quarter	1.5	6.7
Interim quarterly dividend, paid during the Quarter, relating to FY24 Q4	(1.4)	(6.1)
	0.1	0.6
Special dividend, paid during the Quarter, relating to FY24	(0.3)	(1.3)
NAV at 30 June 2024	93.1	410.3

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 30 June 2024 and net income for the Quarter. The movement in unaudited NAV reflects the payment of interim dividends per share of 1.375p and 0.3p 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 Friday 30 August 2024.

Investment Manager's commentary

Market update

In the six months to 30 June 2024 Custodian Property Income REIT recorded near flat valuations, with headline valuations for the Quarter up 0.3% on a like-for-like basis, but down 0.1% net of capital expenditure. After a period of stabilisation, the trajectory of valuations appears to be turning positive and the Company, together with its peers, has a more optimistic outlook.

Investors in listed real estate have reason to be optimistic with falling vacancy rates, rental growth and discounted share prices creating generous dividend yields and room for share price recovery. Along with the recent cut in interest rates which we expect to support valuations further, we believe this could be a very opportune time for investors to re-engage with real estate.

LSH's recent UK Investment Transactions report recorded a 12% increase in UK transaction volumes for the six months to 30 June 2024, albeit this is still below the five-year average. CBRE's UK Mid-Year Market Outlook reported stronger signs of a turning point for real estate noting inflation is on target and cost of living pressures have moderated, creating space for consumer demand to rebound. Overall, according to this report, the economic backdrop is positive for both occupiers and investors.

This positive outlook has flowed through into the Custodian Property Income REIT portfolio which has recorded a 1.2% like-for-like increase in the passing rent over the Quarter to £43.6m and a 1.0% increase in the estimated rental value of the portfolio. The portfolio now offers reversionary potential of 13%, reflecting the reversion captured and sales undertaken during the Quarter. This has supported earnings per share of 1.5p, fully covering the target dividend.

An example of the dynamic nature of rental growth being delivered is the settlement of a rent review during the Quarter at the Company's 55k sqft warehouse in Tamworth where the annual rent, set in 2018, was £359k and our independent estimated rental value, based on evidence in the market, was £400k. Such is the shortage of supply and the rapid pace of change in letting markets we recently agreed the rent review at £508k, crystallising a 42% increase in rent.

Asset management

The Investment Manager has remained focused on active asset management during the Quarter, completing three rent reviews at an aggregate 41% increase in annual rent from £0.9m to £1.3m, along with nine new lettings, lease renewals and lease regears, with rental levels remaining affordable to our occupiers. In aggregate these initiatives increased property capital value by £0.8m and had a positive impact on weighted average unexpired lease term, which only decreased to 4.7 years during the Quarter. (31 Mar 24: 4.9 years)

Details of these asset management initiatives are shown below:

Rent reviews

Three rent reviews undertaken at an aggregate 11% above ERV and increasing the aggregate rent by 41% comprising new annual rent of:

- £579k with Next at an industrial unit in Motherwell;
- £173k with Arkote at an industrial unit in Sheffield; and
- £508k with ICT Express at an industrial unit in Tamworth.

Renewals

Two lease renewals signed in line with previous passing rent and 6% ahead of ERV:

- For 10 years to Jangala Soft Play at a warehouse unit in Hilton, with an annual rent of £48k, increasing the valuation by £0.1m; and
- For five years to Superdrug with a third-year break option at a retail unit in Southsea, at an annual rent of £46k, increasing the valuation by £0.1m.

New leases

A further £0.3m of new rental income was added through seven new leases completed on vacant units, in line with ERV, during the Quarter:

- A 10-year lease with a five-year tenant break option and open market rent review to Ark Housing Association on an office unit in Edinburgh, at an annual rent of £92k, increasing valuation by £0.3m
- Two five-year leases to Razor Oil Tools with third year tenant break options at industrial units in Aberdeen, with aggregate annual rent of £64k, increasing valuation by £0.2m
- A five-year lease to KWB Property Management at an office suite in Birmingham, with an annual rent of £48k, increasing valuation by £0.1m
- Two of four newly refurbished flats in Shrewsbury, recently converted from vacant retail storage space, successfully let on 12 month and 36 month fixed terms respectively with aggregate income of £25k
- A new 10-year lease with fifth year break option and open market rent review to McLaren Group, on an office suite in Glasgow, with an annual rent of £29k

Since the Quarter end the Company has completed two lease renewals and three new leases at a combined average of 35% above the previous passing rent:

- A five-year lease renewal to NatWest at an office suite in Oxford, with an annual rent of £128k;
- A 10-year lease renewal to Barrhead Travel Service, with a tenant break option on the 5th and 7th anniversaries, at an annual rent of £65k; and
- Three leases of industrial units in Atherstone, with a combined annual rent of £29k.

In addition, two 12-month fixed term leases of the remaining flats in Shrewsbury have been agreed, delivering annual aggregate income of £23k.

Occupancy

EPRA occupancy has remained at 92%, with the impact of new lettings and the sale of vacant assets offset by the exit of an industrial tenant in Plymouth at lease expiry which was no longer in occupation. We are progressing plans for a comprehensive refurbishment of the property whilst interest from owner-occupiers to purchase the property is assessed.

Sustainability

The Company published its Asset Management and Sustainability report In June 2024 which is available at: custodianreit.com/environmental-social-and-governance-esg/. This report contains details of the Company's asset management initiatives over the previous 12 months including case studies of recent positive steps taken to improve the environmental performance of the portfolio.

Disposals

During the Quarter a vacant former car showroom in Redhill and a vacant industrial property in Warrington were sold for £11.3m. In aggregate these disposals were made 49% ahead of their 31 December 2023 valuations and broadly in line with prevailing valuations.

The Company has three smaller units under offer to sell with aggregate expected proceeds of £4.0m.

Borrowings

At 30 June 2024 the Company had £168.0m of debt drawn at an aggregate weighted average cost of 3.9% (31 Mar 24: 4.1%) with no expiries until August 2025 and diversified across a range of lenders. This debt comprised:

- £28m (17%) at a variable prevailing interest rate of 6.9% and a facility maturity of 2.4 years; and
- £140m (83%) at a weighted average fixed rate of 3.4% with a weighted average maturity of 5.8 years.

At 30 June 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 30 June 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:

	30 June 2024			31 March 2024
		Quarter valuation	Quarter	

Sector	Val'n £m	Weighting by value	Weighting by income	movement £m	valuation movement	Weighting by value	Weighting by income
Industrial	284.5	49%	41%	1.7	0.6%	49%	40%
Retail warehouse	122.8	21%	22%	-	-	21%	23%
Other[7]	76.9	13%	14%	(0.4)	(0.6%)	13%	13%
Office	63.3	11%	16%	(2.0)	(3.2%)	11%	16%
High street retail	32.1	6%	7%	(0.3)	(0.7%)	6%	8%
Total	579.6	100%	100%	(1.0)	(0.2%)	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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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.

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[1] Profit after tax excluding net gains or losses on investment property divided by weighted average number of shares in issue.
[2] Price on 7 August 2024. Source: London Stock Exchange.
[3] Adjusting for property acquisitions, disposals and capital expenditure.
[4] 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] Comprises drive-through restaurants, car showrooms, trade counters, gymnasiums, restaurants and leisure units.

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