

7 November 2024

## Custodian Property Income REIT plc

(“Custodian Property Income REIT” or “the Company”)

### Strong leasing outcomes 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 30 September 2024 (“Q2” or the “Quarter”).

**Commenting on the trading update, Richard Shepherd-Cross, Managing Director of Custodian Capital Limited, said:** *“Having previously stated that we believed the market was bottoming out and with two consecutive quarters of broadly flat valuations behind us, it is pleasing to report a marginal increase in our portfolio valuation at the halfway point of the year. While one swallow does not make a summer, this does support our belief that, generally speaking, we are at the start of a gradual upwards trend. However, the importance of stock selection and proactive asset management to drive returns remains as acute as ever and the 20 plus lettings, lease renewals, regears and rent reviews at significant average premiums to ERV and previous rent that we have undertaken during the Quarter, as well as the sales we continue to make on terms ahead of valuation, will be supportive of future earnings and dividend cover.*

*“In September we also welcomed the Financial Conduct Authority’s exemption of investment companies from PRIIPs and MiFID II regulation which previously obliged wealth managers and platforms to make disclosures about costs which were misleading and ultimately detrimental to investment performance. With the situation now being resolved and as the investment industry gradually adjusts to this change, we expect the Company’s competitive cost structure and high returns to be very attractive to new investors seeking strong returns from UK real estate.”*

### Highlights

*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<sup>[1]</sup>, 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 based on the prevailing 76p share price<sup>[2]</sup>
- EPRA earnings per share of 1.5p for the Quarter (FY25 Q1: 1.5p)
- During the Quarter, a 1.5% increase in like-for-like<sup>[3]</sup> passing rent and a 0.8% increase in like-for-like estimated rental value (“ERV”), driven by 1.1% like-for-like rental growth in the industrial sector, with all other sectors showing stable ERVs
- Portfolio ERV (£49.3m) exceeds passing rent (£44.3m) by 11% (30 Jun 2024: 13%) reflecting the reversion captured and sale of vacant property undertaken during the Quarter. With approximately half of this reversion available from each of leasing events and vacancy respectively, there remains significant potential to grow rental income by capturing this at (typically) five-yearly rent reviews or on re-letting, in addition to continuing to drive rental growth through asset management and selling vacant property to developers or owner-managers
- Leasing activity during the Quarter comprised 20 new lettings, lease renewals and regears across 12 assets as well as two rent reviews. In aggregate, these initiatives were completed in line with ERV and, for let properties, 9% above previous passing rent
- EPRA occupancy<sup>[4]</sup> has improved to 93.5% (30 Jun 2024: 91.8%), with 2% of vacant ERV subject to refurbishment, primarily due to the sale of vacant offices in Castle Donington and £0.7m of new rent being added to the rent roll from:
  - Completing two rent reviews on industrial assets at an aggregate 33% above previous passing rent; and
  - Letting eight vacant units across five assets in the industrial, office and other sectors, in aggregate, in line with ERV.

*Valuations stable across the Company’s c.£580m portfolio, with a small uptick on a like-for-like basis*

- Having remained flat during the last two quarters, the value of the Company’s portfolio of 152 assets was £582.4m, an increase of 0.5%

on a like-for-like basis during the Quarter, net of £2.2m of capital expenditure

- Q2 net asset value (“NAV”) total return per share<sup>[5]</sup> of 2.0%
- NAV per share grew marginally by 0.4% to 93.5p (30 Jun 2024: 93.1p) with a NAV of £412.2m (30 Jun 2024: £410.3m)

*Asset recycling continues to generate aggregate proceeds in excess of valuation*

Since 30 June 2024 the Company has successfully disposed of three assets at an aggregate 13% premium to previous valuation, comprising:

- Vacant offices in Castle Donington for £1.75m in line with its 30 June 2024 valuation;
- One unit of a two-unit industrial asset in Sheffield sold to an owner-occupier for £0.55m, 10% ahead of its 30 June 2024 valuation; and
- In October, a vacant office asset in Solihull sold to a developer for £1.4m, 33% ahead of 30 June 2024 valuation.

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%*

- £2.2m of capital expenditure undertaken during the Quarter, primarily relating to the extension of an industrial building in Livingston, office refurbishments in Leeds and Manchester and an industrial refurbishment in Aberdeen. All 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
- During the Quarter the Company generated £0.1m (Q1: £0.1m) of revenue from its owned solar panel installations, selling the clean electricity generated to tenants and exporting any surplus. In addition, new solar arrays in Norwich and Ipswich were brought into use, meaning 13 of the Company’s buildings are now generating their own electricity, with further installations planned during the remainder of the financial year
- Weighted average energy performance certificate rating has improved to C(52) (30 Jun 2024: C(53)) with re-ratings being carried out across five assets during the Quarter

*Prudent debt levels*

- Net gearing<sup>[6]</sup> was 28.6% loan-to-value as of 30 Sept 2024 (30 Jun 24: 28.8%) with property disposal proceeds during the Quarter broadly funding capital expenditure
- £174m of drawn debt comprising £140m (80%) of fixed rate debt and £34m (20%) drawn under the Company’s revolving credit facility (“RCF”)
- Weighted average cost of aggregate borrowings is 4.0% (30 Jun 24: 3.9%)
- Fixed rate debt facilities have a weighted average term of 5.5 years and a weighted average cost of 3.4% offering significant medium-term interest rate risk mitigation

**Dividends**

The Company paid an interim dividend per share of 1.5p on Friday 30 August 2024 relating to Q1, 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 29 November 2024 to shareholders on the register on 18 October 2024, which will be designated as a property income distribution (“PID”).

**Net asset value**

The Company’s unaudited NAV at 30 September 2024 was £412.2m, or approximately 93.5p per share:

	Pence per share	£m
NAV at 30 June 2024	93.1	410.3
Valuation increase, depreciation and profit on disposal	0.4	1.9
EPRA earnings for the Quarter	1.5	6.6
Interim quarterly dividend, paid during the Quarter, relating to Q1	(1.5)	(6.6)
NAV at 30 September 2024	93.5	412.2

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 30 September 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 Friday 29 November 2024.

## **Investment Manager's commentary**

### **Market update**

We mentioned in our last quarterly update that after a period of stabilisation, the trajectory of valuations appeared to be turning positive and after two consecutive quarters of being broadly flat, it is pleasing to report that in this Quarter the valuation of the Company's portfolio was up marginally, leading to a stable NAV per share during 2024. This profile is consistent with our strongly held view that market values have now bottomed out and the prevailing trend is gradually upwards, supported by falling interest rates and the continued strength of the occupier markets, which should also deliver rental growth.

Market research published by Savills is showing rental growth in the three main commercial property sectors: Industrial and logistics still lead the growth tables, albeit the rate of rental growth is slowing; office rents are showing growth, but this is both property and location specific; and retail has returned to growth after five years of falling rental values. In the retail sector, it is likely that out-of-town retail will show the greatest rental growth potential, given the heavily restricted supply and low vacancy rate, but prime high street rents are also expected to witness modest growth.

So, while the scene is set for stronger total returns, principally driven by income and income growth, the direct property market has not fully reacted to this potential, as demonstrated by relatively flat valuations. In the indirect market we have seen significant corporate activity, often led by private equity, and a narrowing of discounts to NAV. Both private equity activity and advancing share prices are lead indicators of a recovering direct market. It is disappointing to see publicly owned real estate being sold into private hands at this point in the cycle, but we believe it is still possible to access attractive income returns with the prospect of capital growth from listed UK real estate.

Custodian Property Income REIT continues to benefit from positive asset management with 20 new lettings, lease renewals and lease regears, plus two positive rent reviews during the Quarter, supporting earnings and dividend cover.

### **Cost disclosure exemption**

We welcome the Financial Conduct Authority's recent exemption of investment companies (including REITs) from the Packaged Retail and Insurance-based Investment Products ("PRIIPs") and Markets in Financial Instruments Directive II ("MiFID II") regulation. Since 2018 this regulation has obliged wealth managers and platforms to make cost disclosures to clients that were 'fundamentally misleading'<sup>[7]</sup> by being presented as being borne by investors despite actually being incurred by the Company and included within reported investment performance.

Exacerbated by more recent Consumer Duty regulations these cost disclosures, which also result in investment companies' management costs appearing spuriously more expensive than alternative structures, are likely to have curtailed investment demand for the Company's shares over the last six years.

As the investment industry gradually adjusts to this change, we expect the Company's competitive cost structure and high returns to be very attractive to new investors seeking strong returns from UK real estate.

### **Asset management**

The Investment Manager has remained focused on active asset management during the Quarter, completing two rent reviews at an aggregate 33% increase in annual rent, along with 20 new lettings, lease renewals and lease regears across 12 assets, with rental levels remaining affordable to our occupiers. These initiatives had a positive impact on weighted average unexpired lease term, increasing it to 4.9 years during the Quarter (30 Jun 24: 4.7 years).

Details of these asset management initiatives are shown below:

#### *Rent reviews*

Two rent reviews completed at an industrial unit in Kettering increasing the aggregate passing rent by 33% from £54k to £72k, at an aggregate 14% above ERV.

#### *Renewals*

Seven lease renewals across four retail, industrial and office assets signed at a combined average of 11% ahead of ERV and 23% of previous passing rent, comprising leases of:

- Five years to NatWest at an office suite in Oxford, with an annual rent of £128k;
- 10 years to Barrhead Travel at a retail unit in Dunfermline, with a tenant break option on the 5<sup>th</sup> and 7<sup>th</sup> anniversaries, at an annual rent of £65k;
- Two years to Ciel Concessions at a retail unit in Chester, with an annual rent of £41k;
- Seven years to L Rowland at a retail unit in Dunfermline, with an annual rent of £35k; and
- Five years to Atherstone Garage across three industrial units in Atherstone, with a combined annual rent of £29k.

#### *New leases*

£0.7m of new annual rental income was added to the rent roll through letting eight vacant units across five properties, in addition to a further five new leases being signed with existing tenants, in aggregate in line with ERV and 7% above previous passing rent, during the Quarter:

- A 10-year lease to Enact Conveyancing at its offices in Leeds, with an annual rent of 480k, 42% ahead of the previous passing rent with the building having been comprehensively refurbished while the tenant remained in occupation and securing an A Rated EPC;
- A 10-year lease to Inspired Gaming at a vacant newly refurbished industrial unit in Ashby, with an annual rent of £468k;
- An over-riding 15-year lease to Wickes at a retail warehouse in Leighton Buzzard, with an annual rent of £340k;
- A 20-year lease to Zen Land (t/a Blue Whale Supermarket), at a vacant retail unit in Liverpool, with an annual rent of £120k;
- A two-year lease to Magnet at a retail warehouse unit in Leicester, with an annual rent of £88k;
- A 15-year lease with year-five tenant break option to Poppins Restaurant, at a retail unit in Portsmouth, with an annual rent of £39k;
- A 10-year lease to Bradley and Cuthbertson at a vacant office unit in Birmingham, with an annual rent of £37k;
- Two 12-month fixed term leases of vacant, newly refurbished flats in Shrewsbury, delivering an annual aggregate income £23k; and
- Four leases of between three and five years at three vacant and one occupied industrial units in Atherstone with an aggregate annual rent of £40k.

Since the Quarter end the Company has completed four new leases, one lease renewal and one rent review:

- An open market rent review with Sealed Air at an industrial unit in Kettering, with a new annual rent of £227k, a 78% increase from previous passing rent;
- A five-year lease renewal with Magnet at a retail warehouse in Gloucester, with an annual rent of £116k;
- A new 10-year lease to Telefonica at a retail unit in Shrewsbury, with a new annual rent of £73k, a 38% increase from previous passing rent;
- A new 10-year lease to Katani & Co at a vacant office unit in Glasgow, with an annual rent of £58k;
- A new 10-year lease to MST Invest at a vacant retail unit in Liverpool, with an annual rent of £45k; and
- A new five-year lease to Ingeus, at a vacant office unit in Birmingham, with an annual rent of £43k.

An agreement for lease has also been entered into for the entirety of a previously multi-let office building in Manchester currently undergoing partial refurbishment, on a 12-year lease term with an annual rent of £715k, subject to planning and vacant possession by 31 January 2025.

The positive impact of these initiatives has been partially offset by two tenant failures:

- The lease with ICT Express ("ICT") which occupies an industrial unit in Tamworth with an annual rent of £0.5m is expected to be assigned to Ziegler UK when it acquires ICT's business. While this transaction will maintain the current level of passing rent, it will also result in c. £0.3m of irrecoverable rent arrears, albeit on completion the assignment valuation is expected to increase by £0.1m due to the stronger tenant covenant.
- CB Printforce UK, which occupies an industrial unit in Biggleswade with an annual rent of £0.4m, entered administration during the quarter with c. £0.1m of rent arrears. Should the Administrators vacate, we expect to use this opportunity to carry out a comprehensive refurbishment of the unit to improve its specification and let it at a higher rent.

#### *Sustainability*

The Company published its Asset Management and Sustainability report in June 2024 which is available at: [custodianreit.com/environmental-social-and-governance-esg/](https://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.

#### **Borrowings**

At 30 September 2024 the Company had £174.0m of debt drawn at an aggregate weighted average cost of 4.0% (30 Jun 24: 3.9%) with no

expiries until August 2025 and diversified across a range of lenders. This debt comprised:

- £34m (20%) at a variable prevailing interest rate of 6.7% and a facility maturity of 2.1 years; and
- £140m (80%) at a weighted average fixed rate of 3.4% with a weighted average maturity of 5.5 years.

At 30 September 2024 the Company's borrowing facilities were:

#### *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 September 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	30 Sept 2024				30 Jun 2024		
	Val'n £m	Weighting by value	Weighting by income	Quarter valuation movement £m	Quarter valuation movement	Weighting by value	Weighting by income
Industrial	287.2	49%	41%	0.9	0.3%	49%	41%
Retail warehouse	125.0	22%	22%	2.3	1.8%	21%	22%
Other <sup>[8]</sup>	77.2	13%	14%	0.2	0.2%	13%	14%
Office	60.2	10%	16%	(1.9)	(3.1%)	11%	16%
High street retail	32.8	6%	7%	0.7	2.2%	6%	7%
Total	582.4	100%	100%	2.2		100%	100%

For details of all properties in the portfolio please see [custodianreit.com/property-portfolio](https://custodianreit.com/property-portfolio).

**- Ends -**

### **Further information:**

Further information regarding the Company can be found at the Company's website [custodianreit.com](https://custodianreit.com) or please contact:

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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](http://custodianreit.com) and [custodiancapital.com](http://custodiancapital.com).

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<sup>[1]</sup> Profit after tax excluding net gains or losses on property divided by weighted average number of shares in issue.

<sup>[2]</sup> Price on 6 November 2024. Source: London Stock Exchange.

<sup>[3]</sup> Adjusting for property acquisitions, disposals and capital expenditure.

<sup>[4]</sup> ERV of let property divided by total portfolio ERV.

<sup>[5]</sup> NAV per share movement including dividends paid during the Quarter.

<sup>[6]</sup> Gross borrowings less cash (excluding rent deposits) divided by portfolio valuation.

<sup>[7]</sup> Source: Association of Investment Companies.

<sup>[8]</sup> Comprises drive-through restaurants, car showrooms, trade counters, gymnasiums, restaurants and leisure units.

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