Custodian Property Income REIT plc (CREI)
Custodian Property Income REIT plc: Active asset management continues to drive income and valuation growth, underpinning fully covered dividend

08-May-2025 / 07:00 GMT/BST

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8 May 2025

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

Active asset management continues to drive income and valuation growth, underpinning fully covered dividend

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 2025 (“Q4” or the “Quarter”) and the year ended 31 March 2025 (“FY25”).

Commenting on the trading update, Richard Shepherd-Cross, Managing Director of the Investment Manager, Custodian Capital Limited, said: *“This Quarter’s performance further emphasised the benefits of portfolio diversification, which combined with our hands on approach to generating strong income growth, has helped support three consecutive quarters of capital appreciation. We believe the current discount provides an attractive entry point for investors, especially given our long track record of fully covering the dividend, with shares currently yielding around 8%. The 17 lettings, lease renewals, re-gears and rent reviews we completed during the Quarter were achieved at significant aggregate premiums to ERV and previous rent, and our ongoing investment in solar panels at our properties has begun to prove its worth as a potential source of future revenue and value creation.*

“We also believe that during periods of trade uncertainty such as the one the world now finds itself in, it would not be unreasonable to view UK real estate as a relatively safe haven for investors seeking stable asset backed income in established and secure jurisdictions. This should be particularly true for the Company’s diversified investment strategy that generally targets sub £10m, higher yielding, regional assets across the UK, that principally serve a local and/or domestic market.”

Highlights

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

- 1.5p dividend per share approved for the Quarter, achieving aggregate FY25 dividends per share of 6.0p, in line with target, and fully covered by unaudited EPRA earnings per share[1]
- Target dividends per share of no less than 6.0p for the year ending 31 March 2026. This target dividend represents a 7.9% yield[2] based on the prevailing 76p share price[3]
- EPRA earnings per share of 1.6p for the Quarter (Q3: 1.5p)
- EPRA occupancy[4] decreased to 91.1% (31 Dec 2024: 93.4%), primarily due to a previously flagged industrial unit becoming vacant in Biggleswade, which provides an opportunity to refurbish and improve the rental rate, and an office in Sheffield where we are assessing the options. The industrial asset in Biggleswade is already under offer to let subject to a refurbishment. 4.0% of estimated rental value (“ERV”) is vacant and being or about to be refurbished or under offer to let or sell (31 Dec 2024: 1.8%)
- During the Quarter, this decrease in occupancy resulted in a 1.2% decrease in like-for-like[5] passing rent. However, like-for-like ERV increased by 1.5%, primarily driven by 2.1% like-for-like growth in the industrial sector
- Significant potential for further income growth with the portfolio’s ERV of £50.2m exceeding the current passing rent of £43.9m by 14% (31 Dec 2024: 11%). Approximately 30% 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, we expect to capture this potential rental upside at (typically) five-yearly rent reviews or on re-letting, with an opportunity to do so across c. 17% of the portfolio’s income in FY26. We expect to also continue to drive passing rent and ERV growth further through asset management initiatives
- Leasing activity during the Quarter comprised the completion of two rent reviews at an average 31% increase in annual rent, nine lease renewals and regears in aggregate 11% ahead of ERV and 13% ahead of the previous rent, and letting six vacant units

Valuations growing across the Company’s c.£594m portfolio, with a 1.2% uptick on a like-for-like basis

- Q4 net asset value ("NAV") total return per share[6] of 3.4%
- NAV per share grew by 1.8% to 96.1p (31 Dec 2024: 94.4p) with a NAV of £423.5m (31 Dec 2024: £416.1m)
- The value of the Company's portfolio of 151 assets at the Quarter end was £594.4m (31 Dec 2024: £586.4m), a like-for-like increase of 1.2% during the Quarter, net of £0.8m of capital expenditure. Benefitting from a diversified portfolio, during FY25, the Company has seen a like-for-like portfolio valuation increase of 2.2%

Capital investment continues to be accretive

- £0.8m of capital expenditure undertaken during the Quarter, primarily relating to the refurbishment of an industrial building in Plymouth and combining two units to facilitate a letting at a retail warehouse in Southport
- During the Quarter, the Company generated £0.1m (Q3: £0.1m) of revenue from its owned solar panel installations across 10 assets, selling the renewable electricity generated to tenants and exporting any surplus. The Company has invested £1.3m installing solar panels during the last 12 months which is coming on stream and installations are under consideration at 12 further sites over the next 12 months
- The Company's first six solar panel installations were revalued at 31 March 2025[7], resulting in a £0.7m valuation increase. Remaining arrays will be valued over the course of the next financial year as each array's annual performance information becomes available
- Weighted average energy performance certificate rating was C(51) (31 Dec 2024: C(52)) with re-ratings being carried out across 17 units during the Quarter

Prudent debt levels

- Net gearing[8] was 27.9% loan-to-value at 31 March 2025 (31 Dec 24: 28.5%).
- £175m (31 Dec 24: £171m) of drawn debt at 31 March 2025 comprising £140m (80%) of fixed rate debt and £35m (20%) drawn under the Company's variable rate revolving credit facility ("RCF")
- Weighted average cost ("WAC") of aggregate borrowings remained at 3.9% (31 Dec 24: 3.9%)
- The Board intends to utilise the Company's RCF to repay a £20m fixed rate loan 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 11% of drawn debt

  £120m of longer-term fixed-rate debt facilities have a weighted average term of 5.0 years and a WAC of 3.4%, offering significant medium-term interest rate risk mitigation

Dividends

The Company paid an interim dividend per share of 1.5p on 28 February 2025 relating to Q3, 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 May 2025 to shareholders on the register on 25 April 2025, which will be designated as a property income distribution ("PID").

The Board is targeting a dividend per share of no less than 6.0p for the year ending 31 March 2026.

Historical income performance

The table below sets out the Company's dividend performance over the last five years which, aside from the post-COVID industrial sector pricing spike in 2022, shows the high and growing level of income returns produced by the Company's portfolio as a proportion of NAV.

	Year ending 31 March				
	2025	2024	2023	2022	2021
NAV per share (p)	96.1	93.4	99.3	119.7	97.6
Dividend per share (p)	6.0	5.8	5.5	5.25	5.0
Yield on NAV	6.2%	6.2%	5.5%	4.4%	5.1%

Over this five-year period, total dividends were £120m, averaging 5.5p per share per annum.

Net asset value

The Company's unaudited NAV increased to £423.5m, or approximately 96.1p per share, at 31 March 2025:

	Pence per share	£m
NAV at 31 December 2024	94.4	416.1

Valuation increases and depreciation	1.6	7.1
EPRA earnings for the Quarter	1.6	6.9
Interim quarterly dividend, paid during the Quarter, relating to Q3	(1.5)	(6.6)
NAV at 31 March 2025	96.1	423.5

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 2025 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 30 May 2025.

Market update

At a property market level, it is encouraging that the evidence is once again supportive of a recovery in the fortunes of UK commercial real estate. Transaction volumes have been increasing, albeit there has been a slight hiatus as the world reacts to US trade policy. Of note is the increased investment in the office sector, with a focus on grade A city centre buildings. The industrial and logistics sector continues to be popular and there is renewed focus on out-of-town retail/retail warehousing. Since the middle of last year, we have seen a further stabilisation of valuations as well as some increases during recent quarters, primarily driven by rental growth but also through emerging yield compression.

The consistent thread in the story of the UK commercial real estate is positive occupier activity, with declining vacancy rates in prime locations and increased leasing activity, particularly in the office sector, as companies finalise their return-to-office strategies. While there is evidence of developments restarting and new planning applications increasing, the lack of development in recent years is maintaining pressure on supply and supporting rental growth.

Post Quarter-end, Custodian Property Income REIT's share price experienced volatility in line with the wider stock market, but perhaps this reaction will settle into a more considered position for real estate. It would not be unreasonable to expect that during periods of trade uncertainty, UK real estate be seen as a safe haven, as investors seek stable income, with asset backing in established and secure jurisdictions. This should be particularly true for the Company's investment strategy that generally targets sub £10m, regional, UK assets, that principally serve a local and/or domestic market.

The fully covered dividend per share for the year ended 31 March 2025 of 6.0p offered a dividend yield of 7.9% at 31 March 2025, as weak economic confidence pushed the share price to a discount to NAV of c.19%. We believe this fundamentally undervalues the security and quality of income offered through our fully covered dividend. Despite the fact that we continually demonstrate our ability to realise sales at premiums to book value, the discount remains somewhat less than the UK listed real estate market average discount of c. 28%. This suggests to us that while investors value the income, they also still overplay the risk in UK real estate which should be set against a backdrop of falling interest rates, rising property prices, growing rents and falling vacancy rates which are normally associated with a reduction in risk.

No commentary on UK listed real estate would be complete without considering the corporate activity that has swept through the sector. Comprising mergers, acquisitions, wind downs, strategic reviews and take privates, the common theme is that private equity is seeing value in the sector while others are letting the grass grow under their feet. Against the average market discount to NAV of c.28%, most corporate activity is pricing transactions at between a 0% and 12% discount to NAV giving investors an immediate capital accretion, which highlights the disparity in perceptions of value.

As these perceptions of value merge, we should expect to see a recovery in ratings across the sector, which adds further support to our view that the sector is currently under-valued.

Asset management

Custodian Capital Limited, the Investment Manager, has remained focused on active asset management during the Quarter, completing:

- Two rent reviews with an aggregate 31% increase in annual rent (£61k per annum), in line with ERV;
- Nine lease renewals and regears, in aggregate 11% ahead of ERV and 13% ahead of the previous passing rent; and
- Letting/licensing six vacant units with annual rent of £178k.

These initiatives had a positive impact on weighted average unexpired lease term, which increased by 0.2 years to 5.0 years during the Quarter (31 Dec 2024: 4.8 years).

Further details of these asset management initiatives are shown below:

Rent reviews

- At an industrial unit in Manchester, increasing the passing rent by 37% from £164k to £225k
- At a retail unit in Dunfermline, rent maintained at £28k per annum

Renewals

- Six-year lease renewal with Nicwood Logistics at an industrial unit in Burton upon Trent, increasing annual rent by 30% to £650k
- Removal of a tenant break option with Total Fitness in Lincoln, extending the lease by five years in return for four months' rent free, with annual rent remaining £431k
- 10-year lease renewal with Northern Commercials at an industrial unit in Manchester, increasing annual rent by 37% to £225k, with the open market rent review settled simultaneously
- Five-year lease renewal with Halfords at a retail warehouse unit in Carlisle, increasing annual rent by 6% to £163k
- Five-year lease renewal with Poundland at a high street retail unit in Portsmouth, with annual rent decreasing to £75k reflecting prevailing market rates
- 10-year lease renewal to Precision Pumping and Metering at an industrial unit in Aberdeen (Unit 6), with a tenant break option on the fifth anniversary, increasing annual rent by 31% to £48k
- Removal of a tenant break option with Majestic Wines at a retail warehouse unit in Portishead, extending the lease by five years and maintaining the annual rent at £45k
- 10-year lease renewal with British Red Cross Society at a retail warehouse unit in Dunfermline, with a tenant break option on the fifth anniversary, increasing annual rent by 15% to £37k
- 10-year lease renewal with Exitus Escape Rooms at a retail unit in Cardiff, with a tenant break option in the fifth anniversary, maintaining the annual rent at £22k

Vacant premises

£0.2m of new annual rental income was added to the rent roll through letting six vacant units, in aggregate, in line with ERV:

- A 10-year lease to Hotel Chocolat at a retail unit in Winchester, with a tenant only break option in the fifth year of the term, at an annual rent of £115k;
- A 10-year lease to Precision Pumping and Metering at an industrial unit in Aberdeen (Unit 5), with a tenant break option in the fifth year, at an annual rent of £30k;
- Three new leases at industrial units in Atherstone, of five-six years in length, at a combined annual rent of £28k; and
- A licence to Commercial Property Care at a storeroom in an office building in Birmingham, at an annual rent of £5k.

The positive impact of these initiatives was offset by new vacancy at assets in Biggleswade (industrial), Sheffield (offices) and Knowsley (industrial), which in aggregate decreased the rent roll by £0.9m (2.0%). These assets have an ERV of £1.2m and offer asset management opportunities to crystallise this £0.3m reversionary potential. The largest asset (Biggleswade) is already under offer to let, subject to a £1.7m refurbishment, which on completion will crystallise an existing £0.2m annual rental reversion plus deliver a yield on expected refurbishment cost of more than 7%.

Post Quarter-end asset management activity

Post Quarter-end the following new leases/renewals added an aggregate £0.3m to the rent roll:

- A 10-year lease to Romac Logistics at an industrial unit in Motherwell, following the previous tenant exercising the break option and surrendering early, with annual rent increasing by 30% to £813k;
- A 10-year lease renewal with DHL at an industrial unit in Glasgow, with a tenant only break option in the fifth anniversary, increasing passing rent by 33% to £146k; and
- A five-year lease of a vacant floor to Positive Planet at offices in Manchester, following a comprehensive refurbishment of the building, with annual rent of £99k, reflecting an uplift of 95% on the rental rate prior to the works being undertaken.

Borrowings

At 31 March 2025 the Company had £175m of debt drawn comprising:

- £35m (20%) at a variable prevailing interest rate of 6.1% and a facility maturity of 2.6 years; and
- £140m (80%) at a weighted average fixed rate of 3.4% with a weighted average maturity of 5.0 years.

At 31 March 2025 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, 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

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 March 2025, 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 Mar 2025					31 Dec 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	298.3	50%	42%	7.3	2.5%	49%	41%
Retail warehouse	127.3	21%	22%	1.0	0.8%	22%	22%
Other[9]	78.2	13%	13%	0.2	0.3%	13%	14%
Office	57.7	10%	16%	(1.5)	(2.6%)	10%	16%
High street retail	32.9	6%	7%	(0.6)	(1.6%)	6%	7%
Total	594.4	100%	100%	6.4		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.

[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 7 May 2025. Source: London Stock Exchange.
[4] ERV of let property divided by total portfolio ERV.
[5] Adjusting for property acquisitions, disposals and capital expenditure.
[6] NAV per share movement including dividends paid during the Quarter.
[7] Valuations have been undertaken for the first time at sites where electricity has been both imported by the tenant and exported to the grid for a period of at least 12 months.
[8] Gross borrowings less cash (excluding rent deposits) divided by property portfolio and solar panel valuations.
[9] Comprises drive-through restaurants, car showrooms, trade counters, gymnasiums, restaurants and leisure units.

ISIN: GB00BJFLFT45
Category Code: MSCH
TIDM: CREI
LEI Code: 2138001BOD1J5XK1CX76
OAM Categories: 3.1. Additional regulated information required to be disclosed under the laws of a Member State
Sequence No.: 386889
EQS News ID: 2132534