30 July 2020

Custodian REIT plc

("Custodian REIT" or "the Company")

Unaudited net asset value as at 30 June 2020 and dividend update

Custodian REIT (LSE: CREI), the UK commercial real estate investment company, today reports its unaudited net asset value ("NAV") as at 30 June 2020, highlights for the period from 1 April 2020 to 30 June 2020 ("the Period") and the dividend payable for the Period.

Financial highlights

- Continued impact of the COVID-19 pandemic resulting in:
  - A £24.2m (4.2% of property portfolio) valuation decrease during the Period;
  - 92% of rent collected relating to the Period, adjusted for contractual rent deferrals; and
  - To date, 80% of rent due collected relating to the quarter ending 30 September 2020 ("FY21 Q2"), adjusted for contractual rent deferrals
- NAV total return per share[1] for the Period of -4.9%, comprising 0.9% dividends less a 5.8% capital decrease
- Dividend per share approved for the Period of 0.95p, 27% ahead of the 0.75p minimum dividend for the Period announced in April 2020, facilitated by robust rent collection levels
- NAV per share of 95.7p (31 March 2020: 101.6p)
- NAV of £402.1m (31 March 2020: £426.7m)
- Net gearing[2] of 23.5% loan-to-value (31 March 2020: 22.4%)

Portfolio highlights

- Property portfolio value of £533.7m (31 March 2020: £559.8m), subject to a 'material uncertainty' clause for all properties (excluding industrial and logistics) in line with prevailing RICS guidance:
  - £24.2m aggregate valuation decrease for the Period due primarily to the impact of COVID-19 on all investment market and property sectors
  - Disposal of an industrial property in Westerham for consideration of £2.8m, 23% ahead of 31 March 2020 valuation
- EPRA occupancy[3] 93.8% (31 March 2020: 95.6%)
- Since the Period end £0.9m invested in the acquisition of land for the development of a Starbucks drive-through restaurant in Nottingham

[1] NAV per share movement including dividends approved for the Period.
[2] Gross borrowings less cash (excluding rent deposits) divided by portfolio valuation.
[3] Estimated rental value ("ERV") of let property divided by total portfolio ERV.

Net asset value

The unaudited NAV of the Company at 30 June 2020 was £402.1m, reflecting approximately 95.7p per share, a decrease of 5.9p (5.8%) since 31 March 2020:

	Pence per share	£m
NAV at 31 March 2020	101.6	426.7
Profit on disposal of investment properties (net of disposal costs)	0.1	0.5
Valuation movements	(5.7)	(24.2)
Income earned for the Period	2.3	9.8
Expenses, receivable provisioning and net finance costs for the Period	(0.9)	(3.7)
Dividends paid[4] relating to the previous quarter	(1.7)	(7.0)
NAV at 30 June 2020	95.7	402.1

[4] Dividends of 1.6625p per share relating to the quarter ended 31 March 2020 were paid on 29 May 2020.

The NAV attributable to the ordinary shares of the Company is calculated under International Financial Reporting Standards and incorporates the independent portfolio valuation as at 30 June 2020, which is subject to a 'material uncertainty' clause for certain sectors in line with RICS guidance, and income for the Period. The movement in NAV reflects the payment of a 1.6625p per share dividend relating to the quarter ended 31 March 2020 during the Period, which was fully covered by cash collections and earnings in that quarter, but does not include any provision for the approved dividend of 0.95p per share for the Period to be paid on 28 August 2020.

Market commentary

Commenting on the market, Richard Shepherd-Cross, Managing Director of Custodian Capital Limited (the Company's discretionary investment manager) said:

"A full quarter of lockdown has seen occupational and investment activity in marked contrast to the buoyant market at the start of 2020. Investment volumes during the Period were only 20% of the previous quarter's levels and many office and retail occupiers deserted their premises in late March. While we are starting to see occupiers returning to offices and non-essential shops have been open for a few weeks, we have yet to fully recover from the occupational void caused by lockdown. The principal impact of this void has been the challenge of rent collection, discussed below.

"While greater clarity is emerging on the medium-term picture for rent collection, there has been limited transactional evidence in the market, creating a difficult environment in which to provide valuations. The RICS continues to recommend the imposition of a 'material uncertainty' caveat against the valuation of all but industrial and logistics properties to reflect the limited evidence available. With limited transactional evidence, the valuation profession is trying to reflect market sentiment in valuations by applying a risk factor to the collection of deferred rent or rents due from tenants which may be disproportionately affected by the COVID-19 pandemic. The consequential decline in NAV is perhaps inevitable but not, we believe, an irrecoverable structural shift. As improvements in the prevention of COVID-19 (and care for those who catch it) continue we expect that demand from occupiers for commercial real estate will improve from occupiers and the risk factor applied to rents within valuations will dissipate.

"As we see increasing confidence in the collection of contractual rent and landlords recover their ability to formally pursue non-payers is re-instated by Government, positive sentiment towards commercial real estate investment is likely to return. The low return environment, where dividends are under pressure across all investment markets, should put the relatively high dividends from real estate, even if at subdued levels compared to previous years, in focus for income-driven investors.

"Income (and therefore earnings per share) is a more important metric than NAV per share in delivering long-term and sustainable returns. As a result, our focus has understandably been centred on rent collection. For many years Custodian REIT has enjoyed a near 100% rent collection record and despite the headwinds of lockdown and legislation rendering this target unattainable, much progress has been made on collecting contractual rents due."

Rent collection

As Investment Manager Custodian Capital invoices and collects rent directly, thereby allowing it to hold direct conversations promptly with most tenants regarding the payment of rent. This direct contact has proved invaluable through the early and current stages of the COVID-19 pandemic, enabling better outcomes for the Company. Some of these conversations have led to positive asset management outcomes, including the extension of leases in return for rent concessions, providing short-term cash flow relief for occupiers and longer-term income security for the Company.

The process of collecting rent arrears continues and to date 92% of rent relating for the quarter, net of contractual rent deferrals[5], has been collected. The balance of rent arrears for the Period remains the subject of discussion with various tenants, although a proportion of arrears are potentially at risk of non-recovery from Company Voluntary Arrangements ("CVAs") or Pre-pack Administrations.

To date 80% of rent expected for FY21 Q2 has been collected, net of amounts contractually deferred[6] to be recovered through payment plans over the next 12-18 months.

[5] The proportion of rent collected relating to the Period (adjusted for the agreed deferral of 11% of invoiced rents).
[6] The proportion of rent collected relating to FY21 Q2 invoiced rents now due (adjusted for the agreed deferral of 5% of FY21 Q2 invoiced rents) and the rents now due having been deferred from the Period.

Dividends

An interim dividend of 1.6625p per share for the quarter ended 31 March 2020 was paid on 29 May 2020, reflecting the 100% rent collection for that period.

In April, before the full impact of lockdown could be ascertained, but acknowledging the importance of income to shareholders, the Company announced its intention to pay each of the subsequent two quarterly dividends at a minimum of 0.75p per share regardless of the level of rent collection, with the support of previous year's undistributed reserves if required. Furthermore, the Company undertook to pay a more generous dividend if rent collection rates allowed.

While still short of the Company's long-term dividend target the Board has approved an interim dividend relating to the Period of 0.95p per share, 27% ahead of the minimum 0.75p previously indicated. This improved level of dividend is fully covered by net cash receipts for the Period and 140% covered by earnings meaning that no historical reserves have been utilised for this dividend.

This first quarterly dividend of the financial year of 0.95p per share is payable on 28 August 2020 to shareholders on the register on 7 August 2020 and will be designated as a property income distribution ("PID").

Asset management

Despite the ongoing economic uncertainty caused by COVID-19, the Investment Manager has remained focused on active asset management during the Period, completing the following initiatives on three high street retail units which have tempered valuation decreases in that sector:

- A re-gear with The Works in Portsmouth which removed a tenant only break option in October 2021, extending the term certain to October 2026;
- A lease renewal with The White Company in Nottingham for a five year lease with 2.5 year tenant only break option at a reduced rent of £65k pa (previously £140k), in line with current ERV; and
- A short-term turnover-based lease with mutual breaks to retain Game in Portsmouth, following expiry of its existing lease, whilst we re-market the premises.

Since the Period end the following initiatives have been completed, which are expected to add £0.6m to the 30 September valuation:

- A five year lease extension with Erskine Murray for its offices in Leicester, extending expiry from December 2020 to December 2025 at an increased annual rental of £72.5k (previously £66.5k);
- A 10 year reversionary lease with MKM in Lincoln on a trade counter unit, extending expiry from June 2022 to June 2032 without break, maintaining annual passing rent at £192k; and
- A five year lease extension with DHL in Speke on an industrial unit, subject to a tenant-only break in year three, maintaining annual passing rent at £119k.

These positive asset management outcomes may be offset by an increase in potential tenant default due to the following events, which could potentially, in aggregate, impact circa 3.6% of the Company's rent roll:

Location	Tenant	Sector	Passing rent £000	Event
Portishead	Travelodge	Hotel	222	CVA - rent reduced to 25% of passing rent in 2020 and 70% in 2021
Perth	The Restaurant Group	Restaurant	100	CVA - rent reduced to 0% for 12 months before closure. Under offer to new tenant
Carlisle and Plymouth	JB Global (t/a Oak Furniture Land)	Retail Warehouse	390	Pre-pack Administration - Oak Furniture Land now occupying under licence whilst new terms are negotiated
Grantham and Evesham	Poundstretcher	Retail Warehouse	221	CVA - tenant remains in occupation rent free whilst units are remarketed
Swindon	Go Outdoors	Retail Warehouse	325	Pre-pack Administration - new tenant in occupation under licence, negotiating revised lease terms
Torquay	Las Iguanas	Restaurant	110	In Administration - tenant remains in occupation under licence, negotiating revised lease terms
Torquay	Le Bistrot Pierre	Restaurant	90	Pre-pack Administration - new tenant in occupation under licence, negotiating new lease terms
			1,460	

In nearly all these affected properties the businesses remain in occupation and continue to trade, with negotiations for new lease terms either agreed and in solicitors hands or under negotiation. Offers from new occupiers have been secured on two of the properties demonstrating occupier demand remains in the market for well-located assets.

The portfolio's weighted average unexpired lease term to first break or expiry ("WAULT") decreased from 5.3 years at 31 March 2020 to 5.1 years at the Period end, reflecting the natural elapse of time.

Financial resilience

The Company retains its strong financial position to address the extraordinary circumstances imposed by COVID-19. At 30 June 2020 it had:

- A diverse and high-quality asset and tenant base comprising 160 assets and over 200 typically 'institutional grade' tenants across all commercial sectors, with an occupancy rate of 93.8%;
- £22m of cash-in-hand with gross borrowings of £150m resulting in low net gearing, with no short-term refinancing risk and a weighted average debt facility maturity of seven years; and
- Significant headroom on lender covenants at a portfolio level, with Company net gearing of 23.5% compared to a maximum loan to value ("LTV") covenant of 35%.

The Company operates the following loan facilities:

- A £35m revolving credit facility (“RCF”) with Lloyds Bank plc (“Lloyds”) expiring on 17 September 2022 with interest of between 1.5% and 1.8% above three-month LIBOR, determined by reference to the prevailing LTV ratio of a discrete security pool;
- 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 £50m term loan with Aviva Investors Real Estate Finance (”Aviva”) comprising:
  a) A £35m tranche repayable on 6 April 2032 with fixed annual interest of 3.02%; and
  b) 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 the Company’s individual properties, over which the relevant lender has security and covenants:

- The maximum LTV of the discrete security pool is between 45% and 50%, with an overarching covenant on the Company’s property portfolio of a maximum 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.

The Company has £173.5m (33% of the property portfolio) of unencumbered assets which could be charged to the security pools to enhance the LTV on the individual loans.

At a portfolio level, the aggregate interest cover on borrowings was more than 500% for the Period. However, to mitigate the risk that interest cover covenants on individual facilities come under some short-term pressure due to curtailed rent receipts, during the Period the Company has put in place pre-emptive interest cover covenant waivers until at least the end of September 2020.

Portfolio analysis

At 30 June 2020 the Company's property portfolio comprised 160 assets with a net initial yield[7] ("NIY") of 7.0% (31 March 2020: 6.8%). 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 2020 £m	Weighting by value 30 Jun 2020	Period valuation movement £m	Period valuation movement	Weighting by income[8] 30 Jun 2020	Weighting by income[8] 31 Mar 2020
Industrial	249.6	47%	(5.5)	(2.2%)	41%	40%
Retail warehouse	103.9	20%	(5.9)	(5.1%)	21%	22%
Other[9]	81.1	15%	(6.3)	(6.8%)	17%	17%
High street retail	48.6	9%	(4.3)	(7.5%)	11%	11%
Office	50.5	9%	(2.2)	(4.1%)	10%	10%
Total	533.7	100%	(24.2)	(4.2%)	100%	100%

[7] Passing rent divided by property valuation plus purchaser's costs.

[8] Current passing rent plus ERV of vacant properties.

[9] Includes car showrooms, petrol filling stations, children's day nurseries, restaurants, gymnasiums, hotels and healthcare units.

During the Period all sectors have seen valuation decreases with industrial and logistics valuations most robust, showing only a 2.2% decrease. The decrease in retail values shows a greater percentage decline in high street locations (7.5%) compared to out-of-town retail warehousing (5.1%). This differential is perhaps a reflection of the stock selection in the Custodian REIT portfolio where retail warehouse occupiers are predominantly value retailers and homewares/DIY, many of whom have remained open for trading during the lockdown. Furthermore, the average rent across the retail warehouse portfolio is only £14.31 per square foot, which represents an affordable rent for most occupiers.

The Company operates a geographically diversified property portfolio across the UK, seeking to ensure that no one region represents an overweight position. The geographic analysis of the Company's portfolio at 30 June 2020 was as follows:

Location	Valuation 30 Jun 2020 £m	Weighting by value 30 Jun 2020	Period valuation movement £m	Period valuation movement	Weighting by income[8] 30 Jun 2020	Weighting by income[8] 31 Mar 2020
West Midlands	115.2	22%	(4.4)	(3.5%)	20%	20%
North-West	88.7	17%	(3.9)	(4.2%)	18%	17%
South-East	66.8	12%	(3.8)	(5.1%)	13%	13%
East Midlands	64.1	12%	(3.1)	(4.5%)	13%	13%
South-West	62.4	12%	(3.3)	(4.9%)	11%	11%
North-East	51.9	10%	(1.9)	(3.5%)	10%	10%
Scotland	46.0	8%	(1.7)	(3.6%)	8%	8%
Eastern	32.3	6%	(1.7)	(4.8%)	6%	6%
Wales	6.3	1%	(0.4)	(6.0%)	1%	2%
Total	533.7	100%	(24.2)	(4.2%)	100%	100%

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

- Ends -

Further information:

Further information regarding the Company can be found at the Company's website www.custodianreit.com or please contact:

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Notes to Editors

Custodian 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 properties with individual values of less than £10m at acquisition.

The Company offers investors the opportunity to access a diversified portfolio of UK commercial real estate through a closed-ended fund. By targeting sub £10m lot-size, regional 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 www.custodianreit.com and www.custodiancapital.com.