29 October 2020

Custodian REIT plc

("Custodian REIT" or "the Company")

Unaudited net asset value as at 30 September 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 September 2020, highlights for the period from 1 July 2020 to 30 September 2020 ("the Period") and the dividend payable for the Period.

Financial highlights

- Rent collection remains impacted by the COVID-19 pandemic:
  - 88% of rent collected relating to the Period, adjusted for contractual rent deferrals (quarter ended 30 June 2020: 90%); and
  - To date, 74% of rent collected relating to the quarter ending 31 December 2020, adjusted for contractual rent deferrals
- NAV total return per share[1] for the Period of 0.5%, comprising 1.0% dividends paid less a 0.5% capital decrease
- Dividend per share approved for the Period of 1.05p (quarter ended 30 June 2020: 0.95p)
- Aggregate dividends per share of 2.0p for the first half of the year ending 31 March 2021 (2020: 3.325p), 33% ahead of the 1.5p minimum announced in April 2020
- EPRA earnings per share[2] for the first half of the year ending 31 March 2021 of 2.6p (2020: 3.4p)
- NAV per share of 95.2p (30 June 2020: 95.7p)
- NAV of £399.8m (30 June 2020: £402.1m)
- Net gearing[3] of 23.4% loan-to-value (30 June 2020: 23.5%)

Portfolio highlights

- Property portfolio value of £532.3m (30 June 2020: £533.7m):
  - £3.1m aggregate valuation decrease for the Period (0.6% of property portfolio) comprising a £2.8m valuation increase from successful asset management initiatives and a £5.9m decrease due primarily to the impact of COVID-19 on estimated rental values ("ERVs")

- £0.9m invested in the acquisition of land for a pre-let development of a Starbucks drive-through restaurant in Nottingham

- EPRA occupancy[4] 92.9% (30 June 2020: 93.8%)

[1] NAV per share movement including dividends paid during the Period.
[2] Profit after tax excluding net gains or losses on investment property divided by weighted average number of shares in issue.
[3] Gross borrowings less cash (excluding rent deposits) divided by portfolio valuation.
[4] ERV of let property divided by total portfolio ERV.

Net asset value

The unaudited NAV of the Company at 30 September 2020 was £399.8m, reflecting approximately 95.2p per share, a decrease of 0.5p (0.5%) since 30 June 2020:

	Pence per share	£m
NAV at 30 June 2020	95.7	402.1
Valuation movements relating to:		
- Asset management activity	0.7	2.8
- Other valuation movements	(1.4)	(5.9)
Net valuation movement	(0.7)	(3.1)
Acquisition costs	-	(0.1)
	(0.7)	(3.2)
Income earned for the Period[5]	2.5	10.5
Expenses, receivable provisioning and net finance costs for the Period[5]	(1.3)	(5.6)
Dividends paid[6] relating to the previous quarter	(1.0)	(4.0)
NAV at 30 September 2020	95.2	399.8

[5] Including £0.9m of annual insurance premium recharged to tenants.
[6] Dividends of 0.95p per share relating to the quarter ended 30 June 2020 were paid on 28 August 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 September 2020 and net income for the Period. The movement in NAV reflects the payment of a 0.95p per share dividend relating to the quarter ended 30 June 2020 during the Period, which was fully covered by net cash collections and EPRA earnings in that quarter, but does not include any provision for the approved dividend of 1.05p per share for the Period to be paid on 30 November 2020.

Market commentary

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

"Investment activity is increasing and appears to be tracking the emerging picture of forecast occupier demand. There is confidence in the industrial and logistics market where record investment volumes have been matched by record occupational demand for warehouse space. This occupational demand, driven by the continued growth of e-commerce and onshoring of supply chains, combined with low vacancy rates has led to the continuation of rental growth. Much of the investment capital that might have been focused on the office or retail sectors has been redirected to industrial and logistics. We see continued opportunity in this sector as the UK has yet to build a sufficient logistics network to support the continued growth in e-commerce.

"Despite widespread remote working and the resulting low utilisation of offices across the country we expect recognition from occupiers of the social and well-being impact of returning to offices in some meaningful way, post the COVID-19 pandemic. Office owners must invest in their existing buildings to create flexible working spaces which may result in greater space requirements per head but perhaps for fewer workers. Offices allow space for organisational productivity, rather than individual productivity which may prove better when delivered working remotely either from home or smaller satellite offices. The lettings market has already seen an increase in enquiries in satellite office locations reflecting this trend which could be positive for Custodian REIT's portfolio of small regional offices, acknowledging that forecasting office demand is currently subject to significant uncertainty.

"The retail market has borne the brunt of the impact of lockdown with a huge reduction in footfall and consumers switching to online retailing instead. The COVID-19 pandemic disruption has accelerated trends that were already embedded in retailing when online retail already made up almost 20% of all UK retail sales, namely an oversupply of shops, downward pressure on rents and a rise in the number of retailers failing.

"ONS data indicates online retail sales reached 32.8% in May 2020 during the national lockdown compared to 18.8% in May 2019. As lockdown was eased in the summer, so people returned to the shops and online sales dipped, which is a positive signal for physical retail. While online sales will remain an important part of retailers' strategies, the physical shop is not yet dead. This physical presence is particularly relevant for prime city centre locations where retailers benefit from high footfall promoting brand awareness and enabling 'showrooming'. We also believe the physical shop will survive in convenience-led, out of town locations, especially for goods which are less likely to be bought online: DIY, furniture, homewares, and discount brands. We expect the Company's strategy of a low weighting to high street retail and a greater focus on out-of-town retail, let at affordable rents, will position the portfolio well to pick up as and when consumers can return to the shops with confidence.

"Investment volumes have been sufficient for the Company's valuers to remove the 'material uncertainty' caveat from the property portfolio valuation as at 30 September 2020. However, in an attempt to reflect market sentiment in the valuations a risk factor has still been applied to the collection of deferred rent or rents arrears due from tenants adversely affected by the COVID-19 pandemic. This rental risk continues to have an impact on NAV but as deferred rents start to be recovered, as indeed they are, this risk adjustment applied to rents within valuations will diminish.

"As we see increasing confidence in the collection of contractually deferred rents and once landlords can formally pursue non-payers, positive sentiment towards the income credentials of commercial real estate investment is likely to return. In a low return environment, where dividends are under pressure across all investment markets, we believe that property returns will look attractive and the search for income and long-term capital security will bring many investors back to real estate. However, if we see an acceleration in tenant failures as Government support packages are withdrawn and while Company Voluntary Arrangements ("CVAs") remain legitimate practice, this could work against the prospects for real estate.

"Over the last eight months the market's focus has been on income (and therefore EPRA earnings per share) rather than NAV and we expect this to continue whilst disruption to contractual rent collections remains. We believe that EPRA earnings per share is a more important metric than NAV per share in demonstrating the Company's ability to deliver long-term sustainable dividends. As a result our focus has understandably been, and will remain, centred on rent collection."

Rent collection

As Investment Manager, Custodian Capital invoices and collects rent directly, importantly allowing it to hold direct conversations promptly with most tenants regarding the payment of rent. This direct contact has proved invaluable through the Pandemic, enabling better outcomes for the Company. Many of these conversations have led to positive asset management outcomes, some of which are discussed below.

FY21 Q1

90% of rent relating to the quarter ended 30 June 2020 ("FY21 Q1"), net of contractual rent deferrals, has been collected, an increase from the 80% previously reported, demonstrating the dynamic picture of rent collection at present.

FY21 Q2

88% of rent relating to the Period, net of contractual rent deferrals, has been collected as set out below:

	£m	
Rental income (IFRS basis)	9.6	
Lease incentives	(0.6)	
Cash rental income expected, before contractual rent deferrals	9.0	
Contractual rent deferrals relating to the Period	(0.5)	
Contractual rent deferred from prior periods falling due during the Period	0.2	
Cash rental income expected, net of contractual deferrals	8.7	100%
Outstanding rental income	(1.0)	(12%)
Collected rental income	7.7	88%

87% of the £0.2m contractual rent deferred from prior periods falling due during the Period has been collected, indicating that the support offered to tenants during the national lockdown is now returning a more positive result on overall rent collections.

Outstanding rental income remains the subject of discussion with various tenants, although some arrears are potentially at risk of non-recovery from CVAs or Pre-pack Administrations.

FY21 Q3

To date 74% of rent relating to the quarter ending 31 December 2020 ("FY21 Q3") has been collected, net of contractual deferrals[7].

All contractual deferrals offered to date are to be recovered through payment plans over the next 12-18 months.

[7] The proportion of rent collected relating to the quarter ending 31 December 2020 ("FY21 Q3") invoiced rents now due, adjusted for the agreed deferral of 1% of FY21 Q3 invoiced rents and the rents now due having been deferred from FY21 Q1 and Q2.

Dividends

The Board is pleased to report dividends per share totalling 2.0p for the six months ended 30 September 2020[8], 33% ahead of the minimum 1.5p announced in April 2020, before the full impact of the national lockdown could be ascertained.

This higher dividend reflects the levels of rent collection seen since the onset of the COVID-19 pandemic disruption and is fully covered by net cash receipts and 130% covered by EPRA earnings, in line with the Board's current policy of paying dividends at a level broadly linked to net rental receipts.

The Board expects to continue to pay quarterly dividends fully covered by net cash receipts for the remainder of the financial year.

The quarterly interim dividend for the Period of 1.05p per share is payable on 30 November 2020 to shareholders on the register on 6 November 2020 and will be designated as a property income distribution ("PID").

[8] Comprising an interim dividend of 0.95p per share for the quarter ended 30 June 2020, which was paid on 28 August 2020, and an interim dividend relating to the Period of 1.05p per share.

Asset management

Despite the ongoing economic uncertainty caused by COVID-19, the Investment Manager has remained focused on active asset management during the Period, undertaking the following initiatives:

- Completed a twenty-year lease extension with Bannatyne Fitness on a leisure scheme in Perth, extending lease expiry to August 2046 and incorporating five yearly RPI linked rent reviews, which increased valuation by £1.5m;
- Unconditionally exchanged an agreement for lease with MCC Labels in Daventry on a new ten-year lease without break commencing in Spring 2021 after the current tenant vacates in December 2020, at a rent of £295k pa, which increased valuation by £0.8m;
- Completing a five-year lease extension with DHL on an industrial unit at Speke, Liverpool, subject to a tenant-only break in year three, maintaining annual passing rent at £119k which increased valuation by £0.2m;
- Completing a five-year lease extension with Erskine Murray at an office building in Leicester, extending the lease expiry from December 2020 to December 2025 at an increased annual rental of £72.5k (previously £66.5k) which increased valuation by £0.1m;
- Completing a deed of variation with Urban Outfitters in Southampton to push the October 2021 tenant only break option back to April 2024, increasing the term certain to 3.5 years, which increased valuation by £0.1m;
- Settling an open market rent review with Synergy Health at an industrial unit in Sheffield, increasing the annual rent from £142k to £158k which increased valuation by £0.1m;
- Unconditionally exchanged an agreement for lease with MKM in Lincoln on a new 10 year reversionary lease on a trade counter unit, extending expiry from June 2022 to June 2032 without break and maintaining annual passing rent at £192k with nine months' rent free, with no impact on valuation; and

- Completing a five-year lease renewal with Sports Direct on a retail park in Weymouth at a rebased rent of £90k (previously £118k), subject to a 5% turnover top-up clause and featuring rolling mutual break options after 36 months with no impact on valuation.

Since the Period end the following initiatives have been completed:

- Exchanging an agreement for lease with Tim Hortons Fast Food Restaurants on a drive-through restaurant in Perth (formerly a Frankie & Benny's) for a term of 15 years, with a tenant only break option in year 10, at an annual rent of £90k; and
- Completing a 10 year reversionary lease without break with DX Networks at an industrial unit in Nuneaton, pushing the lease expiry out from March 2022 to March 2032 subject to a day one rent review where we expect to secure an increase in the £267k pa passing rent.

These positive asset management outcomes have been partially offset by the CVA of Pizza Hut which has impacted the Company's properties in Watford, Leicester and Crewe, and Edinburgh Woollen Mill's intention to appoint Administrators which may affect the Company's property in Shrewsbury. In aggregate these business failures potentially impact £262k (0.7%) of the Company's rent roll. The Company is already in discussion with potential drive-through restaurant occupiers for the Pizza Hut units 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") was maintained at 5.1 years at 30 September 2020 with the impact of lease re-gears and new lettings offsetting the natural elapse of a quarter of a year due to the passage of time.

Financial resilience

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

- A diverse and high-quality asset and tenant base comprising 161 assets and over 200 typically 'institutional grade' tenants across all commercial sectors, with an occupancy rate of 92.9%;
- £25.5m 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 net gearing of 23.4% compared to a maximum loan to value ("LTV") covenant of 35%. Pre-emptive interest cover covenant waivers put in place in April 2020 to mitigate the risk that covenants on individual debt facilities came under pressure due to curtailed rent receipts have not been required due to the level of rent collected.

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 £172.7m (32% of the property portfolio) of unencumbered assets which could be charged to the security pools to enhance the LTV on the individual loans. The Company complied with all loan covenants during the Period.

Portfolio analysis

At 30 September 2020 the Company's property portfolio comprised 161 assets with a net initial yield[9] ("NIY") of 6.9% (30 June 2020: 7.0%). 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 Sep 2020 £m	Weighting by value 30 Sep 2020	Period valuation movement £m	Period valuation movement	Weighting by income[10] 30 Sep 2020	Weighting by income[10] 31 Jun 2020
Industrial	250.7	47%	1.0	0.4%	41%	41%
Retail warehouse	102.7	20%	(1.4)	(1.3%)	21%	21%
Other[11]	81.6	15%	(0.8)	(1.0%)	17%	17%
High street retail	47.6	9%	(1.0)	(2.1%)	11%	11%
Office	49.7	9%	(0.9)	(1.8%)	10%	10%
Total	532.3	100%	(3.1)	(0.6%)	100%	100%

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

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

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

A number of smaller assets in the high street retail sector are earmarked for disposal which should limit possible future valuation decreases in that sector.

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 September 2020 was as follows:

Location	Valuation 30 Sep 2020 £m	Weighting by value 30 Sep 2020	Period valuation movement £m	Period valuation movement	Weighting by income[8] 30 Sep 2020	Weighting by income[8] 30 Jun 2020
West Midlands	114.3	21%	(1.1)	(1.0%)	20%	20%
North-West	88.4	17%	(0.5)	(0.5%)	17%	18%
East Midlands	65.6	12%	0.4	0.6%	13%	13%
South-East	65.2	12%	(1.6)	(2.4%)	13%	13%
South-West	62.0	12%	(0.5)	(0.8%)	11%	11%
North-East	51.9	10%	(0.1)	(0.2%)	10%	10%
Scotland	47.1	9%	1.1	2.4%	8%	8%
Eastern	31.6	6%	(0.7)	(2.1%)	6%	6%
Wales	6.2	1%	(0.1)	(1.4%)	2%	1%
Total	532.3	100%	(3.1)	(0.6%)	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.