Custodian REIT PLC

4 May 2021

Custodian REIT plc

("Custodian REIT" or "the Company")

Unaudited net asset value as at 31 March 2021 and dividend update

Custodian REIT (LSE: CREI), the UK commercial real estate investment company, today reports its unaudited net asset value ("NAV") as at 31 March 2021, highlights for the period from 1 January 2021 to 31 March 2021 ("the Period") and dividends payable.

Highlights

- 90% of rent collected relating to the Period, adjusted for contractual rent deferrals, resulting in 91% of rent having been collected for the year ended 31 March 2021 ("FY21"), adjusted for contractual rent deferrals
- EPRA earnings per share[1] for FY21 decreased to 5.6p (2020: 7.0p) due to prudent assumptions regarding the collection of deferred and overdue rent and a 5.0% decrease in the annual rent roll
- Dividend per share approved for the Period of 1.25p (quarter ended 31 December 2020: 1.25p)
- Aggregate dividends per share for FY21 of 4.5p (2020: 6.65p), reflecting the decreases in rent collection rate and rent roll since the onset of the COVID-19 pandemic
- Aggregate dividends per share for FY21 125% covered by EPRA earnings (2020: 104% covered)
- Target dividend per share of not less than 5.0p for the year ending 31 March 2022, based on rent collection levels remaining in line with expectations
- Property portfolio value of £551.9m (31 December 2020: £546.8m):
    - £3.6m aggregate valuation increase for the Period, comprising £2.6m increases from successful asset management initiatives (0.5% of property portfolio), £5.2m general valuation increases in the industrial sector, partially offset by other aggregate decreases of £4.2m primarily in retail and office sectors
    - Disposal of a high street retail unit at valuation for £0.3m
- NAV per share of 97.6p (31 December 2020: 96.4p)
- NAV of £409.9m (31 December 2020: £405.0m)
- NAV total return per share[2] for FY21 of 0.9% (2020: 1.1%), comprising 5.1% of income (2020: 6.2%) and a 4.2% capital decrease (2020: 5.1%)

- Net gearing[3] of 24.9% loan-to-value (31 December 2020: 24.0%)
- EPRA occupancy[4] 91.5% (31 December 2020: 92.3%)

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

Net asset value

The unaudited NAV of the Company at 31 March 2021 was £409.9m, reflecting approximately 97.6p per share, an increase of 1.2p (1.2%) since 31 December 2020:

	Pence per share	£m
NAV at 31 December 2020	96.4	405.0
Valuation movements relating to:		
- Asset management activity	0.6	2.6
- General valuation increases in the industrial sector	1.2	5.2
- General valuation movements in the retail, office and other sectors	(0.9)	(4.2)
Net valuation movement	0.9	3.6
EPRA earnings for the Period	1.6	6.6
Dividends paid[5] relating to the previous quarter	(1.3)	(5.3)
NAV at 31 March 2021	97.6	409.9

[5] Dividends of 1.25p per share relating to the quarter ended 31 December 2020 were paid on 26 February 2021.

The 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 2021 and net income for the Period. The movement in NAV reflects the payment of a 1.25p per share dividend relating to the quarter ended 31 December 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 1.25p per share for the Period to be paid on 28 May 2021.

Market commentary

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

"In common with the wider economy the commercial property investment market has experienced a year unlike any other, with office workers deserting their offices, shoppers going online as retailers were obliged to close and pubs and restaurants unable to serve customers for a large part of the year. The government's moratorium on the eviction of tenants for non-payment of rent has left landlords unable to compel tenants to pay rent, but despite these challenges, I believe real estate investment has been remarkably resilient.

“The clear winner in real estate investment has been the industrial and logistics sector which has benefited from the shift from the High Street to ‘E-tailing’ and from the onshoring of the national supply chain post Brexit. Investment demand and pricing are both at record levels which has been strongly positive for Custodian REIT as this sector makes up 49% of the portfolio, by value, and its valuation increased by 2.6% during the Period.

“The high street retail sector’s future is uncertain, but, I believe as part of a combined retail and leisure-based city centre there will still be active demand from occupiers. Some of the crowds and queues witnessed, notably outside Primark, as non-essential retail re-opened, and outside pubs, were testament to the appeal of city centre locations. The trend for fewer shops was well established prior to the pandemic, but, in core locations we still expect to see high occupancy levels albeit at rental levels 25-50% below the peak. High Street retail makes up only 8% of the property portfolio by value and we have sold four small shops in the last six months, with another under offer, where we felt a return to rental growth in the medium term was unlikely.

“By contrast the out of town retail sector, which makes up 18% of the Custodian REIT property portfolio by value, is witnessing investors openly competing for assets. This is a sector where there is confidence that the combination of convenience, lower costs per square foot and the complementary offer to online retail will keep these assets relevant. Through the last year we have seen DIY and discounters (B&Q and B&M for example) trading strongly.

“It is widely believed that after a year of working from home the majority of workers are itching to get back to the office. Without doubt the way we use offices and how frequently we visit them has changed, following the largely successful national experiment of remote working. As always when considering real estate investment the location of offices will be key.”

Earnings

EPRA earnings per share for FY21 decreased to 5.6p (2020: 7.0p) due primarily to a £2.7m (0.6p per share) increase in the doubtful debt provision, reflecting our prudent assumptions regarding the recovery of overdue and deferred rents, and a £2.1m (5.0%) decrease in the annual rent roll since 31 March 2020 due to tenants exiting at lease expiry (2.6%), cessation of rents through Company Voluntary Arrangements (“CVAs”) and Administrations (3.2%), partially offset through net property acquisitions (0.8%). Helpfully, rental increases in the industrial sector offset rental decreases seen in other sectors.

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 COVID-19 pandemic, facilitating better outcomes for the Company.

90% of rent relating to the Period, net of contractual rent deferrals, has been collected and 91% of rent relating to FY21 has been collected, net of contractual rent deferrals, or 89% before contractual deferrals, as set out below:

	FY21 £m	Net of contractual rent deferrals	Before contractual rent deferrals
Rental income from investment property (IFRS basis)	38.8		
Lease incentives	(1.9)		
Cash rental income expected, before contractual rent deferrals	36.9		100%
Contractual rent deferred until subsequent financial years	(0.9)		(3%)
Cash rental income expected, net of contractual rent deferrals	36.0	100%	
Outstanding rental income	(3.1)	(9%)	(8%)
Rental income collected	32.9	91%	89%

Outstanding rental income remains the subject of discussion with various tenants, and some arrears are potentially at risk of non-recovery due to disruption caused by the recent national lockdown and from CVAs or Administrations.

To date 66% of rent relating to FY22 Q1 has been collected, net of contractual deferrals, which is in line with the same point in previous quarters.

Significant economic uncertainty remains regarding the impact of the withdrawal of government financial COVID-19 support for businesses, but the Board believes the Company is well placed to weather any medium-term impact because the Company has a diverse portfolio by sector and location with an institutional grade tenant base and low gearing.

Dividends

An interim dividend of 1.25p per share for the quarter ended 31 December 2020 was paid on 26 February 2021.

The Board is pleased to approve an interim dividend per share of 1.25p for the Period, resulting in dividends per share of 4.5p for the year ended 31 March 2021, fully covered by net cash receipts and 125% 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 has set a target dividend[6] per share of not less than 5.0p for the year ending 31 March 2022, based on rent collection levels remaining in line with expectations. The Board's objective is to grow the dividend on a sustainable basis, at a rate which is fully covered by projected net rental income and does not inhibit the flexibility of the Company's investment strategy.

The quarterly interim dividend for the Period of 1.25p per share is payable on 28 May 2021 to shareholders on the register on 14 May 2021 and will be designated as a property income distribution ("PID").

[6] This is a target only and not a profit forecast. There can be no assurance that the target can or will be met and it should not be taken as an indication of the Company's expected or actual future results. Accordingly, shareholders or potential investors in the Company should not place any reliance on this target in deciding whether or not to invest in the Company or assume that the Company will make any distributions at all and should decide for themselves whether or not the target dividend yield is reasonable or achievable.

Asset management

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

- Commencing a letting with Nationwide Building Society on a high street retail unit in Shrewsbury for a term of 10 years without break, at an annual rental of £100k, increasing valuation by £0.6m;
- Completing a five year reversionary lease with Worthington Armstrong on an industrial unit in Gateshead at an increased annual rent of £285k, increasing valuation by £0.4m;
- Completing a 10 year lease renewal with Silgan Closures at an industrial unit in Doncaster, with tenant break options in years three and five at an increased annual rent of £400k, increasing valuation by £0.3m;
- Completing a 10 year lease renewal with a break in year five to Royal Mail at an industrial unit in Kilmarnock, maintaining the current passing rent of £95k with an open market rent review in year five, increasing valuation by £0.3m;

- Completing a lease assignment for a car showroom in Stockport from Benham Specialist Cars to the stronger covenant of Williams Motor Company, and rebasing the annual rent from £740k to £640k with a fixed uplift to £669k in August 2022, increasing valuation by £0.3m;
- Varying the lease with Elma Electronics at an industrial unit in Bedford to remove the September 2022 break option, moving lease expiry out to September 2027, increasing valuation by £0.2m;
- Settling an outstanding rent review with Unilin Distribution at a logistics unit in Manchester, securing an uplift in annual passing rent from £220k to £254k, increasing valuation by £0.2m;
- Completing an open market rent review with Yodel at a logistics unit in Bellshill, securing an uplift from £275k to £310k, increasing valuation by £0.2m;
- Completing lease renewal with Rexel at an industrial unit in Gateshead on a 10 year term with a tenant break option in year five and open market rent reviews and annual passing rent increasing from £50k to £55k, increasing valuation by £0.1m;
- Exchanging an agreement for lease with Just for Pets on a retail warehouse unit in Evesham for a term of 10 years with a break in year six, at an annual rent of £95k, with no impact on valuation;
- Completing a deed of variation to remove the September 2021 break option with Felldale Group at a retail unit in Chester, extending the lease expiry to September 2026 with no impact on valuation; and
- Completing a lease assignment from JB Global to Oak Furniture Land Group at a retail warehouse unit in Plymouth, rebasing the passing rent from £250k to £150k and including mutual break options in years two and four, with no impact on valuation.

The positive impact of these asset management outcomes on earnings has been partially offset by the liquidation of The Human Office, the Administration of Paperchase and the CVA of Total Fitness, which resulted in an aggregate reduction in annual passing rent of £146k (c.0.4% of the Company's rent roll).

Tenant business failures have contributed to occupancy levels decreasing to 91.5% from 95.9% at 31 March 2020, but letting activity is increasing across most sectors. We have a strong pipeline of potential new tenants and in April completed a new five year letting to Green Retreats at a recently refurbished industrial unit in Farnborough with annual rent of £185k, which increased occupancy by 0.6%. Without further significant tenant failures, we expect occupancy levels across the portfolio to continue to recover over the next 3-6 months as we complete more new lettings.

The portfolio's weighted average unexpired lease term to first break or expiry decreased from 5.1 years at 31 December 2020 to 5.0 years, with the impact of lease re-gears, new lettings and disposals partially offsetting the natural elapse of a quarter of a year due to the passage of time.

Borrowings

The Company operates the following loan facilities:

- A £35m revolving credit facility ("RCF") with Lloyds Bank plc ("Lloyds") expiring on 17 September 2023 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. The RCF facility limit can be increased to a maximum of £50m with Lloyds' approval;
- 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 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 complied with all loan covenants during the Period. During the previous quarter the Company charged five unencumbered properties valued at £21.1m to add additional headroom to certain facilities.

Portfolio analysis

At 31 March 2021 the Company's property portfolio comprised 159 assets with a net initial yield[7] of 6.6% (31 December 2020: 6.7%). 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 31 Mar 2021 £m	Weighting by value 31 Mar 2021	Period valuation movement £m	Period valuation movement	Weighting by income[8] 31 Mar 2021	Weighting by income[8] 31 Dec 2020
Industrial	270.2	49%	6.9	2.6%	41%	41%
Retail warehouse	99.7	18%	(1.2)	(1.2%)	21%	21%
Other[9]	84.4	15%	0.9	1.0%	16%	16%
Office	54.8	10%	(1.1)	(1.9%)	12%	12%
High street retail	42.8	8%	(1.9)	(4.3%)	10%	10%
Total	551.9	100%	3.6	0.7%	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.

The Company operates a geographically diversified property portfolio across the UK, seeking to ensure that no one region represents more than 50% of portfolio income. The geographic analysis of the Company's portfolio at 31 March 2021 was as follows:

Location	Valuation 31 Mar 2021 £m	Weighting by value 31 Mar 2021	Period valuation movement £m	Period valuation movement	Weighting by income 31 Mar 2021	Weighting by income 31 Dec 2020
West Midlands	117.0	20%	-	-	20%	20%
North-West	93.3	17%	1.6	1.7%	17%	17%
South-East	71.6	13%	(0.2)	(0.3%)	14%	14%
East Midlands	70.7	13%	0.9	1.4%	14%	13%
South-West	60.9	11%	-	-	10%	10%
North-East	53.4	10%	1.0	2.0%	10%	10%
Scotland	48.8	8%	0.6	1.3%	9%	8%
Eastern	30.8	6%	(0.3)	(1.0%)	5%	6%
Wales	5.4	2%	-	-	1%	2%
Total	551.9	100%	3.6	0.7%	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 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.