



**Custodian REIT plc**

("Custodian REIT" or "the Company")

**Unaudited net asset value as at 30 September 2021 and increase in target dividend**

Custodian REIT (LSE: CREI), the UK commercial real estate investment company focused on smaller lot-sizes, today reports its unaudited net asset value ("NAV") as at 30 September 2021, highlights for the period from 1 July 2021 to 30 September 2021 ("the Period") and dividend update.

**Financial highlights**

- Dividend per share approved for the Period of 1.25p (quarter ended 30 June 2021: 1.25p)
- Target quarterly dividend per share increased by 10% to 1.375p commencing from the quarter ending 31 December 2021, resulting in target dividends per share of no less than 5.25p for the year ending 31 March 2022 and 5.5p for the year ending 31 March 2023
- EPRA earnings per share<sup>1</sup> for the Period increased to 1.6p (quarter ended 30 June 2021: 1.4p) due to a £0.2m decrease in the doubtful debt provision during the Period (quarter ended 30 June 2021: £0.3m increase)
- 94% of rent collected relating to the Period, adjusted for contractual rent deferrals
- NAV total return per share<sup>2</sup> for the Period of 5.5%, comprising 1.2% dividends paid and a 4.3% capital increase
- NAV per share of 106.0p (30 June 2021: 101.7p)
- NAV of £445.9m (30 June 2021: £427.7m)
- Net gearing<sup>3</sup> decreased to 19.6% loan-to-value (30 June 2021: 24.3%) due to the disposal of nine properties during the Period

**Portfolio highlights**

- Property portfolio value of £565.3m (30 June 2021: £575.4m)
- £12.8m aggregate valuation increase for the Period (2.5% of property portfolio), comprising £0.9m from successful asset management initiatives and £11.9m of general valuation increases
- £4.2m profit on disposal<sup>5</sup> from the sale of nine properties for aggregate consideration of £37.7m<sup>5</sup> comprising:

- A portfolio of seven industrial assets for £32.6m, £5.1m (19%) above the properties' 31 March 2021 valuation, when terms of the sale were agreed, and £2.9m (10%) above the 30 June 2021 valuation;
- A retail warehouse in Galashiels to a special purchaser for £4.5m, £1.8m (67%) ahead of the 30 June 2021 valuation; and
- A children's day nursery in Basingstoke for £0.6m, £0.1m ahead of valuation
- £8.15m<sup>4</sup> invested in two property acquisitions
- Since the Period end, an aggregate £46.5m invested in a portfolio 10 office, retail and industrial assets through the corporate acquisition of DRUM Income Plus REIT plc, and separately, an industrial unit in York

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

<sup>2</sup> NAV per share movement including dividends paid during the Period.

<sup>3</sup> Gross borrowings less cash (excluding rent deposits) divided by portfolio valuation.

<sup>4</sup> Before rent top-ups of £0.3m and acquisition costs of £0.8m.

<sup>5</sup> Net of rent top-ups of £0.2m and disposal costs of £0.4m.

## Net asset value

The unaudited NAV of the Company at 30 September 2021 was £445.9m, reflecting approximately 106.0p per share, an increase of 4.3p (4.2%) since 30 June 2021:

	Pence per share	£m
NAV at 30 June 2021	101.7	427.7
Valuation movements relating to:		
- Asset management activity	0.2	0.9
- General valuation increases	3.0	11.9
- Profit on disposal	1.0	4.2
Net valuation movement	4.2	17.0
Acquisition costs	(0.2)	(0.8)
	4.0	16.2
EPRA earnings for the Period	1.6	7.3
Interim dividend paid <sup>6</sup> relating to the previous quarter	(1.3)	(5.3)
NAV at 30 September 2021	106.0	445.9

<sup>6</sup> An interim dividend of 1.25p per share relating to the quarter ended 30 June 2021 was paid on 31 August 2021.

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 2021 and net income for the Period. The movement in NAV reflects the payment of an interim dividend of 1.25p per share during the Period, but does not include any provision for the approved dividend of 1.25p per share for the Period to be paid on 30 November 2021.

## Market commentary

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

"The valuation movements by sector in the Custodian REIT property portfolio during the Period tell a story that is repeated across the market. Industrial and logistics assets continue to see strong demand from investors and occupiers. Occupier demand is driving rental growth, which is encouraging investors still further in their pricing. This virtuous circle appears to have some way to run, particularly amongst smaller regional properties, where inflationary pressures on construction costs, limited development and an ongoing excess of occupier demand over supply support continued rental growth.

"Pricing in the retail warehouse sector is recovering strongly as occupiers have proved resilient through the pandemic, with those in DIY, discounting, homewares and food all trading well. Where investors are confident that rental levels are sustainable, pricing has moved noticeably during the Period.

"Taking advantage of the strength and depth of demand in the industrial/logistics sector and the increasing demand for retail warehousing, we were delighted to conclude some opportunistic sales during the Period. We concluded the portfolio sale of seven industrial units which we felt did not meet our medium-term aspirations for rental growth or might require a level of capital expenditure that we would not recover in the valuation. As part of the sale, we agreed a delayed completion which enabled us to part-invest the expected proceeds in advance of completion, which has helped to reduce cash drag. We also sold, to a special purchaser, a B&Q retail warehouse in Galashiels 67% ahead of valuation. While this property would be considered a target property for Custodian REIT, we did not feel we would be able to achieve the upside delivered by the sale by holding the property, even over the long-term.

"To capitalise on the marginal yield achievable when buying smaller lot-size regional property, during the Period we acquired a distribution unit in Dundee and an office building in central Manchester and, since the Period end, a distribution unit in York for a combined sum of £11.1m at an aggregate net initial yield of c.6%. In all cases we believe there is strong rental growth potential over the short term.

"While challenges still remain in collecting all contractual rent I am hopeful that we will soon be able to cease reporting rent collection statistics as they continue to return towards pre-pandemic normality, with Custodian REIT collecting 94% of rent for the Period. Tenants appear to be looking to the future now and the number of conversations we are having with tenants regarding non-payment of rent has reduced noticeably."

## Rent collection

94% of rent relating to the Period, net of contractual rent deferrals, has been collected as set out below:

	£m	
Rental income (IFRS basis)	9.9	
Lease incentives	(0.4)	
Cash rental income expected, before contractual rent deferrals	9.5	
Contractual rent deferred until subsequent periods	-	
Contractual rent deferred from prior periods falling due during the Period	0.2	
Cash rental income expected, net of contractual deferrals	9.7	100%
Outstanding rental income	(0.6)	(6%)
Collected rental income	9.1	94%

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 earlier COVID-19 restrictions and from CVAs or Administrations.

## Dividends

During the Period the Company paid an interim dividend of 1.25p per share relating to the quarter ended 30 June 2021 which was fully covered by net cash collections and EPRA earnings.

The Board has approved an interim dividend per share of 1.25p for the Period which is fully covered by net cash receipts and 121% covered by EPRA earnings in line with the Board's current policy of paying dividends at a level broadly linked to net rental receipts.

In the absence of unforeseen circumstances and assuming rent collection levels remain in line with forecast, the Board intends to increase quarterly dividends per share to 1.375p from the quarter ending 31 December 2021 to achieve a target dividend<sup>7</sup> per share for the year ending 31 March 2022 of at least 5.25p and for the year ending 31 March 2023 of at least 5.5p.

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 30 November 2021 to shareholders on the register on 12 November 2021 and will be designated as a property income distribution ("PID").

<sup>7</sup> 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.

## Acquisitions

The Company invested £8.15m in two acquisitions during the Period described below:

- A 20k sq ft office building on Fountain Street, Manchester for £6.25m. The property comprises basement parking and six floors let to Leyton UK, Meridian Healthcomms, Venditan and Fourthline with a weighted average unexpired term to first break or expiry ("WAULT") of 1.2 years and an aggregate annual rent of £407k, reflecting a net initial yield<sup>8</sup> ("NIY") of 6.1%; and
- A 30k sq ft industrial unit in Dundee for £1.9m occupied by Menzies Distribution with a WAULT of 5.2 years and an annual passing rent of £118k, reflecting a NIY of 5.9%.

On 20 October 2021 the Company acquired a 29k sq ft industrial unit in York for £2.962m occupied by Menzies Distribution with a WAULT of 2.8 years and an annual passing rent of £186k, reflecting a NIY of 5.9%.

On 3 November 2021 the Company acquired 100% of the ordinary share capital of DRUM Income Plus REIT plc ("DRUM REIT"). Consideration for the acquisition of 20,247,040 new ordinary shares in the Company was calculated on an 'adjusted NAV-for-NAV basis', with each company's 30 June 2021 NAV being adjusted for respective acquisition costs with DRUM REIT's property portfolio valuation adjusted to the agreed purchase price of £43.5m. DRUM REIT's property portfolio at 30 September 2021 is summarised below:

- 10 regional properties comprising five offices, three retail parks, one shopping centre and one industrial estate in aggregate covering approximately 330k sq ft
- 78 tenants, the largest of which is Skills Development Scotland with annual rent of £0.5m (c.14% of DRUM REIT's rent roll)
- EPRA occupancy rate of 86.1%, providing some short-term asset management opportunities
- WAULT of 4.7 years
- Contractual annual rent roll of £3.6m with an ERV of £4.4m
- Portfolio valuation of £49.3m
- Reversionary yield<sup>9</sup> ("RY") of 8.4%
- All properties charged under a £25m RCF facility with The Royal Bank of Scotland

Commenting on the acquisition Richard Shepherd-Cross said: “Drum REIT represented an excellent fit with Custodian REIT’s investment policy, targeting smaller regional property with a strong income focus. The purchase price reflected a sufficient discount to DRUM REIT’s NAV to be accretive to existing Custodian REIT shareholders and to provide DRUM REIT shareholders with an increase in like for like share price, as well as delivering them a growing dividend from a much larger specialist in the smaller regional property sector with much improved liquidity.”

<sup>8</sup> Passing rent divided by property valuation plus purchaser’s costs.

<sup>9</sup> ERV of portfolio divided by property valuation plus purchaser’s costs.

### *Disposals*

Owning the right properties at the right time is a key element of effective property portfolio management, which necessarily involves periodically selling properties to balance the property portfolio. Custodian REIT is not a trading company but identifying opportunities to dispose of assets ahead of valuation or that no longer fit within the Company’s investment strategy is important.

The Company sold the following properties during the Period for an aggregate consideration of £37.7m:

- A portfolio of seven industrial properties located in Gateshead, Stockton-on-Tees, Warrington, Stone, Christchurch, Aberdeen and Bedford for £32.6m, £5.1m (19%) above the properties’ 31 March 2021 valuation, when terms of the sale were agreed, and £2.9m (10%) above the 30 June 2021 valuation. The properties were acquired either in the seed portfolio at IPO or within subsequent portfolio acquisitions and have an aggregate current passing rent of £2.0m reflecting a NIY on sale price of 5.9%;
- A 31k sq ft retail warehouse in Galashiels occupied by B&Q for £4.5m to a special purchaser, £1.8m (67%) ahead of the 30 June 2021 valuation; and
- A vacant children’s day nursery in Basingstoke for £0.6m, £0.1m ahead of the last published valuation.

### **Asset management**

The Investment Manager has remained focused on active asset management during the Period, completing the following initiatives:

- A new five year lease without break to Galliford Try on a vacant office suite in Leicester with an annual rent of £165k, increasing valuation by £0.5m;
- A new 10 year lease with a fifth year tenant break option with Livingstone Brown on a vacant office suite in Glasgow with an annual rent of £56k, increasing valuation by £0.2m;
- A five year lease renewal with a third year break option with DHL at an industrial unit in Aberdeen, maintaining passing rent at £208k and increasing valuation by £0.1m;

- A 10 year lease renewal with a fifth year break option with MP Bio Science at an industrial unit in Hilton, increasing passing rent from £28k to £36k, resulting in an aggregate valuation uplift of £0.1m;
- A new five year lease without break to Realty Law on a vacant office suite in Birmingham with an annual rent of £28k, with no impact on valuation; and
- A five year lease renewal with a third year break option to Done Brothers (t/a Betfred) at a retail unit in Cheltenham with an annual rent £25k, with no impact on valuation.

The positive impact of these asset management outcomes has been partially offset by the Administration of JTF Wholesale during the Period, which has resulted in the loss of £586k of annual rent (c.1.6% of the Company's rent roll) and resulted in EPRA occupancy<sup>10</sup> decreasing from 92.4% at 30 June 2021 to 91.6%.

Commenting on JTF Wholesale's Administration, Richard Shepherd-Cross said: "While the short-term impact of an Administration is a hit to cash flow and valuation, the opportunity created by taking back control of this building in a prime distribution location, with the prospect of redeveloping the site to create a BREEAM 'Excellent' rated, high bay distribution unit should lead to a substantial net valuation uplift and also help meet the ESG objectives of Custodian REIT."

In line with the Company's ESG objectives, during the Period we completed a comprehensive refurbishment of an industrial unit in West Bromwich which involved installing six electric vehicle charging points, solar photovoltaic coverage to over 700 sq m of the roof area, air source heat pumps to provide heating and hot water, new energy efficient radiators and LED lights with passive infrared sensors. The refurbishment is expected to increase the EPC rating from C (69) to a high B, with the ERV of the property increasing from £280k pa (£4.80 per sq ft) to £345k pa (c.£6.00 per sq ft). Once re-let we expect the uplift in property valuation will be well in excess of the capital outlay for refurbishment.

We expect to commence the redevelopment of an industrial asset in Redditch to BREEAM 'Excellent' standard, once it becomes vacant in January 2022, with further initiatives planned as we continue to invest in our property portfolio to minimise its environmental impact and maximise shareholder value.

The portfolio's weighted average unexpired lease term to first break or expiry has been maintained at 5.0 years since 30 June 2021 with the impact of lease re-gears, new lettings and disposals offsetting the natural elapse of a quarter of a year due to the passage of time.

<sup>10</sup> Estimated rental value ("ERV") of let property divided by total portfolio ERV.

## **Borrowings**

The Company operates the following loan facilities:

- A £40m revolving credit facility (“RCF”) with Lloyds Bank plc (“Lloyds”) expiring on 17 September 2024 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.

The Company is in the process of charging £30.3m of property to replace charged assets sold during the Period which, once complete, will mean £153.4m (27% of the property portfolio at 30 September 2021) of unencumbered assets will be available to be charged to the security pools to enhance the LTV on individual loans if required.

Through the corporate acquisition of DRUM REIT since the Period end, the Custodian REIT group now also operates a £25m RCF facility with the Royal Bank of Scotland expiring on 30 September 2022 with interest of 1.75% above three-month LIBOR. The facility’s key financial covenants comprise a maximum LTV of DRUM REIT’s property portfolio of 50% and minimum historical interest cover of 250%.

### **Portfolio analysis**

At 30 September 2021 the Company’s property portfolio comprised 152 assets with a NIY of 6.2% (30 June 2021: 6.4%). 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 2021 £m	Weighting by value 30 Sep 2021	Period valuation movement £m	Period valuation movement	Weighting by income <sup>11</sup> 30 Sep 2021	Weighting by income <sup>11</sup> 30 Jun 2021
Industrial	275.9	49%	8.0	3.0%	40%	42%
Retail warehouse	105.3	19%	4.5	4.5%	21%	21%
Other <sup>12</sup>	85.2	15%	2.0	2.4%	16%	16%
Office	61.8	11%	0.1	0.1%	13%	12%
High street retail	37.1	6%	(1.2)	(3.3%)	10%	9%
<b>Total</b>	<b>565.3</b>	<b>100%</b>	<b>13.4</b>	<b>2.5%</b>	<b>100%</b>	<b>100%</b>

<sup>11</sup> Current passing rent plus ERV of vacant properties.

<sup>12</sup> Comprises drive-through restaurants, car showrooms, trade counters, gymnasiums, restaurants and leisure 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 30 September 2021 was as follows:

Location	Valuation 30 Sep 2021 £m	Weighting by value 30 Jun 2021	Period valuation movement £m	Period valuation movement	Weighting by income <sup>11</sup> 30 Sep 2021	Weighting by income <sup>11</sup> 30 Jun 2021
West Midlands	119.1	21%	4.4	3.9%	20%	20%
North-West	102.2	18%	0.5	0.5%	19%	17%
South-East	80.9	14%	1.8	2.3%	14%	14%
East Midlands	73.7	13%	2.0	2.8%	14%	14%
South-West	59.6	11%	1.1	1.9%	10%	10%
Scotland	49.0	9%	1.7	3.8%	8%	9%
North-East	48.0	8%	0.6	1.2%	9%	10%
Eastern	26.9	5%	1.1	4.0%	5%	5%
Wales	5.9	1%	0.1	2.0%	1%	1%
<b>Total</b>	<b>565.3</b>	<b>100%</b>	<b>13.4</b>	<b>2.5%</b>	<b>100%</b>	<b>100%</b>

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

- Ends -

#### Further information:

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

#### Custodian Capital Limited

Richard Shepherd-Cross / Ed Moore / Ian Mattioli MBE

Tel: +44 (0)116 240 8740

[www.custodiancapital.com](http://www.custodiancapital.com)

**Numis Securities Limited**

Hugh Jonathan / Nathan Brown

Tel: +44 (0)20 7260 1000

[www.numis.com/funds](http://www.numis.com/funds)

**Camarco**

Ed Gascoigne-Pees

Tel: +44 (0)20 3757 4984

[www.camarco.co.uk](http://www.camarco.co.uk)

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