



Regional Smaller Property
Specialist

“REIT of choice for private and
institutional investors seeking
high and stable dividends from
well diversified UK
commercial real estate”

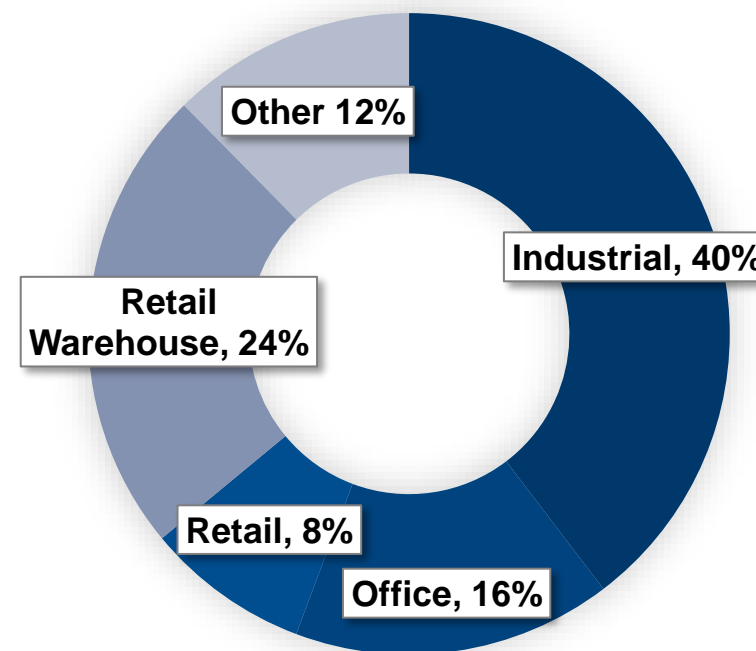
May 2023
Frostrow Seminar



Headlines

- **Market Capitalisation**
 - £415 million
- **EPRA Earnings**
 - 5.6p (annualised)
- **Dividend per share**
 - 5.5p (annualised)
 - Fully covered by earnings (102%)
- **Target gearing 25%**
 - Current 27.4%

- Proudly diversified
- 165 properties and 300+ tenancies
- Smaller regional property
- Income focused strategy
- Fully covered dividends
- Long-term investor





Worth vs Value

Earnings Yield is more consistent measure of Worth than NAV



EPRA EPS

- Earnings per share

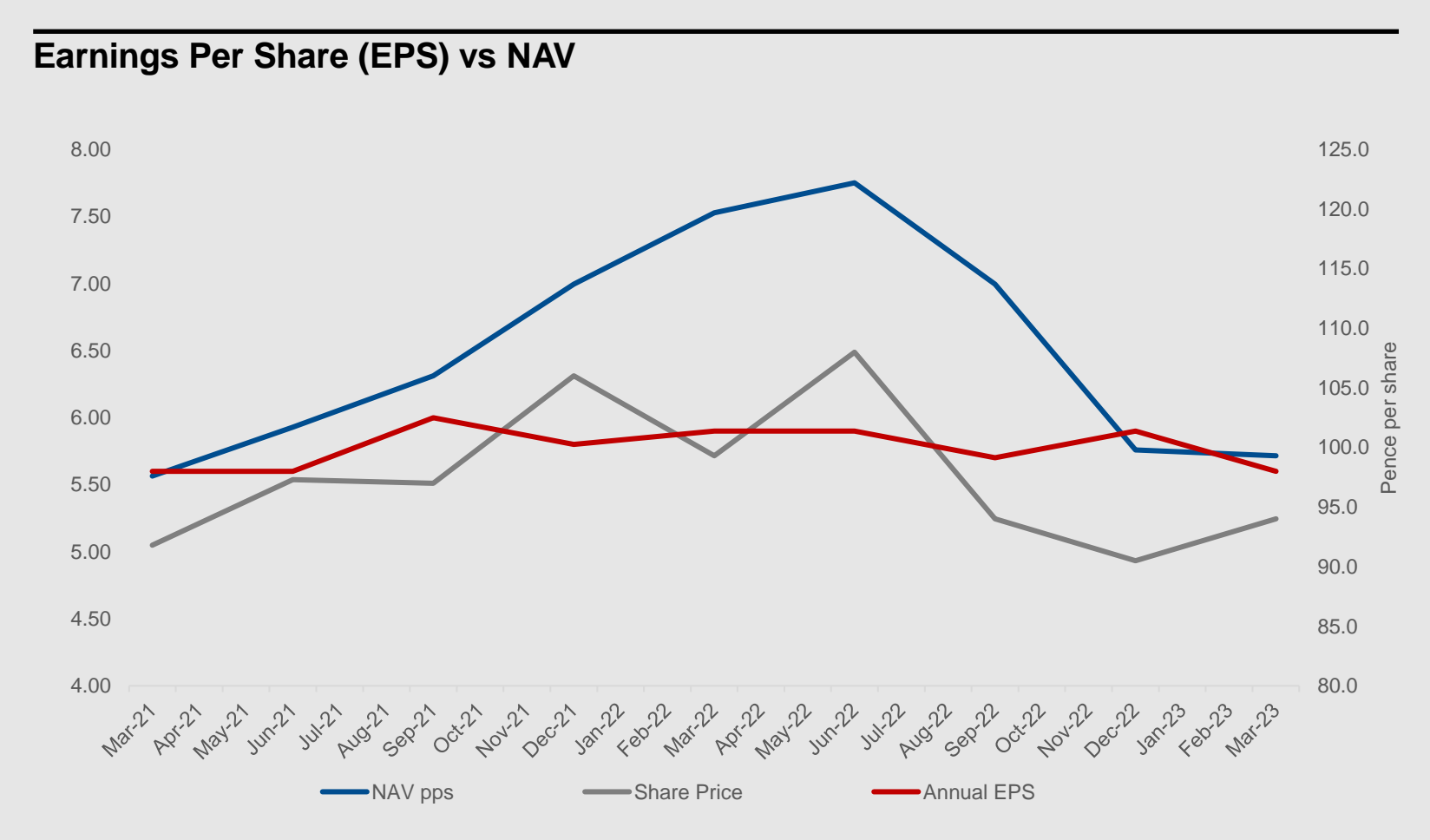
EPS 5.6p

DPS 5.5p

- Fully covered (102%)

Earnings Yield

- March 23 6.0%
- March 21 6.1%



Equivalent Yield – Key Valuation Metric

RENT ROLL AND REVERSION SUPPORT FULLY COVERED DIVIDEND

£7 million of reversionary potential

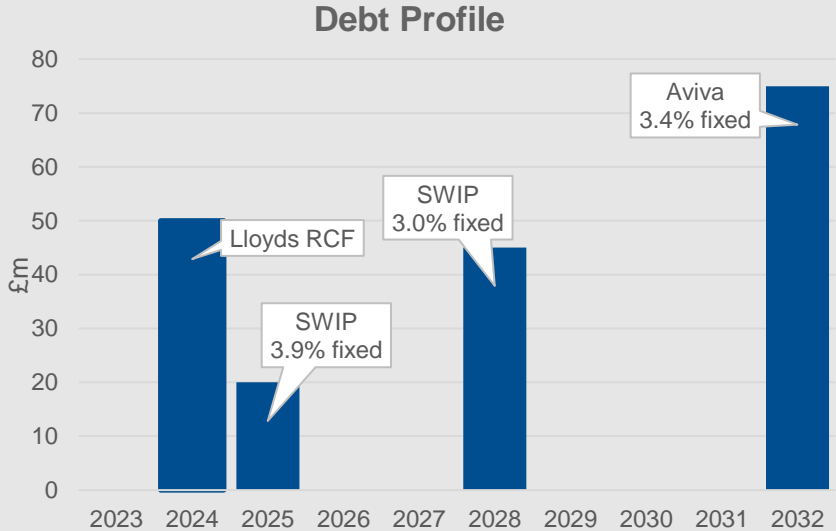
Sector	EPRA Net Initial Yield	Equivalent Yield
Industrial	4.9%	6.6%
Retail Warehouse	6.7%	7.3%
Office	5.4%	8.9%
Retail	9.4%	8.6%
Other	6.3%	8.0%
Total	5.8%	7.3%

Balance Sheet Strength – 31 December 2022

Loan to Value 27.4%

- Portfolio value £613m
- Low gearing
- Significant borrowing headroom
- Insulated from rising rates

- Total borrowing facilities £190m
- Total drawn £175m
- 80% of drawn facilities fixed rate
- Weighted average cost of debt of 3.7%
- Weighted average maturity of 6 years



- Low volatility
- Diversified portfolio
- Smaller regional strategy
- Income focused return

Share Price Total Return

12 months to 31st December

- Aggregate share price total return for UK listed real estate **-34%**
- Custodian Property Income REIT **-2%**

Valuation movement

12 months to 31st March

- UK commercial property market values **-17.0%**
- Custodian Property Income REIT **-13.6%**



**Investment Strategy
Small is Beautiful**

Marginal Income from Smaller Regional Property Focus

ADVANTAGES

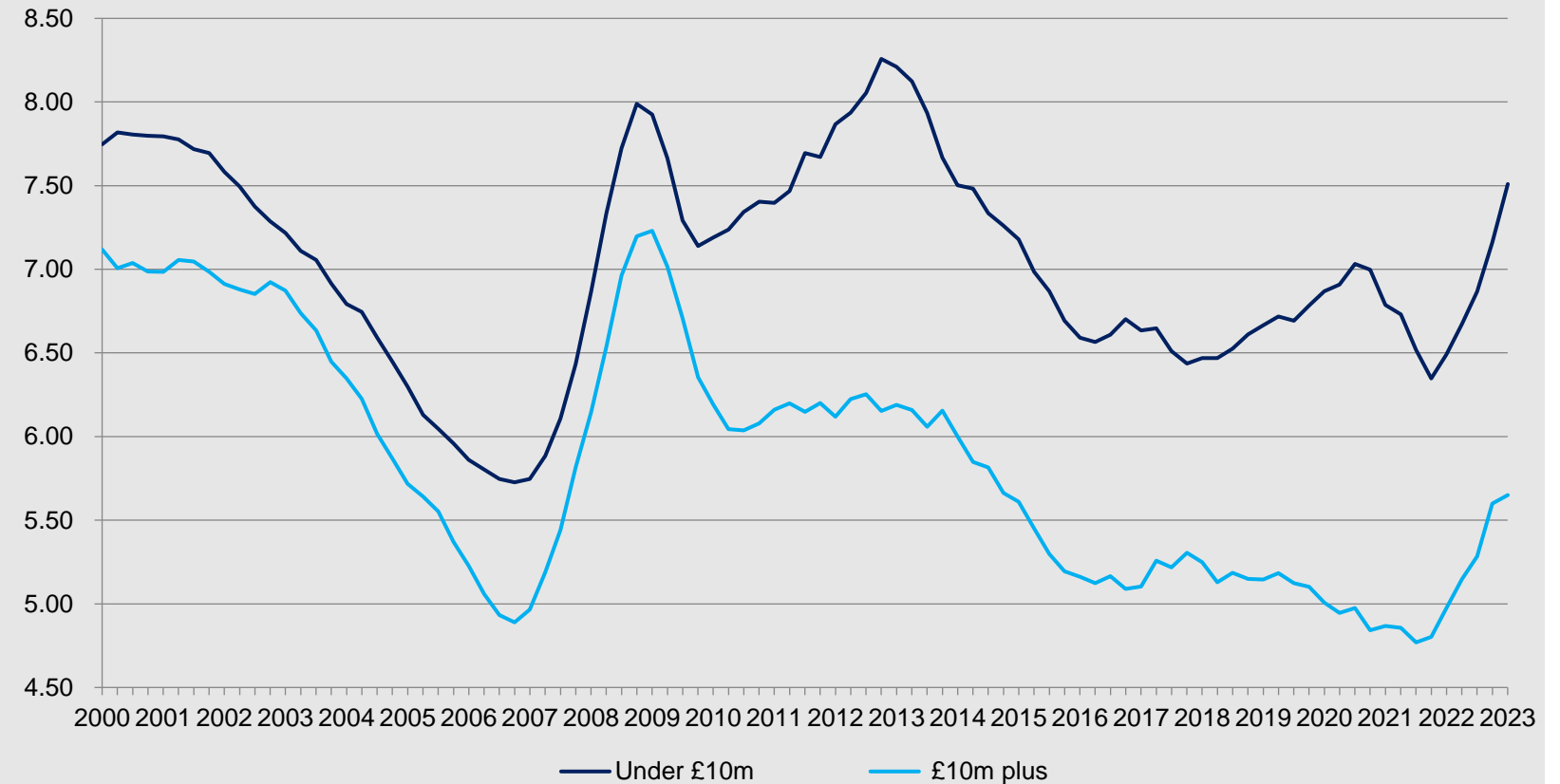


150 bps yield pick up

Margin driven by supply vs demand not risk

No need to sacrifice tenant covenant, location or building quality

1 year rolling average transaction yield %



Diversification

MINIMISING PROPERTY SPECIFIC RISK

165 properties

300+ tenancies

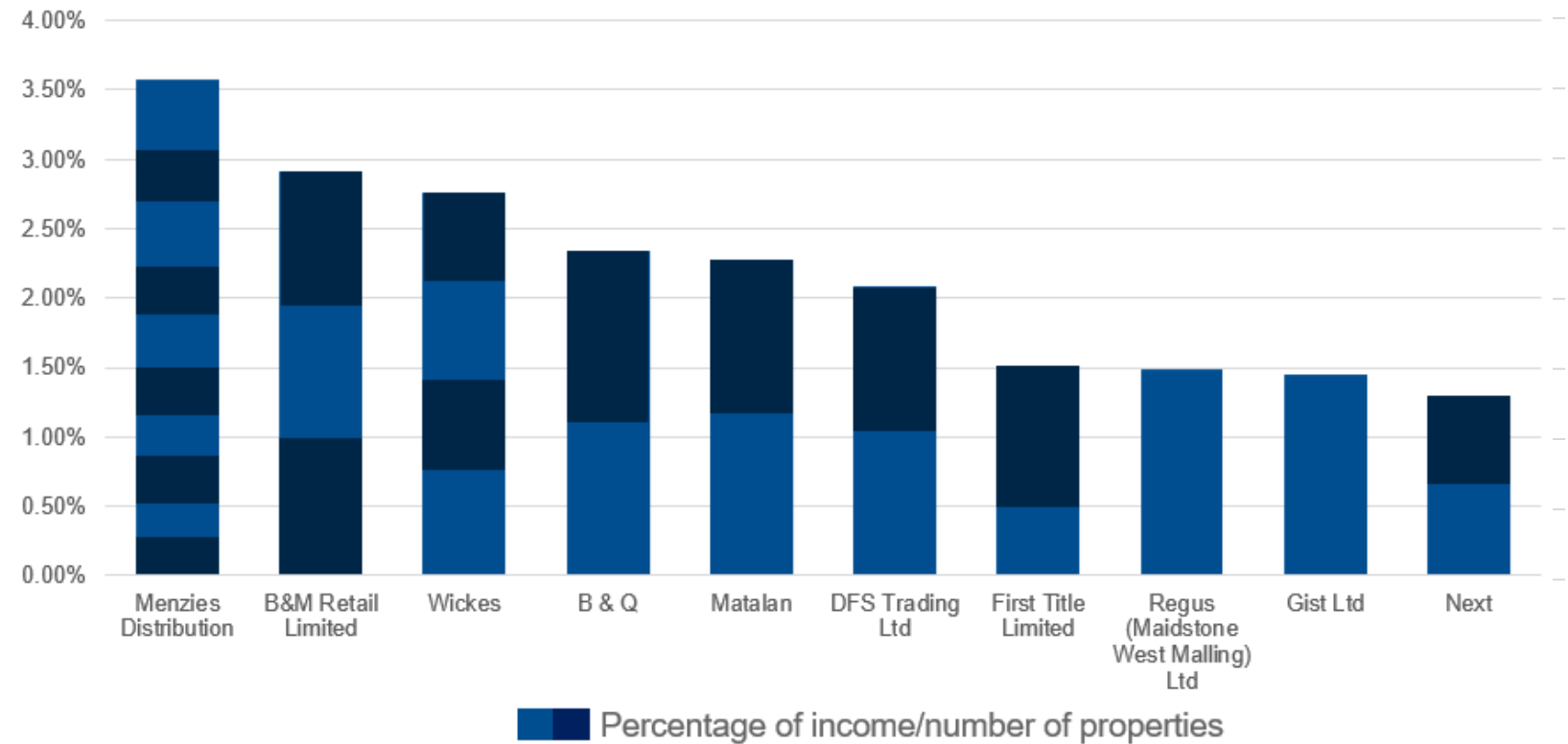
Top 10 tenants

- 22% of income
- 28 properties

Diversity of:

- Tenant
- Property
- Sector
- Location

Top 10 tenants % of income



Investment Strategy

STRATEGY

- Smaller regional properties
 - Sub £15m at acquisition
- Strong local economies
- Modern buildings
- Diversification
- Refurbishment
- 25% target gearing

Smaller Regional Property Strategy

- Enhanced yield on acquisition
 - **No need to sacrifice quality of property/location/tenant for income**
- Greater share of value in “bricks and mortar”
- Higher residual values
- Greater diversification
 - **Spread of risk**
 - **Stability of cash flow**
- Income component of total returns drives out-performance
 - **Forecastable, predictable and compounding**

Diversification

LOW DEFAULT RISK

74% low risk tenants

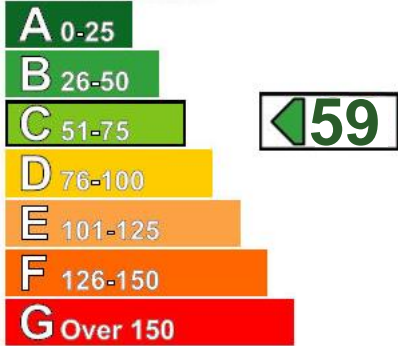
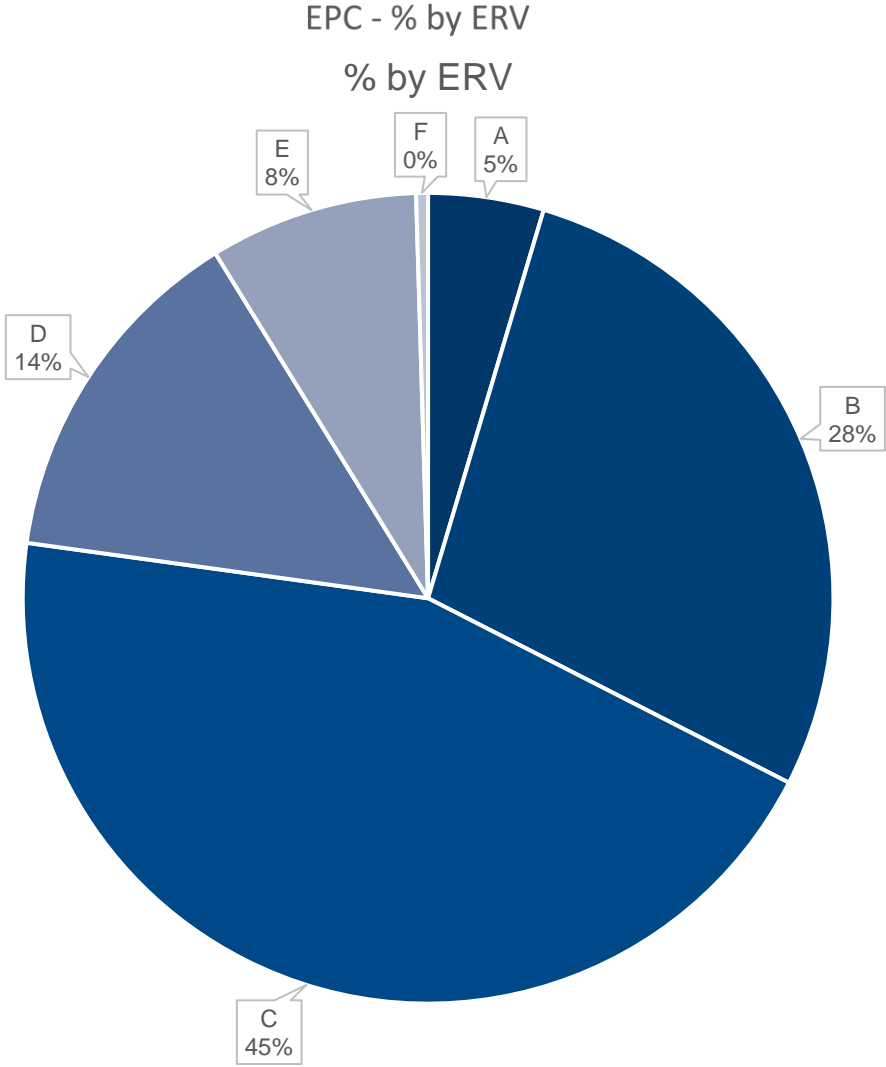
89% lower than average risk tenants

Risk	Experian score	No. tenancies	% ERV
Government	N/A	6	2.30%
Very low risk	91-100	155	59.70%
Low risk	81-90	37	12.00%
Below average risk	51-80	63	15.30%
Above average risk	26-50	24	6.40%
High risk	16-25	6	1.20%
Maximum risk	2-15	12	1.00%
Imminently failing	0-1	9	3.20%
Unknown		10	1.20%



Asset Management

Energy performance certificates



Portfolio average EPC improved over 12 months

Action plan on EPC's over 5 years old or D and E rated

2 F ratings improvement in progress

Refurbishment and EPC Improvement

LEICESTER



Before EPC D

Pizza Hut

Re-possessed following CVA

Valuation at CVA

£1.0m

Capital expenditure

£0.2m



After EPC A

New 15year lease at £140k pa with RPI linked reviews

Tim Horton's funded refurbishment and adding drive'thru lane

Valuation increase

£1.0m

Redevelopment and EPC improvement

TO CREATE BREEAM EXCELLENT RATED LOGISTICS UNIT



Before



Current



After

Before

59,500 sqft unit

Mid 1980's with 2002 extension

ERV £5 psf

After

60,000 sqft unit

12.5m eaves

BREEAM excellent, EPC A

ERV £8.25 psf

**Forecast
profit
£2.0m**





Outlook

Outlook

VIEW FROM THE MANAGER

Market Forces

- Values are stabilising
 - Worst of market correction is behind us
- Interest rates
 - Bank of England appears less pessimistic
- Recession
 - Not yet but.....
- Sentiment
 - Confidence in real estate is returning

Custodian Property Income REIT

- Rental growth
 - Growth is supporting revenues through inflation
- Falling vacancy rate
 - Unlocking reversionary potential
- Refurbishment and re-investment
 - £28 million across 23 projects in next 12-18 months
- Diversified earnings base
 - Fully covered dividends from low risk cash flow

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