EDISON

Custodian REIT

On track to meet income targets

Interim results update

Real estate

With its balanced portfolio of regional UK commercial real estate, Custodian REIT (CREI) continued to produce good returns through H119 while selectively growing the portfolio. The company says that barring unforeseen circumstances, it is well placed to meet its target of paying a fully covered aggregate DPS of 6.55p for the year, and targets further sustainable growth through accretive acquisitions and active management of the existing portfolio.

Year end	Net rental income (£m)	EPRA EPS* (p)	EPRA NAVPS (p)	DPS (p)	P/NAV (x)	Yield (%)
03/17	25.7	6.59	104	6.35	1.12	5.5
03/18	33.2	6.94	107	6.45	1.08	5.6
03/19e	37.3	7.20	108	6.55	1.07	5.6
03/20e	38.8	7.33	110	6.62	1.06	5.7

Note: *EPRA EPS excludes revaluation gains/losses and other exceptional items.

4.2% NAV total return in H1

In the six months to 30 September (H119) NAV total return was 4.2%. Aggregate quarterly DPS of 3.275p was 1.08x covered by EPRA EPS of 3.5p. The portfolio value was £547m at 30 September, and CREI has since invested £29.5m (before costs) in four additional properties. Realised and unrealised property gains added a net £2.9m or 0.8p per share, with the positive effects of rental growth and asset management more than offsetting property acquisition costs (£1.6m) and negative revaluation movements focused on retail assets, primarily related to a small number of retailer company voluntary arrangements (CVAs). EPRA NAV per share increased to 108.6p (March: 107.3p). During H119, 7m shares were issued at an average 13.2% premium to dividend adjusted NAV, keeping LTV to a modest 20.5%. Subsequent acquisitions have for now been mostly debt funded (750k shares issued), taking LTV to 25.7%. Our DPS and EPS forecasts are unchanged, although we have slightly trimmed capital growth and NAV per share.

Diversified income-focused strategy

Portfolio diversification, by location, tenant and lease term, is an important element of CREI's strategy for growing income sustainably. Fully covered dividends paid since the IPO in 2014 represent more than 70% of the NAV total return, a compound 7.3% pa. Robust occupational demand continues to support high levels of occupancy and rental growth across most of the portfolio, which has low exposure to offices and a relatively high exposure to industrial, retail warehouse and alternative sectors. Retail stress and Brexit uncertainty have the potential to affect near-term capital values, but may equally throw up investment opportunities.

Valuation: Yield premium supports P/NAV

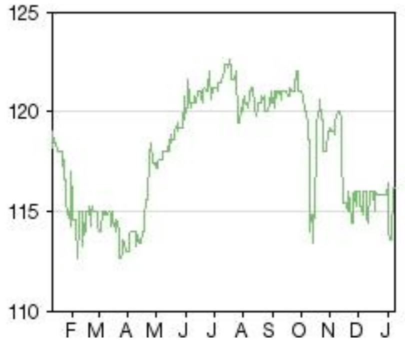
CREI shares combine an attractive yield, a good level of dividend cover and conservative gearing. Investor demand for the shares, trading at a premium to NAV (unlike peers), provides funding support for accretive acquisitions which, combined with rental growth and asset management, is a positive indicator for future returns.

9 January 2019

Price	**116p**
Market cap	**£457m**

Net debt (£m) at 30 September 2018 (gross borrowing less unrestricted cash)	112.1
Net LTV as at 30 September 2018	20.5%
Shares in issue	394.6m
Free float	92%
Code	CREI
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	0.2	(2.5)	(1.9)
Rel (local)	(1.1)	3.2	10.5
52-week high/low		122.6p	112.6p

Business description

Custodian REIT (CREI) is a London Main Market-listed REIT focused on commercial property in the UK outside London. It is income-focused, with a commitment to pay a high but sustainable and covered dividend. It targets a balanced portfolio, with a focus on lot sizes of under £10m.

Next events

Quarterly DPS declared	January 2019
Q3 NAV announcement	January 2019

Analysts

Martyn King +44 (0)20 3077 5745

Andrew Mitchell +44 (0)20 3681 2500

financials@edisongroup.com

Edison profile page

Custodian REIT is a research client of Edison Investment Research Limited

On track to meet income targets

CREI's diversified portfolio continued to deliver good returns in the first six months of the current financial year that ended on 30 September (H119), with a NAV total return of 4.2% (based on DPS paid during the period). The board believes that, barring unforeseen circumstances, CREI is well placed to meet its target of paying aggregate quarterly dividends amounting to 6.55p in respect of the current (FY19) year (FY18: 6.45p), fully covered by EPRA earnings, and remains committed to growing the dividend on a sustainable basis and delivering capital growth for shareholders over the long term.

Portfolio growth continues, during the period and since, through selective acquisitions, aimed at realising the potential for economies of scale. The opportunities to deploy capital on terms that meet CREI's investment criteria were limited during H119 by market conditions and continuing strong investment demand and, in turn, equity issuance has been moderate and insufficient to meet investor demand for new shares, maintaining a solid share price premium to NAV that remains well ahead of peers (Exhibit 9). Investment activity has picked up somewhat since period end.

In this section we briefly review the H119 financial performance. In the following section we update on the portfolio performance, activity and strategy.

Exhibit 1: Summary of H119 interim results

£m unless stated otherwise	H119	H118	H119 vs H118	2018
Net rental income	18.1	15.7	15.8%	33.2
Administrative expenses	(2.4)	(2.1)	13.4%	(4.4)
Operating Profit before revaluations	**15.8**	**13.6**	**16.1%**	**28.8**
Net interest	(2.0)	(1.6)	25.0%	(3.7)
EPRA earnings	**13.7**	**12.0**	**15.0%**	**25.2**
Revaluation of investment properties	0.2	3.7		11.9
Costs of acquisitions	(1.6)	(3.5)		(6.2)
Profit on disposal	4.3	1.0		1.6
IFRS earnings	**16.6**	**13.2**	**25.5%**	**32.4**
EPRA EPS (p)	3.5	3.4	2.9%	6.9
IFRS EPS (p)	4.3	3.8	12.4%	8.9
DPS (declared) (p)	3.2750	3.2250	1.6%	6.4500
Dividend cover	1.08	1.07	1.4%	1.08
IFRA & EPRA NAV per share (p)	108.6	104.9	3.5%	107.3
NAV total return	4.2%	4.2%		9.6%
Net LTV	20.5%	19.7%		21.0%

Source: Custodian REIT

- During H119, £27.7m (before acquisition costs of £1.6m) was invested in seven acquisitions, one pre-let development and one refurbishment. Since the period end, CREI has acquired four additional properties for an aggregate c £29.5m (before acquisition costs), discussed below.
- Three properties that no longer fitted the investment strategy were sold for an aggregate consideration of £15.4m and generating a gain on disposal of £4.3m after costs.
- The investment portfolio valuation increased to £547m compared with £529m in March, reflecting a net initial yield of 6.6% (March: 6.6%). Gross revaluation gains were a net £0.2m, with £3.9m generated from asset management activity substantially offset by negative other valuation movements of £3.7m, of which £3.5m related to a small number of retailer CVAs. The net revaluation movement, including the £1.6m costs of acquisition in the period, was a negative £1.4m.
- Net rental income increased by 15.8% to £18.1m. During the period, eight rent reviews were settled and six new lettings agreed, generating a weighted average rental increase of 11.1% (simple average 5.4%). The growth was widely spread across all sectors of the portfolio.

- The ongoing charge ratio (excluding direct property costs) remained at c 1.1%, while the increase in net interest expense followed the growth in average borrowing, although net loan to value (LTV) remained conservative, ending H119 at 20.5%. The weighted average cost of the agreed debt facilities at 30 September 2018 was 3.1%, 77% fixed rate to mitigate interest rate risk. The average maturity of the debt was 9.0 years.
- EPRA earnings grew by 15.0% compared with H118, to £13.7m and EPRA EPS by 2.9% to 3.5p.
- During the period, CREI issued 7.0m new shares, 1.8% of the opening number, at an average 13.2% premium to dividend adjusted NAV via an ongoing programme of tap issuance. Since end-H119, 750k shares have been issued.
- The four recent acquisitions made have been mainly debt funded. Following the fourth acquisition (Loughborough) announced on 17 December, but before the issue of 750k shares on 18 December, CREI reported an LTV of 25.7%.
- EPRA (and IFRS) NAV per share increased by 3.5% to 108.6p per share.

Exhibit 2: H119 net asset value movement

	Per share (p)	£m
NAV at 31 March 2018	107.3	415.2
Issue of equity (net of costs)	0.2	8.3
	107.5	423.5
Valuation movements:		
Asset management activity	1.0	3.9
Other valuation movements	(0.9)	(3.7)
Gross valuation increase	0.1	0.2
Less impact of acquisition costs	(0.4)	(1.6)
Net valuation increase	(0.3)	(1.4)
Profit on disposal of investment property	1.1	4.3
Net gain on investment property	0.8	2.9
EPRA/income earnings	3.5	13.7
Dividends paid in year	(3.2)	(12.6)
NAV at 30 September 2018	108.6	427.5

Source: Custodian REIT

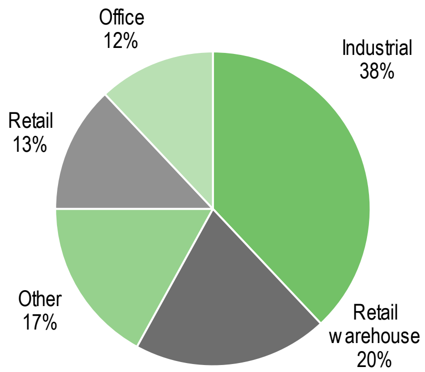
In its outlook statement, CREI says that it remains confident that its strategy of targeting income from a well-diversified regional commercial property portfolio, combined with conservative net gearing, will continue to deliver the stable, long-term, income-focused returns that it seeks to deliver. It expects asset management to continue to drive performance benefiting from robust rental growth on lease renewal or rent revision across much of the portfolio. Occupational demand and limited new supply in the regional office and industrial sectors should support the maintenance of low levels of vacancy. The company notes that stress in parts of the retail market and Brexit uncertainty pose near-term risks, but may equally continue to throw up attractive opportunities for investment.

Balanced portfolio to meet investment objective

CREI's key objective is to provide shareholders with an attractive level of income, fully covered by earnings, with a conservative level of net gearing (LTV). Portfolio diversification, by property, sector, geography and tenant mix plays an important role in meeting this objective and is a key element of managing the cyclicality inherent in the sector. As at 30 September 2018 the portfolio comprised 151 assets, 218 tenants and 259 tenancies. The largest tenant in the portfolio (the B&M retail group) represented only 3.2% of the total rent roll, spread across four different properties. Since 30 September, the number of properties has since increased to 155. The portfolio is split between the main commercial property sectors, with a relatively high exposure to industrial, retail warehouse, and alternative sectors and a relatively low exposure to offices, which the investment manager regards as often having more obsolescence risk with a corresponding requirement for capital expenditure to maintain values. CREI's investments in the alternative sector (or 'other') include a broad range of property uses including car showrooms, petrol filling stations, children's day nurseries, restaurants, gymnasiums, hotels and healthcare units.

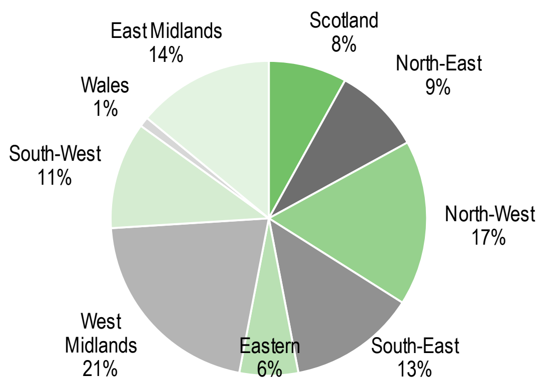
The net initial yield on the portfolio at 30 September was 6.6%, similar to the level at 30 March. The December Factsheet (data as at 3 December) shows that occupancy (on an EPRA basis) continues to be strong at 96.3% (30 September: 96.9%; 31 March: 96.7%). The weighted average unexpired lease term (to first break) at 3 December was 5.6 years with modest near-term expiries. The portfolio's security of income is further enhanced by 13% of H119 income benefiting from either fixed or indexed rent reviews.

Exhibit 3: Sector split by income



Source: Custodian REIT. Data as at 3 December 2018.(December Factsheet).

Exhibit 4: Regional split by income



Source: Custodian REIT. Data as at 3 December 2018 (December Factsheet).

Asset management initiatives continued to add value

Asset management initiatives, including rent reviews, new lettings, lease extensions and the retention of tenants beyond their contractual break clauses added £3.9m in unrealised valuation increase during H119. A recently agreed rental uplift from £9 per sq ft to £16 per sq ft at an industrial unit in Southwark was a significant contributor to the £4.4m gross gain on its disposal for £12.0m, 58% above the June (Q119) valuation. However, the positive impacts of market-driven growth in rents and asset management activity were partly offset by a handful of issues focused on the retail and leisure sector:

- The CVA of Homebase, which resulted in a 35% annual rent reduction at CREI's Leighton Buzzard unit, from £525k to £341k.
- The CVA of Office Outlet (formerly Staples), which resulted in the tenant contracting into half of the previously occupied space at CREI's Milton Keynes unit, reducing annual rent from £419k to £209k.
- The CVA of Carpetright, which resulted in a 25% annual rent reduction from £100k to £75k at CREI's Grantham unit.
- The forfeiture of a lease with a bowling operator that had failed to pay its rent at CREI's Crewe unit. The company will seek a stronger tenant for the unit where the previous annual rent was £200k.

CREI has quantified the H119 valuation impact of the CVAs at £3.5m.

Continuing to grow the portfolio

CREI added a net four properties during H119 (seven acquisitions and three non-core/mature disposals) and has since added four more properties to the portfolio. Year to date it has acquired assets for an aggregate consideration (before costs) of £55.7m with an average net initial yield (NIY) of 6.8%.

Exhibit 5: Year to date acquisitions

Location	Type	Purchase price*	NIY**	Tenants
Bellshill, Glasgow	Industrial	£3.72m	6.94%	Yodel Delivery Network
Hilton, Derby	Industrial	£5.58m	6.72%	Daher Aerospace
Lincoln	Other/Leisure	£4.30m	7.64%	Total Fitness
Shrewsbury	Other/Motor trade	£1.68m	6.75%	TJ Vickers
Shrewsbury	Other/Motor trade	£2.83m	6.58%	VW Group
Stafford	Other/Motor trade	£4.55m	6.29%	VW Group
Sheffield	Office	£3.56m	9.79%	Government
Total H119		**£26.2m**	**7.2%**	
Stratford	Retail/High Street	£2.1m	6.78%	Foxtons, Church of the Kingdom of God
Evesham	Retail warehouse	£14.2m	6.04%	Next, M&S, Boots, Argos, Poundstretcher
Weymouth	Retail warehouse	£10.80m	6.97%	B&Q, Halfords, Sports Direct
Loughborough	Other/Motor trade	£2.36m	6.37%	Lister Group
Total Q3		**£29.5m**	**6.5%**	
Total ytd		**£55.7m**	**6.8%**	

Source: Custodian REIT. Note: *Before costs of acquisition. **NIY at acquisition

Of the three disposals, for an aggregate consideration of £15.4m, the most significant was the sale of the Southwark industrial unit for £12.0m. The other assets sold, in line with valuation, were two smaller retail assets where no material future rental growth was anticipated.

The company does not target any particular sector composition for the portfolio and is focused on seeking to deploy its resources into the right properties, while maintaining a good level of overall diversification. With that in mind, the impact on portfolio positioning of the H119 transactions, along with the contribution from gross unrealised revaluation gains and acquisition costs, can be seen in Exhibit 6. As a result of new investment and continuing strong revaluation gains, the share of industrial assets in the portfolio remained significant at 39%, despite the substantial Southwark disposal. The share of other assets increased with acquisitions, while the retail warehouse and retail assets declined with negative revaluation, including the impact of retailer CVAs.

Exhibit 6: H119 portfolio positioning and valuation movement

	Valuation (£m)		Weighting by income		Valuation movement (£m)	
	30-Sep-18	30-Mar-18	30-Sep-18	30-Mar-18	Gross	Net
Industrial	218.8	209.8	39%	39%	6.7	6.2
Retail warehouse	101.1	107.5	18%	20%	(4.6)	(4.6)
Other	93.3	80.4	17%	15%	(1.1)	(2.0)
Retail	73.4	75.3	14%	14%	(0.8)	(0.8)
Office	60.4	55.9	12%	12%	0.0	(0.2)
	547.0	528.9	100%	100%	0.2	(1.4)

Source: Custodian REIT

Acquisition activity since the end of H119 significantly comprises two assets within the retail warehouse subsector, as well as one smaller mixed use asset, acquired at a significant discount to recent market pricing, and an additional motor showroom (other) asset.

Given CREI's desire to maintain a highly diversified portfolio, and given the fact that obsolescence risk means that much of the office sector does not meet its investment criteria, it is natural that it should continue to seek opportunities within the broad retail sector. Its approach is highly selective, and focused on out-of-town retail warehouse assets, modest, targeted high street exposure, and no shopping centre exposure.

The investment manager believes that well located retail warehouse properties that either do not compete with online retailing or are complementary, through offering easy click-and-collect services, will remain in demand despite the current restructuring of the retail market. Despite the investment market's current aversion to the retail sector, CREI believes that the recently acquired retail warehouse properties are well placed to prosper as a result of their strong locations, good quality tenant base and long lease lengths.

The recent mixed use investment in Stratford is driven by the strength of the location (following the London 2012 Olympics, Stratford is now well established as East London's most significant retail and leisure destination, with completion of the Crossrail project due in December 2019 set to further enhance the area), and the strength and commitment of the tenants. Both have recently renewed their leases at higher rents and the resulting weighted average unexpired lease term to first break of over eight years adds secure income to the portfolio.

Financials

Our estimates are updated to incorporate the financial detail provided by the interim results release, as well as the most recent property acquisitions and equity issuance. The changes are relatively modest with virtually no change to EPRA EPS or DPS estimates. Recent acquisition activity is reflected in higher net rental income and, as we do not assume future equity issuance although it is highly likely, in a slightly higher LTV estimate. As discussed below, we are slightly more cautious on the growth in property rental and capital values, reflected in a slightly reduced EPRA NAV per share forecast.

Exhibit 7: Estimate revisions

	Net rental income (£m)			EPRA EPS (p)			DPS (p)			EPRA NAV/share (p)			Net LTV		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
03/19e	36.5	37.3	2.2	7.20	7.20	0.0	6.55	6.55	0.0	110	108	-1.7	22.4%	24.9%	N/A
03/20e	37.0	38.8	5.0	7.29	7.33	0.6	6.62	6.62	0.0	112	110	-2.2	22.3%	24.9%	N/A

Source: Edison Investment Research

Our main forecasting assumptions are:

- We have included all of the announced acquisitions to date, but make no assumption about future acquisitions or disposals due to the inherent uncertainty regarding the timing and terms of such transactions. In reality, CREI is continuing to find opportunities that fit with its investment strategy and the company expects selective acquisition growth to continue. This will provide an opportunity to realise potential economies of scale from a relatively fixed administrative cost base and the tiered structure of management charges. The marginal rate of management charges reduces as net asset value increases, and the current annual management charge will reduce from 0.75% pa to 0.65% pa on net assets above £500m, and the administrative fee will reduce from 0.08% to 0.05%.
- For achieved rental growth across the whole portfolio we have assumed a blended rate of 0.6% pa (previously 1.5%), comprising growth of 2.0% pa for industrial and 1.0% pa for offices, a decline of 2.5% pa for high street retail, and flat rents for ‘other’ and retail warehouse. We have also allowed for a 1.0% reduction in occupancy from the 96.9% reported at H119.
- We continue to forecast positive net revaluation movements, but at a lower level. Gross revaluation is driven by rental growth with no assumption of changes in market-wide yields, either up or down. From a sector viewpoint, this implies positive revaluation in the industrial and office assets and negative revaluation movement for the high street retail assets. Because we assume no future acquisitions, and hence no costs of acquisition, the gross gains feed directly into NAV. We estimate that a 0.25% increase/decrease in the net initial yield would reduce/increase FY20 EPRA NAV per share by 5.6p/6.0p or c 5%.
- By assuming no additional equity issuance, we forecast that recent acquisitions will increase gross borrowings to £146m from £119m at H119, taking our forecast LTV to a comfortable

c 25%, in line with the company's medium-term target. Total debt facilities are £150m including a £35m revolving credit facility, which attracts interest at 2.45% above Libor.

- At the AGM in July 2018, shareholders approved the issue of up to 10% of the company's share capital (c 38.7m shares) with pre-emption rights dis-applied. Year to date, 7.75m shares have been issued.

Valuation

As an income-oriented REIT, CREI's focus is on generating a secure and growing income stream that can support the progressive and sustainable dividend objectives, while delivering capital value growth over the long term. As a result, the shares combine an attractive dividend yield, with a good level of dividend cover, and conservative gearing. NAV total return since listing in March 2014 (a compound average annual 7.3%) has been further enhanced by growth in EPRA NAV per share (Exhibit 8).

Exhibit 8: EPRA NAV total return

Year ending 31 March	2015	2016	2017	2018	H119
Opening EPRA NAV per share (p)	98.2	101.3	101.5	103.8	107.3
Closing EPRA NAV per share (p)	101.3	101.5	103.8	107.3	108.6
Dividends paid per share (p)	3.750	6.350	6.350	6.425	3.250
EPRA NAV total return	7.0%	6.4%	8.5%	9.6%	4.2%

Source: Custodian REIT data, Edison Investment Research

Exhibit 9 shows a valuation and share price performance comparison of CREI with a group of close peers with a similar income focus and diversified investment strategy. For the group as a whole, across all periods shown, the focus on income returns has generated a stronger average share price performance than for the broad UK property index as well as for the FTSE All-Share Index. Over the past 12 months, CREI's performance has been stronger than the group average. Despite this performance, its trailing 12-month dividend yield remains slightly above the average, with the dividend well covered by earnings. EPRA EPS covered DPS by 1.08x in the year ended 31 March 2018 and we estimate that the increased FY19 DPS will be 1.1x covered on the same basis. The share price premium to EPRA NAV has reduced slightly in recent months but has been relatively robust and the gap versus the peer group average has widened somewhat.

Exhibit 9: Peer group comparison

	Price (p)	Market cap (£m)	P/NAV* (x)	Yield** (%)	Share price performance			
					1 month	3 months	12 months	From 12M high
Ediston Property	104	220	0.90	5.5	0%	-3%	-5%	-10%
F&C UK Real Estate Investments	98	236	0.91	5.1	16%	4%	-6%	-10%
F&C Commercial Property	133	1062	0.94	4.5	-2%	-3%	-4%	-14%
Picton Property Income	87	469	0.95	4.0	7%	2%	2%	-7%
Regional REIT	94	350	0.83	8.5	-3%	-5%	-8%	-9%
Schroders REIT	57	294	0.82	4.4	-1%	-5%	-8%	-16%
Standard Life Investment Property	79	322	0.87	6.0	-10%	-9%	-16%	-18%
UK Commercial Property Trust	88	1149	0.94	4.2	8%	4%	-3%	-4%
Average			**0.89**	**5.4**	**2%**	**-2%**	**-6%**	**-11%**
Custodian REIT	116	459	1.08	5.6	0%	-3%	-2%	-5%
UK property index	1,577			5.4	0%	-5%	-13%	-15%
FTSE All-Share Index	3,759			4.6	1%	-6%	-11%	-13%

Source: Company data. Prices as at 8 January 2019. Note: *Last reported EPRA NAV per share. **Trailing 12 month DPS declared.

Exhibit 10: Financial summary

Year end 31 March	£'000s	2014	2015	2016	2017	2018	2019e	2020e
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Gross rental income			11,228	18,561	26,980	34,055	38,692	40,252
Re-charge income			342	451	630	758	932	986
Total revenue			11,570	19,012	27,610	34,813	39,624	41,238
Gross property expenses			(715)	(1,023)	(1,869)	(1,610)	(2,333)	(2,395)
Net rental income			10,855	17,989	25,741	33,203	37,291	38,843
Administrative expenses			(2,327)	(2,828)	(3,643)	(4,377)	(4,807)	(4,930)
Operating Profit before revaluations			8,528	15,161	22,098	28,826	32,484	33,913
Revaluation of investment properties			6,083	3,031	9,016	11,859	246	3,195
Costs of acquisitions			(5,844)	(5,768)	(6,103)	(6,212)	(3,599)	0
Profit on disposal			269	56	1,599	1,606	4,250	0
Operating Profit			9,036	12,480	26,610	36,079	33,381	37,109
Net Interest			(289)	(1,273)	(2,405)	(3,659)	(4,293)	(4,972)
Profit Before Tax			8,747	11,207	24,205	32,420	29,088	32,137
Taxation			(2)	0	0	0	0	0
Profit After Tax			8,745	11,207	24,205	32,420	29,088	32,137
Net revaluation of investment property/costs of acquisition			(239)	2,737	(2,913)	(5,647)	3,353	(3,195)
Gains/(losses) on disposal			(269)	(56)	(1,599)	(1,606)	(4,250)	0
EPRA earnings			8,237	13,888	19,693	25,167	28,191	28,941
Average Number of Shares Outstanding (m)			146.1	204.2	298.7	362.4	391.3	394.6
IFRS EPS (p)			5.99	5.49	8.10	8.95	7.43	8.14
EPRA EPS (p)			5.64	6.80	6.59	6.94	7.20	7.33
Dividend per share (p)			5.25	6.25	6.35	6.45	6.55	6.62
Dividend cover (x)			1.07	1.09	1.04	1.08	1.10	1.11
Ongoing charges ratio (excluding property expenses)			0.00%	1.33%	1.20%	1.15%	1.14%	1.15%
BALANCE SHEET								
Fixed Assets			207,287	318,966	418,548	528,943	578,923	587,118
Investment properties			207,287	318,966	418,548	528,943	578,923	587,118
Other non-current assets			0	0	0	0	0	0
Current Assets			1,921	9,973	10,260	12,942	9,318	7,452
Debtors			1,072	4,518	4,453	7,883	5,997	6,090
Cash			849	5,455	5,807	5,059	3,321	1,362
Current Liabilities			(5,411)	(8,165)	(12,572)	(12,755)	(15,091)	(15,215)
Creditors/Deferred income			(5,411)	(8,165)	(12,572)	(12,755)	(15,091)	(15,215)
Short term borrowings			0	0	0	0	0	0
Long Term Liabilities			(23,811)	(65,714)	(64,359)	(113,928)	(146,828)	(147,128)
Long term borrowings			(23,811)	(65,143)	(63,788)	(113,357)	(146,257)	(146,557)
Other long term liabilities			0	(571)	(571)	(571)	(571)	(571)
Net Assets			179,986	255,060	351,877	415,202	426,322	432,227
NAV/share (p)			101	102	104	107	108	110
EPRA NAV/share (p)			101	102	104	107	108	110
CASH FLOW								
Operating Cash Flow			12,780	13,945	23,066	28,388	34,397	31,944
Net Interest			(204)	(1,285)	(2,200)	(3,521)	(3,969)	(4,672)
Tax			0	0	0	0	0	0
Net additions to investment property			(129,788)	(113,621)	(92,126)	(105,884)	(46,841)	(3,000)
Ordinary dividends paid			(5,546)	(12,220)	(18,493)	(23,007)	(25,484)	(26,231)
Debt drawn/(repaid)			23,811	41,700	(1,000)	49,364	31,000	0
Proceeds from shares issued (net of costs)			99,796	76,087	91,105	53,912	9,159	0
Other cash flow from financing activities				0	0	0	0	0
Net Cash Flow			849	4,606	352	(748)	(1,738)	(1,959)
Opening cash			0	849	5,455	5,807	5,059	3,321
Closing cash			849	5,455	5,807	5,059	3,321	1,362
Debt			(23,811)	(65,143)	(63,788)	(113,357)	(146,257)	(146,557)
Closing net debt			(22,962)	(59,688)	(57,981)	(108,298)	(142,936)	(145,195)
Net LTV			11.4%	19.1%	14.4%	21.0%	24.9%	24.9%

Source: Company data, Edison Investment Research

General disclaimer and copyright

This report has been commissioned by Custodian REIT and prepared and issued by Edison, in consideration of a fee payable by Custodian REIT. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the Edison analyst at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd who holds an Australian Financial Services Licence (Number: 427484). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

Neither this document and associated email (together, the "Communication") constitutes or form part of any offer for sale or subscription of, or solicitation of any offer to buy or subscribe for, any securities, nor shall it or any part of it form the basis of, or be relied on in connection with, any contract or commitment whatsoever. Any decision to purchase shares in the Company in the proposed placing should be made solely on the basis of the information to be contained in the admission document to be published in connection therewith.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document (nor will such persons be able to purchase shares in the placing).

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

The Investment Research is a publication distributed in the United States by Edison Investment Research, Inc. Edison Investment Research, Inc. is registered as an investment adviser with the Securities and Exchange Commission. Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a) (11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
295 Madison Avenue, 18th Floor
10017, New York
US

Sydney +61 (0)2 8249 8342
Level 12, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia