Residential Secure Income plc

Aiming to generate secure inflation-linked returns while accelerating the development of socially and economically beneficial new housing

FY20 Results presentation

December 2020

Since 1857
Gresham House
Specialist asset management

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CONTENTS & PRESENTATION TEAM

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INVESTMENT CASE

Why affordable and social housing?	Why ReSI?
Stable, long term, inflation-linked rents	Wholly owned Group, Registered Provider of social housing
Supply/ demand imbalance from historic undersupply. *2m shortfall in homes delivered*[1]	Sustainable investment approach maximises social impact
Diversified, diversifying income stream	Secure rents underpinned by pensions, housing welfare or shared owner stakes
Reducing development appetite from competitors *94% of affordable housing delivered by not-for-profits*[2]	Long-term investment grade equivalent debt. *Average 23-year maturity*
Below market rents ensure ongoing demand	19-year track record financing and advising social housing

1. MHCLG – shortfall in homes delivered over last 10 years vs. National Housing Federation target
2. MHCLG and English Housing Survey

INTRODUCTION

- Investment case has strengthened at a time when Residential has been the most utilised area of real estate in 2020
- Unique platform for investment
- Robust performance through COVID
- Clear strategy over the next 12 months - deployment, occupation and reducing voids
- Plan to fully cover dividend
- Sustainable investment approach maximises social impact
- Benefits of robust Gresham House central platform including distribution, investor and public relations, compliance, reporting, and risk capabilities

FY2020 HIGHLIGHTS

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£9.9m	4.9p	2.9p	5.0p	105.0p	£302m
Operating profit before fair value	*Recurring Income*	*Adjusted earnings*	*Dividends*	*NAV per Share*	*Investment property*
(FY19: £9.0m)	(FY19: 6.7p)	(FY19: 2.8p)	(FY19: 5.0p)	(FY19: 108.6p)	(FY19: £261m)

Resilient performance from existing portfolio

- 5.0p dividend paid in line with target
- Defensive portfolio - rents underpinned by pensions, housing welfare, below market rents and shared owner stakes
- 99% of rents collected during the year
- Retirement occupancy average of 91% compared to 93% in prior year
- Successfully delivering shared ownership
  - £66m of acquisitions
  - Now 64% occupied with further 21% reserved
  - Bringing 10% valuation gain on occupation
- Robust balance sheet during COVID-19
  - -0.3% like for like property valuations

Strong foundation for growth

- Good visibility and plan to cover dividend
  - Deploy remaining £32m
  - Occupy remaining shared ownership homes
  - Address retirement portfolio voids
- Unique £300m 45-year debt facility
  - 0.46% coupon
  - Delivers 300bps yield pick-up on shared ownership
- Investment Partner of Homes England and Greater London Authority
- Two new Partnership Directors joining Origination Team
- Gresham House brings robust central platform
- Sustainable investment approach maximises social impact

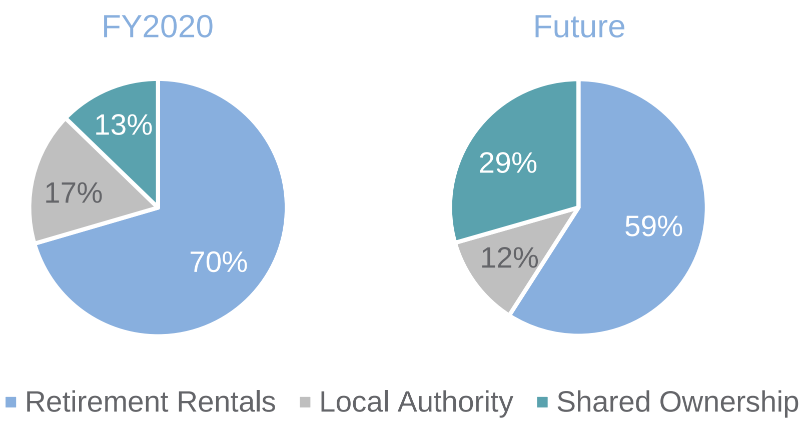
PORTFOLIO

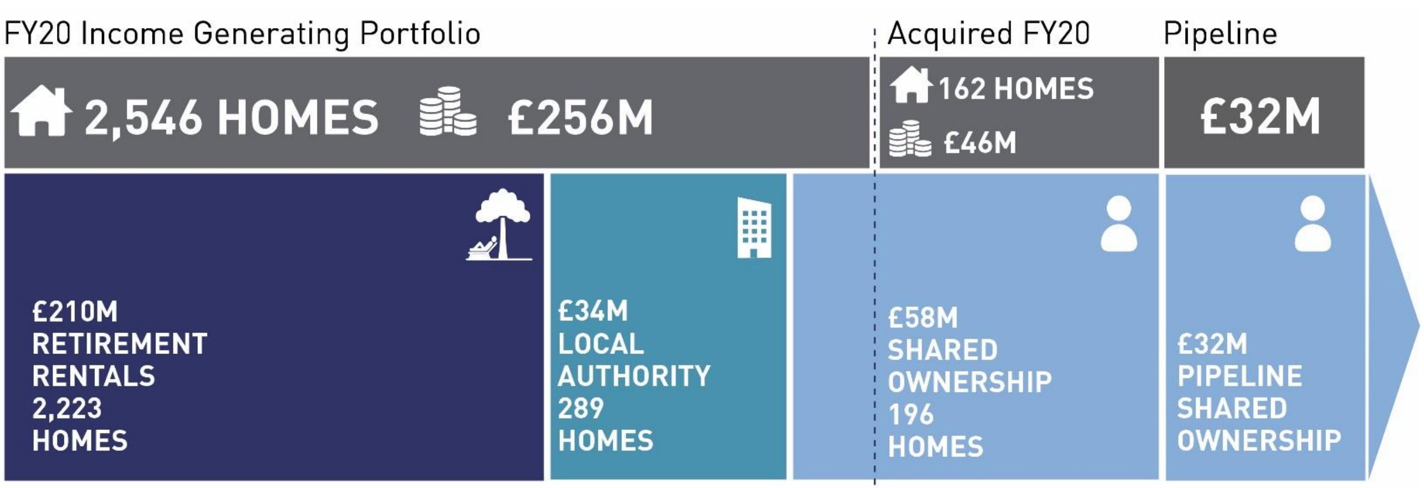
Retirement
2,223 Homes, £210m
Independent living for retirees with Assured Tenancies

Local Authority (LA)
289 Homes, £34m
Leased to local authorities for those otherwise homeless

Shared Ownership (S/O)
196 Homes, £58m
Part buy, part rent affordable homes ownership
Quadruples access to home ownership

NOI by portfolio (pence per share)





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FY20 INCOME

Resilient operating income during COVID-19 crisis demonstrates portfolio's defensive characteristics

	FY20	FY19	Change
Net rental income*	£11.3m	£11.2m	+1%
First tranche sales profits	£0.5m	-	+
Management fees	£(1.8)m	£(1.8)m	-
Overheads	£(1.1)m	£(1.0)m	+6%
Operating Profit before changes in fair value	**£8.9m**	**£8.4m**	**+6%**
Net finance costs*	£(3.9)m	£(3.6)m	+8%
Recurring operating profit	**£5.0m**	**£4.8m**	**+5%**
Adjusted EPS	**2.9p**	**2.8p**	**+5%**

Key highlights

Net Rental Income

- Robust rent collection rate of 99%
- 1.4% like for like rental growth vs. 1.1% RPI
- Retirement voids up from 7% to 10% in July 2020 as a result of COVID-19 issues in the retirement market
- No void risk on Local Authority Housing or shared ownership after first tranche sale

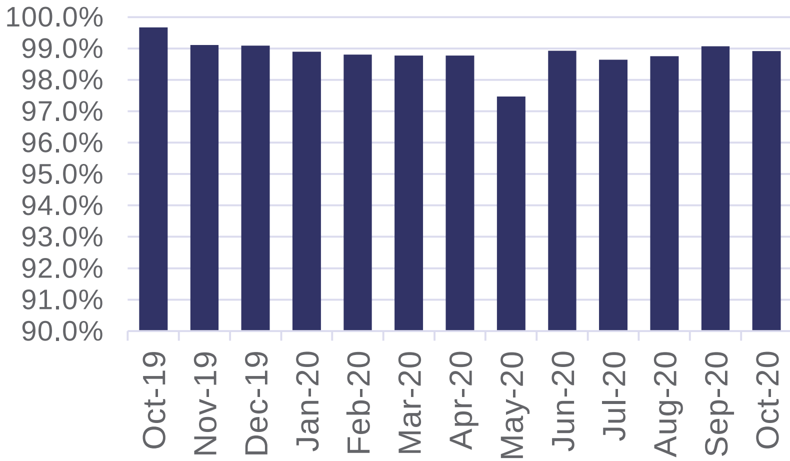
Shared Ownership Delivery

- Shared ownership portfolio now 64% occupied with further 21% reserved, delivering £0.5m first tranche sales profit
- Full impact of new shared ownership rent to come through in FY21 and FY22

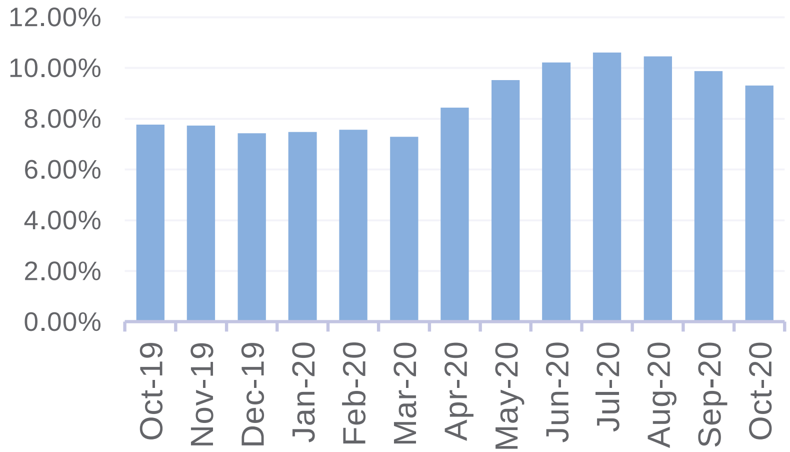
** Net finance costs are presented excluding ground rent expense, which are a finance cost under IFRS but have instead been included in net rental income*

ROBUST PERFORMANCE

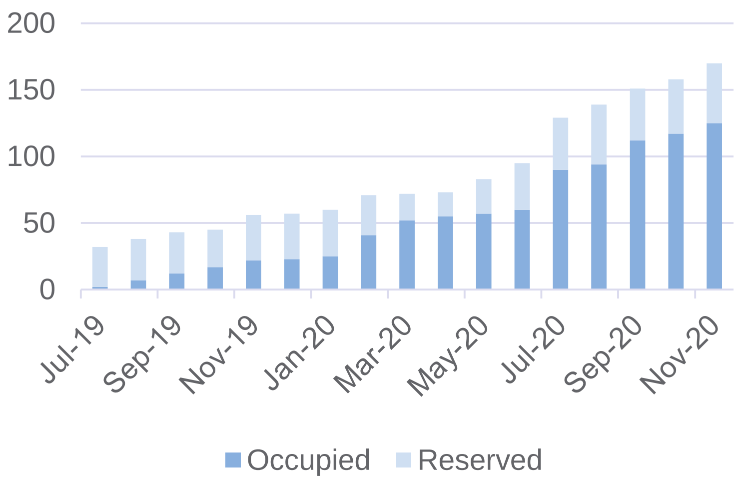
Robust rent collection rate through COVID



Retirement voids reducing from July peak



Successfully delivering shared ownership homes




Totteridge Place, Barnet

COVID-19 DELAYS FULL INCOME DELIVERY

	FY20	FY21	Impact	Mitigation	Social benefit
Retirement	-£0.7m	-£0.7m	Voids increased from 7% to 11% from lower lettings	Fewer leavers Highly experienced property specialist hired with sole focus on retirement voids (now 9%)	**Reduced social isolation through living with peers in lockdown**
S/O rent	-£0.5m	-£0.8m	Delay to Clapham & USS facility	£300m debt facility provides certainty of funding Online marketing and virtual viewings	**Provides spacious high quality affordable homes to lower and middle income households**
S/O first tranche	-£0.3m	+£0.5m	Restricted viewing for prospective residents Mortgage backlog delays occupation	Delayed sales expected in FY21	
Local Authority	-	-	No impact due to strength of ReSI's counterparty, Luton Borough Council		**Worked with council to avoid rough sleeping during COVID**
Total £'m	**-£1.5m**	**-£1.0m**			
Total per share	**-0.9p**	**-0.6p**			

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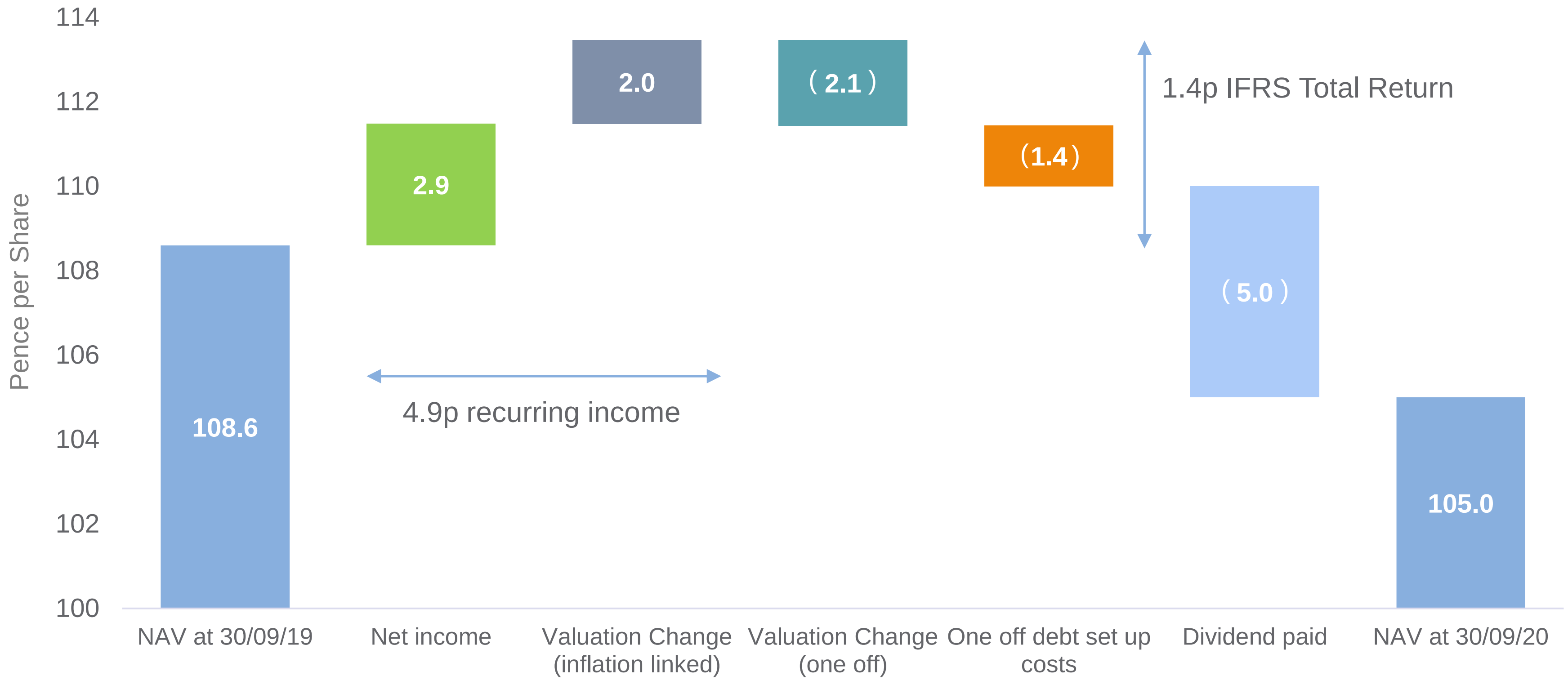
NET ASSET VALUE



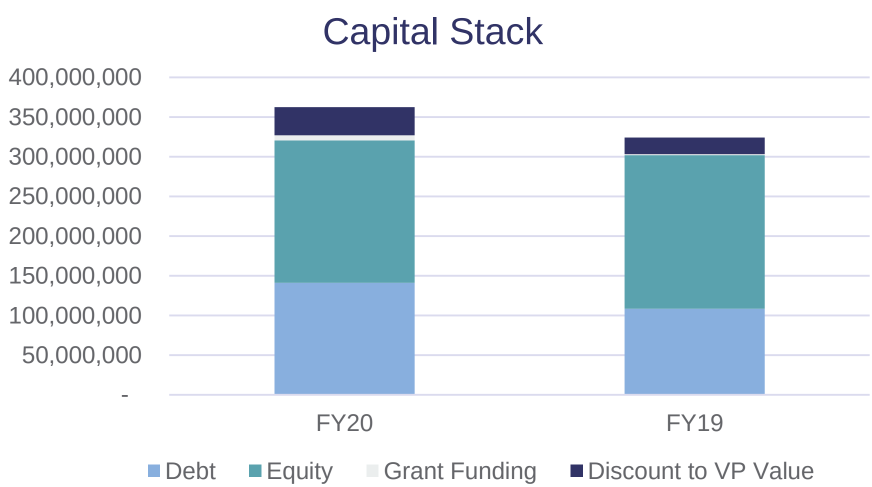
Valuations have been flat with the main movements being:

- £3.4m/2.0p increase due to contractual inflation-linked rent increases embedded in the portfolio
- £4.5m/2.6p gain on the shared ownership portfolio as it progresses towards full income generation
- £0.7m/0.4p gain on changes in the fair value of debt
- £8.4m/4.9p decrease from one off impacts including COVID-19 and an HMRC ruling to charge VAT on property manager’s salaries

CAPITAL STRUCTURE

Investment grade debt ensures asset quality and provides access to low cost of funding, which expands investment opportunity to higher credit quality investments at lower yields

	FY20	FY19
Total debt	£141m	£108m
Total assets	£327m	£303m
Reversionary surplus	£36m	£21m
LTV (target 50%)	43%	36%
Leverage on reversion value	39%	33%
Weighted average cost	2.6%	3.3%
Weighted average maturity	23 years	19 years



Leverage Strategy minimises traditional risks

- Minimises refinancing risks
  - Amortising facilities limit exposure to bullet repayments
- Minimises covenant risks
  - Debt capacity based on operational cashflows rather than traditional LTV tests
- Minimises interest rate risks
  - Long term debt matching underlying cashflows

USS DEBT FACILITY

- First standalone investment grade financing of shared ownership
- Successfully arranged in the midst of the COVID-19 pandemic
- RPI linked, matching underlying shared ownership cashflows, with coupon of 0.461%
- Delivers 300bps yield pick-up on shared ownership
- £300m facility drawable over the three years, supporting growth of S/O portfolio
- Cell structure allows different lenders within same Registered Provider
- Covenants based on cashflows rather than LTV
- £2.4m debt set up costs represent cost of 2bps p.a. over 45 years

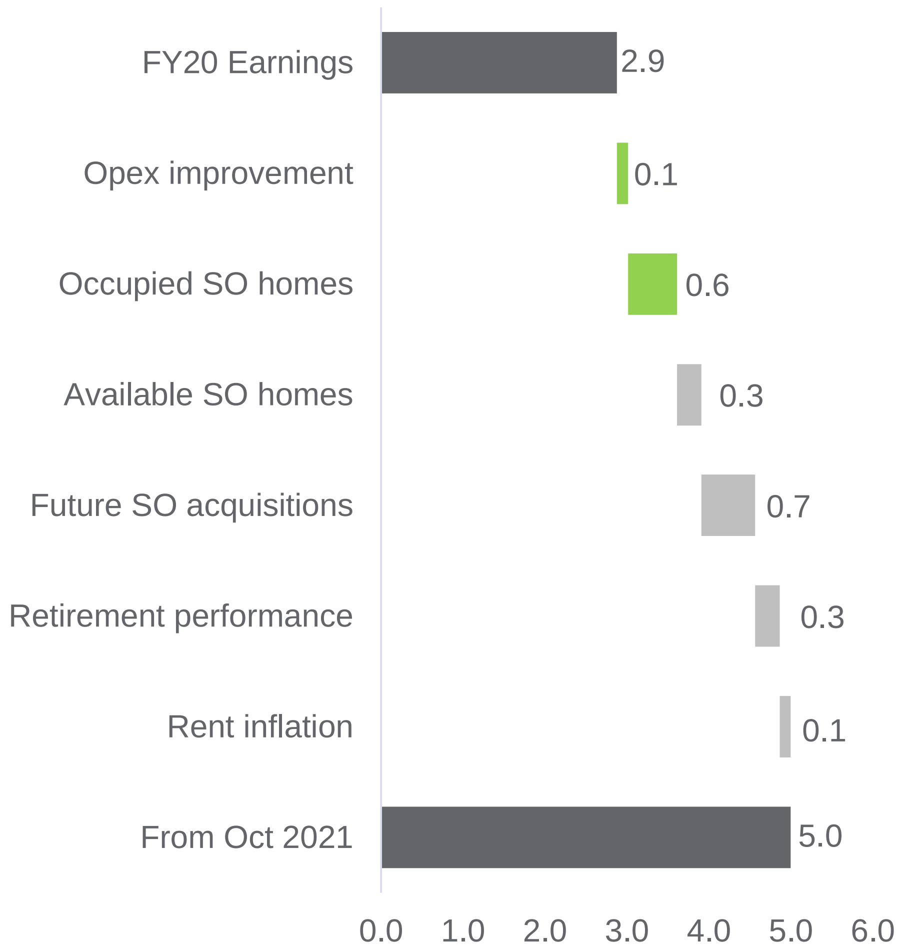
Universities Superannuation Scheme facility	
Outstanding debt	£34.0m
Facility Size	£300m
Amortising/bullet	Fully amortising
Term	45 year
Cost	0.46%
LTV	48%
Fixed/floating	Fixed (RPI Linked with 0%, 5% collar)

Accounting for RPI Linked Debt

- Coupon payments recognised as finance costs
- Debt held at Fair Value through Profit and Loss on balance sheet
- Movements in the fair value of debt at each reporting date are recognised in profit or loss
- Full debt set up costs are recognised as finance costs on day one

PLANNED PORTFOLIO GROWTH

Clear plan to fully cover dividend from Oct 2021 following full deployment



- → FY20 adjusted earnings (excluding valuation changes and one off debt set up costs)
- → Reduction in opex leveraging Gresham House buying power
- → New Homes now occupied with no previous income
- → 15% of shared ownership homes available
- → Additional income from £33m additional shared ownership
- → Reduce voids back to pre COVID-19 performance
- → Contractual inflation linked rent growth (2.5% RPI assumed)
- → Full rental dividend cover expected from October 2021

REVIEW AND OUTLOOK

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What did we say in Interims? (May 2020)	Retirement voids up Delay in S/O portfolio becoming fully income generating and acquisitions Time taken to return to pre-COVID performance equal to the time taken to return to normal from the start of social distancing in mid-March 2020
Where are we now?	Social distancing continues, but good progress has been made: ▪ Strong rent collection and steady valuations throughout the period ▪ £300m debt facility in place ▪ Significant progress on fully occupying shared ownership ▪ First £4m S/O acquisitions complete, more in progress ▪ Retirement voids being addressed
Challenges	Delay in bringing shared ownership onstream from mortgage lender backlog Continuing lockdowns will delay recovery in retirement portfolio occupancy
When resolved?	Clear plan over the next 12 months - deployment, occupation and reducing voids First step - within 3 months trading update with further details on deployment and retirement voids strategy
Implications on dividend coverage from rent	Full cover from start of FY22. FY21 coverage of at least 4p, i.e. 80%

SHARED OWNERSHIP TRACK RECORD

	Totteridge Place	Clapham Park	Step Forward	Brampton Park
Date	January 2019	January/July 2020	July 2020	September 2020
Size	£16.5m/ 34 homes	£60.6m/ 132 homes	£2.2m/ 24 homes	£1.6m/ 6 homes
Status	64% occupied; 21% in sales progression; 15% available			
Uplift	c. 10% valuation uplift on occupation			

3.4% *Net initial yield*	15% *Purchase discount to OMV*	£29k *Grant per home*	32% *Average shared owner stake*	34 *Average age*	9.1x *Average multiple house price - earnings*

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FUTURE OF SHARED OWNERSHIP

- **Strong demand**: 25,000[1] new shared ownership homes / £2.7bn required each year[2]
- **Government support:** shared ownership will comprise 50% of the new homes delivered under the £12bn affordable housing programme for 2021-26
- **Improving standards:** ReSI aims to be a best in class provider of shared ownership, driving improvements across the sector and has adopted unique Shared Ownership Customer and Environmental Charters

New model Shared Ownership

- £11.5bn grant announced to deliver 212,000 affordable homes over five years from April 2021 - half will be S/O
- Alongside government is consulting on new model shared ownership funded from April 2021
- Not retrospective
- Focused on improving shared owner experience
- Broadly positive for ReSI as 50% of changes are our standard practice

1. National Housing Federation
2. Avison Young (£262k average shared ownership value, with 41% first tranche sold)

SUSTAINABLE INVESTMENT HIGHLIGHTS

Industry contribution

- Set the Shared Ownership Customer and Environmental Charters, aiming to drive best practice in the shared ownership sector
- Early adopters of The Good Economy's (TGE) Sustainable Reporting Standard for Social Housing[1] - encouraging best practice ESG reporting

Resources

- Appointed a Director of Sustainable Investment

Policies

- Housing Sustainable Investment Policy[2] to formalise our sustainable investment

Impact

- Worked with TGE to independently assess the social impact ReSI's portfolio has on its stakeholders
- Used the Impact Management Project to better understand and assess the level of impact ReSI's portfolio can have
- Portfolio supports the UN Sustainable Development Goals (SDGs), mostly contributing towards SDG 11 - Sustainable Cities and Communities

1. https://thegoodeconomy.co.uk/resources/reports/SRS_final-report_2020-11-16-094356.pdf
2. https://greshamhouse.com/wp-content/uploads/2020/09/Housing-Sustainable-Investment-Policy-160920.pdf

ESG – SOME EXAMPLES

ReSI has a diversified portfolio providing support to multiple groups of beneficiaries with a range of positive outcomes, including security of tenure for residents, improved wellbeing, and financial savings.

Environmental	Social	Governance
▪ ReSI's portfolio is more energy efficient than the National Housing Association and the SHIFT Landlord benchmark ▪ ReSI's portfolio has an average EPC score of C, compared to the UK average EPC rating of D ▪ Homes acquired in 2020 have an average EPC rating of B ▪ Focus on improving our lowest rated	▪ Reduced social isolation for retirees through living with peers during lockdown ▪ Provided spacious, high quality homes to lower and middle income households ▪ Worked with Luton Borough Council to avoid rough sleeping during COVID	▪ Subsidiary, ReSI Housing is a for-profit Registered Provider ▪ Ensures good governance and financial viability of ReSI Housing and that resident's' welfare is protected ▪ Non-executive directors of ReSI Housing have enhanced powers to veto any action that threatens compliance with regulatory standards

MEASURING SOCIAL IMPACT

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Four key areas used to measure progress towards the social outcomes of ReSI's portfolio

- Social Need
- Affordability and Value for Money
- Quality Partnerships
- Increasing Supply

Sample Outputs: Social Need

	Shared Ownership	Local Authority	Retirement Rentals
Impact Metrics	Affordability ratio (average house price to average earnings) in local area	Number of households on local authority waiting list	Property Manager's survey analysis
Results	Barnet: 16.3x Lambeth: 14.5x Huntington: 9.3x UK average: 7.8x	Luton: 13,077 on waiting list out of 78,900 households or 16.6% (compared to national average of 5.1%)	95% would recommend renting in retirement 87% had made new friends 80% were attracted by an assured lifetime tenancy

Source: The Good Economy

SUMMARY

- Robust performance despite COVID
  - Operating Profit before fair value movements up 10%
  - 99% rent collection
  - Average retirement occupancy 91% from 93%
  - Shared ownership delayed but now 64% occupied with further 21% reserved
- Benefits of Gresham House robust central platform
- Sustainable investment approach maximises social impact
- Unique platform for investment:
  - Registered Provider
  - Investment Partner of government
  - USS debt facility
- Good visibility and plan to fully cover dividend
  - Deploy remaining £32m
  - Fully occupy shared ownership portfolio
  - Address retirement voids

APPENDICES

PORTFOLIO OVERVIEW

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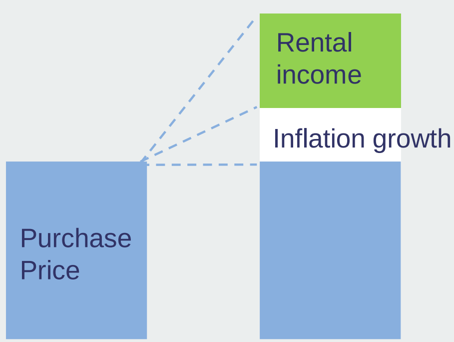
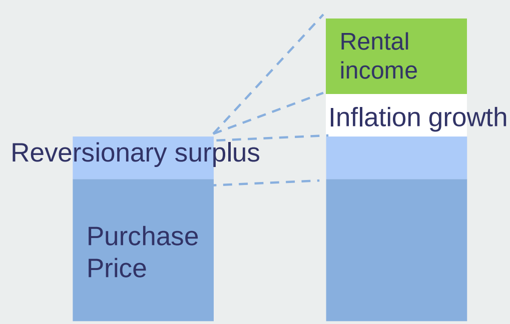
Retirement Rental

- Independent living for retirees with Assured Tenancies
- Secure rental income paid from pensions and welfare
- Rents around Local Housing Allowance levels
- Returns comprise:
  - 5.3% NIY on cost
  - Inflation growth during investment period



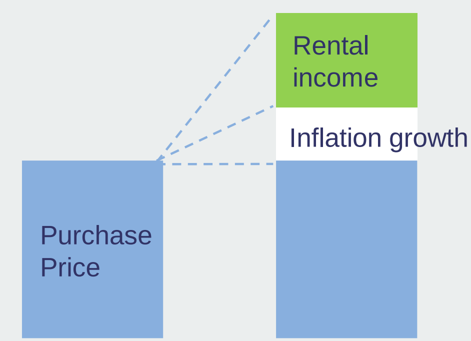
Shared Ownership

- Affordable home ownership
- Part-rent, Part-buy model with below market rents and low deposit requirements
- Secure rental income as shared owners invest equity in their home and rents below market
- Returns comprise:
  - 3.4% NIY on cost
  - Staircasing gains
  - Inflation growth during investment period



Local Authority

- Homes leased to local authorities and used to house those who would otherwise be homeless
- Strong counterparty (Luton Borough Council)
- Void risk with Luton Borough Council
- Returns comprise:
  - 5.3% NIY on cost
  - Inflation growth during investment period

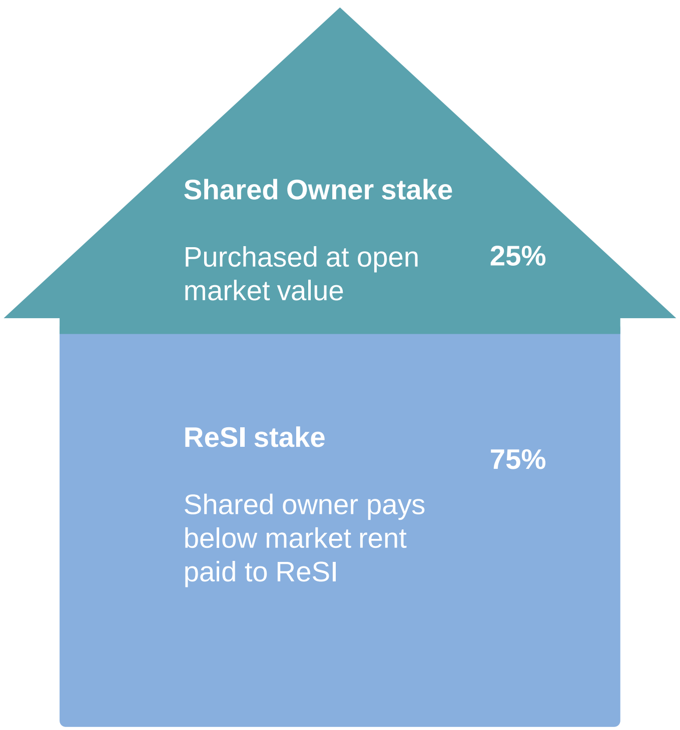


PORTFOLIO RETURNS

	Retirement	Local authority	Shared ownership	Total
Value	£210m	£34m	£58m	£302m
Homes	2,223	289	196	2,708
Lease term	Lifetime	6 years remaining	130 year lease term	
Lease turnover	17% p.a.	N/A	2.5% staircasing p.a.	
Lease type	Assured Tenancy	Almost FRI	FRI	
Inflation Linkage	RPI	60% linked to CPI	RPI+0.5%	
LTV	44%	43%	48%	43%
Lender	Scottish Widows	NatWest	USS	
Interest cost	3.46%	2.56%	0.46%	2.6%
Debt Maturity	2043 (partially amortising)	2022	2065 (fully amortising)	23 year WAL
Net yield on value	4.8%	5.5%	3.1%	4.6%
Net yield on cost	5.3%	5.3%	3.4%	5.0%
Levered yield on cost	6.8%	7.2%	6.3%	*6.8%*
Staircasing return			0.8%	
Gross to net leakage	49%	7%	3%	

OVERVIEW OF SHARED OWNERSHIP

Getting onto the housing ladder with smaller deposits, lower income requirements and lower annual payments.



- The Shared Owner:
  - Purchases an equity share in their new home at open market value. This is known as the "first tranche sale", typically 25%
  - Pays a below market rent[1] on the remaining unsold equity, usually held by a Registered Provider
  - Has the option to incrementally purchase additional shares in their home at the prevailing open market value (known as "staircasing").[2] Historically this has occurred at an average rate of 2.5% per annum
  - Typically finances their initial stake with a 90% mortgage
  - Is fully responsible for all maintenance, repair and insurance

1. This is similar to a ground rent in that if the Shared Owner defaults on rents they void their stake in the property
2. Giving a gain to ReSI who purchases at a discount

A SYSTEMIC MARKET PROBLEM

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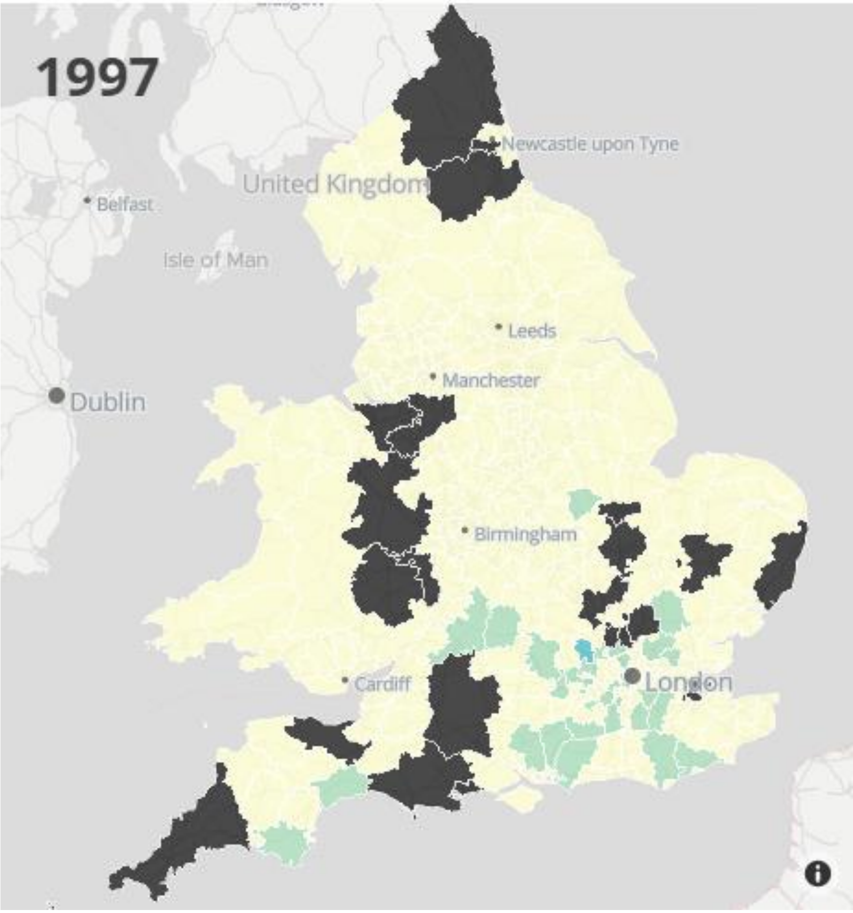
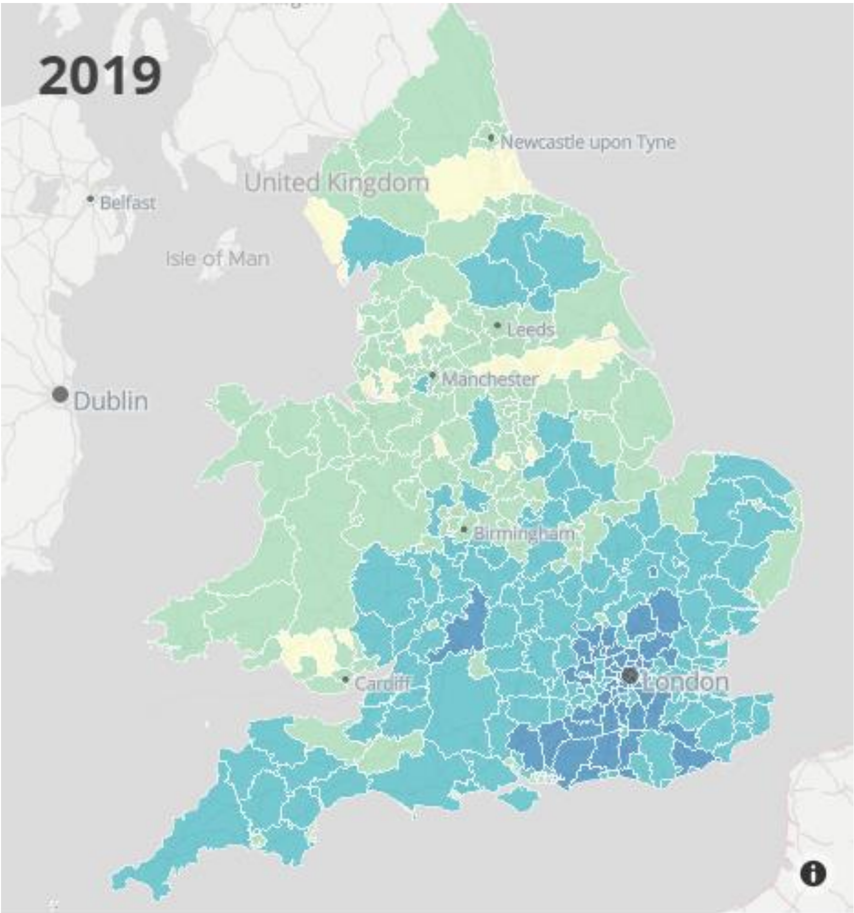




Source: ONS

House price to earnings ratios

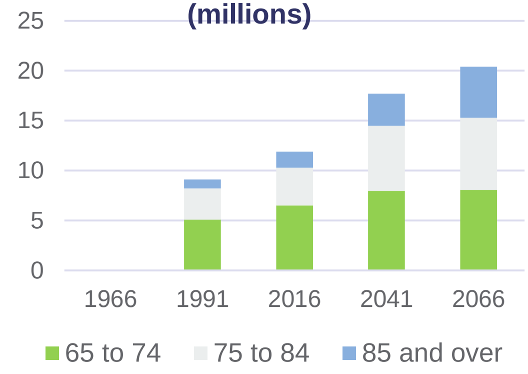
No data	2-5x	5-8x	8-12x	12x+
		Unaffordable		

STRUCTURAL DRIVERS UNDERPIN RETURNS

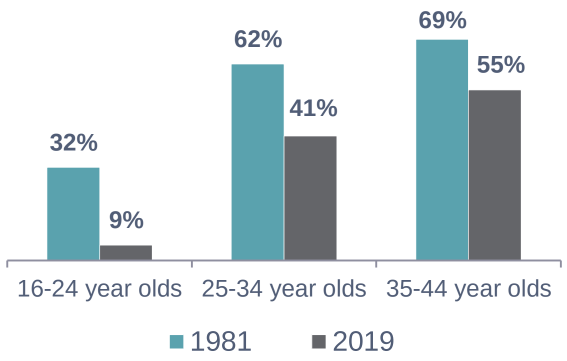
280,000

People in the UK are homeless – one in every 200 people (one in every 24 people in the worst affected areas)

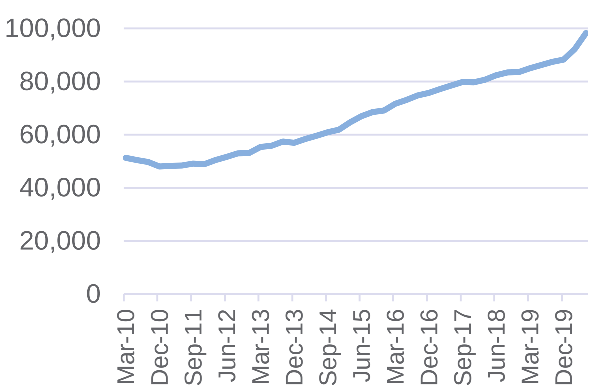
UK population over 65 (millions)



% each age group that are UK homeowners



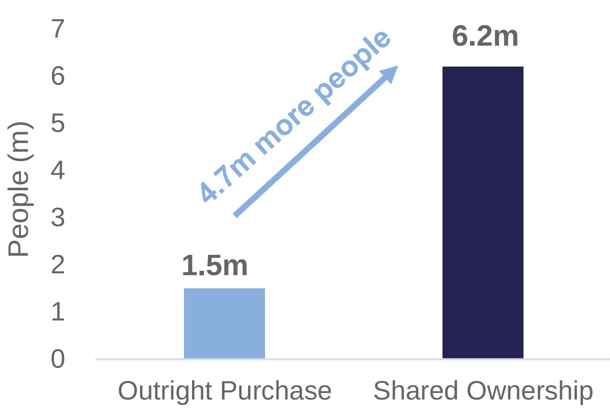
Households in temporary accommodation



65%

To meet future demand, the UK's retirement housing stock needs to grow to 1.2m – 65% more than exist today

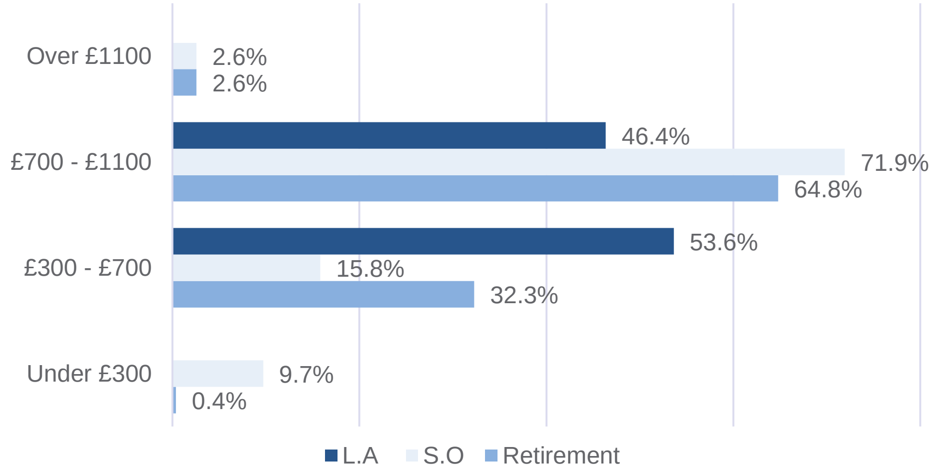
Households able to afford a £250k home



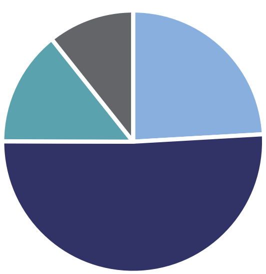
Sources clockwise from top left: Shelter, ONS, English Housing Survey, ONS/Gresham House, Savills, MHCLG

RENT PROFILE

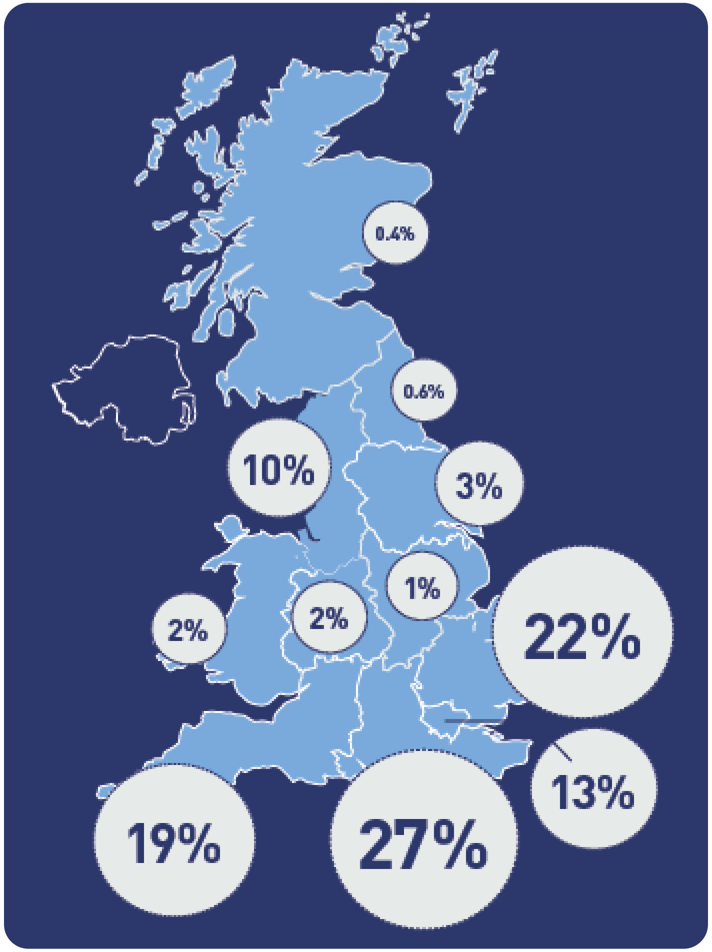
Rent per Calendar Month (as a % of units)



Net Rent by counterparty type (full deployment)



Average rent per calendar month: £740



STATEMENT OF COMPREHENSIVE INCOME

Gresham House
Specialist asset management

	FY20 (£'000)	FY19 (£'000)	Variance
Retirement	*9,141*	*9,409*	*(3)%*
Shared Ownership	*391*	*(16)*	*(2508)%*
Local Authority	*1,813*	*1,841*	*(2)%*
Net rental income*	**11,345**	**11,234**	**+1%**
First tranche sales profits	509	(58)	(976)%
Management fees	(1,837)	(1,843)	-
Overheads	(1,093)	(1,030)	+6%
Net Finance Costs*	(3,921)	(3,552)	+10%
Recurring Operating Profit before change in fair value	**5,003**	**4,751**	**5%**
Adjusted EPS	**2.9p**	**2.8p**	**5%**

** Net finance costs are presented excluding ground rent expense, which are a finance cost under IFRS but have instead been included in net rental income*

RECONCILIATION TO IFRS PROFIT

Gresham House
Since 1857
Specialist asset management

	FY20 (£'000)	FY19 (£'000)	Variance
Operating profit before abort costs, property disposals, and changes in fair value	9,959	9,186	+8.4%
Finance Costs (excluding one-off debt set up costs)	(4,956)	(4,435)	+11.7%
Recurring Operating Profit before change in fair value	**5,003**	**4,751**	**+5.3%**
Aborted acquisition costs	(79)	(227)	-65.2%
One-off debt set up costs	(2,418)	-	
Operating profit before change in fair value	**2,506**	**4,524**	**-44.6%**
(Loss)/Profit on disposal of properties	(16)	56	-128%
Change in fair value of properties	(759)	8,656	-109%
Change in fair value of borrowings	718	-	
IFRS Profit before taxation	**2,449**	**13,236**	**-81.5%**
Adjusted earnings per share (pence)	2.9	2.8	**+3.6%**

Gresham House
Specialist asset management

STATEMENT OF FINANCIAL POSITION

	30 September 2020 £'m	30 September 2019 £'m	Variance
Retirement Rentals	210	215	(2)%
Shared Ownership	58	11	+81%
Local Authority	34	35	(2)%
Total Investments	**302**	**261**	**+16%**
Inventories - properties available for sale	10	3	+296%
Cash and cash equivalents	10	26	(60)%
Borrowings	(141)	(108)	+30%
Other assets/liabilities	(3)	4	(157)%
Net Asset Value	**180**	**186**	(3)%
IFRS Net Asset Value per share (pence)	105.0	108.6	(3)%