



# Residential Secure Income plc

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

*Annual results for the year ended 30 September 2019*

21 November 2019



# Disclaimer

## **For Investment Professionals (as defined under FSMA 2000 Individuals without professional experience in matters relating to investments should not rely on this information)**

By attending the meeting where this presentation is made, or by reading the presentation slides, you agree to be bound by the following limitations:

This document contains information provided solely as an update on the financial condition, results of operations and business of Residential Secure Income PLC ("ReSI") and its operations and those of its group ("Group").

This document has not been approved by a person authorised under the Financial Services and Markets Act 2000 (for the purposes of section 21 FSMA). The contents of this document are not a financial promotion and none of the contents of this document constitute an invitation or inducement to engage in investment activity. If and to the extent that this document or any of its contents are deemed to be a financial promotion, the Group is relying on the exemption provided by Article 69 of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 1529 in respect of section 21 FSMA. The recipients of this presentation should not engage in any behaviour in relation to financial instruments which would or might amount to an offence under the Market Abuse Regulation (No [596 2014](#)). No representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of the information, or opinions contained herein. None of ReSI, any member of the Group or any of its or their advisers or representatives, including the fund manager, ReSI Capital Management Limited, shall have any responsibility or liability whatsoever (for negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document. The information set out herein may be subject to updating, completion, revision, verification and amendment and such information may change materially. Neither ReSI nor any other person is under an obligation to keep current the information contained in this document.

This document has not been approved by the UK Financial Conduct Authority or any other regulator. This document does not constitute or form part of, and should not be construed as, an offer, invitation or inducement to purchase or subscribe for any securities nor shall it or any part of it form the basis of, or be relied upon in connection with, any contract or commitment whatsoever. This document does not constitute a recommendation regarding the securities of ReSI.

The publication and distribution of this document may be restricted by law in certain jurisdictions and therefore persons into whose possession this document comes or who attend the presentation should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions could result in a violation of the laws of such jurisdiction. In particular, this document and the information contained herein, are not for publication or distribution, directly or indirectly, to persons in the United States (within the meaning of Regulation S under the US Securities Act of 1933 as amended (the "Securities Act")) or to entities in Canada, Australia, South Africa or Japan. The securities of ReSI have not been and will not be registered under the Securities Act and may not be offered or sold in the United States except to certain persons in offshore jurisdictions in reliance on Regulation S. Neither these slides nor any copy of them may be taken or transmitted into or distributed in Canada, Australia, South Africa, Japan or any other jurisdiction which prohibits the same except in compliance with applicable securities laws. Any failure to comply with this restriction may constitute a violation of the United States or other national securities laws. In EU member states, ReSI's shares will only be offered to the extent that ReSI is permitted to be marketed into the relevant EEA jurisdiction or (can otherwise be lawfully offered or sold (including on the basis of an unsolicited request from a professional investor)).

An investment in ReSI will involve certain risks. This presentation and subsequent discussion may contain certain forward looking statements with respect to the financial condition and results of operations and business of the Group. These forward looking statements represent ReSI's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. ReSI's targeted returns are based on assumptions which ReSI considers reasonable. However, there is no assurance that all or any assumptions will be justified, and ReSI's returns may be correspondingly reduced. In particular, there is no assurance that ReSI will achieve its distribution and total return targets (which for the avoidance of doubt are targets only and not profit forecasts). There can be no assurance that ReSI will achieve comparable results to those contained in this document, that any targets will be met or that ReSI will be able to implement its investment strategy. Additional detailed information concerning important factors that could cause actual results to differ materially is available in ReSI's Annual Report for the year ended 30 September 2019 available from ReSI's website. Unless otherwise stated, the facts contained herein are accurate as at 30 September 2019.

## **Past performance is not a reliable indicator of future performance**

## SUMMARY

- Residential Secure Income plc (“ReSI”) is a UK REIT listed on the main market of the London Stock Exchange providing a highly scalable, long term investment opportunity that will generate **secure, inflation-linked returns** from a highly defensive asset class
- ReSI aims to make a meaningful contribution to alleviating the UK housing shortage by meeting demand from housing developers (Housing Associations, Local Authorities and private developers) for long-term investment partners to **accelerate the development of socially and economically beneficial new affordable housing**
- Targets secure, long-dated, **dividend yield of 5.0% p.a.**, increasing broadly in line with inflation, and total return in excess of 8.0% p.a.<sup>(1)</sup>

## DIFFERENTIATORS

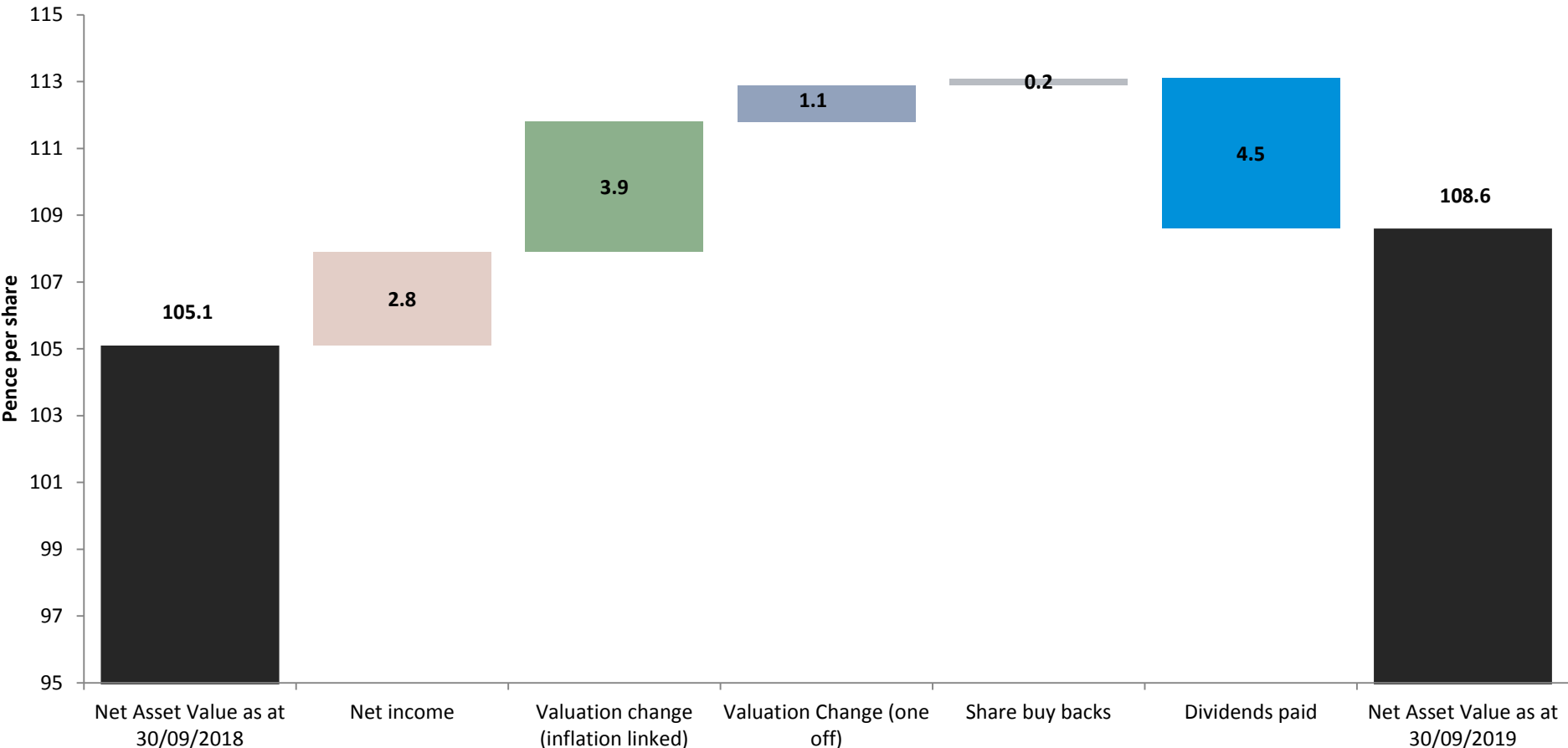
- **Registered Provider of Social Housing:** Subsidiary, ReSI Housing Limited, enables acquisition of affordable housing subject to s106 planning restrictions and those funded by government grant
- Investments limited to those with sufficient cashflows, counterparty credit quality and property security to **support long-term investment grade equivalent debt**
- Investments sourced through **off-market industry relationships**, including a **£300m partnership agreement** with Morgan Sindall, which targets delivery of 1,500 new Shared Ownership homes
- **Identified pipeline of £701m** Shared Ownership homes
- **18 year proven track record** of financing and advising social housing



(1) Assuming 2.5% RPI. These are targets only and not profit forecasts. There can be no assurance that the targets can or will be met and should not be taken as an indication of the Company's expected or actual future results. Accordingly, potential investors should not place any reliance on the targets 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 yields are reasonable or achievable



# 2019 Financial Results



## Strong performance positions ReSI for future growth

- Strong financial performance with 3.3% NAV growth driven by a 3.9% valuation uplift
- 8.0% annualised NAV total return from inception and 5p dividend declared both in line with IPO target
- £83 million committed during the year to 332 homes the majority of which are shared ownership
- Capital (including debt) substantially committed to a high quality portfolio of 2,677 units in 655 locations serving shared ownership, retirement and Local Authority housing tenants
- Portfolio to deliver c. £730 million of social benefit over next 25 years, calculated by the Social Profit Calculator using methodologies accredited by Social Value UK and Social Value International
- Sustainable rental income growth to drive future performance and dividend coverage:
  - 96% of rental income is index linked
  - completed sales of shared ownership units
- Favourable market backdrop - chronic shortage of affordable housing provision and Help to Buy curtailment



# Portfolio Overview

ReSI's investment strategy is to deliver a secure income stream from a residential social housing portfolio benefitting from:

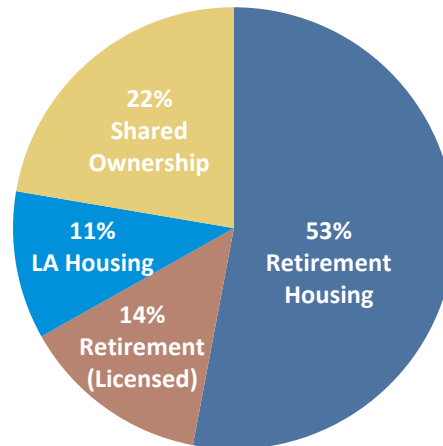
- Below market rents ensuring on-going demand;
- Diverse income stream from tenants with lower exposure to the economic cycle; and/or
- Strong counterparty covenants and managers – shared equity tenants, Local Authorities, large credit-worthy Housing Associations

## Shared Ownership (£71.7m - 166 homes)

- Helps first time buyers with small deposits onto housing ladder
- Shared Owners have 130 year lease paying RPI + 0.5% linked rent – high quality credit income as if Shared Owner defaults on rent payments they risk voiding their stake in the property
- Shared Owners have the option to staircase (i.e. to purchase an additional share in the property at Open Market Value), releasing bulk discounts to ReSI

## Local Authority Housing (£34.8m - 166 Homes)

- Leases directly to Local Authorities (LAs), who have a statutory duty to house those who are homeless or threatened with homelessness
- Focus on areas with most need for accommodation & strong supply/demand dynamics
- Rent around market rent to minimise downside if LA doesn't renew lease and provide a saving to LA compared to alternatives



## Retirement Housing (£214.7m - 2,222 homes)

- Provides fit for purpose homes for retirees
- Residents are able to rent a retirement property through an assured tenancy, providing lifetime security of tenure
- Includes properties used to house the property manager within the development they manage, with rent ultimately paid by the service charge of all leaseholders providing a very secure income stream
- Rental payments are decoupled from the economy as tenants typically pay through pensions, housing benefits etc. rather than employment income

	Retirement	Local Authority	Shared Ownership (projected)
Value	£215m	£36m	£72m
LTV	45%	42%	c. 60%
Interest cost	3.46%	2.56%	TBC
Net yield	4.7%	5.3%	3.3%
Levered Yield on cost	6.9%	7.2%	6-7%

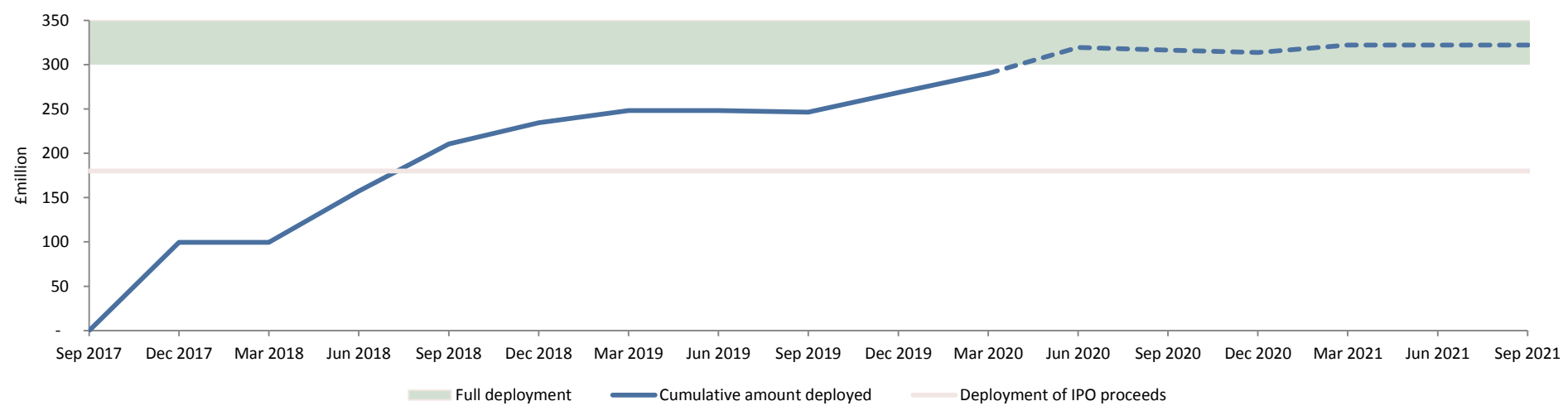




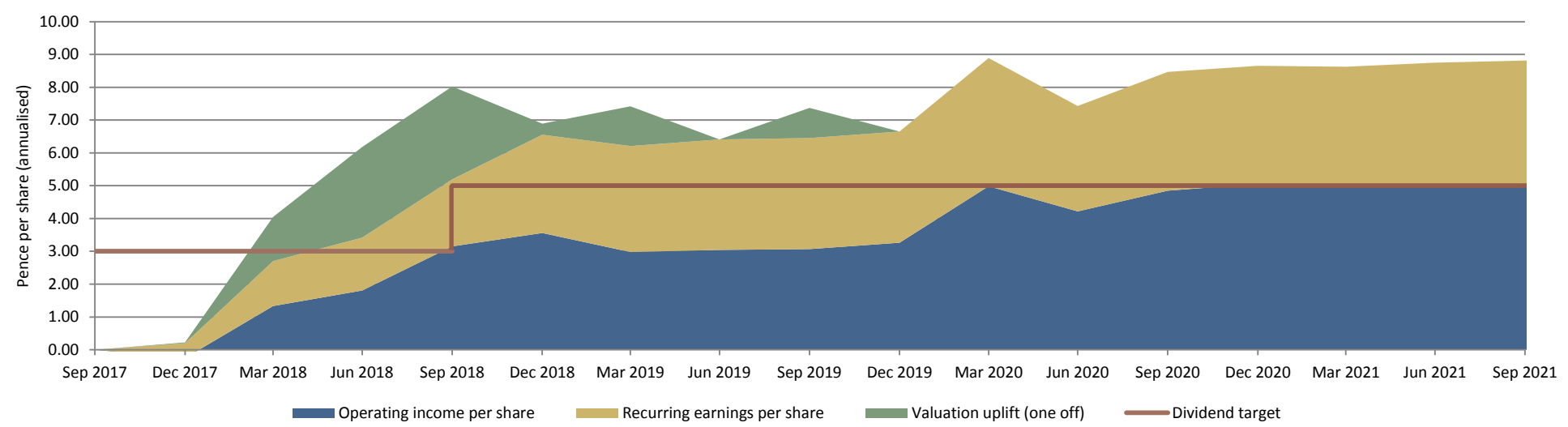
# Capital now substantially deployed



Deployment Profile



ReSI Total Return





# Portfolio delivers £731m social impact over 25 years, equivalent to £4.27 per share

ReSI is committed to accelerating the development of socially and economically beneficial new housing to make a meaningful contribution to the UK housing shortage.

The Social Profit Calculator have quantified ReSI's social impact using methodologies accredited by Social Value UK and Social Value International

## Shared Ownership

**£209m Total Social Impact**

**£2.71 Social Impact Ratio**



- Opens the door to **home ownership**
- Provides **lifetime security of tenure** and greater **security of future housing costs**
- Creates **additional sub-market rental homes**
- Delivers **social dividend of £86k per home** in London through rental discount

## Local Authority Housing

**£168m Total Social Impact**

**£4.94 Social Impact Ratio**



- Provides homes to those who are **homeless or at risk of homelessness**
- Provides **savings to local authorities vs hotels and bed & breakfasts** of £200 per week per unit
- Provides **institutional landlord** to ensure adequate standards of accommodation

## Retirement Rental

**£354m Total Social Impact**

**£1.93 Social Impact Ratio**



- Living with peers helps **address loneliness**, the largest health problem for elderly population
- **Supports independence** for longer
- **Frees up large family homes** for families
- Renting **avoids the burdens and transaction costs of home ownership**



# Operational Highlights

## Investments

- **First shared ownership transaction** with £16.5m purchase of 34 new build homes from Crest Nicholson
- **£60m capital committed for the acquisition of 132 apartments at Clapham Park** from Metropolitan Thames Valley, for delivery as shared ownership utilising government grant funding
- **£300m Housing Investment Partnership Agreement with Morgan Sindall Investments** to initially target 1,500 new shared ownership homes

**5.0%**  
Annualised net yield  
(2018: 5.0%)

**655**  
Locations  
(2018: 610)

## Asset Management

- **Extended lease term on 279 long leasehold retirement properties** to 150 years, increasing the average unexpired lease term of the 2,100 leasehold units in the portfolio to 131 years and enhancing portfolio valuation by £1.6m
- **New 10 year management agreement with Places for People** for the retirement homes portfolio

**£11.2m**  
Net rental income  
(2018: £5.7m)

**2,677**  
Homes acquired  
(2018: 2,362)

## Personnel Developments

- **David Orr**, former CEO of the National Housing Federation, appointed as independent Chairman of ReSI Housing Limited
- **Gillian Rowley**, former Head of Private Finance at the Homes & Communities Agency, appointed as an independent non-executive director of ReSI Housing Limited

**Over 80%**  
Of units located in Southern England  
(2018: over 80%)

**£302m**  
Capital committed  
(2018: £210m)

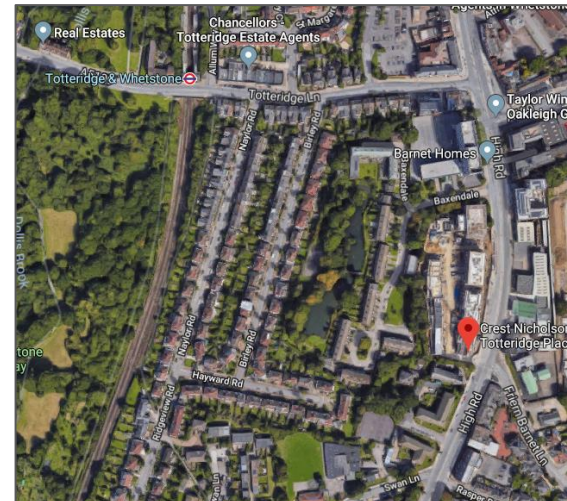


# Registered Provider unlocks social and shareholder value

## Shared Ownership case study: Totteridge Place

- **£16.5m purchase** of 34 1,2 and 3 bed apartments from Crest Nicolson in October 2018
- Located in Totteridge Place Development, a 7 minute walk from the underground station
- Unrestricted private homes being delivered as Shared Ownership using **grant funding**

Location	Totteridge Place, London
Size	34 apartments (1,2 and 3 beds)
OMV	£19.6m
Discount to OMV	16% (£16.5m)
Grant	£1m = £28k per home
Handover Date	January 2019
Net Rental Yield on Cost	3.0%
Unlevered IRR	7.2%
Sales and Management Agent	Metropolitan Thames Valley Housing
Fully income producing	Q1 2020



### Shared Owner Profile:

**80%**  
Of units sold or in progress

**28%**  
Average first tranche sale

**16%**  
Average buyer deposit

**24 – 61**  
Age range of buyers

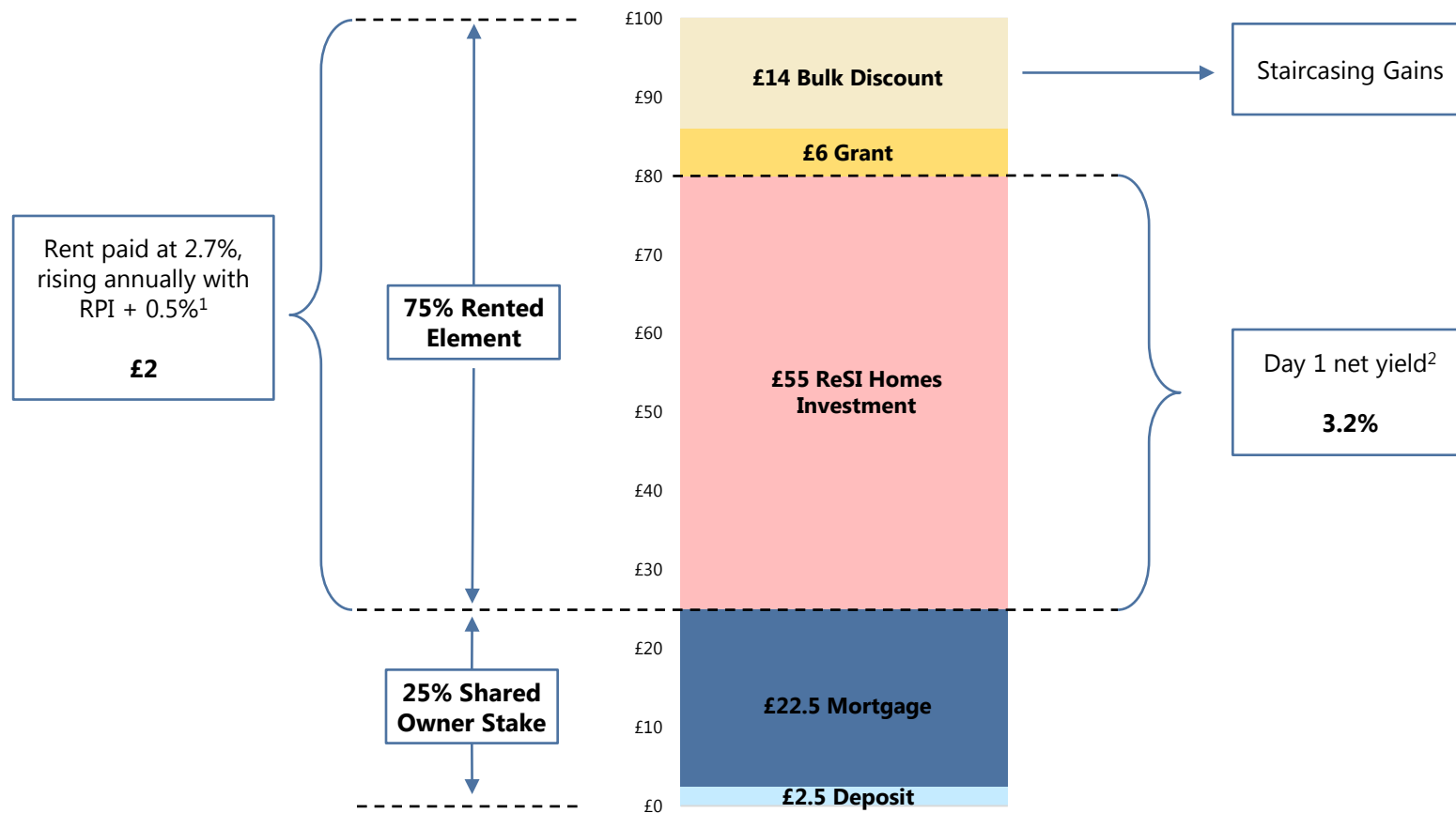
**£58,000**  
Average household income

**Delivery of unrestricted private homes as Shared Ownership provides additional affordable housing**



# Shared Ownership: Initial rental yield of 3.2% p.a. contractually increasing at RPI+0.5%

Purchase discount and grant funding enable ReSI Homes to generate **3.2% net initial rental yield**, from 2.7% gross rent

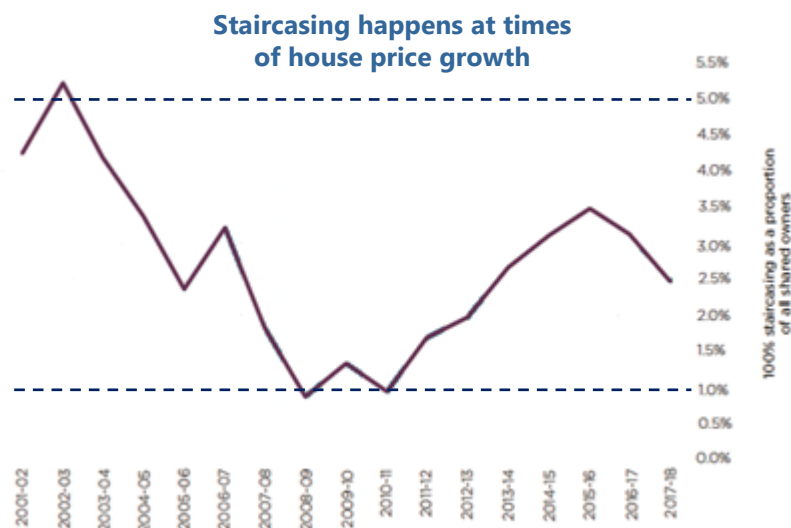


<sup>1</sup> £75 \* 2.7% = £2.03

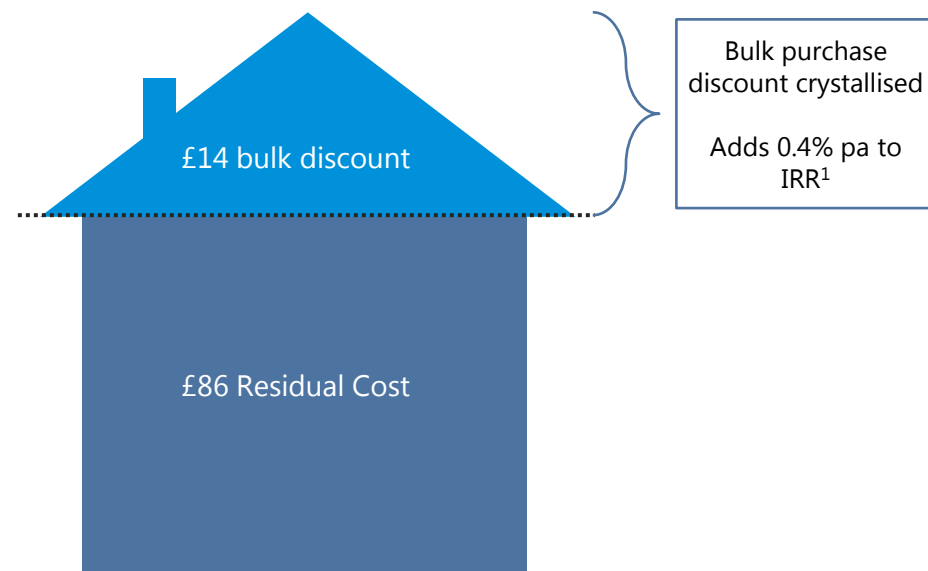
<sup>2</sup> net yield calculated after 2% transaction costs, 3% sales cost and 6% rent collection fee - i.e.  $(£2.03 * (1 - 6\%)) / (£55 + £2 + £3)$

# Shared owners buy over time at open market value releasing bulk discounts to investors

- Shared Owners can increase their ownership stake through staircasing
- Staircasing (and first tranche sales) is at **open market value**
- **Crystallises value** for ReSI from **bulk purchase discounts** plus any growth in house prices
- Staircasing rates have been 1%-5% p.a. over the past 15 years, averaging 2.5%
- Staircasing rates reduce during periods of house price decline and increase during periods of house price growth



Source: Savills 2019 Spotlight on Shared Ownership



<sup>1</sup> Gain on purchase \* Staircasing rate (£14/£86) \* 2.5%

## Key Performance Indicators

**108.6p**

**Net Asset Value per Share**  
(Sep 2018: 105.1p)

IFRS Net Asset Value per share, an increase of 3.5p or 3.3% during the year

**£321.3m**

**Value of Investment Property**  
(Historical cost: £297.7m)

Fair Value of investment property at 30 September 2019 (excluding adjustment for finance lease asset, plus committed properties with purchase contracts exchanged)

**36%**

**GAV Leverage Ratio**  
(Sep 2018: 19%)

Ratio of total debt drawn against Gross Asset Value (excluding adjustment for finance lease asset)

**8.0p**

**Total NAV Shareholder Return**  
(FY2018: 9.3p)

Total return to shareholders in the year to 30 September 2019 through increase in Net Asset Value and dividends

**6.7p**

**Recurring Earnings per share**  
(FY2018: 2.1p)

Operating income per share plus valuation gains due to contractual inflation-linked rent increases embedded in the portfolio. IFRS Earnings per share of 7.7p (FY2018: 9.0p)

**5.0p**

**Dividend per share**  
(FY2018: 3.0p)

Dividends declared for the year to 30 September 2019, in line with IPO target

FY = Full Year

# Shareholder Returns in line with IPO target

## Dividend

- Total dividends of 5.0p declared for the year, in line with IPO target (2018: 3.0p)
- 155% cover from IFRS earnings per share
- 134% cover from recurring earnings per share (excluding one-off valuation movements)
- 58% cover from recurring operating income per share

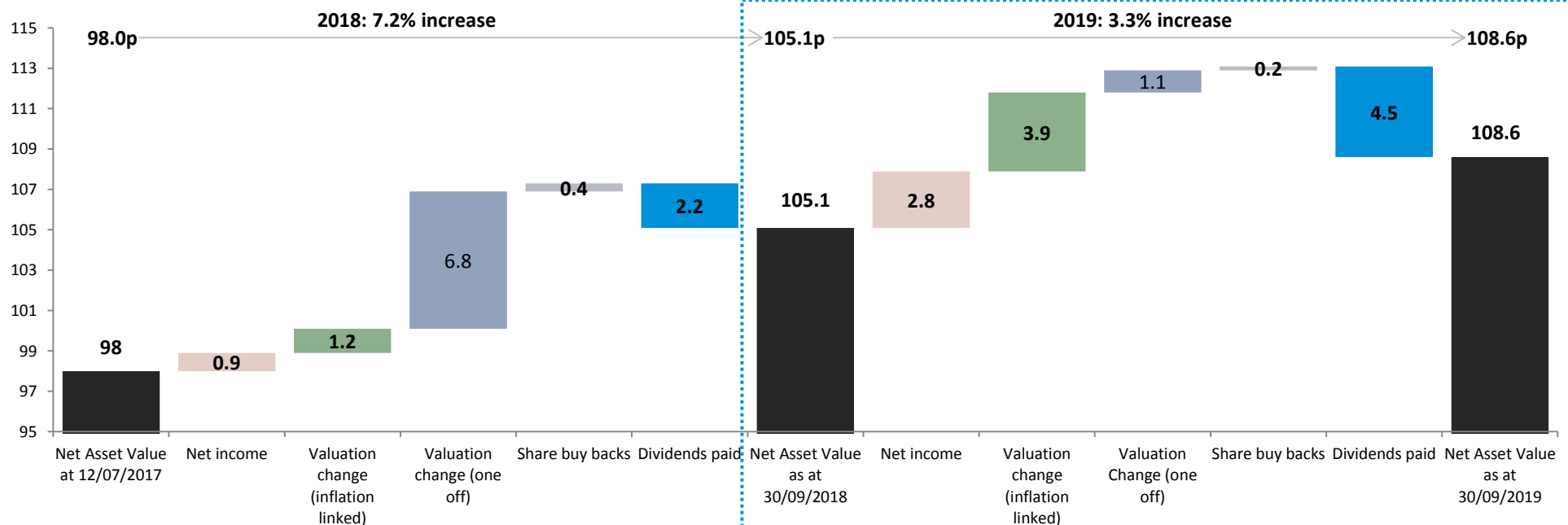
## Valuation Gains

- £8.6m/3.9% increase in fair value of properties during the year (2018: £14.8m) including:
  - £6.6m due to contractual inflation-linked rent increases embedded in the portfolio
  - £1.6m derived from asset management activity including lease extensions
  - £0.3m on revaluation of new acquisitions at favourable yields

## NAV Shareholder Return

- NAV Shareholder Return of 8.0p per share for the year (2018: 9.3p), taking NAV total return to 17.3p since the admission of ordinary shares on 12 July 2017 in line with 8.0%+ annualised IRR target from inception

## NAV performance since IPO





# Debt Overview

## Investment grade debt ensures asset quality

- Investments limited to properties where terms for long-term matched investment grade equivalent debt funding can be obtained at acquisition
- ReSI benefits from due diligence undertaken by debt investors who know the sector very well

## Low and certain cost of funding expands investment opportunities

- Intention to have indicative terms of any debt funding in place before completing an acquisition so ReSI only acquires assets which can be funded efficiently (typically at a real cost around 0%), allowing ReSI to target opportunities with lower unleveraged yields, with improved credit quality of the assets and tenants
- Funding obtained at asset level, on a non-recourse basis, to avoid high funding costs associated with multi-asset types or corporate lending

## Leverage strategy minimises traditional risks

- **Minimises refinancing risk**
- **Minimises covenant risks:** Debt capacity based on operational cash flows rather than traditional LTV tests
- **Minimises interest rate exposure:** Long term debt matching underlying cash flows

	Retirement portfolio debt funding	Local authority housing debt funding
Facility size	£97.0m	£14.5m
Drawn	Partially drawn	Fully drawn
Amortising/bullet	Partially amortising	Bullet
Term	25 year	3 year
Cost	3.46%	2.56%
Fixed/floating	Fixed	Partially fixed

## Shared Ownership debt in progress

## Strong performance positions ReSI for future growth

- Strong financial performance with 3.3% NAV growth driven by a 3.9% valuation uplift
- 8.0% annualised NAV total return from inception and 5p dividend declared both in line with IPO target
- £83 million committed during the year to 332 homes the majority of which are shared ownership
- Capital (including debt) substantially committed to a high quality portfolio of 2,677 units in 655 locations serving shared ownership, retirement and Local Authority housing tenants
- Portfolio to deliver c. £730 million of social benefit over next 25 years, calculated by the Social Profit Calculator using methodologies accredited by Social Value UK and Social Value International
- Sustainable rental income growth to drive future performance and dividend coverage:
  - 96% of rental income is index linked
  - completed sales of shared ownership units
- Favourable market backdrop - chronic shortage of affordable housing provision and Help to Buy curtailment



## Appendices



# Statement of Comprehensive Income

	Year to 30 September 2019 £'000s	12 July 2017 to 30 September 2018 £'000s	Variance
Gross Rental Income	19,621	10,418	
Property Operating Expenses	(7,504)	(4,719)	
First tranche property sales	2,000	-	
First tranche cost of sales	(2,058)	-	
<b>Net Property Income</b>	<b>12,059</b>	<b>5,699</b>	<b>↑ 112%</b>
Fund Management Fee	(1,843)	(2,160)	
General and Administrative expenses	(1,030)	(1,190)	
Aborted acquisition costs	(227)	-	
<b>Operating profit before change in fair value</b>	<b>8,959</b>	<b>2,349</b>	<b>↑ 281%</b>
Profit on disposal of investment properties	56	-	
Change in fair value of investment properties	8,656	14,825	
<b>Operating profit before finance costs</b>	<b>17,671</b>	<b>17,174</b>	<b>↑ 3%</b>
Finance Income	98	237	
Finance Costs (excluding ground rents)*	(4,444)	(1,300)	
Ground rents*	(883)	(432)	
Movement in fair value of interest rate swap contracts	(89)	-	
<b>Profit before taxation</b>	<b>13,235</b>	<b>16,110</b>	<b>↓ 18%</b>
Earnings per share – basic and diluted (pence)	7.7	9.0	<b>↓ 14%</b>

**6.7p**  
**Recurring Earnings per share**  
**(FY2018: 2.1p)**

Operating income per share plus valuation gains due to contractual inflation-linked rent increases embedded in the portfolio. IFRS Earnings per share of 7.7p (FY2018: 9.0p)

**1.5%**  
**Ongoing charges ratio**  
**(FY2018: 1.5%)**

Annualised ongoing charges ratio based on period end NAV, including Fund Management fee

\* Ground rents paid in respect of leasehold properties have been recognised as a finance cost in accordance with IAS 17 "Leases"

# Statement of Financial Position

	30 September 2019 £'000s	30 September 2018 £'000s	Variance
Investment Property (Savills valuation)	260,629	225,160	↑ 15.8%
Finance Lease Asset*	29,532	27,715	
Investment Property (IFRS Fair Value)	290,162	252,875	↑ 14.7%
Inventories – properties available for sale	2,633	-	
Trade and Other Receivables	8,968	2,747	
Cash and cash equivalents	26,205	11,796	
<b>Total Assets</b>	<b>327,986</b>	<b>267,418</b>	<b>↑ 22.6%</b>
Borrowings – current	373	257	
Obligations under finance leases – current*	934	886	
Other current liabilities	4,460	4,544	
<b>Total Assets less current liabilities</b>	<b>322,219</b>	<b>261,731</b>	<b>↑ 23.1%</b>
Borrowings – non-current	107,819	51,303	
Obligations under finance leases – non-current*	28,598	26,829	
Derivative Financial Instruments	89	-	
<b>Net Asset Value</b>	<b>185,712</b>	<b>183,599</b>	<b>↑ 1.2%</b>
IFRS Net Asset Value per share (pence)	108.6	105.1	↑ 3.3%

**108.6p**  
**Net Asset Value per Share**  
**(Sep 2018: 105.1p)**

IFRS Net Asset Value per share, an increase of 3.5p or 3.3% during the year

**8.0p**  
**Net Asset Value Total Return**  
**(Sep 2018: 9.3p)**

Total return to shareholders in the year to 30 September 2019 through increase in Net Asset Value and dividends

\* The carrying values of investment property as at 30 September 2019 agree to valuations reported by Savills, except that the valuations have been increased in respect of investment properties held under leases, representing the present value of ground rents payable for the properties held by the Group under leasehold. This is because the independent valuations are net of all payments expected to be made. However, for financial reporting purposes in accordance with IAS 40 “Investment Property”, the carrying value of the investment properties includes the present value of the minimum lease payments in relation to these finance leases