Residential Secure Income plc

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

Unaudited Interim Report and Accounts for the six months to 31 March 2020

18 May 2020

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Gresham House
Specialist asset management

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PRESENTATION TEAM

Ben Fry

Managing Director, ReSI Capital Management

Alex Pilato

Chief Executive, ReSI Capital Management

Mark Rogers

Managing Director, ReSI Capital Management

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HALF-YEAR HIGHLIGHTS

- **Defensive portfolio** with rental income primarily supported by residents' pensions or housing welfare subsidy systems, including leases to local authorities
- **99% of April rent collected**, following 99% in Q1
- **Successfully delivering shared ownership homes**, with **88%** of Residential Secure Income plc's (ReSI) 93 homes now occupied or in progression
- 2.5p dividends paid for the six-month period, in line with reaffirmed **5.0p annual dividend target**
- **High quality £277m residential portfolio** of 2,679 homes in 656 locations providing shared ownership, retirement and local authority housing with a further £33m also committed to shared ownership
- Portfolio delivers c.**£730m of social benefit over next 25 years**, calculated by the Social Profit Calculator using methodologies accredited by Social Value UK and Social Value International
- ReSI Housing awarded **Investment Partner Status with Homes England** in March 2020, allowing ReSI to expand shared ownership outside London across England as a whole
- ReSI Capital Management (RCM) joined **Gresham House plc** in March 2020, allowing management team to utilise its robust central platform

COVID-19 IMPACT

- Moved swiftly to protect our residents, staff and delivery partners, whilst aiming to safeguard shareholder value
- Portfolio's defensive qualities evidenced during period of economic stress with 99% of rent collected in April 2020
- ReSI's rental income is primarily supported by residents' pensions or housing welfare, including leases to local authorities
- Expect some increase in voids in retirement portfolio and delay in expanding shared ownership portfolio

Shared ownership

- No major impact on rent collection experienced or anticipated
- Limited staircasing expected in current environment, enhancing income stability
- Tenanting process continues to progress (including virtual viewings, mortgage valuations and mortgage lending up to 95% LTV) and government guidelines relaxed further on 13 May
- Three shared ownership completions and six reservations since 31 March
- No anticipated long-term impact on shared ownership returns since the asset class becomes a more attractive product in an economic downturn as it is the most affordable tenure and private housing delivery is expected to drop by 35% in 2020[1]

Local authority housing

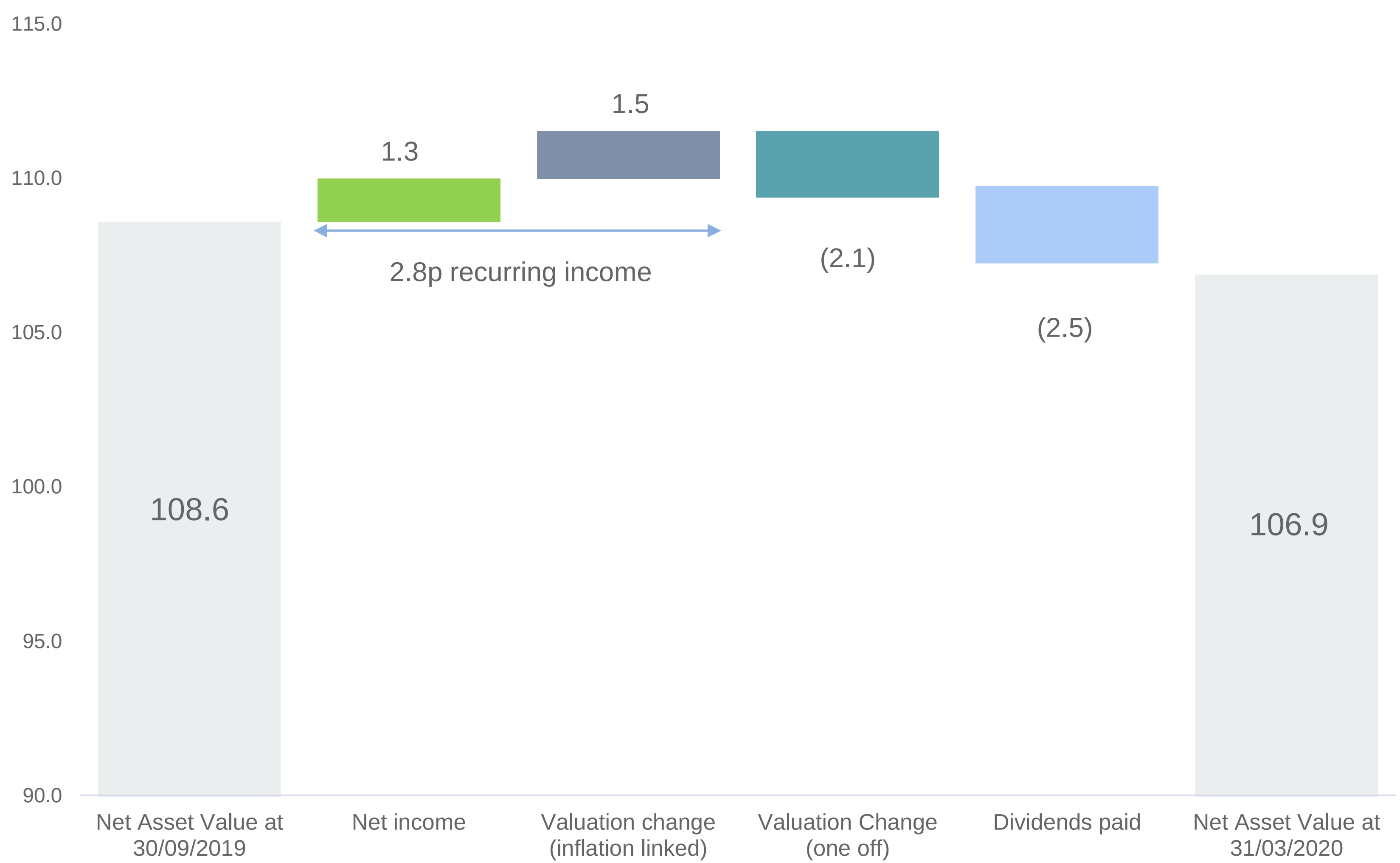
- Fully leased to Luton Borough Council, which has an AA equivalent rating
- No financial impact has been experienced or is expected

Retirement

- Reduction in tenants starting new leases, offset by a reduction in voluntary terminations of leases
- Portfolio residents do not generally have underlying health conditions but their age profile does present a risk that if COVID-19 accelerates voids could increase
- April monthly tenant departures at 19 (typically 32) and new tenancies at two (typically 33), leading to a 0.8% increase in the void rate and loss of £20k of monthly rent
- For 2020, any increase in voids is expected to be largely offset by a reduction in transaction costs associated with tenant turnover
- Expected time taken to return to pre-COVID performance to be equal to the time taken to return to normal from the start of social distancing in mid-March 2020

1. Knight Frank, "New private housing delivery set to stall", 27 April 2020

2020 UNAUDITED INTERIM RESULTS



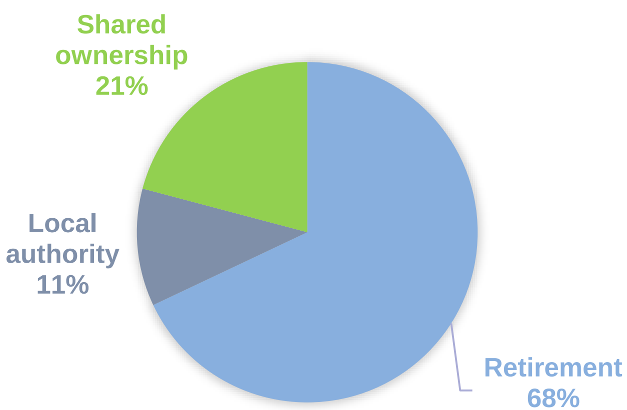
OUR PORTFOLIO

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

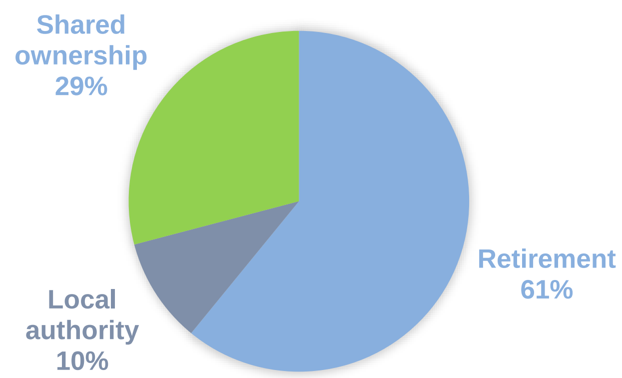
- Below market rents' rate ensuring on-going demand;
- Diverse income stream from tenants with lower exposure to the economic cycle; and/or
- Strong counterparty covenants and managers - shared equity tenants, local authorities, large credit-worthy housing associations

31 March 2020	Retirement	Local authority	Shared ownership	Total
Value	£211m	£35m	£65m	£311m
Social impact[1]	£354m	£168m	£209m	£731m
LTV	45%	41%	Unleveraged	36%

Portfolio by value (existing)

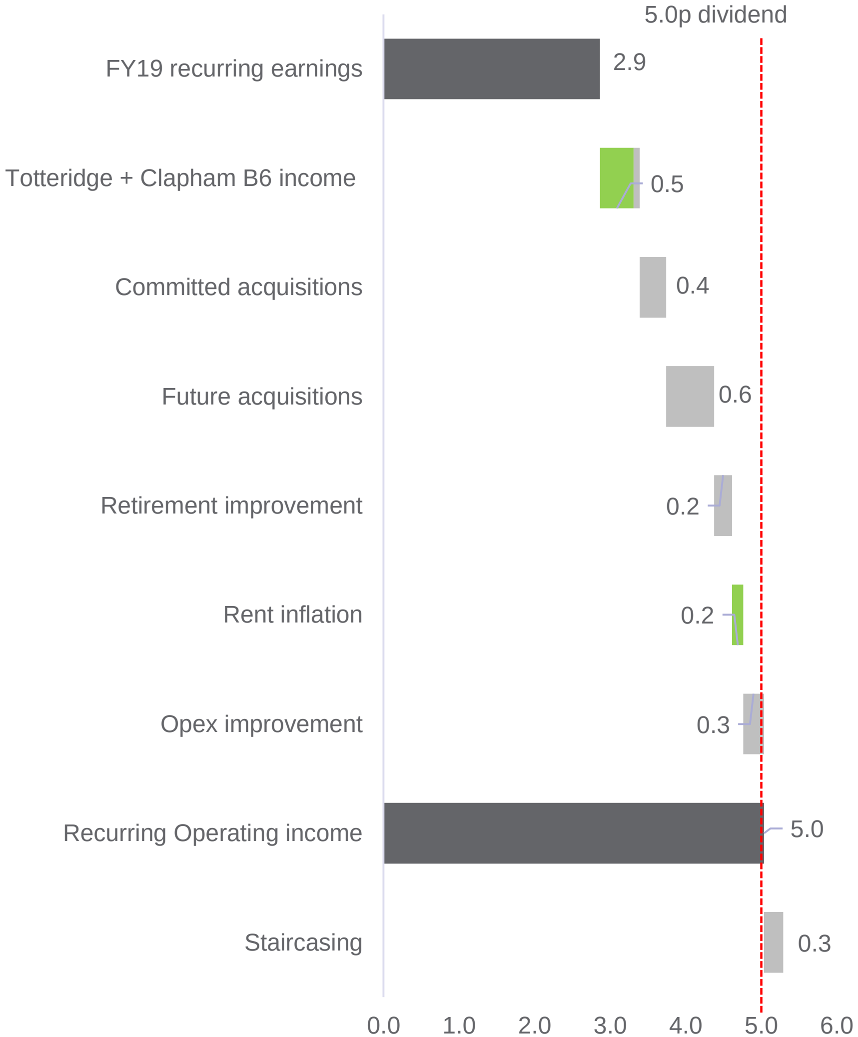


Portfolio by value (full deployment)



1. *Please see our Social Impact Report published on our website on 21 November 2019 - https://www.resi-reit.com/company-documents*

PLANNED PORTFOLIO GROWTH



Path to full dividend cover (pence per share impact):

- → Recurring operating income excludes profits from first tranche profits and valuation movements
- → 0.5p from ReSI's existing shared ownership homes (of which 88% are occupied or in progress)
- → 0.4p (net of financing costs) from remaining 73 units at Clapham Park, which ReSI expects to acquire in Q2 2020
- → 0.6p additional income (net of financing costs) from £36m future shared ownership acquisitions (23% in legals)
- → 0.2p from retirement portfolio improvements to be delivered by reducing voids and re-let period across the portfolio
- → 0.2p impact from contractual rent increases
- → ReSI will leverage the buying power of Gresham House to reduce certain fund operating expenses, saving 0.3p
- → 0.3p staircasing gains anticipated once shared ownership portfolio is fully delivered

SUCCESSFULLY DELIVERING SHARED OWNERSHIP HOMES

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- **£43m** purchase of 93 apartments from Crest Nicholson and Metropolitan Thames Valley, completed in January 2019 and January 2020

Location	Totteridge Place, Barnet Clapham Park, Lambeth
Size	93 apartments (1, 2 and 3 beds)
OMV	£50m
Discount to OMV	14% (£43m total purchase price)
Grant	£3.2m = £34k per home
Handover date	January 2019 (Totteridge) January 2020 (Clapham B6)
Net rent	£902k (including £503k from completed homes and a further £264k from those reserved and moving to completion)
Net rental yield on cost	3.3%
Unlevered IRR	7.7%
Sales and management agent	Metropolitan Thames Valley Housing
Sales progress	88% completed or in sales progression

Buyer profile:

88% of units sold or in progress

29% average first tranche sale

19% average buyer deposit

22 - 61 age range of buyers

33 median age of buyers

£55,000 average household income

Clapham Park, Lambeth

Delivery of unrestricted private homes as shared ownership using grant funding provides additional affordable housing

SHAREHOLDER RETURNS

Dividend

- Total dividends of 2.5p declared for the year to date, in line with 5.0p annual target (March 2019: 2.5p)
- 114% cover from recurring earnings per share (excluding one-off valuation movements)
- 52% cover from recurring operating income per share

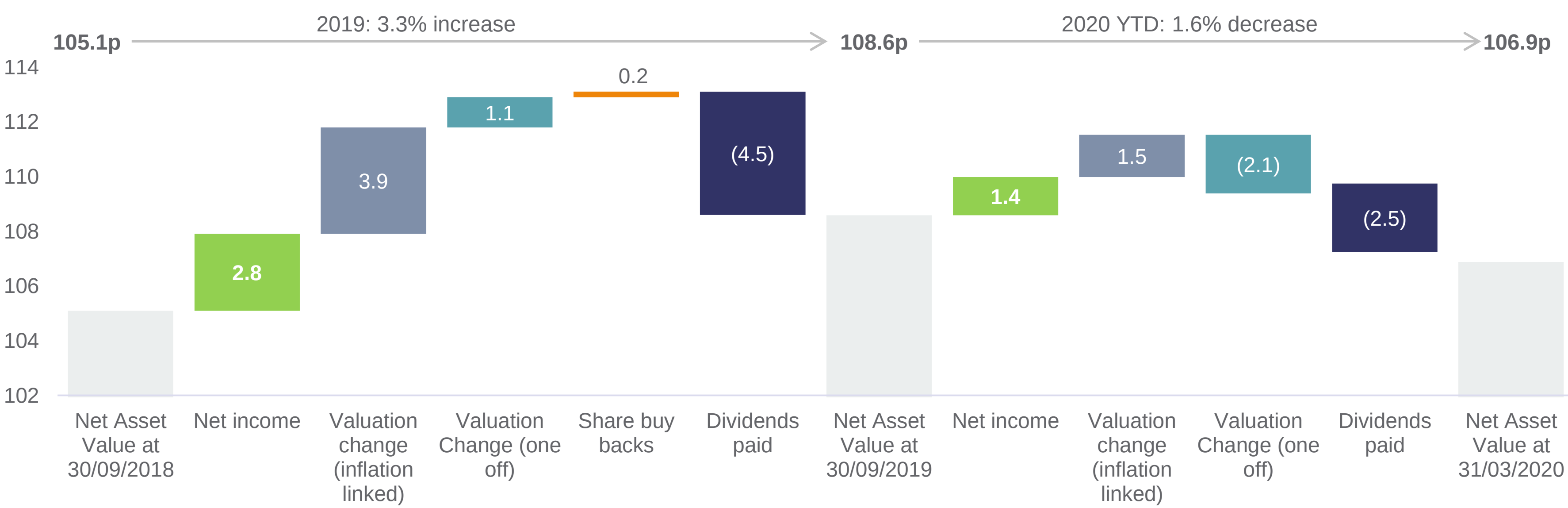
Valuation gains

- £1.0m/0.4% decrease in fair value of properties during the period (2019: £5.2m increase) including:
  - £2.6m increase due to contractual inflation-linked rent increases embedded in the portfolio
  - £2.7m gain on the shared ownership portfolio as it progresses towards full income generation
  - £6.4m one-off decrease on the retirement portfolio from COVID-19 and an HMRC ruling to charge VAT on property manager's salaries

NAV shareholder return

- NAV shareholder return of 0.8p per share for the year (March 2019: 4.8p)
- Taking NAV total return to 18.1p since the admission of ordinary shares on 12 July 2017, an annual NAV total return of 7.3%

NAV performance



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DEBT OVERVIEW

- Investment grade debt ensures asset quality
- Low and certain cost of funding expands investment opportunities to those with lower yields with improved credit quality
- Leverage strategy minimises traditional risks
  - Minimises refinancing risk
  - Minimises covenant risks: Debt capacity based on operational cashflows rather than traditional LTV tests
  - Minimises interest rate exposure: Long term debt matching underlying cashflows

- £111m of fixed-rate debt with average cost of 3.3%. Weighted average life of 19.3 years with £78m not due for repayment until 2043
- Target gearing of 50% loan to gross asset value
- Large amount of headroom on all covenants due to the long-term nature of ReSI's assets and strong cashflows. RCM continuously stress test covenants, with a particular recent focus on any impact from COVID-19

	Retirement portfolio debt funding	Local authority housing debt funding	Shared ownership debt funding
Outstanding debt	£96.0m	£14.5m	Currently unleveraged Debt in progress
Drawn	Partially drawn	Fully drawn	
Amortising/bullet	Partially amortising	Bullet	
Term	25 year	3 year	
Cost	3.46%	2.56%	
LTV	45%	41%	
Fixed/floating	Fixed	Partially fixed	

PERSONNEL & MANAGEMENT CHANGES

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ReSI Capital Management Limited joined Gresham House plc

- Brings benefit of robust central platform that includes distribution, investor relations, compliance, reporting and risk capabilities
- Allowing team to focus on origination, delivering full occupancy on the shared ownership portfolio and putting in place low cost long-term debt to support returns and reach full deployment
- Day-to-day operations and strategic direction remaining unchanged under the current team

Retirement of Jon Slater

- Simultaneous with Gresham House plc acquiring RCM
- Alex Pilato takes over role of CEO of RCM, already heavily involved as founder and increasingly engaged since Jon's move overseas in 2018

Board changes

- Elaine Bailey, former Chief Executive of Hyde Group, the G15 housing association with over 50,000 properties providing housing to 100,000 residents, joined ReSI's Board as a Non-Executive Director
- Mike Emmerich stepped down as Non-Executive Director

OUTLOOK

- UK **housing crisis** likely to become more acute as a result of the pandemic coupled with **increased demand for social housing in an anticipated recessionary environment**
- **Defensive quality of portfolio,** illustrated by 99% rent collection for April, underpinning **5.0p annual target dividend**
- **Good visibility and plan to fully cover dividend**
- Demonstrated ability, through ReSI Housing's **Registered Provider of social housing status**, to acquire designated affordable accommodation or properties funded by government grant
- Focused on **delivering full income on shared ownership portfolio** and leveraging these homes to complete deployment increasing shared ownership weighting to c.30% of portfolio
- **Investment Partner Status with Homes England** and **pipeline of high quality investments** allows fund to expand ownership across the country, supporting ReSI's further growth
- **Long term fixed debt** provides limited refinancing risk

APPENDICES

INTRODUCTION

Residential Secure Income plc - 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 aims to 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 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 a total return in excess of 8.0% p.a.

Key differentiators

- Subsidiary, ReSI Housing Limited, registered as a **Registered Provider of Social Housing,** which enables acquisition of affordable housing funded by government grant and/or subject to s106 planning restrictions
- 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**, with **identified pipeline of £700m** shared ownership homes
- **19-year proven track record** of financing and advising social housing. The core management team for the Fund comprises two former housing association Chief Executives and four former advisers to the social housing sector with 139 years of experience combined. Manager joined Gresham House plc in March 2020

Past performance is not an indicator of future performance. Capital at risk.

PORTFOLIO OVERVIEW

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Assets	Overview	Social impact[1]
Shared ownership 166 homes - £65m £209m social impact 	▪ Affordable home ownership through part buy, part rent ▪ Shared owners purchase a c.25% stake in a property and pay a below market rent on the remaining 75% ▪ Shared owners have the option to staircase (i.e. purchase a bigger share in the property at the then market value) crystallising expected valuation growth for ReSI ▪ Shared ownership will be the predominant focus of ReSI's ongoing investment	▪ **£2.71 social impact ratio over 25 years** ▪ **Shared ownership opens the door to home ownership** ▪ **Provides lifetime security of tenure** ▪ **Creates additional sub-market rental homes. Immediate pipeline of 1,500 units/£500m** ▪ **Delivers social dividend of £86k per home in London through rental discount**
Local authority housing 289 homes - £35m £168m social impact 	▪ Leases directly to local authorities who have a statutory duty to house those at risk of homelessness ▪ Focus on areas with most need for accommodation and strong supply/demand dynamics ▪ Rent around market rent levels to minimise downside if local authority does not renew lease ▪ Focus on strategic partnerships with local authorities	▪ **£4.94 social impact ratio over 25 years** ▪ **Provides homes to those who are homeless or at risk of homelessness** ▪ **Savings to local authorities vs hotels of £200 per week per unit** ▪ **Provides institutional landlord to ensure adequate standards of accommodation** ▪ **£14k social benefit per unit of good quality accommodation**
Retirement rental 2,224 homes - £211m £354m social impact 	▪ Rental payments are delinked to economy as tenants pay through pensions, housing benefits etc. ▪ Provides fit for purpose homes for retired people, allowing them to maintain their independence without care provision	▪ **£1.93 social impact ratio over 25 years** ▪ **Living with peers helps address loneliness, the largest health problem for elderly population** ▪ **Frees up large family homes** ▪ **Renting avoids the burdens and transaction costs of ownership and provides lifetime security of tenure through assured tenancy**

1. ReSI's social impact ratio (the social impact over 25 years per £1 invested in the existing portfolio) has been quantified by the Social Profit Calculator using methodologies accredited by Social Value UK and Social Value International

PORTFOLIO RETURNS

	Retirement	Local authority	Shared ownership	Total
Value	£211m	£35m	£34m	£277m
Social Impact	£354m	£168m	£109m	£631m
Units	2,224	289	93	2,606
LTV	45%	41%	*N/A- unleveraged*	36%
Interest cost	3.46%	2.56%	*N/A- unleveraged*	3.34%
Net yield on value	4.7%	5.4%	2.9%	4.6%
Net yield on cost	5.3%	5.3%	3.3%	5.0%
Levered yield on cost	6.9%	7.2%	*N/A- unleveraged*	*N/A*

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME

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	6 months to 31 March 2020 £'000s	6 months to 31 March 2019 £'000s	Variance
Gross rental income	10,226	9,637	
Property operating expenses	-4,059	-3,871	
First tranche property sales	6,147	0	
First tranche cost of sales	-5,990	-76	
Net property income	**6,324**	**5,690**	**11.1%**
Fund Management Fee	-927	-926	
General and administrative expenses	-608	-480	
Aborted acquisition costs	5	-187	
Operating profit before change in fair value	**4,795**	**4,097**	**17.0%**
Profit / (loss) on disposal of investment properties	-7	35	
Change in fair value of investment properties	-1,021	5,239	
Operating profit before finance costs	**3,767**	**9,372**	**-60%**
Finance income	35	24	
Finance costs (excluding ground rents)*	-1,956	-1,608	
Ground rents*	-488	-469	
Movement in fair value of interest rate swap contracts	-6	-46	
Profit before taxation	**1,352**	**7,272**	**-81%**
Earnings per share - basic and diluted (pence)	0.8	4.2	**-81%**
Adjusted earnings per share (pence)	1.3	1.2	**8%**

1.3p
Adjusted earnings per share
Mar 2019: 1.2p

Profit after tax per share excluding revaluations based on IFRS NAV

2.8p
Recurring earnings per share

Earnings per share excluding one-off valuation changes

1.5%
Ongoing charges ratio
March 2019: 1.5%

Annualised ongoing charges ratio based on period end NAV, including Fund Management fee (calculated using the October 2015 AIC methodology)

**Ground rents paid in respect of leasehold properties have been recognised as a finance cost in accordance with IFRS 16 "Leases"*

UNAUDITED STATEMENT OF FINANCIAL POSITION

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	31 March 2020 £'000s	30 September 2019 £'000s	Variance
Investment property (Savills valuation)	276,850	260,630	6.2%
Finance lease asset*	29,532	29,532	
Investment property (IFRS Fair Value)	306,382	290,162	5.6%
Inventories - properties available for sale	4,960	2,633	
Trade and other receivables	7,237	8,986	
Cash and cash equivalents	6,752	26,205	
Total assets	**325,332**	**327,986**	**-0.8%**
Borrowings - current	4,910	4,460	
Obligations under finance leases - current*	381	373	
Other current liabilities	934	934	
Total assets less current liabilities	**319,107**	**322,219**	**-1.0%**
Borrowings - non-current	107,627	107,819	
Obligations under finance leases - non-current*	95	89	
Derivative financial instruments	28,598	28,598	
Net Asset Value	**182,787**	**185,712**	**-1.6%**
IFRS Net Asset Value per share (pence)	106.9	108.6	-1.6%

106.9p
Net Asset Value per share
Sep 2019: 108.6p

IFRS Net Asset Value per share. A decrease of 1.7p or 1.6%

0.8p
Net Asset Value total return
Mar 2019: 4.8p

Total return to shareholders in the 6 months to 31 March 2020 through increase in NAV and dividends

**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 ground rents*