

Triple Point Social Housing REIT

FY21 results

Well positioned for growth

Triple Point Social Housing REIT (SOHO) delivered a strong performance in FY21 with its portfolio of long lease specialised social housing assets continuing to perform as expected. With predominantly uncapped index-linked rent uplifts and fully fixed borrowing rates it is extremely well positioned in the current inflationary environment, while capital remains available for further accretive acquisitions.

Year end	Total income (£m)	EPRA earnings* (£m)	EPRA EPS* (p)	NAV**/share (p)	DPS (p)	P/NAV (x)	Yield (%)
12/20	28.9	16.6	4.61	106.4	5.18	0.80	6.1
12/21	33.1	19.4	4.82	108.3	5.20	0.79	6.1
12/22e	38.1	21.3	5.28	115.4	5.52	0.74	6.5
12/23e	39.9	22.8	5.65	120.8	5.69	0.70	6.7

Note: *Excludes revaluation movements and other non-recurring items. **EPRA net tangible assets per share.

Inflation protection supports consistent returns

DPS has increased each year since its initial public offering (FY21: +0.4% to 5.2p), paid quarterly without interruption, and the FY21 NAV total return has been consistently positive (including 6.6% in FY21). In FY21, operating earnings (before valuation movements) grew c 17% to £26.2m, driven by acquisitions, development completions and uncapped inflation indexed rent growth. Supported by the award of an investment-grade credit rating from Fitch, the refinancing of short-term, floating rate debt with long-term, fixed-rate debt eliminated interest rate risk and enhances the quality of earnings by locking in a positive spread between debt cost and rental income. It also provided additional debt capital, of which £27m remains available to fund acquisitions from a strong pipeline, including those that incorporate the new lease structures with expected returns that are consistent with existing income and capital return targets. We have increased our FY22 and FY23 EPRA earnings and DPS forecasts by c 2–4%.

Positive outcomes driving demand

The shortage of specialised supported housing (SSH) is forecast to increase, yet compared with the alternatives of residential care or hospitals, it improves lives in a cost-effective manner. The Good Economy consultancy independently estimates that every £1 invested by SOHO will generate £2.74 in social value. At both a national and local level it is government policy to offer SSH to more people and private capital is crucial in meeting this need. SOHO's proposed changes to its investment policy and restrictions are aimed enhancing its flexibility in signing new leases, to maintain its position as a leading SSH investor and an attractive partner to approved providers (APs). The changes support APs in accommodating the points raised by the Regulator of Social Housing in respect of long index-linked leases.

Valuation: Robust, attractive and growing income

FY21 DPS of 5.20p represents a yield of 6.1%, with inflation enhancing the prospects for growth, reflected in our FY22e DPS of 5.52p. Meanwhile the shares trade at a c 21% discount to end-FY21 NAV.

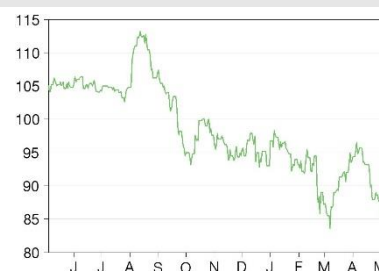
Real estate

4 May 2022

Price 85.1p
Market cap £343m

Net debt (£m) at 31 December 2021	211.6
Gross gearing at 31 December 2021 (gross debt/gross assets)	37.6%
Shares in issue	402.8m
Free float	98.5%
Code	SOHO
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(9.9)	(9.2)	(19.3)
Rel (local)	(9.6)	(8.4)	(23.2)
52-week high/low		113p	84p

Business description

Triple Point Social Housing REIT invests primarily in newly built and newly renovated social housing assets in the UK, with a particular focus on supported housing. The company aims to provide a stable, long-term, inflation-linked income with the potential for capital growth.

Next events

AGM	27 May 2022
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Investment summary: Inflation protected for further growth

FY21 results showed strong year-on-year growth in assets, income and earnings. In per-share terms this progress was deferred by the c 11% increase in average shares outstanding (from the October 2020 c £55m equity raise), but will be seen as acquisitions fully contribute. After a slow start to the year resulting from the pandemic, £60m was invested in new homes, and a further c £10m committed in FY22 to date. With £27m of capital still to deploy, SOHO has a clear path to EPRA DPS cover (93% in FY21 but already 99% on a look-through basis¹). The August 2021 debt refinancing fully fixed all borrowing costs for an average duration of more than 11 years, which in combination with predominantly uncapped inflation-indexed rent uplifts² makes SOHO an inflation beneficiary. The refinancing transaction included a first-time investment-grade credit rating³ from Fitch, a positive endorsement of SOHO's strategy and financial performance, that will provide support to its ongoing financing strategy.

The demand-supply balance for SSH homes continues to be positive. The UK government's social care white paper published in late 2021 projects that the demand for specialised housing will increase by 125,000 by 2030 with a focus on living with as much independence as possible, as part of a community. After a period of consultation, we expect the changes proposed by SOHO to its investment policy and restrictions (discussed below) will be approved by shareholders at the AGM in May. These should provide SOHO with the necessary flexibility to maintain its position as a leading investor in the sector, remain an attractive partner to APs and support them in accommodating the points raised by the Regulator of Social Housing (RSH).

SOHO has also provided additional details of its plans for improving the environmental performance of its portfolio. It is targeting that all properties will have an energy performance certificate (EPC) rating of C or better by 2025, well ahead of the 2030 deadline. All new investment and 72% of the existing portfolio already meets this target and SOHO has launched a strategic retrofit programme, led by a new housing operations director, to lift remaining properties to the same level.

Consistently positive returns

FY21 accounting/NAV total return was 6.6%,⁴ continuing the trend of consistently positive returns on a quarterly and annual basis since SOHO's initial public offering (IPO). This strong performance reflects the vital role of portfolio properties in the provision of an essential service, securing long-term visible cash flows with little direct correlation to the wider property market or economy and capable of delivering stable, inflation-indexed dividend growth. Since IPO in August 2017 to 31 December 2021 (end-FY21), the aggregate NAV total return has been 31.1% or an annual average of 6.3%. Measured from the start of 2018, the first full year of trading, the annual return is 7.1%. Dividends have increased each year since IPO and represent approximately two-thirds of returns. We expect the FY22 DPS target to be announced in May 2022 and forecast a 6.2% increase, in line with the February 2022 annual rate of change in the CPI Index.

¹ As reported with FY21 results on 25 March 2022.

² Approximately 96% of leases are uncapped

³ An Investment Grade Long-term Issuer Default Rating (IDR) of A- with a Stable Outlook and a senior secured rating of A.

⁴ Change in IFRS NAV per share during the period with dividends paid added back (but not assuming reinvestment of dividends).

Exhibit 1: Consistently positive total returns

	FY17	FY18	FY19	FY20	FY21	Cumulative since IPO
Opening NAV per share (p)	98.00	100.84	103.65	105.37	106.42	98.0
Closing NAV per share (p)	100.84	103.65	105.37	106.42	108.27	108.3
DPS paid (p)	0.00	4.75	5.06	5.17	5.20	20.2
Annualised NAV total return	7.3%	7.5%	6.5%	5.9%	6.6%	31.1%
Compound annual average return						6.3%

Source: Triple Point Social Housing REIT

Well positioned for an inflationary environment

All of SOHO's drawn debt is now fixed rate and long-term, removing interest rate risk. In a move that appears well-timed, in August 2021 SOHO put in place £195m of fixed-rate, interest-only loan notes through a private placement with Barings and MetLife Investment Management clients and repaid £130m that had been drawn under the flexible, floating rate revolving credit facility (RCF).

The new loan notes, which are linked to sustainability targets agreed with the lenders, are divided into two tranches with a weighted average term to maturity of 13 years and a blended average coupon of 2.634%. At the same time, Fitch Ratings assigned the company an Investment Grade Long-term Issuer Default Rating of 'A-' with a stable outlook, and a senior secured rating of 'A' for the existing (£68.5m) new loan notes.

In February 2022 SOHO reduced the RCF facility size from £160m to £50m, significantly lowering the fees payable on non-utilised balances that apply⁵ until December 2023 when the facility matures.

All remaining outstanding debt of £263.5m, which includes the £195m of new debt, is now long term and fixed rate, with a well-spread average maturity of 11.6 years and blended cost of 2.74%. The strongly positive spread between this fixed funding cost and the portfolio EPRA net initial yield of 5.20% is now 'locked-in' and will grow as inflation-linked rents (92.6% to CPI and 7.4% to RPI) increase.

Seeking enhanced investment flexibility

As discussed in detail in our [March update](#), after consultation with shareholders SOHO is proposing changes to its investment policy and restrictions that will remove the minimum term on new leases (currently at least 15 years), allow it to selectively take on the cost of funding maintenance capex and give it flexibility to enter into new leases with upward-only rents linked to inflation or central housing benefit policy. The proposed changes are a response to the strong growth and evolution of the SSH market in recent years including an increasing prevalence of new lease structures and their adoption by other investors and are aimed at providing SOHO with the necessary flexibility in signing new leases to maintain its position as a leading investor in the sector and remain an attractive partner to APs. We believe the changes will support APs in accommodating the points raised by the RSH with respect to the potential financial risk that index-linked long-term leases pose to them, by enhancing their ability to respond to any future material change in housing benefit policy.⁶

⁵ 40% of the 1.85% margin attached to the facility. Drawn balances pay the margin plus the variable SONIA benchmark rate.

⁶ We currently see little prospect of this. At both a national and local level, it is government policy to offer supported housing to more people. The shortage of SSH is widely forecast to increase yet compared with the alternatives of residential care or hospitals, it improves lives in a cost-effective manner.

SOHO already has a pipeline of identified acquisitions incorporating the new lease terms (see the next section) and, supported by independent valuation advice from Jones Lang LaSalle, expects the financial returns on these to be consistent with its existing income and capital return targets. We do not expect shorter leases to have any material impact on the cash flows that underpin these returns as these are supported by the positive demand-supply balance in the sector as well as the relatively young age of current and prospective residents. A young resident can be expected to live in their home for many years and the commissioning local authority has no incentive to move them from either a care or financial perspective.

Also, allowing leases to link rent increases to central housing benefit policy as a potential alternative to CPI, as is currently the case, seems unlikely to have any practical impact on rent growth and should further address the points raised by the regulator. Publicly available data show that general needs social housing rent increases have historically at least matched CPI inflation and SSH rents are initially set on a bespoke basis, exempt from general needs social housing rent caps, according to the needs of residents.

Strong and active investment pipeline

Following the further capital deployment in FY22 to date, SOHO says that c £27m remains available for deployment. Of this, SOHO seeks to allocate at least £10m to acquisitions from an initial pipeline of more than £15m that incorporates the new lease terms, with varying net initial yields of between 5.65% and 6.25%. In so doing, it expects to introduce a broader range of APs into the portfolio. A broader, additional pipeline amounts to more than £100m.

Strong social impact and ESG credentials

SOHO's strategy is built on providing a positive social outcome while generating attractive financial returns to investors. It has recently published its March 2022 'impact report' (available at www.triplepointreit.com), produced independently for the company by specialist social impact consultancy The Good Economy (TGE). The report verifies the quality of SOHO's portfolio across a range of measures and TGE estimates that SOHO's portfolio generated a total social value of £105.8m during the 12 months to 31 December 2021. This includes £84.8m of fiscal savings for public budgets⁷ and £21.0m in respect of social impact through improved outcomes for residents. From these values, and using the total amount invested by SOHO, TGE calculated the Social Return on Investment (SROI) ratio to be 2.74 as of December 2021. This means that for every £1 invested, SOHO is expected to generate £2.74 in social value over the duration of the investment.

At the same time as generating enhanced outcomes for residents and cost savings for taxpayers, SOHO is strongly focused on upgrading the environmental performance of its portfolio. It starts from a strong position, with 72% of property units already meeting government targets with an EPC rating of 'C' or better. All new investment now meets the government targets and SOHO has launched a strategic retrofit programme, led by a new housing operations director, to bring every existing property up to a C rating by 2025, well ahead of the 2030 deadline. A pilot programme has been launched and SOHO has set aside up to £3.4m to be spent alongside available grant funding. Green clauses have been introduced into new leases aimed at encouraging cooperation with lessees as they seek to reduce the emissions from their operation of SOHO properties.

Along with other funders, SOHO is a participant in the equity impact project, led by TGE and Big Society Capital, which is developing a common impact reporting framework for equity investors in

⁷ The fiscal savings arise from the significantly lower cost associated with SSH compared with the alternatives of residential care or long-stay hospitals. Mencap data estimate the saving compared with long-stay hospital at c £2,000 per person per week and c £200 per week compared to residential care.

social and affordable housing. It is also working with consultants to better understand the embodied carbon of its investments and mitigate property risks in a range of scenarios such as flooding and heatwaves.

Four impact goals have been identified and incorporated into SOHO's investment process and these will be measured semi-annually by TGE. These relate to meeting social needs, increasing the supply of new homes, developing new homes in a sustainable manner and ensuring the quality of service from RP, local authority and care provider partners.

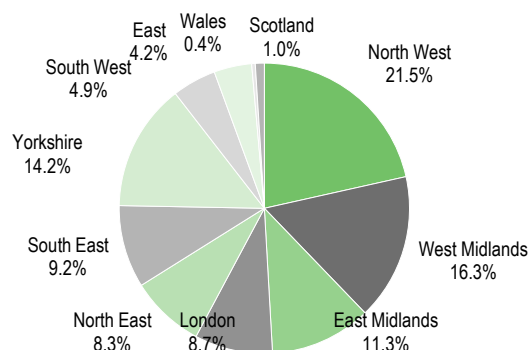
Portfolio and pipeline update

The portfolio continues to grow and diversify

At 31 December 2021 (end-FY21) the portfolio was externally valued at £642m, reflecting a net valuation yield of 5.25%. The valuation represents an 8.7% premium to total funds of £590m (including acquisition costs) invested by SOHO at an average 5.9% net initial yield and provides evidence of SOHO's ability to purchase properties at attractive, mainly off-market, prices. The portfolio comprised 488 properties, broadly spread across the UK, let to 24 different approved providers⁸ that manage them to provide homes for more than 3,400 residents, with care provided by around 100 care providers. Annualised contracted rent was £35.8m, all linked to CPI (92.6%) or RPI (7.4%) with a long weighted average unexpired lease term (WAULT) of 26.2 years.⁹

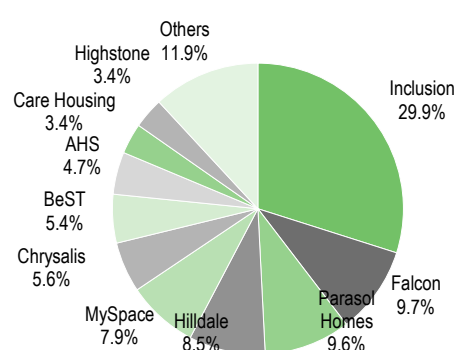
During FY21 SOHO invested £60m in 44 new properties, a range of new build and adapted, adding 345 new homes and four new lease counterparties. The final two (of 22) forward funding projects also completed. In FY22 to date SOHO has completed on the previously exchanged acquisition of five properties (45 units) for an aggregate £9.4m (before acquisition costs) and has also acquired a further eight properties (57 units) for c £10m.

Exhibit 2: Funds invested by geography



Source: Triple Point Social Housing. Note: 31 December 2021.

Exhibit 3: Rental income by approved provider



Source: Triple Point Social Housing. Note: 31 December 2021.

Continuing active engagement with the regulator

The SSH sector is regulated by the RSH. SOHO is not regulated but works closely with the RSH and the APs that are regulated. The RSH has commented publicly and regularly on a number of issues that it has identified, including governance structures, operational efficiency and financial strength of some specialist registered providers, particularly in relation to the potential risks posed by long index-linked leases. In order to satisfy the regulator's concerns regarding the latter, APs have been seeking to evolve the terms of the leases entered into going forwards, to which SOHO and other investors are responding.

⁸ Predominantly 'registered providers' of SSH but also charities and care providers.

⁹ Includes put/call options and reversionary leases.

Having paused its ongoing review of the SSH sector for a time during 2020, allowing providers to focus on operations and managing the challenges of the pandemic, regulatory engagement with the sector recommenced in FY21. As part of this review, an increasing number of non-compliant regulatory judgements/notices have been issued across the sector, in part reflecting its strong growth in recent years and the challenge this has presented for the development of management and governance structures, as well as capital resources, to keep pace. Solutions to many of the concerns raised by the RSH are clearly identifiable and in no way existential, although satisfying the RSH's requirement for APs to provide long-term business plans with identified contingency measures to deal with material adverse changes in central government rent remuneration has been more challenging. The evolution of lease structures is a significant step forward.

As SOHO is a leading private sector investor in SSH, working with some of the fastest-growing providers, several SOHO lessees have been issued with regulatory judgement/notices. Including five in FY21, the total number is now 9.¹⁰ The company continues to work closely with its AP tenants to address the observations of the RSH and is in direct dialogue with the RSH to gain a better understanding of how it would like to see the sector evolve. Meanwhile, it is very important to stress that there has been no impact on rent collection nor any negative impact on the external valuations of the properties owned by SOHO. Furthermore, we see no prospect of a significant change in government policy on housing benefits, based on the chronic and increasing excess demand for SSH and the wide acceptance that it provides improved outcomes at a lower cost than alternative provision.

Summary of FY21 results

The FY21 results were generally in line with our expectations and displayed a good level of growth, driven by acquisitions, development completions and inflation-indexed rent growth. With rents collected as expected, dividends and rent cover both increased. This positive performance was reflected in portfolio valuation and net asset value growth.

¹⁰ Encircle, MySpace, Inclusion Housing, BeST, Parasol Homes, Pivotal, Hilldale, Auckland and Falcon.

Exhibit 4: Summary of FY21 financial performance

£m unless stated otherwise	FY21	FY20	FY21/FY20	Edison FY21 estimate
Total income	33.1	28.9	14.5%	33.0
Total expenses	(6.9)	(6.6)	4.8%	(7.0)
EPRA cost ratio	20.9%	23.3%		21.1%
Operating profit before revaluation of properties	26.2	22.3	17.3%	26.1
Change in fair value of investment properties	9.0	7.9		3.8
Operating profit	35.2	30.2		29.9
Net finance expense	(6.8)	(5.6)		(6.8)
PBT & net profit	28.4	24.6	15.5%	23.0
Adjusted for:				
Change in fair value of investment properties	(9.0)	(7.9)		(4.3)
EPRA earnings	19.4	16.7	16.2%	18.7
Interest capitalised on forward funded developments	0.0	(0.1)		0.0
Amortisation of loan arrangement fees	1.3	1.2		1.0
SOHO adjusted earnings	20.7	17.7	16.7%	19.7
Shares outstanding (m)	402.8	402.8	0.0%	
Average shares outstanding (m)	402.8	360.9	11.6%	
Basic & diluted IFRS EPS (p)	7.05	6.82		5.72
EPRA EPS (p)	4.82	4.61	4.5%	4.65
SOHO adjusted EPS (p)	5.14	4.90	4.9%	4.89
DPS (p)	5.2	5.18	0.4%	5.20
Dividend cover (EPRA earnings)	0.93	0.89	3.7%	0.89
Dividend cover (adjusted earnings)	0.99	0.95	4.1%	0.94
IFRS portfolio value (inc. held for sale)	641.8	572.2		
Gross borrowings	(263.5)	(198.5)		
Cash	52.5	53.7		
Net assets	436.1	428.7		
IFRS & EPRA NTA per share (p)	108.3	106.4	1.7%	106.9
NAV total return	6.6%	5.9%		5.4%
Gross gearing (gross debt/gross assets)	37.6%	31.5%		37.7%
Net LTV (net debt/portfolio valuation)	33.0%	25.5%		31.5%

Source: Triple Point Social Housing REIT historical data, Edison Investment Research FY21 estimate.

Comparing FY21 to FY20, unless stated otherwise, we note that:

- Total income increased by c 15% to £33.1m, driven primarily by acquisitions, forward-funding development completions and rent indexation (100% of the portfolio is indexed to either RPI or CPI).
- Total expenses grew at a much slower pace of c 5%. Tracking increased net assets to which they are linked, investment management fees increased c 10% to c £4.5m. Other administrative expenses declined by c 5%, primarily due to a c £0.3m reduction (to only a negligible amount) in lease transfer expenses. Operating profits before property revaluation increased c 17% with operational gearing reflected in the reduced EPRA cost ratio of 20.9% (FY20: 23.3%) and an ongoing charges ratio of 1.54% (FY20: 1.57%).
- The increase in finance costs primarily reflected higher average borrowing, with the November refinancing of floating rate debt into long-term fixed rate debt (see below) increasing the average cost of debt towards year-end.
- Reported EPRA earnings increased by c 16% to £19.4m and reflecting the c 12% increase in average shares in issue, EPRA EPS increased c 4% to 4.82p. SOHO's adjusted 'cash' earnings increased c 17% £20.7m¹¹ and adjusted EPS by c 5% to 5.14p.
- DPS of 5.20p was 93% covered by EPRA EPS and 99% covered by adjusted EPS. On a run rate basis, dividends were 99% covered by EPRA earnings at end-FY21 and are at the date of this report fully covered.

¹¹ In H121, SOHO's adjusted earnings (and EPRA earnings) included c £0.5m of impairment of held-for-sale properties. The full year report is adjusted for this and represents part of the difference with the Edison EPRA earnings and adjusted earnings forecasts.

- The net change in the fair value of investment properties was £9.0m, with the gross gain driven by rent indexation, while the valuation yield of 5.25% was modestly lower (FY20: 5.27%).
- Compared with end-FY20, both IFRS and EPRA NTA per share increased 1.7% to 108.3p after payment of dividends. Adding back dividends paid, the NAV total return was c 6.6%.

Forecasts increased by inflation indexation and acquisitions

As we have shown in Exhibit 4, both FY21 underlying earnings and net asset value were a little ahead of our forecasts. Our forecasts for FY23 EPRA earnings, NAV and DPS are all increased, benefiting from an increase in inflation-indexed rent reviews and an increase in our acquisition assumptions (see below). DPS growth has historically tracked the rate of increase in CPI, measured as the annual rate of increase in February of that year. In its May 2021 Q121 update, SOHO announced its FY21 DPS target of 5.20p, an increase of 0.4% versus FY20, in line with the annual February 2021 increase in the UK CPI index. The recently published annual rate of increase for February 2022 was 6.2%. Although no dividend decision has been taken by the company, we have assumed FY22 growth in DPS at a similar rate. Perhaps conservatively we have assumed 3% in FY23.

Exhibit 5: Forecast revision summary

	Total income (£m)			EPRA earnings (£m)			EPRA EPS (p)			EPRA NAV/share (p)			DPS (p)*		
	New	Old	% chg	New	Old	% chg	New	Old	% chg	New	Old	% chg	New	Old	% chg
12/22e	38.1	37.9	0.5	21.3	21.4	(0.7)	5.28	5.31	(0.7)	115.4	112.6	2.6	5.52	5.39	2.5
12/23e	39.9	38.7	3.1	22.8	22.0	3.4	5.65	5.47	3.4	120.8	118.4	2.0	5.69	5.47	4.0

Source: Edison Investment Research

On an EPRA earnings basis we expect the increased DPS to be substantially covered in FY22 and fully covered in FY23. However, on an adjusted 'cash' earnings basis we expect DPS to be fully covered in both years. SOHO's adjusted earnings measure is aimed at providing a better indication of dividend paying capacity and does so by adding back non-cash loan arrangement fee amortisation charges (this can be seen in Exhibit 10).

Exhibit 6: Dividend cover

	Actual		Forecast	
	EPRA DPS cover (x)	Adj. DPS cover (x)	EPRA DPS cover (x)	Adj. DPS cover (x)
12/21	0.93	0.99	0.89	0.94
	New		Old	
	EPRA DPS cover (x)	Adj. DPS cover (x)	EPRA DPS cover (x)	Adj. DPS cover (x)
12/22e	0.96	1.02	0.99	1.03
12/23e	1.00	1.06	100.0	1.04

Source: Edison Investment Research

Our key forecasting assumptions include:

- FY22 investment commitments of a little over £40m (including acquisition costs), which includes the £27m of currently available capital¹² plus completion of the end-FY21 £4.2m property exchange and the £10m of acquisitions year-to-date. We assume an average 5.9% net initial yield.
- Like-for-like rental growth is based on an assumed CPI rate of 5% through 2022 and 4% through 2023. All rents are annually indexed to inflation, mostly CPI (and some RPI) and few leases (less than 4%) include rent increase caps

¹² As disclosed with the FY21 financial report on 24 March 2022.

- We expect SOHO to fund acquisitions from existing drawn fixed-rate debt/cash resources although it has the flexibility to draw on its £50m RCF, undrawn at end-FY21, if required. Forecast debt costs increase in FY22 with a full year of the new financing arrangements but are unchanged in FY23. We forecast gross gearing of 37.6%¹³ to remain within the company's 35–40% target.
- Management fees develop in line with average net assets at a 0.9% pa marginal rate. Other expenses increase with inflation.
- Gross property revaluation is assumed to broadly follow like-for-like rental growth. Our forecasts leave room for modest valuation yield widening, which may prove to be conservative.

Valuation

The key driver for valuation is the predictable long-term, inflation-linked cash flows that are reflected in progressive DPS growth and consistent positive accounting total returns. FY21 aggregate DPS of 5.20p represents a yield of 6.1%, while the shares are trading at a c 21% discount to end-FY21 NAV per share of c 108.3p, which compares with an average c 5% discount since IPO and a peak premium of c 7%. Based on our forecast for FY22 DPS of 5.52p the prospective yield is 6.5%.

Exhibit 7: Price/NAV history



Source: Refinitiv prices at 4 May 2022, company NAV data.

In Exhibit 8 we show a share price performance and valuation comparison with a group of companies that we would consider to be the closest peers to SOHO. The peers are all focused on stable, growing income returns, with the potential for capital appreciation, from investment in social/healthcare properties let on long leases to tenants whose income is provided, to differing degrees, by government funding. Over the past 12 months, the group has shown a weaker share price development than the broader UK property sector and UK market as more cyclical stocks and sectors, hardest hit early in the pandemic, have been rebounding.

SOHO shares were negatively affected by the September 2021 well-publicised report, specifically directed at SOHO's peer Civitas, by a short seller but have substantially recovered. Civitas strongly rebuffed the company specific issues raised by the report but it nonetheless drew attention, among other things, to the ability of APs to meet their long-term lease obligations. As discussed above, we expect SOHO's APs to continue to meet these obligations, as has been the case through the pandemic. Should this not be the case, the ability to re-assign high-quality properties, in good locations, with appropriate levels of rent provides significant income risk mitigation.

Before the recent weakness in equity markets, including concerns around war in Ukraine, rising inflation and the potential interest rates to further increase, SOHO's share price had substantially

¹³ Gross borrowings as a percentage of gross assets.

recovered from the September 2021 weakness. However, with the shares not keeping pace with continuing income and NAV growth, its yield remains well above the peer group average and its P/NTA well below the average.

Exhibit 8: Peer valuation and performance comparison

	Price (p)	Market cap (£m)	P/NAV* (x)	Trailing yield** (%)	Share price performance			
					1 month	3 months	12 months	From 12M high
Assura	65	1923	1.11	4.5	-4%	3%	-13%	-19%
Civitas Social Housing	85	517	0.78	6.5	-3%	-10%	-27%	-30%
Home REIT	121	270	1.15	2.1	-4%	6%	9%	-7%
Impact Healthcare	123	475	1.10	5.2	2%	7%	11%	-4%
Primary Health Properties	143	1907	1.23	4.4	-4%	4%	-5%	-16%
Residential secure Income	108	200	1.02	4.6	-2%	-1%	11%	-4%
Target Healthcare	111	687	1.00	6.1	-1%	-2%	-6%	-12%
Average			1.05	4.8	-2%	1%	-3%	-13%
Triple Point Social Housing	85	343	0.79	6.1	-11%	-8%	-19%	-25%
UK property sector index	1,808				-6%	-5%	4%	-11%
UK equity market index	4,187				-1%	-1%	6%	-3%

Source: Company data. Refinitiv. Note: Prices at 3 May 2022. *Based on last published EPRA NAV/NTA. **Based on 12-month trailing DPS declared.

Corporate summary

SOHO listed in August 2017, initially trading on the Specialist Fund Segment of the Main Market of the London Stock Exchange before migrating to the Premium Segment of the Main Market in March 2018. It invests in a diversified portfolio of social housing assets in the UK, with a particular focus on supported housing¹⁴ with the aim of delivering an attractive and predictable long-term inflation-protected income return to shareholders with the potential for capital growth. It also seeks to deliver a positive social return, providing much needed private investment capital to support the delivery of additional, care-based, quality accommodation to some of the most vulnerable in society, improving tenant-life outcomes in a cost-effective manner.

A detailed description of SOHO and its strategy, and the SSH sector, can be found in our [initiation note](#).

All of SOHO's properties are let to APs¹⁵ who manage and maintain the properties. The support and care needs of the residents are provided by a separate care provider. Because of the vulnerable nature of the residents, their rent as well as property maintenance costs are paid directly to the lessee, by the commissioning local authority, which for homes that meet the criteria for SSH is reimbursed by the central government in the form of housing benefits. From this secure stream of income, the lessee pays SOHO.

SOHO's portfolio comprises homes that have been suitably adapted or purpose-built, and in building and diversifying the portfolio the company puts a strong emphasis on 'additionality'; bringing new homes into the sector to meet the chronic shortage of accommodation, a shortage that is widely expected to increase. As well as acquiring operational homes, SOHO is differentiated from some peers by its ability to acquire newly constructed, purpose-built assets through forward funding the construction, by developers, of pre-let new developments, at fixed cost.

¹⁴ Providing good-quality homes for vulnerable individuals: often young adults, who may have mental health issues, learning difficulties or physical disabilities.

¹⁵ Typically housing associations but also local authorities or other regulated organisations.

Managed by Triple Point Investment Management

The independent, non-executive board of SOHO (detailed biographies can be found on the company's website www.triplepointreit.com) has appointed Triple Point Investment Management LLP, part of Triple Point Group, as the external investment manager. Triple Point Group manages c £2.7bn of private, institutional and public capital through specialist teams in the areas of real estate, debt, infrastructure and venture capital, and has been investing in the social housing sector for more than five years.

The fees payable to the investment manager are calculated quarterly in arrears and are based on a sliding scale percentage of net asset value adjusted for uncommitted cash balances net of borrowings. The marginal management fee reduces at higher levels of NAV providing an enhanced benefit to shareholders from growth in the portfolio. There are no performance-related, acquisition, exit or property management fees. 25% of the annual fee due to the investment manager (net of any tax liability) is paid in shares rather than cash, implemented on a half-yearly basis.

Exhibit 9: Management fee schedule

Basic NAV, excluding net cash balances	Annual management fee
Up to and including £250m	1.0%
Above £250m and up to and including £500m	0.9%
Above £500m and up to and including £1bn	0.8%
Above £1bn	0.7%

Source: Triple Point Social Housing REIT

Sensitivities

SOHO provides visible, long-term, inflation-protected income with a low correlation with the general economy or the wider residential or commercial property sectors. Central government fully funds the rents of residents that meet the criteria for SSH, paid via local authorities directly to the APs that lease the properties from SOHO and manage them.

We see the key sensitivities as:

- The failure of one or more housing associations to meet its long-term lease obligations would have the potential to negatively affect income and property valuations. Historically within the social housing sector, where operators have faced financial difficulties, these have been managed via amalgamations, asset transfers and lease reassignments. The extent of any impact of a tenant failure would thus depend on near-term credit exposure and whether the leases can be reassigned to another housing association in a timely manner on satisfactory terms.
- Significant changes in the way the sector is funded have the potential to materially affect investors such as SOHO but the risk is mitigated by the widespread recognition that the current system offers value for money, providing care at a lower cost than the alternatives while generating clearly enhanced outcomes for those in need. The private investment capital that is needed to meet the growing shortage of SSH homes would be significantly impaired if such changes negatively affected the ability of the housing associations to meet their long-term lease obligations.
- Asset growth and acquisition yields. Our forecasts assume further asset growth and failure to achieve this, or acquisitions made at materially lower yields than we have assumed, would have a limited negative impact on our forecast income growth and dividend cover.
- As a relatively recent alternative property asset class, although uncorrelated with the broader sector, it is not entirely clear how yields would develop in a cyclical property sector downturn. Any increase in yields would negatively affect NAV and the loan to value ratio, although




recurring income from existing assets would be unaffected and cash yields on acquisitions would improve.

Exhibit 10: Financial summary

Period ending 31 December (£m)	2018	2019	2020	2021	2022e	2023e
INCOME STATEMENT						
Total income	11.5	21.1	28.9	33.1	38.1	39.9
Directors' remuneration	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Investment management fees	(2.3)	(3.9)	(4.1)	(4.6)	(4.7)	(5.0)
General & administrative expenses	(1.9)	(1.8)	(2.2)	(2.1)	(2.7)	(2.7)
Total expenses	(4.5)	(6.0)	(6.6)	(6.9)	(7.7)	(8.1)
Operating profit/(loss) before revaluation of properties	7.0	15.1	22.3	26.2	30.3	31.9
Change in fair value of investment properties	14.5	11.8	7.9	9.0	29.1	20.8
Operating profit/(loss)	21.5	26.9	30.2	35.2	59.5	52.7
Net finance income/(expense)	(1.6)	(3.2)	(5.6)	(6.8)	(9.1)	(9.1)
PBT	19.9	23.7	24.6	28.4	50.4	43.6
Tax	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	19.9	23.7	24.6	28.4	50.4	43.6
Adjusted for:						
Change in fair value of investment properties	(14.5)	(11.8)	(8.0)	(9.0)	(29.1)	(20.8)
EPRA earnings	5.4	11.9	16.6	19.4	21.3	22.8
Interest capitalised on forward funded developments	0.0	(0.1)	(0.1)	0.0	0.0	0.0
Amortisation of loan arrangement fees	0.0	0.5	1.2	1.3	1.5	1.5
NAV total return	7.5%	6.5%	5.9%	6.6%	11.7%	9.4%
Company adjusted earnings	5.4	12.3	17.7	20.7	22.8	24.3
Basic & diluted average number of shares (m)	237.6	351.1	360.9	402.8	402.8	402.8
Basic & diluted IFRS EPS (p)	8.37	6.75	6.82	7.05	12.51	10.82
EPRA EPS (p)	2.27	3.39	4.61	4.82	5.28	5.65
Basic & diluted company adjusted EPS (p)	2.29	3.50	4.90	5.14	5.65	6.02
DPS declared (p)	5.00	5.10	5.18	5.20	5.52	5.69
EPRA EPS/DPS	0.45	0.67	0.89	0.93	0.96	0.99
Company adj. EPS/DPS	0.46	0.69	0.95	0.99	1.02	1.06
EPRA cost ratio	39.0%	28.3%	23.3%	20.9%	20.3%	20.2%
BALANCE SHEET						
Investment properties	324.1	472.3	572.1	641.3	712.2	733.5
Other receivables	0.0	0.0	0.0	2.3	2.3	2.3
Total non-current assets	324.1	472.3	572.1	643.6	714.5	735.8
Cash & equivalents	114.6	67.7	53.7	52.5	12.0	13.8
Other current assets	3.4	4.3	4.3	3.9	6.9	7.0
Total current assets	118.0	72.0	58.0	56.4	18.9	20.8
Trade & other payables	(9.0)	(8.1)	(5.0)	(3.7)	(6.7)	(6.8)
Other current liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total current liabilities	(9.0)	(8.1)	(5.0)	(3.7)	(6.7)	(6.8)
Bank loan & borrowings	(67.4)	(165.0)	(194.9)	(258.7)	(260.2)	(261.7)
Other non-current liabilities	(1.6)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Total non-current liabilities	(68.9)	(166.5)	(196.4)	(260.2)	(261.7)	(263.2)
IFRS net assets	364.2	369.7	428.7	436.1	465.0	486.6
EPRA net assets	364.2	369.7	428.7	436.1	465.0	486.6
Period-end basic & diluted number of shares (m)	351.4	350.9	402.8	402.8	402.8	402.8
Basic & diluted IFRS NAV per share (p)	103.6	105.4	106.4	108.3	115.4	120.8
Basic & diluted EPRA NTA per share (p)	103.6	105.4	106.4	108.3	115.4	120.8
CASH FLOW						
Net cash flow from operating activity	5.4	16.3	24.5	24.7	29.9	31.9
Cash flow from investing activity	(160.6)	(135.5)	(94.4)	(61.4)	(41.3)	(0.6)
Net proceeds from equity issuance	106.0	0.0	53.1	(0.0)	0.0	0.0
Net proceeds from C share issuance	46.6	0.0	0.0	0.0	0.0	0.0
Loan interest paid	(1.6)	(2.9)	(4.6)	(5.6)	(7.6)	(7.6)
Bank borrowings drawn/(repaid)	58.0	111.1	29.4	65.0	0.0	0.0
Share repurchase	0.0	(0.4)	0.0	0.0	0.0	0.0
Dividends paid	(10.1)	(17.8)	(18.8)	(20.9)	(21.5)	(22.0)
Other cash flow from financing activity	(1.2)	(3.5)	(1.1)	(2.7)	0.0	(0.0)
Cash flow from financing activity	197.8	86.6	58.0	35.7	(29.1)	(29.6)
Change in cash	42.6	(32.6)	(11.9)	(1.0)	(40.5)	1.8
Opening cash	54.8	97.3	64.7	52.9	51.9	11.4
Closing cash (excluding restricted cash)	97.3	64.7	52.9	51.9	11.4	13.2
Restricted cash	17.3	3.0	0.8	0.6	0.6	0.6
Cash as per balance sheet	114.6	67.7	53.7	52.5	12.0	13.8
Debt as per balance sheet	(67.4)	(165.0)	(194.9)	(258.7)	(260.2)	(261.7)
Unamortised loan arrangement costs	(1.1)	(4.1)	(3.6)	(4.8)	(3.3)	(1.8)
Total debt	(68.5)	(169.1)	(198.5)	(263.5)	(263.5)	(263.5)
Net (debt)/cash excluding restricted cash	28.8	(104.4)	(145.6)	(211.6)	(252.1)	(250.3)
Net LTV (net debt/investment property)	NA	22.1%	25.5%	33.0%	35.4%	34.1%
Company gearing (gross debt/gross asset value)	15.5%	31.1%	31.5%	37.6%	35.9%	34.8%

Source: Triple Point Social Housing REIT historical data, Edison Investment Research forecasts

Contact details	Revenue by geography
<p>Triple Point Social Housing REIT 1 King William Street London EC4N 7AF UK 020 7201 8989 contact@triplepoint.co.uk www.triplepoint.com</p>	
Leadership team	
Non-executive chairman: Chris Phillips	Managing partner and asset originator, Triple Point: James Cranmer
<p>Chris has extensive experience of real estate and listed companies. He was managing director of PB Securities, the UK subsidiary of Prudential Bache, for three years, before joining Lombard Odier as the managing director of its London broking business. He then joined Colliers International and, after heading its residential consultancy business, became the first managing director of Colliers Capital UK (Colliers commercial real estate property fund). Having served on the Board of Places for People for 14 years, 10 of them as chair, Chris stood down from the role in January 2021. His other roles include chairman of London & Newcastle 2010 Holdings, director of Shetland Space Centre, and chairman of Nova Innovations.</p>	<p>James Cranmer joined Triple Point, the company's delegated investment manager, in 2006 as co-managing partner, to establish its flagship leasing business, Triple Point Lease Partners, now one of the UK's most active providers of operating lease finance into local authorities and NHS hospital trusts. He has more than 20 years' experience in structured, asset and vendor finance, and has been responsible for over £1bn of funding to local authorities and NHS hospital trusts, FTSE 100 and medium-sized companies.</p>
Managing partner and fund manager, Triple Point: Ben Beaton	Principal and head of investment, Triple Point: Max Shenkman
<p>Ben Beaton joined Triple Point, the company's delegated investment manager, in 2007 to lead the sourcing and execution of a broad spectrum of investments including renewable energy, long leased infrastructure and property bridge lending. He has established himself as an industry leader in matching capital with investment opportunities, building innovative products for investors and offering attractive and flexible funding solutions to a range of businesses in both the public and private sectors.</p>	<p>Max joined the investment manager in 2011 and has led investments across the product range. He has arranged both debt and equity funding for a number of property-backed transactions in the social housing, infrastructure and agricultural sectors. Max has led over £150m of investment into supporting housing assets for the group. Before joining the investment manager, Max was an associate in the debt capital markets team at Lazard where he advised private equity clients on both the buy and sell side.</p>
Principal shareholders (source: SOHO FY21 annual report)	
	(%)
BlackRock	14.1
East Riding of Yorkshire Council	9.4
Investec Wealth & Management	8.2
Nottinghamshire County Council Pension Fund	5.5
Tilney Investment Management Services	4.9
Smith & Williamson	4.8
Brewin Dolphin	4.6
South Yorkshire Pensions Authority	3.4

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