

Civitas Social Housing

Growing portfolio, dividends and social impact

Civitas Social Housing's FY19 results reflect the continuing strong growth in the company's asset and income base. EPRA earnings more than doubled, and dividend growth is continuing with the company targeting a 6% increase in DPS to 5.3p for the current year. Acquisitions of £286m in the year are yet to fully contribute, locking in further income growth, and we forecast an additional c £170m of acquisitions in the current year as the company gears its equity base towards its 35% target.

Year end	Net rental income (£m)	Adj earnings* (£m)	EPRA EPS** (p)	DPS (p)	EPRA NAV/ share** (p)	P/NAV (x)	Yield (%)
03/18	18.6	9.1	1.44	4.25	105.5	0.75	5.4
03/19	35.7	22.6	3.63	5.00	107.1	0.74	6.3
03/20e	50.3	32.7	5.25	5.34	108.0	0.73	6.8
03/21e	56.8	36.5	5.86	5.46	111.3	0.71	6.9

Note: *EPRA earnings & NAV are fully diluted.

Targeting positive financial and social returns

Civitas invests in specialist supported social housing (SSH) assets, fully let on long inflation-adjusted leases (more than 24 years) and this provides strong visibility of contractual income with a low historical correlation to the general economy, or residential or commercial property. It also delivers a strong positive social return, providing much needed private investment capital to housing associations/ registered providers (RPs) so that they may provide and manage additional, care-based quality accommodation to some of the most vulnerable in society. The end-FY19 portfolio value was £820m, reflecting a net initial yield of 5.27%, and we expect this to grow to more than £1bn as Civitas gears the existing equity base.

Strong growth, with some growing pains

The chronic shortage of SSH homes is forecast to increase, yet compared with the alternatives of residential care or hospitals it is widely recognised to improve lives in a cost-effective manner. SSH funding comes 100% from central government, via local authorities, with cross-party support. The growing demand for SSH has mostly been addressed by newer, specialised RPs, dependent on capital-light, lease-based models in the absence of capital grant funding. Civitas is working closely with its 15 RP partners to help them develop and mature, and is actively engaged with the regulator, which has raised sector-wide concerns in relation to corporate governance and/or financial viability. In this note we explore these and other issues in detail. The SSH contractual structure is complex, and we conclude that it is the quality and location of the assets, their suitable adaption to the long-term needs of the tenants, rents being at an appropriate level, and the growing demand for SSH that provides the effective security to Civitas's long-term income.

Valuation: High yield and NAV discount

The shares provide a prospective yield that is approaching 7%, well covered by adjusted earnings on a fully invested basis, and trade at a more than 20% discount to EPRA NAV. This a standout valuation among a peer group of long income investors in social housing and healthcare property.

Results/initiation of coverage

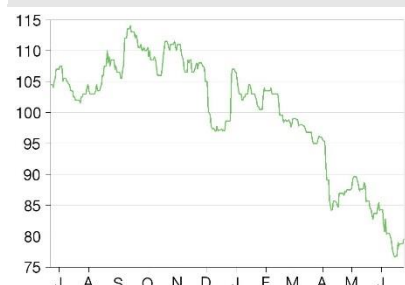
Real estate

25 June 2019

Price **79p**
Market cap **£492m**

Net debt (£m) at 31 March 2019	161.3
Net LTV at 31 March 2019	19.5%
Civitas leverage ratio at 31 March 2019	22%
Shares in issue	622.5m
Free float	99%
Code	CSH
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(5.0)	(16.3)	(23.9)
Rel (local)	(6.6)	(18.5)	(20.5)
52-week high/low	114p	77p	

Business description

Civitas is the leading listed UK social housing REIT. Its investment objective is to provide an attractive level of income, with the potential for capital growth, from investing in a diversified portfolio of fully developed social homes, particularly specialist supported housing for vulnerable adults.

Next events

AGM September 2019

Analysts

Martyn King +44 (0)20 3077 5745
Andrew Mitchell +44 (0)20 3681 2500

financials@edisongroup.com

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research client of Edison
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Investment summary

Targeting positive financial and social returns

Civitas invests in specialist social housing (SSH) assets, fully let on long inflation-adjusted leases (more than 24 years) and providing strong visibility of contractual income with a low historical correlation to general economy, or residential or commercial property. Its investment objective is to provide an attractive level of income, together with the potential for capital growth. The company also delivers a strong positive social return, providing much needed private investment capital to housing associations/registered providers (RPs) so that they may provide and manage additional, care-based quality accommodation to some of the most vulnerable in society. The chronic shortage of SSH homes, increasing demand and the wide acceptance that SSH represents value for money while improving lives are all positive indicators for further growth.

High yield and NAV discount

Since IPO, Civitas has generated an average annualised EPRA NAV total return of 7%, after the property acquisition costs incurred in growing the portfolio. Long leases are CPI inflation adjusted, providing strong visibility of contractual income. On the assumption of flat property valuation yields, rent indexation should also support NAV growth. Based on targeted quarterly DPS payments amounting to 5.34p for the current financial year, Civitas offers a prospective yield of almost 7% while trading at 0.74x the end-FY19 EPRA NAV per share of 107.1p. Compared with a peer group of long income investors in social housing/healthcare assets, the Civitas yield is above average (peer group average 5.1%) and the P/NAV is well below average (peer group average 1.06x). A number of investor concerns, primarily regarding the strength of the housing association covenant, appear to have negatively affected the share price and are explored in detail in this note. The SSH contractual structure is complex, and we conclude that it is the quality and location of the assets, their suitable adaption to the long-term needs of the tenants, rents being at an appropriate level and the growing demand for SSH that provide the effective security to Civitas's long-term income.

Growing assets, income and dividend cover

We forecast a continuation of strong income growth as FY19 acquisitions make a full year contribution and Civitas continues to gear its existing equity base towards its 35% target (end-FY19 22%). We assume £170m of additional acquisition investment in the current year at a gross yield of 5.7% before acquisition costs (5.4% after), slightly lower than the historical range of 5.5–6.5% reflecting the strength of investor demand for the asset class. Scale economies and a revised investor advisor fee base (a cost saving of c £400k pa) should further contribute to earnings growth, with the total expense ratio reducing towards 1.3%. The company targets aggregate quarterly DPS payments in the current year of 5.3p, a 4.3% increase over FY19. We forecast further growth in FY20, with the DPS well covered by diluted EPRA earnings.

Sensitivities

The assets that Civitas invests in are fully let on long leases, with the income to pay the rents funded 100% by government via local authorities and a low historical correlation with the general economy or the wider residential or commercial property sectors. On page 18, we identify the following key sensitivities to our forecasts and the company's outlook:

- Asset growth and acquisition yields.
- The failure of one or more housing associations to meet its lease obligations.
- Significant changes in the funding structure whereby central government funds SSH 100%.

Leading UK social housing REIT

Civitas Social Housing (Civitas) is the leading listed UK social housing REIT with the investment objective of providing an attractive level of income, together with the potential for capital growth from investing in a diversified portfolio of fully developed and let social homes, particularly specialist supported housing (SSH) for vulnerable adults. The company is externally managed by Civitas Housing Advisors, whose growing team brings significant direct experience in social housing, healthcare and fund management. Civitas aims to deliver positive financial returns for investors by targeting assets that benefit from inflation-adjusted, long-term leases, with a low historical correlation to the general economy, or residential or commercial property. It also delivers a positive social return, providing much needed private investment capital to housing associations so that they may provide and manage additional, care-based quality accommodation to some of the most vulnerable in society, improving tenant life outcomes in a cost-effective manner. Social impact reports are published twice yearly by the company, the [most recent](#) in June 2019.

The company was admitted to the premium listing segment of the Official List of the London Stock Exchange in November 2016, when it raised an initial £350m in an oversubscribed IPO. Reflecting the strength of investor demand and the scale of the market opportunity available to the company, a further £302m was raised in November 2017 through the issue of C shares, converted into new ordinary shares in December 2018. In September 2018 the shares were included in the FTSE EPRA NAREIT Global Real Estate Index.

Since IPO, Civitas has invested more than £750m (before acquisition costs) and has equity resources to increase this to c £1.0bn at the company's target leverage ratio of 35%, with ample opportunities for further growth beyond this. There is a chronic and growing shortage of accommodation across all forms of social housing, to which registered providers (RPs), in particular housing associations (HAs), are seeking to respond, increasingly supported by the private sector capital that long-term investors like Civitas can provide.

Initial investment has focused on SSH, providing suitably tailored accommodation for those requiring high levels of care and support for needs typically related to mental, physical and learning disabilities or autism, and for whom the alternative would often be care homes or long-stay hospitals. SSH properties are let by Civitas to HAs on full repairing and insuring, CPI-linked leases, with an average maturity of c 25 years, and typically the rental income received by the company is paid directly to the HAs by central government or local authorities. The company plans further growth in SSH and a broadening of the portfolio exposure to include other areas of government-sponsored housing serving tenants with needs such as homelessness, addiction, or providing NHS step-down or key worker accommodation. This may further diversify the lease base to include charitable and voluntary organisations, while geographically the company is also looking to expand its footprint from England & Wales to the other parts of the UK. The company may at some future date seek to complement its portfolio of SSH by acquiring portfolios of general needs social housing, although given the continuing opportunities in the former we believe this unlikely in the near term.

The sector is regulated by the government-sponsored Regulator of Social Housing. Regulation has played an important role in providing long-term stability to the social housing sector, and while individual registered providers have from time to time faced financial difficulties, there have been no material losses suffered by funders as a result of a registered provider default. We believe that current regulatory interventions in the fast developing SSH segment are primarily aimed at safeguarding this financial resilience and maintaining the operational standards of the sector (see page 11).

Managed by Civitas Housing Advisors

Overall management and supervision of Civitas is provided by the independent board, consisting of four non-executive directors. The chairman is Michael Wrobel who, with more than 30 years of experience in the investment industry, has held senior positions in the investment management industry, has served as a director of various investment trusts, is a pension fund trustee and a former director of the Association of Investment Companies. The other directors are Alastair Moss, Peter Baxter and Caroline Gulliver, who collectively bring extensive experience in areas such as property law, investment management, accountancy, local government, social housing and charities, and listed investment company boards. Detailed biographies can be found on the company's [website](#).

To provide investment advice, and manage the property portfolio and day-to-day activities of the company, the board has appointed Civitas Housing Advisors (CHA) as investment adviser. Led by CEO Paul Bridge, CHA brings together a growing, specialised team with significant experience in social housing, healthcare and fund management. With more than 20 years' experience working at a senior level in the social housing sector, Paul Bridge is a leading industry figure. He was previously CEO of Homes for Haringey, a large registered provider, and is non-executive chairman of the Metropolitan Thames Valley housing association. During the past year CHA has continued to strengthen its team and further widen its skills base, reflecting its view that supported housing for working age adults with long-term care needs is both an important component of the social housing sector and a long-standing core part of the healthcare pathway in the UK.

We believe that CHA's industry knowledge and relationships are important factors, not only in managing the Civitas portfolio but also in sourcing investments, particularly in less competitive off-market transactions. CHA is also actively engaged with the regulator and its housing association partners, helping the latter to develop and mature, in support of both the company's financial and social impact goals.

The advisory fees payable to CHA are calculated quarterly, based on net assets, with a tiered structure under which the marginal advisory fee reduces with increasing net assets. This increases the potential for scale economies and increases the attractiveness of asset growth for shareholders. There are no other transaction fees or performance fees payable to CHA. Up until 26 April 2019, the 'portfolio basis' net asset value (explained in the financial section on page 15) was used to calculate the fees. However, at the same time as extending the initial investment advisory contract notice period that had been in place since IPO, to 30 May 2024 from 30 November 2021, the board agreed with CHA that the advisory fees would in future be based on the IFRS measure of net assets. At 31 March 2019, IFRS net assets were £666.5m, approximately 10% lower than net assets measured on a portfolio basis (£741.2m) and the manager indicates that the change represents an annual cost saving to the company of c £400k.

Exhibit 1: Investment Advisory fee schedule

Net assets*	Marginal fee rate per annum
Up to and including £250m	1.0%
£250m to £500m	0.9%
£500m to £1,000m	0.8%
Above £1,000m	0.7%

Source: Civitas Social Housing. Note: *Until 26 April 2019 based on portfolio net assets. Thereafter, IFRS net assets.

Discount management

Although it has not been used, shareholders have granted the board authority to repurchase up to 15% of the share capital in the market if they believe it to be an appropriate mechanism for correcting any imbalance between supply and demand.

The company will hold a continuation vote at the AGM following the fifth anniversary from admission, which will be in 2022, and every fifth anniversary thereafter.

Strong demand for all forms of social housing

Social housing

Social housing¹ is low-cost rented housing, and in some cases low-cost home ownership, for those who lack the financial resources to access the private market. The social housing sector is large, but a chronic shortage of affordable housing means that it remains in high demand. The current stock of social homes for rent in England is more than 4.0m units (source: Full Fact), down from around 5.0m units in the early 1980s, but still represents almost one in every five homes. Of the total, c 2.8m are provided by housing associates and the balance by local authorities, a share that has declined steadily. The housing charity Shelter estimates that well over a million families are stuck on local authority waiting lists in England alone, the majority for more than a year, and more than a quarter for more than five years. Social housing may be provided at 'affordable rents', typically around 80% of the open market level, or 'social rents', typically 50% or less of open market levels and aimed at those with the greatest need. In recent years, the overall supply of newly built social housing has been in the range of 40,000–60,000 homes per year, with the majority provided at the higher-end affordable rents. Homes built for social rent have recently fallen to very low levels (c 5,000 homes in 2017/18), despite representing the larger share of the rented stock.

The majority of social housing is termed 'general needs' and may be occupied by anyone who meets the allocation criteria of the local authority or housing association provider.

Supported and specialist supported housing

In the broad social housing sector, supported housing provides housing, support and care as an integrated package, on either a long-term or short-term basis, to meet a range of needs. This may be provided across a number of different housing types, including group homes, hostels, refuges, supported living complexes and sheltered housing. The aim is to allow those in need of supported housing to live as independently and inclusively as possible within their community. Estimates vary slightly, but at any one time around 700,000 people across the UK rely on supported housing, which means that around 14% of all UK social housing is represented by supported housing. The majority of those in supported housing are the elderly, but for those with certain special care needs, this may be provided within a specific type of social housing, known as specialist supported housing (SSH). SSH is specifically designed or adapted for people who require specialised services to enable them to live as independently as possible, as an alternative to a care home but with a similar level of support. Those living in SSH represent around a quarter of the c 700,000 living in supported housing, typically including those whose needs are long term or lifelong, and relating to mental, physical and learning disabilities, autism, domestic abuse, substance abuse and homelessness.

SSH accommodation is exempt

All funding for approved SSH comes from central government and is distributed via the local authorities that commission the services. SSH provision is therefore not reliant on the level of local authority funding. An important distinction of SSH is that the level of rent is set on a bespoke basis according to individual needs and is exempted from the social rent rules that normally apply to housing benefit awards. This exemption was created by legislation in 1996 and so SSH has been

¹ Housing is a devolved issue and the UK government only has responsibility for England. In this section, we have relied on data from a range of sources which, while differing in some respects, provides a consistent overall picture of sector trends. In some cases, we source the data to Civitas, which collates information from a wide range of sources.

around for more than 20 years. In order to fall within the exempt rent legislation, SSH homes must fulfil a number of criteria including the following:

- designed or structurally altered for residents who require specified services or support to live independently in the community;
- provided on a not-for-profit basis, by an HA, local authority, registered charity or voluntary organisation;
- offering a high level of support which is equivalent to the services or support provided in a care home, for residents whose only alternative would be a care home or hospital. This requirement also extends to the housing association or other property provider, which is expected to provide levels of support or supervision above that provided in general housing services; and
- delivered without public subsidy.

SSH provides value for money and improved outcomes

The cost of supported housing is higher than for general needs social housing, but there is broad agreement that it generates substantial cost savings in other parts of the public sector, while at the same time provides a real improvement in the quality of life of recipients. Research, including the government's own data, shows that at a time of increasing demand for SSH, it is a cost-effective way of providing homes for people compared with the likely alternatives of residential care or long-stay hospitals.

There are many factors that contribute to the additional costs that are related to the highly specialised nature of the accommodation compared with general needs. These may include the need for 24-hour staffing, the installation and monitoring of CCTV, the need for and monitoring of enhanced fire and safety equipment, bespoke adaptations and/or construction design, higher levels of wear and tear, and the long lead time often needed to securely place tenants.

Government data (from *Future of supported housing*, May 2017) estimates that for working age people (ie excluding the elderly), the average rent cost in supported housing was £214 per week, ranging from an average £133 per week for people with a physical disability to an average £277 per week for women's refuges, with average weekly rent costs for people with learning disabilities and autism sitting somewhere in between. The Minister for Local Government at the time estimated the net savings generated by supported housing at an annual £3.5bn.

Mencap commissioned research (*Funding supported housing for all*, April 2018), which estimated the average rent cost of SSH housing (including the service charges) at £232 per week within an overall average weekly cost of SSH (including the cost of the care package at an average £1,337 per week) at £1,569. This compared with its estimate of the average cost of registered care (residential care) at £1,760 per week or £3,500 per week for in-patient hospital care. Its findings are consistent with National Housing Federation data, which estimated the annual saving resulting from SSH for people with learning difficulties and mental disabilities at £15,500 or c £300 per week.

The ability of registered providers to charge higher rents than are available for general needs social housing continues to be an important factor in making SSH schemes viable and increasing provision. It has also enhanced the flexibility of RPs and charities to develop innovative ways of meeting the needs of those with a broader range of bespoke requirements for other forms of supportive housing and care needs. The government has considered the existing framework of funding, seeking to ensure that this is sustainable, ensures quality, provides value for money and encourages the supply of supported housing. In August 2018, a consultation process on possible alternative funding options concluded with the recognition that supported social housing is a vital service for some of the most vulnerable people in our communities and that housing benefit should remain in place for all supported housing.

SSH expected to grow further

It is widely expected that the demand for SSH will continue to increase, driven by greater penetration of the existing population in need, and the further growth of that population.

At both the national and local level it is government policy to offer SSH to more people. In part, this reflects the value for money that it provides compared with the alternatives of residential care or long-stay hospitals, a consideration that is not simply cost related, but also recognises the enhancement to quality of life that SSH can provide. More than 2,000 people with autism or a learning disability are still living in long-stay hospitals, and although the NHS is committed to halving this number progress has been slow. Despite a steady flow into community based SSH, the hospitals quickly refill due to the shortage of alternative provision relative to the demand. Mencap estimates that c 50% of people with a learning disability live with a parent or some other home carer over the age of 65. As this group of carers ages and becomes less able to perform this role, the demand for alternative housing increases. At the same time, as advances in medical care, and in particular post-natal baby care, have improved infant survival rates, the size of the population living with life-long medical and care needs is increasing, and these people are themselves living longer.

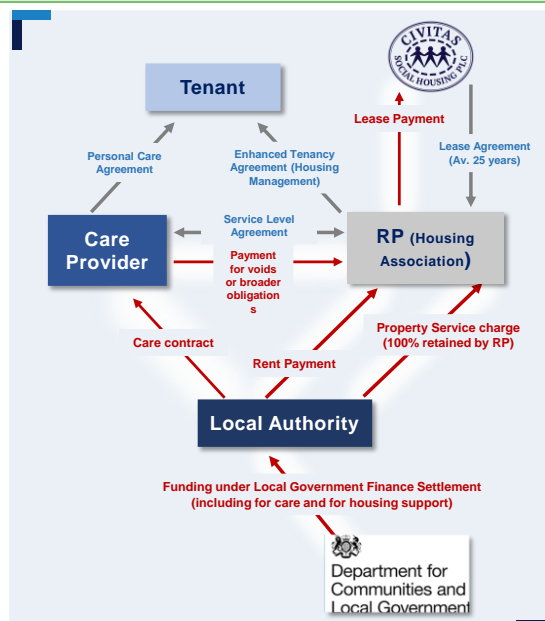
Although not directly comparable, the expectation of increasing demand for SSH is clear from available research. The Mencap-commissioned research estimated the total number of SSH units at 22,000–30,000, with an expectation that the demand will increase to 25,500–33,500 units by 2021/22 and 29,000–37,000 units by 2027/28. In a December 2015 research paper (*Supported housing: Understanding need and supply*), the National Housing Federation estimated a then shortfall of c 16,000 homes, with an expectation that this would increase to c 29,000 by 2019/20 and to c 47,000 by 2024/25.

The contractual arrangement

As noted above, all funding for SSH housing falling within the exempt rent legislation comes from central government via the local authorities that commission the services. The local authority enters into a care contract with the chosen care provider (CP), which includes a personal care agreement for each tenant. In turn, the CP enters into a service level agreement with the RP/HA, which secures it with access to, and management of, the property. In terms of the funding disbursed by the local authority, the care costs are paid directly to the care provider, while the rent and property service charge payment are made by the local authority directly to the RP/HA (ie not to the CP or to the tenant). Typically, there are arrangements in place (and Civitas insists on this) whereby the CP will cover the cost to the RP/HA of voids (empty properties), discussed below.

Exhibit 2: Contractual framework

- Funding for Specialist Supported Housing (SSH) is met by Central Government via local authorities
- Care is central to the structure (Care in the Community) and care providers secure c.85% of income and have major influence over placements
- Care providers enter into personal care agreements with each local authority for each tenant and a Service Level Agreement with each Housing Association.
- The Service Level Agreements between Housing Associations and care providers secure access to the property for the care provider
- Care providers typically provide void cover for Housing Associations and sometimes sign up to 25 year back to back agreements over broader range of obligations
- Housing Associations must demonstrate delivery of enhanced housing management to establish exempt accommodation status and secure exempt rents and service charge



Source: Civitas Social Housing

Although the contractual structure shown in Exhibit 2 is somewhat complex, Civitas indicates that most local authorities favour a clear separation between the RP, CP and long-term property owner. In a situation where the CP is also the property owner, it is much more difficult for the local authority to replace them should it choose to. In part due to local authority encouragement, CPs have been divesting properties, in some cases to Civitas.

Property investors such as Civitas are not contracted directly with either the local authority or the CP. Instead, they lease the properties to, and receive the rent from, the RP/HA, usually on long leases (in Civitas's case, c 25 years at inception). There has been quite a lot of discussion about the difference between the length of the typical lease agreement between the RP/HA and the property owner and the typically shorter length of the service level agreements between the CP and the RP/HA (commonly five years). The concern is that a change of CP may see the RP/HA lose tenants and rents to meet their longer-term lease obligations. Civitas believes that this is a very unlikely scenario but one for which it has been working to provide contractual safeguards, better matching the duration of service level agreements with leases. It notes that:

- In respect of the Civitas portfolio leased to HAs, one-third is already subject to 25 back-to-back agreements between the CP and HA and the average length in respect of the remaining portfolio is c five years. The overall average across the portfolio is more than 10 years.
- In any case, the most likely scenario is that agreements will normally roll over, and that historically this has been the norm.
- Even if this is not the case and there is a change of care provider, given the effort and cost of settling a resident into their long-term SSH home initially, often a home for life, it is highly unlikely that the local authority will want to see residents move from one home to another.

Managing voids

The Civitas properties are fully let to HAs and so voids do not directly affect rental income. For the HAs, tenant voids do occur despite the shortage of supply of home spaces. There are a number of reasons for this, including the fact that it may take up to a year to fill a newly opening home for clinical reasons, transfers from long-stay hospitals are complex and subject to delays, setting up

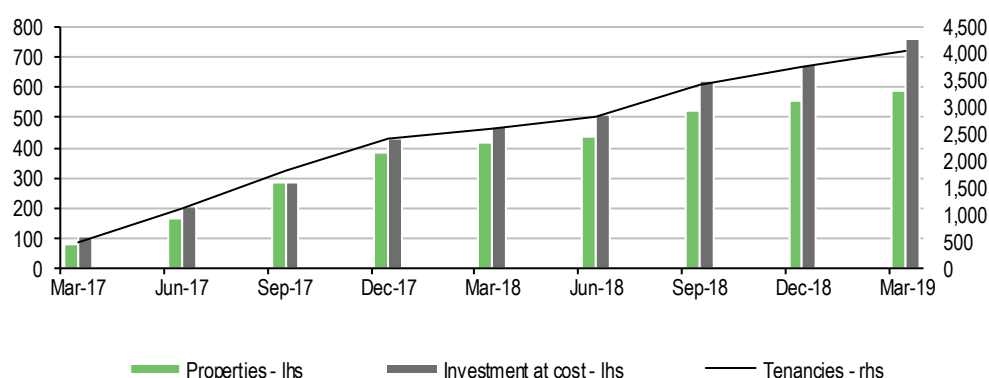
individual care packages can take time, and introducing a compatible new tenant into a vacancy in an existing home needs to be handled with care. The level of voids can vary quite markedly depending on the clinical need and tends to be longest for people with learning disabilities. In most cases, the voids experienced by the housing associations are covered by the care provider, although this may not be the case if it arises through poor management (eg if the property is unavailable because the housing association has failed to maintain a valid gas safety certificate). We discuss below how Civitas works closely with its housing association partners to support their development and the spread of best practice. Minimising uncovered voids is good for the HAs and hence good for Civitas. Management says that it is currently receiving rents from housing association lessees in respect of void properties on 6% of the total portfolio.

Civitas: Building a sustainable portfolio

The Civitas portfolio has grown strongly and steadily since IPO, with £758m (before acquisition costs) having been committed as at 31 March 2019. The properties have been acquired from HAs, CPs, developers or private owners at yields ranging from 5.5–6.5%. Civitas only invests in completed properties and does not engage in development or the forward funding of developments. Civitas says that developers are often encouraged to approach it with completed properties by local authorities that are keen to have evergreen social impact funds invested in them. It also notes that CPs welcome the certainty that a well-resourced investor brings to the process. Civitas has established strategic relationships with some of the largest CPs, which often have a strong influence over where tenants are placed, given that the care element of SSH costs represents c 85% of the total (ie rent and service costs a more modest c 15%).

Assets are selected through a rigorous process aimed at building a portfolio that will sustainably deliver on its investment objectives over the long term, and it is worth noting that the company has reviewed and rejected potential acquisitions with a value of more than £400m since IPO. The most common reasons for a property being rejected is that the level of rents (relative to the care provided) is above the median level that Civitas targets, because of the condition of the property or because the property does not meet the company's social impact hurdles.

Exhibit 3: Strong and steady growth since IPO



Source: Civitas Social Housing

Reflecting increases in asset values since acquisition, the balance sheet portfolio value at end March 2019 was £820m, with a contracted annualised rent roll of £45.7m and a long weighted average unexpired lease length of more than 24 years. The portfolio comprised 591 individual properties, fully let to 15 different registered providers that manage SSH homes for more than 4,000 tenants on behalf of 157 different local authorities, around half of the total in England and Wales. The UK market for SSH is very fragmented and although Civitas is the leader in terms of portfolio size, management estimates that its 4,000 plus tenants still only represent around 2.4% of the

market total. This provides Civitas with ample scope to increase market penetration, as well as growing with the market. The average age of a tenant in a Civitas-owned property is 32, which suggests they may be living in those properties for many decades to come.

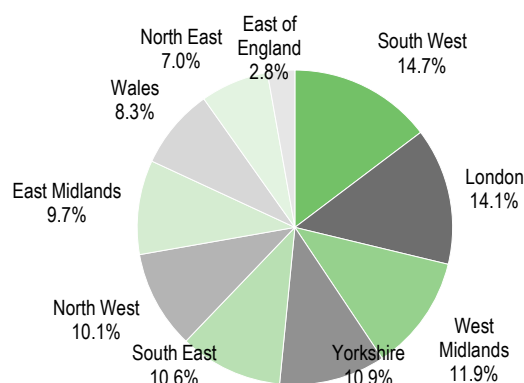
Exhibit 4: Summary of portfolio as at 31 March 2019

Capital deployed (before acquisition costs)	£755m
Balance sheet valuation	£820m
Weighted average unexpired lease term (WAULT)	24.4 years
Contracted annualised rent roll	£45.7m
Net initial yield	5.27%
Number of properties	591
Number of tenancies	4,072
Number of local authorities	157
Number of registered providers	15
Number of care providers	113
Average care hours per week	40–50

Source: Civitas Social Housing

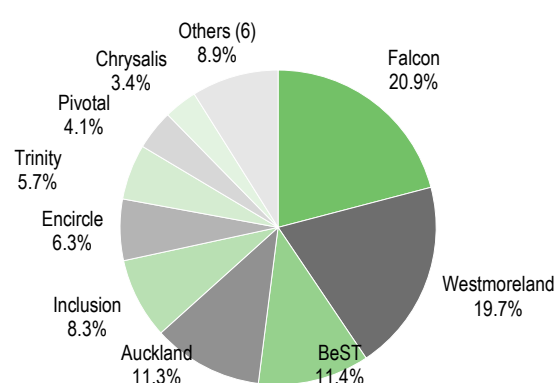
The portfolio is geographically diversified around major conurbations, with around one-third of the properties being purpose built or repurposed and two-thirds being well located community properties which have been adapted on a bespoke basis for long-term use by residents. The list of HAs with which Civitas has chosen to work has steadily increased, providing further diversification. The aim has been to establish a registered management counterparty in each area and to have several others in reserve to provide for contingencies.

Exhibit 5: Portfolio market value by region



Source: Civitas Social Housing. Note: As at 31 March 2019.

Exhibit 6: Rental income by registered provider



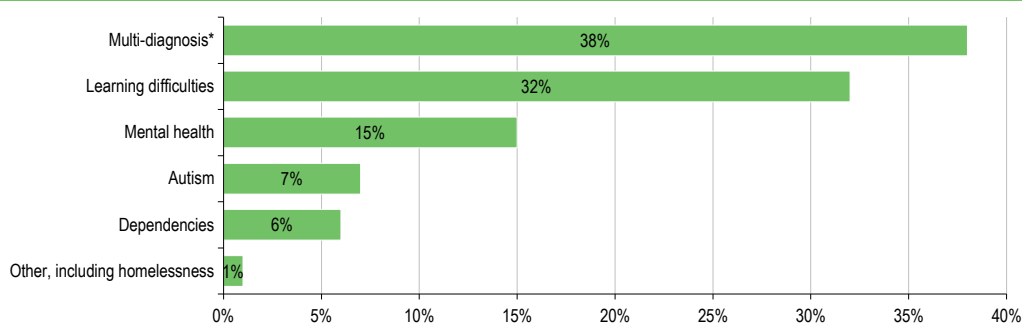
Source: Civitas Social Housing. Note: Others comprises New Walk (3.0%), Harbour Light (2.4%), My Space (1.2%), IKE (1.2%), Hildale (1.0%) and Blue Square (0.1%). As at 31 March 2019.

The five main areas within social housing targeted by Civitas are:

- SSH for those living with learning difficulties, autism and acquired brain injury.
- Mental health care facilities where residents require monitoring and supervision in carrying out daily tasks.
- Accommodation for those able to step down from NHS hospital care and transition to more independent living.
- Accommodation for those with addictions.
- Accommodation for those who are homeless or at risk of homelessness.

In practice, many residents have been diagnosed with more than one care need, reflected in the size of the multi-diagnosis category in Exhibit 7.

Exhibit 7: Percentage of Civitas residents by type of care need



Source: Civitas – Half Year Impact Report, November 2018. Note: *Multi-diagnosis includes residents who have been diagnosed with more than one care need, requiring a higher level of support.

Key factors in sustainability

In building a sustainable portfolio, Civitas highlights three core features:

- **The level of care being provided.** As noted above, for SSH accommodation to fall within the exempt rent legislation, the services provided must include meaningful levels of care, support or supervision and understanding. The level of care provision in each property is important in establishing that rent levels are fair and reasonable. Civitas discusses acuity levels with each CP before investing, providing it with a clear picture of care levels, and management estimates that an average tenant in a Civitas property receives a relatively high 40–50 hours of care per week. Using its own extensive database, Civitas also benchmarks its rents against those for similar properties and care needs in the same locality, aiming to be below the median. This aim appears consistent with average weekly rents received by Civitas across the portfolio as a whole, which positions it within the ranges identified by the government analysis and Mencap research noted above. For standard (mainly learning disability and autism) SSH, Civitas receives average weekly rents of £178 and, including very high acuity/niche SSH such as addiction and women's refuge, the average is £211.
- **Ensuring that properties are suitably adapted.** SSH accommodation must have been specially designed or structurally altered for residents, but ensuring that these have been suitably tailored to each resident is important to maximise their welfare and ensure that they remain in the home for many years, if not for life. Civitas ensures that refurbishments are paid for by the vendors and that the housing association takes on a property that is fit for purpose.
- For SSH, unlike general needs housing, the HA needs to be able to demonstrate the delivery of **enhanced housing management** services to establish the exempt accommodation status that is necessary for it to secure exempt rent and service charge payments. Civitas provides considerable support to its HA partners and also regularly monitors their performance. It holds quarterly seminars, open to all its partners, aimed at fostering best practice. There have been six seminars to date, covering areas such as compliance with health and safety requirements, working effectively with the care providers, and staff recruitment.

Sector regulation has historically provided stability

The Regulator of Social Housing (RSH) regulates registered providers of social housing (RPs) to promote a viable, efficient and well-governed social housing sector able to deliver homes that meet a range of needs. Civitas's housing association tenants are regulated by the RSH but Civitas is not, although it interacts with the RSH on a regular basis. Regulation has played an important role in providing long-term stability to the social housing sector, and while individual registered providers have from time to time faced financial difficulties, there have been no material losses suffered by funders as a result of a registered provider default.

Although exempt social housing has been around for 25 years, over the last few years private capital has played an increasingly important role in supporting the much-needed growth and sustainable development of the SSH sector, filling the gap created by the limited availability for all forms of social housing. The capital has been provided by a range of funds and other investors in SSH assets, which are then made available to housing associations on long leases, typically indexed to CPI. Given its greater complexity and granularity, and the continuing strong demand for general needs social housing, SSH has not generally been the focus of the longer established HAs and sector growth has been led by 40–50 more specialist HAs that have been established in the past 10 years or so. These have typically utilised lease-based structures to provide the capital for growth and, in many cases being newer and smaller associations, inevitably have relatively thin capital bases and less sophisticated management and governance structures.

In early 2018, one of these newer entities and a significant lessee of Civitas properties, First Priority Housing Association, became financially distressed. Its leases, including those with Civitas, were reassigned on similar terms to other providers within a few weeks, with no material loss incurred by capital providers (see comments in financial section). However, in the aftermath the regulator has been engaging with other specialist SSH HAs with similar lease-based business models to establish whether the issues at First Priority are replicated elsewhere. As a result of this work, the regulator has raised a number of concerns and has published regulatory judgements and notices in some specific cases, primarily in relation to corporate governance and/or financial viability (see Appendix for description of the regulatory process).

Exhibit 8 provides a summary of the five regulatory judgements and notices to date in respect of Civitas lessees. In aggregate these account for 40-50% of the Civitas portfolio.

Exhibit 8: Regulatory judgements in respect of Civitas lessees				
Housing association partner	Type of publication	Most recent RSH publication	% portfolio NAV (by value)*	% portfolio GAV
Trinity	Regulatory judgement	Nov-18	5.7%	4.7%
Westmoreland	Regulatory notice	Nov-18	19.6%	16.3%
Inclusion	Regulatory judgement	Feb-19	8.3%	6.9%
Encircle	Regulatory notice	Apr-19	5.9%	4.9%
BeST	Regulatory notice	May-19	11.5%	9.5%
Source: Civitas, RSH. Note: *For explanation of portfolio NAV, see page 15. At 31 March 2019, the portfolio NAV was £741.2m compared with the IFRS NAV of £666.5m.				

More specifically, the four key concerns raised by the regulator are:

- **Margins are low and capital bases are thin for lease-based housing associations**, leaving them more vulnerable to shocks. Civitas notes that some are starting to acquire assets and reserves as they grow and that its analysis shows that margins and return on capital employed across the range of HAs with which it is working are on average very good. Nevertheless, it expects the number of specialist SSH HAs to reduce, with the stronger organisations absorbing the weaker.
- **Poor risk management and contingency planning**. The regulator expects all HAs to produce detailed 30-year business plans as well as identifying corrective actions should the business model come under threat. The specialist SSH HAs have typically not had the expertise or resources to apply this level of business planning and have not always set out their plans for corrective action in the way that the regulator seeks, reflecting their belief and experience that SSH is under no threat, being under-supplied, with growing demand, and positive social and financial outcomes. Civitas and others are working with the specialist SSH HAs on improving their planning frameworks so as to ease regulatory concerns.
- **Inappropriate governance in some housing associations**. Civitas notes from its own experience of the social housing sector that it has historically been the case that pretty much all HAs start small, with boards that reflect the individuals involved in their creation, and then professionalise as they grow and mature. This appears to be the path that the specialist SSH

HAs are on, and Civitas works with them to expand and deepen their boards. The fact that some have been set up by developers or have developers and/or care providers on their boards is not by itself an issue providing that the correct checks and balances operate within the housing association, and they manage any potential conflicts of interest in an open and transparent way. In such situations, Civitas expects the housing association to have received independent legal advice before it will proceed with a transaction.

- **Lack of assurance about appropriate rents.** As we have noted above, it is critical that the rents charged on SSH sit within the exempt rent legislation, and the due diligence and measures that Civitas undertakes to ensure appropriate rents are charged on its assets.

We believe that current regulatory interventions in the fast developing SSH segment are primarily aimed at identifying, assessing and making clear the risks so that these may be adequately managed as a means to safeguarding this financial resilience and maintaining the operational standards of the sector. Significantly, in a recent seminar hosted by Civitas, the regulator recognised the important role played by private capital in supporting the much-needed growth and sustainable development, and commented that he saw no inherent issues with the lease-based model. It is important to note that Civitas continues to operate as normal with its HA partners that are subject to regulatory notices and judgements, and that there have been no material impacts on its ability to collect rents due, but is engaging with them to help effect any changes that may be necessary to allay the regulator's concerns.

Active engagement with the housing associations and regulator

Civitas is highly experienced in the social housing sector and fully understands the challenges that its specialist SSH HA partners face as they seek to grow and respond to the SSH shortage. It engages frequently with them, helping them to develop and mature, in support of both its financial and social impact goals. Civitas also has regular engagement with the RSH and is sponsoring industry-wide initiatives to support continued growth while managing risks. Alongside the voluntary seminars for the housing association partners, the more formal hands-on monitoring of the portfolio involves quarterly meetings with each partner. These are led by senior members of the Civitas team, who visit the HA on the ground, meeting the managers, board and also the care providers, inspecting properties and reviewing performance against KPIs. As a result of this active engagement, Civitas has provided support in areas such as recruiting new board members to strengthen corporate governance, compliance with health and safety requirements, and asset management. Attracting new independent members to strengthen and broaden the boards of smaller housing associations is no easy task, but one where Civitas can make a real difference to addressing regulatory corporate governance concerns. At a general level, Civitas is looking at ways that the lease structure may evolve to provide more tangible evidence of the sustainability of the SSH model. This includes:

- The possible introduction of a 'force majeure' clause in leases, similar to that used in the infrastructure sector. This would give the HAs recourse to discuss with property owners about future letting options (ie other uses) in the extremely unlikely event that SSH demand fell away or was removed through a change in government policy.
- The possible introduction of rent indexation collars and caps into lease agreements. Indexation is currently at CPI, although in its last large transaction Civitas included a collar of 1% and cap of 4%.

Civitas has recently sponsored the formation of a new community interest company as the first unitary overarching body that can represent SSH, bringing together its multiple facets spanning health, social policy, housing policy and welfare. It is also working with Learning Disability England to establish a new trade body that will promote the benefits of SSH including the cost savings to the

public sector and social benefits that it delivers, and will seek to build on these through the sharing of skills and knowledge and the spread of best practice across the sector.

Financials

In this section we first discuss the progress reflected in the FY19 results, before outlining our forward-looking financial forecasts in detail.

FY19 results reflect strong portfolio expansion

The FY19 results reflect the continuing growth in the company's asset and income base. During the year, £286m (before acquisition costs) was committed to acquisitions, including investment of the C share proceeds, with conversion taking place at the end of November 2018 and leading to the creation of 272.5m new ordinary shares.

Exhibit 9: Summary of financial results for year to 31 March 2019 (FY19)			
£m	2019	2018	2019/2018
Revenue	35.7	18.6	92%
Total expenses	(9.6)	(8.9)	8%
Operating profit/(loss) before revaluation of properties	26.1	9.7	169%
Change in fair value of investment properties	3.7	30.6	
Operating profit/(loss)	29.7	40.3	-26%
Net finance expense	(3.5)	(0.6)	
C share amortisation	(6.4)	(2.8)	
PBT	19.9	36.9	-46%
Tax	0.0	0.0	
IFRS net earnings	19.9	36.9	-46%
Adjust for:			
Change in fair value of investment properties	(3.7)	(30.6)	
EPRA earnings	16.2	6.3	158%
C share amortisation	6.4	2.8	
Civitas adjusted earnings	22.6	9.1	149%
Basic IFRS EPS (p)	4.67	10.55	
Diluted EPRA EPS (p)	3.63	1.44	153%
Company adjusted EPS (p)	3.63	2.60	40%
DPS declared (p)	5.00	4.25	67%
Investment portfolio	820.1	516.2	59%
Diluted EPRA NAV per share (p)	107.1	105.5	1%
Net cash/(debt)	(161.3)	150.9	
Net LTV	20%	N/M	
Source: Civitas			

The key financial highlights were:

- Revenues almost doubled in the year, primarily reflecting portfolio growth, and supported by CPI-linked, like-for-like rental growth. Contracted rent roll increased to £45.7m from £28.4m at the end of FY18 and further revenue growth is built in as the FY19 acquisitions make a full year contribution in FY20.
- Cost growth significantly trailed revenue growth, with management fees, linked to NAV, ahead by c 12% and other costs broadly flat. With income growing strongly, the total expense ratio (TER) improved to 1.45% and would have been c 0.6% lower without c £400k of non-recurring bad debt costs (see below).
- Recurring net finance expense increased to £3.5m, with acquisitions funded by additional debt (increased by £116m to £205.2m) and a drawdown of cash resources as the C share proceeds were deployed. The C share amortisation of £6.4m, included within finance costs, reflects the net earnings attributable to the C share pool, up until conversion.

- The portfolio value increased by £303.9m, or 59%, to £820.1m. In addition to new investment, gross property revaluation added £10.1m, reflecting the positive impacts of rental growth partly offset by acquisition costs. The negative drag from acquisition costs was greater in H219 reflecting the level and complexity of transactions. The FY19 revaluation gains were significantly lower than in FY18 when a maturing of the market and increasing investor familiarity with the asset class saw valuations improve markedly. The end-FY19 net initial yield of 5.27% was at a similar level to end-FY18.
- Adjusting for valuation movements, EPRA earnings and diluted EPRA EPS more than doubled to £16.2m and 3.63p per share respectively.
- Quarterly dividends amounting to 5.0p were paid during the year, meeting the target for the first full year of operation that was set at the time of the IPO. For the three months ending 31 March 2019, a quarterly DPS of 1.325p was declared, a 6% increase on the previous quarter, for payment on 7 June. For the year to 31 March 2020 (FY20), barring unforeseen circumstances, the company targets aggregate DPS payments of 5.3p, a 4.3% increase over FY19. For future years the company intends to increase dividends to reflect the growth of rental income.
- EPRA NAV per share increased by 1% during the year to 107.1p and, including DPS paid, the EPRA NAV total return was 6.2%. We estimate that the acquisition costs incurred in growing the portfolio amounted to 1.8p per share and that, adjusted for these, EPRA NAV total return would have been 7.9%.
- Following the emergence of financial difficulties at First Priority in May 2018, Civitas assigned all of its leases to Falcon Housing Association on similar terms. At the time, Civitas was owed c £0.5m by First Priority, which it hoped to collect in full but given the slow collection progress to date it has provided in full for the outstanding balance of £421k. When assigning the leases to Falcon, Civitas was also granted an option to extend the lease term to 40 years which, when exercised in the first half of the year triggered lease incentive payments of c £4.0m. We believe the impact of the lease extension on valuation, net of the lease incentive payment, was positively assessed by the external valuer. Lease incentives of c £2m granted in H219 relate to other assets and lessees.

Portfolio basis valuation

The IFRS financial statements include an independent property valuation, undertaken by JLL, with each property valued on an individual basis, of £826.9m as at end-FY19, reflecting a net initial yield (NIY) of 5.27%. Also undertaken independently by JLL, Civitas provides an independently assessed 'portfolio valuation' of £901.6m, which assumes that each of the property-owning special purpose vehicles (SPVs) are sold as a portfolio to a third-party buyer on an arms-length basis. It is intended to provide shareholders with an indication of the enhanced value of the properties to acquirers of larger portfolios and the £74.7m, or 9%, uplift against the IFRS valuation reflects the assumption of lower buyers' costs for the SPVs (with stamp duty being charged at 0.5% compared with 5.0% for the individual properties) and a lower NIY of 5.0%. The gap between the IFRS valuation and the valuation on a portfolio basis widened during FY19, reflecting portfolio growth and also the positive impact of that growth on the portfolio basis yield. The portfolio basis valuation feeds directly into a portfolio basis net asset value, which at 31 March 2019 was £741.2m compared with £666.5m on an IFRS basis. The company's 35% gearing target is defined as gross debt as a percentage of the portfolio basis property valuation (before straight-line and lease incentive adjustments), although for sector comparative purposes we use IFRS portfolio value.

Forecasting further strong asset and income growth

We expect further strong growth in income-earning property assets as Civitas further gears up its existing equity resources and given the scale of the opportunity. Our analysis confirms the

company's guidance that it expects dividends to be more than fully covered on a fully invested basis. Our key forecasting assumptions are:

- £170m of additional acquisitions by end-FY20 at an average yield (before acquisition costs) of 5.7% (5.4% after), adding almost £10m to rent roll (£45.7m at end-FY19). The assumed acquisition yield compares with the 5.5–6.0% (before acquisition costs) achieved since IPO, reflecting investor demand for SSH assets and market-wide yield tightening.
- Including assumed CPI-based rent indexation of 1.8% pa, we forecast an end-FY20 rent roll of £56.3m, although the full benefit is not seen in the income statement until FY21.
- We have assumed acquisition costs of 5.8%. This is a similar level to H219, but above the average of the past two years and may prove conservative. The outcome depends on the size, structure and complexity of the transactions.
- Factoring in the changed basis for calculating investment advisor fees, an absence of the FY19 non-recurring expenses and portfolio growth, we forecast the total expense ratio (TER, or total expenses as a percentage of average IFRS net assets) to fall further, towards 1.3%.
- We have assumed that asset growth is funded by an additional £170m of borrowing (see below). Our analysis indicates a gross LTV of c 37% at end-FY20 and reflecting our forecast of a continuing strong cash position a net LTV of c 33%. These LTVs are calculated on an IFRS basis and would be lower on the company portfolio basis reflecting the current 9% uplift to valuations. The strong residual cash position and the further upside to 35% gross gearing on the company basis imply that there is scope for acquisitions to be higher than we have allowed for.

Acquisition pipeline

With the full year results release, Civitas has updated on its acquisition pipeline which provides comfort that our assumed acquisitions are achievable. Properties with an aggregate value of c £50m are under negotiation and a further pipeline of c £210m in advanced stages of due diligence.

Debt facilities

Civitas has existing debt facilities of £212.5m, of which £208.4m was drawn at end-FY19. The facilities comprise a £52.5m 10-year fixed rate facility and two floating rate revolving credit facilities of a shorter-term nature. Based on a three-month Libor rate of 0.84% at 31 March 2019, we estimate the average cost of the facilities at 2.5% with a weighted average unexpired term of a little over five years. All covenants on the facilities were comfortably met during the year.

Exhibit 10: Existing debt facilities

Lender	Scottish Widows	Lloyds	HSBC
Facility	Loan notes	RCF*	RCF*
Facility size	£52.5m	£60m	£100m
Drawn at end-FY19	£52.5m	£56m	£100m
Term	10 years	3 years +1**	3 years +1 +1***
Maturity	November 2027	November 2020	November 2021
Cost	2.99% fixed	1.50% margin over LIBOR	"Similar to Lloyds"

Source: Civitas. Note: *RCF is revolving credit facility. **Facility may be extended for one year at the option of Civitas. ***Facility may be extended by one year and then a further year at the option of Civitas.

In order to grow the portfolio further and achieve its target rate of gearing, Civitas is currently negotiating additional borrowing facilities amounting to £170m and expects this to also increase the overall term of its debt. We have allowed for this in our forecasts, assuming it is fully drawn by the end of FY20 and that it carries interest at 2.6%.

Valuation

Based on targeted quarterly DPS payments amounting to 5.34p for the current year, Civitas offers a yield of almost 7.0% while trading at 0.74x the end-FY19 EPRA NAV per share of 107.1p.

We calculate an EPRA NAV total return since the 18 November 2017 IPO to 31 March 2019 of 17.4%, or an average annualised 7% pa. As we expect the company to hold its investment properties for the long term, we believe it more relevant to focus on the IFRS data for this purpose. Our forecasts for FY20 and FY21 imply an average annualised return of 6.8% pa over the period, with FY20 held back slightly by assumed property acquisition costs on the £170m of assumed investment in the year, before increasing to 8.1% in FY21, with a forecast CPI rental income uplift of 1.8% feeding through to capital values on the assumption of an unchanged property yield.

Exhibit 11: EPRA NAV total return

	FY18*	FY19	FY20e	FY21e	Since IPO	FY20/FY21
Opening EPRA NAV per share (p)	98.0	105.5	107.1	108.1	98.0	107.1
Closing EPRA NAV per share (p)	105.5	107.1	108.1	111.4	107.1	111.4
Dividends paid (p)	3.0	5.0	5.2	5.5	8.0	10.7
EPRA NAV total return	10.8%	6.2%	5.8%	8.1%	17.4%	14.0%
Average annual return					7.0%	6.8%

Source: Civitas, Edison Investment Research. Note: * 18 November 2016 to 31 March 2018.

In Exhibit 12 we show a share price performance and valuation comparison with a group of companies that we would consider to be the closest peers to Civitas. The group includes Triple Point Social Housing and Residential Secure Income, which invests in affordable shared ownership, retirement and local authority housing (but not specialist supported housing), primary healthcare investors, PHP and Assura, and care home investors, Target Healthcare and Impact Healthcare. The peers are all focused on stable, growing, income returns, with the potential for capital appreciation, from investment in properties let on long leases to tenants whose income is provided, to differing degrees, by government funding. However, the peer group remains quite differentiated in terms of lease terms, which will naturally influence valuation levels. UK primary healthcare leases benefit from the security of being directly or indirectly backed by government, although the majority of rents are subject to open market rent reviews rather than being indexed to inflation. For the care home investors, the lease counterparties are the care home operators, and rents are generally linked to RPI.

The regulatory intervention in the SSH market has clearly affected the Civitas share price performance and hence the valuation of the company. The prospective yield of 6.8%, with DPS well covered as capital resources are fully deployed, is the highest in the group, and P/NAV is the lowest. If investors become more confident about the robustness of the Civitas income stream, the potential for a re-rating is significant.

Exhibit 12: Peer comparison

	Price (p)	Market cap (£m)	P/NAV* (x)	Yield** (%)	Share price performance			
					One month	Three months	12 months	From 12-month high
Assura	64	1542	1.20	4.3	2%	12%	11%	-2%
Impact Healthcare	113	324	1.08	5.5	7%	7%	10%	-2%
PHP	135	1529	1.29	4.2	0%	3%	18%	-3%
Residential Secure Income	94	161	0.87	5.3	-2%	4%	0%	-4%
Triple Point Social Housing REIT	83	292	0.80	6.1	-10%	-18%	-21%	-24%
Target Healthcare	118	455	1.10	5.6	3%	1%	5%	0%
Average			1.06	5.1	0%	1%	4%	-6%
Civitas Social Housing REIT	78	488	0.73	6.8	-7%	-18%	-24%	-31%
UK property index	1,662			4.1	-3%	-4%	-9%	-10%
FTSE All-Share Index	4,055			4.5	1%	1%	-3%	-5%

Source: Company data. Refinitiv. Note: Prices at 21 June 2019. *Last published EPRA NAV. **Last declared DPS annualised.

We believe the issues raised by the regulator in the light of the First Priority failure have had a significant impact on the performance of Civitas shares, and the other investors in the social housing sector. Given the importance of long-term income visibility, this is understandable. The complex nature of the SSH contractual structure is also a factor contributing to investor uncertainty. We believe that it is the quality and location of the assets, their suitable adaption to the long-term needs of the tenants, rents being at an appropriate level and the growing demand for SSH that provide the effective security to Civitas's long-term income.

Sensitivities

As noted above, the specialist supported housing assets in which Civitas invests, fully let on long leases, with the income to pay the rents funded 100% by government via local authorities, have a low historical correlation with the general economy or the wider residential or commercial property sectors.

We see the key sensitivities as:

- Asset growth and acquisition yields. Our forecasts assume significant additional asset growth and failure to achieve this, or acquisition at materially lower yields than we have assumed, would limit income growth and dividend cover. Given Civitas's access to capital and the acute shortage of SSH housing, we do not believe this is likely.
- Valuation yields have tightened from c 7% in 2015. We estimate that Civitas is currently acquiring assets at c 5.5% on average. 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 LTV, although recurring income from existing assets would be unaffected and cash yields on acquisitions would improve.
- 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. As was seen in the case of First Priority's financial failure, the extent of any impact would depend on whether the leases are reassigned to another housing association and the terms on which this may be achieved. In this respect, the security of income is substantially based on the quality and location of the properties, their suitable adaption to the long-term needs of the tenants, and the level of rents being set at a suitable level in relation to care needs and the wider SSH market.
- Significant changes in the way the sector is funded have the potential to materially affect investors such as Civitas. We would not anticipate any move towards 'nationalising' the provision of SSH given the capital commitment this would require and expect private investment capital to continue to play a significant role. This need for private investment capital also mitigates the risk of any form of 'rent caps' that would significantly impair the ability of the housing associations to meet their long-term lease obligations to investors such as Civitas. As noted above, the existing funding framework was recently confirmed by the Conservative government and the sector has cross-party recognition as providing value for money.

Appendix: The regulatory process

The Regulator of Social Housing (RSH) regulates registered providers of social housing (RP) to promote a viable, efficient and well-governed social housing sector able to deliver homes that meet a range of needs. RSH is an executive non-departmental public body, sponsored by the Ministry of Housing, Communities & Local Government. Civitas's housing association tenants are regulated by the RSH but Civitas is not, although it interacts with the RSH on a regular basis.

In summary, the objectives of the RSH are to:

- protect social housing assets;
- ensure providers are financially viable and properly governed;
- maintain the confidence of lenders to invest into the sector;
- encourage and support the supply of social housing;
- ensure that tenants are protected and have opportunities to be involved in the management of their housing; and
- ensure value for money in service delivery.

The RSH sets out the regulatory standards and it is the responsibility of the RPs to ensure that these are met, and for being open and honest with the RSH about how they are meeting objectives. The RSH primarily looks to the RPs to identify any problems and take the necessary action to resolve these. Where this is the case and the RSH concludes that the RP can satisfactorily respond to the problems, it will work with the provider to help it deliver the necessary corrective actions. Where an RP is unable or unwilling to respond positively, the RSH may use its regulatory enforcement and general powers. Where the RSH has very serious concerns about the financial strength of an RP, or where tenants are at risk, it has a range of intervention powers to protect the interests of those tenants and maintain the social housing assets in the regulated sector. The regulator may also facilitate discussions between a failing RP and a financially stronger RP which may be able to help, although any decision to offer or receive financial support is a matter for the boards of the respective RPs.

The RSH is risk-based in its regulatory approach, using its sector risk analysis and assessments of RPs with 1,000 or more social housing units to identify those judged to be more complex and which consequently have an increased level of risk exposures. RPs with fewer than 1,000 social housing units are subject to a lower level of regulatory engagement, and many of the SSH providers fall into this category. A [sector risk profile](#) is published annually and it can help registered providers to manage risks effectively. With the last published sector risk profile in October 2018, the RSH said that it would publish an addendum report on SSH in due course, in view of the growth of the SSH subsector and the earlier First Priority failure. This [report](#) was published in April 2019.

The regulatory judgements and notices that are published by the RSH represent its official view of an RP's compliance with the governance and the viability requirements in the Governance and Financial Viability Standard. Regulatory notices are issued in response to an event of regulatory importance (for example, where it is found to have breached a consumer standard that has or may cause serious harm) that it needs to make public. Although regulatory judgements are not published for RPs with less than 1,000 units, the RSH may publish a regulatory notice if there is evidence that such a provider is in breach of an economic standard, or it finds serious detriment as a result of a breach of a consumer standard. Where the RSH is investigating a matter and it considers that the investigation might result in a provider (currently judged to be compliant) being reassessed as non-compliant in relation to the economic standards, the RSH will add it to its 'gradings under review' list. The purpose of the list is to alert stakeholders to the possibility that the provider may be moving towards non-compliance with a standard, in line with its obligations to be transparent. Once the investigation concludes, it publishes a new or updated regulatory judgement for the provider and removes it from the 'gradings under review' list.

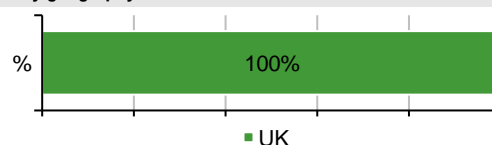
Exhibit 13: Financial summary

Period ending 31 March (£000's)	2018	2019	2020e	2021e
INCOME STATEMENT				
Revenue	18,606	35,738	50,340	56,831
Directors' remuneration	(205)	(163)	(170)	(170)
Investment advisory fees	(5,773)	(6,457)	(6,347)	(6,612)
General & administrative expenses	(2,915)	(3,022)	(2,800)	(2,856)
Total expenses	(8,893)	(9,642)	(9,317)	(9,638)
Total expense ratio (TER)		1.45%	1.33%	1.32%
Operating profit/(loss) before revaluation of properties	9,713	26,096	41,023	47,193
Change in fair value of investment properties	30,633	3,652	5,905	18,169
Operating profit/(loss)	40,346	29,748	46,929	65,363
Net finance expense	(628)	(3,484)	(8,342)	(10,700)
C share amortisation	(2,792)	(6,400)	0	0
PBT	36,926	19,864	38,587	54,662
Tax	0	0	0	0
Net profit	36,926	19,864	38,587	54,662
Adjusted for:				
Change in fair value of investment properties	(30,633)	(3,652)	(5,905)	(18,169)
EPRA earnings	6,293	16,212	32,682	36,493
C share amortisation	2,792	6,400	0	0
Civitas adjusted earnings	9,085	22,612	32,682	36,493
Average number of shares (m)	350.0	425.4	622.5	622.5
Average diluted shares (m)	633.1	622.5	622.5	622.5
Basic IFRS EPS (p)	10.55	4.67	6.20	8.78
Diluted EPRA EPS (p)	1.44	3.63	5.25	5.86
Company adjusted EPS (p)	2.60	3.63	5.25	5.86
DPS declared (p)	4.25	5.00	5.34	5.46
DPS cover (adjusted earnings)	0.61	0.72	0.98	1.07
BALANCE SHEET				
Investment properties	516,222	820,094	1,005,859	1,024,029
Other receivables	0	6,824	6,884	6,944
Total non-current assets	516,222	826,918	1,012,743	1,030,973
Trade & other receivables	3,315	5,723	7,986	8,563
Cash & equivalents	249,608	54,347	44,166	48,381
Total current assets	252,923	60,070	52,152	56,943
Trade & other payables	(10,176)	(15,324)	(18,635)	(19,980)
C shares	(298,752)	0	0	0
Total current liabilities	(308,928)	(15,324)	(18,635)	(19,980)
Bank loan & borrowings	(90,822)	(205,156)	(374,156)	(375,156)
Total non-current liabilities	(90,822)	(205,156)	(374,156)	(375,156)
Net assets	369,395	666,508	672,105	692,781
Basic EPRA NAV	369,395	666,508	672,105	692,781
C shares	298,752	0	0	0
Diluted EPRA NAV	668,147	666,508	672,105	692,781
Period-end basic number of shares (m)	350.0	622.5	622.5	622.5
Period end diluted number of shares (m)	633.1	622.5	622.5	622.5
Basic IFRS NAV per share (p)	105.5	107.1	108.0	111.3
Diluted EPRA NAV per share (p)	105.5	107.1	108.0	111.3
CASH FLOW				
Net cash flow from operating activity	8,057	23,335	45,011	47,902
Cash flow from investing activity	(483,898)	(302,577)	(182,860)	0
Net proceeds from equity issuance	343,000	(56)	0	0
Net proceeds from C share issuance	295,960	0	0	0
Loan interest paid	(417)	(2,958)	(7,342)	(9,700)
Bank borrowings drawn/(repaid)	92,457	115,990	170,000	0
Dividends paid to ordinary shareholders	(10,073)	(17,591)	(32,990)	(33,986)
Dividends paid to C shareholders	0	(9,966)	0	0
Other cash flow from financing activity	(1,761)	(2,374)	(2,000)	0
Cash flow from financing activity	719,166	83,045	127,668	(43,687)
Change in cash	243,325	(196,197)	(10,181)	4,215
Opening cash	0	243,325	47,128	36,947
Closing cash (excluding restricted cash)	243,325	47,128	36,947	41,162
Restricted cash	6,283	7,219	7,219	7,219
Cash as per balance sheet	249,608	54,347	44,166	48,381
Debt as per balance sheet	(90,822)	(205,156)	(374,156)	(375,156)
Unamortised loan arrangement costs	(1,635)	(3,291)	(4,291)	(3,291)
Total debt	(92,457)	(208,447)	(378,447)	(378,447)
Net (debt)/cash excluding restricted cash	150,868	(161,319)	(341,500)	(337,285)
Net LTV (IFRS valuation basis)	n.m.	19.5%	33.7%	32.7%

Source: Civitas, Edison Investment Research

Contact details

Civitas Social Housing plc
13 Berkeley Street
London W1J 8DU
UK
+44 203 058 4840
www.civitasocialhousing.com

Revenue by geography

Key members of the leadership team
Independent non-executive chairman: Michael Wrobel

Michael Wrobel has over 30 years' experience in the investment industry, having previously worked at Morgan Grenfell, Fidelity International, Gartmore Investment Management and F&C Management. He also has widespread board experience and is currently non-executive chairman of Diverse Income Trust, a trustee director of the BAT UK Pension Fund, chairman of trustees of the Thomtons Pension Scheme, a trustee of the Cooper Gay (Holdings) Retirement Benefits Scheme and acts as an investment advisor to a number of Rio Tinto pension schemes. He has previously served as a director of the Association of Investment Companies and Investment Management Association.

Chief Executive, Civitas Housing Advisors: Paul Bridge

Paul Bridge is CEO of the investment advisor. He has more than 20 years' experience in all aspects of the social housing industry including leadership roles, social housing investment and asset management, and is a senior industry figure. From 2008 to 2014, Paul was chief executive of Homes for Haringey, which was awarded Housing Organisation of the Year in 2012. Previously, Paul was a director at another large housing association, Hyde Group. He also has experience of non-executive roles and is currently chairman of Thames Valley Charitable Housing Association.

Director, Civitas Housing Advisors: Andrew Dawber

Andrew is a director of the investment advisor and has been in the social housing sector for more than five years, including being part of the team that established the housing investment company, Funding Affordable Homes. He was the advisor to and founder of The PFI Infrastructure Co, which in 2004 became the first publicly traded company in London dedicated to investment in social infrastructure. Andrew is a chartered accountant and has worked in a senior capacity involved in the financial sector for over 25 years including as head of corporate advisory for the private merchant bank Salamanca Group, and co-head of capital markets at Société Générale in London. He has also been actively engaged in other property activities in the UK and internationally.

Finance director, Civitas Housing Advisors: Graham Peck

Graham Peck is a chartered accountant with over 10 years' experience in real estate finance, with a focus on healthcare and alternative real estate. He was formerly the CFO for pan-European private equity real estate investor Palm Capital, in charge of all aspects of finance. Prior to this Graham, managed the finance function for three healthcare-focused real estate funds, consisting of one LSE-listed and two private funds with assets under management of c £1bn. In his role as finance director of the investment advisor, he is responsible for the oversight of all aspects of financial reporting, analysis and control.

Principal shareholders

	(%)
Investec Wealth & Investment	10.0
East Riding Pension Fund	6.1
EFG Asset Management	2.9
Tilney Group	2.7
Sarasin Partners	2.5

Companies named in this report

Assura (AGR); Impact Healthcare (IHR); PHP (PHP); Residential Secure Income (RESI); Triple Point Social Housing (SOHO); Target Healthcare (THRL)

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

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

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia