Announcement of net asset values, investment and market update at 31 March 2018

Dear Shareholder,

This morning we announced the quarterly net asset values ("NAV") for the CSH Ordinary Shares and the C Shares that demonstrates further sustainable, solid growth in capital values that are underpinned by our long-term lease income.

As at 31 March 2018 the run-rate lease income was £28.4 million. This is targeted to approximately double in the future as the balance of equity and debt invested within the portfolio, enabling CSH to meet or exceed its Ordinary Dividend.

It will also provide the firm basis for future dividend growth at least in line with inflation, given that 100 per cent of our leases have annual indexation of at least CPI.

The NAVs have been published as IFRS NAVs and also Portfolio NAVs reflecting an independent valuation on an asset-by-asset basis and as a single portfolio.

Following feedback from shareholders and analysts, both NAV measures will be published quarterly going forward providing the maximum level of information and disclosure for shareholders.

News Update

On 9 May 2018 we announced that our leases with First Priority Housing Association had been successfully assigned on their existing terms to Falcon Housing Association. The relevant local authorities are now directing rental payments and service charges to Falcon on behalf of our tenants.

This was undertaken with the support of both housing associations, the associated care providers and with appropriate reference to the Regulator of Social Housing. It was designed both to protect the interests of our underlying tenants and our shareholders.

In achieving an outcome that demonstrates no loss of lease income going forward, we believe this highlights the quality of due diligence in relation to the properties as a whole, as well as the strength of our relationships within the sector.

We have been asked what lessons can be taken from this and set out below are certain new due diligence initiatives that we have put in place reflecting what we have learned. As with all sectors and industries, particularly those that are evolving, there will always be improvements and changes that can be made, and we will endeavour to be at the forefront of this acting in the best interests of all our stakeholders.

In support of this objective we are pleased to have further expanded the Investment Advisor team. This has included the recruitment of a new experienced CFO (formerly responsible for the Medic X funds), together with another senior real estate investment director who is also a chartered surveyor (previously a director of Pradera). We will continue to strengthen the team as necessary to ensure that the right resource is available.

Progress on Investment

In the quarter to 31 March 2018, a total of 30 properties were acquired, all for the C Share pool with £41.0 million being invested (excluding purchase costs).

This brings the total C Share investment to £72.5 million (excluding purchase costs) as at 31 March 2018, and a further £13.3 million being invested since the period. We are aware this has raised some questions regarding the pace of investment and whether the assignment of leases has distracted the team.

Whilst it was important to apply the right resource to the lease assignment, we have a broadly-based team and so at the same time have been continuing our detailed due diligence on a number of significant acquisition opportunities for the C Share pool.

On the basis of what we know today we fully expect to meet our target of investing the C Share equity, in high-quality properties, in the timeframe indicated at the time of raising the C Shares. We expect further announcements in support of this to be made shortly.

In addition, whilst all potential transactions are subject to the completion of detailed due diligence, the Analysts' Presentation that will be published later today on the CSH web site (http://civitassocialhousing.com/investor-relations/reports-and-publications/) sets out certain transactions that are in active contemplation.

Investment Strategy and Diversification

At the time of the IPO, we set out a strategy to invest the majority of capital within the care-based Specialist Supported Housing (SSH) sector of social housing, with the possibility of some investment within General Needs Housing. To date almost all properties have been SSH, however, we have not changed our strategy or interest in certain General Needs opportunities.

We are today in early discussions with several local authorities regarding the possibility of working in partnership to acquire and lease to them General Needs properties, and to incorporate these within the portfolio. Whilst there is much work to be done in order to bring these forward, we will continue to evaluate this and report further if we are able to be successful and achieve the right structure and returns.

To support the investment of the remaining equity and debt we are presently undertaking detailed due diligence of several new potential housing association partners. This will enable us to further diversify the portfolio and reduce the level of concentration attaching to any single housing association.

This is part of our asset management strategy to achieve a sensible balance in the number of housing associations. Our aim is to have meaningful interaction with each one of them, including quarterly site visits, whilst ensuring that the number of housing associations is sufficient to enhance diversification and reduce concentration risk.

Enhanced Due Diligence

The role of our housing association partners is to engage with the Regulator of Social Housing, liaise with the care providers associated with the relevant properties, bring on new properties, undertake management and maintenance and collect rent and service charge from local authorities.

Since IPO, we have undertaken a detailed schedule of due diligence in respect of each housing association partner that includes:

- Completion of diligence forms for KPIs, health and safety and finances.
- Discussions with CEO and Finance Director
- Site visits to meet management and visit properties
- Standard investigation reports on key individuals for standards of conduct.
- Regulatory checks
- Review of available management accounts and business plans.
- References from all significant care providers.

Following First Priority's reported difficulties, additional measures have been put in place to enhance the due diligence process, particularly as it relates to housing associations. The principal additional measures are set out below, and we are in discussion to implement these with as many of our existing and future partners as possible:

- Introduction of the Best Practice Protocol (see below).
- Request for ring fencing with segregated accounts or charges for protection of rent and deposits due to CSH. First charges have already been put in place.

- Deeper and more regular interaction with care providers and housing associations, particularly to examine void payments and other operational and financial data.

The CSH Best Practice Protocol (the Protocol)

This has been shared with all our housing association partners, as well as potential property vendors and other key entities within the social housing sector. The objective is to ensure that when a housing association enters into a property transaction it is structured for long-term stability. This protects the tenant, the housing association and the investors.

The Protocol contains 10 core principals relating to matters such as financial prudence, resolving any possible conflicts of interest, management and control interaction with regulators.

In addition, it contains detailed requirements for the on-boarding of new properties. These include:

- Independent verification of rent to confirm this is appropriate within the local authority area and represents value for money
- Minimum "on-boarding fee" paid to housing association from property vendor in respect of each tenant to cover set up costs (if the housing association is the vendor it must set this aside from consideration received)
- Segregated accounts/charges for rent and service charge for CSH properties
- Rental Protection Fund for each tenant to cover 3-6 months' rent on every property
- Sinking Fund for each property to cover certain capital and maintenance costs and over-runs
- Indexation Reserve Fund to be set up at outset and topped up over life of the lease with indexation being set at CPI

Our ambition is to implement all aspects of the Protocol on each new transaction and to retrofit certain aspects within the portfolio, to the extent that they are not already in place (many aspects have been standard since IPO), and to the extent that we are able to do so by agreement.

As a sign of our determination we have already declined to work with certain property vendors and housing associations that we consider are not willing to engage fully with the Protocol and will continue to take this approach in future. We also continue to decline property transactions that do not meet our due diligence standards, with the total value of such declined properties being more than £300 million.

We are also engaging in the sector to encourage our partners to adopt the Protocol for all transactions that are undertaken – not just with CSH – to bring about greater consistency and certainty.

The Regulatory Environment

The Regulator of Social Housing (RSH) is responsible for the regulation of the social housing sector, via the Regulation Committee.

Registered Providers (RPs), including housing associations, fall under the governance of the RSH. RPs with under 1,000 units of social housing (representing around 1,400 of the 1,500 existing housing associations) are subject to a lower level of regulatory engagement but then have a detailed in-depth assessment (IDA) within three years of passing through the 1,000 unit barrier. In addition, the RSH is more generally taking a more active role with smaller housing associations.

The outcome of an IDA results in a formal grading (V 1-4 for Viability and G 1-4 for Governance) being published by the RSH on its website and has in the past led to some housing associations receiving a "Grading Under Review" notice as the RSH works through points before setting a formal grading. More than 200 Housing Associations (including some very large associations) are contained in the "Current and Previous Judgment Table" published by the RSH which relates to a variety of matters, often technical, that have been reviewed by the RSH (https://www.gov.uk/government/publications/regulatory-judgements-and-regulatory-notices) over 200 housing association (including some very large associations) have in the past few years been subject to a "Grading Under Review" notice, normally in relation to issues around governance, other technical matters, or health and safety that have since been resolved by the RSH as indicated on their website.

One of our Housing Association partners, Inclusion Housing, passed through the 1,000-unit level in 2016/2017 and as a result has been engaged in an IDA. In this regard, the RSH has just published a "Grading Under Review" notice. Inclusion Housing is a well-regarded and leading social enterprise housing association with a national presence and a range of significant counterparties. As with other Housing Associations, we expect in due course the RSH to issue a judgment, incorporating recommendations and a formal grading which will give Inclusion both a “V” and a “G” rating for the first time.

As institutional investors become more engaged with the social housing sector, we believe that the manner in which the RSH operates will become more familiar and much more ordinary course. The use of the grading system and the “Grading Under Review” notices create a high degree of transparency within the sector, which is to be welcomed.

Care Operator Engagement

As at 31 March 2018, the Company worked with 64 care providers. That has now increased to 70 care operators across its portfolio providing specialist care services. These comprise many of the largest care operators in the UK as well as mid-sized and smaller specialised care providers.

Each care operator has been approved and commissioned by the relevant local authority, is regulated by the Care Quality Commission (CQC) and contracts directly with housing associations for the provision of services to their tenants. Civitas has built strong relationships with key care operators within its portfolio. When on-boarding new properties, CSH always liaises with the relevant care operator at board and operational level, to fully understand local authority commissioner support relating to each property and the nature and acuity levels of its clients.

Summary

Since IPO, we have sought to build long-term and positive relationships across the sector and with all our shareholders, and to work with these relationships for the benefit of the sector and in order to develop a significant and high-quality portfolio.

Today we have invested approaching £0.5 billion (excluding purchase costs) in over 440 properties and soon to be around 3,000 underlying tenants with various care needs attended to by both national and local care providers. For both business and social reasons, we have placed a focus on mid to higher acuity provision, with properties that are often very adapted, or purpose built.

As well as working closely with housing associations, we have built strong relationships with a significant number of substantial care providers – a number of which are institutionally owned and work on a national scale. With such engagement, we are able to understand the business objectives of such organizations and to work closely with them to help achieve these for our mutual benefit.

As we continue to make investments we will report these to shareholders via our regular RNS announcements and we also hope that the video material that we have begun to add to the CSH web site will be helpful in introducing some of the senior professionals with whom we engage within the social housing sector.

Civitas Housing Advisors Limited
30 May 2018