



Update commentary for the period ended 30th September 2018

Dear Shareholder,

As we have just completed the period to 30th September 2018 we are providing an update and commentary and looking forward to events in the next few weeks including the conversion of the C Share pool.

Quarter ended 30th September 2018

In the recent quarter we invested successfully £111.8m of which £10.8m was allocated to the Ordinary Share pool, to further facilitate the target of full dividend cover from income, and £101m to the C Share pool.

The C Share pool is now £209m (before purchase costs) invested and with the balance of the equity having been allocated against specific transactions that are in the course of detailed, and in some cases final, due diligence. We remain confident that, subject to final due diligence, the C Share equity will be invested in accordance with our target and the conversion trigger will be announced on or before 14th November 2018. Our near-term pipeline is in excess of £150m with an expected additional £250m over the next 6 months.

Following these recent investments, the portfolio has become further diversified. The total investment now stands at £619m (before purchase costs) with:

15 HOUSING ASSOCIATIONS

Strong relationships with specialist housing associations

3,441 TENANTS

Portfolio provides accommodation for various client groups

141 LOCAL AUTHORITIES

Portfolio based across many local authorities

522 BUILDINGS

Created the leading diversified portfolio of specialist supported housing in England and Wales

93 CARE PROVIDERS

Strategic relationships with leading care providers

It is also pleasing to note that run rate lease income has increased from £28.4m as at 31st March 2018 to c. £35m as at 30th September 2018. We look forward to being able to report in the future further increases towards our target of achieving lease income of around £1m per week, based upon full investment of the existing equity and associated debt and average purchase yields.

The portfolio that has been built to date is now a leading platform in England and Wales within the social housing sector focused on specialist supported living; accommodation with a care element. It is both well diversified and provides real life enhancing benefits for almost 3,500 residents, many of whom will call a CSH house their home for years to come.

Portfolio Property Mix

All properties within the portfolio are designed to provide tailored community-based accommodation for each resident.

As at 30th September 2018, new, repurposed (for example office to residential) and purpose-built properties accounted for c. 45 per cent. of the overall portfolio with c.55 per cent. being traditional adapted.

We continue to have the opportunity to work with developers of new properties and to have the ability to advance purchase those properties subject to completion to our standards without the necessity of forward funding. This enables us to plan those acquisitions in the same way as the balance of the pipeline and reduce cash drag.

We continue to acquire properties from multiple sources and are pleased to note that 40 per cent. of the portfolio was not within the social housing sector prior to our purchase. This represents an increasing number of homes that were not previously available, and which are now within the regulated social housing sector and are intended to remain so in the long-term.

EPRA Index Inclusion and Social Impact

In reflection of the growing scale of the Company we were pleased to note the inclusion by EPRA (European Public Real Estate Association) in the FTSE EPRA Nareit Global Real Estate Index Series with effect from 24th September 2018.

In addition, we were asked to present CSH at the recent EPRA European Real Estate Investor Conference in Berlin where the Company won the “Outstanding Contribution to Society Award” designed to reflect positive social change within communities.

Social impact forms an essential part of the investing activities of CSH and we will, in conjunction with the results for the half-year to 30th September 2018 publish a further edition of our independent Social Impact Report.

Whilst we appreciate that the primary focus of many shareholders is understandably the economic performance of the Company we do believe that analysts and commentators will need to further reflect on the growing importance of social impact within the social housing sector and investing generally.

It is clear that our day-to-day engagement with partners such as local authorities, housing associations, the Regulator of Social Housing (the “Regulator”) are assisted greatly by the work we undertake to demonstrate positive social impact.

Regulation, Governance and Diligence

Following the announcement of the “CSH Best Practice Protocol” earlier in the year we continue to work actively with our now 15 housing association partners to encourage and support best practice and long-term stability within the sector.

In addition to the regular sponsored gatherings of our housing association partners, and one-to-one site visits we are now taking initiatives, in discussion with the Regulator, to enable our housing association partners to gain access to senior sector professionals and expertise and resources from those who have worked at a senior level within some of the largest associations. By taking this initiative we are supporting the growth of specialist associations as they evolve into larger organizations that will provide homes for an ever-greater number of people with care needs.

We envisage that over time the 30-50 specialist associations will continue to grow in scale but may also see the benefit of appropriate mergers where that leads to a more broadly-based association. We are encouraging of this activity.

We are also fully supportive of the Regulator in considering the specialist housing associations, and in particular those that are approaching or have passed through the 1,000-unit barrier.

Most recently the Regulator placed Trinity Housing Association Limited under a Grading under Review notice (6.9% of current rent roll) and we would expect an appropriate update in due course. This follows a Grading under Review notice in respect of Inclusion Housing Community Interest Company in May this year.

As we have indicated previously the most fundamental aspects that assist in supporting covenant strength, aside from the long-term leases themselves are:

- Determination of long-term strategic demand for the service provided
- Underlying residents who may be in situ for a number of decades
- Rents that are correctly agreed with local authorities and which are tested to demonstrate value for money
- Properties which are approved by local authorities and supported by care providers and which are correctly and professionally configured for a particular individuals' needs

A New Deal for Social Housing

In August 2018 the Government announced its housing green paper seeking views on the Government's vision for social housing and in particular in providing greater focus on the needs of residents.

This initiative is to be welcomed in demonstrating this Government's commitment to a plural housing economy in which social housing of all types plays a significant role in ensuring that the needs of residents are heard and respected.

By its nature specialist supported housing is a bespoke provision designed to meet the very specific needs of each individual resident and as such is entirely consistent with the objectives set out in the green paper.

C Share Conversion

The Prospectus issued at the time of the C share in November 2017 confirms that the trigger for conversion into Ordinary Shares is the earlier of the C Share pool being 90 per cent. invested or Wednesday 14th November 2018.

At the time the conversion trigger is achieved, a detailed announcement will be made confirming the calculation date for the respective independent valuations of both the Ordinary Shares and the C Shares together, with the target date for trading in the new Ordinary Shares to be issued to commence.

Presentation link and Web Site Upload

Last week we participated in a London based investor conference for investment funds. The CSH presentation will be uploaded on the CSH web site later today (<http://civitassocialhousing.com/investor-relations/reports-and-publications/>)

Summary

At the time of IPO in November 2016 we indicated our belief that by building a professional team of senior figures from the social housing sector together with real estate and fund management professionals we would enable CSH to become a destination investor within its chosen markets.

Today that team is over 20 people dedicated to the advancement of the Company and CSH has become widely known and we hope respected within the social housing sector.

This profile continues to demonstrate itself by the extent of the network that has been developed for the origination of new investment opportunities and by the level of positive influence that we are able to bring to the sector.

We remain committed to continue to build on this work and to ensure that CSH is able to access the best investment opportunities with respected and professional counterparties.

Civitas Housing Advisors Limited
2nd October 2018