



Update Commentary - The Growth of Specialist Supported Housing, Westmoreland Supported Housing Limited and new £100 million credit facility

Dear Shareholder,

Introduction

As we noted in the results for the 6 months to 30th September 2018, the Regulator of Social Housing ("RSH") announced earlier this year a general review of many of the housing associations that provide Specialist Supported Housing. This reflected the growing importance of the sector and the significant increase in the level of provision being made available for a much wider group of tenants with care needs.

Today, Specialist Supported Housing is an established and important part of the provision of care within the community and this is recognised by major charitable organisations such as Mencap. In July 2018 they commissioned a report (available on the Mencap website) on specialist supported housing that commented that Specialist Supported Housing "can deliver genuine housing choice," that it is "a cost-effective way of providing housing for those with the most complex needs," and recommended "it should be seen and treated by government as an important accommodation investment model, contributing to solving the housing crisis for vulnerable people."

In response to the growing importance of the sector an increasing number of housing associations have committed themselves to providing such accommodation and over recent years have grown in size as a result, often from a small local base.

Civitas works today with 15 of those organisations with whom it acts pro-actively to offer support and encouragement which includes the promotion of the best practice protocols previously announced. It is expected that this number will increase over time as the portfolio grows and seeks increasing diversification.

The work with the housing associations is an ongoing activity that involves visiting housing association partners on site and meeting on a regular basis with executive and operational teams and inspecting Civitas properties. As the RSH conducts its work, Civitas is engaged on a day-to-day basis to assist in promoting improvements to standards that reflect the growing scale and importance of the sector.

Westmoreland

The RSH has just published its regulatory judgement on Westmoreland Supported Housing Association ("Westmoreland") as part of the overall review highlighted above. It notes that Westmoreland has recently augmented its Board and is committed to further strengthening its governance arrangements as part of its ongoing work with the RSH.

It also notes that its gradings of G3/V3 require improvement and that a plan agreed with the RSH is in place with the aim of achieving that as soon as possible.

Westmoreland is one of the longest established housing associations within the Specialist Supported Housing sector having been set up as a housing provider in 2002.

In recent years it has expanded to become a national organisation with more than 1,300 tenants across over 100 local authorities and it is now seeking to enhance its business practices to better manage and streamline its activities.

In support of its growth, Westmoreland secured financing on what we understand are competitive and favourable terms and this remains in place today. It has also benefited from being able to obtain professional outsource services for certain administration functions such as rent and service charge collections from the various local authorities as well as asset management activities.

These asset management activities include working with the relevant local authority in delivering back a small number of properties to a landlord, so they have the opportunity to enhance them. Whilst these are not Civitas properties Westmoreland has indicated they believe that this is being undertaken appropriately and respecting appropriate processes.

As part of our overall monitoring activities with Westmoreland we are actively engaged both with Westmoreland itself and with the outsource and other service providers including care providers and local authorities.

Westmoreland has also provided assurance that they believe that matters relating to health and safety are up to date and should be considered compliant and that any potential for conflicts of interest are both fully disclosed and appropriately managed.

On the basis of a fully invested portfolio (c. 35% gross leverage) Westmoreland represents approximately 17% of the rent roll of Civitas which is in payment in accordance with its lease terms.

Westmoreland is an example of a housing association that was first established to provide housing support for a then young relative with care needs and as a result of its good work has expanded over the past 16 years. We remain fully supportive of Westmoreland and the steps they are taking to improve their organisation and their regulatory gradings.

HSBC Floating Rate Facility

The announcement of the half year results for the period to 30th September 2018 noted, as a post balance sheet event, that Civitas has now completed the arrangement of a £100m 3-year floating rate revolving credit facility. This is in addition to the existing 10-year term facility with Scottish Widows and the 3-year term facility with Lloyds.

Once drawn, the new HSBC facility will increase the underlying leverage (assuming the merger of the Ordinary Share and the C Share pools) from c. 13% to c. 23% as part of the overall ambition of achieving total gross leverage in the order of 35% and so offering the potential of enhanced leveraged returns for shareholders.

The financial term of the HSBC facility are competitive reflecting the diversification of the portfolio and high quality of the underlying assets.

Civitas Housing Advisors
30 November 2018