

# 2018

The **PRS REIT** plc

## Annual Report & Financial Statements

For the period from 24 February 2017  
to 30 June 2018



Company Number  
**10638461**

# Investing in newly built private rented family housing



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to 30 June 2018

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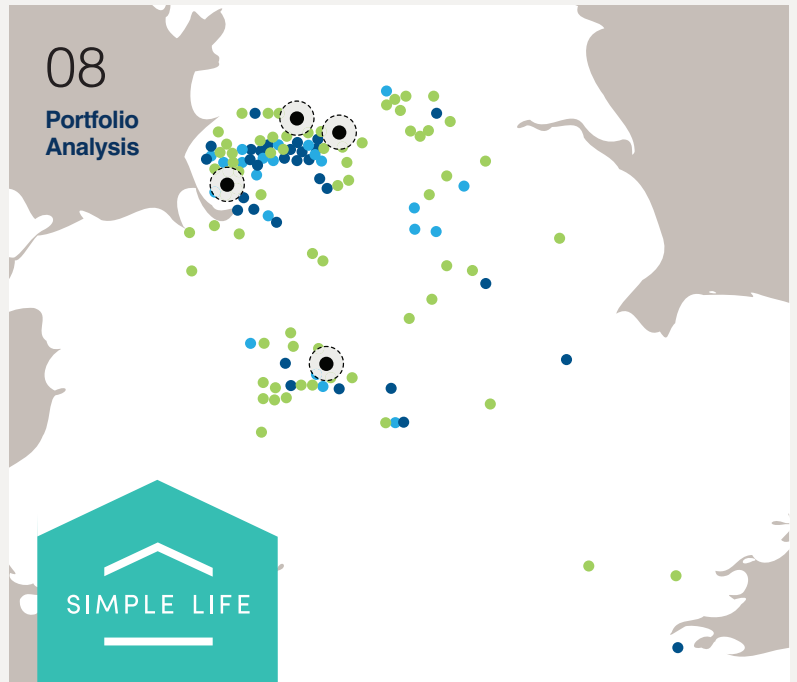


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for more information



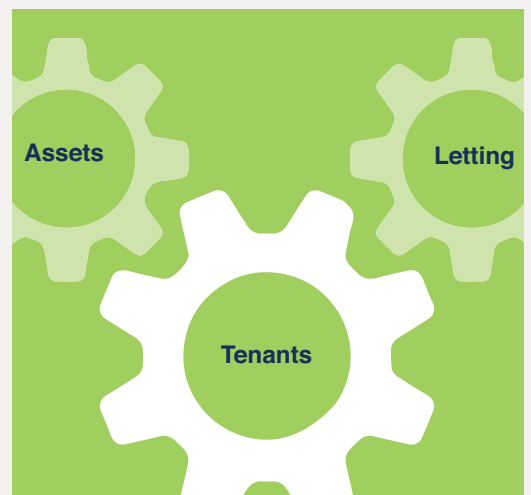
# 05

**Chairman's  
Statement**  
Steve Smith



# 16

**Our Business  
Model**



# Highlights



## Operational

### Significant progress since launch

**c.£685m**

of funding was deployed or committed to deployment in the period to 30 June 2018 rising to **c. £756m** at 30 September 2018, which equates to **c. 5,100 new rental homes** when completed

**5.0p**

Dividend target of 5p per share for the financial period was achieved – **a dividend yield of 5%**, based on the IPO issue price of 100p

### Total funding resource

**c.£900m**

**Total funding resource once additional debt facilities secured.**

Funding resources were significantly increased over the period:

- second equity placing raised an additional £250m (gross) in February 2018, following the IPO fundraise of **£250m (gross)**
- debt facilities of £200m were secured in June 2018
- additional debt facilities of £200m are under discussion. Once in place the Company's total funding resource is **c. £900m**

**The development of a large-scale, geographically diversified portfolio of high quality family rental homes is well underway.**

**405**

**Homes**

- Completed, generating annualised rental income of c. £3.6m
- completed and contracted\* development amounted to c. £248m of gross development cost ("GDC") and the estimated rental value ("ERV") of the sites when fully completed is **c. £15.5m p.a.**
- committed\* development amounted to GDC of **c. £437m** was in process, with an ERV of **c. £27.4m p.a.** once all the sites are fully built-out

## Financial

A good performance over our first thirteen months of trading

### Total Revenue

# £1.8m

generated from rental income, with net rental income of £1.5m

### Operating profit

# £2.7m

### Profit after finance income and tax

# £3.2m

# 1.0p

Earnings per share on an IFRS basis

# £486m

Net assets at 30 June 2018

Representing a net asset value ("NAV") per share on both an IFRS and EPRA basis of

# 98.3p

## Outlook

### Post Period Review and Outlook at 30 September 2018:

- > **595** homes were completed, generating an annualised rental income of £5.7m
- > completed and contracted\* development amounted to **c. £384** of GDC and the ERV of the sites when fully completed is c. £24.1m p.a.
- > committed\* development with GDC of **c. £372m** was in process, with an ERV of c. £23.0m p.a. when all sites are fully built out
- > total ERV of completed, contracted and committed development is c. £47.1m p.a.

Full commitment of **c. £900m of funding** resource is on track for early 2019

Over and above this, a further **c. £689m pipeline of qualified development opportunities** has been identified and is contractually controlled in Framework or Collaboration Agreements with partners

*"We have performed well over our first thirteen months of trading and, while there were some site-specific delays in the period, we are pleased with overall progress. About £756m of our funding resource has now been committed to the delivery of new rental housing, which represents some 5,100 new homes. Of this, 595 homes are completed and let, approximately 2,000 are under construction, and the balance is due to start construction after procurement processes have been completed.*

*"Our access to land and development opportunities is one of our key strengths, and*

### Definitions

#### Contracted

refers to sites under construction (under a design & build contract), which have been purchased by the PRS REIT or the PRS REIT's Investment Adviser (forward sold to the PRS REIT).

#### Committed

refers to development sites that have been approved or are under formal appraisal by the Investment Adviser, and where planning consent is being sought, and/or are in the process of being acquired.

#### Pipeline

Refers to sites that have been identified as being suitable for appraisal. These sites are typically sourced from Sigma's PRS Platform, and are typically under a Framework Agreement or Collaboration Agreement with a construction partner.

\* This is a target only and there can be no assurance that the target will be met. Target dividend yield target and net total shareholder returns are based on the IPO issue price of 100 pence per ordinary share.

*we remain on track to have committed £900m - our full resource when additional gearing is included - to sites early in 2019.*

*"The rental market for family homes remains especially undersupplied and we have experienced strong demand for our professionally-managed family housing. Overall, therefore, we believe that the Company is in an extremely good position to deliver our planned programme of new family homes, and to prosper as the UK rented housing sector continues to grow."*

#### Steve Smith

Non-Executive Chairman



Hamilton Square, Atherton

## Strategic Report

# Chairman's Statement

*I am pleased to present the PRS REIT's audited financial results covering the period from its launch and IPO on 31 May 2017 to its financial year end on 30 June 2018. As this is the Company's maiden set of audited results, there are no comparative figures.*

**The Company performed well over the first thirteen months of operations and we are encouraged by its progress to date. Despite some site-specific delays in the fourth quarter, the overall timetable for the delivery of the targeted c. 5,700 new family rental homes remains on track.**

As previously reported, we closed the maiden financial period to 30 June 2018, with c. £248m of completed and contracted development activity, and with an additional c. £437m committed to development sites that are due to be acquired. Annualised rental income at 30 June 2018 stood at c. £3.6m from 405 completed homes, with rental demand strong. The estimated rental value ("ERV") of the new homes that were either completed or under construction at 30 June 2018, is c. £15.5m p.a., from a total of approximately 1,710 homes.

We are pleased to report on first quarter trading for the current financial year to 30 June 2019 which shows continuing encouraging progress. Our completed and contracted development at 30 September 2018 stood at c. £384m, with a further c. £372m committed to additional development sites. A total of £756m of the PRS REIT's current available funding is therefore now in, or close to, active deployment. The sites are located across multiple regions, in line with our intention to create a geographically diverse range of new family rental homes, across main conurbations in England, outside of London.

We are aiming to commit our total potential resource of c. £900m (once fully geared) early in the second half of the financial year to 30 June 2019. Over and above this, a c. £689m pipeline of qualified development opportunities has been identified and is contracted through Framework or Collaboration Agreements with partners.

The Investment Adviser's report, which covers the Company's business model and progress, is on pages 20 to 25.



## Financial Results

The Company's revenues for the period from 31 May 2017 to 30 June 2018 amounted to £1.8m and were generated by rental income. After the deduction of non-recoverable property costs, net rental income was £1.5m. Expenses in the period were £4.3m and the gain from the fair value adjustment on investment property was £5.5m. As a result, the Company's operating profit was £2.7m.

Finance income from short term deposits was £0.6m. The profit after taxation was £3.2m and basic and diluted earnings per share on an IFRS basis were 1.0p.

Net assets as at 30 June 2018 stood at £486m, representing a net asset value ("NAV") per share of 98.3p on an IFRS basis, as adopted by the European Union. As at 30 June 2018, there is no difference between the IFRS NAV per share and the EPRA NAV per share.

## Dividends

The Company's policy is to pay dividends to shareholders on a quarterly basis.

For the period to 30 June 2018, the Company paid total dividends amounting to 5p per share, which was in line with the target stated in its IPO Prospectus.

## Outlook

The Board would like to thank the Company's shareholders and other stakeholders for their support in the PRS REIT's first period. While there have been challenges, as at 30 September 2018, we have completed, contracted or committed on c. £756m of development, representing approximately 5,100 new

rental homes. Our geographic coverage is diverse and now extends to over 60 sites, including those sites currently being developed under forward purchase agreements that we intend to buy, once completed and let. This represents excellent progress as we move towards the full deployment of c. £900m of funding when our second tranche of £200m of borrowings is in place.

The structural drivers supporting the growth in the private rented sector remain strong, and the limited supply of high quality new rental housing, house price inflation, affordability constraints and an increase in the number of households, will be favourable to our growing stock of high quality rental houses.

The rental market for family homes, as opposed to flats, is especially undersupplied, and we have found ready demand for our professionally managed rental homes.

The Company's access to land is one of its key strengths and we believe this aspect of our model, in particular, places the Group in an extremely good position to deliver its planned programme and to prosper as the UK rented housing sector continues to grow.

**Steve Smith**

Chairman

9 October 2018

## IFRS and EPRA Performance Measures

KPI	Explanation	Performance
<b>IFRS NAV</b>	Unadjusted net asset value	98.3p per share
<b>EPRA NAV</b>	Net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long term property business model	98.3p per share
<b>EPRA Cost Ratio</b>	Administrative & operating costs (including & excluding costs of direct vacancy) divided by gross rental income	For the period from 31 May 2017 to 30 June 2018 the administrative and operating costs were higher than the rental income.
<b>EPS</b>	Unadjusted earnings per share	1.0p per share
<b>EPRA EPS</b>	Earnings per share excluding investment property revaluations, gains and losses on disposals, changes in the fair value of financial instruments and associated close out costs and their related taxation	0.7p loss per share



# Market Dynamics

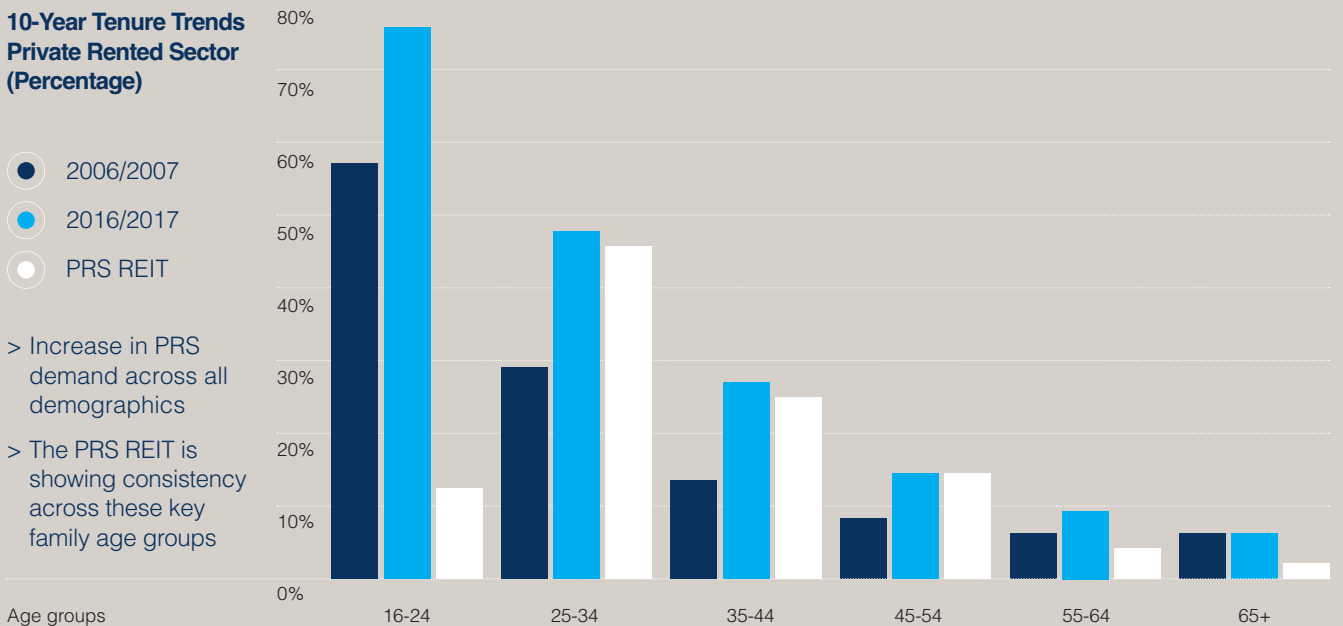
## Addressing the property crisis in the UK

<h3>01</h3>	<p>The UK needs to deliver at least <b>300,000</b> new dwellings per annum to answer demand and population change</p>	<p>The Company will have the financial resource to deliver c.<b>5,700</b> new houses to address that demand</p>
<h3>02</h3>	<p>Mortgage regulation is <b>making it difficult</b> for many to access the housing ladder</p>	<p>The Company is providing an alternative with the creation of a portfolio of <b>accessible quality housing</b> for rent</p>
<h3>03</h3>	<p>Housing shortfall in England is <b>four million</b>, much higher than thought, says new report</p> <p><small>Source: Heriot Watt, Crisis, National Housing Federation</small></p>	<p>We have c.<b>£689m</b> of committed and contracted property development currently in place</p>
<h3>04</h3>	<p>PRS seen as a <b>key driver</b> for housing delivery</p>	<p>Now prescribed through the NPPF as its own asset class in recognition of its ability to accelerate the delivery of housing</p>

**10-Year Tenure Trends Private Rented Sector (Percentage)**

- 2006/2007
- 2016/2017
- PRS REIT

- > Increase in PRS demand across all demographics
- > The PRS REIT is showing consistency across these key family age groups



# Portfolio Analysis

As at 30 June 2018, the valuation of the Group's property portfolio was £121,109,000 with an Investment Value on completion of all sites of £194,210,000 and ERV on completion of £11,656,740.

## Property Portfolio by Regional Split

– at 30 June 2018

- > The regional split by investment value is – North West (NW) 68.9%, Yorkshire (Y) 26.9% and West Midlands (WM) 4.2%.
- > Majority of initial portfolio is located in the North West and Yorkshire but proportion of sites in West Midlands is set to gradually increase as will other geographies diversifying the regional mix.

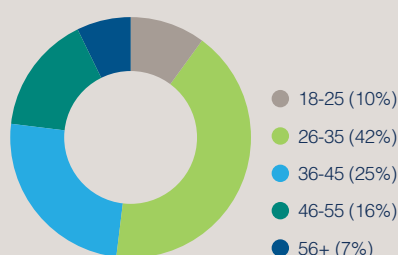
## Other Metrics

– at 30 June 2018

- > Average rent across the portfolio is £9,121 per annum (£760 per month).
- > Average site size is 64 housing units.
- > The split between 1, 2, 3 and 4 bed properties is approximately 1%, 13%, 72% and 14% respectively
- > Contractor split – Countryside 61.8%; Engie 22.9%; Keepmoat Homes 12.2% and Galliford Try 3.1%
- > Current deduction from gross to net rent across the portfolio at 30 June 2018 is 15.5%
- > Bad debts written off – £nil

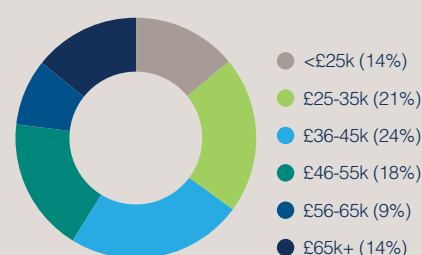
## Our Tenants

### Age Groupings



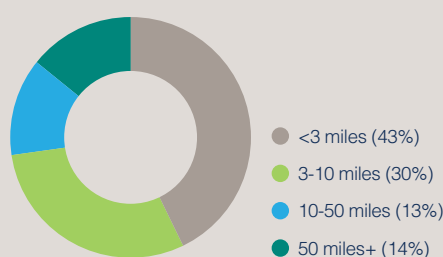
Two thirds of tenants come from within the 26-45 age groupings, reflecting the focus on a family housing model. The remaining groups tap into first home and early retiree markets, accommodated by a varied offering of house types.

### Household Income



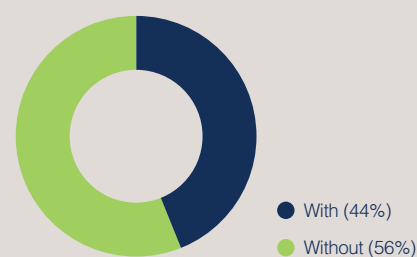
Average income of tenants sits within the £25-45k range, providing our principal target audience for high quality homes suitable for working families and couples. However the tenant base also includes a significant number of residents in the upper ranges.

### Distance Travelled



The number of tenants coming from further afield suggests a willingness to travel for a quality product, whilst just under half of residents coming from the local area reflects an enhancement of local housing stock.

### Tenancies with Children



Tenancies with and without children is even overall, although on a site specific basis there are wider variations particularly between urban and suburban locations. The majority of tenants without children are couples who want to live in high quality new homes pre- and post-family.

# 405

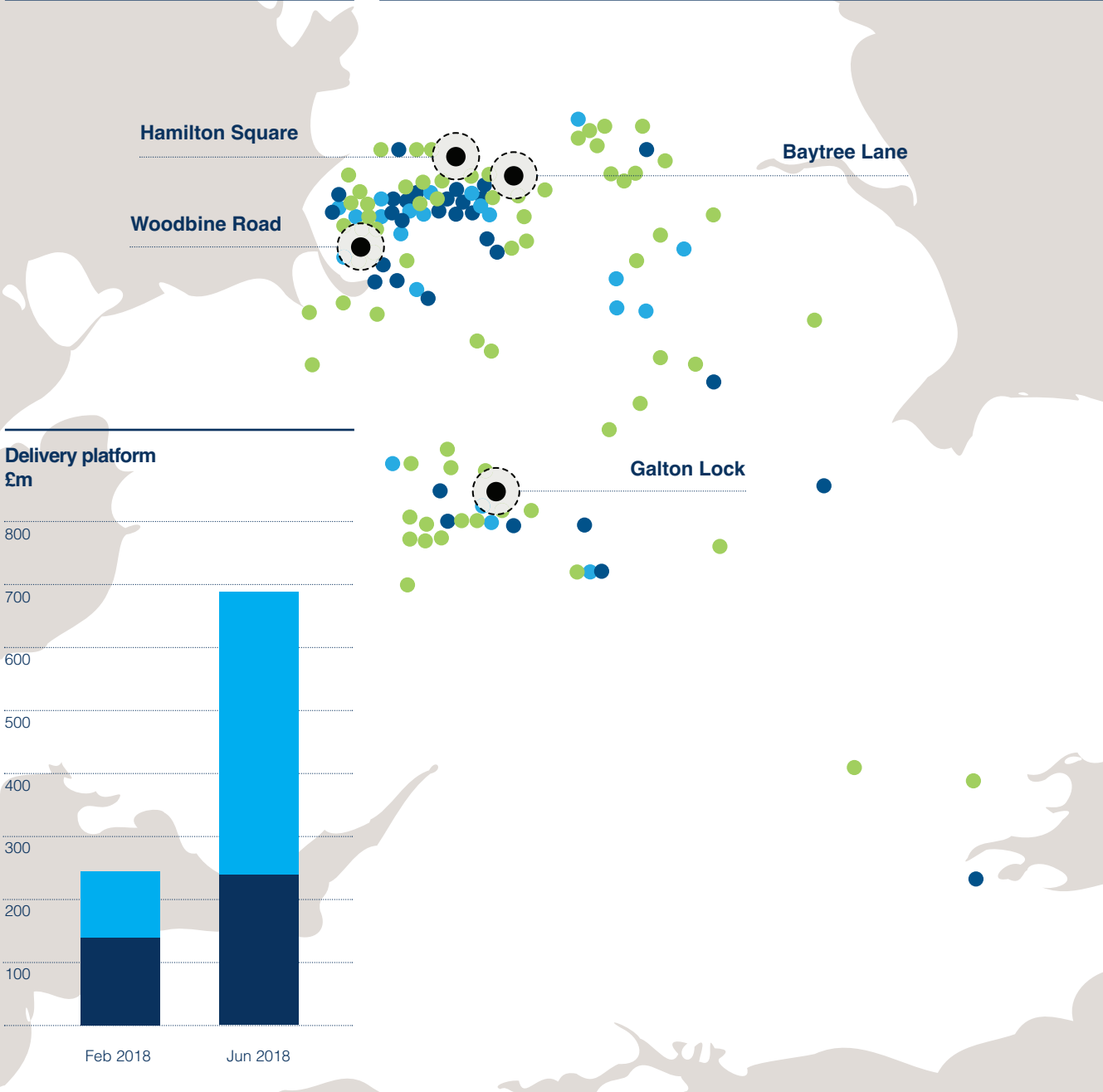
**Homes completed at 30 June 2018**  
with ERV of c.£3.6m p.a.

# c.£248m

**Completed and contracted development**  
with ERV of c.£15.5m p.a.

# c.£437m

**Committed development**  
with ERV of c.£27.4m p.a.



- Committed
- Pipeline
- Contracted
- Contracted
- Committed
- Featured Developments

## Featured Developments



**Baytree Lane**  
Middleton,  
Greater Manchester

**110 units comprising  
2, 3 & 4 bedroom houses**

**Rent: c. £1,031,160 p.a.**

**The properties are a mix of two, three and four bedroom houses and will provide a total of 110 new units.**

**The site completed development in September 2018.**

Baytree Lane is close to a main road with small convenience shops and within easy distance of Middleton town centre with a wider range of shops and supermarkets.

The local train station Mills Hill which is within a few minutes' walk of the site has good links to Manchester and other neighbouring towns. While the M60 is a 5 min drive away giving easy access to the rest of Greater Manchester.

The Middleton area also boasts a number of Ofsted rated 'Good' and 'Outstanding', including Elm Wood Primary School, Mills Hill Primary School and The Radclyffe school, all within a mile from Baytree Lane.



**Woodbine Road**  
Halewood,  
Liverpool

**50 units comprising  
2 & 3 bedroom houses**

**Rent: c. £458,460 p.a.**

**Everything you need is right on your doorstep at Woodbine Road, with travel links to the city centre and beyond via bus, road and rail. Liverpool Airport and the M62 are both within easy reach, with the nearest railway station less than half a mile away.**

Woolton Village has many modern amenities close by and excellent schools a few minutes from the development.



**Galton Lock**  
Smethwick, West Midlands  
(Acquired from Sigma Capital Group plc  
in August 2018)

**63 units comprising  
2, 3 & 4 bedroom houses**

**Rent: c. £584,000 p.a.**

**The area has great transport links being less than 5 minutes' drive to the nearest junction of the M5 giving it access to the wider West Midlands and also within easy reach of the A41.**

The site also benefits from excellent public transport links with a good bus service to all the local centres and Birmingham City Centre as well as 3 train / tram stops all within ½ mile of the site with regular and direct access to Birmingham and Wolverhampton.

Galton Lock is also sited at the side of the Birmingham canal which can be used for recreation and or provided ideal cycle routes in and out of Birmingham. There are an abundance of local shops including fast food outlets, a local library, Post Office, Supermarkets and other local amenities all within easy reach.



**Hamilton Square**  
Atherton,  
Greater Manchester

**59 units comprising  
2, 3 & 4 bedroom houses**

**Rent: c. £539,100 p.a.**

**Atherton lies 5 miles east of Wigan, 2 miles north of Leigh and 5.6 miles from Bolton.**

Atherton is well serviced for road networks with easy access to the A580, the M61 to Manchester and Liverpool (via A579) and Bolton, the M62 and M6 via the A580.

There are two local rail stations located 0.5 miles and 0.9 miles respectively from the site that offers links to Manchester, Bolton, Wigan, Liverpool, Southport, Leeds and Huddersfield.

Adjacent to the site is a local Fire Station, Police Station and a former mill, 'Ena Mill' which is now a retail outlet selling clothing, gifts and home furnishings. Hamilton Square offers good access to educational, recreational and retail amenities, with the local centre situated 0.5 miles from the site. In addition, Parsonage Retail Park is located 2.8 miles from the development which offers many familiar high street brands such as M&S, Next and Sainsbury's.

# Property Portfolio

## Location key:

<b>NW</b>	North West
<b>Y</b>	Yorkshire
<b>WM</b>	West Midlands

Location	Units	Area (sq.ft)	% of Portfolio by Investment Value	Valuation as at 30 June 2018	Investment Value of the Property as at 30 June 2018	Capital Rate psf	Expected RV per annum on completion as at 30 June 2018	Rental Rate psf
<b>Baytree Lane, Middleton</b>								
<b>NW</b>	<b>110</b>	<b>98,346</b>	<b>8.84%</b>	<b>£16,619,000</b>	<b>£17,170,000</b>	<b>£174.59</b>	<b>£1,031,160</b>	<b>£10.49</b>
The property comprises a mix of two, three and four bedroom houses and will provide a total of 110 new units. The site completed development in September 2018 and is fully let.								
<b>Woodford Lodge, Winsford (Phase 1)</b>								
<b>NW</b>	<b>14</b>	<b>11,024</b>	<b>1.09%</b>	<b>£2,115,000</b>	<b>£2,110,000</b>	<b>£191.40</b>	<b>£126,840</b>	<b>£11.51</b>
The property comprises 14 houses with a mix of two, three and four bedrooms. The scheme is complete with all units let.								
<b>Woodford Lodge, Winsford (Phase 2)</b>								
<b>NW</b>	<b>40</b>	<b>34,481</b>	<b>3.23%</b>	<b>£3,825,000</b>	<b>£6,275,000</b>	<b>£181.98</b>	<b>£376,920</b>	<b>£10.93</b>
The property comprises an additional 40 houses to phase one of the development. Construction works have commenced, with completion due in December 2018.								
<b>Tintern Avenue, Middleton (Shrewsbury Close)</b>								
<b>NW</b>	<b>88</b>	<b>74,322</b>	<b>6.61%</b>	<b>£9,440,000</b>	<b>£12,835,000</b>	<b>£172.69</b>	<b>£770,880</b>	<b>£10.37</b>
The subject property proposes 88 houses with a mix of two, three and four bedroom houses. Construction works are well progressed and construction is due to complete in October 2018.								

Location	Units	Area (sq.ft)	% of Portfolio by Investment Value	Valuation as at 30 June 2018	Investment Value of the Property as at 30 June 2018	Capital Rate psf	Expected RV per annum on completion as at 30 June 2018	Rental Rate psf
<b>Howe Bridge Mill, Atherton (Hamilton Square)</b>								
NW	59	51,106	4.71%	£9,145,000	£9,145,000	£178.94	£539,100	£10.55
This completed site comprises 59 houses with a mix of two, three and four bedrooms. The scheme is currently fully let.								
<b>Leach Lane, St Helens (Juniper Grove)</b>								
NW	55	46,303	4.29%	£4,490,000	£8,335,000	£180.01	£482,160	£10.41
The property comprises 55 houses with a mix of two and three bedrooms. Construction works are well progressed and construction is due to complete in December 2018.								
<b>Yew Gardens, Granby Road, Doncaster</b>								
Y	53	42,010	3.31%	£3,800,000	£6,435,000	£153.18	£408,120	£9.71
The property comprises 53 houses with a mix of two and three bedrooms. Construction works are well progressed and construction is due to complete in March 2019.								
<b>Monkswood Crescent, Coventry (Spirit Quarters)</b>								
WM	29	27,522	2.53%	£3,800,000*	£4,920,000	£178.77	£283,320	£10.29
The property comprises 29 houses, with a mix of three and four bedrooms. Construction works are well progressed and construction is due to complete in March 2019. (*including Milverton)								
<b>Milverton Crescent, Coventry (Spirit Quarters)</b>								
WM	20	17,140	1.72%	Figure as above	£3,335,000	£194.57	£194,460	£11.35
The property comprises 20 houses, with a mix of three and four bedrooms. Construction works are well progressed and construction is due to complete in March 2019.								
<b>Romanby Shaw, Bradford (Holybrook)</b>								
Y	47	39,612	3.66%	£1,820,000	£7,115,000	£179.62	£420,960	£10.63
The property comprises 47 houses, with a mix of two, three and four bedrooms. Construction works are well progressed and construction is due to complete in August 2019.								

Portfolio Analysis (continued)

Location	Units	Area (sq.ft)	% of Portfolio by Investment Value	Valuation as at 30 June 2018	Investment Value of the Property as at 30 June 2018	Capital Rate psf	Expected RV per annum on completion as at 30 June 2018	Rental Rate psf
<b>Chase Park, Ellesmere Port</b>								
NW	40	40,126	3.31%	£3,650,000	£6,435,000	£160.37	£386,520	£9.63
The property comprises 40 houses, with a mix of two, three and four bedroom houses. Construction works are well progressed and construction is due to complete in March 2019.								
<b>Carr Lane, Prescott (Prescot Park)</b>								
NW	140	116,016	11.17%	£6,655,000	£21,685,000	£186.91	£1,276,500	£11.00
The property comprises 24 one and two bedroom apartments and 116 houses, with a mix of three and four bedrooms. Construction works are well progressed and construction is due to complete in November 2019.								
<b>Earle Street, Newton-le-Willows</b>								
NW	97	80,451	7.45%	£4,565,000	£14,470,000	£179.86	£862,500	£10.72
The property comprises 24 one and two bedroom apartments and 73 houses, with a mix of three and four bedrooms. Construction works are well progressed and construction is due to complete in August 2019.								
<b>East Bank Road, Sheffield (East Hill Gardens)</b>								
Y	58	59,217	5.05%	£3,660,000	£9,815,000	£165.75	£589,620	£9.96
The property forms part of a wider development site. It comprises 58 units, with a mix of three and four bedrooms. Development works have commenced and is due to complete in July 2019.								
<b>Mackets Lane, Halewood, Liverpool (Woodbine Road)</b>								
NW	50	40,540	3.87%	£7,510,000	£7,510,000	£185.25	£458,460	£11.31
The property comprises 50 houses with a mix of two and three bedrooms. The scheme is complete and fully let.								
<b>Norfolk Park, Park Grange Road, Sheffield (Park Grange House)</b>								
Y	24	18,447	1.67%	£3,240,000	£3,240,000	£175.64	£207,300	£11.24
The property proposes 24 two bedroom apartments. This site is in an area zoned for residential and compatible uses, forming part of a wider regeneration area. The scheme is complete and fully let.								



Location	Units	Area (sq.ft)	% of Portfolio by Investment Value	Valuation as at 30 June 2018	Investment Value of the Property as at 30 June 2018	Capital Rate psf	Expected RV per annum on completion as at 30 June 2018	Rental Rate psf
<b>Tower Hill 2, Knowsley (Highfield Green)</b>								
NW	42	37,247	3.13%	£5,680,000	£6,085,000	£163.37	£371,820	£9.98
The property comprises 42 houses with a mix of three and four bedrooms. The site completed development in September 2018 and is fully let.								
<b>Manor Top (Phase 1), Sheffield (Prince's Gardens)</b>								
Y	78	78,628	6.22%	£6,350,000	£12,085,000	£153.70	£741,720	£9.43
The property forms part of a wider development site with 78 units, being a mix of three and four bedrooms. Development works have commenced and construction is due to complete in April 2019.								
<b>Manor Top (Phase 2), Sheffield (Prince's Gardens)</b>								
Y	85	89,916	6.99%	£3,115,000	£13,580,000	£151.03	£829,200	£9.22
The property forms part of a wider development site with 85 units, being a mix of three and four bedrooms. Development works have commenced and construction is due to complete in March 2020.								
<b>Durban Mill, Oldham</b>								
NW	80	69,425	6.02%	£11,690,000	£11,690,000	£168.38	£702,180	£10.11
The property comprises 80 houses, with a mix of two, three and four bedrooms. The scheme is complete and fully let.								
<b>Coral Mill, Newhey, Rochdale</b>								
NW	69	54,282	5.12%	£9,940,000	£9,940,000	£183.12	£597,000	£11.00
The property proposes 45 houses with a mix of three and four bedrooms as well as 24, two bedroom low rise apartments. The scheme is complete and fully let.								
<b>Total</b>	<b>1,278</b>	<b>1,126,161</b>	<b>100.00%</b>	<b>£121,109,000</b>	<b>£194,210,000</b>	<b>£172.45</b>	<b>£11,656,740</b>	<b>£10.35</b>

# Investment Strategy & Business Model

## Business Model

It is widely recognised that the UK housing market has significant supply side and affordability issues, with many reports citing that millennials have either no intention or little prospect of ever owning a home. It is similarly acknowledged that the UK needs to deliver at least 300,000 new dwellings per annum to take account of demand and population change, but over the last 5 years the average delivery has been 168,000, which has created a significant supply side deficit and will merely exacerbate the issues already apparent. Clearly an imbalance in supply and demand serves only to have an inflationary effect on house prices testing already stretched affordability created by the need to save for large deposits and the impacts of the Mortgage Market Review which placed controls on loan to value ratios. Set in this context, the Company is providing an alternative for those disenfranchised by the market conditions by the creation of a portfolio of accessible quality housing to rent.

The Company has developed a repeatable business model through use of the Investment Adviser's platform which delivers brand new houses through its construction partners. The homes are from a range of house types which have been carefully selected and have a standardised specification alongside known delivery metrics including above ground cost and construction time. This consistency of approach is designed to improve the predictability of total delivery costs and to reduce the long term asset management of the homes by homogenising the house types at a portfolio level and the internal specification at the dwelling level. By the

## A winning strategy

Deal of the Year  
2018

PRS Deal of the Year  
2018

Highly commended  
Landlord of the Year  
2018 – Simple Life



use of fixed price design and build contracts on sites which have detailed planning consent, the Company exposes itself to minimal development risk. Our development partners, meanwhile look to maximise their return on capital by building the housing at construction pace rather than at a pace for sale, which is at least four times quicker, thus allowing income flow to occur

more quickly during the construction phase. In a time of low housing delivery and government focus on the housing crisis, this delivery methodology is extremely attractive to the councils and local authorities we talk to and work with, not only for accelerated Council Tax receipts, New Homes Bonus and accelerated regeneration effect but also the ability to offer a new managed tenure



**The PRS delivery platform**

Visibility on the potential delivery of 10,000+ new homes for the private rented sector



01



02



03



**Secure Delivery Chain Construction Framework Agreements with:**



- Land opportunities
- Construction resource
- Fixed price D&B
- Innovative construction delivery process



**Direct Investment in the PRS REIT**

- Bespoke land delivery projects
- Revolving credit facility to Sigma Capital Group



**Strong Local Authority Relationships**

- Land delivery & planning across the North West, North East, Midlands and South of England

Letting and management agents have comprehensive geographic coverage.  
Long term incentive contract structure geared to and aligned with investor needs.

for their constituents which currently does not exist in any scale outside the Company.

The active management of our developments and the creation of communities is key to the long term success of the Company and all of the assets are managed under the brand 'Simple Life.' All customer contact is made through this brand which as the

portfolio grows is becoming increasingly familiar to the wider market and instills confidence in prospective customers that by renting through the brand they will be living in a desirable, well maintained dwelling managed by a responsible, professional landlord.

When planning the developments our research dictates the mix and types of houses we employ, making provision for

those starting out with a first move from home, through our main target demographic of young families, but ensuring there are sufficient larger houses on site for more mature families as well. This range of housing provides choice, which allows for a broader range of potential customers, as well as allowing those already living with us to have options to move to different house

types at different life stages. It is this diversity of customer which creates a functional community, whilst mitigating letting and void risk.

The Company's approach to its operational geography as well as its focus on houses, rather than apartment blocks, provides further risk mitigation. By expanding the numbers of locations where we create communities we minimise the risks from local factors, such as the failure of major employers. Developments are relatively small by comparison to the portfolio, and critically the granularity of our customer base provides particularly low income volatility, especially as we expect our average tenancy to last for 3 years. Furthermore the targeted expansion of the Company's geography creates a good mix of sites which, once built, demonstrate both higher yielding profiles (predominantly those in the north) and developments where there is significant headroom

between the delivery cost and market value.

This approach has created a robust business which answers both a social need whilst providing investors with an attractive level of income and the potential for capital growth.

### Investment Objectives

The Company will seek to provide investors with an attractive level of income together with the prospect of income and capital growth through investment in a portfolio of newly constructed residential private rented sector sites of multiple units ("PRS Units") comprising mainly family homes, to be let on Assured Shorthold Tenancies (as defined in the Housing Act 1988) to qualifying tenants to deliver, on a fully invested and geared basis a targeted dividend yield of 6% and total returns of

10% plus per annum which is expected to broadly rise with inflation.

### Investment Policy

The Company's investment policy is to pursue its investment objective by investing in PRS Units in towns and cities in the UK.

The Company is focused on creating a portfolio of homes targeted at the family market, the largest cohort within the private rented sector and will, therefore, invest predominantly in housing, with the addition of some low rise apartments to provide both choice and wider market appeal, in the major conurbations and larger employment centres in England outside London. The locations are chosen for their accessibility, in that they are situated on the main road and rail links, including the proposed High Speed rail network, as well as access to



Woodbine Road, Halewood

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*“The Company is focused on creating a portfolio of homes targeting the family market, the largest cohort within the private rented sector.”*

good primary schooling and their current and potential economic activity, promoting long term employment prospects and thereby a strong housing need. The new build nature of the assets, alongside standardised specifications, means that they benefit from a 10 year building warranty, typically from the NHBC (National House Building Council) as well as manufacturers warranties, providing for a low level of capital expenditure allied to a predictable and low cost maintenance regime.

The sourcing of assets is undertaken by the Investment Adviser (“Sigma PRS”) and is done so by two methods. In the first instance, development sites (‘PRS Development Sites’) are selected and assessed, detailed planning permission achieved and a fixed price design and build contract signed with one of the Sigma PRS’s construction partners, the delivery process being managed on behalf of the Company by Sigma PRS. As the assets are acquired with detailed planning consent and fixed price design and build contracts, the Company is exposed to minimal development risk and the construction risk is mitigated with standard design and build contracts with Liquidated damages for non-performance, financial retentions for one

year post completion and a Parent Company Guarantee from our construction partners guaranteeing the delivery and quality of the product. The Company will source approximately two thirds of its assets in this way.

To expedite the growth of the Company, the balance of assets will be acquired by entering into forward purchase agreements with the Sigma Capital Group plc (“SCG”), the ultimate holding company of Sigma PRS, which will be acquired as completed and stabilised developments using the same construction partners and supply chain, thereby ensuring homogeneity of the housing stock.

### Investment Restrictions

The Company’s portfolio of completed PRS sites acquired from the SCG and PRS Development Sites will be invested and managed with the objective of delivering a high quality, diversified portfolio through the following investment restrictions:

- > The Company will only invest in private rented residential houses and apartments located in the UK (predominantly in England)
- > No investment in the Company in any completed PRS site or PRS Development Site shall exceed 20 percent of the aggregate value of total assets of the Company at the time of commitment as determined in accordance with the accounting principles adopted by the Company from time to time (the ‘Gross Asset Value’)
- > The Company will not invest in other alternative investment funds or closed ended investment companies.

### Debt Financing and Gearing

The PRS REIT will seek to use gearing to enhance equity returns. The level of borrowing will be on a prudent basis for the asset class, whilst maintaining flexibility in the underlying security requirements and the structure of both the PRS Portfolio and the Group. The

Group may raise debt from banks, Homes England and/or the capital markets and the aggregate borrowings of the Group will always be subject to an absolute maximum, calculated at the time of drawdown of the relevant borrowings, of not more than 45 per cent of the Gross Asset Value (although the Investment Adviser expects actual gearing to settle to below 40 per cent following stabilisation of the PRS Portfolio).

At the end of June 2018, the Group has agreed debt facilities of £100m with the Lloyds Banking Group and £100m with Scottish Widows.

The facility with Lloyds is a revolving credit facility for an initial term of 2 years which can be extended for up to a further two years. Interest is based on 3 month LIBOR plus applicable margin and the loan is secured over assets allocated to Lloyds Banking Group.

The facility with Scottish Widows is a term loan of 15 years which will be drawn in two equal instalments fixed for March and April 2019. Interest was fixed at the 15 year swap rate of 1.588% plus applicable margin and the loan is secured over assets allocated to Scottish Widows.

The Investment Adviser is already engaged with its banking partners and the market in relation to the next tranche of debt of up to £200m.

### Derivatives

The PRS REIT may utilise derivatives for efficient portfolio management. In particular, the Company may engage in full or partial interest rate hedging or otherwise seek to mitigate the risk of interest rate increases on borrowings incurred in accordance with the gearing limits as part of the management of the PRS Portfolio.

### REIT Status

The Company will at all times conduct its affairs so as to enable it to remain qualified as a REIT for the purposes of Part 12 of the Corporation Tax Act 2010 (and the regulations made thereunder).

# Investment Adviser's Report



**Graham Barnett**  
CEO, Sigma Capital Group plc

**Sigma PRS Management Ltd (“Sigma PRS”), the Company’s Investment Adviser and a wholly-owned subsidiary of Sigma Capital Group plc, is pleased to provide its report on the PRS REIT’s activities and progress since its launch on 31 May 2017.**

## **Business Activities**

The PRS REIT plc is a public limited company incorporated in England on 24 February 2017. The PRS REIT, together with its subsidiaries, is the first quoted Real Estate Investment Trust (“REIT”) to focus on the Private Rented Sector (“PRS”).

On 31 May 2017, the Company successfully completed its IPO raising initial gross proceeds of £250m through

the issue of 250 million ordinary shares of one pence each. The shares were admitted to trading on the Specialist Fund Segment of the Main Market of the London Stock Exchange. On completion of the IPO, Sigma PRS Management Ltd was appointed as Investment Adviser to the Company.

## **Investment Objective and Business Model**

The PRS REIT is seeking to provide investors with an attractive level of income, together with the prospect of income and capital growth, through investment in a portfolio of newly-constructed residential private rented sector sites of multiple units, comprising mainly family homes, let on Assured Shorthold Tenancies (as defined in the Housing Act 1988) to qualifying tenants.

*High deposits pose a barrier to ownership with the requirement being 19 per cent of the purchase price - representing over 60 per cent of annual household income.*

The Company is investing in multiple sites in cities and towns across the UK, mainly targeting the largest employment centres in England, outside of London. The locations closely follow the main rail and road infrastructure, and rental homes will be new-build and come with the benefit of 10 year National House Building Council or equivalent warranties.

The Company is concentrating on traditional housing, which has a broad spectrum of demand, with differing house types for different life stages, including smaller houses for young couples and families, and larger houses for growing families. It will also invest in some low rise flats in appropriate locations.

The PRS REIT is building its portfolio of PRS assets in two ways:

- > by acquiring residential development opportunities, with these development sites sourced and managed by Sigma PRS (or another member of Sigma Capital Group plc acting as development manager). When completed, homes on these sites are subsequently let to individual qualifying tenants. The PRS REIT aims to fund a minimum of two-thirds of the new properties this way.
- > by acquiring already completed and let PRS sites that fulfil the Company's investment objectives,

including return and occupancy hurdles. Completed sites are acquired from Sigma Capital Group plc, pursuant to a forward purchase agreement between the PRS REIT and Sigma Capital Group plc. Should the opportunity arise, the PRS REIT may acquire newly-built PRS assets, from third party vendors. The Company has the ability to fund up to a maximum of one third of new properties in this manner.

The PRS REIT retains the right of first refusal to acquire and develop any sites sourced by Sigma PRS that meets its investment objective and policy.

There are certain restrictions in the PRS REIT's investment policy, for instance the PRS REIT will not invest in other alternative investment funds or closed-end investment companies.

## Achieving Scale and Reducing Risk

### The Sigma PRS Platform

The Investment Adviser is utilising Sigma Capital Group plc's well-established PRS delivery platform ("Sigma PRS Platform") to help the PRS REIT achieve scale and to minimise development and operational risk. It plays a central role in sourcing and developing investment opportunities.

The Sigma PRS Platform comprises relationships with construction partners, central government, and local authorities. The primary construction partner is Countryside Properties which has undertaken to deliver a minimum of 5,000 new family homes in the next three years via the Sigma PRS Platform, over and above those already in process. Other construction partners include Engie, Keepmoat Homes and Galliford Try. Homes England (formerly known as Homes and Communities Agency), which is an executive non-departmental public body sponsored by the Ministry of Housing, Communities & Local Government, works closely with Sigma in the common goal of accelerating new housing delivery in England.

All pre-development risks are identified and underwritten by Sigma Capital Group plc and its partners, and development sites will have an appropriate certificate of title, detailed planning consent and a fixed price design and build contract with one of Sigma Capital Group plc's housebuilding partners. During the construction phase, the properties are pre-let and subsequently occupied as they complete.

Through its wide network of relationships, the Sigma PRS Platform is an excellent source of land for development sites, and is also able to deliver a variety of high-quality house types efficiently and in volume. This strongly underpins the PRS REIT's objective to build at scale and across multiple geographies.

### Multiple Geographies

By creating assets across multiple locations and regions, we aim to minimise the PRS REIT's concentration risk.

We are targeting a mix of locations that demonstrate both higher yielding profiles (predominantly those in the North of England) and developments where there is greater potential for capital appreciation (often in our Southern opportunities). Proximity to good primary schools is also key factor for us as we select sites.

In addition, no investment will be made in any single completed PRS site or PRS development site that exceeds 20 per cent of the aggregate value of the total assets of the Company at the time of commitment.

### Simple Life Brand

Our rental homes are marketed under the 'Simple Life' brand ([www.simplelifehomes.co.uk](http://www.simplelifehomes.co.uk)). As well as providing tenants with well-designed, quality homes, it is important to us that tenants also receive high customer service levels. The creation of the Simple Life brand helps to identify our product to potential customers and, over time, we would like it to be recognised as the 'gold standard' for tenant experience.

We believe that the long term nature of our approach to the ownership of our assets will help to promote a sense of tenant security, and that the neighbourhood initiatives we sponsor will also help to foster a sense of community.

## **Financing Resource**

### **Equity Placing Programme**

At the end of January 2018, having fully committed the net proceeds of the funds raised at the Company's IPO on 31 May 2017, a second equity placing was announced. This placing closed early on 20 February 2018, raising gross proceeds of £250m at 102.5p per share, from both existing and new shareholders. As previously reported, Homes England, participated in this second placing, taking its direct investment in the Company to a total of c. £30m.

### **Debt Facilities**

The Company is using gearing to enhance equity returns and, at the end of June 2018, completed terms for debt facilities totalling £200m. The facilities are provided by Scottish Widows ("SW") and Lloyds Banking Group ("LBG") and were agreed after a review of the market undertaken by J C Rathbone Associates.

We are currently holding discussions to put in place a further £200m of debt facilities. The PRS REIT's aggregate borrowings will always be subject to an absolute maximum, calculated at the time of drawdown of the relevant borrowings of not more than 45 per cent of the gross asset value.

## **Operational Review**

### **Development Activity and Acquisitions**

During the period under review, total development activity either completed, contracted or committed amounted to c. 4,600 new family homes with a total gross development cost ("GDC") of approximately £685m. These homes, consisting of two, three and four bedroomed properties, are located across the major conurbations of England including the North West, Yorkshire, East Midlands, West Midlands and the South of England, and are being delivered by our construction partners, Countryside Properties, Engie, Keepmoat Homes and Galliford Try. The ERV of these properties is expected to be in the region of £42.9m p.a.

Since IPO to 30 June 2018, the Company has acquired five fully-developed and let PRS sites from Sigma Capital Group plc. Four of these sites are located in the North West of England, with the fifth situated in Yorkshire. The five sites were acquired for c. £51m in total, having been independently valued by a third party for the PRS REIT. Together, they comprise 282 PRS homes and generate an annualised rental income of c. £2.5m.

At the end of June 2018, including those homes delivered through the Company's development activity, the PRS REIT had a portfolio of 405 completed homes, generating an annualised rent income of c. £3.6m.

## **Construction Resource**

The construction resource available to the PRS REIT was substantially increased in June 2018 through a new Collaboration Agreement with Countryside Properties PLC ("Countryside") and Sigma Capital Group plc. This new agreement is targeting the delivery of a further 5,000 PRS homes via the Sigma PRS Platform over the next three years, over and above those already in process. Most importantly, the agreement allows Sigma PRS to map out the PRS REIT's continuing delivery and expansion with significantly greater clarity. The commitment also allows Countryside to deliver homes more quickly on its larger, mixed tenure sites.

Other construction partners added since IPO are Galliford Try and Engie, complementing Keepmoat Homes and Countryside. All four partners deliver a specified range of properties selected for their suitability for our target markets. The consistency in specification also enables greater efficiency in the long-term management and maintenance of our properties.





*“I’d definitely recommend a Simple Life home to my friends and family. It’s great that they’re brand new and everything works. You’ve got high-quality appliances and it’s clear they haven’t scrimped on anything.”*

## Life as a Simple Life Tenant Louise Holleran

### A flexible family home

“We needed a home to cater for the five of us, and the fact that we could get a brand-new house with Simple Life was fantastic”, Louise added.

“The team were very helpful, and we even received a welcome pack when we moved in with all the bits and bobs you need when moving, which was lovely.”

The Holleran family found their dream home; a three-bedroom, semi-detached property with separate dining room and lounge. The house also includes a large private garden, where Louise and her partner spend a lot of time.

“It’s a great place to live, it’s very quiet and not on a drive-through

road. There are shops nearby and we’re within a mile of Middleton town centre and all the shopping options there, which is a plus for me and my daughter”, Louise said.

“It’s nice having that person to help you with any issues you might have. They even come and do the front garden every three or four weeks, so no more time spent cutting the lawn!”

Simple Life is committed to creating places where community thrives. As Louise explained, “I may be biased as I’ve always lived in Middleton, but it’s a very welcoming area. There’s a great sense of community and everyone is really nice, I don’t think we’d ever leave.”



## Financial Results

### Income Statement

The Group's revenue for the period was £1.8m, which was all derived from rental income. After the deduction of non-recoverable property costs, the net rental income was £1.5m. Expenses for the first period of operation were £4.3m, whilst the gain from the fair value adjustment on investment property was £5.5m. This resulted in an operating profit of £2.7m. Finance income for the period from short term deposits was £0.6m. The profit after finance income and taxation was £3.2m. The earnings per share on an IFRS basis for the period was 1.0p.

### Dividends

The Company has declared and paid a total of 5p per ordinary share for the period under review, which comprised the following:

On 31 January 2018, the Company declared a dividend of 1.5p per ordinary share for the period to 31 December 2017. The dividend was paid on 16 March 2018 to shareholders on the register as at 16 February 2018. The ex-dividend date was 15 February 2018.

On 30 April 2018, the Company, declared a dividend of 1.0p per ordinary share for the period to 31 March 2018. The dividend was paid on 31 May 2018 to shareholders on the register as at 11 May 2018. The ex-dividend date was 10 May 2018.

On 31 July 2018, the Company declared a dividend of 2.5p per ordinary share in respect of the period to 30 June 2018. The dividend was paid on 31 August 2018 to shareholders on the register as at 10 August 2018. The ex-dividend date was 9 August 2018.

### Balance Sheet

The principal items in the balance sheet are investment property of £121.1m, cash and cash equivalents of £374.3m and trade and other payables of £13.3m.

The investment property includes completed assets and assets under



construction at fair value. Trade and other payables includes £9.8m of development expenditure that was paid in July 2018. At 30 June 2018, the Group had no long term borrowings.

### Debt Financing

Prior to the period end, the PRS REIT agreed debt facilities of £100m with the Lloyds Banking Group and £100m with Scottish Widows.

The facility with Lloyds is a revolving credit facility for an initial term of two

years, which can be extended further for up to two years. Interest is based on three month LIBOR plus applicable margin and the loan is secured over assets allocated to Lloyds Banking Group.

The facility with Scottish Widows is a term loan of 15 years, which will be drawn in two equal instalments fixed for March and April 2019. Interest was fixed at the 15 year swap rate of 1.588% plus applicable margin and the loan is secured over assets allocated to Scottish Widows.

## Key Performance Indicators

The Group's key performance indicators include:

KPI	June 2018
Rental income	<b>£1,765,000</b>
Average rent per month	<b>£760</b>
Rental costs as a percentage of gross rent (gross to net)	<b>15.5%</b>
Fair value uplift on investment property	<b>£5,515,000</b>
Operating profit	<b>£2,667,000</b>
Dividends paid per share in relation to the period	<b>5p</b>
Number of properties available to rent	<b>405</b>

As this is the Company's first period of trading there are no comparisons for a prior period.

### Alder apartment interior

overall housing supply. As we have previously commented, mixed-tenure development typically enables the delivery of housing at a considerably faster rate than market-for-sale developments. The Government's revised National Planning Policy Framework ("NPPF") and Planning Practice Guide, published in July 2018, also recognised Build to Rent as its own tenure type that should be prescribed on certain sites where the need is apparent. This recognition should help to unlock further opportunity for the Company and its construction partners.

of GDC with the ERV of the sites when fully completed at c. £21.0m p.a. A further c. £372m of funding is committed to developments which when fully built-out will provide an ERV of c. £23.0m p.a. In addition, a further c. £689m pipeline of qualified development opportunities has been identified and is contractually controlled in Framework or Collaboration Agreements with partners.

## Market Overview

Demand for high quality rental housing, particularly for families, across the UK's major urban centres remains very strong. There are a number of factors driving this demand, including population growth, house price inflation and mortgage constraints.

In 2016, the UK population was nearly 66m, with approximately 27.8m households. Over the next eight years, the population is widely forecast to grow by 5.4% or 3.5m people, and the number of households is expected to increase by 8.1% or an extra 2m households.

Since the mortgage market review in 2014, the onus on lenders to ensure that borrowers can afford their loan commitments has increased. Accordingly, mortgage providers may lend no more than 15% of new mortgage contracts, in a given quarter, at a loan-to-income ratio of over 4.5 times. However after a prolonged period of house price inflation, the median household income to median house price stands at 7.6 times. Mortgage deposits have also become a hurdle to ownership, with deposits now approximately 19% of the purchase price. This represents over 60% of annual household income. In the 1990's, buyers typically needed a 5% deposit, representing approximately 12% of household income.

Government and policy makers are now prioritising the supply of new homes and seeking to reform the housing market. The Government's Housing White Paper, published in February 2017, set out such plans and identified PRS as an important mechanism to help accelerate

According to research by Savills, there are only approximately 22,500 completed build-to-rent units currently in the UK, over half of which are in London. The pipeline of units under construction is higher at approximately 37,500, 60% of which are in the regions. We estimate that the Company accounts for nearly 10% of this regional delivery. However, it important to note that most activity is in high rise flatted development, while the PRS REIT's focus is on houses, providing a clear point of difference.

## Post Period Review

The PRS REIT continues to make good progress, as announced in the Company's first quarter update covering the first three months of the new financial year to 30 June 2019.

As at 30 September 2018, a total of approximately £756m of funding has been either deployed or is committed to deployment. This equates to c. 5,100 new rental homes when completed. Of this total, c. £384m has funded or is funding development that is now either complete or currently under construction, equating to c. 2,130 new family homes. The balance of c. £372m is committed under forward contracts to qualified sites yet to start the construction phase.

The Company's annualised rental income at 30 September 2018 increased to c. £5.7m from 595 completed homes and at the same date, completed and contracted development amounted to £384m

## Summary and Outlook

Demand in the rental sector continues to grow. The fundamental imbalance between the supply of good quality rental housing and demand remains large, and the loss of stock, as a result of legislative changes that have made the buy-to-let sector much less attractive to private individuals, exacerbates supply constraints. Lack of affordability in the market-for-sale sector continues to drive up demand for rental homes.

The family housing rented market, which according to the Residential Landlords Association represents just under 50% of tenants, is large and remains the focus of our approach to the private rental marketplace.

In the draft analysis of a review into build out rates in the UK by Rt Hon Sir Oliver Letwin, build-to-rent was cited as a key component in a basket of measures to deliver more housing stock more quickly. We view this as further helpful, independent affirmation of the role that build-to-rent has in assisting in speeding up housing delivery in the UK.

We remain confident of prospects for the Company over the new financial year, supported by the enhanced resource that is now in place and the volume of sites that are in the process of being delivered or about to start construction. The Sigma PRS Platform provides us with very strong access to site acquisition opportunities across our target geographies and this underscores our very positive view of the Company's long term growth aspirations.

## Corporate Social Responsibility

The excitement builds during our Summer Ice-cream Dash!

# Building Communities

Park Grange House  
sandstone public art,  
marking the historical  
use of the land.

## Social and Community Involvement

All social and community involvement is carried out on behalf of the Company by the Investment Adviser which maintains an active programme of engagement with both customers and the wider community. A sample of projects which occurred over the course of the period are listed below:



### 01

#### Pledge to Local Schools and Charities in 2018

As part of the company's corporate social responsibilities ambitions for 2018, the Investment Adviser is donating funds to local charities and to schools that are situated near to its PRS schemes.

When the Investment Adviser identifies its new development sites, close proximity to good schools is a core requirement. The Investment Adviser has worked closely with a number of schools in the past and this year, the Company will continue to do so by spreading donations across five schools in Merseyside, Sheffield, Greater Manchester, West Midlands and Salford.

Local communities are also very important so it will also be supporting a number of charities in the region, including the Park Palace Ponies Charity in Merseyside, an organisation that offers riding lessons for underprivileged children in the surrounding areas.

### 02

#### Loaves and Fishes

The Investment Adviser supported Salford Loaves and Fishes, a local charity drop-in centre providing valuable support for homeless people within the area. The centre offers hot food, showers, clothing and laundry along with a listening ear and companionship to those who need support with debt, addiction or basic life journey tasks to help them onto a better situation.

Funds were provided to purchase new laptop computers for the centre. These computers will be used to train the homeless in basic IT skills in order to prepare them for finding new employment opportunities. From a quality CV, giving people information on job opportunities, IT skills and empowering their own decisions, it is hoped these will be a valuable support mechanism for those who are keen to better their opportunities in life.

### 03

#### Park Grange House Public Art

As part of the agreement for the planning of our 24 apartments at Norfolk Park, Sheffield, Sigma Capital Group plc and housebuilding partner Keepmoat Regeneration commissioned a public art feature, which has been installed within the entrance to the development. With reference to the historical use of the land as a game park, the sandstone sculpture features intricate carvings of deer, created by local artist Steve Roche.

Ryan Ogilvie gaining onsite construction experience from the pilot programme initiative 'Creating Jobs Across Sheffield'.



## 04

### Stocksbridge High School Pupils Visit to Norfolk Park Housing Site

Year 9 and 10 students from Stocksbridge High School made the short trip to site to see the development of 24 apartments, on land off Park Grange Road in Norfolk Park, which was built in partnership with Sheffield Housing Company (SHC), Keepmoat Regeneration and Sigma Capital Group plc.

The students visited the site through the Cutler's Construction Ambassador Programme, which seeks to develop young people's job-ready skills, character and industry knowledge required for the world of work.

## 05

### Creating Jobs Across Sheffield

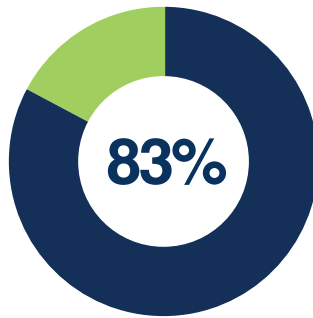
A ground breaking work experience initiative in Sheffield has helped two unemployed people into full time jobs.

The pilot programme was delivered by a partnership comprising Sheffield Housing Company (SHC), the City Council and Jobcentre Plus.

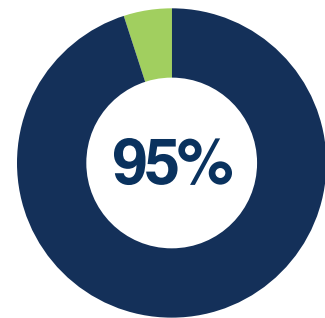
Six people, who had previously completed a construction employability programme and gained BTEC Level 2 certificates, were given the opportunity to work on live construction sites, namely the newly completed Park Grange House in Norfolk Park, built by Keepmoat Regeneration, on behalf of Sigma Capital Group, and the SHC development at Brearley Forge, currently being constructed by Keepmoat Homes.

### What our tenants have to say

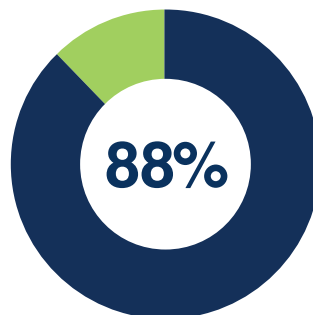
We carried out a series of door to door surveys across all Sigma portfolios.



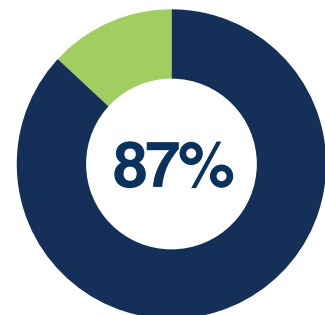
**rated the services of our appointed estate agents as average-excellent**



**of people rated their moving in experience in days as average-excellent**



**of people would recommend renting with us to a friend**



**of people said they were highly likely to renew their tenancy**

**Note: all stats are based on all Sigma portfolios.**

# Ice Cream Dash!



**As part of Sigma’s ongoing focus on community within the Simple Life brand, the team visited seven completed developments during the last week of the summer holidays to hand-deliver free ice cream to tenants.**

Following communications announcing the event including emails, flyers and SMS messages, tenants were waiting for their arrival, with children and adults alike lining the roads to claim their free treat.

More than 1000 individual ice cream tubs – in three flavours; vanilla, chocolate or strawberry – were claimed, with the team going door to door to ensure no tenants missed out, and many stocking their freezers thanks to Simple Life.

With some end of summer sunshine gracing the three days, residents and Simple Life staff alike enjoyed getting outside and embracing the celebratory atmosphere. Overall the event was a great success, encouraging the neighbourhoods to engage with the Simple Life brand and wider community.



# £8,000 donation Mills Hill Primary School

**Ian Mason**  
Head Teacher  
Mills Hill Primary School

*“ One of our priorities here at Mills Hill is to enhance the quality of our lunchtime experiences for children. We encourage our children to be both active physically and to be creative with their environment. The much-needed money from Sigma Capital has increased our equipment for children and will result in more active and creative lunchtimes.”*



**Within the company’s CSR strategy, £50,000 has been donated to local schools and charities in 2018 to assist in ongoing projects and the development of new facilities to benefit the local community. One school to receive an £8,000 donation is Mills Hill Primary School in Chadderton which completed its funded work in September.**

Previously, older children had access to a ‘scrap yard play’ shed which proved to be very popular, encouraging ‘imaginative play’ amongst the children. As the school has grown, the playground has had to be split into different age groups, so the Head Teacher wanted to use the money to create a new ‘scrap yard play’ shed for the younger children, as well as making further additions to the playground like bringing in new benches. The older children are also benefitting from a new, durable metal container shed and a host of additional play and sports equipment.







Easter Egg Hunt 2018

## Sustainability

As a long term investor in property, the Company is committed to a sustainable approach to all areas of the business. In its creation of communities, it strives to design developments which attract a broad range of tenants and offer occupants house types which provide the opportunity to move either up or down the housing ladder dependent upon life stage. In their construction, our delivery partners ensure that the properties are delivered in an environmentally responsible, ethical, safe and sustainable manner, which includes adherence to relevant social and environmental legislation and codes of practice.

## Environmental

The Company funds the delivery of quality new homes for rent and as such recognises that its activities and those of its construction partners will change the nature of the locations in which we operate. Our aim is to change them and the people's lives who live in them, for the better. The Company pays particular attention to two key areas of its activities, namely the construction and subsequent management of its properties. Regarding the construction of new homes the Company requires their construction partners to adhere to all relevant environmental legislation and codes of practice, specifically that the approach to planning and design has as little impact as possible on the immediate and wider surroundings; that the approach to construction is undertaken considerably and that the process is effectively managed to reduce the risk of pollution; and that the use of resources is done so efficiently with regard to the principles of recycling and encourage the use of materials which are produced in an environmentally less impactful manner. The Company has a defined portfolio of house types, all of which are built to relevant building regulations and perform

well with regard to their energy performance ratings. The ongoing management of the portfolio's environmental impact is inherent in the design of the houses, but the Company maintains an eye on areas where improvements can be made to the running of the properties through an active asset management system.

## Human Rights

The Company does not fall within the purview of The Modern Slavery Act 2015 (the 'Act') as it has not exceeded the turnover threshold necessary for it to make a slavery statement.

To the best of its knowledge the Company is satisfied that its principal suppliers and advisors comply with the provisions of the Act.



Baytree Lane,  
Middleton

# Principal Risks and Uncertainties

## The Board of Directors recognise that there are a number of risks which could have an impact on the Company's strategy and investment objectives.

The prospectus issued in May 2017, which is available to download on the Company's website at [www.theprsreit.com](http://www.theprsreit.com), includes details of what the Company and the Directors consider to be the principal risks and uncertainties. Additional risks and uncertainties relating to the REIT Group that are not currently known to it or the Directors or the Company does not consider to be material may also have a material affect on the REIT Group.

The below list sets out the current identifiable principal risks and uncertainties which the Board are monitoring:

### Strategic Risk

The Company's targeted returns are based on estimates and assumptions that are inherently subject to significant uncertainties and contingencies, and the actual rate of return may be materially lower than the targeted returns

The Company's targeted returns as set out in the IPO Prospectus are targets only and are based on estimates and assumptions about a variety of factors including, without limitation, purchase price, yield and performance of the Company's investments, which are inherently subject to significant business, economic and market uncertainties and contingencies,

all of which are beyond the Company's control and which may adversely affect the Company's ability to achieve its targeted returns. The Company may not be able to implement its investment objective and investment policy in a manner that generates returns in line with the targets. Furthermore, the targeted returns are based on the market conditions and the economic environment at the time of assessing the targeted returns, and are therefore subject to change. In particular, the targeted returns assume no material changes occur in Government regulations or other policies, or in law and taxation, and that the Company is not affected by natural disasters, terrorism, social unrest or civil disturbances or the occurrence of risks described elsewhere in this document. There is no guarantee that actual (or any) returns can be achieved at or near the levels set out in this document. Accordingly, the actual rate of return achieved may be materially lower than the targeted returns, or may result in a partial or total loss, which could have a material adverse effect on the Company's profitability, the Net Asset Value and the price of the Ordinary Shares.

#### Risks relating to investment decisions

There is a risk that investment decisions are made that deviate from the investment strategy and investment objectives that may result in lower rental income and capital growth returns to shareholders.

This risk is mitigated by a regular review by the Board of the Company with regard to investment strategy and investment decisions. The Investment

Adviser has a defined investment appraisal process which is authorised by key personnel. In addition the investment in multiple geographical areas of the UK mitigates concentration risk and provides a balanced portfolio.

#### Risk relating to the Company's ability to deploy capital effectively

There is strong competition in the housing market for the supply of land across all tenures which may affect the Company's ability to deploy capital in a timely and effective manner which could adversely affect the returns to shareholders.

This risk is mitigated due to the strong links that the Company and Investment Adviser has with its house building partners across the various regions and conurbations across the UK. There is a significant pipeline of future development sites and the Board reviews this on a regular basis.

### Political Risk

#### Risks relating to the UK's proposed exit from the European Union

On 23 June 2016, the United Kingdom held a referendum on the United Kingdom's continued membership of the European Union. This resulted in a vote for the United Kingdom to exit the European Union ("Brexit"). There are significant uncertainties in relation to the terms and time frame within which such an exit will be effected, and there are significant uncertainties as to what the impact will be on the fiscal, monetary, legal and regulatory landscape in the



UK. The extent of the impact on the Company will depend in large part on the nature of the arrangements that are put in place between the United Kingdom and the European Union following Brexit. Although it is not possible to predict fully the effects of the exit of the United Kingdom from the European Union, any of these risks, taken singularly or in the aggregate, could have a material adverse effect on the Company and its opportunities for investments. In addition, it could potentially make it more difficult for the Company to raise capital.

The Board mitigates this risk by keeping up to date on the UK's current position on its exit from the European Union whilst also taking advice from the Investment Adviser and other Advisers. The Board acts on this advice accordingly. In addition, the Company is operating in the residential property market where current demand is high and expects this to continue for the foreseeable future.

## Operational Risk

### Risks relating to the Company's reliance on the Investment Adviser

The Company has the benefit of access to the Sigma PRS platform through the Investment Adviser. If the Investment Advisory Agreement is terminated it is likely that the Company will cease to have access to the platform and to the relationships and contractual frameworks with Approved Contractors, Local Authorities and the Approved Letting Agent and favourable terms and economies of scale that have taken

years to establish. The Company would also need to identify replacement sources of PRS Development Sites and Completed PRS Sites.

In accordance with the Investment Advisory Agreement, the Investment Adviser is responsible for providing certain management and investment advisory services to the Company. Accordingly, the Company will be reliant upon, and its success will depend on, the Investment Adviser and its key personnel, services and resources.

Consequently, the future ability of the Company to successfully pursue its investment objective and investment policy may, among other things, depend on the ability of the Investment Adviser to retain its existing staff and/or to recruit individuals of similar experience and calibre. Whilst the Investment Adviser has endeavoured to ensure that the principal members of its management team are suitably incentivised, the retention of key members of the team cannot be guaranteed. Furthermore, in the event of a departure of a key employee of the Investment Adviser, there is no guarantee that the Investment Adviser would be able to recruit a suitable replacement or that any delay in doing

so would not adversely affect the performance of the Company. Events impacting but not entirely within the Investment Adviser's control, such as its financial performance, it being acquired or making acquisitions or changes to its internal policies and structures, could in turn affect its ability to retain key personnel.

Under the terms of the Investment Advisory Agreement, the Investment Adviser is required to devote such time and have all necessary competent personnel and equipment as may be required to enable the Investment Adviser to carry out its obligations properly and efficiently. However, if the Investment Adviser fails to allocate the appropriate time or resources to the Company's investments, the Company may be unable to achieve its investment objectives. In addition, although the Investment Advisory Agreement requires the Investment Adviser to dedicate competent personnel to the Company's business they may not be able to do so.



The Board mitigates these risks by holding regular Board meetings (at least four times per financial period) whilst also having regular informal meetings with the key members of Investment Adviser on a more regular basis. The Board actively engages with key personnel of the Investment Adviser and assesses its key man risks to ensure that it is adequately staffed with suitably qualified personnel and that succession planning is in place.

#### Risks relating to tenant default

Dividends payable by the Company will be dependent on the income from the Completed PRS Sites it owns. Failure by tenants to comply with their rental obligations could affect the ability of the Company to pay dividends to shareholders.

The Company develops private rented sector residential housing across multiple sites and across multiple locations across the UK and therefore some of this risk is mitigated. A rigorous tenant vetting process has been implemented and, in addition, the Investment Adviser holds regular weekly meetings focusing on lettings and outstanding debtors. The letting agent is compensated only when rent has been received.

#### Business disruption relating to the Investment Adviser and its Information Technology Environment

There is risk associated and the potential of business disruption in relation to the IT systems utilised by the Investment Adviser which are hosted off-site by a third party.

The third party IT provider are Cyber Essential Certified and have been utilised by the Investment Adviser since 2015 for maintaining all hardware, software and backups. There has been limited downtime during normal working hours.

The third party provider has significant controls in place in respect of the IT environment including that of physical security, site availability, network security, backups and disaster recovery and the monitoring of IT systems.

The Investment Adviser employs an IT Manager who is in regular contact with the third party and ensures compliance.

### Economic Environment

#### Risks relating to the economic environment

Global market uncertainty and, in particular, the restricted availability of credit, may reduce the value of the Company's portfolio once it has been acquired, and may reduce liquidity in the real estate market. The performance of the Company would be adversely affected by a downturn in the property market in terms of market value or a weakening of rental yields.

The Company mitigates this risk by building a high quality portfolio of residential assets across multiple locations of the UK where there is demand and a requirement for housing which provides access to strong travel links and good educational facilities.

### Financial Risk

#### Risks relating to the REIT status of the REIT Group

There is a risk that the Company may fail to remain qualified as a REIT and therefore its rental income and capital gains will be subject to UK corporation tax. Any change in the tax status of the Company or a change in tax legislation could adversely affect the investment return of the Company.

The Company has been structured to be REIT compliant and the Board will continue to monitor the tax status using professional taxation advisers.

#### Risks relating to the development costs of Investment properties under construction

There is a risk that the development costs of Investment properties under construction are higher than that originally forecast perhaps due to unforeseen costs or the availability of suitable labour.

The Company is able to mitigate this risk by securing fixed design and build contracts before development commences.

By order of the Board

**Steve Smith**  
Chairman

9 October 2018

# Corporate Governance

## Directors



01

01

**Stephen Smith,**  
Non-Executive Chairman (Age 65)

Stephen Smith has over 40 years of experience in the real estate industry. Stephen is currently non-executive Chairman of Starwood European Real Estate Finance Limited, non-executive Director of Gatehouse Bank Plc and non-executive Chairman of AEW Long Lease REIT. Previously, he was the Chief Investment Officer of British Land Company PLC, the FTSE 100 real estate investment trust from January 2010 to March 2013 with responsibility for the group's property and investment strategy. Prior to joining British Land, Stephen was Global Head of Asset Management and Transactions at AXA Real Estate Investment Managers, where he was responsible for the asset management of a portfolio of more than €40 billion on behalf of life funds, listed property vehicles, unit linked and closed end funds. Before joining AXA in 1999, he was Managing Director at Sun Life Properties for five years. Steve has recently completed his time as non-executive Director of Tritax Big Box REIT plc.

02

**Steffan Francis,**  
Non-Executive Director (Age 63)

Steffan Francis has 40 years of experience in the real estate industry. Until early 2016, Steffan was a Director at M&G Real Estate where he was



02

responsible for the £6 billion "Long Income" business. He also was involved in creating and ensuring the long term success of a number of real estate funds, including the M&G Secured Property Income Fund which, within 10 years of being launched, became the largest property fund on the AREF/IPD UK Quarterly Property Fund Index. Currently, Steffan is a non-executive Director of M&G (Guernsey) Limited and is also an independent adviser to the British Steel Pension Trustee.

03

**Roderick MacRae,**  
Non-Executive Director (Age 54)

Rod has over 20 years' experience in the financial services sector. He was, until recently, an Executive Director at Aberdeen Asset Management PLC as the Group Head of Risk with responsibility for UK and Global operational risk and regulatory compliance. He was also chairman of the Aberdeen group executive risk management committee, the senior risk oversight function of the group. He has extensive involvement in corporate activity including transformational acquisitions and defence strategies. Previously he was Chief Operating Officer at Edinburgh Fund Managers, which he joined in 1991 and was acquired by Aberdeen in 2003. Rod is a member of the Institute of Chartered Accountants of Scotland having qualified with Coopers & Lybrand and is the Chairman of the Audit Committee.



03

**Graham Barnett,**  
Director (Age 55)  
(resigned 24 April 2017)

Graham is the Chief Executive Officer of Sigma Capital Group plc, the ultimate holding company of the Company's Investment Adviser, Sigma PRS Management Ltd. A qualified lawyer, Graham worked for Noble Grossart Limited, Edinburgh Financial Trust Limited and Shepherd & Wedderburn, specialising in corporate finance and corporate law, prior to forming his own company in 1994. This company, Merchant Investments Limited, was a specialist consultancy involved in the management of businesses both in the traditional and technology sectors.

**Mike Scott,**  
Director (Age 45)  
(resigned 24 April 2017)

Mike is Group Legal Counsel and Business Development Director of Sigma Capital Group plc, the ultimate holding company of the Company's Investment Adviser, Sigma PRS Management Ltd. He has significant experience providing corporate finance and structuring advice both as a lawyer and for several years as a partner of Newgate Partners, a corporate finance boutique he co-founded in 2003. Mike joined Sigma Capital in 2015 as Group Legal Counsel from UK law firm, HBJ Gateley, where he was a partner in the firm's corporate department specialising in equity funds.

# Advisers

## Registered Office

Floor 3, 1 St. Ann Street  
Manchester  
M2 7LR

## Auditor

RSM UK Audit LLP  
25 Farringdon Street  
London  
EC4A 4AB

## Financial PR

KTZ Communications  
No. 1 Cornhill  
London  
EC3V 3ND

## Legal and Tax Adviser

Dentons UKMEA LLP  
One Fleet Place  
London  
EC4M 7WS

## AIFM and Manager

G10 Capital Limited  
136 Buckingham Palace  
Road  
London  
SW1W 9SA

## Company Secretary

Sigma Capital Property Ltd  
18 Alva Street  
Edinburgh  
EH2 4QG

## Financial Adviser and Broker

Nplus1 Singer Advisory LLP  
One Bartholomew Lane  
London  
EC2N 2AX

## Investment Manager

Sigma PRS  
Management Ltd  
Floor 3, 1 St. Ann Street  
Manchester  
M2 7LR

## Depository

Crestbridge UK Limited  
8 Sackville Street  
London  
W1S 3DG

## Valuers

Savills (UK) Limited  
33 Margaret Street  
London  
W1G 0JD

# Report of the Directors

**The Directors present their annual report on the affairs of the Group, together with the audited financial statements and auditor's report, for the period ended 30 June 2018.**

## Principal Activity

The principal activity of the Company is the investment in and management of private rented sector residential housing which are located in the regions of England. The Company commenced trading on the 31 May 2017 after the successful raising of £250m gross proceeds through its IPO. Its shares are listed on the Specialist Fund Segment of the Main Market of the London Stock Exchange.

## Results and Dividends

The financial results for the period can be found in the Consolidated Statement of Comprehensive Income on page 62. The following dividends were paid during the period.

<b>16 March 2018</b>
1.5p per ordinary share
<b>31 May 2018</b>
1.0p per ordinary share

Since the period end, a dividend of 2.5p per ordinary share was paid on the 31 August 2018.

## Review of the Business and Future Developments

The Directors are required to present an extended business review reporting on the development and performance of the Group and the Company during the period and their positions at the end of the period. This requirement is met by the Strategic Report on pages 5 to 35.

## Directors

The current Directors of the Company are listed on page 36, all of whom held office throughout the period. The Board consists solely of non-executive directors each of whom is independent of the Investment Adviser and the Company. The Company therefore has no executive directors or employees. The details of the Directors' remuneration along with the Director's beneficial interest in securities of the Company are given in the Directors' Remuneration Report on pages 56 and 57.

All of the Directors will stand for election at the forthcoming Annual General meeting on 28 November 2018 in accordance with the Company's Articles of Association.

## Directors' Interests in Shares

The Directors' interests in the Company's shares are disclosed in the Directors' Remuneration Report.

## Directors' Indemnity Insurance

The Group held a Directors and Officers insurance policy in place throughout the period in respect of the Company and the Group's subsidiaries.

## Share Capital

250,000,000 ordinary shares of 1p each with an aggregate nominal value of £2,500,000 were issued under the IPO on 31 May 2017 at a price of 100p per share. On the 20 February 2018, a further 243,902,440 ordinary shares of 1p each with an aggregate nominal value of £2,439,024 were issued under the Company's placing programme at a price of 102.5p per share.

On the 24 May 2017, 50,000 redeemable preference shares had been issued to Company in consideration for an irrevocable undertaking by Sigma Capital Group plc to allow the Company to obtain a trading certificate pursuant to section 761 of the Companies Act 2006. These shares were redeemed on 31 May 2017 following admission of the Companies ordinary shares to the Specialist Fund Segment of the Main Market of the London Stock Exchange.



On 31 January 2018 and in accordance with the Development Management Agreement with the Company's Investment Adviser, Sigma PRS Management Ltd, pursuant to which the Investment Adviser subscribes bi-annually for new ordinary shares 1p each in the capital of the Company, the Company issued 445,578 ordinary shares to the Investment Adviser at a share price of 105p per share.

As at 30 June 2018, the Company had 494,348,018 ordinary shares in issue, none of which were held in treasury.

### Substantial Shareholdings

As at 31 July 2018, the Company is aware of the following substantial shareholdings, which were directly or indirectly interested in 3% or more of the total voting rights in the Company's issued share capital.

Investor	Number of ordinary shares	Percentage holding of issued share capital
Invesco Perpetual High Income Fund	<b>48,682,926</b>	<b>9.85</b>
Invesco Perpetual Income Fund	<b>48,682,926</b>	<b>9.85</b>
Aviva Life and Pensions UK	<b>30,377,672</b>	<b>6.14</b>
Homes England	<b>29,878,047</b>	<b>6.04</b>

### Capital Reduction

As stated in the Company's prospectus dated 4 May 2017 ("Prospectus"), in order to increase the distributable reserves available to facilitate the payment of future dividends, the Company had resolved that, conditional upon First Admission and the approval of the Court, the amount standing to the credit of the share premium account of the Company immediately following completion of the Issue be cancelled and transferred to a special distributable reserve. Following the approval of the Court on 1 November 2017 and the subsequent registration of the Court order with the Registrar of Companies on 2 November 2017, the cancellation became effective. Accordingly, the amount of £242,500,000 previously held in the share premium account was cancelled and transferred to a special distributable reserve.

### Restrictions on the Transfer of Shares

There are no restrictions on the transfer of securities in the Company, except as a result of:

- > the FCA's Listing Rules, which require certain individuals to have approval to deal in the Company's shares; and
- > the Company's Articles of Association, which allow the Board to decline to register a transfer of shares or otherwise impose a restriction on shares, to prevent the Company or Investment Adviser breaching any law or regulation.

The Company is not aware of any agreements between holders of securities that may result in restrictions on transferring securities in the Company.



Our Lady's, Salford  
(Under development for  
the PRS REIT by Sigma)

on a day-to-day basis in accordance with the Company's investment policy. Sigma PRS may transact on the Company's behalf in relation to the acquisition of PRS Development sites and Completed PRS sites in accordance with the Company's investment object and investment policy. The Investment Advisory Agreement is terminable on 12 months' written notice, which can be served at any time after the fifth anniversary of First Admission. The agreement may be terminated by the Company and the AIFM immediately if the Investment Adviser is in material breach of the Agreement or is the subject of insolvency proceedings. The fee arrangement in respect of Sigma PRS is shown in note 9 of the financial statements.

## Greenhouse Gas Emissions Reporting

The Board has considered the requirement to disclose the Company's measured carbon sources under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

During the period ended 30 June 2018:

- > any emissions from the Group's development of investment properties have been the contractors' responsibility rather than the Group's so the principle of operational control has been applied;
- > any emissions from the Group's completed assets have been the tenants' responsibility rather than the Group's so the principle of operational control has been applied;

- > any emissions from the Company's registered office or from offices used to provide administrative support are deemed to fall under the Investment Adviser's responsibility; and
- > the Group does not lease or own any vehicles which fall under the requirements of Mandatory Emissions reporting.

As such, the Board believes that the Company has no reportable emissions for the period ended 30 June 2018.

## Management Arrangements

### Investment Adviser

The Board appointed Sigma PRS Management Ltd as the Company's Investment Adviser ("Sigma PRS"). Sigma PRS will be responsible for the management of the assets of the Company and will advise the Company

### AIFM

G10 Capital Limited ("AIFM") has been appointed as the Company's Alternative Investment Fund Manager with overall responsibility for the portfolio management and providing alternative investment fund manager services ensuring compliance with requirements of AIFMD, risk management of the REIT Group's investments subject to the overall supervision of the Directors. The AIFM manages the REIT Group's investments in accordance with the policies laid down by the Board and in accordance with the investment restrictions referred to in the AIFM agreement. The AIFM Agreement provides that the Company will pay to the AIFM an asset management fee as follows:

- (a) an initial one off fee of £12,000;
- (b) a monthly fee of £6,000;

- (c) £1,000 per investment committee meeting; and
- (d) Ad-hoc work as required

The AIFM Agreement is terminable by any of the parties to them on six months' written notice. The AIFM Agreement may be terminated by the Company immediately if the AIFM ceases to maintain its alternative investment fund manager permission or fails to notify the Company of a regulatory investigation which is relevant to the AIFM's ongoing appointment as alternative investment fund manager, is in material breach of the agreement or is the subject of insolvency proceedings. The AIFM Agreement may be terminated immediately if a member of SCG is directly appointed as alternative investment fund manager of the Company.

#### Depository

Crestbridge UK Limited (formerly Kingfisher Property Partnerships Limited) are the appointed Company's depository for the purposes of the AIFMD. Under the terms of the Depository Agreement, the Depository was paid an initial one off fee of £5,000. Provided that the assets under management of the Company exceed £100 million, the Company shall also pay the Depository an annual fee. The annual fee shall start at £20,000 per annum with an additional fee of 0.667 basis points of any increase above £100 million, subject always to a maximum fee of £40,000 per annum. The Company's assets under management is reviewed quarterly. The Depository is entitled to be reimbursed by the Company for all costs and expenses properly and reasonably incurred in the performance of duties under the Depository Agreement.

#### Administration and Secretarial Services

Sigma Capital Property Ltd are appointed as the Company's administrator to provide day-to-day administration of the Company and acts as secretary and administrator to the Company development and production of statutory annual accounts, interim accounts and reports to shareholders of the Company in accordance with IFRS and EPRA. The administrator is also responsible for calculating the Net Asset Value of the Ordinary Shares based on information provided to the Administrator by Sigma PRS. The Administration and Secretarial Agreement provides that the Company will pay the Administrator an annual fee of £90,000 plus VAT, payable monthly in arrears.

#### Financial Risk Management

The principal risks and uncertainties faced by the Company and the Group are set out on pages 33 to 35. Information on the financial risk management objectives and policies relating to market risk, credit risk and liquidity risk is provided in note 2 to the financial statements.

#### Treasury Activities and Financial Instruments

The Group's financial instruments comprise cash, equity investments plus other items such as trade debtors and trade creditors that arise directly from its operations. At 30 June 2018, the Group had positive cash balances of £374,339,000.

The Group's policy is to keep surplus funds on short term and instant access deposit to earn the prevailing market rate of interest. At 30 June 2018, the Group had no borrowings but had secured terms with The Lloyds Banking Group and Scottish Widows for a revolving credit facility and term loan respectively. It is not expected that the first utilisation of the facilities will be until the first half of 2019. Further information with regard to the Group's cash and cash equivalents is provided in note 18 of the financial statements.

#### Political Donations

No political contributions were made during the period.

#### Going Concern

The Board confirms that it has a reasonable expectation that the Company and the Group have adequate resources to manage its business risks successfully, allow it to continue in operational existence for the foreseeable future and for a period of at least twelve months from the date of this report. Accordingly, the Board of Directors consider that it is appropriate to adopt the going concern basis in preparing the annual report and financial statements.

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### **Viability Statement**

The directors have assessed the prospects of the Group and future viability over a three year period, being longer than the twelve months required by the going concern provision.

The Board confirms that it has a reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due over the next three years, taking account of the principal risks and uncertainties as set out on pages 33 to 35.

The three year period chosen by the Board is based upon the Group's detailed forecasting model which shows that all investment property acquisitions have been completed, all assets under construction have been developed and rent stabilisation has been achieved.

The Board's expectation is further underpinned by regular dialogue with the Investment Adviser which consider market conditions, the availability of investment opportunities, principal risks and uncertainties and any change in the regulatory framework. The principal risks and uncertainties continue to be monitored closely by the Board.

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### **Corporate, Social and Environmental Responsibility**

The Board's report on Corporate, Social and Environmental Responsibility is on pages 26 to 31.

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### **Corporate Governance Statement**

The corporate governance statement is set out on pages 46 to 51.

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### **Diversity**

The Company does not have any employees. In respect of the Board of Directors, we consider that each candidate should be appointed on merit to make sure the best candidate for the role is appointed every time. We support diversity at Board level and encourage candidates from all educational backgrounds and walks of life. What is important to us is professional achievement and the ability to a successful non-executive director based on the individuals skills set and experience. Qualifications are considered when necessary to ensure compliance with regulation such as in relation to the Audit Committee. We regularly review the Company's policy on diversity and consider the Board of Directors has a balance of skills, qualifications and experience which are relevant to the Company. We value the importance of diversity in the boardroom but we do not consider it appropriate or in the interests of the Company and its Shareholders, to set prescriptive diversity targets for the Board.

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### **Auditor**

RSM UK Audit LLP ("RSM") were appointed as auditor of the Company on completion of the IPO and listing to the Specialist Fund Segment of the Main Market of the London Stock Exchange

on 31 May 2017. RSM has expressed its willingness to continue in office as Auditor to the Company and a resolution to appoint them will be proposed at the forthcoming AGM.

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### **Audit Information**

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's Auditor are unaware and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish the Company's Auditor are aware of that information.

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### **Post Balance Sheet Events**

Details of any significant post balance sheet events are detailed on page 88 of these financial statements.

By order of the Board

**Steve Smith**  
Director

9 October 2018

## Life as a Simple Life Tenant

### Heather Sanders

*“As soon as I found the home I knew it was perfect for us. The move was very smooth, and the Simple Life team was helpful during the whole process. They made it so easy.”*



#### Searching for a suitable family home

“It was no longer an option for me to own a home as I had done in the past. Renting now suited my situation, but the quality of rental homes I was looking at was quite poor. For me and my two children, it was important that we found a high-quality house located in a good area”, Heather explained.

Heather found a home at Baytree Lane, Simple Life’s rental development in Middleton, close to plenty of green space. The three-bedroom property ticked all the boxes for her family.

#### The ideal location

Heather’s Simple Life home is a detached property with two bathrooms, a separate kitchen and living room and a private garden. Baytree Lane benefits from its proximity to highly-rated schools and excellent amenities.

“For me it’s the ideal area”, Heather explained. “It’s close to school for my children and near the train station, so we can get everywhere pretty easily. The area is quiet and peaceful, which suits us well, and living in a cul-de-sac means my children can play outside and I don’t need to worry!”





Woodbine Road, Halewood

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the Directors Remuneration Report, the Corporate Governance Statement and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. Under that law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and have elected under company law to prepare the Company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- > select suitable accounting policies and then apply them consistently;
- > state whether they have been prepared in accordance with IFRS's adopted by the EU;

- > make judgements and accounting estimates that are reasonable and prudent; and
- > prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and Directors Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors, whose names and functions are listed in the Corporate Governance section of the Annual Report confirm that, to the best of their knowledge:

- > the financial statements, prepared in accordance with the applicable set of accounting standards. Give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and

- > the Strategic Review contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that it faces.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the PRS REIT website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Approval

This Statement of Directors' Responsibilities was approved by the Board and signed on its behalf by:

**Steve Smith**  
Chairman

9 October 2018

# Corporate Governance Statement

## Statement of Compliance

The Board has considered the principles and recommendations of the AIC Code of Corporate Governance ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code ("Code") as well as setting out additional principles and recommendations on issues that are of specific relevance. By applying the AIC Code, the Group is voluntarily adhering to the principles and recommendations of the Code.

The Board considers that reporting against the principles and recommendations of the AIC Code and by reference to the AIC Guide (which incorporates the Code) will provide better information to Shareholders.

For the period from 31 May 2017 to 30 June 2018, the Company has complied with the recommendations of the AIC Code (except as set out below) and the relevant provisions of the Code other than those relating to:

1. the role of the chief executive;
2. executive directors' remuneration; and
3. the need for an internal audit function.

The Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive

Directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

## Responsibilities

The Board is responsible for ensuring compliance with the Group's investment policy and has oversight of the management and conduct of the Group's business, strategy and development.

The Board is also responsible for the control and supervision of the AIFM and the Investment Adviser and compliance with the principles and recommendations of the AIC Code. The Board ensures the maintenance of a sound system of internal controls and risk management (including financial, operational and compliance controls) and reviews the overall effectiveness of the systems in place. The Board is responsible for approval of any changes to the capital, corporate and/or management structure of the Group.

The Board's main focus is the sustainable long-term success of the Group to deliver value for shareholders. The Board does not routinely involve itself in day to day business decisions.

The AIFM is responsible for portfolio management (including compliance with the Group's investment policy) and risk management of the Group pursuant to the AIFMD, including the implementation and review of adequate risk management systems. The AIFM has delegated the day to day portfolio management of the Group to the Investment Adviser, including the acquisition of PRS Development Sites

and Completed PRS Sites and appointing and liaising with third parties providing services to the Group. The Investment Adviser also provides certain development management services to the Group, in connection with the construction and delivery of new PRS Units.

The key matters reserved to the Board are:

- > Board membership and powers including the appointment and removal of Board members
- > establishing the overall control framework, Stock Exchange related matters, including the approval of communications to the Stock Exchange, and communications with shareholders, other than announcements of a routine nature
- > the appointment, termination, and regular assessment of the performance of the principal advisers, including the AIFM, Investment Adviser, Legal and Tax Advisers, Administrator, Valuer, Financial Adviser and Broker, Registrar and Auditor
- > the approval of annual and half yearly financial reports, to 31 December and 30 June respectively, dividends, accounting policies and significant changes in accounting practices
- > the review of the adequacy of corporate governance procedure
- > the review of the risk inventory and the effectiveness of internal controls



Woodbine Road, Halewood



- > approval of changes to the Group's capital structure, dividend policy, treasury policy, borrowing facilities and any banking relationships
- > approval of any related party transactions subject to further regulatory requirements
- > oversight of the Group's operations ensuring compliance with statutory and regulatory obligations

The Board has carried out a robust assessment of the principal risks affecting the business. Details of these risks and their management are set out in this report on pages 33 to 35.

The Board has reviewed the effectiveness of the AIFM and Investment Adviser's compliance and control systems in operation insofar as they relate to the affairs of the Group and further reviews the arrangements with the Depository to ensure the safeguarding of the Company's assets and security of the shareholders' investment is being maintained.

**Annual Report and Financial Statements**

The Directors have responsibility for preparing the annual report and financial statements. Each of the Directors considers that, taken as a whole, the annual report and financial statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the

next twelve months from the date of this report. The going concern and viability statements of the Group are set out on pages 41 and 42.

**Board Membership and Meeting Attendance**

During the period to 30 June 2018, the number of scheduled Board meetings attended by each director was as follows:

Director	Attendance*	Date of Appointment	Length of Service at 30 June 2018
Stephen Smith	7/7	24 April 2017	14 months
David Steffan Francis	7/7	24 April 2017	14 months
Roderick MacRae	7/7	24 April 2017	14 months

\* Number of scheduled meetings attended/ maximum number of meetings that the director could have attended.



## Composition

The Group has a non-executive Chairman and two other non-executive directors all of whom were considered independent on and since their appointment. All of the directors are independent of the Investment Adviser and the AIFM.

Stephen Smith is the Chairman of the Company. The Chairman is responsible for leadership and oversight of the Board to ensure that it functions effectively. Stephen ensures that accurate, timely and clear information is received and sufficient time is given in meetings to review all agenda items thoroughly. He promotes constructive debate and facilitates a supportive, co-operative and open environment between the Investment Adviser and the directors. He is also responsible for ensuring that the Company's obligations to its shareholders are understood and met.

The non-executive directors hold, or have held senior positions in industry and commerce and contribute a wide range of skills, experience and objective perspective to the Board. Through the Board committees, the non-executive directors bring focus and independence to strategy, governance, internal controls and risk management.

During the period, the Board was satisfied that all directors were able to commit sufficient time to discharge their responsibilities effectively having given due consideration to the directors' external appointments. The directors were advised on appointment of the expected time required to fulfil their roles and have confirmed that they

remain able to make that commitment. All material changes in any director's commitments outside the Group are required to be, and have been, disclosed prior to the acceptance of any such appointment.

Directors are selected and appointed by the Board as a whole. There is no separate nomination committee as the Board is considered small relative to listed trading companies. The Directors are therefore responsible for reviewing the size, structure and skills of the Board and considering whether any changes are required or new appointments are necessary to meet the requirements of the Company's business or to maintain a balanced Board.

Each of the Directors will stand for re-election at the forthcoming Annual General Meeting on 28 November 2018 in accordance with the Company's Articles of Association. The Articles require further that Directors submit themselves for re-election at least every three years. In addition, the Board has agreed that any Director with more than nine years' service will be required to stand for re-election at each annual general meeting in accordance with the recommendations of the AIC Code.

## Board Committees

The Board has established a management engagement committee and an audit committee. Given that the Company has no executive directors or other employees; the Board does not consider it necessary to establish a separate remuneration committee.

The Audit Committee meets at least twice a year and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors, including the provision of non-audit services. The Audit Committee comprises all the non-executive directors given the size of the Board and to benefit from the broad range of financial, commercial and property sector experience which enables them to provide better oversight of financial and risk matters. Rod MacRae is Chairman of the Audit Committee.

The management engagement committee comprises the full board and keeps the terms of engagement with the AIFM and Investment Adviser under review and examines the effectiveness of the Company's internal control systems and the performance of the AIFM, Investment Adviser, Administrator,



Aerial view of  
Woodbine Road, Halewood

Depository, Company Secretary, Valuer and other service providers. The Management Engagement Committee comprises each of the directors given the size of the Board but each member is independent of the AIFM and the Investment Adviser. Stephen Smith is the Chairman of the Management Engagement Committee. The Management Engagement Committee receives reports and analyses from each of the Investment Advisor and AIFM and reviews these, making recommendations for change or requests for additional information where appropriate to ensure ongoing performance under the terms of their respective contractual arrangements.

### Board Meetings

During a full financial period, the Board will meet formally at least on a quarterly basis with additional meetings as the Board may decide from time to time dedicated to specific events. There were seven meetings during the period, attended by those directors available at the time. The additional meetings in the period were in connection with the approval of allotment of shares and admission to trading on the London Stock Exchange.

Board papers are circulated by the Investment Adviser prior to each meeting to ensure that the directors receive accurate, clear and timely information to help them to discharge their duties. For this purpose, the Board receives periodic reports from the AIFM and the Investment Adviser detailing the performance of the Group. The primary focus at the meetings are a review of investment opportunities, investment performance and associated matters such as gearing, asset allocation, level of the share price discount or premium, marketing and investor relations and industry issues.

### Discussions of the Board

During the period the Board spent time discussing the following items:

- > approval of various matters in connection with the Company's placing and offer for Admission
- > approval of the Investment Advisory Agreement, the Development Management Agreement and AIFM Agreement

- > approval of the forward purchase of the First Acquisition Portfolio as detailed in the IPO prospectus
- > review of capital deployment and investment pipeline
- > the Investment Adviser's arrangements with its housebuilder and lettings partners
- > the Group's compliance with the REIT regime
- > the approval of debt facilities with Lloyds Bank and Scottish Widows
- > the Group's corporate structure
- > the Group's communication strategy
- > the key performance indicators by which the Group measures success
- > updates on relevant government or regulatory developments
- > review of quarterly management accounts
- > review of the Company's share price rating, performance and trading the Group's NAV performance
- > analysis of the Company's shareholder register
- > review of corporate governance compliance, Group subsidiary activity and depository report

The Investment Adviser attends the Board meetings. Representatives from the AIFM and the Company's other advisers are also invited to attend Board meetings from time to time.



### Performance Evaluation

The directors recognise that the evaluation process is a significant opportunity to review the practices and performance of the Board, its committees and its individual directors and to implement actions to improve the Board's focus and effectiveness which contribute to the Group's success.

The Board continually considers its performance and the balance of skills, experience and knowledge. The Board considers that conducting a formal evaluation prior to preparation of the first annual report and accounts would not have been appropriate or produced a constructive output. The Board will undertake the first formal evaluation of its own performance shortly and annually thereafter. The Chairman will lead the assessment and the review of the Chairman will be led by one of the other directors. Disclosure of the annual evaluation will be made in the next annual report in accordance with the provisions of the AIC Code.

### Conflicts of Interests

The Group operates a conflicts of interests policy that has been approved by the Board and sets out the approach to be adopted and procedures to be followed where a director, or such other persons to whom the Board has determined the policy applies, has an interest which conflicts, or potentially may conflict, with the interests of the Group. Under the policy and the Company's Articles of Association, the Board may authorise potential conflicts that may arise, subject to imposing limits or conditions when giving authorisation if this is appropriate.

The Group reserves the right to withhold information relating, or relevant, to a conflict matter from the director concerned and/or to exclude the director from any Board information, discussions or decisions which may or will relate to that matter of conflict or where the Chairman considers the it would be inappropriate for a director to take part in such discussion or decision or receive such information. Procedures have been established to monitor actual and potential conflicts of interest on a regular basis and the Board is satisfied that these procedures are working effectively.

The AIFM and Investment Adviser maintain a policy to avoid and manage any conflicts of interest that may arise between themselves and the Group. The Investment Adviser has established a clear and robust framework to ensure that any conflicts of interest are appropriately governed that includes:

- > the Investment Adviser's obligation to provide the Group with a right of first refusal on every investment opportunity meeting the Group's investment policy with the intention that the Group undertakes not less than two-thirds of all such opportunities with the balance being developed by the Investment Adviser and forward sold to the Group
- > the Investment Adviser's obligation to sell all stabilised investments assets to the Group on pre-agreed terms at a price equal to the market value determined by an independent valuation expert
- > other conflict matters, in particular regarding the value, quality or other terms relating to the acquisition of assets by the Group

Hamilton Square, Atherton

### Professional Development

All directors received a comprehensive induction programme on joining the Board that covered the Investment Adviser's investment approach, the role and responsibilities of a director and guidance of corporate governance and applicable regulatory and legislative landscape. The directors' training and development will be assessed as part of the annual effectiveness evaluation. The Chairman regularly reviews and discusses the development needs with each director. Each director is fully aware that he should take responsibility for his own individual development needs and take the necessary steps to ensure he is wholly informed of regulatory and business developments. During the period the directors undertook training on their legal duties as directors.

### Health and Safety

Health and safety is of prime importance to the Group and is considered equally with all other business management activities to ensure protection of stakeholders, be they tenants, advisers, suppliers, visitors or others. The Board regularly discusses health and safety issues with the Investment Adviser. The Group is committed to fostering the highest standards in health and safety as it believes that all unsafe acts and unsafe conditions are preventable. All our stakeholders have a responsibility to support the aim of ensuring a secure and safe environment, and all our stakeholders are tasked with responsibility for achieving this commitment.

### Transparency

The Company aims to be transparent, and to ensure that it communicates with its shareholders and other stakeholders in a manner that enhances their understanding of its business. The Company maintains accounting documentation that clearly identifies the true nature of all business transactions, assets and liabilities, in line with the relevant regulatory, accounting, and legal requirements. No record or entry is knowingly false, distorted, incomplete, or suppressed. All reporting is materially accurate and complete and in compliance in all material respects with stated accounting policies and procedures.

The Company does not knowingly misstate or misrepresent management information for any reason, and the Company expects the same to apply to its suppliers. The Company may be required to make statements or provide reports to regulatory bodies, government agencies or other government departments, as well as to the media. The Company ensures that such statements or reports are correct, timely, and not misleading, and that they are delivered through the appropriate channels. The Company provides through its website, its Annual Report, other statements and any appropriate information to enable shareholders and stakeholders to assess the performance of its business. The Company complies with the applicable laws and regulations concerning the disclosure of information relating to the Company.

### Shareholder Engagement

The Group encourages active interest and contribution from both its institutional and private investors and responds promptly to all queries received by the Group. The Board recognises the importance of maintaining strong relationships with shareholders, and the directors place a great deal of importance on understanding shareholder sentiment.

The Investment Adviser and the Group's joint financial advisers regularly meet and receive calls from shareholders and analysts in order to understand their views, and the Group's broker speaks to shareholders regularly, ensuring shareholder views are communicated to the Board. The Board takes responsibility for, and has a direct involvement in, the content of communications regarding major corporate issues.

Shareholders are encouraged to attend and vote at the Company's shareholder meetings, so they can discuss governance and strategy and the Board can enhance its understanding of shareholder views. The Board attends the Company's shareholder meetings to answer any shareholder questions and the Chairman makes himself available, as necessary, outside of these meetings to speak to shareholders.

The Board is committed to providing investors with regular announcements of significant events affecting the Group and all investor documentation is available on the Group's website [www.theprsreit.com](http://www.theprsreit.com).

# Audit Committee Report

I am pleased to present the first Audit Committee report of The PRS REIT plc covering the period 31 May 2017 to 30 June 2018.

The Committee, which reports to the Board, has governance responsibilities to oversee the Company's financial reporting processes which include the risk management and internal financial controls of the Investment Adviser.

The Committee members consists of all three Board directors and between them they have a broad range of financial, commercial and property sector expertise which enables them to provide oversight of both financial and risk matters.

## Role of the Audit Committee

The principal duties of the Audit Committee are:

### Financial Reporting

- > consider the integrity of the interim and full year financial statements which includes the preliminary results announcement of the Company;
- > report to the Board on any significant financial reporting issues and judgments having regard to any matters communicated to it by the Auditor; and
- > as requested by the Board, to review the contents of the Annual Report and financial statements and advise the Board on whether the report and financial statements are a true and fair view of the Company's financial position as at 30 June 2018 and further provides shareholders sufficient information to assess the

Company's and Groups position and the Group's performance, investment strategy and investment objectives.

### Risk Management and Control

- > review the adequacy of the internal controls and risk management systems of the Company's Investment Adviser; and
- > report to the Board on the Company's procedures for detecting fraud.

### External Audit

- > to manage the relationship with the Company's external Auditor, including reviewing the Auditor's remuneration, independence and performance and making recommendations to the Board as appropriate;
- > to review the policy on the engagement of the Auditor; and
- > to safeguard the Auditor's independence and objectivity.

### External Property Valuation

- > to review the quality and appropriateness of the half-yearly and full year external valuations of the Group's property portfolio.

### Other

- > review the Committee's terms of reference and performance effectiveness.

The Audit Committee is to meet at least twice annually and its quorum is two members. The audit committee reports and makes recommendations to the Board, after each meeting.

## Matters Considered by the Audit Committee

There are at least two scheduled Audit Committee meetings per any financial period. For the period from 31 May 2017 to 9 October 2018 the audit committee has met three times. The attendance at these meetings was as follows:

Rod MacRae (Chairman)	<b>3/3</b>
Steve Smith	<b>3/3</b>
Steffan Francis	<b>2/3</b>

At these meetings, the Audit Committee has:

- > reviewed the internal controls and risk management systems of the Company;
- > reviewed financial results;
- > agreed the audit plan with the Auditor, including the agreement of the audit fee;
- > reviewed the annual valuation reports from the independent valuation expert, Savills (UK) Limited;
- > reviewed the provision of non-audit services by the Auditor;
- > reviewed the independence of the Auditor; and
- > reviewed the Group's Financial Statements and advised the Board accordingly.

The Company's principal risks can be found on pages 33 to 35. The Administrator and the Investment Adviser update the Audit Committee on changes to accounting policies, risk, legislation and areas of significant judgment by the Investment Adviser.

## Significant Matters Considered by the Audit Committee in the Period

### Acquisition of Subsidiaries

During the period the Group acquired eight property owning special vehicles. The Directors considered whether these acquisitions met the definition of a business or the acquisition of a group of assets and liabilities. It was concluded that six of the subsidiaries met the criteria for the acquisition of business as outlined in IFRS3 whilst the remaining two subsidiaries met the criteria for the acquisition of a group of assets and liabilities as outlined in IFRS 3. The Audit Committee considered the accounting treatment of the acquisitions of these property owning special purpose vehicles. The Administrator and the Investment Adviser provided advice to the Audit Committee in this regard. The Audit Committee was satisfied that these acquisitions were to be treated as a business combination.

### Property Portfolio Valuation

Investment property is held in the financial statements at fair value. There are independent valuations which are carried out by a qualified independent valuation expert. The valuations depend on some data provided by the Investment Adviser and the independent valuation expert makes decisions and assumptions on criteria some of which is subjective. As the valuation of the properties within the Company's portfolio is central to the Company's business the Directors consider that the value of investment properties is considered a significant risk due to the magnitude of the total amount, the potential impact on the movement in value on the reported results and the subjectivity of the valuation process.

The investment properties are independently valued by an external valuation expert, Savills (UK) Limited. The valuations are prepared in accordance with RICS Valuation Professional Standards 2014. The valuations are compliant with International Valuation Standards. The Investment Adviser has held open

discussions with the valuers throughout the period on the valuation process to discuss various elements of the property valuations and the auditor also has direct access to them as part of the audit process. Since the period end, the Audit Committee has reviewed the valuation reports and has discussed these reports with the Investment Adviser and the Auditor. The Audit Committee were satisfied with the valuation reports.

### External Audit Process

Before the commencement of the audit, the audit committee meet with the Auditor, to discuss the scope of the audit plan. After completion of the external audit, the committee met again with the Auditor to discuss the findings of the external audit and consider and evaluate any findings. After the consideration of the above matters and detailed review, the audit committee was of the opinion that the Annual Report and financial statements, represent a true and fair view of the Company as a whole and in addition provides the information necessary for shareholders to assess the Company's performance, strategy and investment objectives.

### Audit Fees and Non-Audit Services

An audit fee of £70,000 has been agreed in respect of the audit of the Company for the period ended 30 June 2018. The audit fees of the Group for the period ended 30 June 2018 totalled £91,000.

The cost of non-audit services provided by the auditor to the Company for the financial period ended 30 June 2018 was £53k of which £18k related to the interim accounts. The balance of £35k related to work undertaken by RSM Corporate Finance LLP, a separate corporate body to that of the Auditor (RSM UK Audit LLP) in respect of corporate finance services as a result of the IPO. Moore Stephens LLP have been engaged to advise on taxation compliance matters.

## Independence and Objectivity of the Auditor

RSM UK Audit LLP ("RSM") were appointed as auditor to the Company since IPO on 31 May 2017, during which time Mr Euan Banks, Partner at RSM, has been the audit partner on the audit. No tender for the audit of the Company has been undertaken. In evaluating RSM's performance, the Audit Committee considered the effectiveness of the audit process, quality of delivery, staff expertise, audit fees and the auditor's independence, along with matters raised during the audit. The Audit Committee received confirmation from RSM that they maintain appropriate internal safeguards in line with applicable professional standards. In accordance with new requirements relating to the appointment of auditors, the Company will need to conduct an audit tender no later than for the accounting period beginning 1 June 2026. Having considered the auditor's independence in respect of the period ended 30 June 2018, the Audit Committee is satisfied with the Auditor's performance, objectivity and independence.

## Review of Auditor Appointment

Following consideration of the performance of the Auditor, the service provided during the period and a review of their independence and objectivity, the Audit Committee has recommended to the Board the continued appointment of RSM UK Audit LLP as the Company's external independent auditor.

## Internal Audit

The audit committee has determined that there is no need for an internal audit function given the limited size and complexity of the Company and its business.

### Rod MacRae

Audit Committee Chairman

9 October 2018

# Directors’ Remuneration Policy

The remuneration policy of the Company is set by the Board. A resolution to approve this Remuneration Policy will be proposed at the next AGM of the Company. If approved, the policy provisions set out below will apply until they are next put to shareholders for renewal of that approval, which must be at intervals of not more than three years, or if proposals are made to vary the policy. The Remuneration Policy is binding and sets the parameters within which Directors’ remuneration may be set.

The remuneration policy of the Company is to pay its non-executive Directors fees

that are appropriate for the role and the amount of time spent in discharging their duties, that are broadly in line with those of comparable real estate investment companies and that are sufficient to attract and retain suitably qualified and experienced individuals.

The fees paid will be reviewed on an annual basis and may also be reviewed when new non-executive Directors are recruited to the Board. The Directors of the Company are entitled to such rates of annual fees as the Board at its discretion shall from time to time determine. The Chairman of the Board

and the Audit Committee Chairman are entitled to receive fees at a higher level than those of the other Directors, reflecting their additional duties and responsibilities. Annual fees are pro-rated where a change takes place during the financial year.

In addition to the annual fee, under the Company’s Articles of Association, if any Director is requested to perform any special duties or services outside his ordinary duties as a Director, he may be paid such reasonable additional remuneration as the Board may from time to time determine.

## Directors’ Remuneration Components

Component	Director	Annual Fee	Purpose of Remuneration
Annual fee	Chairman	£45,000	Commitment as Chairman of a public company
Annual fee	Non-Executive Directors	£30,000	Commitment as Non-Executive Directors of a public company
Additional fee	Chairman of the Audit Committee	£5,000	For additional responsibilities and time commitment
Additional fee	All Directors	Discretionary	For extra or special services performed in their role as a Director
Expenses	All Directors	n/a	Reimbursement of expenses incurred in the performance of duties as a Director



Directors' and Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

Directors are entitled to be paid all expenses properly incurred in attending Board or shareholder meetings or otherwise in or with a view to the performance of their duties.

As all Directors are non-executive and there are no employees, the Company does not operate any share option or other long-term incentive schemes and the Directors' fees are not subject to any performance criteria. No pension or other retirement benefits schemes are operated by the Company for any of its directors.

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### Service Contracts

No Director has a service contract with the Company. The Directors are appointed under letters of appointment. Their appointment and any subsequent termination or retirement is subject to the Articles of Association. The Directors' letters of appointment provide that, upon the termination of a Director's appointment, that Director must resign in writing and all records remain the property of the Company. The Director's appointment can be terminated in accordance with the Articles of Association and without compensation. There is no notice period specified in the Articles of Association for the removal of Directors and all Directors are subject to annual re-election by shareholders.

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### Approach to Recruitment Remuneration

The remuneration package for any new Chairman or non-executive Director will be the same as the prevailing rates determined on the bases set out above. The Board will not pay any introductory fee or incentive to any person to encourage them to become a Director, but may pay the fees of search and recruitment specialists in connection with the appointment of any new non-executive Director.

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### Views of Shareholders

Any views expressed by shareholders on the fees being paid to Directors would be taken into consideration by the Board when reviewing levels of remuneration.

# Directors' Remuneration Report

The Board presents its Directors' Remuneration Report in respect of the period ended 30 June 2018. The Board has prepared this report in accordance with the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2008 (as amended). An ordinary resolution for the approval of the Directors' Remuneration Report will be put to shareholders at the next AGM of the Company.

The law requires the Company's Auditor to audit certain of the disclosures required. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in the Auditor's report on pages 58 to 61.

## Annual Statement from the Chairman

I am pleased to present the Directors' Remuneration Report for the period 31 May 2017 to 30 June 2018.

As the Board has no executive Directors, it does not consider it necessary to establish a separate Remuneration Committee. The Board as a whole is therefore responsible for decisions regarding remuneration. The Board consists entirely of non-executive Directors and the Company has no employees.

Companies are required to seek shareholder approval of the remuneration report each year and of the Directors' Remuneration Policy on at least a three-yearly basis. The vote on the Directors' Remuneration Report is an advisory vote, whilst the Directors'

Remuneration Policy is subject to a binding vote. Resolutions to approve the Remuneration Policy, as outlined on pages 54 and 55 of this report, and the Directors' Remuneration Report will be put before shareholders at the forthcoming AGM of the Company. Any change to the Directors' Remuneration Policy following its approval would require shareholder approval. There will be no significant change in the way the Remuneration Policy will be implemented in the course of the next financial year.

The Directors are remunerated for their services at such rate as the Directors shall from time to time determine. The Board has set three levels of fees: one for the Chairman, one for other Directors, and an additional fee that is paid to the Director who chairs the Audit Committee. Fees are reviewed annually in accordance with the Remuneration Policy. The fee for any new Director appointed will be determined on the same basis.

At the time of the IPO, the Directors' fees had been set at a rate of £45,000 per annum in respect of the Chairman and £30,000 per annum in respect of the other Directors, with an additional £5,000 to the Chairman of the Audit Committee. The Directors received no fees from the date of the IPO until 30 November 2017. No person provided advice or services to the Board in respect of the consideration of Directors' remuneration.

Following a review of Directors' fees subsequent to the period end, no changes are currently being proposed. There were no other payments for extra services in the period ended 30 June 2018.

## Directors' Fees for the Period (Audited)

The Directors who served during the period received the following emoluments:

	Total Period 31 May 2017 to 30 June 2018 £'000
Steve Smith (Chairman)	<b>26</b>
Steffan Francis	<b>18</b>
Rod MacRae (Audit Committee Chairman)	<b>20</b>
	<b>64</b>

The Directors received no remuneration from the date of the IPO to 30 November 2017.

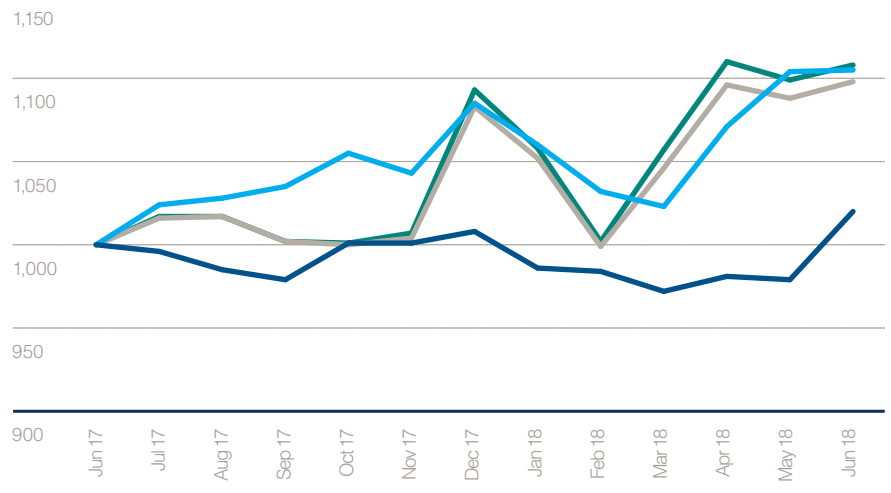
During the period no taxable benefits were received by any of the Directors.

The amounts paid to the Directors were for services as non-executive Directors.

Under the Company's Articles of Association, the total aggregate remuneration and benefits in kind of the Directors of the Company is subject to a maximum of £300,000 in any financial year. Any change to this would require shareholder approval.

- PRS REIT
- FTSE 250
- FTSE All Share REITs
- FTSE 350 REITs

## Total shareholder return (rebased)



## Relative Importance of Spending on Pay

	£'000
Directors' remuneration	<b>64</b>
Dividends paid to shareholders*	<b>21,082</b>

\* includes all dividends paid in relation to the period ended 30 June 2018

## Total Shareholder Return

The graph below shows the total shareholder return (as required by company law) of the Company's Ordinary Shares relative to a return on a hypothetical holding over the same period in the FTSE 250, FTSE All Share REITs and FTSE 350 REITs. Total shareholder return is the measure of returns provided by a Company to shareholders reflecting share price movements and assuming reinvestment of dividends.

## Loss of Office

The Directors do not have service contracts with the Company but are engaged under letters of appointment under which there is no entitlement to compensation for loss of office. Directors are subject to annual re-election by shareholders.

## Directors' Interests

There is no requirement under the Company's Articles of Association or the terms of their appointment for Directors to hold shares in the Company.

As at 30 June 2018, the Directors (including their connected persons) had beneficial interests in the following number of shares in the Company:

	Ordinary Shares
Steve Smith (Chairman)	<b>80,000</b>
Steffan Francis	<b>30,000</b>
Rod MacRae (Audit Committee Chairman)	<b>100,000</b>

There have been no changes to Directors' share interest between 30 June 2018 and the date of this report.

The shareholdings of the Directors are not significant and therefore do not compromise their independence.

None of the Directors or any person connected with them has a material interest in the Company's transactions, arrangements or agreements during the period.

The Company maintains Directors' and Officers' liability insurance cover, at its expense, on the Directors' behalf.

## Statement of Voting at General Meetings

The Company is committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to Directors' remuneration, the Company will seek the reasons for any such vote and will detail any resulting actions in an announcement.

The Company's forthcoming AGM will be the first opportunity for shareholders to vote on the Directors' Remuneration Policy and the Directors' Remuneration Report.

## Approval

The Directors' Remuneration Report was approved by the Board on 9 October 2018.

On behalf of the Board.

**Steve Smith**  
Chairman

9 October 2018

# Independent Auditor's Report to the members of The PRS REIT plc

## Opinion

We have audited the financial statements of The PRS REIT plc (the 'parent company') and its subsidiaries (the 'group') for the period ended 30 June 2018 which comprise the Consolidated Statement of Comprehensive Income, Consolidated and Company Statements of Financial Position, Consolidated and Company Statements of Changes in Equity and Consolidated and Company Statements of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- > the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2018 and of the group's profit for the period then ended;

- > the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- > the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- > the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial

statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- > the disclosures in the annual report set out on pages 33 to 35 that describe the principal risks and explain how they are being managed or mitigated;
- > the directors' confirmation set out on pages 46 and 47 in the annual report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;

- > the directors' statement set out on page 41 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- > whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- > the directors' explanation set out on page 42 in the annual report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement

(whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Valuation of Investment Properties

This is detailed in the Audit Committee report on pages 52 and 53; the significant accounting judgements and estimates on pages 73 to 75; significant accounting policies on pages 72 and 73 and notes to the financial statements on pages 80 and 81.

### Risk of material mis-statement

The group owns or controls through a portfolio of Special Purpose Vehicles (SPV's) a portfolio of investment properties which includes residential properties only. The total value of the portfolio at 30 June 2018 was £121m. The group either acquires completed sites or sites that are ready to develop with full planning consent having been granted, the latter form investment properties under construction and have been valued at fair value using the residual basis, at the 30th June 2018 these were valued at £77m. The properties are predominately located in the north of England and the Midlands.

The directors' assessment of the value of the investment properties at year end date, is considered a key audit matter due to the magnitude of the total

amount, the potential impact of the movement in value on the reported results, and the subjectivity and complexity of the valuation process.

The valuation is carried out by external valuers, Savills (UK) Ltd, in line with the methodology set out in note 15.

### Audit approach adopted

We audited the independent valuations of investment properties to ensure that where appropriate they had been prepared on a consistent basis for all properties, including those under construction, and in accordance with RICs standards and are considered to be appropriate and correctly recorded in the financial statements and in line with the Accounting Standards. We assessed the external valuers qualifications and expertise and considered their terms of engagement, we also considered their objectivity and any other existing relationships with the group and concluded that there was no evidence that the valuers objectivity had been compromised.

We discussed with the asset manager and the valuer the overall movement in property values giving consideration to whether properties were fully developed or under construction and recognizing the similarity of tenant profiles. We also specifically discussed any properties whose movement was not consistent with overall movements of the entire portfolio to gain an understanding of why these exceptions were reasonable.

Completed sites were valued at market value whilst assets under construction were valued using the residual value method a methodology agreed with Savills following the interim review. We discussed both methodologies with the

asset manager and the valuer to ensure these were the most appropriate valuation methodologies for each property type.

For assets under construction we assessed the stage of development by reference to the stage of works completed to date and the amount still to be completed to the underlying documentation and forecasts.

We tested inputs provided by the asset manager to the valuer to ensure these reflected the key observable inputs for each property and considered whether market data for a sample of properties was consistent with the valuation report.

### **Our Application of Materiality**

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as £3,442,000, which was not changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £50,000, as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

### **An Overview of the Scope of our Audit**

Our audit scope covered 100% of group rental income, group profit and total group assets, and was performed to the materiality levels set out above. The key audit matters were audited as noted above.

### **Other Information**

The other information comprises the information included in the annual report set out on pages 2 to 57, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- > Fair, balanced and understandable set out on page 47, the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- > Audit committee reporting set out on pages 52 and 53, describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- > Directors' statement of compliance with the UK Corporate Governance Code set out on page 46, the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

### **Opinions on Other Matters Prescribed by the Companies Act 2006**

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- > the information given in the strategic report and the report of the directors' for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- > the strategic report and the report of the directors have been prepared in accordance with applicable legal requirements.

### **Matters on which we are Required to Report by Exception**

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the report of the directors.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- > adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- > the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- > certain disclosures of directors' remuneration specified by law are not made; or
- > we have not received all the information and explanations we require for our audit.

## Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 45 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of our audit, we will consider the susceptibility of the group and parent company to fraud and other irregularities, taking account of the business and control environment established and maintained by the directors, as well as the nature of transactions, assets and liabilities recorded in the accounting records. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs. However, the principal responsibility for ensuring that the financial statements are free from material misstatement, whether caused by fraud or error, rests with management who should not rely on the audit to discharge those functions.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Other Matters which we are Required to Address

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 25 April 2017 to audit the financial statements for the period ending 30 June 2018 and subsequent financial periods.

This is our first period of Engagement.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

## Use of our Report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Euan Banks (Senior Statutory Auditor)

For and on behalf of  
RSM UK Audit LLP,  
Statutory Auditor  
Chartered Accountants

25 Farringdon Street  
London  
WC1B 3ST

9 October 2018

# Consolidated Statement of Comprehensive Income

## For the period from 31 May 2017 to 30 June 2018

	Notes	31 May 2017 to 30 June 2018 £'000
<b>Rental Income</b>	<b>5</b>	<b>1,765</b>
Non-recoverable property costs	6	(274)
<b>Net rental income</b>		<b>1,491</b>
<b>Administrative Expenses</b>		
Directors' remuneration	7	(67)
Investment advisory fee	9	(3,295)
Other administrative expenses	10	(977)
<b>Total administrative expenses</b>		<b>(4,339)</b>
Gain from fair value adjustment on investment property	15	5,515
<b>Operating profit</b>		<b>2,667</b>
Finance income	11	570
<b>Profit before taxation</b>		<b>3,237</b>
Taxation	12	-
<b>Total comprehensive income for the year attributable to the equity holders of the Company</b>		<b>3,237</b>
<b>Earnings per share attributable to the equity holders of the Company:</b>		
IFRS earnings per share (basic and diluted)	13	1.0p

All of the Group activities are classed as continuing and there were no comprehensive gains or losses in the period other than those included in the statement of comprehensive income.



# Consolidated Statement of Financial Position

## As at 30 June 2018

	Notes	At 30 June 2018 £'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Investment property	15	121,109
		<b>121,109</b>
<b>Current assets</b>		
Trade receivables	17	28
Other receivables	17	3,786
Cash and cash equivalents	18	374,339
		<b>378,153</b>
<b>Total assets</b>		<b>499,262</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Trade and other payables	19	961
<b>Current liabilities</b>		
Trade and other payables	19	12,296
<b>Total liabilities</b>		<b>13,257</b>
<b>Net assets</b>		<b>486,005</b>
<b>EQUITY</b>		
Called up share capital	20	4,943
Share premium account	21	244,025
Capital reduction reserve	22	233,800
Redeemable preference shares	23	-
Retained earnings		3,237
<b>Total equity attributable to the equity holders of the Company</b>		<b>486,005</b>
IFRS net asset value per share (basic and diluted)	24	98.3p

As at 30 June 2018, there is no difference between IFRS NAV per share and the EPRA NAV per share.

These consolidated group financial statements were approved by the Board of Directors and authorised for issue on 9 October 2018 and signed on its behalf by:

**Steve Smith**  
Chairman

9 October 2018

# Consolidated Statement of Changes in Equity

For the period from 31 May 2017 to 30 June 2018

## Attributable to equity holders of the Company

	Share capital £'000	Share premium account £'000	Capital reduction reserve £'000	Redeemable preference shares £'000	Retained earnings £'000	Total equity £'000
Share capital issued in the period	4,943	495,524	-	50	-	500,517
Share capital issue costs	-	(8,999)	-	-	-	(8,999)
Cancellation of share premium	-	(242,500)	242,500	-	-	-
Share capital redeemed in the period	-	-	-	(50)	-	(50)
Dividend paid	-	-	(8,700)	-	-	(8,700)
Profit for the period	-	-	-	-	3,237	3,237
<b>At 30 June 2018</b>	<b>4,943</b>	<b>244,025</b>	<b>233,800</b>	<b>-</b>	<b>3,237</b>	<b>486,005</b>

# Consolidated Statement of Cash Flows

## For the period from 31 May 2017 to 30 June 2018

	Notes	31 May 2017 to 30 June 2018 £'000
<b>Cash flows from operating activities</b>		
Profit before tax		<b>3,237</b>
less Finance Income		<b>(570)</b>
less fair value adjustment on investment property		<b>(5,515)</b>
Cash used in operations		<b>(2,848)</b>
Increase in trade and other receivables		<b>(3,748)</b>
Increase in trade and other payables		<b>1,708</b>
<b>Net cash used in operating activities</b>		<b>(4,888)</b>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiaries		<b>(40,770)</b>
Purchase of investment property at fair value through profit and loss		<b>(63,451)</b>
Finance income		<b>504</b>
<b>Net cash used in investing activities</b>		<b>(103,717)</b>
<b>Cash flows from financing activities</b>		
Issue of shares		<b>500,467</b>
Cost of share issue		<b>(8,823)</b>
Redeemable preference shares		<b>-</b>
Dividends paid		<b>(8,700)</b>
<b>Net cash generated from financing activities</b>		<b>482,944</b>
<b>Net increase in cash and cash equivalents</b>		<b>374,339</b>
Cash and cash equivalents at beginning of period		<b>-</b>
<b>Cash and cash equivalents at end of period</b>	<b>18</b>	<b>374,339</b>

The accompanying notes are an integral part of this cash flow statement.

# Company Statement of Financial Position

## As at 30 June 2018

	Notes	At 30 June 2018 £'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Investment in subsidiaries	16	104,273
		<b>104,273</b>
<b>Current assets</b>		
Other receivables	17	29,724
Cash and cash equivalents	18	346,614
		<b>376,338</b>
<b>Total assets</b>		<b>480,611</b>
<b>Current liabilities</b>		
Trade and other payables	19	1,312
<b>Total liabilities</b>		<b>1,312</b>
<b>Net assets</b>		<b>479,299</b>
<b>EQUITY</b>		
Called up share capital	20	4,943
Share premium account	21	244,025
Capital reduction reserve	22	233,800
Redeemable preference shares	23	-
Retained earnings		(3,469)
<b>Total equity attributable to the equity holders of the Company</b>		<b>479,299</b>

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The loss attributable to the Parent Company for the period ended 30 June 2018 amounted to £3.5m.

These financial statements were approved by the Board of Directors on 9 October 2018 and signed on its behalf by:

**Steve Smith**  
Chairman

# Company Statement of Changes in Equity

For the period from 31 May 2017 to 30 June 2018

	Share capital £'000	Share premium account £'000	Capital reduction reserve £'000	Redeemable preference shares £'000	Retained earnings £'000	Total equity £'000
Share capital issued in the period	4,943	495,524	-	50	-	500,517
Share capital issue costs	-	(8,999)	-	-	-	(8,999)
Cancellation of share premium	-	(242,500)	242,500	-	-	-
Share capital redeemed in the period	-	-	-	(50)	-	(50)
Dividends paid	-	-	(8,700)	-	-	(8,700)
Profit for the period	-	-	-	-	(3,469)	(3,469)
<b>At 30 June 2018</b>	<b>4,943</b>	<b>244,025</b>	<b>233,800</b>	<b>-</b>	<b>(3,469)</b>	<b>479,299</b>

# Company Statement of Cash Flows

For the period from 31 May 2017 to 30 June 2018

	Notes	31 May 2017 to 30 June 2018 £'000
<b>Cash flows from operating activities</b>		
Loss before tax		<b>(3,469)</b>
less Finance Income		<b>(570)</b>
Cash used in operations		<b>(4,039)</b>
Increase in trade and other receivables		<b>(29,658)</b>
Increase in trade and other payables		<b>1,136</b>
<b>Net cash used in operating activities</b>		<b>(32,561)</b>
<b>Cash flows from investing activities</b>		
Investment in subsidiaries		<b>(104,273)</b>
Finance income		<b>504</b>
<b>Net cash invested in investing activities</b>		<b>(103,769)</b>
<b>Cash flows from financing activities</b>		
Issue of shares		<b>500,467</b>
Cost of share issue		<b>(8,823)</b>
Dividends paid		<b>(8,700)</b>
<b>Net cash generated from financing activities</b>		<b>482,944</b>
<b>Net increase in cash and cash equivalents</b>		<b>346,614</b>
Cash and cash equivalents at beginning of period		-
<b>Cash and cash equivalents at end of period</b>	<b>18</b>	<b>346,614</b>

## 1. General Information

The PRS REIT plc (the "Company") is a public limited company incorporated on 24 February 2017 in England and having its registered office at Floor 3, 1 St. Ann Street, Manchester, M2 7LR with Company Number 10638461. The Company did not commence trading until 31 May 2017 when the IPO was completed. The Company is quoted on the Specialist Fund Segment of the Main Market of the London Stock Exchange. The nature of the Group's operations and its principle activities are set out in the Chairman's statement.

## 2. Financial Risk Management

The Group is exposed to market risk, interest rate risk, credit risk and liquidity risk in the current and future periods. The Board of Directors oversees the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks that are summarised below.

### Market Risk

#### *Risk relating to Investment Property*

Investment in property is subject to varying degrees of risk. Some factors that affect the value of the investment in property include:

- > changes in the general economic climate;
- > competition from available properties; and
- > government regulations, including planning, environmental and tax laws.

#### *Interest rate risk*

The Group has limited interest rate risk. Its risk is on income and cash flows from changes in market interest rates. From time to time, certain of the Group's cash resources are placed on short term fixed deposits to take advantage of preferential rates otherwise cash resources are held in current, floating rate accounts.

### Credit Risk

Credit risk is that a counterparty will not meet its obligations under a financial instrument or customer contract leading to a financial loss. The Group is exposed to credit risk both from its property activities and financing activities.

#### *Credit risk relating to property activities*

The Group receives property rental income from its investments in PRS assets. Risk is mitigated as PRS assets consist of residential family housing with multiple tenants in multiple locations. Rental income is paid monthly in advance. Rental income outstanding and due to the Company as at 30 June 2018 amounted to £28,000.

#### *Credit risk arising related to financial instruments including cash deposits*

Risk arises as a result of the cash deposits with banks and financial institutions. The Board of Directors believe the credit risk on short term deposits and current account balances are limited as they are held with banks with high credit ratings. As at 30 June 2018, short term deposits and current account balances were held with the following banks:

- > Royal Bank of Scotland plc
- > Investec Bank plc
- > Barclays Bank plc
- > Lloyds Banking Group

## 2. Financial Risk Management (continued)

### Liquidity Risk

The Group seeks to manage liquidity risk to ensure sufficient liquidity is available to meet the requirements of the business and to invest cash assets safely and profitably. The Board reviews regularly available cash to ensure that there are sufficient resources for capital expenditure and working capital requirements. As at the 30 June 2018, the Group's amount of current financial assets was in excess of its financial liabilities by £365,000,000. The table below summarises the maturities of the Group's non-derivative financial liabilities as at 30 June 2018:

	Less than one year £'000	1 - 3 years £'000
<b>Trade and other payables</b>	<b>12,296</b>	<b>961</b>

## 3. Basis of Preparation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union. The Company has prepared its financial statements in accordance with IFRS as adopted for use in the European Union and as applied in compliance with the provisions of the Companies Act 2006.

The financial statements have been prepared on the historical cost basis, except where IFRS requires an alternative treatment. The principal variations from historical cost relate to financial instruments (IAS 39) and investment properties (IAS40) which are measured as fair value through profit and loss.

These are the Group's first financial statements since incorporation. Consequently, there are no comparatives for a previous period.

The financial information is presented in Pounds Sterling, which is also the functional currency, and all values are rounded to the nearest thousand pounds except where otherwise stated.

### 3.1 Going concern

The financial statements have been prepared on a going concern basis. The Group's cash balances at 30 June 2018 were £374.3m of which £198.4m was readily available. The Group has no debt borrowing as at 30 June 2018. As a consequence, the Directors believe the Group is well placed to manage its business risks successfully. After making enquiries, the Directors have a reasonable expectation that the Group have adequate resources to continue in operational assistance for the foreseeable future and for a period of at least 12 months from the date of the approval of the Group's financial statements for the period ended 30 June 2018. The Board is therefore of the opinion that the going concern basis adopted in the preparation of the financial statements for the period ended 30 June 2018 is appropriate.

### 3.2 Business combinations

The Group acquires subsidiaries that own investment properties. At the time of acquisition, the Group consider whether each acquisition represents the acquisition of a business or the acquisition of an asset. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property.

Where such acquisitions are not judged to be the acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based upon their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred tax arises.

### 3.3 Adoption of new and revised standards

The following are new standards, interpretations and amendments, which are not effective and have not been early adopted in these financial statements that may have an effect on the Group and Company's future financial statements.



#### *IFRS 2 – Classification and measure of share-based payment transactions (Amendment)*

The amendment is effective for periods beginning on or after 1 January 2018.

The Group does not currently or anticipate any share-based payment transactions and therefore this amendment will have no impact on the financial statements of the Group.

#### *IFRS 9 – Financial Instruments*

The standard is effective for periods beginning on or after 1 January 2018.

The standard makes substantial changes to the classification of financial assets and financial liabilities. There will only be three categories of financial assets whereby financial assets are recognised at either fair value through profit and loss, fair value through other comprehensive income or measured at amortised cost. On adoption of the standard, the Group will have to re-determine the classification of its financial assets based on the business model and contractual cash flows for each category of financial asset. This is not considered likely to give rise to any significant adjustments other than reclassifications.

#### *IFRS 15 – Revenue from contracts with customers*

The date the standard is effective from 1 January 2018.

The standard has been developed to provide a comprehensive set of principles in presenting the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is based around the following steps in recognising revenue:

- > Identify the contract with the customer;
- > Identify the performance obligations in the contract;
- > Determine the transaction price;
- > Allocate the transaction price; and
- > Recognise revenue when a performance obligation is satisfied.

On application of the standard the disclosures are likely to increase. The standard includes principles on disclosing the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, by providing qualitative and quantitative information. Based on a review of all the transactions impacting the current financial year and future know transactions, the Group does not expect the adoption of IFRS 15 to have a material impact on the Group's results.

#### *IFRS 16 – Leases*

The standard is effective for accounting periods commencing on or after 1 January 2019.

Under IFRS 16, most leased assets are capitalised by recognising the net present value of the lease payments as an asset and a financial liability representing the obligation to make future lease payments. The Directors are assessing the impact of this standard on the financial statements but anticipate that there will be no impact on the Group's financial statements as it does not hold any operating leases as lessee.

#### *IAS 40 – Investment Property (Amendment)*

The amendment is effective for periods beginning on or after 1 January 2018.

Under this amendment, an entity will transfer a property to or from investment property when there is evidence of a change of use. A change of use occurs if a property meets or ceases to meet the definition of an investment property. It is not anticipated that this amendment will have any impact on the financial statements of the Group.

## 4. Summary of Significant Accounting Policies

### Basis of consolidation

The financial statements comprise of the financial information of The PRS REIT plc and its subsidiary undertakings. Subsidiaries are all entities over which the Group has control. The financial information of the subsidiaries are included in the consolidated financial statements from the date that control commences. All intra group transactions are eliminated on consolidation.

### Segmental reporting

For the period from 31 May 2017 to 30 June 2018, the Directors regard the Group as having just one reportable segment, Property, and the business only operates in the United Kingdom therefore segmental information is not disclosed in these financial statements.

### Investment Property

Property that is held for long-term rental yields or for capital appreciation or both is classified as investment property under IAS 40. Investment property is measured initially at its cost including related transactions costs. After initial recognition, investment property is carried at fair value. Investment properties under construction are initially recognised at cost including related transaction costs. Subsequently, the assets are re-measured to fair value at each reporting date on a residual basis. The residual basis is estimated as the fair value of the completed asset less any costs still payable in order to complete which include an appropriate developers margin. The investment properties are externally valued by Savills (UK) Ltd. Savills (UK) Ltd are qualified external valuers who hold a recognised and relevant professional qualification. Gains or losses arising from changes in the fair value of the Group's investment properties are included in profit from operations in the income statement of the period in which they arise. Investment property falls within level 3 of the fair value hierarchy as defined by IFRS 13. Further details are provided in note 15.

### Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The movement in the provision is recognised in the comprehensive income statement.

### Operating leases

Rental income charge to tenants from operating leases is recognised on a straight line basis over the term of the relevant lease. Tenant lease incentives are recognised as a reduction of rental income when they arise. Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the profit and loss account when the right to receive them arises.

### Cash

Cash and cash equivalents comprise cash in hand, cash at bank, cash held in treasury deposits and restricted cash. Further details are provided in note 18.

### Trade payables

Trade payables are not interest bearing and are stated at their amortised cost.

### Taxation

Taxation on the profit or loss for the period not exempt under UK REIT regulations is comprised of current and deferred tax. Tax is recognised in the Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognised as a direct movement in equity, in which case it is recognised as a direct movement in equity. Current tax is expected tax payable on any non REIT taxable income for the period, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be recognised.

Deferred tax is calculated at the rates that are expected to apply when the asset or liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Revenue recognition

Rental income arises from assured shorthold tenancies on investment properties with a period no longer than 12 months and is accounted for on an accruals basis.

### Expenses

All expenses are recognised in the Condensed Consolidated Statement of Comprehensive Income on an accruals basis.

### Finance income

Finance income is recognised as it accrues on cash balances and treasury deposits held by the Group.

### Costs of borrowing

Borrowing costs are capitalised and are amortised over the debt term.

### Share issue costs

The costs of issuing equity instruments are accounted for as a deduction from equity.

### Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial information requires the Directors to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Group's accounting policies, the Directors have made the following judgements which have the most significant effect on the amounts recognised in the consolidated financial statements:

**(i) Application of acquisition accounting to the transaction which took place on the 5 June 2017**

The Directors have considered the accounting treatment of the acquisition which took place on the 5 June 2017 by The PRS REIT plc and its subsidiary The PRS REIT Holding Company Limited of the entire issued share capital of Sigma PRS Investments I Limited ("SPRSI") and the application of IFRS 3 'Business Combinations' and IFRS 10 'Consolidated Financial Statements'.

Taking these reporting standards into consideration the Directors have concluded that the consolidated financial statements should be prepared on the acquisition accounting basis. In the consolidated accounts, all the assets and liabilities of the Group are shown as analysed on a line by line basis with the activity of the subsidiary being consolidated from the acquisition date of 5 June 2017.

The reasons for the adoption of the acquisition accounting are:

- (a) the acquisition of SPRSI was conditional on the IPO proceeding and an integral part of the transaction; and
- (b) there is a substantial change in ownership of SPRSI by virtue of the IPO.

The acquisition on the 5 June 2017 was as a result of a forward purchase agreement following the IPO and as detailed in the Company's prospectus. From the date of acquisition to 30 June 2018, Sigma PRS Investments I has generated revenue of £0.5m, profit after tax of £0.6m and net assets at 30 June 2018 of £7.9m.

#### 4. Summary of Significant Accounting Policies (continued)

##### (ii) Acquisition of subsidiaries – as a business

During the period, the Group acquired eight property owning special purpose vehicles. The Directors considered whether these acquisitions met the definition of the acquisition of a business or the acquisition of a group of assets and liabilities. It was concluded that acquisitions met the criteria for the acquisition of a business as outlined in IFRS 3 as the acquisitions were conditional on the IPO proceeding. All assets acquired and liabilities assumed in a business combination are measured at acquisition date fair value. The fair value of the assets and liabilities as at the date of the acquisitions were as follows:

	Sigma PRS Investments I Limited £'000	Sigma PRS Investments II & III Limited £'000	Sigma PRS Investments (Baytree II) Limited £'000	Sigma PRS Investments VI & VII Limited £'000	Total £'000
Investment properties acquired	7,300	24,395	3,059	9,075	43,829
Other receivables	16	75	396	16	503
Other payables	(17)	(52)	-	(19)	(88)
<b>Total consideration paid</b>	<b>7,299</b>	<b>24,418</b>	<b>3,455</b>	<b>9,072</b>	<b>44,244</b>

- > Investment property is measured at fair value as at the date of the acquisition of the subsidiary by an independent valuation expert.
- > Other receivables are taken as being the value recorded in the accounts of the Company acquired, being the best estimate of their fair value.
- > Other creditor balances are measured at the amounts actually payable.
- > The total consideration paid was cash settled and no goodwill arose on acquisition.

##### (iii) Acquisition of subsidiaries – as a group of assets and liabilities

During the period, the Group acquired a further two property owning special purpose vehicles. The Directors considered whether these acquisitions meet the definition of the acquisition of a business or the acquisition of a group of assets and liabilities. It was concluded that acquisitions did not meet the criteria for the acquisition of a business as outlined in IFRS 3 as they did not have an integrated set of activities and assets that were capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors. Furthermore, a business consists of inputs and process applied to those inputs that have the ability to create outputs. All assets acquired and liabilities assumed in acquisition of a group of assets and liabilities are measured at acquisition date fair value. The Directors have reviewed the fair value of the assets and liabilities as at the date of the acquisitions which were as follows:

	Sigma PRS Investments (Carr Lane II) Limited £'000	Sigma PRS Investments (Newton Le Willows II) Limited £'000
Investment properties acquired	4,525	3,056
Other receivables	853	-
<b>Total consideration paid</b>	<b>5,378</b>	<b>3,056</b>

- > Investment property is measured at fair value as at the date of the acquisition of the subsidiary by an independent valuation expert.
- > Other receivables are taken as being the value recorded in the accounts of the Company acquired, being the best the amounts actually recoverable.

**(iv) VAT on investment advisory fees**

The investment advisory fees that are invoiced to the Company by the Investment Adviser are charged exempt of VAT. The Investment Adviser has applied for a non-statutory ruling to HMRC in respect of this treatment. After seeking specialist advice, the Investment Adviser believes it has a strong case to support this treatment. The amount of VAT that would have otherwise been charged for the period from 31 May 2017 to 30 June 2018 is £659,000.

**(v) Fair value of investment property**

The fair value of any property, including investment property under construction is determined by an independent property valuation expert to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. The valuation experts use recognised valuation techniques applying principles of both IAS40 and IFRS13.

The key assumptions that are used in fair value assessment of completed assets are net investment yield and gross to net assumption. The key assumptions that are used in the fair value assessment of assets under construction are investment value on completion, gross development costs, costs to complete construction and profit on cost.

The valuations are prepared in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation – Professional Standards January 2014 ("Red Book").

**5. Rental Income**

	31 May 2017 to 30 June 2018 £'000
Gross rental income from investment property	<b>1,765</b>
	<b>1,765</b>

The Group's investment property consists of residential housing for the private rented sector and therefore has multiple tenants and as a result does not have any significant customers.

**6. Non-recoverable Property Costs**

	31 May 2017 to 30 June 2018 £'000
Other property expenses and irrecoverable costs	<b>274</b>
	<b>274</b>

Non-recoverable property costs represent direct operating expenses in relation to rental income arising on investment properties.

## 7. Directors' Remuneration

	31 May 2017 to 30 June 2018 £'000
Directors' emoluments	<b>67</b>
	<b>67</b>

The directors are remunerated for their services at such rate as the directors shall from time to time determine. The Chairman receives a director's fee of £45,000 per annum, and the other directors of the Board receive a fee of £30,000 per annum (with the exception of the Chairman of the Audit Committee who receives an additional fee of £5,000 per annum).

## 8. Particulars of Employees

The Group had no employees during the period other than the directors.

## 9. Investment Advisory Fees

	31 May 2017 to 30 June 2018 £'000
Advisory fee	<b>3,295</b>
	<b>3,295</b>

Sigma PRS Management Ltd is appointed as the Investment Adviser of the Company. Under the current Investment Management Agreement, the Advisory Fee shall be an amount calculated in respect of each month, in each case based upon the Adjusted Net Asset Value on the following basis:

- (a) 1 per cent per annum of the Adjusted Net Asset Value up to, and including, £250 million;
- (b) 0.90 per cent per annum of the Adjusted Net Asset Value in excess of £250 million and up to, and including, £500 million;
- (c) 0.80 per cent per annum of the Adjusted Net Asset Value in excess of £500 million and up to, and including, £1 billion; and
- (d) 0.70 per cent per annum of the Adjusted Net Asset Value in excess of £1 billion.

The appointment of the Investment Adviser shall continue in force unless and until terminated by either party giving to the other not less than 12 months' written notice, such notice not to expire earlier than 31 May 2023.

## 10. Administrative Expenses

	31 May 2017 to 30 June 2018 £'000
Legal and professional fees	<b>91</b>
Administration and secretarial fees	<b>123</b>
Audit and tax fees	<b>134</b>
Valuation fees	<b>156</b>
Depositary fees	<b>56</b>
Financial adviser and broker	<b>66</b>
Insurance	<b>20</b>
Public relations	<b>41</b>
Regulatory fees	<b>134</b>
Sundry expenses	<b>5</b>
Costs of acquisition of subsidiaries	<b>24</b>
Disallowed VAT	<b>127</b>
	<b>977</b>

### Services provided by the Group's Auditors and its associates

The Group has obtained the following services from its Auditor and its associates:

	31 May 2017 to 30 June 2018 £'000
Audit of the Group financial statements	<b>70</b>
Audit of the subsidiary financial statements	<b>21</b>
Review of the half year financial statements	<b>18</b>
Corporate services relating to the initial launch	<b>35</b>
	<b>144</b>

## 11. Finance Income

	31 May 2017 to 30 June 2018 £'000
Interest on short term deposits	<b>570</b>
	<b>570</b>

## 12. Taxation

As a UK REIT, the Group is exempt from corporation tax on the profits and gains from its property investment business, provided it meets certain conditions as set out in the UK REIT regulations. For the current period ended 30 June 2018, the Group did not have any non-qualifying profits and accordingly there is no tax charge in the period. If there were any non-qualifying profits and gains, these would be subject to corporation tax.

It is assumed that the Group will continue to be a UK REIT for the foreseeable future, such that deferred tax has not been recognised on temporary differences relating to the property rental business. No deferred tax asset has been recognised in respect of the unutilised residual current period losses as it is not anticipated that sufficient residual profits will be generated in the future.

	31 May 2017 to 30 June 2018 £'000
<b>Current and deferred tax</b>	
Corporation tax charge/(credit) for the period	-
Total current income tax charge/(credit) in the income statement	-

The tax charge for the period is less than the standard rate of corporation tax in the UK of 19 per cent. The differences are explained below.

	31 May 2017 to 30 June 2018 £'000
Profit before tax	<b>3,237</b>
Tax at UK corporation tax standard rate of 19%	<b>615</b>
Change in value of exempt investment properties	<b>(1,048)</b>
Exempt REIT income	<b>(232)</b>
Amounts not deductible for tax purposes	<b>14</b>
Unutilised residual current period tax losses not recognised in deferred tax	<b>582</b>
Difference in deferred tax rates	<b>69</b>
	-

The standard rate of corporation tax in the UK for the period from incorporation to 31 March 2017 was 20%. From 1 April 2017 to 30 June 2018, the standard rate of corporation tax in the UK was 19%.

REIT exempt income includes property rental income that is exempt from UK Corporation Tax in accordance with Part 12 of CTA 2010.



### 13. Earnings per Share

Earnings per share (EPS) amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the period. As there are no dilutive instruments, only basic earnings per share is quoted below.

The calculation of basic earnings per share is based on the following:

	31 May 2017 to 30 June 2018 £'000
Net profit attributable to ordinary shareholders	<b>3,237</b>
EPRA adjustments:	
Changes in value of investment properties	<b>(5,515)</b>
EPRA Net loss attributable to ordinary shareholders	<b>(2,278)</b>
Weighted average number of ordinary shares	<b>330,854,803</b>
Earnings per share (pence)	<b>1.0</b>
EPRA loss per share (pence)	<b>(0.7)</b>

### 14. Dividends

The following dividends were paid during the period:

	31 May 2017 to 30 June 2018 £'000
Dividend of 1.5p for the 7 months to 31 December 2017	<b>3,757</b>
Dividend of 1.0p for the 3 months to 31 March 2018	<b>4,943</b>
	<b>8,700</b>

On 31 January 2018, the Company announced the declaration of a first interim dividend in respect of the period from 31 May 2017 to 31 December 2017 of 1.5 pence per Ordinary Share, which was payable on 16 March 2018 to shareholders on the register as at 16 February 2018.

On 30 April 2018, the Company announced the declaration of a second interim dividend in respect of the period from 1 January 2018 to 31 March 2018 of 1.0 pence per Ordinary Share which was payable on 31 May 2018 to shareholders on the register as at 11 May 2018.

A further dividend was paid during August 2018 which is detailed under note 32, Post Balance Sheet Events.

## 15. Investment Property

In accordance with International Accounting Standard, IAS 40 'Investment Property', investment property has been independently valued at fair value by Savills (UK) Limited, an accredited external valuer with a recognised relevant professional qualification and with recent experience in the locations and categories of the investment properties being valued. The valuation basis conforms to International Valuation Standards and is based on market evidence of investment yields, expected gross to net income rates and actual and expected rental values.

The valuations are the ultimate responsibility of the Directors. Accordingly, the critical assumption used in establishing the independent valuation are reviewed by the Board.

	Completed Assets £'000	Assets under Construction £'000	Total £'000
Properties acquired on acquisition of subsidiaries	40,770	10,640	51,410
Property additions - subsequent expenditure	-	64,184	64,184
Change in fair value	850	4,665	5,515
Transfers to completed assets	2,015	(2,015)	-
<b>At 30 June 2018</b>	<b>43,635</b>	<b>77,474</b>	<b>121,109</b>

### Fair Values

IFRS 13 sets out a three-tier hierarchy for financial assets and liabilities valued at fair value. These are as follows:

- Level 1** quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2** inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3** unobservable inputs for the asset or liability.

Investment property falls within Level 3. The Investment valuations provided by the external valuation expert are based on RICS Professional Valuation Standards, but include a number of unobservable inputs and other valuation assumptions. The significant unobservable inputs and the range of values used are:

#### Completed assets:

Type	Range
Investment yield	4.5% to 4.65%
Gross to net assumption	21.5% to 23.5%

#### Assets under construction:

Type	Assumption
Profit on cost	8.5%

The impact of changes to the significant unobservable inputs are:

	2018 Impact on statement of comprehensive income £'000	2018 Impact on statement of financial position £'000
Improvement in yield by 0.125%	<b>5,400</b>	<b>5,400</b>
Worsening in yield by 0.125%	<b>(5,223)</b>	<b>(5,223)</b>
Improvement in gross to net by 1%	<b>2,412</b>	<b>2,412</b>
Worsening in gross to net by 1%	<b>(2,557)</b>	<b>(2,557)</b>
Profit on cost decreases by 1%	<b>660</b>	<b>660</b>
Profit on cost increases by 1%	<b>(650)</b>	<b>(650)</b>

## 16. Investment in Subsidiaries

### Company

	£'000
Cost at the start of the period	-
Additions during the period	<b>104,273</b>
Cost at the end of the period	<b>104,273</b>

The Group comprises a number of companies, all subsidiaries included within these financial statements are noted below:

Ownership Name of Entity	Principal Activity	Country of Incorporation	%
The PRS REIT Holding Company Limited	Investment Holding Company	England	100%
The PRS REIT (LBG) Borrower Limited	Property Investment	England	100%
The PRS REIT (LBG) Holding Company Limited	Investment Holding Company	England	100%
The PRS REIT (LBG) Investments LLP	Property Investment	England	100%
The PRS REIT (LBG) Memberco Limited	Property Investment	England	100%
The PRS REIT (SW) Borrower Limited	Property Investment	England	100%
The PRS REIT (SW) Holding Company Limited	Investment Holding Company	England	100%
The PRS REIT (SW) Investments LLP	Property Investment	England	100%
The PRS REIT (SW) Memberco Limited	Property Investment	England	100%
The PRS REIT Development Company Limited	Property Investment	England	100%
The PRS REIT Investments LLP	Property Investment	England	100%
The PRS REIT Memberco Limited	Property Investment	England	100%
Sigma PRS Investments I Limited	Property Investment	Scotland	100%
Sigma PRS Investments II Limited	Property Investment	England	100%
Sigma PRS Investments III Limited	Property Investment	England	100%
Sigma PRS Investments VI Limited	Property Investment	England	100%
Sigma PRS Investments VII Limited	Property Investment	England	100%
Sigma PRS Investments (Baytree II) Limited	Property Investment	England	100%
Sigma PRS Investments (Carr Lane II) Limited	Property Investment	England	100%
Sigma PRS Investments (Newton Le Willows II) Limited	Property Investment	England	100%

The registered office for the subsidiaries across the Group is at Floor 3, 1 St. Ann Street, Manchester, M2 7LR, except for Sigma PRS Investments I Limited whose registered office is at 18 Alva Street, Edinburgh, EH2 4QG.

## 17. Trade Receivables and Other Current Assets

	Group 2018 £'000	Company 2018 £'000
Trade receivables	<b>28</b>	<b>-</b>
Receivables from group undertakings	<b>-</b>	<b>27,995</b>
Accrued income	<b>127</b>	<b>71</b>
Social security and other taxes	<b>1,969</b>	<b>-</b>
Prepayments and other receivables	<b>1,690</b>	<b>1,658</b>
	<b>3,814</b>	<b>29,724</b>

The Directors consider that the carrying amount of trade receivables approximates to their fair value. Debts provided for and written off are determined on an individual basis and included with administrative expenses in the financial statements. The Group's maximum exposure on credit risk is fair value on trade receivables as presented above. The trade receivables at the 30 June 2018 are all less than thirty days. The Group has no pledge as security on trade receivables.

## 18. Cash and Cash Equivalents

	Group 2018 £'000	Company 2018 £'000
Treasury reserve deposits	<b>50,000</b>	<b>50,000</b>
Restricted cash	<b>25,000</b>	<b>-</b>
Cash at bank	<b>299,339</b>	<b>296,614</b>
	<b>374,339</b>	<b>346,614</b>

Restricted cash comprises £25m in funds held in a bank account controlled by one of the Group's lenders and are released to free cash once certain loan conditions are met.

Treasury reserve deposits refers to money held on deposit for a fixed term and fixed interest rate. At 30 June 2018, the Group held one treasury reserve deposit which matured on 8 August 2018.

## 19. Trade and Other Payables

	Group 2018 £'000	Company 2018 £'000
<b>Current Liabilities</b>		
Trade payables	5,022	27
Payables to group undertakings	-	611
Accruals and deferred income	7,265	665
Other creditors	5	5
Social security and other taxes	4	4
	<b>12,296</b>	<b>1,312</b>
<b>Non-Current Liabilities</b>		
Accruals and deferred income	961	-
	<b>13,257</b>	<b>1,312</b>

## 20. Share Capital

Share capital represents the nominal value of consideration received by the Company for the issue of Ordinary Shares.

	2018 No. of Shares	2018 Share Capital £'000
<b>Group and Company</b>		
Balance at the beginning of period	-	-
Shares issued in relation to IPO	250,000,000	2,500
Shares issued in relation to management contract	445,578	4
Shares issued in relation to Placing Programme	243,902,440	2,439
Balance at end of period	<b>494,348,018</b>	<b>4,943</b>

The Company was admitted to the Specialist Fund Segment of the Main Market of the London Stock Exchange on 31 May 2017, raising £250m gross. In February 2018, the Company raised a further £250m gross through its placing programme.

## 21. Share Premium Reserve

The share premium relates to amounts subscribed for share capital in excess of nominal value.

	2018 £'000
<b>Group and Company</b>	
Balance at beginning of period	-
Share premium arising on shares issued in relation to IPO	<b>247,500</b>
Share issue expenses in relation to the IPO	<b>(5,000)</b>
Transfer to capital reduction reserve	<b>(242,500)</b>
Share premium arising on shares issued in relation to management contract	<b>463</b>
Share premium arising on shares issued in relation to Placing Programme	<b>247,561</b>
Share issue expense in relation to the Placing Programme	<b>(3,999)</b>
Balance at end of period	<b>244,025</b>

As stated in the Company's prospectus dated 4 May 2017, in order to increase the distributable reserves available to facilitate the payment of future dividends, the Company resolved that, conditional upon First Admission and approval of the Court, the amount standing to the credit of the share premium account as a result of the IPO be cancelled and transferred to a special distributable reserve.

The Company obtained court approval on 1 November 2017. An SH19 form was sent to Companies House with a copy of the court order on 1 November 2017 and the certificate of cancellation was issued by Companies House on 2 November 2017.

## 22. Capital Reduction Reserve

The capital reduction reserve is a distributable reserve to which the value of share premium, as a result of the IPO, has been transferred. Dividends can be paid from this reserve.

	As at 30 June 2018 £'000
Balance at beginning of period	-
Transfer from share premium reserve	<b>242,500</b>
First interim dividend paid of 1.5p per share for the period ended 31 December 2017	<b>(3,757)</b>
Second interim dividend paid of 1.0p per share for the period ended 30 June 2018	<b>(4,943)</b>
Balance at end of period	<b>233,800</b>

## 23. Redeemable Preference Shares

On 24 April 2017, the Company allotted 50,000 redeemable preference shares of £1 each to meet the minimum capital requirements. On 31 May 2017 and on completion of the IPO, the shares were redeemed at par value.

## 24. IFRS Net Asset Value per Share

Basic NAV per share is calculated by dividing net assets in the Statement of Financial Position attributable to ordinary equity holders of the parent by the number of Ordinary Shares outstanding at the end of the period. As there are no dilutive instruments, only basic NAV per share is quoted below.

Net asset values have been calculated as follows:

	As at 30 June 2018
Net assets at end of period (£'000)	<b>486,005</b>
Shares in issue at end of period	<b>494,348,018</b>
Basic IFRS NAV per share (pence)	<b>98.3</b>

The NAV per share calculated on an EPRA basis is the same as the IFRS NAV per share for the period to 30 June 2018.

## 25. Controlling Parties

As at 30 June 2018, there is no ultimate controlling party.

## 26. Consolidated Entities

The Group consists of a parent company, The PRS REIT plc, incorporated in the UK and a number of subsidiaries held directly and indirectly by The PRS REIT plc, which operate and are incorporated in the UK.

The Group owns 100% equity shares of all subsidiaries as listed in note 16 and has the power to appoint and remove the majority of the Board of Directors of those subsidiaries. The relevant activities of the subsidiaries are determined by the Board of Directors based on simple majority votes. Therefore the directors of the Group concluded that the Group has control over all these entities and all these entities have been consolidated within the financial statements.

## 27. Operating Leases

The future minimum lease payments receivable under non-cancellable operating leases in respect of the Group's property portfolio are as follows:

	Group 2018 £'000
Receivable within 1 year	<b>1,854</b>
	<b>1,854</b>

The Group's leases are assured shorthold tenancies usually for periods for up to one year.



## 28. Capital Commitments

The Group have entered into contracts with unrelated parties for the construction of residential housing with a total value of £206,991,000. As at 30 June 2018, £128,871,000 of such commitments remained outstanding.

## 29. Contingent Liability

The Investment Adviser is currently seeking clearance from HM Revenue and Customs in terms of the VAT rate applicable that it applies to the Investment Advisory fee that is charged to the Company. After seeking specialist advice the Investment Adviser believes that the fees charged will be treated as a VAT exempt supply.

The Company might have to pay the VAT on investment advisory fees. For the period 31 May 2017 to 30 June 2018 the amount of VAT that would have applied to the Investment Advisory fees is £659,000.

## 30. Related Party Disclosure

The number of shares owned by the directors of the Company as at 30 June 2018 along with dividends they received during the period is as follows:

Company Director	No. of Shares held	Dividends Received
Roderick MacRae	100,000	£1,600
Steffan Francis	30,000	£750
Stephen Smith	80,000	£2,000

All of the shares of the directors were acquired either on admission of the Company to the Specialist Fund Segment of the Main Market of the London Stock Exchange on 31 May 2017 or through the Placing Programme which completed on 20 February 2018.

For the period from 31 May 2017 to 30 June 2018, directors fees of £64,000 were incurred.

### **31. Transactions with Investment Adviser**

On 31 March 2017, Sigma PRS Management Ltd was appointed as the Investment Adviser of the Company.

For the period from 31 May 2017 to 30 June 2018, fees of £3,295,000 were incurred and payable to Sigma PRS Management Ltd in respect of investment advisory services. At 30 June 2018, £374,000 remained unpaid.

For the period from 31 May 2017 to 30 June 2018, development fees of £2,878,000 were incurred and payable to Sigma PRS Management Ltd. At 30 June 2018, £515,742 remained unpaid.

During the period, Sigma PRS Management Ltd acquired 445,578 shares in the Company equivalent to 50% of the development management fee earned for the period from 31 May 2017 to 31 December 2017. Subsequent to the period end, Sigma PRS Management Ltd acquired further shares of 929,276, equivalent to 50% of the development management fee earned for the period 1 January 2018 to 30 June 2018. Sigma PRS Management Ltd's shareholding equates to 0.28% of the issued share capital in the Company.

For the period from 31 May 2017 to 30 June 2018, administration and secretarial services of £97,500 were incurred and payable to Sigma Capital Property Ltd, a fellow subsidiary of the ultimate holding company of the Investment Adviser. At 30 June 2018, £15,000 remained unpaid.

During the period the Company acquired the following subsidiaries from Sigma Capital Group plc, the ultimate holding company of the Investment Adviser:

- > Sigma PRS Investments I Limited for a consideration of £7,299,000
- > Sigma PRS Investments (Baytree II) Limited for a consideration of £3,455,000
- > Sigma PRS Investments II and III Limited for a consideration of £24,418,000
- > Sigma PRS Investments VI and VII Limited for a consideration of £9,072,000
- > Sigma PRS Investments (Carr Lane II) Limited for a consideration of £5,378,000
- > Sigma PRS Investments (Newton Le Willows II) Limited for a consideration of £3,056,000

On 24 April 2017, the Company allotted 50,000 redeemable preference shares of £1 each to Sigma Capital Group plc. On 31 May 2017 and on completion of the IPO, the shares were redeemed at par value.

### **32. Post Balance Sheet Events**

#### **Dividend**

On 31 July 2018, the Company declared its third dividend in respect of the period from 1 April 2018 to 30 June 2018 of 2.5p per Ordinary Share totalling £12,381,932. The dividend was paid on 31 August 2018 to shareholders on the register at 10 August 2018. The ex-dividend date was the 9 August 2018.

#### **Acquisition of subsidiaries**

On the 31 August 2018, the Company acquired the entire share capital of Sigma PRS Investments IV Limited and Sigma PRS Investments V Limited from Sigma Capital Group plc. The consideration paid was £10.3m. The acquisition meets the criteria for the acquisition of a business as outlined in IFRS 3 as it was conditional on the IPO proceeding.

#### **Acquisition of investment properties**

Since the year end and to the date of this report, the Company has acquired the following land for development of investment property:

- > Acquired a site in July located in Wolverhampton, West Midlands for £2.9m
- > Acquired a site in August located in Wigan, Greater Manchester for £2.5m
- > Acquired a site in Darlaston, West Midlands for £3.1m
- > Acquired a site in Lower Broughton, Salford for £1.7m
- > Acquired a site in St Helens, Merseyside for £3.6m

#### **Issue of ordinary shares under Development Management Agreement**

On the 8 August 2018 and in accordance with the Development Management Agreement, Sigma PRS Management Ltd acquired 929,276 ordinary shares in the Company at an issue price of 104.5 pence per ordinary share.



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