

WALLS & FUTURES

WALLS & FUTURES REIT PLC SOCIAL STOCK EXCHANGE IMPACT REPORT



OCTOBER 2017

Investing in property today
Providing support for tomorrow



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1. CEO OVERVIEW

Walls & Futures REIT plc is a Real Estate Investment Trust (REIT) investing in residential property, focusing on the social housing sector.

Our customers and strategic partners include local authorities, NHS trusts, housing associations, charities and care providers. We provide tailored housing solutions which include, design, project management and development within a sustainable funding framework.

Our target is to deliver a long-term annual net return of 7-9% of which 3-4% will be paid in the form of a dividend. This will be achieved by building a portfolio of high yielding residential properties that offer secure income from high quality tenants. The properties will ideally be let on long term leases with rents increasing in line with inflation in order to provide an element of predictable growth.

1.1 OUR STORY

Walls & Futures was founded in 2008 by Joe McTaggart as an asset management & investment company.

With the aim of creating an alternative to direct property investment, the Walls & Futures London Growth Fund was established in 2011. The investment focus was to generate a capital return by acquiring, developing and renting residential properties in the London private rented sector (PRS). During the following 5 years the fund went onto build a portfolio in South West London which generated an un-leveraged, compounded net return of 7% per annum.

In order to build on its success, the management team and investors elected to restructure the company and the Fund to create Walls & Futures REIT plc. We raised £1.025m in new equity and were admitted to trading on the NEX Exchange in November 2016 (Ticker: WAFR).

The NEX Exchange provided us with a cost effective platform to support future growth, access to capital and liquidity together with the regulatory framework for REIT status.

In addition to the statutory reporting requirements of a quoted public company, shareholders are updated on a regular basis via our website and investor evenings which provide an opportunity to meet the board.

Our membership of the Social Stock Exchange is important as it highlights and supports our mission to address the chronic under supply of social housing. It also enables us to broaden our shareholder base to include those seeking to make a positive social impact through their investments.

About Real Estate Investment Trusts (REITs)

They are companies or groups of companies that manage a portfolio of real estate to earn profits for shareholders, and their special tax status means that they pay no corporation tax on the profits of their rental business

Key facts about REITs

- REITs must pay out 90% of their income to shareholders every year.
- REIT shares can be held in ISAs and Child Trust Funds (CTFs), and the managers of these can receive gross distributions, making these highly tax efficient.
- REITs must be primarily engaged in property investment, rather than in development or other non-property related activities.
- As REITs are all listed property companies, they offer investors a level of liquidity.
- Dividends from REITs are treated as a property income to the investor, and are taxed accordingly. The dividends are subject to a withholding tax at a basic rate income tax, except for certain classes of investors who can register to receive gross rather than net payments. These include charities, UK companies and pensions funds.

Management team



Joe McTaggart CEO

His introduction to property began in 2003 when he joined Foxtons, one of London's largest estate agents. Based in the company's Fulham office, he developed a thorough understanding of the Central and South West London residential property market.

Prior to founding Walls & Futures, Joe was Sales & Marketing Director at TIC Invest, which during his tenure became one of the UK's largest property investment companies sourcing, financing and providing asset management for over £350 million worth of UK real estate.



David White COO

Contributing over 10 years experience in the property industry, most recently at Berkeley Group plc (2012-16) where David specialised in bringing new development sites to market and maximising sales value on existing projects.

Prior to that, he held positions at TIC Invest, the Chancellors Group of Estate Agents and a consultancy role for a property fund in the United Arab Emirates. David co-founded the Walls & Futures London Growth Fund.



Peter Wylie Non-Executive Director

Has worked in the financial services sector for over 30 years and built a successful actuarial practice. In addition to setting up and administering pension schemes he brings with him a wealth of experience in assessing and minimising risk to business.

Peter has been extensively involved with property investment both for his clients pension schemes and for his own business. He has acquired a number of property requiring redevelopment in both the residential and commercial sectors.

2. SOCIAL PURPOSE & CONTEXT

2.1 SOCIAL PURPOSE

Our initial focus was on the provision of good quality accommodation for the London PRS, developing homes to let to professional tenants.

During the company re-structure we changed our investment focus from growth to generating long term sustainable income. To achieve this we would need to broaden our investment area and build a portfolio of residential properties that offer secure income, let on long leases to high quality tenants.

We were introduced to supported housing by an early investment partner, who had a family member with mental health needs. Our research into the sector found that due to a lack of local residential care places, many individuals were hospitalised over 100 miles from the family home for a prolonged period of time.

We have met with commissioners and social workers at local authorities, care providers, charities and registered social landlords to understand their needs and how we could work together to deliver a solution.

A recurring theme has been the requirement for accommodation that meets the needs of service users and provides security of tenancy with long term leases, within a sustainable funding framework. None of which are offered by private sector landlords.

On conclusion, by leveraging our experience and expertise, there is an opportunity to align the interests of private investors with the social housing sector. This can be achieved by creating a company that adds new homes and generates secure long term income, combining financial return with a positive social impact.

THE CHALLENGE

The growth in the UK population combined with under investment in new homes has put immense pressure on the housing market.

The National Housing Federation estimated in its 2015 Review that 245,000 new home were needed per year to keep up with demand. On average over the last five years, only 140,000 pa were being delivered, leaving a shortfall of over 100,000 homes pa.

Social housing is under greater pressure due to significant cut backs in social care budgets, right to buy and the impact of large scale voluntary transfers of stock to housing associations. There is a lack of capital and in some cases the expertise to invest and develop much needed new homes.

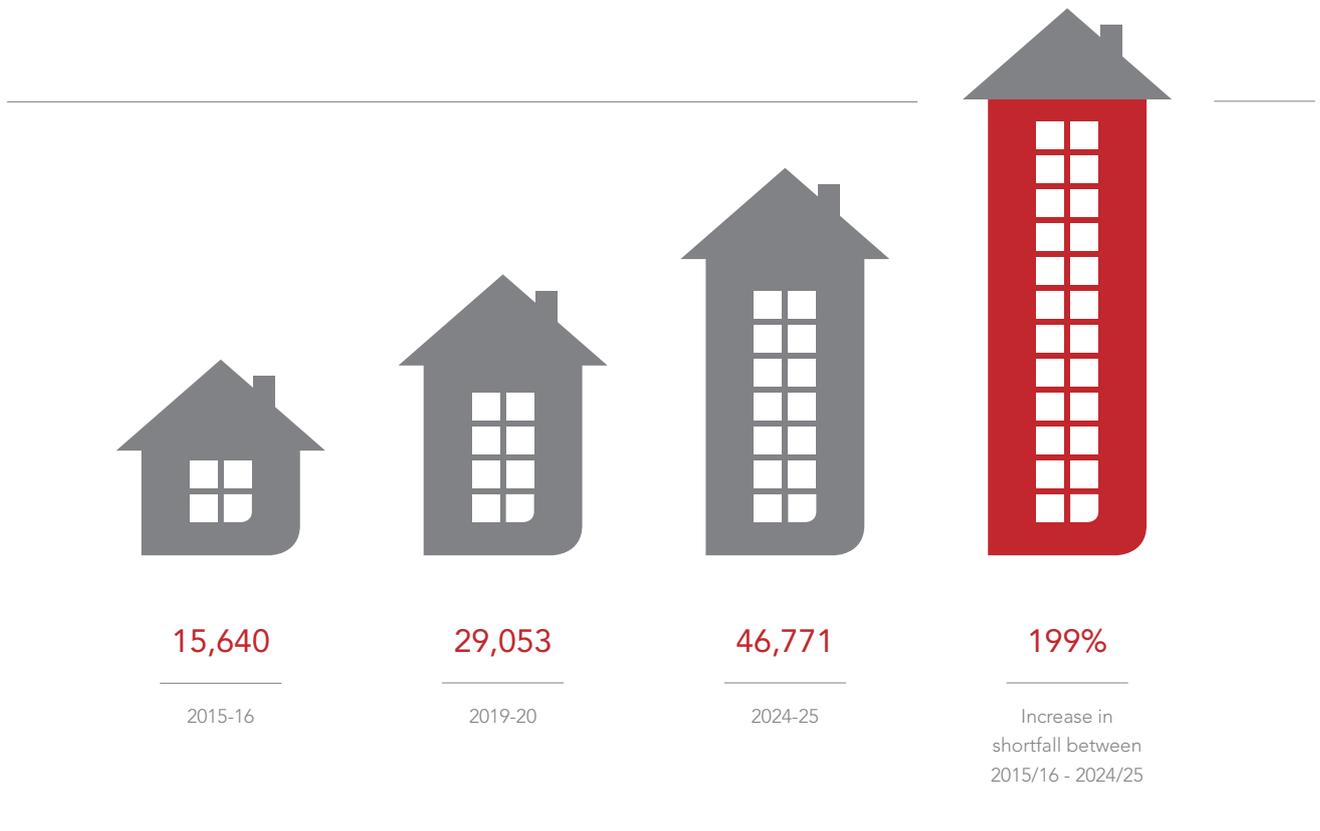
Supported Housing is one area of social housing that has seen a dramatic increase in demand. In 2011 the Panorama programme exposed the physical and psychological abuse suffered by people with learning disabilities and challenging behaviour at the Winterbourne View care home in South Gloucestershire.

This led to a 2012 Department of Health consultation (The Winterbourne View Review) which identified widespread failings across the wider care system. The government pledged to move all people with learning disabilities and or/autism, mental health needs and challenging behaviour inappropriately placed in such institutions to be moved into community care.

In 2015, NHS England published a new national plan under the Transforming Care agenda. The plan set out to move people on the autism spectrum and/or with a learning disability and complex needs from inappropriate inpatient units. As part of the plan, NHS England set up Transforming Care Partnerships to bring together decision makers from neighbouring local authorities and Clinical Commissioning Groups.

In December 2015, a report produced for the National Housing Federation highlighted the shortfall in available supported housing places. It found that for the year 2015/16 there was a need for 125,196 lettings for people of working age, vs 109,556 available places. Targets have not been met and there are still more people being admitted to institutions than being discharged.

Shortfall in available supported housing places



2. SOCIAL PURPOSE & CONTEXT

2.2 MISSION STATEMENT

“To address the chronic undersupply of social housing by delivering quality homes to meet the needs of the most vulnerable people in society within a sustainable funding framework”

2.3 OUR AREAS OF FOCUS

There are three key sectors where we are seeking to address the social housing shortage - Supported, Extra Care and General Needs.

1. Supported Housing

Provision of self contained and shared accommodation specifically adapted for individuals with a range of needs including learning/physical disabilities and challenging behaviour including autism and mental health needs. It enables users to live as independently as practicable and participate in the community.

2. Extra Care

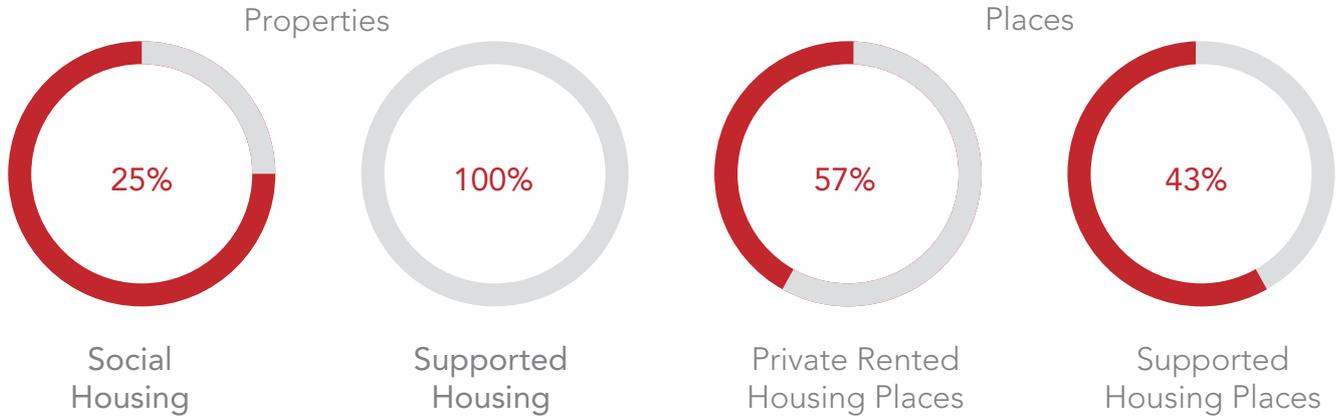
Housing designed to meet the needs of people aged 55+, enabling them to live independently with on-site care available 24 hours a day. Facilities for residents can include a communal lounge, restaurant/dining room, health and fitness facilities, and hobby and computer rooms. It comes in many built forms including blocks of flats, bungalow estates and retirement villages.

3. General Needs

Applies to general family housing and dwellings for singles and couples. Tenants are those who are able to live independently without any special housing or support requirements. There is a growing homelessness problem and Local Authorities have a statutory duty to ensure that accommodation is available for those with a priority need.

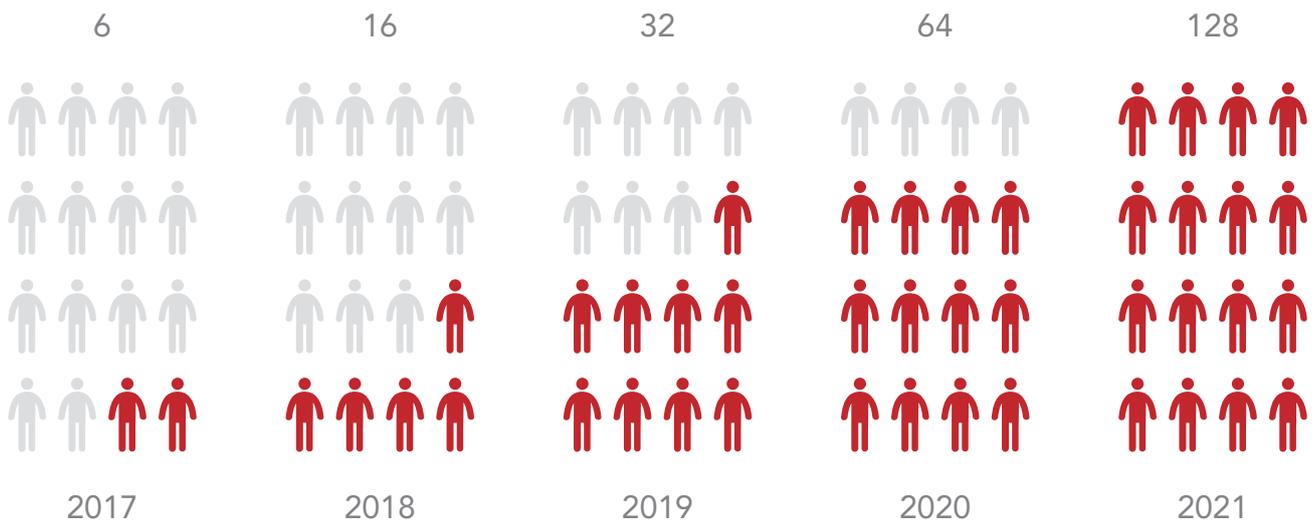
Current Portfolio

Currently **25% of our portfolio** is invested in social housing, **100% of which is allocated to Supported housing**. We will be making further investments in the Supported housing sector further increasing its weighting.



Over the next 12 months our target is to deliver an additional 10 supported housing places as the requirement for individual properties matches our current investment capabilities. Our aim is to deliver a total of 128 supported housing places over the next 5 years.

5 year Supported Housing Places Target



In the medium term as the Company scales our intention is to expand our investment focus to include Extra Care and General Needs housing as the size of the projects, typically 40-50 places each, are more capital intensive.

2.4 CORPORATE GOVERNANCE



We work carefully to balance the interests and needs of our customers and shareholders to enable them to meet their social and financial targets.

It's a circular process of continued improvement that begins with us providing a housing solution that delivers quality homes for vulnerable individuals within a sustainable funding framework. This creates a positive social impact, which in turn generates a financial return enabling us to attract further capital to make further investments.

We will continue to evolve our approach to non-financial reporting, ensuring it communicates with stakeholders across the full range of issues that matter to them.

3. WHO BENEFITS

Outlined below are some of the key beneficiaries, including a summary of how our work will affect each entity.



1. Local Authorities, NHS Trusts & Clinical Commissioning Groups

Within the UK there are 418 principal councils, comprising 27 county councils, 201 district councils and 125 unitary councils. In England there are 54 mental health trusts and 209 clinical commissioning groups. Although they have a different demographic make up with a variety of needs, they all face the same challenge of providing housing.

We do not operate using a set model. Instead we adopt a flexible process that enables commissioners to provide housing that meets the needs of the individual. Our process is based on knowledge sharing, acting as a catalyst and coordinator enabling positive outcomes achieved elsewhere to be shared through a 'best practice' approach.

Sample case study

Sector: General needs

Challenge: Homelessness

Tenant: Local Authority located in the Midlands

In this example the local authority currently has 200 households waiting to be housed and living in temporary accommodation which typically includes expensive hotel and bed & breakfast accommodation. High levels of demand can lead to individuals, couples and families being displaced and isolated as rooms are allocated based on availability and can include out of county placements.

The table below illustrates the costs of housing a couple in temporary accommodation relative to the private rental sector (PRS). Unfortunately it is often the case that the local authority cannot access long term housing as there are insufficient private rental units available in the local market and excess demand in the private sector.

Costs of housing a couple in temporary or private rental accommodation				
	Daily	Weekly	Monthly	Annual
Hotel/B&B	£60.27	£423.12	£1822.50	£22,002
PRS	£19.72	£138.46	£600	£7,200

Costs of housing 53 households in temporary or private rental accommodation			
	Daily	Weekly	Monthly
Hotel/B&B	£22,425	£97,175	£1,166,100
Walls & Futures	£7,338	£31,798	£381,576
Saving	£15,087	£65,377	£784,524

An investment from Walls & Futures into a housing solution for this local authority to provide housing for 53 households would make a significant impact. The local authority would benefit from a significant saving of over £780,000 per annum and improve the living conditions of those households affected by homelessness.

2. Service users

We deliver homes that meet the needs of some of the most vulnerable individuals in society. Our solutions offer long term security and where service users are moving from an institutional setting, enable them to live more independent and fulfilling lives. Areas of focus include:

- Autism
- Learning disabilities
- Physical disabilities
- Mental health needs
- Homelessness
- Elderly who require care
- Convalescing support (reducing dependency on hospital beds)
- People living in temporary accommodation waiting to be housed

3. Shareholders

The Government has introduced a number of tax changes including an extra 3% stamp duty and the restriction of mortgage finance cost relief for individuals, which have increased the cost of buying and holding residential investment property.

Walls & Futures provide an affordable and tax efficient alternative to direct property investment. Our aim is to deliver a secure long term income with capital growth by building a portfolio of high yielding residential properties for high quality tenants.

The properties will ideally be let on long term leases with rents increasing in line with inflation in order to provide an element of predictable growth.

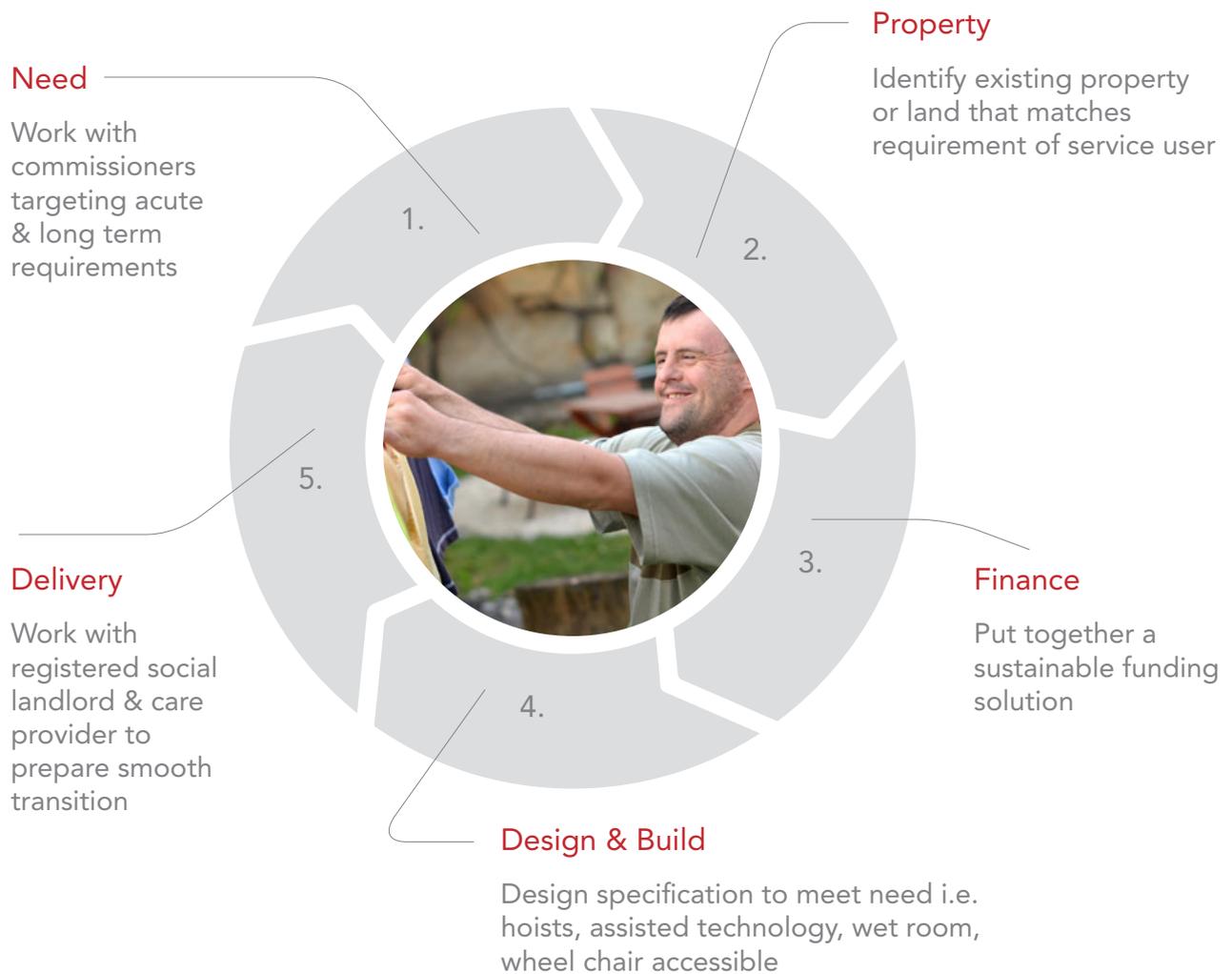
Individuals looking to invest directly in the social housing sector face a number of challenges. Properties can be highly capital intensive as mortgage lenders tend to favour short term private sector leases over long term social housing ones. Many service users also have specific needs which can require properties to undergo extensive alterations before they are fit for purpose. For instance; strengthening ceilings, installing wet rooms, assistive technology and sprinklers can be very costly for an individual landlord. Finally, dealing with all stakeholders (local authorities, charities, housing associations and care providers) is very time consuming.

Our vehicle enables shareholders to pool their capital to make a positive social impact by investing in the social housing sector.

4. ACTIVITIES & OPERATIONS

Walls & Futures undertake a range of activities and operations to achieve its mission of addressing the chronic under supply of social housing. Rather than acquiring existing supported housing portfolios, our approach is to build capacity and deliver quality homes that meet the needs of the service users within a sustainable funding framework.

We work closely with health and social care commissioners at an operational and strategic level to help them with the implementation of 'Transforming Care'. This may include the sharing of information from active caseloads to identify, at the earliest stage, those individuals most at risk. We work together to re-introduce individuals from expensive out of county placements and inappropriate residential care placements.



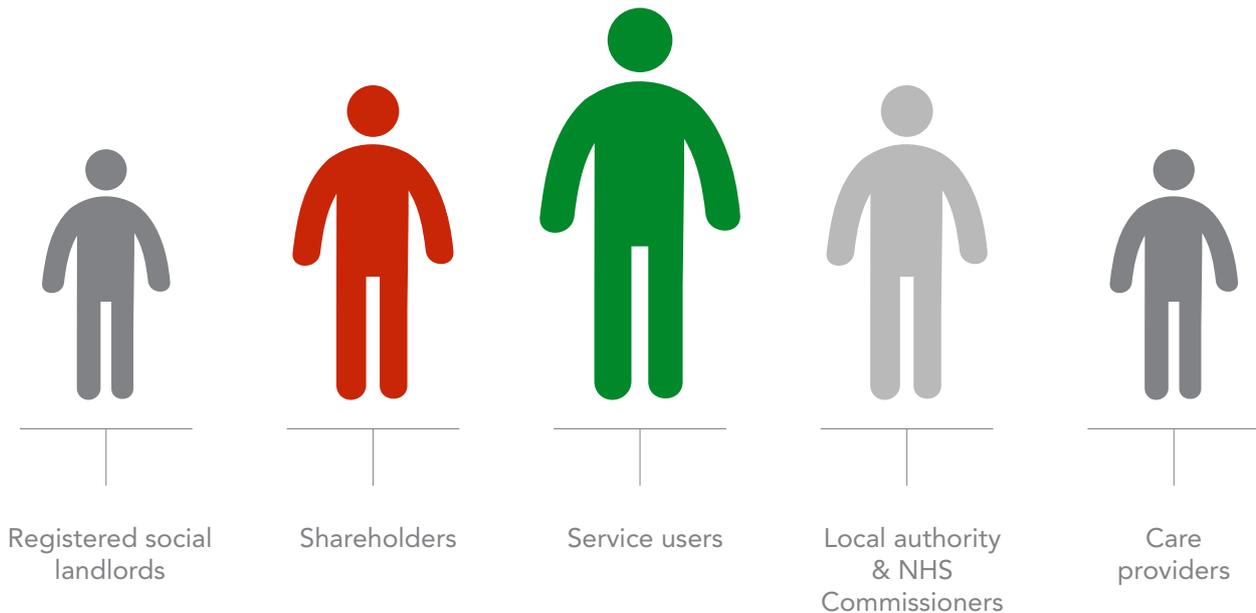
Homes are sourced and acquired to meet the specific support needs of an individual and range from single properties, shared accommodation and cluster homes (4+ self contained apartments with separate on-site care facilities).

Before any acquisition is made we engage with a registered social landlord (RSL) who has experience of operating within the local authority. It is important to work within a cost effective model which does not negatively impact the quality of the home, care or support provided. By working in partnership with an RSL and housing benefit departments we deliver a cost effective alternative to in-patient care.

5. STAKEHOLDERS

Walls & Futures has a variety of stakeholders with whom we work in partnership to achieve our mission, make a social impact and deliver a financial return.

Every stakeholder is important to ensure the continued success of delivering housing solutions for vulnerable individuals. However, **Service Users** are at the heart of all our actions.



We interact with service users through **Local Authority & NHS commissioners** and their adult social care teams who have the expertise to deal directly with each individual on a regular basis. Continual interaction enables us to have a clear understanding of need, geographical preference and level of adaptations required to make a home habitable.

We interact directly with **Shareholders** through our statutory reporting, AGM's and investor evenings, updating them on the positive social impact and financial returns being made.

Registered social landlords have responsibility for payment of the rent and the day to day management of homes, dealing with tenant liaison and on-going upkeep of the properties. We collaborate with and recommend them as preferred partners based on their proximity to and ability to service a property.

Care providers are chosen by local authorities and are allocated to service users based on their ability to deliver the required level of care.

6. EVIDENCING SOCIAL VALUE

Walls & Futures are committed to disclosing key information about its social impact through an annual impact report and ongoing engagement with stakeholders.

Our social impact is measured by the number of individuals we can provide homes for. The case study below is an illustration of our intent and commitment to building capacity.

6.1 CASE STUDY



- Property:** Detached, freehold, Grade 2 listed building set over 3,827 sq ft
- Sector:** Supported housing
- Beneficiary:** Six individuals with learning and physical disabilities
- Tenant:** Charity with over 50 years sector experience and currently support more than 2,500 nationwide
- Lease:** 25 year full repairing and insuring lease, with rents adjusted annually in line with inflation (CPI)

The main objective was to create quality supported living accommodation for six occupants and staff quarters. The main house was split into three self contained apartments, each having their own kitchen, en-suite bathroom and living room. The ground floor rear annexe was refurbished to provide three bedrooms, a shared kitchen, living room and two bathrooms.

The alterations to the ground floor of the main house also included the creation of a staff quarters including a shower room to enable the provision of 24/7 care. In the annexe works included the creation of a larger bathroom and a laundry room. The alterations were designed to cause minimum disruption to the fabric of the building while improving the layout for its intended use.

Specialist items installed include a hoist and track system throughout the rear annexe at the cost of £15,000. They enable residents to be moved around the living space by carers with reduced manual handling and eliminate the risk of back injury for carers when performing transfers.

An ArjoHuntleigh bathing system was installed at the cost of £8,000 to make bathing accessible for all residents, including wheelchair users in the annexe. The bath is height adjustable and supports ergonomic working methods for carers and secure, comfort assisted hygiene routines for residents. Encompassing a lift hygiene chair enables smooth integration and allows one carer to safely manage the entire bathing cycle. The resident stays on the seat of the mobile lift at all stages (collection from bed, transport, immersion in the tub and return to bed, eliminating the need for manual transfers).

Externally cotswold flag stones have been installed, ramps and doors from each bedroom to enable service users to exit through the bedroom or reception room. Soft landscaping and raised planters were installed to create a residents garden facility.

6.2 FUTURE PLANS

We are actively working with our strategic partners to identify requirements for social housing where we can make both a social impact and sustainable financial return.

Over the next 12 months our target is to deliver 15 supported housing places as the requirement for individual properties matches our current investment capabilities. Our aim is to deliver total of 128 Supported housing places over the next 5 years.

In the medium term as the Company scales our intention is to expand our investment focus to include Extra Care and General Needs housing as the size of the projects, typically 40-50 places each, are more capital intensive.

6.2 KEY PERFORMANCE INDICATORS

Supported Housing Places				
Target	16	32	64	128
By end of	2018	2019	2020	2021

7. OTHER ISSUES

Principle risks and uncertainties

The Companies portfolio is exclusively invested in the UK and therefore exposed to the risks and uncertainties of the UK economy. The value of the properties are subject to fluctuating market conditions and may be affected by consumer confidence, the performance of the UK economy and liquidity in the market.

Although the Company does not have any borrowings and therefore not currently exposed to interest rate risk, it has an ongoing requirement to fund its activities through the equity markets and in the future to obtain finance for property acquisitions. There is no certainty that such funds will be available when needed and thus inhibit growth.

Reputation risk

Our success has been built on delivering quality homes that stand the test of time and therefore our reputation is of great importance to us. As we scale and increase the size of our portfolio we will continue to develop and deliver buildings that meet our expectations. We will not compromise quality in pursuit of higher short term financial returns.

Walls & Futures REIT plc
3rd Floor
111 Buckingham Palace Road
London
SW1W 0SR

t: 0333 700 7171
f: 0333 700 7172
e: hello@wallsandfutures.com

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