REI

Real Estate Investors Plc

Real Estate Investors Plc
("REI" or the "Company" or the "Group")

Final Results
For the year ended 31 December 2017

Rebirth of the Midlands Continues Apace

Well positioned portfolio driving record rent roll, profits and dividend

Real Estate Investors Plc (AIM:RLE), the London Stock Exchange listed Real Estate Investment Trust (REIT) with a portfolio of 1.5 million sq ft of commercial property in the Midlands property market across all sectors, is pleased to report final results for the year ended 31 December 2017, summarised as follows:

Summary Highlights

- Pre-tax profits at £11.3 million, up 37.8%
- Record underlying profit before tax* of £6.2 million, up 19.2%
- Gross property assets increased to £213.1 million (2016: £201.9 million) up 5.5%
- Revenue £14.9 million (2016: £13.5 million), up 10.4%
- Contracted rental income of £16.2 million (2016: £14.9 million), up 8.7%
- REI acquired £18.4 million (net of acquisition costs) of new property and capitalised on a strong investor market with sales of £13.5 million
- WAULT*** 4.53 years to break and 6.52 years to lease expiry (2016: 4.71 years to break and 6.76 years to lease expiry)
- Overall occupancy increased to 94% (2016: 93%), up 1.1%
- EPRA** NAV per share of 68.9p (2016: 66.2p), up 4.1%
- EPRA** EPS 3.3p (2016: 2.8p), up 17.9%
- Total dividend per share for 2017 of 3.125p, up 19.0%, final dividend 0.875p per share
- Since the year end, we have agreed terms for a new 5-year facility of £10 million with RBS at 1.95% above Libor

Paul Bassi, CEO of Real Estate Investors Plc, commented:

"During another year of macro-economic uncertainty, REI has once again prospered, with growth in our property assets to £213.1 million, up 5.5%, and our pre-tax profits rising to £11.3 million, up 37.8%. Our dividend payment has increased for five consecutive years, rising a further 19.0% in 2017, displaying a consistent and proven track record.

"The continued uncertainty provides an ideal environment in which to secure further criteria compliant assets and make strategic sales by taking advantage of a strong investor market and our privileged network and market reputation. We are fortunate to be operating in a vibrant and expanding regional economy that is set to re-establish itself as a major national and international economic powerhouse.

"We remain confident that we will extract further value from the existing portfolio and see our rental income and portfolio grow further."

Financial and Operational Highlights

	31 December 2017	31 December 2016	Change
Gross property assets	£213.1 million	£201.9 million	+6%
Underlying profit before tax	£6.2 million	£5.2 million	+19%
EPRA EPS	3.3p	2.8p	+18%
Dividend per share	3.125p	2.625p	+19%
EPRA NAV per share	68.9p	66.2p	+4%
EPRA NNNAV per share	67.1p	64.2p	+4%
Net assets	£127.1 million	£121.2 million	+5%
Loan to value	40.4%	43.1%	+6%
Loan to value net of cash	38.3%	37.2%	-3%
Cash and available facilities	£9.0 million	£17 million	-47%
Average cost of debt	4.2%	4.1%	+2%
Contracted rental income	£16.2 million	£14.9 million	+9%
Like for like rental income	£14.5 million	£14.5 million	0%
Like for like capital value per sq ft	£146 per sq ft	£142 per sq ft	+3%
Like for like valuation	£193.7 million	£188.4 million	+3%
Tenants	258	232	+11%
WAULT***	4.53 years	4.71 years	-4%

Definitions

* *Underlying profit before tax excludes profit/loss on revaluation and sale of properties and interest rate swaps*
** *EPRA = European Public Real Estate Association*
*** *WAULT = Weighted Average Unexpired Lease Term*

Enquiries:

Real Estate Investors Plc Paul Bassi	+44 (0)121 212 3446
Smith & Williamson Corporate Finance Limited Azhic Basirov/David Jones	+44 (0)20 7131 4000
Liberum Jamie Richards/William Hall	+44 (0)20 3100 2000
Gable Communications Limited John Bick	+44 (0)20 7193 7463 +44 (0)7872 061 007

About Real Estate Investors Plc

Real Estate Investors Plc is a publicly quoted, internally managed property investment company and REIT with a portfolio of 1.5 million sq ft of commercial property, managed by a highly-experienced property team with over 100 years of combined experience of operating in the Midlands property market across all sectors.

The Company's strategy is to invest in well located, real estate assets in the established and proven markets of central Birmingham and the Midlands, with income and capital growth potential, realisable through active portfolio management, refurbishment, change of use and lettings. The portfolio has no material reliance on a single asset or occupier.

On 1st January 2015, the Company converted to a REIT. Real Estate Investment Trusts are listed property investment companies or groups not liable to corporation tax on their rental income or capital gains from their qualifying activities.

The Company aims to deliver capital growth and income enhancement from its assets, supporting a progressive dividend policy. Further information on the Company can be found at www.reiplc.com

Chairman's and Chief Executive's Statement

Overview – Building on our foundations and continuing to deliver strong growth in assets, cash profits and dividends

We have remained focused on capitalising on the opportunities provided by uncertain markets and we continue to build a successful and resilient business, founded on a diverse and carefully risk adjusted portfolio.

We are selective buyers in a strong investment market and our acquisition strategy is based on our ability to add value through asset management and in securing sustainable income streams.

The business has acquired £18.4 million (net of acquisition costs) of new property during the year and has capitalised on a strong investor market with sales of £13.5 million. The portfolio is now valued at £213.1 million, up 5.5%. Our pre-tax profits are up 37.8% to £11.3 million, with underlying profits at £6.2 million, up 19.2%.

Operating in a reinvigorated regional economy whose strong and arguably contrarian performance is set to benefit further from the arrival of HSBC, HS2 and HMRC. These successes, coupled with the success of Birmingham in being awarded the Commonwealth Games for 2022 and Coventry securing the City of Culture for 2021, will re-establish the Midlands economy both nationally and internationally.

There is no doubt that the region's manufacturers have benefitted from the added advantage of a weakened sterling. The automotive sector has seen continued sales growth at JLR group, with global sales in 2017 hitting 621,109 vehicles, a 7% increase on 2016 and we also continue to be one of the UK regions that is seeing house price growth and falling unemployment.

We remain confident that we will extract further value from the existing portfolio and see our rental income grow further, enabling us to support our commitment to a progressive dividend policy.

Financial Results – Well positioned to support continued growth in assets, profits and dividends in 2018

Our performance is in line with our expectations and we believe that we will deliver another positive set of results in 2018 and see further growth in our portfolio, revenues and dividend payments.

Despite sales and allowing for acquisitions, our gross assets are £213.1 million, up 5.5%. These have now remained above £200 million for the last 2 years and we anticipate that they will remain above that level in 2018. Our like for like portfolio valuation is up 2.8% to £193.7 million (2016: £188.4 million).

Pre-tax profits of £11.3 million, up 37.8%, have seen us capture some valuation improvement and benefit from the sales of assets where we have completed our asset management initiatives. Our underlying profits of £6.2 million are up 19.2% on the previous year and have the potential to grow further, supporting our progressive dividend policy.

Finance and Banking

After almost ten years of turmoil, the banking sector appears to have normalised. There is no shortage of bank debt across the market place, though loan to value covenants remain stricter and margins a little higher.

REI remains conservatively geared at 38.3% (net of cash), with an average cost of debt of 4.2% and with 86.8% of our debt now fixed.

We will consider utilising further debt to grow the business but will retain our overall aim of sub 40% net loan to value. During the year, we fixed a £41 million facility with RBS at 2.75% until February 2021, and since the year end, we have agreed terms for a new 5-year facility of £10 million with RBS at 1.95% above Libor, giving us £20 million plus of cash and available facilities to pursue future acquisition opportunities of criteria compliant investment properties.

Dividend – 5 consecutive years of growth

One of our principal objectives is to deliver on our commitment of a progressive dividend policy and we are pleased to say that our fully covered dividend has grown by 19.0% over the last year and has now risen for five consecutive years, with further growth anticipated. We have paid the first three quarterly dividends of 0.75p and propose a final dividend of 0.875p.

Dividend payments will continue to be paid quarterly, with the first three quarters for 2018 being paid at 0.875p per quarter, with a final dividend in the fourth quarter to be confirmed.

The proposed dividend timetable for the final dividend, which will be a Property Income Distribution (PID), is as follows:

Dividend Timetable

Ex-dividend date:	29 March 2018
Record date:	3 April 2018
Dividend payment date:	27 April 2018

Outlook – Vibrant regional economy and a strong property portfolio

We have established a secure, stable and diverse Midlands property business and, whilst we anticipate political and economic uncertainty, predominantly around Brexit discussions, we remain confident about the performance of REI in 2018 and envisage another year during which we will continue to grow our portfolio, rent roll and dividend payments. We have retained sufficient cash and bank facilities which are readily available to capitalise on any market correction or Brexit 'cliff edge' opportunities. Our portfolio provides ongoing asset management opportunities to realise further longer-term capital and rental growth.

Investor appetite for UK property remains very strong. According to Savills, national investment in UK commercial property rose 66% in January alone, compared to the same month last year, to £4.2 billion. Similarly, PwC announced that Midlands corporate deal activity is 'buoyant' and that in 2017 PwC completed 40 deals valued at £5 billion for private equity and corporate clients.

We look forward to another year of opportunity and sustainable growth.

The REI Portfolio – Supporting Midlands and Birmingham Commercial Success

Property Overview

The REI property portfolio is uniquely positioned across the Midlands and continues to grow in size, benefitting from sustainable levels of income and with strong prospects for capital growth. It was valued at £213.1 million at the year-end (2016: £201.9 million), an increase of 5.5%. Contracted rental income has grown to £16.2 million per annum (2016: £14.9 million per annum). We have enjoyed an excellent period of transactional activity throughout 2017, where we secured £18.4 million of investment property acquisitions (net of acquisition costs) and £13.5 million of strategic sales. Our recent acquisitions provide immediate asset management opportunities and also have the potential to provide further longer-term capital and rental growth.

Investment Market

The market is extremely active with demand being seen from a wide range of investors. We have witnessed an increasing number of private investors, local authorities and foreign investors who have become much more acquisitive as London and the South East now offers comparatively lower levels of return compared to the Midlands and other regional markets. Consequently, the investment market has become competitive throughout 2017 with a lack of suitable properties at compliant purchase levels. Despite this, as an established and recognised investor, we continue to find opportunities that fit our strategy, as demonstrated by the investment of £18.4 million (net of acquisition costs) in selective stock at an average net initial yield of 8.70%.

Lambert Smith Hampton, in their recent Q4 2017 Transactions Bulletin, reported an outstanding year for regional investment. Investment volume in the regions outside London was £7.0 billion in Q4, the second strongest quarter on record, behind Q4 2006. They reported that the West Midlands investment volume for Q4 2017 was £1.02 billion, against a five year quarterly average of £610 million. All regions (except North East) outside London also saw Q4 volume above their respective five-year quarterly average. (Source LSH Research Property Data Property Archive). Savills has also reported that total investment into UK real estate reached £65.4 billion in 2017, representing a 26% increase on 2016's annual total.

We believe that economic uncertainty from Brexit negotiations will provide further opportunities for acquisitions. We remain confident that we can continue to acquire properties that meet the Company's investment requirements and improve the portfolio mix.

Occupational Market

Birmingham is undoubtedly entering a new era. Take-up figures released from the Birmingham Office Market Forum suggests take-up increased from 692,729 sq ft in 2016 to 1,005,072 sq ft in 2017 in 130 letting transactions. As a consequence, we have seen record-levels of construction with developer confidence high in the wake of HMRC, HS2, HSBC, the forthcoming 2022 Commonwealth Games and the Coventry City of Culture for 2021. Deloitte Real Estate report that 1.4 million sq ft of offices are under construction, compared to the 10-year average of 567,000 sq ft (Source Deloitte Real Estate Crane Survey January 2018).

Birmingham city centre's office market enjoyed a record breaking 2017, with deals surpassing 1 million sq ft for the first time. The market is expected to exceed the five-year average by more than a fifth, with pre-letting activity also likely to increase in 2018. This activity is driven by both an ever-decreasing supply and sustained requirements from HS2-linked occupiers which could see prime Grade A rents reach £34 per sq ft within the next 12 months and potentially £35 per sq ft in 2019, according to Savills. The average 10-year annual take up in the city centre is now 750,000 sq ft, compared to last year's 716,000 sq ft and REI is well positioned to take advantage of this increased activity.

We have achieved a current occupancy of 94% across the portfolio, and we expect to see continued rental growth and low vacancy rates supporting the Company's investment objectives and maintain our strategy of delivering further growth of our fully covered dividend payments.

We continue to enjoy punctual rental payments across the portfolio, which we believe reflects a robust property portfolio and a stable local economy.

Portfolio Mix

With a diverse multi-sector and multi-tenant portfolio of over £200 million and no material reliance on any one sector or occupier, REI's conservative approach allows for opportunistic acquisitions of prime and secondary assets in locations expected to benefit from capital enhancement and strong income streams.

Portfolio mix:

Sector	£	% by Income
Office	6,147,891	37.89%
Traditional Retail	3,859,841	23.79%
Discount Retail	1,210,290	7.46%
Food Stores	1,046,150	6.45%
Restaurant/Bar/Coffee	1,025,052	6.32%
Medical and Pharmaceutical	991,040	6.11%
Financial/Licences/Agency	713,502	4.40%
Hotel	511,000	3.15%
Leisure	393,600	2.43%
Car Park	259,056	1.59%
Industrial	57,094	0.35%
Assured Shorthold Tenancy	9,200	0.06%
TOTAL	**16,223,716**	**100.00%**

Property Acquisitions

Total acquisitions of £18.4 million (net of acquisition costs) were made during the period, with a combined income of £1.7 million per annum, which reflects 8.70% net initial yield and 8.83% reversionary yield.

New tenants from acquisitions include Travelodge, Ladbrokes, Halfords, Subway, Xercise4less, Domino's, Santander, Persimmon Homes, Thomas Cook, Smart Ideas, Game Retail, Luda Bingo (guaranteed by Mecca Bingo), Shoe Zone, Robsco Solutions (Cash Converters), Paddy Power and Toni & Guy.

New acquisitions include:

- **Maypole Retail Parade, Alcester Road South, Maypole, Birmingham** - 27 February 2017 (Retail/Leisure/Hotel - £6,100,000 excluding acquisition costs). Acquired in an off-market transaction from a private investor, at a net initial yield of 7.22% with a reversionary yield of 7.31%. The investment incorporates a sixty-bed hotel, together with six ground floor retail units, with a combined contracted rental of £471,875 per annum, of which £201,000 per annum is secured against Travelodge for a further 24 years and subject to CPI-linked rent reviews. The property is let to strong covenants including Wilko Retail, Ladbrokes, Halfords, Subway and KFC, and with a WAULT of 13.18 years.

- **Barracks Road, Newcastle-under-Lyme** – 26 May 2017 (Retail/Leisure - £2,800,000, excluding acquisition costs). Acquired from London Metric Property at a net initial yield of 8.00% and a minimum reversionary yield of 8.78% in February 2018, producing £238,700 per annum, rising to £261,696 per annum in February 2018. The property comprises a Leisure and Retail investment of four purpose-built units and is let to three tenants – Xercise4Less, Bathstore and Domino's, with a WAULT of 9.25 years. Following acquisition, we have since extended the Bathstore lease by a further 5 years, taking the WAULT on acquisition to 11.03 years. Strategically located within the centre of this busy town, the property and immediate vicinity will further benefit from substantial on-going developments of new student accommodation and new head offices for the Local Council.

- **5-6 Market Place, Nuneaton** – 18 August 2017 (Retail - £1,980,000, excluding acquisition costs). Acquired from Fortress at a net initial yield of 9.03%. The property comprises a prime retail investment on the pedestrianised section of Market Place, the main retail thoroughfare in the town. The property comprises 29,051 sq ft of flexible retail accommodation and is let to Poundland until August 2022. The building is serviced from the rear, which overlooks council offices and where there is scope for potential in the longer term for change of use of the upper parts.

- **2 Venture Court Wolverhampton** – 29 September 2017 (Offices - £2,500,000, excluding acquisition costs). Acquired at a net initial yield of 8.37% producing £222,565 per annum. The property comprises a modern office on a busy business park and is let to Santander and Persimmon Homes with 1,952 sq ft of vacant offices to let and a WAULT of 4.0 years.

- **1-11 Park Street and 82-89 Bradford Street, Walsall** – 3 November 2017 (Retail/Leisure - £5,000,000, excluding acquisition costs). A prominent, unbroken retail parade on the prime pedestrianised retail pitch in Walsall town centre. The property is let with 85% of income secured against national multiple tenants and a WAULT of 6.10 years to expiry and a passing rent of £582,720 per annum. The investment is fully let with a current passing rent of £582,720 per annum. Tenants include Thomas Cook, Smart Ideas, Game Retail, Luda Bingo (guaranteed by Mecca Bingo), Shoe Zone, Robsco Solutions (Cash Converters), Paddy Power and Toni & Guy. The buildings are well configured providing a total of 37,104 sq ft arranged over ground and two upper floors. The Investment offers significant opportunities for asset management with prospects to engage with occupiers to extend leases.

We expect to see opportunities throughout the coming months and are well placed to react when potential acquisitions become available. With our established network of regional contacts and our well-established reputation for efficient transactions we will continue to target good income with low gearing in a diversified regional portfolio and continue to focus on delivering stable long term returns for shareholders.

Sales

We completed the following sales during 2017, at or above book value:

- **Latitude, Bromsgrove Street, Birmingham** £2,700,000 (excluding sale costs) on 27 January 2017, representing a net initial yield of 7.95%

- **London Road, Norwich** sold for £800,000 (excluding sale costs) on 28 April 2017, at a net initial yield of 8.46%. Non-core retail property

- **The Broadway, Crawley** sold for £1,925,000 (excluding sale costs) on 17 January 2017, at a net initial yield of 8.87%

- **Dutton Road, Coventry** sold for £944,000 (excluding sale costs) on 2nd August 2017, at a sale yield of 7.95%. We recently completed a five-year lease extension with the occupational tenant (Personal Hygiene Services). The property was held on a long leasehold basis to Coventry City Council with 69 years remaining

- **6 Bennetts Hill, 102 Colmore Row, & 104-106 Colmore Row** sold for £7,200,000 (excluding sale costs), on 2nd August 2017, reflecting a net initial yield of 4.36%

In total, we have disposed of £13,569,000 (excluding sale costs) of assets which provided a combined income of £896,610 per annum reflecting a comparative initial yield of 6.20%. The Company will use these proceeds to fund acquisitions that are better aligned to our investment strategy. In view of the low interest rate environment and limited supply, we expect demand for stock to continue this year, with potential to achieve premium value for sales.

Asset management

We have continued to focus on active asset management initiatives including rent reviews, new lettings, lease extensions and the retention of tenants beyond their contractual obligations, which has resulted in valuation increases, with further initiatives expected to complete over the coming months. Our like for like portfolio valuation is up 2.8% to £193.7 million (2016: £188.4 million).

New tenants to our existing portfolio include: Toshiba, Charles Alexander Design, Instant Managed Offices, Dirty Martini and Innes England.

Key asset management initiatives undertaken during the period include:

- **Gateway House, 50-53 High St, Birmingham** – The building comprises a mixed retail and office scheme of 27,071 sq ft extending over seven floors. Following the refurbishment of the second-floor offices, Instant Offices took two floors in the building, moving the rent on from an ERV of £9.00 per sq ft to a new rent of £13.00 per sq ft; a new high for the building. The building is now fully let and has shown a significant valuation increase at the year end.

- **Acocks Green Shopping Centre, Acocks Green** – The property comprises a 60,457 sq ft retail scheme in Acocks Green on the outskirts of Solihull and Birmingham. The property is anchored by Wilkinson, Boots, Argos and Lloyds TSB. Following the refurbishment of all vacant units, a number of discussions are now underway with national occupiers. The Lloyds TSB tenant only lease break in December 2017 has been removed, giving a lease expiry of December 2022. The previous car park licence with Birmingham City Council has ended and a new 10-year lease has been signed with Gallan Parking, on improved terms. All the above has resulted in a year end increase in the valuation figure.

- **Peat House, 1 Waterloo Way, Leicester** – Prime City centre office building. Following the complete refurbishment of the first and second floor office suites and the common areas, the building is now fully let. Innes England took part of the second floor at £13.50 per sq ft on a 10-year term, with the remaining space being let off £13.75 per sq ft to Charles Alexander Design – a significant increase on the previous rent that the space was achieving of £10.00 per sq ft. All of the works has resulted in a year end valuation increase.

- **24 Bennetts Hill, Birmingham** – Further to the previous asset management initiatives and the rent with Punch Taverns being increased from £117,000p.a. to £135,000 p.a., the building was marketed for sale with a sale price of £4,000,000 being achieved. The December 2016 valuation was £3,200,000.

- **Guardian House, West Bromwich** – The final office suite of 6,393 sq ft has been let to Toshiba on a 10-year lease. This is a strong covenant to attract tenants to the building and has had a positive impact on the capital value.

- **Kingston House, West Bromwich** – 8,505 sq ft has been let to Rehability UK Community Ltd following refurbishment works by the Landlord. Other than a small retail unit on the ground floor, the building is fully occupied with a good mix of tenants.

Our portfolio is diverse, stable and secure. We anticipate strong occupancy and further acquisitions that will drive our revenues higher and support our progressive dividend policy. The current geographic weightings are (table below excludes property disposals which completed in 2018):

	Value £m	%	Sq Ft	Contracted Rent £	ERV £	Net Initial Yield %	Equivalent Yield %	Reversionary Yield %	Occupancy %
Birmingham City Centre	34.2	16.04	128,361	1,788,699	2,330,783	4.90	6.06	6.37	83.30
Wider Midlands	171.5	80.48	1,302,392	14,111,021	15,379,121	7.72	7.89	8.42	96.70
Non-core	3.7	1.74	33,027	323,996	360,826	8.28	8.21	9.22	100.00
Land	3.7	1.74	-	-	-	-			
Total Portfolio	213.1	100	1,463,780	16,223,716	18,070,730	7.27	7.60	8.10	94.47

REI's Regional Review

Economy/Trade/Business/Employment

- The Government has announced that 3,600 HMRC staff will move to a new regional hub at Birmingham's Arena Central, the biggest pre-let deal to take place in the City in a decade
- West Midlands rail franchise reveals £680 million investment in new trains, with the carriages being manufactured in the Midlands
- Birmingham remains a UK property investment hotspot according to a PwC report with the City being placed in joint 21st position among its domestic and European counterparts for its overall investment prospects in 2018
- Birmingham is the most rapidly improving city in the country in which to live and work, according to PwC, as it benefits from falling unemployment and a wave of regeneration projects, with the City improving most in its 2017 Good Growth for Cities index
- Proposals for a £300 million regeneration project, creating a new gateway to Birmingham, have been granted planning permission with the scheme providing 400 apartments and more than 600,000 sq ft of office space, a 100-room hotel, bars and restaurants
- HS2 joint venture offers £250 million of contracts to West Midlands supply chain with the project expected to offer businesses opportunities for the next 20 years
- Parts of the Bank of England 'could relocate' to Birmingham, following a recommendation by Shadow Chancellor John McDonnell, who is encouraged by the City's large financial services sector and a growing fintech hub
- The West Midlands is set to be one of the fastest growing regions outside London and the South East in terms of its economic performance over the next three years, with growth of 1.8% in its Gross Value Added (GVA) each year until 2020, ahead of the East Midlands (1.7%), North West (1.5%) and Scotland (1.5%) according to EY's UK Regional Economic Forecast
- West Midlands unemployment fell by 14,000 to a rate of 5.3% between August and October

Property

- Birmingham City office market enjoyed a record breaking 2017, resulting in the 1 million sq ft total being broken for the first time to 1,005,076 sq ft, surpassing the HSBC-boosted 970,000 sq ft achieved in 2015
- Birmingham office take up set to exceed five-year average by more than a fifth, as sustained requirements from HS2-linked occupiers continues to drive the market
- Birmingham's office market is likely to see increased pre-letting activity in 2018, driven by an ever-decreasing supply which could also see prime Grade A rents reach £34 per sq ft within the next 12 months and potentially £35 per sq ft in 2019, according to Savills
- The number of deals recorded in the Midlands in 2017 was the second highest on record, according to Experian, with more than 940 deals announced in 2017, while the value of those deals rose 21 per cent to more than £16.2 billion

Manufacturing/Technology

- Jaguar Land Rover has announced record sales results – selling more than 600,000 vehicles in a calendar year for the first time in its history. For 2017, global sales reached 621,109 vehicles (2016: 583,313), a 7% increase on the prior year – and more than triple the 2009 figure (the company's first full year under Tata Motors' ownership)
- Aston Martin announces strongest sales for nine years to buck the national trend and is announced as the title sponsor of F1 team Red Bull
- The West Midlands has won the race for an £80 million national battery facility after a joint bid by Coventry City Council, Warwickshire Local Enterprise Partnership and the University of Warwick was chosen by the Government
- Jaguar Land Rover announces it is set to invest £40 million in latest phase of Midlands expansion, with a new vehicle storage facility on a 52-acre site, providing secure storage facilities for 6,500 vehicles and expected to create around 75 jobs

Culture/Travel/Tourism

- Birmingham has been confirmed as the host city of the 2022 Commonwealth Games in a major boost to the region's international standing, the first time the Games have been held in England since 2002
- Coventry has been named as the UK's City of Culture 2021, ahead of Swansea, Stoke-on-Trent, Paisley and Sunderland
- Birmingham Airport has reported the busiest year ever in its 78-year history after handling almost 13 million passengers in 2017, 1.3 million more than 2016
- The West Midlands has been handed £250 million from the Government to help boost the region's transport infrastructure as part of the new £1.7 billion Transforming Cities Fund and will help realise the goal of creating around 7,000 new jobs in the Black Country

- Birmingham hotels enjoyed their best summer on record with average occupancy rates of 75%, the best summer since records began in 2003

Our Stakeholders

Our sincere thanks to our dedicated staff, advisers, occupiers and shareholders, without whom our continued success and growth would not be possible. We look forward to a successful 2018.

John Crabtree OBE D.Univ	**Paul Bassi CBE D.Univ**
Chairman	**Chief Executive**
19 March 2018	**19 March 2018**

FINANCE DIRECTOR REPORT

FINANCIAL REVIEW

Overview

Our main objectives for the year were to continue to increase shareholder value, refinance unencumbered properties and deploy the funds generated in criteria compliant investment properties, continue our progressive dividend policy, and increase our underlying profit before tax, EPRA earnings per share and net assets per share. All of these objectives have been achieved.

	31 December 2017	31 December 2016	Change
Gross Property Assets	£213.1 million	£201.9 million	+6%
Underlying profit before tax	£6.2 million	£5.2 million	+19%
EPRA EPS	3.3p	2.8p	+18%
EPRA NAV per share	68.9p	66.2p	+4%
EPRA NNNAV per share	67.1p	64.2p	+4%
Net Assets	£127.1 million	£121.2 million	+5%
Loan to value	40.4%	43.1%	+6%
Loan to value net of cash	38.3%	37.2%	-3%
Dividend per share	3.125p	2.625p	+19%
Like for like growth in rental income	£14.5 million	£14.5 million	0%
Like for like capital value per sq ft	£146 sq ft	£142 sq ft	+3%
Like for like valuation	£193.7 million	£188.4 million	+3%

Results for the year

Our underlying profit before tax rose to £6.2 million (2016: £5.2 million). Profit before tax (IFRS) totalled £11.3 million (2016: £8.2 million), including a surplus on sale of investment properties of £176,000 (2016: £Nil) and a surplus on revaluation of investment properties of £4.2 million (2016: £3.5 million), together with a surplus on the market value of our interest rate hedging instruments of £725,000 (2016: deficit £566,000).

Acquisitions of investment properties totalled £18.4 million (net of acquisition costs) during the year. Rental income for the year was up 10.4% to £14.9 million (2016: £13.5 million) but the full benefit of these purchases will be realised in 2018. The investment properties were revalued externally at 31 December 2017 and generated a surplus on revaluation of £4.2 million.

The decision to dispose of certain properties during the year resulted from properties reaching maturity, receiving an offer that could not be refused and continuing to dispose of the “legacy” portfolio which we inherited and is out of area.

We continue to review our overhead base and administrative expenses which were stable at £3.5 million (2016: £3.5 million) after charging a bonus provision (plus employers’ National Insurance) of £876,000 (2016: £865,000) and a provision for costs of the Long Term Investment Plan of £350,000 (2016: £500,000).

Interest costs for the year rose to £3.5 million (2016: £3.2 million) and the weighted average cost of debt rose slightly to 4.2% (2016: 4.1%) as a result of fixing our £41 million facility with Royal Bank of Scotland at 2.75% all in to February 2021.

Earnings per share were:
Basic: 6.0p (2016: 4.3p)
Diluted: 5.9p (2016: 4.3p)
EPRA: 3.3p (2016: 2.8p)

Shareholders’ funds increased to £127.1 million at 31 December 2017 (2016: £121.2 million) and the NAV per share increased:

Basic NAV: 68.2p (2016: 65.0p)
EPRA NAV: 68.9p (2016: 66.2p)
EPRA NNNAV: 67.1p (2016: 64.2p)

Finance and banking

Total drawn debt at 31 December 2017 was £85 million (2016: £85 million) with undrawn facilities of £5 million (2016: £5 million). During the year, the Group fixed the £41 million facility with Royal Bank of Scotland at 2.75% until February 2021, and as a result the weighted average cost of debt rose slightly to 4.2% (2016: 4.1%) and the weighted average debt maturity was 5 years (2016: 5 years). The loan to value (LTV) at 31 December 2017 was 40.4% (2016: 43.1%) and the LTV net of cash was 38.3% (2016: 37.2%). Since the year end, we have also agreed terms for a new 5-year facility of £10 million with RBS at 1.95% above Libor.

Long Term Incentive Plan (LTIP)

On 8 June 2015, the terms of the LTIP were revised and previous options cancelled. The LTIP is designed to promote retention and to incentivise the executive directors to grow the value of the Group and to maximise returns. A provision has been made in the accounts of £350,000 (2016: £500,000) in respect of the LTIP. Based on the results and in particular the share price for 2017, only 15% of the awards for 2015 will vest.

Taxation

The Group converted to a Real Estate Investment Trust (REIT) on 1 January 2015. Under REIT status the Group does not pay tax on its rental income profits or on gains from the sale of investment properties. The tax charge for the year is in respect of bank interest received and the movement on the deferred tax asset is in respect of the financial instruments. The Group continues to meet all of the REIT requirements to maintain REIT status.

Dividend

Under the REIT status the Group is required to distribute at least 90% of rental income taxable profits arising each financial year. REI commenced paying quarterly dividends in 2016. Interim dividends of 0.75p per share were paid in July, October and January and the Board proposes a final dividend of 0.875p per share payable in April 2018 making a total of 3.125p for the year (2016: 2.625p) an increase of 19.0%. The July and October dividends were paid as ordinary dividends and the January dividend was paid as a PID dividend. The allocation of future dividends between PID and non PID will continue to vary.

Marcus Daly
Finance Director
19 March 2018

Real Estate Investors plc
Consolidated statement of comprehensive income
For the year ended 31 December 2017

	Note	2017	2016
		£000	£000
Revenue		14,880	13,453
Cost of sales		(1,727)	(1,600)
Gross profit		13,153	11,853
Administrative expenses		(3,548)	(3,503)
Surplus on sale of investment property		176	-
Change in fair value of investment properties		4,212	3,531
Profit from operations		13,993	11,881
Finance income		19	45
Finance costs		(3,457)	(3,157)
Profit/(loss) on financial liabilities at fair value through profit and loss		725	(566)
Profit on ordinary activities before taxation		11,280	8,203
Income tax charge		(145)	(121)
Net profit after taxation and total comprehensive income		11,135	8,082
Total and continuing earnings per ordinary share			
Basic	3	5.97p	4.34p
Diluted	3	5.88p	4.28p

The results of the Group for the period related entirely to continuing operations.

Real Estate Investors plc
Consolidated statement of changes in equity
For the year ended 31 December 2017

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Other reserve £000	Retained earnings £000	Total £000
At 1 January 2016	18,642	51,721	45	300	47,230	117,938
Share based payment	-	-	-	500	-	500
Dividends	-	-	-	-	(5,359)	(5,359)
Transactions with owners	-	-	-	500	(5,359)	(4,859)
Profit for the year and total comprehensive income	-	-	-	-	8,082	8,082
At 31 December 2016	18,642	51,721	45	800	49,953	121,161
Share based payment	-	-	-	350	-	350
Dividends	-	-	-	-	(5,592)	(5,592)
Transactions with owners	-	-	-	350	(5,592)	(5,242)
Profit for the year and total comprehensive income	-	-	-	-	11,135	11,135
At 31 December 2017	**18,642**	**51,721**	**45**	**1,150**	**55,496**	**127,054**

Real Estate Investors plc
Consolidated statement of financial position
At 31 December 2017

	Note	2017 £000	2016 £000
Assets			
Non current			
Intangible assets		-	-
Investment properties	4	209,421	198,202
Property, plant and equipment		12	14
Deferred tax		540	685
		209,973	198,901
Current			
Inventories		3,708	3,695
Trade and other receivables		3,663	2,925
Cash and cash equivalents		4,339	11,775
		11,710	18,395
Total assets		221,683	217,296
Liabilities			
Current			
Bank loans		(20,378)	(20,412)
Provision for current taxation		(23)	(23)
Trade and other payables		(6,146)	(6,000)
		(26,547)	(26,435)
Non current			
Bank loans		(64,213)	(65,106)
Financial liabilities		(3,869)	(4,594)
		(68,082)	(69,700)
Total liabilities		(94,629)	(96,135)
Net assets		127,054	121,161
Equity			
Share capital		18,642	18,642
Share premium account		51,721	51,721
Capital redemption reserve		45	45
Other reserve		1,150	800
Retained earnings		55,496	49,953
Total Equity		127,054	121,161
Net assets per share	3	68.2p	65.0p

Real Estate Investors plc
Consolidated statement of cash flows
For the year ended 31 December 2017

	2017	2016
	£000	£000
Cash flows from operating activities		
Profit after taxation	11,135	8,082
Adjustments for:		
Depreciation	5	4
Net goodwill written off	-	53
Net surplus on valuation of investment property	(4,212)	(3,531)
Surplus on sale of investment property	(176)	-
Share based payment	350	500
Finance income	(19)	(45)
Finance costs	3,457	3,157
(Profit)/loss on financial liabilities at fair value through profit and loss	(725)	566
Income tax charge	145	121
Increase in inventories	(13)	(1,315)
(Increase)/decrease in trade and other receivables	(738)	461
(Decrease)/increase in trade and other payables	(87)	281
	9,122	8,334
Interest paid	(3,457)	(3,157)
Net cash from operating activities	5,665	5,177
Cash flows from investing activities		
Purchase of investment properties	(20,353)	(39,462)
Purchase of property, plant and equipment	(3)	(2)
Proceeds from sale of investment properties	13,522	-
Interest received	19	45
	(6,815)	(39,419)
Cash flows from financing activities		
Equity dividends paid	(5,359)	(4,194)
Proceeds from new bank loans	-	42,200
Payment of bank loans	(927)	(766)
	(6,286)	37,240
Net (decrease)/increase in cash and cash equivalents	(7,436)	2,998
Cash and cash equivalents at beginning of period	11,775	8,777
Cash and cash equivalents at end of period	4,339	11,775

NOTES:
Cash and cash equivalents consist of cash in hand and balances with banks only.

Real Estate Investors plc
Notes to the preliminary announcement
For the year ended 31 December 2017

1. Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of properties and financial instruments held at fair value through the profit and loss account, and in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are set out in the Group's annual report and financial statements.

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. Material intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The principal accounting policies are detailed in the Group's annual report and financial statements.

Going concern

The Group has prepared and reviewed forecasts and made appropriate enquiries which indicate that the Group has adequate resources to continue in operational existence for the foreseeable future. These enquiries considered the following:

- the significant cash balances the Group holds and the low levels of historic and projected operating cashflows
- any property purchases will only be completed if cash resources or loans are available to complete those purchases
- the Group’s bankers have indicated their continuing support for the Group. The Group’s £20 million facility with Lloyds Banking Group is due for renewal in July 2018. Whilst the process of agreeing terms for the renewal of these facilities, which would be subject to credit approval, documentation and due diligence, has not commenced at the present time the bank have confirmed the intention to roll the facilities at a similar level for a period of three to five years from the expiry of the facilities.

For these reasons, the directors continue to adopt the going concern basis in preparing the financial statements.

2. Gross profit

		2017	2016
		£000	£000
Revenue	- Rental income	**14,309**	13,019
	- Surrender premiums	**571**	434
		14,880	13,453
Cost of sales	- Direct costs	**(1,727)**	(1,600)
Gross profit		**13,153**	11,853

3. Earnings per share

The calculation of earnings per share is based on the result for the year after tax and on the weighted average number of shares in issue during the year.

Reconciliations of the earnings and the weighted average numbers of shares used in the calculations are set out below.

	2017			2016		
	Earnings	**Average number of shares**	**Earnings per Share**	Earnings	Average number of shares	Earnings per share
	£000			£000		
Basic earnings per share	**11,135**	**186,420,598**	**5.97p**	8,082	186,420,598	4.34p
Diluted earnings per share	**11,135**	**189,306,947**	**5.88p**	8,082	188,827,343	4.28p

The European Public Real Estate Association figures below have been included in the financial statements to allow more effective comparisons to be drawn between the Group and other business in the real estate sector.

EPRA EPS per share

	2017			2016		
	Earnings	**Shares**	**Earnings per Share**	Earnings	Shares	Earnings per share
	£000	**No**	**p**	£000	No	p
Basic earnings per share	**11,135**	**186,420,598**	**5.97**	8,082	186,420,598	4.34
Net surplus on valuation of investment properties	(4,212)			(3,531)		
Profits on disposal of investment properties	(176)			-		
Change in fair value of derivatives	(725)			566		
Deferred tax	145			121		
EPRA earnings	6,167	**186,420,598**	3.31	5,238	186,420,598	2.81

EPRA NAV per share

	2017			2016		
	Net assets	**Shares**	**Net asset value per share**	Net assets	Shares	Net asset value per share
	£000	**No**	**P**	£000	No	P
Basic	**127,054**	**186,420,598**	**68.2**	121,161	186,420,598	65.0
Dilutive impact of share options and warrants	**-**	**2,886,349**		-	2,406,745	
Diluted	**127,054**	**189,306,947**	**67.1**	121,161	188,827,343	64.2
Adjustment to fair value of derivatives	**3,869**	**-**		4,594	-	
Deferred tax	**(540)**	**-**		(685)	-	
EPRA NAV	**130,383**	**189,306,947**	**68.9**	125,070	188,827,343	66.2
Adjustment to fair value of derivatives	**(3,869)**	**-**		(4,594)	-	
Deferred tax	**540**	**-**		685	-	
EPRA NNNAV	**127,054**	**189,306,947**	**67.1**	121,161	188,827,343	64.2

4. Investment properties

Investment properties are those held to earn rentals and for capital appreciation.

The carrying amount of investment properties for the periods presented in the consolidated financial statements is reconciled as follows:

	£000
Carrying amount at 1 January 2016	155,092
Additions – acquisition of new properties	38,642
Additions – subsequent expenditure	820
Adjustment on goodwill	117
Change in fair value	3,531
Carrying amount at 31 December 2016	198,202
Additions – acquisition of new properties	19,466
Additions – subsequent expenditure	887
Disposals	(13,346)
Change in fair value	4,212
Carrying amount at 31 December 2017	**209,421**

5. Publication

The financial information set out in this announcement does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The consolidated statement of financial position at 31 December 2017 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the associated notes for the year then ended have been extracted from the Group's financial statements upon which the auditor's opinion is unqualified and does not include any statement under section 498 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2017 will be delivered to the Registrar of Companies following the Group's Annual General Meeting.

6. Copies of the announcement

Copies of this announcement are available for collection from the Company's offices at 2nd Floor, 75-77 Colmore Row, Birmingham, B3 2AP.