REI

Real Estate Investors Plc

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("REI" or the "Company" or the "Group")

Final Results

For the year ended 31 December 2018

Growing returns through active management

Well-placed to capitalise on further opportunities in 2019

Real Estate Investors Plc (AIM: RLE), the London Stock Exchange listed Real Estate Investment Trust (REIT) with a portfolio of 1.55 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 2018.

Strong tenant demand

- Achieved occupancy of 96.1% (2017: 92.8%) up 3.3%
- Increased revenue by 5.1% to £15.6 million (2017: £14.9 million)
- Increase in underlying profit before tax* to £7.2 million, up 16.1% (2017: £6.2 million)
- EPRA** EPS 3.9p (2017: 3.3p), up 16.3%
- Record contracted rental income of £17.0 million p.a. (2017: £16.2 million p.a.) up 4.9%

Producing attractive, sustainable, higher level returns

- Total dividend per share for 2018 of 3.562p (2017: 3.125p), up 14.0%, final quarterly dividend 0.937p per share

Steady uplift in portfolio valuation

- EPRA** NAV per share of 69.3p (2017: 68.9p), up 0.6%
- Acquisitions of £15.4 million (net of acquisition costs) and disposals of £5.7 million
- Combination of acquisitions and asset management across the REI portfolio increased portfolio value to £224.8 million as at 31 December 2018 (2017: £213.1 million) up 5.5%
- HS2, population migration from London and refocusing of investors on the regions, driving increased value in asset classes around Birmingham and the wider Midlands

Well placed to fund new opportunities

- £25.0 million of cash and facilities available for opportunistic transactions with further headroom available
- Successful bank refinancing with average cost of debt reduced to 3.7% (2017: 4.2%)
- LTV net of cash conservative at 39.8%

Looking ahead

- Identified 250,000 sq ft within portfolio of permitted development opportunities for conversion to residential
- Alert to opportunities for mis-priced assets where overly negative sentiment towards the high street or Brexit nervousness is creating buying opportunities
- Post year end residential planning consent secured for approximately 100 units in Coseley. This is expected to be sold to a residential developer for significantly more than existing book value.

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

"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.

These are a good set of results, showing growth in our underlying profits and dividends underpinned by a portfolio now being valued at £224.8 million.

In 2019, we expect to continue to prosper from the popularity of Birmingham and the wider Midlands, as the region's economy benefits from the arrival of HS2, Coventry City of Culture 2021 and Commonwealth Games 2022.

We anticipate seeing off-market opportunities on the back of the current financial and political volatility. We welcome these periods of uncertainty, as they often bring mis-priced assets to the market which, with our local expertise and financial strength, we can move quickly to capitalise on.

Our portfolio is balanced, has the necessary depth for us to continue to generate value through intensive asset management activities and, together with positive tail winds from the substantial investment coming into the region, REI is well-placed to prosper further."

Financial and Operational Highlights

	31 December 2018	**31 December 2017**	**Change**
Gross property assets	£224.8 million	£213.1 million	+5.5%
Underlying profit before tax	£7.2 million	£6.2 million	+16.1%
EPRA EPS	3.9p	3.3p	+18.2%
Dividend per share	3.562p	3.125p	+14.0%
EPRA NAV per share	69.3p	68.9p	+0.6%
EPRA NNNAV per share	67.9p	67.1p	+1.2%
Net assets	£128.7 million	£127.1 million	+1.3%
Loan to value	44.7%	40.4%	-10.6%
Loan to value net of cash	39.8%	38.3%	-3.9%
Average cost of debt	3.7%	4.2%	+11.9%
Contracted rental income	£17.0 million	£16.2 million	+4.9%
Like for like rental income	£15.5 million	£15.8 million	-1.9%
Like for like capital value per sq ft	£147.46 per sq ft	£146.20 per sq ft	+0.9%
Like for like valuation	£209.2 million	£207.4 million	+0.9%
Tenants	269	258	+4.3%
WAULT***	4.24 years	4.53 years	-6.4%
Total ownership (sq ft)	1.55 million sq ft	1.50 million sq ft	+3.3%

Definitions

* *Underlying PBT excludes profit/loss on revaluation, 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/Marcus Daly	+44 (0)121 212 3446
Cenkos Securities plc Azhic Basirov/David Jones	+44 (0)20 7397 8900
Liberum Jamie Richards/William Hall	+44 (0)20 3100 2000
Novella Communications Tim Robertson/Toby Andrews	+44 (0)20 3151 7008

About Real Estate Investors Plc

Real Estate Investors Plc is a publicly quoted, internally managed property investment company and REIT with a portfolio of 1.55 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 which is paid quarterly. Further information on the Company can be found at www.reiplc.com

Chairman's and Chief Executive's Statement

Overview

Secure, Stable and Opportunistic with Record Occupancy of 96.1%

Despite the economic and political uncertainty during 2018, we added value to our portfolio through our intensive asset management activities generating underlying profits of £7.2 million, up 16.1%, whilst growing the portfolio to £224.8 million, up 5.5%, and achieving record occupancy levels of 96.1% up from 92.8%. A pleasing performance.

Our portfolio is stable, secure and diversified across many sectors, with no material reliance on any single asset or occupier. The office element of our portfolio represents 37.9% and, due to the lack of new build over the last decade and some existing office stock being converted to residential under permitted development rights, we are noting a significant undersupply of office space and experiencing rental growth across our office ownership, in particular in our non-City centre stock across the Midlands. 2018 witnessed the highest level of out-of-town activity since 2015 with 358,115 sq ft leased. With available space in out-of-town markets at an all-time-low (452,929 sq ft), vacancy levels are also at their lowest due to this decreased supply at 5.4%, down from 8.3% in 2017. Our traditional retail assets, which account for 19.6% of the portfolio, continue to perform extremely well and due to current anti-retail sentiment, we believe are undervalued. Our retail exposure remains focussed on convenience, value and neighbourhood outlets.

We have continued to grow the portfolio, completing £15.4 million of investment property acquisitions (net of acquisition costs) and £5.7 million of strategic sales. Overall, the Midlands property market is positive with pockets where it is buoyant. Currently demand is especially strong for out of town areas such as Solihull and the M42 corridor for which vacancy rate has reached a 10-year low. These conditions suit REI as they require local knowledge with which to flourish.

The existing portfolio has further value creation and income enhancing opportunities via additional lettings, rent reviews, change of use and, in particular, through 'permitted development' opportunities where we have already identified approximately 250,000 sq ft of potential residential conversions within the portfolio. The first of such residential conversion value creation opportunities was the sale of offices at Citygate House, Leicester, sold with permitted development rights for £2.6 million and is due to complete in June 2019, representing a 40% uplift to our December 2017 book value.

We have secured long-term bank facilities and have significantly reduced the average cost of debt to 3.7% (2017: 4.2%). We have built up £25 million of cash and agreed bank facilities to provide the resources to be able to quickly take advantage of opportunities as they arise.

Financial Results

Continued Growth in Underlying Profits, up 16.1%

Revenue for the period under review is up 5.1% and contracted rental income is at a record £17.0 million p.a., up 4.9%, with underlying profits up 16.1% to £7.2 million.

Our like for like rental income has declined by £300,000 (-1.9%) predominantly due to securing vacant possession of Metro Court for resale to a residential developer.

Further acquisitions and asset management initiatives will enhance our asset base and income whilst supporting our Net Asset Value growth, together with delivering on our commitment of a progressive dividend policy.

Our portfolio value has grown to £224.8 million, up 5.5%, and we anticipate that this will remain at this level or above (subject to any disposals) and that contracted rental income will also rise during 2019.

Pre-tax profits of £8.4 million allow for £800,000 of acquisition costs and £1.8 million of growth in our like for like valuations, demonstrating our ability to extract value from existing assets, during a period when most asset values remain flat or in decline and allows for a reduction in our retail assets. Underlying profits of £7.2 million have helped support the growth of our dividend for 2018 of 3.562p, up 14%, over the period, representing a 6th year of consecutive growth.

Finance and Banking

Reduced cost of debt

With our longstanding banking relationships and access to debt, we will continue to secure additional bank facilities when appropriate, to support future growth and improve profitability. We will maintain a policy of being multi-banked across a number of established lenders.

We remain conservatively geared at 39.8% LTV (net of cash) and have significantly reduced the cost of our debt over the last few years and intend to maintain our gearing at the existing levels.

Our bank facilities were successfully restructured during the year fixing 67% of our debt, through facilities secured with 7 banks and average cost of debt reducing to 3.7% (2017: 4.2%), down 11.9%.

In December 2018, REI renewed its existing £20 million facility with Lloyds for 5 years and additionally has cash and agreed bank facilities to provide £25 million to capitalise on any criteria compliant opportunities that the uncertain economic and political back drop may reveal.

Dividend
Six Years of Consecutive Growth and Potential to Grow Further

One of our principal objectives has been to deliver attractive, sustainable, higher level dividend returns and we are pleased to have increased our covered dividend for 2018 of 3.562p, an uplift of 14.0% on 2017.

We have paid the first three quarterly dividends of 0.875p and propose to pay a final dividend of 0.937p. Dividend payments will continue to be paid quarterly, with the first three payments for 2019 at 0.937p, and the final dividend for the fourth quarter to be confirmed.

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

Dividend Timetable

Ex-dividend date:	28 March 2019
Record date:	29 March 2019
Dividend payment date:	26 April 2019

Outlook
Opportunities Ahead

Many see the present environment as challenging and troublesome. We do not. As a management team we have operated in uncertain times before, the 1990's recession, the 2008 financial crisis, the Scottish and European Referendums, and each time we have capitalised on opportunities that have become available during those periods. We are alert to the uncertain political and economic backdrop. However, given our strong financial position, combined with our unparalleled Midlands property network and first mover market intelligence, we are optimistic about uncovering significant further value amongst our chosen markets in 2019.

The REI Portfolio

We continue to operate in an economically vibrant region. Lambert Smith Hampton, in their recent 2018 Transactions Bulletin, showed investment volume in the regions outside London (excluding portfolio sales) amounting to £5.6bn in Q4, up 8% on the previous quarter and 13% above average. This brought the annual total for 2018 to £21.3bn, its best year since 2006. LSH reported a healthy picture across the regions, all of which recorded above average volume in 2018 with investment volumes in the Midlands reaching £4.29 billion.
(Source: LSH Research Property Data Property Archive)

Property Overview

The portfolio is valued at £224.8 million (2017: £213.1 million), an increase of 5.5% and contracted rental income has grown to £17.0 million p.a. (2017: £16.2 million p.a.), up 4.9%. The Company's property portfolio comprised 52 assets with 269 tenants and a net initial yield of 7.26%.

Our portfolio is strategically well positioned across the Midlands region and, despite a highly competitive investment market, we have acquired a variety of high yielding, quality investment assets during the period.

We have enjoyed an excellent period of transactional activity throughout 2018, completing £15.4 million of investment property acquisitions (net of acquisition costs) and £5.7 million of strategic sales. The acquisitions provide good scope for short to medium term asset management opportunities to drive rental growth and in turn capital values.

The portfolio is growing, with an increasing spread of locations and covenants and we continue to identify asset management initiatives, generating a good ongoing level of capital and rental growth.

Investment Market

Demand for UK property investment continued throughout 2018, highlighting the resilience of UK real estate, regardless of the political upheaval around Brexit.

We have seen an increase in transactional activity from a broad spectrum of investors, including major UK Institutions, listed property companies and local authorities, with a growing number of international investors who see value in the price of UK sterling.

With more competition from a variety of investors, property yields are lower than five and ten-year averages and in view of this, we have been careful not to chase the market.

Outside of the mainstream, we have access to regional activity which some of the other investors are not able to access, enabling us to uncover off-market opportunities. As an established and recognised investor with a strong track record, we continue to find and transact opportunities that fit our criteria, as demonstrated by the investment of £15.4 million (net of acquisition costs) in selective stock at an average net initial yield of 8.88% with reversionary potential to 9.20%.

Negative sentiment surrounding the High Street is significant. However, it is our opinion that certain, quality retail assets in proven locations are now undervalued, particularly set against other sectors (industrial/offices) and are likely to attract yield-seeking investors over the coming year and leading to valuation uplifts and a positive impact on our portfolio.

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

Occupational Market

The Birmingham office market continues to hit new heights as it drives forward into an era of re-development and re-purposing. Yet again, the City is witnessing record levels of construction with both developer and investor confidence high as preparation for HS2 gets underway and the 2022 Commonwealth Games draws ever closer.

Supply of new and secondary office space has been restricted, with a lack of new developments together with a trend for conversion of secondary offices to residential (through Permitted Development) which is driving an upward pressure on rents across the board.

Office leasing activity for 2018 in the central Birmingham office market totalled 754,129 sq ft in 113 deals, according to figures compiled by the Birmingham Office Market Forum (Source: BOMF). The 2018 outcome exceeds the 10-year average take up in central Birmingham. JLL's office agency team recently reported that office enquiries remain encouraging moving into 2019 across a number of sectors. They predict office leasing activity levels in 2019 to exceed the longer-term averages (5 year - 827,170 sq ft, 10 year - 730,002 sq ft) and expect record prime headline rent of £35.00 psf would be achieved for the central Birmingham office market in 2019.

Meanwhile, negative sentiment relating to High Street Retail is resulting in valuation downgrades despite some of these assets having strong income streams and good covenants. This is leading us to believe that the wider market has taken an overly downbeat view on the High Street thereby creating the potential to selectively acquire retail assets at discount levels. We do not own any department stores (House of Fraser / Debenhams etc) and have had no exposure to Toys R Us, Maplins, Homebase, Threshers or any other high profile CVA arrangement. Our only insolvency experience was Poundworld with 2 vacant shops one of which was let immediately to Poundstretcher and the other is on the open market to let.

From a wider market perspective, the larger funds and institutions are under-valuing stock, which, in fact, offer potential prospects to acquire at discount levels, as evidenced by our recent acquisitions of Redditch and Kings Heath, which were bought from London based funds.

REI is well positioned to take advantage of increased market activity. We have achieved a current occupancy of 96.1% 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, effective property management / tenant liaison, a robust property portfolio and a stable local economy.

Portfolio Mix
Diverse with Low Risk and High Demand

REI has a diverse portfolio of £224.8 million and no material reliance on any one sector, asset or occupier. This strategy allows for continued growth via opportunistic acquisitions of prime and secondary assets that, with active asset management, will continue to enhance the capital value and income of the portfolio.

Portfolio mix:

Sector	Rent £	31 Dec 2018 % by Income
Office	6,440,322	37.86%
Traditional Retail	3,333,828	19.60%
Discount Retail	1,713,440	10.07%
Food Stores	1,011,150	5.94%
Medical and Pharmaceutical	1,137,540	6.69%
Restaurant/Bar/Coffee	1,041,802	6.12%
Financial/Licences/Agency	785,502	4.62%
Hotel	511,000	3.00%
Leisure	537,596	3.16%
Car Park	424,613	2.50%
Industrial	57,094	0.34%
Assured Shorthold Tenancies	16,400	0.10%
TOTAL	**17,010,287**	**100.00%**

Acquisitions
Positioned to take advantage

All of our property acquisitions remain criteria compliant and one of our key requirements is that we can add value and income to any acquisition. This strategy also provides resistance to downward valuation pressure as has been demonstrated with our like for like valuations increasing at a time when the market is static, up 0.9%, a capital uplift of £1.8 million, despite some downward valuation sentiment towards our retail.

Total acquisitions of £15.4 million (net of acquisition costs) were made during the period, with a combined income of £1.454 million per annum, which reflects 8.88% net initial yield and 9.20% reversionary yield.

New acquisitions include:

- Topaz Business Park, Topaz Way, Bromsgrove – Purchased on 15th June 2018 (Office Business Park, £4,000,000, excluding acquisition costs). Acquired in an off-market transaction from a private investor, at a net initial yield of 6.9% with a reversionary yield of 8.14%. The investment comprises a prominent high-quality office business park of 10 self-contained office buildings. The property is multi-let with tenants including QS Finance, MV Kelly, Handelsbanken, Fuelsoft, Toshiba and Instinctive Technologies. REI believes that office rents in the asset are below local market levels and therefore anticipate positive rental and capital growth. Since acquisition, new lettings have been agreed at increased rent levels. There is also additional land that offers prospects for further development.

- 120-138 High Street, Kings Heath, Birmingham – Purchased on 5th September 2018 (Retail, £4,800,000, excluding acquisition costs). We acquired a prime neighbourhood retail scheme from a pension fund at a net initial yield of 8.7%, and producing £445,860 rent per annum, with a WAULT of 4.25 years to expiry and 4.00 years to a potential break. The property is fully let with good national tenant covenants including Wilko Retail, Scrivens Opticians, Burton, Lloyds Pharmacy, Specsavers, Greggs and Bon Marche.

- Molineux, Wolverhampton – Purchased on 22nd June 2018 (Office, £3,582,000, excluding acquisition costs). A city centre office which is let to the Secretary of State, Department for Communities and Local Government on a recently re-geared 10-year fully repairing and insuring lease with a tenant break at the fifth year. The investment was acquired with a current rent of £324,370 per annum providing a net initial yield of 8.50%. The property provides an excellent yield together with a Government-backed covenant and has strong potential for residential conversion should the asset ever become vacant.

- The Quadrant, Alcester Street, Redditch – Purchased on 21st December 2018 (Retail/Leisure £2,989,000, excluding acquisition costs). A mixed-use block in an affluent Midlands town in a well located and established A3/A4 pitch. The building comprises 39,065 square feet of retail/leisure/gym/office with a 143-space car park. The investment produces a net annual income of £389,640 per annum with a WAULT of 5.5 years to expiry (2.77 years to break). It incorporates eight tenancies including; JD Wetherspoon plc, D P Realty Ltd, Swanswell Charitable Trust, Prime Fitness (UK) Ltd. This asset has considerable capital upside, with prospects for residential development and the ability to break up to generate further capital value through individual sales to premium values.

We anticipate acquiring a further £25 million of assets during 2019, to grow our portfolio and income, whilst maintaining a balanced and diversified asset, sector and occupier base. 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
Achieved Cost or Above

Capitalising on investor confidence and appetite we have disposed of £5,750,000 (excluding sale costs) of assets which provided a combined income of £494,094 per annum, reflecting a comparative initial yield of 8.07%. The Company will use these proceeds to fund acquisitions that are better aligned to our investment strategy. We completed the following sales during 2018, at or above cost:

- 24 Bennetts Hill, Birmingham – Sold for £4,000,000 (excluding sale costs) on 10th January 2018, representing a net initial yield of 5.9%. The property was acquired in December 2014 for £2.06 million and we had renewed/re-geared a number of the tenancies prior to sale which was openly marketed.

- 294-310 High Street, West Bromwich – Sold for £1,040,000 (excluding sale costs) on 11th May 2018. The property was formerly occupied by Allied Carpets. During our ownership we sub-divided the property into five smaller retail units, which were fully let at the point of sale.

- The Marlowes, Hemel Hempstead – Sold for £710,000 (excluding sales costs) on 14th August 2018. Occupied by Auto Mobility Concepts on the ground floor and Novo UK Recruitment on the upper floor offices, we re-geared with both tenancies and subsequently sold the freehold, via a national property auction to a private London based investor.

During the period we have unconditionally exchanged contracts on the sales of Metro Court, West Bromwich which completed in January 2019 and Citygate House, Leicester which completes in June 2019. 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
Intensive activity

Our acquisition strategy of acquiring assets with value-add potential has proved to be successful. Even in a flat market place and in some cases, declining value sectors, we have seen like for like valuations increase by 0.86%, primarily due to asset management initiatives. We are not a passive investor and seek to continuously review our ability to add value and income to our portfolio.

New tenants to our existing portfolio include: USA Summer Camp, Newstead Clark Financial Services, Toshiba Tec UK, Subway Realty, Patrick Parsons, Naismiths and Metaswitch Networks.

Key asset management initiatives undertaken during the period include:

- 40 St Paul's Square, Birmingham – Following the service of a break notice by a tenant, it was identified that the notice had been incorrectly served. In light of that error, REI agreed a surrender premium of £200,000 to allow the tenant to vacate. In addition to this, the dilapidations claim issued by REI was settled at £125,000. Some of the additional monies were used to create a new space for another tenant in the building who wanted to expand following a merger. The deal came about because of the knowledge and relationship that REI had with the tenant. A new 10-year lease was agreed.

- Citygate House, Leicester - Purchased in May 2014 for £1.85 million at a Net Initial Yield of 8.0%, the building was let on an FRI lease to the Secretary of State. Following a review of the portfolio and based on REIs knowledge of the local market/deals, the building was identified as having longer term permitted development potential. It was taken to the market and unconditional contracts were exchanged in October 2018 for a sale of £2.6 million, representing a 40% uplift on December 2017 valuation. Due to complete in June 2019.

- Westgate House, Warwick – Further to a review of the lease, REI instigated a strategic plan to achieve a lease re-gear with NHS. A S.25 notice seeking a new lease at an increased rent was served to protect REI's position, alongside a Schedule of Dilapidations claim. Discussions on a new lease with the NHS are close to resolving a new 5-year term.

- Acocks Green, Birmingham – Purchased in 2015 for £8 million. Post the sale of the office block for £825,000, the current value of the scheme has increased to £9.5 million. During the year REI has let the car park to a new operator on a 10-year lease and undertaken various other lettings and lease re-gears, all of which have increased the WAULT. There is also a longer-term planning gain that has been identified with the local council and discussions are ongoing.

- Boundary House, Wythall – Purchased in 2016 for £2.45 million at a Net Initial Yield of 9.59% with 5 years WAULT. Based on REI's knowledge of how the Tenant occupies the space and their desire to remain, a twin approach was taken at the rent review in January 2018 and an opportunity to re-gear the lease was raised. As a result, a new lease until January 2028 was agreed at a rent of £260,000. This added 6 years to the WAULT and increased the valuation to £3.33 million in December 2018, over a December 2017 figure of £2.65 million.

- Brandon Court, Coventry – During 2018, REI identified a number of asset management opportunities across the scheme. A tenant had previously indicated a desire to vacate its unit. REI facilitated a new deal that saw the tenant vacate; the dilapidations monies were then re-invested into refurbishing the suite for a new tenant. A new 5-year lease was agreed at an enhanced rent. This was important tactically, as it created the evidence to allow REI to serve a S.25 Notice on another tenant for a new 10-year lease at a rent of £60,285; passing rent £50,000 per annum. A rent review was settled on another unit, taking the rent from £33,000 per annum to £39,500 per annum, again using the evidence from the letting. REI has also obtained outline planning for 8,000 sq ft of additional office space on some land within the scheme. This is currently being marketed; December 2017 book value £5.45m, December 2018 £6.0m.

- 59/75 Park Street, Walsall - Using local market knowledge, REI appointed a local agent who identified and delivered a 20-year lease to a retail occupier, in an environment where retailers have been struggling. Again, this demonstrated a good knowledge of the local market and a well-connected network of advisors. REI had held firm at the rent required, despite temporary deals being offered, to maximise the value enhancement.

- Land at Coseley, West Midlands – Purchased for £1.150 million in 2016 and zoned residential, the land was acquired with the view to securing planning approval and subsequently sold with a planning gain. Post year end we have secured residential planning consent for approximately 100 units in Coseley. This is expected to be sold to a residential developer for significantly more than our existing book value.

REI actively reviews all lease events over a period of time into the future. This approach, combined with the right advice where necessary and an intimate knowledge of the markets and occupiers, has, once again, resulted in a number of matters being dealt with in a pro-active manner that have not only protected values in a challenging economic and political climate, but demonstrated an increase in values that have allowed the portfolio to increase in value.

The current geographic weightings are (table below excludes property disposals which completed in 2019):

	Value (£m)	Area ('000sf)	Contracted Rent (£)	ERV £	NIY %	RY %	EQY %	Occupancy %
Central Birmingham	£30,555,000	109,721	£1,574,844	£1,977,588	4.84%	6.08%	5.97%	90.33%
Other Birmingham	£36,295,000	193,462	£2,669,032	£2,854,131	6.90%	7.38%	7.22%	91.44%
West Midlands	£83,115,000	673,568	£6,494,395	£7,420,933	7.33%	8.37%	7.90%	95.50%
Other Midlands	£68,140,000	544,460	£5,973,019	£6,238,933	8.38%	8.75%	7.75%	99.44%
Other Locations	£3,035,000	28,779	£298,996	£310,326	9.47%	9.83%	8.06%	100%
Land	£3,738,000	-	-	-	-	-	-	-
Total	**£224,878,000**	**1,549,990**	**£17,010,286**	**£18,801,911**	**7.26%***	**8.02%***	**7.49%***	**96.10%**

*Our land holdings are excluded from the yield calculations

REI's Regional Review

Economy/Business/Employment

- According to EY's Regional Economic Forecast 2019, the West Midlands is gaining the title as the fastest growing economy outside of London and the South East with productivity across the region expected to grow by 1.7% until 2021. The West Midlands experienced economic growth of 1.6% during 2018 compared to the UK average of 1.3%.
- West Midlands business confidence rose by four points at the start of 2019, according to the latest Business Barometer by Lloyds Bank Commercial Banking, giving the region an overall confidence reading of 31 per cent, rising twice as quickly as the national average.
- Birmingham and Coventry have ranked in the top 10 of UK's fastest growing cities according to The UK 2019 Vitality Index from Lambert Smith Hampton, based on a combination of population, growth in economic output and commercial property rental data.
- The region's companies have been listed amongst UK's best for international sales growth which ranks Britain's mid-market private companies with the fastest-growing international sales including fitness brand Gymshark, which is also in the top three nationally.
- Appetite for private equity investment in the Midlands is on the up, with the number of PE-backed deals increasing 28% in the last two years. According to new research by business advisory firm BDO, the Midlands is now home to 170 PE-backed businesses.
- In 2018, the West Midlands recorded the biggest growth in employment of all UK regions, with 2.2% growth and the creation of 52,000 jobs, coming only second to London.
- By 2021, the region's employment growth is expected to exceed the UK rate of 0.5% reaching 0.6% p.a.
- In terms of wage growth, this has likely been improved by the arrival of large corporates such as HSBC and is expected to continue to grow by 36% over the next 10 years.

Property

- In 2018, annual investment in real estate in the Midlands region topped £4.29 billion.
- The annual city centre Birmingham take up figures for 2018 exceeded the 10-year average, with Q4 alone seeing 277,790 sq ft leased across 33 deals.
- Office construction levels in Birmingham surpassed the 1.4 million sq ft level for the third consecutive year in 2018. Of the pipeline developments due to complete in 2019, 22% is already pre-let.
- 2018 witnessed the highest level of out of town activity since 2015 with 358,115 sq ft leased and, with available space in out-of-town markets at an all-time-low (452,929 sq ft). Vacancy levels are also at their lowest due to this decreased supply at 5.36%, down from 8.31% in 2017.
- Birmingham has seen the fastest house price growth since the UK voted to leave the EU, up 16% since the June 2016 referendum, according to the property website Zoopla.
- With house prices lower than London but rising at a rate faster than the capital, the region offers homeowners an affordable alternative to London. The West Midlands is seeing a 6% per year increase in house prices, compared to the 0.7% decline in London housing values. Over the last decade, house prices in Birmingham have risen by 45%.
- Birmingham city centre residential development reached an all-time high with over 5,000 units under construction in 2018. The number of new homes built over the last three years has exceeded the annual targets by 108%, as confidence in the housing market in the city continues to improve.
- Student accommodation hit its highest level in the City with 2,667 units under construction in 2018.
- Extra housing potential in Birmingham has been identified. The findings by planning consultancy Turley show that if 50 per cent of vacant commercial floorspace in the Greater Birmingham and Solihull Local Enterprise Partnership area was used for residential purposes, 1,939 new homes could be created.
- The Mayor of the West Midlands Andy Street has launched £10bn worth of housing, regeneration, commercial and infrastructure development opportunities to international investors at MIPIM. Leading the West Midlands Combined Authority (WMCA) delegation in Cannes, Street unveiled 24 development opportunities from across the region that are seeking investment.
- Homes England is trialling a move to Coventry that could lead to its national centre coming to the city and bringing hundreds of jobs. It will move into Friargate, the office development next to Coventry's railway station, in what is being seen as a coup for the city.

Manufacturing/Engineering/Technology

- Birmingham is set for rapid tech growth as it embraces a 5G trial, building on its engineering history and with a new focus on digital technology, according to TechNation. Birmingham has beaten competition from other regions to become the UK's first large-scale test bed for 5G technology. Turnover of the digital sector grew by 6% last year, outstripping the growth of the wider economy.
- A multimillion-pound Smart City Mobility Centre is to be developed in the West Midlands in the latest boost to the region's growing expertise in driverless vehicles, bringing together Warwick Manufacturing Group's (WMG) research expertise and Jaguar Land Rover's research and engineering capabilities and will create Europe's most extensive integration of technology research projects at such a scale.

- Global engineering consultancy WSP, which is working on plans for the Birmingham Curzon Street HS2 station, has moved 700 staff into its new headquarters in the city following a £7m refurbishment, taking 46,700 sq ft space at the Mailbox.
- Two global rail giants are opening up a High Speed 2 bid centre in Birmingham to develop their plans to build an iconic train for the project. Experts from Hitachi Rail and Bombardier Transportation are developing their concepts for what will be the fastest train ever operated in the UK.

Culture/Travel/Tourism/Education

- Birmingham is the destination of choice for those leaving London, with more internal migrants coming to the City than any other UK location.
- 32% of Birmingham's population is below the age of 25, making it one of the youngest European Cities, with the population forecasted to grow to 1.3 million by the end of 2019, adding further pressure to the already increasing demand in the region.
- The region boasts 12 universities and 50 tech centres of excellence, with 65,000+ graduates per year.
- Monster.co.uk Digital Cities Ranking has placed Birmingham top of the list to develop a career thanks to the availability of 437 digital jobs, 33% industry growth year on year and average salaries of over £43,000, combined with lower costs of living.
- Birmingham has had the highest quality of living ratings in the UK (outside of London) for the last 5 years, according to the Mercer Index.
- Birmingham Airport has unveiled its 'Midlands Gateway to the World' £500m masterplan to grow by 40% to 18 million passengers per year from 2033 and in doing so, increase its contribution to the Midlands economy to £2.1 billion per annum and 34,000 jobs.
- A 20-year improvement plan for "one of the country's most important trade routes" could boost the economy by £7.1bn, according to Midlands Connect.
- A masterplan to transform the NEC campus in Solihull, creating 3.3 million sq ft of space, up to 10,000 jobs and 2,500 homes - has been published by The NEC and Birmingham City Council.
- Plans have been revealed to open a six-stage TV and film studio complex in the region. The 20-acre site, called Mercian Studios, will be located near Birmingham airport and include six sound stages.
- The West Midlands to become a pilot of a £20 million transport scheme to create the first Future Mobility Area and invest in new modes of transport, services and technologies, a scheme announced on day one of the Conservative Party Conference in Birmingham.
- The West Midlands has outperformed other regions in VisitEngland tourism awards with 16 attractions recognised as providing outstanding experiences for visitors, more than any other region in the UK.

Our Stakeholders

Our thanks to our shareholders, advisors, occupiers and staff for their continued support and assistance.

John Crabtree OBE D.Univ
Chairman
18 March 2019

Paul Bassi CBE D.Univ
Chief Executive
18 March 2019

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 2018	31 December 2017	Change
Gross Property Assets	£224.8 million	£213.1 million	+5.5%
Underlying profit before tax	£7.2 million	£6.2 million	+16.1%
EPRA EPS	3.9p	3.3p	+18.2%
EPRA NAV per share	69.3p	68.9p	+0.6%
EPRA NNNAV per share	67.9p	67.1p	+1.2%
Net Assets	£128.7 million	£127.1 million	+1.3%
Loan to value	44.7%	40.4%	-10.6%
Loan to value net of cash	39.8%	38.3%	-3.9%
Average cost of debt	3.7%	4.2%	+11.9%
Dividend per share	3.56p	3.12p	+14.0%
Like for like rental income	£15.5 million	£15.8 million	-1.9%
Like for like capital value per sq ft	£147 sq ft	£146 sq ft	+0.9%
Like for like valuation	£209.2 million	£207.4 million	+0.9%

Results for the year

Our underlying profit before tax rose to £7.2 million (2017: £6.2 million). Profit before tax (IFRS) totalled £8.4 million (2017: £11.3 million), including a loss on sale of investment properties of £42,000 (2017: surplus £176,000) and a surplus on revaluation of investment properties of £578,000 (2017: £4.2 million), together with a surplus on the market value of our interest rate hedging instruments of £706,000 (2017: £725,000).

Acquisitions of investment properties totalled £15.4 million (net of acquisition costs) during the year. Rental income for the year was up 5% to £15.6 million (2017: £14.9 million) but the full benefit of these purchases will be realised in 2019. The investment properties are revalued externally at 31 December and generated a surplus on revaluation of 578,000, despite the pessimistic view on retail, which resulted in a write down of £1.25 million on our retail centre in Crewe, and absorbing costs of £804,000 on property acquisition.

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 £3.3 million (2017: £3.5 million) after charging a bonus provision, (plus employers' National Insurance) of £940,000 (2017: £876,000) and a provision for costs of the Long-Term Investment Plan of £Nil (2017: £350,000).

Interest costs for the year rose to £3.7 million (2017: £3.5 million) but the weighted average cost of debt fell to 3.7% (2017: 4.2%) as a result of new debt at variable rates and the settlement of hedge facility with Lloyds Banking Group.

Earnings per share were:
Basic: 4.5p (2017: 6.0p)
Diluted: 4.4p (2017: 5.9p)
EPRA: 3.9p (2017: 3.3p)

Shareholders' funds increased to £128.7 million at 31 December 2018 (2017: £127.1 million) and the NAV per share increased:

Basic NAV: 69.0p (2017: 68.2p)
EPRA NAV: 69.3p (2017: 68.9p)
EPRA NNNAV: 67.9p (2017: 67.1p)

Finance and banking

Total drawn debt at 31 December 2018 was £99 million (2017: £85 million). In August 2018 the Group agreed a new £10 million facility with Royal Bank of Scotland at 1.95% over LIBOR and in December 2018 the Group's £20 million facility with Lloyds Banking Group was renewed for five years. During the year the Company settled one hedge facility with Lloyds Banking Group at a cost of £153,000 and leaving one £10 million hedge facility in place. As a result, the weighted average cost of debt has decreased to 3.7% (2017: 4.2%) and the weighted average debt maturity was 4.5 years (2017: 4 years), with 67% of debt fixed and 33% variable. The loan to value (LTV) at 31 December 2018 was 44.7% (2017: 40.4%) and the LTV net of cash was 39.8% (2017: 38.3%).

Long Term Incentive Plan (LTIP)

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 £Nil (2017: £350,000) in respect of the LTIP. Based on the results and particularly the share price for 2018, none of the options awarded for 2016 are likely to 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 by way of a Property Income Distribution. 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 0.937p per share payable in April 2019 as a Property Income Distribution making a total of 3.562p for the year (2017: 3.125p) an increase of 14%. The allocation of dividend payments between PID and non PID will continue to vary.

Marcus Daly
Finance Director
18 March 2019

Real Estate Investors plc
Consolidated statement of comprehensive income
For the year ended 31 December 2018

	Note	2018 £000	2017 £000
Revenue		**15,642**	14,880
Cost of sales		**(1,478)**	(1,727)
Gross profit		**14,164**	13,153
Administrative expenses		**(3,322)**	(3,548)
(Loss)/surplus on sale of investment property		**(42)**	176
Change in fair value of investment properties		**578**	4,212
Profit from operations		**11,378**	13,993
Finance income		**31**	19
Finance costs		**(3,713)**	(3,457)
Surplus on financial liabilities at fair value through profit and loss		**706**	725
Profit on ordinary activities before taxation		**8,402**	11,280
Income tax charge		**(113)**	(145)
Net profit after taxation and total comprehensive income		**8,289**	11,135
Total and continuing earnings per ordinary share			
Basic	3	**4.45p**	5.97p
Diluted	3	**4.37p**	5.88p
EPRA	3	**3.85p**	3.31p

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 2018

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Other reserve £000	Retained earnings £000	Total £000
At 1 January 2017	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
Share based payment	-	-	-	(148)	-	(148)
Dividends	-	-	-	-	(6,524)	(6,524)
Transactions with owners	-	-	-	(148)	(6,524)	(6,672))
Profit for the year and total comprehensive income	-	-	-	-	8,289	8,289
At 31 December 2018	**18,642**	**51,721**	**45**	**1,002**	**57,261**	**128,671**

Real Estate Investors plc
Consolidated statement of financial position
At 31 December 2018

	Note	2018 £000	2017 £000
Assets			
Non-current			
Intangible assets		-	-
Investment properties	4	221,040	209,421
Property, plant and equipment		11	12
Deferred tax		405	540
		221,456	209,973
Current			
Inventories		3,764	3,708
Trade and other receivables		2,277	3,663
Cash and cash equivalents		10,843	4,339
		16,884	11,710
Total assets		238,340	221,683
Liabilities			
Current			
Bank loans		(364)	(20,355)
Provision for current taxation		(1)	(23)
Trade and other payables		(7,883)	(6,169)
		(8,248)	(26,547)
Non-current			
Bank loans		(98,411)	(64,213)
Financial liabilities		(3,010)	(3,869)
		(101,421)	(68,082)
Total liabilities		(109,669)	(94,629)
Net assets		128,671	127,054

		2018 £000	2017 £000
Equity			
Share capital		18,642	18,642
Share premium account		51,721	51,721
Capital redemption reserve		45	45
Other reserve		1,002	1,150
Retained earnings		57,261	55,496
Total Equity		128,671	127,054
Net assets per share	3	69.0p	68.2p

Real Estate Investors plc
Consolidated statement of cash flows
For the year ended 31 December 2018

	2018	2017
	£000	£000
Cash flows from operating activities		
Profit after taxation	**8,289**	11,135
Adjustments for:		
Depreciation	**6**	5
Net goodwill written off	**-**	-
Net surplus on valuation of investment property	**(578)**	(4,212)
Loss/(surplus) on sale of investment property	**42**	(176)
Share based payment	**(148)**	350
Finance income	**(31)**	(19)
Finance costs	**3,713**	3,457
Surplus on financial liabilities at fair value through profit and loss	**(706)**	(725)
Income tax charge	**113**	145
Increase in inventories	**(56)**	(13)
Decrease/(increase) in trade and other receivables	**1,386**	(738)
Increase/(decrease) in trade and other payables	**1,504**	(87)
Net cash from operating activities	**13,534**	9,122
Cash flows from investing activities		
Purchase of investment properties	**(16,742)**	(20,353)
Purchase of property, plant and equipment	**(5)**	(3)
Proceeds from sale of investment properties	**5,659**	13,522
Interest received	**31**	19
	(11,057)	(6,815)
Cash flows from financing activities		
Interest paid	**(3,713)**	(3,457)
Hedge payment	**(153)**	-
Equity dividends paid	**(6,291)**	(5,359)
Proceeds from new bank loans	**14,570**	-
Payment of bank loans	**(386)**	(927)
	4,027	(9,743)
Net increase in cash and cash equivalents	**6,504**	(7,436)
Cash, cash equivalents and bank overdrafts at beginning of period	**4,339**	11,775
Cash, cash equivalents and bank overdrafts at end of period	**10,843**	4,339

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

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 was renewed for five years in December 2018 and a new five year facility of £10 million was agreed in August 2018 with Royal Bank of Scotland.

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

2. Gross profit

			2018	2017
			£000	£000
Revenue	-	Rental income	**15,166**	14,309
	-	Surrender premiums	**476**	571
			15,642	14,880
Cost of sales	-	Direct costs	**(1,478)**	(1,727)
			14,164	13,153

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.

	2018			2017		
	Earnings	**Average number of shares**	**Earnings per Share**	Earnings	Average number of shares	Earnings per share
	£000			£000		
Basic earnings per share	**8,289**	**186,420,598**	**4.45p**	11,135	186,420,598	5.97p
Diluted earnings per share	**8,289**	**189,552,547**	**4.37p**	11,135	189,306,947	5.88p

The European Public Real Estate Association indices 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

	2018			2017		
	Earnings	**Shares**	**Earnings per Share**	Earnings	Shares	Earnings per share
	£000	**No**	**p**	£000	No	P
Basic earnings per share	**8,289**	**186,420,598**	**4.44**	11,135	186,420,598	5.97
Net surplus on valuation of investment properties	(578)			(4,212)		
Loss/(surplus) on disposal of investment properties	42			(176)		
Change in fair value of derivatives	(706)			(725)		
Deferred tax	135			145		
EPRA earnings per share	7,182	**186,420,598**	3.85	6,167	186,420,598	3.31

EPRA NAV per share

	2018			2017		
	Net assets	**Shares**	**Net asset value per share**	Net assets	Shares	Net asset value per share
	£000	**No**	**P**	£000	No	P
Basic	**128,671**	**186,420,598**	**69.0**	127,054	186,420,598	68.2
Dilutive impact of share options and warrants	**-**	**3,131,949**		-	2,886,349	
Diluted	**128,671**	**189,552,547**	**67.9**	127,054	189,306,947	67.1
Adjustment to fair value of derivatives	**3,010**	**-**		3,869	-	
Deferred tax	**(405)**	**-**		(540)	-	
EPRA NAV	**131,276**	**189,552,547**	**69.3**	130,383	189,306,947	68.9
Adjustment to fair value of derivatives	**(3,010)**	**-**		(3,869)	-	
Deferred tax	**405**	**-**		540	-	
EPRA NNNAV	**128,671**	**189,552,547**	**67.9**	127,054	189,306,947	67.1

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 2017	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
Additions – acquisition of new properties	16,176
Additions – subsequent expenditure	568
Disposals	(5,703)
Change in fair value	578
Carrying amount at 31 December 2018	**221,040**

5. Publication

The financial information set out in this preliminary 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 2018 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 2018 will be delivered to the Registrar of Companies following the Company'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.