KCR RESIDENTIAL REIT PLC

Half-year Report

KCR RESIDENTIAL REIT PLC
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KCR Residential REIT plc
("KCR" or the "Company")

Interim Results

KCR Residential REIT plc, the residential REIT group, is pleased to announce its unaudited consolidated interim results for the six months to 31 December 2020.

Operational Highlights

· Revenue for the six months increased to £475,407 (H1 2019: £427,057) and gross profit improved by 44% to £465,030 (H1 2019: £323,994).

· Portfolio level occupancy remains high (>95%), rental values have further improved and capital values remain firm.

· Ongoing internalisation of property management activity has reduced third party management costs resulting in improved gross margins.

· Secured bank borrowings at period end of £11.1 million (31 December 2019: £9.5 million), although average debt cost fell following property refinancing in February 2020.

· Net total assets were marginally higher £24.2m (31 December 2019: £23.6m) and net asset value per share was lower at 40.86p (31 December 2019: 47.84p).

· Working to achieve positive monthly cashflow in the next 12 months.

Contacts:

KCR Residential REIT plc	info@kcrreit.com
Dominic White, Chief Executive	+44 20 3793 5236
Arden Partners plc	+44 20 7614 5900
Richard Johnson	
Benjamin Cryer	

Notes to Editors:
KCR's objective is to build a substantial residential property portfolio that generates secure income flow for shareholders. The Directors intend that the group will acquire, develop and manage residential property assets in a number of jurisdictions including the UK.

A copy of the Interim Results will be available at www.kcrreit.com.

CHAIRMAN'S STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

KCR Residential REIT plc ("KCR" or the "Company") and its subsidiaries (together the "Group") currently operate in the private rented residential investment market in London and the South East. The Company acquires whole blocks of studio, one- and two-bed apartments that are rented to private tenants and also operates and owns freeholds of a portfolio of retirement living accommodation, and other properties sold on long leases.

It is a pleasure to become Chairman during this period in succession to Michael Davies and we would all like to thank him for his contributions to the Group.

Since we reported last September for the year to 30 June 2020, the UK entered into a second COVID-19 driven lock-down of increasing severity, and, in December 2020 a Brexit transaction was agreed such that on 31 December 2020 the UK left the single market and customs union.

The impact of COVID-19 on economic demand and supply, consumer and business confidence continued to be negative in the second half of 2020. However, since the roll-out of international vaccine programmes which have been particularly successful in the UK, there is increasing optimism. The UK Government has now targeted June 2021 for the full opening of the economy.

The macro-economic backdrop to the Group's performance in this period has therefore not been particularly easy and it is possible that, in the short term, further friction in the economy following the Brexit agreement and the ongoing travel restrictions will have a negative impact on the economy and the demand for short-let accommodation. Additional residential stock has come to the market for longer term lease that was previously being used for short-let occupancy. This additional supply has so far had a minimal impact on KCR's occupancy profile and rentals. Rents have overall remained stable and occupancy high.

The Group's operating performance continued to improve with considerable progress towards achieving breakeven from the existing portfolio. The strategies adopted and continuously executed by the smaller executive team since the Torchlight transaction of August 2019 are bearing fruit. They can be summarised as:

· improving rental revenue from the existing portfolio;

· upgrading the overall portfolio quality, and expanding ownership and development opportunity within the retirement portfolio;

· internalising management fees to reduce the cost of sales; and,

· a strong focus on reducing administrative costs.

Each of these activities has delivered pleasing results which are detailed in the Chief Executive's report below.

The UK residential rented property market remains fundamentally under-supplied and KCR continues to target a specific segment of rented residential that is in high demand, underpinning our confidence in the long-term future of the Group.

CHIEF EXECUTIVE'S REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

We are pleased to report on the progress of the Group in the six-month period to 31 December 2020.

Property portfolio
KCR has continued to progress the implementation of its two operating strategies.

1. Residential apartments letting strategy. Developed or refurbished to a high modern specification, furnished and let on a Walk-In-Walk-Out (WIWO) basis (utilities, internet, furniture, council tax included in the rental payment) for a frictionless and flexible letting experience. Rental contracts may be from a week to multi-year.

· The property at Coleherne Road, Earls Court, London, which comprises ten studio and one-bedroom flats, is undergoing a refurbishment to significantly improve the interior and exterior quality of the property. The majority of site works are expected to be completed during April 2021. Following full completion of all works, a substantial increase in rental income from the property is expected to be generated. This, combined with a reduction in direct operating costs (particularly maintenance) due to the improved quality and efficiency of the building, will greatly increase the contribution that the property makes to net income. The property is expected to be fully rental income producing by the end of September 2021.

· The Southampton block of 27 residential units at Deanery Court, Chapel Riverside is 96% occupied with viewings underway to let the single vacant unit. A number of units are rented to short-let operators. As KCR receives these units back from the tenants, mostly within the next 12 months, it intends to explore renting them on a WIWO basis which is expected to result in an increased revenue from the property.

· The Ladbroke Grove portfolio of 16 units is 81% occupied. The three vacant units have viewings underway. In line with many of central London's landlords, the Company is experiencing longer vacancies between lettings at its London properties.

· The flat in Harrow that was acquired with the Ladbroke Grove portfolio has been sold subject to contract. The current expectation is that the sale will be completed within the next two months.

2. 4* retirement living property and other properties let on long leases. The Osprey retirement living portfolio and other properties consists of 159 flats and 13 houses let on long leases in six locations, together with an estate consisting of 30 freehold cottages in Marlborough where Osprey delivers estate management and sales services.

The key asset in the portfolio representing 68% of the Osprey portfolio value is the freehold block at Heathside, Golders Green, where 29 of the 37 residential units are held on long leases. The strategy continues to be to selectively acquire long-leasehold units in the block, subject to pricing, refurbish the units to a high level and let them in the open market subject to assured shorthold tenancies. This strategy has been successful; 100% of the eight acquired units are let, with those that have had refurbishment works completed achieving materially higher rental levels than the un-refurbished apartments.

The Company continues to investigate the potential to enhance value through redevelopment and roof extensions at four of the seven sites. Outline proposals and discussions with planning authorities have been positively received. Legal, structural and economic viability work continues at each project.

Rental and occupancy performance

KCR increased rental revenue by 11% for the six months to £475,407 (2019: £427,057) and gross profit improved 44% to £465,030 (2019: £323,994). This was a particularly good result given that the property in Coleherne Road is being refurbished.

Portfolio level occupancy is high (>95%), rental values achieved have marginally increased and capital values hold firm. There is an ongoing internalisation of property management activity which has reduced third party management costs resulting in improved gross margins.

Financial

Revenue and gross margins improved in the six months to 31 December 2020. Administration costs were significantly lower.

- Revenue increased to £475,407 (2019: £427,057) an increase of 11%
- Gross profit improved by 44% to £465,030 (2019: £323,994)
- Operating loss before separately disclosed items improved to £121,780 (2019: £382,180)
- Operating loss reduced to £620,745 (2019: £2,282,696) which included £498,965 of property refurbishment costs
- Loss for the period was £859,476 (2019: £2,510,682) and loss per share reduced to 3.12p (2019: 9.94p)

KCR's property portfolio value was marginally higher than the comparative half year at £23.7 million (2019: £23.4 million). The Group's current assets increased to £464,836 (2019: £152,073). Trade and other payables are by contrast much reduced at £257,495 (2019: £754,944). Current liabilities are higher at £1,843,683 (2019: £930,062) due to one of KCR's debt facilities moving from non-current to a current liability. The Company is actively pursuing the refinancing of this facility and expects to achieve this prior to the end of the current financial year. Following a refinancing of part of the portfolio in January 2020 by Hodge Bank, secured bank borrowings were higher £11.1 million (2019: £9.5 million) although average debt cost fell.

Total assets were marginally higher £24.2m (2019: £23.6m) and net asset value per share was lower at 40.86p (2019: 47.84p).

Corporate activity

In July 2020 the Company announced that together with its advisors, it had determined that it was no longer necessary for it to maintain its Alternative Investment Fund Manager (AIFM) status. Accordingly, KCR deregistered as an AIFM. This has had no impact on either the Company's REIT status or its operations.

KCR's near term focus remains on achieving a profitable overall position by improving rental income from existing assets through a) the WIWO letting strategy, and b) refurbishment to improve building quality, and enhancing gross rental returns while optimising property management to reduce costs. The strategy to reduce corporate overheads has almost completed. Further discussions to reduce the cost of debt finance and refinance short term borrowings are underway. The gap between costs and revenue has been greatly reduced and we are working to achieve positive monthly cashflow in the next 12 months.

The Board looks forward to updating shareholders on these activities in due course.

Covid-19

The Directors have also considered the impact of Covid-19 on the financial statements. To date this has not resulted in a material disruption to Group operations. The scale and duration of these developments remains uncertain at the date of this report and the Directors continue to monitor the situation.

For and on behalf of the board

Dominic White

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020 (unaudited)

	Notes	**Six months ended 31 December 2020 £**	Six months ended 31 December 2019 £	Year ended 30 June 2020 (audited) £
Revenue	2	**475,407**	427,057	1,035,816
Cost of sales		**(10,377)**	(103,063)	(152,605)
Gross profit		**465,030**	323,994	883,211
Administrative expenses		**(591,818)**	(706,174)	(1,610,547)
Other operating income		**5,008**	-	14,576
Fair value through profit and loss - Revaluation of investment properties		**-**	-	(311,888)
Operating loss before separately disclosed items		**(121,780)**	(382,180)	(1,024,648)
Share-based payment charge	7	**-**	(1,599,681)	(1,599,681)
Costs of refurbishment of investment properties	3	**(498,965)**	-	-
Costs associated with third-party fundraising and issue of shares	3	**-**	(300,835)	(317,875)
Costs associated with refinancing	3	**-**	-	(137,327)
Operating loss		**(620,745)**	(2,282,696)	(3,079,531)
Finance costs		**(239,392)**	(229,527)	(483,932)
Finance income		**661**	1,541	2,645
Loss before taxation		**(859,476)**	(2,510,682)	(3,560,818)
Taxation		**-**	-	-
Loss for the period/year		**(859,476)**	(2,510,682)	(3,560,818)
Total comprehensive expense for the period/year		**(859,476)**	(2,510,682)	(3,560,818)

Loss per share expressed in pence per share	4			
Basic		(3.12)	(9.94)	(13.48)
Diluted		(1.11)	(9.94)	(4.98)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2020 (unaudited)

	Notes	**31 December 2020 £**	31 December 2019 £	30 June 2020 (audited) £
Non-current assets				
Property, plant and equipment		**34,892**	57,927	46,410
Investment properties	5	**23,662,120**	23,385,000	23,592,000
		23,697,012	23,442,927	23,638,410
Current assets				
Trade and other receivables		**63,623**	127,855	63,889
Cash and cash equivalents		**401,213**	24,218	1,535,946
		464,836	152,073	1,599,835
Total assets		**24,161,848**	23,595,000	25,238,245
Equity				
Shareholders' equity				
Share capital	6	**2,756,963**	2,756,963	2,756,963
Share premium		**13,535,468**	13,535,468	13,535,468
Capital redemption reserve		**344,424**	344,424	344,424
Other reserves		**-**	14,930	14,930
Retained earnings		**(5,371,109)**	(3,461,500)	(4,511,633)
Total equity		**11,265,746**	13,190,285	12,140,152
Non-current liabilities				
Interest bearing loans and borrowings		**11,052,419**	9,474,653	11,052,419
Current liabilities				
Trade and other payables		**257,495**	754,944	374,416
Interest bearing loans and borrowings		**1,586,188**	175,118	1,671,258
		1,843,683	930,062	2,045,674
Total liabilities		**12,896,102**	10,404,715	13,098,093
Total equity and liabilities		**24,161,848**	23,595,000	25,238,245
Net asset value per share (pence)		**40.86**	47.84	44.03

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020 (unaudited)

	Share capital £	**Share premium £**	**Capital redemption reserve £**	**Retained earnings £**	**Other reserves £**	**Total equity £**
Balance at 1 July 2019	2,029,178	10,018,986	67,500	(2,550,496)	14,930	**9,580,098**
Changes in equity Transactions with owners:						
Issue of share capital	727,785	3,516,482	-	-	**-**	**4,244,267**
Shares gifted to company		-	276,924		-	**276,924**

Share-based payment charge	-	-	-	-	-	**1,599,678**
	-			1,599,678		
Total transactions with owners:	727,785	3,516,482	276,924	1,599,678	**-**	**6,120,869**
Total comprehensive expense	-	-	-	(2,510,682)	**-**	**(2,510,682)**
Balance at 31 December 2019	2,756,963	13,535,468	344,424	(3,461,500)	14,930	**13,190,285**
Changes in equity						
Total comprehensive expense	-	-	-	(1,050,133)	**-**	**(1,050,133)**
Balance at 30 June 2020	2,756,963	13,535,468	344,424	(4,511,633)	14,930	**12,140,152**
Changes in equity						
Equity element of loan finance	-	-	-	-	**(14,930)**	**(14,930)**
Total comprehensive expense	-	-	-	(859,476)	**-**	**(859,476)**
Balance at 31 December 2020	**2,756,963**	**13,535,468**	**344,424**	**(5,371,109)**	**-**	**11,265,746**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020 (unaudited)

	Six months ended 31 December 2020 £	Six months ended 31 December 2019 £	Year ended 30 June 2020 (audited) £
Cash flows from operating activities			
Loss for the period/year from continuing operations	**(859,476)**	(2,510,682)	(3,560,818)
Adjustments for			
Depreciation charges	**11,518**	11,621	23,138
Share-based payment charge	**-**	1,599,681	1,599,681
Revaluation of investment properties	**-**	-	311,888
Finance costs	**239,392**	229,527	483,932
Finance income	**(661)**	(1,541)	(2,645)
(Increase)/decrease in trade and other receivables	**266**	(50,777)	13,189
Decrease in trade and other payables	**(116,921)**	(1,982,069)	(423,327)
Cash used in operations	**(725,882)**	(2,704,240)	(1,554,962)
Interest paid	**(239,392)**	(229,527)	(483,932)
Net cash used in operating activities	**(965,274)**	(2,933,767)	(2,038,894)
Cash flows from investing activities			
Purchase of property, plant and equipment	**-**	(8,178)	(8,178)
Repayment of other borrowings	**-**	-	(1,738,076)
Purchase of investment properties	**-**	-	(518,888)
Improvements to investment properties	**(70,120)**	-	-
Disposal of investment properties	**-**	538,000	538,000
Interest received	**661**	1,541	2,645
Net cash from/(used in) investing activities	**(69,459)**	531,363	(1,724,497)
Cash flows from financing activities			
Loan repayments in period	**(100,000)**	(2,123,867)	(6,658,130)
New loans in year	**-**	-	7,868,169
Shares issued	**-**	4,521,191	4,060,000
Net cash from financing activities	**(100,000)**	2,397,324	5,270,039
Increase/(decrease) in cash and cash equivalents	**(1,134,733)**	(5,080)	1,506,648
Cash and cash equivalents at beginning of period	**1,535,946**	29,298	29,298
Cash and cash equivalents at end of period	**401,213**	24,218	1,535,946

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020 (unaudited)

1. **Basis of preparation**

The Company is registered in England and Wales. The consolidated interim financial statements for the six months ended 31 December 2020 comprise those of the Company and subsidiaries. The Group is primarily involved in UK property ownership and letting.

Statement of compliance

This consolidated interim financial report has been prepared in accordance with the measurement principles of International Financial Reporting Standards as adopted within UK GAAP. AIM-listed companies are not required to comply with IAS 34 Interim Financial Reporting and the Group has taken advantage of this exemption. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial performance and position of the Group since the last annual consolidated financial statements for the year ended 30 June 2020. This consolidated interim financial report does not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards. The financial statements are unaudited and do not constitute statutory accounts as defined in section 434(3) of the Companies Act 2006.

A copy of the audited annual report for the year ended 30 June 2020 has been delivered to the Registrar of Companies. The auditor's report on these accounts was unqualified and did not contain statements under s498(2) or s498(3) of the Companies Act 2006.

This consolidated interim financial report was approved by the Board of Directors on 17 March 2021.

Significant accounting policies

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial statements for the year ended 30 June 2020.

Basis of consolidation

The interim financial statements include the financial statements of the Company and its subsidiary undertakings. The subsidiaries included within the consolidated financial statements, from their effective date of acquisition, are K&C (Newbury) Limited, K&C (Coleherne) Limited, K&C (Osprey) Limited, KCR (Kite) Limited and KCR (Southampton) Limited.

Going Concern

The directors have adopted the going-concern basis in preparing the interim financial statements.

The Group has a near term debt maturity of £1,586,188 which has not yet been refinanced. This near term maturity creates some uncertainty as to whether the Group can continue as a going concern.

The Group is actively pursuing both refinancing and an increase in the debt facility to unlock additional capital. Whilst a binding agreement is yet to be entered into, the Directors have a reasonable expectation that the Group will be successful in refinancing and increasing the size of this facility. As well as debt refinancing, the Group has other potential sources of capital available to extinguish this liability including the sale of a property asset or raising fresh equity from its shareholders.

Given the reasonable expectation that refinancing will be successful and the existence of other alternate avenues, the Directors have concluded that it remains appropriate to prepare these interim financial statements on a going concern basis.

2. Operating segments

The Group is involved in UK property ownership and letting and is considered to operate in a single geographical and business segment.

Revenue analysed by class of business:

	Six months ended 31 December 2020	Six months ended 31 December 2019	Year ended 30 June 2020 (audited)
	£	£	£
Rental income	**358,556**	344,121	727,859
Management fees	**43,013**	38,181	74,218
Resale commission	**50,500**	28,500	39,043
Ground rents	**10,635**	10,755	13,655
Leasehold extension income	**12,703**	5,500	168,916
Other income	**-**	-	12,125
	475,407	427,057	1,035,816

3. Operating loss

The loss before taxation is stated after charging:

	Six months ended 31 December 2020	Six months ended 31 December 2019	Year ended 30 June 2020 (audited)
	£	£	£
Costs of refurbishment of investment properties	**498,965**	-	-
Costs associated with third party fundraising	**-**	300,835	317,875
Costs associated with refinancing	**-**	-	137,327
Directors' remuneration	**75,000**	137,050	258,387

During the six months ended 31 December 2020, the Group incurred costs of £498,965 relating to major refurbishment of properties at Coleherne Road, London and Heathside, London.

During the six months ended 31 December 2019, the Group incurred costs of £300,835 relating to the Torchlight Fund transaction. This increased to £317,875 in the year ended 30 June 2020. The transaction with Torchlight Fund LP was reported in detail in the Circular (12 July 2019) and outlined in the year end accounts to 30 June 2019 post balance sheet events.

On 12 February 2020 KCR successfully completed a £7.9m refinancing of its Coleherne Road, Ladbroke Grove and Lomond Court portfolios, all assets in London. The costs of refinancing totalled £137,327.

During the 6 month period, the Company paid DGS Capital Partners LLP, a business partly owned by Michael Davies, fees of £10,800 (December 2019 - £43,200); Naylor Partners, a business owned by Russell Naylor, fees of £24,000 (December 2019 - £20,000); and Artefact Partners, a business owned by Richard Boon, fees of £18,900 (December 2019 - £9,000).

The directors are considered to be key management personnel.

4. Basic and diluted loss per share

Basic

The calculation of loss per share for the six months to 31 December 2020 is based on the loss for the period attributable to ordinary shareholders of £859,476 divided by a weighted average number of ordinary shares in issue.

The weighted average number of shares used for the six months ended 31 December 2020 was 27,569,631 (June 2020 - 26,411,154) (December 2019 - 25,265,268).

Diluted

The calculation of loss per share for the six months to 31 December 2020 is based on the loss for the period attributable to ordinary shareholders of £859,476 divided by a weighted average number of ordinary shares in issue, adjusted for dilutive share options held by Torchlight.

The weighted average number of shares used for the six months ended 31 December 2020 was 77,569,631 (June 2020 - 76,411,154) (December 2019 - 75,265,268).

5. Investment properties

	Six months ended 31 December 2020	Six months ended 31 December 2019	Year ended 30 June 2020 (audited)

	£	£	£
At start of period	**23,592,000**	23,923,000	23,923,000
Additions	**70,120**	-	518,888
Disposals	**-**	(538,000)	(538,000)
Revaluations	**-**	-	(311,888)
At end of period	**23,662,120**	23,385,000	23,592,000

Investment properties were valued by professionally qualified independent external valuers at the date of acquisition and were recorded at the values that were attributed to the properties at acquisition date. The investment properties were independently valued at, or within three months of the financial year ended 30 June 2020. The Directors have further considered the values as at 31 December 2020 and concluded that they remain appropriate.

Fair value is based on current prices in an active market for similar properties in the same location and condition. The current price is the estimated amount for which a property could be exchanged between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Valuations are based on a market approach which provides an indicative value by comparing the property with other similar properties for which price information is available. Comparisons have been adjusted to reflect differences in age, size, condition, location and any other relevant factors.

The fair value for investment properties has been categorised as a Level 3 inputs under IFRS 13.

The valuation technique used in measuring the fair value, as well as the significant inputs and significant unobservable inputs are summarised in the following table -

Fair Value Hierarchy	**Valuation Technique**	**Significant Inputs Used**	**Significant Unobservable Inputs**
Level 3	Income capitalisation and or capital value on a per square foot basis	Adopted gross yield	3.00% - 5.60%
		Adopted rate per square foot	£303 - £1,018

6. Share capital

Allotted, issued and fully paid:			**31 December 2020**	31 December 2019	30 June 2020 (audited)
Number:	Class:	Nominal value:	**£**	£	£
27,569,631	Ordinary	£0.10	**2,756,963**	**2,756,963**	2,756,963
			2,756,963	**2,756,963**	2,756,963

At 1 July 2020, the Company had 27,569,631 Ordinary shares of £0.10 each in issue.

The Ordinary shares carry no rights to fixed income.

7. Share-based payments

The expense recognised during the period is shown in the following table:

	Six months ended 31 December 2020	Six months ended 31 December 2019	Year ended 30 June 2020 (audited)
	£	£	£
Expense arising from restricted preference shares	**-**	1,599,681	1,599,681

In August 2019, in order to simplify the share structure of the Company, the Company entered into an agreement with the holders of the Restricted Preference Shares whereby 5 out of every 13 Restricted Preference Shares held would be converted into Ordinary Shares. The remaining Restricted Preference Shares were acquired by the Company for nil consideration and subsequently cancelled. Due to the conversion and cancellation of the Restricted Preference Shares, the vesting period was accelerated and the share-based payment charge was recognised fully in the 2019 interim financial statements.

8. Convertible Loan Notes

As at 1 July 2020, the Company had £100,000 convertible loan notes in issue. In July 2020, the convertible loan notes were repaid in full.

9. Related Party Transactions

Details of remuneration and fees paid to directors are disclosed on note 3 of these interim financial statements.

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