

Regional REIT Limited
("Regional REIT", the "Group" or the "Company")

2020 Final Results

Rent Collection for 2020 Underlines Strength of Business Model

Regional REIT (LSE: RGL), the regional real estate investment specialist focused on building a geographically diverse portfolio of income producing regional UK core and core plus office assets, today announces its full year results for the year ended 31 December 2020.

Financial highlights:

Income focused – A robust performance and strong level of rent collection during 2020 from a geographically diversified and defensive portfolio coupled with best-in-class active asset management

- EPRA Total return of 36.3% since IPO in November 2015; representing 6.2% annualised returns for shareholders.
- Total rent collection or within terms for 2020 was 98.2%* of rent due, similar to the 99.4% of rent collected for the equivalent period in 2019.
- Rent roll remained stable at £64.2m (2019: £64.3m).
- EPRA EPS of 6.5pps (2019: 7.8pps); IFRS EPS (7.2pps) (2019: 6.6pps)
- Fully covered 2020 dividend of 6.40pps (2019: 8.25pps).
- EPRA NTA per share of 98.6pps (2019: 112.6pps); IFRS NAV 97.5pps (2019: 112.1pps).
- Group's cost of debt decreased to 3.3% (2019: 3.5%).
- Net LTV of 40.8% (2019: 38.9%).
- Weighted average debt duration remains comfortable at 6.4 years (2019: 7.3 years).
- Fair value reduction in the portfolio valuation to £732.4m (2019: £787.9m).
- Adjusted EPRA EPS dividend cover of 102% (2019: 95%).

*As at 12 March 2021, rent collections to 31 December 2020 amounted to 98.2%; actual rent collected 96.1%, monthly rents 0.5% and deals agreed of 1.6%.

Operational highlights:

A defensive and geographically diversified portfolio – generating attractive dividends through a tumultuous year

- Another year of robust trading, demonstrating the strength of our asset management capability and the resilience of our occupier base. As at 31 December 2020, 52% of occupiers were classified as Government designated essential services and were able to continue operations during the lockdown periods with minimal disruption.
- Planned exit of all industrial and retail holdings to focus entirely on the core regional offices which the Asset Manager believes will provide the best return for shareholders over the coming years.
- A diversified portfolio of 153 properties (2019: 160), 1,245 units (2019: 1,251) and 898 occupiers (2019: 904).

- The Group made disposals amounting to £53.4m (net of costs) during 2020. The proceeds from these disposals were recycled into acquiring properties with an aggregate value of £42.4m (before costs), further diversifying our occupier base by standard industrial classification.
- At the period end, 83.5% (2019: 79.9%) of the portfolio by market value was offices and 11.1% (2019: 13.7%) was industrial.
- At the period end, the portfolio valuation split by region was as follows: England 78.3% (2019: 79.5%), Scotland 17.3% (2019: 18.0%) and the balance of 4.4% (2019: 2.5%) was in Wales.
- Increased retention of income to 74.4% (by value) for leases that came up for renewal in 2020, up from 65.9% in December 2019.
- EPRA Occupancy rates remained stable at 89.4% (2019: 89.4%) due to active asset management and our resilient occupier base.

Post period end

- Continued momentum through active asset management, securing £1m of lettings across eight new lease agreements.
- On 25 February 2021, the Company declared the Q4 2020 dividend of 1.50pps would be paid to shareholders on 9 April 2021.
- The Royal Bank of Scotland has agreed to extend the £55.0m facility for one year from June 2024 to June 2025. This will extend the Group's weighted average debt duration to 6.5 years from 6.4 years as at 31 December 2020, with the Group cost of debt remaining unchanged at 3.3%.

Stephen Inglis, CEO of London and Scottish Property Investment Management, the Asset Manager, commented:

“I am very pleased to report that the Company achieved a robust performance in 2020 despite the effects of COVID-19 on working habits. With this in mind, we are pleased to have continued to deliver a strong dividend income for our shareholders, from a portfolio that is well-positioned for the anticipated UK economic recovery.

The quality and diversity of our office properties, alongside the strength of the occupier register, were instrumental to this performance. This was evidenced by our strong rent collection with 98.2% of rent due for the year collected. One of our clearest differentiators continues to be our maintained dividend distributions, which are a significant component of total shareholder returns. During the difficult twelve months of 2020, where many REITs cancelled or suspended dividends for a time, we achieved uninterrupted distributions, paying out a total of 6.4pps for 2020, which was fully covered by earnings.

We have taken significant steps to capitalise on the changing landscape in our market by tilting the Group's focus to take full advantage of the mispricing that we are seeing in quality regional offices.

We look forward to updating shareholders on further progress as we continue to reposition the portfolio to take full advantage of our active pipeline of compelling regional office opportunities.”

A meeting for analysts will be held via a conference call facility at 9.30am (London time, GMT) on Thursday, 25 March 2021. If you would like the conference call details please contact George Beale at georgeb@buchanan.uk.com or Henry Wilson at henryw@buchanan.uk.com.

The presentation slides for the meeting will shortly be available to download from the Investors section of the Group's website at www.regionalreit.com.

Forthcoming Events

19 May 2021	Q1 2021 Trading Update
TBC*	Annual General Meeting
16 September 2021	2021 Interim Results Announcement
11 November 2021	Q3 2021 Trading Update

Note: all future dates are provisional and subject to change

*The Board has made the decision to delay the Company's 2021 Annual General Meeting until later in the year with the hope that shareholders will be able to attend in person.

- ENDS -

Enquiries:

Regional REIT Limited

Toscafund Asset Management

Investment Manager to the Group

Adam Dickinson, Investor Relations, Regional REIT Limited

Tel: +44 (0) 20 7845 6100

London & Scottish Property Investment Management

Asset Manager to the Group

Stephen Inglis

Tel: +44 (0) 141 248 4155

Buchanan Communications

Financial PR

Charles Ryland / Henry Wilson / George Beale

Tel: +44 (0) 20 7466 5000

regional@buchanan.uk.com

About Regional REIT

Regional REIT Limited ("Regional REIT" or the "Company") and its subsidiaries (the "Group") is a United Kingdom ("UK") based real estate investment trust that launched in November 2015. It is managed by London & Scottish Property Investment Management Limited, the Asset Manager, and Toscafund Asset Management LLP, the Investment Manager.

Regional REIT's commercial property portfolio is comprised wholly of income producing UK assets and comprises, predominantly of offices located in the regional centres outside of the M25 motorway. The portfolio is geographically diversified, with 153 properties, 898 occupiers as at 31 December 2020, with a valuation of £732.4m.

Regional REIT pursues its investment objective by investing in, actively managing and disposing of regional core and core plus property assets. It aims to deliver an attractive total return to its Shareholders, targeting greater than 10% per annum, with a strong focus on income supported by additional capital growth prospects.

The Company's shares were admitted to the Official List of the UK's Financial Conduct Authority and to trading on the London Stock Exchange on 6 November 2015. For more information, please visit the Group's website at www.regionalreit.com.

Cautionary Statement

This document has been prepared solely to provide additional information to Shareholders to assess the Group's performance in relation to its operations and growth potential. The document should not be relied upon by any other party or for any other reason. Any forward looking statements made in this document are done so by the Directors in good faith based on the information available to them up to the time of their approval of this document. However, such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

ESMA Legal Entity Identifier ("LEI"): 549300D8G4NKLRIKBX73

Financial Highlights

Year ending 31 December 2020

Income focused – opportunistic buying and strategic selling, coupled with intensive asset management, continues to secure long-term income

Portfolio Valuation	£732.4 million
IFRS NAV per Share	97.5 pence
EPRA NTA per Share	98.6 pence
Dividend per Share	6.4 pence
Net Loan to Value Ratio	40.8%
Weighted Average Cost of Debt	3.3%
Weighted Average Debt Duration	6.4 years

Operational Highlights

Year ending 31 December 2020

Deliberately diversified portfolio by location and tenant – regions remain strong

Properties	153
Units	1,245
Occupiers	898
Rent Roll	£64.2 million
Portfolio by region and sector (by value)	
England & Wales	82.7%
Office	83.5%
Property acquisitions (before costs)	£42.4 million
Number of properties	5
Property disposal proceeds (net of costs)	£53.4 million
Number of properties	12
Active management building occupancy by EPRA ERV*	89.4%
WAULT to expiry	5.1 years
WAULT to first break	3.2 years

Performance Highlights

Year ending 31 December 2020

The high dividend distributions are a major component of the total return

Dividends declared per share:	Pence
2020	6.40
2019	8.25
2018	8.05
2017	7.85
2016	7.65
2015	1.00

EPRA

EPRA Total Return attributable to Shareholders since Admission [^]	36.3%
EPRA Annual Total Return attributable to Shareholders	6.2%

[^]Admission: 6 November 2015

Member of FTSE All-Share Index since March 2016

Member of FTSE EPRA NAREIT UK Index since June 2016

Total EPRA Return (from IPO) (EPRA NTA and dividend declared)

	Pence per share
IPO Nov 2015	100
Dec 2015	107.8
Dec 2016	113.2
Dec 2017	119.9
Dec 2018	137.5
Dec 2019	142.9
Dec 2020	136.3

Chairman's Statement

"We are confident that our geographically diversified portfolio, which offers vibrant spaces for a broad range of occupier types, will create long term shareholder value with a strong yield, particularly as we increasingly focus our strategy towards the regional office sector."

Kevin McGrath, Chairman

Overview

Regional REIT performed relatively well during 2020, despite the challenging and unprecedented environment imposed by the COVID-19 pandemic. Our strategy of having a large number of occupiers operating across a range of industries in growth regions outside the M25 motorway has resulted in a defensive portfolio. Our active asset management team continued to maintain strong working relationships with our 898 occupiers (2019: 904), providing support as required. These actions have continued to underpin the robust rent collections of 98.2%* (2019: 99.4%) and EPRA** occupancy rate of 89.4% (2019: 89.4%), which the Company has achieved during the year under review.

*As at 12 March 2021, rent collections to 31 December 2020 amounted to 98.2%; actual rent collected 96.1%, monthly rents 0.5% and deals agreed of 1.6%.

**** Alternative Performance Measures.** Details are provided in the Glossary of Terms and the EPRA Performance Measures within the full Annual Report.

Whilst 2020 was an eventful year, the Company's rent collection remained strong through-out and resulted in EPRA diluted earnings of 6.5 pence per share ("pps") (2019: 7.8pps). IFRS diluted losses per share were 7.2pps (2019: earnings per share of 6.6pps). The full year 2020 dividend of 6.4pps was fully covered.

Our investment portfolio was not immune to the challenges posed by the COVID-19 pandemic, with the overall value of the portfolio reducing to £732.4 million as at 31 December 2020 from £787.9 million as at 31 December 2019. The decrease was predominately due to the uncertain economic backdrop resulting in a reduction in the fair value of the portfolio of £54.8 million, albeit this was an 'unrealised' decline.

During the year, the Group made disposals amounting to £53.4 million (net of costs). The proceeds from these disposals were recycled into acquiring properties with an aggregate value of £42.4 million (before costs), further diversifying our occupier base, as well as providing good opportunities to add value through asset management initiatives. Our rolling capital expenditure programme amounted to £8.8 million.

Our priorities throughout the year were to maintain occupancy levels, provide safe and vibrant spaces in which our occupiers could thrive and increase our overall occupier and geographic diversification, whilst continuing to source earning enhancing opportunities in the challenging commercial property market.

COVID-19 Response

From the onset of the COVID-19 pandemic in early 2020, the Asset Manager reassigned staff to focus upon supporting our occupiers and prioritised cash flow. A full review of all our c. 900 occupiers' financial data was undertaken to ensure the best possible assistance could be provided as required in a timely manner. In addition, increased control reporting was instigated providing actionable data to maintain the robust rent collection which ensured the uninterrupted quarterly dividend.

Financial Resources

Importantly in the current environment, the Company continues to be in a financially strong position with an EPRA NTA* of £425.6 million (2019: £485.7 million) and a cash balance of £67.4 million as at 31 December 2020 (2019: £37.3 million), of which £55.0 million is unrestricted (2019: £34.7 million). Our approach to debt management, which is to simplify, extend and engineer flexibility into the debt profile, has ensured that the Company was well positioned for the economic turbulence encountered throughout 2020. These attributes remain evident going forward with no need to refinance until 2024.

Furthermore, with net borrowings at 40.8%, which is in line with our long-term target of c. 40%, and with our debt facilities maintaining ample headroom against their respective covenants, the Company is in a robust position to withstand any future economic uncertainty.

* In October 2019, EPRA issued new best practice recommendations that replaced EPRA net asset value (NAV) with three new measures of net asset value. The Group has determined that EPRA net tangible assets (NTA) is the most relevant measure hence this is now reported in place of EPRA NAV. Prior year comparatives are stated under the new definition on EPRA NTA.

Market Environment

Lambert Smith Hampton¹ research notes that 2020 total UK commercial property investment amounted to £38.5 billion, which is 21.9% lower than the 2019 total of £49.3 billion. However,

there are signs that investment activity is increasing, with total UK investment in the final quarter of 2020 reaching £12.2 billion, a marked improvement of 50.6% on Q3 and only 5.0% below the five-year quarterly average. The rise in activity in the final months of 2020 indicates renewed confidence in the office market following fears regarding the impact that working from home would have on occupational demand. Cushman & Wakefield² research highlights that many businesses have now stated that offices remain important despite changing working practices. More details can be found in the Asset Manager's Report of the Annual Report.

¹ Lambert Smith Hampton, UKIT Q4 2020

² Cushman & Wakefield, Office Market, Q4 2020

Strategy

As announced on 12 November 2020, the Board undertook an internal strategic review of the Company's investment objectives to ensure the maximisation of total Shareholder's returns.

The Board is convinced that the supply and demand imbalance of the regional office sector, coupled with the Asset Manager's specialist operating platform and experience, will produce attractive total Shareholder returns over the long-term. For the foreseeable future, the Board decided that the Company would focus its investment solely on properties in the office sector in the main regional centres of the UK outside of the M25 motorway.

The Company will in due course seek to exit all other commercial property sector investments, including its industrial and remaining retail assets, and promptly recycle the capital into regional offices, whilst giving due consideration to reducing the borrowing facilities and buying back the Company's shares. This will ensure that the Group is able to maximise its investment objectives of delivering an attractive and sustainable income-focused total return to Shareholders over the long-term.

Dividends

The dividend is the major component of total shareholder returns. Over the year under review, the Company declared total dividends of 6.40pps for the year (2019: 8.25pps), comprising one dividend of 1.90pps and three quarterly dividends of 1.50pps each. This represented a yield of 7.8% at a share price of 82.50pps at the close of 31 December 2020. Since inception, the Company has declared dividends amounting to 39.20pps.

It should be highlighted that, looking ahead, there is a clear aspiration by the Board to maintain its record of uninterrupted quarterly dividend payments, especially through this period of continuing uncertainty. This is predicated on the strength of the Company's balance sheet and the strong rent collections received throughout the year.

Performance

Since Listing on 6 November 2015, the Company's EPRA Total Return was 36.3% and the annualised EPRA Total Return was 6.2%. The Total Shareholder Return was 20.6%, compared to the FTSE EPRA NAREIT UK Total Return Index, which has generated a return of (5.4%) over the same period.

For the year under review, the Company's Total Shareholder Return was (20.7%), versus the return of (15.9%) for the FTSE EPRA NAREIT UK Total Return Index over the same period.

In accordance with the management arrangements, the Asset Manager and Investment Manager are each entitled to a 50% share of a performance fee of 15% of the EPRA Total Return in excess of an annual hurdle rate of 8%. A performance fee did not crystallise for the period from 1 January 2020 to 31 December 2020 (2019: none).

Integrating a more sustainable approach

We were pleased to launch our commitment to a sustainability strategy in 2020. The Group has always been cognisant of its environmental impact, the importance of a transparent governance structure and its social responsibility. However, the Company has now committed to a more formal approach with the intention to join Global Real Estate Sustainability Benchmark ("GRESB") in 2021. This will be used as a platform from which sustainability policies and actions will be built upon over the coming years.

Annual General Meeting

The Company had planned to hold its 2021 Annual General Meeting ("AGM") on Thursday, 19 May 2021. In light of the ongoing COVID-19 situation, in particular the compulsory stay at home measures published by the UK Government on 4 January 2021 currently prohibiting public gatherings of more than two people, the Board has made the decision to delay the Company's 2021 AGM until later in the year with the hope that Shareholders will be able to attend in person. Notice of a revised time and date for the 2021 AGM will be published on our website and by RNS announcement as soon as practicable. The notice of the AGM will be circulated to Shareholders in accordance with the requirements of the Company's Articles of Incorporation.

Shareholder and Stakeholder Engagement

Our priority throughout 2020 has pivoted from first and foremost providing vibrant workspaces which are in demand by businesses, to providing assistance to our occupiers to navigate the economic turmoil.

I would like to take this opportunity to thank all the asset management teams, from the property management, research, legal, corporate finance, finance to credit control, who transitioned to working from home whilst seamlessly continuing to support our occupiers throughout this challenging period.

On 3 November 2020, the Company was pleased to hold its first capital markets webcast, which was well attended by current and potential investors and stakeholders. The webcast of the event can be found on the Company's website at <https://www.regionalreit.com/investors/results-and-presentations/2020>.

Outlook

The Board continues to be encouraged by the robust level of rent collections which support the investment property capital values and the Company's long-term total return prospects. For the remainder of 2021, the Group is confident of maintaining high rent collections and accelerating the momentum on the asset management initiatives, which should continue to deliver income for our Shareholders.

We remain mindful of the challenges to be faced in a structurally evolving property market, which will inevitably continue to be impacted by the COVID-19 pandemic and the aftermath of Brexit. However, our confidence for the long-term remains. It is underpinned by the Group's focus on asset management initiatives to promptly recycle underperforming capital into office opportunities that continue to de-risk the portfolio, whilst increasing the number, quality and quantum of income streams.

Kevin McGrath

Chairman

24 March 2021

Investment Strategy

Investment Strategy

The Group will invest in and, actively manage a portfolio of mainly office properties or debt portfolios secured on such properties located predominantly in the regional centres of the UK outside of the M25 motorway.

The Group aims to build a portfolio of interests that, together, offer Shareholders a diversification of investment risk by investing in a range of geographical areas and across a number of high-quality assets and tenants, and through letting properties, where possible, to low-risk tenants.

The Group will use gearing, borrowings and other sources of leverage to implement its investment strategy and enhance equity returns.

Investment Policy

The Group will invest predominately in office properties that are situated in the UK and outside of the M25 motorway*.

The Group may also invest in property portfolios in which up to 50% of the properties (by market value) are situated inside the M25 motorway.

In the ordinary course of business, no single property will exceed 10% of the Group's Gross Investment Properties Value at the time of the investment; exceptionally, the Board may consider taking this up to 20%.

The normal minimum value for a single property investment is £5m, except where an asset is within a portfolio of properties for which there shall be no such minimum.

No more than 20% of the Gross Investment Properties Value shall be exposed to any one tenant or group undertaking of that tenant.

Speculative development (properties under construction, but excluding refurbishment, which have not been pre-let) is prohibited. Any other development is restricted to an aggregate maximum of 15% of Gross Investment Properties Value at investment or commencement.

Investment Objective

The Investment Objective of the Company is to deliver an attractive total return to Shareholders of greater than 10% per annum, with a strong focus on income from investing in UK commercial property, predominantly in the office sector in major regional centres and urban areas outside of the M25 motorway*.

Borrowings

The Group targets a ratio of net borrowings to Gross Investment Properties Value of 40% over the longer term, with a maximum limit of 50%.

* The Investment Policy and Objective were amended on 26 October 2020.

Asset and Investment Managers' Report

"We are pleased to report that the Company delivered a robust performance in 2020 despite the impact of COVID-19 on all our daily lives and, in turn, the commercial property market. Notwithstanding the challenges presented, we continued to deliver an uninterrupted quarterly dividend, ever mindful of our commitment to our Shareholders.

I would like to take this opportunity to thank my focused and hardworking team who adapted and responded seamlessly to assist our occupiers through this most challenging period. Responding to occupiers' needs prior to, and during, this period was key to maintaining strong rent collection of 98.2%* over the course of 2020. As normal life comes into sight, and indicators are anticipating a prompt economic recovery, we view our regional portfolio as well positioned to benefit.

Following the Board's strategic review, we continue to move the portfolio to focus on regional offices. We are convinced that in future, regional, high quality offices with affordable rents will continue to see demand from occupiers and, given limited supply, there remains a strong rental growth story. We see a compelling opportunity to further leverage the experience of our asset management platform to unlock value from the regional office sector over the long term, whilst continuing to deliver yield."

Stephen Inglis, CEO of London & Scottish Property Investment Management, Asset Manager.

*As at 12 March 2021, rent collections to 31 December 2020 amounted to 98.2%; actual rent collected 96.1%, monthly rents 0.5% and deals agreed of 1.6%.

Highlights from 2020

- Achieved high levels of rent collection. As at 12 March 2021, the rent collections continued to strengthen, with FY 2020 collections increasing to 96.1%, adjusting for monthly rent and agreed collection plans, stands at 98.2%, which is similar to the equivalent date in 2019 when 99.4% had been collected.
- Disposals during 2020 totalled £53.4 million (net of costs), reflecting an average net initial yield of 5.1% (5.6% excluding vacant properties).
- Acquisitions in 2020 totalled £42.4 million (before costs) for five properties, reflecting an average net initial yield of 9.8%.
- Increase of retention of income to 74.4% (by value) for leases that came up for renewal in 2020, up from 65.9% in December 2019.
- Completed 53 new lettings in 2020, totalling 177,883 sq. ft.; when fully occupied, these will provide a gross rental income of c.£2.0 million.
- Average rent by let sq. ft. increased by 2.6% from £10.17 per sq. ft. in December 2019 to £10.44 per sq. ft. in December 2020.

Investment Activity in the UK Commercial Property Market

According to research from Lambert Smith Hampton ("LSH")³ in 2020 total investment in the UK commercial property market amounted to £38.5 billion, 24.9% below the five-year average and 21.9% lower than the 2019 volume of £49.3 billion. However, there are signs that investment activity is increasing, with total UK investment in the final quarter of 2020 reaching £12.2 billion, a marked improvement of 50.6% on Q3 and only 5.0% below the five-year quarterly average. The rise in activity in the final months of 2020 indicates renewed confidence in the office market following fears regarding the impact that working from home would have on occupational demand. Cushman & Wakefield research highlights that many businesses have now stated that offices remain important despite changing working practices⁴.

³ Lambert Smith Hampton, UKIT Q4 2020

⁴ Cushman & Wakefield, Office Market, Q4 2020

Following muted investment at the beginning of 2020, the UK regions outside of London attracted £4.5 billion in investment during the final quarter of 2020 - just 1.6% below the five year quarterly average. This brought investment in the second half of 2020 to £8.4 billion, 78.6% higher than the first half of 2020. Annual investment in the regional markets reached £13.0

billion in 2020. LSH research notes that the improvement in investment volumes in Q4 2020 was reflected across the majority of UK regions, with seven of the 11 regions recording a volume higher than their respective five-year quarterly averages.

Quarterly Investment Volumes (£bn)

	Total
2016 Q1	13.24
2016 Q2	10.90
2016 Q3	9.83
2016 Q4	13.13
2017 Q1	12.98
2017 Q2	14.33
2017 Q3	15.77
2017 Q4	16.90
2018 Q1	14.13
2018 Q2	14.07
2018 Q3	17.04
2018 Q4	16.33
2019 Q1	11.26
2019 Q2	8.78
2019 Q3	13.85
2019 Q4	15.45
2020 Q1	13.89
2020 Q2	4.36
2020 Q3	8.09
2020 Q4	12.19

Source: Lambert Smith Hampton Research (February 2021)

Overseas investment in the UK property markets accounted for just over half (52.8%) of total investment in 2020 according to data from LSH⁵. LSH estimate that total overseas investment for 2020 reached £20.4 billion, 14.1% lower than the 10-year average. Overseas investment in Q4 2020 reached £6.5 billion, more than double Q3's level and 9.7% higher than the five-year quarterly average, suggesting that struggles with COVID-19 and Brexit uncertainty have been offset by favourable exchange rates and attractive yields. Figures indicate that Europe, Far East, Middle East and North America were all net investors in the final quarter of 2020.

⁵ CoStar, Investment Volumes, Q4 2019

Research from CBRE⁶ indicates that regional offices have outperformed in comparison to central London offices, delivering superior income returns of 5.9% in 2020 in comparison to central London office returns of 4.1% - a trend that has been witnessed over the past seven years. Total returns in 2020 for regional offices and central London were broadly in-line at 0.6% and 0.7% respectively.

⁶ CBRE Monthly Index, Q4 2020

Central London & Regional Office Income Returns (12 months to December 2020)

	Central London Offices	Rest of UK Offices
2014	3.9%	7.8%
2015	3.2%	6.4%
2016	3.3%	6.2%
2017	3.7%	6.4%

2018	3.8%	5.9%
2019	3.8%	5.8%
2020	4.1%	5.9%

Source: CBRE (February 2021)

Occupational Demand in the UK Regional Office Market

Avison Young estimates that take-up of office space across nine regional office markets⁷ totalled 5.6 million sq. ft. in 2020; 36.7% below the level of take-up recorded in 2019, and 33.1% lower than the 10-year average. Both the city centre and out-of-town markets were affected by COVID-19, with a decline in take-up volumes of 38.9% and 32.6%, respectively. Occupational demand was driven by the technology, media & telecoms sector, which accounted for the highest proportion of take-up at 26% in 2020. Following the technology, media & telecoms sector, the insurance & financial sector and the public services, education & health sector accounted for the second and third largest proportion of take-up in the regional cities, accounting for 18% and 9% respectively.

According to Savills, there was a rise in availability for regional office stock across nine regional UK markets⁸, with total availability rising by 18.9% in 2020 to 12.6 million sq. ft.. Despite the uptick in availability and supply the total supply remains 11.3% below the 10-year average. This marks the first year that supply of office stock has increased over the last decade, having gradually fallen each year since 2009. The overall vacancy rate for regional offices ticked upwards from 9.6% in 2019 to 11.4% in 2020 but remains 15.4% below the 10-year average⁹.

⁷ Nine regional office markets mentioned by Avison Young includes: Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Leeds, Liverpool, Manchester & Newcastle

⁸ Savills: The Regional Office Market Overview, Q4 2020

⁹ Savills: The Regional Office Market Overview, Q4 2020

Furthermore, it is estimated that approximately 5.6 million sq. ft. of office space is currently under construction in the Big Nine regional markets, with Manchester, Glasgow and Bristol accounting for 29.9%, 24.4% and 11.1%, respectively. 49.4% of office buildings currently under construction are already pre-let.

Regional Demand: Annual Office Take-Up

	Regional Total	10-year average
2009	6,256,766	8,405,305
2010	6,736,616	8,405,305
2011	6,505,505	8,405,305
2012	7,043,471	8,405,305
2013	7,900,191	8,405,305
2014	8,955,458	8,405,305
2015	9,537,118	8,405,305
2016	8,783,403	8,405,305
2017	10,094,299	8,405,305
2018	10,728,026	8,405,305
2019	8,882,888	8,405,305
2020	5,622,693	8,405,305

Source: Avison Young (February 2021)

Regional Supply: Annual Office Supply

	Regional Total	10-year Average
2009	19,135,027	14,211,989
2010	17,980,865	14,211,989
2011	17,255,549	14,211,989

2012	17,097,330	14,211,989
2013	15,394,964	14,211,989
2014	15,357,235	14,211,989
2015	14,672,187	14,211,989
2016	14,248,602	14,211,989
2017	13,404,442	14,211,989
2018	11,477,265	14,211,989
2019	10,603,600	14,211,989
2020	12,608,720	14,211,989

Source: Savills (February 2021)

Rental Growth in the UK Regional Office Market

A lack of availability in the Big Nine regional markets has supported headline rents in 2020, though some rent free periods have moved out slightly, according to research from Avison Young. The CBRE Monthly Index shows that rental value growth held up better for the rest of UK office markets in the 12 months ended December 2020 with modest growth of 0.1%. Conversely, central London offices and all UK property rents have declined by -1.2% and -2.5%, respectively.

Colliers International expects this trend to continue in 2021, estimating that average rents in the London office market will see larger declines than the regional markets. However, their research suggests that the majority of rental decline will occur in the first half of 2021, and the sector should stabilise in the second half of the year as workers return to the office following the vaccine rollout and easing of UK Government restrictions.

Future Office Demand

Although the COVID-19 pandemic has forced the adoption of alternative ways of working, it can be argued that the pandemic merely accelerated changes that were already occurring in terms of both digital transformation and flexible working. However, in accelerating the working from home trend, the pandemic also highlighted its limitations in terms of collaborative working, training and productivity, to name a few. To date, there has been considerable speculation regarding the future of the office. The office has long provided a place for concentrated work and increasingly a place for collaboration, connection, innovation and social interaction, and the desire for these characteristics has not diminished. Research by JLL found that 70% of employees believe the office environment is more conducive to team building and creative collaboration, with 74% of respondents indicating that they were looking forward to the opportunity to return to the office.

The Asset Manager believes that the office will continue to play a vital role in working life, and that going forward, many occupiers will require more space per employee as greater importance is placed on health and wellbeing. The average office space per employee has reduced drastically since the 1990s, with typical densities of just c.85 sq. ft. per employee¹⁰. Therefore, de-densification of floorplates will likely take place as offices are transformed to encourage teamworking, innovation and education. Additionally, preferences for increased distance between workstations, more private offices, more defined private space, and a reduction in hot desking, may result in increased demand for space¹¹.

¹⁰ WSP, Demand for Office Space

¹¹ Brookfield Research, Gensler U.S. Work From Home Survey 2020

Regional REIT's Office Assets

EPRA occupancy of the Group's regional offices rose to 88.6% (2019: 88.4%). A like-for-like comparison of the Group's regional offices' EPRA occupancy, as at 31 December 2020 versus 31 December 2019, shows occupancy of 88.0% (2019: 88.4%). WAULT to first break was 2.6 years (2019: 3.0 years); like-for-like WAULT to first break of 2.5 years (2019: 3.0 years).

Occupier Demand in the UK Industrial Market

Take-up in the final quarter of 2020 reached 14.3 million sq. ft., pushing annual take-up during 2020 to 50.4 million sq. ft.; a 49.7% increase from 2019 levels, 44.8% above the 10-year average and 35.8% above the five-year average¹². The increase in take-up throughout 2020 resulted in a 14% fall in availability, with some regions now met with growing shortages of suitable supply. CBRE¹³ research shows that 49.4% of take-up was within the East Midlands and South East as the M1 corridor remains the most attractive location for occupiers. Following this, Yorkshire & North East, and West Midlands accounted for 20.5% and 13.7% of take-up in 2020, respectively.

Occupier demand within the industrial market continues to benefit from growth in online shopping, as online retailing currently accounts for 35.2% of total retail sales in the UK, according to the Office for National Statistics ("ONS")¹⁴. This is considerably higher than the 19.5% recorded in January 2020. BNP Paribas Real Estate research shows that online retailers were the most active in terms of take-up throughout 2020, accounting for 37.5% of annual take-up. Following this, 3PL/ Distribution and General Retail accounted for 22.4% and 18.5% of take-up in 2020, respectively¹⁵.

In terms of development, 8.2 million sq. ft. of speculative development was delivered in 2020. Cushman & Wakefield highlight that just under six million sq. ft of committed speculative development is due to be delivered in 2021 across 43 units.

¹² Cushman & Wakefield, Industrial Marketbeat Q4 2020

¹³ CBRE, Market Summary, Q4 2020

¹⁴ ONS, Retail Sales, Great Britain, January 2021

¹⁵ BNP Paribas, Industrial & Logistics Insider, Q4 2020

Rental Growth in the Industrial Market

Research by BNP Paribas Real Estate illustrates that competition for industrial space led to rental growth in 2020. The research compared data from the monthly MSCI Index for December 2020, which showed rental growth of 2.3% for the 12 months to the end of December 2020, compared to a 2.3% decline for all property types. BNP Paribas Real Estate estimates that rental growth in the industrial market is likely to remain positive during 2021¹⁶.

The Investment Property Forum UK Consensus Forecast, November 2020, anticipates rental growth in the industrial sector of 1.0% in 2021, providing evidence of sustained growth. Additionally, the IPF UK Consensus Forecast predicts 2.2% and 1.8% average rental growth rates respectively for 2022 and 2020/24. In comparison, the IPF UK Consensus Forecast predicts that there will be a decline for the All Property average rents in 2021 of 2.8%.

¹⁶ Industrial & Logistics Insider Q4 2020

Regional REIT's Industrial Assets

EPRA occupancy of the Group's industrial sites was 94.6% (2019: 95.5%). A like-for-like comparison of the Group's industrial offices' EPRA occupancy, 31 December 2020 versus 31 December 2019, shows occupancy of 93.4% (2019: 94.5%). WAULT to first break increased to 6.2 years (2019: 5.8 years); like-for-like WAULT to first break of 6.7 years (2019: 7.2 years).

Property Portfolio

As at 31 December 2020, the Group's property portfolio was valued at £732.4 million (2019: £787.9 million), with rent roll of £64.2 million (2019: £64.3 million), and an EPRA occupancy of 89.4% (2019: 89.4%).

On a like-for-like basis, 31 December 2020 versus 31 December 2019, EPRA occupancy was 88.7% (2019: 89.0%).

There were 153 properties (2019: 160) in the portfolio, with 1,245 units (2019: 1,251) and 898 tenants (2019: 904). If the portfolio was fully occupied at Cushman & Wakefield's view of market rents, the rental income would be £76.6 million per annum as at 31 December 2020 (2019: £77.2 million).

As at 31 December 2020, the net initial yield on the portfolio was 6.9% (2019: 6.2%), the equivalent yield was 8.8% (2019: 8.3%) and the reversionary yield was 9.4% (2019: 9.1%).

Property Portfolio by Sector

Sector	Properties	Valuation	% by valuation	Sq. ft.	Occupancy (EPRA)	WAULT to first break	Gross rental income	Average rent	ERV	Capital rate	Yield (%)		
		(£million)		(mil)	(%)	(yrs)	(£million)	(£psf)	(£million)	(£psf)	Net initial	Equivalent	Reversionary
Office	115	611.2	83.5	4.7	88.6	2.6	52.9	13.26	64.5	129.10	6.8	8.8	9.6
Industrial	16	81.3	11.1	1.9	94.6	6.2	6.6	3.90	7.4	42.87	7.0	8.1	8.0
Retail	20	30.0	4.1	0.4	93.1	3.7	3.9	9.58	3.9	67.41	9.9	10.8	11.2
Other	2	9.9	1.3	0.1	89.0	14.8	0.9	12.82	0.8	115.03	7.8	9.9	7.3
Total	153	732.4	100.0	7.2	89.4	3.2	64.2	10.44	76.6	102.26	6.9	8.8	9.4

Property Portfolio by Region

Region	Properties	Valuation	% by valuation	Sq. ft.	Occupancy (EPRA)	WAULT to first break	Gross rental income	Average rent	ERV	Capital rate	Yield (%)		
		(£million)		(mil)	(%)	(yrs)	(£million)	(£psf)	(£million)	(£psf)	Net initial	Equivalent	Reversionary
Scotland	39	127.0	17.3	1.5	86.7	3.6	13.1	10.42	15.0	85.19	8.4	10.1	10.8
South East	31	184.6	25.2	1.3	87.5	2.5	14.9	13.29	18.5	138.64	6.3	8.2	8.9
North East	20	79.8	10.9	0.9	85.8	2.7	6.8	8.81	8.4	87.72	5.9	9.4	9.9
Midlands	28	139.9	19.1	1.5	93.6	3.4	12.6	8.85	13.7	91.80	7.7	8.4	8.9
North West	16	88.9	12.1	1.0	86.9	4.6	6.6	8.36	9.6	87.89	5.5	9.1	9.4
South West	14	80.2	11.0	0.5	96.8	2.4	7.0	15.87	8.0	160.59	6.7	8.3	9.1
Wales	5	32.0	4.4	0.4	93.1	4.6	3.2	9.28	3.4	81.02	8.8	9.0	9.4
Total	153	732.4	100.0	7.2	89.4	3.2	64.2	10.44	76.6	102.26	6.9	8.8	9.4

*Table may not sum due to rounding.

Top 15 Investments (market value) as at 31 December 2020

Property	Sector	Anchor tenants	Market value	% of portfolio	Lettable area	EPRA Occupancy	Annualised gross rent	% of gross rental income	WAULT to first break (years)
			(£million)		(Sq Ft)	(%)	(£million)		
Tay House, Glasgow	Office	Barclays Execution Services Ltd, University of Glasgow	28.0	3.8	156,853	94.2	2.7	4.2	2.0
Genesis Business Park, Woking	Office	Nuvias (UK & Ireland) Ltd, Fernox Ltd, McCarthy & Stone Retirement Lifestyles Ltd, Walk The Walk Worldwide	23.9	3.3	98,359	80.6	1.3	2.1	3.1
Buildings 2 & 3 HBOS Campus, Aylesbury	Office	Bank Of Scotland Plc, Utmost Life and Pensions Ltd, Agria Pet Insurance Ltd	23.5	3.2	140,791	95.7	2.3	3.5	2.4
Hampshire Corporate Park, Eastleigh	Office	Aviva Central Services UK Ltd, National Westminster Bank Plc, Utilita Energy Ltd, Digital Wholesale Solutions Ltd	19.5	2.7	85,422	99.8	1.5	2.4	2.6
800 Aztec West, Bristol	Office	Edvance SAS, The Secretary of State for Defence	19.2	2.6	73,292	100.0	1.5	2.4	2.6
Norfolk House, Smallbrook Queensway, Birmingham	Office	Secretary of State for Communities & Local Government, Spark44 Ltd	18.9	2.6	114,982	97.4	1.6	2.5	1.7
Beeston Business Park, Nottingham	Office/ Industrial	Metropolitan Housing Trust Ltd, SMS Electronics Ltd, Worldwide Clinical Trials Ltd, Heart Internet Ltd	18.0	2.5	215,330	100.0	1.8	2.8	6.3
Road 4 Winsford Industrial Estate, Winsford	Industrial	Jiffy Packaging Ltd	16.3	2.2	246,209	100.0	1.0	1.6	13.8
One & Two Newstead Court, Nottingham	Office	E.ON UK Plc	15.7	2.1	146,262	100.0	1.4	2.2	2.9
Portland Street, Manchester	Office	Darwin Loan Solutions Ltd, New College Manchester Ltd, Mott MacDonald Ltd, Simard Ltd	15.1	2.1	55,787	98.8	0.9	1.5	3.1
Ashby Park, Ashby De La Zouch	Office	Ceva Logistics Ltd, Brush Electrical Machines Ltd, Hill Rom UK Ltd	12.6	1.7	91,034	100.0	1.1	1.8	2.7
Columbus House, Coventry	Office	TUI Northern Europe Ltd (Shell Energy)	12.0	1.6	53,253	100.0	1.4	2.1	3.0
Templeton On The Green, Glasgow	Office	The Scottish Ministers, The Scottish Sports Council, Heidi Beers Ltd, Cornerstone Community Care	11.7	1.6	142,512	89.9	1.2	1.9	3.4
Oakland House, Manchester	Office	Please Hold (UK) Ltd, HSS Hire Service Group Ltd, CVS (Commercial Valuers & Surveyors) Ltd, Rentsmart Ltd	10.8	1.5	160,975	88.1	1.1	1.8	2.9
Chancellor Court, Leeds	Office	St James's Place Wealth Management Group Plc	10.1	1.4	41,666	99.0	0.3	0.5	0.8
Total			255.2	34.8	1,822,727	95.5	21.3	33.2	3.4

*Table may not sum due to rounding.

Top 15 Tenants (share of rental income) as at 31 December 2020

Tenant	Property	Sector	WAULT to first break (years)	Lettable area (Sq Ft)	Annualised gross rent (£million)	% of Gross rental income
Barclays Execution Services Ltd	Tay House, Glasgow	Administrative and support service activities	0.8	108,386	2.2	3.5
	Waterfront Business Park, Fleet					
Secretary of State for Communities & Local Government	1 Burgage Square, Wakefield	Public sector	2.4	173,735	2.0	3.2
	Bennett House, Stoke-On-Trent					
	Cromwell House, Tritton Road, Lincoln					
	Norfolk House, Birmingham					
	Oakland House, Manchester					
	Waterside Business Park, Swansea					
Bank of Scotland Plc	Buildings 3 HBOS Campus, Aylesbury	Banking	1.4	92,978	1.5	2.3
	High Street/Bank Street, Dumfries					
E.ON UK Plc	One & Two Newstead Court, Nottingham	Electricity, gas, steam and air conditioning supply	2.9	146,262	1.4	2.2
TUI Northern Europe Ltd (Shell Energy)	Columbus House, Coventry	Professional, scientific and technical activities	3.0	53,253	1.4	2.1
The Scottish Ministers	Calton House, Edinburgh	Public sector	1.6	111,076	1.3	2.1
	Quadrant House, Dundee					
	Templeton On The Green, Glasgow					
	The Courtyard, Falkirk					
Jiffy Packaging Ltd	Road 4 Winsford Industrial Estate, Winsford	Manufacturing	13.8	246,209	1.0	1.6
Edvance SAS	800 Aztec West, Bristol	Electricity, gas, steam and air conditioning supply	2.4	41,285	0.9	1.4
John Menzies Plc	2 Lochside Avenue, Edinburgh	Professional, scientific and technical activities	2.6	43,780	0.9	1.4
The Royal Bank of Scotland Plc	Cyan Building, Rotherham	Banking	0.5	67,458	0.9	1.3
SPD Development Co Ltd	Clearblue Innovation Centre, Bedford	Professional, scientific and technical activities	4.8	58,167	0.8	1.3
Aviva Central Services UK Ltd	Hampshire Corporate Park, Chilworth House, Eastleigh	Other service activities	3.9	42,612	0.8	1.2
James Howden & Company Ltd	Howden Site, Renfrew	Manufacturing	4.1	204,414	0.8	1.2
Odeon Cinemas Ltd	Kingscourt Leisure Complex, Dundee	Information and communication	14.8	41,542	0.7	1.1
The Secretary of State for Defence	800 Aztec West, Bristol	Public sector	3.0	32,007	0.6	1.0
Total			3.5	1,463,164	17.3	26.9

*Table may not sum due to rounding.

Property Portfolio Sector and Region Splits by Valuation and Income

By Valuation

As at 31 December 2020, 83.5% (2019: 79.9%) of the portfolio by market value was offices and 11.1% (2019: 13.7%) was industrial. The balance was made up of retail, 4.1% (2019: 5.0%) and other, 1.3% (2019: 1.4%). By UK region, as at 31 December 2020, Scotland represented 17.3% (2019: 18.0%) of the portfolio and England 78.3% (2019: 79.5%); the balance of 4.4% (2019: 2.5%) was in Wales. In England, the largest regions were the South East, the Midlands and the North West.

By Income

As at 31 December 2020, 82.3% (2019: 79.7%) of the portfolio by income was offices and 10.3% (2019: 12.4%) was industrial. The balance was made up of retail, 6.0% (2019: 6.7%), and other, 1.3% (2019: 1.2%). By UK region, as at 31 December 2020, Scotland represented 20.4% (2019: 19.9%) of the portfolio and England 74.6% (2019: 77.2%); the balance of 5.0% was in Wales (2019: 2.9%). In England, the largest regions were the South East, the Midlands and the South West.

Lease Expiry Profile

The WAULT on the portfolio is 5.1 years (2019: 5.5 years); WAULT to first break is 3.2 years (2019: 3.5 years). As at 31 December 2020, 14.2% (2019: 5.5%) of income was from leases, which will expire within one year, 9.1% (2019: 14.2%) between one and two years, 35.8% (2019: 33.0%) between two and five years and 40.9% (2019: 47.4%) after five years.

Lease Expiry Income Profile	% of rent
0-1 years	14.2%
1-2 years	9.1%
2-5 years	35.8%
5+ years	40.9%
Total	100.0%

Source: LSPIM

Lease Expiry Income Profile by year	£m
2021	8.9
2022	5.7
2023	7.1
2024	7.2
2025	8.3
2026	4.6
2027	2.9
2028	4.8
2029	5.8
2030+	7.6
Total	62.9

Source: LSPIM

Lease expiry to first break income profile by year	£m
2021	16.2
2022	11.3
2023	9.2
2024	10.7
2025	6.8
2026	1.8
2027	0.4
2028	0.8
2029	0.8

2030+

4.9

Total**62.9**

Source: LSPIM

Tenants by Standard Industrial Classification as at 31 December 2020

As at 31 December 2020, 13.5% of income was from tenants in the professional, scientific and technical activities sector (2019: 13.0%), 12.9% from the administrative and support service activities sector (2019: 12.0%), 10.3% from the manufacturing sector (2019: 8.7%), 8.8% from the public sector (2019: 8.4%) and 8.4% from the financial and insurance activities (other) sector (2019: 7.2%). The remaining exposure is broadly spread.

No tenant represents more than 4% of the Group's rent roll as at 31 December 2020, the largest being 3.5% (2019: 2.5%).

Top 15 Properties

Tay House, Glasgow	Market value (£million)	28.0
	Sector	Office
	Annualised gross rent (£million)	2.7
	Lettable area (Sq. Ft.)	156,853
	Anchor tenants	Barclays Execution Services Ltd, University of Glasgow
	EPRA Occupancy (%)	94.2
	WAULT (years) (to first break)	5.4 (2.0)

Landmark Grade A office building offering column free floor plates of 10,000 – 30,000 sq. ft. in Glasgow's city centre. The building underwent an extensive refurbishment during 2008-10 and, in 2016, the first and second floors were comprehensively refurbished.

Genesis Business Park, Woking	Market value (£million)	23.9
	Sector	Office
	Annualised gross rent (£million)	1.3
	Lettable area (Sq. Ft.)	98,359
	Anchor tenants	Nuvias (UK & Ireland) Ltd, Fernox Ltd, McCarthy & Stone Retirement Lifestyles Ltd, Walk The Walk Worldwide
	EPRA Occupancy (%)	80.6
	WAULT (years) (to first break)	6.5 (3.1)

Business park consisting of eight detached buildings extending in total to 98,359 sq. ft.. Genesis is the premier out of town office park situated approximately one mile from Woking's town centre. It is located within the south west quadrant of London's M25 commuter belt, within five miles of Junction 11.

Buildings 2 & 3 HBOS Campus, Aylesbury	Market value (£million)	23.5
	Sector	Office
	Annualised gross rent (£million)	2.3
	Lettable area (Sq. Ft.)	140,791

Anchor tenants	Bank Of Scotland Plc, Utmost Life and Pensions Ltd, Agria Pet Insurance Ltd
EPRA Occupancy (%)	95.7
WAULT (years) (to first break)	3.2 (2.4)

Campus of two buildings, including the “Blue Leanie”, acquired in March 2016 as part of the larger Rainbow Portfolio. The campus development is situated on the south east corner of the town centre. The property is located approximately 44 miles northwest of central London, 23 miles from Oxford and 15 miles south of Milton Keynes. The property has recently been rebranded as Bear Brook Office Park to appeal to a wider range of potential occupiers.

Hampshire Corporate Park, Eastleigh	Market value (£million)	19.5
	Sector	Office
	Annualised gross rent (£million)	1.5
	Lettable area (Sq. Ft.)	85,422
	Anchor tenants	Aviva Central Services UK Ltd, National Westminster Bank Plc, Utilita Energy Ltd, Digital Wholesale Solutions Ltd
	EPRA Occupancy (%)	99.8
	WAULT (years) (to first break)	6.5 (2.6)

Acquired in January 2015, two office buildings named Chilworth House and Hampshire House. The offices are within one of Chandler’s Ford’s most prestigious office parks on the south coast. Since acquisition, Hampshire House has undergone an interior and exterior refurbishment as part of the Company’s capital expenditure programme. The offices benefit from excellent transport links with Junctions 13 and 14 of the M3 motorway and Junction 5 of the M27 motorway. Southampton International Airport is approximately two miles away and train stations are available in Eastleigh, Southampton Parkway and Chandler’s Ford.

800 Aztec West, Bristol	Market value (£million)	19.2
	Sector	Office
	Annualised gross rent (£million)	1.5
	Lettable area (Sq. Ft.)	73,292
	Anchor tenants	Edvance SAS, The Secretary of State for Defence
	EPRA Occupancy (%)	100.0
	WAULT (years) (to first break)	7.8 (2.6)

Acquired vacant in January 2016 as part of the Rainbow Portfolio. This property consists of 73,292 sq. ft. of office space consisting of the ground floor and two upper floors with 330 parking spaces on a premier out of town business park to the north west of Bristol’s city centre. The property is located within close proximity to the M5 motorway. The building underwent remodelling and refurbishment resulting in revised approach, frontage, and foyer, opening up of floor plates, creation of roof terrace, replacement of all cladding/glazing and replacement of M & E resulting in an EPC improvement from an E to a B energy rating.

Norfolk House, Smallbrook	Market value (£million)	18.9
	Sector	Office
	Annualised gross rent (£million)	1.6

Queensway, Birmingham	Lettable area (Sq. Ft.)	114,982
	Anchor tenants	Secretary of State for Communities & Local Government, Spark44 Ltd
	EPRA Occupancy (%)	97.4
	WAULT (years) (to first break)	3.4 (1.7)

Acquired in February 2019, Norfolk House occupies a 0.52-acre island site in the centre of Birmingham in close proximity to Birmingham New Street Train Station and adjacent to the Bullring Shopping Centre. The building is split over six floors with 12 retail units on the ground floor level totalling 26,099 sq. ft. and 88,883 sq. ft. of office accommodation on the ground floor and above.

Beeston Business Park, Nottingham	Market value (£million)	18.0
	Sector	Office/ Industrial
	Annualised gross rent (£million)	1.8
	Lettable area (Sq. Ft.)	215,330
	Anchor tenants	Metropolitan Housing Trust Ltd, SMS Electronics Ltd, Worldwide Clinical Trials Ltd, Heart Internet Ltd
	EPRA Occupancy (%)	100.0
	WAULT (years) (to first break)	9.2 (6.3)

Acquired in December 2020, Beeston Business Park is located four miles south west of Nottingham's city centre in a prominent location, adjoining Beeston Train Station, offering direct connectivity to London St Pancras International. The park comprises 215,330 sq. ft. across one multi-let office building, three single let industrial buildings, a vacant development plot and sporting fields on a total site area of 26.53 acres. The property is fully let.

Road Four Winsford Industrial Estate, Winsford	Market value (£million)	16.3
	Sector	Industrial
	Annualised gross rent (£million)	1.0
	Lettable area (Sq. Ft.)	246,209
	Anchor tenants	Jiffy Packaging Ltd
	EPRA Occupancy (%)	100.0
	WAULT (years) (to first break)	13.8 (13.8)

Acquired in August 2014. Let to Jiffy Packaging until 2034, 246,209 sq. ft. industrial asset providing combination of high bay warehouse space, stand-alone industrial unit, offices, yard and car parking. The industrial estate is located on road four in Winsford with the A54 providing access to the M6 motorway. Winsford Railway Station is approximately 0.54 miles from the industrial estate.

One & Two Newstead Court, Nottingham	Market value (£million)	15.7
	Sector	Office
	Annualised gross rent (£million)	1.4
	Lettable area (Sq. Ft.)	146,262

	Anchor tenants	E.ON UK Plc
	EPRA Occupancy (%)	100.0
	WAULT (years) (to first break)	4.6 (2.9)

Acquired from receivership in May 2014. Two modern, high quality large office pavilions let to E.ON on an established business park, located north of Nottingham. Road connections are accessed at Junction 27 of the M1 motorway via the A608, providing links to the UK National Motorway Network. The nearest railway station is Nottingham.

Portland Street, Manchester	Market value (£million)	15.1
	Sector	Office
	Annualised gross rent (£million)	0.9
	Lettable area (Sq. Ft.)	55,787
	Anchor tenants	Darwin Loan Solutions Ltd, New College Manchester Ltd, Mott MacDonald Ltd, Simard Ltd
	EPRA Occupancy (%)	98.8
	WAULT (years) (to first break)	5.2 (3.1)

Acquired from receivership in December 2013. Refurbished vacant modern offices behind a retained listed façade consisting of the ground floor and six upper floors extending to 55,787 sq. ft.. Since acquisition, c. £1m has been spent on remedial works. Following successful completion of works, the building re-launched into letting market. The property is located on Portland Street at the junction with Piccadilly. The property is at the epicentre of Manchester's transport infrastructure with adjacent access to the Piccadilly Gardens Bus Station and Metrolink tram and bus station whilst Piccadilly Railway Station is within close proximity.

Ashby Park, Ashby De La Zouch	Market value (£million)	12.6
	Sector	Office
	Annualised gross rent (£million)	1.1
	Lettable area (Sq. Ft.)	91,034
	Anchor tenants	Ceva Logistics Ltd, Brush Electrical Machines Ltd, Hill Rom UK Ltd
	EPRA Occupancy (%)	100.0
	WAULT (years) (to first break)	2.7 (2.7)

Acquired in March 2017 from The Conygar Investment Company PLC as part of a larger property portfolio, the property comprises of three detached office buildings constructed in the mid 1990's, with a combined floor area of 91,034 sq. ft. of space. The property is fully let to five occupiers. The location has excellent motorway access. East Midlands Airport is eight miles to the north. The nearest railway station is Burton Upon Trent.

Columbus House, Coventry	Market value (£million)	12.0
	Sector	Office
	Annualised gross rent (£million)	1.4
	Lettable area (Sq. Ft.)	53,253

	Anchor tenants	TUI Northern Europe Ltd (Shell Energy)
	EPRA Occupancy (%)	100.0
	WAULT (years) (to first break)	3.0 (3.0)

Acquired in August 2014. A high specification purpose-built HQ style building in an established and popular business park let on a long-term FRI lease to Tui who have sub-let the entire space to First Utility that provides an underpinning to the rent. The property comprises a purpose-built office building of masonry construction, arranged over three floors. The property is located on Westwood Way, with great transport links to the city and close to the A45, north & southbound.

Templeton On The Green, Glasgow	Market value (£million)	11.7
	Sector	Office
	Annualised gross rent (£million)	1.2
	Lettable area (Sq. Ft.)	142,512
	Anchor tenants	The Scottish Ministers, The Scottish Sports Council, Heidi Beers Ltd, Cornerstone Community Care
	EPRA Occupancy (%)	89.9
	WAULT (years) (to first break)	6.6 (3.4)

Acquired in 2013, the property comprises of a former landmark factory building of traditional brick construction which consists of five buildings offering a varied range of unit sizes. The property is located on Glasgow Green, just off London Road, which is a main thoroughfare to the east of Glasgow's city centre, providing excellent access to local bus routes and train network via the adjacent Bridgeton station.

Oakland House, Manchester	Market value (£million)	10.8
	Sector	Office
	Annualised gross rent (£million)	1.1
	Lettable area (Sq. Ft.)	160,975
	Anchor tenants	Please Hold (UK) Ltd, HSS Hire Service Group Ltd, CVS (Commercial Valuers & Surveyors) Ltd, Rentsmart Ltd
	EPRA Occupancy (%)	88.1
	WAULT (years) (to first break)	4.2 (2.9)

Acquired in March 2016 as part of the larger Wing Portfolio, a 15-storey office block which is prominently located on Talbot Road, one of the main arterial routes in the Old Trafford area of Manchester. The property offers easy access to the city centre with two Metrolink stops within a short walk. Additionally, both the M60 and M602 motorways are within a short distance.

Chancellor Court, Leeds	Market value (£million)	10.1
	Sector	Office
	Annualised gross rent (£million)	0.3

Lettable area (Sq. Ft.)	41,666
Anchor tenants	St James's Place Wealth Management Group Plc
EPRA Occupancy (%)	99.0
WAULT (years) (to first break)	0.8 (0.8)

Two self-contained office buildings with combined floor area of 41,666 sq. ft.. Currently being extensively refurbished in order to reposition the property in the local market, the property will shortly be rebranded as The Coachworks. The property comprises two detached office buildings of brick construction arranged over four floors. The property is located on The Calls at its junction with Crown Street, in the south western fringes of Leeds's city centre. The property lies within close proximity to Leeds's Railway Station.

Financial Review

Net Asset Value

In the year ended 31 December 2020, the EPRA NTA of the Group decreased to £425.6 million (IFRS NAV: £420.6 million) from £485.7 million (IFRS NAV: £483.7 million) as at 31 December 2019, equating to a decrease in the diluted EPRA NTA of 14.0pps (IFRS: 14.6pps) to 98.6pps (IFRS: 97.5pps). This is after the dividends declared in the year amounting to 7.45pps.

The EPRA NTA decrease of some £60.1 million since 31 December 2019 was predominately due to a £54.8 million revaluation of the property portfolio held at 31 December 2020, after capital expenditure amounting to £8.8 million, the amount of which is yet to be fully captured in the valuation, and a realised loss of £1.1 million on the disposal of investment properties.

The investment property portfolio valuation as at 31 December 2020 amounted to £732.4 million (2019: £787.9 million). The decrease over the period is a reflection of the aforementioned unrealised downward revaluation from the prior year end, unrecognised capital expenditure and disposals. Overall, on a like-for-like basis, the portfolio value decreased by 7.2% during the year.

The table below sets out the acquisitions, disposals and capital expenditure for the respective periods:

	Year ended 31 December 2020 (£million)	Year ended 31 December 2019 (£million)
Acquisitions		
Net (after costs)	45.0	89.9
Gross (before costs)	42.4	87.1
Disposals		
Net (after costs)	53.4	24.3
Gross (before costs)	56.4	24.9
Capital Expenditure		
Net (after dilapidations)	8.8	5.8
Gross (before dilapidations)	13.1	8.0

The diluted EPRA NTA per share decreased to 98.6pps (2019: 112.6pps). The EPRA NTA is reconciled in the table below:

	£million	Pence per share
Opening EPRA NTA (31 December 2019)	485.7	112.6
Net rental and property income	53.3	12.3
Administration and other expenses	(11.3)	(2.6)
Loss on the disposal of investment properties	(1.1)	(0.2)
Change in the fair value of investment properties	(54.8)	(12.7)
Change in value of right of use	(0.2)	(0.0)
EPRA NTA after operating profit	471.6	109.3
Net finance expense	(14.0)	(3.2)
Taxation	0.2	0.0
EPRA NTA before dividends paid	457.8	106.1
Dividends paid	(32.1)	(7.4)
Closing EPRA NTA (31 December 2020)	425.6	98.6

Table may not sum due to rounding

Income Statement

Operating profit before gains and losses on property assets and other investments for the year ended 31 December 2020 amounted to £42.0 million (2019: £44.1 million). The Company incurred a loss after finance items and before taxation of £31.2 million (2019: gain £26.3 million). This reduction is predominately the result of two factors: firstly, a loss in the fair value of investment properties over the year as a result of the impact of the COVID-19 pandemic on the property market and secondly a loss on the disposal of investment properties. 2020 included the rent roll for properties held from the 31 December 2019, plus the partial rent roll for properties disposed or acquired during the year.

Rental and property income amounted to £62.1 million, excluding recoverable service charge income and other similar items (2019: £64.4 million). The decrease was primarily the result of the decrease in the rent roll being held over the year to 31 December 2020.

Currently more than 80% of the rental income is collected within 30 days of the due date and bad debts in the year were £1.1 million (2019: £0.5 million).

Non-recoverable property costs, excluding recoverable service charge income and other similar costs, amounted to £8.8 million (2019: £9.4 million), and the rent roll decreased to £64.2 million (2019: £64.3 million).

Realised loss on the disposal of investment properties amounted to £1.1 million (2019: gain £1.7 million). These losses were incurred on smaller lot-size vacant properties so to mitigate future on-going operating costs, and to allow the redeployment of under-performing capital. The change in the fair value of investment properties amounted to a loss of £54.8 million (2019: loss of £3.5 million). Net capital expenditure amounted to £8.8 million (2019: £5.8 million). The change in value of right of use asset amounted to a charge of £0.2 million (2019: £0.2 million).

Finance expenses amount to £14.1 million (2019: £13.9 million). The increase is primarily due to the drawdown of the available borrowing headroom. On 26 March 2020, the Group drew down £30.7 million from the Santander and Royal Bank of Scotland facilities, ensuring ample liquidity.

The EPRA cost ratio, including direct vacancy costs, was 32.4% (2019: 31.6%). The EPRA cost ratio, excluding direct vacancy costs was 19.6% (2019: 18.7%). The ongoing charges for the year ending 31 December 2020 were 4.6% (2019: 4.5%).

The EPRA Total Return from 6 November 2015 to 31 December 2020 was 36.3% (2019: 43.0%), an annualised rate of 6.2% pa (2019: 9.0% pa).

Dividend

In relation to the year from 1 January 2020 to 31 December 2020, the Company declared dividends totalling 6.40pps (2019: 8.25pps). Since the end of the year, the Company has declared a dividend for the fourth quarter of 2020 of 1.50pps. A schedule of dividends can be found on the Company's website: <https://www.regionalreit.com/~media/Files/R/Regional-Reit/investor-docs/Dividend/regional-reit-dividend-payments-since-launch-q42020-3mar21.pdf>.

Debt Financing and Gearing

Borrowings comprise third-party bank debt which is secured over properties owned by the Group and repayable over the next four to nine years, with a weighted average maturity of 6.4 years (2019: 7.3 years).

The Group's borrowing facilities are with the Royal Bank of Scotland, Scottish Widows Limited & Aviva Investors Real Estate Finance, Scottish Widows Limited and Santander UK. Total bank borrowing facilities at 31 December 2020 amounted to £316.2 million (2019: £294.0m) (before unamortised debt issuance costs), with £5.7 million available to be drawn, and in addition to the bank borrowings, the Group has a £50 million 4.5% retail eligible bond which is due for repayment in August 2024. In aggregate, the total debt available at 31 December 2020 amounted to £371.9 million (2019: £371.9 million).

To ensure the Group retained ample liquidity following the implementation of the Government COVID-19 regulations, £30.7 million was drawn down on 26 March 2020 from the Santander UK and the Royal Bank of Scotland facilities.

At 31 December 2020, the Group's cash and cash equivalent balances amounted to £67.4 million (2019: £37.3 million), of which £55.0 million (2019: £34.7 million) was unrestricted cash.

The Group's net loan to value ("LTV") ratio stands at 40.8% (2019: 38.9%) before unamortised costs. The Board continues to target a net LTV ratio of 40%, with a maximum limit of 50%.

Debt Profile and LTV Ratios as at 31 December 2020

Lender	Original facility	Outstanding debt*	Maturity date	Gross loan to value**	Annual interest rate	
	£'000	£'000		%	%	
Royal Bank of Scotland	55,000	52,349	Jun-24	45.7	2.15	over 3 months £ LIBOR
Scottish Widows & Aviva Investors Real Estate Finance	165,000	165,000	Dec-27	47.4	3.28	Fixed
Scottish Widows	36,000	36,000	Dec-28	41.0	3.37	Fixed
Santander UK	65,870	62,822	Jun-29	39.8	2.20	over 3 months £ LIBOR
	<hr/> 321,870	<hr/> 316,171				
Retail eligible bond	<hr/> 50,000	<hr/> 50,000	Aug-24	N/A	4.50	Fixed

* Before unamortised debt issue costs

** Based on Cushman and Wakefield property valuations

Table may not sum due to rounding

The Managers continue to monitor the borrowing requirements of the Group. As at 31 December 2020, the Group had substantial headroom against its borrowing covenants.

The net gearing ratio (net debt to Ordinary Shareholders' equity (diluted)) of the Group was 71.0% as at 31 December 2020 (2019: 63.4%).

Interest cover, excluding amortised costs, stands at 3.4 times (2019: 3.6 times) and including amortised costs, stands at 3.0 times (2019: 3.2 times).

Hedging

The Group applies an interest hedging strategy that is aligned to the property management strategy and aims to mitigate interest rate volatility on at least 90% of the debt exposure.

	31 December 2020	31 December 2019
	%	%
Borrowings interest rate hedged	101.6	108.1
Thereof:		
Fixed	68.6	73.0
Swap	16.5	17.6
Cap	16.5	17.6
WACD ¹	3.3	3.5

Table may not sum due to rounding

¹ WACD - Weighted Average Effective Interest Rate including the cost of hedging

The over hedged position has arisen due to the entire Royal Bank of Scotland and Santander UK facilities, including any undrawn balances, being hedged by interest rate cap derivatives which have no ongoing cost to the Group.

Tax

The Group entered the UK REIT regime on 7 November 2015 and all of the Group's UK property rental operations became exempt from UK corporation tax from that date. The exemption remains subject to the Group's continuing compliance with the UK REIT rules.

On 9 January 2018, the Company registered for VAT purposes in England.

During 2020, the Group recognised a tax credit of £0.2 million (2019: £0.3 million), which comprised tax provisions for the year offset by releases of tax previously provided for in prior years which are now concluded and not payable.

Principal Risks and Uncertainties

Risk Framework

The Board has overall responsibility for the Company's system of risk management and internal controls and for ensuring their effectiveness. The Board recognises the importance of identifying and

actively monitoring its strategic, valuation, tenant, financial, operational, regulatory, environmental risks and any other long-term emerging threats, trends and challenges facing the business. The Audit Committee supports the Board in the management of risk and is responsible for determining the principal risks facing the business and reviewing, at least annually, the effectiveness of the Company's financial control, risk management and internal control processes.

Identification, Evaluation and Mitigation

The identification of risk, its evaluation and management is an ongoing process. The Company maintains a detailed and formal matrix of current principal risks, which uses risk scoring to evaluate risks consistently. This allows the risks to be monitored and mitigated as part of a risk management process with the Audit Committee undertaking at a minimum on a six-monthly basis, or more frequently if required, a robust evaluation of these risks facing the Group.

Risks are identified and weighted according to their potential impact on the Company and to their likelihood of occurrence. The Audit Committee uses the risk matrix to prioritise individual risks, allocating scores to each risk for both the likelihood of its occurrence and the severity of its impact. The combined scores are then colour coded, applying a traffic light system of green, amber and red to emphasise those posing the greatest threats to the Company. Those with the highest gross rating in terms of impact are highlighted as top risks within the matrix and are defined as principal risks.

While the Board believes that it has a robust framework of internal controls in place, this can provide only reasonable, and not absolute, assurance against material financial misstatement or loss and is designed to manage, not eliminate risk.

Risk Appetite

Risk appetite will vary over time but the Board is responsible for defining the level and type of risk that the Company takes on in accordance with the strategy. The Board, in conjunction with the Asset Manager and Investment Manager, regularly reviews the risk appetite of the Company in association with the latest information available and the Company is able to assess and respond quickly to new and emerging risks.

Emerging Risks

The Board is cognisant of emerging risks defined as potential trends, sudden events or changing risks which are characterised by a high degree of uncertainty in terms of probability of occurrence and possible effects on the Company. Once emerging risks become sufficiently clear, they may be classed as a principal risk and added to the risk matrix.

To help manage emerging risks and discuss other wider matters affecting property, the Board has an annual strategy meeting. The Board considers having a clear strategy is the key to managing and mitigating emerging risk.

COVID-19

During 2020, the principal risks and uncertainties faced by the Company were exacerbated by the impact of the Government's reaction to the COVID-19 pandemic. As uncertainty increased, the Board has worked even closer with the Asset Manager, Investment Manager and its third-party suppliers to maintain resilience in the operations of the Company and management of the property portfolio. The primary aim being to preserve and enhance the Company's net income and capital values, meeting all regulatory and stakeholder obligations, whilst looking to the longer term to identify strategic opportunities.

This threat has an ongoing effect on many of our principal risks and the Board meet regularly with the Asset and Investment Managers to assess these risks and how they can be managed.

The below list, in no particular order, sets out the current identifiable principal and emerging risks, including their impact and the actions taken by the Company to mitigate them. It does not purport to be an exhaustive list of all the risks faced by the Group.

Principal Risk Summary

Principal Risk

Evolution of the trend during the year

1. Strategic	↔
2. Valuation	↔
3. COVID-19	↗
4. Economic and political	↔
5. Funding	↔
6. Tenant	↔
7. Financial and tax changes	↔
8. Operational	↗
9. Accounting, legal and regulatory	↔
10. Environmental and energy efficiency standards	↗

1. Strategic

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ↔
An inappropriate investment strategy, and/or failure to implement the strategy could result in lower income and capital returns to Shareholders.	<ul style="list-style-type: none"> A clearly defined investment strategy which is reviewed annually. A defined and rigorous investment appraisal process. Acquire portfolios which offer Shareholders. diversification of investment risk by investing in a range of geographical areas and number of properties. Supply and demand market information is reviewed continuously to assist in acquisitions and disposals. All the above steps are monitored to ensure the strategy is implemented. 	<ul style="list-style-type: none"> The property portfolio remains balanced across a range of geographical areas and large number of investment properties.
	<ul style="list-style-type: none"> Predominately, acquiring office properties in the UK and outside of the M25 motorway. However, the Group may invest in property portfolios in which up to 50% of the properties (by market value) are situated within the M25 motorway. 	<ul style="list-style-type: none"> The Group continues to purchase properties in the UK outside the M25 motorway.
	<ul style="list-style-type: none"> No single property, in the ordinary course of business, is expected to exceed 10% of the Group's aggregate Investment Properties valuation. However, the Board may, in exceptional circumstances, consider a property having a value of up to 20% of the Group's investment property value at the time of investment. 	<ul style="list-style-type: none"> Tay House (2019: Tay House) is the highest valued property, which equates to 3.8% (2019: 4.3%) of the Group's investment properties.
	<ul style="list-style-type: none"> No more than 20% of the Group's investment property value shall be exposed to any single tenant or group undertaking of that tenant. 	<ul style="list-style-type: none"> The Group's largest single tenant exposure is 3.5% (2019: 2.5%) of gross rental income, being Barclays Execution Services Ltd. (2019: Barclays Execution Services Ltd.).
	<ul style="list-style-type: none"> Speculative development (i.e., properties under construction, but excluding any refurbishment works, which have not been pre-let) is prohibited. 	<ul style="list-style-type: none"> No speculative construction was undertaken during the year under review.
	<ul style="list-style-type: none"> The value of the properties is protected as far as possible by an active asset management programme, which is regularly reviewed against the business plan for each property. 	<ul style="list-style-type: none"> The Asset Manager continues to actively manage the investment properties in accordance with market conditions and the individual asset programme.

2. Valuation

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ↔
The valuation of the Group's portfolio affects its profitability and net assets.	<ul style="list-style-type: none"> The Company's external valuer, Cushman & Wakefield, provide independent valuations for all properties on a six-monthly basis in accordance with the RICS Red Book. The Audit Committee has the opportunity to discuss the basis of the valuations with the external valuer. The Audit Committee membership includes an experienced chartered surveyor. The Asset Manager's experience and extensive knowledge of the property market. The Asset Manager is able to challenge the external valuers' findings. The Company's Auditor engages an independent third party to evaluate the Cushman & Wakefield valuation. 	<ul style="list-style-type: none"> Cushman & Wakefield independently provide the valuation for the entire portfolio, valuing each individual asset.

3. COVID-19

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ↗
The economic disruption resulting from the COVID-19 virus could continue to impact rental income, the ability to access funding at competitive rates, adherence to banking covenants, maintain a progressive dividend policy, and adhere to the HMRC REIT regime requirements, especially if associated restrictions remain in place for a significant period.	<ul style="list-style-type: none"> The Asset Manager continues to adapt, as required, to support tenants in accessing UK Government financial assistance. The Asset Manager, where appropriate, has put in place social distancing measures as advised by the UK Government. The property portfolio has been deliberately constituted to ensure a diverse range of tenants by standard industrial classification comprised of 52% of government designated essential services. A large proportion of the available borrowing facility headroom was drawn down from Santander UK and the Royal Bank of Scotland ensuring substantial working capital was available. Close relationships with lenders ensuring continued dialogue around covenants and ability to access funding as required at competitive rates. Initial vetting of all third-party providers with annual due diligence reviews, including the review of business continuity capabilities to minimise when remote working has been necessitated. 	<ul style="list-style-type: none"> The Group has continued to scrutinise all current risk mitigation approaches employed and to work closely with all parties through this disruptive period.

4. Economic and political

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ↔
Significant political events could impact the health of the UK economy, resulting in borrowing constraints, changes in demand by tenants for suitable properties, the quality of the tenants, and	<ul style="list-style-type: none"> The Group operates with a sole focus on the UK regions, with no foreign currency exchange exposure. It remains well positioned with a deliberately diverse standard industry classification of tenants generating 898 (2019: 904) income streams which are located in areas of expected economic growth. The Board receives advice on macro-economic risks, including Brexit, from the Investment Manager and other advisers and acts accordingly. 	<ul style="list-style-type: none"> There remains a risk that property valuations and the occupancy market may be impacted by the post Brexit transition period.

ultimately the property portfolio value.		
--	--	--

5. Funding

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ⇄
The Group may not be able to secure further debt or on acceptable terms, which may impinge upon investment opportunities and the ability to grow the Group.	<ul style="list-style-type: none"> The Asset Manager has a Corporate Finance team dedicated to optimising the Group's funding requirements. Funding options are constantly reviewed with an emphasis on reducing the weighted average cost of capital and lengthening the weighted average debt to maturity. Borrowings are currently provided by a range of institutions with targeted staggered maturities. Strong relationships with key long-term lenders. Continual monitoring of LTV. 	<ul style="list-style-type: none"> Weighted average debt term decreased to 6.4 years from 7.3 years in 2019. Weighted average cost of capital, including hedging costs was 3.3% (2019: 3.5%). LTV increased to 40.8% from 38.9% as at 31 December 2019.
Bank reference interest rates may be set to rise accompanying higher inflation.	<ul style="list-style-type: none"> Policy of hedging at least 90% of variable interest rate borrowings. Borrowings are currently provided by a range of institutions with targeted staggered maturities. 	<ul style="list-style-type: none"> Continued adherence to the hedging policy.
Breach of covenants within the Group's funding structure could lead to a cancellation of debt funding if the Company is unable to service the debt.	<ul style="list-style-type: none"> The Asset Manager's Corporate Finance team reviews the applicable covenants on a regular basis and are considered in future operational decisions. Compliance certificates and requested reports are prepared as scheduled. 	<ul style="list-style-type: none"> The Group continues to have substantial headroom against the applicable borrowing covenants.

6. Tenant

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ⇄
Type of tenant and concentration of tenant could result in lower income from reduced lettings or defaults.	<ul style="list-style-type: none"> An active asset management programme with a focus on the Asset Manager working with individual tenants to assess any occupational issues and to manage any potential bad debts. Diversified portfolio of properties let, where possible, to a large number of low-risk tenants across a wide range of standard industrial classifications throughout the UK. Potential acquisitions are reviewed for tenant overlap and potential disposals are similarly reviewed for tenant standard industrial classification concentration. 	<ul style="list-style-type: none"> This risk remains stable in view of the increasing diversification of properties, tenants and geographies in the portfolio. The tenant mix and their underlying activity has continued to increasingly diversify, with the number of tenants amounting to 898 at the year-end (2019: 904).
A high concentration of lease term maturity and/or break options could result in a more volatile contracted rent roll.	<ul style="list-style-type: none"> The portfolio lease and maturity concentrations are monitored by the experienced Asset Manager to minimise concentration. There is a focus on securing early renewals and increased lease periods. The requirement for suitable tenants and the quality of the tenant is managed by the experienced Asset Manager which maintains 	<ul style="list-style-type: none"> The WAULT to first break as at 31 December 2020 was 3.2 years (2019: 3.5 years). The largest tenant is 3.5% (2019: 2.5%) of the gross rental income, being Barclays Execution Services Ltd. The Asset Management team remains vigilant to the financial

	close relationships with current tenants and with letting agents.	wellbeing of our current tenants and continues to liaise with occupiers and agents.
--	---	---

7. Financial and Tax Changes

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ↔
Changes to the UK REIT and non-REIT regimes tax and financial legislation.	<ul style="list-style-type: none"> The Board receives advice on these changes where appropriate and will act accordingly. 	<ul style="list-style-type: none"> Advice is received from several corporate advisers, including tax adviser Grant Thornton UK LLP and the Group adapts to changes as required.

8. Operational

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ↗
Business disruption could impinge on the normal operations of the Group.	<ul style="list-style-type: none"> The Asset and Investment Managers each have contingency plans in place to ensure there are no disruptions to the core infrastructure which would impinge on the normal operations of the Group. These plans have been implemented in adherence to COVID-19 Government guidelines, with limited disruption to operations. 	<ul style="list-style-type: none"> Both the Asset and Investment Managers annually review their Disaster and Business Continuity Plans.
	<ul style="list-style-type: none"> An annual due diligence exercise is carried out on all principal third-party service providers. 	<ul style="list-style-type: none"> The annual due diligence visits were curtailed due to government restrictions. However, assurances were received as required from third party service providers. No concerns were identified.
	<ul style="list-style-type: none"> As an externally managed investment Company, there is a continued reliance on the Asset and Investment Managers and other third-party service providers. 	<ul style="list-style-type: none"> Both the Asset and Investment Manager are viable going concerns.
	<ul style="list-style-type: none"> All acquisitions undergo a rigorous due diligence process and all multi-let properties undergo an annual comprehensive fire risk. The impact of physical damage and destruction to investment properties is mitigated by ensuring all are covered by a comprehensive building, loss of rent and service charge plus terrorism insurance with the exception of a small number of “self-insure” arrangements covered under leases. 	<ul style="list-style-type: none"> The Asset Manager continues to monitor changes in Health and Safety regulations, including, where required, COVID-19 social distancing measures. The Asset Manager reviews the adequacy of insurance cover on an ongoing basis.
Information security and cyber threat resulting in data loss, or negative regulatory, reputational, operational (including GDPR), or financial impact.	<ul style="list-style-type: none"> The Asset and Investment Manager each has a dedicated Information Technology team which monitors information security, privacy risk and cyber threats ensuring their respective operations are not interrupted. As required the building management systems are reviewed for cyber security risk. 	<ul style="list-style-type: none"> The Managers review the respective Information Technology policies and the material third party service suppliers on as required basis to ensure they reflect current and possible future threats.

9. Accounting, Legal, and Regulatory

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ↔
Changes to accounting, legal and/or regulatory legislation could result in changes to current operating processes.	<ul style="list-style-type: none"> Robust processes are in place to ensure adherence to accounting, legal, regulatory requirements, and Listing Rules. All contracts are reviewed by the Group's legal advisers. The Administrator, in its capacity as Group Accountant, and the Company Secretary attend all Board meetings in order to be aware of all announcements that need to be made. All compliance issues are raised with the Financial Adviser. 	<ul style="list-style-type: none"> The Group continues to receive advice from its corporate advisers and has incorporated changes where required. The Administrator and Company Secretary continue to attend all Board meetings and advise on Listing Rule requirements in conjunction with the Corporate Broker and Financial Adviser.
Loss of REIT status.	<ul style="list-style-type: none"> The HMRC REIT regime requirements are monitored by the Asset and Investment Manager, and external advisors including the Company's tax adviser Grant Thornton UK LLP and its sub-administrator Link Alternative Fund Administrators Limited. 	<ul style="list-style-type: none"> The Group continues to receive advice from external advisers on any anticipated future changes to the REIT regime.

10. Environmental and Energy Efficiency Standards

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ↗
The Group's cost base could be impacted, and management time diverted, due to climate changes and associated legislation.	<ul style="list-style-type: none"> The Board receives regular updates on environmental, social, governance and potential legislation changes (e.g. the Government Green Finance Strategy July 2019) from its advisers. The Group has engaged an environmental consultancy to assist with achieving the Global Real Industry Sustainability Benchmark (GRESB). This will provide a platform from which improved sustainability activities can be built upon. 	<ul style="list-style-type: none"> Additional attention is currently being devoted in this area to ensure the appropriate approach is applied and embedded in Group activities.
Changes to the environment could impact upon the operations of the Group.	<ul style="list-style-type: none"> Property acquisitions undergo a rigorous due diligence process, including an environmental assessment. The Asset Manager monitors the portfolio for any detrimental environmental impact, by way of frequent inspections of the properties, and the annual insurance review process. 	<ul style="list-style-type: none"> The rigour of the environmental assessments process continues to be reviewed with the aim of enhancing it.
An Energy Performance Rating of E and below may impact the Group's ability to sell or lease an asset.	<ul style="list-style-type: none"> The Group continues to review each property to ensure adherence with Energy Performance Rating requirements. The energy efficiency of investment acquisitions is fully considered as part of the due diligence process for the acquisition of a property. 	<ul style="list-style-type: none"> The Asset Manager is continually reviewing the feasibility of enhancing Energy Performance Ratings to exceed the minimum requirement.

Changes to the Principal Risks and Uncertainties

The Board, via the Audit Committee, has agreed the movement during the period under review to each of the identified principal risks and uncertainties following review of these risks, having considered the characteristics of these and the economic and geo-political factors. Any impact of these risks to the Company's future strategy is considered on an ongoing basis.

Extracts of the Report of the Directors

Share Capital

As at 31 December 2020, the Company's total issued share capital was 431,506,583 Ordinary Shares (2019: 431,506,583).

All of the Company's Ordinary Shares are listed on the premium segment of the London Stock Exchange and each Ordinary Share carries one vote.

There is only one class of Ordinary Shares in issue for the Company, in adherence to the REIT requirements. The only other shares the Company may issue are particular types of non-voting restricted preference shares, of which none (2019: none) are currently in issue.

Restrictions on Voting Rights

The Company does not have any restrictions on Shareholder voting rights.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Group Financial Statements in accordance with applicable law and regulations.

Guernsey company law requires the directors to prepare financial statements for each financial year. The Directors are required under the Listing Rules of the Financial Conduct Authority to prepare the group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The financial statements of the Group are required by law to give a true and fair view of the state of the Group's affairs at the end of the financial period and of the profit or loss of the Group for that period and are required by international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union to present fairly the financial position and performance of the Group.

In preparing each of the Group financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the requirements of The Companies (Guernsey) Law 2008 and, as regards the Group financial statements, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE CONSOLIDATED ANNUAL REPORT

Each of the Directors, whose names and functions are listed within the full Annual Report, confirms that to the best of each person's knowledge:

- the financial statements, prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group and the undertakings included in the consolidation taken as a whole;
- the Strategic Report, including the Asset and Investment Managers' Report, includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
- the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Group's position, performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 24 March 2021 and signed on its behalf by:

Kevin McGrath
Chairman
24 March 2021

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Notes	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Continuing Operations			
Revenue			
Rental and property income	5	75,941	75,645
Property costs	6	(22,662)	(20,681)
Net rental and property income		53,279	54,964
Administrative and other expenses	7	(11,329)	(10,904)
Operating profit before gains and losses on property assets and other investments		41,950	44,060
(Loss)/gain on disposal of investment properties	14	(1,073)	1,662
Change in fair value of investment properties	14	(54,793)	(3,513)
Change in fair value of right of use assets	27	(195)	(194)
Operating (loss)/profit		(14,111)	42,015
Finance income	9	99	155
Finance expenses	10	(14,108)	(13,880)
Impairment of goodwill	16	(558)	(557)
Net movement in fair value of derivative financial instruments	26	(2,523)	(1,479)
(Loss)/profit before tax		(31,201)	26,254
Taxation	11	203	257
Total comprehensive (loss)/ income for the year (attributable to owners of the parent Company)		(30,998)	26,511

Total comprehensive income arises from continuing operations.

(Losses)/earnings per share – basic and diluted	12	(7.2)p	6.6p
--	----	---------------	------

The notes below are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	31 December 2020 £'000	31 December 2019 £'000
Assets			
Non-current assets			
Investment properties	14	732,380	787,915
Right of use assets	27	16,156	16,351
Goodwill	16	-	558
Non-current receivables on tenant loan	17	1,011	1,156
		<u>749,547</u>	<u>805,980</u>
Current assets			
Trade and other receivables	18	33,690	32,158
Cash and cash equivalents	19	67,373	37,248
		<u>101,063</u>	<u>69,406</u>
Total assets		<u>850,610</u>	<u>875,386</u>
Liabilities			
Current liabilities			
Trade and other payables	20	(33,809)	(22,153)
Deferred income	21	(14,584)	(13,301)
Deferred tax liabilities	22	(690)	(736)
		<u>(49,083)</u>	<u>(36,190)</u>
Non-current liabilities			
Bank and loan borrowings	23	(310,692)	(287,856)
Retail eligible bonds	25	(49,441)	(49,286)
Derivative financial instruments	26	(4,339)	(1,816)
Lease liabilities	27	(16,473)	(16,510)
		<u>(380,945)</u>	<u>(355,468)</u>
Total liabilities		<u>(430,028)</u>	<u>(391,658)</u>
Net assets		<u>420,582</u>	<u>483,728</u>
Equity			
Stated capital	28	430,819	430,819
(Accumulated losses)/retained earnings		<u>(10,237)</u>	<u>52,909</u>
Total equity attributable to owners of the parent Company		<u>420,582</u>	<u>483,728</u>
Net asset value per share – basic and diluted	29	97.5p	112.1p

The notes below are an integral part of these consolidated financial statements.

These consolidated group financial statements were approved by the Board of Directors and authorised for issue on 24 March 2021 and signed on its behalf by:

Kevin McGrath,
Chairman
24 March 2021

Consolidated Statement of Changes in Equity
For the year ended 31 December 2020

Attributable to owners of the parent company			
Notes	Stated capital £'000	Retained earnings/ (Accumulated losses) £'000	Total £'000
Balance at 1 January 2020	430,819	52,909	483,728
Total comprehensive loss	-	(30,998)	(30,998)
Dividends paid	13	(32,148)	(32,148)
Balance at 31 December 2020	430,819	(10,237)	420,582

Consolidated Statement of Changes in Equity
For the year ended 31 December 2019

Attributable to owners of the parent company			
Notes	Stated capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2019	370,316	59,199	429,515
Total comprehensive income	-	26,511	26,511
Issue of share capital	28	62,500	62,500
Share issue costs	28	(1,997)	(1,997)
Dividends paid	13	(32,801)	(32,801)
Balance at 31 December 2019	430,819	52,909	483,728

The notes below are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows
For the year ended 31 December 2020

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Cash flows from operating activities		
(Loss)/profit for the year before taxation	(31,201)	26,254
- Change in fair value of investment properties	54,793	3,513
- Change in fair value of financial derivative instruments	2,523	1,479
- Loss/(gain) on disposal of investment properties	1,073	(1,662)
- Change in fair value of right of use assets	195	194
Impairment of goodwill	558	557
Finance income	(99)	(155)
Finance expenses	14,108	13,880
Increase in trade and other receivables	(2,821)	(7,881)
Increase/(decrease) in trade and other payables	7,595	(12,416)
Increase in deferred income	1,283	2,259
Cash generated from operations	48,007	26,022
Finance costs	(12,515)	(12,165)

Taxation received/(paid)	174	(839)
Net cash flow generated from operating activities	35,666	13,018
Investing activities		
Purchase of investment properties	(53,759)	(49,917)
Sale of investment properties	53,428	24,294
Interest received	101	163
Acquisition of subsidiaries, net of cash acquired	-	(43,943)
Net cash flow used in investing activities	(230)	(69,403)
Financing activities		
Proceeds from the issue of shares	-	62,500
Share issue costs	-	(1,997)
Dividends paid	(26,672)	(32,534)
Zero Dividend Preference Shareholders repaid	-	(39,879)
Bank borrowings advanced	39,200	22,911
Bank borrowings repaid	(17,029)	(19,398)
Bank borrowing costs paid	(192)	(2,168)
Bond issue costs paid	-	(7)
Lease repayments	(618)	(618)
Net cash flow used in financing activities	(5,311)	(11,190)
Net increase/(decrease) in cash and cash equivalents	30,125	(67,575)
Cash and cash equivalents at the start of the year	37,248	104,823
Cash and cash equivalents at the end of the year	67,373	37,248

The notes below are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

1. Corporate Information

The Group's consolidated financial statements for the year ended 31 December 2020 comprise the results of the Company and its subsidiaries (together constituting the "Group") and were approved by the Board and authorised for issue on 24 March 2021.

The Company is a company limited by shares incorporated in Guernsey under The Companies (Guernsey) Law, 2008, as amended (the "Law"). The Company's Ordinary Shares are admitted to the Official List of the Financial Conduct Authority ("FCA") and traded on the London Stock Exchange ("LSE").

The Company was incorporated on 22 June 2015 and is registered with the Guernsey Financial Services Commission as a Registered Closed-Ended Collective Investment Scheme pursuant to The Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, and the Registered Collective Investment Schemes Rules 2018.

The Company did not begin trading until 6 November 2015 when the shares were admitted to trading on the LSE.

The nature of the Group's operations and its principal activities are set out in the Strategic Report within the full Annual Report.

The address of the registered office is Mont Crevelt House, Bulwer Avenue, St. Sampson, Guernsey GY2 4LH.

2. Basis of preparation

In accordance with Section 244 of The Companies (Guernsey) Law 2008, the Group confirms that the financial information for the year ended 31 December 2020 are derived from the Group's audited financial statements and that these are not statutory accounts and, as such, do not contain all information required to be disclosed in the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

The statutory accounts for the year ended 31 December 2020 have been audited and approved, but have not yet been filed.

The Group's audited financial statements for the year ended 31 December 2020 received an unqualified audit opinion and the auditor's report contained no statement under section 263(2) or 263(3) of The Companies (Guernsey) Law 2008.

The financial information contained within this preliminary statement was approved and authorised for issue by the Board on 24 March 2021.

2.1 Functional and presentation currency

The financial information is presented in Pounds Sterling, which is also the functional currency, and all values are rounded to the nearest thousand (£'000) pound, except where otherwise indicated.

2.2 Going concern

The Directors have carefully considered areas of potential financial risk and have reviewed cash flow forecasts, evaluating a number of scenarios which included extreme downside sensitivities in relation to rental cash collection, no property acquisitions, no elective capital expenditure, REIT regime compliance, and no dividends. A range of scenarios of up to 12 months of nil rental cash collection were considered, and taking into account mitigating management actions, the company had adequate resources to continue its operations. Further effects of the COVID-19 outbreak are documented in the going concern and viability statements above and within principal and emerging risks above.

No material uncertainties have been detected which would influence the Group's ability to continue as a going concern for a period of at least 12 months from the approval of these financial statements. The Directors have satisfied themselves that the Group has adequate financial resources to continue in operational existence for this period.

Accordingly, the Board of Directors continue to adopt the going concern basis in preparing the financial statements.

2.3 Business combinations

At the time of acquisition, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. For an acquisition of a business where an integrated set of activities are acquired in addition to the property, the Group accounts for the acquisition as a business combination under IFRS 3 Business Combinations ("IFRS 3").

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

2.4 New standards, amendments and interpretations

New standards, amendments to standards and interpretations which came into effect for accounting periods starting on or after 1 January 2020 and have had an impact on the financial statements are as follows:

Amendments to IFRS 3 'Business Combinations' (effective where the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020) – makes amendments to clarify the definition of a business to help companies determine whether an acquisition is of a business or a group of assets. The amendments are expected to result in more acquisitions being accounted for as asset acquisitions. As detailed in note 2.3, careful consideration is given to the accounting treatment for each acquisition. Most acquisitions made by the Group are treated as the acquisition of a group of assets, so the amendments to this standard have not had any impact on the financial statements.

Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (effective for annual periods beginning on or after 1 January 2020) – make amendments to clarify the definition of 'material'. The amendments make IFRSs more consistent but are not expected to have a significant impact on the preparation of the financial statements.

Amendments to IFRS16 'Leases' (effective from June 2020 onwards) - were issued in response to the COVID-19 pandemic to address accounting treatment for rent concessions granted to lessees as a direct

result of the pandemic. The Group has not received any rent concessions for its long leasehold investment properties and therefore accounting treatment has not been affected.

2.5 New standards, amendments and interpretations effective for future accounting periods

A number of new standards, amendments to standards and interpretations are effective for periods beginning on or after 1 January 2021 and have not been applied in preparing these financial statements. These are:

Interest Rate Benchmark Reform—Phase 2:

Amendments to IFRS 9 ‘Financial Instruments’, IAS 39 ‘Financial Instruments; Recognition and Measurement’, IFRS 7 ‘Financial Instruments: Disclosures’, IFRS 4 ‘Insurance Contracts’ and IFRS 16 ‘Leases’ (effective for periods beginning on or after 1 January 2021) These amendments address issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative benchmark interest rate.

The Group’s borrowings with Royal Bank of Scotland and Santander UK will be transitioning from the London Interbank Offer Rate (LIBOR) benchmark to Sterling Overnight Index Average (SONIA) benchmark by 31 December 2021. There is expected to be negligible cost involved in the borrowing facility transition and the respective hedge instrument amendments.

The Directors are currently assessing the impact of the changes in accounting standards but as the Group does not apply hedge accounting, it is anticipated that the accounting standard amendments will not have a significant impact on the preparation of the financial statements.

Amendments to IAS 1 ‘Presentation of Financial Statements’ (effective for periods beginning on or after 1 January 2023) – clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period and not expectations of or actual events after the reporting date. The amendments also give clarification to the definition of settlement of a liability. The amendments are not expected to have a significant impact on the preparation of the financial statements.

Amendments to IFRS 3 ‘Business Combinations’ (effective for periods beginning on or after 1 January 2022) – gives clarification on the recognition of contingent liabilities at acquisition and clarifies that contingent assets should not be recognised at the acquisition date. The amendments are not expected to have a significant impact on the preparation of the financial statements.

3. Significant accounting judgements, estimates and assumptions

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

3.1. Critical accounting estimates and assumptions

The principal estimates that may be material to the carrying amount of assets and liabilities are as follows:

3.1.1 Valuation of investment property

The fair value of investment property, which has a carrying value at the reporting date of £732,380,000 (31 December 2019: £787,915,000), is determined by independent property valuation experts to be the estimated amount for which a property should exchange on the date of the valuation in an arm’s length transaction. Properties have been valued on an individual basis. The valuation experts use recognised valuation techniques applying the principles of both IAS 40 and IFRS 13.

The value of the properties has been assessed in accordance with the relevant parts of the current RICS Red Book. In particular, we have assessed the fair value as referred to in VPS4 item 7 of the RICS Red Book. Under these provisions, the term "Fair Value" means the definition adopted by the International Accounting Standards Board ("IASB") in IFRS 13, namely "The price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date". Factors reflected include current market conditions, annual rentals, lease lengths and location. The significant methods and assumptions used by the valuers in estimating the fair value of investment property are set out in note 14.

In relation to Brexit, the recently completed negotiations with regards to the terms of the UK's exit from the EU has meant that property market remains uncertain. There is some uncertainty concerning the impact of COVID 19 however the independent valuers note the following in their report.

"The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date property markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, and for the avoidance of doubt, our valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. "

3.1.2 Fair valuation of interest rate derivatives

In accordance with IFRS 13, the Group values its interest rate derivatives at fair value. The fair values are estimated by the respective counterparties with revaluation occurring on a quarterly basis. The counterparties will use a number of assumptions in determining the fair values, including estimations over future interest rates and therefore future cash flows. The fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate. The carrying value of the derivatives at the reporting date was £4,339,000 liability (31 December 2019: £1,816,000 liability). The significant methods and assumptions used in estimating the fair value of the interest rate derivatives are set out in note 26.

3.1.3 Leases – the Group as lessee

The Group has a number of leases concerning the long-term lease of land associated with its long leasehold investment properties. Under IFRS16, the Group calculates the lease liability at each reporting date and at the inception of each lease and at 1 January 2019 when the standard was first adopted. The liability is calculated using present value of future lease payments using the Group's incremental borrowing rate as the discount rate. At 31 December 2020, there were 13 leases with the range of the period left to run being 46 and 105 years. The Directors have determined that the discount rate to use in the calculation for each lease is 3.5% being the Group's weighted average cost of debt at the date of transition.

3.1.4 Dilapidation income

The Group recognises dilapidation income in the Group's Statement of Comprehensive Income when the right to receive the income arises. In determining accrued dilapidations, the Group has considered historic recovery rates, while also factoring in expected costs associated with recovery.

3.2. Critical judgements in applying the Group's accounting policies

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

3.2.1 Operating lease contracts – the Group as lessor

The Group has acquired investment properties that are subject to commercial property leases with tenants. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, particularly the duration of the lease terms and minimum lease payments, that it retains all of the significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases.

3.2.2 Consolidation of entities in which the Group holds less than 50%

Management considered that up until 9 November 2018, the Group had de facto control of View Castle Limited and its 27 subsidiaries (the "View Castle Sub Group") by virtue of the amended and restated Call Option Agreement dated 3 November 2015. Following a restructure of the View Castle Sub Group, the majority of properties held within the View Castle Sub Group were transferred into two new special purpose vehicles ("SPVs") with two additional properties to be transferred into these SPVs at a later date. A new call option was entered into dated 9 November 2018 with View Castle Limited and five of its subsidiaries (the "View Castle Group"). As per the previous amended and restated Call Option Agreement, under this new option the Group may acquire any of the properties held by the View Castle Group for a fixed nominal consideration. Despite having no equity holding, the Group is deemed to have control over the View Castle Group as the Option Agreement means that the Group is exposed to, and has rights to, variable returns from its involvement with the View Castle Group, through its power to control.

3.2.3 Acquisitions of subsidiary companies

For each acquisition, the Directors consider whether the acquisition met the definition of the acquisition of a business or the acquisition of a group of assets and liabilities.

A business is defined in IFRS 3 as an integrated set of activities and assets that is capable of being conducted and

managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. Furthermore, a business consists of inputs and processes applied to those inputs that have the ability to create outputs.

The companies acquired in the year have comprised portfolios of investment properties and existing leases with multiple tenants over varying periods, with little in the way of processes acquired. It has therefore concluded in each case that the acquisitions did not meet the criteria for the acquisition of a business as outlined above.

3.2.4 Recognition of income

Service charges and other similar receipts are included in net rental and property income gross of the related costs as the Directors consider the Group acts as principal in this respect.

4. Summary of significant accounting policies

The accounting policies adopted in this report are consistent with those applied in the financial statements for the year ended 31 December 2019 and have been consistently applied for the year ended 31 December 2020.

4.1. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the date of the Statement of Financial Position.

4.2 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. Identifiable assets and liabilities acquired, and contingent liabilities assumed, in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

For acquisitions of subsidiaries not meeting the definition of a business, the Group allocates the cost between the individual identifiable assets and liabilities in the Group based on their relative fair values at the date of acquisition. Such transactions or events do not give rise to goodwill.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in full. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

The excess of the consideration transferred, and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable net assets acquired, is recognised as goodwill.

4.2.1. Disposal of subsidiaries

When the Group ceases to have control over an entity, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in the carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

4.3. Segmental information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined that its chief operating decision-maker is the Board of Directors.

After a review of the information provided for management purposes, it was determined that the Group has one operating segment and therefore segmental information is not disclosed in these consolidated financial statements.

4.4. Investment property

Investment property comprises freehold or leasehold properties that are held to earn rentals or for capital appreciation, or both, rather than for sale in the ordinary course of business or for use in production or administrative functions.

Investment property is recognised, usually, on legal completion, when the risks and rewards of ownership have been transferred and, is measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and other costs incurred in order to bring the property to the condition necessary for it to be capable of being utilised in the manner intended. Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair value are included in the Group's Consolidated Statement of Comprehensive Income in the period in which they arise under IAS 40, 'Investment Property'.

Additions to investment property include costs of a capital nature only. Expenditure is classified as capital when it results in identifiable future economic benefits, which are expected to accrue to the Group. All other property expenditure is charged in the Group's Consolidated Statement of Comprehensive Income as incurred.

Investment properties cease to be recognised when they have been disposed of or withdrawn permanently from use and no future economic benefit is expected. The difference between the net disposal proceeds and the carrying amount of the asset (being the fair value at the start of the financial year) would result in either gains or losses at the retirement or disposal of investment property. Any gains or losses are recognised in the Group's Consolidated Statement of Comprehensive Income in the period of retirement or disposal.

4.5. Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree plus the amount of the non-controlling interest of the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the subsidiaries, or groups of subsidiaries, that is expected to benefit from the synergies of the combination. Each subsidiary or group of subsidiaries to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of the value in use and the fair value less the costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

4.6. Derivative financial instruments

Derivative financial instruments, comprising interest rate caps and swaps for hedging purposes, are initially recognised at fair value and are subsequently measured at fair value, being the estimated amount that the Group would receive or pay to sell or transfer the agreement at the period end date, taking into account current interest rate expectations and the current credit rating of the lender and its counterparties. The gain or loss at each fair value remeasurement date is recognised in the Group's Consolidated Statement of Comprehensive Income.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole.

4.7 Financial assets

The Group classifies its financial assets as at fair value through profit or loss or at amortised cost, depending on

the purpose for which the asset was acquired. Currently the Group does not have any financial assets which it has classified at fair value through profit or loss.

Assets held at amortised cost arise principally from the provision of goods and services (e.g. trade receivables), but also incorporate other financial assets where the objective is to hold these assets in order to collect contractual cash flows which comprise the payment of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost being the effective interest rate method, less provision for impairment.

The Group's financial assets comprise 'trade and other receivables', 'tenant loan' and 'cash and cash equivalents'.

The tenant loan relates to a loan made to a tenant which is subject to interest. The amount receivable has been recognised at amortised cost using the effective interest method.

4.8. Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently carried at amortised cost less provision for impairment. Where the time value of money is material, receivables are carried at amortised cost using the effective interest method. Impairment provisions are recognised based on the expected credit loss model detailed within IFRS 9.

The Group recognises a loss allowance for expected credit losses on trade receivables. The loss allowance is based on lifetime expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition. The expected credit losses on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. Impaired balances are reported net, however, impairment provisions are recorded within a separate provision account with the loss being recognised within administration costs within the Consolidated Statement of Comprehensive Income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Lease premiums and other lease incentives provided to tenants are recognised as an asset and amortised over the period from date of lease commencement to termination date.

4.9. Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at banks with original maturities of three months or less. Cash also includes amounts held in restricted accounts that are unavailable for everyday use.

4.10. Trade payables

Trade payables are initially recognised at their fair value being at their invoiced value inclusive of any VAT that may be applicable. Payables are subsequently measured at amortised cost using the effective interest method.

4.11. Bank and other borrowings

All bank and other borrowings (comprising bank loans and retail eligible bonds) are initially recognised at cost net of attributable transaction costs. Any attributable transaction costs relating to the issue of the bank borrowings are amortised through the Group's Statement of Comprehensive Income over the life of the debt instrument on a straight-line basis. After initial recognition, all bank and other borrowings are measured at amortised cost, using the effective interest method.

Bank and other borrowings are derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in Group's Consolidated Statement of Comprehensive Income.

4.12 Zero Dividend Preference Shares

Zero Dividend Preference Shares ("ZDP Shares") are recognised as liabilities in the Group's Consolidated Statement of Financial Position in accordance with IAS 32 Financial Instruments: Presentation. After initial recognition, these liabilities are measured at amortised cost, which represents the value the liability is recognised at initial recognition, plus the accrued interest entitlement to the date of these financial statements.

4.13 Dividends payable to Shareholders

Equity dividends are recognised and accrued from the date declared and when they are no longer at the discretion of the Company.

4.14 Rental and property income

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms and is included in gross rental and property income in the Group's Consolidated Statement of Comprehensive Income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the lease asset and are recognised as an expense over the lease term on the same basis as the lease income.

For leases which contain fixed or minimum uplifts, the rental income arising from such uplifts is recognised on a straight-line basis over the lease term.

Tenant lease incentives are recognised as a reduction of rental revenue on a straight-line basis over the term of the lease. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease where, at the inception of the lease, the Directors are reasonably certain that the tenant will exercise that option.

Surrender premiums received from tenants to terminate leases or surrender premises are recognised in the Group's Statement of Comprehensive Income when the right to receive them arises.

Dilapidation income is recognised in the Group's Statement of Comprehensive Income when the right to receive it arises.

When the Group is acting as an agent, the commission, rather than gross income, is recorded as revenue.

Income arising from expenses recharged to tenants is recognised in the year in which the compensation becomes receivable. Service charges and other similar receipts are included in net rental and property income gross of the related costs as the Directors consider the Group acts as principal in this respect.

4.15 Property costs

Non recoverable property costs contain service and management charges related to empty properties.

Service and management charges are recognised in the accounting period in which the services are rendered.

Recoverable property costs contain service charges and other similar costs which are recognised in the accounting period in which the services are rendered.

4.16. Interest income

Interest income is recognised as interest accrued on cash balances held by the Group. Interest charged to a tenant on any overdue rental income is also recognised within interest income.

4.17. Dividend income

Dividend income is recognised when the right to receive payment is established.

4.18. Finance costs

Interest costs are expensed in the period in which they occur. Arrangement fees that a Group entity incurs in connection with bank and other borrowings are amortised over the term of the loan.

4.19. Taxation

As the Company is managed and controlled in the UK, it is considered to be tax resident in the UK.

The tax currently payable is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current and deferred tax is calculated using tax rates that have been enacted or substantively enacted at the date of the Statement of Financial Position.

The Group elected to be treated as a UK REIT with effect from 7 November 2015. The UK REIT rules exempt the profits of the Group's UK property rental business from UK Corporation Tax. Gains on UK properties are also exempt from tax, provided that they are not held for trading or sold in the three years after completion of

development. The Group is otherwise subject to UK Corporation Tax.

There are a small number of entities within the Group which fall outside the REIT rules and are subject to UK taxes on profits and property gains.

4.20 Deferred tax

Deferred tax is provided in full using the liability method on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates (and tax laws) enacted or substantively enacted at the date of the Statement of Financial Position. A deferred tax asset is recognised only to the extent that it is probable that future profits will be available for offset.

The deferred tax liability in relation to investment properties that is measured at fair value is determined assuming that the property will be recovered entirely through sale.

Deferred tax has been recognised on the unrealised property valuation gains of properties owned by Group entities which fall outside of the REIT tax rules.

The current rate of UK Corporation Tax is 19%.

4.21. Stated capital

Stated capital represents the consideration received by the Company for the issue of Ordinary Shares. Ordinary Shares are classed as equity.

4.22. Share-based payments

The Group has entered into Performance Fee arrangements with the Asset Manager and Investment Manager which depend on the growth in the net asset value of the Group exceeding a hurdle rate of return over a performance period. The fee will be partly settled in cash and partly in equity and the equity portion is therefore a share-based payment arrangement. The fair value of the obligation is measured at each reporting period, and the cost recognised as an expense. The part of the obligation to be settled in shares is credited to equity reserves. If circumstances change and the fee is no longer settled by the issue of shares, then the amounts previously credited to equity reserves are reversed.

4.23 Leased assets

The Group has a number of leases concerning the long-term lease of land associated with its long leasehold investment properties. These leased assets are capitalised as “right of use assets” by recognising the present value of the lease payments as an asset and a financial liability representing the obligation to make future lease payments.

Right of use assets are valued at fair value and the change in fair value is recognised in the Consolidated Statement of Comprehensive Income.

The associated financial liability is valued at the present value of future lease payments using the Group's incremental borrowing rate. The value of the financial liability is revalued at each reporting date. Lease payments reduce the financial liability and interest on the financial liability is recognised in finance costs.

5. Rental and property income

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Rental income – freehold property	55,382	53,404
Rental income – long leasehold property	6,695	10,989
Recoverable service charge income and other similar items	13,864	11,252
Total	75,941	75,645

6. Property costs

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Other property expenses and irrecoverable costs	8,798	9,429
Recoverable service charge expenditure and other similar costs	13,864	11,252
Total	22,662	20,681

Property costs represent direct operating expenses which arise on investment properties that generate rental income.

7. Administrative and other expenses

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Investment management fees	2,577	2,356
Property management fees	2,266	2,280
Asset management fees	2,579	2,356
Directors' remuneration (see note 8)	255	255
Administration fees	634	746
Legal and professional fees	1,674	2,107
Marketing and promotion	69	96
Other administrative costs (including bad debts)	1,257	657
Bank charges	18	51
Total	11,329	10,904

Services provided by the Company's Auditor and its associates

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

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts*	105	83
Fees payable to the group's auditor and its associates for the audit of the Company's subsidiaries	105	114
Total fees payable for audit services	210	197
Fees payable to the group's auditor and its associates for other services:		
Audit-related services	26	26
Corporate finance services	-	80
Total fees payable to the group's auditor and its associates	236	303

*The current year charge includes fees of £20,000 in respect of additional audit work required for the 2019 audit due to the COVID-19 pandemic.

8. Directors' remuneration

Key management comprises the Directors of the Company. A summary of the Directors' emoluments is set out in the Directors' Remuneration Report.

Year ended 31 December 2020	Year ended 31 December 2019
-----------------------------------	-----------------------------------

	£'000	£'000
Directors' fees	231	228
Employers National Insurance contributions	24	27
Total	255	255

9. Finance income

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Interest income	99	155
Total	99	155

10. Finance expenses

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Interest payable on bank borrowings	10,257	9,904
Accrued capital entitlement on ZDP Shares	-	60
Amortisation of loan arrangement fees	857	912
Amortisation of ZDP Share acquisition costs	-	3
Bond interest	2,250	2,250
Bond issue costs amortised	155	157
Bond expenses	8	11
Lease interest	581	583
Total	14,108	13,880

11. Taxation

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Corporation tax credit	(157)	(359)
(Decrease)/increase in deferred tax creditor	(46)	102
Total	(203)	(257)

The current tax charge is reduced by the UK REIT tax exemptions. The tax charge for the year can be reconciled to the (loss)/profit in the Statement of Comprehensive Income as follows:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
(Loss)/profit before taxation	(31,201)	26,254
UK Corporation Tax rate	19%	19%
Theoretical tax at UK Corporation Tax rate	(5,928)	4,988
Effects of:		

Revaluation of investment property	10,410	668
Permanent differences	(363)	(556)
Profits from the tax-exempt business	(4,276)	(5,459)
Deferred tax movement	(46)	102
Total	(203)	(257)

Permanent differences are the differences between an entity's taxable profits and its results as stated in the financial statements. These arise because certain types of income and expenditure are non-taxable or disallowable, or because certain tax charges or allowances have no corresponding amount in the financial statements.

The Group elected to be treated as a UK REIT with effect from 7 November 2015. The UK REIT rules exempt the profits of the Group's UK property rental business from corporation tax. Gains on UK properties are also exempt from tax, provided they are not held for trading or sold in the three years after completion of development. The Group is otherwise subject to UK corporation tax and UK income tax.

As a REIT, Regional REIT Ltd is required to pay PIDs equal to at least 90% of the Group's exempted net income. To retain UK REIT status, there are a number of conditions to be met in respect of the principal company of the Group, the Group's qualifying activity and its balance of business. The Group continues to meet these conditions.

UK corporation tax and UK income tax arise on entities which form part of the Group consolidated accounts but do not form part of the REIT group.

Due to the Group's REIT status and its intention to continue meeting the conditions required to obtain approval in the foreseeable future, no provision has been made for deferred tax on any capital gains or losses arising on the revaluation or disposal of investments held by entities within the REIT group.

No deferred tax asset has been recognised in respect of losses carried forward due to the unpredictability of future taxable profits.

12. Earnings per share

Earnings per share amounts are calculated by dividing (losses)/profits for the year attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the year.

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

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Calculation of earnings per share		
Net (loss)/profit attributable to Ordinary Shareholders	(30,998)	26,511
Adjustments to remove:		
Changes in value of investment properties	54,793	3,513
Changes in fair value of interest rate derivatives and financial assets	2,523	1,479
Loss/(gain) on disposal of investment property	1,073	(1,662)
Impairment of goodwill	558	557
Deferred tax (credit)/charge	(46)	102
Close out costs on borrowings and derivatives	-	487
EPRA net profit attributable to Ordinary Shareholders	27,903	30,987
Add performance fee	-	-
Company specific adjusted earnings figure	27,903	30,987
Weighted average number of Ordinary Shares	431,506,583	398,867,828
(Loss)/earnings per share – basic and diluted	(7.2)p	6.6p
EPRA earnings per share - basic and diluted	6.5p	7.8p

13. Dividends

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Dividend of 2.55 (2019: 2.50) pence per Ordinary Share for the period 1 October 2019 - 31 December 2019	11,004	9,321
Dividend of 1.90 (2019: 1.90) pence per Ordinary Share for the period 1 January 2020– 31 March 2020	8,198	7,084
Dividend of 1.50 (2019: 1.90) pence per Ordinary Share for the period 1 April 2020 – 30 June 2020	6,473	8,198
Dividend of 1.50 (2019: 1.90) pence per Ordinary Share for the period 1 July 2020 – 30 September 2020	6,473	8,198
	32,148	32,801

On 27 February 2020, the Company announced a dividend of 2.55 pence per share in respect of the period 1 October 2019 to 31 December 2019. The dividend payment was made on 9 April 2020 to Shareholders on the register as at 6 March 2020.

On 21 May 2020, the Company announced a dividend of 1.90 pence per share in respect of the period 1 January 2020 to 31 March 2020. The dividend payment was made on 17 July 2020 to Shareholders on the register as at 5 June 2020.

On 26 August 2020, the Company announced a dividend of 1.50 pence per share in respect of the period 1 April 2020 to 30 June 2020. The dividend payment was made on 16 October 2020 to Shareholders on the register as at 4 September 2020.

On 12 November 2020, the Company announced a dividend of 1.50 pence per share in respect of the period 1 July 2020 to 30 September 2020. The dividend payment was made on 8 January 2021 to Shareholders on the register as at 20 November 2020.

On 25 February 2021, the Company announced a dividend of 1.50 pence per share in respect of the period 1 October 2020 to 31 December 2020. The dividend will be paid on 9 April 2021 to Shareholders on the register as at 5 March 2021. The financial statements do not reflect this dividend.

The Board intends to pursue a progressive dividend policy and continue to pay quarterly dividends. However, in view of ongoing circumstances, the Company reserves the right to review future dividend payments.

14. Investment properties

In accordance with International Accounting Standard, IAS 40, 'Investment Property', investment property has been independently valued at fair value by Cushman & Wakefield Chartered Surveyors, an accredited independent valuer with recognised and relevant professional qualifications and with recent experience in the locations and categories of the investment properties being valued. The valuations have been prepared in accordance with the Red Book and incorporate the recommendations of the International Valuation Standards Committee which are consistent with the principles set out in IFRS 13.

In relation to Brexit, the recently completed negotiations with regards to the terms of the UK's exit from the EU has meant that the property market remains uncertain. There is some uncertainty concerning the impact of COVID 19 however the independent valuers note the following in their report.

"The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date property markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, and for the avoidance of doubt, our valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. "

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

All corporate acquisitions during the year have been treated as properties purchased rather than business combinations.

Group	Freehold Property £'000	Long Leasehold Property £'000	Total £'000
Movement in investment properties for the year ended 31 December 2020			
Valuation at 1 January 2020	697,908	90,007	787,915
Property additions – acquisitions	44,956	-	44,956
Property additions – subsequent expenditure	8,446	357	8,803
Property disposals	(47,035)	(6,393)	(53,428)
(Loss)/gain on the disposal of investment properties	(1,128)	55	(1,073)
Change in fair value during the year	(43,715)	(11,078)	(54,793)
Valuation at 31 December 2020	659,432	72,948	732,380

Movement in investment properties for the year ended 31 December 2019

Valuation at 1 January 2019	625,020	93,355	718,375
Property additions– acquisitions	89,920	-	89,920
Property additions – subsequent expenditure	5,527	238	5,765
Property disposals	(24,003)	(291)	(24,294)
Gain/(loss) on the disposal of investment properties	1,679	(17)	1,662
Change in fair value during the period	(235)	(3,278)	(3,513)
Valuation at 31 December 2019	697,908	90,007	787,915

The net book value of properties disposed of during the year amounted to £54,501,000 (2019: £22,623,000).

The historic cost of the properties is £759,705,000 (31 December 2019: £751,638,000).

Bank borrowings are secured by charges over investment properties held by certain asset-holding subsidiaries. The banks also hold charges over the shares of certain subsidiaries and any intermediary holding companies of those subsidiaries. The value of investment properties secured at 31 December 2020 was £705,130,000 (31 December 2019: £748,715,000).

The following table provides the fair value measurement hierarchy for investment property:

Date of valuation:	Total £'000	Quoted active prices (level 1) £'000	Significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000
31 December 2020	732,380	-	-	732,380
31 December 2019	787,915	-	-	787,915

The hierarchy levels are defined in note 31.

It has been determined that the entire investment properties portfolio should be classified under the level 3 category. The table below shows the movement in the year on the level 3 category:

Year ended 31 December	Year ended 31 December
-----------------------------------	-----------------------------------

	2020 £'000	2019 £'000
Balance at the start of the year	787,915	718,375
Additions	53,759	95,685
Disposals	(53,428)	(24,294)
(Loss)/gain on the disposal of investment properties	(1,073)	1,662
Change in fair value during the year	<u>(54,793)</u>	<u>(3,513)</u>
Balance at the end of the year	<u>732,380</u>	<u>787,915</u>

The determination of the fair value of the investment properties held by each consolidated subsidiary requires the use of estimates such as future cash flows from investment properties, which take into consideration lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, any environmental matters and the overall repair and condition of the property, and discount rates applicable to those assets. Future revenue streams comprise contracted rent (passing rent) and estimated rental value after the contract period. In calculating ERV, the potential impact of future lease incentives to be granted to secure new contracts is taken into consideration. All these estimates are based on local market conditions existing at the reporting date.

As at 31 December 2020, the estimated fair value of each property has been primarily derived using comparable recent market transactions on arm's length terms and, assessed in accordance with the relevant parts of the RICS Valuation - Global Standards and the RICS Valuation UK National Supplement.

Techniques used for valuing investment properties

The following descriptions and definitions relate to valuation techniques and key observable inputs made in determining the fair values: -

Valuation technique: market comparable method

Under the market comparable method (or market approach), a property fair value is estimated based on comparable transactions in the market.

Observable input: market rental

The rent at which space could be let in the market conditions prevailing at the date of valuation range: £9,000-£3,092,291 per annum (2019: £6,000- £3,092,291 per annum).

Observable input: rental growth

The estimated average increase in rent is based on both market estimations and contractual agreements.

Observable input: net initial yield

The initial net income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase range: 0.00%-25.64% (2019: 0.00%-28.70%).

Unobservable inputs:

The significant unobservable inputs (level 3) are sensitive to changes in the estimated future cash flows from investment properties such as increases and decreases in contracted rents, operating expenses and capital expenses, plus transactional activity in the real estate market.

As set out within the significant accounting estimates and judgements, the Group's property portfolio valuation is open to judgement and is inherently subjective by nature, and actual values can only be determined in a sales transaction.

15. Investment in subsidiaries

List of subsidiaries which are 100% owned and controlled by the Group

	Country of incorporation	Ownership %
Blythswood House LLP (in liquidation)	United Kingdom	100%
Regional Commercial MIDCO Ltd	Jersey	100%
RR Aspect Court Ltd	Jersey	100%
RR Bristol Ltd	Jersey	100%
RR Hounds Gate Ltd	Jersey	100%
RR Rainbow (Aylesbury) Ltd	Jersey	100%

RR Rainbow (North) Ltd	Jersey	100%
RR Rainbow (South) Ltd	Jersey	100%
RR Range Ltd	Jersey	100%
RR Sea Dundee Ltd	United Kingdom	100%
RR Sea Hanover Street Ltd	United Kingdom	100%
RR Sea Lamont I Ltd	Jersey	100%
RR Sea Lamont II Ltd	Jersey	100%
RR Sea Lamont III Ltd	Jersey	100%
RR Sea St. Helens Ltd	United Kingdom	100%
RR Sea Stafford Ltd	United Kingdom	100%
RR Sea Strand Ltd	United Kingdom	100%
RR Sea TAPP Ltd	Guernsey	100%
RR Sea TOPP Bletchley Ltd	Guernsey	100%
RR Sea TOPP I Ltd	Guernsey	100%
RR UK (Central) Ltd	Jersey	100%
RR UK (Cheshunt) Ltd	Jersey	100%
RR UK (South) Ltd	Jersey	100%
RR UK (Port Solent) Ltd	Jersey	100%
RR Wing Portfolio Ltd	Jersey	100%
Smallbrook Queensway Limited	Jersey	100%
Quay West Estate Company Limited	United Kingdom	100%
Tay Properties Ltd	Jersey	100%
TCP Arbos Ltd	Jersey	100%
TCP Channel Ltd	Jersey	100%
Tosca Chandlers Ford Ltd	Jersey	100%
Tosca Garnet Ltd	Jersey	100%
Tosca Glasgow II Ltd	United Kingdom	100%
Tosca Midlands Ltd	Jersey	100%
Tosca North East Ltd	Jersey	100%
Tosca North West Ltd	Jersey	100%
Tosca Scotland Ltd	Jersey	100%
RR Star Ltd	Jersey	100%
Tosca South West Ltd	Jersey	100%
Tosca Swansea Ltd	Jersey	100%
Tosca Thorpe Park Ltd	Jersey	100%
Tosca UK CP II Ltd	Jersey	100%
Tosca UK CP Ltd	Jersey	100%
Tosca Victory House Ltd	Jersey	100%
Tosca Winsford Ltd	Jersey	100%
Toscafund Bennett House Ltd	Jersey	100%
Toscafund Bishopgate Street Ltd	Jersey	100%
Toscafund Blythswood Ltd	Jersey	100%
Toscafund Brand Street Ltd	Jersey	100%
Toscafund Chancellor Court Ltd	Jersey	100%
Toscafund Crompton Way Ltd	Jersey	100%
RR Falcon Ltd	Jersey	100%
Toscafund Glasgow Ltd	Jersey	100%
Toscafund Harvest Ltd	Jersey	100%
Toscafund Milburn House Ltd	Jersey	100%
Toscafund Minton Place Ltd	Jersey	100%
Toscafund Newstead Court Ltd	Jersey	100%
Toscafund Portland Street Ltd	Jersey	100%
Toscafund St Georges House Ltd	Jersey	100%
Toscafund St James Court Ltd	Jersey	100%
Toscafund Strathclyde BP Ltd	Jersey	100%
Toscafund Wallington Ltd	Jersey	100%
Toscafund Welton Road Ltd	Jersey	100%
Toscafund Westminster House Ltd	Jersey	100%
Toscafund Sheldon Court Ltd	Jersey	100%
RR Skylar Ltd	Jersey	100%

All of the above entities have been included in the Group's consolidated financial statements.

By virtue of an Amended and Restated Call Option Agreement dated 3 November 2015, the Directors consider that the Group has control of View Castle Limited and its subsidiaries (the “View Castle Group”).

Under this option, the Group has the ability to acquire any of the properties held by the View Castle Group by issuing an option notice for a nominal consideration of £1. The recipient of the option notice will be obliged to convey its title within one month after receipt of the option notice.

Despite having no equity holding, the Group controls the View Castle Group as the option agreement has the effect that the Group is exposed to, and has rights to, variable returns from its involvement with the View Castle Group through its power to control.

The companies which make up the View Castle Group are as follows:

List of subsidiaries that are controlled by the Group:

	Country of incorporation	Effective Ownership %
Castlestream Ltd	United Kingdom	100%
Caststop Ltd (in liquidation)	United Kingdom	100%
Credential (Baillieston) Ltd (in liquidation)	United Kingdom	100%
Credential (Greenock) Ltd	United Kingdom	100%
Credential (Wardpark North) Ltd	United Kingdom	100%
Credential (Wardpark South) Ltd (in liquidation)	United Kingdom	100%
Credential Bath Street Ltd (in liquidation)	United Kingdom	100%
Credential Charring Cross Ltd (in liquidation)	United Kingdom	100%
Credential Estates Ltd	United Kingdom	100%
View Castle Ltd	United Kingdom	100%
Credential Residential Finance Ltd (in liquidation)	United Kingdom	100%
Credential Tay House Ltd (in liquidation)	United Kingdom	100%
Hamiltonhill Estates Ltd (in liquidation)	United Kingdom	100%
Lilybank Church Ltd (in liquidation)	United Kingdom	100%
Lilybank Terrace Ltd (in liquidation)	United Kingdom	100%
Old Mill Studios Ltd (in liquidation)	United Kingdom	100%
Old Rutherglen Road Ltd	United Kingdom	100%
Rocket Unit Trust	Jersey	100%
Squeeze Newco (Elmbank) Ltd (in liquidation)	United Kingdom	100%
Squeeze Newco 2 Ltd	United Kingdom	100%
The Legal Services Centre Ltd	United Kingdom	100%
View Castle (Properties) Ltd	United Kingdom	100%
View Castle (Milton Keynes) Ltd	United Kingdom	100%

All of the above entities have been included in the Group’s consolidated financial statements up to 31 December 2020.

Business Combinations

There have been no new business combinations entered into in the financial year.

16. Goodwill

	31 December 2020 £’000	31 December 2019 £’000
Group		
At start of year	558	1,115
Impairment	(558)	(557)
At end of year	-	558

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of

consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the Group's Statement of Comprehensive Income.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed. As at 31 December 2020 the goodwill has been fully impaired to a nil value.

17. Non-current receivables

Non-current receivables on tenant loans

	31 December 2020 £'000	31 December 2019 £'000
At start of year	1,348	1,926
Amounts repaid in the year	<u>(145)</u>	<u>(578)</u>
At end of year	1,203	1,348
Asset due within 1 year (note 18)	192	192
Asset due after 1 year	<u>1,011</u>	<u>1,156</u>
	1,203	1,348

During 2016, the Group entered into a loan agreement with a tenant for £1,926,000. The loan is subject to interest of 4% above the base rate of the Bank of Scotland on late payments and is repayable in instalments over ten years.

18. Trade and other receivables

	31 December 2020 £'000	31 December 2019 £'000
Gross amount receivable from tenants	11,768	8,206
Less provision for impairment	<u>(1,458)</u>	<u>(891)</u>
Net amount receivable from tenants	10,310	7,315
Current receivables – tenant loans (note 17)	192	192
Value added tax	-	1,415
Income tax	52	70
Other receivables	1,458	6,385
Prepayments	<u>21,678</u>	<u>16,781</u>
	33,690	32,158

The maximum exposure to credit risk at the reporting date is the carrying value of the amounts disclosed above. The Group does not hold any collateral as security.

The aged analysis of trade receivables that are past due but not impaired was as follows:

	31 December 2020 £'000	31 December 2019 £'000
< 30 days	6,000	4,369
30-60 days	915	1,055
> 60 days	<u>4,853</u>	<u>2,782</u>
	11,768	8,206
Less provision for impairment	<u>(1,458)</u>	<u>(891)</u>

10,310

7,315

The Directors consider the fair value of receivables equals their carrying amount.

The table above shows the aged analysis of trade receivables included in the table above which are past due but not impaired. These relate to tenants for whom there is no recent history of default.

Provision for impairment of trade receivables movement as follows:

	31 December 2020 £'000	31 December 2019 £'000
At start of year	891	1,115
Provision for impairment in the year	1,787	562
Receivables written off as uncollectable	(719)	(537)
Unused provision reversed	(501)	(249)
At end of year	1,458	891

Other categories within trade and other receivables do not include impaired assets.

19. Cash and cash equivalents

	31 December 2020 £'000	31 December 2019 £'000
Group		
Cash held at bank	54,958	34,731
Restricted cash held at bank	12,415	2,517
At end of year	67,373	37,248

Restricted cash balances of the Group comprise:

- £10,752,000 (2019: £124,000) of funds held in blocked bank accounts which are controlled by the Group's lenders and are released to free cash once certain loan conditions are met. The restricted funds arose on net proceeds from investment property disposals and were released after the year end.
- £1,663,000 (2019: £2,312,000) of funds which represent tenants' rental deposits.
- Nil (2019: £81,000) is held in other locked accounts.

All restricted cash balances will be available before 31 March 2021.

In addition, £7,462,000 (2019 £4,225,000) of cash funds represent service charge income received from tenants for settlement of future service charge expenditure. These amounts are not analysed as restricted balances.

20. Trade and other payables

	31 December 2020 £'000	31 December 2019 £'000
Withholding tax due on dividends paid	572	1,569
Dividends announced but not paid	6,473	-
Trade payables	2,262	3,650
Other payables	11,205	8,544
Value added tax	3,662	-
Accruals	9,635	8,390
At end of year	33,809	22,153

Other payables principally include rent deposits held and service charge costs.

21. Deferred income

Deferred rental income represents rent received in advance from tenants.

22. Deferred tax liabilities

	31 December 2020 £'000	31 December 2019 £'000
Deferred tax	690	736
	690	736
The movement on deferred tax liability is shown below:		
At start of year	736	634
Deferred tax on the valuation of investment properties	(46)	102
At end of year	690	736

23. Bank and loan borrowings

Bank borrowings are secured by charges over investment properties held by certain asset-holding subsidiaries. The banks also hold charges over the shares of certain subsidiaries and any intermediary holding companies of those subsidiaries. Any associated fees in arranging the bank borrowings unamortised as at the year end are offset against amounts drawn on the facilities as shown in the table below:

	31 December 2020 £'000	31 December 2019 £'000
Bank borrowings drawn at start of year	294,000	290,487
Bank borrowings drawn	39,200	22,911
Bank borrowings repaid	(17,029)	(19,398)
Bank borrowings drawn at end of year	316,171	294,000
Less: unamortised costs at start of year	(6,144)	(4,888)
Less: loan issue costs incurred in the year	(192)	(2,168)
Add: loan issue costs amortised in the year	857	912
At end of year	310,692	287,856
Maturity of bank borrowings		
Repayable within 1 year	-	-
Repayable between 1 to 2 years	-	-
Repayable between 2 to 5 years	52,349	48,584
Repayable after more than 5 years	263,822	245,416
Unamortised loan issue costs	(5,479)	(6,144)
	310,692	287,856

As detailed in note 25, the Group has £50,000,000 retail eligible bonds in issue.

The table below lists the Group's borrowings.

Lender	Original facility £'000	Outstanding debt* £'000	Maturity date	Gross loan to value** %	Annual interest rate	Amortisation
Royal Bank of Scotland	55,000	52,349	Jun -24	45.7%	2.15% over 3mth £ LIBOR	Mandatory prepayment
Scottish Widows Ltd & Aviva Investors Real Estate Finance	165,000	165,000	Dec-27	47.4%	3.28% Fixed	None
Scottish Widows Ltd	36,000	36,000	Dec-28	41.0%	3.37% Fixed	None
Santander UK	65,870	62,822	Jun-29	39.8%	2.20% over 3mth £ LIBOR	Mandatory prepayment

Total bank borrowings	321,870	316,171
Retail eligible bond	50,000	50,000
Total	371,870	366,171

LIBOR = London Interbank Offered Rate (Sterling)

MP = Mandatory prepayment

* Before unamortised debt issue costs

** Based upon Cushman & Wakefield property valuations

The weighted average term to maturity of the Group's debt at the period end was 6.4 years (31 December 2019: 7.3 years). The weighted average interest rate payable by the Group on its debt portfolio, excluding hedging costs, as at the period end was 3.1% (31 December 2019: 3.4%).

The Group weighted average interest rate, including the retail eligible bonds and hedging costs at the period end, amounted to 3.3% per annum (31 December 2019: 3.5% per annum).

The Group has been in compliance with all of the financial covenants relating to the above facilities as applicable throughout the year covered by these consolidated financial statements. Each facility has distinct covenants which generally include: historic interest cover, projected interest cover, LTV cover and debt service cover. A breach of agreed covenant levels would typically result in an event of default of the respective facility, giving the lender the right, but not the obligation, to declare the loan immediately due and payable. Where a loan is repaid in these circumstances, early repayment fees will apply, which are generally based on a percentage of the loan repaid or calculated with reference to the interest income foregone by the lenders as a result of the repayment.

As shown in note 26, the Group uses a combination of interest rate swaps and fixed rate bearing loans to hedge against cash flow interest rate risks. The Group's exposure to interest rate volatility is minimal.

In line with recent announcements from the Bank of England and the FCA, the Royal Bank of Scotland and Santander UK borrowings will be transitioning from the London Interbank Offer Rate (LIBOR) benchmark to Sterling Overnight Index Average (SONIA) benchmark by 31 December 2021. There is expected to be negligible cost involved in the borrowing facility transition and the respective hedge instrument amendments.

24. Zero dividend preference shares

	31 December 2020 £'000	31 December 2019 £'000
At start of year	-	39,816
Amortisation of acquisition costs	-	3
Accrued capital entitlement	-	60
Repayment	-	(39,879)
At end of year	-	-

The Group entity, Regional REIT ZDP PLC, had 30,000,000 zero dividend preference shares ("ZDP shares") in issue, which were listed on the London Stock Exchange (LSE: RGLZ). The ZDP shares were issued at 100 pence per share. The ZDP shares had an entitlement to receive a fixed cash amount on 9 January 2019, being the maturity date, but did not receive any dividends or income distributions. Additional capital accrued to the ZDP shares on a daily basis at a rate equivalent to 6.5% per annum, resulting in a final capital entitlement of 132.9 pence per share, which was paid on 9 January 2019.

25. Retail Eligible Bonds

The Company has in issue £50,000,000 4.5% Retail Eligible Bonds with a maturity date of 6 August 2024. These unsecured Bonds are listed on the London Stock Exchange ORB platform.

	31 December 2020 £'000	31 December 2019 £'000
Bond principal at start of year	50,000	50,000
Unamortised issue costs at start of year	(714)	(864)
Issue costs	-	(7)
Amortisation of issue costs	155	157
At end of year	49,441	49,286

26. Derivative financial instruments

Interest rate caps and swaps are in place to mitigate the interest rate risk that arises as a result of entering into variable rate borrowings.

	31 December 2020 £'000	31 December 2019 £'000
Group		
Fair value at start of year	(1,816)	(337)
Revaluation in the year	(2,523)	(1,479)
Fair value at end of year	(4,339)	(1,816)

The calculation of fair value of interest rate caps and swaps is based on the following calculation: the notional amount multiplied by the difference between the swap rate and the current market rate and then multiplied by the number of years remaining on the contract and discounted.

The table below details the hedging and swap notional amounts and rates against the details of the Group's loan facilities.

Lender	Original Facility £'000	Outstanding Debt £'000	Maturity Date	Annual Interest rate %	Notional Amount £'000	Rate %
Royal Bank of Scotland	55,000	52,349	Jun-24	2.15% over 3 months £ LIBOR	£27,500 £27,500	1.26% 1.26%
Scottish Widows Ltd. & Aviva Investors Real Estate Finance	165,000	165,000	Dec-27	3.28% Fixed	n/a	n/a
Scottish Widows Ltd	36,000	36,000	Dec-28	3.37% Fixed	n/a	n/a
Santander UK	65,870	62,822	Jun-29	2.20% over 3 months £ LIBOR	£32,935 £32,935	1.45% 1.45%
Total	321,870	316,171				

LIBOR = London Interbank Offered Rate (Sterling)

As at 31 December 2020, the swap notional arrangements were £60.44m (31 December 2019: £60.50m) and the cap notional arrangements amounted to £60.44m (31 December 2019: £60.50m).

The Group weighted average effective interest rate was 3.3% (31 December 2019: 3.5%) inclusive of hedging costs.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative liabilities.

It is the Group's target to hedge at least 90% of the total debt portfolio using interest rate derivatives and fixed-rate facilities. As at the year end, the total proportion of hedged debt equated to 101.8% (31 December 2019: 109.5%), as shown below. The over hedged position has arisen as a result of the full RBS and Santander facilities (including headroom) being hedged but that the excess relates to Interest Rate Caps which have no ongoing cost for the Group.

	31 December 2020 £'000	31 December 2019 £'000
Total bank borrowings	316,171	294,000
Notional value of interest rate caps and swaps	120,870	121,000
Value of fixed rate debts	201,000	201,000
	321,870	322,000
Proportion of hedged debt	101.8%	109.5%

The Group has not adopted hedge accounting.

27. Leases

As from 1 January 2019, the Group has adopted IFRS16 accounting treatment as described in note 2.4.

	31 December 2020 £'000	31 December 2019 £'000
Right of use asset		
At start of year	16,351	-
Value recognised at 1 January 2020	-	16,545
Fair value movement	(195)	(194)
	16,156	16,351
	31 December 2020 £'000	31 December 2019 £'000
Lease liability		
At start of year	16,510	-
Value recognised at 1 January 2020	-	16,545
Lease payments	(618)	(618)
Interest charges	581	583
	16,473	16,510

The Group's lease commitments which are now represented by the right of use asset and lease liability are spread across 13 separate leases with the two largest leases at Basingstoke and Witham making up 39% of the balance. Total commitments on leases in respect of land and buildings are as follows:

	31 December 2020 £'000	31 December 2019 £'000
Group		
Payable within 1 year	618	618
Payable between 1 – 2 years	618	618
Payable between 2 – 5 years	1,854	1,854
Payable after 5 years	50,346	50,964
	53,436	54,054

28. Stated capital

Stated capital represents the consideration received by the Company for the issue of Ordinary Shares.

Group	31 December 2020 £'000	31 December 2019 £'000
Issued and fully paid shares of no par value		
At start of the year	430,819	370,316
Shares issued 23 July 2019	-	62,500
Share issue costs	-	(1,997)
At end of the year	430,819	430,819
Number of shares in issue		
At start of the year	431,506,583	372,821,136
Shares issued 23 July 2019	-	58,685,447
At end of the year	431,506,583	431,506,583

29. Net asset value per share (NAV)

Basic NAV per share is calculated by dividing the net assets in the Statement of Financial Position attributable to ordinary equity holders of the parent by the number of Ordinary Shares outstanding at the end of the year.

In October 2019, EPRA issued new best practice recommendations that replaced EPRA net asset value (NAV) with three new measures of net asset value. The Group has determined that EPRA net tangible assets (NTA) is the most relevant measure hence this is now reported in place of EPRA NAV. Prior year comparatives are stated under the new definition on EPRA NTA. Further detail of the new EPRA performance measures can be found in the appendix within the full Annual Report.

Net asset values have been calculated as follows:

Group	31 December 2020 £'000	31 December 2019 £'000
Net asset value per Consolidated Statement of Financial Position	420,582	483,728
Adjustment for calculating EPRA net tangible assets:		
Derivative financial instruments	4,339	1,816
Deferred tax liability	690	736
Goodwill	-	(558)
EPRA Net Tangible Assets	425,611	485,722
Number of Ordinary Shares in issue	431,506,583	431,506,583
Net asset value per share – basic and diluted	97.5p	112.1p
EPRA Net Tangible Assets per share – basic and diluted	98.6p	112.6p

30. Notes to the Statement of Cash Flows

Reconciliation of changes in liabilities to cash flows arising from financing activities

31 December 2020

Bank loans and borrowings £'000	Retail Eligible Bonds £'000	Derivative financial instruments £'000	Lease liabilities £'000	Total £'000
--	--------------------------------------	---	-------------------------------	----------------

Balance at 1 January 2020	287,856	49,286	1,816	16,510	355,468
Changes from financing cash flows:					
Bank and Bond borrowings advanced	39,200	-	-	-	39,200
Bank borrowings repaid	(17,029)	-	-	-	(17,029)
Bank and Bond borrowing costs paid	(192)	-	-	-	(192)
Lease payments	-	-	-	(618)	(618)
Total changes from financing cash flows	21,979	-	-	(618)	21,361
Amortisation of issue costs	857	155	-	-	1,012
Unwinding of discount	-	-	-	581	581
Change in fair value	-	-	2,523	-	2,523
Total other changes	857	155	2,523	581	4,116
Balance at 31 December 2020	310,692	49,441	4,339	16,473	380,945

31 December 2019

	Bank loans and borrowings £'000	Zero dividend preference shares £'000	Retail Eligible Bonds £'000	Derivative financial instruments £'000	Lease liabilities £'000	Total £'000
Balance at 1 January 2019	285,599	39,816	49,136	337	16,545	391,433
Changes from financing cash flows:						
Zero Dividend Preference Shareholders repaid	-	(39,879)	-	-	-	(39,879)
Bank and Bond borrowings advanced	22,911	-	-	-	-	22,911
Bank borrowings repaid	(19,398)	-	-	-	-	(19,398)
Bank and Bond borrowing costs paid	(2,168)	-	(7)	-	-	(2,175)
Lease payments	-	-	-	-	(618)	(618)
Total changes from financing cash flows	1,345	(39,879)	(7)	-	(618)	(39,159)
Amortisation of issue costs	912	3	157	-	-	1,072
Accrued capital entitlement	-	60	-	-	-	60
Unwinding of discount	-	-	-	-	583	583
Change in fair value	-	-	-	1,479	-	1,479
Total other changes	912	63	157	1,479	583	3,194
Balance at 31 December 2019	287,856	-	49,286	1,816	16,510	355,468

31. Financial risk management

31.1 Financial instruments

The Group's principal financial assets and liabilities are those that arise directly from its operations: trade and other receivables, trade and other payables and cash and cash equivalents. The Group's other principal financial liabilities are bank and other loan borrowings, amounts due to interest rate derivatives, the main purpose of which is to finance the acquisition and development of the Group's investment property portfolio.

Set out below is a comparison by class of the carrying amounts of the Group's financial instruments that are carried in the financial statements and their fair value:

Group	31 December 2020		31 December 2019	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
Financial assets – measured at amortised cost				
Trade and other receivables	12,971	12,971	16,463	16,463
Cash and short-term deposits	67,373	67,373	37,248	37,248
Financial liabilities – measured at amortised cost				
Trade and other payables	(33,237)	(33,237)	(20,584)	(20,584)
Bank and loan borrowings	(310,692)	(327,409)	(287,856)	(294,875)
Retail eligible bonds	(49,441)	(49,500)	(49,286)	(51,860)
Lease liability	(16,473)	(16,473)	(16,510)	(16,510)
Financial liabilities – measured at fair value through profit or loss				
Interest rate derivatives	(4,339)	(4,339)	(1,816)	(1,816)

The following financial liabilities are recorded in the Consolidated Statement of Financial Position at amortised cost but their fair value is different as disclosed above. Their fair values are determined as follows:

- The fair value of bank and loan borrowings is determined by reference to mark to market valuations provided by the lenders.
- The fair value of Retail Eligible Bonds is determined by their published market value.
- The fair value of the lease liability has been determined as the present value of future cash flows discounted using the Group's incremental borrowing rate.

The following financial liabilities are recorded in the Consolidated Statement of Financial Position at fair value which is determined as follows:

- The fair value of interest rate derivatives is recorded in the Consolidated Statement of Financial Position and is determined by forming an expectation that interest rates will exceed strike rates and discounting these future cash flows at the prevailing market rates as at the year end.

Fair value hierarchy

The following table provides the fair value measurement hierarchy for financial liabilities measured at fair value through profit or loss.

	Total £'000	Quoted active prices (level 1) £'000	Significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000
31 December 2020				
Interest rate derivatives	(4,339)	-	(4,339)	-
31 December 2019				
Interest rate derivatives	(1,816)	-	(1,816)	-

The different levels are defined as follows.

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement

is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

There have been no transfers between levels during the year.

31.2 Risk management

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

31.3 Market risk

Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices. The financial instruments held by the Group that are affected by market risk are principally the Group's bank balances along with a number of interest rate swaps entered into to mitigate interest rate risk.

The Group's interest rate risk arises from long-term borrowings issued at variable rates, which expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps, interest rate caps and interest rate swaps. Interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Interest rate caps limit the exposure to a known level.

If interest rates were to increase by the following rates, this would increase the annual interest charge to the Group and thus reduce profits and net assets as follows:

Interest rate increase	Increase to the annual interest charge	
	31 December 2020 £'000	31 December 2019 £'000
0.00%	-	-
0.25%	137	81
0.50%	274	155
0.75%	411	184
1.00%	547	212

The Group's borrowings with Royal Bank of Scotland and Santander UK will be transitioning from the London Interbank Offer Rate (LIBOR) benchmark to Sterling Overnight Index Average (SONIA) benchmark by 31 December 2021. There is expected to be negligible cost involved in the borrowing facility transition and the respective hedge instrument amendments.

31.4 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from both its leasing activities and financing activities, including deposits with banks and financial institutions. Credit risk is mitigated by tenants being required to pay rentals in advance under their lease obligations. The credit quality of the tenant is assessed based on an extensive credit rating scorecard at the time of entering into a lease agreement.

Outstanding trade receivables are regularly monitored. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset.

31.5 Credit risk related to trade receivables

Trade receivables, primarily tenant rentals, are presented in the Group's Statement of Financial Position net of provisions for impairment. Credit risk is primarily managed by requiring tenants to pay rentals in advance and performing tests around strength of covenant prior to acquisition.

31.6 Credit risk related to financial instruments and cash deposits

One of the principal credit risks of the Group arises with the banks and financial institutions. The Board of Directors believes that the credit risk on short-term deposits and current account cash balances is limited because the counterparties are banks, who are committed lenders to the Group, with high credit ratings assigned by international credit-rating agencies.

The list of bankers for the Group, with their latest Fitch credit ratings, was as follows:

Bankers	Fitch Ratings
Barclays	A+ Negative
Royal Bank of Scotland	A+ Negative
Santander UK	A+ Negative
Aviva	A+ Stable
Scottish Widows	A+ Negative
Bank of Scotland plc	A+ Negative

31.7 Liquidity risk

Liquidity risk arises from the Group's management of working capital and, going forward, the finance charges and principal repayments on its borrowings. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due, as the majority of the Group's assets are investment properties and are therefore not readily realisable. The Group's objective is to ensure that it has sufficient available funds for its operations and to fund its capital expenditure. This is achieved by continuous monitoring of forecast and actual cash flows by management.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

Group at 31 December 2020	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	After 5 years £'000	Total £'000
Trade and other payables	(33,237)	-	-	-	(33,237)
Bank borrowings	(9,262)	(9,262)	(79,509)	(283,232)	(381,265)
Interest rate derivatives	(805)	(805)	(1,898)	(1,611)	(5,119)
Retail eligible bonds	(2,250)	(2,250)	(54,500)	-	(59,000)
Lease liability	(618)	(618)	(1,854)	(50,346)	(53,436)
	(46,172)	(12,935)	(137,761)	(335,189)	(532,057)
Group at 31 December 2019	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	After 5 years £'000	Total £'000
Trade and other payables	(20,584)	-	-	-	(20,584)
Bank borrowings	(9,579)	(9,579)	(76,588)	(273,944)	(369,690)
Interest rate derivatives	(487)	(483)	(1,111)	-	(2,081)
Retail eligible bonds	(2,250)	(2,250)	(56,750)	-	(61,250)
Lease liability	(618)	(618)	(1,854)	(50,964)	(54,054)
	(33,518)	(12,930)	(136,303)	(324,908)	(507,659)

The maturity dates of all bank borrowings are disclosed in note 23.

The maturity date of the retail eligible bonds is disclosed in note 25.

The range of maturity dates of the lease liability payments is between 10 and 105 years.

32. Capital management

The primary objective of the Group's capital management is to ensure that it remains a going concern and continues to qualify for UK REIT status.

The Group's capital is represented by reserves and bank borrowings. The Board, with the assistance of the Investment and Asset Managers, monitors and reviews the Group's capital so as to promote the long-term

success of the business, facilitate expansion, deliver a quarterly dividend distribution and to maintain sustainable returns for Shareholders.

The Group's policy on borrowings is as follows: the level of borrowing will be on a prudent basis for the asset class and will seek to achieve a low cost of funds, while maintaining flexibility in the underlying security requirements and the structure of both the portfolio and of Regional REIT.

Based on current market conditions, the Board will target Group net borrowings of 40% of Investment Property Values at any time. However, the Board may modify the Group's borrowing policy (including the level of gearing) from time to time in light of then-current economic conditions, relative costs of debt and equity capital, fair value of the Company's assets, growth and acquisition opportunities or other factors the Board deems appropriate. The Group's net borrowings may not exceed 50% of the Investment Property Values at any time without the prior approval of Ordinary Shareholders in a General Meeting.

The optimal debt financing structure for the Group will have consideration for key metrics including: fixed or floating interest rate charged, debt type, maturity profile, substitution rights, covenant and security requirements, lender type, diversity and the lender's knowledge and relationship with the property sector.

33. Operating leases

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

	31 December 2020 £'000	31 December 2019 £'000
Group		
Receivable within 1 year	50,739	50,038
Receivable between 1 – 2 years	38,103	41,696
Receivable between 2 – 5 years	57,404	61,181
Receivable after 5 years	40,102	36,202
	186,348	189,117

The Group has in excess of 890 operating leases. The number of years remaining on these operating leases varies between 1 and 80 years. The amounts disclosed above represent total rental income receivable up to the next lease break point on each lease. If a tenant wishes to end a lease prior to the break point, a surrender premium will be charged to cover the shortfall in rental income received.

34. Segmental information

After a review of the information provided for management purposes, it was determined that the Group has one operating segment and therefore segmental information is not disclosed in these consolidated financial statements.

35. Transactions with related parties

Transactions with the Directors

Directors' remuneration is disclosed within the Remuneration Report and note 8 to the financial statements. Directors' beneficial interests in the Ordinary Shares of the Company are disclosed within the Directors' Report. During the year, the following dividends were received by the Directors (and their spouses or minor children) on the holdings:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Kevin McGrath	20	21
William Eason	13	17
Daniel Taylor	42	42
Stephen Inglis	63	103
Frances Daley	3	3
Timothy Bee	14	13
Total	155	199

Transactions with the Asset Manager, London & Scottish Property Investment Management Limited and the Property Manager, London & Scottish Property Asset Management Limited

Stephen Inglis is a non-executive Director of Regional REIT Limited, as well as being the Chief Executive Officer of London & Scottish Property Investment Management Limited ("LSPIM") and a director of London & Scottish Property Asset Management Limited. The former company has been contracted to act as the Asset Manager of the Group and the latter as the Property Manager.

In consideration for the provision of services provided, the Asset Manager is entitled in each financial year (or part thereof) to 50% of an annual management fee on a scaled rate of 1.1% of the EPRA net asset value, reducing to 0.9% on net assets over £500,000,000. The fee shall be payable in cash quarterly in arrears.

In respect of each portfolio property, the Asset Manager has procured and shall, with the Company in future, procure that London & Scottish Property Asset Management Limited is appointed as the Property Manager. A property management fee of 4% per annum is charged by the Property Manager on a quarterly basis: 31 March, 30 June, 30 September, and 31 December, based upon the gross rental yield. Gross rental yield means the rents due under the property's lease for the peaceful enjoyment of the property, including any value paid in respect of rental renunciations but excluding any sums paid in connection with service charges or insurance costs.

The Asset Manager is also entitled to a Performance Fee. Details of the Performance Fee are given below.

The following tables show the fees charged in the year and the amount outstanding at the end of the year:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Asset management fees charged*	2,579	2,356
Property management fees charged*	2,266	2,280
Performance fees charged	-	-
Total	4,845	4,636

	31 December 2020 £'000	31 December 2019 £'000
Total fees outstanding	1,190	1,275

* Including irrecoverable VAT charged where appropriate.

Transactions with the Investment Manager, Toscafund Asset Management LLP

Tim Bee is a non-executive Director of the Company, as well as being Chief Legal Counsel of the Investment Manager.

In consideration for the provision of services provided, the Investment Manager is entitled in each financial year (or part thereof) to 50% of an annual management fee on a scaled rate of 1.1% of the EPRA net asset value, reducing to 0.9% on net assets over £500,000,000. The fee is payable in cash quarterly in arrears.

The Investment Manager is also entitled to a Performance Fee. Details of the Performance Fee are given below.

The following tables show the fees charged in the year and the amount outstanding at the end of the year:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Investment management fees charged	2,577	2,356

Performance fees charged	-	-
Total	2,577	2,356
	31 December	31 December
	2020	2019
	£'000	£'000
Total fees outstanding	612	591

Performance Fee

The Asset Manager and the Investment Manager are each entitled to 50% of a performance fee. The fee is calculated at a rate of 15% of the total shareholder return in excess of the hurdle rate of 8% per annum for the relevant performance period. Total shareholder return for any financial year consists of the sum of any increase or decrease in EPRA NAV per Ordinary Share and the total dividends per Ordinary Share declared in the financial year. A performance fee is only payable in respect of a performance period where the EPRA NAV per Ordinary Share exceeds the high-water mark which is equal to the greater of the highest year-end EPRA NAV Ordinary Share in any previous performance period. The performance fee was calculated initially on 31 December 2018 and is assessed annually thereafter.

The performance fees are now payable 34% in cash and 66% in Ordinary Shares, at the prevailing price per share, with 50% of the shares locked-in for one year and 50% of the shares locked-in for two years

No performance fee has been earned for the years ending 31 December 2020 or 31 December 2019.

Company Information

Directors

Kevin McGrath (Chairman and Independent Non-Executive Director)

William Eason (Senior Independent Non-Executive Director, Management Engagement and Remuneration Committee Chairman)

Daniel Taylor (Independent Non-Executive Director)

Frances Daley (Independent Non-Executive Director, Audit Committee Chairman)

Stephen Inglis (Non-Executive Director)

Timothy Bee (Non-Executive Director)

Registered office

Regional REIT Limited
Mont Crevelt House
Bulwer Avenue
St. Sampson
Guernsey
GY2 4LH

Regional REIT Limited:
ISIN: GG00BYV2ZQ34
SEDOL: BYV2ZQ3
Legal Entity Identifier: 549300D8G4NKLRIBX73

Company Website

www.regionalreit.com