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21 December 2023

LMS Capital plc

LMS Capital plc (the "Company") acquires Castle View Retirement Village, Windsor as first step in establishing a retirement living investment platform

Summary

The Board of LMS Capital PLC ("LMS"), the listed investment company, is pleased to announce the acquisition of Castle View Retirement Village, Windsor ("Castle View").

- The acquisition price is £11.9 million, of which £6.0 million is being provided by LMS equity and the remaining £5.9 million by a loan from the existing lenders to the scheme.
- Castle View is a purpose built retirement village, completed in 2018 and comprising 64 individual 1 and 2 bedroom apartments, of which 15 remain to be sold.
- As set out in our 2022 Annual Report and again at the June 2023 half year, one of our objectives, as part of our real estate investment activity, has been to deploy capital in the retirement living sector which we believe offers the prospect of strong growth in the coming years.
- The investment in Castle View provides a foundation for our activity in the sector.

Integrated Retirement Communities

Underlying demand for retirement housing options in the UK is driven by the ageing population. The number of households of 75+ years is expected to increase by 77% in the 25 years to 2043.

This older population owns in excess of 40% of all residential housing equity, which can be used to finance retirement options and release equity, in addition to releasing family housing stock to the wider housing market.

The retirement living market is currently undersupplied, with relatively few developers of scale and an increasing interest from institutional capital.

The sector covers a wide spectrum of different housing options for older people, ranging from full provision care homes at one end to traditional housebuilding aimed at older people, but without any facilities, at the other end.

Integrated Retirement Communities ("IRCs"), of which Castle View is one, along with other established schemes around the country, sit broadly in the middle of this range. Residents have their own property and live independently in their own self-contained home, with access to communal facilities and amenities and the availability of optional support and care services, if needed, arranged between the resident and the providers.

Castle View

Castle View has been acquired from the two entrepreneurs, Robin Hughes and James Sarmecanic, who developed the site, and from their funding partner which provided equity funding for the development

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Castle View comprises a purpose-built retirement village, completed in 2018 including 64 individual 1 and 2 bedroom apartments. The communal facilities include 24-hour reception, library, private dining room, landscaped gardens, bars, lounges and a roof terrace.

Residents acquire individual apartments on 250-year leases and pay an annual service charge and a deferred fee. The deferred fee is payable only when an apartment is resold and is linked to a percentage of the resale price.

To date 49 apartments have been sold to residents on 250-year leases, leaving 15 apartments remaining to be sold. LMS has acquired the companies that employ the team responsible for running the village, as well as the entity that owns the freehold interest in both the sold and unsold apartments and which carries the right to receive the deferred fee.

Acquisition Terms

- The companies that own Castle View are being acquired for a price of £11.9 million on a debt-free and cash free basis.
- The acquisition is being part financed by a loan of £5.9 million from the existing lenders to the scheme, plus a £6.0 million equity investment from LMS.
- The acquisition includes:
 - the freehold interest in all 64 units, entitling the freeholder to the annual service charges and deferred fees;
 - the leasehold interests on the 15 unsold units which have an estimated sale value of £8.3 million;
- LMS will in addition provide £400,000 of working capital for the business;
- The loan is secured on the freehold interest and is for a term of 3 years. The loan is required to be paid down from the proceeds of apartment sales.

Returns

Sale of 15 unsold apartments

Construction was completed at the end of October 2018 and in the year from November 2018 to November 2019, 19 apartments were sold. The pandemic and lockdowns in 2020 and 2021 impacted the rate of sales, but rates have increased again in 2022 and 2023.

Sale rates for new developments in the retirement living sector are recognised to be slower than rates for regular market new build apartments and houses. We have taken a conservative view of sale rates for the remaining apartments in evaluating the acquisition but expect to maintain or improve upon the historic rates.

Deferred fees on resale of apartments

The deferred fees are payable to Castle View, by the vendor, out of the proceeds of resale as and when an apartment is resold. The level of deferred fee depends on length of ownership starting at 4% and increasing to a maximum of 20% from the beginning of the 5th year of ownership. The deferred fee covers the capital costs of constructing the communal facilities, the costs of updating the facilities over the lifetime of the asset and provides a return on the capital invested.

The timing and amount of the investment return from the deferred fees will depend on the actual timing and value of resales and will inevitably be uneven year to year. The average period of ownership within IRC's is 8 years, and on this basis on average approximately 12.5% of units would expect to be resold each year, once village occupancy has matured, meaning all units are sold and the pattern of occupancy established. Allowing for the time for the village to achieve maturity, our conservative base case appraisal model shows overall income returns in excess of 11%.

The annual service charge is designed to recover the regular costs of running the village, but not to give an operating surplus that would provide a return on capital.

Future Plans

The investment in Castle View is intended to be a cornerstone in the development of a retirement living investment platform.

LMS has established a subsidiary company, LMS Retirement Living ("LMSRL") as the acquisition vehicle for Castle View, to identify further investments in the sector and to identify additional equity and debt partners to coinvest alongside LMS.

The LMSRL Board will comprise individuals, all of whom LMS has been working with for the last 12-18 months as it has built knowledge and been evaluating opportunities to enter the sector.

The Board will be chaired by Roger Davies. Roger is a senior industry figure having been Chief Executive of MHA and Non-Executive Chair and Director of several sector businesses and has worked with LMS since early 2022. Other members of the team include:

- Karl Hallows - Karl has over twenty years experience in the retirement living sector, in senior and non-executive director roles and will join the LMSRL Board as an executive. Karl, in conjunction with the rest of the team, will have responsibility for the development of the investment platform.
- Chris Dancer - Chris is part of LMS' real estate team and has been instrumental during the last 2 years in establishing LMS' knowledge and presence in the retirement living sector and has been closely involved in evaluating potential investment opportunities.
- Caroline Howard - Caroline is part of LMS' finance team and will provide finance support.

Nick Friedlos, Managing Director of LMS, will oversee LMSRL on behalf of the LMS Board and will provide support to the team.

Commenting on the Acquisition:

Robbie Rayne, Chairman of the Board of LMS, said:

"Over the last 2 years, LMS has been evaluating opportunities to deploy capital in the retirement living sector as an extension to its property background.

The goal, having now acquired Castle View, is to develop an investment platform in the sector and deliver attractive returns to our shareholders. The sector is currently fragmented with multiple different business models and offers to residents. It offers the prospects of strong growth and attractive investment returns, underpinned by favourable demographics. I am confident in our team and the long-term prospects for the sector."

The person responsible for arranging the release of this announcement on behalf of the Company is IQ EQ Corporate Services (UK) Limited, the Company Secretary.

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