

## Home REIT to face shareholder claim over potentially misleading information

London, United Kingdom, 7 December 2022

- Specialist commercial litigation firm Marcus Parker today announced that it is pursuing a case to seek redress for shareholders of Home REIT over claims that they have been misled by information they were provided by the company and its associates.
- The law firm is seeking compensation for investors in relation to significant losses on their investments. Home REIT's share price has fallen by more than 50% in the year to date.
- Home REIT says that it invests and creates accommodation throughout the UK with the aim of helping to alleviate homelessness. It attracts investors' funds by positioning itself as a vehicle to deliver a positive social impact with an investment strategy to "*exclusively tackle homelessness*".
- The legal team at Marcus Parker has carried out extensive research into the company's behaviours, transactions, assets and business model over several months. They intend to pursue a case against the company on the grounds that it has used investors' money in a way which runs contrary to what investors were told.

### Summary of the case and issues

Harcus Parker intends to argue that investors paid more for their shares than they were actually worth and that Home REIT has not invested the proceeds from its fundraising rounds in accordance with its stated investment objective and policy. Furthermore, it will be argued that the company's business model and the security of its income stream are in practice materially different from what investors were told about them, and that, because of this, Home REIT's main asset — its property portfolio — is significantly overvalued.

The issues that Marcus Parker intends to address through the case include:

#### 1. Whether misleading information was provided by Home REIT in relation to its social impact

Home REIT informed investors that it would invest in "*high-quality homeless accommodation*" and that its investment strategy will seek to "*exclusively tackle homelessness*". However, Marcus Parker has seen evidence derived from public sources that appears to indicate that properties owned by Home REIT have been found by local authorities to be unsuitable for housing vulnerable individuals and have consequently been denied "*exempt accommodation*" status under the relevant housing benefit rules, and that others are being advertised by agents and on websites such as Zoopla and Spare Room for students and professionals and even on booking.com as holiday lets. In other words, the evidence suggests to Marcus Parker that some of the properties are being advertised for individuals who are not vulnerable and in need of care, support and supervision, and who consequently would not qualify for exempt accommodation under the housing benefit rules.

#### 2. Whether misleading information was provided in relation to the quality of its tenants who were responsible for leasing Home REIT's properties to vulnerable individuals

Contrary to representations in Home REIT's listing particulars and other documents, it appears from Marcus Parker's investigations and analysis that not all of the registered charities, housing associations and other organisations Home REIT leases its properties to have "*robust financials*", or a "*proven long-term operating track record across a diverse range of homeless sub-sectors and locations*".

### 3. Whether misleading information was provided in relation to Home REIT's business model

The claim will argue that the security of Home REIT's income stream in the form of "exempt" housing benefit ultimately payable by the Department of Work & Pensions is in practice materially different from what investors were told. Home REIT represented that its rental income from its tenants was effectively underwritten by the UK Government (in a similar way to other UK Government securities) and that there was low risk attached to the security of its income stream, when this does not appear to have been the case.

### 4. The valuation of Home REIT's assets

Harcus Parker's analysis of a sample of Home REIT's property portfolio indicates that Home REIT appears to have paid in excess of the market value for property to parties who are closely connected with some of Home REIT's largest tenants. More specifically, it appears that properties are acquired by intermediaries who then "flip" the properties between related parties over a short period of time, even on the same day, before the property is sold to Home REIT at a significant profit on the original acquisition price.

The valuation of Home REIT's property undertaken by the independent valuer is based on the "Investment Method", which entails an assessment of the operating performance of the property as an investment asset, and particularly, the covenant strength of Home REIT's individual tenants and their ability to make rental payments to Home REIT over the 20 to 30-year term of their leases. Harcus Parker has, however, seen evidence that the intermediaries who sell properties to Home REIT have made substantial payments to Home REIT's tenants, which will have the effect of improving their financial position and ability to make rental payments to Home REIT. In circumstances where the same intermediaries have sold property to Home REIT at a significant profit, Harcus Parker considers that the effect of these payments to the tenants is to help improve the financial status of the tenants, fund rental payments to Home REIT, and use the company's own funds to enhance the covenant strength which forms one of the bases of the valuation of Home REIT's property.

### **Home REIT's response to the Viceroy Research report**

The critical report on Home REIT published by Viceroy Research on 23 November 2022 touched on many of the issues identified by Harcus Parker. Harcus Parker has reviewed Home REIT's response to Viceroy Research's report. The response has not fundamentally changed the law firm's view of potential claims, and, in fact, supports its argumentation.

By way of example, Harcus Parker would make the following observations:

#### 1. Whether misleading information was provided by Home REIT in relation to its social impact

Home REIT's response states that there are "multiple avenues for downside protection, including ... re-letting to general needs social housing tenants, students, or other private renters". The company appears to acknowledge here that there are circumstances in which its property could be let to tenants who would not qualify for exempt housing benefit or any type of housing benefit.

#### 2. Whether misleading information was provided in relation to the quality of its tenants who were responsible for leasing Home REIT's properties to vulnerable individuals

Alongside the response, Home REIT provided a list of its top 28 tenants as at 1 November 2022. 16 of these were incorporated from the start of 2020 onwards. 21 have been incorporated in the last five years.

#### 3. Whether misleading information was provided in relation to Home REIT's business model

The response states that "Home REIT's rent is ultimately supported by central government funding and Local Authorities' statutory duty to house homeless people". However, it also recognises the risk that

local authorities may refuse Home REIT's tenants' applications for exempt accommodation housing benefit: "*The Local Authority will review the claim and the evidence provided and, assuming the application is approved, will backdate the payment to the date of occupation by the resident or date of block contract (as applicable).*" (our emphasis)

The consequence of any such refusal is that there is a risk that Home REIT's rent may not be supported by housing benefit paid to its tenants by local authorities (which is, in turn, subsidised by the Department of Work & Pensions).

The company's response also explains that that the intermediaries who are selling properties to the company are providing rent cover to the company's tenants (see below in relation to the valuation of Home REIT's assets). In these circumstances, Home REIT's rent is ultimately supported by Home REIT itself.

#### 4. The valuation of Home REIT's assets

The response states: "*Vendors typically provide the Company's Tenants with additional funding, usually representing twelve months of rent, to assist Tenants at any stage of the lease where the residential property may not have full occupancy, including in the important ramp up stage of a lease where properties may not be fully occupied.*"

This is consistent with other evidence seen by Harcus Parker of substantial payments being made by intermediaries selling property to Home REIT to Home REIT's tenants.

The response provides six examples of sales of property portfolios to Home REIT. Each of these shows the intermediaries selling the portfolios to Home REIT at a significant mark up on the purchase price paid by the intermediaries, and at a significant profit on the intermediaries' estimated costs. Harcus Parker calculates that the average estimated mark up on the purchase price across the six portfolios is almost double the intermediaries' purchase price at 99.4%. Home REIT's estimated profit on cost for the intermediaries for each of the six portfolios is 18%, 42%, 37%, 33%, 20%, and 27%.

**Jenny Morrissey, Partner at Harcus Parker** who is leading the team, said: "*Companies that are profiteering from the social housing crisis at the expense of the vulnerable and homeless should be held to account.*"

*"We have spent months investigating and analysing information available in the public domain about Home REIT. What we have seen is troubling for its investors, particularly as many of them chose to buy shares in Home REIT because its stated purpose and vision are that it wishes to contribute to the alleviation of homelessness in the UK."*

*"These shareholders include investors interested in delivering a positive social impact, such as impact funds, pension funds, and charities. There is much concern among them about what Home REIT has been doing, as well as how this has affected people's investments in the company."*

*"The significant drop in the share price provides stark evidence as to the loss suffered by investors, and we are therefore in a position to bring a claim on behalf of shareholders who have suffered damage."*

Harcus Parker has instructed a barrister, Sebastian Isaac KC of One Essex Court, to prepare the claim on behalf of investors.

Anyone who has held or continues to hold shares in Home REIT, either directly or through an intermediary, is eligible to join the Harcus Parker claim via its website, <https://homereitclaim.co.uk/>.

*Notes to Editors*

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**About Marcus Parker**

Marcus Parker has extensive experience bringing successful complex actions in high-profile disputes.

The team will be led by Jenny Morrissey, who is an expert in acting for claimants in high value financial services and securities disputes.

**About the case**

Claims that are being prepared will likely be brought against Home REIT and associated parties such as its authorised investment fund manager or “AIFM” (Alvarium Fund Managers (UK) Limited).

The claims will likely be pursued under section 90, section 90A, and/or other provisions of the Financial Services and Markets Act 2000 which provide avenues for investor redress, in relation to untrue and/or misleading statements and/or omissions in information provided by Home REIT, particularly in its listing prospectuses. The claims against the AIFM would likely be brought in the tort of negligent misstatement in relation to similar statements and/or omissions.

**Funding**

The claims will be brought on a fully contingent (“no win, no fee”) basis, such that the law firm would only be remunerated if the claims are successful. Marcus Parker will provide further details in due course. This will include an appropriate litigation funding and insurance package.

Marcus Parker intends to donate a share of its fee on a successful outcome to a homeless charity.