

6 February 2014

Grainger plc

Interim Management Statement

GRAINGER REPORTS A STRONG START TO THE YEAR AND STRENGTHENING MARKET CONDITIONS

Grainger plc ("Grainger", the "Company" or the "Group"), the UK's largest listed residential property owner and manager, today announces its interim management statement covering its activities for the four months to 31 January 2014.

Highlights

- Encouraging improvement in market conditions supporting valuations, sales and rental income;
- Having completed our deleveraging programme, we have begun to evaluate a number of value accretive investment opportunities;
- High level of interest in UK residential, particularly the private rented sector, from investors and local and central Government;
- Secured planning permission for three development projects: Royal Borough of Kensington and Chelsea (RBKC) developments, King Street, Hammersmith and Woodcroft Farm, Hampshire;
- Sale of a home reversion portfolio for £88m where Grainger retains management of the portfolio which will provide further fee income;
- Raised £200m through a corporate bond with a seven year maturity at a fixed coupon of 5%;

Sales, rents and fees

- Increase in Group sales to £149.3m (31 January 2013: £64.6m) due to the one off disposal of the home reversion portfolio as mentioned above (announced on 10 January 2014);
- Normal UK sales (vacant sales) showing improved margins with 219 units generating gross sales of £39.0m at an average margin of 49.4% (31 January 2013: 201 units generating £32.4m at a margin of 41.1%) and, on average, prices achieved have been 7.1% above the September 2013 vacant possession value;
- Gross rents of approximately £19.3m (31 January 2013: £27.3m), reducing as expected principally due to the significant disposal of properties in 2013, some of which were into co-investment vehicles;
- Underlying rents remain strong with an average rent increase of 5% on our regulated tenancy portfolio in the UK year-on-year, and rent increases on renewals of c.3.4% and increases on new lets of c.6.7% in the three months to the end of December 2013 on our managed UK market rented portfolio;
- Fees and other income were £3.8m (31 January 2013: £4.6m). This reflects the timing of project completions during the period.

Commenting, Andrew Cunningham, Chief Executive of Grainger, said:

"We have had a strong first four months of this financial year, with continued increases in sales prices and margins, securing planning permission for three major development projects and a significant disposal which further underlined the robust valuations and liquidity of our home reversion assets. We currently see good market dynamics which provide our business with a positive backdrop going forward as we focus for this year on investment and generating new business opportunities. We are

well positioned to take advantage of the current rising market and have begun to explore future value enhancing investment opportunities in both London and major regional cities. We look forward to an exciting remainder of the year.”

Market review

Improvement in the UK economy continues. In particular the UK housing market is showing continued positive house price growth in London and there are signs of upward price movement in the regions.

According to Nationwide, UK house prices rose for the thirteenth consecutive month in January to their highest level in almost six years and 8.8% up from a year earlier^{*}. However, while house prices are increasing, they are still about 4% below their 2007 peak, according to Nationwide. Halifax's house price index showed an alternative view of the market with a slight decrease in prices in December compared to November of 0.6%[†]. Nonetheless, Halifax agrees that the trend is still upward with house prices over the three months to December rising by 1.9% and an annual rise of 7.5%.

Our own experience of this rising market is evidenced by the increase in valuation of one of our London and south east focused managed market rented portfolios which saw an increase in market value of 6.3% between 30 June 2013 and 31 December 2013.

House building activity has increased over recent months, helped by positive housing market sentiment, the UK Government's Help to Buy scheme and increased mortgage lending. For Q3 2013, the Bank of England reported year on year increases in mortgage advances of 25%, and the Council of Mortgage Lenders indicate that this trend continued at the end of 2013. However, despite the increase in housing construction starts and Government support, overall housing supply is still considerably behind demand.

Despite Help to Buy, relatively high mortgage deposit requirements continue to restrict first time buyers and growth in households in the private rented sector (PRS) is expected to continue. PRS continues to receive cross-party political support and Savills expects the private rented sector to grow by one million households over the next five years. Savills estimate that by 2018, one in five households in England will be renting in the private sector.

In summary, although there is some uncertainty with regards to the timing of possible interest rate rises, and the impact of the General Election, various factors, including the mismatch between housing supply and demand and continued job growth, support a positive house price growth environment and increasing demand for private rented accommodation.

Sales

In the four months to 31 January 2014, the Group completed sales of 1,702 units for a gross consideration of £149.3m (31 January 2013: 583 units sold for £64.6m). This comprised sales from our UK residential portfolios of 1,536 units for £135.2m (31 January 2013: 519 units for £59.0m), sales from our German portfolio of 166 units for £13.9m (31 January 2013: 64 units for £5.4m) and sales from our Development division of £0.2m (31 January 2013: sales of £0.2m).

- UK sales of vacant properties of 219 units generated £39.0m at an improved average margin of 49.4% (31 January 2013: 201 units generating £32.4m at a margin of 41.1%). Prices achieved have been 7.1% above the September 2013 vacant possession value;
- Sales of tenanted properties (investment sales) from our UK portfolios generated £96.2m (31 January 2013: £26.6m), including the sale of the home reversion portfolio in January[‡].

^{*} Nationwide House Price Index, Press Release, 29 January 2014

[†] Halifax House Price Index, Press Release, 8 January 2014

[‡] Of the £88m proceeds from the equity release portfolio sale, £85m relate to sales of assets and are included within the above sales proceeds and £3m relates to the corporate sale of Equity Release (Increments) Limited.

The Group completed sales referred to above as well as contracts exchanged and in solicitors' hands stood at £190.3m (31 January 2013: £96.9m), which includes the significant disposal of the home reversion portfolio for £88m. Of this total, £175.9m is within our UK businesses (31 January 2013: £86.5m) and £14.4m is in Germany (31 January 2013: £10.4m). We see a strong and widening demand for sales in London and the South East but increasingly throughout the regions too.

In the coming months, we expect our Development division to become a greater contributor to profits as the significant pipeline generates sales; our Macaulay Walk scheme in Clapham, London, which launches to the market this week, is a key example.

Rents

During 2013, in line with Group strategy, we sold £348m of assets into joint venture or associate vehicles. Gross rents, as expected, therefore reduced and for the four months were approximately £19.3m (31 January 2013: £27.3m). Of this £15.3m is from our UK portfolio (31 January 2013: £20.4m) and £4.0m derives from our German portfolio (31 January 2013: £6.9m). Underlying rents remain resilient with good growth achieved for both regulated and market let properties.

Fees

Fee income for the four months from our asset and property management activities was approximately £3.8m (31 January 2013: £4.6m). The small year on year reduction reflects the timing of project completions during the period which impacted the receipt of success-based fees. As part of the sale of the home reversion portfolio in January, Grainger retained management responsibility for the portfolio which will contribute approximately £0.6m on an annualised basis to the Group's recurring fee income.

Acquisitions activity

In the four months to the end of January 2014, we had completed, exchanged or placed in solicitors' hands some £9.6m of property acquisitions (31 January 2013 £2.9m).

With our deleveraging programme complete, we have begun to explore new investment opportunities, in both our reversionary and private rented sector businesses.

Debt

Group net debt stood at c.£917m at 31 January 2014 (30 September 2013: £959m) and consolidated loan to value (LTV) is estimated to be 49% (30 September 2013: 48%). The movement in LTV since September follows the breaking of certain interest rate swaps for £36m required in advance of our November 2013 corporate bond issue. We expect to remain within our stated target range of 45% to 50% LTV in the near term – the figure will be influenced by the rate of growth of asset value and the rate of deployment of capital into new opportunities.

Available headroom (undrawn facilities and cash) amounted to £402m (30 September 2013: £292m).

Outlook

The current year has started well and we are cautiously optimistic about the future. The slow return to general UK economic growth is encouraging and this should support a broader based housing market recovery which will reach beyond London and into the regions. Our reduced LTV and increased headroom provide us with greater financial flexibility to respond to changing market conditions. Our unique skills and unparalleled position in the residential market will enable us to create and execute innovative opportunities with the purpose of delivering sustainable shareholder value.

-ENDS-

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