

# Analyst and Investor Day

## March 25 2010



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# Today's agenda

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**11.30 am Refreshments and registration**

**11.45 am Presentations**

- Introduction and overview
- Core UK
- Retirement Solutions
- Fund Management
  
- Development
- Germany
- Property Services

Andrew Cunningham  
Andrew Pratt  
Peter Couch  
Alex Greaves  
Michael Lamyman  
Richard Shaw  
Peter Brock  
Mark Robson

**1.00 pm Lunch**

**1.30 pm Tour commences**

- Macaulay Road, Clapham, SW4
- TILT Estate, SE22
- Tait & Benson & Waterloo 2, SE1
- Bethnal Green, E2
- Ability Plaza, E8 / Ability View and 218 Kingsland Road, E2

**4.30 pm Return to FD**

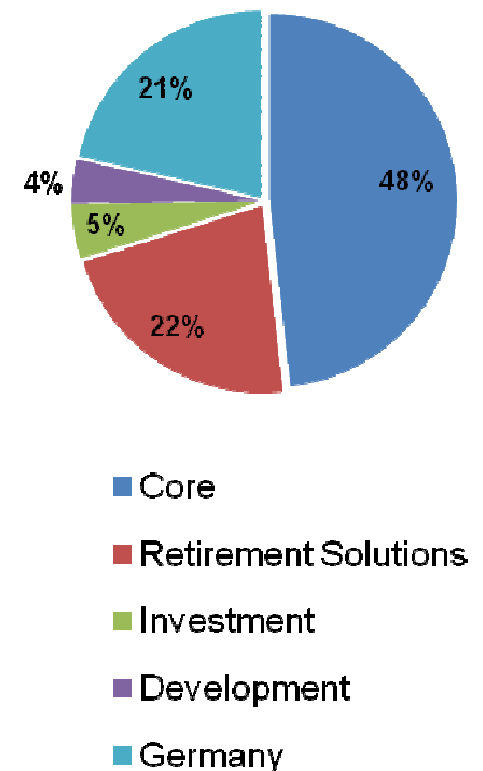


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# Group Overview

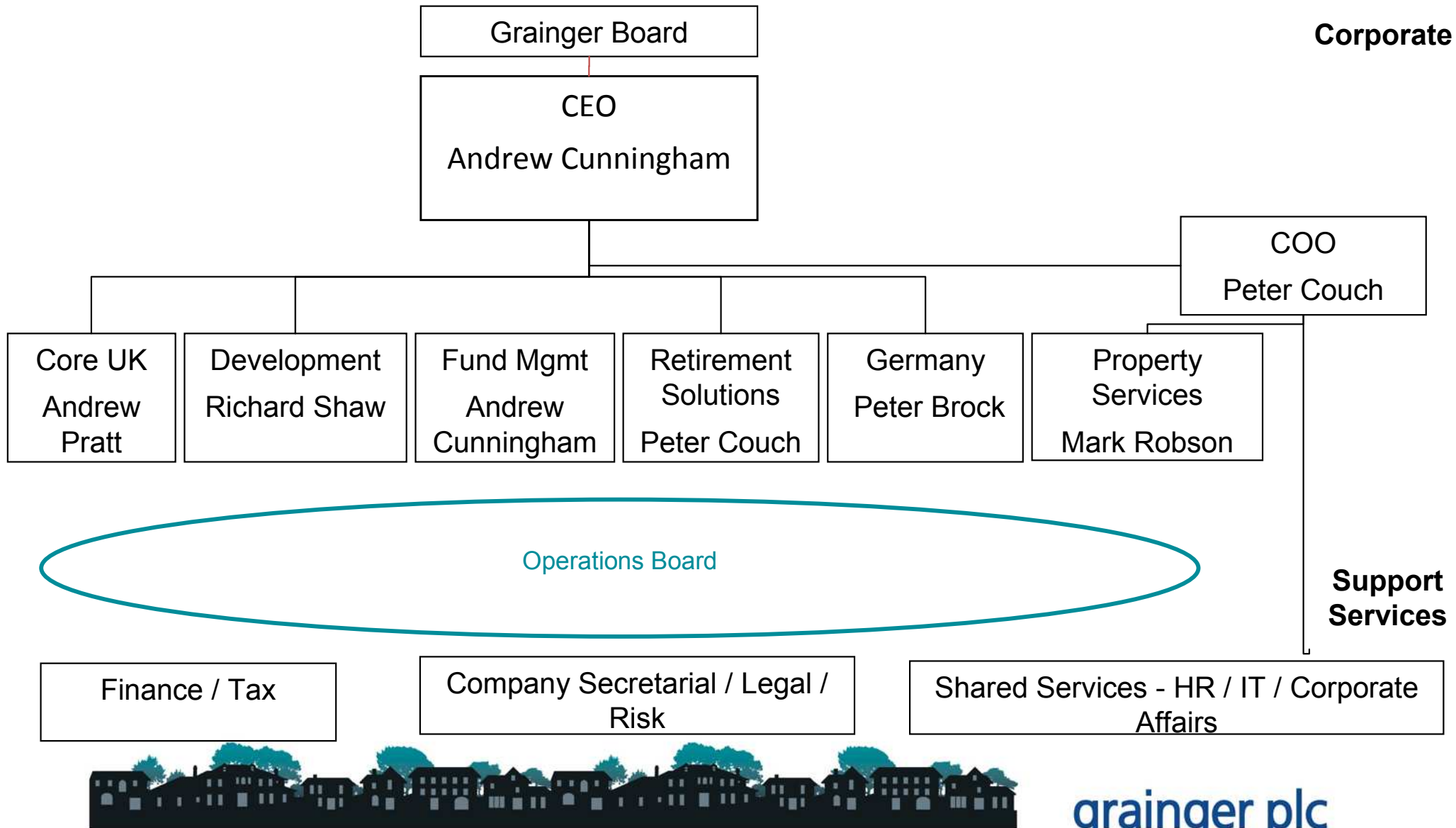
- UK's largest quoted specialist residential property owner
- Substantial liquid portfolio valued at £2.1bn at 30 September 2009, mostly un-modernised properties of low average value
- Diversified business including regulated properties, market rents, home reversions, selective developments and presence in Germany
- Six business areas, five related portfolios:
  - Core (mostly regulated properties)
  - Retirement Solutions
  - Fund Management and Residential Investment
  - Development
  - Germany
  - Property Services Business
- Leading residential platform in the UK with 6 offices throughout the UK and over 250 staff

**Gross asset value per portfolio at 30 September 2009**



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# Grainger structure



# Portfolio Overview

## Portfolio Analysis - Wholly Owned

Figures as at 30 September 2009

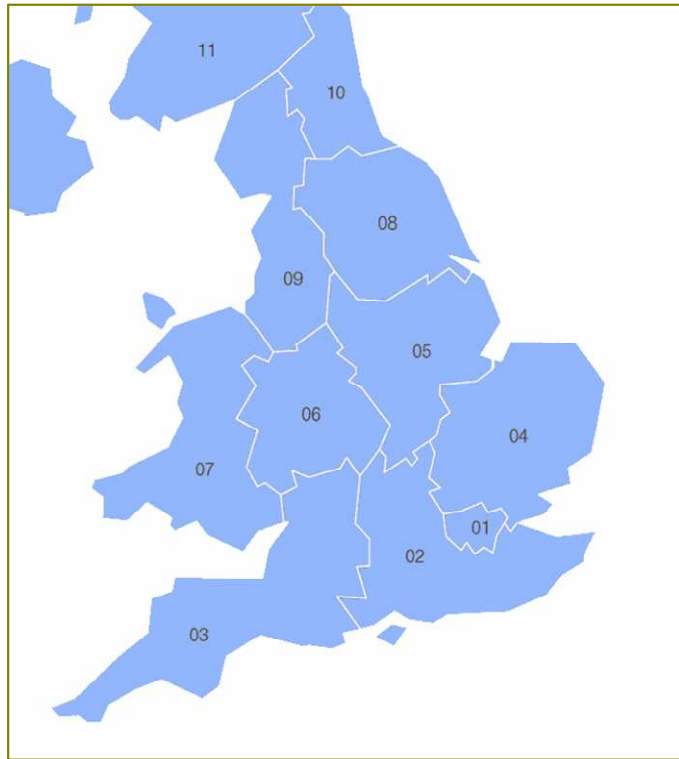
	<u>No of Units</u>	<u>Gross Market Value £m</u>	<u>Gross Vacant Possession Value £m</u>	<u>Reversionary Surplus £m</u>	<u>VP%</u>
Regulated	6,327	871	1,197	326	0.73
Assured	495	78	89	11	0.88
Vacant	286	51	51	-	1
Other	50	59	74	15	0.8
Core UK portfolio	7,158	1,059	1,411	352	
Home Reversion	6,101	481	699	218	0.69
UK - residential	13,259	1,540	2,110	570	
UK - development -		70	70	-	
Total UK	13,259	1,610	2,180	570	
German portfolio	7,180	473			
Total	20,439	2,083			



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# Portfolio Analysis

## UK Portfolio Location as at 30 September 2009



		Number of units	Investment Value £m %		Vacant Possession Value £m %		Value reduction in year %
01	Central London	534	179	12%	242	11%	2.4%
01	Inner London	1,127	238	15%	309	15%	(1.3%)
01	Outer London	1,200	167	11%	233	11%	(3.3%)
02	South East	2,315	254	16%	350	17%	(3.5%)
03	South West	1,401	129	8%	177	8%	(6.2%)
04	East	1,425	131	9%	181	9%	(3.6%)
05	East Midlands	887	73	5%	102	5%	(8.0%)
06	West Midlands	1,086	126	8%	169	8%	(6.2%)
07	Wales	182	14	1%	22	1%	(8.8%)
08	Yorkshire	813	60	4%	87	4%	(7.8%)
09	North West	1,538	114	7%	162	8%	(8.9%)
10	North East	408	35	2%	47	2%	(7.1%)
11	Scotland	326	19	1%	27	1%	(12..0%)
12	Northern Ireland	17	1	-	2	-	(20.1%)
		13,259	1,540	100%	2,110	100%	(4.1%)

- 54% (by value) of our properties in London and South East □ greatest future anticipated capital appreciation in the UK
- (N.B: analysis excludes ground rents, garages and other property or our share of joint venture assets)



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# Core ☐ UK Residential

## Portfolio 2010

- ☐ Represents 48% of Gross Asset Value of Grainger as at 30 September 2009
- ☐ Properties typically acquired at discount to vacant possession value, reversionary surplus £352m
- ☐ Primarily (90% by value) regulated properties or vacant ex-regulated
- ☐ Geographically diverse portfolio assembled over a number of years
- ☐ Geographic spread mitigates against cluster risk, but 54% by value in London and South East
- ☐ Mostly un-modernised properties of low average value
- ☐ Sustainable demand with average value of regulated properties £189K (Halifax average £164K)
- ☐ Acquisition at discount to vacant possession value offers price flexibility ☐ sales margin historically high
- ☐ Liquid portfolio selling 8-9% of portfolio per annum
- ☐ Long term cash flows generated by this portfolio

**Strategy:** Regulated properties are finite asset class, replenish stock at attractive prices; grow market share



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# Core ☐ UK Residential

## Property Assets



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# Core ☐ UK Residential

## Current Market Opportunities

- ☐ Deal flow has recently improved for both single asset purchases as well as larger corporate/portfolio opportunities
  - ☐ Regulated / Reversionary single assets: advantageous pricing, balance sheet replenishment (core business), arbitrage opportunities
  - ☐ Larger market rented/mixed tenure portfolios: yield, break-up opportunities
- ☐ Current pipeline (all pre due diligence) phase:
  - ☐ Ranges from single reversionary assets (approx. £150k) to larger portfolios (>£100m) ☐ mainly London / South East focused
  - ☐ Possibility to acquire through various structures (on BS, JVs, funds)
- ☐ Developing further opportunities: enhanced pipeline of investments in attractive new sectors as well (but will only be pursued if returns are equivalent to core)
  - ☐ We are seeing an increased level of investment activity
  - ☐ Several recent reverse enquiries for co-investment opportunities



# Retirement Solutions

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- Grainger is UK market leader in home reversion with 31% market share as at 30 September 2009 (source: SHIP)
- Bridgewater business winner of Best Home Reversions Provider in 2009 for the fourth consecutive year
- Established distribution network (Aviva and our Bridgewater business)
- Portfolio is sufficiently mature to be cash generative (vacancy rate c.4% per annum in 2009)

Strategy: Seek alternative methods of funding (asset specific debt, 3<sup>rd</sup> party equity) maintain leading position and recommence acquisitions as market conditions allow



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# Retirement Solutions

## Portfolio Summary

		Vacant Possession		Investment	Average Investment			
	<u>No.</u>	<u>Value</u> <u>£m</u>	<u>Average</u> <u>£</u>	<u>Value</u> <u>£m</u>	<u>Value</u> <u>£</u>	<u>Average</u> <u>Age</u>	<u>Minimum</u> <u>Age</u>	<u>Maximum</u> <u>Age</u>
Reversion	3,905	489	125,314	284	72,599	78	55	100
Equity Mortgages	1,145	122	198	109	95,242	77	48	96
Retirement	1,051	88	84,178	88	84,178	77	55	98
Total	6,101	699	114,640	481	78,765			

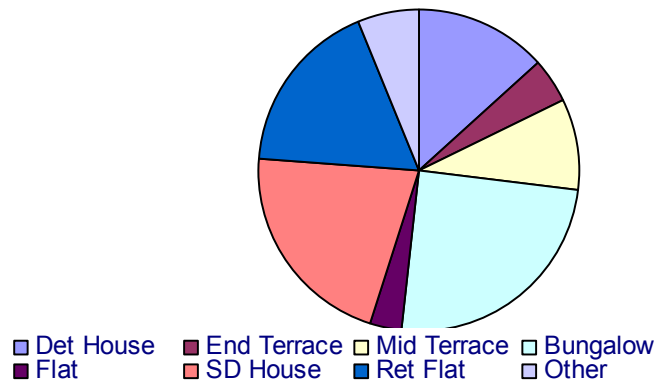


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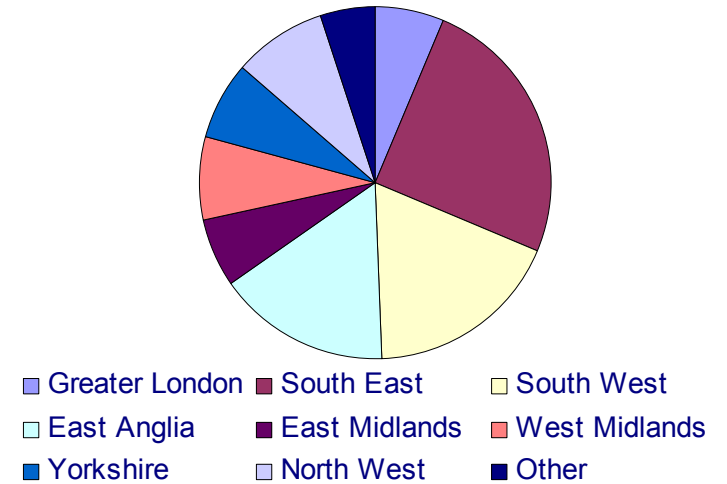
# Retirement Solutions

## Portfolio Analysis

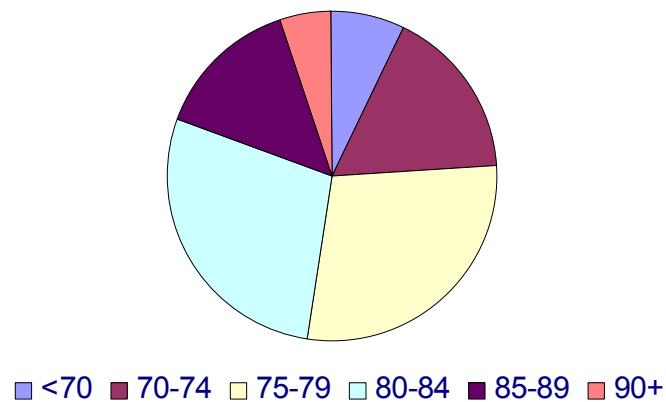
By Property Type



By Region



By Tenant Age



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# Fund Management

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## Current Fund/JV Business Unit

- ☐ 3 Funds/JV
- ☐ G:res (market rented fund)
- ☐ Grainger GenInvest (joint venture with Genesis Housing Group)
- ☐ Schroders ResPUT





# Fund Management

## G:res Summary

- Valuation as at end of December 2009 was £353m
- Gross yield of 6.1% as at end of 2009.
- 2,085 units in 48 blocks of property located across the UK
- Total third party equity fully allocated is £199m with Grainger holding £43m (21.63%)
- 13 blue chip institutional investors (UK, Scandinavian, Japan, Netherlands, Switzerland)
- £225.5m debt equating to 62% LTV



The Paddocks, Martlesham



Kingsland Road, London



Burgess Place, Martlesham



Wellesley Court, Twickenham



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# Fund Management

## GenInvest Summary

- Geninvest is a JV between Genesis Housing Association and Grainger
- Geninvest is split into 2 portfolios (GGI 1 & GGI 2)

	<b>Vacant Possession Value £m</b>	<b>No of units</b>
GG1	97.5	477
GG2	250.0	1,160



Tait and Benson House,  
Waterloo, SE1



Dibdin House, Maida  
Vale, W9



Walworth Estate, SE17



Ufford Street, Waterloo, SE1



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# Fund Management

## Value added case study

### Walworth Estate, SE17

- Strategy: To refurbish and re-let properties as they come vacant. Units on the perimeter of the estate to be considered for sale.

### Merrow Street, (Walworth)

- To refurbish the external and internal common parts and re-open the garden area

Before



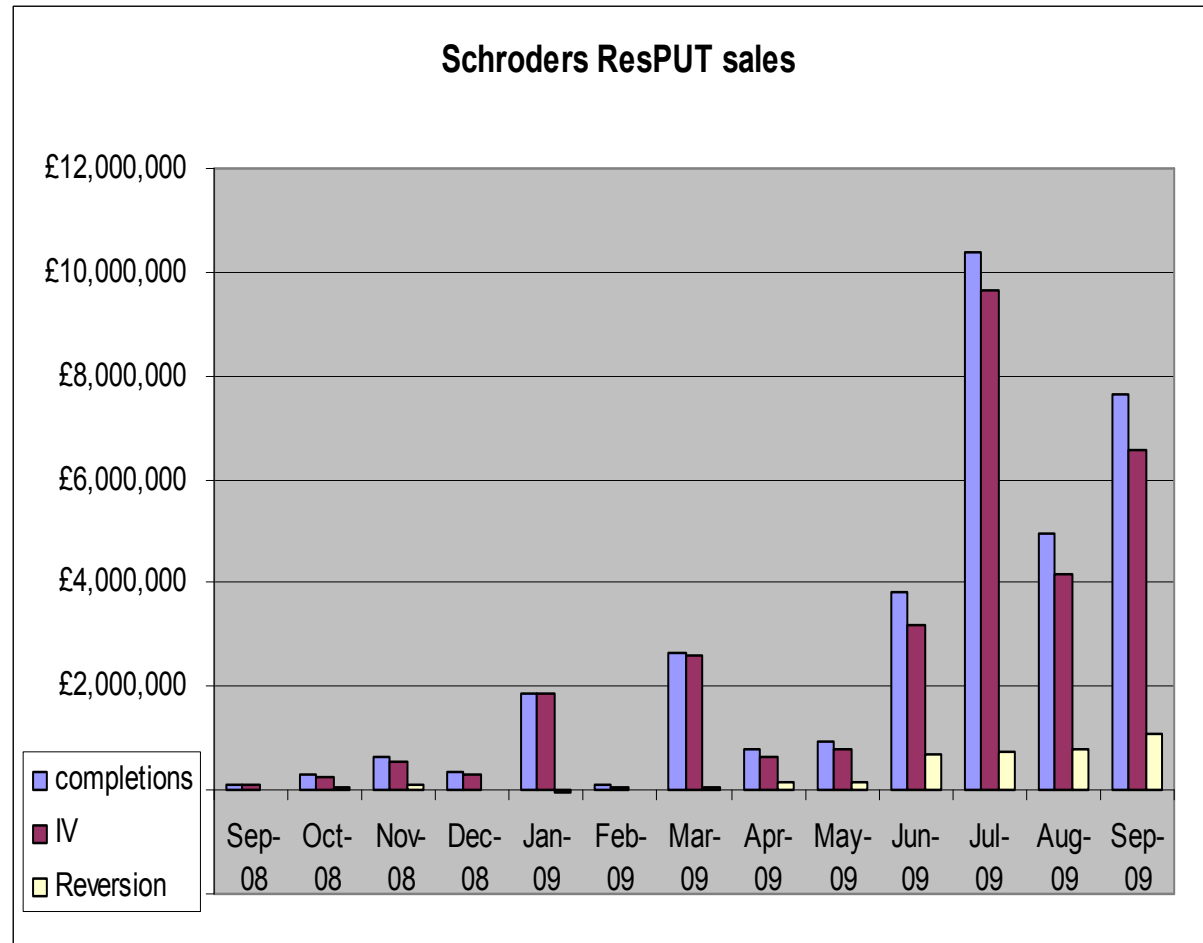
After



After



# Fund Management



- Liquidation started Feb 2009
- £31.6m completed
- £2.3m exchanged
- £18.4m solicitors instructed
- 10.4% over target
- £15.8m still to sell





# Development

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## The Role of Development

- ☐ Offers opportunity to access development level returns of circa 20% on total costs
- ☐ Legacy
- ☐ Recognition that the division is a small business unit within a sizeable residential investment business. We should contribute to returns whilst managing downside risk through well considered project selection, appropriately structured investment, and effective project management
- ☐ Corporate profile
- ☐ Ability to deploy development expertise/skill set across the Group to realise added value.





# Development

## Hornsey Road



Recognised as London's fastest selling residential scheme of 2009 (**Molior Autumn 2009**)



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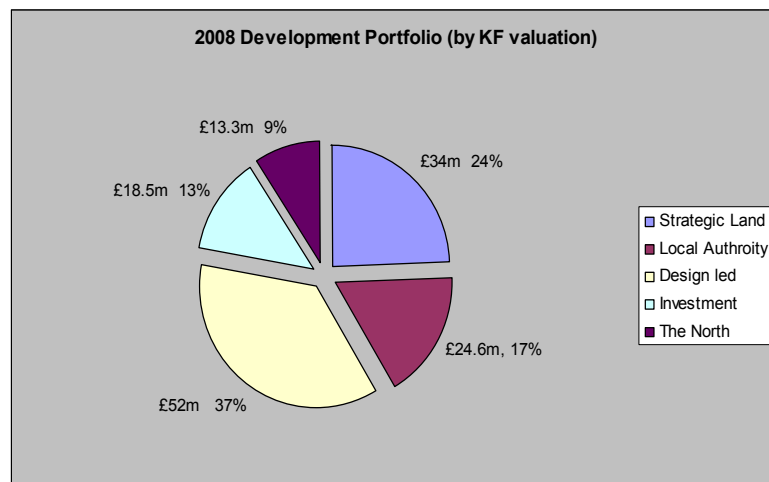
# Development

## Portfolio Analysis

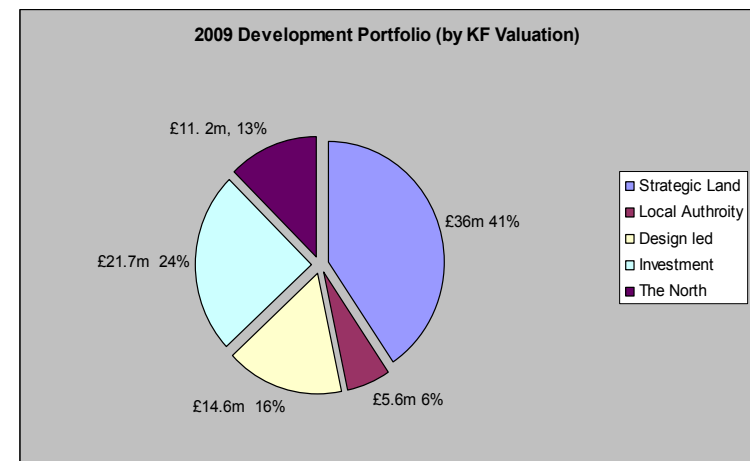
September 2009

Grainger plc assets - £2.3bn

Development assets - £89m (3.7% of Grainger group assets)



2008 Portfolio - £143m



2009 Portfolio - £89m



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# Development

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Following a period of change in the development business there is a requirement to rebalance the portfolio

- ☐ Promotion of joint venture partnerships on larger projects through new and existing contacts
- ☐ Investment - Long term income producing assets with future development potential
- ☐ Design led - London, 50-100 units
- ☐ Prime ☐ Opportunistic
- ☐ Strategic land
- ☐ Opportunities within the existing portfolio

## Geographic focus

- ☐ Strategic land ☐ Southern England
- ☐ Development - London



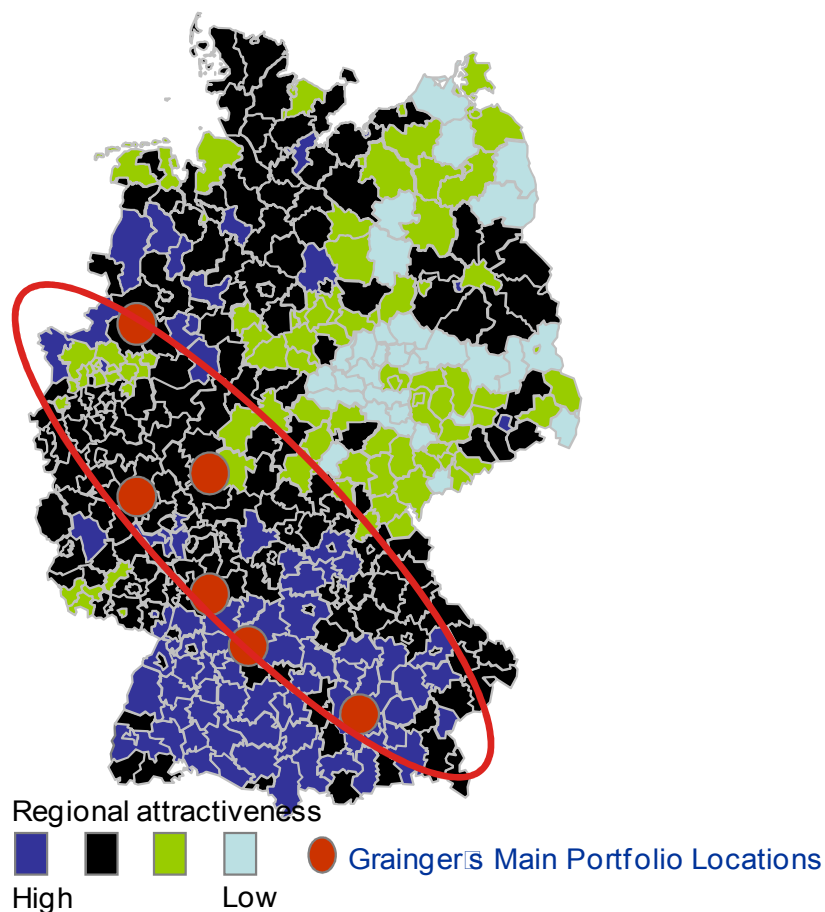
## Business characteristics

- Portfolio acquired since 2005 as part of diversification strategy
- Asset management platform established in 2006
- Predominantly a letting business
- Strategic focus on assets in economically and demographically strong areas of Germany
- Concentration in 2009 primarily on integration of Francono-Rhein-Main AG, acquired in April 2008



# Germany

## German Portfolio Overview Portfolio Concentration and Assessment



Source: Berlin Institute for Urban and Regional Studies (2006).

Note: Based on economic development, population and recreational opportunities.

## Key Portfolio Statistics

- Middle-quality multi-family housing
- Book value of assets: □516m (£472.1m)
- Gross rental income: □34.6m<sup>(1)</sup> (£30.3m)
- Total number of units: 7,180
  - Residential units: 6,807
  - Commercial units: 373
- Total area: 482,624 sqm
- Gross rent per sqm per month: □6.28
- Vacancy 4.5% (available for re-letting)
- Gross rental yield: 6.7%<sup>(1)</sup>

Note: As of 30th September, 2009

(1) 2009 .



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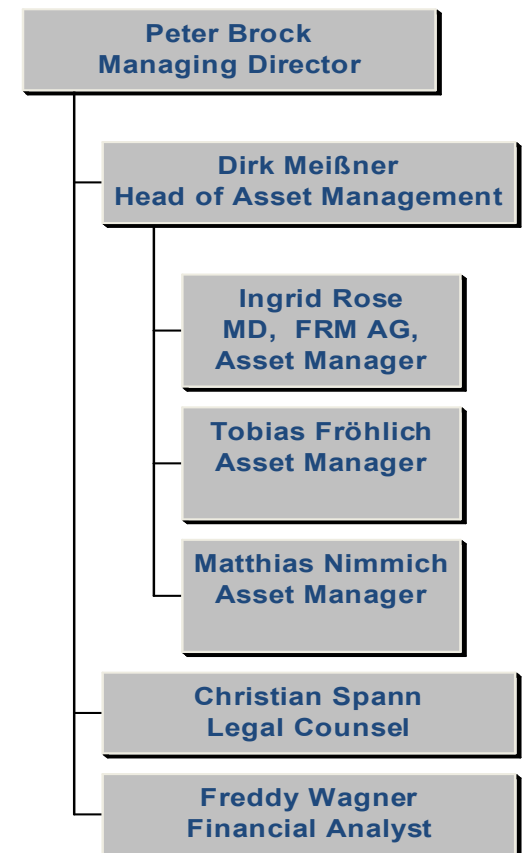


## German Platform

**Grainger Deutschland GmbH is the German Asset Management arm of Grainger plc**

- Asset management services for all of Grainger's portfolios in Germany
- Co-ordination of all property management activities for these portfolios, primarily through Gebau Vermögen GmbH, a joint venture between Grainger plc and the Lindner Group.
- 10 full-time staff in Frankfurt and have a presence in Düsseldorf

## Organisation chart



Strategy □ Property activities: To expand business without further significant input of Grainger equity

A. Portfolio	B. JV / co-investment	C. Related activities
<ul style="list-style-type: none"> <li>□ Optimise portfolio through increased sales and selective re-investment</li> <li>□ Increase concentration in chosen markets</li> <li>□ Optimise financing structure</li> </ul> <p>→ □ Organic □ growth</p>	<ul style="list-style-type: none"> <li>□ Acquire larger portfolios in co-operation with external investor(s)</li> <li>□ Co-investment 10-25%</li> <li>□ Retain asset and property management in-house</li> <li>□ 7-10 year fee-generating contracts</li> </ul> <p>→ Increased long-term fee-based income</p>	<ul style="list-style-type: none"> <li>□ Look for opportunities in related areas which capitalise on Grainger skills:</li> <li>□ student housing (structural shortage in Germany)</li> <li>□ sheltered housing (rapidly ageing population)</li> <li>□ etc.</li> </ul> <p>→ Diversification</p>



## Strategy □ Service-related activities

### A. Property management

- Grow institutional management business
- Develop commercial management business on selective basis
- Seek mandates from closed-end fund companies

→ Leverage existing platform

### B. Asset management

- Seek external mandates
- Advisory business for third parties:
  - investment strategies
  - portfolio analysis
  - due diligence
  - transaction support
- Specialist mandates, e.g. student housing
- Develop business with fund management companies

→ Increase fee income



# Property Services

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## Current structure and portfolio

- ☐ Operating from 5 regional offices
- ☐ In excess of 100 staff
- ☐ Dedicated national property management; sales and valuation teams
- ☐ Trainee PMA's/PMA's/PM's/SPM's ☐ sales and lettings
- ☐ Geographically allocated portfolios for efficient, effective service delivery of all tenures
- ☐ Total units under management 13,000+
- ☐ Total rent roll under management £62m



# Property Services

## Range of property services

Includes:-

- ☐ Complete ☐ multi-tenure ☐ portfolio management
- ☐ Sales and valuations
- ☐ Lettings and AST management
- ☐ Estate and Block management services
- ☐ Retirement solutions management inspections
- ☐ Refurbishment/repairs management

A dedicated property service throughout the life cycle of the asset





# Property Services

## The value added approach

- Owner mentality
- In-house experience
- Local experts
- Market knowledge with National view
- Ownership of portfolio
- Performance management
- Commercial and added value focus on expenditure
- Customer and service focussed
- Continued investment in new technology and innovative solutions
- Our team and people training
- Complete National one-stop property services



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### Tour Route:

- A □ FD offices
- B □ Macaulay Road (Development)
- C □ Tilt Estate (Grainger □ core)
- D □ Tait & Benson & Waterloo 2 (Grainger GenInvest)
- E □ Bethnal Green (G:res)
- F □ Ability Plaza (G:res)
- G □ Ability View (G:res)



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# Property Tour - Macaulay Road, Clapham

- Nov 07 planning consent 97 resi units (65 private) & 30,000 sqft office
- Proposed new planning application to replace offices with flexible building to accommodate commercial and residential use. Determination June 2010.
- Housing mix □ new build and converted stock; houses and apartments
- On site early 2011 with practical completion mid 2012.
- GDV c£50m (avg private resi £575 psf)
- Costs to complete c£30m (inc. interest ex. Land)
- Pre sale of affordable homes to MHT for £5.75m
- Estimated margin c25% on total development cost.



# Property Tour - The Tilt Estate, East Dulwich, SE22

Owned by Grainger  
Purchased October 2007

Tenancy Type	Count	Current Rent (£k)	Book Value (£k)	Current IV (£k)	Current VP (£k)	Average Current VP (£k)
Regulated	38	177	5,303	5,303	7,315	193
Assured	8	53	1,132	1,132	1,415	177
AST	228	2,324	39,684	39,684	45,125	198
Ground Rent	5	0.45	13	13	24	-
Commercial Lease	3	30.2	455	455	455	152
Vacant	18	-	2,968	2,968	3,045	169
Other	9	-	151	151	151	-
<b>GRAND TOTAL</b>	<b>309</b>	<b>2,585</b>	<b>49,706</b>	<b>49,706</b>	<b>57,530</b>	<b>-</b>



## Overview

This portfolio has a freehold interest in a number of buildings situated around a garden square, subject to a number of different tenancy types.

## Business Strategy

Long term hold with various added value opportunities including potential for a development on a car park.



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# Property Tour - Tait and Benson, Waterloo

Owned by Grainger Geninvest (Grainger hold 50%)  
Purchased July 2005 as part 1 of 2 portfolios from the  
Church Commissioners.

	Number of units	VP (£)	IV (£)*	Potential Rental Income (Current rent plus ERV for vacant units)
AST	14	3,442,000	3,010,000	103,368
AST key worker	9	2,073,000	1,764,000	72,132
Assured	12	2,821,000	2,188,000	89,700
Regulated	12	3,145,000	2,280,000	65,754
Commercial	6	230,000	230,000	22,000
Vacant for Sale	0	0	0	0
<b>TOTAL</b>	<b>53</b>	<b>11,711,000</b>	<b>9,472,000</b>	<b>352,954</b>



## Overview

Mixed tenure block that was subject to an external refurbishment program managed by the Grainger refurbishment team.

## Business Strategy

Selling on vacancy post works. In addition 19 units have been sold for a value of £4,725,323



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# Property Tour - Waterloo 2, Mitre, Ufford and Webber Street

Owned by Grainger Geninvest (Grainger hold 50%)  
Purchased March 2006 as part 2 from the Church Commissioners.

	Number of units	VP (£)	IV (£)*	Potential Rental Income (Current rent plus ERV for vacant units)
AST	49	13,707,000	11,950,000	595,015
AST key worker	0	0	0	0
Assured	34	9,669,000	7,501,000	242,712
Regulated	70	25,154,000	18,241,000	390,751
Vacant for Let	2	593,000	460,000	30,000
Vacant for Sale	1	484,000	351,000	16,640
<b>TOTAL</b>	<b>156</b>	<b>49,607,000</b>	<b>38,503,000</b>	<b>1,275,118</b>



## Overview

Period stock in an excellent location.

## Business Strategy

Long term hold of the flats and modernise on vacancy. The houses to be sold on vacancy. In addition 3 houses have been sold for a value of £1,505,000.



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# Property Tour - Bethnal Green

Owned by G:res (Grainger hold 21.63%)

	Number of units	VP (£)	IV (£)*	Potential Rental Income (Current rent plus ERV for vacant units)
Livework	81	27,533,000	22,885,000	1,127,892
Commercial	57	5,620,000	5,620,000	692,022
<b>TOTAL</b>	<b>138</b>	<b>33,153,000</b>	<b>28,505,000</b>	<b>1,756,915</b>



## Overview

1950s office building converted in 2004 to provide 20 live / work units and 16 x B1 office units

## Business Strategy

Long term Hold

Review Live/work consents



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# Property Tour - Ability Plaza, 1a Arbutus Road, E8

Owned by G:res (Grainger hold 21.63%)  
Purchased March 2005 as part of Ability Portfolio

	Number of units	VP (£)	IV (£)*	Potential Rental Income (Current rent plus ERV for vacant units)
Livework	101	29,285,000	25,952,375	1,481,936
Commercial	10	1,780,001	1,780,001	139,921
Parking	11	210,000	175,000	16,220
<b>TOTAL</b>	<b>122</b>	<b>31,275,001</b>	<b>27,907,376</b>	<b>1,638,077</b>

## Overview

Development completed in 2005 comprising 101 Live / work units and 10 x B1 offices on ground floor with parking to the rear of the building.

## Business Strategy

Long term Hold



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# Property Tour - Ability View, 218 Kingsland Road, E8

Owned by G:res (Grainger hold 21.63%)  
Purchased March 2005 as part of Ability Portfolio

	Number of units	VP (£)	IV (£)*	Potential Rental Income (Current rent plus ERV for vacant units)
Livework	28	9,552,204	8,528,516	468,944
Commercial	8	1,287,795	1,287,795	102,374
<b>TOTAL</b>	<b>36</b>	<b>10,839,999</b>	<b>9,816,311</b>	<b>571,318</b>



## Overview

1950's office building converted in 2004 to provide 20 live / work units and 16 x B1 office units

## Business Strategy

Long term Hold  
Review Live/work consents



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# Grainger representatives

- |                     |   |
|---------------------|---|
| • Andrew Cunningham | CEO   |
| • Peter Couch       | COO and Managing Director, Retirement Solutions       |
| • Andrew Pratt      | Managing Director, UK Residential                     |
| • Peter Brock       | Managing Director, Grainger Germany                   |
| • Mark Robson       | Managing Director, Property Services                  |
| • Richard Shaw      | Director of Development                               |
| • Alex Greaves      | Fund Manager, Grainger GenInvest and Schroders ResPUT |
| • Michael Lamyman   | Fund Manager, G:res                                   |
| • Andrew Saunderson | Director of Acquisitions and Asset Management         |
| • Dave Butler       | Director of Corporate Affairs                         |
- 
- |                 |                        |
|-----------------|------------------------|
| • Margaret Ford | Non Executive Director |
|-----------------|------------------------|
- 
- |                     |                    |
|---------------------|--------------------|
| • Stephanie Highett | Financial Dynamics |
| • Dido Laurimore    | Financial Dynamics |



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## For further information:

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