12 August 2008

Grainger plc

Interim Management Statement

Grainger plc ("Grainger" or the "Company"), the UK's largest quoted residential property owner, today presents its interim management statement covering its activities for the four month period to 31 July 2008.

Highlights

- Increased emphasis on cash generation through:-
  - ongoing sales programme: sales from our residential portfolios in the ten months to 31 July 2008 totalled £122m with a further £62m sales exchanged or in solicitors' hands and a further £32m being marketed
  - significant reduction in acquisition and development project expenditure
  - planned reduction in overheads

- Sales of vacant units from the core portfolio in the ten month period to 31 July 2008 made at 2.4% premium to September 2007 valuations and sales made since March 2008 at 2.7% below that valuation.

- Overall headroom on Group banking facilities of over £400m and continuing focus on debt reduction.

Comment

Commenting on the results to the end of July, Robin Broadhurst, Chairman of Grainger said:-

"These are unquestionably difficult times for businesses in the residential sector. In response to these market conditions we are putting increased emphasis on cash generation – by driving through a significant programme of asset sales, by reducing acquisitions and spend on development projects and by cutting overhead costs. Despite the challenging trading market our unique portfolio is showing relatively good liquidity and we expect overall full year sales values from our core and home reversion portfolios to exceed those of last year."

Market Review

For the 12 month period to July 2008 the major indices of house prices, Nationwide and Halifax, showed falls of 8.1% and 10.9% respectively. We are therefore pleased that in the financial period to 31 July sales prices of vacant properties in our core and home reversion portfolios have held up and overall are 2.0% up on September 2007 values. This masks regional variations with London and the South East performing strongly and the East Midlands and North West in particular showing weakness.

We have also noted that a deteriorating trend is now in evidence, with sales prices particularly in the investment market weakening since March and a slowing of the sales process as potential purchasers find difficulties in securing acquisition finance. Indeed properties that are under solicitors instructions and which will therefore complete over the next few months show indicative sales prices approximately 7% below last September values.

Importantly, one key strength of our portfolio is its liquidity as evidenced by an ongoing and active sales programme. As well as having completed sales of £122m from our residential portfolios as at 31 July, we have £62m in contracts exchanged or with solicitors instructed and a further £32m for sale. This compares to an equivalent completed sale figure of £143m for the financial year to 30 September 2007.

Core Portfolio

In the ten month period to 31 July 2008 we have sold 405 vacant units (termed "normal sales") for £80m at an estimated trading margin of 47.1%. The equivalent figures to the end of July 2007 were 486 units for £95m at a margin of 49.6%. These sales were made at values 2.4% in excess of 30 September 2007 vacant possession values. Normal sales made since 31 March 2008 (our half year reporting date) have been 2.7% below September 2007 vacant possession values, a reflection of how pricing pressures have started to impact our trading performance in the last few months.

In addition to normal sales we have made £18m of investment sales (sales with a tenant in place) at a discount of 7% to last year's valuation and other sales of £3m. For the ten months to 31 July 2007 these combined sales amounted to £11m, and for the full year to 30 September 2007, £17m.

As we mentioned in our half year report we have significantly reduced the level of acquisitions we have made in the core portfolio. At 31 July 2008 we had completed or exchanged on £78m of properties, of which only £9m has been in the last four month period.

Retirement Solutions

Sales values in this division amounted to £22m (£13m at the half year stage) and, as with the core portfolio, we have reduced our acquisition rate, with £36m expended in the ten month period of which £9m was in the last four months.

Fund Management

Grainger provides advisory and management services to G:res1 and to The Schroders Residential Property Unit Trust ("ResPUT") and has investment stakes of c.22% in each, with a combined value of c.£53m. The assets in G:res1 were valued at 30 June 2008 and vacant possession values held up well with a fall of just 3.2% over the twelve month period to that date. The valuers to the fund have also applied a widening discount to these vacant possession values to reflect current market conditions with the consequence that the overall fall in market values of the properties in this portfolio is 11.2% since June 2007. Despite this, recent sales have achieved values considerably above June 2008 valuations. It should be noted that the properties in G:res1 are different from the core Grainger portfolios in that they are unbroken blocks of large lot size which are let on assured shorthold tenancies. The investment market for these has been particularly illiquid in the past few months. The fund will always have the opportunity to sell individual units into the owner occupier market over time at good prices. The value of our investment in ResPUT fell by 11.9% from last September to the end of July this year.

Development Division

As noted in our interim report we have postponed development activity on the majority of our sites in this division until we see improvement in market conditions. We are currently on site on only three schemes and our committed expenditure is circa £40m.

Europe

The major event during the year has been the acquisition of FrancoноRheinMain AG ("FRM") for approximately £36m. During the period to 31 July a domination and profit and loss pooling agreement was reached which once entered on the commercial register, will give Grainger the right to exercise operational control over the FRM business. Our continued focus in Germany is to integrate our existing operations with FRM, creating a combined business of some 6,900 residential units and a running gross rent roll of circa £28m, representing a gross yield of 6.7%.

We have recently announced the appointment of Peter Brock as the new Managing Director of Grainger Deutschland, our German advisory business. Peter has extensive experience of the German residential sector through his previous work for organisations such as Vivacon AG, Terra Firma, Lazard and Rothschild.

Overheads

In light of the current market conditions we intend to reduce the running rate of our overhead costs by 10% by the end of this financial year.

Debt

At 31 July, Group net debt was c. £1.65 billion and our estimated loan to value ratio was 61%. Available headroom on all of our facilities (including those in Germany) amounted to £411m. Major efforts are being made to reduce the overall level of debt, primarily through the reduction in acquisitions noted earlier as well as the realisation of assets, particularly by investment sales.

Director Appointment

On 3 July we announced the appointment of Baroness Margaret Ford as an independent non-executive director. It is anticipated that her breadth of experience in regeneration combined with her property experience, particularly in the housing sector, will prove invaluable to Grainger going forward.

Outlook

It is clear that the adverse market conditions affecting the residential sector will continue for some time to come. However, we remain confident in the long term underlying quality of our residential portfolios and our ability to add value through our unique operating platform.

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