# Grainger plc

## Interim Management Statement

## Strong operational performance and continued reduction of debt

Grainger plc ("Grainger", the "Company" or the "Group"), the UK's largest quoted residential property owner and manager, today announces its interim management statement covering its activities for the four months to 31 July 2012.

**Highlights**

Over the reporting period, Grainger has had strong operational performance, a result of our resilient portfolio, evidenced by growth in our three income streams – sales, rents and fees. We have also made further significant headway in our debt reduction programme.

- Sales:
  - Completed Group sales in the four months to 31 July 2012 of £89.8m taking total sales in the ten months to 31 July 2012 to £202.1m, an increase of over 13% (31 July 2011: £177.8m)
  - UK margins on sales of vacant properties in the ten months of 39.8% (31 July 2011: 38.7%)
  - Strong Group sales pipeline of £264.5m (31 July 2011: £235.7m)

- Gross rents in the four months to 31 July 2012 of approximately £29.7m taking total gross rents in the ten months to 31 July 2012 to £75.1m, up 7.2% (31 July 2011: £70.0m)

- Fee income in the four months to 31 July 2012 of approximately £2.8m taking total fee income in the ten months to 31 July 2012 to £7.8m, up by 56% (31 July 2011: £5.0m)

- Reduction in net debt of £113m since September 2011.

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

"Grainger continues to outperform the general residential market and we can again report strong increases in each of our three revenue streams – sales, rents and fees.

"As stated previously, key strategic themes for 2012 have been to increase the proportion of profit generated from rents and fees and to reduce debt. Considerable progress has been made to achieve these and this focus will be maintained in 2013 as we continue to build sustainable sources of income."

**Market Review**

The general macro-economic backdrop in the UK and Europe in particular is, if anything, somewhat more fragile than when we reported our half year results in May. A third successive quarter of negative UK GDP growth and the continuing issues in the Eurozone are of particular note. General UK house prices have shown a slight decrease in recent months, but a number of factors positively support prices in London and the South East where we have positioned almost two thirds of our UK portfolio. In Germany the housing market has been most robust in the stronger economic conurbations and our portfolio has benefited from its Western and Southern geographical bias as shown by sales in the period at or above valuation.

Given the specialist nature of our UK properties (predominantly second hand, low average value and un-refurbished) and the benefit of our active value management, we continue to outperform general indices. We are maintaining both sales velocity and prices, achieving good rental growth and growing our fee income.

We await the publication of the Government-led Montague Review of barriers to institutional investment in the private rented residential sector, and we are well positioned to take advantage of any opportunities arising from it.

**Sales**

In the ten months to 31 July 2012, the Group completed sales of 1,246 units for a gross consideration of £202.1m (31 July 2011: 1,172 units sold for £177.8m). This comprises:

- sales of vacant properties from our UK residential portfolios of 568 units for £104.9m (31 July 2011: 540 units for £96.7m);
- sales of tenanted properties from our UK residential portfolios of 410 units for £44.4m (31 July 2011: 490 units for £48.1m);
- sales from our German portfolio of 230 units for £16.7m (31 July 2011: 113 units for £7m);
- sales from our development division of £8.8m (31 July 2011: sales of £22.1m); and
- sales of 38 other units for £27.4m (31 July 2011: sales of 29 other units for £4m).

In our UK residential portfolios we are selling vacant properties at 5.8% above September 2011 vacant possession values. In Germany, we are selling at levels slightly above September 2011 values.

The Group sales pipeline (the completed sales referred to above plus contracts exchanged and in solicitors' hands) stood at £264.5m on 31 July 2012 (31 July 2011: £235.7m). Of this, £240.4m is from within our UK businesses (31 July 2011: £210.7m) and £24.1m from Germany (31 July 2011: £25.0m).

**Rents**

Gross rents for the ten months are approximately £75.1m (31 July 2011: £70.0m), an increase of 7.2% since this time last year. Of this £52.7m is in the UK (31 July 2011: £45.0m), reflecting the contribution of rents for the entire period following the Hi Tricomm and Grainger GenInvest transactions in mid-2011. Rent of £22.4m derives from our German portfolio (31 July 2011: £25.0m), with the reduction reflecting the effect of exchange rate movements and disposals made late last year and earlier this year. Our G:Res market rented fund, which we manage and of which we own 22%, has continued to show good rental growth. The June 2012 valuation showed an increase in the market value of properties in this fund of 3% over that at December 2011.

**Fee income**

Fee income for the ten months from our property management activities has increased to approximately £7.8m (31 July 2011: £5.0m), supported by our growing activities in this area and leveraging the existing Grainger operating platform.

Since launching in spring 2011, Grainger's Residential Asset Management Platform (RAMP) has taken on a total of 2,671 units on behalf of Lloyds Banking Group. During this time 1,244 units have been sold, contracts exchanged or are in solicitors' hands.

We will continue to explore opportunities to build our fee based income from other initiatives.

**Acquisitions activity**

In the ten months to 31 July 2012, we had completed, exchanged or placed in solicitors' hands some £21.4m of property acquisitions. This compares with the equivalent period in financial year 2011 where we had acquired £413.2m of assets including £105m of assets within the Hi Tricomm corporate acquisition and £289m of assets as a result of the Grainger GenInvest acquisition.

**Debt**

Net debt was £1,341m at 31 July 2012, down by £113m in the ten months since 30 September 2011 (£1,454m). In the sixteen months since March 2011 net debt has reduced by almost £230m from £1,570m. This again reinforces the continuing ability of the Group to generate cash from its operations.

The estimated loan to value on core borrowing based on March 2012 valuations has again been reduced and is down to 49% at 31 July 2012 (30 September 2011: 52%). Loan to value on a consolidated basis is 58% at 31 July 2012 (30 September 2011: 61%). Interest cover stands at 2.9 times (30 September 2011: 3.1 times).

Available headroom (undrawn committed facilities plus cash) amounted to £154m (30 September 2011: £214m). We expect to continue to have comfortable levels of headroom. The mark to market value of derivatives was £176m (30 September 2011: £155m).

The average reported cost of debt during the last ten months is 6.3% (30 September 2011: 5.4%). The proportion of debt which is hedged is 85% at 31 July 2012 (30 September 2011: 73%).

The progress already made on reducing debt and leverage will continue for the remainder of 2012 and into 2013.

**Outlook**

Our portfolio continues to demonstrate resilience. This has resulted in sales at good margins, and we expect this robust performance to continue. Our UK residential portfolio shows strong sales volumes above vacant possession value and our German business provides predictable rental income. In addition we believe further value can be generated through offering our platform, core skills and competencies to third parties, thereby generating additional fee income to the Group.

-ENDS-

***For further information:***

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