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Grainger PLC
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Grainger plc

Interim Management Statement

GRAINGER REPORTS FURTHER SALES PROGRESS AND GROWTH IN PROPERTIES UNDER MANAGEMENT

Grainger plc ("Grainger", the "Company" or the "Group"), the UK's largest quoted residential property owner, today presents its interim management statement covering its activities for the four months to 31 July 2011.

Highlights

- A further £79.5m of residential sales completed in the four months taking total sales in the ten months to 31 July to £148.7m. In addition a further £40.5m of sales are in solicitors' hands or have contracts exchanged giving a total sales pipeline for the year of £189.2m (31 July 2010: £154.8m)
- Successful £31.5m refinancing of the Sovereign Joint Venture
- Good progress with integration of the first three portfolios under the Lloyds RAMP agreement
- Aldershot Urban Extension and Newlands, Waterlooville proceeding in line with plan
- Two year extension to G:res1 residential fund agreed.

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

"The resilience and liquidity of our portfolio continue to be evidenced by strong sales in excess of valuation, despite ongoing challenges in the residential market. We continue to supplement the active asset management of our own portfolios by bringing in third party fee income through deals such as the Lloyds RAMP agreement and the Aldershot Urban Extension.

"Our ability to grow our properties under management through new initiatives and our ongoing success in disposing of assets above book value is testament to the expertise and breadth of our specialist management teams across the UK and the resilience of our portfolio."

Market Review

The UK economy continues to be subdued and we anticipate this will continue into the medium term and be reflected in the UK residential market. The challenges in the market are evidenced by low levels of sales and mortgage approvals but regional variations continue to be apparent with London house prices demonstrating the most buoyancy.

Our portfolio benefits from its high weighting to London and the south-east, which has increased further during the year with the Grainger GenInvest acquisition. We continue to actively manage our assets and are consistently achieving selling prices above our September 2010 valuation.

Residential Trading (UK residential portfolio and home reversions)

Sales activity

In the ten months to 31 July 2011, we completed sales of 531 vacant units for a gross consideration of £94.3m at an estimated trading margin on sales of 39.7% (31 July 2010: 597 vacant units sold for £90.1m at a margin of 42.7%). We also sold 490 tenanted units for a gross consideration of £48.1m at an estimated excess to September 2010 investment value of 4.7% (31 July 2010: 72 tenanted units sold for £7.3m at an excess of 9.6%). Other sales amounted to £6.3m (31 July 2010: £31.0m). Included in last year's figure were sales of agricultural and related property of £26.2m as against £1.8m in the current year.

Our sales of vacant units have been made at an average of 4.9% above September 2010 vacant possession values. This figure has benefited from the impact of a number of units refurbished prior to sale. Excluding this, the underlying excess to vacant possession is 2.1%.

The total UK Residential and Retirement Solutions sales pipeline (the completed sales referred to above plus contracts exchanged and in solicitors' hands) stood at £189.2m at 31 July 2011 (31 July 2010: £154.8m including the one-off agricultural and related property sales of £26.2m) reflecting both the liquidity and the cash generative nature of our portfolio.

Acquisitions activity

We continue to exercise a very stringent acquisitions policy, ensuring we continue to grow our portfolio with high performing, good quality assets. In the ten months to the end of July 2011 we had completed, exchanged or placed in solicitors' hands some £19.2m of property acquisitions as part of our regular trading. This compares with £67.6m for the equivalent period in the 2010 financial year.

We reported earlier in the year our portfolio acquisition of our partner's share in the Grainger GenInvest portfolio which comprises high quality assets, the majority of which lie within four miles of the Houses of Parliament, with a market value of £289m and a vacant possession value of £354m. This was in addition to our acquisition of the HI Tricomm portfolio leased to the Ministry of Defence with a market value of £105m.

Funds, Joint Ventures and specialist asset management

The G:res1 portfolio was last valued at 30 June 2011. Vacant possession values have increased by 1.1% in the six months from December 2010 and investment values by 2.0%.
The overall net asset value per share of the fund increased by 6.8% from £0.74 to £0.79. During the period a two year extension to the fund was voted for overwhelmingly (93%) by investors.

Demand is particularly strong for rentals within this fund, which provides high quality flats largely focussed on London and the South East that appeal to young professionals. In the quarter ended 30 June 2011 we have been able to achieve rental uplifts of 12.8% on new lettings.

Management of the first three portfolios under the Lloyds RAMP agreement is progressing, with a total number of units under management of 1,283.

In July we refinanced our Sovereign retirement solutions joint venture with Moorfield with a facility of £31.5m provided by Barclays which, whilst small in itself, provides further evidence of the attractiveness of our assets to lenders. This will enable cash to be repatriated to Grainger over a period of time. £12.7m has been received thus far.

Development Division

As mentioned in the half year results, the Development Division has had a positive period, with the Group being appointed as the development partner for the Aldershot Urban Extension and outline planning permission being granted at Newlands, Waterlooville. The division has generated cash receipts of £22.1m in the ten months to 31 July 2011 (2010: £12.5m).

Germany

Our German business, which is based on a rental rather than trading model, continues to generate a steady gross yield of c.7%. We continue to focus on active asset management aimed at improving operational efficiency and maximising net rental returns by reducing voids and property expenses. We also have a programme of capital recycling to improve the overall quality of the asset base and enhance cash flow. We have completed, exchanged or have in solicitors' hands sales of 305 units, which will ensure we achieve our target of €25m of disposals by our year end. These have been achieved at an excess to book value.

Debt

Net Group debt stood at £1,502m at 31 July 2011 (31 March 2011: £1,570m). Of this £929m was drawn under the UK core syndicated facility (31 March 2011: £992m) and 38% of total Group net debt is now drawn from sources other than the UK core syndicate. The estimated loan to value ratio on our core borrowing (based on March 2011 valuations) at 31 July 2011 stood at 53% (31 March 2011: 54%). Our interest cover ratio currently stands at 2.7 times (March 2011: 2.6 times).

Undrawn committed facilities and cash amounted to £207m (March 2011: £155m).
In the ten months to July 2011 the Company has achieved significant progress with securing new bi-lateral forms of borrowing. These are the agreement with the M&G UK Companies Financing Fund for a £100 million long-dated term loan, the £120m loan associated with the acquisition of the second 50% share in Grainger GenInvest and the £70m loan associated with the acquisition of HI Tricomm.

In addition to the new sources of debt introduced earlier in the year and the £31.5m refinancing of the Sovereign JV, we continue to actively work on further steps to diversify the sources and extend the terms of our debt and will provide updates as these activities materialise.

As noted at the half year, the Group consistently generates strong trading cash flows from its trading and rental activities. In the ten months to 31 July we generated £251m of gross cash (July 2010: £210m) netting down to £132m (July 2010: £97m) after interest, overheads, expenses, tax and returns to shareholders.

Long term interest rates have decreased since the half year, ending 31 March 2011. If this decrease continues, it will affect the mark to market of our interest rate derivatives which were reported at the half year.

Tax

During the period we have successfully concluded discussions with HM Revenue & Customs on a number of outstanding tax matters for which credit has not previously been taken. The income statement for the year ending 30 September 2011 will consequently include a non-recurring tax credit in excess of £10m.

Outlook

We continue to demonstrate resilience to overall market and economic conditions, which is due to the Company's wealth of expertise, unique portfolio and strong operating platform. The Company's focus remains on extracting the maximum value from our portfolio by actively managing our assets to return best value for our shareholders, including appropriate acquisitions and disposals of various sizes. In addition, we use our specialist property and asset management skills to enhance our existing income whilst also creating additional sources of recurring income. We will, as always, also seek accretive acquisitions and business development opportunities to create and grow sustainable value.

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