6 February 2013

Grainger plc

Interim Management Statement

SIGNIFICANT TRANSACTIONS IN PERIOD UNDERLINE PROGRESS AND SUPPORT STRATEGIC DIRECTION

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 January 2013.

Highlights – Significant transactional progress, strategically aligned

- The creation, in partnership with APG Strategic Real Estate Pool ("APG"), of the GRIP unit trust, a UK market-rented residential property fund worth approximately £350m, which was announced in January.
- Creation of a new joint venture with global fund manager Heitman to invest in a c.3,000 unit German rented residential portfolio previously wholly owned by Grainger. The venture is owned 75% by Heitman and 25% by Grainger.

Sales

- Completed Group sales of £64.6m (31 January 2012: £62.4m)
- Vacant UK sales of 201 units generating gross sales of £32.4m at an average margin of 41.1% (31 January 2012: 195 units generating £36.4m at a margin of 39.9%). An increase in tenanted investment and other sales from our UK portfolios generated sales of £26.6m (31 January 2012: £8.2m) at values in excess of their carrying value.

Rents

- Gross rents of approximately £27.3m (31 January 2011: £30.4m), reducing principally, as expected, as a result of the disposal of a proportion of our German assets to our joint venture with Heitman.

Fees

- Fees increased to approximately £4.6m (31 January 2012: £2.9m), which will be further supported by revenue generated by our new partnerships.

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

"We have started this financial year with a number of significant transactions. These endorse and expand upon our asset and property management skills and underpin our stated strategic objectives. Despite the remaining economic challenges, and a slightly subdued market during the first financial quarter, we are seeing increased signs of activity in 2013. Institutional investor interest in the UK residential market continues to grow, supported by positive Government measures.

"Despite continued economic uncertainty, we have increased total group sales during the first four months of the financial year, achieving prices 3.4% above our September 2012 valuations on sales of our UK vacant properties. Fee income continues to grow and, whilst direct rental income has fallen, principally as a consequence of moving our German assets into a co-ownership structure, the level of underlying rent increases is still healthy.

“We have continued to be net sellers across our property portfolios and remain committed to achieving our target of reducing Group net debt to £1bn by the end of the year. This reduction will be weighted toward the second half of the year showing a similar profile to previous years.”

Market review and strategic positioning

The UK housing market continues to be fragile, with national house price indices continuing to show significant variances month to month. There are, however, signs of strengthening. The Nationwide house price index in the four months to 31 January 2013 indicated a 0.5% rise (Seasonally Adjusted), while the Halifax house price index (All houses, All Buyers, Seasonally Adjusted quarterly data) in the three months to 31 December 2012 saw an increase of 0.6%. According to the Council of Mortgage Lenders (CML), the total gross mortgage lending in 2012 was up 1.4% compared to 2011, although it declined by 9.2% in the three months to December 2012 and was 4.7% lower in the month of December 2012 than in December 2011. The commentary from the CML, however, was more positive, noting increased purchases by first time buyers, improved mortgage availability and better pricing, which they expect to continue.

It is pleasing that, against this challenging external environment, our portfolios continue to perform well because of their concentration in areas with stronger local economies, their price characteristics and their subsequent attractiveness to buyers. We are maintaining good sales rates and achieving prices in excess of our September 2012 valuation.

Recently, there have been significant positive developments in Government policy surrounding the housing market, particularly the private rented sector. One such policy is the introduction of financial support for Build to Rent schemes, including a £200m fund for the construction and stabilisation phase of Build to Rent schemes and £10bn of government guaranteed debt for the investment phase of Build to Rent schemes.

Operational highlights

It is in this context that we have been pleased to announce important examples of the continued repositioning of the business.

- GRIP: Through a partnership with APG Strategic Real Estate Pool ("APG”), Europe's largest pension fund asset manager, we have secured the continuation and future expansion of the UK’s largest residential property fund.

- German portfolio transaction: In December 2012, we created a joint venture with global real estate investment firm Heitman to invest in a c.3,000 unit German rented residential portfolio, with a property value of c. €233m, previously wholly owned by Grainger. The JV is 75:25 owned by Heitman, on behalf of a global institutional investor, and Grainger, respectively.

- London Road, Barking – Build to Rent: As recently announced we have agreed to purchase a block of 100 units from Bouygues Development, which will soon be under construction. The units are designed specifically to be privately rented. This will add to our market rental income and is an important strategic step towards Grainger leading the emergence of a viable Build to Rent market in the UK.

Sales

In the four months to 31 January 2013, the Group completed sales of 583 units for a gross consideration of £64.6m (31 January 2012: 434 units sold for £62.4m). This comprised sales from our UK residential portfolios of 519 units for £59.0m (31 January 2012: 210 units for £44.6m), sales from our German portfolio of 64 units for £5.4m (31 January 2012: 224 units for £16.7m) and sales from our development division of £0.2m (31 January 2012: sales of £1.1m).

Vacant UK sales of 201 units generated £32.4m at an average margin of 41.1% (31 January 2012: 195 units generating £36.4m at a margin of 39.9%). Investment sales from our UK portfolios generated £26.6m (31 January 2012: £8.2m). In our UK residential portfolios we are selling vacant properties at 3.4% above September 2012 vacant possession values.

The Group sales pipeline (the completed sales referred to above plus contracts exchanged and in solicitors' hands) stood at approximately £96.9m (31 January 2012: £118.3m). Of this £86.5m is within our UK businesses (31 January 2012: £99.6m) and £10.4m is in Germany (31 January 2012: £18.7m). Recent weeks have seen an increase in UK viewing numbers, typical for this period in the season, which we expect to be reflected in improved sales in the remainder of the year.

Rents

In December 2012, we sold a little over half of our German assets to a joint venture vehicle created with Heitman of which Grainger owns 25%. Principally due to this, gross rents are therefore reduced and for the four months are approximately £27.3m (31 January 2012: £30.4m). Of this £20.4m is from our UK portfolio (31 January 2012: £21.1m) and £6.9m derives from our German portfolio (31 January 2012: £9.3m).

Fees

Fee income for the four months from our property management activities grew to approximately £4.6m (31 January 2012: £2.9m). We continue to leverage our unique platform and deploy our specialist asset and property management skills for third parties to grow this fee income.

Our Residential Asset Management Platform (RAMP) manages the residential assets which are placed into it, following commencement of an insolvency process. As at 31 January 2013, RAMP had 1,235 assets under management and, since its creation in Spring 2011, has sold approximately 1,833 units.

The Heitman relationship, which commenced in December, is now contributing to fee income as is GRIP, which replaces and builds upon the G:Res structure.

Acquisitions activity

In the four months to the end of January 2013, we had completed, exchanged or placed in solicitors' hands some £2.9m of property acquisitions. This compares with the equivalent period in financial year 2012 where we had committed to £22.3m of acquisitions.

Debt

In our full year financial results announcement on 22 November 2012, we set out a target of reaching a £1bn debt level by the end of 2013 and we remain committed to achieve this.

Group net debt stood at £1.21bn at 31 January 2013 (30 September 2012: £1.19bn).The small increase in Group net debt is due to terminating a number of interest rate swap contracts and due to an adverse foreign exchange movement on our Euro denominated borrowings. The swap terminations have caused a temporary increase in the estimated Group consolidated loan to value ratio (based on September 2012 valuations) since September 2012, which we expect to reverse as debt subsequently reduces. At 31 January 2013 this stood at 57% (30 September 2012: 55%). Our interest cover ratio on our core borrowing at 31 January 2013 is estimated at 2.8 times (30 September 2012: 3.0 times). Available headroom (committed facilities and cash) amounted to £105m (30 September 2012: £148m).

The profile of our debt reduction in 2013 is likely to be similar to that in 2012, which was predominantly weighted to the second half.

There is a credit to the income statement for the period of approximately £2.1m relating to interest rate derivatives (31 January 2012: a charge of £16.9m).

Outlook

While economic uncertainty remains in the UK, there is increasing optimism that we will be able to avoid any further major corrections in the near term, particularly in the housing market in the UK. Mortgage lending, however, will continue to be constrained, as will affordability for potential house buyers. In addition, a growing number of individuals in the UK are choosing to rent for lifestyle reasons, as is common in many other European countries. These factors will lead to a continued growth in demand for high quality private rental properties over the near and medium term, providing us with an opportunity to utilise our residential asset management platform and skills, and thereby grow our rental and fee income streams.

Over the course of the year, we will continue to find and develop opportunities to capitalise upon the changes taking place within the residential property sector.

-ENDS-

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Grainger plc - company background information

Grainger plc is the UK's largest listed residential property owner and manager, with c £3.0bn of residential assets under management across the UK and Germany. Grainger generates income through:

- **Sales** of properties when they achieve optimum valuations
- **Rent** from its portfolio of tenanted properties
- **Fees** for the management of residential properties and the provision of its expert services to select third party clients.

Additionally, Grainger is a leading provider of equity release products through its award-winning subsidiary brand, Bridgewater Equity Release.

Grainger was established in 1912 in Newcastle upon Tyne, where it remains headquartered. It has eight offices across the UK and Germany. Grainger is a constituent of the FTSE 250 on the London Stock Exchange and the FTSE4Good index. In 2012, Grainger was awarded the UK's Residential Asset Manager of the Year at the RESI Awards and Best Property Company – Residential at the Estates Gazette Awards.