

10 February 2009

## **Grainger plc Interim Management Statement**

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 January 2009.

### **Highlights**

- Trading pipeline of residential sales of £58.9m (31 January 2008: £63.9m)
- Proceeds of £19m received for Barnsbury development site
- 78% of convertible bond converted early to produce net asset value increase of £42.0m
- Cash conservation programme continues with reductions in purchases and overhead costs.

Commenting on the first four months results to the end of January, Rupert Dickinson, Chief Executive of Grainger, said:-

“Trading conditions in the first three months of our financial year were extremely demanding. These challenging conditions were reflected in the relatively low number of completed sales in the period and in decreased trading margins. However, our overall sales position as at 31 January 2009 has recovered well and our pipeline of sales from our core and home reversion portfolios, which includes properties under solicitors’ instructions and with contracts exchanged, as well as completed sales, amounted to £58.9m. This is comparable with the equivalent position in 2008 of £63.9m and provides further evidence of our ability to generate cash from our portfolio even in difficult trading environments.

“Our focus on cash conservation continues through our aims of maximising sales, curtailing property spend and reducing overheads.”

### **Market Review**

Conditions in the general residential sales market remain extremely challenging, although this is most pronounced in areas dominated by distressed or reposessed sales—both sectors to which we have little exposure.

We noted an increase in the number of viewings at our vacant properties in early January and sense that pent-up demand is starting to build amongst natural movers. However, many potential transactions are being frustrated or delayed by the lack of available mortgage finance and prices are coming under pressure from cash-rich, opportunistic buyers making low offers significantly beneath asking prices.

In the general market, the major indices point to a slight slowing in the rate of house price decline. The Nationwide index showed a fall of 1.3% in January compared with 2.5% in December and the Halifax index showed an increase of 1.9% compared with a fall of 1.6% in December. The three-month on three-month rate of change, which tends to smooth the trend, has both indices showing an improvement; Nationwide -4.0% in January (-4.2% in December) and Halifax -5.1% (-6% in December). The fragility and volatility of the market means that we view these results with caution as it is still too early to be certain that they are indicative of a permanent shift in momentum.

### **Residential Trading (core portfolio and home reversions)**

In the four months to 31 January 2009 we sold a total of 173 units for a gross consideration of £25.8m, at an estimated trading margin of 36.2%. The equivalent figures to 31 January 2008 were 207 units sold for £38.8m at a trading margin of 47.3%. The decrease in volumes reflects current market conditions, together with a short term reduction in vacancies, though we anticipate that this will smooth out over the whole financial year. Trading margins have decreased primarily because of the fall in the average values achieved since last year and a change in the sales mix towards lower value properties.

Our sales pipeline remains healthy. The total value of completed sales, contracts exchanged and in solicitors' hands to 31 January 2009 is £58.9m (2008: £63.9m) and are at values approximately 3.8% below the 30 September 2008 valuation.

We have reduced our purchasing activity significantly and have completed on just £6.8m of residential property deals in the period of which £5.9m were in our retirement solutions division. The equivalent figure for 2008 was £78.4m, which included £34.6m on the Ranton Estate in Staffordshire.

### **Investment in G:res 1**

The portfolio in G:res 1 was valued at 31 December 2008. Vacant possession values decreased by 14.2% in the twelve month period to that date (8.4% since the previous valuation in June 2008) and gross asset values by 22.2% reflecting a widening spread in the discount between vacant possession and investment values. Many of the assets in the portfolio are valued on a block basis and the valuers of the portfolio have increased the spread to reflect the limited level of transaction activity currently occurring in this type of asset.

### **Development Division**

As announced in December, we have received proceeds of £19m for our development site at Barnsbury. We have almost completely curtailed activity in the rest of this division, although we have progressed with the completion of our 150-unit residential site at Hornsey Road in north London, which is coming to the letting and sales market in the early part of 2009.

### **Europe**

We have now acquired more than 95% of the shareholding in FranconiaRheinMain AG ("FRM") and are continuing to progress the squeeze out process with the remaining minority shareholders. Transactional activity within our German operations is minimal at present and our focus remains on integrating FRM's operations with Grainger's existing activities and improving returns by reducing void levels, controlling property expenses and maximising rental returns. This process is progressing well.

### **Debt**

At 31 January 2009, group net debt was c.£1.665 billion and the estimated loan to value ratio (based on September 2008 valuations) on our core lending syndicate loan was 66% (30 September 2008: £1.621 billion, 66%). Our available headroom across the Group was £294m. Major movements in the net debt position were a reduction of £41m from the early conversion of 78% of our convertible bond (which also resulted in an increase of net assets of £42m), offset by exchange rate movements of £68m from the weakening sterling/euro rate. This latter increase in debt is, however, matched by a corresponding increase in the sterling equivalent of our euro denominated assets.

We have sold assets and created cashflows in the period to 31 January 2009 to further consolidate our position with regard to meeting the interest cover covenant test due to take place at 31 March 2009. Assuming that all exchanged and solicitors instructed sales proceed, and in the absence of unforeseen circumstances, we estimate that we require a further £31m of sales income in the period from February to September from all divisions to enable us to meet the September 2009 test.

### **Overheads**

In November, we announced that we had made savings of more than 10% in our overhead costs for the year ended 30 September 2008. Since that date we have put in place further cost saving measures, which we expect to deliver an additional reduction of approximately 10% in our overhead run rate in the current financial year. In a full year, the combined effect is an annualised saving of c.£6m per annum, before any one-off costs.

### **Outlook**

Our half year results will include two significant items. Firstly, as announced at the time, the conversion of the majority of our convertible bond included a payment for early conversion of £32.7m, which will be debited to the profit and loss account. This also led to a £42m increase in net asset value. Secondly, the large decreases in interest rates have led to our hedging instruments being 'out of the money'. As not all of these are classified as hedges for accounting purposes there will be a large mark to market adjustment through the income statement.

The residential sales market remains difficult but the level of our sales pipelines and the receipts from Barnsbury provide further evidence of the resilience of our portfolio, against a backdrop of challenging conditions in the residential sales market. The market depends upon an easing of the current financing constraints to enable it to stage a recovery. We have noted the introduction of new mortgage products in the last few weeks, albeit with lower loan to value and salary multiples than has been the case for the last few years, and whilst these are positive developments, it will take time for purchasers to be able to respond. Continuing falls in base rate will improve affordability rates.

In the meantime we remain focused on the aim set out at the time of our year end results – cash conservation through the maximisation of sales income and the reduction of purchases and overhead costs.

***For further information:***

**Grainger plc**

Rupert Dickinson/Andrew Cunningham  
Tel: +44 (0) 20 7795 4700

**Financial Dynamics**

Stephanie Highett/Dido Laurimore/Jamie Robertson  
Tel: +44 (0) 20 7831 3113