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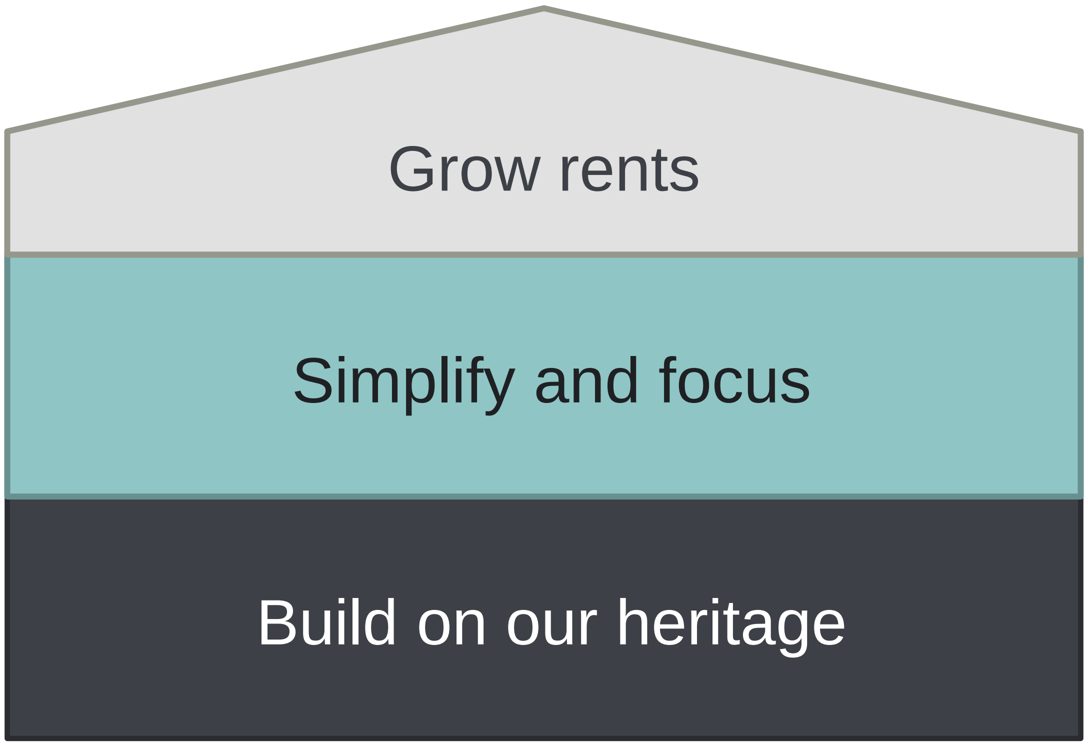
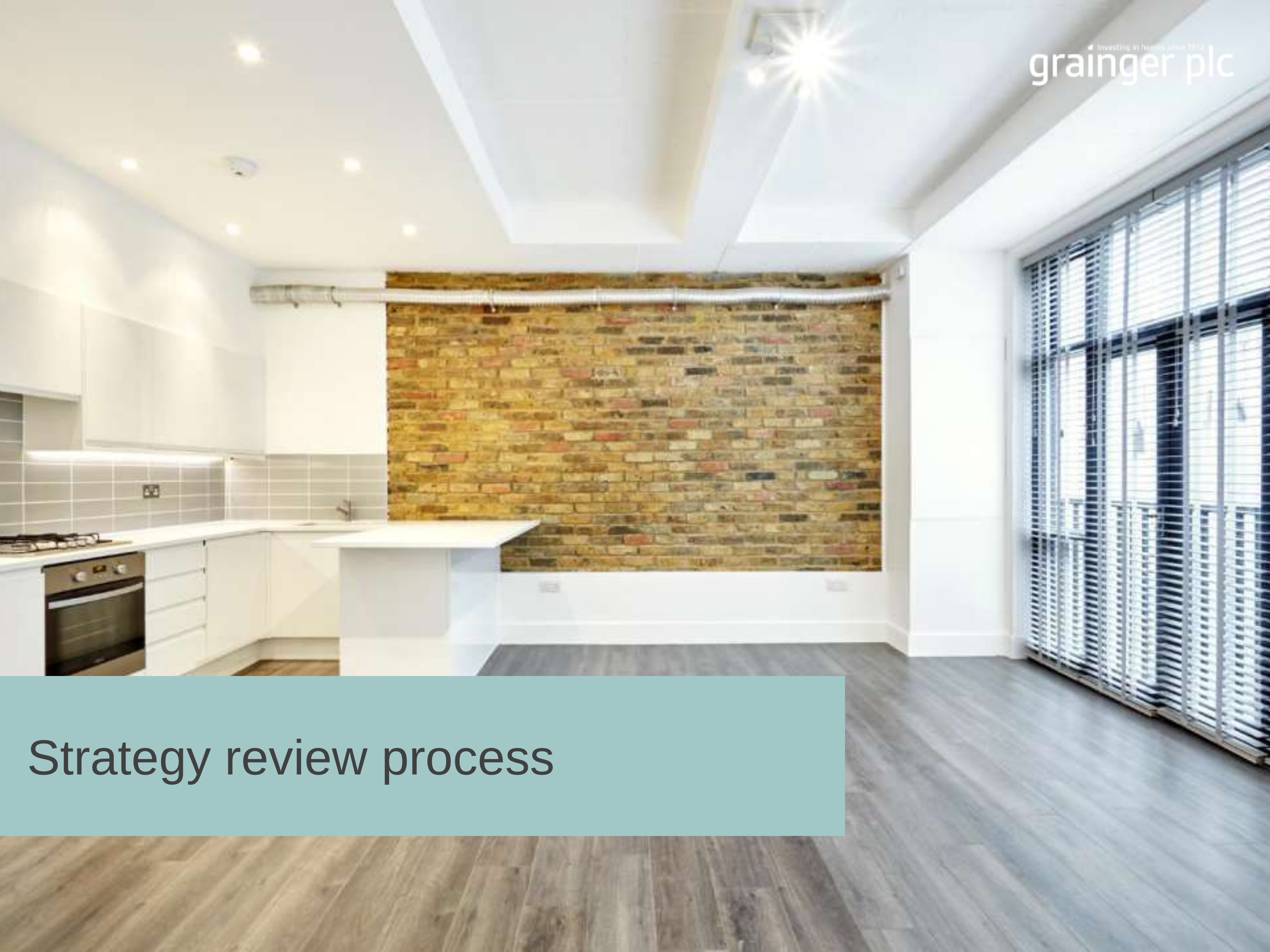
Grainger Strategy Update

28 January 2016

Objective

A strategy to deliver improved shareholder returns





Strategy review process

The strategy review process

- Bottom up review of every division
- All major assets and portfolios appraised
- All key sites assessed
- Growth avenues explored
- Group wide employee engagement

The growth opportunity

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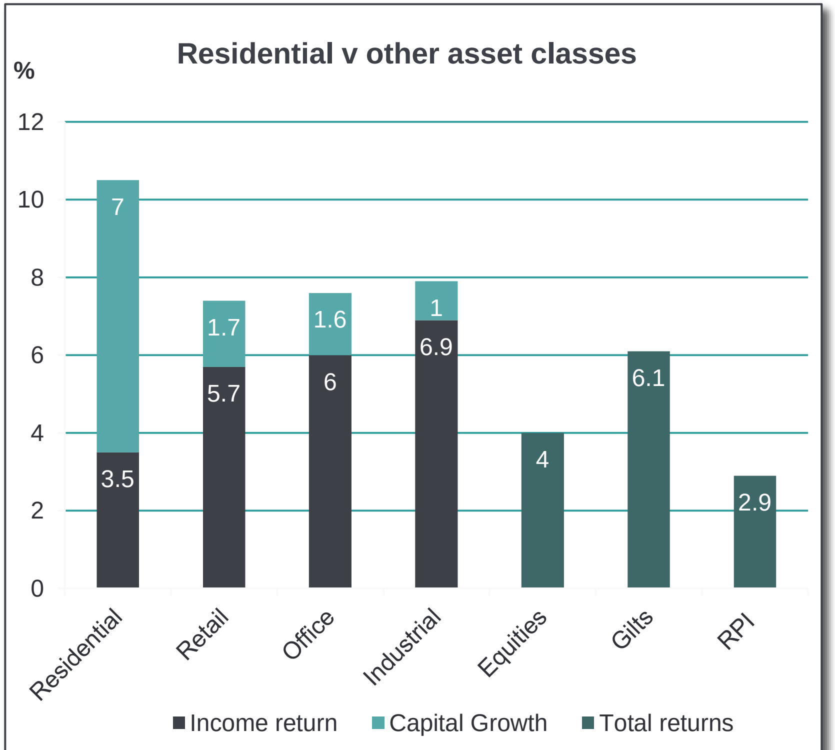
- Residential – top performing asset class
- Substantial market opportunity for growth in the Private Rented Sector (PRS)

Residential market returns



Source: MSCI, IPD Residential Index, 2001-2014, Annualised returns

Source: MSCI, IPD Residential Index, 2001-2014

Key findings

Significant competitive advantages

- Unparalleled residential expertise
- Best in class asset management
- High quality cash generative portfolio
- National platform
- Significant market opportunity
- Committed employees, ready for change

Reception at Springfield Lofts, Dalston, London

Grainger's skillset

Acquisitions → Asset Management → Development → Lettings → Property Management → Refurbishment → Sales

Key findings

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Improvement needed

- Structure leading to lack of co-ordination
- Complexity creating duplication
- Too much focus on capital returns
- Too much effort on small scale projects
- Expertise shared too readily
- High operating costs

Simplified Grainger

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Focusing on growing rental income and maximising total returns

The leading institutional UK residential investment vehicle

Grow rents	▪ Inject pace and improve PRS sourcing ▪ Accelerate transition to a more balanced, lower risk business
Simplify and focus	▪ Exit non-core assets ▪ No more focus on fees/ third party ▪ Focus development team on PRS ▪ Reduce overheads
Build on our heritage	▪ Maximise returns from our regulated tenancy portfolio ▪ Leverage our platform

Delivering the strategy

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New structure

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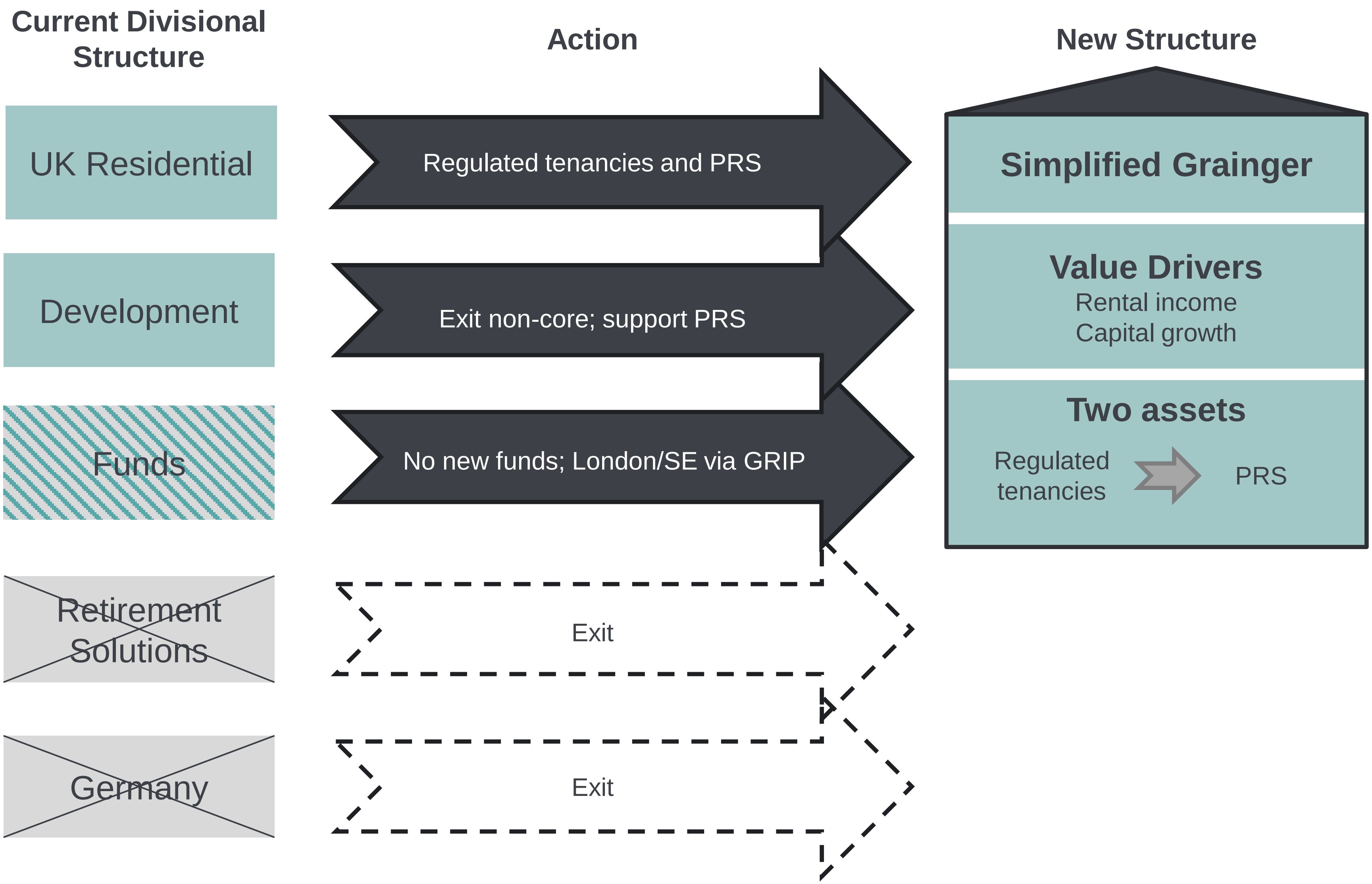
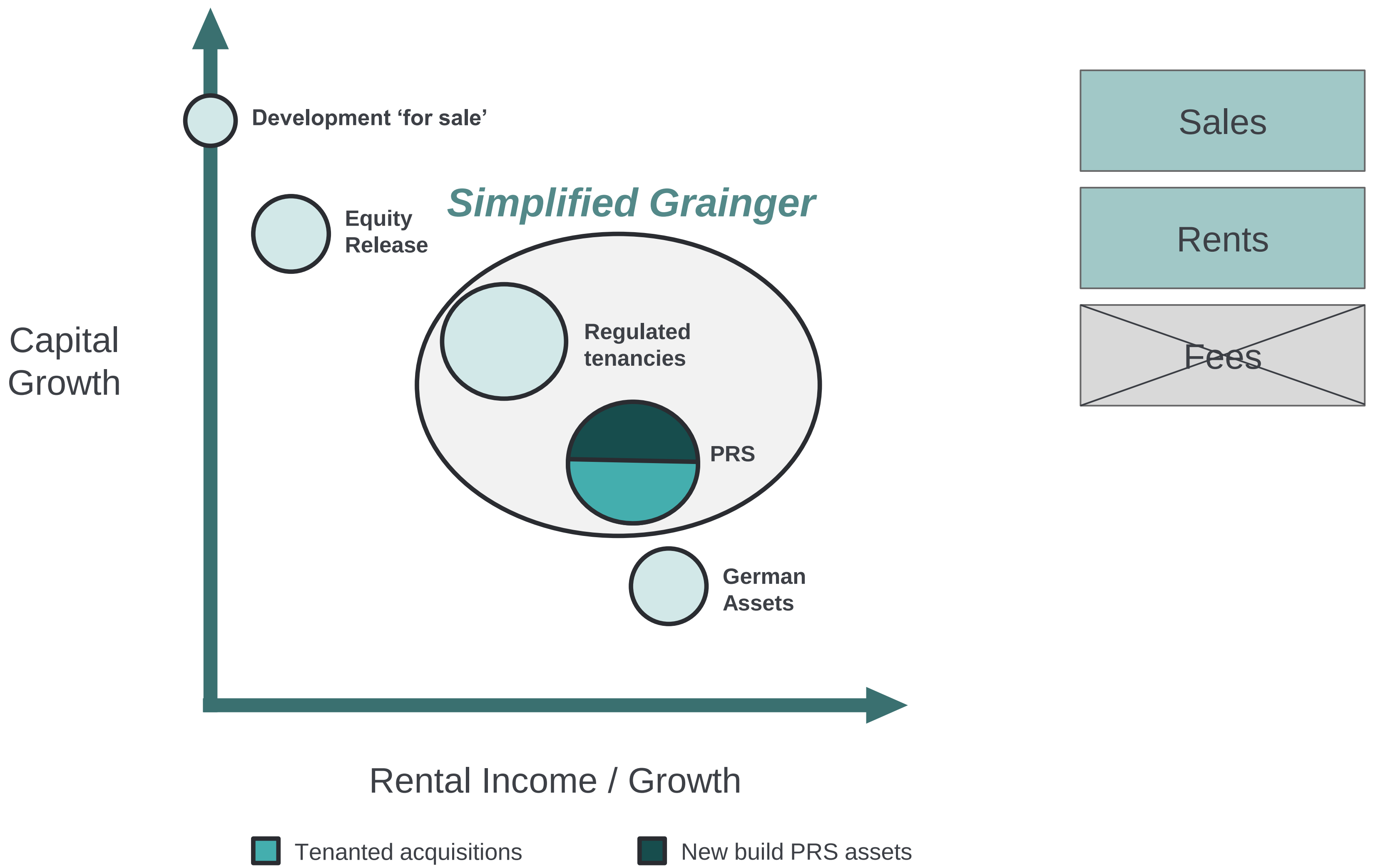
Simplified and focused



Changing the composition of our business

Re-focusing a diverse, complex business



Regulated tenancies

A high quality residential investment that will help accelerate PRS growth

- Compelling asset class
- Highly cash generative and robust performance throughout cycles
- Supports our growth into UK PRS
- Future investment secondary to UK PRS capital allocation

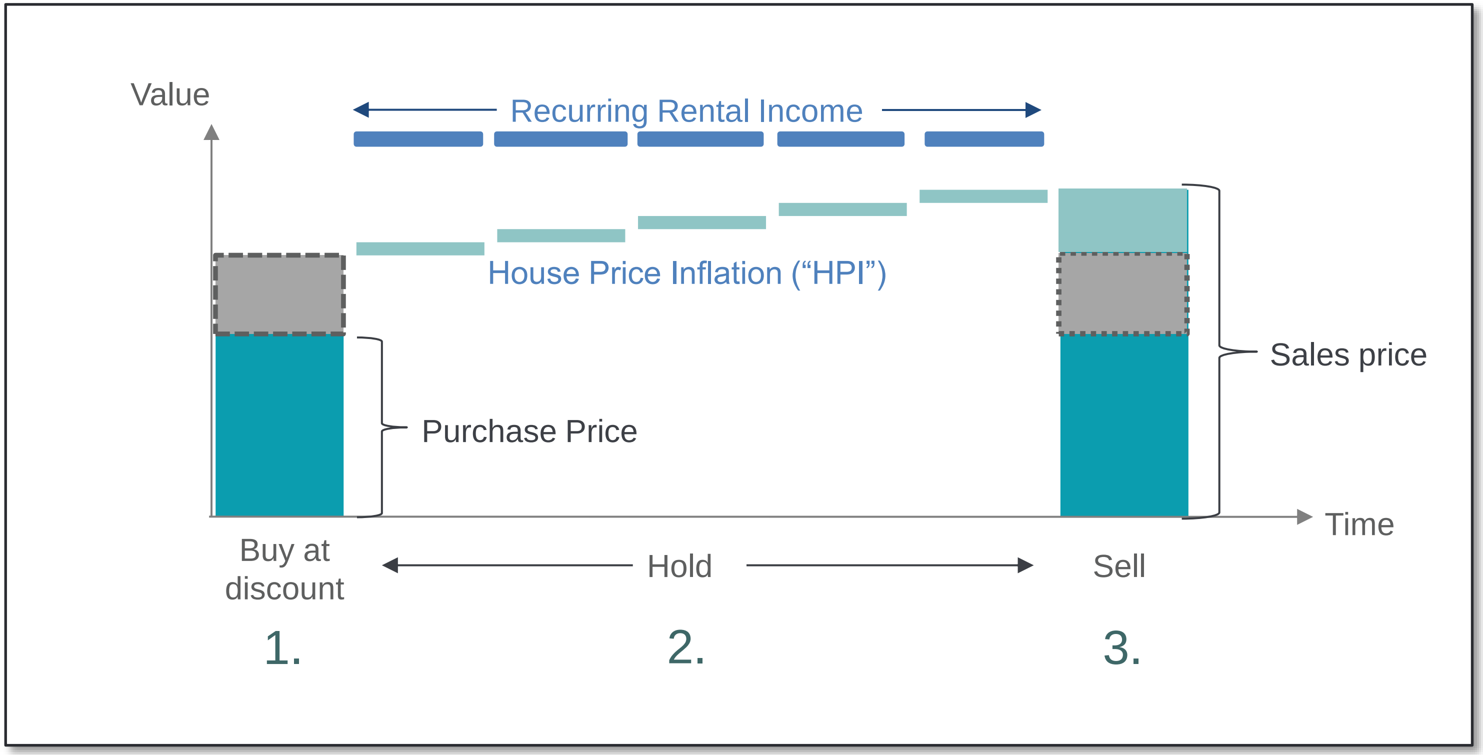
- **>3,600 units**
- **£1.17bn portfolio** at market value
- **Rental income producing –** £28m of gross rental income, with growth linked to RPI
- **Capital growth** – Well located assets with significant growth prospects
- **£268m of unrealised, locked in value** (reversionary surplus)

Regulated tenancy business model

1. Buy at a discount

2. Hold and receive rental income

3. Sell and capture house price inflation and locked-in value (reversionary surplus)



Supporting our UK PRS growth

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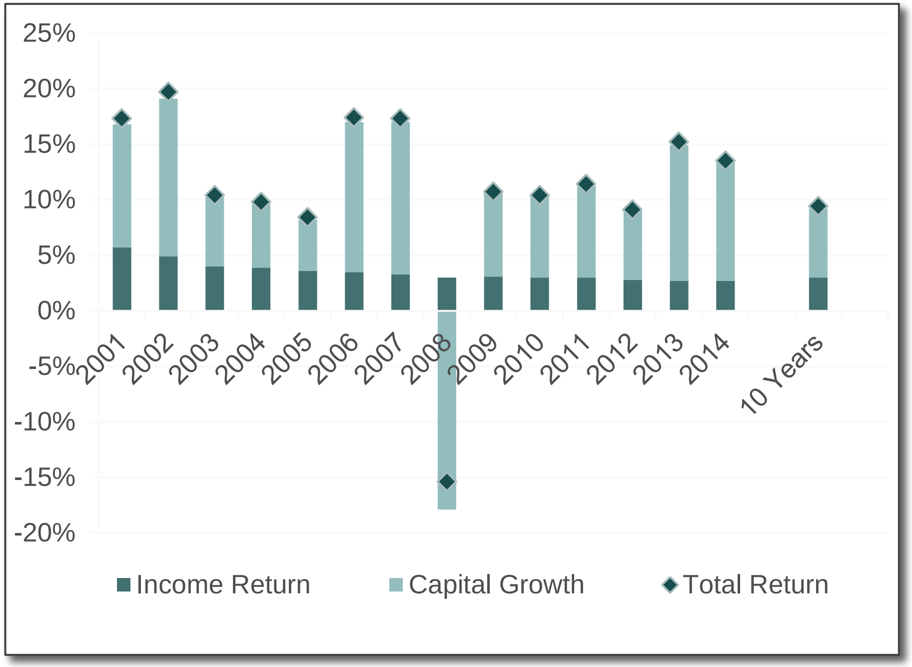
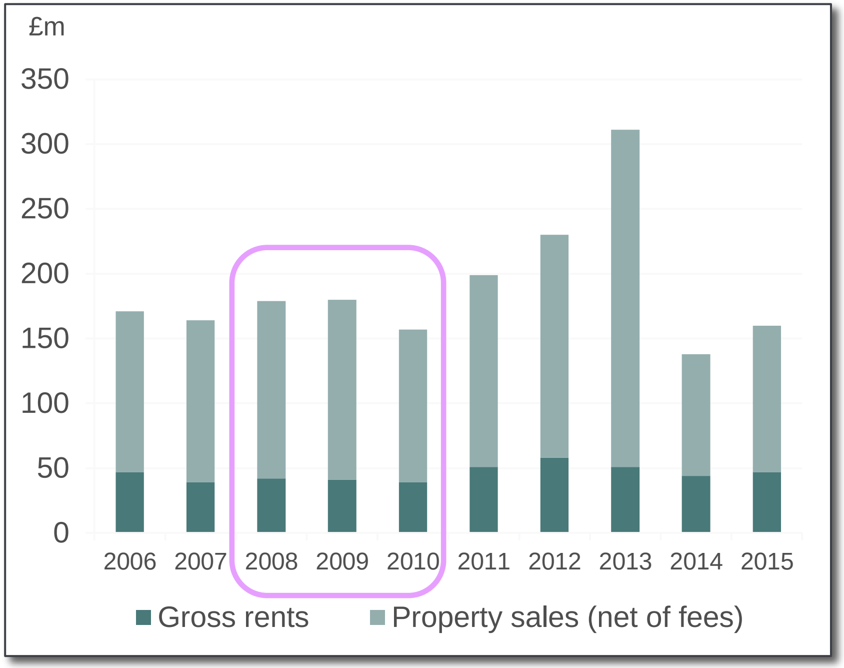
- Excellent, proven liquidity, throughout cycles (see charts below)
- Regulated tenancies estimated to deliver on average >£100m p.a. of gross cash to 2025
- Strong total returns from residential assets

UK Residential market returns



Source: MSCI, IPD Residential Index, 2001-2014

Grainger's strong cashflows



Source: Company data; UK Residential division.

Nick Jopling
Executive Property Director

The UK PRS growth opportunity

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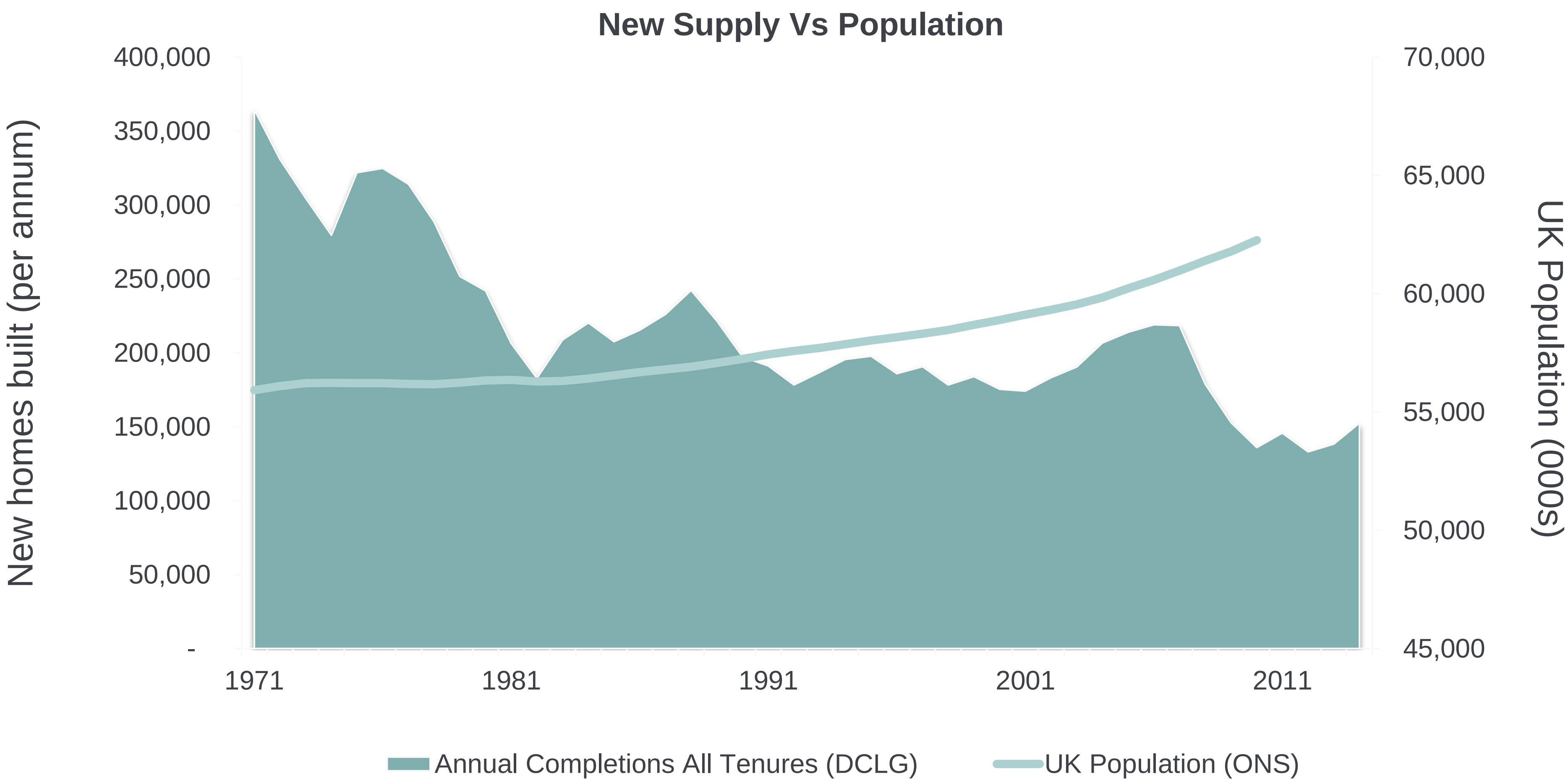
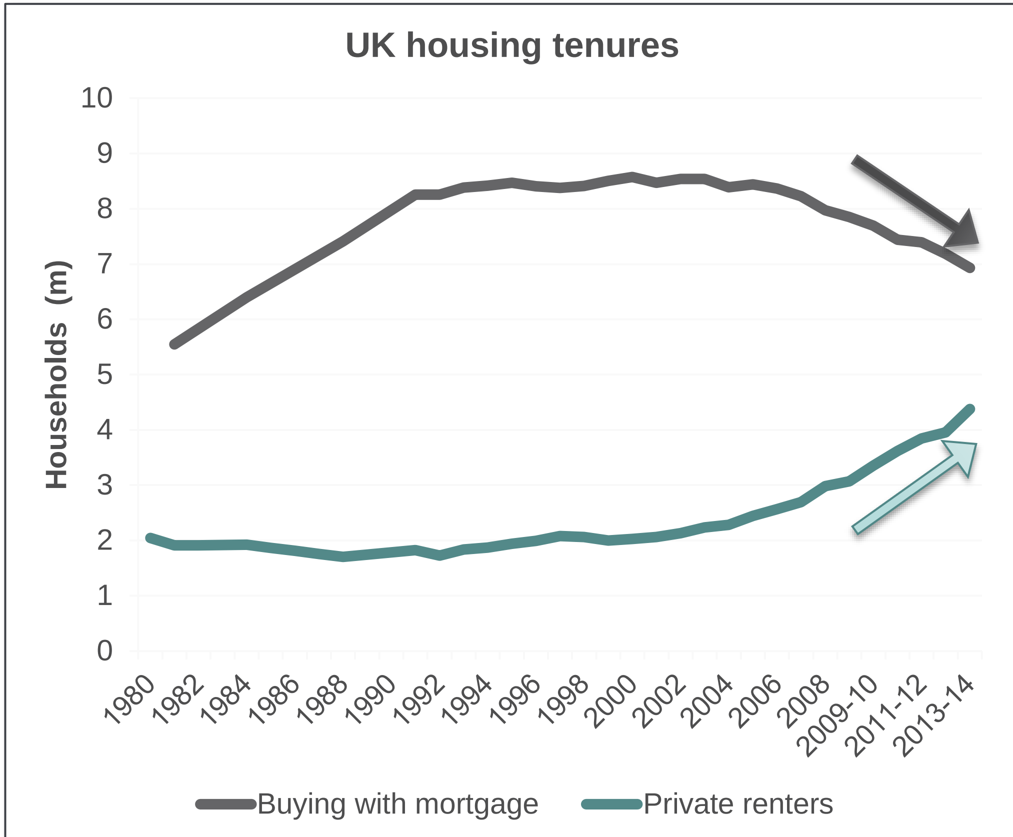
Continued undersupply of housing

27m households in the UK, housing market worth >£5 trillion



The UK PRS growth opportunity



Source: English Housing Survey 2014

- **Fastest growing housing tenure** (over 4m households)
- 1 million new households since 2005
- **Doubled in size** in the last decade
- **One in five** households rent privately, one in four in London
- **1.7m more PRS customers by 2018**, totalling 5.7m (Savills)
- **7.2 million households by 2025** (PwC)

PRS target customers – UK Generation Rent

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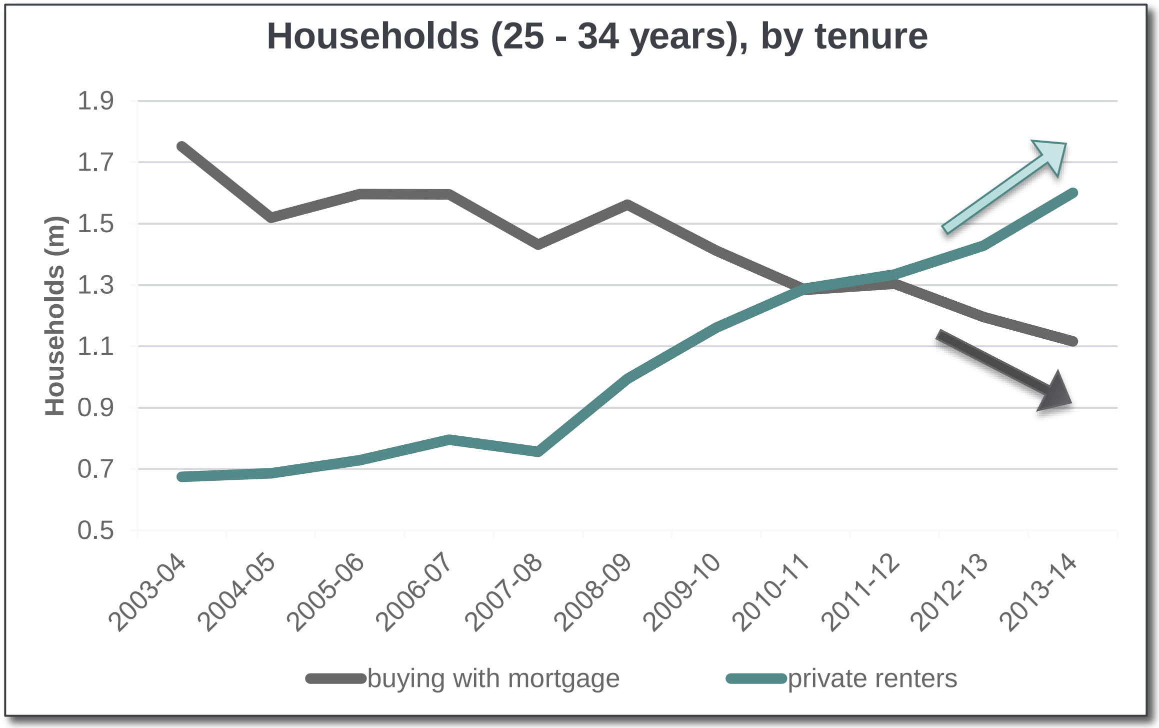

Source: English Housing Survey 2014

Financial drivers

- Mortgage constraints
- Lower savings

Behavioural drivers

- Later family formation
- Greater job mobility
- Urbanisation

A growing rental culture

UK PRS – Competitive landscape

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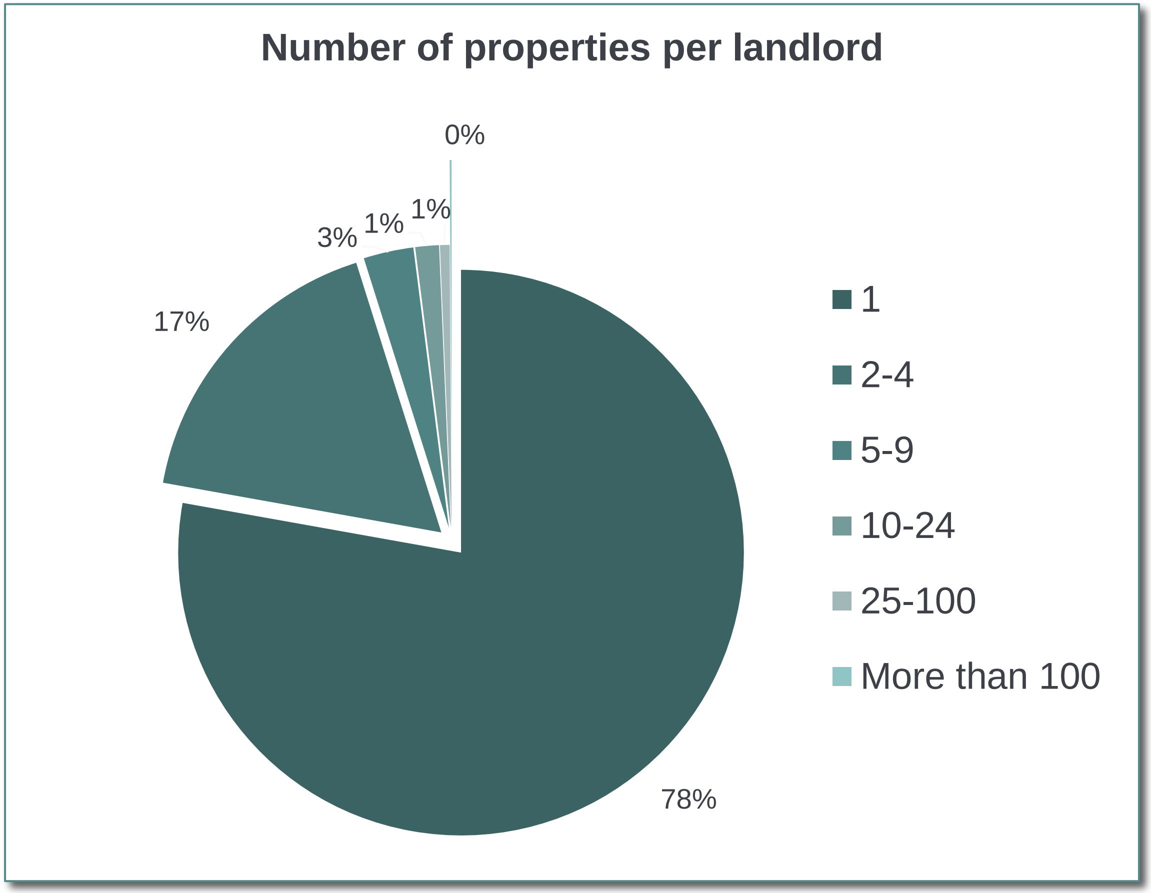
Significant opportunity for large scale, professional investors



Source: ONS, Landlord Survey

PRS investment case

- Significant growth prospects
- Compelling demographics
- Stable, inflation linked income
- Robust income
- Compelling total return investment
- Broad political support for large scale, institutional investment

Hallsville Quarter, Canning Town, London, GRIP Portfolio

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Growing our PRS pipeline

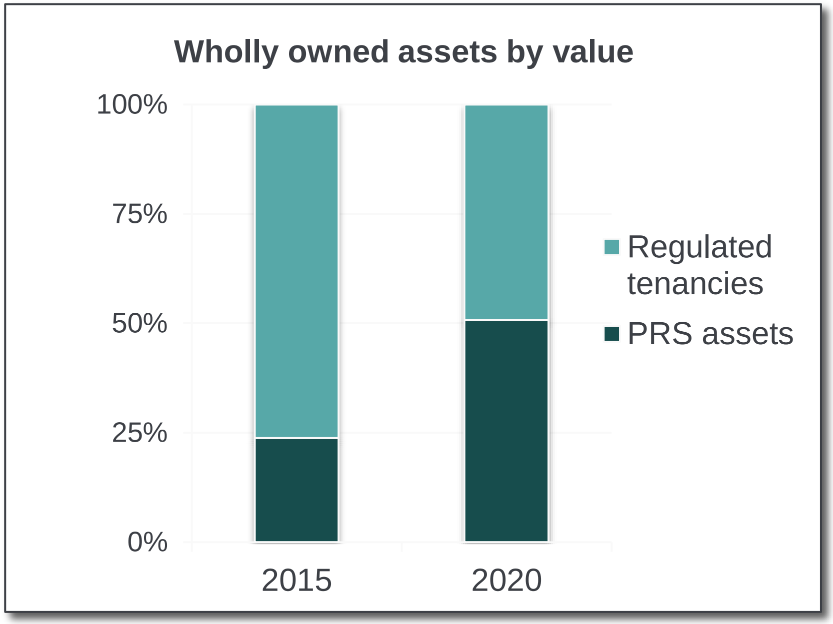
Future direction

Changing the composition of our business

PRS Strategic Targets

Balance sheet

- Over £850m of investment targeted
- 50%+ of wholly-owned PRS assets by 2020



Future direction

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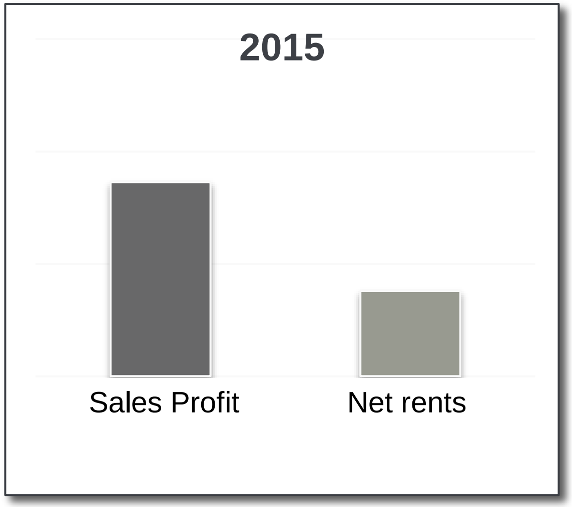
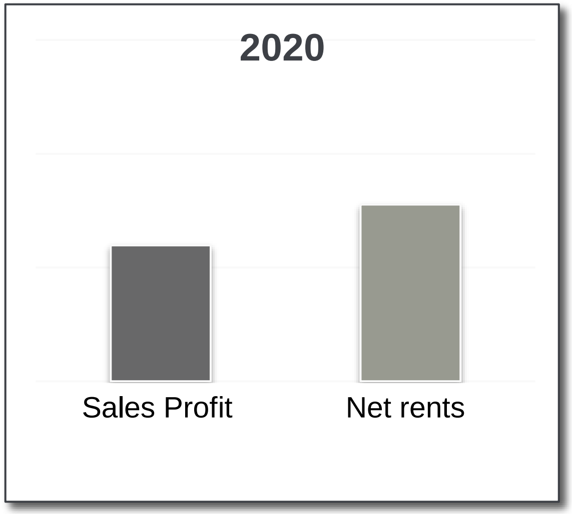
Changing the composition of our business

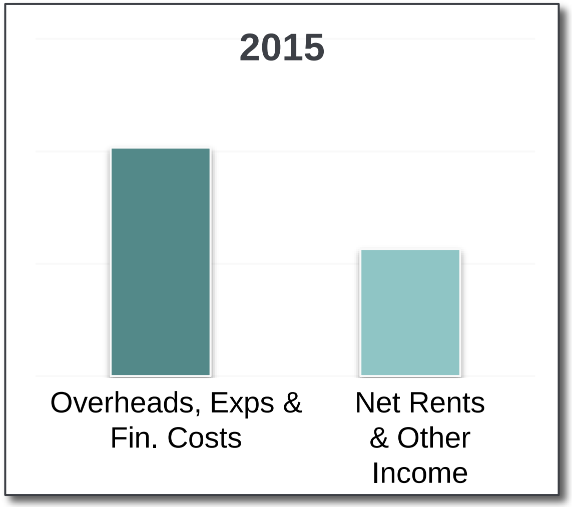
PRS Strategic Targets

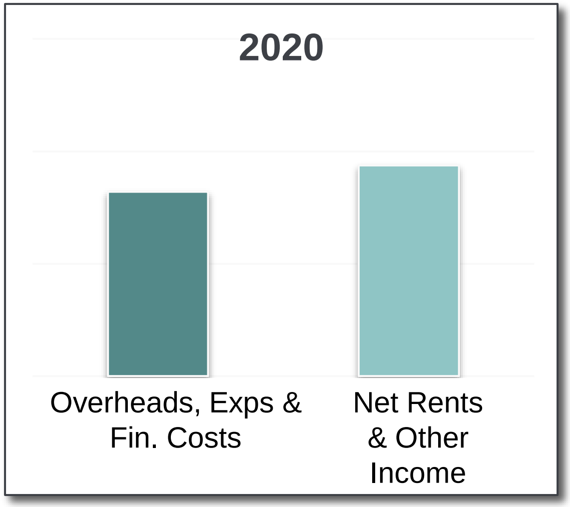
Income statement

- Net rental income to exceed profit from sales
- Net rents and other recurring income* to more than cover overheads, expenses and finance costs
- Dividend to materially increase and be linked to rental growth









* *Excludes normal sales income.*

Charts for illustrative purposes

Build to rent – Overview

Purpose built rental assets

- Designed to optimise occupancy and rental levels
- Constructed to reduce property operating costs
- Closely managed development activities supplement returns

Abbeville Apartments, Barking, London

Attracting and retaining customers

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Transitioning a 104 year old business into the modern day

- Moving to a business to consumer (B2C) brand
- Technology led services
- Designing products and services to meet customer preferences and lifestyles
- Supports stable, recurring rental income

Homes to rent
with Grainger.

Build to rent – Development re-focus

1. **Development re-focus**
   - Exit schemes not aligned to PRS
   - Honour existing commitments
   - Secure new PRS opportunities

2. **Improve PRS yield**
   - Earlier site investment
   - Manage development programme
   - Maximise yield on cost
   - Capture revaluation uplift

On-balance sheet, secured PRS development schemes provide the potential for over 700 units.

Including:

1. Seven Sisters
2. Waterloo
3. Apex House
4. Berewood

Increasing our UK PRS pipeline

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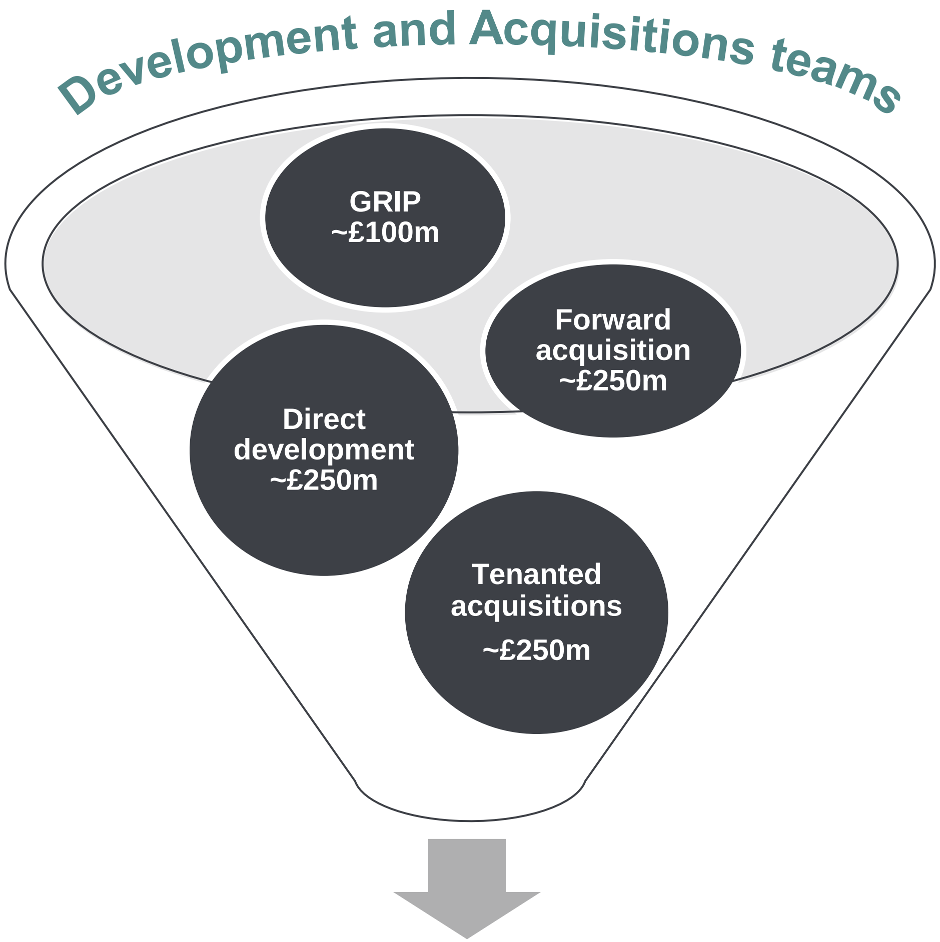
Re-allocate existing resources



PRS

>£850m investment

Increasing our UK PRS pipeline

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The experience and platform to be a leader in a growth market

- **Scale** – National platform and local expertise
- **Experience** – Manager of over 3,600 market rented properties
- **Transaction capability** – Strong balance sheet and proven execution
- **Value add** – Accretive asset management
- **Multiple growth avenues –** Tenanted stock through to development of PRS

Tenanted acquisitions

- Tenanted residential acquisitions will be a key component of our growth strategy
- Immediate income generation and earnings enhancement
- Attractive regional yields
- Established platform to integrate assets quickly

- *£88m of rental assets acquired in the 2015 financial year, 927 homes*
- *c.£23m acquired since the start of FY16*
- *Gross rental income of c.£8.3m, 7.5% yield on cost*

Adding value – Spectrum, Liverpool case study

- Single site in Liverpool City Centre, adjacent to Liverpool ONE
- 28 purpose built vacant apartments
- Formerly serviced apartments
- Acquired for £2.7m in Dec 2014
- £0.25m refurbishment cost

Liverpool ONE, Source: Grosvenor

Adding value – Spectrum, Liverpool case study



Adding value – Spectrum, Liverpool case study

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Adding value – Spectrum, Liverpool case study

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Adding value – Spectrum, Liverpool case study

- Annual rent £248k
- 8.3% gross yield on cost
- Investment value at 30 September 2015 £3.4m
- 15% increase on cost

Proven track record of acquiring quality PRS portfolios

- Proven ability to source accretive regional tenanted PRS portfolios
- £88m of rental assets acquired in the 2015 financial year, 927 homes
- Gross yield of c.7.7%
- Ability to immediately integrate and manage the assets
- Marginal incremental costs of management
- Experienced regional operational management team, familiar with the territory

Reducing costs

Improving efficiency to maximise returns

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Opportunity to reduce overheads and costs through simplification and focus

- Comprehensive operational review underway
- Overheads of £36m in 2015; post Germany and Equity Release disposals, will reduce by c.10% (£32.5m)
- Opportunity to significantly improve our sustainable returns
- Meaningful further reduction will be delivered
- Report back at HY results in May

Improving efficiency to maximise returns

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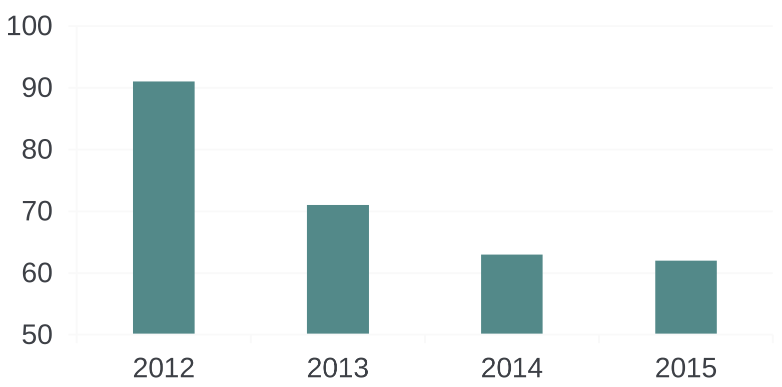
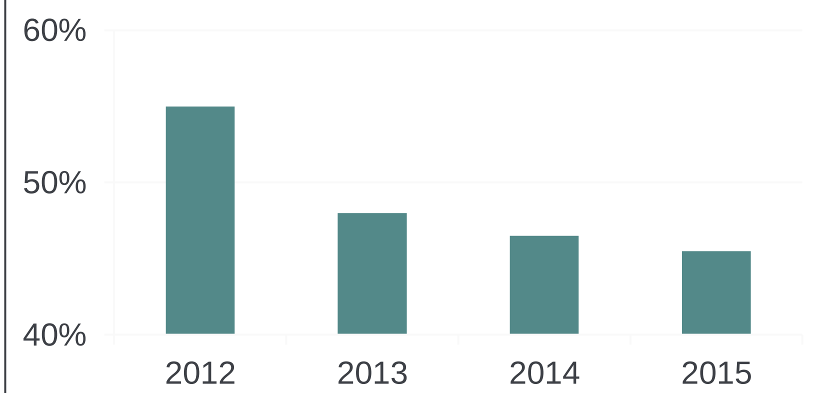
Reducing financing costs and optimising our capital structure

- Substantial progress in reducing financing costs and diversifying funding
  - £275m of corporate bonds issued (now investment grade rated by S&P)
  - New £680m syndicate facility
  - £150m facility renewal for a c.1,200 unit portfolio
- Average cost of debt reduced from >6% in FY12 to 4.6% by the end of FY15
- No material refinancings required until 2020

Financing costs (£m)



Loan to Value (%)



Financing Targets

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Reducing financing costs and increasing firepower

Cost of Debt

- 4% average cost of debt target
- Supported by disposals
- Substantial overall cost savings

Loan to Value

- Previous target of 45-50%
- Expectation <40% following Equity Release and Germany disposals
- Longer term LTV target of 40 – 45%

>£850m of potential investment firepower over 3-5 years

(post disposals, supported by reversionary cash generation)

Vanessa Simms
Finance Director

Summary

Key drivers of performance

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- Significant growth potential
- Accretive tenanted acquisitions
- Inflation linked
- Value adding refurbishments

RENTAL GROWTH

- Re-focus team onto PRS
- Move up development curve
- Capture higher returns
- Manage development process

PRS DEVELOPMENT

- Overheads reduced by c.10% after disposals
- 4% cost of debt target
- Review underway, report back at HY results in May

LOWER COSTS

Key actions

1. Significantly grow our UK PRS pipeline
   i. Increase PRS development pipeline (build to rent)
   ii. Accelerate investment into tenanted PRS portfolios

2. No new speculative ‘for sale’ development; team re-focused to PRS

3. Generate best value from our high quality regulated tenancy portfolio

4. Prioritise direct investment; no new funds; no more focus on fee generation

5. Reduce overheads and finance costs
   a) Operational review to identify savings, report back at half year results in May
   b) Continued focus on reducing average cost of debt, towards a 4% target

Outcome: **More balanced returns, lower volatility, higher dividend**

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Focused on growing rental income and

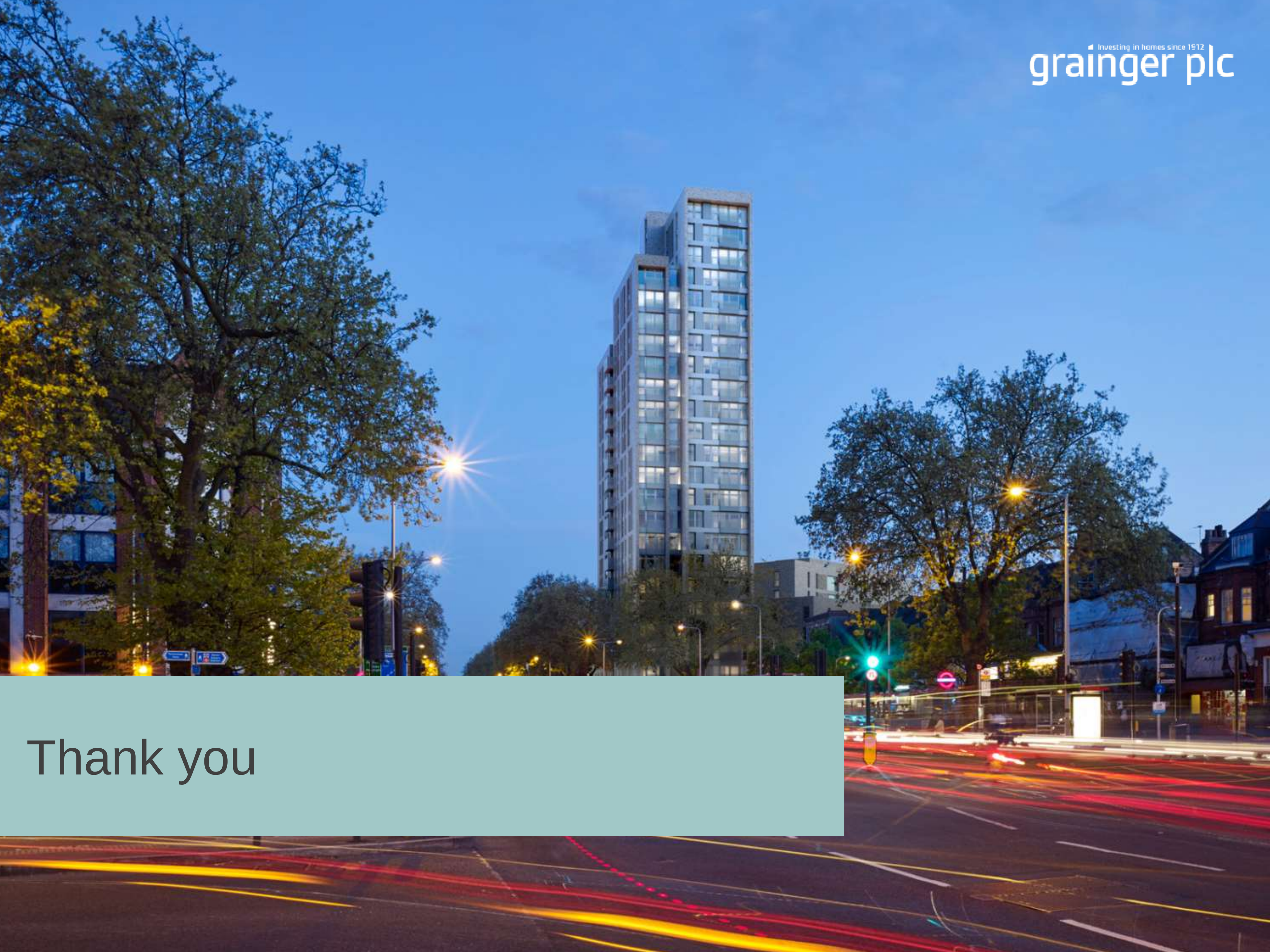
maximising total returns from residential investment

Grow rents

Simplify and focus

Build on our heritage

A strategy to deliver improved shareholder returns



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Thank you