

Urban Land Institute

Housing Finance Forum

Exploring the future of UK housing investment

Private rented and privately owned housing panel

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1 June 2010

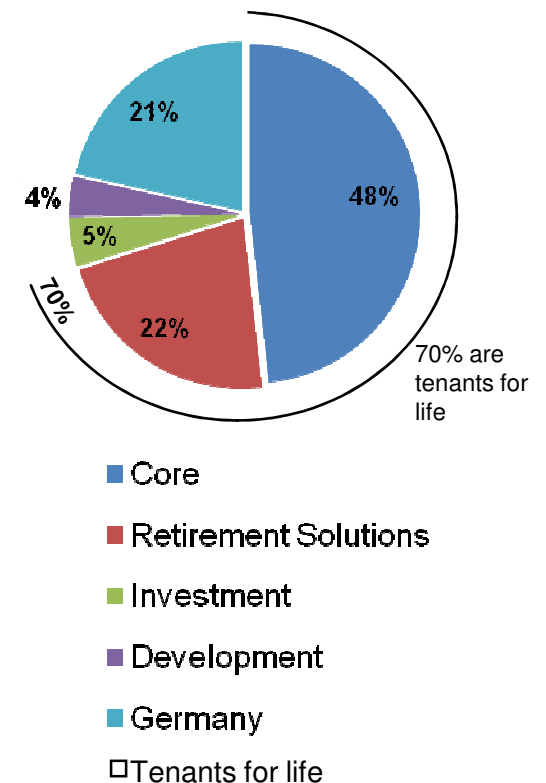


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Group Overview

- UK's largest quoted specialist residential property owner
- Substantial liquid portfolio valued at £2.1bn at 30 September 2009, mostly un-modernised properties of low average value
- Diversified business including regulated properties, market rents, home reversions, selective developments and presence in Germany
- Expertise and management platforms in place to undertake all aspects of property ownership in the UK and Germany
- Six business areas, five related portfolios:
 - Core (mostly regulated properties)
 - Retirement Solutions
 - Fund/asset Management and Residential Investment
 - Development
 - Germany
 - Property Services Business

Gross asset value per portfolio at 30 September 2009



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UK Housing Provision

- Housing supply in the UK is underperforming
- The right type of homes are not being built in the right places to satisfy demand
- Home ownership is reducing
- Private renting is increasing
- Social housing supply is under strain
- Equity and debt funding is a real challenge
- Failure of politicians to understand the sector to facilitate the creation of sustainable solutions
- First impressions from the new government are not encouraging



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The Private Rented Sector

- In the current economic climate will continue to be the tenure of choice for many, particularly the aspiring young professionals requiring the flexibility of the tenure
- Sector is fragmented with management remaining a cottage industry
- £billions have been invested in the sector through 'buy to let'
- For private investors, until the market crashed the model worked:
 - Rental cash flow barely covered finance costs
 - House price inflation the driver of investment returns
 - Demand exceeded supply particularly in city centres
 - For many an alternative personal pension provision opportunity
- Mortgage finance restrictions are a barrier to further growth
- Forecast capital gains tax changes will be a disaster to the sector



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Institutional Investment

- Few new funds are being created
- In fact net investment is reducing as funds are liquidating as they reach the end of their original 'fund life'
- Lots of talk about new investment much associated with the HCA PRS initiative
- Small scale fund creation the main current focus
- But will investment be in new housing stock?
- Current investment transactions are not creating new housing supply
- Joint ventures are the current flavour of the month favouring investment over a shorter time frame in existing assets producing opportunity type returns



Real Opportunity - Residential REIT's

- Institutional investment should be encouraged by attracting equity through tax efficient vehicles similar to those operating in the commercial investment sector
- REIT's are potentially an ideal option for investors requiring liquidity and having a risk/return profile somewhere between corporate bonds and equities
- UK REIT regime saw a dramatic THREEFOLD increase in overseas investment when implemented
- Listed residential REIT's will be attractive to UK and overseas pension funds, as they combine liquidity with tax transparency and long term predictable income streams
- PROBLEM the existing REIT legislation does not fit the residential investment model



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Commercial vs. Residential Business Models

	Commercial	Residential	Notes on residential
Valuation basis	Yield	Vacant Possession	Discount up to 30% for tenanted property
Market value driven by	Supply & demand of occupiers	Supply & demand of purchasers	
Primary source of investor returns	Rental income	Sale Proceeds	Requires trading to deliver investor returns
Gross Yield	5 - 7%	2.5 - 6%	Varies on tenure type as well as market forces
Gross – Net leakage	10%	25 - 35%	Management intensive
Net Yield	4.5 – 6.5%	2 – 3.5%	Net yield does not cover interest payments



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Resi REITs – why don't they work in the UK?

- **Financial issues**
 - Lower yields
 - Higher management costs
 - Trading needed to deliver total return
 - SDLT
- **Legislative issues**
 - Investment vs. trading distinction
 - 90% distribution
 - Lack of capital allowances
 - Interest cover test
- **Other issues**
 - Difficult to assemble large portfolio
 - Property management capabilities
 - Institutional nervousness

