



 ANNINGTON

HALF-YEAR STATEMENT 2020

Half-Year Statement 2020:

Following the publication of the Annual Report for the year ended 31 March 2019, I am pleased to provide a half-yearly update on the performance of the Annington Limited Group.

Market Environment

In the six months to September 2019 house price growth remained subdued. Nationwide reported annual house price growth at 0.2% and, whilst marginally higher, Halifax reported annual growth for September of 1.1%. Regional price variations persist with further price declines in London and the South East reported by both Nationwide and Halifax. Statistics released by Land Registry in November show annual house price growth as 1.3% at September 2019 vs 3.5% the year before. The ONS reported a similar 1.3% annual increase in prices.

The RICS, in its UK Residential Market Survey, noted a pick-up in buyer demand during the half-year. However, in its September report, the RICS reported its survey results suggested that headline indicators, both demand and supply, had slipped into negative territory. This was anecdotally attributed to heightened economic and political uncertainty.

For the lettings market, the Office of National Statistics reported that private rental prices paid by tenants in the UK increased by 1.3% in the 12 months to September 2019. This percentage had been unchanged since May 2019. Regional variation is still evident, with London private rental prices only showing a 0.9% increase in the year to September 2019 but the South West region recorded increases of 2.1% in the same period.

Operational Update

In the six months to 30 September 2019, work progressed on the expedited Site Review process. In this time, we have focussed on visiting the 27 beacon sites to determine the physical condition of the units. In addition, work has progressed on identifying and settling legal issues related to the Site Review process and preparations progressed for the sharing of without prejudice opening positions on each of the beacon sites in early October.

These offers were shared on time and a five week period of negotiation entered into. No resolution was reached during that time and subsequently the Site Review process has moved onto arbitration of the legal issues between the parties. In early 2020, the process of determining the agreed condition of the sites will continue through arbitration. In May 2020, the arbitral panel will hear the full valuation arguments on the first 4 sites, with a determination on these sites expected later in 2020.

In the six months to 30 September, termination notices were received for 266 Married Quarters Estate ("MQE") units. Whilst the majority of these units are to be released in March 2020, at 30 September, one unit had been released and a further nine more were handed back by the Ministry of Defence ("MOD") in October.

Expansion of the PRS activity within the non-MQE portfolio continued through the completion of build projects already underway at March 2019. Construction work was completed in May on the final block at PinnPoint in Uxbridge, London. This added a further 87 units to the portfolio available for letting on assured shorthold tenancies. At the PinnPoint site, demand has been strong, with 94% of the site let by the end of September and confirmed rental offers being held for a further 2%. Another six units were added to the non-MQE portfolio following the completion of Phase 1 at Brize Norton.

During the half year, 33 units were sold by the group. The majority of these (17 units) were sales of new build or development units, led by the sale of 13 affordable units at Brize Norton to a local housing association. A further 13 units were sold from the non-MQE portfolio, of which 11 were units no longer required by the MOD under the bulk leasing arrangements. Any rent savings on the early termination of bulk rental arrangement arising on units sold or rented to third parties in this way is calculated and shared 50:50 between the MOD and Annington.

The MOD's pilot of the Future Accommodation Model ("FAM"), a new way of providing living accommodation to personnel and their families which increases opportunities for home ownership and private rental, has commenced. The initial FAM go-live date was 30 September 2019 at HMNB Clyde, with further pilot programmes being run at Aldershot Garrison, commencing on 31 January 2020 and at RAF Wittering, starting on 31 May 2020. With the pilot programmes expected to run for three years, outcomes from this trial may not be available in the near term.

Outlook

The forecast of the RICS September Residential Market Survey points to continuing short-term subdued activity levels, particularly in the three months to December, though sentiment over the twelve-month horizon does appear to be a little more resilient. This correlates to the uncertainties surrounding Brexit, with the property market predicted to recover as greater certainty emerges. These sentiments flow through the later October and November RICS surveys.

It is too soon to know the effect of the recent election and the new parliamentary majority held by the Conservative party. However, the expectation is that there is greater certainty on the future of Brexit which gives backing to the forecasts within the RICS survey reports.

Whilst based on several assumptions about Brexit, Savills predicts UK mainstream house price growth of 1% in 2020 and 15% in the next five years. There is regional variation within this forecast, with London forecast to experience subdued growth of 4% in the next five years, compared to the North West, for which growth of 24% is forecast. This continues Savills previous forecasts that the North-South house price divide will reverse in the next five years as property values rise faster in northern England, Wales and Scotland than those across London.

Operationally, we are gearing up to deal with the remainder of this year's 266 releases from the MQE. With these releases, the MOD reached the required 500 unit annual release target to invoke the £7,000 per unit dilapidations relief permitted in the arbitration agreement. The Group expects that the MOD will reach this 500 unit release target in order for the dilapidations relief to continue up to the agreed period of seven years.

Construction activity continues on the new build sites at Brize Norton, Allington and Little Thetford. With the temporary moratorium on further PRS acquisitions remaining in place at least until there is greater market certainty, the Group intends to review the letting opportunities presented by these sites and units released from the MQE.

In line with the previously announced cautious approach to PRS acquisitions, the Group is to conduct a strategic review of its PRS activities in early 2020. This aims to measure the current strategic performance of these investments against alternative investment strategies. Management will consider stakeholder interests, with the review seeking to determine a future strategy in this area during, and as we emerge from, the current uncertain market conditions.

We will continue to focus on ensuring that we are prepared for the Site Review negotiations and concurrent beacon unit rent reviews. As set out earlier, 2020 will be a key year for the expedited site review process, with the site review outcome for both the initial batch of four beacon sites and the second batch of eight beacon sites set to be negotiated and, if necessary, arbitrated.

As always, we will continue to focus on actively managing the Group's current operations and developments. We will continue to manage tenancies and rental levels, and assess potential options to enhance value, including refurbishment, redevelopment and disposal.

James Hopkins
Chief Executive