ANNINGTON

Half-Year Statement 2019:

Following the publication of the Annual Report for the year ended 31 March 2018, I am pleased to provide a half-yearly update on the performance of the Annington Limited Group.

Market Environment

Although there was growth in house prices during FY 2017/18, as at March 2018 there was a growing consensus that annual house price growth was beginning to slow, particularly in London and the South East.

In the period from March to September, the situation has remained much the same, with Brexit concerns adding to the caution in the market. The trend of slowing house price growth is evident across all main measures of house price inflation. Statistics released by Land Registry in November show annual house price growth as 3.5% at September 2018 vs 4.6% the year before. Nationwide reports an annual growth rate of 2.0% in September 2018 and the measure has slowed further in November to 1.9%.

The RICS, in its UK Residential Market Survey, noted a drop off in buyer demand as buyers struggled with affordability, deposits, and apprehension of rising interest rates. The limited choice of properties for sale has also contributed to a lack of buyer interest as stock levels are reported to be close to record lows.

Turning to the lettings market, the Office of National Statistics reports that annual rental price growth for the UK was 0.9% in September. While London private rental prices fell 0.2% over the year to September 2018, other regions fared better, with annual increases of 2.9% in the East Midlands and 1.9% in the South West and the East of England.

Operational Update

During 2018, only two Married Quarters Estate units were released to Annington. This is the lowest number of units released in any financial year during Annington’s history. However, in the period subsequent to 31 March 2018, we received notices to terminate the leases on 243 MQE units. To date, one of these has been released and sold and a further two have been released and demolished, with the remainder to be released in the period to March 2019. Notwithstanding this, we expect the trend of lower volumes of property releases, as seen over the last five years, to continue in the short term.

It was recently announced that the MoD’s pilot of the Future Accommodation Model, a new way of providing living accommodation to personnel and their families which increases opportunities for home ownership and private rental, has been delayed from this year to the end of 2019. Whilst it had been considered that this pilot might have been able to provide some insight into the potential for future releases, this delay means that outcomes from this trial will not be available in the near term.

In the meantime, we continue to prepare for the Site Review and are currently in talks with the MoD around the practical aspects of conducting this exercise. Throughout this process, we remain focused on securing a positive outcome in December 2021 for all stakeholders, including military families and our shareholders.

Our PRS offering has expanded since the year end to include 73 homes purchased under a development agreement, through which acquisitions are phased based on completed properties. To date, 28 homes have been completed and transferred to our PRS portfolio.

Further, in May 2018, the Group completed the purchase of 104 homes from the Mill Group. These units were acquired pre-let, providing an income stream from the point of purchase.

Most recently, the first block of 54 units at Pinn Point in Uxbridge has been completed and has been made available to rent. Two further blocks are scheduled for completion during the next six months, taking the total number of units on the site to 207.

At our key development site at Brize Norton, following completion of the Highways Agreement, there has been significant progress on site in the half-year. First completions remain scheduled for May 2019.

Outlook

The overall picture for house prices remains subdued. Market direction will depend on how broader economic conditions evolve, especially in the labour market, but also with respect to interest rates and on the Brexit outcome and any resulting clarity on the impact on the UK Economy.

In the short term, the RICS expects a fall in national house price inflation, with the twelve month outlook broadly flat.

Savills predicts 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. House prices are expected to increase by 14.8% nationally from 2019 to 2023, though regionally they will vary from 4.5% in London to 21.6% in the North West.

The continuing uncertainty surrounding Brexit and the possible economic impact this may have, has required a more cautious approach to our investment strategy. We anticipate this to continue at least through to the end of March, but, 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.

In terms of the MQE Portfolio, the first Site Review will remain a key focus area for management. Our ongoing talks with the MoD around the practical aspects of conducting the site review remain high on our agenda, so that the process for completing the site review is clear on both sides and the Site Review can be completed as efficiently as possible, securing a positive outcome for all stakeholders.

James Hopkins
Chief Executive