

Crest Nicholson Holdings plc

May 2014



Contents

- 1) What's going on in the Housing Market?
- 2) Employment & Mortgage access
- 3) Interest Rates – assessing potential impact
- 4) Land, Planning and supply chain
- 5) Recap on the proposition
- 6) Balanced growth
- 7) Conclusions

Housing Market in good health

'We've cut the deficit we inherited to keep interest rates at a record low and prioritised limited financial resources for investment in housing'

Housing Minister, Kris Hopkins, 1 May 2014

'Improving the housing market is a vital part of our long-term economic plan'

Housing Minister, Kris Hopkins, 1 May 2014

'While the housing market recovery will continue, there is little sign it is turning into a runaway boom'

Matthew Pointon, property economist at Capital Economics
30 April 2014

'Underlying demand is likely to remain robust, as mortgage rates remain close to all-time lows, and as consumer confidence improves further.'

Robert Gardner, Nationwide's chief economist, 1 May 2014

'House prices rose at an annual rate of 5.6pc in March, the fastest rate in nearly four years'

Land Registry figures, 30 April 2014

'Average house prices in England could double in next decade'

Research by Shelter and KPMG, 1 May 2014

...but with recovery comes concerns

'The housing market poses the biggest threat to the country's financial stability'

Housing Minister, Kris Hopkins
1 May 2014

'Britain should be nervous about what is going on in the housing market'

Spencer Dale, Bank of England's outgoing Chief Economist
1 May 2014

'Unless we build more of the right homes at the right prices in the right areas, adult children will be stuck in their childhood bedrooms and parents will be unable to move on with their lives.'

David Orr, National Housing Federation Chief Executive
21 January 2014

'There is a risk that a bubble is developing and that when inevitable interest rate rises occur . . . equity flows will reverse, placing values at risk'

Nicholas Scarfe, Finance Director Duke's Grosvenor Group
30 April 2014

'For many people, particularly those in their twenties, the aspiration of owning their own 'castle' is fast becoming a fairy tale.'

Marianne Fallon, Head of corporate affairs at KPMG
1 May 2014

'The housing market is out of control, particularly in London'

Sam Bowman, research director of the Adam Smith Institute,
15 April 2014

'BoE warns that housing bubble risks derailing economy'

Financial Times
1 May 2014



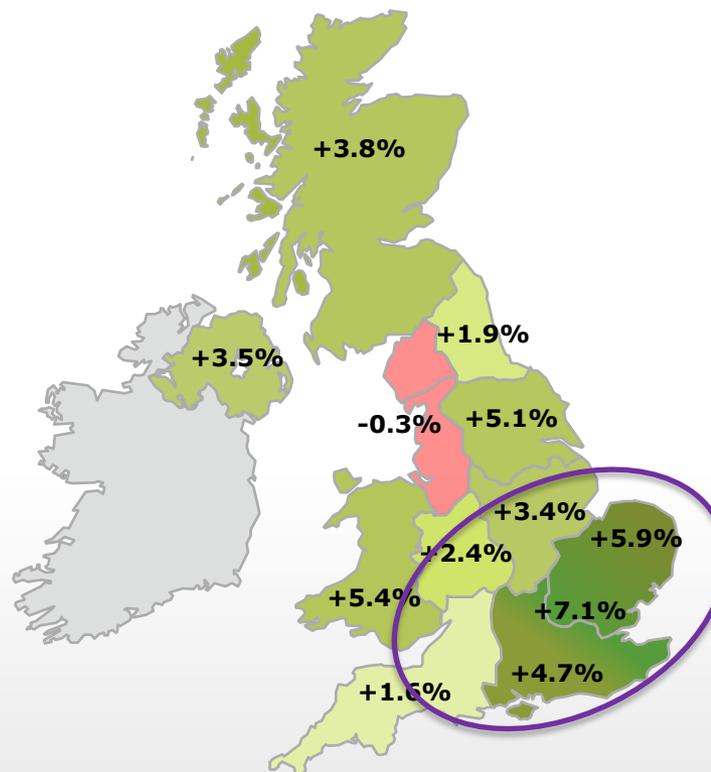
Two key factors in the house buying decision:

- Have I got a job?
- Can I get a mortgage?

Employment – incidence and changes

Total Employment by Region (,000)

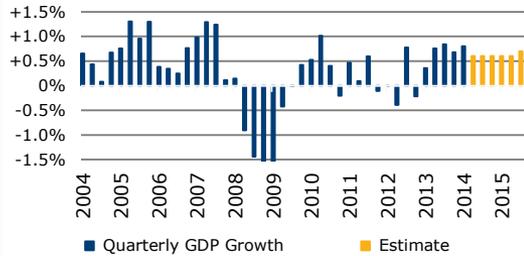
Region	2010	Q4-13	Change
East	2,796	2,961	+5.9%
East Midlands	2,096	2,166	+3.4%
London	3,738	4,001	+7.1%
North East	1,152	1,174	+1.9%
North West	3,156	3,146	-0.3%
Northern Ireland	775	801	+3.5%
Scotland	2,462	2,556	+3.8%
South East	4,167	4,362	+4.7%
South West	2,518	2,559	+1.6%
Wales	1,316	1,387	+5.4%
West Midlands	2,428	2,486	+2.4%
Yorkshire & the Humber	2,418	2,541	+5.1%
Total	29,018	30,140	+3.9%



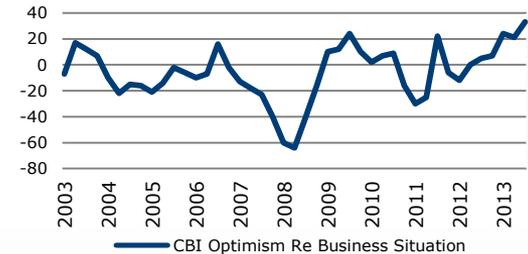
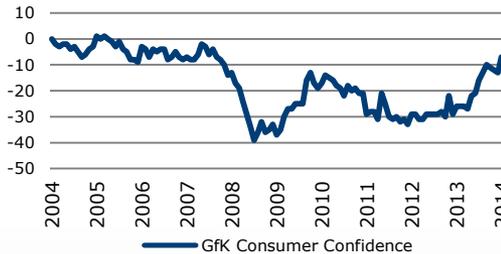
Source: ONS. Note: 2010 figure refers to average quarterly total employment figure

Resilience in earnings

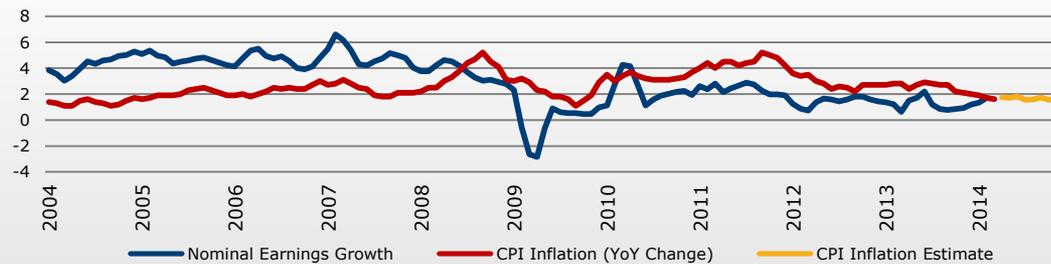
GDP & Unemployment



Business & Consumer Confidence



CPI Inflation & Nominal Earnings

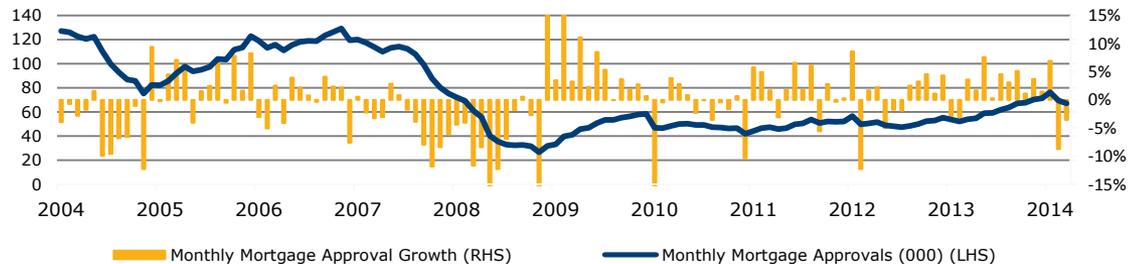


Source: OFS, GfK, CBI

Note: All estimates based on Barclays economists

Mortgage access

UK Mortgage Loans Approved



- Mortgage access has steadily improved since low of 2009 and grown strongly since last year
- Uplift in mortgage approvals has dipped recently – but shortages of stock for sale may hold key(?)
- Key hurdle in environment of rising prices and static real incomes is raising a deposit – so high LTV mortgages at affordable rates to stimulate First-Time buyers in particular very helpful.....

Help to Buy – redressing the imbalance

- Help to Buy (HTB) is recalibrating the market:-

Abnormal



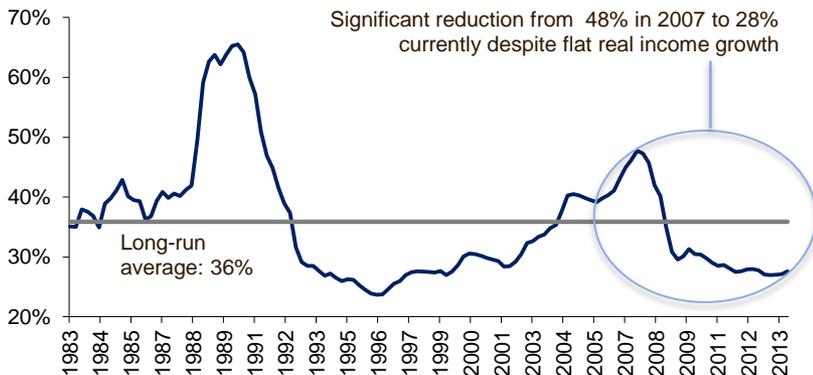
Normal



- Help where help is needed: 87.5% of all HTB transactions have been First-Time Buyers; activity in this group traditional driver of healthy housing market
- Stimulating wider organic housing market recovery & growth - HTB just 2% of housing transactions
 - Average Crest Nicholson HTB price £227K (HYFY14)
 - 5% deposit still £11,350 – so ‘skin in the game’
 - HTB interest rates at low levels: c.3% - affordable start point

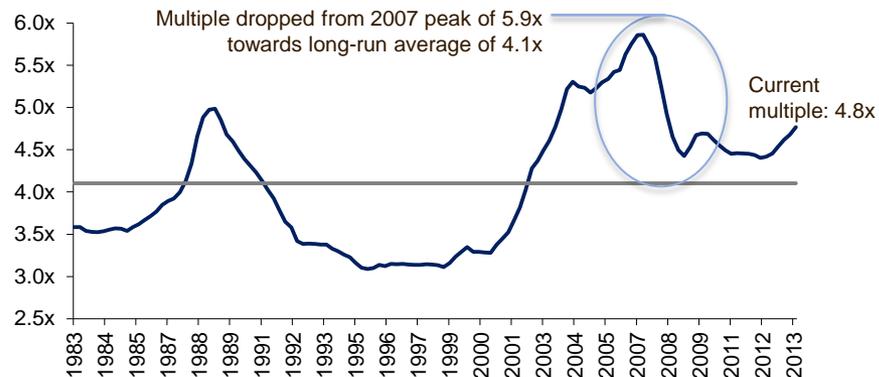
Mortgage affordability

Mortgage costs as a proportion of income



Source: Halifax
 Mortgage costs as a percentage of average disposable income
 Mortgage costs calculated based on average house prices and mortgage rates over the applicable period. Mortgage payments include capital and interest

UK house prices to income ratio



Source: Halifax
 Based on UK average house prices to household earnings

The impact of interest rate rises...

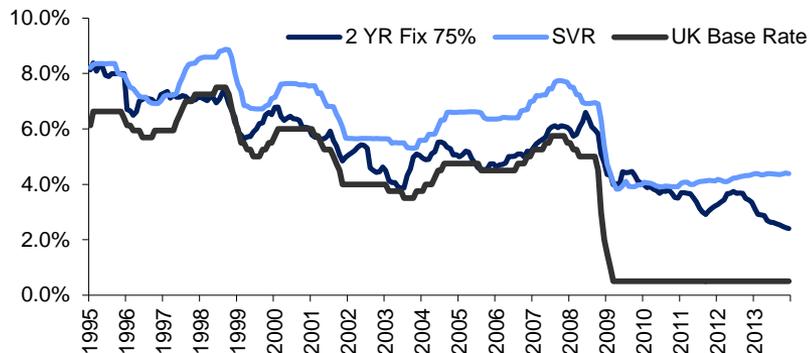
- Current household spend on mortgages is 28%
 - assuming a 70%LTV and average rate of 3.1%
- If interest rates were to rise, this would result in.....

	3.1%	3.6%	4.1%	4.6%	5.1%
Mortgage rate	3.1%	3.6%	4.1%	4.6%	5.1%
Uplift	0bps	50bps	100bps	150bps	200bps
Household spend	28%	30%	31%	33%	34%

- Limited impact on the household spending ratio – a 200bps rise would result in a household spend ratio below the long run average of 36%**

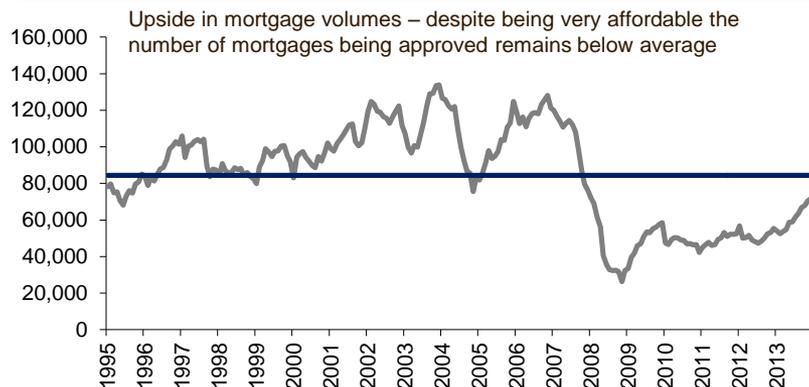
Mortgage affordability

Average mortgage / interest rates

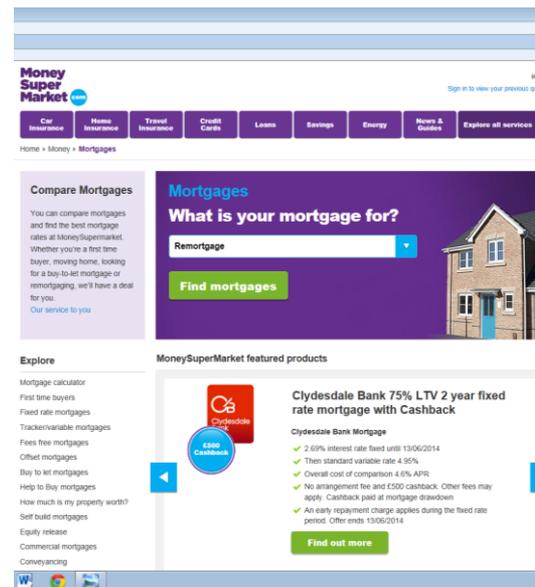


Source: Bank of England

UK mortgage volumes (house purchases)



Source: Bank of England
Mortgage volumes seasonally adjusted



The screenshot shows the Money Super Market website interface. At the top, there are navigation tabs for Car, Home, Travel, Credit Cards, Loans, Savings, Energy, News & Guides, and Explore all services. Below this, the 'Mortgages' section is highlighted, with a 'What is your mortgage for?' dropdown menu set to 'Remortgage' and a 'Find mortgages' button. A featured product for Clydesdale Bank is displayed, offering a 75% LTV 2 year fixed rate mortgage with a £500 cashback. The product details include a 2.89% interest rate fixed until 13/06/2014, a 4.95% standard variable rate, and an overall cost of comparison of 4.6% APR. Other features include no arrangement fee and a £500 cashback. A 'Find out more' button is also present.

- Limited (but positive) correlation between changes in interest rates and mortgage lending for new home purchases
- Wider spreads over base rate may cushion effect of base rate rises

Mortgage Market Review

Enshrines best practice progressively adopted post credit-crunch

Affordability checks,
greater applicant scrutiny,
a longer term view of
buyer finances =
Responsible Lending

Land available at or above our hurdle rates:

- London market continues to be highly competitive
- Strategic land opportunities good for experienced teams with proven track record
- Regional short term land markets are more variable

However: –

There are more land opportunities in the market..

....but fewer developers

- Only 8 quoted 'majors' delivering over 2,000 dwellings per annum (down from 13 in 1988)
- Circa 95 medium-sized developers (down from 260 in 1988)
- Only 2,800 SME's, (delivering between 1 and 100 dwellings p.a.), down significantly from 12,000 in 1988.

Improving supply of consented land

- NPPF starting to take effect
- Planning consents in England up 24% from 140,555 plots in 2012 to 174,471 plots in 2013

... but tighter in Southern England

- Increases not evenly spread
- Midlands increases 59% to **30,562** plots whilst Southern England only increased 18%, but to **97,605** plots

... and planning remains a significant barrier to entry in time, cost and complexity terms.

- Much of costly processing arises from European Directives which are not subject to UK “red tape challenge”
- Cost & complexity have contributed much to reduced number of SME’s & medium sized developers

Supply Chain

- Build costs c.50% of Revenue
- Build cost inflation – weighted-average increases of c.5% through 2013
- Need 2.5% Sales Price inflation to maintain margins
- Supply chain has now had longer to respond to the sudden uplift in activity



Bricklaying rates per '000 still below 2006 peak in real terms

Table 9 : Bricks - Production, Deliveries and Stocks

Great Britain				
		Production	Deliveries (from)	Stocks*
(a) Brick Type				
All Types				
2009		1,257	1,469	887
2010		1,430	1,606	702
2011		1,554	1,646	610
2012		1,459	1,551	515
2013		1,555	1,736	339
2012	Q4	311	345	515
2013	Q1	342 (R)	345 (R)	513 (R)
	Q2	389 (R)	459 (R)	443 (R)
	Q3	416 (R)	498 (R)	362 (R)
	Q4	408 (R)	434 (R)	339 (R)
2013	January	101 (R)	97 (R)	518 (R)
	February	113 (R)	116 (R)	516 (R)
	March	129 (R)	131 (R)	513 (R)
	April	126 (R)	142 (R)	497 (R)
	May	130 (R)	159 (R)	469 (R)
	June	133 (R)	158 (R)	443 (R)
	July	134 (R)	181 (R)	396 (R)
	August	134 (R)	156 (R)	375 (R)
	September	148 (R)	161 (R)	362 (R)
	October	152 (R)	175 (R)	339 (R)
	November	149 (R)	152 (R)	336 (R)
	December	107	108	339
	January (P)	128	133	322



31% increase in outputs

Slowing rate of inventory erosion

Source: BIS statistics

Elections can create uncertainty...

- Potential for policy changes can create uncertainty and a temporary drop in activity
- Sales rates in 8 weeks prior to General Election in 2005 were 25% lower than prior year – but recovered to match prior year post-election
- Outcome of 2015 elections very hard to call at this stage



... but Housing remains on the agenda



Jan 2014 – “as part of our long-term economic plan we introduced the Help to Buy scheme, so hardworking people with sufficient earnings can get on, fulfil their aspirations and enjoy the security of owning their own home.”



April 2014 – “We have got to do more to tackle Britain's chronic lack of housing, and to build high-quality homes in thriving new communities.”



May 2014 – “A Labour government will make sure that Britain builds 200,000 more homes a year by the end of the next Parliament so that more families can fulfil their dream of home ownership”.

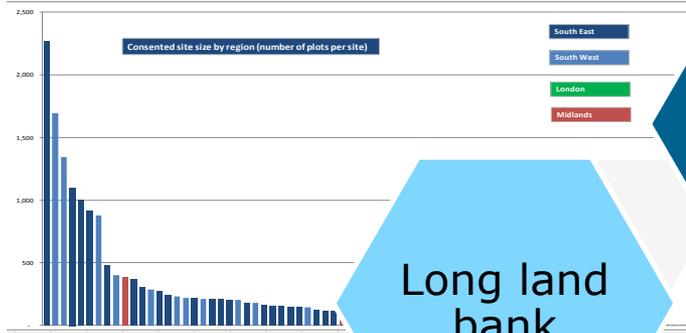
Implications for Crest Nicholson

Positive environment in
which to continue growing
shareholder value

New division in 2014 next
phase of the growth story



Maintaining focus on our Differentiation



Strategic Conversions

Long land bank

Design & Sustainability



Southern focus

Strong NAV growth

Partnership working



Natural scale



Strategic positioning



- Scale and nature of future housing provision kept under review
- Garden Village concepts being developed on larger sites
- Continuing to engage on Private Rental Sector



MODERN VILLAGES FOR TODAY AND TOMORROW

Our capacity to deliver has evolved over time, allowing us to articulate our own vision and philosophy for the creation of modern Villages and communities and position ourselves as the leading developer in this field.

A holistic approach to development which embraces social, environmental and economic principles, includes the ongoing generation of sustainable communities, has become part of Crest Nicholson DNA.

The vision and philosophy for the first Crest Nicholson Village was established over 10 years ago. More recently, our involvement in the Garden Cities and Suburbs Expert Group, which resulted in the Town and Country Planning Association (TCPA) publication, Creating Garden Cities and Suburbs Today, has inspired our new Village concept. This approach is founded on the principles of generous design, high quality green spaces, lower density housing, greater employment and commercial and long-term private sector commitment.

The key components of our Village concept through their incorporation, higher and denser, each of our sites and the large green spaces which are considered our core asset. Our design management structure which enables both management and construction to be seen by both local English Villages and Northern Cities Housing over the century.

The principles demonstrate our commitment to shape the way future planning proposals are formed, and the approach to what of many solutions that can help to meet the customer housing demand in a sustainable and responsible way.

It is our aim to ensure that our developments, particularly those of medium scale and density, are founded upon the principles of our Village concept to demonstrate our capability to deliver Village scale developments. However, it is not planning supported and technical considerations which allow us to deliver these schemes to our customers and our vision and practice continues to be the leading developer of high quality and long lasting communities.

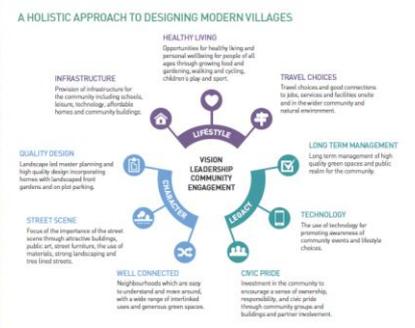
Some of our projects have been founded and developed in consultation with all of the stakeholders, whilst others simply deliver particular benefits appropriate to their design requirements.



Distinctive proposition

50 Years 1963-2013

Crest's delivery of design-led, well conceived master plans has built our reputation



Previously reported projections

- Revenue growth of 50% in three years from October 2013; ASP (primarily mix) and Volume
- 2,500 units to deliver this year
- Double-digit NAV and EPS growth across forecast horizon
- Progressive Dividend policy: funding growth & yield

2014 LTIP targets – mid-range requires ROCE% at 21% and PBT growth at 20% per annum over three years

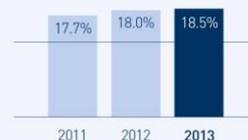
Experienced team focused on returns

- Re-growing business to a 'natural scale' that fits with hands-on management style
- Leveraging overhead to sustain strong EBIT margins and sweating assets to drive ROCE
- Deep industry experience; maintaining capital and operational disciplines



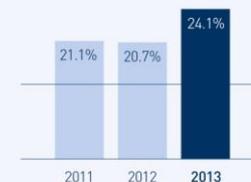
18.5%

OPERATING MARGIN*



24.1%

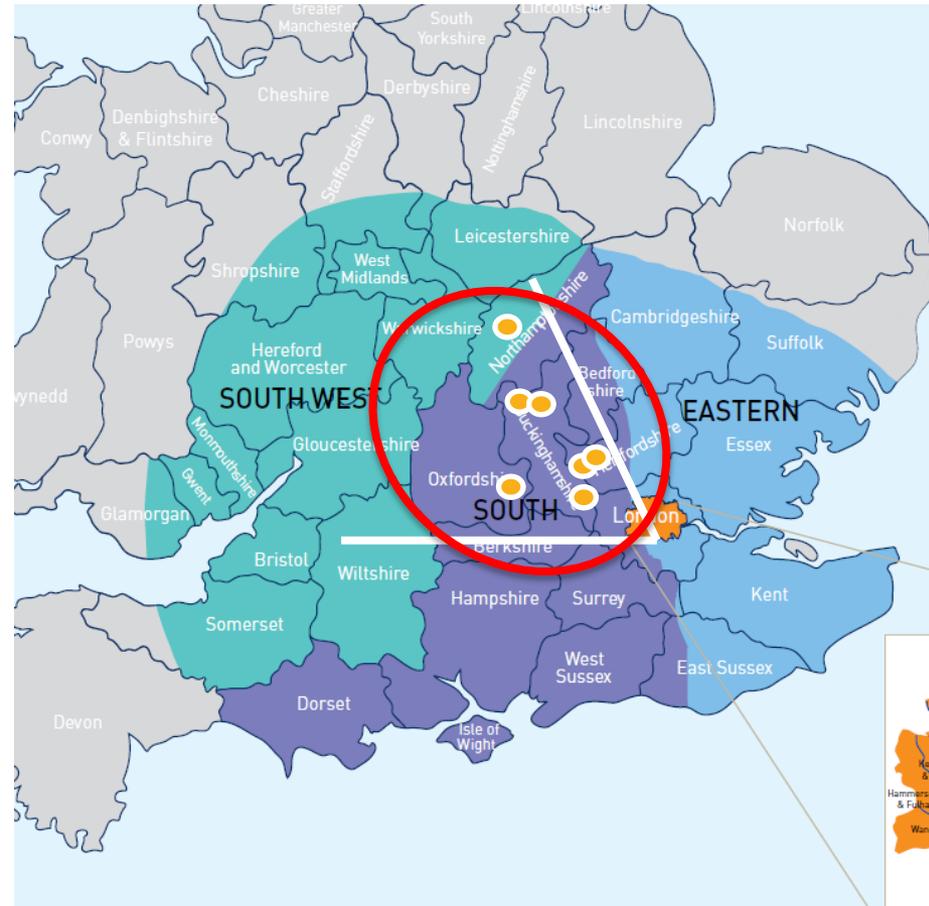
RETURN ON AVERAGE
CAPITAL EMPLOYED *



* Before exceptional costs

Balanced growth: new Division

- Additional Division will enable Crest Nicholson to mine known, strong areas more intensively
- Supports Outlet breadth and growth beyond 3,000 units
- Land to pump prime largely in place; re-financing completed to fund
- Key individuals identified; development opportunities help with retention of good staff



Conclusions

- Fundamentals of Housing Market are sound; strength based on economic recovery and mortgage access, aided by 'Help to Buy'
- Interest rate movements should not derail momentum; affordability remains good even at 200bps higher
- Improving supply of consented land underpins returns
- Crest Nicholson well positioned to grow its business; stretching but achievable ambitions for the next three years



Q&A

Disclaimer

You should note that the financial projections and other statements regarding Crest Nicholson's intentions, beliefs or current expectations referred to in this document are forward looking and do not relate solely to historical or current facts.

These statements are provided on a confidential basis and are based on the current expectations of management and are naturally subject to uncertainty and changes in circumstances. In addition, they are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in such financial projections.

These projections and statements are based on financial, economic, market and other conditions, and the information available to the management, at the date of preparation. No liability is assumed by Crest Nicholson or any of its advisers for such projections or statements and no reliance should be placed on such projections or statements.