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

<table>
<thead>
<tr>
<th>Statement</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘We’ve cut the deficit we inherited to keep interest rates at a record low and prioritised limited financial resources for investment in housing’</td>
<td>Housing Minister, Kris Hopkins, 1 May 2014</td>
</tr>
<tr>
<td>‘Improving the housing market is a vital part of our long-term economic plan’</td>
<td>Housing Minister, Kris Hopkins, 1 May 2014</td>
</tr>
<tr>
<td>‘While the housing market recovery will continue, there is little sign it is turning into a runaway boom’</td>
<td>Matthew Pointon, property economist at Capital Economics, 30 April 2014</td>
</tr>
<tr>
<td>‘Underlying demand is likely to remain robust, as mortgage rates remain close to all-time lows, and as consumer confidence improves further.’</td>
<td>Robert Gardner, Nationwide’s chief economist, 1 May 2014</td>
</tr>
<tr>
<td>‘House prices rose at an annual rate of 5.6pc in March, the fastest rate in nearly four years’</td>
<td>Land Registry figures, 30 April 2014</td>
</tr>
<tr>
<td>‘Average house prices in England could double in next decade’</td>
<td>Research by Shelter and KPMG, 1 May 2014</td>
</tr>
</tbody>
</table>
...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)

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

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

GDP & Unemployment

Quarterly GDP Growth

Estimate

Business & Consumer Confidence

GfK Consumer Confidence

CBI Optimism Re Business Situation

CPI Inflation & Nominal Earnings

Nominal Earnings Growth

CPI Inflation (YoY Change)

CPI Inflation Estimate

Source: OFS, GfK, CBI
Note: All estimates based on Barclays economists
Mortgage access

- 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……

Source: BBA
• 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

- Significant reduction from 48% in 2007 to 28% currently despite flat real income growth

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

- Multiple dropped from 2007 peak of 5.9x towards long-run average of 4.1x

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.....

<table>
<thead>
<tr>
<th>Mortgage rate</th>
<th>Uplift</th>
<th>Household spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1%</td>
<td>0bps</td>
<td>28%</td>
</tr>
<tr>
<td>3.6%</td>
<td>50bps</td>
<td>30%</td>
</tr>
<tr>
<td>4.1%</td>
<td>100bps</td>
<td>31%</td>
</tr>
<tr>
<td>4.6%</td>
<td>150bps</td>
<td>33%</td>
</tr>
<tr>
<td>5.1%</td>
<td>200bps</td>
<td>34%</td>
</tr>
</tbody>
</table>

- 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

- 2 YR Fix 75%
- SVR
- UK Base Rate

Source: Bank of England

UK mortgage volumes (house purchases)

Upside in mortgage volumes – despite being very affordable the number of mortgages being approved remains below average

Source: Bank of England
Mortgage volumes seasonally adjusted

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- 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.
Planning context

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

Table 9: Bricks - Production, Deliveries and Stocks

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Deliveries (from)</th>
<th>Stocks*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>1,257</td>
<td>1,469</td>
<td>887</td>
</tr>
<tr>
<td>2010</td>
<td>1,430</td>
<td>1,606</td>
<td>702</td>
</tr>
<tr>
<td>2011</td>
<td>1,554</td>
<td>1,646</td>
<td>610</td>
</tr>
<tr>
<td>2012</td>
<td>1,459</td>
<td>1,551</td>
<td>515</td>
</tr>
<tr>
<td>2013</td>
<td>1,555</td>
<td>1,736</td>
<td>339</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Q4</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>311</td>
<td>345</td>
<td>515</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>342</td>
<td>345</td>
<td>513</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year (R)</th>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
<th>November</th>
<th>December</th>
<th>January (P)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>101 (R)</td>
<td>97 (R)</td>
<td>518 (R)</td>
<td>516 (R)</td>
<td>513 (R)</td>
<td>497 (R)</td>
<td>469 (R)</td>
<td>443 (R)</td>
<td>396 (R)</td>
<td>375 (R)</td>
<td>339 (R)</td>
<td>336 (R)</td>
<td>322</td>
</tr>
</tbody>
</table>

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

Source: BIS statistics

31% increase in outputs

Slowing rate of inventory erosion
• 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

- Long land bank
- Southern focus
- Strategic Conversions
- Design & Sustainability
- Strong NAV growth
- Partnership working
- Natural scale

£470.3m NET ASSETS
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
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

* 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

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