9th November 2017

hardman&co

Construction & Materials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	INL
Price (p)	59.0
12m High (p)	66.25
12m Low (p)	50.75
Shares (m)	201.4
Mkt Cap (£m)	118.8
EV (£m)	186.8
Free Float	99.0%
Market	AIM

As defined by AIM Rule 26

Description

Inland Homes is a brownfield regeneration specialist, housebuilder and mixed-use developer. Its core skills are acquiring largely unconsented sites principally in southern England, taking them through planning to breaking ground, development and sale.

Company information

Chairman	Terry Roydon
Chairman	Stephen Wicks
CFO	Nishith Malde

01494 762 450
www.inlandhomesplc.com

Key shareholders

M H Dixon	8.45%
Janus Henderson	5.17%
P&KS	3.08%
Management	14.85%

Next event

AGM	28 Nov. 2017
Interims	March 2018

Analysts

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Inland Homes plc

…….in land we trust

'In God we trust' is the official motto of the United States of America, second only perhaps to real estate (in a politically correct World). This latter dictum derives from the belief that they are not making any more land - the industry's core raw material. Inland Homes, however, makes its own by being adept and nimble in finding sites and bringing them through planning. It is a hidden gem.

- **Strategy:** The Company is a UK brownfield regeneration specialist which means it finds land, achieves planning permission and sells it 'oven ready' to housebuilders and mixed use developers (and it can also be master developer in its own right). Inland's gathering emergence, too, is timely given that the majority of listed UK housebuilders are humming the 'capital light' mantra.

- **Ethos and track record:** Its current portfolio consists of 6,936 plots with the vast majority in the south and south east of England. In addition, strategic land has the potential for some 2,270 residential plots across 408 acres typically on a two to five year time horizon. Plus, Inland is building 427 houses in its own right.

- **Valuation:** Due to the nature of its business, the Company employs EPRA net asset value as its prime metric i.e. this reflects the unrealised value in its land. Right now, though, Inland is trading on a 39% discount to that value whereas its nearest equivalents Urban & Civic and St Modwen are at 9 and 19% respectively.

- **Risks:** The UK economy is a little like a tardy Goldilocks: not too hot; but perhaps the wrong side of lukewarm. However, even the most pessimistic forecasts are at 1% or better for GDP growth per annum in 2017 through 2019. Similarly, the 25 basis point rise in interest rates on 2 November was already built in to our shared prognostications. Note, too, that the UK Housebuilding Sector dipped just 0.24% on the interest rate news and remains 43% ahead in the year to date.

- **Investment summary:** The Company is complicated, unconventional and moves to a different metric beat than a regular housebuilder; it is not one of these, but it can be when it wants to be. The real alchemy, though, comes in finding land and bringing it through planning. Here, it reaps handsome rewards and the share price will notice; it is simply a matter of time. Inland we trust.

Financial summary and valuation

Year-end June (£m)	2015	2016	2017	2018E	2019E	2020E
Total Revenue	114	102	118	123	152	180
Underlying PTP	19.5	15.7	19.6	19.0	22.2	25.7
Underlying EPS	8.56	5.09	7.09	7.63	8.91	10.33
Statutory EPS	14.67	14.01	7.82	7.63	8.91	10.33
Net (debt)/cash	-34.9	-54.6	-68.0	-66.6	-63.5	-56.0
Shares in issue (m)	202.2	201.8	202.0	201.7	201.7	201.7
P/E (x)	6.9	11.6	8.3	7.7	6.6	5.7
DPS (p)	1.00	1.30	1.70	2.08	2.43	2.82
Yield (%)	1.7	2.2	2.9	3.5	4.1	4.8
NAV (p)	44.44	57.66	64.62	70.27	76.75	84.36
Adj. EPRA NAV (p)	43.92	92.34	96.22	105.25	113.79	121.29
EPRA discount (%)	-34	36	39	44	48	51

Source: Hardman & Co Research

Disclaimer: Attention of readers is drawn to important disclaimers printed at the end of this document

Prologue

Gerald Murnane published 'Inland' the novel in 1977. It explored themes of memory, landscape and longing. The book's narrator also repeatedly declares that "each place is more than one place".

Despite some technical plaudits, the book was not popular early doors. Indeed, it was finally championed many years after its first publication when the tome was re-released in the US - and where the New York Review of Books said in 2012: "the emotional conviction behind the later parts of Inland is so intense, the somber lyricism so moving, the intelligence behind the chiseled sentences so undeniable, that we suspend all disbelief". At the same time, the Sydney Morning Herald, called it "a work that dazzles the mind with its grandeur and touches the heart with a great wave of feeling".

In entertainment circles such a phenomenon is known as a 'sleeper' just like its eponymous corporate entity, Inland Homes. It is worldly and urbane; and it understands that 'each place is more than one place'. But it is woefully under-recognised and under-valued.

The Company is also different, unconventional even, when compared with the UK housebuilders that it tends to be lumped in with; and Inland cannot be measured judiciously by the same metrics. So it has adopted its own, in the form of EPRA net asset values (see later in this report). Generally, too, its financial statements demand time to absorb - and reflect the dynamism of International Accounting Standards (which means restatement is a necessary bedfellow).

That said, the Company is a brownfield regeneration specialist which means it finds land, achieves planning permission and sells it 'oven ready' to housebuilders and mixed use developers (and it performs the role of master developer in its own right; at its choosing). It is something of a smaller version of Urban & Civic or even St Modwen; and both Gleeson and Boot would claim to be distant cousins. The Company's gathering emergence, though, is timely given that the majority of the listed UK housebuilders are humming the 'capital light' mantra.

Like the writer, Murnane, who bestrode three regions (Hungary, the US and Australia), Inland not only buys and sells land but also develops and sells its own residential and commercial units. Thirdly, it is efficaciously growing a contracting unit focused on building public sector houses (is it morphing into the new model Galliford Try replete with its days spent in the sun?). Typically nimble here, too, it often sells the land to the local authority or housing association at the same time as signing the subsequent building contract. Along the way, too, it collects rent on sites awaiting development and is currently landlord of a hotel in Bournemouth, as it awaits TLC.

At this time, too, Inland's portfolio consists of 6,936 plots with the vast majority located in the south and south east of England. The size of the sites ranges from under 50 plots to over 1,350 plots and are a mix of both brownfield and strategic land. The latter typically has a two to five year time horizon for planning permission and the Company currently has the potential for some 2,270 residential plots across 408 acres here.

Proof of the pudding, too, came in the fiscal 2017 recipe book in which 1,856 plots were awarded planning permission or a resolution to grant planning permission (2016: 1,096). Inland also finds that options on part of a larger site can be the key

(*sic*) advantage in being invited to acquire adjacent acreage particularly when one lives in harmony with the planning authorities and related groups. The medium term aim, too, is to hold a land bank of some 10,000 residential plots

Last year, the Company also built and sold 188 housing units itself and commenced the new one with 427 units under construction plus three contracts with housing associations worth £42 million - where it had already done a deal on the land. For the record, Inland is building more and more houses itself.

The management team knows the correct end of a spade too - given that the Chairman, CEO (also Inland's founder) and CFO were members of the team which floated Country & Metropolitan plc. They took its market value from £7 to £72 million between 1999 and 2005 when it was bid for by Gladedale. Unlike their peers in the wider UK housebuilding sector, too, the management team at Inland owns 14.85% of the equity and has been buying in the early months of fiscal 2017-18. Inland, as a corporate, has also been buying its own shares.

The hat trick which is the last three fiscal years is, in our view, when Inland came of age (remember it has only been trading for a dozen years) and there is a palpable momentum in both trading and its financial performance. Similarly, its use of EPRA net asset value is a yard stick to measure this i.e. it reflects the unrealised value in the Company's land bank and balance sheet. Urban & Civic and St Modwen do the same thing.

In fiscal 2015 and 2016, adjusted EPRA NAV rose 48 and 110% respectively i.e. "momentum". Last year was more about galvanising these gains i.e. +4% to 91.88 pence per share. Looking forward, though, our (conservative) forecasts are showing 8% per annum growth in 2018, 19 and 20 (and it you want earnings, EPS should average 10% per annum growth over the same period driven, in particular, by the latter two years).

Why then does Inland trade at a 39% discount to its adjusted EPRA net asset value, while Urban & Civic sits at just a 9% EPRA discount and St Modwen is at 19%? For the first time of asking in this report: do the math.

"One day in this room I read in the preliminary pages of an unlikely book these words: there is another world but it is in this one" - Gerald Murnane's narrator (reading a Patrick White novel)

What's wrong with this picture?

Comparatives

	Price (p)	Market Cap (£m)	TSR 12 mths	TSR YTD	TTM PER (x)	EPRA % discount
Inland Homes	59	120	6	-1	7.5	**39**
Urban & Civic	272	394	21	20	21.3	**8**
St Modwen	387	857	46	27	15.8	**19**

Notes:
(i) priced at 2 November 2017
(ii) Total Shareholder return (TSR) is sourced from Bloomberg
(iii) YTD is year-to-date
(iv) TTM is 'Trailing Twelve Months' is sourced from Bloomberg
Other sources: Hardman & Co

UK economic and industry outlook

GDP

Experian updated its UK economic outlook in October and, for my sins, I am an advisor to the firm on such matters. There were, however, only modest changes from the summer prognostications and the general tenet remains one of slowing GDP growth this year and next before a pick-up in 2019. That said, its construction industry forecasts are now a little weaker this year and next than those put forward in the summer - but are a little stronger for 2019. For example, private housing output growth is likely to be more modest this year (+3 rather than +6%) and industrial construction is expected to fall more sharply now.

GDP growth in the first two quarters of 2017 was significantly below that seen in the same periods last year. This was followed by the preliminary GDP number for Q3, promulgated on 25 October, and it showed growth of +0.4% quarter on quarter and +1.5% year on year. Services was the largest single contributor and, although construction was off 0.7% between Q2 and Q3, it was 2.8% ahead on an annualised basis. Depending on your disposition, too, forecasts range from the gloomy at barely 1.0% in 2017 and 2018 through the IMF's 1.7 and 1.5% to the OBR's 2.0 and 1.7% at the other extreme. For its part, Experian is at the cautious end of the mood spectrum at 1.6 and 1.4% in 2017 and 2018 followed by 1.8% in 2019. No, it is not great, but it is not too bad either.

As noted above, these figures are also little changed from the summer, with 2018 still expected to be the worst year for growth, before the rate recovers in 2019. That said GDP growth is still projected to be 400 basis points lower over the forecast period (i.e. 1.6%) than the 25 year average of 2%. Also, this assumes a Brexit on the 'soft' side of possible outcomes and, thus, the prognosis risks weigh on the downside.

Macro metrics

	2016A	2017E	2018E	2019E
GDP (at market prices)	1.8	1.6	1.4	1.8
Household Consumption	2.8	1.7	0.8	1.6
Government Consumption	0.8	1.3	0.6	0.2
Gross Fixed Investment	0.5	2.2	0.8	1.5
Bank Base Rate (ann. av.)	0.4	0.3	0.3	0.7
CPI	0.7	2.7	2.4	2.1

Source: Experian

Households

After being largely unaffected in the immediate aftermath of the vote to leave the EU, household spending growth subsided markedly in the first half of the year. Similarly, as household spending accounts for almost two thirds of GDP on the expenditure measure, this is the primary reason for the poor overall growth in the first half of the year.

Household spending has finally been affected, too, by the rise in consumer price inflation (CPI), which was back up to 2.9 % in August (from 2.6 % in July) and hit 3.0% in September. It was last this high in March 2012.

Interest rate rise

And it is inflation which is the principal reason why the Bank of England has raised rates for the first time in a decade - i.e. since July 2007 - from 0.25 to 0.50% on 2 November; and it was led by Governor Mark Carney in split vote 7 to 2. To be fair, this simply reverses the post-Brexit-vote rate cut of 250 basis points last August and there is now also expected to be a pause in interest rate rising breath. In fact, the money markets do not expect a further move until Q3 2018 and, thus, behaved accordingly i.e. the Pound fell and, in the equity market, stocks rose. Note, too, that the UK Housebuilding Sector dipped just 0.24% on 2 November and, on that day, was also 43.2% up in the year to date; and it broke new value ground 14 times in October.

Near term almost four million households face higher mortgage interest payments after the rise, but it should give the UK's 45 million savers a modest lift in their returns. Similarly, anyone considering buying an annuity for their pension will also see better deals, which is perhaps why McCarthy & Stone rose 0.7% to 163.3 pence per share that day. The main losers, though, will be households with a variable rate mortgage. But, as can be seen in the Experian forecasts, such a move by the Bank of England was anticipated and factored into the numbers.

Retail sales

Turning to Retail Sales in September, they staged a rare (in recent times) dip of 0.8% in volume albeit they were 1.2% ahead year on year. However, in August the annualised gain was 2.4% year-on-year. There have also now been 53 consecutive months of annualised volume gains and, to be fair, ONS remains sanguine. In terms of the drivers in September these came from non-food and non-store purchases. Finally, on the value of retail sales, this was off 0.5% in September month on month but ahead a thumping 4.4% year on year.

Earnings and investment

At the same time, average earnings growth has struggled to rise much above 2% a year (and much less if you strip out pensioners). This has resulted in increasing pressure on disposable incomes, which declined in real terms in the nine months to end March 2017, although growth did return in the second quarter of this year.

Whilst average earnings growth is not expected to accelerate much until 2019 at the earliest, the impact of the depreciation of sterling in the wake of the EU referendum result should start to unwind from mid-2018 onwards. In turn, this should result in accelerating expansion in household spending growth from its low point in 2018.

Total investment is currently struggling to show quarter-on-quarter growth of more than 1% and the prospects for an uptick remain poor over the forecast period i.e. business investors have adopted a cautious approach to new projects until the post-Brexit seascape becomes clearer.

Unemployment

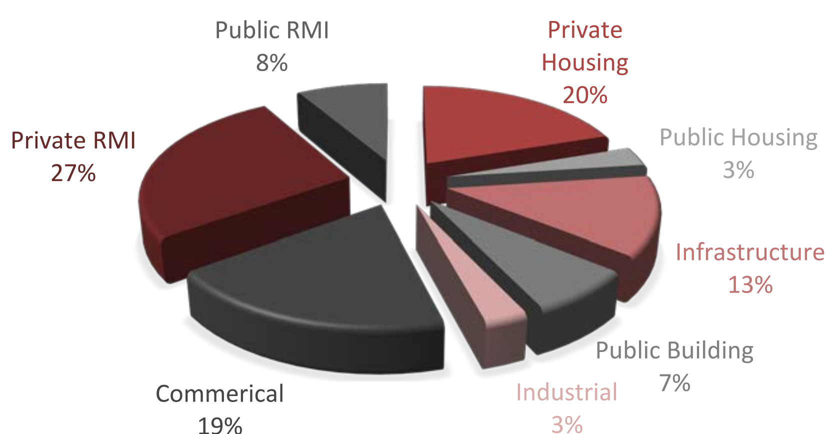
Despite slowing economic growth, the labour market continues to be remarkably resilient with unemployment a skinny 4.3% in the August quarter (i.e. 1.44 million souls) which is the same as July and the joint lowest since 1975 (comparable records began in 1971). Conventional economic theory would also suggest significant upward pressure on average earnings in this environment. However, weak productivity growth is holding this in check. Experian is predicting some uptick in unemployment due to slower GDP growth but the impact on the labour market is expected to be mild with the unemployment rate peaking at around 5% in 2020.

Construction

Specifically, on construction, Q3 looks to have been lower than Q2 by 0.7% but significantly better year on year at 2.8% (as noted above). Earlier in the year total output rose by 1.1 % quarter-on-quarter in Q1 but fell by 1.3 % in the second. It was also 1.3% up in the year to July compared with the same period of 2016, but with a slowing growth profile.

Experian is forecasting overall growth in UK construction output this year, in real terms, of 1.0%, followed by 0.7% in 2018 (as it shadows GDP) and then a modest pick-up in 2019 of 2.1%.

UK Construction output in 2016: % share by sub-sector



Source: Hardman & Co Research

Housing

The public housing sector has done rather better so far this year than anticipated in the summer and there seems to have been an increasing recognition in official circles that a robust social house building sector will be needed if the aspirational target of 250,000 new homes a year from 2020 is going to be met. Thus, Experian has moved from a generally declining pattern of output over the forecast period to a mildly positive one i.e. an average +2.3% per annum in 2017, 18 and 19.

In contrast, the private housing sector has struggled to show the level of growth which had been expected. This meant that forecast growth for 2017 has come back from 6 to 3%. Over the forecast period, though, average per annum growth in output is estimated at 3.3%, albeit this is down from a previously expected 4.3%. However, output is at historically high levels and, given the underlying demand, new housebuilding should continue to increase in the absence of a general economic downturn.

Infrastructure and public sector

Infrastructure output has stabilised after its sharp fall last year, but given that there will be a number of large projects completing over the next two years, including Crossrail, it will probably not be until 2019 that strong growth returns to the Sector (i.e. +10%) as activity ramps up on railways (HS2) and Hinkley Point nuclear power station. Indeed, transport and energy will continue to be the main drivers of expansion in the sector.

Public non-residential construction output (*aka* public building work) is expected to subside modestly over the forecast period, particularly in the schools/colleges and health sub-sectors. However, there are several pluses including a number of sizeable university projects, defence works linked to the Army Basing Plan and an upward trend relating to refurbishment works in the offices sub-sector. The latter is due to the decentralisation of some Government agencies and this will temper the overall Sector decline.

Industrial and commercial

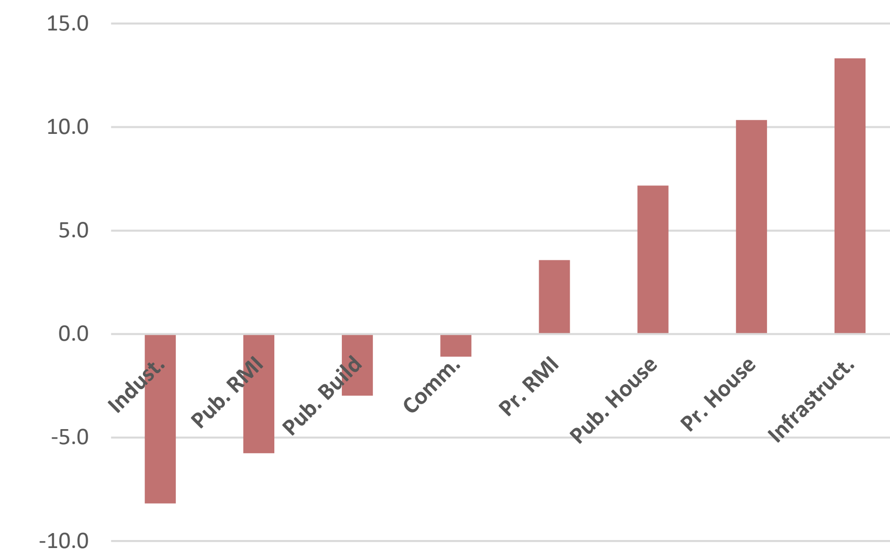
Demand for industrial space is likely to be weak over the next couple of years as any increase in export performance due to the weakness of Sterling will be more than countered by a slowdown in domestic demand growth. Manufacturing margins are also expected to be squeezed by the rising cost of imported raw materials. The transport and storage sector, however, is expected to fare better than manufacturing, which also means that the distribution/logistics sub-sector should do better than factories.

The commercial construction sector has been red flagged as particularly vulnerable to Brexit uncertainties due to its dependence on business investment, both domestic and international. In turn, investor and developer caution in the aftermath of the EU Referendum result is beginning to emerge in both office output and new orders figures; and the picture is further blurred by the possibility of financial services organisations moving at least some of their functions away from London. Thus, office construction is likely to be in for a period of retrenchment. Gerald Eve, however, is more sanguine for the wider sector here (see over).

Turning to the retail sub-sector, it remains in the doldrums despite the continuing growth of online shopping (albeit expansion in this area is slowing). At this juncture, then, it is difficult to see where any growth in retail construction activity will come from. By contrast, leisure construction is very much on the up. Both output and new orders here are at record levels - and they are expected to continue on an upward path. The hotels sector is buoyant too and this, allied with a number of sizeable resort and sports stadia projects, should sustain continuing growth in output.

RMI

Total repair, maintenance & improvement (RMI) output is projected to remain stable over the next two years and then see some growth in 2019. The surprise so far this year has been the strength of the private housing RMI sector against a background of squeezed disposable incomes and only marginal growth in household spending. However, the public sector, both residential RMI and non-residential, remains under pressure from ongoing financial constraints.



Source: Hardman & Co Research

Projects and Market Intelligence

Public Housing

There is little doubt that there has been something of a sea change in attitude in Government circles to social housebuilding, with a recognition in its recent White Paper that a strong public sector will be a key element in reaching its aspirational targets for house building as a whole.

Building on other pronouncements of extra funding since the 2016 Autumn Statement, the Prime Minister, at the Conservative Party Conference, announced an extra £2 billion for the sector, to build a further 25,000 new homes. Further details of the extra funding are expected in this year's Autumn Statement. However, it looks like this extra funding will not be available until 2020. Thus, it is unlikely to impact the 2018 and 2019 output forecasts.

The National Housing Federation (NHF), which represents housing associations, has recently set out what it would like to see the Government address in the next Autumn Statement under three main headings:

- to provide certainty on housing association rents post-2020;
- support a new generation of high quality homes for social rent; and
- put in place an effective funding mechanism for supported/sheltered housing.

The NHF believes that, given the right operating environment, housing associations could deliver 120,000 new homes a year by 2033.

According to data from the Homes and Communities Agency (HCA), the number of starts for social rent is running at double the rate of last year. The same goes for the number of units for affordable rent. However, as the UK housing associations continue to commercialise - at some pace - unit sales from this source will also be a feature, as well as units offered for rent.

Examples of activity here abound too. For example, Sefton Council has signed a project worth £100 million to build more than 11,000 new homes by 2030 to tackle the local housing shortage, create more jobs and improve future prosperity of areas including Southport, Bootle, Formby, Maghull and Crosby. Work on the project is supposed to start later this year and continue until 2032.

Next up, Surrey County Council is pushing ahead with plans to deliver 600 units for sheltered accommodation for older and disabled people to 2025 as part of its adult and social care programme. The Council will also make appropriate sites available to developers, who will be given a long lease. However, Surrey CC would like to rent out a portion of these properties.

In the Midlands, Birmingham City Council has managed to borrow £45 million from corporate investors to build more affordable council houses through the Birmingham Municipal Housing Trust. It is intending to build an estimated 89,000 new homes by 2031 through this vehicle.

Glasgow City Council adopted its new Glasgow City Development Plan at the end of March 2017. The new local development plan replaces Glasgow City Plan 2 (2009) and sets out the Council's land use strategy - and provides the basis for assessing planning applications. The plan assesses a realistic level of affordable housing provision for the City at around 1,000 units a year.

Private Housing

The Prime Minister recently announced that a further £10 billon will be available for the Help to Buy equity loan scheme. This should enable another 135,000 households to buy their own home by 2021, bringing those helped by the scheme to 360,000 since inception in 2013.

However, Experian says that "it is a moot point whether most of these units would not have been built anyway and the concern is that Help to Buy's main effects have been to prop up house prices and house builders' profits, ultimately making mortgages even more unaffordable for those that currently cannot get on to the property ladder".

An area in which significant growth is expected is the Build to Rent sector. And, one of the biggest new housing projects in the pipeline is the 7,600 home development at Wembley Park in London, which is due to benefit from £65 million of public money; and at least 6,800 of these homes will be for rent.

The Government is looking to support the Build to Rent sector with a number of measures including:

- changing planning rules so councils proactively plan for more Build to Rent homes where there is need;
- making it easier for Build to Rent developers to offer affordable private rent in place of other types of affordable home; and
- introducing longer tenancies which are more family friendly to provide better security.

Other new private housing schemes in the pipeline include:

- 500 new homes in first phase of the Berry Hill Mansfield development, which received £8.5 million in funding from the HCA earlier this year;
- the redevelopment of Blindwells open-cast coal mine in East Lothian to include more than 3,200 new homes, to be built over a 12 to 15 year period; and
- 3,200 new homes at Manydown in west Basingstoke, on which work is scheduled to start in 2019.

Continuing strong underlying demand for new housing means that, short of a recession, the likely trajectory for private housing output is upwards, However, given that output, if not units, is at a record high, further growth is expected to be steady rather than spectacular.

Mortgages and prices

Coming right up to date with data released in October, the Council of Mortgage Lenders or CML reported that the gross number of new mortgages in August was 129,500 which is up 7.6% on July and 7.8% year on year (and if re-mortgages are excluded, the gains are even higher).

Elsewhere, UK Finance (*aka* British Bankers Association or BBA) estimates gross mortgage lending in September to have been £21.4 billion, 5% higher than a year ago. Note, too, that nearly two thirds of this lending, or £13.7 billion, was carried out by High Street Banks. Commenting on the data, UK Finance's Senior Economist Mohammad Jamei said: "as we near the end of 2017, our data is showing that housing market activity has built up modest momentum since the start of the year, helped by an increase in first time buyer numbers. Rising inflation [however] continues to put pressure on household budgets which is impacting consumer spending. Consumer credit growth has edged up a little compared to last month, but it is in line with annual growth rates over the last year. Businesses remain cautious about the future amidst an uncertain economic environment, reflected by their growing deposit activity and a dip in their borrowing growth rate".

And, finally, the Bank of England recorded mortgage approvals in September of 66,232 which was 1.5% down on August but 3.1% ahead of September 2016.

Turning to house prices, the cognoscenti believes that the continuing rise is due largely to a quieter market in terms of supply rather than any great surge in demand. That said, the Nationwide Building Society recorded just +0.2% in October with the annualised rate at 2.5% versus September's 2.3%. Pressure on household incomes is said to be weighing on confidence and, longer term, there are Brexit-induced concerns on demand in London.

Meantime, the Halifax said October prices rose 0.3% (and 4.5% annualised) with the quarterly trend better at 4.5% (in September the latter number was 4.0%). "We do not anticpate that the base rate rise will be a barrier to buying a house".

Finally, and also for October, Rightmove has reported a 1.1% rise in national average asking prices in October (i.e. £3,432) - with the annualised rate also now at +1.1%. It was the same in September but at +3.1% in August.

Finally, the Reuters Housing Market Poll (which I feed into) expects a median +2.5% for UK house price inflation in 2017 (including 0% in London).

The UK Property Investment Market

Gerald Eve published its autumn INVBRIEF last month and it is sagely positive.

The Bank of England (BoE), in its recent Financial Stability Report, took the view that commercial real estate prices look stretched, "based on a range of sustainable valuations". The Governor commented that this makes commercial property "vulnerable to a re-pricing whether through an increase in long term interest rates, adjustments to growth expectations, or both".

Eve said we should be mindful that this assessment is based on a variety of debatable assumptions including that yields revert '"to their 15 year historical average".

On the investment front, international money continues to support the market, and the impact of a devalued sterling has contributed to this. At the same time, regional markets have benefitted from local authorities' investment. However, the largest volume of transactions has been seen in the distribution warehouse sector. With yields remaining stable, though, this activity underlines the ongoing appetite for commercial property. "We anticipate a continuation of demand for this Sector".

By sector, too, the highest returns in 2017 will be delivered in the industrial and distribution warehouse sectors, being 11.7% and 9.6% respectively. Medium term, too, Eve expects these sectors to continue to deliver the best performance. It also predicts the total return for all property in 2017 at 6.6%, which outperforms the 2016 figure by some 2.7%. A lower all-property-return is anticipated in 2018 (4.1%), before a pick-up in 2019 (to 5.6%). In many ways, too, this shadows Experian's view of the new build market.

This means that, overall, Gerald Eve expects all property to deliver an annual average return in the region of 5% over the period 2017-21 (i.e. 5.3% per annum to be precise). Okay, this is half the average annual figure from the previous five years i.e. 2012-16 but it is certainly still very alright to be getting on with - in a yield hungry world. Essentially, too, total returns over the period 2017-21 will be driven by the income component, with some rebound in values in the latter part of period.

Total Return by type of property in the UK 2017-19E

% per annum	**2017E**	**2018E**	**2019E**
Shops	7.3	3.6	5.8
Shopping centres	3.3	4.2	5.8
Retail warehouses	6.0	4.7	6.5
West End offices	5.2	1.4	4.8
City offices	4.6	1.6	4.3
South East offices	8.0	6.0	6.0
All offices	5.5	2.7	4.5
Industrial	11.7	6.3	6.0
Dist. Warehouses	9.6	6.7	7.3
TOTAL	**6.6**	**4.1**	**5.6**

Source: Gerald Eve

History

A decade ago, in the spring of 2007, Inland plc (as then monikered) was floated on the London Stock Exchange's AIM Market (and PLUS) on Tuesday 3 April. The net proceeds were £47.5 million and 62% of the enlarged share capital was floated. The placing price was 50 pence per share and the market capitalisation £81.1 million.

At that time, though, Inland had been a corporate entity for just 21 months from an incorporation date of 16 June 2005. The management team, however, was anything but adolescent having parachuted in from Country & Metropolitan plc. The latter was founded in 1990 by Inland's incumbent CEO, Stephen Wicks, as a residential and commercial developer with a specialism in brownfield land. C&M was listed on the LSE in December 1999 at 68 pence per share and £6.9 million in market value. It was acquired by Gladedale Holding PLC in May 2005 for 300 pence per share and £72 million. Do the math.

Gladedale had and continued to grow like an acquisitive Topsy and, in 2008, was reputed to be the UK's fourth largest housebuilder. However, it also owed a lot of money (some estimates ranged as high as £1 billion) and a debt-for-equity swap in 2009 placed it under the auspices of Lloyds Banking Group. In part, it re-emerged, on the second time of asking, as a private equity fuelled Avant Homes Holdings Ltd in December 2014.

Back at Inland, three other members of the C&M team joined founder and CEO Stephen Wicks: Nish Malde, CFO (ex-KPMG); Paul Brett, Land Director; and Stephen Trenwith, Development Director. The first two of these remain incumbent along with their CEO, whilst the latter, Stephen Trenwith joined Persimmon/Charles Church in 2009 and is currently Land Director at Bewley Homes plc.

During 2006, Inland also completed a private placing in order to fund the development of its operations. It raised £11.2 million from institutional and other investors through the issue of 32.1 million shares at 35 pence each.

In 2007, the ethos was rawer, but in essence it was the same i.e. a specialism in "buying brownfield sites, enhancing their value through obtaining planning permission for residential or mixed-uses development and selling consented land on to developers". By April 2007, it had already put theory into practice with two sites (25 plots on each) which generated an 'average return on equity investment' of 122 and 96% respectively. Do the math encore.

At the same time, it had secured 14 development sites comprising 700 building plots.

The Company's business model and modus operandi continues in the same vein i.e. to buy land and then "resolve all planning and technical issues so that sites may be sold on to builders on a ready-to- build basis". Inland has also determined that it will invest judiciously in strategic land and in both quoted and unquoted companies where the entry level does not reflect the value of their underlying property assets or development potential.

In April 2017, both the CEO and CFO held 32.11 and 12.88% of the shares in Inland. As at the end of October 2017, these stakes were 6.90 and 5.64% respectively; and in total the management team, including Stephen and Nish - and the Chairman - holds 14.85% of the shares today. This includes three purchases by the CEO and CFO totalling 240,000 shares since 30 June.

Inland also launched a share buy-back scheme on 3 October which will run until 31 December 2017. Up to 1 million shares can be bought and, as at 31 October, the Company had bought back 746,646 shares (0.37% of the new denominator) at an average price of 61 pence per share and a tally of £455,750 before costs.

Chairman

Chairman Terry Roydon in a much previous life ran Comben Homes which was part-owned by Hawker Siddley (which became a key part of BAE). It was acquired by the late Trafalgar House, whose unit, Ideal Homes then changed hands a number of times more in what was housebuilder Pac-Man. Thereafter, he was CEO of Prowting which was floated in 1988. In turn, it was bought by Westbury which was then bought by Persimmon. Since 1998, Terry has been a Consultant and Member of the Board of Dom Development SA, a major quoted Polish residential developer. He is also President of the European Union of Housebuilders and Developers.

Inland today

Mission statement:

"Unlocking potential, Creating Communities, Delivering Value"

"As a leading brownfield regeneration specialist, we focus on buying brownfield sites and enhancing their value through obtaining planning permissions for residential and mixed-use developments".

"Sustainability is at the heart of everything we do".

1. Strong management team
2. Adding value throughout the planning process
3. Diverse land portfolio primarily in the south and south east of England
4. Unrealised value within the land bank as a result of planning permissions
5. Capturing further value through housebuilding activities

Land

Inland's portfolio currently consists of 6,936 plots (2016: 6,681) with the vast majority in the south and south east of England. The size of the sites (including 20 under option) ranges from under 50 plots to over 1,350 plots and is a mix of both brownfield and strategic land. The latter typically has a two to five year time horizon for planning permission and the Company currently has the potential for some 2,270 residential plots across 408 acres in this category.

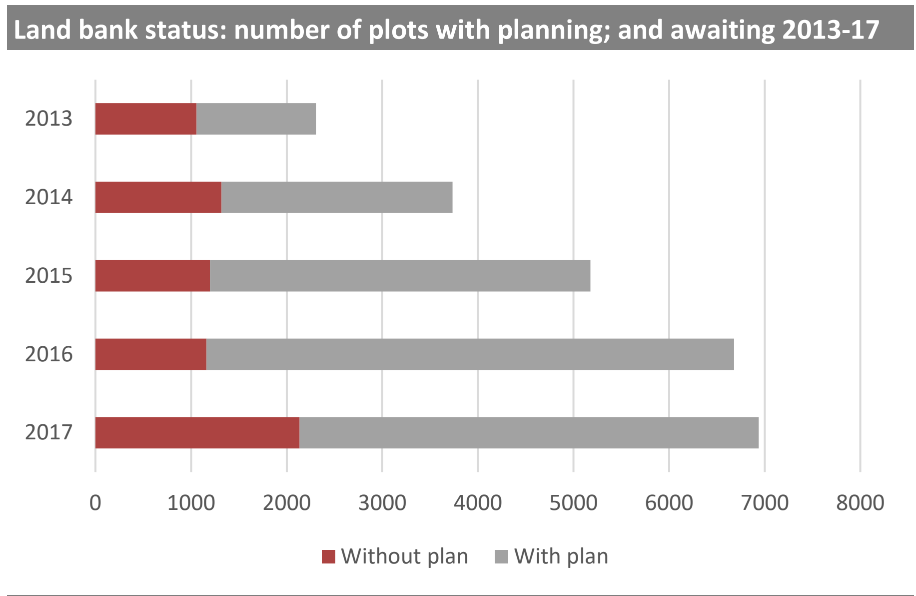
Inland is also moving into a much larger average site size - and it is increasing the number of plots comprised in larger regeneration schemes. Side by side, the Company is adding to it collaborative joint ventures with institutional landowners including the Ministry of Defence, National Health Service and local authorities which all tend to lack both capital and know-how.

Meantime, on the planning permission front or resolution to grant planning permission, 1,856 plots were converted during the year (2016: 1,096).

The Company also sold 780 plots across 10 sites during the 2017 fiscal year, for a total consideration of £49.3 million (2016: £43.3 million) including land sold via disposals of a subsidiary and joint venture. The medium term aim, however, is to hold a land bank of some 10,000 residential plots.

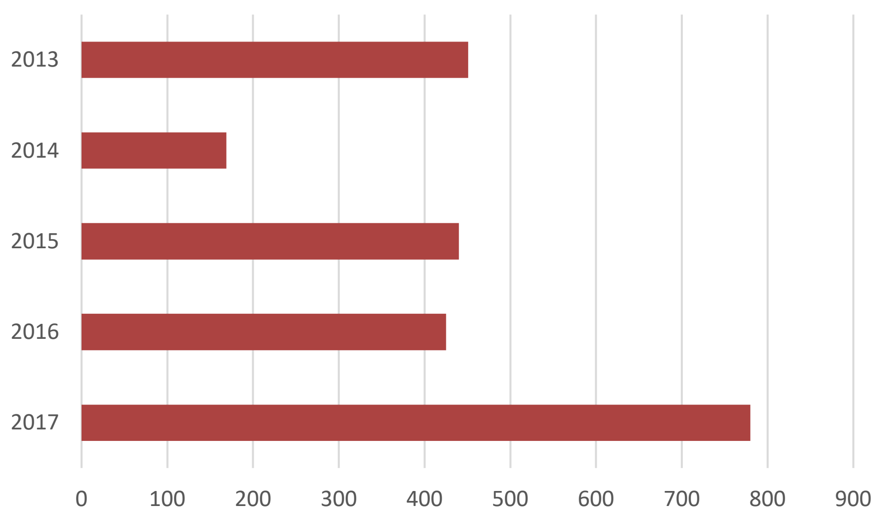
Additionally, Inland is building more and more houses itself. It has the skill set - and such activity also means that it keeps direct tabs on the metrics of other developers who are Inland's raw material customers.

Land bank status: number of plots with planning; and awaiting 2013-17



Source: Hardman & Co Research

Number of land plots sold 2013-17



Source: Hardman & Co Research

Housebuilding

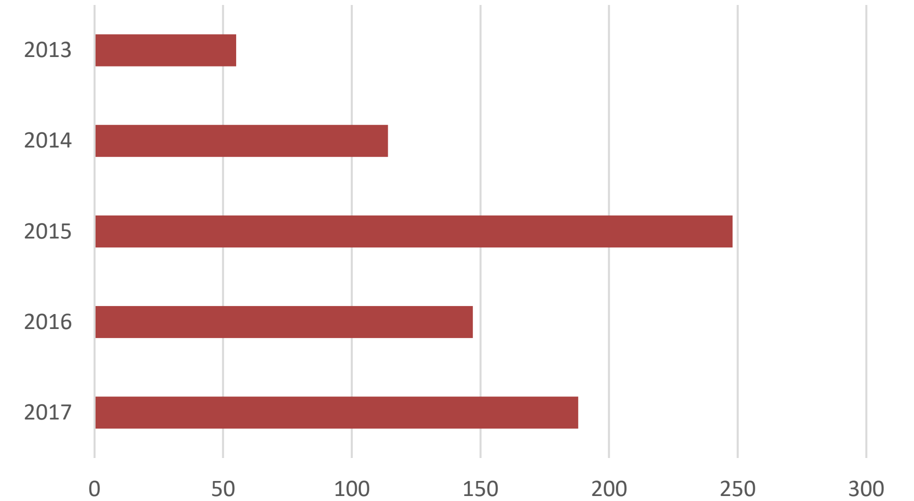
Typically, too, Inland has pitched itself in the first and second time buyer market where demand has been little affected by the recent changes in Stamp Duty Land Tax (SDLT).

Logistically, too, Inland has taken the strategic decision to bring the majority of its housebuilding activity in-house; and it has employed broadly double the number of people to do so (see Head count section). Inland maintains that this will deliver improved processes and structures which will accommodate a commensurate expansion in the Company's production. It will also afford cost savings over the longer term and introduce greater control and certainty over the delivery and timing of projects.

For example, in fiscal 2017, Inland sold 188 units (2016: 147) at an average price of £306,000 (2016: £337,000) and the latter decrease reflects a simple change of mix. However, as it entered its new fiscal year 2017-18, Inland had 427 housing units under construction (including 43 within a joint venture) across 12 sites. Note, too, that 74% of the units here are being delivered by incumbent personal. Inland also likes to 'sell forward' as it prefers the certainty which this policy brings in relation to working capital requirements. This is bolstered further, too, by engaging in land disposals to potential landlords with forward funded construction contracts which will also have a commensurately positive and growing impact on revenue, profits and net debt.

Sales at the start of the year were robust also with a tally of £33.0 million (gross of £5.4 million within joint ventures) which is an increase of 47% (2016: £22.5 million) including the 36 units exchanged at the successful launch of Centre Square at Lily's Walk in High Wycombe.

Private housing unit sales 2013-17

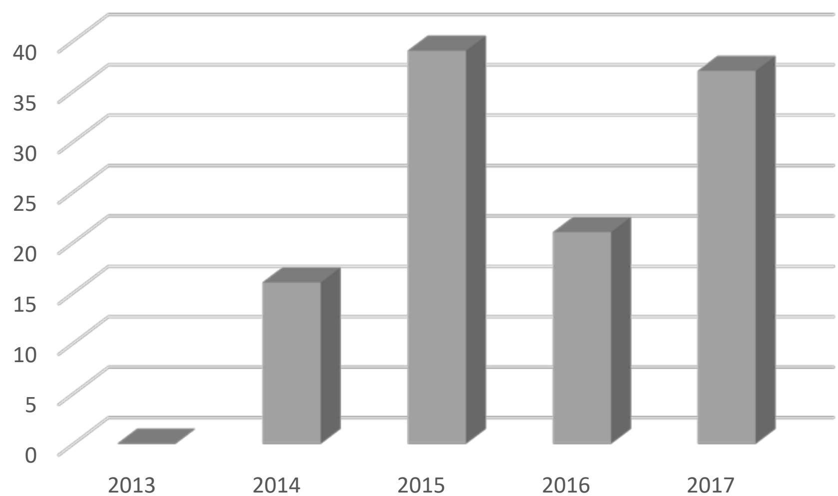


Source: Hardman & Co Research

Contracting

Finally, Inland is also working with housing associations and RPs (Registered Providers of affordable houses) for turnkey delivery of houses; and in most cases the land has been purchased from Inland. In fiscal 2017, it completed 37 construction-contract-equivalents which is up from 21 in 2016 (and zero in 2013). Right now, too, it is working on three major construction contract projects for 219 units which will be worth £41.5 million in revenue.

Construction contract equivalents 2013-17



Source: Hardman & Co Research

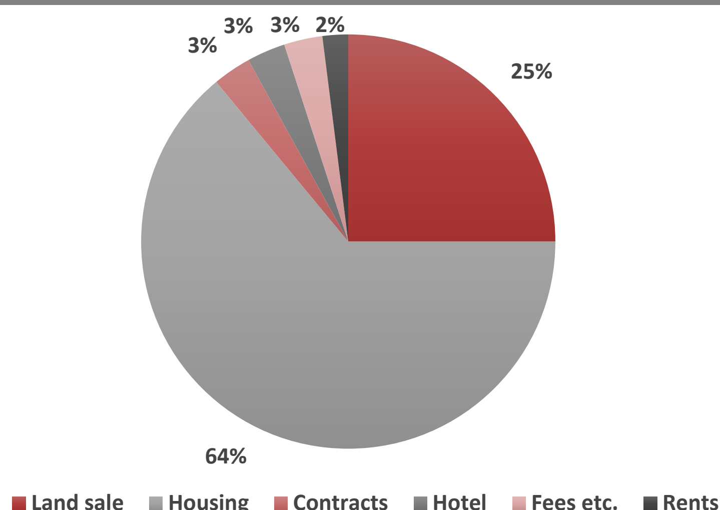
Fiscal 2017

Inland is not your common or garden housebuilder and in terms of headlines, the key ones are recurring pretax profit growth of 15.3% to £18.1 million and the two measures of EPRA NAV per share which both rose 4.4% to 91.88 pence (actual) and 92.34 pence (adjusted).

However, it complicated by the fact that Inland sports five significant revenue streams:

- Land disposals;
- Sale of private homes;
- Construction contracts;
- Hotel income; and
- Rental and other income

Revenue by segment in fiscal 2016-17 (%)



Source: Hardman & Co Research

Revenue

Stated revenue for the year ended 30 June 2017 dipped 11% to £90.7 million. But, this figure excludes two land sales worth £27 million which were shown as a gain-on-sale-of-a-subsidiary-or-joint-venture, rather than the amount simply flowing through revenue and gross margin. If these transactions had been direct land sales, revenue would have been £117.7 million i.e. an increase of 16%.

The Company also sold almost 50% more residential plots at 780 (2016: 425 plots) of which 400 were at a joint venture site in Aylesbury and 173 plots related to the Abbey Wharf site in North London - which was a disposal.

Elsewhere, Inland built and sold 188 open market housing units which was 28% up year on year and generated revenue of £57.8 million (2016: £51.5 million). The average selling price for the units was 9.2% lower £306,000 on a change in mix not deflation per se.

During the latter part of the financial year the Company also entered into three major construction contracts with housing associations - on land it had sold - worth £41.5 million. One of these contracts was in respect of 28 affordable homes to be provided under a Section 106 agreement on the last phase of Queensgate in Farnborough. Here, too, Inland had already sold the site for £1.9 million which was followed by the award of a £3.1 million construction contract.

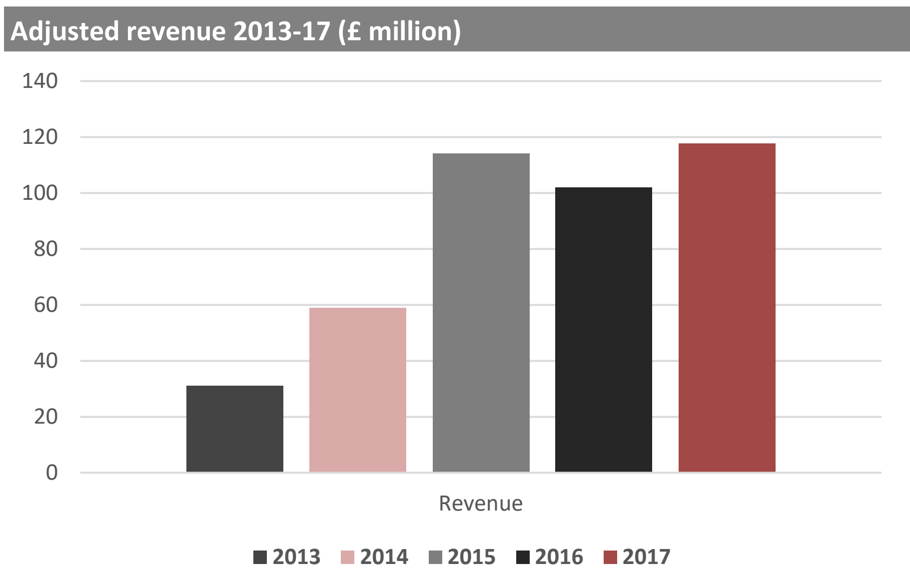
In addition, Inland won two further contracts with housing associations to build 192 private houses - and this was worth £38.4 million. Again, it had sold the land to the associations first for a total sum of £24.1 million. Revenue of £1.0 million was recognised under these contracts last year.

Looking forward, the Company will seek to increase this type of activity which will result in an increasing proportion of its revenue and profit being recognised on a percentage of completion basis over the life of a development. These forward funded construction contracts will also provide additional development profits without the need to engage in development loans and related expenditure. At the same time, a higher level of forward orders will also afford some protection to the inevitable cyclicality of the housing market. As a result, Inland is prepared to accept a reduced net margin on such transactions.

Rental income increased to £2.4 million (2016: £2.1 million) in the year which, in-turn, produced a very significant increase in operating profit to £2.1 million (2016: £1.7 million). Not a bad margin either.

Inland also took home revenue of £2.6 million (2016: £1.7 million) from operating the Wessex Hotel in Bournemouth where it has recently received planning consent for 88 residential units and a new 46,000 square foot hotel with associated car parking facilities. Although the net contribution towards operating profit here is modest (£212,000), it saves costs in respect of security, rates, insurance, maintenance and the like whilst taking the site through the planning process.

Adjusted revenue 2013-17 (£ million)



Source: Hardman & Co Research

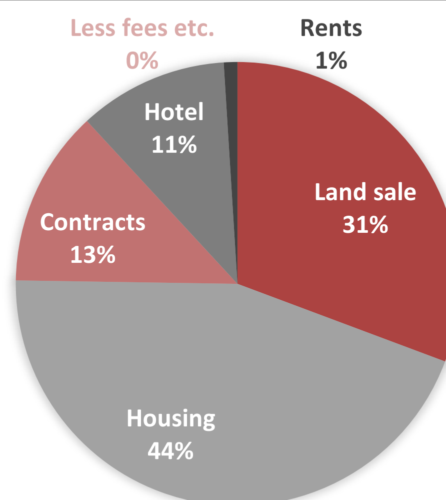
Gross profit

Gross profit was £19.5 million (2016: £29.6 million), however as explained above, two land sales were shown as gains on the sale of a subsidiary or joint venture where the profit of £13.0 million was taken further down the profit and loss account. However, while the quantum of gross profit was lower on land sales, the gross margin soared above 50% (i.e. 54.2%) and compares with 39.4% in fiscal 2015-16.

The gross margin on housebuilding was 15.1% (2016: 21.9%) and this reduction was due to an increase in unforeseen site-wide costs on a number of projects plus additional remedial work. This was very much cathartic and a one-off.

Contract income showed a gross loss because the Company had employed a sub-contractor which went bust. This meant significant costs and "liquidated ascertained damages" were incurred on the two relevant jobs which were with housing associations. This unit has lost almost £1 million over the past two years. However, excluding the two difficult schemes in fiscal 2017, the contract margin was 17.8%.

Gross profit by segment in 2016 (%)



Source: Hardman & Co Research

Administration, Associate and Interest

At the administrative expenses line, the increase as a percentage of revenue (from 6.2 to 8.3%) reflects the strategic decision to increase the Company's in-house construction capabilities which meant a significant overall head count increased from 39 to 74 over the course of the year (including 15 extra at HQ).

Associate company, Troy Homes Ltd (25% owned) is in its second operating year and, as expected, further losses were incurred during this start-up phase. Inland has therefore made a provision of £238,000 and the carrying value of its investment here is now £1.1 million. Troy is expected to make a profit during its fiscal year ending 31 March 2018. For the record, Inland has provided a loan facility to this company of £3.1 million which bears a coupon of 8% per annum and which expires on 9 October 2020. As at the 2017 year-end, Troy had drawn down £2.9 million of this facility. By way of background, too, Troy was founded by a number of the Banner Homes' team after the latter was bought by Cala.

Inland's finance costs increased marginally (i.e. 6%) to £7.0 million in the year. Actual interest charges on borrowings, however, remained static at £4.7 million which reflects a lower average cost of debt given that the quantum of the Company's gross debt increased from £71.3 million to £94.5 million. Also included in finance costs is notional interest of £1.4 million (2016 restated: £1.1 million) being the discount applied on deferred consideration on some of the Company's land acquisitions and disposals. Inland also capitalised interest of £1.1 million (2016 restated: £0.8 million) within inventories as required by International Accounting Standard (IAS) 23.

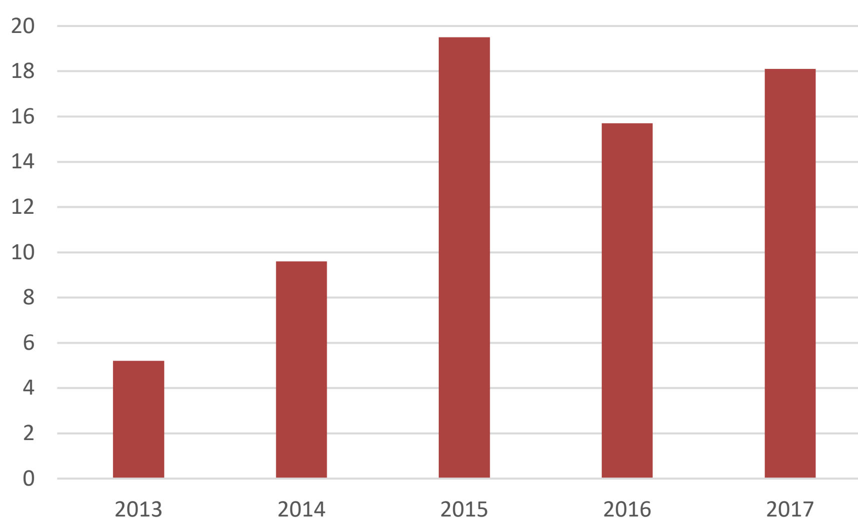
Interest cover, expressed here as the ratio of operating profit (excluding revaluation gains) to net finance costs (excluding notional interest on deferred consideration) was 4.8x (2016 restated: 4.4x).

Profit before tax

Profit before tax and before revaluation of investment properties, as noted earlier, increased 15.3% to £18.1 million with the majority of realisations taking place in the second half. Including the revaluation of investment properties, profit before tax was £19.6 million which compares with 2016's £33.7 million (restated). This latter profit before tax number for 2016 also includes the majority (i.e. all but £15,000 of the £18.015 million) of the valuation uplift which took place in the previous year on the portfolio of existing residential properties at flag ship site Wilton Park in Beaconsfield (which covers 100 acres). In September, Inland submitted an outline planning application here for 350 homes and commercial space on this site. Incidentally, the site is already generating gross annual rental income of £1.5 million.

Once again in line with IAS 23, too, the cost of borrowings attributable to an asset like Wilton Park must be capitalised together with other costs i.e. it takes time from gleam-in-the-eye to occupation/intended use. This meant that the Company capitalised the relevant borrowing costs in relation to Wilton Park and has included current year funding costs of £1.09 million within inventories (2016 restated: £0.85 million) in the balance sheet.

Profit before tax 2013-17 (£ million; adjusted)



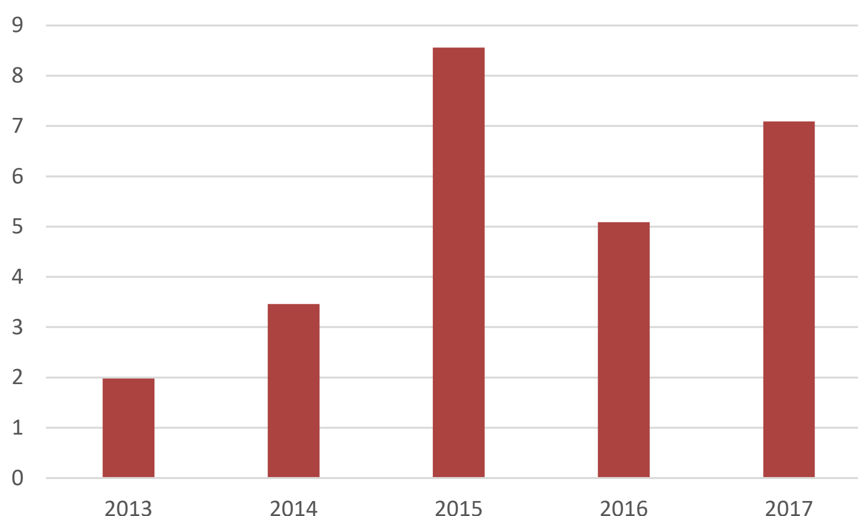
Source: Hardman & Co Research

EPS and DPS

Basic earnings per share decreased by 44% to 7.82 pence whilst basic EPS excluding revaluation gains increased by 39% to 7.09 pence. But at Inland, it is not about year-on-year earnings growth; it is not a conventional housebuilder.

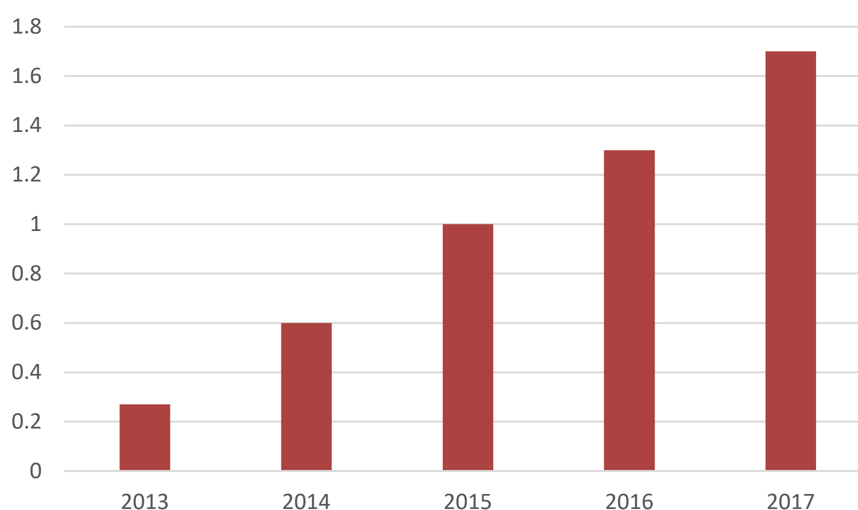
The final dividend was increased 33% to 1.2 pence per share which took the tally for the year to 1.7 pence i.e. an increase of 31%. Cover dipped commensurately from 10.3 to 4.4x; and the Company said that the pay-out reflects "robust underlying performance and confidence in outlook". Assuming, the final dividend is approved at the Inland AGM on 28 November, it will be paid on 26 January 2018 to shareholders at 29 December.

Adjusted Earnings per Share (p) 2013-17



Source: Hardman & Co Research

Dividend per Share (p) 2013-17



Source: Hardman & Co Research

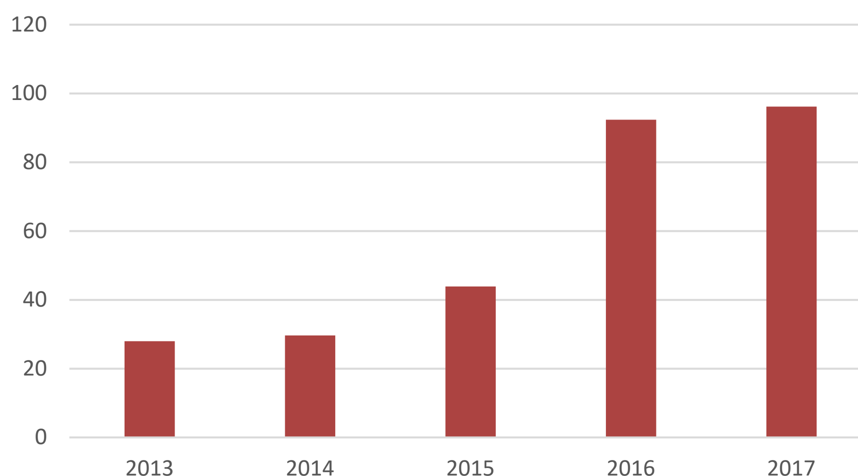
Net assets/EPRA

Net assets at 30 June 2017 were £130.6 million, an increase of 12.2% mainly due to retained earnings and a small issue of new shares to employees as a result of exercising share options. This translates to net assets per share of 64.62 pence i.e. +12.1%.

Following the adoption of EPRA performance measures to fully reflect unrealised value in the Company's land bank, the pre-tax EPRA net asset value per share is 91.88 pence and 96.22 pence on an adjusted basis. These represent increases of 4.2% annualised in both instances. But note, too, that in fiscal 2016, EPRA NAV per share more than doubled i.e. from 43.92 to 92.34 pence on an adjusted basis i.e. the adjustment simply excludes the dilutive effect of options, deferred bonus shares and growth shares in the denominator of the calculation.

See later in this note for a further explanation about EPRA.

Adjusted EPRA net assets value per share (p) 2013-17



Source: Hardman & Co Research

Inventories

These dipped 6% to £140 million in line with the sale of residential units and plots during the year; and there were no significant land purchases. However, the design proposals at Wilton Park have taken longer than originally anticipated in order to make sure that the scheme met the requirements of the local authority. Thus, in line with IAS 23, Inland capitalised the borrowing costs in relation to this project and has included £1.1 million within inventories. Similarly, a prior year adjustment for £1.6 million was made against inventories and reserves brought forward.

Debtors

Inland was owed £28.3 million at the year end, which was included in Trade and Other Receivables in both current and non-current assets. This also comprises two slugs of £10.8 million with the first of these deriving from the sale of its interest in the joint venture which owned the Aston Clinton Road site in Aylesbury; and the second being in respect of the sale of the Alperton site in North West London.

Investments and loans

The Company's net investment and loans across four joint ventures has increased from £11.3 million to 18.4 million. This includes a 50% interest in the former Tesco headquarters site in Cheshunt. Here, Inland is leading the master planning of a regeneration scheme encompassing some 2,000 residential plots of which approximately 1,350 are already owned within a JV. Other financial liabilities of £20.1 million consist of deferred considerations on two sites in Buckinghamshire.

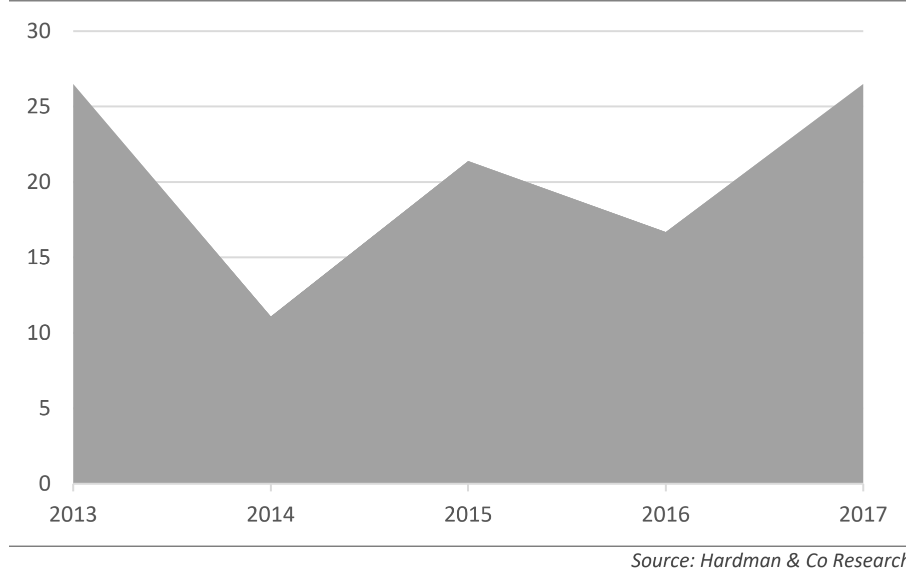
Debt

The terms of Inland's borrowing facilities has been improved with now 100% of total borrowings being repayable after one year and 54% repayable between three and five years. Development activities are financed using a £20 million committed revolving credit facility expiring in the autumn of 2019 while land purchases run off a £25 million committed revolving credit facility expiring in over three years.

Inland has also procured a £43.3 million term facility secured against the existing residential units and land at Wilton Park. In addition, there are the Zero Dividend Preference (ZDP) Shares which have an accrued liability of £17.3 million and these are repayable on 10 April 2019. They were issued by Inland ZDP plc and for a fuller explanation see the later relevant section of this note.

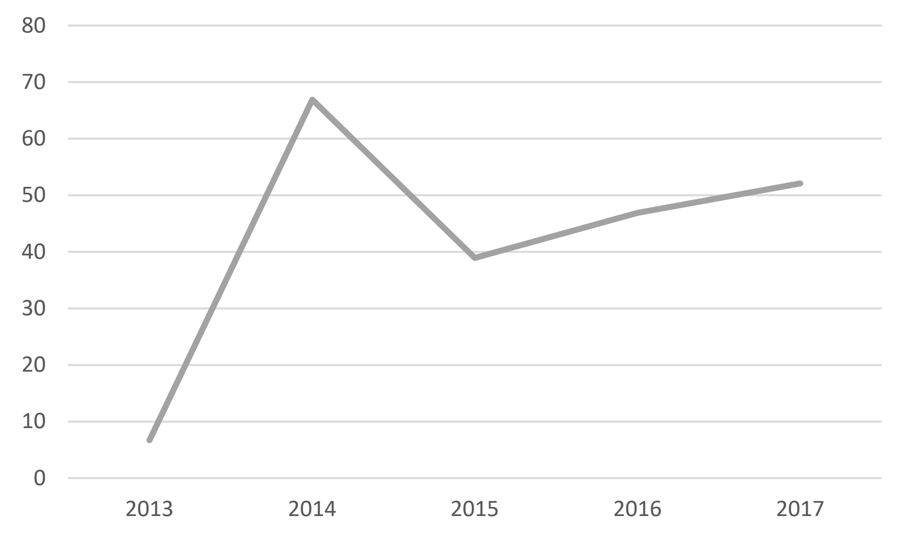
Cash balances at the end of the year amounted to £26.5 million (2016: £16.7 million) and net borrowings (loans plus ZDP - see below - less cash) were £68.0 million (2016 restated: £54.6 million). This represents net gearing of 52% (2016 restated: 47%) on net assets of £131 million or 35% on EPRA net assets of £194 million (2016 restated: 29% on £186 million). Note, too, that the majority of the gross debt relates to a single site, Wilton Park.

Cash balances at year end (£m) 2013-17



Source: Hardman & Co Research

Balance sheet gearing (debt as % of NAV) 2013-17



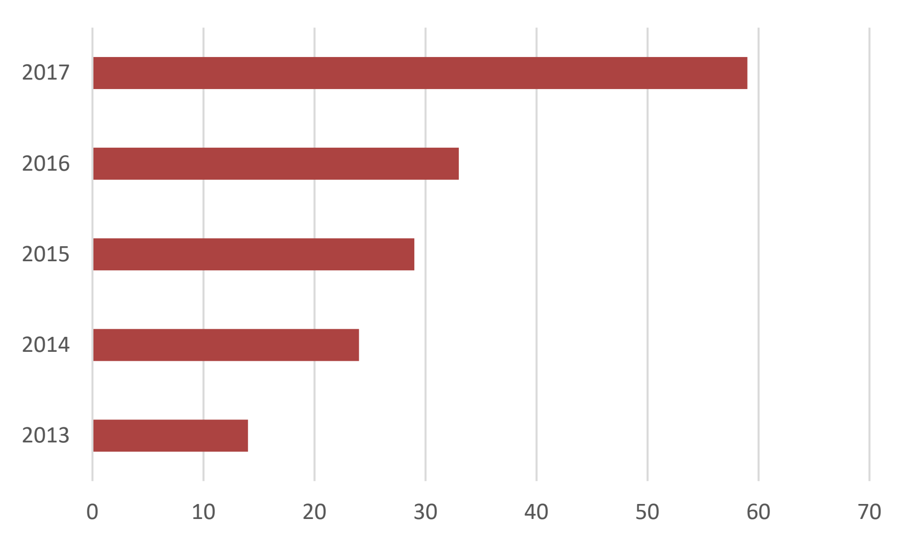
Source: Hardman & Co Research

Similarly, net current assets as at 30 June 2017 were £160 million (2016 restated £97 million); with the Current Ratio at 4.40 (2016: 2.09) and the Quick Ratio at 1.43 (2016: 0.42).

Head count

During 2016-17, Inland consciously increased the size of its team from 33 to 59 employees; note, too, these are average numbers and, at the year-end, Inland employed 72 people. A number of these were key appointments to the construction team as the Company consciously shifts away from a reliance on main contractors and develops this part of the business as an additional revenue stream. For the record, too, Inland's planning team has a combined 85 years of experience.

Head count 2013-17 (average numbers employed)



Source: Hardman & Co Research

Strategic report

Bravely, it must be said - and unusually - Inland fronts up to three key factors affecting its marketplace.

Growth in construction costs

The BCIS Private Housing Construction Price Index shows that housebuilders have seen cost increases of 5% in the year to March 2017 with building materials costs rising due to the devaluation of the Pound and labour costs rising due to an acute skills shortage. The latter is widely acknowledged as the greatest constraint to increasing the UK housing supply together with the planning system and finances; and 55% of the industry is said to be feeling the pressure on labour costs.

Inland: "rising costs in relation to materials will impact on housebuilding profit margins and we have begun to buy materials directly from suppliers rather than via main contractors in order to ensure we are obtaining the best value as well as derive further savings by becoming a bulk purchaser. The skills shortage and resulting wage increases will also impact on the Group's profit and we have therefore invested in our own housebuilding expertise as part of a deliberate strategy aimed at addressing the growth in construction costs as well as being part of an expansion programme".

UK economic conditions

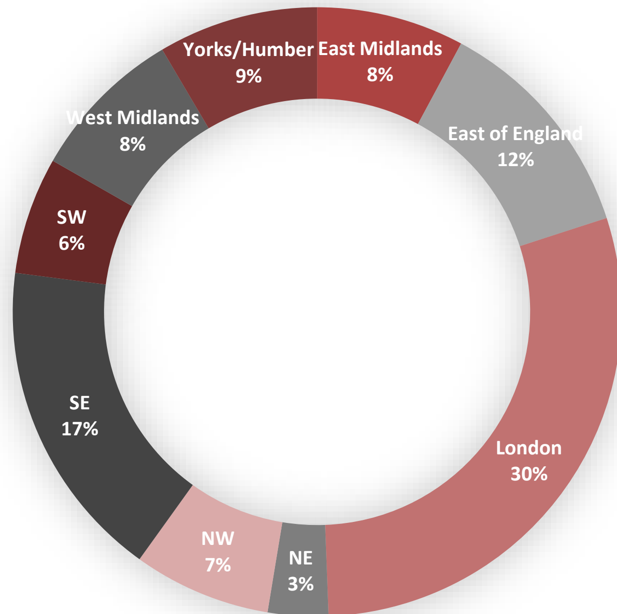
Over the past five years, the UK economy has steadily improved: significant population growth; an unemployment rate down at 4.3% - which is the lowest since 1975; low interest rates and inflation; and house prices which have continued to rise, "albeit they have levelled off over the last year. However, the uncertainty over Brexit and the fall of sterling are causing [economic] growth to slow down, with the Bank of England slightly reducing its growth forecast for 2018 and indicating that interest rates could increase sooner than previously anticipated. Inflation rose sharply during the first half of 2017 and wage growth has been sluggish, squeezing household spending power".

Inland: a growing population has an increased housing need which benefits both the Company's land trading and housebuilding operations as well as its residential lettings. Similarly, low unemployment and low interest rates allow more individuals and families to access the housing ladder. Yes, house price inflation directly affects the Company's housebuilding operations, but this also drives up the value of consented land, given its relatively short supply.

Supply, demand and government

There is structural imbalance in the housing market with excess demand over supply on a national basis and particularly in the south east of England. For example, there is an officially estimated UK requirement (House of Commons Library) for up to 275,000 new houses per annum (48% in England) and while Government policies such as Help to Buy (now out to at least 2021) and starter home discounts are positive, the UK completed only 160,000 units (both private and public) last year. Do the math part 3.

Estimated housing requirement by region in England (130,000 units)



Source: Hardman & Co Research

The UK Government is also looking at supply and, in particular planning reform and the will to reduce the time planning applications spend with decision makers. Similarly, a 'delivery test' is being introduced to ensure the availability of local homes within a reasonable timeframe.

In addition, a permanent extension of the permitted development rights to convert offices to residential use was introduced in April last year. Building constraints on green belt land have also been relaxed particularly for small scale sites for young family starter homes.

Some £5 billion of public money has also been allocated to stimulate housebuilding projects: £2 billion to accelerate the construction of homes on publicly owned land; £1 billion of short term loans to small housebuilders; and £2 billion of long term funding for infrastructure with a target to deliver up to 200,000 homes. And, local authorities are being encouraged to action land release, especially large potential housing sites.

In essence, too, the Government's Housing White Paper underlines the "presumption that brownfield land is suitable for development"- and the efficacy of creating higher densities in urban locations with good transport links. It also seeks better local plans, help for public sector landowners with remediation and infrastructure costs and larger local authority planning teams. In theory, this could remove unnecessary planning conditions, address the skills shortage and reduce the time it takes for Section 106 agreements and the Community Infrastructure Levy (CIL) to be concluded. Finally, a £7 billion affordable homes programme has been outlined by Government with the aim (lofty as it is) to build 225,000 affordable homes in this Parliament.

Inland: "this chronic undersupply underpins our sustainable business model for housebuilding, land trading and lettings operations. We ensure that we are aware of and in a position to take full advantage of Government initiatives which increase demand, such as Help to Buy. Similarly, we participate in initiatives to ease supply by purchasing office buildings to convert to residential". The Company is also an active

participant in the Government's consultation on planning reform and is in constant dialogue with local authorities. This means that it is readily considered when large parcels of land are to be released for housing; for example, its involvement with Southampton City Council on the Chapel Riverside Project (see later section).

Key schemes

Wilton Park, Beaconsfield

This is the former Ministry of Defence School of Languages site in a prime location to the east of Beaconsfield in Buckinghamshire. Inland had already made a strategic purchase of adjacent land in 2012 which meant it was acknowledged as a 'special purchaser' for this 100 acre development site.

More broadly, a significant factor in enabling the wider Wilton Park redevelopment to take place is a new relief road around Beaconsfield. In fact, local action groups had been lobbying for this for 25 years. However, Inland Homes' presence appears to have been the catalyst for the delivery of this road and the Company has now secured planning permission for the first tranche of it. Similarly, a planning application has recently been submitted (September 2017) for the wider redevelopment after a lengthy consultation process with local stakeholders. Indeed, the planning application has sought to address all the issues and concerns which have been raised; and, in turn, this should greatly assist the speed of the planning process here.

For the record, Savills has described the Wilton Park site as "one of the finest development opportunities in southern England". It is also steeped in history and was originally the site of a three story Georgian Palladian Mansion which was built in 1779. During World War 2, however, the mansion was requisitioned by the War Office and, from 1939, Wilton Park was an open political prison holding over 4,000 German soldiers. After the War, it continued to be occupied by the army and eventually became the MoD School of Languages which was housed in a 16 storey tower block at the expense of the mansion, which was demolished in 1968.

Inland has spent several years evolving the master plan for Wilton Park and the proposals include the demolition of the tower block (which was neither pretty nor liked) and a rebuilding of the Georgian mansion to house luxury apartments and townhouses. Unsurprisingly, the re-establishment of this historical building has proven very popular with local residents.

In total, the development will comprise 350 homes together with 23,000 square feet of commercial and community buildings affording local retail convenience facilities, community space and an Air Training Corps facility, a children's nursery and offices. The gross development value (GDV) is expected to be around £350 million.

Right now, though, Inland is already generating an annual rental stream of £1.0 million from 86 existing residential properties on this site valued at £46.9 million and which are included under 'investment properties' in the Company accounts. In addition, the site generates approximately £0.5 million per annum from letting other space for storage and film production.

Cheshunt, Hertfordshire

In the summer of 2016, Inland formed a 50:50 joint venture which acquired the site of Tesco's former headquarters in Cheshunt. This was followed by a draft allocation

from the local authority for the wider Cheshunt Lakeside area of some 30 acres (18 of which are either owned or controlled by Inland and its partner).

During the subsequent 12 months, the Company agreed development principals with the local council on a masterplan for the entire site of approximately 2,000 houses (at a density compliant with the local authority's ambitions i.e. two times the original 1,000 units) and 153,000 square feet of commercial space together with a new primary school.

A planning application expected to be submitted in December this year and the Company is confident of, thereafter, securing an approval in 2018 with the intention of commencing the first residential phase soon after. At this time, the JV controls some 70% of the wider Cheshunt Lakeside area and the advantage of building in phases is that it will have the box seat in seeking to acquire the balance of the site in due course. Included here, too, is a new 'urban village' which will be the largest project that Inland Homes has undertaken, and it will run over eight to nine years.

The site actually sits immediately adjacent to Cheshunt Station (27 minutes to London Liverpool Street) and the proposed new Crossrail 2 route. Such proximity also fulfils a Government pledge that there should be residential development up and down the Crossrail corridors. Broxbourne Borough Council regards Cheshunt Lakeside as a key delivery location for much needed new homes and employment space in its catchment.

Alperton, North West London

The Alperton site was an early partnership development for Inland Homes. It sold the land to the London Borough of Brent and then entered into a £29.5 million construction contract which should run for three years from December - and which is expected to be "profitable, cash generative and self-funding". In this way, the project differs from an open market development scheme because the sale of the land happened immediately - meaning cash, a land profit (£6 million last year) and a reduction in associated borrowings. Going forward, too, the client will pay monthly based on valuations of work completed - which additionally enables early recognition of continuing revenue and profit. This effectively de-risks the development and provides a counter balance to the, by nature, lumpier land sales and speculative housebuilding completions.

As for site itself, it sits alongside the Grand Union Canal and the much needed development - locally - will consist of five storey units of apartments housing; with 135 in phase one in what is deemed 'a new London Housing Zone'.

Chapel Riverside, Southampton

This regeneration site was secured by way of a Development Agreement with Southampton City Council whereby Inland Homes obtained outline planning approval for 457 apartments plus 64,000 square feet of commercial space - and the first phase of 72 residential units is now under construction. The GDV here is expected to be in excess of £120 million and it will take seven years to complete.

Aston Clinton Road, Aylesbury

Significant technical and planning challenges, including noise, transport and drainage, had to be overcome in order to secure planning consent for 400 houses and 105,000 square feet of commercial space on the site, which was owned by Inland's JV company with Europa Capital. It was sold in June 2017 resulting in a gain for Inland of £7.0 million.

Sherbourne Wharf, Birmingham

This site is located 500 metres from Brindleyplace and has already received planning approval for the first two phases, which will deliver a total of 167 canal side apartments. Inland also made a planning application for the third and final phase of 87 apartments in September 2017. This is a dense urban site which will link nicely with the Canal and Rivers Trust plans for the area. Expected GDV is £50 million.

Beaumont Works, St Albans

When Inland Homes acquired this Grade II Listed Building it was severely run down. Subsequently, delicate negotiations transpired with conservation officers - after which a bespoke design was agreed to sit alongside a new contemporary residential building with a total of 58 residential units. The site was sold with planning consent in June 2017 for £7.5 million and a profit of £1.8 million.

Randalls Department Store, Uxbridge

As it says on the tin, this former department store was also Grade II Listed and a local landmark. Detailed negotiations with Historic England ensured which resulted in a practical design which retained the key aspects of the store (and a fire station) as the centrepiece of a mixed use restaurant and residential scheme, including affordable housing units. Planning permission for 58 apartments and 8,000 square feet of commercial space was received from a very happy council. GDV is expected to be approximately £25 million but Inland plans to sell the scheme this fiscal year.

Lily's Walk, High Wycombe

Planning permission has been secured for 239 new private tenure apartments and 15,800 square feet of commercial space in the heart of High Wycombe. As a former gas works with a significant sloping terrain, the site presented a range of challenges. An integral part of this scheme, too, is delivery of a major piece of public infrastructure known as the Town Centre Relief Road which forms part of the new road system in the town. Inland purchased the site after its year end in June (the vendor was JV partner CPC Group Limited) and work is expected to commence soon. GDV is set to be some £75 million and contracts have already been exchanged with purchasers of apartments for £5.5 million.

Wessex Hotel, Bournemouth.

This site is located on one of the major routes into Bournemouth and forms a key gateway within the West Cliff conservation Area. It was, thus, critically sensitive and a hard won negotiated scheme - perhaps the most taxing in Inland's history. The plan replaces an existing 100 bed hotel, which has seen better days, with a new hotel of the same capacity, basement parking plus two apartment buildings totalling 88 private units.

EPRA

Inland Homes' model targets growth in the EPRA net asset value of its portfolio to underpin shareholder return.

The European Public Real Estate Association (EPRA) is a non-profit association representing Europe's publicly listed property companies. It is run by an independent Board of Directors chaired by Christophe Cuvillier, CEO of Unibail-Rodamco. From its formation in Amsterdam in 1999, partnering initially with Euronext and later with FTSE Group and the National Association of Real Estate Investment Trusts (NAREIT). These three bodies established the FTSE EPRA/NAREIT Global Index series which is now used as the global indices platform from which to benchmark the performance of stock exchange-quoted property companies and real estate investment trusts. The Association has been located in Brussels since 2009.

On a financial reporting level, the EPRA's aim is to establish consistent reporting across the real estate sector. The Association encourages the adoption of an industry-wide set of financial reporting KPIs, and Gold, Silver, Bronze and Most Improved Best Practice Recommendations. Awards are delivered to companies based on the analysis of annual reports by auditor Deloitte.

EPRA net asset value (EPRA NAV) is calculated from the net assets attributable to equity shareholders of a Company, adjusted for the revaluation surpluses on trading properties and eliminating any deferred tax liabilities for revaluation surpluses.

In addition, EPRA triple net asset value (EPRA NNNAV) is also used and is simply EPRA NAV adjusted to include tax on property valuations and capital allowances.

Inland Homes uses EPRA and 'Adjusted EPRA' which excludes the dilutive effect of options, deferred bonus shares and Growth Shares in the denominator of the calculation here.

Inland ZDP plc

The Company promulgated its preliminary results for fiscal 2017 (to end June) on 27 October 2017 (note, too, that Nish Malde, Inland's CFO is ZDP's Chairman).

The Company is a wholly owned subsidiary of Inland Homes 2013 Limited which is a wholly owned subsidiary of Inland Homes plc and was established solely for the purpose of issuing and redeeming ZDP (Zero Dividend Preferred) shares. It thereby raises capital for Inland competitively and uniquely; and, as is widely reported, the UK clearing banks are chary about lending on raw land.

In terms of issue history:

(i) 8,500,000 and 849,900 ZDP shares were issued on 14 December 2012 at 100 pence per share and 23 January 2013 at 103 pence per share respectively;

(ii) 934,900 ZDP shares were issued on 14 March 2014 at 118.5 pence per share; and

(iii) 1,028,400 shares were issued on 20 August 2015 at 131 pence per share and a further 1,131,000 shares were issued on 28 September 2016 at 139 pence per share.

They will redeem on 10 April 2019 at a price of 155.9 pence per ZDP share giving a redemption yield of:

- 7.3% per annum on the first placing;
- 6.92% per annum on the second;
- 5.57% per annum on the third;
- 4.90% on the fourth; and
- 4.64% on the fifth.

The proceeds of the ZDP share issues were lent to Inland Homes for use in future investment opportunities.

As at 30 June 2017 the ZDP share price was 143.75 pence (2016: 139 pence), representing a premium of 4.17% (2016: 7.65%) over the net asset value per ZDP share of 138.95 pence (2016: 129.12 pence). For the record on 2 November 2017, the INLZ share price was 145.5 pence.

The loan and contribution agreements between the Company and Inland contain certain protections for the Company which are intended to benefit its ZDP shareholders. These include first charges over pledged assets (property) and pledged cash in a charged bank account. The pledged assets must have a book value of at least 120% of the accrued value of the ZDP shares net of the pledged cash.

As at 30 June 2017, the accrued amount due to ZDP shareholders was £17,291,235 (2016: £14,607,130), the pledged cash was zero (2016: £10,800,000) and the pledged assets had a book value of £26,644,059 (2016: £20,785,430), thereby satisfying this requirement.

The loan agreement also contained two covenants relating to asset cover and gearing, both of which are shown below as at 30 June 2017.

The definition of Financial Indebtedness excludes debt which falls due more than six months after the ZDP Repayment Date. Inland's borrowings are substantially all due for repayment after 10 October 2019, causing the calculation of the ratios below to show high levels of asset cover and low gearing:

Asset cover: Assets / Financial Indebtedness plus ZDP Final Redemption Liability = 25.2 times cover (2016: 4.6 times cover). The asset cover should be at least 1.8 times, so this covenant, which is tested quarterly, was satisfied at 30 June 2017; and

Gearing: Financial Indebtedness plus ZDP accrued liability / Adjusted assets 3.0% (2016: 20.1%). The gearing ratio should not exceed 40% so this covenant was also satisfied at 30 June 2017.

"The Board believes that the use of book values is generally conservative, because a substantial proportion of the Group's assets are properties for which planning consents are sought. The planning process takes time and any progress towards reaching the stage when building can commence is not reflected in an increase in the book values beyond the costs attributable to the relevant sites, whereas any diminution in value is reflected by way of impairment provisions, such that planning gains are not generally recognised in Inland's financial statements until sales are

contracted. If the covenant ratios were to be calculated by reference to the market values of the assets, the cover would be higher and the gearing lower".

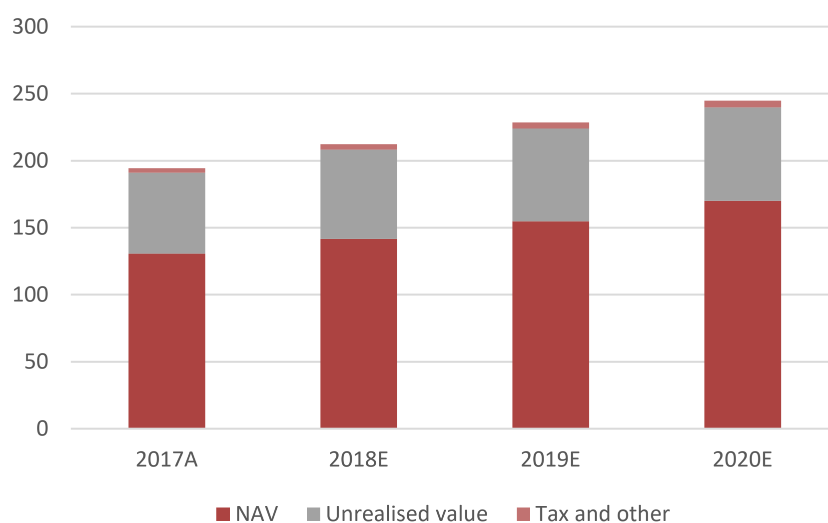
Divisional analysis and forecasts

Divisional split 2017A through 2020E				
Revenue (£m)	**2017**	**2018E**	**2019E**	**2020E**
Land sales	22.384	32.384	42.384	52.384
Housebuilding	57.771	78.183	96.246	112.948
Contracting	3.112	3.500	4.000	5.000
Rent	2.358	2.594	2.853	3.138
Hotel	2.623	2.885	3.174	3.491
Sub-total	**88.248**	**119.547**	**148.657**	**176.962**
Management fees	2.479	2.727	3.000	3.300
Other	0.000	0.000	0.000	0.000
Total	**90.727**	**122.273**	**151.657**	180.261
Operating income (£m)				
Land sales	12.143	16.192	16.954	17.287
Housebuilding	8.732	12.509	16.362	19.201
Contracting	-0.249	0.250	0.500	1.000
Rent	2.079	2.334	2.568	2.825
Other	0.000	0.000	0.000	0.000
Hotel	0.212	0.300	0.400	0.500
Sub-total 1	**22.917**	**31.586**	**36.783**	**40.813**
Investments	6.739	0.000	0.000	0.000
Investment props	1.466	0.000	0.000	0.000
Management fees	2.479	2.000	1.000	0.500
Other	-7.472	-8.000	-9.000	-10.000
Sub-total 2	**26.129**	**25.586**	**28.783**	**31.313**

Source: Hardman & Co Research

EPRA analysis and forecasts

EPRA totals 2017A through 2020E (£ million)



Source: Hardman & Co Research

Asset value

	2017A	2018E	2019E	2020E
NAV (p)	64.62	70.27	76.75	84.26
EPRA (p)	91.88	100.52	108.20	115.94
Adjusted EPRA (p)	96.22	105.25	113.29	121.39
% change				
NAV	12	9	9	10
EPRA	4	9	8	7
Adjusted EPRA	4	9	8	7

Source: Hardman & Co Research

Profit & Loss

Year end June (£m)	2013	2014	2015	2016	2017	2018E	2019E	2020E
Sales	31.116	58.909	114.219	101.910	90.727	122.273	151.657	180.261
COGS	-23.431	-42.857	-79.841	-72.329	-71.226	-88.129	-112.259	-135.429
Gross Profit	**7.685**	**16.052**	**34.378**	**29.581**	**19.501**	**34.145**	**39.399**	**44.832**
SG&A	-2.603	-4.369	-5.901	-6.118	-7.323	-8.236	-10.186	-12.946
R&D	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Dep. & amortisation	-0.049	-0.071	-0.120	-0.179	-0.242	-0.323	-0.430	-0.574
Licensing/Royalties	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other income	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Underlying EBIT	**5.033**	**11.612**	**28.357**	**23.284**	**11.936**	**25.586**	**28.783**	**31.313**
Share based costs	0	0	0	0	0	0	0	0
Exceptional items	0.048	1.478	13.978	16.918	14.419	0	0	0
Statutory Operating profit	5.081	13.090	42.335	40.202	26.355	25.586	28.783	31.313
Finance income	0.31	0.17	0.20	0.48	0.46	0.400	0.400	0.400
Finance cost	-1.69	-4.26	-8.37	-6.58	-7.00	-7.000	-7.000	-6.000
Associates/JV	1.219	0.613	-0.135	-0.370	-0.225	0.000	0.000	0.000
Net financial income	0.292	0.000	0.000	0.000	-0.001	0.000	0.000	0.000
Pre-tax profit	**5.212**	**9.613**	**34.028**	**33.733**	**19.589**	**18.986**	**22.183**	**25.713**
Exceptional items	0	0	0	0	0	0	0	0
Reported pre-tax	5.212	9.613	34.028	33.733	19.589	18.986	22.183	25.713
Reported taxation	-1.559	-2.137	-5.078	-4.841	-3.810	-3.607	-4.215	-4.885
Minorities	0.000	-0.479	0.730	-0.599	0.000	0.000	0.000	0.000
Underlying net income	**3.653**	**6.997**	**29.680**	**28.293**	**15.779**	**15.378**	**17.968**	**20.827**
Statutory net income	3.653	6.997	29.680	28.293	15.779	15.378	17.968	20.827
Period-end shares (m)	201.310	202.799	202.156	201.779	202.027	201.700	201.700	201.700
Weighted average shares (m)	184.860	202.093	202.368	201.957	201.875	201.600	201.600	201.600
Fully diluted shares (m)	201.299	214.885	208.996	211.397	211.384	211.193	211.193	211.193
Underlying Basic EPS (p)	**1.98**	**3.46**	**8.56**	**5.09**	**7.09**	**7.63**	**8.91**	**10.33**
U/I Fully-diluted EPS (p)	1.80	2.72	8.51	6.53	1.97	4.61	6.17	8.10
Statutory Basic EPS (p)	1.98	3.46	14.67	14.01	7.82	7.63	8.91	10.33
Stat. Fully-diluted EPS (p)	1.81	3.26	14.20	13.38	7.46	7.28	8.51	9.86
DPS (p)	**0.03**	**0.60**	**1.00**	**1.30**	**1.70**	**2.08**	**2.43**	**2.82**

Source: Hardman & Co Research

Balance Sheet

Year end June (£m)	2013	2014	2015	2016	2017	2018E	2019E	2020E
Shareholders' funds	53.132	61.093	89.833	116.347	130.550	141.734	154.802	169.949
Cumulated goodwill	0	0	0	0	0	0	0	0
Total equity	**53.132**	**61.093**	**89.833**	**116.347**	**130.550**	**141.734**	**154.802**	**169.949**
Share capital	20.131	20.280	20.281	20.281	20.366	20.366	20.366	20.366
Reserves	30.016	39.811	69.280	96.066	110.184	121.368	134.436	149.583
Capitalised R&D	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Minorities	2.985	1.002	0.272	0.000	0.000	0.000	0.000	0.000
Provisions	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Deferred tax	-1.411	-1.476	-0.548	0.960	2.026	1.000	-1.000	1.000
Long-term loans	18.046	32.732	31.096	35.742	31.241	31.241	30.291	29.291
Bank overdrafts	1.613	19.192	25.192	35.545	63.227	62.000	60.000	55.000
less: Cash & securities	-16.100	-11.064	-21.377	-16.723	-26.459	-26.656	-26.827	-28.277
less: Marketable securities	-0.001	-0.001	-0.001	-0.001	0.000	0.000	0.000	0.000
less: Non-core investments	-1.606	-0.541	-4.734	-2.223	-7.052	-9.000	-10.000	-11.000
Invested capital	**53.673**	**99.935**	**119.461**	**169.647**	**193.533**	**200.319**	**207.266**	**215.963**
Fixed assets	9.673	11.953	34.332	52.185	54.246	60.000	66.000	72.000
Intangible assets	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Capitalised R&D	0	0	0	0	0	0	0	0
Goodwill	0	0	0	0	0	0	0	0
Stocks	59.352	104.282	121.795	148.438	139.898	134.835	133.390	130.757
Trade debtors	5.966	10.432	7.998	6.816	22.491	21.491	20.491	19.491
Other debtors	1.055	0.055	0.055	13.53	24.097	18.267	16.267	14.267
Trade creditors	-7.074	-14.654	-14.862	-18.656	-20.537	-15.537	-10.537	-6.537
Tax liability	-0.625	-2.809	-6.347	-7.618	-6.532	-3.607	-4.215	-4.885
Other creditors	-14.674	-9.324	-23.510	-25.048	-20.130	-15.130	-14.130	-9.130
Debtors less creditors	-15.352	-16.300	-36.666	-30.976	-0.611	5.484	7.876	13.206
Invested capital	**53.67**	**99.94**	**119.46**	**169.65**	**193.53**	**200.32**	**207.27**	**215.96**
Net cash/(debt)	-3.559	-40.860	-34.911	-54.564	-68.009	-66.585	-63.464	-56.014
Net debt/equity (%)	-6.7	-66.9	-38.9	-46.9	-52.1	-47.0	-41.0	-33.0
After-tax ROIC	6.8%	7.0%	24.8%	16.7%	8.2%	7.7%	8.7%	9.6%
Interest cover (x)	3.7	3.2	5.2	6.6	4.0	4	4	6
Dividend cover (x)	67.2	5.4	14.2	10.3	4.4	3.5	3.5	3.5
Cap-ex/depreciation (x)	3	1	2	2	2	12	19	16
Cap-ex/sales (%)	13	13	58	17	23	16	16	16
Net asset value/share (p)	26.39	30.12	44.44	57.66	64.62	70.27	76.75	84.26
Stock days	191	177	107	146	154	110	88	73
Debtor days	23	18	7	20	51	33	24	19
Creditor days	70	41	34	43	45	25	16	9

Source: Hardman & Co Research

Cashflow								
Year end June (£m)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Pretax profit	5.212	9.613	34.028	33.733	19.589	18.986	22.183	25.713
Depreciation	0.049	0.071	0.120	0.179	0.242	0.323	0.430	0.574
Amortisation	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Stocks	0.161	-37.048	13.819	-16.797	-6.926	5.000	5.000	10.000
Working capital	-10.484	-2.315	-5.436	-2.112	-1.318	-8.170	-4.000	-7.000
Exceptionals/provisions	0.000	-2.300	-14.519	-18.015	-1.466	0.000	0.000	0.000
Disposals	1.063	-0.003	0.000	-0.009	-7.202	0.000	0.000	0.000
Other	1.728	1.065	0.676	0.370	0.225	-5.000	-6.000	-7.000
Company op cashflow	**-2.271**	**-30.917**	**28.688**	**-2.651**	**3.144**	**11.139**	**17.613**	**22.287**
Net interest	0.392	0.784	1.199	0.896	2.434	6.600	6.600	5.600
Tax	0.000	0.000	-0.678	-2.158	-3.576	-3.607	-4.215	-4.885
Operational cashflow	**-1.879**	**-30.133**	**29.209**	**-3.913**	**2.002**	**14.131**	**19.998**	**23.001**
Capital Expenditure	-0.145	-0.048	-0.299	-0.317	-0.450	-4.000	-8.000	-9.000
Capitalised R&D	0	0	0	0	0	0	0	0
Sale of fixed assets	0	0	0	0	0	0	0	0
Free cashflow	**-2.024**	**-30.181**	**28.910**	**-4.230**	**1.552**	**10.131**	**11.998**	**14.001**
Dividends	-0.122	-0.540	-1.217	-2.832	-2.850	-3.849	-4.827	-5.993
Acquisitions	0.219	0.000	-13.353	-2.278	-0.558	0.000	0.000	0.000
Disposals	0	0	0	0	0	0	0	0
Other investments	0.000	1.000	-3.246	-10.076	-12.260	-4.858	-4.050	-0.558
Cashflow after investments	**-1.927**	**-29.721**	**11.094**	**-19.416**	**-14.116**	**1.424**	**3.121**	**7.450**
Share repurchases	0	0	0	0	0	0	0	0
Share issues	**4.793**	**1.025**	**0.243**	**0.334**	**1.275**	**0.000**	**0.000**	**0.000**
Currency effect	0	0	0	0	0	0	0	0
Borrowings acquired	-0.015	-8.604	-5.388	-0.571	-0.604	0	0	0
Change in net debt	**2.851**	**-37.300**	**5.949**	**-19.653**	**-13.445**	**1.424**	**3.121**	**7.450**
Opening net cash	-6.411	-3.560	-40.860	-34.911	-54.564	-68.009	-66.585	-63.464
Closing net cash	**-3.560**	**-40.860**	**-34.911**	**-54.564**	**-68.009**	**-66.585**	**-63.464**	**-56.014**
Hardman cashflow/share (p)	-1.09	-14.93	14.29	-2.09	0.77	5.03	5.95	6.95

Source: Hardman & Co Research

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