

## CHAIRMAN'S STATEMENT

The Group achieved a double digit percentage increase in net asset value driven by increasing rents in our markets, asset management activity and progress in our development pipeline.



“We are continuing to see new tenants attracted to the space we provide and consider that rents in our markets will continue to rise.”

**Robert Rayne**  
Non-executive Chairman

Last year was both a significant year for London and another strong one for Derwent London. The Group's hallmark mid-market office product was in demand, there was excellent progress in the development pipeline, a string of successful planning decisions and the unlocking of value through restructuring of leasehold interests. We added to the portfolio in our core markets, recycled capital and achieved our refinancing targets. This activity added value and we saw an 11% increase in EPRA net asset value per share to 1,886p with the portfolio generating an overall revaluation surplus of £175.3m. All this was achieved whilst broadly maintaining profits and further strengthening our balance sheet.

#### Highlights

Progress was made across all the Group's business areas:

- 340,300 sq ft (31,610m<sup>2</sup>) of space was let, securing £13.3m of rental income at an average premium of 7.6% to 31 December 2011 ERV, of which 55% related to pre-lettings of developments. The EPRA vacancy rate of available space at the year end was 1.6%.
- Six planning consents were secured totalling 655,000 sq ft (60,850m<sup>2</sup>).
- 4 & 10 Pentonville Road N1 was completed (55,000 sq ft/5,110m<sup>2</sup>) and is 87% let.
- Asset management initiatives were completed on 580,000 sq ft (53,900m<sup>2</sup>) providing greater longevity of income and inbuilt rental growth.
- Principal acquisitions were five properties totalling 247,500 sq ft (23,000m<sup>2</sup>) bought for £90.3m after costs (£365 per sq ft/£3,930 per m<sup>2</sup>) at an average net initial yield of 4.7%.

- Disposals raised £161m after costs, generating a profit of £6.9m. These included the 50% interest in 1-5 Grosvenor Place SW1 to facilitate future development. The remainder were non-core assets.
- Our financing retains strength and flexibility. During the year we signed an £83m 3.99% 12-year secured loan, further diversifying our sources of finance and increasing our weighted average length of unexpired debt to 6.1 years at the year end.

The EPRA net initial yield of the portfolio was 4.3% at 31 December 2012. The EPRA like-for-like net rental income increased over the year by 8.2%. In addition at the year end reversionary income stood at £55.4m pa, 38% of which is contracted through the expiry of rent free periods, stepped rents and fixed uplifts.

#### Our market

In 2012, the eyes of the world were on London, which hosted memorable celebrations for the Queen's Diamond Jubilee, the Olympics and the Paralympics. The capital excelled in its time in the spotlight, demonstrating just what an attractive, welcoming and exciting place it is. It has an effective and improving infrastructure, a diverse and vibrant mix of cultural events and the London economy stands apart from the country as a whole. London is a desirable place in which to live, work and operate businesses. Consequently the property investment market in central London continues to flourish with yields remaining firm, supported by high levels of activity.

11%

increase in EPRA net asset value per share

8.2%

increase in EPRA like-for-like net rental income

7.5%

increase in dividend for the year

# CHAIRMAN'S STATEMENT CONTINUED

£13.3m  
of lettings concluded

6.7%  
rise in underlying estimated  
rental values

495,000  
SQ FT  
of major projects underway

Derwent London is an innovator in the regeneration of London's offices, investing in improving areas in the West End and City borders and offering tenants great space. This requires well-designed buildings at reasonable rents in the appealing locations of the future – such as those close to the Crossrail routes or within "London's Tech Belt", an arc stretching between King's Cross and Whitechapel. Our mid-market offices continue to attract tenants with Unilever recently taking 21,100 sq ft (1,960m<sup>2</sup>) at the Buckley Building EC1. We said at the beginning of 2012 that rents would rise, and were pleased to see stronger growth than the 4-5% we had envisaged, with a 6.7% underlying increase in the estimated rental value (ERV) and new lettings signed at rents on average 7.6% ahead of December 2011 ERV.

#### Capturing value

The strength of the occupational market and our robust financing give us the confidence to press ahead with our development pipeline. We completed 4 & 10 Pentonville Road N1 in August 2012, but still had six major projects underway at the year end totalling 495,000 sq ft (46,000m<sup>2</sup>). During 2013 we are starting work on three additional schemes totalling 422,000 sq ft (39,200m<sup>2</sup>) including our largest project to date, the 385,000 sq ft (35,800m<sup>2</sup>) regeneration of 80 Charlotte Street, Fitzrovia W1.

Looking further to the future, we have over 1.8 million sq ft (169,000m<sup>2</sup>) of exciting projects to start in 2014 and beyond, of which 0.9 million sq ft (86,000m<sup>2</sup>) has planning permission.

One of our largest schemes with planning permission is the White Collar Factory at City Road EC1 where we are about to finish a working prototype. Marketing presentations begin in April before we move into full scale construction of this office development in the heart of "London's Tech Belt" on a speculative basis.

We have recently signed an option agreement with the freeholder and head leaseholder that provides for a regear of our leasehold interest at 55-65 North Wharf Road W2. This will enable us to proceed with the development of 240,000 sq ft (22,300m<sup>2</sup>) of office space under a 999-year lease at this important site in Paddington where we hold a planning consent.

#### Results and dividend

Derwent London's property portfolio increased in value to £2.86bn as at 31 December 2012, showing an overall revaluation surplus of £175.3m and an underlying valuation increase of 7.3% during the year, which compares to annual capital growth of 4.1% produced by the IPD Central London Offices Index. Of our valuation increase, 4.1% came in the second half of 2012. The portfolio's total property return for the year was 11.6% against 8.8% for IPD. This strong property return contributed to EPRA net asset value per share rising to 1,886p at the year end compared with 1,701p at 31 December 2011 and 1,770p at 30 June 2012. After adding back dividends, the Group's total return for the year was 12.7%.

“The performance of the business gives us the confidence both to accelerate our development pipeline and increase the dividend for the year by 7.5%.”

**Robert Rayne**  
Non-executive Chairman

Despite a significant acceleration in development activity during the year, income levels have been broadly maintained, with EPPRA profit before tax of £52.5m against £52.3m in the previous year. Given dividend cover of 1.5 times and our current outlook, we are recommending a final dividend for the year of 23.75p, an increase of 8.4%, to be paid on 14 June 2013 to shareholders on the register on 10 May 2013. Of this, 18.75p will be paid as a PID under the UK REIT regime and there will be a scrip alternative. The total dividend for the year is therefore 33.70p, an increase of 7.5% on that in 2011.

The Group's overall debt position was broadly unchanged with net debt up by only 1.2% over the year to £874.8m. The overall loan-to-value ratio at the end of 2012 fell to 30.0% from 32.0% in 2011 and gross interest cover over 2012 has increased to 351% from 307% last year. Following the arrangement of a new £83m 12-year loan in August, around 50% of our current financing is with non-bank sources and we have increased the weighted average unexpired duration of debt to 6.1 years. We had substantial undrawn facilities totalling £333m and uncharged properties totalling £624m at the year end giving us the headroom to meet our committed capital expenditure requirements.

We do not achieve these results without considerable commitment, skill and hard work. I would like to thank the Derwent London team, and congratulate them for winning Management Today's 'Britain's Most Admired Property Company' award for the third successive year.

#### **The Board**

We welcomed Simon Fraser to the Board on 1 September 2012 and believe that his extensive corporate broking and financial services experience will benefit the Group. Simon Neathercoat retired from the Board on 31 December 2012 after giving 13 years of valuable advice.

#### **Outlook**

London is a desirable place in which to operate and invest and this currently shows no signs of changing. Our office brand appeals to a wide range of tenants from both a design and a price perspective, in particular those from the broad-based TMT world. The increase in rents in our markets in 2012 exceeded our expectations. We believe we shall see rental growth in these markets of 4-6% in 2013 with yields remaining stable.

We have an extensive and deliverable pipeline of value-creating developments, both for the near term and extending into the future. These are well-located in our core areas and in many cases will benefit substantially from the arrival of Crossrail.

In 2013 we aim to make progress in the following areas:

- Complete 212,000 sq ft (19,700m<sup>2</sup>) at Buckley Building EC1 and 1 Page Street SW1 which are 70% pre-let overall.
- Progress construction of 256,000 sq ft (23,790m<sup>2</sup>) at 1-2 Stephen Street W1, 40 Chancery Lane WC2 and Tummill EC1.
- Commence construction of 422,000 sq ft (39,200m<sup>2</sup>) in three developments including 80 Charlotte Street W1. Of this space around 20% will be residential, which will enable Derwent London to take advantage of the current high demand for central London residential property.
- Progress a number of major consented projects, including White Collar Factory EC1, 55-65 North Wharf Road W2 and a retail scheme at 18-30 Tottenham Court Road W1 (together 570,000 sq ft/ 52,910m<sup>2</sup>).
- Advance the planning of our future value-creating opportunities, including 1-5 Grosvenor Place SW1.

Our increased development programme, significant reversionary potential and asset management activities provide a strong foundation for the delivery of future value. Low leverage and our focus on interest cover create the financial strength to undertake this development pipeline and to take advantage of new opportunities. These components give us a powerful platform for growth, thereby continuing to provide attractive returns to shareholders.

**Robert A. Rayne**  
Non-executive Chairman  
28 February 2013