

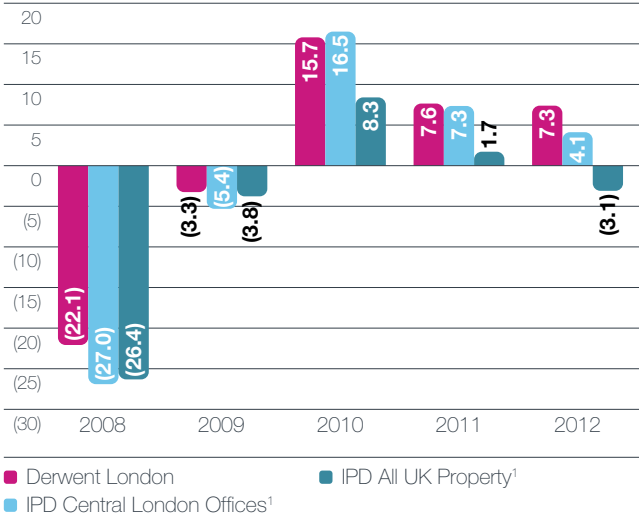
PROPERTY REVIEW VALUATION

The strong levels of investment in London's commercial property market, together with good demand for space and improving central London office rents, presented a positive backdrop to the valuation.

Nigel George
Executive Director

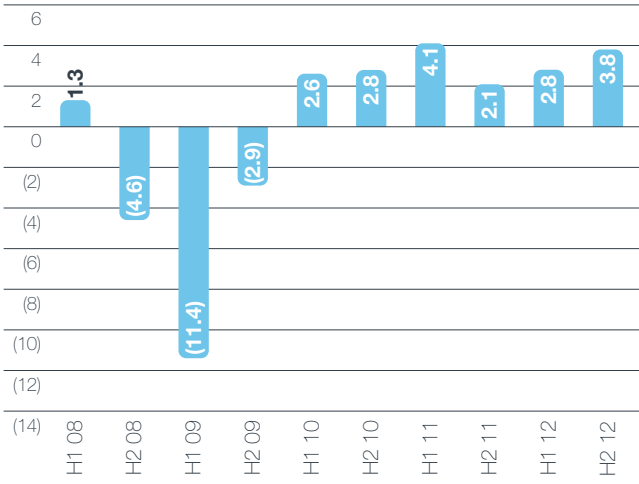


Valuation performance %



¹ Quarterly Index

Rental value growth¹ %



¹ Half yearly movement in estimated rental value of the underlying portfolio

The Group's investment portfolio was valued at £2.86bn at 31 December 2012. Over the year, there was a valuation surplus of £183.3m, before deducting lease incentive adjustments of £8.0m, giving a total movement of £175.3m. The underlying valuation increased by 7.3%, a similar level to the 7.6% in 2011, and outperformed both the IPD Index for central London offices in 2012, which increased by 4.1%, and the wider market, the IPD All UK Property Index, which declined by 3.1%.

Within the investment portfolio, seven principal projects were on site during 2012, comprising five developments and two major phased refurbishments. These progressed well, not only on the construction and delivery side, but also through lettings to companies including Burberry, Ticketmaster and Unilever. They are detailed further under the Portfolio Management section. Reflecting this activity, the developments increased in value by 20.6% during the year to £185.3m, and the refurbishments by 8.7% to £202.3m, giving a total increase in value of 14.1% to £387.6m. They represented about 14% of the investment portfolio at the year end and delivered around a quarter of the portfolio's valuation surplus. Excluding projects, the balance of the portfolio increased by 6.3% on an underlying basis.

In addition to the strong performance from our projects, the ERV of the portfolio increased steadily over the year and we were active on the asset management front. Both were also important contributors to the valuation uplift. Our ERVs rose by 6.7% and followed a 6.3% increase in 2011. Examples of our asset management accomplishments were lease management and letting activity at 1 Oliver's Yard EC2 and the Tea Building E1. This gave rise to valuation increases over the year at these buildings of 17% and 10% respectively.

Portfolio statistics – valuation

	Valuation £m	Weighting %	Valuation performance ¹ %	Valuation performance £m	Total floor area m ²	Available floor area m ²	Project floor area m ²
West End							
Central	1,892.6	66	6.4	105.2	278,900	2,100	31,200
Borders	269.6	10	12.6	29.8	52,900	800	300
	2,162.2	76	7.2	135.0	331,800	2,900	31,500
City							
Borders	603.9	21	10.2	53.6	143,800	2,400	28,900
Central London	2,766.1	97	7.8	188.6	475,600	5,300	60,400
Provincial	93.5	3	(5.3)	(5.3)	30,200	900	–
Total portfolio 2012	2,859.6	100	7.3	183.3	505,800	6,200	60,400
2011	2,646.5	100	7.6	181.7	501,400	5,700	64,800

¹ Properties held throughout the year

7.3%

underlying valuation increase

6.7%

increase in underlying
estimated rental value

Our central London properties, which comprise 97% of the portfolio, increased by 7.8%, with those in the West End rising by 7.2% and the City border assets by 10.2%. The balance of the portfolio at 3% is our non-core Scottish holdings. These principally comprise a retail warehouse park and agricultural land and saw a 5.3% valuation decline in 2012, reflecting the general outward movement of yields in provincial markets.

The portfolio's net initial yield, on an EPRA basis, was 4.3%, which rises to 4.8% on a "topped-up" basis, following contractual uplifts and expiry of rent free periods. The true equivalent yield was 5.55% and compares with 5.61% at the end of 2011. This reflects the general stabilisation of yields for London assets.

The portfolio remains highly reversionary. At 31 December 2012 the Group's net annualised rental income was £119.6m, with the portfolio's ERV at £175.0m, representing £55.4m of reversion. Of this, £21.0m is contractual, from our scheme pre-lets, such as 1 Page Street at £5.3m, fixed rental uplifts from the expiry of rent free periods and contracted stepped rentals. A further £21.1m is from available space at year end and our projects where we are on site. The balance of the reversion of £13.3m was from future rent reviews and lease renewals.

On a total property return basis the portfolio delivered 11.6% compared with 13.4% in 2011. The IPD Total Return Index was 8.8% for Central London Offices and 2.7% for All UK Property.

“We believe our prospects are good and look forward to the future with confidence.”

John Burns
Chief Executive