

EFFECTIVE RELATIONSHIPS

Strong relationships in all parts of our business are an important component of our continued success and assist us in adding value to the portfolio.

Tenants

We understand our tenants' requirements and maintain communication from the very start of their interest in a property and throughout their occupation, building extremely close relationships.

A reversionary rental profile with low passing rents is a key characteristic of our portfolio, providing prospects for income growth and value enhancement. We aim to capitalise on these opportunities and work with our tenants to accommodate expansion, contraction and lease regears wherever possible. During 2012 we regared leases at 1 Oliver's Yard and 8 Fitzroy Street, increasing the rent and, at Oliver's Yard, the length of the leases. This has led to strong increases in the respective value of these properties and greater security of income and tenure for both Derwent London and our tenants.

1 Oliver's Yard EC2

Sage Publications (40,300 sq ft/3,740m²)

- Leases extended from two to seven years
- Annual stepped increases introduced taking the rent from £1.0m (£25 per sq ft) to £1.4m (£36 per sq ft)
- December 2011 ERV (£28.50 per sq ft)

TelecityGroup (68,700 sq ft/6,380m²)

- Leases extended from five to 25 years
- Rent increases introduced taking rent from £1.8m to £2.3m (£45 per sq ft on best space) and 2.5% compound increases every five years thereafter

Resulting valuation increase

17%





8 Fitzroy Street W1

- Let to Arup (148,000 sq ft/13,750m²) until 2033
- £6.2m pa (£45 per sq ft on a typical floor)

Before

- Five-yearly upward-only rent reviews

After

- Annual stepped increases to £8.4m pa (£60 per sq ft) by 2021
- Upward only rent review in 2021
- Thereafter rent increases annually by 2.5%
- Rental income by expiry of at least £11.0m pa (£80 per sq ft)

Resulting valuation increase

5%



1. 1 Oliver's Yard EC2:
View from City Road

2. 1 Oliver's Yard EC2:
New upgraded reception

3. 8 Fitzroy Street W1:
Atrium

4. 40 Chancery Lane WC2:
Proposed street level view

Unique opportunities

We treat each building as a unique opportunity. While our approach to every property is consistent, the solution for each will be different. Through innovative ideas we look to add floorspace and thereby value.

We keep in close contact with the freeholders of our leasehold properties and discuss the plans for these buildings to ensure that the maximum value is extracted.

Three developments were unlocked in the past year, all of which involved lengthy negotiations with the respective freeholders to achieve the optimal solution.



40 Chancery Lane WC2

The development value of this site was unlocked in February 2012 through a regear with our freeholder, Colville Estates. The existing buildings have been demolished and the scheme is scheduled to be delivered at the end of 2014 incurring capital expenditure to complete of £34m.

70,600sq FT to
100,000sq FT

42% uplift

	Previous ownerships		Current ownerships		
	Area sq ft	Colville Estates	Derwent London	Colville Estates	Derwent London
40-43 Chancery Lane (A)	53,800	Freehold	17-year leasehold expiring 2029	Freehold	128-year leasehold
44-45 Chancery Lane (B)	9,700	Freehold	No interest		
20-21 Tooks Court (C)	7,100	No interest	Freehold		
	70,600				

55-65 North Wharf Road W2

Planning permission was secured for these leasehold offices near Paddington station in January 2008 to provide 240,000 sq ft (22,300m²) of offices and 73,000 sq ft (6,800m²) of residential accommodation and retail space.

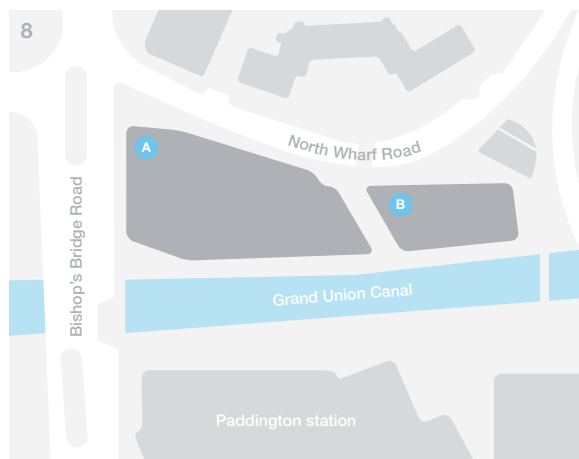
Derwent London has entered into an option agreement with the freeholder and the head leaseholder.

On exercise of the option, the freeholder will grant us a 999-year lease over the site of the office element and surrounding public realm. At the same time the freeholder will grant the head leaseholder a 999-year lease over the site of the residential element. We will pay a ground rent of 2.5% of the rent of the office element and will undertake to build the basement box of the combined office and residential elements.

The head leaseholder will pay a £5m contribution towards the cost of this box. Once this has been completed we will build the offices (building A below) and the head leaseholder will be responsible for the residential element (building B below).

This option agreement enables the redevelopment of 55-65 North Wharf Road. The existing buildings of 78,000 sq ft (7,250m²) are currently fully occupied under leases which have rolling breaks from June 2014.

78,000sq FT to
240,000sq FT
208% uplift



- 5. 40 Chancery Lane WC2:** Proposed courtyard
- 6. 40 Chancery Lane WC2:** Site plan
- 7. 55-65 North Wharf Road W2:** Proposed new office building
- 8. 55-65 North Wharf Road W2:** Site plan
- 9. 1-5 Grosvenor Place SW1** Existing building



1-5 Grosvenor Place SW1

Originally built in the 1960s, these 168,000 sq ft (15,600m²) buildings were comprehensively refurbished in the late 1990s/early 2000s. In 2012, Derwent London and Grosvenor announced a joint venture to work towards the redevelopment of the entire site. The Group restructured its headleases into a new 150-year term and sold 50% of this interest to Grosvenor for £60m. The existing buildings occupy an under-utilised flagship site of 1.5 acres and offer a unique opportunity to undertake a substantial mixed-use redevelopment in a highly prominent location. Whilst we progress redevelopment plans, we are maintaining income through short-term, flexible lettings. We have appointed advisors with our joint venture partner, Grosvenor, and are working up a development plan with a view to submitting the planning application in the next 12 months.