

## Business Unit Review – London Portfolio

Our London Portfolio represents 54.4% of our overall investment portfolio by value. This one million sq m London Portfolio represents a 4.8% share of London's total office accommodation. We currently have over 500 occupiers in our London Portfolio accommodating more than 50,000 people.

London remains a world-class city with good prospects for long-term business growth. In the short-term, the London market has entered a period of slowdown after several years of strong growth and demand for office space has reduced substantially. The credit crisis has accentuated these market dynamics for both investment and occupational markets. Although we did not foresee the credit crisis, we did recognise the early signs of a slowdown some time ago and adjusted our portfolio and development pipeline accordingly.

The benefits of this strategy were seen in the performance of the portfolio with income (excluding joint ventures) up £12.7m to £171.8m driven by completion of the developments of New Street Square, EC4, Bankside 2&3, SE1, and 50 Queen Anne's Gate, SW1.

Our London Portfolio showed a valuation deficit of 11.0% with a 13.0% deficit on the office holdings and a much smaller 0.5% deficit on retail reflecting the relative strong performance of retail in Central London. The fall in value for the like-for-like office holdings was driven primarily by a 70 basis point adverse movement in equivalent yields and, to a lesser extent, by a 3.8% decline in rental values. Across the different office sub-markets, we saw a 20.2% decrease in value for like-for-like offices in the City, but a much smaller 10.8% decrease for West End offices where we have the greatest concentration of our holdings.

Headline void levels have increased from 3.6% in March to 8.8% in September on the like-for-like portfolio, but excluding pre-development properties, the change is from 3.7% in March to 4.3% in September.

The London Portfolio benefits from a broad customer base and has a solid income stream with little exposure in relative terms to the retail and financial services sectors. Our largest occupier is Central Government who represent 19% of the London Portfolio rent roll while just 17% of London customers are from the financial services sectors. With just 19,300sq m of office developments coming onto the market in the next two years, our development pipeline is well matched to the current economic cycle.

### Sales, acquisitions and asset management

During the first half of the year we sold £151.8m of London property with the disposal of Turnstile House, WC1, and the sale of a 50% share in Empress State Building, SW6. The sales were on average 0.5% below March 2008 values which we feel represented good business in an overall market that has been impacted by the lack of available credit and generally saw values falling sharply. We purchased only £30.3m of investment properties, which were part of our strategic acquisitions around future potential development sites.

In both properties sold, the short-term opportunities for asset management were limited. However, in the case of Empress State Building, the joint venture arrangement with Liberty International PLC offers us the ability to realise value from the asset while being well placed to benefit from the continued attraction of this part of London and the combined knowledge of the area that both partners have.

In terms of asset management, we have continued to focus on two key areas: maximising income in the short-term on assets targeted for redevelopment in the next cycle, and secondly, improving the performance of our Central London retail assets.

## Development

We continue to foresee in the medium-term a resumption of demand for high quality space and we are timing our substantial and imaginative future development programme in line with this view.

We have an excellent track record in timing and letting our developments with a number of large projects having been completed in 2007 and spring 2008. Since then we completed in the half year 10 Eastbourne Terrace, W2, which is 100% let. Our only other completion this year is the 14,820sq m City office development at Dashwood House, EC2, which completed at the end of October 2008. The intention is to seek lettings on a floor by floor basis and we are only now commencing marketing, and have some tentative occupier interest in the scheme.

With the limited amount of our developments now due for imminent completion, we have moved on to focus on the new generation of schemes to be delivered beyond 2010.

Our next major completion is the 50,740sq m project at One New Change, EC4, which will bring excellent offices, retail and public space to an historic site opposite St. Paul's Cathedral and is due for completion in late 2010. We have already pre-let 38% of the office space, to K&L Gates for a minimum term of 15.5 years and we have let or agreed terms to let 17% of the retail space with Marks & Spencer and Topshop committing to the scheme. The unique location, quality of space and views make us confident of securing further lettings, albeit the office component may reflect weaker pricing trends.

Our Park House, W1, scheme is planned for completion in 2011 and will offer some of the largest floor plates in the West End in its 15,430sq m of office accommodation as well as 8,140sq m of premium retail space and 5,380sq m of residential units. Demolition will be completed in the first quarter of 2009.

At 20 Fenchurch Street, EC3, demolition and ground works are continuing and are still on track to complete in the first quarter of 2009. We have stated before that we may defer the start of construction work to better time the completion of this development in the City letting market.

We have also actively begun to plan ahead for the next ten years and submitted outline planning applications for some 180,000sq m of space at Victoria Transport Interchange, SW1, and Selborne House, SW1, in Victoria and Arundel Great Court, WC2, in Mid-town.

We have also received a resolution to grant planning consent for the redevelopment of 30 Old Bailey, EC4, to provide 35,600sq m of office accommodation and 3,700sq m of retail space. The current leases on the property run until June 2010.

We outline our development pipeline in Table 2.

**Table 2: London development pipeline at 30 September 2008**

Property	Description of use	Ownership interest %	Size sq m	Planning status	Letting status %	Net income/ERV £m	Estimated/actual completion date	Total development costs to date £m	Forecast total development cost £m
<b>Developments, let and transferred or sold</b>									
10 Eastbourne Terrace, W2	Office	100	6,150		100	3	July 2008	43	43
50 Queen Anne's Gate, SW1	Office	100	30,140		100	13	May 2008	143	143
<b>Developments completed</b>									
New Street Square, EC4	Office	100	62,340		92	34	May 2008	361	381
	Retail		2,980		64				
<b>Developments approved and in progress</b>									
Dashwood House, EC2	Office	100	14,110		-	9	Oct 2008	107	112
	Retail		710		100				
30 Eastbourne Terrace, W2	Office	100	4,470		-	2	May 2009	20	35
One New Change, EC4	Office	100	30,840		38	33	Sept 2010	267	531
	Retail		19,900		17				
Park House, W1	Office	100	15,430		-	27	Dec 2011	236	369
	Retail		8,140		-				
	Residential		5,380		-				
<b>Proposed developments</b>									
Selborne House, SW1	Office	100	23,450	AS	n/a	n/a	2012	n/a	n/a
	Retail		1,540						
Arundel Great Court & Howard Hotel, WC2	Office	100	37,110	AS	n/a	n/a	2013	n/a	n/a
	Retail		2,150						
	Residential		23,310						
20 Fenchurch Street, EC3	Office	100	61,970	PR	n/a	n/a	2013	n/a	n/a
	Retail		2,130						

Planning status for proposed developments

AS – Application Submitted

PR – Planning Received

Total development cost (£m)

Total development cost refers to the book value of the land at the commencement of the project, the estimated capital expenditure required to develop the scheme from the start of the financial year in which the property is added to our development programme, together with finance charges less residential costs (totalling £109m across all categories of development). Floor areas shown above represent the full scheme whereas the cost represents our share of costs. Letting % is measured by ERV and shows letting status at 30 September 2008. Trading property development schemes are excluded from the development pipeline. Cost figures for proposed schemes are not given as these could still be subject to material change prior to final approval.

Net income/ERV

Net income/ERV represents headline annual rental payable on let units plus ERV at 30 September 2008 on unlet units.

## Urban Community Development

Urban Community Development creates value through the transformation of under-used land into thriving places and communities. Our work is both supporting and benefiting from London's long-term economic and population growth.

Ebbsfleet Valley is our largest project and outline planning permissions have now been granted for the whole of the 1,659,550sq m project. Further approvals to the masterplans of the major commercial core around the international station and the next residential village, Castle Hill, have been granted allowing the design of individual buildings to be progressed.

We have only limited construction currently underway. In a joint venture with Countryside Properties, we have completed 41 residential units at Springhead Park which are 93% sold, and we have just another 47 units under construction. It is our intention to moderate the roll out of future phases according to the economic climate.

In April we formed a 50:50 joint venture with Places for People and set out our plan to acquire more than 970 hectares of land to the north of Harlow, to help meet much-needed housing and employment in the area. The purchase is subject to the site's inclusion in the East of England Regional Assembly's final East of England Plan.

We also entered into a partnership agreement with Defence Estates to promote the development of the former Chattenden Barracks, near Chatham. We will take the lead to secure planning permission, invest in infrastructure and manage subsequent land sales on behalf of Defence Estates who still own the site. The majority of the site will remain in operational use until 2012, after which initial sales of development land will commence. Our expenditure incurred in obtaining planning permission and delivering infrastructure will be reimbursed from sale receipts.