INVESTMENT ACTIVITY

We have acquired two properties which reinforce existing Derwent London clusters in the Tech Belt and offer significant redevelopment opportunities.

DAVID SILVERMAN
EXECUTIVE DIRECTOR

£98.0m
of commercial property sales at 40% premium to December 2013 values

£90.9m
of principal property acquisitions

£115.3m
property swap agreed in February 2015

Acquiring properties and unlocking their value

During the year we acquired two properties which reinforce existing Derwent London clusters in the Tech Belt. They are both let off low rents with low capital values, have scope for near term asset management and, in the longer term, offer significant redevelopment opportunities.

We acquired the largest of the two properties, Angel Square EC1, in November 2014. This is a prominent corner property comprising three multi-let connected buildings around a central courtyard. It is located above Angel underground station and opposite our successful Angel Building. Rents range from £10 to £30 per sq ft with an average rent of £21.68 per sq ft on let space. The majority of leases expire in March 2015. Our initial plan is to capture the rental reversion through medium term lets on this space such as the recent letting to Expedia. Longer term we are considering plans for a larger building on the site.

The other acquisition has helped unlock a larger site. 19-23 Featherstone Street EC1 is located next to our White Collar Factory development, and adjacent to our Monmouth House EC1 (41,500 sq ft of offices). The vendor has leased the building back at an initial rent of £10 per sq ft with a break after 12 months. The property is already highly reversionary, but we have commissioned some early studies on a potential new development on a larger site combining Monmouth House. This work has suggested the site could hold a c.125,000 sq ft development, which would represent an 80% increase on the existing space and a major regeneration opportunity.

Since the year end we have announced the acquisition of 20 Farringdon Road EC1 as part of a property swap. We discuss the related disposals under recycling capital below. This prominent 170,600 sq ft property is currently one of the largest in Clerkenwell next to Farringdon Crossrail station, and opposite 19 Charterhouse Street EC1 which we acquired in 2013. The consideration was £88.0m before costs, which we met through a property swap, for a minimum 175-year lease with the vendor retaining a 10% ground rent. The net rent is £3.2m, and our net initial yield is 3.4% (£545 per sq ft). The property comprises 141,400 sq ft offices, 5,700 sq ft of ancillary space, 1,200 sq ft retail and a 22,300 sq ft gym. One office floor is let at a peppercorn rent until December 2015 with the remaining office floors let at an average rent of £27 per sq ft. Like Angel Square EC1 we believe the purchase offers short-term management and repositioning potential, with longer-term redevelopment angles. Each purchase has enhanced our position next to important transport hubs.

Principal acquisitions 2014

	Date	Area sq ft	Total cost £m	£ psf	Net yield %	Rental income £m pa	Rent £ psf	Lease length[1] Years
19-23 Featherstone Street EC1	Q1	27,500	12.3	450	2.2	0.3	10	0.2
Angel Square EC1	Q4	128,700	78.6	620	3.0	2.4	19	0.3
Total		**156,200**	**90.9**	**580**	**2.9**	**2.7**	**17**	**0.3**

[1] To first break or expiry, as at 31 December 2014

Principal commercial disposals 2014

	Date	Area sq ft	Net proceeds £m	£ psf	Net yield to purchaser %	Rental income £m pa	Surplus to Dec 2013 %	Surplus to Jun 2014 %
Jaeger House W1	Q2	24,900	30.3	1,215	2.7	0.9	32	–
186 City Road EC1	Q3	38,300	22.8	595	4.1	1.0	54	1
35 & 37 Kentish Town Road NW1	Q3	24,500	13.9	570	3.8	0.6	40	3
Suncourt House N1	Q4	26,500	17.1	645	3.9	0.7	35	24
136-142 Bramley Road W10	Q4	30,900	13.9	450	4.4	0.7	49	26
Total		**145,100**	**98.0**	**675**	**3.6**	**3.9**	**40**	**12**

Recycling capital

During the year we sold five smaller London office properties for a total consideration of £98.0m. Jaeger House W1 was our largest disposal. This represented a redevelopment opportunity with leases close to expiry but we chose instead to sell to a special purchaser taking most of our expected future development gain. The other properties were four smaller assets, three of which were geographically near the outer limits of our London portfolio. We were able to crystallise substantial gains, which were on average 40% above December 2013 values.

We also sold our 25% interest in the Prague Fashion Arena in the Czech Republic. This non-core legacy asset raised £6.8m net of costs, which after tax reflected a 21% premium to its 2013 book value. In addition £15.7m was raised from the sales of apartments at Queens W2 realising a £3.9m profit before tax.

As consideration for the purchase of 20 Farringdon Road EC1 we disposed of £115.3m of assets comprising two properties, 22 Kingsway WC2 and Mark Square House EC2, and a 50% interest in 9 and 16 Prescot Street E1. We will receive the balance of £27.3m before costs in cash. The proceeds are in line with our December 2014 values.

Net investment £m