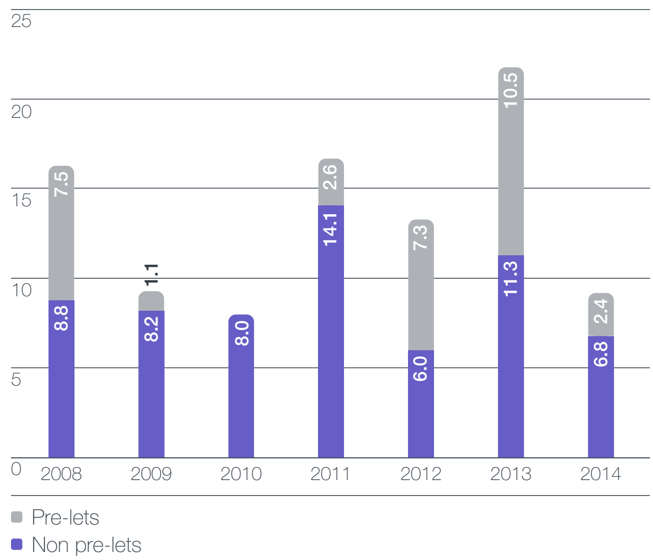
PORTFOLIO MANAGEMENT

The good letting performance in 2014 has continued into 2015 and demonstrates the appeal of our office space to a wide range of tenants.

PAUL WILLIAMS
EXECUTIVE DIRECTOR

Letting activity by rental income £m pa



£9.2m
of new lettings in 2014

£5.9m
of new lettings in 2015 year to date

Optimising income

We had a good year for lettings in 2014 securing £9.2m of rental income on 188,300 sq ft of space achieving rents 11.2% above December 2013 ERV. Included in these numbers, our open market lettings were 18.1% above December 2013 ERV. The Group secured £5.6m of rental income in the second half, at an average of 12.7% above December ERV and 5.4% above June 2014 ERV. Details of the principal transactions are given in the following table. We have made a good start to the current year securing £5.9m of new rental income.

During the year we carried out 72 rent reviews and lease renewals on a total of 664,300 sq ft. The average increase was 17% to provide rents of £23.0m pa. During the year £17m of rental income was exposed to lease expiries or breaks, and we were able to retain or re-let 73%.

The letting to Make at Middlesex House W1 was highly profitable, as it involved converting a basement car park into office space, and a number of other transactions in the table set new rental highs for individual buildings.

Since the year end The Office Group has taken 34,150 sq ft at 2 Stephen Street W1 on a 20-year lease without a break for £2.2m pa or £65 per sq ft. The rent incentives are equivalent to a 15 month rent free period. There are five-yearly reviews with minimum CPI linked uplifts capped and floored at 4% to 2% pa at the first and second review with the third review based on open market rent. We will receive a share of The Office Group's profits on the space above a threshold level in return for a capital contribution of £1.8m.

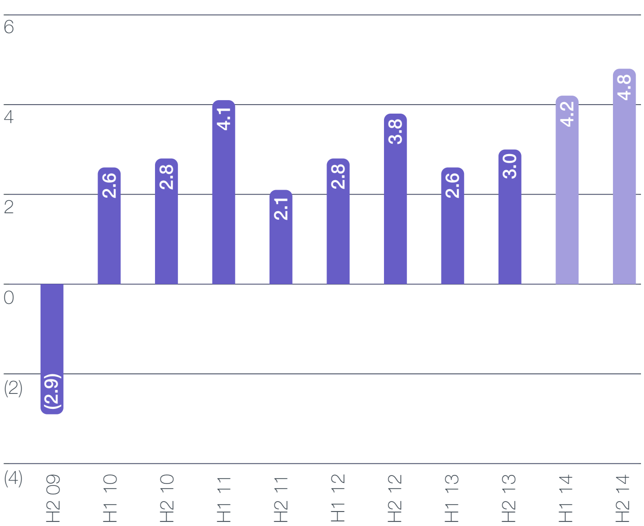
PORTFOLIO MANAGEMENT
CONTINUED

Principal lettings in 2014

	Tenant	Area sq ft	Rent £ psf	Total annual rent £m	Min/fixed uplift at first review £ psf	Lease term Years	Lease break Year	Rent free equivalent Months
Q1								
Middlesex House W1	Make	12,200	37.50[1]	0.5	42.50	15	10	9
Morelands EC1	Spark44	8,500	49.50	0.4	54.50	10	5	10.5, plus 4.5 if no break
1 Oliver's Yard EC1	Orms	6,400	50.00	0.3	52.50	10	5	10.5, plus 4.5 if no break
Q2								
Tower House WC2	World Nuclear Association	5,700	66.00	0.4	68.50	10	–	13.5
Q3								
1-2 Stephen Street W1	Freud Communications	28,350	65.00	1.8	75.00	15	10	18, plus 6 if no break
Morelands EC1	Stink London	8,700	54.00	0.5	58.00	10	–	12
Middlesex House W1	London First	4,200	65.00	0.3	70.00	10	8	9
Q4								
1-2 Stephen Street W1	FremantleMedia	6,500	65.00	0.4	–	5	–	7

[1] Lower ground floor converted from former car park

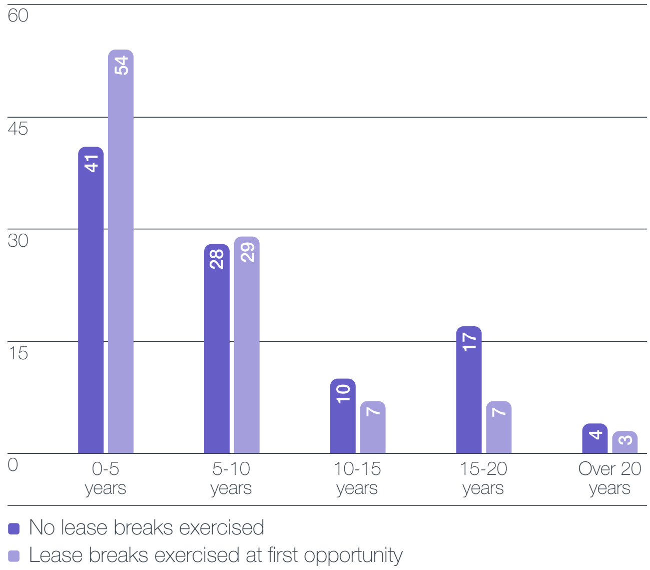
Rental value growth[1] %



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

The three recent Stephen Street transactions have secured £4.4m of new income and 16,150 sq ft on the top two refurbished ninth and tenth floors are under offer. In addition we have recently taken back the 10,900 sq ft eighth floor from FremantleMedia, which is now being upgraded. Upon completion of the latter phase we will have refurbished 114,350 sq ft, or over half of the building's office space since its acquisition in 2010, during which period the property has remained substantially income producing.

Profile of rental income expiry[1] %



[1] Based upon annualised net contracted rental income of £131.7m

"As previous tenants of Derwent London we were delighted to return to their portfolio in September of last year. We are now based at Oliver's Yard in Old Street. This is both an increasingly popular and vibrant area and, coincidentally, a building that we helped refurbish in the early 2000s. Derwent manage their buildings in an exemplary yet flexible way. With the benefit of long-standing relationships for which Derwent is renowned, we were able to customise the space to create an office that perfectly suits our needs and design aspirations."

OLIVER RICHARD
DIRECTOR, ORMS

ATTRACTING AND RETAINING HIGH QUALITY TENANTS

The key to attracting prospective occupiers is to provide them with the space they want at the price they want and in the location they want.

The right space

- Volume: generous floor to ceiling heights
- Flexibility of use

The right price

Our average central London office rent across the portfolio is still only £34.55 per sq ft on a 'topped-up' basis demonstrating the value offered to tenants.

The right location

- Accessibility in terms of transport
- Amenities in the surrounding area: parks/leisure/restaurants
- Industry clusters

For example, 37% of our portfolio is located in Fitzrovia and 33% in the Tech Belt (both discussed on pages 36 to 39).

Because of the strong demand for our space (our average vacancy rate over the past three years was 2.2%) we can ensure that we only accept high quality tenants. Each and every new tenant goes through a stringent covenant review at our credit committee and, if necessary, a rental deposit or parent company guarantee is required to protect our interests.

Frequent communication with tenants is the key to ensure that we meet all their expectations, whether that is their future plans, changing space requirements or responding to maintenance issues:

- Our experienced team of asset managers is in regular contact with our tenants to understand their current and future needs.
- Our in-house teams of facilities managers and property managers are in day-to-day contact with tenants.
- The building managers at our major properties are also employed directly by Derwent London again ensuring close relationships.

SIMON TAYLOR
HEAD OF ASSET MANAGEMENT

PORTFOLIO MANAGEMENT
CONTINUED

Throughout the first half of the year the Group's vacancy level was relatively low, but it has risen as projects completed. By value, the Group's EPRA vacancy rate started the year at 1.0%, but following the completion of refurbishments at 1-2 Stephen Street W1 and 23,200 sq ft at the Davidson Building WC2 it rose to 4.1% in December. Subsequent lettings have seen the vacancy rate fall to 2.1%.

Looking forward, we have secured a number of lettings on space where leases are due to expire in the first half of 2015. At 9 Prescot Street E1, where the Co-operative Bank's ('Co-op') £1.2m pa lease on the whole building was due to expire, we have granted the sub-tenant Barts Health NHS Trust a five-year lease on the five lower floors (60,000 sq ft) at a rent inclusive of the service charge of £1.5m pa. The Co-op will now occupy the three upper floors (36,600 sq ft) on a lease that will break later in the year. This property is now held in our recently formed joint venture with LaSalle Investment Management.

In February we exchanged contracts to let 57,600 sq ft at Angel Square EC1 to Expedia. Of this, 13,000 sq ft is currently available, and 44,600 sq ft will become available once existing leases expire in March. Expedia has taken a short-term lease and will pay a rent of £2.1m pa, which represents a rent of £36.80 per sq ft.

Five-year vacancy trend %

Average unexpired lease length[1] Years

[1] Lease length weighted by rental income and assuming tenants break at first opportunity