

PROJECTS

Over the next few years we look forward to delivering a substantial phased development programme to meet occupier demand.



SIMON SILVER
EXECUTIVE DIRECTOR

24.3%

increase in value of
development properties

485,000 sq ft

of projects to
commence in 2015

Creating well-designed space

The Group has increased its development capital expenditure, to both improve the quality of the portfolio and to take advantage of current market conditions. During the year we completed the refurbishment of 107,000 sq ft of office and residential space, principally at 1-2 Stephen Street W1. In October we completed Queens W2, our first standalone residential project. It comprises 18,700 sq ft in 16 units and 2,700 sq ft of retail. Since completion we have sold seven units for £15.7m, and let the retail space.

The completion of the two developments mainly pre-let to Publicis was delayed into 2015. Turnmill EC1 has now completed, and 40 Chancery Lane WC2 is on track to complete soon. Together these two properties comprise 172,300 sq ft, and the remaining restaurant and retail space is under offer.

There are two smaller projects due for completion later this year.

The first will be the retail scheme at Tottenham Court Walk W1 where we are seeking to introduce a more interesting mix of retailers as part of regenerating 1-2 Stephen Street, and to bridge the gap with the higher value space around Tottenham Court Road station and Oxford Street. In the second half of the year we altered the scheme to make it more adaptable for a wider range of uses. However, the changes reduced the net lettable area by 5% to 38,000 sq ft and our valuers are assuming a lower ERV of £2.3m pa. One restaurant has been let securing £0.3m pa, and we are in negotiations on other units.

The second project set to complete is a residential development at 73 Charlotte Street W1. This will comprise 11,700 sq ft of private apartments in nine units, as well as 1,900 sq ft of affordable housing and 1,900 sq ft of offices.

The largest project where we are on site is the White Collar Factory EC1. Demolition finished in August 2014 and the development is due for completion in around 18 months' time. This is a significant development for two reasons.

First, its scale: it has a total estimated cost, including land, of c.£200m. The commercial element is expected to provide an ERV of £14.7m and there are also nine apartments.

Second, the development encapsulates our thoughts on what constitutes the most attractive space for today's creative businesses. We have seen that a number of our most successful offices, which have enjoyed resilient demand, are buildings originally designed for industrial use, such as Tea Building E1, Greencoat and Gordon House SW1 and most recently The Buckley Building EC1. The White Collar Factory provides new offices in an industrial frame which will give occupiers robust and flexible space, with above average volume and strong sustainability credentials.



DE-RISKING PROJECTS

We usually commit to our refurbishment and development projects speculatively. However, by the time the project is completed, our schemes are typically fully or partially let. Sometimes this is part of our strategy for a particular project as we believe that occupiers are more likely to commit to buildings that they can see coming out of the ground. Often it is as a result of our buildings' broad appeal. These are not typical pre-lets insofar as we do not have to compensate the incoming tenants with additional incentives. Over the past five years 78% of our major schemes have been let before completion.

There are many benefits: the risk profile of our pipeline is reduced which enables us to bring forward other projects. In addition, it means that the property is income producing earlier and that the rates and service charge costs associated with any void period are reduced.

When compared to a six month void period post completion we gained an average of £2.4m per annum of rental income over the past five years and saved £1.7m per annum of void costs, a total positive impact of £20.5m.

CELINE THOMPSON
HEAD OF LEASING

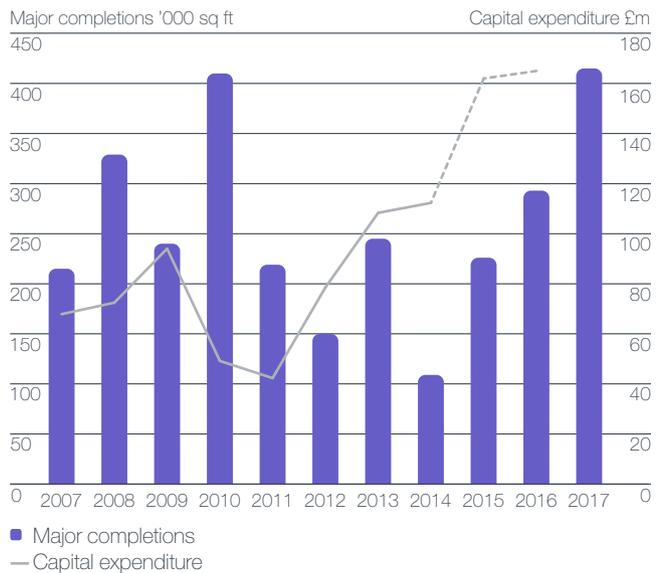
In due course we may be entitled to an overage receipt from the development of apartments at Riverwalk House SW1. Sales are progressing satisfactorily with 71 out of 116 apartments sold. The development is due for completion in December 2015.

Since the year end we have agreed a new 127-year headlease with the freeholder and started work on The Copyright Building, 25-33 Berners Street W1. The freeholder will receive a 12.5% ground rent as well as a share of profits above a 20% return. The development will provide 85,000 sq ft of offices and 20,000 sq ft of retail, which represents a 22% uplift on the existing area. The total cost is estimated at £117m and the net ERV is £6.8m. Completion is expected in H2 2017.

In the second half of 2015 we plan to start our largest development to date: 80 Charlotte Street W1 which lies in the heart of Fitzrovia. The main office building totals 309,000 sq ft of offices and 14,000 sq ft retail. It makes up the majority of an island block. The remaining part of which comprises a 14,000 sq ft private residential building. In addition there is a smaller building opposite at 53-65 Whitfield Street W1 which will provide 12,000 sq ft of offices and 31,000 sq ft of residential, of which 32% is affordable. We are currently negotiating with contractors, but we expect the total cost to be around £380m. The ERV is estimated at £23m pa.

Last year we reported that we were seeing heightened construction cost inflation. We expect to see this continue in the current year, and are assuming construction cost inflation of c.5-7% in 2015.

Completions and capital expenditure



Major projects pipeline

	Area sq ft ¹	Delivery	Comment
Projects completed in 2014			
1-2 Stephen Street W1	85,150	Q3 2014	Offices – 81% let
Queens, 96-98 Bishop's Bridge Road W2	21,400	Q4 2014	Residential and retail
	106,550		
Projects on site pre-let to Publicis			
Tummill, 63 Clerkenwell Road EC1	70,500	Q1 2015	Offices and retail – 83% let
40 Chancery Lane WC2	101,800	Q2 2015	Offices and retail – 96% pre-let
	172,300		
Other projects on site			
<u>Developments</u>			
White Collar Factory, Old Street Yard EC1	293,000	Q3 2016	Office-led development
73 Charlotte Street W1	15,500	Q3 2015	Residential and offices
<u>Refurbishments</u>			
Tottenham Court Walk W1	38,000	Q2 2015	Retail, Part 1-2 Stephen Street
	346,500		
Major planning consents due to start in 2015			
80 Charlotte Street W1	380,000	H1 2018	Offices, residential and retail
The Copyright Building, 25-33 Berners Street W1	105,000	H2 2017	Offices and retail
	485,000		
Other major planning consents			
1 Oxford Street W1 ²	275,000		Offices, retail and theatre
55-65 North Wharf Road W2	240,000		Offices
25 Savile Row W1	58,000		Residential and retail
	573,000		
Active planning applications			
Wedge House, 40 Blackfriars Road SE1	110,000		Hotel and offices
Grand Total	1,793,350		

¹ Proposed areas

² Crossrail site under option

£329m

of estimated capital expenditure for the next two years

1.1m sq ft

uplift from 'next wave' of projects

“As a company with varying office and space needs we have been able to work well with Derwent London since they took ownership of our property in late 2010. Derwent began a major refurbishment of 1-2 Stephen Street and they have been understanding of our needs and flexible in meeting our changing business requirements. Our communication with the landlord has always been straightforward.”

SANGEETA DESAI
COO/CFO, FREMANTLEMEDIA

Our business model aims to ensure that there are plenty of future value enhancing opportunities in the portfolio. Last year we were successful with our planning applications at The Copyright Building W1 and also 25 Savile Row W1. At the latter we now have permission to redevelop our head office building into 52,400 sq ft of residential accommodation in 29 apartments and 5,600 sq ft of retail space. However, rising office rents and the relatively higher costs in developing luxury apartments mean that we are still considering our best options for the building. We already had planning permission for major schemes at 55-65 North Wharf Road W2 (240,000 sq ft) and 1 Oxford Street W1 (275,000 sq ft offices, retail and theatre). With our new permissions we now have over one million sq ft of consented space still to start.

Approximately 9% of our portfolio by area is under active appraisal. At one end of the process, we have recently submitted revised plans for 110,000 sq ft of hotel and office space at 40 Blackfriars Road SE1 (which already had consent for an 80,000 sq ft office building). At the other end we are at the initial stages of appraisal at 19-35 Baker Street W1, where we are working up plans for a c.250,000 sq ft project with our partners, the Portman Estate. Elsewhere the Network Building W1 has the potential for c.100,000 sq ft adjoining our Qube W1 property. In total this element of the portfolio represents 0.5m sq ft with the potential to provide 0.9m sq ft. In addition another 26% of the portfolio is earmarked for future appraisal and holds numerous additional development opportunities.



FORWARD PLANNING

As an important part of our business model, the Development team's brief is to prepare and secure planning permissions for our future development pipeline. Excluding projects where we are on site, at the year end 17% of our portfolio was either consented or under appraisal for future development. In total this could represent 2.0 million sq ft, or an uplift in the existing lettable area of 1.1 million sq ft (122%) which is equivalent to an uplift of 19% across our whole portfolio.

In almost all of our acquisitions we will already have identified development opportunities to add value. Once the building is acquired we conduct detailed studies as to how best to improve it, and how that investment can benefit its immediate neighbourhood. We involve our architects early on, and each project is considered individually with a focus on good design and affordability. It is important that this activity is phased to time delivery with the market and our overall development programme.

As the business has grown we have created important development clusters notably in Fitzrovia, the Tech Belt and Victoria. In such cases improvements to one building can have a positive impact on other parts of the portfolio. Our long-term interests in these areas have allowed us to foster good working relationships with local authorities, and a better understanding of local communities' interests. In Fitzrovia this can be seen in our investment in the Fitzrovia Community Investment Fund, and the fact that we are providing 24,600 sq ft of affordable housing including Suffolk House W1.

During 2014 we were successful in securing planning for The Copyright Building W1 where work has already commenced. We are replacing three tired adjoining offices in Berners Street W1, with a single purpose-built office building and injecting new retail life at street level. We also secured consent to convert our own head office at 25 Savile Row W1 into 29 apartments with retail/gallery space on the ground floor. Together these added 163,000 sq ft to our consented potential developments.

In the current year we have applied for planning to redevelop Wedge House to create 110,000 sq ft of hotel and offices.

Securing the appropriate planning at the right time is a key part of our business model. It enhances our acquisitions, secures our design-led principles, refreshes our portfolio and, in due course, will help to optimise our income.

RICHARD BALDWIN
HEAD OF DEVELOPMENT

Project summary 2015-2016

	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	Capital expenditure to complete ¹	Delivery date	Current office ERV £ per sq ft
On-site projects²						
Turnmill EC1	–	41	70	2	Q1 2015	55.00
40 Chancery Lane WC2	–	61	102	10	Q2 2015	65.00
73 Charlotte Street W1	–	13	16	7	Q3 2015	Residential
White Collar Factory EC1	–	124	293	94	Q3 2016	c.55.00
Tottenham Court Walk W1	–	24	38	4	Q2 2015	Retail
	–	263	519	117		
2015/2016 – Consented						
The Copyright Building, 25-33 Bemers Street W1	1.4	86	105	51	2017	c.77.50
80 Charlotte Street W1	4.3	234	380	175	2018	c.75.00
55-65 North Wharf Road W2	1.4	78	240	118	2018	c.60.00
	7.1	398	725	344		
Planning and design				27		
Other				51		
Capitalised interest				41		
Total (2015-2016)	7.1	661	1,244	580		

¹ Excluding projects that commence in 2017 and beyond (as at December 2014)

² Fixed price contracts (as at December 2014)

Project summary 2016 onwards

	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	Earliest possession Year	Comment
Consented					
1 Oxford Street W1	–	–	275	c.2018	Option site. Offices, retail and theatre
25 Savile Row W1	1.2	42	58	TBC	Residential and retail
	1.2	42	333		
Appraisals¹					
Wedge House SE1	0.2	39	110	2015	Planning submitted (hotel and offices)
Balmoral Grove N7	0.6	67	200	2015	Residential potential
Monmouth House EC1 ²	1.7	69	125	2017	
Network Building W1	2.4	64	100	2017	
19-35 Baker Street W1	5.3	146	250	2018	
Premier House SW1	1.9	62	80	2018	
Holden House W1	2.8	91	137	TBC	
	14.9	538	1,002		
Adjustment for joint project	(2.4)	(66)	(113)		19-35 Baker Street
	12.5	472	889		
Total (2016 onwards)	13.7	514	1,222		
Total (2015-2016)	7.1	661	1,244		
Total pipeline	20.8	1,175	2,466		

¹ Areas proposed are estimated from initial studies

² Includes 19-23 Featherstone Street EC1