

# VALUATION

Robust occupier demand, rising rentals and sustained investor appetite for central London commercial property, provided a strong background for the year end valuation.



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EXECUTIVE DIRECTOR

The Group's investment portfolio was valued at £4.168bn at 31 December 2014. The valuation surplus for the year was £683.8m, before accounting adjustments of £11.9m (see note 16), giving a total reported movement of £671.9m. This excellent performance was almost double the £337.5m increase in 2013, which was also a strong year.

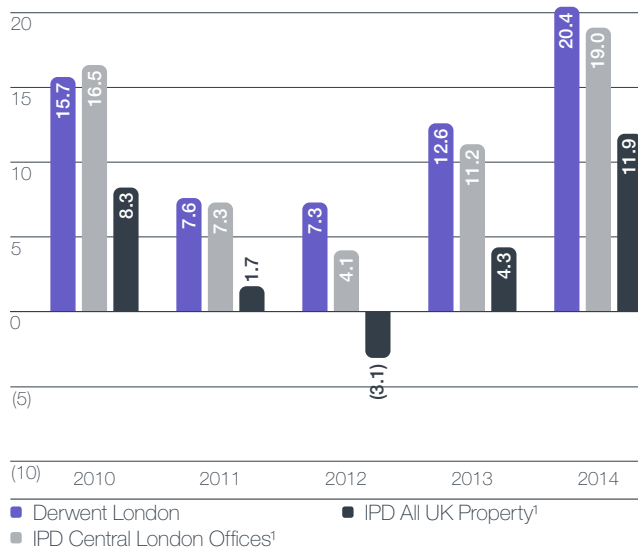
The underlying annual valuation uplift was 20.4%, and compared to the 12.6% in 2013. Our London portfolio, now 98% of our assets, rose by 20.7%. Drilling down, the City Borders, principally London's Tech Belt, showed the best growth at 26.3% as these newer areas flourished, with investors recognising their attractiveness to office occupiers looking for vibrant locations that offer competitive rents. The West End was up by 18.6%, where the rental growth was more modest. The balance of the portfolio, our Scottish assets, increased by 7.8% over the year.

During the year we were on site with seven major projects and they increased in value by 24.2%. Five were new developments, comprising office projects at Turnmill EC1, 40 Chancery Lane WC2 and the White Collar Factory EC1, together with the residential projects at Queens W2 and 73 Charlotte Street W1. The final two were the phased refurbishments at 1-2 Stephen Street W1. The valuation of these seven properties was £547.6m and represented 13% of the portfolio at year end. Excluding these, the underlying valuation movement was 19.8%.

**£671.9m**  
valuation surplus

**20.4%**  
underlying  
valuation uplift

## Valuation performance %



<sup>1</sup> Quarterly Index

## Valuation yields<sup>1</sup> %



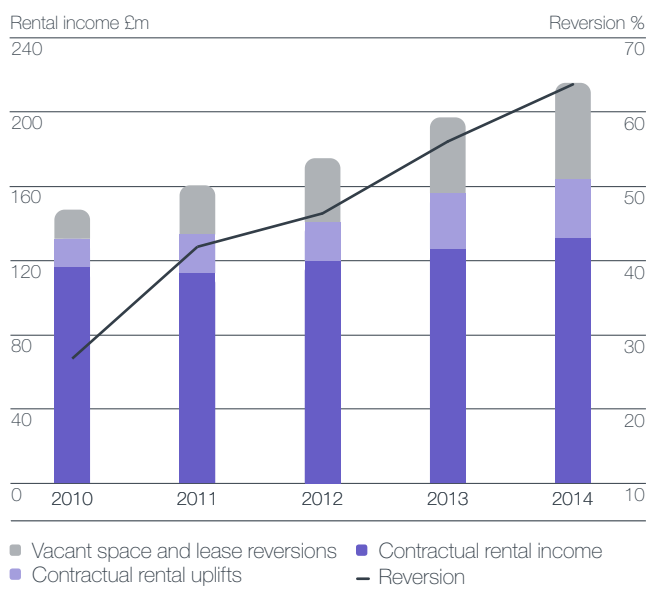
<sup>1</sup> Portfolio on an EPRA basis post 2010

The portfolio's EPRA net initial yield at 31 December 2014 was 3.4%, and this rises to 4.0% on a 'topped-up' basis, following the expiry of rent free periods and contracted rental uplifts. The true equivalent yield was 4.73%, a 55 basis points reduction over the year and follows a 27 basis points tightening in 2013. Since December 2013 the portfolio's equivalent yield has been in new territory with the previous cycle low point being 5.35% in mid-2007. Current property yield levels are supported by a shortage of good office space in central London, firm rental growth and a positive economic outlook, all set around a historically low interest rate environment. On an EPRA basis our rental values rose 9.0% during the year and followed a five year steady trend. During 2014 the City Borders saw rental growth of 11.3% and the West End 8.4%.

The Group's total property return was 25.1%, compared to 18.5% last year. This measurement is one of our key performance indicators (KPI) and was above the comparable benchmark, the IPD Central London Office Index, which returned 23.5%. A further property KPI benchmark is the average three-year total property return, which was 18.4%, against the IPD All UK Property Index benchmark which was 10.4%.

At the year end the portfolio's annualised contracted net rental income had risen 4.5% to £131.7m, and the valuer's ERV had risen 9.4% to £215.6m. The significant difference represents a reversion of £83.9m, which is 18% greater than one year ago, and represents a 64% uplift on passing rents to the estimated December 2014 rental values.

## Portfolio reversion



Analysis of the reversion shows that £32.0m or 38% is already contracted through pre-lets, fixed uplifts and expiry of incentive periods. Examples of properties with incentives include Turnmill EC1 and 40 Chancery Lane WC2 (pre-let to Publicis) and 1 Page Street SW1 (let to Burberry). This is a higher level than last year, when it was £30.2m. This uplift is important for the valuation and the cash flow, but much of it, excluding £7.8m of pre-lets, is already included in our accounting earnings under IFRS. The second contributor is the potential £28.4m receivable from letting vacant space, of which £21.3m is expected to come from on-site developments and refurbishments and £7.1m from immediately available space.

The final element of the estimated uplift is the lease reversion of £23.5m, which represents 28% of the potential. Some of these latter potential gains will be lost if we choose to redevelop properties, although they should be more than compensated for by the increase in rental values on the subsequent projects.

# VALUATION CONTINUED

## Portfolio statistics – valuation

	Valuation £m	Weighting %	Valuation performance <sup>1</sup> %	Valuation performance £m	Occupied floor area '000 sq ft	Available floor area '000 sq ft	Minor refurbishment floor area '000 sq ft	Project floor area '000 sq ft	Total floor area '000 sq ft
<b>West End</b>									
Central	2,482.0	60	18.5	384.6	2,652	107	91	53	2,903
Borders	400.7	10	19.2	50.4	591	18	5	–	614
	2,882.7	70	18.6	435.0	3,243	125	96	53	3,517
<b>City</b>									
Borders	1,183.4	28	26.3	241.5	1,561	4	12	310	1,887
Central London	4,066.1	98	20.7	676.5	4,804	129	108	363	5,404
<b>Provincial</b>	102.0	2	7.8	7.3	340	–	–	–	340
<b>Total portfolio 2014</b>	<b>4,168.1</b>	<b>100</b>	<b>20.4</b>	<b>683.8</b>	<b>5,144</b>	<b>129</b>	<b>108</b>	<b>363</b>	<b>5,744</b>
2013	3,353.1	100	12.6	352.5	5,185	38	51	430	5,704

<sup>1</sup> Properties held throughout the year

## Rental income profile

	Rental uplift £m	Rental per annum £m
Annualised contracted rental income, net of ground rents		131.7
Contractual rental increases across the portfolio	24.2	
Pre-let of 156,000 sq ft of major projects	7.8	
Letting 129,000 sq ft available floor area	7.1	
Completion and letting 108,000 sq ft of minor refurbishments	3.7	
Completion and letting 363,000 sq ft of major projects	17.6	
Anticipated rent review and lease renewal reversions	23.5	
Portfolio reversion		83.9
Potential portfolio rental value		215.6

## Portfolio statistics – rental income

	Net contracted rental income per annum £m	Average rental income £ per sq ft	Vacant space rental value per annum £m	Rent review and lease reversions per annum £m	Portfolio estimated rental value per annum £m	Average unexpired lease length <sup>1</sup> Years
<b>West End</b>						
Central	76.8	29.18	11.8	27.7	116.3	7.2
Borders	12.9	21.89	0.7	8.3	21.9	6.7
	89.7	27.85	12.5	36.0	138.2	7.1
<b>City</b>						
Borders	37.2	23.99	15.9	19.2	72.3	5.5
<b>Central London</b>	126.9	26.60	28.4	55.2	210.5	6.6
<b>Provincial</b>	4.8	14.16	–	0.3	5.1	5.1
<b>Total portfolio 2014</b>	<b>131.7</b>	<b>25.77</b>	<b>28.4</b>	<b>55.5</b>	<b>215.6</b>	<b>6.6</b>
2013	126.0	24.54	23.2	47.8	197.0	7.1

<sup>1</sup> Lease length weighted by rental income and assuming tenants break at first opportunity