

## Another year of strong gains driven by yield shift and rental growth.

The development of the next plot at the successful Blythe Valley Business Park is fully pre-let and continues on programme and within budget.

In addition to completing development of over 92,900 sq m (1 million sq ft) of distribution warehouse accommodation at Daventry (and selling the residual land holding), the BL Rosemound Joint Venture completed the purchase and on-sale (in April 2006) to Tesco of a 127 acre site at Livingstone, Scotland, realising a substantial surplus.

**Development prospects**, set out in the table opposite, are sites and properties where we have identified opportunities and are progressing with designs, planning applications and site preparation for future development projects.

At the Leadenhall Building, EC3, we have been negotiating with existing tenants and are now able to obtain vacant possession of the building in early 2007. Alongside this process we have been designing and planning the new building to facilitate the prospective development. Detailed planning consent is in place for the striking new 47-storey tower – this will provide three times the office floor space of the existing building on the site.

At Regent's Place, NW1 (in conjunction with The Crown Estate) a resolution to grant planning consent has been received recently for 35,300 sq m (380,000 sq ft) offices and 10,200 sq m (110,000 sq ft) residential accommodation at Osnaburgh Street, to extend the estate by a mixed use scheme including a community theatre and retail around a new public space.

### Retail park development

We actively pursue extension and other development potential at or adjacent to existing investments. Planning consents have been obtained for such extension and further development at 14 retail parks owned by British Land and by HUT, covering over 53,000 sq m (570,000 sq ft).

Gallions Reach, Beckton, Phase 2, has received open A1 planning consent for 8,700 sq m (94,000 sq ft), including a mezzanine level. The scheme is adjacent to a HUT retail scheme of 18,600 sq m (200,000 sq ft) let to occupiers including Tesco, HMV, Arcadia, New Look, Borders and Next. We are currently seeking pre-lets before committing to construction.

In March 2006 we exchanged conditional contracts in an off-market transaction to purchase Giltbrook Retail Park, Nottingham. The conditions are expected to be satisfied for completion in late June 2006. Giltbrook is an existing retail warehouse scheme of 5,600 sq m (60,000 sq ft) let to Decathlon and Next plc, with a 8.42 hectare (20.8 acre) site opposite, which we intend to develop (subject to revised

planning) to provide up to 13,900 sq m (150,000 sq ft) of further retail plus 7,000 sq m (75,000 sq ft) of industrial/office accommodation. The property adjoins a 17,650 sq m (190,000 sq ft) IKEA superstore which attracts over five million visitors per year. Next and Decathlon already trade well in this good location and, with the new park, we expect this to become an important regional retail destination.

Deepdale Retail Park, Preston is also adjacent to a major shopping park owned by HUT. A restricted use planning consent has been granted for a retail park of 4,200 sq m (45,000 sq ft) plus sheltered housing, a creche and small industrial units. The scheme is subject to further preparation and pre-lets.

Schemes being prepared by HUT include:

- Broughton Park, Chester – a new open A1 consent for 18,300 sq m (197,000 sq ft) (subject to formal confirmation) will enable a pre-sale to Marks & Spencer of 8,360 sq m (90,000 sq ft) and an extension of the Tesco store of 2,600 sq m (28,000 sq ft) to 9,300 sq m (100,000 sq ft), together with 5,100 sq m (55,000 sq ft) of additional retail units where pre-lets are being negotiated. In its extended form Broughton Park will become a regional destination of some 46,450 sq m (500,000 sq ft).
- Fort Kinnaird, Edinburgh – open A1 planning consent received for a 9,850 sq m (106,000 sq ft) extension will enable the Marks & Spencer store to be enlarged and provides flexibility for further extensions of units at ground and mezzanine levels.
- Glasgow Fort Shopping Park, Phase II – plans for an additional 9,300 sq m (100,000 sq ft) are being discussed with the local authority. Terms have been agreed with a major retailer to anchor this phase, subject to receipt of planning consent.

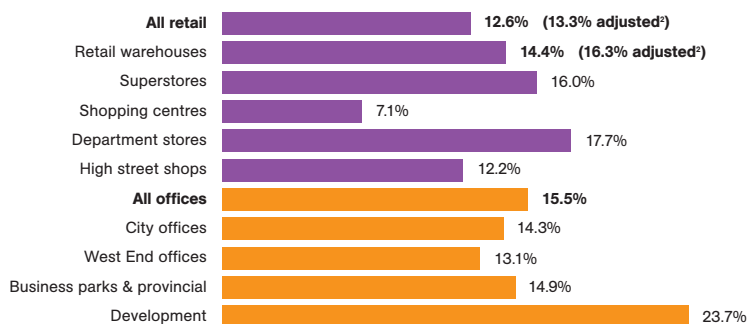
### Portfolio valuation – up 13.5% in the year

The British Land property portfolio was valued at 31 March 2006 by external valuers Knight Frank, who now provide this analysis every three months in line with our quarterly reporting. Overall, the portfolio including our share of Funds and Joint Ventures, has increased in value over the year to £14.4 billion.

The portfolio valuation increase includes the Pillar properties and Funds from the date of completion of the acquisition (28 July 2005) to our year end. If we include growth in those Pillar assets from the date of their last reported value prior to the acquisition through to 31 March 2006, the increase in value in the overall portfolio rises to 13.9%.

The chart on the following page shows the valuation movements for the portfolio sectors, all of which improved in value. Our key areas of focus, out-of-town Retail and London Offices both performed well, with the accelerated London office development programme achieving the highest rate of growth, driven by yield shift and improvements in market rental values.

**Increase in value in portfolio<sup>1</sup>**



<sup>1</sup> Includes valuation movements in developments, purchases and capital expenditure, and excludes sales

<sup>2</sup> Pro-forma for Pillar from April to July 2005 (i.e. full 12 months)

**Performance against IPD benchmark**

On an ungeared basis British Land’s property portfolio total return was 1.1% less than the IPD index in 2005/6. This element of underperformance occurred in the first half of the year (perhaps influenced in part by the change in valuers). In the second half the ungeared total return of 11.5% outstripped IPD for the same period by 0.5%.

British Land targets absolute risk adjusted returns; we are not an index-tracker, and do not seek to mirror the composition of the benchmark assets, though it is a goal to produce better returns over a multi-year period. In 2005/6 secondary property (more represented in the IPD Benchmark portfolio) saw greater yield shift than prime. Additionally the capital expenditure cycle at Meadowhall held back performance there, while the residential portfolio, since sold, had a dull year.

Nevertheless, British Land’s leveraged total return significantly outperformed at 34.6% (EPRA basis, excluding refinancing charges).

**Property market outlook**

In 2005/6 the UK property market saw:

- another year of strong gains driven by yield shift and compression – yields for more secondary properties have moved closer to those for prime assets as their risk factors (such as location, age, lease length, covenant strength or income growth prospects) have been discounted by investors
- the investment market continuing to be strong – transaction levels have been high, with demand from both UK and overseas investors, supported by availability of debt finance and relatively low interest rates (increasing recently)
- rents remain affordable in most sectors and the economy’s prospects should support continued modest growth.

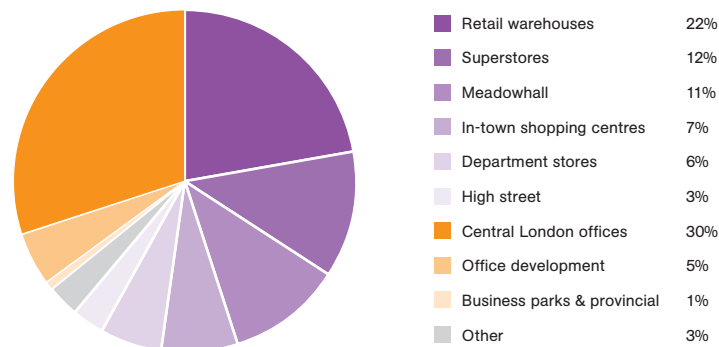
As a result we now believe that the value of property’s rental flows and growth prospects with its strong, bond-like, downside protection are fairly reflected overall in the market and consequently we expect valuation growth rates to slow.

Base returns from the UK property market overall in the next few years may be estimated at around 7% per annum, based on an average initial yield of 5% and expected average rental growth of 2% per annum, though it is quite possible that a little more yield shift also benefits the next year. Our target is that British Land’s prime portfolio, with gearing and our asset management activities, will improve upon this level of return and we expect total returns from property to continue to be attractive versus other asset classes (on a risk adjusted basis).

Going forward, we expect that returns will be driven more by rental growth than by yield shift, and there will be greater differentiation in relative asset performance. Outperformance will require the right portfolio positioning and effective assessment of the risk-reward position of prime versus secondary property. Stock selection within the sectors, coupled with intense asset management, will have a greater effect on portfolio performance.

**Portfolio positioning**

**£14.4bn Total Assets**  
 61% Retail      36% Offices  
 73% Out-of-town      96% Central London



The British Land portfolio, well let on long leases to strong tenants, has leading positions in the two main sectors with the best prospects for rental growth over the next five years:

- in retail warehouse parks and superstores, where there is a favourable supply and demand imbalance for the types of accommodation on which we are focused to meet tenants’ requirements, and
- in London offices, where there are clear signs of an upturn in the occupational market, we are fully invested in prime assets. The accelerated office development pipeline is designed to deliver, on a phased basis, further prime space into the improving market.