

Funds and Joint Ventures

Funds and Joint Ventures

Following completion of the acquisition of Pillar Property PLC in July 2005, British Land acquired the interests in Funds held by Pillar, to add to its ongoing Joint Venture investments. All comparative figures as at 31 March 2005 represent the interests in Joint Ventures only.

British Land's net investment in Funds and Joint Ventures is £1,234 million (2005: £700m) at 31 March 2006. This investment is principally in four active Funds and 13 (2005: 12) active Joint Ventures, which hold in total £6.4 billion (2005: £2.7 billion) of properties in retail, offices and development. The Funds and Joint Ventures are financed by £2.8 billion (2005: £1.1 billion) of external debt, all of which is without recourse to British Land.

Funds

The Funds provide British Land with interests in properties in our key sectors. British Land acts as property adviser to the Funds and receives performance and management fees.

HUT

The Hercules Unit Trust (HUT) was established in 2000 as a Jersey based closed-ended property unit trust with a fixed life to September 2010, subject to extension with consent of unitholders. Its aim is to acquire and own retail warehouse and shopping park investment properties throughout the UK, with a view to providing an annual total return on the portfolio in excess of the IPD Annual Retail Warehouse Index over the life of the Trust. It prefers larger properties that dominate their catchment areas and, where possible, have the benefit of open A1 planning consent.

The **Trust return** for the year to 31 December 2005 was 35.5%, improving the three-year annualised return to 33.2% per annum. At the property level, without the effect of gearing, the portfolio returned 24.1% for the year, compared to the IPD Annual Retail Warehouse Universe (excluding HUT) of 21.3% for the same period. Drivers of this performance were:

- rental value growth of the portfolio of 10.2% over the year (IPD Retail Warehouse Index 4.1%)
- capital value growth of 19.5%, of which rental value growth accounted for 52.2% and yield compression 47.8% (IPD Retail Warehouse Index 26% and 74% respectively).

In the year to December 2005:

- the net asset value of the Trust increased to £1.7 billion (2004: £1.5 billion)
- the net asset value per unit rose 32.5% to £1,354 (2004: £1,022)
- the underlying property portfolio increased in value to £3.0 billion (2004: £2.6 billion), despite net property sales of £124 million.

The **secondary market** has continued to be active, with no new units issued in the year. A total of 65,690 units were traded over the year with a total value of £74.4 million. The units traded at a premium of 2% above their net asset value in the first half of the year, rising steadily to 6% above their net asset value in December 2005. In October 2005, 10% of the units in issue were redeemed mandatorily in order to increase gearing following asset sales.

The Trust completed a restructuring of its debt in September 2005. Three bank facilities were repaid or reduced and a **new £1 billion securitisation** facility was completed at a weighted average interest margin of 0.25% per annum above LIBOR on an £800 million 'AAA' rated fixed rate term tranche, and 0.5% per annum above LIBOR on a £200 million floating rate revolving tranche – a significant reduction on the previous facilities. At 31 December 2005, the gearing equated to 40.4% of the aggregate Trust value, well within the Trust's limit of 60%.

British Land Property Advisers Ltd is the property adviser, and Schroder Property Managers (Jersey) Ltd is the Fund Manager.

PREF

PREF (Pillar Retail Europark Fund) was created in March 2004 as a closed-end Luxembourg based Fonds Commun de Placement to invest in out of town retail parks in the Eurozone – particularly France, Spain, Italy, Portugal and the Benelux countries. It currently owns six retail parks and has contracted conditionally to acquire a further eight schemes.

PREF's total property return for the year to 31 December 2005 was 14.5%. The Trust Total Return, after the effect of gearing, was 18.7%. PREF gears up to 60% loan to value with debt provided by a syndicate of banks. This facility is currently being increased in the light of acquisitions conditionally contracted.

During the year, the Fund raised an additional €214 million (of which €124 million was from British Land) to fund future acquisitions. It has conditionally contracted to purchase a further €300 million of assets. The Fund is on track to achieve its objective of a total portfolio under management or contracted of some €1 billion by the end of 2006.

The Investment Manager is British Land European Fund Management LLP, in which British Land has a 70% interest.

		Value £m	Net rent ¹ £m	Finance £m	BL share %	BL interest £m
Hercules Unit Trust (HUT)	24 retail parks	3,113	113	1,255	34.64 ²	534
Pillar Retail Europark Fund (PREF)	European retail parks	202	10	117	34.16 ³	27
City of London Office Unit Trust (CLOUT)	Offices	102	9	38	35.94	46
Hercules Income Fund (HIF)	Retail warehouses	157	7	25	26.12	34

¹ annualised

² increased to 36.3% in April 2006

³ will increase to 40% when committed new equity fully contributed

HIF

Hercules Income Fund (HIF) was established in September 2004 as a Jersey based closed-ended property unit trust with a fixed life of ten years, subject to extension with unitholder consent. Its objective is to target smaller retail park assets with values between £3 million and £25 million and a gross lettable area of up to 9,300 sq m (100,000 sq ft), and with an emphasis on a higher distributable yield. HIF currently owns 13 properties.

The Trust return for the year to 31 December 2005 was 26.8% and the property return was 23.7% compared with the IPD Annual Retail Warehouse Universe Benchmark of 21.6%. HIF's gearing is currently at 14% loan to value but it is intended to raise the level of gearing to nearer HIF's target of 50% in order to further enhance returns.

In the 15-month period since establishment to 31 December 2005:

- net assets have increased to £126 million
- the net asset value per unit has risen from £1,000 to £1,137.

British Land Property Advisers Ltd is the property adviser, and Pillar Property Management (Jersey) Ltd is the Fund Manager.

CLOUT

City of London Office Unit Trust (CLOUT) was established in 2000 as a Jersey based closed-ended property unit trust with a fixed life of ten years, subject to extension with the consent of unitholders. CLOUT's aim is to provide investors with an exposure to the City of London office market with returns in excess of the IPD Annual All Fund Index, focusing on offices in excess of 9,300 sq m (100,000 sq ft).

In January 2006, CLOUT disposed of its interest in CityPoint for £520 million and repaid debt. It now owns one office building at Farringdon Street, EC4, with a value of approximately £100 million.

British Land Property Advisers Ltd is the property adviser, and Schroder Property Managers (Jersey) Ltd is the Fund Manager.

Joint Ventures

The Joint Venture structure provides British Land with access to desirable properties (often off market), within a separate entity formed for the purpose, and controlled on a 50:50 basis by a board carrying equal representation from each partner (there is no casting vote). The entities are able to raise finance on the strength of their assets, usually with no support from the partners, thereby significantly lowering the initial equity investments and enhancing returns on capital. The enterprise is shared by the partners, over a specific agreed lifetime for the venture.

Key activity since April 2005 included:

- The refinancing in April 2005 of The Scottish Retail Property Partnership, with £430 million raised by way of a seven year securitisation, most of which was subsequently returned to the partners.
- The acquisition in April 2005 by British Land of the outstanding 50% interest in the four BL West Joint Venture companies for £50 million.
- The sale by BL Rosemound of its remaining interests in the DIRFT development at Daventry, for a profit on disposal of £17 million, most of which was subsequently returned to the partners.

Although some of the Joint Ventures have different year ends from British Land, the accounting periods recognised have now been aligned to the Group's March year end using management accounts, to assist the requirements of quarterly reporting.

The summary details of the principal Joint Ventures are shown below.

Portfolio	Portfolio value £m	Net rent* £m	Finance £m	BL interest £m
BLT Properties Ltd¹ Two retail parks, eight Tesco superstores	344	18	185	66
Tesco BL Holdings Ltd¹ Two retail parks, two shopping centres each anchored by Tesco, five Tesco supermarkets	630	33	315	120
Tesco British Land Property Partnership¹ Two district shopping centres anchored by Tesco	181	11	87	35
The Scottish Retail Property Limited Partnership² Shopping centres in Aberdeen and East Kilbride	665	34	430	82
BL Fraser Ltd³ Twelve department stores	286	16	134	60
BL Davidson Ltd⁴ Portfolio comprising c70 properties principally retail warehouses and offices	711	39	227	182
BL Rosemound Ltd⁵ Distribution warehouses at Daventry, all sold in the year				5

* annualised net rent

JV Partner

50% interest unless otherwise stated

¹ Tesco PLC

² Land Securities PLC

³ House of Fraser plc

⁴ Manny Davidson, family & trusts

⁵ Rosemound Developments Ltd