



**Tim Roberts**  
Head of Offices

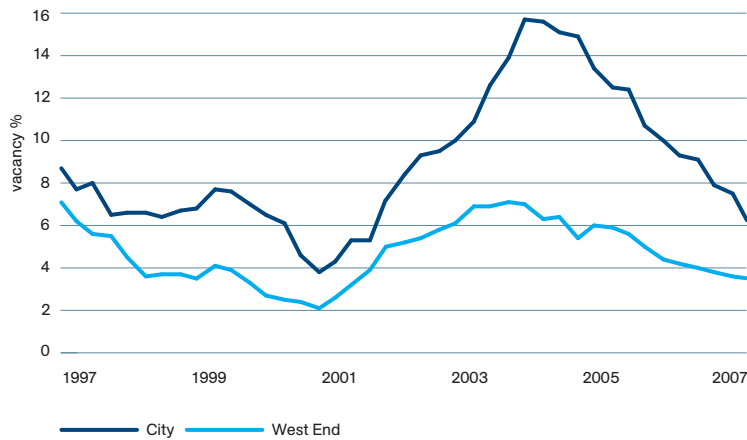
## Office sector

- £6.2 billion portfolio
- £7.6 billion including completed value of committed developments

### London Office investment market

London's global stature as a place to do business continues to grow with its unique competitive advantages as a pre-eminent financial and business service centre. To boot, these markets, including insurance, accounting and law, are themselves expanding. As a result, London's GDP is growing at a rate of 3.6%, higher than the UK's overall GDP growth of 2.8%, and employment is increasing. The investment market demand is still strong with the favourable expectations of rental growth keeping yields low, although yield compression is slowing. Transaction levels continue high, with improved prospects maintaining liquidity from a diverse range of investors.

### Central London vacancy

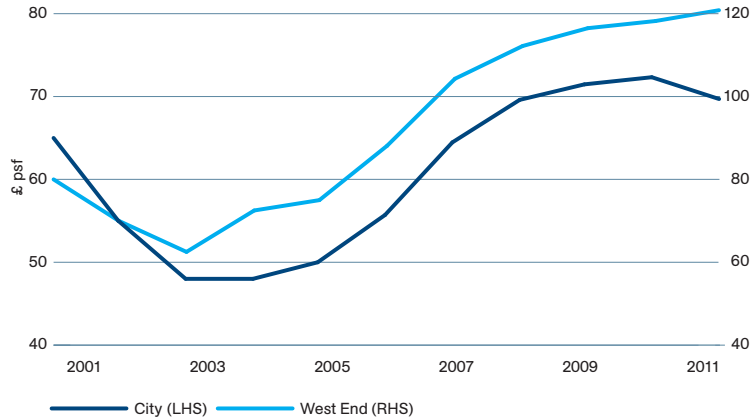


Source: Jones Lang LaSalle

## Occupier market

The employment growth in London has been fuelling demand for accommodation, in particular top quality Grade A. Increased demand has led to a significant improvement in take up of offices and, on the supply side, vacancy rates in London are low and falling. In the City, where the majority of our office portfolio is located, vacancy rates have reduced by 34% over the year, now standing at 6.1% overall, or 3.4% for Grade A offices, while rents are increasing.

### Central London rental growth



Source: Jones Lang LaSalle historic and agents' consensus forecasts

The immediate outlook is positive. We expect the strong levels of rental growth seen last year to continue this year, as rents remain affordable both in real terms and compared with other operating costs. Towards the end of the decade, primarily in the City and in response to rising rents, we do anticipate increased supply, although building cost inflation and the overall economics of many redevelopment opportunities may be limiting factors. That is why, especially in relation to our development programme, we are keeping our focus on capturing occupier demand by delivering the right product for our customers at the right time in the market, and thereby increasing rents.

# LONDON'S GLOBAL STATURE AS A PLACE TO DO BUSINESS CONTINUES TO GROW

## Strategy and positioning

Our strategy is focused on four themes:

- concentrating our efforts on and **increasing our weighting** in London offices where relative returns are likely to be attractive over the medium term
- focus on **providing occupiers with the right accommodation** and best in class property and management services
- actively varying the amount invested and **assessing development starts and timing** of completions, depending on our judgement of the stage of the office cycle
- enhancing returns through **active management and recycling capital** from the sale of mature assets into our carefully timed, customer focused development programme.

Our market leading office portfolio has performed well in the year due to increasing rental value, particularly in the second half of the year, and yield shift, which was a feature of the market in the first half of the year and is now slowing. We have limited exposure to downside risks in the investment portfolio due to the strong income flows under average lease lengths of 13 years to lease expiry, 11 years to break.

### Portfolio 97% in Central London:

- 5 million sq ft prime offices in the City
- 1.4 million sq ft prime offices in the West End
- weighted average lease length of 11 years
- 3.4 million sq ft London office developments plus our investment in Canary Wharf through Songbird Estates.

### Activity during the year

We progressed our strategy with initiatives including:

- **recycling capital** through the sale of 'mature' investments, and those which in our view do not offer adequate risk adjusted returns. Total sales of over £370m of offices have been made in the year, achieving significant gains over valuation. Further sales will be made where we do not see adequate growth potential or where we believe the market is pricing too aggressively against the risks involved;
- **increasing our weighting** in the sector through the **development pipeline** (set out earlier in this report), where we are delivering the best quality product to the market, and well timed to meet rising demand at higher rents. During the year the development programme has risen, through a combination of spending of over £250m and value increase. Completed London office developments this year have added some 600,000 sq ft to our investments, and a further 2.2 million sq ft is being scheduled for delivery in 2007 – 2009;
- **achieving lettings** in the year to March 2007 of some 200,000 sq ft in the City and West End, generating over £8m of rent and, importantly, the recent further 600,000 sq ft let or under offer at our committed developments. These are confirming the improved market rental levels, overall in line with or ahead of our projections, and generate development profits through higher values – mostly to follow after the year end valuation. The prospects of further



York House, London W1

lettings of the accommodation becoming available in the developments are good, and we expect to achieve new higher rental levels. The minimal current vacancies in completed buildings are nearly all new or 'take back' accommodation;

- employing **asset management projects**, such as taking back space and reletting it on the open market to establish new rental levels in otherwise fully let office investments, demonstrating our confidence in market rental levels and demand and enabling us to establish increased rents in open market transactions. We have reported, as part of our asset management activities, earlier in this report our taking back and reletting of offices at Broadgate and Regent's Place. In the case of Broadgate, the rents passing at present range between £44 and £55 per sq ft some of which, as the market continues to improve, will become reversionary. Our aim for the accommodation taken back at 155 Bishopsgate, having refurbished the offices, is to relet it in the open market at a level which will demonstrate further that rents at Broadgate are rising;
- further **rent reviews** and preparation for the 1.9 million sq ft of London offices in the portfolio which is due for review in 2008/9, presently at an average rent passing of £41.75 per sq ft, where we expect to see strongest growth;
- **working hard to improve the services we offer**, and our relationships with occupiers. This has led, to a marked increase in our customer satisfaction ratings. It also means we are closer to key occupiers like UBS and Henderson at Broadgate, so we can work with them to meet their changing accommodation requirements.