

## Portfolio composition and valuation

The table opposite shows the principal valuation movements for the year to 31 March 2007, by sector, across our £16.9 billion portfolio. All sectors improved in value, contributing to the **9.7% uplift** for the 12 months.

The **capital return from the portfolio at 10.9%**, as measured by IPD (calculated, excluding Europe, on average capital employed and excluding capitalised interest) was ahead of the IPD Benchmark at 10.7%.

Contributing to this performance was like for like growth in rental value (ERV) for the portfolio, ahead of the market at 6.9% (IPD Benchmark 4.3%), generated from both Central London offices and out-of-town retail. The net equivalent yield (after notional purchaser's costs) on the portfolio also tightened by 23 bps to 4.7% over the year.

The main sector drivers of the valuation increase were:

- London offices, including developments, at 35.1% of the portfolio rose by 14%, including 12.8% ERV growth on the investments, reflecting the improving occupational market and sustained investment demand;
- Retail warehouse parks at 24.1% of the portfolio were up by 10.3%, led by rental growth and sustained demand for open A1 parks in particular;
- Superstores, which represent 13.6% of the portfolio, increased in value by 9.5%, based on ERV growth and a measure of further yield compression under strong investor demand.

British Land also owns 17.8% of Songbird Estates PLC, which in turn owns 60.8% of **Canary Wharf** Group PLC, providing a 'look through' 10.8% economic interest in the London Docklands estate, comprising 7.9 million sq ft of high quality investment properties valued at over £6 billion. Canary Wharf is an internationally recognised premier office estate, having established new standards of construction, and has done much to facilitate London's financial services sector growth.

British Land invested £97m in Songbird in June 2004. Cash dividends totalling £67m have been received since that date. The investment was independently valued for accounting purposes at 31 March 2007 at £255m, equivalent to 227 pence per share. The market value of the AIM listed B shares at 31 March 2007 was 323 pence per share.

Valuation by sector	Group £m	Funds/JVs <sup>1</sup> £m	Total £m	Portfolio %	Uplift <sup>2</sup> %
<b>Retail</b>					
Retail warehouses	2,503	1,566	4,069	24.1	10.3
Superstores	1,678	622	2,300	13.6	9.5
Shopping centres <sup>3</sup>	1,999	512	2,511	14.8	3.4
Department stores	797	148	945	5.6	5.1
High street	348	–	348	2.1	4.6
<b>All retail</b>	<b>7,325</b>	<b>2,848</b>	<b>10,173</b>	<b>60.2</b>	<b>7.6</b>
<b>Offices</b>					
City <sup>4</sup>	4,126	–	4,126	24.5	13.1
West End <sup>5,6</sup>	964	–	964	5.7	18.0
Business parks and provincial	172	3	175	1.0	5.6
Development <sup>6</sup>	899	1	900	5.3	13.6
<b>All offices</b>	<b>6,161</b>	<b>4</b>	<b>6,165</b>	<b>36.5</b>	<b>13.6</b>
Industrial, distribution, leisure, other	531	34	565	3.3	7.4
<b>Total</b>	<b>14,017</b>	<b>2,886</b>	<b>16,903</b>	<b>100.0</b>	<b>9.7</b>

<sup>1</sup> Group's share of properties in Funds and Joint Ventures

<sup>2</sup> Increase in value for 12 months to 31 March 2007 – includes valuation movement in developments, purchases and sales, net of capital expenditure

<sup>3</sup> Meadowhall Shopping Centre valuation up 3.5% to £1,640 million (up 5.8% pre cap-ex); ERV £83 million; net equivalent yield 4.63% (true equivalent yield 4.76%)

<sup>4</sup> Broadgate valuation up 10.6% over 12 months to £3,569 million; headline ERV range £44-55 per sq ft (average headline ERV is £48.60 per sq ft); net initial yield 4.78% (assuming top up of rent free periods and guaranteed minimum uplifts to first review)

<sup>5</sup> Regent's Place valuation up 12.3% over 12 months to £651 million; headline ERV range £23.50-49.00 per sq ft; net initial yield 4.5% (assuming top up of rent free periods and guaranteed minimum uplifts to first review)

<sup>6</sup> West End now includes York House, previously shown under Development

# CAPITAL RETURN FROM THE PORTFOLIO WAS AHEAD OF THE IPD BENCHMARK

Portfolio yields (excluding developments)	Annualised net rents <sup>1</sup> £m	Reversionary income <sup>2</sup> £m	Current yield <sup>3</sup> %	Reversionary yield <sup>2,3</sup> %
<b>Retail</b>				
Retail warehouses	153	30	3.8	4.6
Superstores	102	6	4.4	4.7
Shopping centres	114	17	4.6	5.2
Department stores	42	6	4.5	5.1
High street	16	2	4.6	5.1
<b>All retail</b>	<b>427</b>	<b>61</b>	<b>4.2</b>	<b>4.8</b>
<b>Offices</b>				
City	173	32	4.2	5.0
West End	35	12	3.9	5.2
Business parks and provincial	8	3	4.5	6.1
<b>All offices</b>	<b>216</b>	<b>47</b>	<b>4.1</b>	<b>5.1</b>
Industrial, distribution, leisure, other	30	4	5.2	5.9
<b>Total</b>	<b>673</b>	<b>112<sup>4</sup></b>	<b>4.2<sup>5</sup></b>	<b>4.9</b>

<sup>1</sup> Net rental income under IFRS differs from annualised net rents which are cash based, due to accounting items such as spreading lease incentives and contracted future rental uplifts, as well as direct property costs

<sup>2</sup> Includes rent reviews and lease break/expiry and letting of vacant space at current ERV (as determined by external valuers) within five years, plus expiry of rent free periods

<sup>3</sup> Portfolio yield (gross to British Land, without notional purchasers' costs)

<sup>4</sup> £59m contracted under expiry of rent free periods and minimum rental increases

<sup>5</sup> Current yield after adding back rent frees 4.5%

Strong growth in cash rents is targeted within the next five years from the existing portfolio and from the committed development programme. At current market rental values, without projecting any growth or inflation, achievement of the reversionary income and letting of committed developments would add £261m to our annual passing rents (while interest costs on the funding for the development costs would also increase). Contracted increases of £59m per annum are due from expiry of rent free periods and fixed/minimum rental uplifts. (It should be noted that accounting policies under IFRS require that portions of these contracted rents are anticipated in the Group's income statement).

Leases and occupancy (excluding developments)	Average lease term, years to first break	Underlying <sup>1</sup> vacancy rate %	Vacancy rate %
<b>Retail</b>			
Retail warehouses	13.4	0.8	2.2
Superstores	20.4	–	–
Shopping centres	12.8	2.8	5.3
Department stores	29.8	–	–
High street	10.0	0.5	1.7
<b>All retail</b>	<b>16.3</b>	<b>1.2</b>	<b>2.5</b>
<b>Offices</b>			
City	11.0	1.7	2.9
West End	10.1	2.4	11.4
Business parks and provincial	12.2	11.2	11.5
<b>All offices</b>	<b>10.9</b>	<b>2.2</b>	<b>4.8</b>
Industrial, distribution, leisure, other	22.2	4.1	4.1
<b>Total</b>	<b>14.7</b>	<b>1.6</b>	<b>3.3</b>

<sup>1</sup> The underlying vacancy rate excludes asset management initiatives and units under offer

Our portfolio income is low risk, from leases with an overall weighted average term of 14.7 years to first break. Occupancy is very high across all the sectors, with only 1.6% of the total accommodation being available for letting. Vacancies in West End offices at the year end are primarily due to completion of York House (where the majority of the space is now let or under offer) and our asset management project at Regent's Place where we have taken back accommodation for refurbishment and extension.

## Property market outlook

The UK property investment market continued to be strong during the year as the repricing of the asset class in relation to other financial assets was completed. Real estate's growing cash flows and strong downside protection position it between bonds and equities in the hierarchy of total return prospects, while value can be added by active management, development and gearing to produce enhanced equity returns.

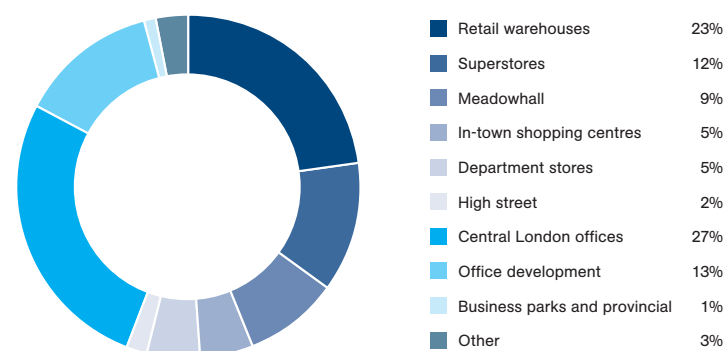
As the rate of yield shift subsides future performance is likely to be more dependent upon rental value growth. Rents remain affordable in most sectors and the economy's prospects should support continued growth in the service industries, with rising employment and consumer spending. However, all occupiers face their own competitive pressures and will be discriminating as to which space is most appropriate for them.

Investor demand has been good and continues to be so, albeit increasingly selective. Transaction levels have been high, with maintained liquidity and demand from both UK and overseas investors.

**The British Land portfolio has leading positions in the two main sectors with the best prospects for rental growth – out-of-town retail and London offices.**

## Portfolio positioning

56%<sup>1</sup> Retail      41%<sup>1</sup> Offices  
80% Out-of-town      97% Central London



<sup>1</sup> Proforma for committed developments at external valuers' estimated end value at completion