

Portfolio valuation

The global 'credit crunch' has reduced values across many asset classes including commercial real estate. This results from widening risk premia, increased cost and reduced availability of finance, low investor confidence and fears of the effect of weaker economies on customer business and rental growth. This environment is particularly challenging for property valuers given low transaction volume and fast moving sentiment. Nevertheless, we believe in trying to achieve transparency and 'realism' in our (quarterly) portfolio valuations, both as a guide to our investors and to support capital allocation disciplines. To that end our valuers recommended an overall mark-down of property values for the year of -10.0%, which we support.

The table on the right shows the principal valuation movements by sector for the year and for Q4. The valuation movement in Q4 at -2.2% reflects a slowing of the rate of market pricing adjustment from that seen in Q3 (-8.9%).

The capital return from the portfolio at -11.5% for the year, as measured by IPD (calculated for our UK assets on average capital employed and excluding capitalised interest) was ahead of the IPD Benchmark at -13.2%. This is the second successive year of such outperformance.

Like-for-like rental value (ERV) growth for the portfolio was 6.2% over 12 months, ahead of the IPD Benchmark at 4.0%.

The net equivalent yield (after notional purchaser's costs) on the portfolio at 5.6% has moved out 92 bps over the year (Q4 18 bps).

The main valuation impacts over the year were:

- Retail warehouses, at 24.3% of the portfolio, saw outward shift in equivalent yield of 100 bps, reducing valuation by 13.9%, despite ERV growth of 3.6%;
- London offices, including developments comprising 40.2% of the portfolio, saw outward shift in equivalent yield of the investments of 95 bps and a value decline of 6.5% offset by ERV growth of 11.9%;
- Superstore valuations, which represent 9.4% of the portfolio, declined by 10.7% (an outward yield shift of 87 bps). The proportion of the total portfolio held in this sector has reduced primarily as a result of the effective sale of a 50% share in the Sainsbury's superstores upon the formation of our new joint venture with J Sainsbury plc;
- Shopping centres, being 16.2% of the portfolio, showed a fall in value of 10.3%, with an outward yield shift of 70 bps. This sector includes Meadowhall shopping centre valued at an equivalent yield of 5.26%; and
- the value of our investment in Songbird Estates plc, which provides a 'look through' 10.8% economic interest in Canary Wharf, the London Dockland premier office estate, has been marked down for accounting purposes at 31 March 2008 by 27.5% to £185m.

Valuation by sector	Group £m	Funds/JVs ¹ £m	Total £m	Portfolio %	Change ² %	
					3 mths	12 mths
Retail						
Retail warehouses	1,939	1,331	3,270	24.3	(3.1)	(13.9)
Superstores	120	1,147	1,267	9.4	(0.5)	(10.7)
Shopping centres ³	1,826	358	2,184	16.2	(0.8)	(10.3)
Department stores	665	131	796	5.9	(1.0)	(13.6)
High street	144	–	144	1.1	(3.8)	(9.9)
All retail	4,694	2,967	7,661	56.9	(1.7)	(12.1)
Offices⁴						
City ⁵	4,251	–	4,251	31.6	(3.2)	(8.2)
West End ⁶	1,164	–	1,164	8.6	0.3	0.8
Provincial	77	13	90	0.7	(8.5)	(4.0)
All offices	5,492	13	5,505	40.9	(2.6)	(6.4)
Industrial, distribution, leisure, other	283	22	305	2.2	(7.4)	(10.1)
Total	10,469	3,002	13,471⁷	100.0	(2.2)	(10.0)

¹ Group's share of properties in Funds and Joint Ventures

² Change in value for three months and 12 months to 31 March 2008, includes valuation movement in developments, purchases and sales, net of capital expenditure

³ Meadowhall shopping centre valuation down over 12 months 9.6% (£160m) to £1,505m; ERV £86m; net equivalent yield 5.26%

⁴ Includes Developments in City, West End and provincial: total value £1,301 billion, 9.7% of Portfolio, 4.2% decline for the 12 months

⁵ Broadgate valuation down 11.5% over 12 months to £2,698m; headline ERV range £46-57.50 per sq ft (average headline ERV has risen 8% to £52 per sq ft); net initial yield 5.5% (assuming top up of rent free periods and minimum uplifts at first review); net equivalent yield 5.8%

⁶ Regent's Place valuation up 1.3% over 12 months to £702m; headline ERV range £35-61 per sq ft; net initial yield 5.1% (assuming top up of rent free periods and minimum uplifts at first review); net equivalent yield 6.0%

⁷ Portfolio valued by external valuers on the basis of Market Value in accordance with the Appraisal and Valuation Standards published by The Royal Institution of Chartered Surveyors: Knight Frank LLP £11,533m and CB Richard Ellis Ltd £1,938m (see note 11 on page 89)

Our portfolio income is strong and secure, from leases with an overall weighted average term of 14.7 years to first break (16.0 years to expiry). If no other management action is taken (and if any tenant with a break clause chooses to exercise it) only 10% of the passing rental income will expire in the next five years.

The weighted average lease term in the West End offices shown in the table has been increased in the year primarily due to the rearrangement of the lease to the Government at the Euston Tower, Regent's Place.

Occupancy is exceptionally high, across all sectors, with the only significant accommodation available to let being in the development programme.

At current market values, and without projecting any growth or inflation, achievement of the reversionary income in the investment portfolio would add £108m per annum to our annual passing rent. Included in this are contracted increases of £49m per annum due from expiry of rent free periods and fixed/minimum 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	Underlying¹ occupancy rate %	Occupancy rate %
Retail			
Retail warehouses	13.4	99.2	96.9
Superstores	20.3	100.0	100.0
Shopping centres	12.9	98.7	96.4
Department stores	29.9	100.0	100.0
High street	12.0	94.8	94.8
All retail	16.3	99.1	97.5
Offices			
City	11.4	99.7	99.5
West End	11.4	99.8	96.4
Provincial	18.0	97.1	97.1
All offices	11.5	99.7	98.7
Industrial, distribution, leisure, other	23.4	95.8	94.4
Total	14.7	99.2	97.9

¹ The underlying occupancy rate includes accommodation subject to asset management initiatives and under offer

Portfolio yields (excluding developments)	Annualised net rents¹ £m	Reversionary income² (5 years) £m	Initial yield³ %	Top-up initial yield^{3,6} %	Reversionary yield³ (5 years)%	Net equivalent yield⁴ %
Retail						
Retail warehouses	152	28	4.8	5.0	5.7	5.3
Superstores	66	5	5.2	5.2	5.6	5.2
Shopping centres	110	14	5.0	5.2	5.7	5.4
Department stores	42	6	5.3	6.1	6.1	5.9
High street	8	1	5.5	5.6	6.5	5.9
All retail	378	54	5.0	5.2	5.7	5.4
Offices						
City	156	40	4.9	5.8	6.2	5.8
West End	48	10	4.8	5.2	5.9	5.7
Provincial	2	–	6.0	6.0	6.4	6.3
All offices	206	50	4.9	5.6	6.1	5.8
Industrial, distribution, leisure, other	19	4	6.1	6.8	7.4	7.3
Total	603	108⁵	5.0	5.4	5.9	5.6

Data for Group and its share of Funds and Joint Ventures

¹ 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

² 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

³ Gross yield to British Land (without notional purchaser's costs)

⁴ After purchaser's costs

⁵ £49m contracted under expiry of rent-free periods and minimum rental increases

⁶ Adding back rent-frees and minimum rental uplifts