

Sector and asset selection

The prospects and expected performance of each asset in our portfolio are regularly reviewed in light of changing market conditions; part of the ongoing process of concentrating on markets, sectors and properties with positive medium-term supply/demand characteristics to best capture trends in customer demand and rental growth, and disposing of lower growth or riskier assets.

Within our selected markets we recycle capital – buying and selling properties to refine the focus on those assets with better potential for increases in rent or with opportunities for us to improve growth through asset management. Even where our sector view is positive, there are assets which reach a point where there is little we can do to improve them further and a sale may make sense.

Sales 12 months to 31 March 2008	Price £m	BL Share £m	Gain/ (loss) % ¹
Retail			
50% share of 39 superstores portfolio ²	595	595	(15.0)
East Kilbride shopping centre ³	387	193	(2.8)
3 UK retail parks and 14 retail warehouses	307	263	(2.7)
50% share of Fort Kinnaird ⁴	240	87	–
50% share of New Mersey shopping park ⁵	209	76	5.3
16 high street shops	151	151	0.1
7 European retail parks ⁶	132	40	14.8
41.25% share in Nueva Condomina, Murcia, Spain ⁷	105	32	–
3 superstores	87	87	(10.6)
	2,213	1,524	(7.3)
Offices:			
One Exchange Square, Broadgate, EC2	406	406	5.6
Blythe Valley Park, Phases I & II ⁸	161	161	4.0
Plantation Place South, EC3 ⁹	126	126	(10.7)
Ludgate West, London EC4 ^{9,10}	112	112	15.2
95/99 Baker Street, W1	17	17	33.9
High Street, Nottingham	6	6	(12.7)
	828	828	3.9
Others:			
9 industrial properties	140	140	(2.5)
Great Eastern Hotel, EC2 ¹¹	16	16	24.0
12 other properties	47	47	(1.1)
Total	3,244	2,555	(3.4)

¹ Sale price versus last year end valuation, March 2007

² New joint venture (JV) with J Sainsbury plc

³ Scottish Retail Property Limited Partnership – JV with Land Securities

⁴ HUT (Hercules Unit Trust) – JV with The Crown Estate

⁵ HUT – JV with Bank of Ireland Private Banking Limited

⁶ PREF (Pillar Retail Europark Fund)

⁷ 50% of PREF's holding

⁸ Including conditional deferred elements of the sale consideration – gain calculated on estimated present value

⁹ Subject to price deduction at completion to reflect unexpired rent frees and (for a limited period) remaining vacant space – gain calculated net

¹⁰ Completed after 31 March 2008

¹¹ Sale of British Land's 50% share to its former JV partner

Sales

Having identified last year that the property investment market was likely to become more challenging, we **increased the emphasis on sales** managing down financial gearing, overall reducing our exposure to a market which we considered fully priced. All sectors have been reduced this year. Over the 12 months to March 2008, despite a tough market, property sales have amounted to over £3.2 billion gross, at prices overall in line with or above the then current quarterly valuation – these include £900m achieved in the last financial quarter, since 31 December 2007.

The transactions are summarised in the table to the left. It should be noted that this data (in keeping with our past practice) compares all sales in the year against the previous March 2007 year end valuations and, given the mark down in market pricing, shows certain sales which contracted in the second half of the year producing losses against that March 2007 valuation.

The retail portfolio has been changed by:

- enhancing our **retail park growth profile** through sales of assets with slower rental growth prospects;
- sales of more in-town investments, high street shops in total £151m and the East Kilbride shopping centre at £387m; and
- a reduction in our investment in **Superstores**, principally as part of the creation of a joint venture to generate opportunities to increase capital values by improving the assets (through extension, developments and other initiatives) in co-operation with our customer, **Sainsbury's**.

Two new joint ventures involving Hercules Unit Trust ('HUT'), where British Land acts as property adviser and has an interest of 36.3%, provided opportunities for recycling capital and our management added-value, while retaining overall exposure to premier out-of-town locations. In a joint venture with The Crown Estate, HUT effectively exchanged a 50% share in its Fort Kinnaird shopping park, Edinburgh for a 50% share of both Gallagher retail park, Cheltenham and Shires retail park, Leamington Spa. HUT also sold a 50% share of New Mersey shopping park, Liverpool by forming a joint venture with Bank of Ireland Private Banking Limited. In each case HUT retained the asset management.

The strong office investment market earlier in the year enabled us to achieve sale prices overall ahead of valuation:

- to continue to reduce the weighting in our investment portfolio of **City offices** at this point in the cycle;
- for assets where we saw the growth prospects as lower with limited value-add; and
- to capture the value-add from successful development.



Sainsbury's, Meadowbank

These sales included **One Exchange Square**, a landmark building in the Broadgate Estate, EC2, occupied by EBRD for £406m in June 2007. We are continuing our active asset management of Broadgate, in keeping with our ambition to maintain and extend its status as the leading office campus in the City – and are pleased to have the new owner of One Exchange Square, KanAm Grund (a leading German fund manager) as a stakeholder.

Ludgate West, EC4, is our recently completed 127,000 sq ft City office development, which we pre-let as to 69% to solicitors Charles Russell LLP. Prior to completion the sale was agreed in November 2007, at a gross price of £112m, realising a development surplus.

Plantation South, EC3, is also one of our developments; 160,000 sq ft of City offices completed in 2004. The sale was agreed in January 2008 at £126m, above the December 2007 valuation (although below the March 2007 valuation as shown in the table).

Blythe Valley Park, Solihull, was sold in September 2007 for a total consideration of up to £161m. The extensive site was developed by British Land (with Solihull Metropolitan Borough Council) to provide c. 500,000 sq ft of office accommodation, and outline planning consent was achieved prior to the sale for a major extension to the park of up to 2 million sq ft of offices.

The sale of a number of industrial and leisure properties, including our interest in the **Great Eastern Hotel**, also reflects our continuing strategy of focusing on higher growth sectors.

Purchases

Purchases of Nueva Condomina, Gallagher and The Shires retail parks as shown below are part of larger transactions over the year (please see notes to the table), effectively reducing our purchases in the year to less than £200m.

Purchases 12 months to 31 March 2008	Price £m	BL Share £m
Nueva Condomina, Murcia, Spain ¹	237	118
50% share of Gallagher and The Shires retail parks ²	100	36
50% share of Whiteley Village factory outlet centre ³	55	28
Queens Retail Park, Stafford ⁴	40	15
2 European ⁵ and 1 UK retail park	39	13
Vista Alegre Retail Park, Zamora, Spain ⁵	19	6
Others	8	8
	498	224

¹ Jointly with PREF (and PREF subsequently sold 41.25% to HERALD, see Sales table)

² HUT - JV with The Crown Estate, see also sale to JV of HUT interest in Fort Kinnaird

³ JV with Universities Superannuation Scheme

⁴ HUT

⁵ PREF

A joint venture was formed in May 2007 with the Universities Superannuation Scheme providing the opportunity to work with this partner in respect of the **Whiteley Village** outlet centre near Fareham. This 168,000 sq ft scheme provides 52 retail units, a restaurant and a Tesco food store, with a further adjoining site for possible residential development. It is intended that the existing retail space will be redeveloped to provide a modern town centre shopping and mixed use scheme, for which we have started the consultation and planning process.

Queens Retail Park is the premier out-of-town park serving Stafford. This recent purchase, by HUT, is an example of our market position enabling us to perform quickly and purchase well, meeting a seller's requirement for a transaction in a short time frame. The 170,000 sq ft 13 unit park has open A1 use, in line with our sector preference, and has significant opportunities for improvement under our management. We expect to be able to upgrade the older units, improve the tenant mix and grow the rents, building upon the initial 6% yield.

Portfolio positioning

57% Retail (80% Out-of-town) 41% Offices (98% Central London)



Investment in European retail

Through both direct investment and our effective 40% investment in PREF, where British Land acts as property adviser, we have become market leaders in Europe's growing out-of-town retail park market. This leverages the management infrastructure and expertise we have established in the UK and the European team built up since 2004.

Features supporting this investment include the under provision of modern out-of-town retail parks in many of the major countries in Europe and the lower rents and higher initial yields than in the UK, together with similar customer preference trends which indicate that the market will develop and grow. This is already in evidence with increasing international investor interest contributing to the European market closing the yield gap towards convergence with the UK (albeit with lower interest rates applicable in Europe). Prospects for further rental growth in out-of-town European retail continue to be good, with rents still at some 50% of the level seen in the UK. As a result, our assets in Europe have performed well over this financial year.

During the year British Land and PREF jointly acquired a new prime regional shopping centre and retail park, Nueva Condomina in Murcia, Spain; the property was acquired for €350m (£237m) with completion in July 2007. The 120,000 sq m (1.3 million sq ft) scheme includes a two-storey enclosed shopping centre, a retail park, a multiplex cinema and a hypermarket, all now 97% let to major international and Spanish retail brands.

In December 2007 PREF sold to HERALD, the Henderson European Retail Property Fund, a portfolio of five retail parks in Europe and one-half of its interest in Nueva Condomina, overall at above valuation. The transaction anticipated the potential for market weakness, followed our UK strategy of divesting assets with weaker growth prospects and enables PREF to focus on its core countries, Spain, Portugal, France and Italy, recycling its capital into purchasing opportunities.

In addition to these transactions, PREF purchased three smaller retail parks in Spain, France and Portugal, on favourable yields with low base rents, and sold two PC City properties in Madrid and Palma.



Nueva Condomina, Murcia, Spain

By providing attractive and well configured properties we generate new demand resulting in **increasing rental values.**