INVESTMENT ACTIVITY

We have acquired three well-located and large-sized blocks in off-market transactions, which offer significant scope for regeneration.

DAVID SILVERMAN
EXECUTIVE DIRECTOR

£130.2m
of acquisitions

£53.5m
profit on disposal

Our acquisitions have continued at a steady pace in the last four years against the background of an increasingly competitive market. During the year we spent £130m on three properties producing rents of £6.2m on an initial yield of 4.8%. The total space acquired was 216,800 sq ft (20,140m^2), excluding The Peacock Theatre at 22 Kingsway which is let on a peppercorn rent. The average rent was below £29 per sq ft and the average lease length to first break was over six years. Disposals (£150m) raised 15% more than acquisitions, but produced under half the income (1.9% initial yield), and represented only 56% of the floorspace. The average acquisition price was £601 per sq ft (£6,469 per m^2), which compares to the average selling price of £1,225 per sq ft (£13,186 per m^2).

In the first half of 2013 we acquired Mark Square House EC2, an island site in the Tech Belt, almost equidistant between our holdings at Old Street and the Tea Building. The building offers good reversionary potential and there is scope to add around another 8,000 sq ft (740m^2/13%). The property is let to Thomson Reuters, who are also tenants in two other Derwent London properties, occupying an aggregate of 149,500 sq ft (13,890m^2), and paying £4.4m pa of rent.

In the second half we acquired a six-storey office building at 19 Charterhouse Street EC1. The property is situated opposite the Farringdon Crossrail station, due to open in 2018, and is let to the London College of Accountancy until 2025 with a tenant's break in 2020. The current income is £1.4m pa, but there is a top-up to £1.7m pa until the next review in 2015. The rent at the next review is capped at £1.7m pa. We believe that the property has considerable potential given the low average rent, and its location at the centre of one of the areas expected to benefit most from Crossrail, as well as being in the Tech Belt.

In December we acquired 22 Kingsway WC2 in Holborn close to our long-dated reversionary interest at Bush House WC2. Both properties benefit from the recent improvements to Covent Garden and the surrounding area. The properties also benefit from being near to significant University of London holdings: adjacent to the London School of Economics and close to King's College on the Strand. The eight-storey property is let to King's College London on a lease expiring in 2025. The passing rent is reversionary, and the next rent review is in 2015. The acquisition also includes The Peacock Theatre (44,000 sq ft / 4,090m^2 gross internal area), which is let to the London School of Economics for £1 pa on a lease expiring in 2054.

Acquisitions – acquiring properties and unlocking their value

	Area sq ft	Total cost £m	Total cost £ per sq ft	Net yield %	Rental income £m pa	Rent £ per sq ft /per m²	Lease length[1] Years
Mark Square House EC2	61,700	29.6	479	5.1	1.5	24.25/261	4.0
19 Charterhouse Street EC1[2]	63,700	41.3	648	4.1	1.7	26.50/285	6.1
22 Kingsway WC2	91,400	59.3	649	5.1	3.0	32.80/353	7.3
Total[3]	**216,800**	**130.2**	**601**	**4.8**	**6.2**	**28.53/307**	**6.2**

[1] To first break or expiry, as at 31 December 2013
[2] Includes rent top-up of £0.3m pa (£0.4m in total)
[3] Excludes £0.5m reduction in acquisition cost of 25 & 29 Berners Street, purchased in 2012

Disposals – recycling capital

	Area sq ft	Net proceeds £m	Net proceeds £ per sq ft	Net yield %	Rental income £m pa	Rent £ per sq ft /per m²	Lease length[1] Years
Commercial Road E1	36,000	16.7	459	–	0.1	n/a	–
1-5 Grosvenor Place SW1[1]	84,400	131.4	1,556	2.1	2.7	32.20/347	2.0
Total[2]	**120,400**	**148.1**	**1,225**	**1.9**	**2.8**		**–**

[1] Our share
[2] Excludes proceeds of £1.7m from minor disposals

It is worth noting that none of these acquisitions currently has ground floor retail. This provides a potential opportunity as they are all located in prominent positions in improving areas.

Last year our disposal activity was dominated by the £131.4m sale in July of our interest in 1-5 Grosvenor Place SW1 to Peninsula Hotels. Although this prime island site represented a major potential development opportunity, we believe that the consideration secured most of the anticipated redevelopment gain even before planning had been applied for and, therefore, five to six years before the project's expected completion date.

The sale secured a profit of £53m (a 70% uplift on the December 2012 valuation) and followed the restructuring of our leasehold interest with the Grosvenor Estate (the freeholder) in the previous year. Over the last two years our actions have crystallised c.£200m from an interest that was valued at only £134m in December 2011. Our total return from when we first acquired an interest in the block in 1993 is 15.3% pa, which compares to the average 9.0% pa return the IPD Central London Offices Index reported over the same period.

Last year's other disposals included the sale of our properties on Commercial Road E1, where we had secured planning for student accommodation, and Suffolk House, 1 Whitfield Place W1, which was sold as part of our affordable housing contribution for a number of our Fitzrovia projects.

We continue to look to buy income-producing assets with low capital values, let off low rents and with medium-term refurbishment opportunities. At the same time, we are considering the sale of some of our smaller assets, properties where we have completed our regeneration plans or those which we believe are fully valued.

Net investment £m