

PORTFOLIO MANAGEMENT

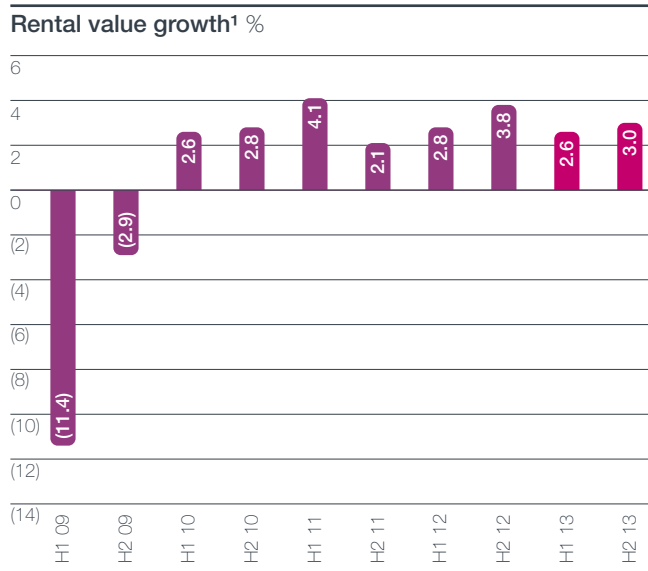
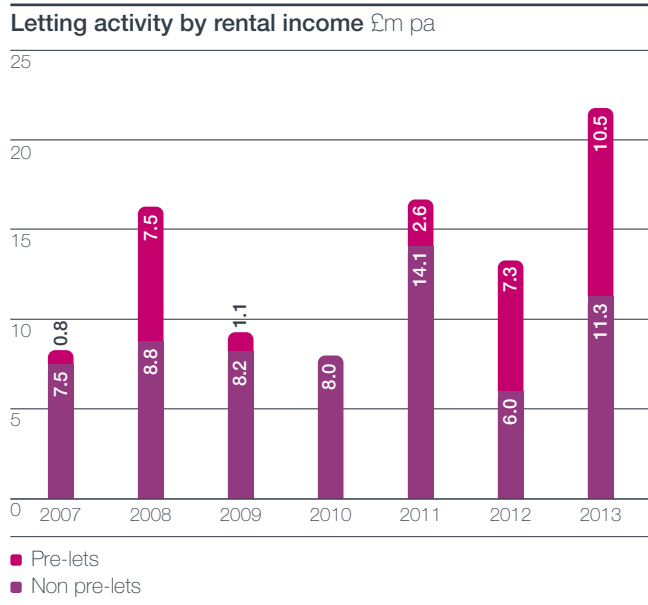
Last year was an exceptional one for our letting activity, demonstrating the attractions of our brand of office space and improving levels of business confidence.



PAUL WILLIAMS
EXECUTIVE DIRECTOR

2013 set a record for pre-lettings, and, as a result, we have very little space currently available. In total we let 643,200 sq ft (59,750m²) during the year achieving a gross annual rent of £21.8m pa, before deduction of £1.0m pa ground rent, and at an average rent 8.4% above December 2012 ERV. At 31 December 2012 this space generated rental income of £3.9m pa. Open market transactions represented 97% of the total by income and were secured 10.9% above December 2012 ERV.

Our letting activity was led by the TMT sector's growth, which represented 72% of our take-up by income. We believe that this represents a strong endorsement of our product which anticipated the demand from the new and growing London industries. The table opposite lists our major transactions.



¹ Half yearly movement in estimated rental value of the underlying portfolio

Rental income profile

	Rental uplift £m	Rental per annum £m
Annualised contracted rental income, net of ground rents		126.0
Contractual rental increases across the portfolio	30.2	
Letting 38,000 sq ft available floor area	1.5	
Completion and letting 51,000 sq ft of minor refurbishments	1.8	
Completion and letting 430,000 sq ft of major projects	19.9	
Anticipated rent review and lease renewal reversions	17.6	
Portfolio reversion		71.0
Potential portfolio rental value		197.0

Principal lettings in 2013

	Tenant	Area sq ft (m ²)	Rent £ per sq ft (£ per m ²)	Total annual rent £m	Minimum uplift at 1st review £ per sq ft (£ per m ²)	Lease term Years	Lease break Year	Rent free equivalent Months
Q1								
132-142 Hampstead Road NW1	UCL	217,000 (20,160)	7.15 (77)	1.6	8.25 (89)	10	5	15
Greencoat House SW1	VCCP	10,600 (980)	47.50 (511)	0.5	–	7	4 / 4 / 0 3 units	15
Q2								
40 Chancery Lane WC2 ¹	Publicis Groupe	97,400 (9,050)	65.00 ² (700)	5.7 (gross)	67.50 ¹ (727)	20	18	32
Turmill EC1 ¹	Publicis Groupe	58,200 (5,410)	55.00 (592)	3.1	57.50 (619)	20	18	32
The Buckley Building EC1	Hill+Knowlton (WPP)	26,400 (2,450)	52.50 ³ (565)	1.3	–	15	12	24
Charlotte Building W1	CHI&Partners	12,400 (1,150)	60.00 (646)	0.7	–	5	–	12
Q3								
The Buckley Building EC1	Tipp24	16,100 (1,500)	52.50 (565)	0.8	55.00 (592)	15	12	20
Charlotte Building W1	Turley Associates	7,200 (670)	65.00 (700)	0.5	–	12	–	26
Q4								
The Buckley Building EC1	Deloitte Digital	16,600 (1,540)	57.50 (619)	1.0	59.50 (640)	15	6	7, plus 10 if no break
1 Oliver's Yard EC2	Morningstar	13,100 (1,220)	42.50 (457)	0.6	45.00 (484)	7	4	9
4 Hardwick Street EC1	Ve Interactive	12,000 (1,110)	45.00 (484)	0.5	47.50 (511)	10	–	12
Tower House WC2	Global Personalis	4,200 (390)	70.00 (753)	0.3	72.50 (780)	12	6	9, plus 6 if no break

¹ Pre-let. Leases commence on completion of construction (due Q3 2014 for Turmill and Q4 2014 for 40 Chancery Lane)

² Typical floor

³ Top floor

PORTFOLIO MANAGEMENT CONTINUED

Portfolio statistics – rental income

	Net contracted rental income per annum £m	Average rental income £ per sq ft	Vacant space rental value per annum £m	Rent review and lease reversions per annum £m	Portfolio estimated rental value per annum £m	Average unexpired lease length ¹ Years
West End						
Central	74.4	27.30	6.8	26.3	107.5	7.6
Borders	11.7	20.99	0.2	6.0	17.9	8.5
	86.1	26.24	7.0	32.3	125.4	7.7
City						
Borders	35.2	23.07	16.2	15.3	66.7	5.9
Central London	121.3	25.23	23.2	47.6	192.1	7.2
Provincial	4.7	14.31	–	0.2	4.9	5.9
Total portfolio 2013	126.0	24.54	23.2	47.8	197.0	7.1
2012	119.6	24.49	21.1	34.3	175.0	7.4

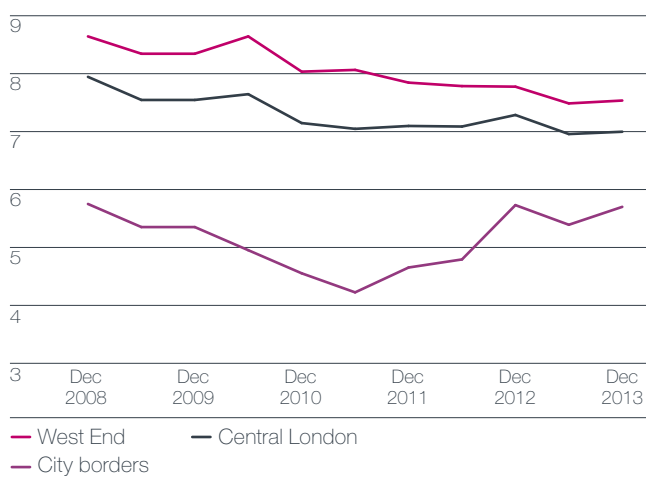
¹ Lease length weighted by rental income and assuming tenants break at first opportunity

Profile of rental income expiry¹ %



¹ Based upon annualised net contracted rental income of £126.0m

Average unexpired lease length¹ Years



¹ Lease length weighted by rental income and assuming tenants break at first opportunity

Our most significant pre-lettings were the office elements at Turmill EC1 and 40 Chancery Lane WC2 to Publicis Groupe. Together these comprised £8.8m pa of income (£7.8m pa after allowing for the ground rent on Chancery Lane). We were very pleased to maintain a long-standing relationship with a strong business that had been looking for a new London headquarters for some time. To facilitate the deal, Publicis Groupe subsidiary Saatchi & Saatchi extended its lease on a short-term basis at 80 Charlotte Street W1 to tie in with the delivery of its new buildings. Rents of £55 per sq ft at Turmill and £65 per sq ft at Chancery Lane were achieved on the new space, 16% and 7% respectively above the December 2012 ERVs. The transaction underpins the increasing attractions of Clerkenwell/Holborn and our development programme to media businesses.

Another clear example of this trend was the multi-letting of The Buckley Building, also in Clerkenwell. This building was 25% pre-let on completion in April 2013, and fully let within six months to a further four tenants. We agreed rents of over 30% in excess of our original estimates with the final letting achieving £57.50 per sq ft. Elsewhere, we established new rental levels at Charlotte Building (£65 per sq ft) and Tower House (£70 per sq ft), and we were pleased to let 132-142 Hampstead Road quickly, which, as discussed last year, has been blighted by the uncertainty surrounding HS2.

Separately, at the end of 2013 and coincident with a rent review, we extended our tenant's long leasehold interest on the Grafton Hotel, 130 Tottenham Court Road W1 from 77 to 150 years. This has seen our income rise 56% to £0.9m pa. The new rent will increase by 3% pa, compounded every five years, and is subject to an open market rent review in 2033, at which time the tenant will also have an option to break. The lease restructure led to a valuation increase of 22% in 2013.

“We’ve delivered on our ambition to create a new home for the agency that is at once progressive, egalitarian and transparent and, at the same time, a beautiful and inspiring space.”

RICHARD MILLAR, CEO
HILL+KNOWLTON STRATEGIES

“As one of the fastest growing technology companies in the UK, we recognise the importance of a great working environment and location to help attract and retain talent. Derwent London’s newly refurbished offices at Tower House have given us the canvas to create an attractive new home amidst the buzz in the heart of Covent Garden.”

ROSS WILLIAMS, FOUNDER AND CEO
GLOBALPERSONALS.CO.UK

“As an expanding business, we had outgrown our existing space at 25 Savile Row. Derwent London worked closely with us to find us a new, larger home north of Oxford Street. We are very happy to retain Derwent as a landlord and the Charlotte Building provides us with convenient and flexible space to accommodate the business as it continues to grow.”

PAUL DEEHAN, DIRECTOR: FINANCE & RESOURCES
TURLEY ASSOCIATES

“Deloitte Digital is an innovative leader in online and mobile strategy, design and development. With a team blending creative, technology and business skills, we need an iconic environment to deliver our distinctive client collaboration experience and a technology studio designed for our agile development approach. Our new space in The Buckley Building ideally fulfils that role.”

KEVIN WALSH, PARTNER
DELOITTE DIGITAL



CAPITALISING ON OUR CLOSE TENANT RELATIONSHIPS

As recent activity at our Charlotte Building in Gresse Street, just north of Oxford Street, demonstrates, maintaining good, close relationships with our tenants directly benefits our business.

BRINGING ABOUT A STEP CHANGE

We let Charlotte Building in late 2009 in the aftermath of the financial crisis, with tenants paying around £40-£45 per sq ft, well below the level of rents that could be achieved on this space today. Over the last 18 months we have capitalised on a series of opportunities to bring about a step change in rental levels, at the same time extending lease lengths and eliminating the 2014 breaks.

MAKING THE RIGHT MOVES

We learnt that LinkedIn wanted to move out of their first floor space at Charlotte Building as part of an office rationalisation. We agreed an early surrender, and re-let this 7,400 sq ft first floor to advertising agency CHI&Partners at £60 per sq ft. CHI also pre-let 5,000 sq ft of ground floor space at Charlotte Building occupied by BrandOpus, again paying a rent of £60 per sq ft. BrandOpus is a rapidly expanding design agency which is moving to 18,300 sq ft of newly refurbished space at our 1-2 Stephen Street complex next door.

On the fifth floor at Charlotte Building, Unanimis agreed a lease surrender. We immediately re-let this space to another existing Derwent tenant, Turley Associates, which was expanding out of 25 Savile Row. They are now paying £65 per sq ft.

FORWARD THINKING ASSET MANAGEMENT

Maintaining a regular dialogue with our tenants has allowed us to capitalise on asset management opportunities. We have moved rents forward at the Charlotte Building from the mid £40s to the early to mid £60s, extending lease lengths and accommodating expanding tenants in the process. These set helpful precedents for the 2014 rent reviews on the remainder of the building, as well as having an immediate benefit to capital values.

SIMON TAYLOR
HEAD OF ASSET MANAGEMENT

PORTFOLIO MANAGEMENT CONTINUED

Five-year vacancy trend %



During 2013 £20.0m of rent (or 17% of our annual rent roll) was subject to breaks or expiries. The largest single expiry (21% of the exposed income) was at 80 Charlotte Street W1, which was deferred until the completion of Publicis' new offices at Turmill and 40 Chancery Lane. The deferral helped create an above average level of retentions (74%), and we successfully re-let 14%, which means that only 12% of 2013 breaks and expiries were vacant at the year end. In 2013 the Group concluded 82 rent reviews and lease renewals on 471,200 sq ft (43,770m²) at a combined rent of £15.2m pa, which represented an uplift of 7.1% on the previous income. Average rent collection remained prompt throughout the year with 98% received within 14 days of the due date (99% in December).

Following completion of The Buckley Building, our EPRA vacancy rate of available space rose from 1.6% at the start of 2013 to 2.7%, but our successful letting campaigns have seen the vacancy rate fall steadily to only 1.0%. As the chart shows, this is a very low level on a historical basis. If adjusted for the expected completions in 2014, the vacancy rate would rise to 5.4%. Since the year end we have let 27,600 sq ft (2,560m²) generating rental income of £1.1m pa.

The strong performance of our letting and management teams in 2013 has resulted in there being little space immediately available in our portfolio. The focus during 2014 will be on letting Phase 2 at 1-2 Stephen Street, and, towards the end of the year, residential sales. We give more details in the following Projects section.



SHOWCASING THE WORKPLACE CAMPUS OF THE FUTURE

To showcase and test the planned design of the White Collar Factory's main building and its innovative technology, we built a 3,000 sq ft fully functioning prototype suite.

LEADING DESIGN

As well as putting all the equipment through its paces this enabled us over the past year to educate a wide audience about the five principles underpinning the design of the White Collar Factory. These are:

- concrete core cooling
- high ceilings of 3.5m
- windows that open
- flexible occupation
- stays cool, stays warm

ENCOURAGING INTEREST

Throughout the past year, we not only held presentations with agents and potential tenants at the prototype, but also arranged 30 events to welcome a number of other stakeholders.

GAINING RECOGNITION

We estimate that well over 1,000 people visited the prototype during its year on show. The concept gained a wide range of coverage in both the traditional press and on social media sites. Also, the 10m beachball that we placed on the roof of Transworld House became a fondly regarded artistic landmark.

Now that the prototype is being dismantled, the marketing campaign is moving from education about the principles of the White Collar Factory into its next phase of highlighting the location around the campus.

THE NEIGHBOURHOOD

We are setting up a new marketing suite across the road in 1 Oliver's Yard, overlooking the site, where we can showcase the campus' Old Street roundabout location. The charm of the area is its buzz and atmosphere, not manufactured by property developers or government regeneration schemes; it has an established village vibe of creative, entrepreneurial companies. Old Street is already well connected to both the West End and the City. White Collar Factory is sited directly on Old Street stations and communications will get even better when Crossrail arrives with an entrance less than 10 minutes' walk away at Moorgate station.

LOOKING TO THE FUTURE

As we have demonstrated through our prototype and our ongoing marketing, the White Collar Factory campus will provide exactly the sort of collegiate 'long life, loose fit' space that will appeal to a variety of forward-looking businesses.

CELINE THOMPSON
HEAD OF LEASING