

PROJECTS

Development is central to the way we add value through planning, winning space and regeneration.



SIMON SILVER
EXECUTIVE DIRECTOR

25.1%

increase in value of
development properties

586,000 sq ft

of major projects currently on site

We are taking advantage of market conditions to raise our activity levels with one major scheme started in 2014 and one more due to start in each of the next two years. We estimate that 55% of our portfolio is either currently under construction, or earmarked for refurbishment or redevelopment. Major projects where we are currently on site represent approximately 10% of the portfolio.

During 2013 we completed 248,100 sq ft (23,050m²) of major projects, all of which are fully let and generated a profit on cost of 39%. We are on site with 586,000 sq ft (54,450m²), which is 27% pre-let. The five new developments underway are expected to achieve a profit on cost of 34%. In addition, there is the phased refurbishment at 1-2 Stephen Street W1 where we will soon start a 40,000 sq ft (3,720m²) retail project to be called Tottenham Court Walk. The first three phases of the 1-2 Stephen Street regeneration are expected to generate a profit on cost of 30%.

The major project at 80 Charlotte Street W1 in Fitzrovia is due to start in 2015, and we are on course to commence 55-65 North Wharf Road W2, opposite a Paddington Crossrail entrance, in 2016. In total we have 1.0 million sq ft (94,000m²) of consented future development space with active appraisals which could deliver a further 0.9 million sq ft (84,000m²).

We show our 2013 completions in the table opposite. In aggregate these projects have added £10.9m to our rent roll (or 5.5% of ERV). The most significant project was 1 Page Street SW1, which was pre-let in 2012 and completed in July 2013. We have now created two neighbouring buildings let to Burberry which, in aggregate, comprise 290,000 sq ft (26,900m²) and will generate rental income of c.£11m pa. The Buckley Building was completed in April and was fully let within six months.

In addition we completed 297,300 sq ft (27,620m²) of minor refurbishments, 217,000 sq ft (20,160m²) of which related to 132-142 Hampstead Road NW1.

PROJECTS CONTINUED

Major project pipeline

| | Area sq ft | Comment |
|--|----------------|---|
| Projects completed in 2013 | | |
| 1 Page Street SW1 The Buckley Building, | 127,000 | Let to Burberry at £5.3m pa |
| 49 Clerkenwell Green EC1 1-2 Stephen Street W1 (Phase 1) | 85,000 | Multi-let at £4.2m pa Let to BrandOpus at £0.8m pa |
| Morelands Buildings (rooftop scheme), 5-27 Old Street EC1 | 17,800 | Let to AHMM at £0.6m pa |
| | 248,100 | 100% let |
| Projects on site¹ | | |
| Developments | | |
| White Collar Factory, Old Street EC1 | 293,000 | Office-led development Completion due Q3 2016 |
| 40 Chancery Lane WC2 | 101,800 | Offices and retail Completion due Q4 2014 96% pre-let |
| Turnmill, 63 Clerkenwell Road EC1 | 70,500 | Offices and retail Completion due Q3 2014 83% pre-let |
| Queens, 96-98 Bishop's Bridge Road W2 | 21,400 | Residential and retail Completion due Q4 2014 |
| 73 Charlotte Street W1 | 15,500 | Residential and offices Completion due Q3 2015 |
| Phased scheme | | |
| 1-2 Stephen Street W1 (Phase 2) | 83,800 | Offices Completion due Q2 2014 |
| | 586,000 | 27% pre-let |
| Projects about to commence¹ | | |
| Tottenham Court Walk, 18-30 Tottenham Court Road W1 | 40,000 | Retail, Part 1-2 Stephen Street (Phase 3) |
| | 40,000 | |
| Major planning consents¹ | | |
| 80 Charlotte Street W1 | 380,000 | Offices and residential |
| 55-65 North Wharf Road W2 | 240,000 | Offices |
| 1 Oxford Street W1 ² | 275,000 | Offices, retail and theatre |
| Wedge House, 30-40 Blackfriars Road SE1 | 80,000 | Offices |
| | 975,000 | |

¹ Proposed area

² Crossrail option site

Our six current projects divide into three groups:

New office buildings

The first is creating new office buildings. The recently started White Collar Factory EC1 represents half the current programme's floorspace. This is one of our most innovative projects to date totalling 293,000 sq ft (27,220m²). It comprises a 16-storey office tower (237,000 sq ft / 22,020m²) surrounded at its base by a new open space and a campus comprising 39,000 sq ft (3,620m²) offices, 9,000 sq ft (840m²) retail and 8,000 sq ft (740m²) residential. The project incorporates our latest thinking on office design, which we trialled during the year via our 3,000 sq ft (280m²) live suite created on the site. In Q3 2016 we expect to deliver property capable of matching the evolving occupier demands in the very heart of the Tech Belt overlooking Silicon Roundabout. Having refined the specification of this project we estimate that the future capital expenditure here is around £121m, and the overall ERV is £14m pa.

This group also includes the two major and predominantly pre-let schemes at 40 Chancery Lane WC2 and Turnmill EC1. The latter is also in the Tech Belt. Together these comprise 172,300 sq ft (16,010m²) where the office element has been pre-let to Publicis Groupe. The Group's share of the pre-let office income is £7.8m pa. The retail elements of these projects, 12,300 sq ft (1,140m²) at Turnmill and 4,400 sq ft (410m²) at Chancery Lane, will be marketed during 2014 (ERV £0.5m pa). Both these projects are due to be completed in H2 2014 with further capital expenditure estimated at £36m.

Phased refurbishment

The second group is the phased refurbishment at 1-2 Stephen Street W1. We completed Phase 1 (18,300 sq ft / 1,700m² pre-let to BrandOpus at £52.50 per sq ft / £565 per m² on the ground floor) in November 2013. This phase has also included remodelling the entrance area and the addition of street level exterior improvements. In the second half we secured the surrender of a lease on the top two floors (16,100 sq ft / 1,500m²) of 1 Stephen Street which takes the current amount of office space under refurbishment to 83,800 sq ft (7,790m²). We will soon start Phase 3, the part extension and part refurbishment of the Tottenham Court Road retail frontage now called Tottenham Court Walk. In total we estimate these phases to have an ERV of over £8m, and will require c.£21m of future capital expenditure.

Residential projects

The final category is represented by two residential projects. Queens is in Westbourne Grove, Paddington W2 and comprises 16 private flats and 2,700 sq ft (250m²) retail. 73 Charlotte Street W1 is in Fitzrovia and includes nine private flats, two affordable flats and 1,900 sq ft (180m²) offices. The additional capital expenditure to complete these two projects is estimated at £19m and we intend to sell the flats on completion in Q4 2014 and Q3 2015, respectively.



Smaller projects

We have a number of smaller scale refurbishments underway at properties such as Tea Building E1 and 1 Oliver's Yard EC2. These minor refurbishments totalled 51,000 sq ft (4,740m²) at the year end.

Completions and capital expenditure



Construction costs

Our expected construction costs have risen in 2013 through a mixture of market forces and design enhancements. So far these rising costs have been more than matched by rental growth. £185m of our current capital expenditure programme is now largely fixed, but, looking ahead, we expect construction costs to increase further. This is now much more of a risk than in the recent past. Our experienced in-house team aims to mitigate the rising costs through our long-term relationships with contractors, and detailed knowledge of the supply chain. Where possible, we also look to agree terms on contracts early on in the development process.

GETTING THE BEST OUT OF OUR CONTRACTORS

BUILDING STRONG RELATIONSHIPS

As the central London construction market continues to get busier, it is more essential than ever for us to have strong relationships across our supply chain in order to roll out our development pipeline successfully.

Over a number of years we have developed good relationships with a range of contractors. We have a reputation for financial soundness, prompt payment and integrity, making us an attractive customer.

PROVIDING THE NECESSARY SKILLS

We now have a selection of preferred suppliers across a range of project types and styles. This includes, for example, suppliers who have the necessary skills to complete our projects of over 200,000 sq ft, which we are due to start on site over the next five years: the White Collar Factory (on site), 80 Charlotte Street (2015), 55-65 North Wharf Road (2016) and 1 Oxford Street (2018).

UNDERSTANDING THE IMPLICATIONS

Our quantity surveyors help us determine a fair price for each element of a project. Based on their extensive database of construction costs in central London, we can understand in detail what the cost implications of specific design decisions will be. We can look at the cost versus value of each design option in isolation, enabling us, for example, to judge the merits of adding an extra floor or rationalising the common parts to improve net to gross ratio.

TRANSFERRING RISK

Once we have the right design and the right contractor in place, we look to lock in the appropriate level of risk. This will vary from project to project. For example, the appropriate level of risk to transfer to the contractor for ground conditions would differ depending on whether or not we had a geophysical survey.

WORKING CLOSELY

As well as developing close relationships with main contractors, we also get to know their preferred subcontractors, as their performance can be crucial to the successful conclusion of a project. We organise regular roundtables with subcontractors to iron out any issues they may have at as early a stage as possible.

NEGOTIATING GOOD AGREEMENTS

We have recently signed the construction contract for the White Collar Factory with Brookfield Multiplex. They constructed the prototype 'live suite' and will be using the same team on the main construction. We have negotiated a guaranteed maximum price for the scheme without entering into a full tendering process, both cost and time efficient.

RICHARD BALDWIN
HEAD OF DEVELOPMENT

PROJECTS CONTINUED

Project summary 2014-2016

| Property | Current net income £m pa | Pre-scheme area '000 sq ft | Proposed area '000 sq ft | Capital expenditure to complete ¹ | Delivery date | Current office ERV £ per sq ft |
|-------------------------------------|-----------------------------|-------------------------------|-----------------------------|--|---------------|-----------------------------------|
| On-site projects³ | | | | | | |
| Turnmill EC1 | – | 41 | 70 | 12 | Q3 2014 | 55.00 |
| 40 Chancery Lane WC2 | – | 61 | 102 | 24 | Q4 2014 | 65.00 |
| Queens W2 | – | – | 21 | 9 | Q4 2014 | Residential |
| 73 Charlotte Street W1 | – | 13 | 16 | 10 | Q3 2015 | Residential |
| White Collar Factory EC1 | – | 124 | 293 | 121 | Q3 2016 | c.50.00 |
| 1-2 Stephen Street W1 | – | 82 ² | 84 | 9 | Q2 2014 | c.62.50 |
| | – | 321 | 586 | 185 | | |
| 2014 – Consented | | | | | | |
| Tottenham Court Walk W1 | 0.7 | 24 | 40 | 12 | Q2 2015 | Retail |
| | 0.7 | 24 | 40 | 12 | | |
| 2015/2016 – Consented | | | | | | |
| 80 Charlotte Street W1 | 1.9 | 234 | 380 | 150 | H2 2017 | c.65.00 |
| 55-65 North Wharf Road W2 | 1.3 | 78 | 240 | 110 | 2018 | c.57.50 |
| | 3.2 | 312 | 620 | 260 | | |
| Planning and design | | | | 16 | | |
| Other | | | | 87 | | |
| Capitalised interest | | | | 35 | | |
| Total (2014-2016) | 3.9 | 657 | 1,246 | 595 | | |

¹ Excluding projects that commence in 2016 and beyond (as at December 2013)

² Includes redundant storage space – now offices

³ Fixed price contracts

Project summary 2015 onwards

| Property | Current net income £m pa | Pre-scheme area '000 sq ft | Proposed area '000 sq ft | Earliest possession Year | Comment |
|-----------------------------|-----------------------------|-------------------------------|-----------------------------|-----------------------------|--|
| Consented | | | | | |
| Wedge House SE1 | 0.2 | 39 | 80 | 2014 | Rolling break from 2014. Offices |
| 1 Oxford Street W1 | – | – | 275 | c.2017 | Option site. Offices, retail and theatre |
| | 0.2 | 39 | 355 | | |
| Appraisals | | | | | |
| Jaeger House W1 | 0.9 | 25 | c.30 | 2014 | Potential sale |
| Balmoral Grove N7 | 0.6 | 67 | c.200 | 2014 | Residential potential |
| 9 Prescott Street E1 | 1.2 | 103 | c.113 | 2015 | |
| 25 & 29 Berners Street W1 | 1.4 | 79 | c.100 | 2016 | Tenant can break earlier |
| Monmouth House EC1 | 1.4 | 42 | c.75 | 2016 | |
| Network Building W1 | 2.3 | 64 | c.100 | 2017 | |
| Mark Square House EC2 | 1.5 | 62 | c.70 | 2018 | |
| 19-35 Baker Street W1 | 5.1 | 146 | c.250 | 2018 | |
| Premier House SW1 | 1.9 | 62 | c.80 | 2018 | |
| | 16.3 | 650 | 1,018 | | |
| Adjustments for JVs | (2.3) | (66) | (113) | | 19-35 Baker Street |
| | 14.0 | 584 | 905 | | |
| Total (2015 onwards) | 14.2 | 623 | 1,260 | | |
| Total pipeline | 18.1 | 1,280 | 2,506 | | |

Future developments

Beyond the current year we are well set to start one major project in both 2015 and 2016. Together 80 Charlotte Street W1 and 55-65 North Wharf Road W2 represent 620,000 sq ft (57,600m²) of development, could produce c.£34m of rent pa, and are expected to require c.£260m of future capital expenditure. In addition we are working on a number of new projects where leases expire in the next few years. These include 9 Prescot Street E1, 25 & 29 Berners Street W1 and Monmouth House EC1 which together could represent another c.290,000 sq ft (26,900m²) of development activity starting in the same time frame.

“For a long time there was a correlation between the patterns of work and the shape of the building. What’s happening now is that patterns of work are changing faster than the shape of the buildings.”

FRANK DUFFY
URBAN OMNIBUS ‘A WALK WITH FRANK DUFFY’

Development potential million sq ft



£280m

of estimated capital expenditure for the next two years

1.0m sq ft

of projects with planning permission

0.9m sq ft

under active appraisal