

VALUATION

A buoyant letting market, rental growth and record investment turnover provided favourable conditions for central London commercial property values to rise during 2013.



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EXECUTIVE DIRECTOR

It was in this buoyant environment that the Group's investment portfolio was valued at £3.35bn at 31 December 2013. There was a valuation surplus of £352.5m before accounting adjustments of £15.0m (see note 18), giving a total reported movement of £337.5m.

The underlying valuation increase for 2013 was 12.6%, outperforming the 7.3% achieved in 2012. During the year we achieved an outstanding gain on the disposal of 1-5 Grosvenor Place SW1 for £132.5m before costs. If this building had been retained and revalued at the sale price, the portfolio's underlying increase would have been 13.9%. On both bases the portfolio outperformed the IPD Index for Central London offices in 2013 which increased by 11.2%, and the wider market, the IPD All Property Index, which rose by 4.3%.

Within the investment portfolio, we are undertaking a number of major projects. At the beginning of 2013, these comprised four developments (The Buckley Building, 1 Page Street, Turnmill and 40 Chancery Lane), and two major refurbishments (1-2 Stephen Street Phases 1 and 2 and Morelands Buildings' rooftop scheme). During the year, two residential projects were added, namely Queens and 73 Charlotte Street, and recently we started our White Collar Factory office-led project.

£337.5m
valuation surplus

12.6%
underlying valuation uplift

Portfolio reversion



Portfolio statistics – valuation

	Valuation £m	Weighting %	Valuation performance ¹ %	Valuation performance £m	Occupied floor area '000 sq ft	Available floor area '000 sq ft	Minor refurbishment floor area '000 sq ft	Project floor area '000 sq ft	Total floor area '000 sq ft
West End									
Central	2,076.5	62	10.7	197.4	2,762	14	13	121	2,910
Borders	303.0	9	11.7	31.8	557	3	9	–	569
	2,379.5	71	10.8	229.2	3,319	17	22	121	3,479
City									
Borders	879.9	26	20.3	123.0	1,541	21	29	309	1,900
Central London	3,259.4	97	13.0	352.2	4,860	38	51	430	5,379
Provincial	93.7	3	0.3	0.3	325	–	–	–	325
Total portfolio 2013	3,353.1	100	12.6	352.5	5,185	38	51	430	5,704
2012	2,859.6	100	7.3	183.3	4,729	66	336	314	5,445

¹ Properties held throughout the year

Valuation performance %



¹ Quarterly Index

² Including 1-5 Grosvenor Place SW1

In total, these nine assets were valued at £588.6m at 31 December 2013 and delivered a strong 25.1% increase in value as development surpluses were recognised. Excluding these projects, the underlying performance was 10.1%.

With The Buckley Building, 1 Page Street and Morelands Buildings now complete, we are on site at six projects. These are valued at £369.4m and represent 11% of the portfolio.

Our estimated rental values continue to move forward, and have now been on a steady upward trend for four years. On an underlying basis, they rose by 5.7% during 2013, and followed a 6.7% increase in 2012. This was at the top end of our prior year guidance of 4-6%.

Our central London properties comprise 97% of the portfolio and saw a 13.0% valuation uplift. Within this, the West End was up 10.8% and the City borders 20.3%, the latter reflecting the strong demand for space, especially from the TMT sector, and development surpluses. The balance of the portfolio at 3%, our Scottish holdings, saw a marginal increase of 0.3%.

On an EPRA basis, the portfolio's net initial yield at year end was 4.2% which rises to 4.8% on a 'topped-up' basis, following contractual uplifts and expiry of rent free periods. The true equivalent yield was 5.28%, a 27 basis points tightening from the 5.55% at the beginning of the year. The majority of the yield tightening came in the second half at 24 basis points, compared to 3 basis points in the first half, as the already buoyant investor appetite for central London property noticeably increased towards the end of the year.

Our annualised net contracted rental income was £126.0m at the year end. The portfolio is highly reversionary through contracted rental uplifts, market reviews and income from letting available space and current projects. The portfolio ERV was £197.0m giving a potential £71.0m reversion, representing a 56% uplift. Of this, £30.2m is from contracted rental uplifts, including expiry of rent free periods and future income from pre-let space at our projects on site. The latter totals £7.8m (net), from the letting to Publicis Groupe at Turmill and 40 Chancery Lane. A further £23.2m of potential reversion could be captured through letting space, principally our current development programme. The balance of the reversion, at £17.6m, is from future rent reviews and lease renewals.

The portfolio's total property return was 18.5% for 2013, compared to 11.6% in 2012. The IPD Total Return Index was 15.8% for Central London Offices and 10.5% for All UK Property.