Development Securities PLC

Preliminary results for year ended 28th February 2014

DEVELOPMENT SECURITIES PLC

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OVERVIEW AND HIGHLIGHTS

Headline numbers

	EPRA			Non-EPRA		
	Year ended 28th February 2014	Year ended 28th February 2013	Change in the year	Year ended 28th February 2014	Year ended 28th February 2013	Change in the year
Profit before tax	£19.5m	£0.8m	↑ £18.7m	£19.5m	£0.8m	↑ £18.7m
Net Asset Value (NAV)	£328.3m	£317.6m	↑ £10.7m	£320.3m	£306.7m	↑ £13.6m
NAV per share	269p	260p	↑ 9p	262p	251p	↑ 11p
NAV growth pre-dividend	5.2%	1.2%	-	6.4%	0.1%	-
Earnings per share	7.8p	10.5p	-	14.9p	2.0p	-
Development and trading profits	£27.0m	£28.1m	-	£27.0m	£28.1m	-
Final dividend	3.2p*	2.4p	↑ 33.3%	3.2p*	2.4p	↑ 33.3%

- Balance sheet strength maintained:
  - Balance sheet gearing maintained at 48.0% (2013: 47.9%)
  - Gearing including share of JVs at 56.8% (2013: 63.9%)

*recommended

Operational highlights

- Continued delivery of significant development and trading gains :
  - £27.0m including £2.9m from Phones 4u Arena (2013: £28.1 m)
  - Good visibility on further pipeline of gains over next few years

- Investment portfolio performance improved as regional markets rebound:
  - £3.1m increase in value of assets held directly (2013: £16.3m decline)
  - £4.8m increase in value including share of joint ventures (2013: £12.8m decline)
  - 3.3% growth within core portfolio compares against IPD 12 month return (excluding Central London) of 3.2%
  - Void rates reduced by one third to 6.3%

- £260m* of real estate sold to date since 1 March 2013 – equity released to be recycled into further investment and development opportunities

- 12 new acquisitions to date since 1 March 2013 totalling £69.8m* – majority by value are mixed-use regeneration projects in London and the South East

- 16* planning wins to date since 1 March 2013 – 100% success rate

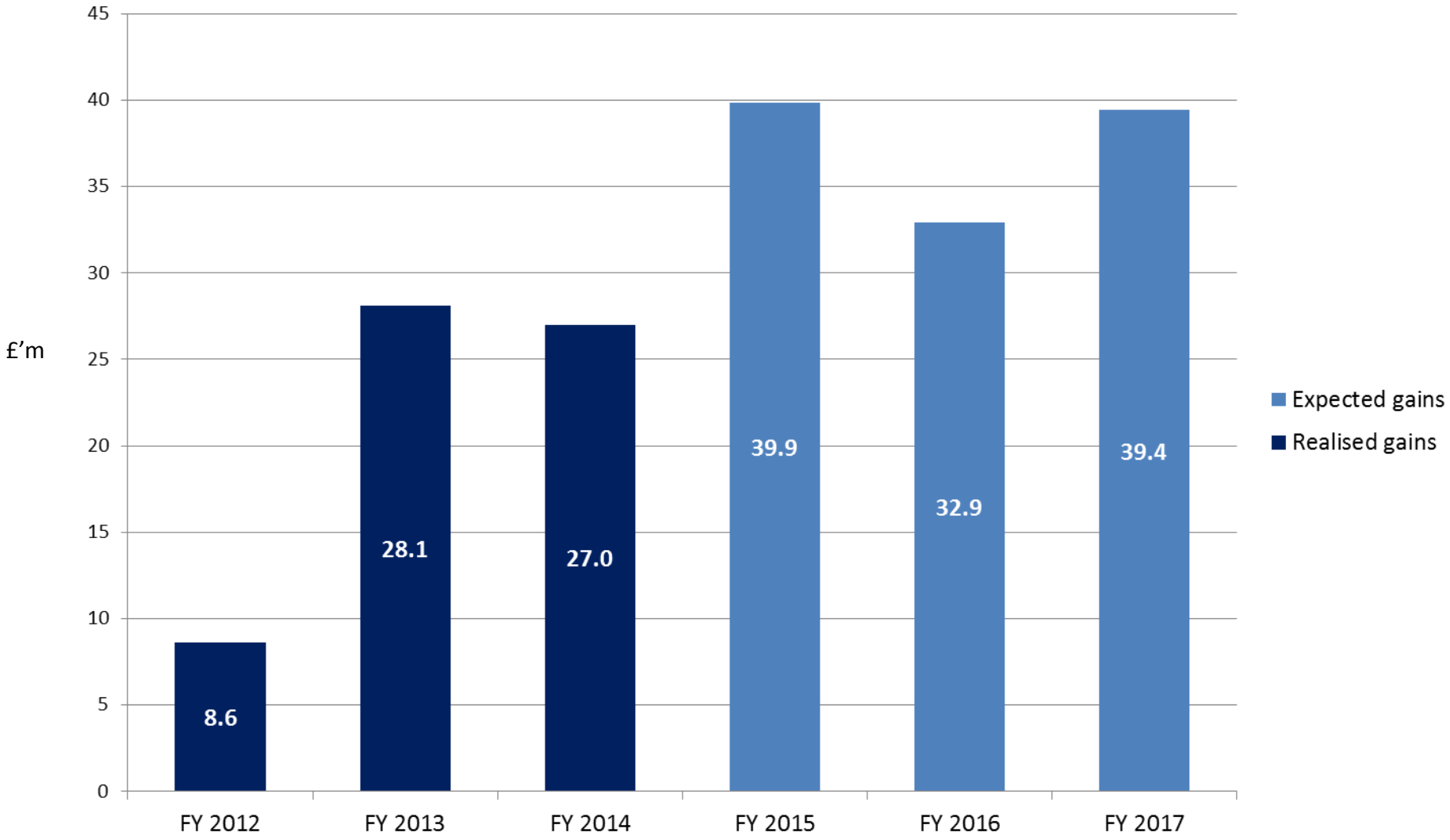
- £189m* of institutional funding secured to finance development of four mixed-use regeneration projects (Shepherd's Bush Market, 12 Hammersmith Grove, Cross Quarter in Abbey Wood and Hale Barns)

- Three major edge of Central London office development opportunities in hand totalling c. 400,000 sq. ft.

*including share of JVs

Further significant trading gains to follow

Current expectations of gains to be released across portfolio



Anticipated project delivery pipeline

	FY 2015	FY 2016	FY 2017	FY 2018+
DEVELOPMENT AND TRADING PORTFOLIO				
Hale Barns	X	X		
Marsh Mills		X		
Romford	X			
Barnstable	X			
Beyond Green - Norwich	X	X	X	X
Beyond Green - Pincents Hill, Tilehurst		X		
Launceston	X			
Luneside East		X		
Tranmere – HDD	X			
Lawley – HDD	X			
Buckshaw – HDD	X			
Llanelli - HDD		X		
HDD - other		X	X	X
Abbey Wood	X			
Rembrandt House, Watford	X			
Woking			X	
Lichfield				X
Barwood			X	X
Wind Farms	X	X		
Shepherds Bush	X		X	
The MVMNT, Greenwich	X			
Kensington Church Street		X		
The Old Vinyl Factory, Hayes	X	X		
Morden Wharf			X	
Axis, Manchester	X		X	
Percy Place, Dublin		X		
South Woodham Ferrers		X		
Deeley Freed	X	X		
North London office portfolio	X		X	
Tubs Hill House, Sevenoaks	X			
Valentine's House, Ilford		X		

	FY 2015	FY 2016	FY 2017	FY 2018+
MAJOR DEVELOPMENTS PORTFOLIO				
Cambridge Science Park	X	X	X	
12 Hammersmith Grove	X		X	
10 Hammersmith Grove	X			
Southwark		X		X
Cambourne			X	X
Birmingham International Park	X			
Slough			X	X
New Central London asset				X
INVESTMENT PORTFOLIO				
Wick Lane Wharf			X	

Group finance

- €47m medium-term unsecured loan notes restructured during the year:
  - 7 year maturity reduced from 13 years
  - £0.8m reduction in annualised finance costs from FY 2015 and thereafter
  - £9.7m of cash collateral released for further reinvestment
  - 4.9% annualised cost
- £78.6m of new debt facilities secured to date since 1 March 2013 against the following projects:
  - North London office portfolio
  - Refinance at Wick Lane Wharf (in JV)
  - Market Place and Tollgate House, Romford
  - Shepherd's Bush Market (in JV)

Directors' remuneration

- In recent months, the Company has been in extensive dialogue with major shareholders with a view to the presentation of a revised remuneration policy that more closely aligns the interests of management and shareholders

- The main feature of the revised remuneration policy is that, after a transition period, individual project cash bonuses are replaced by share awards that are primarily linked over a medium-term period with NAV growth performance

- Full details will be disclosed in the annual report and the new Remuneration Committee recommendations will be placed before the AGM for approval

FINANCIAL RESULTS

DEVELOPMENT SECURITIES PLC

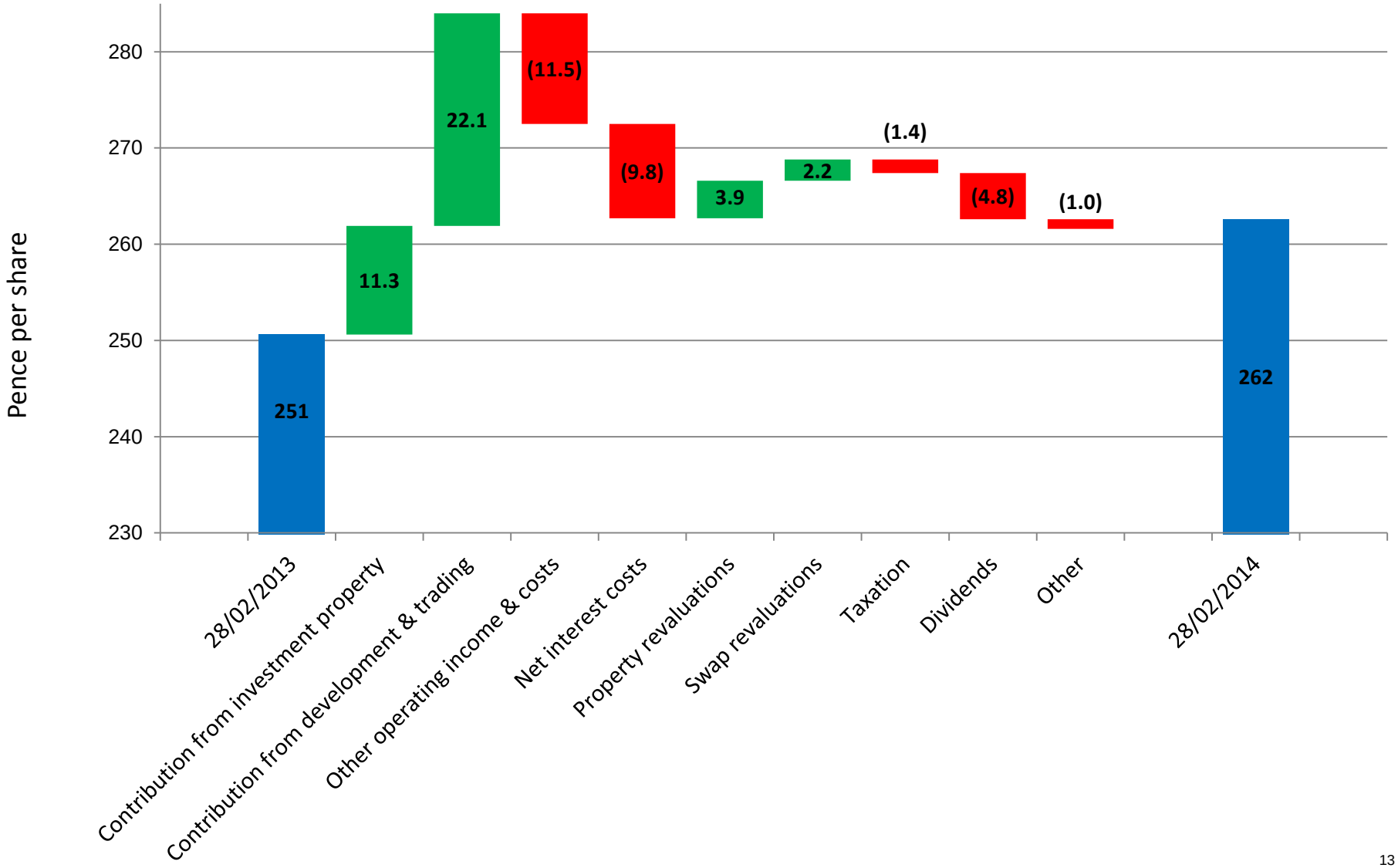
Results for the year ended 28 Feb 2014

	FY 2014 £'m	FY 2013 £'m
Profit before revaluations, interest & taxation	**25.7**	23.8
Net finance costs	**(11.9)**	(9.3)
Profit before revaluations and taxation	**13.8**	14.5
Swap revaluations	**0.9**	(0.9)
Property revaluation gains/(loss) (including joint ventures)	**4.8**	(12.8)
Profit before tax	**19.5**	0.8
Basic profit per share	**14.9p**	2.0p
Dividend per share	**5.6p**	4.8p

Contribution to NAV growth

	£'m	Cash-related in the year £'m	Non cash-related in the year £'m
Net assets attributable to shareholders at 28 Feb 2013	306.6		
Contribution from investment property	13.9	16.8	
Property revaluations	4.8		4.8
Contribution from development and trading portfolio	27.0	24.1	
Operating costs	(14.0)	(14.0)	
Net interest costs	(11.9)	(11.9)	
Swap revaluations	2.7		2.7
Other	(1.2)	(1.2)	
Taxation	(1.7)	(1.7)	
Dividends	(5.9)	(5.9)	
Sub-total	13.7	6.2	7.5
Net assets attributable to shareholders at 28 Feb 2014	320.3		

FY 2014 growth in NAV per share



Net Debt

	28 Feb 2014 £'m	28 Feb 2013 £'m
Gross debt	**221.1**	206.0
Cash	**(67.3)**	(59.2)
Net debt	**153.8**	146.8
Gearing	**48.0%**	47.9%
Share of net debt in joint ventures	**28.1**	49.3
Net debt including joint ventures	**181.9**	196.1
Gearing including joint ventures	**56.8%**	63.9%
Analysis of gross debt (excluding JVs)		
Fixed rate	**43.5%**	48.0%
Capped / SWAP	**42.2%**	42.1%
Floating rate	**14.3%**	9.9%
Weighted average interest rate	**5.8%**	5.9%
Weighted average maturity	**6.8 years**	8.3 years

OUTLOOK

Well positioned to capitalise on further opportunities

- Steady pipeline of gains now established for the coming years
- Good visibility on further investment and development opportunities where we can reinvest realised equity
- Continued focus on mixed-use regeneration projects in Greater London and the South East
- Ireland presents considerable investment and development opportunities for us – a market in which we see strengthening demand and opportunities to apply our strategy of creating value through regeneration
  - Maximum equity exposure in this market to be restricted to c.£20m
- Increasing focus on the residential element of our portfolio and further opportunities to build our presence in this market

Residential – our pipeline

- A considerable pipeline of over 6,500 residential plots has been assembled (see Appendix 3 for details) in recent years, the majority within mixed-use development projects including:
  - Over 2,000 units in Greater London presenting near-term opportunities
  - 3,500 units in Norwich
- Our presence in Central London is restricted, with two schemes at Kensington Church Street (c.40 units) and Shepherd's Bush Market (211 units)
- Further opportunities under consideration in Dublin with one residential-led development site already acquired. Additionally, both PRS and land improvement opportunities are under consideration
- Additional interest held in a number of strategic land funds - 7,550 consented residential units within our strategic land partnerships (Barwood and Beyond Green)
- Establishment of a DS housebuilding division is under consideration to capitalise on our ability to source land and obtain planning

Residential - delivery

Strategy for delivery of residential pipeline is under review with several options under consideration:

- **Development for sale** - no more than £50m of working capital would be committed at any one time into housebuilding for sale.
  - 399 Edgware Road and Cross Quarter, Abbey Wood present options for near-term delivery

- **PRS** - opportunities to enter the PRS market either in our own right or with institutional partners:
  - Development Securities involvement could require further working capital
  - Third party capital could alternatively be sought to monetise some of our existing land holdings

- **Plot sales to housebuilders** – extend our current activity in obtaining residential planning consents and selling land to housebuilders, monetising our position

DEVELOPMENT SECURITIES PLC

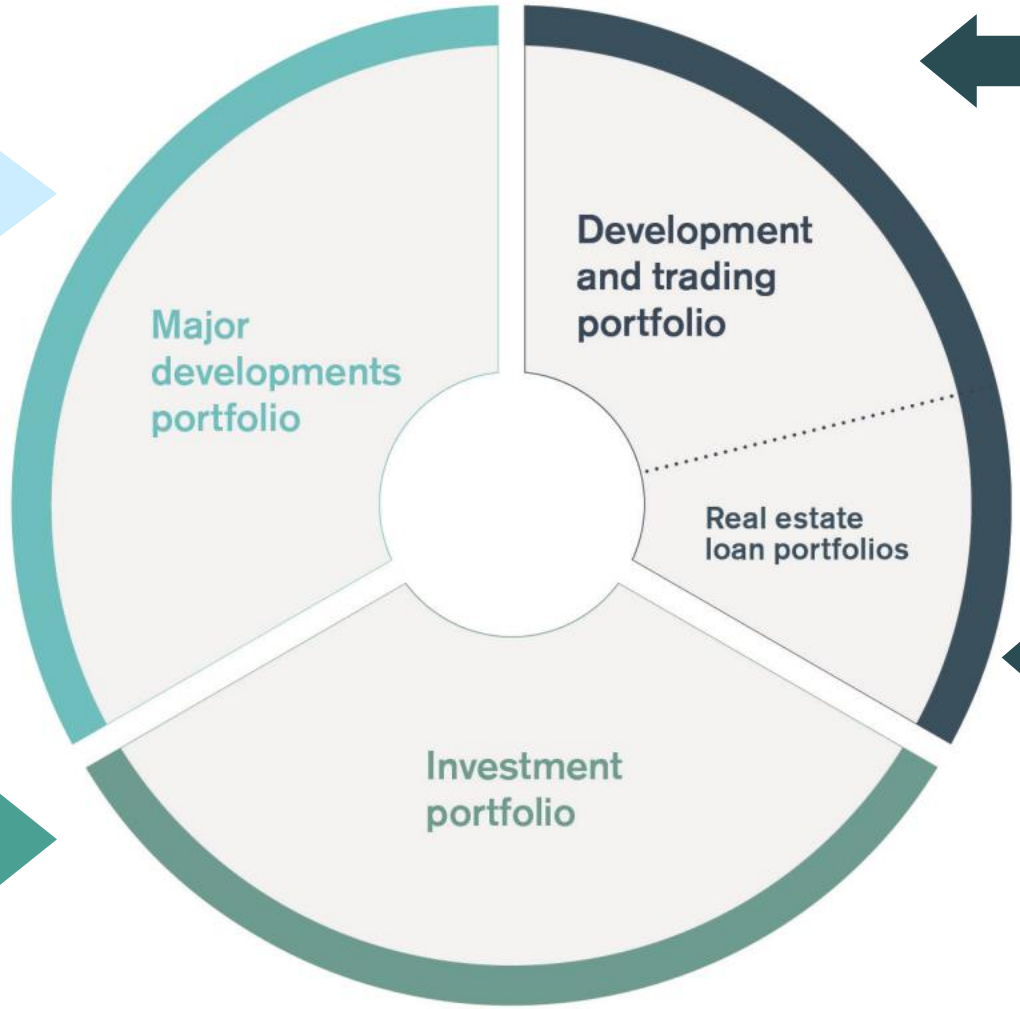
OPERATING REVIEW

1) Overview
2) Legacy assets
3) Development and trading portfolio
4) Major developments portfolio
5) Investment portfolio

1) Overview – a diversified portfolio of real estate assets

See Appendix 2 for further details on strategy and approach

Focus on commercial-led mixed-use developments on the edge of Central London



Extensive portfolio of projects established

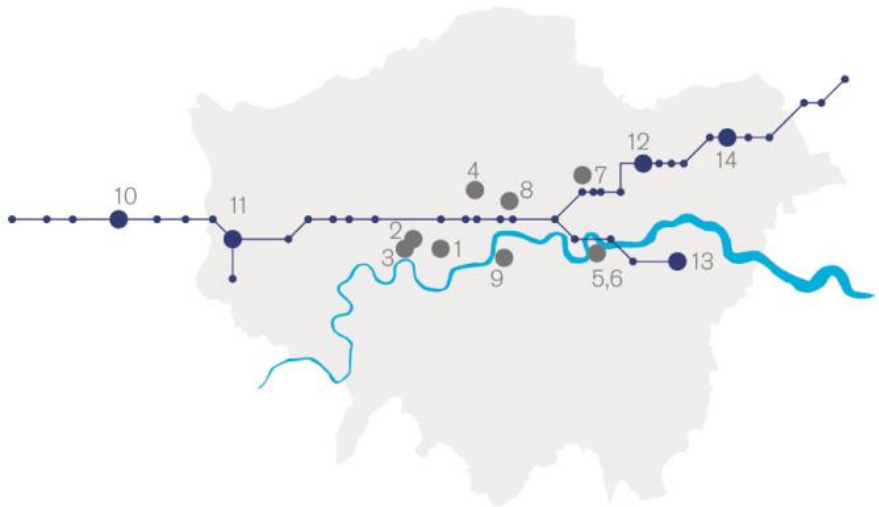
Good visibility on profits over the near to medium-term

Further loan portfolios under negotiation

Investment portfolio held for consistent cash yield and to support overheads

Geographic focus – London and the South East

London and Crossrail



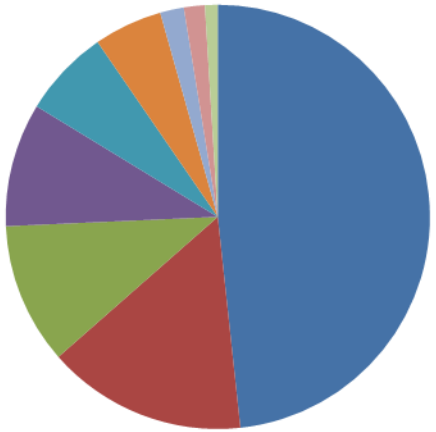
Key London assets

1 Kensington Church Street
2 Shepherd's Bush Market
3 10 and 12 Hammersmith Grove
4 399 Edgware Road
5 Morden Wharf, Greenwich
6 The MVMNT, Greenwich
7 Wick Lane Wharf
8 Portfolio of five North London offices
9 Algarve House, Southwark

Crossrail-enhanced projects

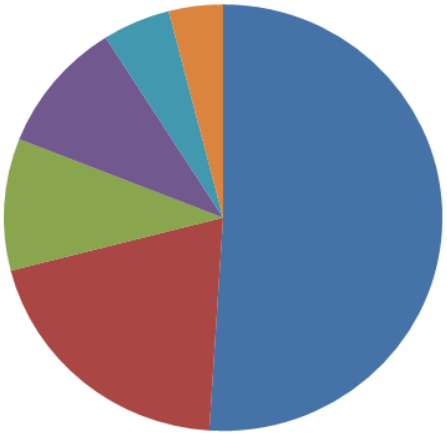
10 Brunel Place, Slough
11 The Old Vinyl Factory, Hayes
12 Valentine's House, Ilford
13 Cross Quarter, Abbey Wood
14 Tollgate House and Market Place, Romford

Development and trading portfolio –
geographic location by equity invested



London	48%
South East	15%
North	11%
South West	9%
Wales	7%
Midlands	5%
Scotland	2%
East Anglia	2%
Northern Ireland	1%

Investment portfolio -
location profile by capital value



South East	51%
South West	20%
Wales	10%
North	10%
London	5%
Midlands	4%

Our focus

We continue to focus on:

- Opportunities where high yield differential between prime and secondary augments creation of value through regeneration
- Acquisitions of further real estate loan portfolios from banks
- Major commercial development opportunities in edge of Central London locations – supply-demand dynamics now favour such large scale office developments
- Risk diversification across more than 40 projects thus reducing specific risk
- IRRs of 20 per cent and above

2) Legacy assets

Broughton, Flintshire

- £11.4m sale of 19-acre site to a housebuilder in May 2013

399 Edgware Road, London NW9 (£26.4m)

- Demolition of derelict shopping centre underway
- Under offer with a funding partner regarding foodstore element of scheme (pre-let to Morrisons) – c.£12.5m expected to be monetised upon funding
- Delivery options for remaining 183 residential units under review – could include development for private sale, private rent or joint venture with a delivery partner

Curzon Street, Birmingham (£10.5m)

- 10-acre site adjacent to Birmingham Central station
- Impacted by proposed HS2 terminus - scheme currently on hold

3) Development and trading portfolio - highlights

Gains of £27.0m from disposals of development and trading assets

- Continued momentum in delivery of projects across diversified portfolio
- Good visibility on pipeline of significant gains over the next few years

Five development and trading assets acquired in the South East to date since 1 March 2013:

- Mostly residential-led regeneration projects
- Focus on Greater London and the South East
- First acquisition in Dublin

Acquisition	Price
North London office portfolio	£17.5m
Deeley Freed funding	£8.5m
Tubs Hill House, Sevenoaks	£5.5m
Percy Place, Dublin	€2.4m
Market Place &Tollgate House, Romford	£8.3m

100% success in securing planning consents – a key driver to value creation

- 16 planning consents secured to date since 1 March 2013 including joint venture assets
- Majority of consents for mixed-use regeneration projects

Development and trading portfolio contribution

	FY 2014 £'m	FY 2013 £'m
Phones 4u Arena, Manchester	**2.9**	-
PaddingtonCentral	**6.4**	-
Newport	**1.7**	-
The Old Vinyl Factory, Hayes, London	**1.8**	-
Cross Quarter, Abbey Wood, London	**1.6**	-
Rock Portfolio	**0.4**	4.3
Project Management Fees/Net Rental Income	**3.4**	2.5
Gains arising from additional trading asset realisations	**7.7**	12.7
Other	**1.1**	4.2
Wick Site, Littlehampton	**-**	2.5
Westminster Palace Gardens, London	**-**	1.9
Gross contribution	**27.0**	28.1

SHEPHERD'S BUSH MARKET

- Detailed planning consent secured for a residential-led regeneration scheme on this historic London site
- Judicial review application conclusively dismissed by the Court of Appeal
- £44.1m of forward funding secured with Pramerica Real Estate Investors to finance the completion of the land acquisition phase (including acquiring the site of the market from TfL) and also site preparation works
- Process of land assembly is advanced with full vacant possession contingent on the successful conclusion of the CPO inquiry in Q2 2014

HALE BARNS, GREATER MANCHESTER

- Foodstore-anchored mixed use development scheme in an affluent Manchester suburb
- 30,000 sq. ft. food store pre-let to Booths and 24 residential apartments due to be launched for sale in Summer 2014
- £14.8m of forward funding secured for the development of the site
- Construction underway with practical completion anticipated in Q4 2014

NORTH LONDON OFFICE PORTFOLIO

- Portfolio of five offices acquired in February 2014 for £17.5m, a 3.65% yield
- Properties located in North London, zones 1 and 2, close to major transport hubs
- Contracts exchanged to sell one of the office buildings (photo featured) to recycle equity and crystalise gains
- Change of use is being progressed for residential-led conversion in respect of remaining assets

TUBS HILL HOUSE, SEVENOAKS

- Office building in Sevenoaks acquired for £5.5m in November 2013
- Benefits from prominent location, 200 metres from Sevenoaks station
- Permitted Development Rights obtained for change of use from office to residential
  Detailed planning application for residential scheme to be submitted in Q3 2014

(CGI of proposed scheme shown)

4) Major developments portfolio – focus

Edge of Central London – demand rising for quality office product

- Renewed focus on office-led development on edge of Central London locations
- Demand is increasing in these locations as Central London rental values are increasingly challenging for some occupiers
- Supply of quality product in these locations is constrained

Regional office market – knowledge clusters are key

- Outside of London, traditional office market is still weak but the office market supplying strong “knowledge clusters” is showing strength
- Cambridge Science Park, Cambourne Business Park near Cambridge and Harwell Oxford all present good growth prospects in this market

Major developments portfolio - highlights

10 Hammersmith Grove:

- Practical completion achieved in July 2013 on time and within budget
- All of the office space bar 22,000 sq. ft. (one and a half floors) are now let or in lawyers hands – includes letting of two floors to UKTV in March 2014

12 Hammersmith Grove:

- Forward funded by SWIP Property Trust for £92.0m in March 2014
- Construction of 167,000 sq. ft. office building commencing with practical completion anticipated in Q1 2016

Harwell Oxford

- Appointed private sector partner (in JV with Prorsus) to two Government backed agencies to bring forward the development of this major science Campus
- 700-acre site including a world-renowned science and research Campus with £1bn + of scientific facilities
- Masterplan well-advanced for first phase of development comprising 1 m sq. ft. of commercial and R&D space

Southwark:

- £8.0m option agreement secured at a 100,000 sq. ft. development site adjacent to Southwark underground station
- Masterplan underway for a mixed-use regeneration scheme

HARWELL OXFORD

Harwell site map

N

10 & 12 HAMMERSMITH GROVE (CGI)

5) Investment portfolio – focus

- Regional investment market strengthening as a result of:
  - Recovery in the wider UK economy
  - Central London yields reaching unattractive levels
  - Investors moving up the risk curve, seeking higher quality secondary assets

- Yield compression, greater liquidity and competitive tension now emerging in secondary and regional markets

- **We are seeking to:**
  - Dispose of 'non-core' investment assets where we have concluded our individual asset business plans
  - Recycle equity into further investment opportunities
  - Target foodstore-anchored retail schemes and alternative assets with stable long-term income streams, values are resilient and income yields attractive
  - Proactively add value through asset management and enhancement activities and selected development or redevelopment

Investment portfolio - headlines

- £4.8m increase in value of our investment portfolio including our share of joint venture investment assets (2013: 12.8m decline)
- £3.1m increase in value of our directly held investment portfolio (2013:£16.3m decline)
- Contracted rent at £14.1m compared to £15.5m as at 28 Feb 2013
- Void rates decreased to 6.3% compared to 9.7% at 28 Feb 2013
- 3.3% growth in the value of our core direct investment portfolio compares against 3.2% growth in the IPD monthly index excluding Central London

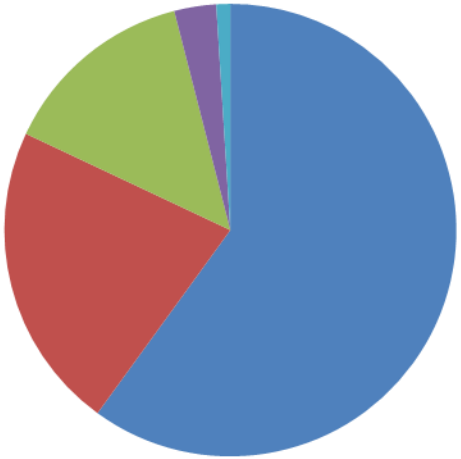
Top 5 Occupiers as at 28 Feb 2014		Annual rent £'m	% of contracted rent
1	Waitrose	2.1	14.6%
2	Primark Stores	0.5	3.5%
3	Sports World	0.5	3.4%
4	Martin McColl	0.5	3.3%
5	Trillium Secretary of State	0.3	2.4%

Investment portfolio – highlights

- **Disposals (including those made since 1 March 2014)**
  - £82.1m disposal of Phones 4u Arena in Manchester
  - £21.0m portfolio of four assets sold to Kames capital at a 7.50% yield
  - £23.3m sale of retail scheme in Winchester at a 4.85% yield
  - £13.5m sale of an industrial trading estate in Brentford slightly ahead of book value
  - £10.1m disposal of shopping centre in Chorlton near Manchester at a 7.14% yield
- **Acquisitions (includes those made since 28th February 2014) – reinvesting equity into further investment assets**
  - Brighton hotel – acquired for £4.5m and pre-let secured with YHA on majority of space. 7.3% income yield
  - Armagh shopping centre – contracts exchanged for £7.4m with Sainsbury's anchor. 9.4 % initial yield
  - Altrincham leisure asset – acquired for £4.4m. 7.0% initial yield.
- **Asset enhancement**
  - Significant lease regear completed with Waitrose at two food store anchored retail schemes –Thatcham and Winchester (subsequently sold)

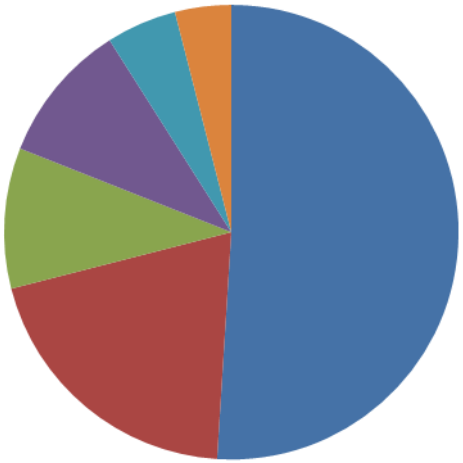
Direct investment portfolio – overview

Tenant profile (rental income)



PLC/Nationals	60%
Local Traders	22%
Regional Multiples	14%
Government	3%
FTSE 100	1%

Location profile (capital value)



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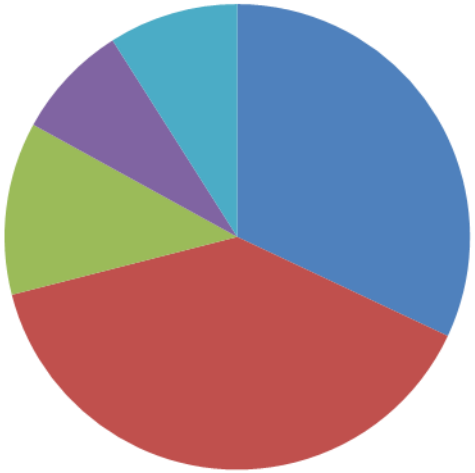
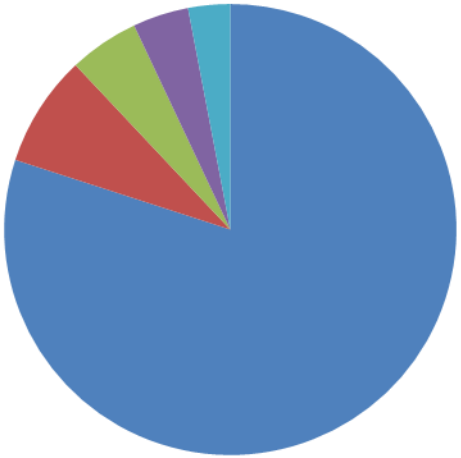
South West	20%
Wales	10%
North	10%
London	5%
Midlands	4%

Lease profile (rental income)



0-5 years	32%
5-10 years	39%
10-15 years	12%
15-20 years	8%
20+ years	9%

Analysis by sector (capital value)



Retail	80%
Mixed	8%
Office	5%
Industrial	4%
Residential	3%

Direct investment portfolio – overview cont…

	FY 2014	FY 2013
Portfolio value	**£202.1m**	**£220.1m**
Number of assets*	**25**	**25**
Contracted rent	**£14.1m**	**£15.5m**
Valuation yield*	**7.2%**	**7.5%**
Equivalent yield*	**7.7%**	**7.9%**
Voids*	**6.3%**	**9.7%**

*Relates to core direct portfolio only

DEVELOPMENT SECURITIES PLC

Investment property portfolio contribution (includes share of JVs)

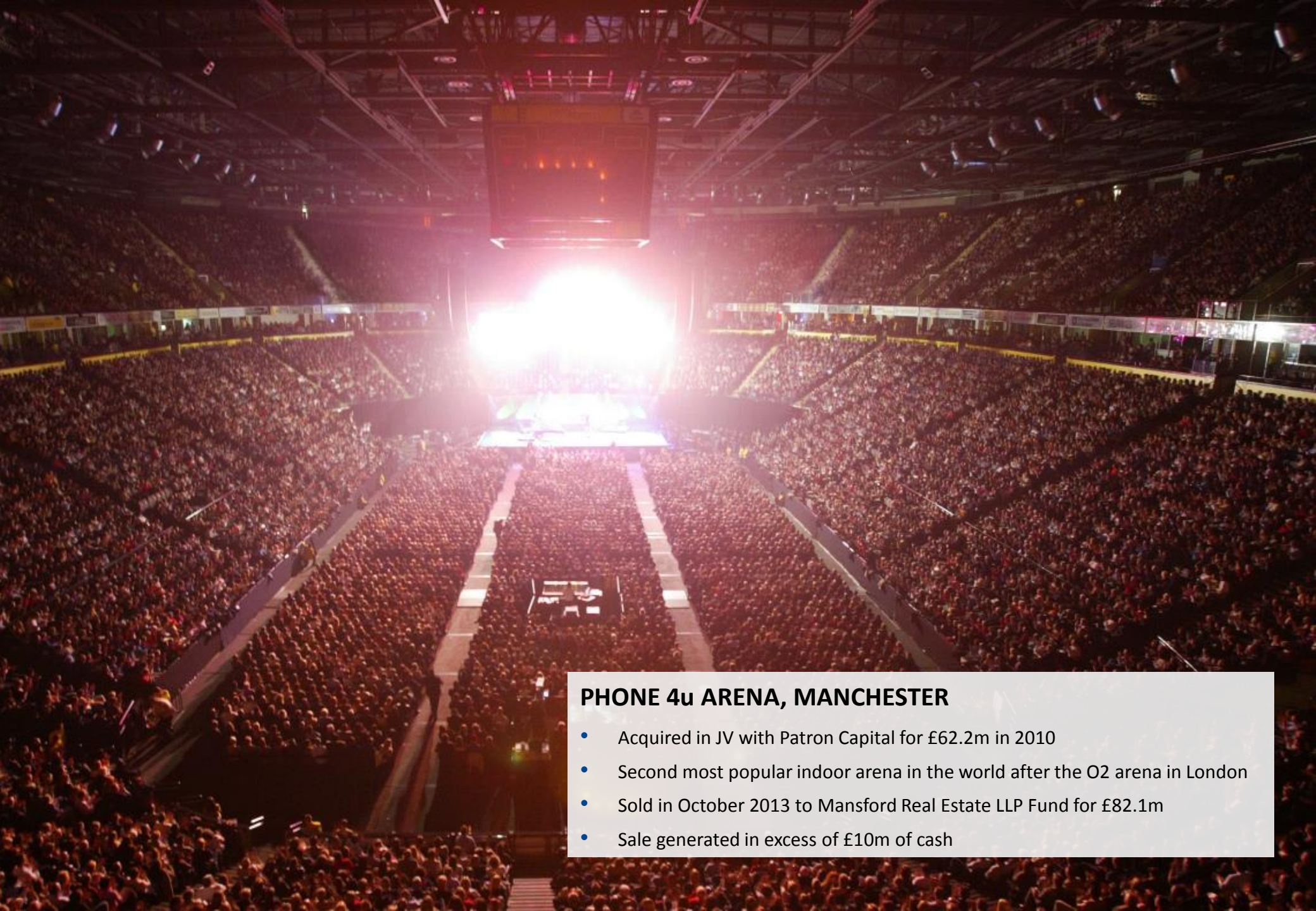
	Year ended 28th Feb 2014 £'m	Year ended 28th Feb 2013 £'m
Revenue	**15.0**	**16.1**
Direct costs	**(2.6)**	**(4.0)**
	12.4	**12.1**
Gains on disposals	**0.5**	**0.9**
Asset management fees and joint venture net income	**1.0**	**(0.2)**
Contribution prior to revaluation	**13.9**	**12.8**
Revaluation (loss)/gain		
- Direct	**3.1**	**(16.3)**
- Share of JV	**1.7**	**3.5**
Contribution	**18.7**	**0.0**

DEVELOPMENT SECURITIES PLC

2014 Investment portfolio analysis – core investment portfolio*

Sector	Capital value	% of portfolio by capital value	Void rates	Net initial yield	Weighted average lease length	London/SE weighting	Valuation movement**
Foodstore anchored	£68.8m	32.6%	2.7%	5.2%	13.4 years	36.7%	7.1%
Foodstore anchored (outside DS ownership)	£39.4m	18.6%	14.6%	9.1%	5.6 years	6.4%	4.3%
Other Retail	£47.1m	22.3%	0.2%	7.8%	9.3 years	9.2%	1.1%
Commercial	£8.0m	10.2%	6.2%	11.7%	1.7 years	0.0%	1.3%
Mixed-use	£8.0m	3.8%	0.0%	8.8%	5.3 years	0.0%	4.6%
Leisure	£16.4m	12.5%	1.8%	7.0%	16.6 years	4.9%	8.6%
Total	£187.6m	100.0%	7.0%	7.2%	9.9 years	57.2%	4.7%

*Analysis covers core investment assets – direct investment portfolio excluding developable land and site assembly
**Analysis on a like-for-like basis



PHONE 4u ARENA, MANCHESTER

- Acquired in JV with Patron Capital for £62.2m in 2010
- Second most popular indoor arena in the world after the O2 arena in London
- Sold in October 2013 to Mansford Real Estate LLP Fund for £82.1m
- Sale generated in excess of £10m of cash

ROYAL YORK BUILDINGS, BRIGHTON

- 51-bed former hotel acquired for £4.5m in February 2014 from an administrator acting on behalf of a bank
- Planning secured for a change of use from a hotel to a 180-bed hostel
- Pre-let secured with the YHA on a 100-year lease

APPENDIX 1 – BUSINESS OVERVIEW

Executive team

Michael Marx

Chief Executive

Marcus Shepherd

Finance Director

Julian Barwick

Executive Director

Matthew Weiner

Executive Director

Five core principles

The following principles, consistently followed over 15 years, underpin our strategy and our approach to risk-management:

1. **We target modest levels of gearing (c.50% – 60%)**

2. **We do not undertake major developments on our Balance Sheet and minimise exposure through forward-funding/pre-lets**

   We consider large-scale development projects to be generally a "second half" economic cycle activity driven by an expanding economy and strengthening demand.

   We have never believed it appropriate for a company of our size to accept sole development risk in relation to our substantial development projects and consequently, we share the majority of development project risk with financial institutions and partners who are the more appropriate long-term investors.

3. **We focus primarily on commercial property but with increasing emphasis on residential**

   We maintain a predominant focus on securing planning consents and redeveloping commercial property although the emphasis of our activities may shift between major, complex developments and smaller scale development and trading properties at the different stages of the property cycle.

   Since July 2009, we have broadened the scope of our real estate activities to include mixed-use projects that include residential, hotel and student accommodation.

4. **We maintain an active investment portfolio whereby rents contribute towards operational expenses**

   Our investment portfolio provides a steady and predictable flow of funds, contributing significantly towards central overheads and mitigating the more uneven profits and cash flow arising from the major development and trading portfolio.

   The investment portfolio accounts for a significant element of invested equity and represents a diverse portfolio of assets across the UK, comprising carefully selected retail properties, foodstore-anchored schemes and alternative assets.

5. **We invest predominantly in the UK**

   Extended in FY 2014 by an initial investment in Ireland

APPENDIX 2 – PORTFOLIO OVERVIEW

Development and trading portfolio - overview

Development and trading portfolio is held at the lower of cost or net realisable value

Development and trading portfolio

Objectives

To create value through the regeneration of redundant or undervalued real estate, creating product that can be sold into the prime or near-prime market.

Strategy

- Identify strong buying opportunities:
  - Often distressed sellers with no access to finance so terms of trade move in our favour
  - Ultimate demand for the regenerated property is strong
  - Capital gains can be captured through exploiting the yield arbitrage
- Maximise value and growth through planning gains, proactive asset management and development
- Target project life cycles of three to four years and IRRs in excess of 20%
- Diversify financial risk – limited equity deployed in each project - £10m maximum, £5m average

Real estate loan portfolios

Objectives

To realise gains through the acquisition of property loan portfolios from banks and financial institutions.

Strategy

- Acquire real estate loan portfolios with opportunities for value enhancement e.g. through selective redevelopment or repositioning of the underlying real estate assets
- Dispose of the underlying real estate collateral to repay the loans

Major developments portfolio

Objectives

To deliver prime developments that achieve maximum returns with reduced risk exposure

Strategy

- Target locations where supply of prime product is limited and occupier demand is strong
- Apply our expertise in development and planning to take sites from land assembly and acquisition to scheme completion and full occupancy
- Mitigate development risk by achieving institutional forward-funding/pre-lets – do not develop on our own balance sheet
- Earn project management fees through the development process and a profit participation once project is complete

Investment portfolio – overview

Objectives

To sustain and grow a stable income stream from higher yielding investment assets with enhancement potential

Strategy

- Target assets with core defensive income and enhancement potential in sectors where occupier demand is robust and supply of accommodation restricted
- Drive income growth through proactive asset management

Portfolio

- 26 assets including:
  - Direct investment portfolio - 25 assets
  - Joint venture investment assets - Wick Lane Wharf, London

APPENDIX 3 – RESIDENTIAL

Residential – market

- Central London residential market continues to grow – 13.2% increase in values in 2013 versus 3.9% for England and Wales (Source:Land registry data/Capital Economics)

- Outside of Central London, house prices have begun to rise since mid-2013 as increasing confidence and Government stimuli have boosted demand:
  - UK GDP growth prospects strengthening
  - Labour market improving
  - Help-to-Buy scheme extended by a further four years
  - Low interest rate environment supporting demand

- Average UK house prices still 10% below 2007 peak

- Investor interest in the Private Residential Sector (PRS) is growing as more people are excluded from the owner/occupier market

Residential – our pipeline

London pipeline

Scheme Name	Location	Number of Units	Value (£'m)
Wick Lane Wharf*	London	82	
Cross Quarter Abbey Wood	London	141	
Rembrandt House, Watford	London	35	
Shepherd's Bush Market*	London	211	
The Old Vinyl Factory Hayes*	London	642	
399 Edgware Road, Brent	London	183	
Valentine's House, Ilford	London	110	
Morden Wharf, Greenwich*	London	700	
North London portfolio	London	90	
Kensington Church Street*	London	40	
	TOTAL	2,234	c.990,000,000
Out of London pipeline			
Anchorwood Bank, Barnstaple	Devon	350	
Launceston	Cornwall	275	
North Sprowston and Old Catton (Beyond Green)*	Norwich	3,500	
Tilehurst (Beyond Green)*	Reading	250	
Tubs Hill House	Sevenoaks	90	
Barwood	Various	4050	
	TOTAL	8,515	>1,000,000,000

*In joint venture

APPENDIX 4 – MARKET CONTEXT

Market context

UK GDP growth now established

- Continued uncertainty surrounding the Eurozone
- Debt burden remains high – new bank lending to real estate sector still constrained

Outside of prime markets, real estate rental and capital growth is beginning to emerge

- GDP growth is strong and likely to remain so for the near to medium-term
- Interest rates at their lowest – no further yield compression to sustain property values
- Occupier and consumer demand now slowly recovering, offering enhanced prospects for rental growth

Yield gap between prime and secondary property beginning to narrow

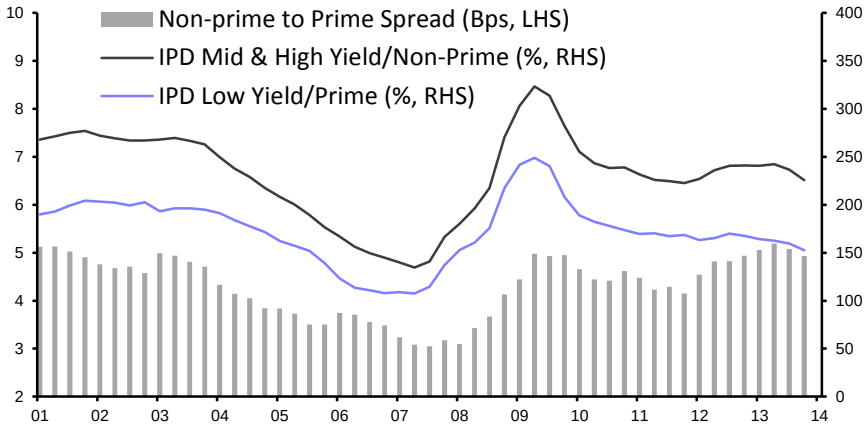
- Secondary market is flushing out weaker holders seeking to exit
- Strong holders are not sellers in such a market
- Investors moving up risk curve as prime yields are 'expensive'

Real estate operators need to apply their expertise to drive capital growth

Market context – key graphs

Initial Yield (%)

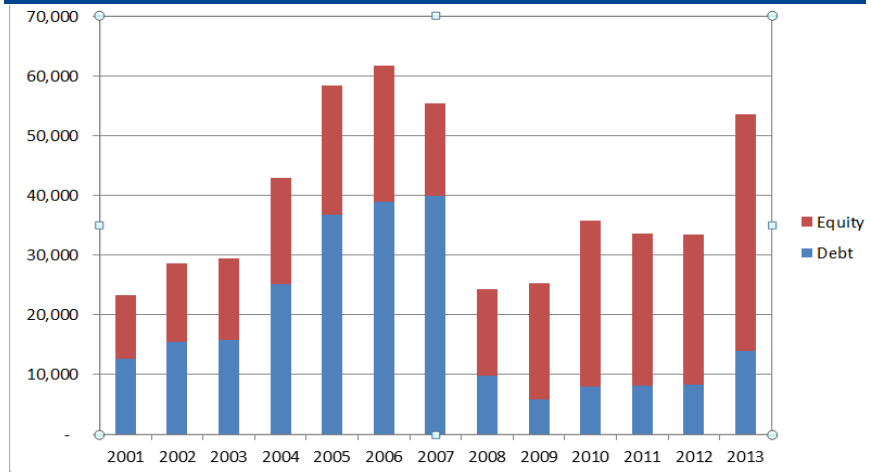
Arbitrage opportunities still strong



Source: Capital Economics

Lending to Commercial Property (£m)

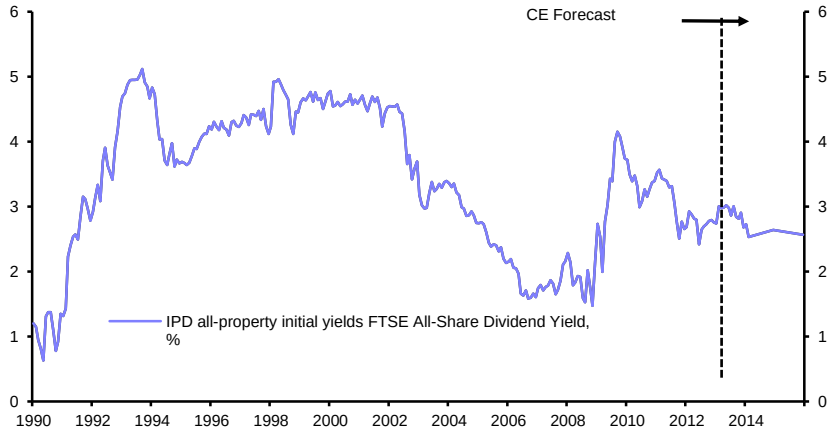
Appetite for lending against commercial property increasing



Source: CBRE

All-property initial yield minus FTSE All Share dividend yield

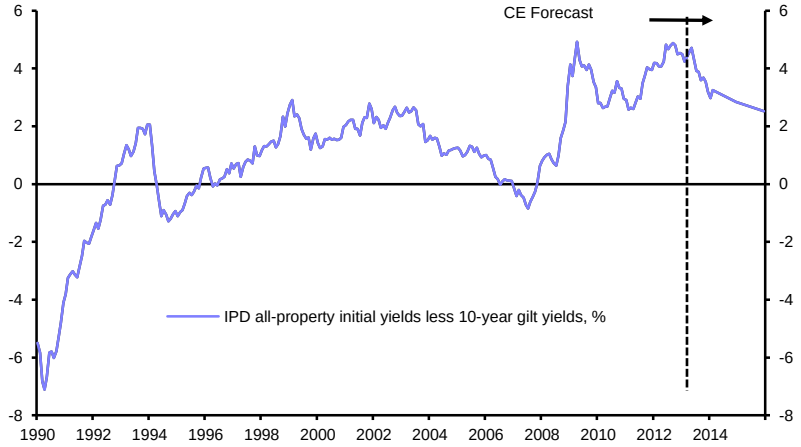
Real estate market fairly priced



Source: Capital Economics

All-property initial yield minus 10 year gilt yield

Real estate market fairly priced



Source: Capital Economics

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