VALUATION

As valuation yields appear to have levelled out, future property valuation growth is most likely to come from rental returns, development surpluses and asset management.

NIGEL GEORGE
EXECUTIVE DIRECTOR

The Group's investment portfolio was valued at £5.0bn as at 31 December 2015, having benefited from buoyant occupational demand, development surpluses and a further tightening of valuation yields. The valuation surplus for the year was £672.2m, before accounting adjustments of £20.8m (see note 16) giving a total reported movement of £651.4m. The underlying valuation increase was 16.5% which followed 20.4% in 2014, another strong year. We have outperformed our benchmarks again in 2015. The IPD Central London Offices Index increased by 15.7% and the wider IPD UK All Property Index rose by 7.8%.

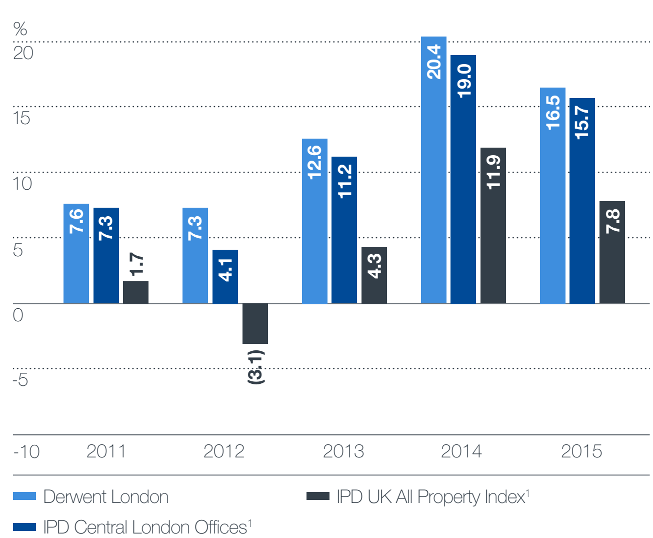
By location, our central London properties, which constitute 98% of the portfolio, saw an underlying valuation increase of 16.8%. The West End was up 14.6% and the City Borders rose 22.5%. The Scottish properties represent the balance of the portfolio and increased by 1.3%. The portfolio's total property return was 19.9% in 2015 compared to 25.1% in 2014. The IPD total return index was 19.7% for Central London Offices and 13.1% for All UK Property.

Within the investment portfolio, we were on site at five developments during the year. Four of these, Turnmill EC1, 40 Chancery Lane WC2, White Collar Factory EC1 and The Copyright Building W1 were commercial developments whilst the fifth was a small residential scheme at 73 Charlotte Street W1. In total these projects were valued at £457.5m and delivered a 31.5% uplift in the year. Turnmill and 40 Chancery Lane were completed in the year and handed over to Publicis Groupe, and at 73 Charlotte Street the majority of the apartments have been sold. At year end we were still on-site at White Collar Factory and The Copyright Building. These two projects were valued at £259.3m and are progressing well.

£651.4m
valuation surplus

16.5%
underlying valuation uplift

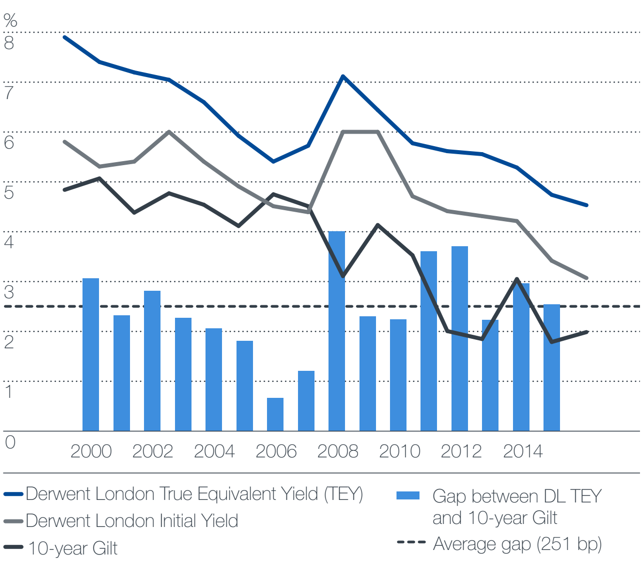
Valuation performance



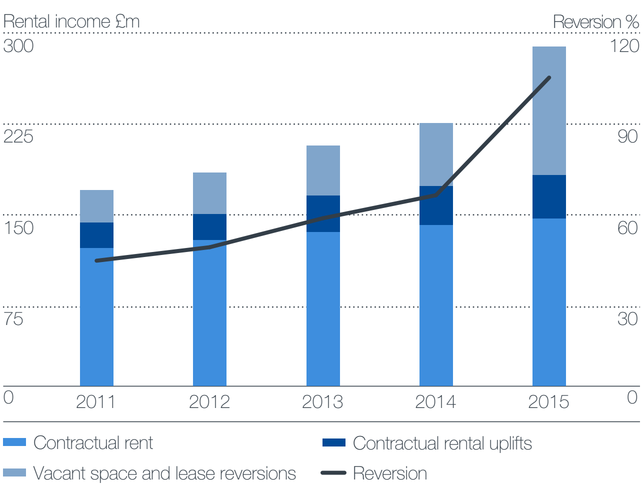
[1] Quarterly Index.

VALUATION
CONTINUED

Valuation yields



Portfolio income potential



At the end of the year we added two new developments, both properties where we had achieved planning permissions for substantial floor area increases. These were 80 Charlotte Street W1 and Brunel Building W2 which were valued at £251.4m. Both will be completed in 2019.

At 1-2 Stephen Street W1, our major refurbishment project during the year, we completed the latest phase of works. This focused on improving and extending the retail units on Tottenham Court Road and followed a phased upgrade of nearly half the office space. The letting of the majority of the retail units and the office refurbishment at above anticipated rental values contributed to a strong valuation rise of 19.0% on the property to £340.6m.

Looking at our rental growth, it was another strong year. Rental values, on an EPRA basis, rose by 11.8% following 9.0% in 2014. During 2015 the City Borders saw rental growth of 15.2% and the West End 10.8%.

On an EPRA basis the portfolio's initial yield was 3.1% which increases to 3.8% on a 'topped-up' basis, following expiry of rent free periods and contractual rental uplifts. For the previous year, these figures were 3.4% and 4.0% respectively. The true equivalent yield at year end was 4.52%, a 21bp reduction over the year and follows 55bp of yield tightening in 2014. This tempering of yield compression was further illustrated with the second half of 2015's movement being 4bp compared to 17bp in the first half. As valuation yields appear to have levelled out so future property valuation growth is most likely to come from rental returns, development surpluses and asset management.

The December 2015 valuation recorded a good increase in our portfolio's contracted income and a very significant increase in our potential income. Overall, our contracted income has risen 4.1% to £137.1m pa and our ERV has risen 29.0% to £278.1m pa.

The portfolio's reversion stands at £141.0m. Of this growth £35.5m is contractual and due to come from fixed uplifts or the expiry of rent free periods within the leases. Adding this to our contracted income takes 'topped-up' rent to £172.6m, 5.4% higher than last year.

The bulk of the reversion comes from the potential income from letting either vacant space under construction, under refurbishment or currently available. It primarily reflects the recent start of the two new developments at 80 Charlotte Street W1 and Brunel Building W2, and the acquisition of The White Chapel Building E1 (previously known as Aldgate Union), which is currently undergoing refurbishment. The total ERV of vacant space at the year end was £76.4m pa. Whilst this has more than doubled since June 2015, much of this space will not be delivered for four years. These projects require £569m of further expenditure, and offer a degree of flexibility on the timing of delivery. Of this vacant space 75% derives from developments, 22% from refurbishments and only 3% represents existing vacancy. We have let or pre-let 12% of this space since the year end for £9.2m pa net, at levels in excess of December 2015 ERV.

The final component of our growth could come from lease reviews and renewals and this is estimated to add £29.1m to our income, which is 24% higher than last year.

Portfolio statistics – valuation

	Valuation £m	Weighting %	Valuation[1] performance %	Valuation performance £m	Occupied floor area '000 sq ft	Available floor area '000 sq ft	Minor refurbishment floor area '000 sq ft	Vacant project floor area '000 sq ft	Total floor area '000 sq ft
West End									
Central	2,818.0	57	13.8	343.2	2,345	54	69	725	3,193
Borders	471.0	9	19.8	77.7	538	13	33	–	584
	3,289.0	66	14.6	420.9	2,883	67	102	725	3,777
City									
Borders	1,599.4	32	22.5	254.8	1,526	1	316	209	2,052
Central London	4,888.4	98	16.8	675.7	4,409	68	418	934	5,829
Provincial	100.1	2	1.3	1.3	336	1	3	–	340
Total portfolio 2015	**4,988.5**	**100**	**16.5**	**677.0[2]**	**4,745**	**69**	**421**	**934**	**6,169**
2014	4,168.1	100	20.4	683.8	5,144	129	108	363	5,744

[1] Underlying – properties held throughout the year.
[2] £672.2m after deducting capitalised interest.

Rental income profile

	Rental uplift £m	Rental per annum £m
Annualised contracted rental income, net of ground rents		137.1
Contractual rental increases across the portfolio	35.5	
Letting 69,000 sq ft available floor area	2.4	
Completion and letting 421,000 sq ft of minor refurbishments	16.7	
Completion and letting 934,000 sq ft of major projects	57.3	
Anticipated rent review and lease renewal reversions	29.1	
Portfolio reversion		141.0
Potential portfolio rental value		278.1

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	75.9	32.78	51.4	30.3	157.6	7.4
Borders	17.7	32.93	0.8	5.6	24.1	7.1
	93.6	32.81	52.2	35.9	181.7	7.3
City						
Borders	38.5	25.81	24.2	28.4	91.1	6.5
Central London	132.1	30.38	76.4	64.3	272.8	7.1
Provincial	5.0	14.80	–	0.3	5.3	4.5
Total portfolio 2015	**137.1**	**29.28**	**76.4**	**64.6**	**278.1**	**7.0**
2014	131.7	25.77	28.4	55.5	215.6	6.6

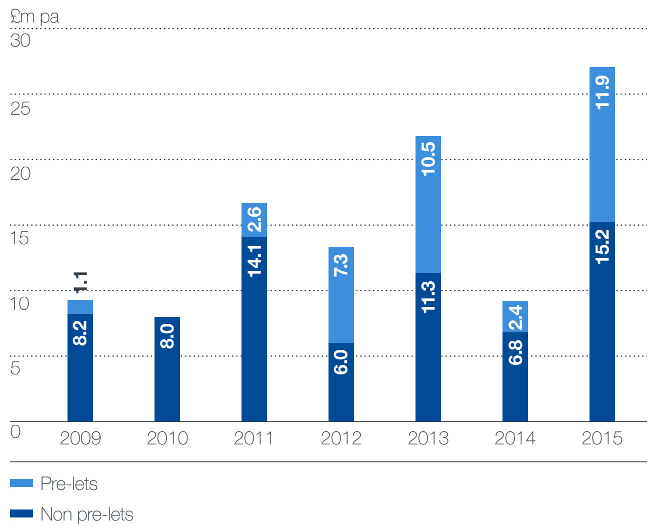
[1] Lease length weighted by rental income at year end and assuming tenants break at first opportunity.

PORTFOLIO MANAGEMENT

2015 was a record year for Group letting activity. In total we secured £27.1m of rental income at an average level 10.8% above December 2014 ERVs.

PAUL WILLIAMS
EXECUTIVE DIRECTOR

Letting activity by rental income



2015 was a record year for Group letting activity. In total we secured £27.1m of rental income on 523,800 sq ft at an average level 10.8% above December 2014 ERVs. Of this, 44% by income were pre-lets as we let development space during its course of construction. Open market lettings were 14.3% above December 2014 ERVs. Second half lettings totalled £10.7m pa on 201,200 sq ft, and were on average 22.3% above December 2014 ERVs or 12.9% above June 2015 ERVs. Notable new rental levels were achieved at 1 Stephen Street W1, Davidson Building WC2 (since sold) and Charlotte Building W1 all at £80 per sq ft or above for the upper floors, and at White Collar Factory EC1, Tea Building E1 and Angel Square EC1 where rents of £62.50 per sq ft, £57.50 per sq ft and £55.00 per sq ft respectively, were obtained.

Significant transactions included the letting of the majority of the commercial space on our recently completed projects including the office space at 1-2 Stephen Street W1 and eight of the nine retail units at Tottenham Court Walk W1. Together these added £5.8m to rents. We also made our first pre-lets at White Collar Factory securing £4.9m pa.

£27.1m
of new lettings in 2015

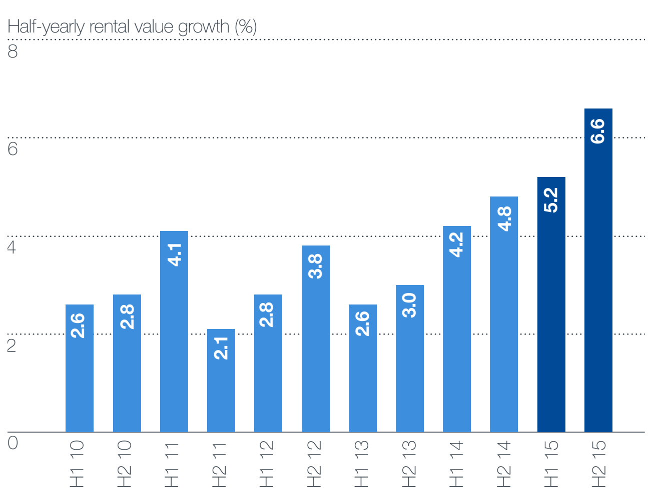
£10.1m
of new lettings in 2016 year to date

Principal lettings in 2015

	Tenant	Area sq ft	Rent £ psf	Total annual rent £m	Min/fixed uplift at first review £ psf	Lease term Years	Lease break Year	Rent free equivalent Months
Q1								
2 Stephen Street W1[1]	The Office Group	34,150	65.00[1]	2.2	71.75	20	–	15
Angel Square EC1	Expedia	57,600	36.80	2.1	41.60	6	3 & 5	2.5, plus 3 if no break in year 3
1 Stephen Street W1	AnaCap	16,150	81.75	1.3	84.25	10	–	15
Tea Building E1	Feed	7,990	47.50	0.4	–	5	–	5
Davidson Building WC2	Astus UK	4,370	80.00	0.3	82.50	10	5	7, plus 5 if no break
Q2								
White Collar Factory EC1	The Office Group	41,300	57.50	2.4	63.50	20	–	24
Angel Square EC1[1]	The Office Group	40,700	35.00[1]	1.4	38.65	10[2]	–	9
Davidson Building WC2	First Utility	6,230	72.50	0.5	75.00	10	5	7, plus 7 if no break
Morelands EC1	Spark44	5,370	55.00	0.3	60.00	9	5	9, plus 3 if no break
Q3								
White Collar Factory EC1	AKT II	28,400	57.50	1.6	63.50	20	12 & 15	24
20 Farringdon Road EC1	Improbable Worlds	25,700	42.50	1.1	43.50	6	–	7
Charlotte Building W1	Kingston Smith	5,960	82.50	0.4	85.00	10	–	14
Angel Square EC1	DrEd	4,740	55.00	0.3	–	4.5	3	3, plus 2 if no break
Davidson Building WC2	Elastic search	6,300	72.50	0.5	76.00	10	5	7, plus 5 if no break
20 Farringdon Road EC1	Moo Print	33,500	45.00	1.5	49.50	10	6	8
Tea Building E1	Transferwise	23,950	57.50	1.4	–	5	–	6
White Collar Factory EC1	BGL	14,300	62.50	0.9	69.00	10	–	18
Davidson Building WC2	Alibaba	6,310	72.50	0.5	74.70	10	5	7, plus 7 if no break
Q4								
Tottenham Court Walk W1	Marie Claire	7,900	–	0.4	–	10	5	7.5

[1] The Group will get a share of The Office Group's profits on this space above a minimum level.
[2] Landlord's break in year five.

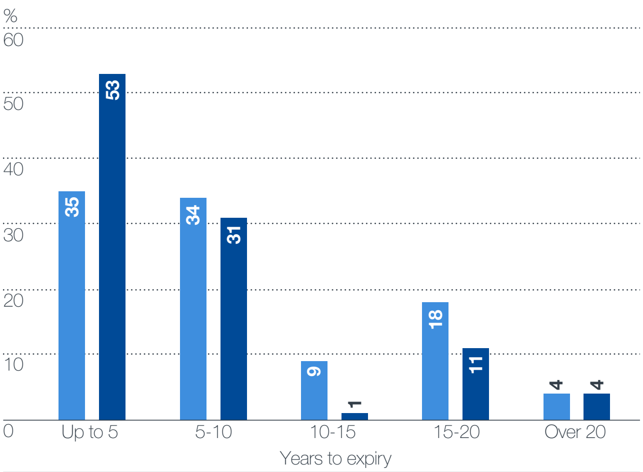
Rental value growth



The purchases of Angel Square EC1 in November 2014 and 20 Farringdon Road EC1 in February 2015 brought almost immediate letting opportunities. The former 126,900 sq ft property was acquired with an income of £2.4m pa, equivalent to an average rent of £19 per sq ft. The majority of the leases expired in March 2015, but we swiftly re-let 98,300 sq ft to Expedia and The Office Group, and the property is now virtually fully let at a rent of £4.8m pa. The second purchase was a 170,600 sq ft building producing £3.2m pa net. In the second half we re-let the 25,700 sq ft ground floor, and embarked on the refurbishment of 88,000 sq ft, of which 38% has been pre-let. Assuming we let the remaining available space at ERV we will have increased the income on the property to £6.5m pa net.

PORTFOLIO MANAGEMENT
CONTINUED

Profile of rental income expiry[1]



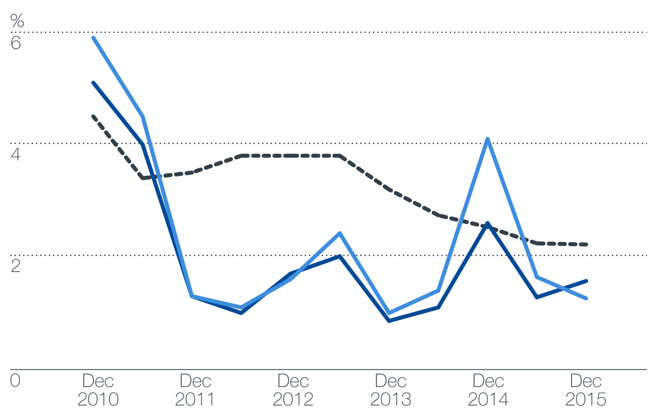
No lease breaks exercised
Lease breaks exercised at first opportunity

[1] Based upon annualised net contracted rental income of £137.1m.

For some time we have been monitoring the expansion of the new breed of flexible office space providers. We could see they were responding to significant demand for small amounts of space, lease flexibility and co-working facilities that would be too management intensive for our business. One operator which caught our attention was The Office Group (TOG), who share with us an interest in workspace design. Last year we made three lettings to them totalling 116,150 sq ft, or £6.0m pa of rent (3.5% of contractual rent). All these transactions are at properties with multi-let strategies, and were agreed at market rents with two incorporating an additional profit share once TOG has achieved a threshold return. The most significant of these is at 2 Stephen Street W1 where, based on current profitability, we are expecting overage income of about £7 per sq ft in 2016 on 34,150 sq ft. We expect the TOG space to complement our offer and extend our buildings' appeal to a wider range of potential occupiers to whom we are unable to offer the same level of services and lease flexibility. TOG's services are available both to occupiers within the buildings and to other businesses in the vicinity, which we believe adds to each properties' utility and vibrancy.

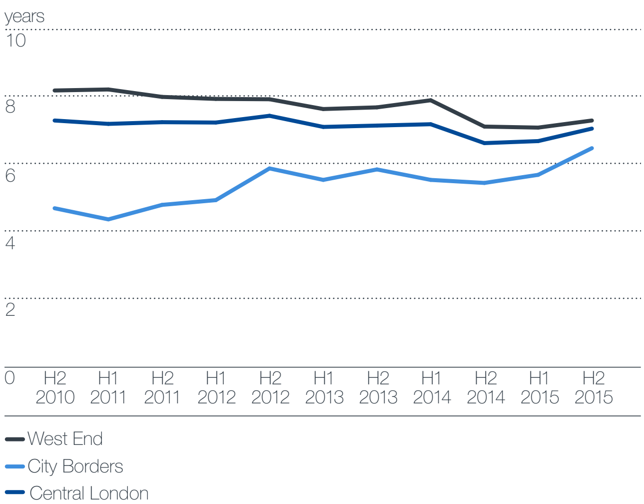
Our letting progress saw the EPRA vacancy rate on our portfolio fall from 4.1% to 1.3% in the year. The major components of this residual have either since been let or are currently under offer. However in addition to the immediately available space we have a number of refurbishments under way which will provide letting opportunities during the course of the year. The most significant is at The White Chapel Building E1, which we acquired vacant in December 2015 and is now undergoing a light refurbishment at a cost of around £18m. We expect 200,000 sq ft of refurbished offices to be available here in the latter part of 2016 with an ERV of c.£9.0m. Other notable projects include rejuvenating space at 20 Farringdon Road EC1, Network Building W1 and the eighth floor of 1 Stephen Street W1. Assuming we are unable to secure any further lettings at White Collar Factory or these other projects, our proforma vacancy would rise to c.12%.

Five-year vacancy trend



Derwent London (by rental value)
Derwent London (by floor area)
CBRE West End (by floor area)

Average unexpired lease length[1]



[1] Lease length weighted by rental income and assuming tenants' break at first opportunity.

"We have been at Greencoat House for over ten years. The building works well for us and our occupation has grown with our business so we now occupy 50,000 sq ft. Moreover, we see the refurbished building as an important element of our brand. Our expansion in the building has been achieved as a result of a truly collaborative relationship with the team at Derwent London."

CHIME COMMUNICATIONS

During 2015 the Group carried out 35 rent reviews on 357,300 sq ft and 29 lease renewals on 72,300 sq ft. In total this increased the income from these properties by 27.7% to £18.2m pa. 98% of all rents were collected within 14 days of the due date.

In the current year to date we have let 132,300 sq ft for £10.1m pa gross (£9.2m net). The most significant letting was of the 87,150 sq ft office element at The Copyright Building W1 which was announced today. Capita is taking a 20-year lease for a gross rent of £7.4m pa. After ground rents we will receive £6.5m pa. The average office rent is £86 per sq ft, which was above December ERV, but after allowing for rental incentives equivalent to a 34 months rent-free period and a payment to Capita's current landlord to extend their lease to allow a back-to-back move into The Copyright Building, the terms are in line with December levels. The other major letting in the period was a further two floors at White Collar Factory where Adobe has pre-let 28,600 sq ft for £1.8m pa.

PROJECTS

During 2015 we delivered four major projects. These have proved very profitable providing £10.3m of net rental income and a 72% profit on cost.

SIMON SILVER
EXECUTIVE DIRECTOR

During 2015 we completed four major projects totalling 226,000 sq ft, the commercial elements of which are now virtually fully let. Our residential scheme at 73 Charlotte Street W1 was completed in September, and we have sold nine apartments leaving one under offer and one available. These projects have proved very profitable providing the Group with £10.3m of net rental income and the four major projects recorded a 72% profit on cost.

We are now on-site at four major projects. White Collar Factory is our signature Tech Belt development overlooking Silicon Roundabout. Following five years' research by our own design team, together with AHMM (architects) and Arup (engineers), it incorporates a number of design principles which enhance its flexibility, utility and sustainability to occupiers. The ERV has risen 12% to £16.5m pa in 2015 and we have budgeted to spend a further £62m of capital expenditure to complete the project in Q4 2016 with 38% already pre-let.

At The Copyright Building W1 we have today announced the letting to Capita of the entire office element leaving 20,000 sq ft of retail still to let. The ERV of this retail space is £1.1m pa gross (£1.0m net). We estimate future capital expenditure at £49m to complete the scheme in H2 2017.

At 80 Charlotte Street in the heart of Fitzrovia, we have commenced stripping out with full demolition of the existing property to start later this year. The major island site will comprise a 309,000 sq ft office building capable of being multi-let as well as ancillary retail and residential space. This ancillary space will include the development of 67 Whitfield Street with 14,000 sq ft residential, and the redevelopment of the neighbouring Asta House which will comprise 12,000 sq ft offices and 31,000 sq ft residential including 32% affordable. The project's estimated ERV is £23.9m pa and capital expenditure to complete is estimated at £207m. Following delays in finishing other projects, completion is now expected in H1 2019.

31.5%
increase in value of development properties

1.0m sq ft
of on-site projects

We are also on site at the Brunel Building W2, where our scheme will provide modern flexible office space and enhance the immediate location by opening up the canal side beside Paddington station (another beneficiary of Crossrail). In November we fixed the price of the construction contract and the overall capital expenditure to complete is estimated at £122m. The ERV is £14.8m pa net with completion expected in H1 2019.

At the half year we highlighted the impact of escalating building costs. We challenged the consensus indices that were reporting 4 to 6% annual inflation arguing that in central London it was actually running closer to 10% pa. We expect it to continue at this level through 2016. Our sensitivity to construction costs principally resides with The Copyright Building and 80 Charlotte Street as our other two major projects' costs are fixed. This leaves approximately half of our four year capital expenditure with variable costs but we have assumed inflation in our estimates.

We have made advances on our future projects that could start from 2018 onwards. In July we agreed terms at 1 Oxford Street W1 with Crossrail whereby we will be granted a new 150-year lease in return for a payment to them of £55m. Of this sum £2m has been paid, a further £5m will be payable on release of the site, with the residual £48m payable on practical completion of our buildings. In addition, Crossrail will receive 16% of any development profit and a ground rent equivalent to 5% of the rent on the commercial space. The site, which is currently being developed as the Tottenham Court Road Crossrail station, has planning for 204,000 sq ft offices, 37,000 sq ft retail and a 34,000 sq ft theatre. Work is due to start in early 2018 and this exciting project represents the west side of a major new central London piazza.

Earlier in the year we signed a Memorandum of Understanding with our joint venture partners, The Portman Estate, enabling us to progress preliminary planning studies on another major potential project at 19-35 Baker Street W1. The existing buildings, which are fully let off low rents, comprise 146,000 sq ft, but our plans indicate the site is capable of supporting up to 250,000 sq ft. Our ownership is 55% and the earliest possession date is 2018.

Completions and capital expenditure

PROJECTS
CONTINUED

Major projects pipeline

	Area sq ft[1]	Delivery	Comment
Projects completed in 2015			
Turnmill, 63 Clerkenwell Road EC1	70,500	Q1 2015	Offices and retail – 100% let
Tottenham Court Walk W1	38,000	Q2 2015	Retail – 93% let
40 Chancery Lane WC2	102,000	Q3 2015	Offices and retail – 100% let
73 Charlotte Street W1	15,500	Q3 2015	Residential and offices – 77% sold/let
	226,000		
Projects on site			
White Collar Factory, Old Street Yard EC1	293,000	Q4 2016	Office-led development – 38% pre-let
The Copyright Building, 30 Berners Street W1	105,000[2]	H2 2017	Offices and retail – 81% pre-let
80 Charlotte Street W1	380,000	H1 2019	Offices, residential and retail
Brunel Building, 55-65 North Wharf Road W2	240,000	H1 2019	Offices
	1,018,000		
Major planning consents			
1 Oxford Street W1	275,000		Offices, retail and theatre
Monmouth House EC1	125,000		Offices, workspaces and retail
	400,000		
Grand Total	**1,644,000**		

[1] Proposed areas.
[2] Excludes reception area.

£521m
of estimated capital expenditure to complete committed programme

19.6%
of on-site projects pre-let

> "Grey Advertising was one of the first occupants of the Johnson Building in 2006 sharing Derwent London's vision for this exciting new office area. We love the vibrancy of the location and the flexibility of the building, and with our own entrance and frontage we are able to promote our profile on the street."

GREY ADVERTISING

In June we received planning consent for a 110,000 sq ft hotel and offices at Wedge House, 40 Blackfriars Road SE1. The existing property is a 38,700 sq ft building and we had previously engaged with Ennismore, the owners of The Hoxton, to draw up new plans. Following the success of our application and the resolution of a number of outstanding matters we sold the building to Ennismore for £33.0m after costs in December releasing value early and securing a substantial capital uplift. We are being retained as development manager for which we will receive a fee of £1.5m. Completion of the new 192-room Hoxton is expected in 2018.

Since the year end we have received planning permission for two projects: Monmouth House EC1 and Balmoral Grove N7. The former would involve the redevelopment of two existing office buildings of 69,000 sq ft into a new property providing 125,000 sq ft of offices, workspaces and retail. It is located adjacent to White Collar Factory and therefore will benefit from the latter's progress in transforming the south western corner of Silicon Roundabout. Our earliest possession date for this site is 2017. Balmoral Grove is 67,000 sq ft of industrial and office space in Islington. Consent has been obtained to redevelop this site with 280,000 sq ft of residential and commercial space, of which 44% of the residential will be affordable. We have agreed terms to sell this property to a residential developer subject to the resolution of a few outstanding matters.

"Everything we hoped it would be, and a little bit more. Derwent has been incredibly flexible and understanding of our vision."

BRANDOPUS (1-2 STEPHEN STREET W1)

The Copyright Building W1

80 Charlotte Street W1

Brunel Building W2

PROJECTS
CONTINUED

Project summary 2016-2017 – on site

Property	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	2016 capex £m	2017 capex £m	2018+ capex £m	Total capex to complete £m	Delivery date	Current office c.ERV psf
On-site projects									
White Collar Factory EC1	–	124	293	60	2	–	62	Q4 2016	£60
The Copyright Building W1	(0.2)	86	105[1]	28	20	1	49	H2 2017	£80
80 Charlotte Street W1	–	234	380	22	99	86	207	H1 2019	£75
Brunel Building W2	(0.1)	78	240	29	34	59	122	H1 2019	£62.50
	(0.3)	**522**	**1,018**	**139**	**155**	**146**	**440**		
General									
The White Chapel Building E1	–	255	242	18	–	–	18	Q4 2016	£45
20 Farringdon Road EC1	–	88	88	10	–	–	10	Q4 2016	£50
Planning and Design	–	–	–	9	8	1	18		
Other	–	–	–	22	6	7	35		
		343	**330**	**59**	**14**	**8**	**81**		
Total	**–**	**–**	**–**	**198**	**169**	**154**	**521**		
Capitalised interest	**–**	**–**	**–**	**15**	**12**	**21**	**48**		
Total including interest	**(0.3)**	**865**	**1,348**	**213**	**181**	**175**	**569**		

[1] Excludes reception area.

Project summary 2017 onwards – future schemes

Property	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	Earliest possession year	Comment
Consented					
1 Oxford Street W1	–	–	275	2018	Offices, retail and theatre
Monmouth House[1] EC1	1.7	69	125	2017	Opposite White Collar Factory – Feb 2016 consent
Balmoral Grove N7	0.4	67	280	–	Sale exchanged
	2.1	**136**	**680**		
Appraisals[2]					
19-35 Baker Street W1	5.4	146	250	2018	Joint venture – 55% Derwent London interest
Premier House SW1	2.2	62	80	2018	
Angel Square EC1	2.9	127	190	2020	
20 Farringdon Road EC1	1.0	171	200	2021	
Network Building W1	1.4	64	100	2021	
Holden House W1	4.7	91	137	TBC	
	17.6	661	957		
Adjustment for JVs	(2.4)	(66)	(113)		19-35 Baker Street W1
	15.2	**595**	**844**		
Consented and appraisals	**17.3**	**731**	**1,524**		
On-site projects	**(0.3)**	**865**	**1,348**		
Pipeline	**17.0**	**1,596**	**2,872**		

[1] Includes 19-23 Featherstone Street EC1.
[2] Areas proposed are estimated from initial studies.

INVESTMENT ACTIVITY

We were able to acquire two substantial buildings in the Tech Belt at a low average cost to maintain the balance of our portfolio, with its attractive growth profile.

DAVID SILVERMAN
EXECUTIVE DIRECTOR

£248m

of principal commercial property sales at 18% premium to December 2014 values

£247m

of principal property acquisitions at an average of £570 per sq ft

Despite very competitive market conditions during 2015 we were able to acquire two substantial buildings in the Tech Belt at a low average cost of £545 per sq ft. We also acquired a number of smaller retail and office properties. These are strategically placed close to our current holdings at the eastern end of Oxford Street, and will benefit from the significant changes to this area.

The first Tech Belt acquisition was in Clerkenwell, an area we had previously identified as a major beneficiary of Crossrail. Our recent acquisition and development activity has seen our exposure to this village rise from 5% to 11% in the last five years. The 175-year lease of 20 Farringdon Road, with a ground rent of 10% pa, was acquired in February 2015 through a property swap. This substantial property is located opposite the new Farringdon Crossrail station which will be an important interchange with the London underground and the Thameslink overground line. In the second half of 2015 we renewed the lease on the 25,700 sq ft ground floor raising the rent from £2 pa to £1.1m pa (£42.50 per sq ft). We are currently refurbishing 88,000 sq ft principally on the upper floors at a total cost of £11m and have pre-let 38% at £45 per sq ft. All the leases expire or have a landlord break in 2021/2022 giving us the scope to consider a more significant redevelopment following the opening of Crossrail which is expected to complete the transformation of an area that is already improving.

The second Tech Belt acquisition was in Whitechapel, at the eastern end of the Tech Belt arc. We see this village as offering attractive value given the good levels of occupier demand here and the rent increases seen elsewhere. We made our first acquisition in the Whitechapel market in 2012 when we acquired 9 and 16 Prescot Street E1. This is now held in a 50/50 joint venture as a consequence of our property swap for 20 Farringdon Road. Our progress on this property and elsewhere in the Tech Belt gave us the confidence to acquire The White Chapel Building with vacant possession. This represents a departure from our normal practice of acquiring income producing buildings. In this exceptional case we believe that, due to the good condition and flexibility of the existing property, it requires only a modest level of refurbishment. Since the year end we have acquired the long lease on the lower ground floor for £12m after costs, which extended our ownership to 285,000 sq ft.

To maintain the balance of our investment portfolio, with its attractive growth profile, it is important that we dispose of assets where either we can secure substantial uplifts or where we now expect only a limited impact on our overall growth. These decisions are made in the context of the Group's income base as a whole.

INVESTMENT ACTIVITY
CONTINUED

The volume of our sales activity in the last few years has been at fairly consistent levels. It has also seen us sell most of our isolated smaller buildings in less central locations at substantial premiums to book value. The latest of these were our holdings at Portobello Dock W10. In addition last year we sold a number of more central properties. At the Davidson Building WC2 we completed the refurbishment of a number of floors in Q4 2014. These were let at new rental levels ranging between £72.50 per sq ft and £80 per sq ft during 2015. This fresh rental evidence enabled us to achieve an attractive price for the building. Following the receipt of planning permission for a hotel and office development, we sold Wedge House SE1 to a hotel operator. The three Q1 disposals which formed part of the property swap to acquire 20 Farringdon Road were discussed in last year's report and are included in the table opposite.

Residential development forms a very small part of Group activities. In the last two years our disposals have included a number of residential trading sales relating to our small developments at Queens, Bayswater W2 and The Corner House, Fitzrovia W1. During 2015 these activities raised £23.7m, comprising 13 apartments. Since the year end we have sold the last unit at Queens and have only two apartments remaining at The Corner House. In addition we have the potential to receive an overage payment at Riverwalk House SW1, which is dependent on the scheme's final profitability.

Net investment

Principal acquisitions 2015

	Date	Area sq ft	Total cost £m	Total cost £ psf	Net yield %	Net rental income £m pa	Net rental income £ psf	Lease length Years
20 Farringdon Road EC1	Q1	170,600	92.7	545	3.5	3.2	27[1]	2
50 Oxford Street W1[2]	Q3	6,050	14.5	2,395	2.6	0.4	74	3
The White Chapel Building E1[3]	Q4	255,000	139.3	545	–	–	–	–
Total		**431,650**	**246.5**	**570**	**–**	**3.6**	**–**	**–**

[1] Excludes 26,200 sq ft ground floor offices let at a peppercorn rent.
[2] Includes 36-38 and 42-44 Hanway Street W1.
[3] Excludes 30,500 sq ft lower ground floor that completed in January 2016.

Principal commercial disposals 2015

	Date	Area sq ft	Net proceeds £m	Net proceeds £ psf	Net yield to purchaser %	Net surplus to Dec 2014 %
22 Kingsway WC2	Q1	91,400	64.1	700	4.4	(2)
Mark Square House EC2	Q1	61,700	31.9	515	4.4	0
9 and 16 Prescot Street E1 (50% interest)	Q1	53,700	18.7	350	3.2	3
Davidson Building WC2	Q4	43,100	65.4	1,520	3.9	21
Wedge House, 40 Blackfriars Road SE1	Q4	38,700	33.0	855	–	86
Portobello Dock W10	Q4	52,600	34.7	660	3.6	54
Total		**341,200**	**247.8**	**725**	**3.5**	**18.4**

"We expect to continue to recycle capital with over £100m of investment property sales planned in the current year."

JOHN BURNS
CHIEF EXECUTIVE