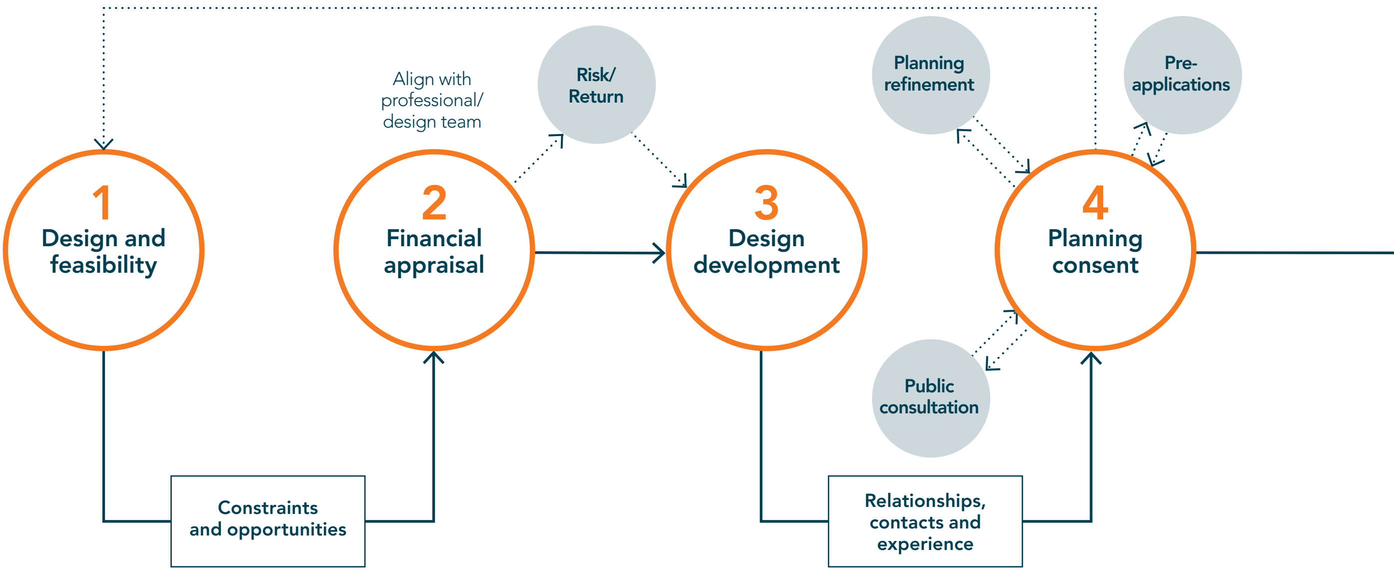
How we create value continued

Improving real estate is highly complex, with each building requiring a bespoke business plan to deliver a successful outcome. The flow chart shows how we reposition properties. It illustrates the process we adopt to ensure those business plans maximise returns and deliver sustainable, market appropriate buildings.



Design and feasibility

At the outset we conduct a feasibility study to understand what is possible for the existing building or site. This will assess:

- the local market to understand occupier demand;
- our ability to add new space to the site;
- neighbourly matters;
- local planning requirements and the relative merits of a refurbishment or full scale development;
- proposed sustainability rating;
- the ability to deliver new space within the confines of the local planning environment; and
- Needs of the local community.

Financial appraisal

If the feasibility assessment supports the case for development, we will conduct a financial appraisal to ensure the forecast prospective returns are sufficient to proceed.

Our required returns will differ depending on the risk profile of the proposed project. We will be seeking a premium over our cost of capital, set to compensate for the risk involved, with speculative development having the highest required return.

Design development

If a potential redevelopment is both feasible and financially viable, we will further develop the design to enable us to achieve planning consent.

Our specialist in-house development team works with an extensive network of selected partners, from over 50 disciplines. Together with our in house Design Review Panel, they ensure the building design meets market specifications, maximises our returns and will attract our target occupiers.

› See our development programme case study on pages 18 and 19

Planning consent

Most of our repositioning activities require planning consent. The effective navigation of the planning process by our in-house team is crucial to the success of any redevelopment.

Our relationships with the local planning authorities are key to delivering on our business plans. We are open, transparent and non-adversarial in our approach. We engage pro-actively in pre-application consultations with key stakeholders and will adjust our proposals, as appropriate, to take account of comments received.

Risks

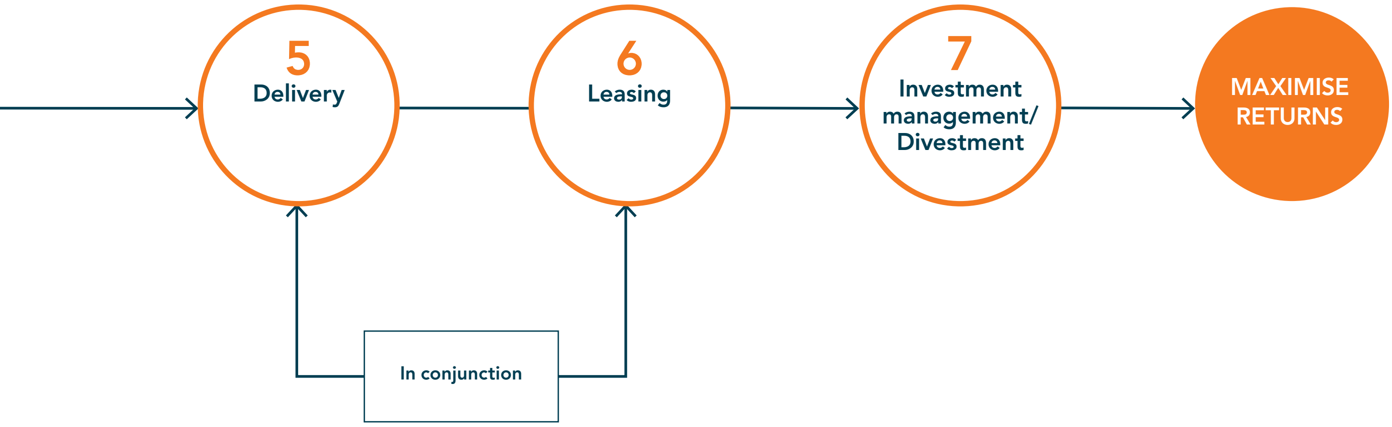
› See more risk on pages 74 to 88

- Inappropriate location
- Failure to reach agreement with adjoining owners on acceptable terms

- Incorrect reading of property cycle
- Inappropriate level of development undertaken as a percentage of the portfolio

- Failure to react to evolving occupier needs

- Failure to gain viable planning consents on a timely basis



Delivery

Construction of any building in central London is highly complex. We outsource the construction to a network of highly regarded contractor companies but, given the risks involved, we closely manage the process using our in-house project managers.

Our team will utilise the appropriate procurement method for the scheme to optimise the balance between price certainty and risk.

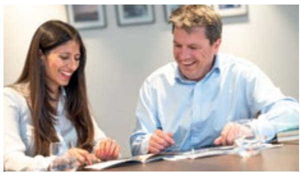
Once on site, we liaise with the main contractor to manage the delivery of the building, to time and budget, and help commission the building once complete.

Leasing

Often a development's leasing and delivery go hand in hand. Our leasing team will be involved at the design development stage to ensure the building is appropriate to our target occupiers to maximise its letting prospects.

We will seek to let the building early in the delivery process. Marketing materials, often incorporating an on-site marketing suite, will be prepared during delivery, with the formal pre-letting campaign typically commencing up to 24 months prior to completion.

› See our Hanover Square case study on pages 10 and 11



Investment management/ Divestment

Once de-risked (through leasing and successful construction), we will assess the building's forecast performance.

We forecast each occupier's future rental cash flows and, using our own assumptions for future movements in rents and yields, estimate the property's future growth. If its prospective returns do not meet our required investment hurdles, taking into account both our cost of capital and the risks, the completed project may be sold to crystallise our returns.

› See our sales and return case study on pages 14 and 15

- Incorrect cost estimation
- Construction cost inflation
- Contractor availability and insolvency risk
- Quality and benchmarks of the completed buildings

- Building being inappropriate to occupier demand
- Ineffective marketing to prospective occupiers

- Incorrect reading of the property cycle