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T o b y C o u r t a u l d , C h i e f E x e c u t i v e & N i c k S a n d e r s o n , F i n a n c e D i r e c t o r

Performance

Q: What's your view of Great Portland Estates' performance across the year?

TC: We've had a very strong year to March 2015. As you can see the valuation is up 18%. NAV is up almost a quarter at 24.7%. And the driver behind it again was a fantastic result from our development business, where we have been finishing schemes and making very large premia to costs, circa 50% all up. And rents have been rising strongly across the Group as well which is something we've been saying for a while we were expecting to happen and they were up circa 10% ahead of the guidance we gave last year which was pleasing. So overall, all of the business is performing well.

Q: But the market has seemingly caught up with you. Why is that and when do you envisage outperforming the market again?

TC: Yes, so we had a slight underperformance against the IPD Central London Index for the 12 months. As you can see, it's a couple of percent behind. And I think what's happening there is we've had a very strong period of outperformance leading up to this year in which our developments have driven returns and the market has caught up this last 12 months.

If you look at the IPD Index, you can see that secondary assets, so non-core lower rented, less long leases have done slightly better than the more core assets that we own in for the 12 months just gone.

But I think as we look at the longer term, what you see is that our performance is still incredibly strong over three, five and ten years. We've had a really good relative run and I expect ten years from now, we'll be looking back and saying we've continued that relative outperformance.

Q: And Nick, can you run through the financials that underpin that performance?

NS: As Toby said, we've had a strong absolute portfolio performance, but also very strong operationally. And that has driven a just under 25% growth in NAV per share, our key financial metric. Our earnings are also up by more than 17% and we've continued to grow the dividend.

And crucially as we look forward from here, with the financial strength, a LTV less than 22%, our expanded development programme and supportive market conditions, we can see plenty more NAV growth still to come.

Q: Toby, are the supply and demand economics still weighted in your favour?

TC: They are. Vacancy rates in the core of our market, so in the core West End which is really W1 and SW1 are sub-structural levels, at about 1.8%. And if you then add into that the fact that the supply side in those core markets is looking relatively thin, certainly for the next two years at least, you can see that any business that is developing into that shortage is going to do well. They are going to pre-let schemes.

Typically, we have been pre-letting or development leasing roughly half of our lettings over the last few years and I think that will continue. I think we will look forward with some pretty good pre-lettings to come.

Q: So Nick breaking this down a little bit more, have you seen the growth in retail and office rents that you envisaged this time last year?

NS: Yes, at this time last year we gave very clear positive guidance for ERV growth across our portfolio and I think it's fair to say that we've more than delivered. Across our office portfolio we were expecting to see ERVs up by between 5% to 10% and we've hit the very top of that guidance with bang on 10%. For our retail portfolio we suggested around 10% and we've beaten that at 11.4%, in part driven by our letting successes down at the east end of Oxford Street where we've been setting new Zone A retail rents.

Q: How would you say that commercial real estate in Central London is faring at the moment from an investment perspective?

NS: I think it's fair to say the market is very strong and very competitive. And our own experience a month ago at Wigmore Street testifies to that where we put into the market an asset for £200 million and had fully funded bids of more than £2 billion. So there you can see the weight of money remains very strong.

And if you look at where we were at this time last year, we estimated there was around £28 billion of equity capital looking to invest in Central London that has now risen to £40 billion. But at the same time, the level of stock available on the market hasn't really changed. There's around £2 billion on the market today. So the equity demand/supply multiple at 20 times has never been higher.

Clearly this is influencing our behaviour. Whilst we will continue to seek to unlock the odd bolt-on acquisition, the two key things really that we're doing is looking to realise value through selling into this strength and crystallising returns from our more stable drier assets and reinvesting those proceeds into our development programme where we see the strongest opportunity for good rental growth.

Q: Toby, will capital growth remain strong and yields compress?

TC: Well, two years ago we said that we felt yields would begin to drift up a little bit in the year to March 2016. It could still happen in the year to March 2016. It's more likely actually to happen a little bit thereafter. And in our business plans we've now pushed that expectation back to the year to March 2017.

And the reason that's important is because total returns are driven by two things, moving rents and moving yields. The yield construct we think has largely played through. We've seen compression in the markets as the capital that Nick was talking about has been coming into London as aggressively as it has. That story has played for an extraordinary length of time.

We think it is possible that we'll see a little bit more compression. We've seen some compression created by our own sale in Wigmore Street, so those have marked benchmark yields down to 3.5% prime in the West End. But the real driver of returns to your question is going to be rents and rental growth. And your ability to lease into that supply constrained market that we talked about earlier is going to be the thing that will drive certainly our returns we think in the next couple of years.

We will still create yield compression. So where we take raw material and convert it into assets that institutions for example want to own, there is natural compression that you're creating. We will still have some of that, but I think the real returns for us will be all about taking rents from say, 30 quid a foot to say, 60 quid a foot through the development and refurbishment process. And there's a lot of that for us to do in the next two years.

Development programme

Q: Can you talk a little bit more about your development pipeline and how far off the de-risking phase would you say you are?

TC: Well, we're into what we call the execution phase. We've actually been de-risking some schemes. Wigmore Street is a very good example of that. We began that in 2011, we finished in May '13, early '14 and we've just sold it April this year and crystallised a 105% return. So that's de-risking in the sense that we're taking cash out of a business plan that we can no longer see enough return to beat our cost of capital looking forward.

We're now in the execution phase with six schemes on site, another six which we could start inside two years and thereafter twelve in what we call our pipeline. So if you add it all up, it's about 2.5 million square feet. It's about 54% of the Group's assets overall. So there's an enormous amount to be done in the next few years. Most of it is concentrated in the next 24 months. So 70% of the CapEx that we're looking at spending is in the next 24 months.

And actually we think that's very interesting from a market timing perspective with vacancies as low as they are and with the supply constraint as tight as it is.

Q: Development is obviously a core part of your strategy, but clearly there's upward pressure on costs. So how do you view this?

NS: Fundamentally there are two key costs that we have to think about when we're developing. One is our land cost and crucially we bought our raw material early. If you remember we were a big buyer in '09, '10, '11, '12 and in fact 59% of the portfolio we own today we bought in that period.

The second key cost is clearly construction costs and there we are seeing inflation as you say the combination of constrained capacity. but also contractors seeking to re-establish a little bit of margin. Their margins have been on the floor for quite a long period of time. What that means for us is that across our committed schemes, we now effectively nearly secured a 100% of the construction cost.

As we look forward, we're continuing to factor in some construction cost inflation into our forecasts. We expect to continue to see rental levels grow at a faster rate than that, but equally important for us is securing the capacity. And here we do have some form of competitive advantage given our track record, our relationship with the contractors but also the longevity of our pipeline. Contractors can see the opportunity to work with us on multiple projects. So these are costs that we're having to manage, but so far we've proven very effective at doing so.

Q: **But with all this development comes risk, so how do you manage that risk? How do you mitigate against that?**

NS: Fundamentally, there are four things we're really trying to do. One, make sure we get paid for the risk that we're taking on. So we're continuing to underwrite transactions conservatively. So based off today's rents and based off today's land values and across our six committed schemes, the expected profit on cost today is around 18% which feels absolutely comfortable for the level of risk that we're taking on.

The second thing that we're doing is removing delivery risk early as I mentioned through taking fixed price construction contracts.

The third thing is once we've committed to a scheme is to seek to remove market risk through pre-letting and forward sales and in fact, 30% of our committed schemes are already pre-let or presold.

And fourthly, as we think about our near term pipeline schemes it's maintaining flexibility and running with multiple business plans up until the point that we actually commit to the development.

Asset management

Q: **How much confidence is there running through your leasing business at the moment?**

TC: Well, I would say given the market circumstances we described, low vacancy, not much coming through in the next couple of years and our business delivering 25% of all spec space in W1 and SW1 in the next four years, leasing confidence is pretty good.

So we've positioned ourselves for that tight market condition. The economy is clearly growing. If you look at the GDP forecast, London versus UK, London is still forecast to outstrip the UK. If you look at surveys on businesses' confidence levels generally, you see that sentiment is strong. Companies are investing in headcount again. We think that 75% of all London businesses that were surveyed recently are suggesting that they are going to increase headcount in the next five years, 58% of which are going to do it by more than 10%.

Now these are quite big numbers. These are going to need space to put these people. And with vacancies as it is, companies like us we think will do well because we're delivering new high quality space into the W1 core markets.

Q: **Nick - Toby touched on it earlier, but what do you see in terms of pre-lets? What kind of numbers are we looking at?**

NS: I think it's fair to say we've been very successful through the cycle with our pre-lets so far. We've delivered around £37 million of pre-lettings and our most recent pre-let was in March, down at 73/89 Oxford Street, a scheme that we had only committed to two months previously where we have let a flagship retail store to New Look for £3.7 million a year, at a record Zone A rent down that end of the street. And so whilst on a standalone basis that's an important transaction, the read across that that rent level has to our other activities down there is very, very important.

Equally we've had just under £10 million of development lettings over the course of the last 12 months at recently completed schemes such as Walmer House, City Tower, Blackfriars Road. And I think with that experience and with the prospective

market conditions we're seeing, that is what is giving us the confidence to press ahead with the development programme today.

Capital recycling

Q: You say that you're net sellers, but you've made some pretty significant acquisitions. So are you going to remain net sellers?

TC: You're referring back to what we said this time last year that we would be net sellers for the year to March '15 and we have been. And in fact, in broadly 10 to 1 net sellers. So we've sold mid 300s millions and we've bought in the year circa 35 million.

We've actually since the year end made another a big sale, £222 million at Wigmore and further purchases. As we know we bought out our JV partners, GSP. So over the year since March '14 through to today we've sold £460m and we've bought out £135m. So we're still net sellers.

Looking forward from here, there 's a very simple reason why I think we will continue to be net sellers and it comes with this execution phase that we talk about. We are improving buildings. We are taking them to a point where we think the forward returns are probably not sufficient for us to hold and therefore we rotate out of them and we take that capital and put it back into refurbishing and developing the existing portfolio.

If we could find assets in the market that were going to deliver us more than the investment we can capture in our existing portfolio, we would buy them. We have the capacity. Clearly with gearing where it is and the low 20s LTV, we have that capacity. Today however, we're finding more value inside the business than we are in the market at large. So I think we will be a net seller this year for that principal reason again.

But that's a great position to be in. If you've got as much opportunity organically to grow as we have, we should capture that and that's what we're doing.

The time will come again when we will find excess value outside compared to inside, but that is not certainly this year and possibly for a few years hence. We will however find the odd bolt-on acquisition rather like Alfred Place and rather like the acquisition of GSP where we think there's an angle that we can exploit that perhaps others can't and we'll find a few of those. But fundamentally we'll be a net seller.

Q: And Nick can you just run through the disposals and proceeds across the year?

NS: If you go back to April 2014 and roll forward to today, we've made more than £450 million worth of sales across five transactions at an average premium to book value of about 12%. So we've been capturing value for our shareholders. The three largest transactions, actually all of them were effectively where we were crystallizing the value that we'd created with our development schemes.

The largest sale was at Rathbone Square which is our largest ever development scheme. It's a mixed use scheme and we've already sold a 132 of the 142 private

apartments for just under £230 million which more than covers the CapEx to come for the entire scheme.

Late last year we forward sold New Fetter Lane. This is a fully pre-let but part constructed development scheme in Midtown. We forward sold that and effectively crystallised ungeared IRR of 55% and a return on capital employed of more than 80%.

And as Toby touched on Wigmore Street most recently, where we put an asset to the market for £200 million. We sold it for £222 million, so circa 16% premium to book value at a record low yield of 3.4%. And crucially we monetised a 105% profit on cost for GPE. So for us the sales have been very good business.

Financial position

Q: How would you view the cash and debt position and would you consider gearing up in any way?

NS: I think we always have and always will seek to maintain a very strong financing position and as at today LTV is low at sub 22%. We've continued to improve interest cover. That's now north of 10 times. In terms of liquidity we have more than £400 million of cash and in undrawn facilities and crucially those facilities remain low cost, so our weighted average interest rate is still 3.7%, still one of the lowest in the sector. More relevantly our marginal cost of debt at 1.6% is very low.

Will we gear up? I think financially no. We're very comfortable with the level of financial gearing that we're running at the moment. But clearly through the development activities, we are elevating operational gearing so the combination at the moment feels spot on.

Q: And given that you're in the execution phase, how do you view the CapEx at the moment?

NS: On the CapEx front, prospective to CapEx has never been higher. We have around £533 million of CapEx to spend across the committed and near term projects. The bulk of that is on the six committed schemes. There's £325 million still to invest there. All of those schemes will complete within the next two years and the vast bulk of that CapEx is going into the east end of Oxford Street, a part of Central London that we're very excited about.

As you then overlay the six near term schemes, there's a further £209 million of CapEx. And if you pull it all together, we think the return on the £533 million CapEx is going to be very attractive for our shareholders particularly when you bear in mind that every single one of those schemes is within walking distance of a Crossrail station and the fact that we're doing this development activity from such a strong financial base.

Outlook

Q: And Toby, when you look at the London economy and you touched on it earlier as well, what conclusions do you make? And what's the outlook then for the business?

A: TC: I think the outlook for the business is very strong given the development positioning we have and the market conditions we're talking about and given the amount of groundwork we've been doing. After six years of strong upward performance, we've been laying the groundwork for the next few years of a further

strong performance, principally through the investments we've been making and indeed the developments that we have still to deliver.

I think there are risks on the horizon in London clearly and I would say the single biggest at the moment is still the EU referendum. We now know it's going to happen. My view is that the London economy would benefit from remaining within the EU, but we'll have to wait and see how that plays through.

Fundamentally though I think when we talk to our tenants and we do this clearly all the time, we see a community that is actually quite robust. It's quite optimistic. It's looking at a London economy which is delivering growth, net growth and as I said earlier, headcount numbers we expect to continue rising. If that carries on, with limited vacancy, you're going to get rental growth. And as Nick touched on earlier, we've delivered ahead of the expectations from last year, 10.3% for this year. We're raising the guidance for the year to March '16 over that that we had for last year and we're saying that we're going to deliver circa 10% this year.

Could we beat that? Yes, we might be able to. And I think the reason that we might be able to beat it would be if, for example, London businesses begin to really get that headcount number moving earlier and we pre-let space and we're able to deliver good quality buildings into that supply shortage. So overall I think the market feels robust at the moment.

[End]