Business Unit Review – Retail Portfolio

Our retail business represents 44.7% of the combined portfolio by value, and includes 28 shopping centres and 29 retail parks. With over 1,600 occupiers and 1.7 million m^2 of retail accommodation, the Retail Portfolio has a 5.1% share of the UK's retail commercial property market. Many of our retail properties form the central shopping districts of major cities and towns across the UK and we are investing some £1.2bn to create the next generation of retail schemes through a 380,000m^2 development pipeline.

National sales data has shown that retail conditions have remained broadly similar over the past 12 months and our experience of leasing conditions on new and existing shopping centres and retail parks is consistent with this, demonstrating continuing demand for our retail development pipeline.

Across our like-for-like portfolio, we saw rental income growth of 4.7%, primarily driven by rent review settlements. These rent review settlements reflect increases in rental value over the last five years. In the last six months, rental values have continued to increase, but at much more modest levels, namely 0.8% for the half year. In line with the wider investment market, valuation yields have increased, particularly for secondary assets and retail warehouses and this depressed capital values. However, we have benefited from strong performance from completed developments and also the greater resilience to adverse yield change of some of our high quality shopping centres. As a result, we have seen only a small decline in the value of the Retail Portfolio of 2.2%. The reversionary potential of the portfolio remains strong at 12.0% and void levels are below market average at 4.0%.

Sales, acquisitions and asset management

We have continued with an active sales programme. We sold £589.1m of retail assets, the largest of which were the Whitefriars shopping centre in Canterbury and our 50% stake in the East Kilbride Shopping Centre in Scotland. Our sales also included £121.9m of retail warehouse assets. On average the sales were at prices 4.1% above March 2007 values (before disposal costs).

Retail investment acquisitions were not our priority during this period, but we have agreed to acquire a major development opportunity by establishing a partnership with Caddick Developments regarding its £80m Trinity Shopping Centre in Leeds. This centre which will be integrated with our Leeds Shopping Plaza, an asset we acquired in 2005 as part of our corporate acquisition of Tops Estates plc. This scheme is planned for completion in 2010. The combined development incorporating our refurbished Leeds Shopping Plaza will provide a total of 83,640m^2 of retail floorspace in a prime location in the centre of Leeds.

We have secured some £10.3m p.a. of rent in new lettings within the portfolio, all of which have either driven rental growth or improved tenant mix.

Our void levels have increased slightly on a like-for-like basis and are now at 4.0% of ERV. 26% of these are currently in solicitors' hands and a further 17% are being held vacant pending redevelopment or refurbishment work.

We continue to create additional revenue opportunities from within our Retail Portfolio. As an example of this, 14 of our shopping centres have entered into an advertising partnership with Sky which will generate some £3.5m over the next five years.

Development

We made excellent progress on our retail development programme, completing 59,710m^2 of retail floor space with an annual rent roll of £16.7m and letting some 18,000m^2 across our major schemes.

We successfully launched our 44,600m^2 mixed use regeneration scheme at Princesshay, in Exeter city centre in September 2007. Introducing 35 new retailers to the region and providing retail accommodation for 14 independent traders, the scheme demonstrated that the right retail product attracts strong demand from retailers. Christs Lane, Cambridge and the first phase of Corby's regeneration also achieved significant retail pre-lets ahead of their openings.

The 140,000m^2 Cabot Circus scheme is set to transform the heart of Bristol upon its launch in September 2008. Together with our development partner, Hammerson, we have secured 59,000m^2 of lettings bringing it to 79% pre-let or in solicitors' hands by floor area or 68% by income, 12 months ahead of opening. The retail led mixed use scheme will establish Bristol as one of the leading fashion and leisure destinations outside London.

In Cardiff we are progressing the St David's 2 development with Capital Shopping Centres to regenerate the city centre with 106,400m^2 of retail, leisure and residential accommodation. The first phase of the catering units is fully let. The scheme will bring the first John Lewis department store to Wales and is on schedule for an autumn 2009 opening.

Construction is underway on The Elements, Livingston, where we are extending the existing shopping centre to provide an additional 32,000m^2 of retail space, 5,670m^2 of leisure, residential accommodation and new public spaces. Debenhams and Marks & Spencer will anchor the scheme which is on schedule for an autumn 2008 completion.

In our retail warehouse portfolio we completed 22,350m^2 of new space including the 13,380m^2 Peterborough Retail Park, which was 91% pre-let to B&Q and Matalan, with one remaining unit under offer. At Thanet we completed a 8,970m^2 leisure park, which is 100% pre-let, and is adjacent to our Westwood Cross fashion park improving the mix of uses and the overall car parking provision.

In April we submitted a joint planning application with Henderson Global Investors for the 65,000m^2 expansion of Buchanan Galleries, Glasgow, and a resolution to grant outline planning consent was passed in early November. The new scheme will create further retail space in the UK's second ranked shopping destination, and will also provide residential accommodation and upgraded transport facilities for the city centre.