

# OUR YEAR IN REVIEW

## MANAGEMENT FOCUS

**The flight to quality in London offices gathered pace in 2022 with prime buildings continuing their relative outperformance in occupational and investment markets.**

Real estate valuation yields, however, came under pressure in the second half of the year as global events led to higher inflation and tighter monetary conditions. As a consequence, the cost of capital increased, leading to a fall in capital values across the sector.

Many businesses recognise the important role offices play in retaining and attracting talent. We remain focused on the fundamentals of designing and curating amenity-rich, 'long-life, low carbon, intelligent' offices that contribute to London's position as a leading global city and which appeal to an ever more discerning occupier base.

In 2021, we made the decision to retain more of our greener and recently regenerated buildings where we see further outperformance over the next few years. However, we continue to recycle capital and, in 2022 we sold £206m of assets above book value where we identified lower growth opportunities, helping maintain net debt at £1.3bn. Proceeds have been recycled into development capex and longer term development opportunities, keeping our LTV ratio low.

The strength of our capital structure and the high quality of our balanced portfolio, coupled with the positive prospects for central London, give us confidence in our positioning.

We have the financial capacity to deliver our committed programme, with a pipeline of major projects that extends to more than 1.8m sq ft of prime offices, while remaining opportunistic regarding potential acquisitions to restock our pipeline.

As a total return business, we recognise the importance of balancing value creation and earnings. This has helped us to continue to grow our covered dividend each year.

A summary of our performance for 2022 is presented here.

We look forward to delivering further high quality offices meeting today's occupier needs and thereby generating above average long-term returns for our shareholders.

### REASONS TO INVEST

**Focusing on the fundamentals**

#### DESIGN-LED DEVELOPMENT

➤ See [page 22](#)

#### OCCUPIER-FOCUSED SOLUTIONS

➤ See [page 24](#)

#### NET ZERO CARBON

➤ See [page 26](#)

#### A DYNAMIC & INCLUSIVE TEAM

➤ See [page 28](#)

#### STRONG CAPITAL MANAGEMENT

➤ See [page 30](#)

## OPERATIONAL HIGHLIGHTS

### WALUT (TOPPED UP)

# 7.2 years

weighted average unexpired lease term after adjusting for 'topped-up' rents and pre-lets

### NEW LETTINGS

# £9.8m

agreed in 2022 on 163,000 sq ft, 13.0% above Dec 2021 ERV

### VACANCY RATE

# 6.4%

our EPRA vacancy rate increased during the year

### EMPLOYEE SATISFACTION

# 88%

based on our 2022 employee survey

### ENERGY INTENSITY

# -4%

annual reduction to 123 kWh/sqm

## PERFORMANCE HIGHLIGHTS

### NET RENTAL INCOME

# £188.5m

⊕ 6.0%

2021: £177.9m<sup>1</sup>

### TOTAL PROPERTY RETURN

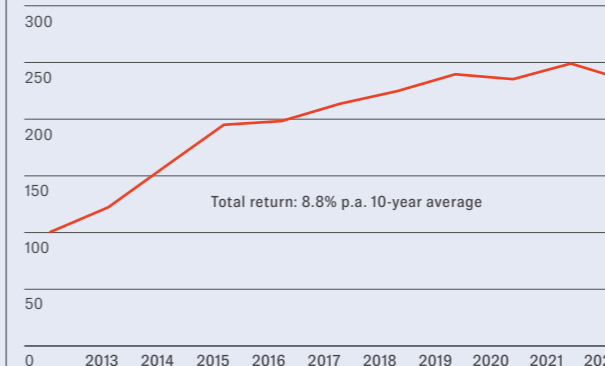
# -3.4%

⊖ 9.7%

2021: +6.3%

### TOTAL RETURN INDEX

Total return index (31 Dec 2012 = 100)



## DEBT HIGHLIGHTS

### NET INTEREST COVER

# 423%

2021: 463%<sup>1</sup>

### AVERAGE SPOT INTEREST RATE (CASH BASIS)

# 3.14%

2021: 3.14%

### EPRA EARNINGS PER SHARE (EPS)

# 106.6p

⊖ 1.8%

2021: 108.5p<sup>1</sup>

### EPRA NET TANGIBLE ASSETS (NTA) PER SHARE

# 3,632p

⊖ 8.3%

2021: 3,959p

### DIVIDEND PER SHARE

# 78.5p

⊕ 2.6%

2021: 76.5p

### TOTAL RETURN

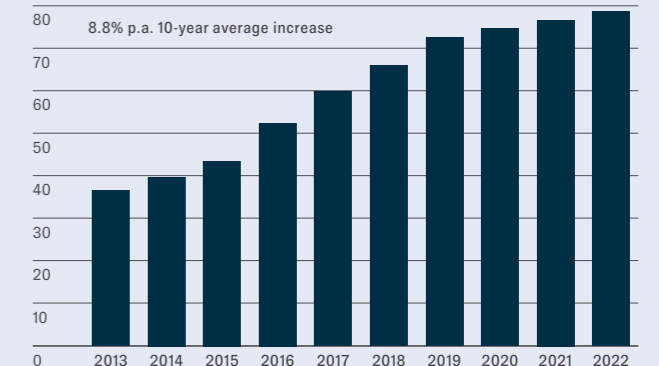
# -6.3%

⊖ 12.1%

2021: +5.8%

### TOTAL DIVIDEND PER SHARE

Pence (excluding special dividends)



<sup>1</sup> Restated – see note 2 on [pages 247 to 250](#).

# OUR YEAR IN REVIEW *continued*

## STRATEGIC HIGHLIGHTS

### KEY PROGRESS IN 2022

Despite the economic and geopolitical events in 2022, we have stayed focused on delivering our business strategy by continuing to develop prime, green buildings which remain in high demand, and expanding our customer offering, whilst also ensuring we kept our strong financial position.

#### COMPLETED 450,500 SQ FT OF MAJOR PROJECTS

With the completion of three major projects, we delivered 450,500 sq ft of high quality new space. The largest of these was Soho Place W1, a complex development encompassing office, retail and the first new-build theatre in London's West End for over 50 years. Together these projects deliver a combined rental value of £32.7m to the business after the sale of 2-4 Soho Place (site B).

#### RECYCLED £206m OF CAPITAL

During the year we recycled £206m of capital through strategic disposals, providing funds to re-invest in the portfolio. This included Bush House WC2 for £85m which enabled us to crystallise development profits early without the inherent project risks.

#### MAINTAINED STRONG FINANCIALS

Whilst market interest rates rose significantly during the year, this had minimal impact on our overall cost of borrowing given our very high proportion of fixed rate debt. Investment in the portfolio continued but, through disciplined capital recycling, our net debt was stable, ensuring leverage remains conservative and providing plenty of financial headroom.

#### PROGRESSED NEXT WAVE OF DEVELOPMENT PROJECTS

We remained focused on the execution of our next wave of major projects, with demolition works completing at Network W1 and Laing O'Rourke commencing construction works at 25 Baker Street W1 under a fixed price contract.

#### ENHANCED CUSTOMER OFFERING

Following the success of DL/78 and its first full year of operations, we committed to opening another amenity hub for our customers, DL/28, at our newly developed The Featherstone Building EC1. In addition, during 2022 we continued to drive enhanced service for our customers through increased third party member discounts and an extensive programme of events.

### PRIORITIES IN 2023

During 2023 we will further advance our pipeline and continue to explore other opportunities within our portfolio to add value while we maximise income and drive earnings growth.

#### PROGRESS ON-SITE SCHEMES AND SECURE PRE-LETS

We will progress on-site activities at 25 Baker Street and Network, with a combined floor area of 435,000 sq ft, and also seek to de-risk these projects by securing pre-lets on some of the space.

#### ADVANCE PLANNING FOR FUTURE PROJECTS

During 2023 we will progress planning applications for our next generation of major projects. This includes 50 Baker Street W1 (jointly owned with Lazari Investments) and Old Street Quarter EC1, which collectively have the potential to deliver c.1m sq ft of high quality space. In addition, we will seek a refreshed planning permission for Holden House W1.

#### DELIVER DL/28 AT THE FEATHERSTONE BUILDING

We are committed to delivering DL/28 at The Featherstone Building during 2023. Once complete, this will enable us to provide our customers with access to two strategically located amenity hubs – one in the west in Fitzrovia and one in the east in Old Street.

#### IDENTIFY FURTHER PORTFOLIO OPPORTUNITIES

We will continue to explore further opportunities to add value through regeneration of our buildings, including asset repositioning and EPC upgrades, increasing our 'Furnished + Flexible' offering and exploring Life Sciences possibilities.

#### PROACTIVE ASSET MANAGEMENT

The Asset Management team will proactively manage upcoming breaks and expiries to retain and maximise income in order to drive earnings growth.

#### MAINTAIN FINANCIAL STRENGTH

Through robust capital management we will continue to maintain a strong financial position, ensuring we keep good headroom on our covenants.

## ESG HIGHLIGHTS

### KEY PROGRESS IN 2022

2022 saw us make further progress on our journey to net zero carbon by 2030. Our workforce remains highly engaged in this area and we continued to invest in delivering social value for our stakeholders.

#### REDUCTION IN ENERGY INTENSITY AHEAD OF TARGET

The energy intensity of the managed portfolio reduced 4% to 123 kWh/sqm (2021: 128 kWh/sqm). This is ahead of our 1.5°C aligned target for the fourth year in a row, which for 2022 was 139 kWh/sqm. See [page 56](#) for more details.

#### MEETING EMBODIED CARBON TARGETS

Three major net zero carbon projects completed in the year: Soho Place W1, The Featherstone Building EC1 and Francis House SW1. Significant work was undertaken to minimise the residual embodied carbon through innovative use of lower carbon materials and construction methods. These offices achieved our 2025 embodied carbon target of ≤600 kgCO<sub>2</sub>e/sqm. See [page 56](#) for more details.

#### SOLAR PARK PLANNING CONSENT

Resolution to grant planning consent was received for a c.100 acre, 18.4MW solar park on part of our Scottish land. When completed and operational, we expect it to generate electricity equivalent to more than 40% of the needs of our managed London portfolio. See [page 55](#) for more details.

#### ENGAGED WORKFORCE

Of the 94% of respondents to our 2022 internal 'pulse survey', 91% agreed they are 'proud to work for Derwent London'. See [page 28](#) for more details.

#### CO-FOUNDED CROSS-SECTOR HEALTH AND SAFETY (H&S) DATA

As part of our robust and transparent approach to H&S, we co-founded the cross-sector Real Estate Benchmarking Group for H&S data sharing.

#### SUPPORTING COMMUNITIES

As part of our ongoing package of community support, our annual community fund distributions increased 20% to £120,000. In addition, we have been working with a specialist consultant to define and develop our social value framework. See [page 17](#) for more details.

### PRIORITIES IN 2023

In 2023, we will look to make further progress on our journey to net zero with a focus on occupier engagement. We will ensure that we continue to create value responsibly and maximise the positive impact upon the communities in which we invest.

#### WORK WITH OCCUPIERS TO REDUCE ENERGY CONSUMPTION

Occupier engagement is key to managing down Scope 3 emissions by bringing greater focus to their energy usage and providing guidance on ways to proactively lower it. See [page 54](#) for more details.

#### PROGRESS SCOTTISH SOLAR PARK

Construction works are expected to commence through 2023, subject to finalisation of planning consent. Our current expectation is to complete development in 2024. See [page 55](#) for more details.

#### FURTHER EXPLORE CARBON REDUCTION INITIATIVES

We will continue to explore appropriate alternative lower carbon materials and methods of construction. See [page 53](#) for more details.

#### CONTINUE TO EMBED DIVERSITY AND INCLUSION

We will continue to raise awareness around diversity and inclusion, with a particular focus on disability, to ensure we remain an employer of choice. See [page 60](#) for more details.

#### PROGRESS SOCIAL VALUE FRAMEWORK

Having started the process of formally developing our social value framework, we expect to complete and implement our approach in 2023. See [page 17](#) for more details.

# OUR YEAR IN REVIEW continued

## STAKEHOLDER FOCUS



### OCCUPIERS

#### OUR APPROACH

Our Asset and Property Management teams maintain an ongoing dialogue with our occupiers. We provide high quality amenity, such as our occupier hub at DL/78, have a dedicated Customer Experience team who run a series of occupier events, and aim to take a collaborative approach to sustainability.

➤ [READ MORE / See page 24](#)

#### PRIORITIES FOR 2023

- Further promote the DL/App and DL/78, and the associated benefits
- Deliver DL/28 at The Featherstone Building EC1 and drive occupier awareness
- Ongoing engagement and education around service charge and utilities cost inflation
- Work with occupiers to help further reduce their energy consumption



### EMPLOYEES

We recognise that the success of the business stems from having high performing and engaged employees. We undertake annual employee questionnaires, alternating each year between full and short 'pulse surveys'. Our staff receive training on a variety of topics and are kept informed of business activities through monthly CEO-led town hall meetings and our intranet.

➤ [READ MORE / See pages 28 and 59 to 62](#)

- Maintain a programme of training to ensure appropriate skills throughout the business
- Analyse 2022 'pulse survey' results with appropriate action to address opportunities
- Design and run our fifth biennial employee survey in October 2023
- Further embed diversity and inclusion, with a particular focus on disability



### LOCAL COMMUNITIES & OTHERS

Our buildings are an integral part of the communities in which they sit and our engagement with them takes many forms. This can be both financial and non-financial. Employee volunteering, work experience opportunities and building open days all contribute to establishing and maintaining effective connections.

➤ [READ MORE / See pages 57 to 58](#)

- Provide continued funding for our two community funds and publicise the improvements we made to the application process in 2022
- Complete and embed our new social value framework into our portfolio-wide community work

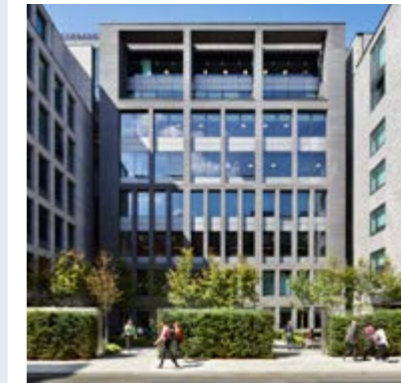


### SUPPLIERS

We seek to partner with like-minded businesses. Through regular correspondence and update meetings, we operate our Supply Chain Responsibility Standard which includes our approach to net zero carbon. We adhere to strict Modern Slavery standards and are signatories to the CICM Prompt Payment Code, continuously working to treat our suppliers fairly.

➤ [READ MORE / See pages 132 to 133](#)

- Ensure ongoing compliance with our Supply Chain Responsibility Standard
- Continue to focus on paying our suppliers promptly
- Issue our annual Modern Slavery statement for 2023



### CENTRAL & LOCAL GOVERNMENT

We maintain proactive relationships with local and central government departments where we engage across a variety of levels including local planners, local action groups and HMRC. The Group seeks to positively impact policy through involvement in various bodies, such as the Westminster Property Association (WPA).

➤ [READ MORE / See pages 132 to 133](#)

- Demonstrate our approach to social value as part of progressing planning applications for 50 Baker Street W1 and Old Street Quarter EC1
- Work towards further regeneration of Oxford Street East partnering with WPA and New West End Company (NWECC)
- Continue to represent the real estate sector at the Sustainable Markets Initiative (SMI)



### SHAREHOLDERS & DEBT PROVIDERS

Our transparent approach to engagement with shareholders and debt providers is premised on the value we see in long-term relationships. Through the year, we host a variety of events including roadshows, presentations, property tours and a combination of one-to-one and larger group meetings. All material news is published via Regulatory News Services (RNS).

➤ [READ MORE / See pages 132 to 133](#)

- Maintain conservative financing with a focus on interest cover and rigorous forward planning
- Ensure green finance is used to fund green projects with consistent application of our Green Finance Framework
- Maintain an open dialogue through a series of individual and group events

➤ [RESPONSIBLE BUSINESS COMMITTEE REPORT / See page 182](#)

➤ [THE SECTION 172\(1\) STATEMENT / See page 131](#)