DERWENT
LONDON

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Derwent London plc

("Derwent London" / "group")

INTERIM MANAGEMENT STATEMENT FOR THE QUARTER ENDED 31 MARCH 2009

Highlights

- Letting activity:
    - Lettings in the first quarter of the year totalled 80,100 sq ft (7,400 sq m), which will generate an income of £3.2 million per annum
    - Since 31 March 2009, a further 68,000 sq ft (6,300 sq m) of floor space has been either let or placed under offer, equivalent to future rent of approximately £1.6 million per annum
    - Qube offices in Fitzrovia are fully let – EDF, the energy group, leased 31,100 sq ft (2,900 sq m) in one of the largest West End lettings so far this year
    - Space available for letting remains low at 4.2%
- Disposals
    - Disposals of £33.4 million at values in line with the year end valuation
- Financial
    - Group's financial position remains sound
    - Documentation for new £125 million facility signed
    - Unutilised, committed facilities of £315 million
    - £400 million of uncharged property

Commenting on the period under review, John Burns, chief executive of Derwent London, said:

"With the challenging operating conditions, our focus continues to be on minimising voids, capturing our reversion and careful capital management. Our balance sheet is strong, and we are well positioned to benefit from the value creating opportunities which are starting to emerge".

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Overview

Market conditions continue to be difficult, with central London office take-up still in decline against the long-term average. Consequently, since the year end, there has been both a further, sector wide fall in rental levels and increased tenant incentives. However, whilst demand generally has slowed, our affordable, well designed space has remained attractive to occupiers. During the quarter, the group's portfolio, with its limited development exposure and diverse tenant mix, continued to show its defensive qualities and, with solid letting progress, maintained a low vacancy rate.

Portfolio management

Letting activity for the first quarter of 2009 totalled 80,100 sq ft (7,400 sq m), in 21 transactions, which will generate annual rental income of £3.2 million. Of this, £2.9 million was from space that was vacant at the year end which included all the remaining office space at Qube. Overall, rental levels achieved on the lettings were about 7% below the December estimated rental values.

The principal transactions were:

- Qube, Fitzrovia
    - In one of the largest West End lettings so far this year, EDF, the energy group, leased 31,100 sq ft (2,900 sq m) for 15 years, with rent reviews every five years, at £1,480,000 per annum which equates to £47 psf (£506 psm). There are tenant break options after five and ten years. A rent free period of 21 months was granted with a further four months if the fifth year break is not exercised. If the break is exercised, the tenant will pay a penalty equivalent to nine months rent.
    - ScanSafe, a global provider of security software, leased 6,500 sq ft (600 sq m) for a term of 10 years at £290,000 per annum based on £45 psf (£484 psm). The rent is subject to annual increases, and rises to £355,000 per annum (£55 psf/£592 psm) by year five. A rent free period of ten months was granted with a further five months if the tenant's break clause at year five is not exercised.

- 1–3 Grosvenor Place, Belgravia
    - Jupiter Investment Management Group, an existing tenant in the building, has taken 8,800 sq ft (800 sq m) on a seven year lease at £410,000 per annum (£46 psf / £495 psm). There are mutual break options which help retain our flexibility for future redevelopment.

Across the portfolio, a further 68,000 sq ft (6,300 sq m) of floorspace has been either let or placed under offer since the March quarter end which equates to an annual rental income of approximately £1.6 million.

The group's vacancy rate (by estimated rental value) is now 4.2%, a slight increase from 3.8% at the year end. This is predominantly due to the completion of a number of small refurbishment projects, and some space that became available following the expiry of a lease at Grosvenor Place.

During the quarter, 18 lease renewals were concluded at an annual rent of £1.0 million per annum and 14 rent reviews settled which totalled £4.1 million per annum. Overall, this management activity achieved an uplift of £0.9 million per annum over the previous rents which represented a 22% increase, and demonstrates the potential rental uplift to be captured. The rents achieved were, nevertheless, about 6% below the December estimated rental values.

For the March quarter, the group's rent collection was consistent with previous quarters, with 97% received within 14 days of the quarter day. Tenant defaults remained low. Only four tenants, with a combined rental income of £0.5 million per annum, are in administration.

Projects

The group has only three schemes underway which, overall, are 57% pre-let:

- Angel Building, Islington – at this 263,000 sq ft (24,400 sq m) office regeneration project the structural steel frame installation is nearing completion and the form of the new façade is now visible. Just over half of the space is pre-let to Cancer Research UK at £5.6 million per annum, and the building is due to be completed in the summer of 2010.

- Arup Phase III, Fitzrovia - the external cladding installation has now commenced on this 85,000 sq ft (7,900 sq m) office development. Completion is due towards the end of 2009, and the entire building is pre-let to Arup at £3.6 million per annum on a 25-year lease. The tenant is paying £1.2 million per annum during the construction.

- 16-19 Gresse Street, Noho – the external cladding has now been completed and the internal fit-out is underway. This 47,000 sq ft (4,400 sq m) office scheme is due for completion later this year.

At the end of March, the total cost to complete these schemes was approximately £81 million.

Disposals and acquisitions

There have been no further disposals since those announced with the year end results. The Astoria and 17 Oxford Street, Soho were compulsory purchased as part of the Crossrail project. To date, we have received interim proceeds of £14.4 million and will receive a further payment once the formal valuation is agreed. The buildings were multi-let, producing £1.0 million per annum. We continue to be involved with the future plans for this site which involve the redevelopment of Tottenham Court Road underground interchange, and have an option to re-purchase it on completion of the works. In addition, we sold 28 Dorset Square, Marylebone, for £16.8 million reflecting a net initial yield of 6.1% and representing a 5% premium over the December 2008 valuation. No acquisitions were made during the quarter.

Asset values

Since the year end, there has been some stabilisation in the yields of quality investments which are let on long term leases to strong covenants. This is evidenced by the recent sale of the group's property at 28 Dorset Square. However, with an investment market constrained by limited capital and downward pressure on rents, values continue to fall across the general market. Our portfolio was not revalued this quarter. However, as an indication of the movement in capital values over the first quarter of 2009, the IPD Quarterly Property Index for Central London Offices showed a decline of 10.0%, with the main contributor being a 9.6% reduction in rental values. Having consulted our principal external valuers, CB Richard Ellis Ltd, we believe that, following our asset management initiatives, our portfolio would have outperformed this index.

Finance

With £400 million of uncharged property, a high level of committed but unutilised bank facilities and flexibility in the management of its banking covenants, the group's financial position remains sound. This was evidenced at the end of April when Standard & Poor's published its review of the ratings of the company and the secured bond. These were both left unchanged, despite the turmoil in the global economy.

Net debt at 31 March 2009 was £840 million, £25 million lower than that reported at the December 2008 year end. This resulted from a net cash inflow principally due to disposal proceeds of £32 million from the sale of The Astoria, 17 Oxford Street and 28 Dorset Square. Capital expenditure for the first quarter was just over £19 million and there were no acquisitions. The documentation for the new £125 million facility, terms for which were agreed just before the announcement of the 2008 results, was signed in April, so that this facility now has an expiry in April 2014. In addition, a small loan in one of the group's joint ventures was refinanced for a term of twenty years. With lower debt, the committed, unutilised facilities increased at March 2009 to £315 million. Reduced borrowings and additional hedging meant that at the end of March 2009, 75% of debt was either fixed or hedged which results in a current spot weighted average cost of debt of 4.83%.

Outlook

The tough operating conditions look set to continue for some considerable period, so our focus will remain on income retention, minimising voids and careful capital management. Our strong balance sheet, low vacancy rate, affordable passing rents, and diverse tenant base, gives us confidence that we are well placed to take advantage of the value creating opportunities which are starting to emerge.

Disclaimer

This document includes statements that are forward-looking in nature. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Derwent London plc to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Notes to editors

Derwent London plc

Derwent London plc is the largest central London focussed REIT with an investment portfolio of £2.1 billion as at 31 December 2008. The group is one of London's most innovative office specialist property regenerators and investors and is well known for its established design-led philosophy and creative management approach to development. In April, Derwent London was awarded the Property Week Property Company of the Year 2009.

Derwent London's core strategy is to acquire and own a portfolio of central London property that has reversionary rents and significant opportunities to enhance and extract value through refurbishment and redevelopment. The group owns and manages an investment portfolio, of which 94% is located in central London, with a specific focus on the West End and the areas bordering the City of London. Landmark schemes by Derwent London include: Qube W1, Horseferry House SW1, Johnson Building EC1, Davidson Building WC2 and Tea Building E1.