



27 March 2007

**Tim Wheeler, Chief Executive and  
Steven Owen, Deputy Chief Executive**

## ***BRIXTON - Preliminary results***

### ***Highlights - Tim Wheeler***

**Q. The numbers reflect the disposals made during the year, so what for you were the key highlights?**

A.

Well I think the key numbers really are the performance of the property portfolio which has driven the other numbers. In terms of rental growth, which is the paramount figure for Brixton, the valuer's estimates put the rental growth at 3.8 per cent. We actually did 9.2 per cent on the lettings that we achieved during the year and IPD did 1.3 per cent, so significant out-performance there. On the capital growth side we did 12.3 per cent, 12.8 per cent on a like-for-like basis, and again IPD was 11.3 per cent.

Now that growth figure didn't translate to such a rise in NAV for two reasons. First of all, we disposed of about a quarter of the portfolio during the year. So we degeared quite extensively, so we've got a smaller portfolio. And, secondly, the 10.3 per cent NAV growth would have been closer to 14 per cent but for the REIT conversion charge.

As I've said, the business is smaller. Steve will explain the transitional nature of those numbers and how they've changed. But as well as being smaller we did have a very low tax charge of about 2 per cent in '05, so again, affecting the earnings comparative numbers as they are.

So actually where we sit now it's quite pleasing. We've seen rental growth of seven times the benchmark index. We have balance sheet capacity to move forward and during the year we sold out of the majority of Industrious and turned a £70m surplus in 15 months on that portfolio.

**Q. But what about Park Royal where you significantly underperformed the IPD figure?**

A.

Park Royal is a curiosity. It's actually the strongest rental growth figure that the valuers gave us at 4.8 per cent, but the IPD annual index produced 6.3 per cent. We find that surprising. Their quarterly index, which is two-thirds of the size of the annual index, still £20bn worth of property around the country, showed a 4 per cent rental growth for Park Royal and we're told the difference between the 4 per cent and the 6.3 per cent is to do with one property now being included which had an enhancement of rent in the year of over 50 per cent. It must have been a very large property and it doesn't sit in my mind totally clearly with IPD's figure for Greater London, which was 2.6 per cent.

But all that aside, Park Royal is the essential market for us. It's shown the greatest level of rental growth. It's where we've concentrated our development activity and it's where we have the strongest market dominance. Our next biggest competitors are about a tenth of our size.

**Q. You always tell me not to worry about the void figures because when you do let you exceed your benchmark, but how can you say that when you actually have voids of 14.6 per cent?**

A.

Yes, 14.6 per cent is all in. We do it on an income basis. Many others don't. If you stripped it down to an area calculation, it will knock about a full percentage point off that and we also include all our developments the day they are completed. So to give you an example, if you took the 14.6 per cent on income and you took out the developments that we completed in '06 and that remained unlet at the year end, the vacancy rate on income would be about 11.7 per cent. It was 11.5 at the end of '05, when we were doing little development, and 11.7 at the end of '04, when equally we weren't doing much development. So there's a sort of static line there.

What will happen as we are doing more development quite deliberately, and I'll explain why I'm sure as we go on, is there will be times when as developments complete, the void rate goes up and as they let it comes down.

What's important as well is that Greater London and the South East were the only areas in Britain last year that saw a fall in availability and the total amount of space being built at the moment in those areas still only represents about 0.3 per cent of the total stock. So there's not much being done in our markets and availability is falling.

## ***Strategic focus - Tim Wheeler***

**Q. You say your decision to sell Industrious has been endorsed. What do you mean by that?**

A.

Well it was very successful for us. We bought the portfolio in the early part of 2005. We were told that secondary yield compression had ended, or was about to end, and we were equally told that it was unlikely that we would extract any enhanced rental values given the endeavours of the previous management. In the year we did 123 separate lettings. We increased the rent on average by 19.4 per cent and we sold the last £350m worth of that portfolio in May '06. It was part of a larger portfolio - some of our stock as well, about £460m in total. The exit yield initially was around 5.5 per cent. We bought it at 6.9 per cent. So it was a very successful deal for us; a 33 per cent total return in 15 months.

**Q. You have refocused investment back to core Heathrow and the Southeast, but the pace of reinvestment seems to have slowed. Should investors be concerned?**

A.

No. We're quite happy with what we've been doing. We were lucky enough to have bought four extra holdings down at Heathrow, one more at Manchester. They are investment properties. We've got a couple of other things in the pipeline. And we have committed to buy, and have part paid for, the large ex-Guinness Brewery site at Park Royal. So we've committed to about £130m plus of expenditure, plus the development that we're going to be doing and there will be other opportunities.

**Q. So how will you continue to drive the all important rental growth which you believe differentiates you?**

A.

Well, it's about a number of things. It's about astute purchasing. It's still about very active asset management and a keen interest in the customer service end of the business through B-Serv. It's a steady old maxim: it's the same thing that all property companies should do, which is to try and drive lettings forward, rents forward on lettings, and they then, transcend down through the lease renewal and rent review process.

I think what's happened basically in recent years is that some people have forgotten that because there's been this massive cushion of yield compression.

## ***Development - Tim Wheeler***

**Q. Your speculative development programme represents a significant chunk of the King Sturge figure for London and the South East for the entire year, so what makes you think that you've got the development cycle right?**

A.

Well it has become more important to us, but that's a deliberate opportunist reaction to a number of things. First and foremost, we think there's better value in the development arena at the moment because of where yield compression has gone and how hot the investment market has become. Secondly, as you pointed out, there are some King Sturge figures - they do these bi-annual floor space figures for the whole country - and they're very supportive, retrospectively supportive, of what we've decided to do. So the December figures, for example, show a massive increase in availability in the country as a whole.

The only area that has seen a fall in availability is the Southeast and Greater London. Greater London, for example, new availability has fallen by 18 per cent. There is very little new development going on because the 1.5m square feet Greater London figure and the 1.1m square feet Southeast figure that King Sturge report, it's only 0.3 per cent of the total stock in the Southeast. You're quite right, we're going to add about another 1.3m square feet to that, but the markets are strong, rents are good and we really have little competition in the core markets that we operate in in the development arena.

**Q. So could you sum up your progress for me?**

A.

Pretty good. We're moving forward on a number of fronts. We are completing the third phase of Premier Park, Park Royal, which is over 200,000 feet this year. We've got two schemes at Greenford completing this year of about 350,000 feet. We're on site with the X2 multi-storey scheme at Heathrow, which will be completed at the turn of the year and just in advance of the completion of T5, which is obviously going to be very important to the airport. We are planning to start, subject to getting the consents in place, the Guinness Brewery site this year. And we've got a large scheme of about 200,000 feet starting in Manchester, which will be our first new development up in Manchester since we bought Trafford Park.

**Q. With so much development work going on do you feel that the business is overstretched?**

A.

Not at all. I think I've given a justification for why we're doing it in terms of the point in the cycle. The other thing to remember, of course, is there's a massive barrier to entry in the London market because it takes so much longer to get planning than it does in the rest of the country, as a generalisation.

The other thing is that our development programme is immediate. That means that we've got

nearly 2.0m square feet of speculative space that will be completing this year '07, '08 and '09. And independent estimates show that on the £300m worth of costs we should be recouping about £100m worth of profit. A 33 per cent return and that's coming in over three years. So this isn't an extended development programme going into the future; it's stuff we're actually doing now and that's why it's easier to read it against the cycle in the market we find ourselves in.

## **Financials - Steve Owen**

**Q. Let's turn to the financials, Steve. The comparables for this year are difficult. For example, profit before tax is down 29 per cent. What are the key numbers?**

A.

Well these results do show both increases and decreases, which obviously makes comparison with the prior year difficult. But we sold £560m worth of property in '06, which is about a quarter of the portfolio, and that has had a significant impact on several of the numbers. These numbers in particular, net rental income was down 19.5 per cent and that was due to the effect of these sales. We actually sold about £24m worth of rental income in those £560m worth of sales.

If you look at profit before tax, you mention it is down 29 per cent, but that's one of the side affects of the volatility under IFRS reporting. In 2005 our pre-tax profit was actually up 65 per cent. Now the key reason for the reduction in the pre-tax profit by 29 per cent in 2006 is because the size of the portfolio is less and therefore the absolute level of the valuation surplus was less going into the income statement.

But in terms of a key measure for our business and for the UK property industry business, we're looking at investment profit, which is the key measure for a REIT, as well as a non-REIT, property company. Investment profit was up 8.7 per cent to £47.6m and it's from that investment profit that we've been able to increase the level of dividend by 3.4 per cent, which takes our record of unbroken increases in dividend to 39 years.

Adjusted earnings per share, which is based on the level of investment profit was actually down 4.4 per cent, but that was due to an exceptionally low tax charge in 2005 of 2.3 per cent. The tax charge for 2006 was still low effectively at 14.5 per cent, but obviously not quite as low as 2005.

If you look at basic earnings per share, i.e. under IFRS, they were up to 110p – an increase of 28 per cent – and that's due to the release of the deferred tax provision arising on our election to become a REIT from the 1 January 2007.

If we now look at the balance sheet, the key measure there is adjusted NAV. That was up 10.3 per cent to 534p, so we're pleased with that result. It is less than the increase in the valuation surplus of 12.3 per cent but, again, that is due to the REIT conversion charge going through and also some exceptional charges on the redemption of the debentures.

**Q. But can you afford to remain so ungeared?**

A.

We're quite comfortable with the level of gearing that we were at December '06. It was 34 per cent. Traditionally, we have operated with a higher level of gearing. But our unsecured funding strategy gives us complete flexibility and the ability to move quickly when we acquire properties or corporates, as evidenced by the Industrious acquisition (£675m acquisition in January 2005), that increased our gearing at the time to about 128 per cent. That is the beauty of having an unsecured funding strategy. It enables us to move quickly both in terms of acquisitions and in terms of disposals to take advantage of opportunities as they arise in the market.

So at this particular point in the market we are comfortable with the level of gearing and we feel confident that we are able to improve, or increase our gearing through the development programme and through other opportunities as they arise.

## ***REITs - Steve Owen***

**Q. Brixton is now a REIT. How much has it cost you to do that and what difference has it made to the business?**

A.

Well it cost us just over £42m, which is 16p a share, which was provided for in full in the 2006 accounts.

In terms of the effect on our business, strategically and operationally it has had very little impact so far, because effectively we were operating as a REIT prior to becoming a REIT because of our specialism and our focus.

In terms of our shareholder base, there has been quite a change as we predicted. The level of overseas investment into our shares and into other UK property company shares has increased significantly, particularly from those jurisdictions which have established REIT markets such as the US, Singapore, Japan and Australia.

**Q.**

**In terms of the 90 per cent payout requirement, what does that mean for the dividend?**

A.

We, along with many of the other companies that have converted into REITs, already comply with the 90 per cent minimum payment. That is what it is; it is just the minimum condition. I think the key thing going forward is that our dividend policy of progressive increases each year will be maintained. One of the key things about the REIT is that there's no tax on the investment profits that we will be paying. Therefore we will be distributing a proportion of that tax saving in the form of increased dividends each year, along with many of the other property companies that have elected for REIT status. But the Board is committed to its policy of progressive dividend growth each year based on the level of investment profit.

## ***Outlook - Tim Wheeler***

**Q. You say that you think the downward yield shift is likely to end shortly. If it does happen what kind of impact is that going to have on the business?**

A.

Certainly the rate of yield compression has slowed down, but it is still compressing, our yields are still falling. We don't see that going on forever; it may well end this year. Our business has always been about income generation and it remains as such. We think, obviously, as yield compression does end that it will be very much more difficult to make money out of property passively and we've had to compete with that in the recent past.

So we are primed to continue that rate of rental growth out-performance and we're particularly going to focus in on the development programme where we're already setting levels of new record rents in the markets that we operate in.

**Q. With such an ungeared balance sheet does that make you vulnerable to a takeover?**

A.

We deliberately cashed up and the results that we've seen, particularly in the rent and capital value performance, is because we got rid of the secondary properties and have cash on our balance sheet if you like. We should be the best people to execute in the markets that we operate in because we dominate them and because of the programmes that we've got in place.

Of course, as Steve has already said, there has been a massive change in the share ownership. For example, the US investors have gone from really having no ownership to having about 10 per cent, and our view is that that will rise. These overseas investors tend to be specialist investors. They like focused companies and as far as we can see, that's why they've invested in us. So as long as we continue to produce returns, that's all we can really do. Of course, if somebody wants to buy us, our job is to get the highest price possible. But in terms of where the business sits, we've never been, in the recent past, as confident of our relative position as we are now.

**Q. What's next for Brixton? You're presumably keen to do further acquisitions. How do you see the market?**

A.

Well, we've got to be patient. That's always been the way. We can't force people to sell to us. You'll recall, I'm sure, that we've bought over 200 industrial estates in the last 10 years, but they've come in fits and starts depending on the times in the cycle. What we have noticed in the last year is that some of the institutions are starting to sell. They've sold to us on three occasions. That hadn't happened in the preceding few years. So there's a little bit of a change there. We're consistently, constantly trying to balance the portfolio in terms of those opportunities and the development side.

If we look at developments again for a second, we're much more active in Park Royal, where we've really got the place to ourselves, compared to, say, Heathrow, where there is more competition. We've obviously got some significant schemes there, but there's more competition. Demand will increase with T5, but we've deliberately pulled most of the development closer into London.

We look at new opportunities. Industrious was a good example of that, which we've gone through. Trafford Park was another example. We've looked at Europe. It will be only right for us to do so. We were there remember; we sold out of it in the late '90s, but we've relooked because obviously logistics has changed a lot over there. We don't get it. We can't see the supply constraint that operates in the markets that we're in. We see it as a trader's market. There has been massive yield compression; probably ending now. And you've seen things like rental deflation in Central Europe of 30 per cent over six years.

We want to be in markets where there is real supply tension and that's really why we're in the Park Royal, Heathrow, Greater London areas as the prime focus.

**Q. So you feel very comfortable about the future?**

A.

Yes. In essence, we're in the right place. We operate in the strongest industrial market in the UK and Europe. We've got an unrivalled development programme, we've got a strong balance sheet and we do see further opportunities to hopefully keep our market leading positions there.

*Forward looking statement*

*This programming contains certain forward-looking statements with respect to the financial*

*condition, results of operations and businesses of the Brixton plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors which could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements and forecasts. The statements have been made with reference to forecast price changes, economic conditions and the current regulatory environment. Nothing in this announcement should be construed as a profit forecast.*

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