

## **WORKSPACE GROUP PLC INTERIM MANAGEMENT STATEMENT**

Workspace Group PLC ("Workspace Group"), London's leading providers of space to small and medium-sized enterprises (SMEs), is today announcing an Interim Management Statement covering the period from 1 October 2011 to the date of this announcement.

### **Highlights for the third quarter ended 31 December 2011:**

- Overall occupancy 85.6%, up 0.4% in quarter and 2.0% in the nine months
- Like-for-like occupancy 87.5%, flat in quarter but up 1.5% in the nine months
- Like-for-like cash rent roll £45.1m, up £0.1m (0.3%) in the quarter and up £1.3m (3%) in the nine months
- Property valuation £750m, with underlying valuation up 1.6% (£12m) in the quarter and 3.9% (£28m) in the nine months
- Three properties acquired for £21m by BlackRock Workspace Property Trust
- Acceleration of refurbishment and redevelopment programmes
- Jamie Hopkins appointed as new Chief Executive

### **Commenting on the appointment of Jamie Hopkins as new Chief Executive, Danny Kitchen, Chairman said:**

*" We are delighted to announce the appointment of Jamie Hopkins as CEO of Workspace Group PLC to replace Harry Platt on his retirement. Jamie was previously CEO at Mapeley PLC and has been a non executive director at Workspace since June 2010. He knows the company well and brings both the property and operational expertise necessary for the role. We expect that Jamie's drive and enthusiasm will contribute significantly to the Company's future progress.*

*As can be seen from the results to date Workspace is delivering real value enhancement and we would expect no radical change in strategy arising from the new appointment. Our refurbishment and redevelopment plans are proceeding well but, cognisant of the general economic backdrop, all capital expenditure is re-evaluated prior to entering into any major cash commitments"*

### **Commenting on the results for the third quarter, Harry Platt, Chief Executive said:**

*" We are making steady progress in driving both occupancy and rent roll. Our lead indicators confirm the resilient demand for space and we have seen an encouraging pick-up in enquiry levels in January*

*There has been a good uplift in the property valuation over the nine months. This reflects our activities in improving occupancy, the rent roll and pricing and at the same time making progress on a range of refurbishment and redevelopment initiatives, in line with the plans we set out at the time of our Rights Issue last July.*

*We have also acquired in our joint venture with BlackRock a number of attractive properties, which play well to our asset management skills and complement our existing portfolio".*

### Overall Portfolio Performance

Customer enquiries were at a similar level to the third quarter in the previous year (2010: 917). They have increased as expected since the New Year, averaging over 300 per week in January 2012.

Average number per month	Quarter to Dec 2011	Quarter to September 2011	Quarter to June 2011	Quarter to March 2011
Enquiries	892	1,000	911	1,045
Lettings	78	88	77	79
Overall Occupancy	85.6%	85.2%	84.0%	83.6%

Total cash rent roll was up £0.9m in the nine months but fell marginally (£0.2m) in the quarter to £49.8m due to a £0.4m drop in rent at properties being refurbished or redeveloped.

Contracted rent roll, which includes stepped rents and rent free periods, is £2.3m higher than the cash rent roll at £52.1m, with 50% expected to convert to cash over the next six months.

### Like-for-Like Properties (79 estates)

This category represents the majority of our portfolio. It excludes properties undergoing refurbishment or redevelopment.

Like-for-Like	Quarter to December 2011	Quarter to September 2011	Quarter to June 2011	Quarter to March 2011
Occupancy	87.5%	87.5%	86.5%	86.0%
Cash rent Roll	£45.1m	£45.0m	£44.5m	£43.8m
Average rent per sq. ft.	£12.29	£12.21	£12.26	£12.06

- Overall like-for-like occupancy has improved steadily over the last year. During the last quarter occupancy levels were stable.
- Our target occupancy is 90% the level that gives us the best opportunity to grow pricing and rent roll. The majority of our properties are near or ahead of this level with 49% (39) of the properties having occupancy levels of 90% or higher at December 2011 and a further 23% (18) having occupancy greater than 85%.
- We are taking selective opportunities to increase pricing and achieved an increase of 2.5% (£1.3m) in like-for-like estimated rental value (ERV) over the last nine months.

### Other Properties (13 estates)

These are properties that are either being refurbished/have recently been refurbished (within the last two years) or where we are progressing with a mixed/alternative use redevelopment.

At December 2011	Refurbishment	Redevelopment
No of Properties	5	8
Occupancy	59.6%	86.0%
Cash Rent Roll	£2.4m	£2.3m

- The refurbishment of Chester House, Kennington Park, comprising 41 lettable units (28,000 sq. ft) was completed in July 2011. We target to achieve at least 80% occupancy within 12 months and are making good progress with occupancy at 59% after just five months (this includes the relocation of Workspace's head office).
- Inevitably, our refurbishment and redevelopment projects impact on occupancy and rent roll during the construction phase; recovering strongly once projects are completed. In the quarter rent roll fell by £0.2m at Canalot Studios due to the ongoing refurbishment works and at Aberdeen Studios, where we are targeting vacant possession by February 2012 ahead of its redevelopment, rent roll fell by £0.2m.

### Property Valuation

There has been an underlying increase in the property valuation of 1.6% (£12m) in the quarter and 3.9% (£28m) in the nine months, excluding the effect of disposals and capital expenditure:

	£m
Portfolio valuation at 31 March 2011	719
Property disposals (at book value)	(10)
Property valuation surplus:	
- Quarter to June 2011	9
- Quarter to September 2011	7
- Quarter to December 2011	12
Capital expenditure	13
Portfolio valuation at 31 December 2011	<u>750</u>

A more detailed analysis of the valuation is set out below:

	December 2011	March 2011
Existing use valuation		
- Like-for-like properties	£577m	£563m
- Other properties	£78m	£77m
Added Value	£95m	£79m
Total valuation	<u>£750m</u>	<u>£719m</u>
Like-for-like cash rent roll	£45.1m	£43.8m
Like-for-like ERV (CBRE)	£53.9m	£52.6m
Total ERV (CBRE)	£64.9m	£61.4m
Like-for-like existing use income yield	7.8%	7.8%
Net initial yield (CBRE)	7.1%	6.8%

Equivalent yield (CBRE)	8.5%	8.5%
Capital value per sq. ft	£144	£137

The existing use income yield on our portfolio is unchanged since March 2011. Valuation growth has been achieved from:

- the Group's success in driving occupancy and rent roll; and
- increases in added value as assessed by our valuers, CBRE.

Added value is recognised by our valuers, CBRE, on a progressive basis as we obtain planning consent for a refurbishment or redevelopment through to its completion. This includes the benefit of any capital expenditure incurred. The movement in added value over the nine months is summarised below:

	£m
Added value at March 2011	79
Realised on disposals	(8)
Uplifts in the nine months (including capital expenditure)	
- Aberdeen Studios*	11
- Wandsworth	5
- Grand Union	3
- Other	5
Added value at December 2011	95

\*At Aberdeen Studios the uplift in added value was offset by a £5m reduction in its existing use value as we run down occupancy ahead of redevelopment.

## Disposals

At Greenheath, E2, having achieved planning consent, we completed the disposal of the car park in January 2012 for a 76 unit residential scheme for £3.4m.

## Refurbishment Update

We are making good progress on a range of refurbishment and repositioning initiatives in line with the plan we set out at the time of the Rights Issue in July. We are closely monitoring our capital commitments as we go forward on a project by project basis. The current status and planned activity over the next six months is set out below:

- Work is underway at Canalot Studios, W10, on the refurbishment and roof extension (estimated cost £5m). This is targeted for completion in September 2012.
- The side extensions to the Whitechapel Technology Centre, E1 (estimated cost £2m) are expected to be completed in July 2012.
- Final preparations are underway at Great Guildford Street, SE1, for the extensive refurbishment of the building and addition of two new floors. The main project is expected to commence in September 2012 with targeted completion in January 2014 (estimated cost £15m).
- The upgrade of Greenheath Business Centre E2, which includes the addition of a new floor, is expected to commence in June 2012 with targeted completion in November 2013 (estimated cost £9m).
- At Chester House, Kennington Park the addition of a third floor is expected to commence in May 2012 and be completed by February 2013 (estimated cost £2m).
- The first phase of the refurbishment at Westminster Business Centre will commence in March 2012 with this phase expected to be completed in July 2013 (estimated cost £2m).

We conservatively expect these buildings, when refurbished, to deliver an uplift in rent roll of £[4]m once they reach the target occupancy level of 90%.

### **Mixed Use (New for Old) Schemes**

Our model on these schemes is to achieve a mixed use planning consent and then work with a development partner who is responsible for the delivery of the overall scheme. Workspace receives back new commercial space (providing an uplift to both rent and valuation) together with cash and overage on the private residential component. Current status is set out below:

- At Wandsworth Business Village demolition has been largely completed, and our partner Mount Anvil has commenced construction of the residential led scheme. We expect to receive back a new business centre in mid 2014.
- We announced in November 2011 that we had signed an agreement with Taylor Wimpey for the residential led redevelopment of Aberdeen Studios, N5. We should achieve vacant possession of this site in February 2012, with construction works starting in June 2012. We expect to receive back a new business centre in mid 2014.
- The new business centres at Wandsworth and Aberdeen Studios should conservatively produce a combined rent roll of some £2.5m when they have reached the target occupancy of 90%. We will also receive a cash payment of £4.75m at Aberdeen Studios together with overage on the residential component of each scheme.
- At Grand Union Centre and Bow Enterprise Park where we have obtained mixed use planning consents and signed the S106 agreements, we are intending to market the sites during the current quarter.
- We are in discussions with local authorities to obtain planning consent for the mixed-use regeneration of a number of further sites across our portfolio. The most significant site is at Tower Bridge, SE16, where we hope to submit our planning application by June 2012.

### **BlackRock Workspace Property Trust**

We have made good progress in this joint venture, in which we have 20.1% interest, purchasing a number of attractive property opportunities well suited to our intensive asset management capabilities. Properties acquired in the period include:

- Chandelier Building and Light Factory, NW10 for £4.7m in November 2011
- Toplin House, SW9 for £4.8m in December 2011
- 6 Lloyds Avenue, EC3 for £11.9m in January 2012

The total invested amount by the joint venture is now £67m (Workspace investment: £13.4m) with a number of further acquisition opportunities currently under review and we expect to have fully invested the £100m of equity committed by BlackRock and Workspace to this joint venture by the middle of the year.

## Key Statistics

	Quarter ending Dec 2011	Quarter ending Sept 2011	Quarter ending June 2011	Quarter ending March 2011	Quarter ending Dec 2010
<b>Workspace Group Portfolio</b>					
Number of estates	92	92	93	94	104
Lettable floorspace (million sq ft) †	5.0	5.1	5.1	5.1	5.4
Number of lettable units	4,646	4,899	4,885	4,856	5,175
ERV	£64.9m	£65.2m	£62.8m	£61.4m	£65.1m
Reversionary Yield*	8.7%	8.9%	8.6%	8.5%	8.8%
Cash rent roll of occupied units	£49.8m	£50.0m	£49.6m	£48.9m	£51.0m
Average annual rent per sq ft	£11.58	£11.52	£11.63	£11.47	£11.10
Overall occupancy	85.6%	85.2%	84.0%	83.6%	84.4%
Like-for-like lettable floor space (million sq ft)	4.2	4.2	4.2	4.2	4.2
Like-for-like net annual rent roll	£45.1m	£45.0m	£44.5m	£43.8m	£42.6m
Like-for-like average annual rent per sq ft	£12.29	£12.21	£12.26	£12.06	£11.72
Like-for-like occupancy	87.5%	87.5%	86.5%	86.0%	85.9%
Property valuation	£750m	£733m	£727m	£719m	£741m
Loan to value		42%		50%	

<b>BlackRock Workspace Property Trust</b>					
Number of estates	10	8	8	8	
Lettable floorspace (million sq ft) †	0.4	0.3	0.3	0.3	
ERV	£4.7m	£3.6m	£3.5m	£3.4m	
Cash rent roll of occupied units	£3.8m	£2.9m	£3.0m	£3.1m	
Average annual rent per sq ft	£10.66	£10.20	£10.58	£10.57	
Overall occupancy	88.7%	87.3%	87.9%	92.1%	
Property valuation	£47.2m	£36.3m	£35.6m	£35.1m	

† Excludes storage space

\* Based on ERV divided by valuation

& Workspace Group hold a 20.1% interest in the BlackRock Workspace Property Trust